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Tesi di Laurea

The new Italian food&wine
economy
Local quality and global value chains

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The goal of this work of thesis is to analyse how the food&wine Italian firms can use and take advantage of their local quality and know-how in order to find an effective position and role in the global value chains. In particular, I will illustrate how the definition of *Made in Italy* is evolving rapidly: with globalization, a specific part of knowledge can be spread abroad at no cost by Italian firms, obtaining several advantages in terms of economic value; for this reason, in all the cases presenting a complex and international link between food&wine and territory, I think it should be more appropriated to talk about *Made by Italy* rather than *Made in Italy*.

I will observe which could be the advantages or the problems of an internationalization strategy.

Food&wine Italian firms have to find a way to spread and develop their capabilities and high quality in the global markets, taking a leading role in the global value chains.

In order to bring real examples and to make up a base for my analysis, I will expose a few case studies of food&wine Italian firms that have carried out a process of internationalization, highlighting the need of making distinctions depending on the case.

In fact, taking into account that different products have got different features, my aim is not to offer a general and universal model, but rather to study the different strategic solutions that firms have put into practice. In particular, I will analyze the following cases: *Rigoni di Asiago*, *Casa Vinicola Zonin* and *Brazzale*.

L'obiettivo di questa tesi è di analizzare come le aziende italiane operanti nel settore alimentare possano usare e trarre vantaggio dalla propria qualità e conoscenza locali al fine di trovare una collocazione ed un ruolo efficaci all'interno delle catene globali del valore. In particolare, mostrerò come la definizione di *Made in Italy* si stia evolvendo rapidamente: con la globalizzazione, una parte specifica di conoscenza può essere diffusa all'estero a costo zero dalle imprese italiane, ottenendo alcuni vantaggi in termini economici; per questa ragione, per tutti i casi in cui esiste un legame complesso e internazionale tra cibo o vino e territorio, penso che sarebbe più appropriato parlare di *Made by Italy* che di *Made in Italy*.

Studierò quali potrebbero essere i vantaggi o i problemi legati a una strategia di internazionalizzazione.

Le aziende italiane del “*food&wine*” devono trovare il modo di diffondere e sviluppare le proprie capacità e qualità nei mercati globali, assumendo un ruolo principale nelle catene globali del valore.

Al fine di portare esempi concreti e di costruire una base per la mia analisi, esporrò alcuni casi di studio di aziende italiane del “*food&wine*” che hanno effettuato un processo di internazionalizzazione, sottolineando il bisogno di fare le opportune distinzioni a seconda dei casi. Infatti, poichè prodotti differenti hanno caratteristiche differenti, il mio obiettivo non è quello di offrire un modello generale e universale, ma piuttosto di studiare le differenti soluzioni strategiche che le aziende hanno messo in pratica. In particolare, analizzerò i seguenti casi: *Rigoni di Asiago*, *Casa Vinicola Zonin* e *Brazzale*.

El objetivo de este trabajo es analizar como las empresas italianas que operan en el sector alimentario puedan utilizar y sacar partido de su propia calidad y conocimiento local para encontrar una colocación y un papel efectivos dentro de las cadenas de valor mundiales. En particular, mostraré como la definición de *Made in Italy* va evolucionando rápidamente: con la globalización, una parte específica de conocimiento puede ser propagado al extranjero sin costo por las empresas italianas, consiguiendo unas ventajas en términos económicos; por ésta razón, en todos los casos en que existe un enlace complejo y internacional entre comida o vino y territorio, pienso que sería más apropiado hablar de *Made by Italy* que de *Made in Italy*.

Estudiaré cuales podrían ser las ventajas o los problemas atados a una estrategia de internacionalización.

Las empresas italianas del “*food&wine*” tienen que encontrar la manera de propagar y desarrollar propias capacidades y calidad en los mercados globales, tomando un papel de liderazgo en las cadenas de valor mundiales.

A fin de llevar ejemplos concretos y de construir una base para mi análisis, expondré unos estudios de caso de empresas italianas del “*food&wine*” que han efectuado un proceso de internacionalización, destacando la importancia de hacer las oportunas distinciones según sea el caso. De hecho, dado que productos diferentes tienen características diferentes, mi objetivo no es lo de ofrecer un modelo general y universal, sino de estudiar las diferentes soluciones estratégicas que las empresas han puesto en practica. En particular, analizaré los casos siguientes: *Rigoni di Asiago*, *Casa Vinicola Zonin* y *Brazzale*.

“We all eat, and it would be a sad waste of opportunity to eat badly”

Anna Thomas

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1) INTRODUCTION

The goal of this thesis is to analyse how the food&wine Italian firms can use and take advantage of their local quality and knowledge in the global value chains.

In particular, I will study the different ways in which these companies can develop a process of internationalization: which parts of the production process is it possible or advantageous to fulfil abroad, and to which degree?

I will illustrate how quality of food&wine Italian products could change with the internationalization of the totality or a part of the production processes, and which could be the advantages or the problems of such strategy.

In order to bring material examples and to make up a base for my analysis I will expose a few case studies of food&wine Italian firms that have carried out a process of internationalization, highlighting the need of making distinctions depending on the case.

In fact, different products have got different features, therefore my aim is not to give a general and universal model, but rather to study the different strategic solutions that firms have put into practice.

In particular I will study the following cases:

- *Rigoni di Asiago*
- *Casa Vinicola Zonin*
- *Brazzale*

Before explaining the central issue of my thesis and the specific case studies, I will try to describe the sector from a general point of view: in Chapter 2 I will analyse the global situation and the trends of food&wine.

In particular, I will highlight the importance of taking into account the sustainability of the activities needed to the production and the consumption of food&wine worldwide.

The steady demographic growth and other important factors have changed the patterns of the food&wine demand, introducing new important actors in the global field (for instance the BRIC countries); this means new opportunities for Italian firms lying in new exploitable market segments.

In Chapter 3 I will examine the main features of food&wine Italian firms.

In particular, I will illustrate the role of export for food&wine Italian producers and the opportunities of internationalization, which could represent a winning strategy for the Italian firms who want to enlarge their production and their sales.

Then, after a short analysis of the sector, I'll try to explain the features of the firms that want to upgrade and to be active actors in the new global context; in particular I will study the importance of technology, networks and governance in the process of reinforcement of the Italian industrial system.

In Chapter 4 I will focus on the concept of *made in*, offering a particular and interpretative key that can help us to keep up to date the traditional idea we had of this expression, introducing a new modern definition.

In fact, nowadays the *made in* matters a lot, and it becomes essential, in order to succeed, to fully understand the *country of origin* effect and perception in the mind of the consumers.

In particular the evolution of the idea of *Made in* consists in the shift from the simple idea of origin of a product or a brand, to a more complex idea of origin that involves both tangible and intangible factors, from design, to manufacturing, to assembling, to heritage and culture.

This second definition is very closed to the concept of quality: following this vision, quality has to be taken as starting point for food&wine Italian producers: a new positioning in the Global Value Chain could allow them to submit the Italian products, and the Italian cuisine, as the new global benchmark.

In order to achieve that, the Italian firms who want to face this new challenge should go beyond exportation of finished products worldwide, they should export also a set of well-established knowledge, skills, and competences *made in Italy*.

The goal of this kind of firms is to become active players in the globalization context, this can be obtained changing deeply their strategy, especially in the long run; in general, a new model of governance has to be adopted and implemented: the internationalization of some strategic activities of the firms needs a new set of knowledge, in order to face the global challenges that dominate the current context.

Then, I will try to explain the important link between food&wine, culture, territory and emotions: in the majority of cases food is strictly connected to the culture, heritage and

traditions of a place; the same link is strong also in the case of wine, that in addition has got an intense connection with the world of human emotions and irrationality.

I will analyse the concept of *terroir* and I will try to highlight its importance in the internationalization decisions and strategies.

In chapter 5 I will focus the attention on the advantages and the risks of internationalization: how is it possible to take advantage effectively of local knowledge in the global value chain?

I will explain the difference between generative and replicative knowledge, underlining the risks of intellectual property connected.

I will introduce the phenomenon of *Italian sounding*, showing that it represents certainly a risk, but also an opportunity for food&wine Italian players.

The last part of the chapter is dedicated to the challenge of the loss of the *industrial commons*: at which level a process of internationalization could weaken our companies? *Industrial commons* is absolutely important at national level on a long-run perspective, because its loss would hit the competitiveness of the context in which Italian firms operate.

I will complete my analysis with chapter 6, in which I will illustrate the case studies mentioned above, trying to give real and practical examples of the concepts exposed in this thesis on a theoretical level.

2) THE FOOD&WINE WORLDWIDE

2.1) New trends and new actors

When we analyse the food&wine sector from a global point of view, we can understand that its future is highly uncertain, full of edges and challenges.

In particular, in last years, the production and trade of food&wine products have been characterized by economic and social phenomena that have deeply changed the image and balances of the whole sector.

These phenomena are basically three:

- The entry in the market economies of major players, previously excluded for reasons mainly depending on collectivistic (Russia and China) or protective (India and Brazil) political choices. The gradual introduction of these economic and demographic giants in the context of international exchanges has deeply changed the balance between the different geographical areas worldwide;
- The globalization process has lead to the gradual demolition of the economic barriers and tariffs and to the entry of new countries in the WTO and the progressive liberalization of the exchange of products, goods and services.
- The definitive establishment in food&wine industry of large-scale distribution, which represent the vast majority of food&wine commercialized. Even if this trend is more evident in mature markets, where these realities have been evolving and developing from the 60s, it is visible also in market such as Russia and China, where the European and American large distribution chains have shown to know how to transfer the know-how gained in the markets of origin.

Therefore, extremely various situations have risen in the world trade context, so that firms have to adopt different strategies of approach and consolidation.

On the one hand there are the traditional markets, mature but still representing the solid basis for the Italian food&wine export, on the other hand there are the emerging markets,

enormous in terms of potentially, but still sub-optimal in terms of actual capacity to absorb our food&wine products.

In general terms, the growth of global population is changing not only the traditional ways of food production, with the consequent problems of sustainability that I will analyse in the next paragraph, but it is changing also the consumers' tastes and preferences worldwide.

In fact, on the one hand we observe the homogenization of tastes worldwide as a direct effect of the globalization, in particular of fast-food chains, on the other hand the increase of middle-class people in developing countries (China, Russia, and India above all) has generated more attention, by the consumer, on what he/she is eating, and on the quality of his/her food.

In this complex context it becomes crucial to understand and catch the opportunities deriving from new market segment worldwide. The world is changing very fast, therefore everyone has to adapt its strategy rapidly if it wants to succeed.

2.2) Sustainability of the food&wine sector

We can't talk about the future of food without taking into account the most important aspect: sustainability.

A deep understanding of the problem of sustainability, when we refer to food, is crucial to face the huge amount of problems that years by years rises on these theme.

The global population is growing steadily, and by the half of this century it will consist in more than 9 billion people.

Moreover, the production of food will have to increase more, in rate, than the growth of population, because the developing countries will be able to purchase a higher quantity of animal meat: in particular the growth of the daily demand of animal proteins in these countries will be by 103.6%¹, while in under-developed countries it will be by 69.2%, and in developed countries by only 15.3%.

So, the global farming production it will be likely forced to double by 2050.

¹ DAVID TILMAN, University of Minnesota

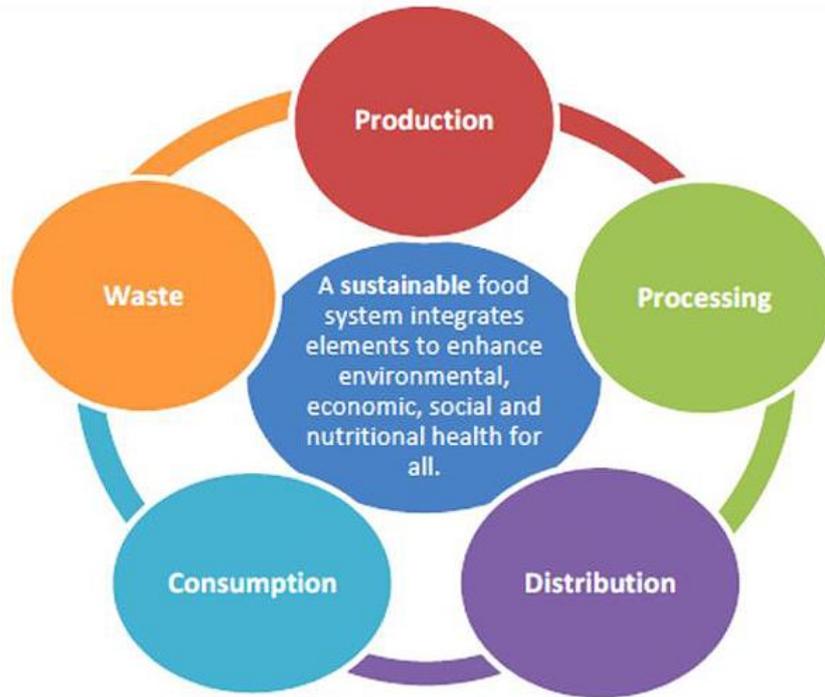


Figure 1: the dimensions of a food system

These data highlight the need of exploring new solutions to the problem of future amount of food (and water) needed; taking in account that agriculture is the absolute first cause of global warming, these solutions have to be founded on a sustainable base.

In fact, agriculture provokes a huge emission of greenhouse gases; these gases are mainly methane produced by intensive livestock and paddies, nitrous oxide by fertilized fields, and carbon dioxide caused by deforestation made to create new areas for agriculture or grazing.

Agriculture is also the main cause of consumption and water pollution, because the effluents of fertilizers and manure destroy the balance of lakes, rivers, and coastal ecosystems.

Concerning the issue of sustainable future of food, two different positions have gained the upper hand:

- Supporters of conventional agriculture and global commerce
- Supporters of local agricultural systems and little organic farms

The conventional agriculture supporters assert that the modern mechanization, the irrigation, the fertilizers and the genetic improvement can increase the output and satisfy the Demand.

The organic agriculture supporters assert that the little farmer worldwide can increase the harvest adopting procedures to improve quality without using fertilizers and pesticides. Actually, it is not strictly necessary to choose one of the two positions: they could be considered as complementary.

In fact, it is undoubtedly true that a large scale production is needed in order to reach in the most rapid and economical way the hugest amount of people, supplying an enormous quantity of food worldwide: as a consequence the large scale distribution has started to play a crucial role and the supermarkets private brands are acquiring more and more importance and power in the global market, provoking a general lowering of quality and prices.

On the other hand, the new attention paid by consumers to what they eat or drink pushes the producers to focus on the quality of the food or wine they deliver: local agricultural systems and organic farms can satisfy that part of the demand that looks for quality and organic products with sure origin and lower environmental impact. This kind of consumers will be willing to afford a higher price in the name of quality, health and sustainability.

Going back to the issue of sustainability, the following list includes five points that can have a part in the completion of the debate on this issue:

- 1. Suspending the agricultural footprint:** in the past, all the time we needed to produce more food we removed forests and plowed new grassy soils to obtain more fields to cultivate. So doing, we deforested an enormous area, and a bigger territory is addressed to grazing. The environmental effects of agriculture caused the lost of whole ecosystems, such as the American prairies and the Brazilian Atlantic forest, and deforestation goes on very rapidly.
We can't increase the food production just enlarging the arable land: the sacrifice of tropical forests is a price that humanity can't afford.
- 2. Making the land we cultivate more productive:** starting from the 60s of last century the so called "green revolution" improved the productivity of the plots in

Asia and Latin America thanks to the employment of better plants variety, fertilizers, irrigation and machinery: but the environmental price is high.

Nowadays everyone can focus on less productive plots, in particular in Africa, Latin America and Eastern Europe: in these places there are productivity gaps between the real levels of production and those obtainable improving the agricultural practices.

In fact, we could increase drastically the productivity of those lands exploiting high technology, precision agricultural systems and the methods of the biologic growing.

- 3. Using resources more efficiently:** commercial agriculture has progressed a lot in order to arrive to a focused application of fertilizers and pesticides, through the employment of computerized tractors geared equipped with GPS or advanced sensors.

A lot of farmers use personalized mixtures of fertilizers, calibrating them on the specific conditions of the soil, reducing to the minimum the outflow of chemicals in the close streams.

Also the biologic agriculture can reach a remarkable reduction of water and chemical consumption introducing cover crop and mulch to improve the soil's quality, to save water resources and to produce nutrients.

Nowadays farmers pay more attention to the water problem and they have replaced the inefficient irrigation systems with more accurate methods, such as, for example, the drip irrigation.

The improvements recorded in the conventional as well as in the biologic agriculture allow us to using water resources and nutrients more efficiently: the so called "more crop per drop".

- 4. Changing diet:** it would be much more simple to feed 9 billion people (this is the forecast for 2050) if a larger part of the food we cultivate would arrive actually to our dishes. Nowadays only the 55% of calories of the cultivated food feeds directly people, the rest feeds the livestock (about 35%) or is converted in biofuel and industrial products (about 9%).

Annual Greenhouse Gas Emissions by Sector

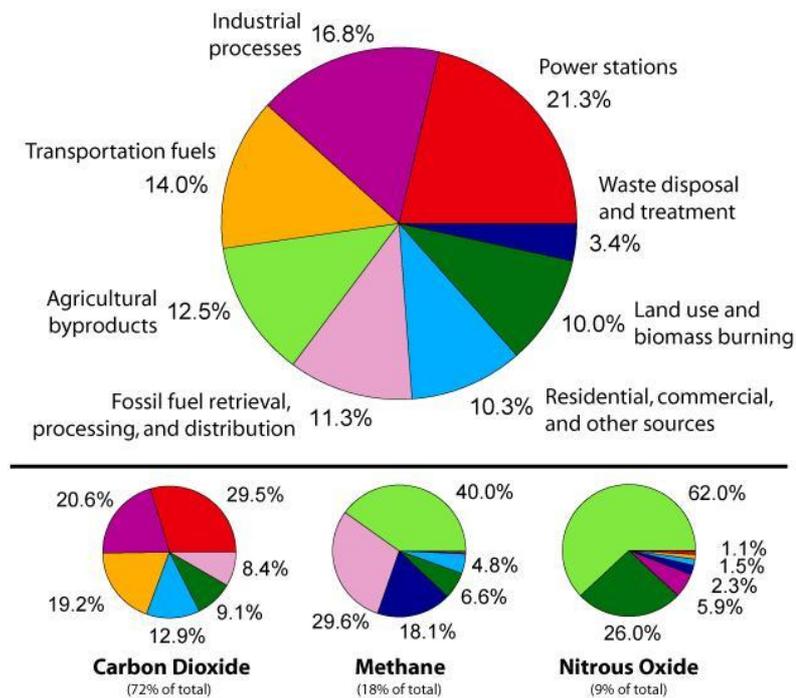


Chart 1: annual greenhouse gas emissions by sector

If we discovered more efficient ways of breeding livestock and we consumed less meat, in the world there would be much more food.

Considering that in the next future people living in developing countries (who benefit from a recent prosperity) will be likely to eat less meat, it will be better to focus the attention on countries that have diets already rich of animal proteins.

Furthermore, reducing the use of food for the production of biofuels could help to increase the amount of food available worldwide.

- 5. Reducing wastes:** it's calculated that 25% of calories and up to 50% of total food weight is wasted before the consumption.

In rich countries food is wasted in private houses, restaurants and supermarkets. In poor countries products often are wasted during transportation because they are not conserved or transported in the right way. The consumers in developed countries could contribute to the cause adopting simple expedients, like serving smaller dishes, recovering remains and encouraging bars, restaurants and supermarkets to take actions against the problem of wastes.

Between all the possibilities to increase the availability of food, one of the most effective ways it would be to face decisively the wastes problem.

Following these strategies it would be possible to double the food stocks, reducing considerably the environmental impact of agriculture worldwide. But it won't be easy at all.

First of all, in order to adopt these actions it will be necessary to adopt a new way of thinking.

In particular, the Italian firms operating in the food&wine sector have to understand deeply the issue of sustainability, taking it in high consideration for the creation of their strategy.

3) THE CHALLENGES FOR FOOD&WINE ITALIAN FIRMS

3.1) Italian food&wine: past, present and future

Before analysing in specific terms the features of food&wine Italian producers, it's important to understand the general context in which they operate: in the last 15 years the role of Italy in international trade has gradually changed from exporter to importer of goods and services; this transition happened in a context of evolution of global economy toward a multipolar system, in which new areas and new actors (Asia, in particular China) have become absolutely important for global growth. Italy, unfortunately, remained on the sideline of this process.

In this context, the agricultural and food sector has followed, for lots of aspects, the reverse trend: exactly in the decline of our capacity of penetrating the international markets, the sector improved its performance, at least in relative terms. This is true especially for food&wine *Made in Italy* products that represent from many years one of the most strong and dynamic components of our export. We have to admit that the safeguard and protection of this component rarely went beyond slogans.

Quantity and variety of "Protected Designation of Origin" (D.O.P.) and "Protected geographical Indication" (I.G.P.) products represent the diamond point of national supply.

Nevertheless, the export of these food excellences owns a penetration potentiality far from being exploited, even if these products bring an image of high quality.

Quality is extended, nowadays, to the majority of national supply, so it has to be enhanced, mostly from a cultural point of view.

In the process of people's tastes global homogenization, food Italian products already have got an important role. But additional wide spaces are available in order to further increase the weight of Italian products, even exploiting the opportunities that globalization is determining.

In the so called material culture, that in the actual mass society has a dominant role, all the aspects related to food have a very big importance; achieving an important space in

the food global culture it means to participate in an active way to the process of globalization, not being subjected to it.

Italy, from this point of view, has got lots of strength points, in food not less than in fashion and design; actually, Italy already gained a good position, but it could do far better with a strategy strictly oriented to national identity, based on quality and competences, and on a larger coordination of the activities by the little as well as the large producers.

Just think about the popularity of the idea whereby the Mediterranean cuisine has dietetic and medical properties; it isn't only a myth, it's a verifiable fact just observing the physical average conditions and life span of Italian consumers in comparison to those who follow the food habits dominant in the general culture of globalization (mainly American).

In general Italy ranks eleventh as value of agricultural and food products exported (almost 30 billion €), but in 13 product cases, between 70 monitored, a global leadership emerges. We have just to think about results achieved by product as durum wheat pasta (1366 million € exported, equal to 51.6% of global demand) or egg pasta (54.8%).

These results prove the success obtained by many Italian firms that, aware of the fragile period of change, transformed the environmental and cultural heritage of our territory in up to date factors of production.

The interest of our country in a process like that doesn't consist only in the preservation of our identity: thinking in these terms it can lead up to controversial results. An example is the "Colonnata lard" case: in fact, this product can be commercialized only within the Italian territory, because of some arguable UE measures.

Maybe in this case it wasn't possible to act differently, and in any case it is an example of product hardly marketable for global consumption; but it is a good instance of defensive strategy, instead of an aggressive initiative on the global market.

Certainly, we have to aim at the issue of redefining the concept of quality on global level; in fact, we can observe that the current crisis is accelerating the quality upgrading of the whole sector and, more in general, of the whole economy, rewarding firms that focus on this factor of competitiveness and, on the opposite, penalizing firms that haven't understood the importance of this factor.

Quality agriculture is also linked to the diffusion of new development and consumption models: these models are founded on some core principles, as I explained in Chapter 2,

such as territorial defence, energy and water saving, biodiversity development, and promotion of productive traditions and local culture.

These topics became all central in the life of citizens and communities, but they don't receive the right attention by politics.

In these terms foundations like "Symbola" and "Qualivita" are doing a very good job; in the last period, also H-Farm (that is becoming not only the catalyst for Italian startup, but also a real point of convergence for global innovation) decided to operate in this area of interest.

Referring to the previous analysis on global markets and demand, we can start to go into the firms' specific point of view; this allows us to fix some strategic goals, that could represent the right way through which Italian firms can diffuse further their products:

- **Diversification of the areas of interest:** identifying new geographic areas, maintaining the position achieved in mature markets
- **Improvement of business export capacity:** renewing and strengthening the Italian firms' awareness about the necessity of a more steady and organized presence on foreign markets
- **Quality promotion:** positioning the Italian product in the most qualified market segments, thanks to the undisputed quality of Italian food&wine products; but the high productive costs make products not competitive in terms of price: a possible solution, that I'm going to explain better in the following passages, would be to internationalize a strategic part of the production process
- **Professional training and information:** addressed to the new markets where Italian products are less known, and where it is necessary to inform people working in the food&wine sector about the unique dietetic and organoleptic properties of Italian cuisine.

As I anticipated above, on a general level we can identify two different situations, each one with its own approach modality:

1. **Mature markets:** in these economically advanced countries, it should be emphasized the quality of Italian products consolidating their presence in the most

profitable market niches; in these markets, which often have to face with problem related to improper nutrition, they will be particularly valued the dietary virtues of Italian products.

After years of growth, the U.S. market marks a setback, since it reflects the weakness of the U.S. currency against euro and penalizes our products even if unevenly: wine, for example, continues its trend of growth.

The euro/dollar exchange rate also extends its effect to other markets: it's the case of Japan and the whole American area in which a situation of laborious acquisition of market shares remain, even if with the appropriate distinctions.

The traditional countries of European Union, still constitute the core of Italian export, with a value share of over 60%.

New member states, however, while drawing only 4.6% of Italian export in the sector, have a very interesting dynamic development.

- 2. Emerging markets:** the signals for Italian food&wine coming from more traditional markets drive us to seek new solutions in order to limit the risks of a too great concentration on markets where the competitive pressure is high.

The approach strategy must first diffuse the awareness of the products, finding a suitable placement within food traditions that are often radically different from our own.

Particularly interesting seems to be the area of Eastern Europe, where the Italian products meet an increasing approval, with a very significant growth of export.

The country that appears to be more dynamic is Russia, where very different situations coexist and a considerable dynamism of the demand is recorded.

Another area of great interest, although on a longer run, is Asia, where South Korea, United Arab Emirates, Hong Kong, China and India fully compensate the unfavourable phase of the Japanese market.

In South America Brazil, Venezuela, Argentina and Colombia, although holding minimal shares of Italian export, show potentialities that Italian firms should check to settle permanently in these markets with growing demand for quality products.

After this general analysis, I'm going to try to explain more in detail the Italian situation, with particular attention to the role of export, considering that it represents the most

interesting and exploitable component of sales. In fact in Italy, since the beginning of the crisis, the domestic consumption in nearly all the sectors has seen a stagnant situation or even a drop. This is the comment of “Coldiretti”, in regard to this:

“(…)The national food consumption went back by over 30 years, at the minimum levels of 1981, due to an epochal crisis that has forced families to a deep spending review with serious consequences for businesses(…)To worry about the future is the exchange rate trend with the strengthening of Euro that could lead to critical situations for national food on some important markets, like that of U.S.(…)”

Anyway, from an overall point of view, we can say that the food industry in Italy is in good health, in fact, with a sales volume of 133 billion euros in 2013 (2014 is not finished yet), it is the second national industry in terms of sales volume (the first is the engineering sector).

In the table below (Table 1) it is possible to observe the trend of sales volume in the food&wine sector during the years from 2007 to 2013, with the trends of single products:

Products	Turnover 2007 (million €)	Turnover 2008 (million €)	Turnover 2009 (million €)	Turnover 2010 (million €)	Turnover 2011 (million €)	Turnover 2012 (million €)	Turnover 2013 (million €)	Var% 13/12	Incid% 2013
Mineral water	2.300	2.300	2.200	2.100	2.200	2.300	2.400	4,3	1,8
Alcoholic drinks	1.000	1.000	1.000	1.000	915	933	900	-3,5	0,7
Animal feed	6.050	6.500	5.700	6.650	7.555	7.740	7.350	-5,0	5,6
Poultry feed	5.300	5.300	5.320	5.300	5.600	5.750	5.750	0,0	4,4
Soda	1.780	1.800	1.800	1.800	1.850	1.850	1.830	-1,1	1,4
Beer	2.500	2.450	2.400	2.550	2.700	2.750	2.700	-1,8	2,0
Coffee	2.300	2.350	2.400	2.440	3.000	3.020	3.100	2,6	2,3
Beefs	5.920	5.900	5.900	5.900	5.900	5.900	5.850	-0,8	4,4
Vegetable preserves	4.616	5.040	5.040	5.040	4.907	4.976	5.200	4,5	3,9
Confectionary	10.813	11.290	11.528	12.051	12.714	13.062	13.382	2,4	10,1
Baby food, dietetic food and nutritional supplement	2.690	2.800	3.000	3.050	3.200	3.200	3.250	1,6	2,5
Fishing	1.256	1.306	1.387	1.420	1.460	1.480	1.480	0,0	1,1
Dairy	14.350	14.500	14.425	14.800	15.000	14.900	14.900	0,0	11,3
Milling	3.168	3.636	2.560	2.821	3.538	3.619	3.601	-0,5	2,7
Olive oil	4.300	4.200	4.000	4.200	4.000	4.200	4.000	-4,8	3,0
Industrial bread	594	631	631	651	695	698	700	0,3	0,5
Pasta	3.730	4.600	4.444	4.362	4.501	4.605	4.642	0,8	3,5
Lyophilized food	890	940	970	1.000	1.020	1.050	1.025	-2,4	0,8
Rice	910	1.200	1.050	1.030	1.126	1.060	1.030	-2,8	0,8
Cold cuts	7.554	7.578	7.601	7.928	7.951	7.989	7.944	-0,6	6,0
Bread substitutes	333	362	365	384	395	395	389	-1,5	0,3
Fruit juices	1.090	1.086	1.064	1.053	1.050	1.050	975	-7,1	0,7
Frozen food	3.980	4.040	4.061	4.126	4.200	4.260	4.050	-4,9	3,1
Wine	10.900	10.900	10.600	10.700	10.500	10.080	10.120	0,4	7,7
Sugar	650	650	630	630	630	650	700	7,7	0,5
Various	14.026	17.641	19.924	21.014	20.393	22.483	24.732	10,0	18,7
TOTAL	113.000	120.000	120.000	124.000	127.000	130.000	132.000	1,5	100,0

Table 1: source: *Federalimentare*: trend of sales volume in the food&wine sector during the years from 2007 to 2013, with the trends of single products.

As we can see from the table, the sector registered a growth of 2.3% in 2013 compared to 2012, this performance was obtained mainly thanks to export, which increased by

8.1%, reaching the value of 26.7 billion euros, that represent about 20% of total turnover; this allowed to obtain a positive value in the balance of trade, considering that the value of import is about 19 billion euros.

The pie chart (Chart 2) here below illustrates the distribution of the various products that compose the whole food&wine production. As we can see from the chart, dairy products represent a very large part of total sales, but also confectionary and wine, that jointly to vinegar is also the most exported product, with a value of about 5 billion euros.

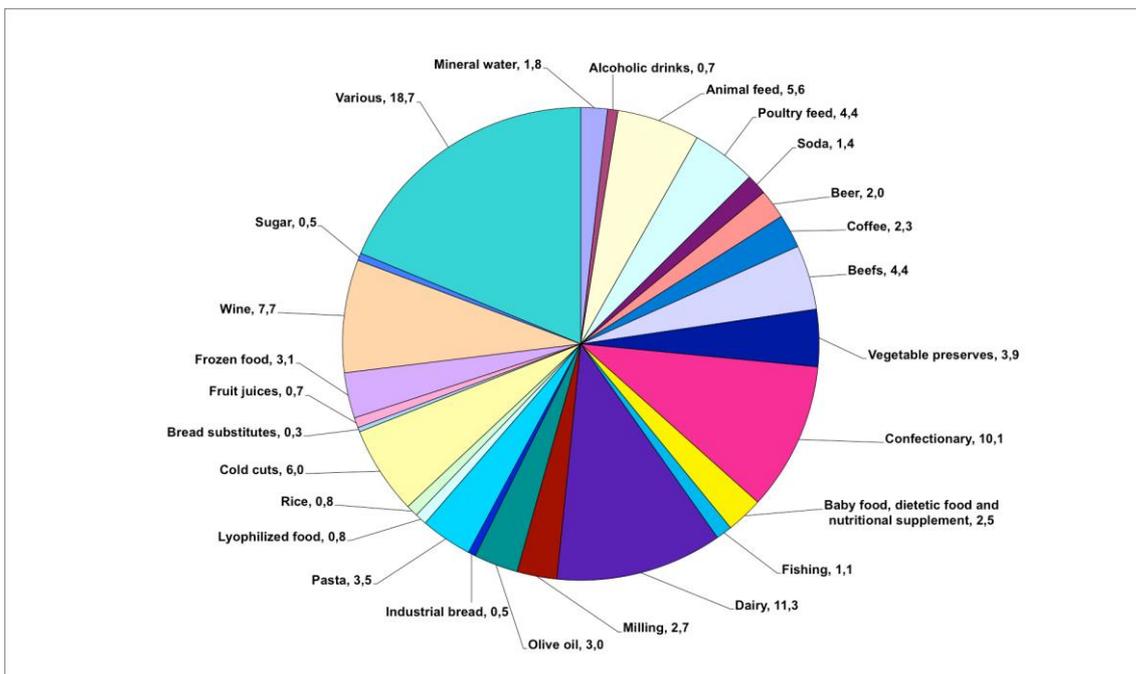


Chart 2: source: *Federalimentare*: distribution of the single products that compose the whole food&wine production.

In the table on the next page (Table 2) there is the list of the main products exported in 2013, with the values in million euros, while in the pie chart (Chart 3) we can easily observe the single percentages to total:

Products	Million €	Incid. %
Rice	503.0	1.9
Milling	250.7	1.0
Pasta	2,166.8	8.3
Confectionary	3,162.1	12.1
Sugar	206.4	0.8
Meat	1,387.1	5.3
Fishing	261.6	1.0
Vegetables transformation	2,001.3	7.6
Fruit transformation	1,024.5	3.9
Dairy	2,382.4	9.1
Oil	1,899.8	7.3
Animal feed	517.4	2.0
Wine, vinegar	5,461.6	20.9
Beer	132.6	0.5
Spirits	728.6	2.8
Alcohol	58.9	0.2
Mineral waters and sodas	632.6	2.4
Coffee	1,059.6	4.0
Others	2,342.7	8.9
Total	26,179.7	100.0

Table 2: Federalimentari's elaboration on ISTAT data: food industry, the main products exported, January-December 2013

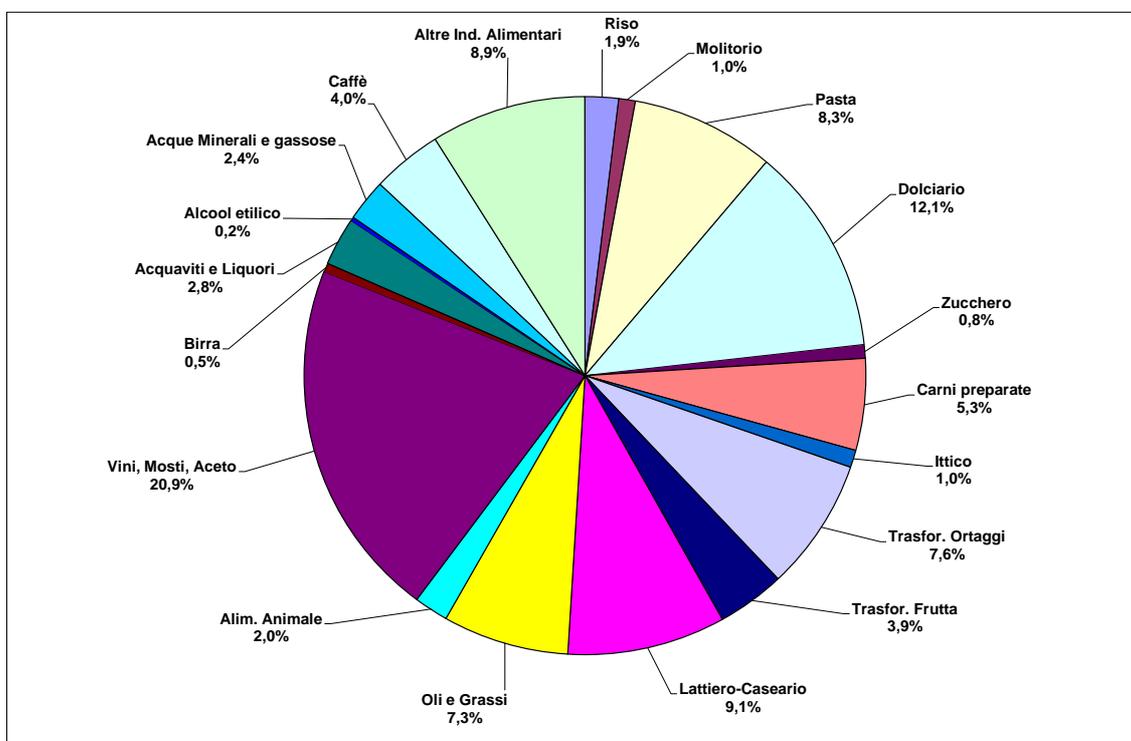


Chart 3: source: *Federalimentari's* elaboration on ISTAT data: single percentages to total of products exported

Although the value of export is steady increasing, a lot of expert and people working in the sector think that it is far from being exploited; Italy could far improve its performances with some change and modification to the current structure of its food&wine industry.

The main feature characterizing our firms, generally speaking, is the absence of a strong and unique national strategy. The Italian firms are mainly small in terms of dimension, and, in general, they are little structured, often basing on a family-run organization.

These features don't allow lots of Italian firms to reach exploitable market segment around the world, due to the problems of dimension that stop them from being strong global actors that expand their business worldwide.

So, we have to find an answer to this question: how can we strengthen the small/medium enterprises that in Italy give employment to the major amount of people?

There are also some penalizing conditions due to our country system: high taxation, inadequacy of infrastructures, insolvency by public administration on the credit earned, bureaucracy heaviness, justice slowness, energy cost, illegality in large areas of the country, and much more.

The economic crisis aggravates these traditional burdens.

The number of firms that go out of business or take advantage of unemployment insurance is dramatically growing. Pressing proposals for public policies are submitted by *Confindustria* as well as by other business associations: to reduce the global tax rate, to reduce the tax wedge, to reactivate large and small construction of infrastructures, and more.

In the current crisis, however, along with businesses on the edge of survival, there are also firms that are good, that innovate, export and grow up; these companies have proved to be able to compete because they have dealt with the crisis by continuing to innovate unceasingly, not only their products and services, but also their governance, their market positioning, their strategies and their size, their organization macro and micro, their technology, and above all their identity.

The main features of these successful small/medium enterprises are the following:

1. They develop good quality products and services with high level design and a handcrafted component at some phase in the cycle
2. They internationalize and seek markets

3. They grow on the basis of continuous customers' feedback
4. They have strong relationships with territory
5. They have organizations made up of systematic, lean and flexible structures, arranged on network of large, medium and small companies, with operations based on cooperation, knowledge, communication, and community
6. They have a "soul", an energy and an identity based on the enhancement of their competences, dynamic inheritance, and values
7. They have a predominantly industrial taking care entrepreneurs, with a good quality of industrial relations at company level
8. They are part of sets, such as platforms, clusters, macro-enterprises that give a sense of unity to individualism and to the apparent randomness of enterprises development

These principles are valid not only for firms belonging to food&wine sector, but rather for all the Italian companies that on *Made in Italy* base their business.

The most successful Italian firms that own the feature listed above need two things: they need to recognize themselves in order to get stronger and to show the model through which they succeed, so that it could be useful to Italian system; they need also to receive by country system the financial, technologic, of consulting, and educational services adequate to their features and to their growth potential.

3.2) Technology, networks and governance

There are lots of Italian companies that are suffering more acutely the crisis and have not developed the features that enabled the success of the medium-size enterprises of the Italian way of doing industry: they have to be more strongly supported in developing more solid models of management and to get high quality and low cost services.

In the Italian crisis, it is absolutely crucial to enhance the size of firms' capabilities to enable them to cope with the external diseconomies: this is critical for the leaders of the *Made in Italy* to grow again and for the companies with the greatest difficulties.

In particular, there are three levers to make the capabilities of SMEs stronger: the strategic employ of information technology, the reinforcement of links between firms in a network perspective, the entrepreneurial succession and management (the governance).

Here below I'm going to explain more in detail each of the three points.

1. The first lever is the integrated change management of technology, organization, and people. There is not a single key weapon, it is necessary to develop together and harmoniously all the organizational, technological and social dimensions that control the business.

The expectation of using the leverage of information and communication technology as a powerful factor in the optimization of the organization and in the strategic repositioning is founded, but only on the condition that they may be integrated with the other dimensions of the organization, such as the formal organization, the work practices, the professional rules, the organizational culture, and so on.

The process reengineering, the analysis, the redesign, the implementation of real organization, may allow to give off the extraordinary potential of information and communication technology.

Ignoring these dimensions exposes the technology investment to a crisis of rejection, losing one of the main drivers for growth, innovation, cost control and internationalization.

For the entrepreneur a good strategy could be to pass from the computerization to the integrated management of organizational change.

It's clear that the public policies should encourage the provision of integrated services to SMEs, such as credit, technology, consulting, training, assigning to the service companies a crucial task for the development of this kind of firms.



Figure 2: the power of Information Technology

2. The second lever is the growth through the strengthening of networks. The recent initiatives on network contracts are very important in order to ensure that a set of limited size firms succeed, through networks, in achieving the same benefits of cost, funding opportunities, investment capacities and internationalization paths of larger firms.

However, the network contracts cover, for the moment, a very small portion of those systems of networked enterprises that characterize the entrepreneurial system: these firms, mostly, didn't realized to represent "a new collective subject".

To manage the enterprise as a network node means for management to pay attention to the overall development of the value chain, of processes, of relationships, and of new structural forms of network to which the company belongs.

Now I'm going to explain more in details what it means to be part of a network. In the vast majority of cases, the small firm is a node of a company at a higher level: the business network. This term is attributed primarily to cases in which it takes place a process of decentralization of activities from a business centre to

other firms that act as subcontractors: productive decentralization of manufacturing activities and decentralization of services. The small firm, in this case, is mostly the “separate department”, the specialized and flexible subcontractor of the big company.

A second and distinct class of situations recognisable when we talk about network is that of “chains”, “constellation of firms”, that are business systems linked together in a unique production cycle: usually they haven’t got corporate or organizational connections between them, but they have powerful systems of operational cooperation. This is the case, for instance, of agri-food activities in *Emilia Romagna*.

In this case, the SMEs are subjects of a complex cooperation game between firms.

A third class of situations refers to homogeneous or heterogeneous business systems on geographical basis, such as business districts and clusters: small, medium and large firms interpenetrate each other and with non-economic institutions such as Municipality, Region, parties, etc.

Can be called networks also those entrepreneurial systems composed by companies legally independent but linked by strong associative connections, in addition to consortiums such as artisans confederations or cooperatives.

Which are exactly the features of a network? I try to resume them in the following list:

- In the organizational networks the subjects involved share the same value chain: from the development of the whole value chain comes the improvement of the segment in which each component is placed. Economic value chain and social value chain reinforce each other through the cycle “earnings – investment – visibility - social internal and external support - compatible strategies”
- An organizational network controls one or more basic processes (creating, designing, producing, purchasing, selling, promoting the identity, managing).

In vertical networks (for example, the furniture chain in *Brianza*) the main processes imply a job division by phases; in horizontal networks in which

different companies do the same thing (for example the ceramic district in *Sassuolo* town) the processes in common are those related to coordination and innovation, while the fundamental processes are repeated simultaneously (and competitively).

- The node, which are the constituent parts of a network organization, are large or small/medium size result-oriented entities, relatively self regulated, able to cooperate and to “interpret” external events.
- They can be internal or external to the legal-administrative boundaries of a firm: that is, they can be whether legally independent (a firm), and internal organizational units of a single firm.

Nodes of a network organization are, for instance: a holding company, an independent company, but also a public authority, a consortium, a business unit, a working group, an organizational role, a person (for example a designer or a stylist).

- A constitutive part of the network is represented by the connections or relationships between the nodes. These connections are of different nature, coexisting, and in many cases synergistic more than opposite.

The bureaucratic connections are those more traditionally visible, those that give more the idea of an “organized” system: orders, rules, procedures.

In an enterprise network they exist and are important, but they represent only a part of the connections that keep the system united.

In the network it is essential to work together on a problem, to take a collective decision, to complete a project. For this reason are more important other types of connection: for instance, the rules and practices of working cooperation, the channels and forms of communication and the exchange of knowledge.

Economic transactions are among the most important connections of the system: for example transaction prices of goods and services exchanged in the system, both between companies and between organizational units. The formalized information passing through the network are increasingly fundamental connections of the whole system: a lot of networks survive

and develop thanks to the ICTs, that support programming, logistic, and management support systems.

The interactions that take place in meetings, in phone calls, in intra and inter-functional teams, are fundamental connections in order to operate as a working community.

- The business networks are heterogeneous governed structures. The configuration of nodes and connections gives rise to typical structures. In the network different structures coexist. In particular, “hard” structures (definable and rationally configured) live together with “soft” structures (that can be influenced, but not fully configured).

Some examples of coexisting structures in the system are: ownership structures (shareholding), governance structures (boards of directors), hierarchical structures (organization chart), operative structures (task forces), informational structures (local networks), markets, clans, political system, relationship, ethnicity, etc.

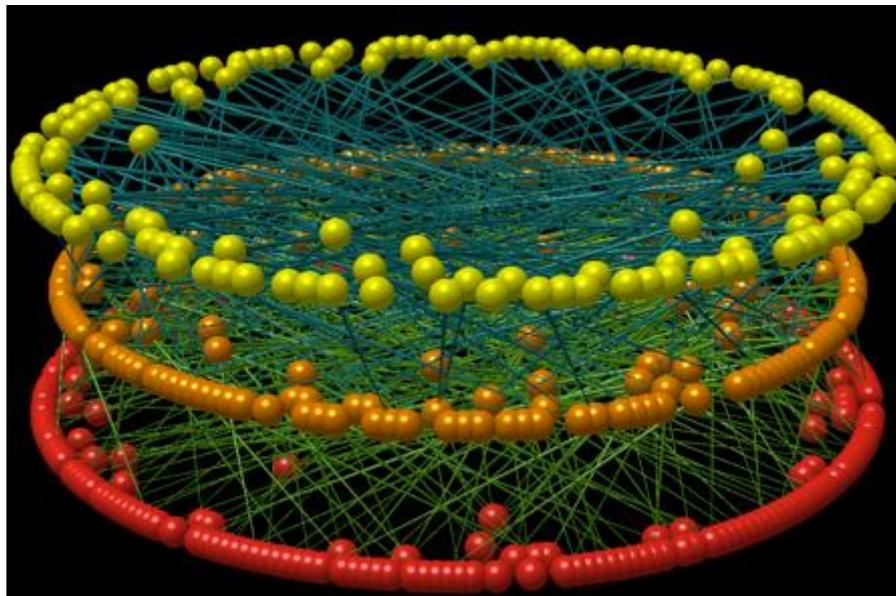


Figure 3: a network structure

- Also in terms of operational properties we see a proliferation of forms, mostly concerning the governance of the network, which aims to ensure the coordination and control of activities.

Here are some examples: the presence of managers or directors who occupy simultaneously positions of responsibility in several companies; routines, rules and procedures; information exchanges; directives issued on a hierarchical basis; roles of connection or integration; inter-entrepreneurial government bodies; groups (formal or informal) for the resolution of problems; planning, scheduling and information systems; market-based instruments; the presence of a sense of belonging to the group, that facilitate relations and information exchange.

3. The development of firms and networks requires a new unitary, shared and recognisable system of governance and control.

The governance is the method by which companies are managed and controlled. The governance system must be adapted to the specific firm. There is no single rule: exists just a method to be applied in each company in order to find the right solution for that company.

The model of the governance conducted by the individual entrepreneur is obsolete and overtaken by that of a group of people coordinated and directed by a leader. The leader is the head of the company; the pro tem group is formed by key people (internal, but also external) who face together the projects of innovation and change, and those of strategic, organizational and operative restructuring.

The group, dynamically observed, is a resistant, reliable and competent entrepreneur. It does not usurp the qualities or the initiatives of the individual entrepreneur, but it supports and completes it. It makes him able to guide his firm toward more extended dimensions, relations and markets.

The governance so interpreted is developed in **depth** and **extension**:

- **Depth**, because it involves all the levels of the organization and not just the formal ones: in particular, it innovates the technologies without transforming them in a foreign body, it enhances the professional system, it appraises the organization practices like energy and real resource for change, it works on culture and on perception of people who are involved in the change; just in one word, it integrates all these levels or dimensions

driving them back to a unit in the dynamic of change and it creates the conditions to enable the participation of people to the same change.

- **Extension**, because the governance covers the whole network which the company belongs to: it sees and develops the value generated by the network, it configures the processes so that they flow throughout the network, it knows and relates to all the nodes of the network, it enhances all the forms of connection, it can be considered not as an isolated entity but as part of an industrial structure/district/platform.

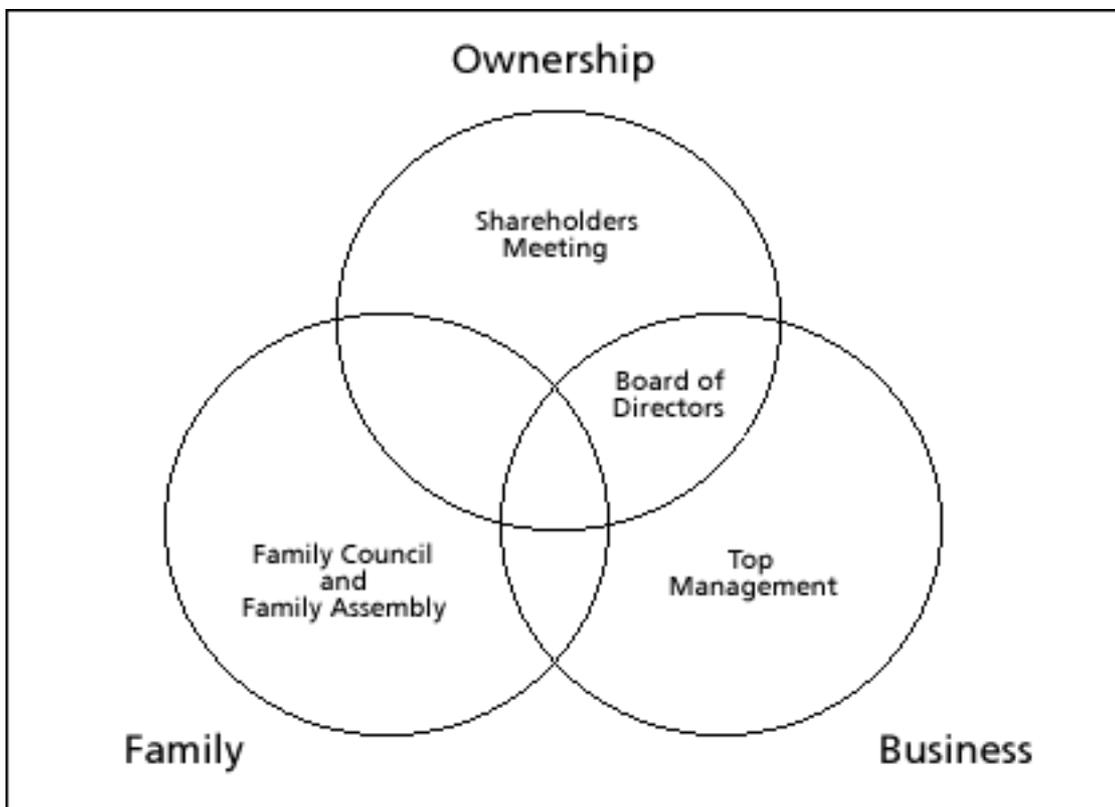


Chart 4: basic governance structure of the family run business

As I mentioned above, this improvement of firms' capabilities is strictly necessary in order to deal with the new changed global context, but it could be not sufficient: in many cases the SMEs would have to increase their size through investments, acquisitions, joint venture, franchising etc.

I can mention an example at this regard: two important Italian firms, *Ponti* (vinegar) and *Monini* (Olive oil), are looking for partners in order to do the dimensional shift and

achieve the global market. They are two historical dynasties of national food&wine, leaders in their own field, and they have the same long-run vision about business, and they hope to diffuse it worldwide.

The story of these two companies is the same of other firms of national food&wine: excellent in homeland but lacking abroad. They are strong from a financial point of view, they are managed by the same family since generations and they have strong brands that are well-established between the consumers. *Ponti* and *Monini* have faced the crisis sacrificing margins and resisting the temptation to sell to one of the many private equity funds.

But now they find themselves at the important juncture of growth. In the sector of fast-moving consumer goods they face a new situation: on the one hand in the internal market the sales are pulled just by private brands of supermarkets, that push to the bottom the competition, on the other hand there are the foreign market that are starved of made in Italy and high quality.

But reaching the foreign consumers it means to adopt a distributive structure that the small dimensions can't allow, unless finding local partners. Like many large national companies demonstrated, the path to bring their brand abroad is feasible only through alliances or strategic acquisitions. *Ponti* and *Monini*, as well as a lot of other important Italian firms, are ready to evaluate the hypothesis of partnership in order to realize the dimensional shift and to ensure continuity to the business.

The strong points of family-run businesses are cohesion, financial stability, the preference for internal rather than external financing, and a long-run vision for investments; but they have to adapt and bring up to date their strategies.

4) *MADE IN* IN THE FOOD&WINE SYSTEM

4.1) The evolution of definition of *Made in* and *Country of origin*

In this chapter I will reason on the concept of *Made in*, with particular attention on what it means in the food&wine system.

I can start my analysis saying that a total redefinition of *Made in* is strictly necessary: nowadays branding has got a central role in the companies' strategy, but branding has started to be adopted not only by firms, but also by countries, that have seen in it a key action to establish and reinforce their power in the global market.

The expression *Country of Origin* is strictly linked to that of *Made in*, they can be used both with quite the same meaning.

The main question is: what does "Country of Origin" represent to consumers, and how much important is it in their mind?

The evolution of *Country of Origin* definition has got historical reasons: it has passed from being a "given" (1900-1970), to an "option" (1970-2000), to an "asset" (2000-future).

In fact, for the major part of last century the *Country of Origin* had a completely different relevance and perception: the international trade was not so developed, in comparison to national and regional trade, so that consumers had nearly no choice about buying products by national companies and they didn't have the awareness they have today about foreign brands; furthermore, the business structure was completely different from the current one, in the majority of cases the activities of designing, manufacturing, production, preservation and marketing took place in the same country, so consumers were used to consider all these activities as a whole, associating immediately a brand to a country.

With the growth of international trade, at the end of last century, the consumers started to pay more attention to the country of origin and to related brands, doing stronger connection between the first and the seconds: in this context the consumers had more choice about what they were buying.

During that period, lots of firms started to fully identify themselves with the values and heritage of their *Countries of Origin*, giving to their products and services a surplus value due to the fact of being considered by consumers as representative of a specific country. At the same time, however, other companies started to take advantage of the *Country of Origin* effect more for marketing reasons than for real connections between their products and the design, manufacturing or headquarter location.

Nowadays the context has completely changed: the globalization and the evolution of technology have allowed companies to develop the various activities of their business in different places worldwide (raw materials from one country, design in another, production in another, and so on): the result is that the concept of *Country of Origin* has become more and more confused from the consumers point of view, so that the firms of a country have to face the challenge of trying to manage and control the *Country of Origin* perception worldwide.

Furthermore, another aspect to take into consideration is the current availability for the consumers to get information about firms and their products, and to share rapidly this information through the internet.

This new awareness by people is mainly due to the scandals that involved lots of firms worldwide on themes such as ethic and human rights violations, as well as a new attention by consumers to issues like sustainability (particularly important in the case of food&wine, as I evidenced in paragraph 2.2), and Corporate Social Responsibility (CSR). Referring to my field of analysis, for instance, the recent “Horsemeat scandal” in 2013 has brought several consequences, like the insertion of new European labelling rules, with the results that now all the products must show on the package the Country of Origin of each phase of the production.

We can understand, from these considerations, the importance of *Country of Origin* and of the new features that are linked today to this concept in the mind of the consumers, such as quality, safety, sustainability etc.

What is important to underline, if it was not clear enough, it is that *Country of Origin* perception represents a great opportunity for companies in order to differentiate by competitors and to strengthen the brand obtaining a competitive advantage.

Nowadays, as I anticipated in the introduction, intangible and emotional aspects (like safety and legality, just to mention a few) matter a lot in the purchasing decisions, so the

concept of *Made In* doesn't represent anymore just the place of origin of manufacturing activities.

For example, the place where a product is designed has got a great importance for the consumer, as well as the place where headquarter is located, or where the marketing activities take place.

In the past, the firms could take advantage of linking their name to a country just with marketing actions (for instance, identifying France with fashion, or Italy with design), but now the consumers are more aware of the real connections between a company and its *Country of Origin*.

In particular, these connections are stronger, in the consumers' mind, if they are based on features that are considered crucial in that product; I'll try to explain better this passage: if a consumer, for example, thinks that the most important feature of a certain product is design, he will pay particular attention to where that product is designed, rather than where it is physically produced or where the raw material comes from.

A perfect example of this statement is represented by Apple devices: a crucial feature in the mind of the majority of Apple's clients are ideation and design, so the fact that all the Apple devices are ideated and designed in USA is a quality guarantee, even if the products are actually produced and assembled in China, by the Foxconn International Holdings Ltd.

In this case, it is evident how in the mind of the consumer the *Country of Origin* of Apple Inc. are USA, from the moment that the company's headquarter is placed in California, in the city of Cupertino.

This example gives the idea of how much the concept of *Made In* is extremely complex and continuously evolving, in almost all the sectors.

As I wrote over, the connections between a company and its country of origin are fundamental, and they have to be clear in the mind of the consumers in order to be effective.

Almost a part of the productive process has to be done in the country, or the human resources employed have to belong to the country, or the patent has to be created in the country, or the general headquarters has to be located in the country.

There are lots of aspects that can link a firm to a country in many different ways, but the link has to be real, otherwise the consumers won't be willing to accept it.

From many years FutureBrand, an international agency, realizes studies at global level about the phenomenon of country branding: with this expression they mean the actions a country practices through its companies in order to improve and protect its image. The various countries are considered as real companies, with an own brand, the country brand indeed.

There are, however, some weakness points in considering the countries as actor of this process:

- For many Nations branding is often a short-run strategy
- The approach to branding by Nations tends to be too generic and detached: there is often a gap between communication and real essence of a country

Each year FutureBrand agency prepares a ranking of the most attractive countries in terms of image from the consumers' point of view (the Country Branding Index); in chart 5 there is the result for the period 2012-2013:

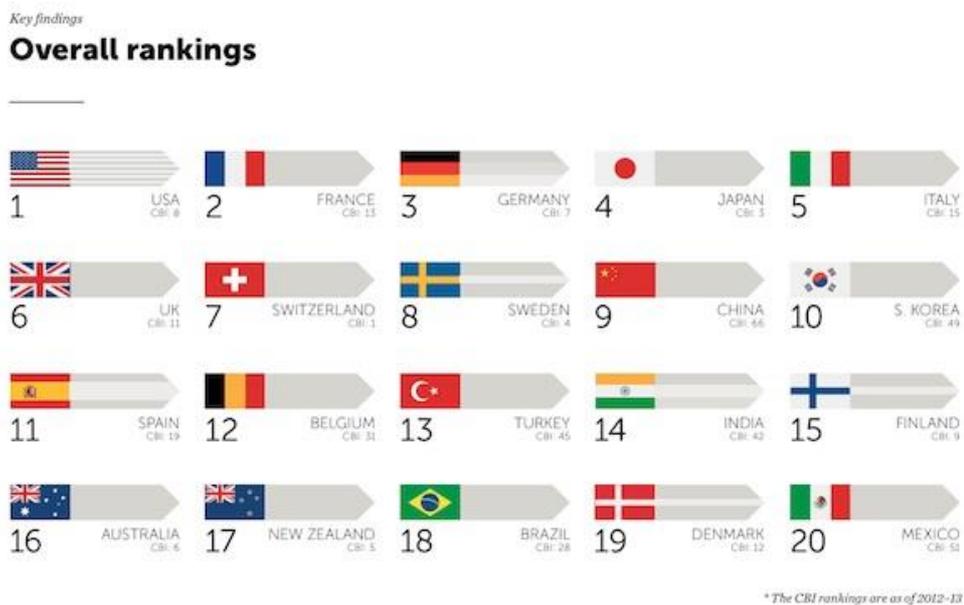


Chart 5: Country Branding Index rankings (2012-2013); source *FutureBrand*

For sure, consumers trust more in countries that excel in various sectors, because it strengthen the *Country of Origin* appeal, but obviously each country has got sectors

leading that have to be protected and improved, in order to gain the best position possible in the global ranking and in the consumers' mind.

Referring to the chart over, it is useful to add that the image of a certain country of origin can be reinforced by the image of its successful brands, creating a sort of halo effect that influences the perception of consumers: brands like Coca Cola, Apple, Ford, or Microsoft contribute to modify and improve the image of U.S.A. products, and these firms take advantage of the fact of been considered by everyone *Made in U.S.A.*

Anyway, I repeat that a real connection between a country and some activities (manufacturing, design, talent, patents, corporate location, etc.) must exist and must be evident in the mind of the consumer.

From all the considerations exposed maybe it would be more correct, in a lot of cases, to talk about *Made by*, rather than *Made in*.

4.2) The importance of *Made in Italy* in food&wine

Referring to the food&wine case the statements exposed above assume a crucial importance; the considerations made are generally true also in this sector, with some adaptations and clarifications.

In this paragraph I'll try to illustrate the central issue of my thesis, that is the importance of *Made in Italy* for Italian firms.

The case studies of the second part of my thesis will help to understand how the effect of *Made in* are different from one case to another.

Before explaining it I show in the chart on the next page (Chart 6) the Country Branding Index developed by FutureBrand taking into account seven different categories, including food and beverage, so we can immediately have an idea of the situation.

As we can see from the chart, Italy excels in Food&Beverage and fashion, and in general it occupies very good positions in several categories.

The first position in Food&Beverage belongs to France, because it has been able to build over the years a strong image of high quality worldwide.

A lot of people working in the sector thinks that Italy could perform much better, but the Italian firms deal with the problems analysed in Paragraph 3.1: the Italian firms are to

small to compete in the global market, they are exposed to the pressure of large scale retail trade, and the Italian market looks too fragmented.

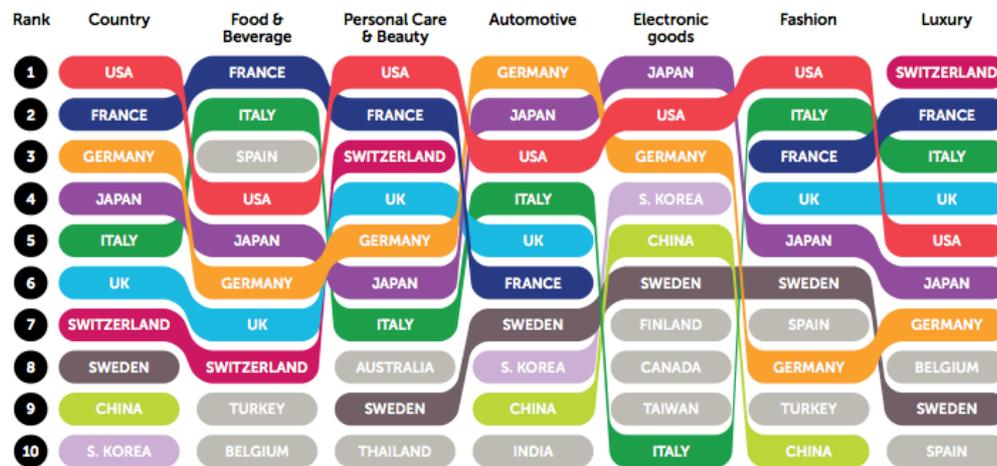
Even the export could improve a lot, considering that Italy is only 6th as volume of export: the general lack of a strong structure of governance, the difficulties for Italian firms to compete with big multinational, the lack of collective policies and of the right sustain by the government, the Italian high level of taxation over enterprises, the difficulties in obtaining financial support by banks, they are all aspects that penalize our companies and don't allow them to fully take advantage of their potential strength.

The concept of *Made in* is particularly crucial in the Food&wine context, where the consumers have increased extraordinarily their awareness about products and companies, giving crucial importance to the *Country of Origin* of firms, products and ingredients.

In addition, they pay particular attention to the innumerable certifications of the products: this is due mostly to the direct connection between food or beverage and health.

Key findings

Rankings across industry sectors



Made in

FutureBrand ©

Chart 6: Country Branding Index rankings across industry sectors (2012-2013); source *FutureBrand*

The growth in the consumption of vegan or organic products it is the evident prove of this trend, as well as the increase of certifications and labelling by companies (ISO 9001, D.O.P., I.G.P., Kosher, just to mention a few).

But which are the factors behind the definition of *Made in Italy*? The answer is much more complicated than what we can think. Talking in general terms, it is possible to make a first evident distinction between products that can be considered *Made in Italy* even if the raw materials come from another country or part of the business activities are made in another country, and products for which the raw materials have to be Italian and the whole production process has to be made in Italy in order to be considered *Made in Italy*. To the first category belong products for which the know-how involved in the production process is predominant in comparison to other aspects: a typical example of this kind of products is offered by the organic jams made by *Rigoni di Asiago*.

In this case almost the totality of the production process takes place in Italy, where headquarter is located (district of Asiago).

Actually the fruits used to produce the jams are cultivated and preserved in Bulgaria, where the experts of the company found years ago the right conditions for the plantation of organic farms, but it doesn't contrast with the definition of *Made in Italy* attributed to products by Rigoni, because the knowledge and work behind the production is typically Italian.

Another clear example is represented by Italian pasta: in Italy there is a very big number of pasta producers (Italy represent more than the half of durum wheat pasta global production) and this pasta can be considered *Made in Italy*, even if we all know that the durum wheat comes from Canada, U.S.A., Ukraine, Russia and so on.

What basically matters in this case is the knowledge behind the transformation of the single ingredients in finished products: the durum wheat is firstly transformed into bran, and then blended with water, and both these activities take place in Italy, with the support and thanks to Italian talent and tradition.

There are some Italian pasta producers (*Senatore Cappelli, Valle del Grano, Ghigi, Jolly Sgambaro, etc.*) that use only Italian durum wheat and they evidence this peculiarity in the marketing campaign as an advantage and a guarantee of quality. But actually the origin of durum wheat it cannot be considered as guarantee of quality of the finished product, because the process of transformation is fundamental to obtain high quality pasta.

Quite the same considerations can be made for Italian coffee: the major coffee producers are Brazil, Vietnam, Colombia, Indonesia, as well as Mexico, Guatemala, Honduras, Nicaragua, El Salvador, Ethiopia, India, Ecuador, and so on.

The quality of the coffee is surely important, but there are many other factors that allow Italian firms to play a fundamental role in the production of the finished product: first of all, it is important the choice of the different varieties of coffee to mix because they will determine the aroma and flavour of finished product; then it is crucial the roasting process, in which only a long experience allow to balance correctly time and temperature; the preservation phase needs particular attention and control by the personnel; finally, the way the coffee is served has a great importance: at this regard, the efficacy of Italian coffee machines give to our companies a strong competitive advantage.

All the phases of production process have to be wisely managed in order to obtain a high quality coffee, and this capability is recognised worldwide to the majority of Italian coffee brands like Illy, Vergnano, Segafredo Zanetti, Lavazza, and so on.

As we understand from the considerations till now exposed an important issue is represented by the availability of ingredients and raw materials.

In the case of organic jams *Rigoni di Asiago* found in Bulgaria the right lands for the plantation of the fruit; in the case of pasta the only Italian durum wheat it is not sufficient to satisfy the global demand (and probably neither the national), and it is not demonstrated by anyone that the Italian durum wheat guarantee a better quality pasta compared to durum wheat coming from other countries; in the case of coffee, in Italy there are not the right environmental conditions to cultivate it, and historically the plantations are located in the tropical colonial areas.

I mentioned above that for certain categories of products the raw material and the totality of production process have to be Italian in order to be considered *Made in Italy*: this is the case of wine.

Wine is, for lots of aspects and from my personal point of view, the most interesting product and it would deserve a peculiar study and attention.

For wine it is essential the link with territory, in fact, a wine can be considered *Made in Italy* by law only if the vineyards are located within our national boundaries and the totality of production process, from harvesting to bottling, must take place in Italy.

But it is much more than that, for wine the Italian regulation is more complicated than for the other products; first of all, wines are divided, by Italian law, in two categories:

- V.C.C.: common consumption wines
- V.Q.P.R.D.: quality wine produced in specific regions

We don't find these denominations on the wine labels because they include subcategories: the V.Q.P.R.D. denomination includes D.O.P. (who in turn includes D.O.C. and D.O.C.G.) and I.G.P.

These last two definitions are similar but not identical.

A D.O.P. wine is hailing from a certain region, place or town and its quality and features are due to that place and environment: the grapes used in the production of this type of wine have to be made for 100% in the delimited geographical area, this means that the whole productive cycle has to take place there.

An I.G.P. wine is produced in a certain region, place or town and it has a specific property, feature or something else that can be recognised as typical of that geographical origin: the grapes used for I.G.P. wines have to come for 85% from the indicated area, while the other 15% can come from another area, but the wine making has necessarily to take place in the indicated one.

There is then the category of special wines that includes: fortified wines, raisin wines, sparkling wines and aromatised wines.

As we can understand, wine implies a completely different situation compared to the other cases analysed above: in the case of wine the physical link between product and territory is stronger than in all the other cases of drinks or food; it is not by chance that lots of wines take their name from the area where their vineyard are located.

From these considerations, it seems clear that for wine a strategy of internationalization by Italian firms entails some problems: the strong link with territory and the regulation connected imply that a considerable part of the value of the finished product depend on the location, which represents an exclusive competitive advantage and a value to defend in order to maintain the prices high and compete in the global market.

The market vice versa recognised to wine *Made in Italy* those values of exclusivity and quality for the fact of been produced within our boundaries.

An interesting case is represented by *Masi Agricola*, which has decided to internationalize its production: it produces a wine in Argentina using the Italian (Venetian, to be specific)

methodology and know how; this wine cannot be considered *Made in Italy*, it is *Made in Argentina*, but maybe it should be considered *Made by Italy*: at the eyes of the consumers the fact that it is produced by a typical Italian firm could constitute surely an element of prestige and guarantee.

4.3) The link between food&wine, culture, territory and emotions

What it results clear from the discussion developed above is that culture, territory and emotions play a critical role in the definition of *Made in Italy*.

In all the cases that I mentioned above a common denominator is the Italian culture: customs, tradition and history are all aspects that have to be taken in great consideration if someone wants to make a serious analysis on food&wine.

In fact, the perception of foreign costumers about our products is strictly linked to irrational and emotional aspects, apart from the material ones; at this regard, Italy has got a competitive advantage that very few countries have: we can count on the so called Italianism, a value recognised worldwide, that refers basically to the Italian style, the Italian way of doing thinks; this value assumes a great importance in the case of food&wine.

Surely even within this field there are distinctions, some products are more affected by this aspect compared to others, but in general the reliance on it is strong.

First of all, culture is a value that is linked indissolubly to food, even if nowadays we are risking to erode this link, I'm going to explain why.

Food consumption is, by nature, a cultural experience typical of human being; the link between food and culture lasts since the beginning of human history, so that we arrived to the definition of a concept called "food culture": in the next passages I will try to analyse and explain what this expression means.

In our society the gradual drying up of the important aspect of cultural dimension seems to be the result of a process of alienation that leads to anxiety and uncertainty. So, the present age represents the most appropriate moment for requalifying, in positive terms,

the cultural value of the relationship between people and food; a wide operation of rethinking of this relationship is needed due to its social relevance and urgency.

The food culture is the most effective lever to redefine in concrete terms the relationship people-food: only starting from a food culture more careful about values of naturalness and sustainability it will be possible to face successfully the current food emergencies, from the scarcity of food, to the overabundance, to the respect for the environment.

Culture has ever been a multiplier of results thanks to its capacity of activating and orienting people energies collectively.

We can't stop to the identification of technical solutions to the emerging problems, ignoring the diffusion of a cultural and knowledge dimension, because it means to plan just short-run actions, renouncing to bear on the deep causes of the current difficulties.

In the light of these considerations, it is possible to identify some strategies useful to readdress the future of nutrition:

- To enhance the source of conviviality. Our time is characterized by the fact of being poor of relationships. The increased number of contact opportunities, even through new technologies, often coincides with the superficiality of human relationships.

On the other hand, food has ever been an opportunity of meeting and conversation; it is therefore necessary to recover its natural inclination making the moments in which food is consumed more "social".

- To protect the local territorial variety, in an expansive perspective. Food, as expression of identity of community and territory, keeps a feature of uniqueness that makes it, on the one hand, an opportunity of revival of its cultural roots and, at the same time, a possibility of approach with other traditions.

In order to do this, however, it is necessary to preserve the richness of identities, without renouncing to taste fusion, reinforcing the emotional capital tied to roots, to the typical, to the geographical location, but taking advantage of the humanly universal aspects.

- To transfer knowledge and know-how as extraordinary reserves of cultural richness.

The preparation of food is by its nature mainly a handcrafted experience: the consumer contributes participating in a sort of co-production with the producer; but this intervention requires significant expertise and skills that must be retained and transferred over time.

- To return to a healthy relationship with territory and raw materials, aiming at the excellence of ingredients.

In the case of food the relationship between its material quality and the quality of cultural experience is very strong. Low quality food doesn't produce culture in the majority of cases; it is necessary, therefore, to work hard on the excellence of ingredients, establishing a direct and respectful link with the environment in which raw material grows.

- To retake the value of food as vehicle of fertile relationship between generations, in the simplicity and clarity of its benefits.

The breakfast and dinner table seems to be, in lots of families, one of few privileged places through which it passes an experience of common life and of education to a better affections sharing. Also this component must be recovered as an element of construction (and reconstruction) of a social fabric that, with modernity, is weakening more and more.

- To recover the ancient flavours renewing them with contemporary taste, through an operation that allows to keep the best of gastronomic tradition, trying to creatively reinterpret it. It is this, in every field, the main mechanism of transmission of cultural phenomena.
- Finally, to spread the culture of taste and of "*savoir vivre*" through the authentic food, because revitalising the charm of food in its rituals and its carefree pleasure –as existential and cultural fuel- allows a renewed focus on people and their emotions.

The future luxury and health will lie strongly in the art of living and understanding food from a cultural perspective.

The relationship between food&wine and culture it is particularly strong in the case of coffee. First of all coffee presents, since its origin, a link between the coffee bean and the local culture: the local villages in which coffee is produced are often extremely

characteristic and peculiar from a cultural point of view, so that they have to be defended to preserve the right connection between nature and human being and to keep a cultural dimension in the production of coffee.

Furthermore, the action of drinking coffee has become part of the Italian culture and life style, to the point that nowadays lots of people from other countries seems to be more interested in learning the Italian way of drinking coffee than in the beverage in itself.

The strong correlation between coffee, intended as beverage, and culture it is demonstrated by the fact that the places in which coffee is drunk have assumed the same name: caffè. These places have ever been, historically, situations where writers, artists, politicians, and so on, met each other and where they worked and discussed, creating an extremely productive and stimulant environment.

The substance itself it is considered to be energizing and stimulating, to the point that for many people drinking a coffee in the morning has become fundamental to reactivate brains after the sleep.

As I mentioned in the last paragraph lots of Italian coffee brands have understand the strong power of this product in the mind of the consumer, and they based all their marketing campaigns aiming not only at the quality of the beverage but also at the right Italian way of life and style.

Another extremely important link is that between food&wine and territory; at this regard, in the last years the debate on this issue have been largely developed and a lot of different and conflicting opinions coexist; the question is always the same: is it possible to carry out a strategy of delocalization for Italian food&wine products? The answer is far from being simple; to the contrary, it is very complex.

The complexity of the answer is due to the huge variety of products included in the category of food&wine: each single product has its own specificity and a peculiar connection with territory that could be more or less strong.

In fact, it is surely true that for certain products the production process can be moved to foreign countries with lower costs of productive factors or other convenient features under a logic of delocalization and internationalization, but it is also true that other categories of products (mostly the typical of a certain territory) don't follow the same logics: for this second kind of products the market value is strictly linked to the place in which they are realized, that represents a competitive advantage at the eyes of consumers.

Figure 4: a picture showing allegorically the link between food and territory



In addition, if we think that in those territories there are other cultural assets (monuments, artisan traditions, museums, festivals, etc.) that can be attractive we understand that the idea of turning these realities into factors of growth or competitive advantages it is definitely correct.

The issue of typical products, therefore, is linked to the current issue of cultural tourism (in particular that of food&wine tourism); in fact, the sector of cultural tourism, though representing just a limited share of total expense in tourism, is seeing a huge expansion in the last years.

When a consumer buys a typical product he is buying the history of a community and territory as well. For this reason food&wine, culinary traditions and typical products they are not only economic goods in themselves, but they can generate their own industrial network, identifying a specific territory and conditioning some way the processes of local development.

We don't have to forget that strong connections often exist between handcrafted production and industrial production of a typical product: industry, in fact, has in lots of

cases take advantage of name and renown of a product in order to commercialize another even little similar, but that recall the original name from a sound point of view.

It is definitely not sure that this conduct has damaged the handcrafted productions or production areas.

This issue is linked to the problem of “Italian sounding” phenomenon that I will analyse in the next paragraph.

As I already mentioned, in lots of cases the link product-territory is proved by the own name: *Gorgonzola*, *Asiago*, *Taleggio*, *Pienza*, are all names of existing towns that over time have become also names of the cheese produced in that towns.

We are in front of a real semantic case, where a name identifies two different things, a cheese and a town.

In food&wine field it is full of examples like that: *Parma* raw ham, *Marsala* fortified wine, *fiorentina* grilled steak, *Soave* wine, just to name a few. In these cases the identification of the products with their places of origin is total.

For this kind of products a strategy of delocalization by producers seems to be honestly amiss, if not impossible. The strength of producers is, on the contrary, the image of exclusiveness and quality that characterizes those typical products, so the playing field of those firms is centred on legal elements like certifications of authenticity, origin, quality and so on.

It is undoubtedly true that the production of typical products has got quantity limits, due to obvious reasons, so in all those cases the lever to manage is price. Nevertheless, in order to effectively exploit the global demand and reach all the foreign market segments (as I explained in paragraph 2.1), it is necessary to reinforce and update the marketing actions of those firms, conveying the values and awareness about those products all over the world.

Another link, very useful to my analysis, is that between food&wine and emotions: in defining the concept of *Made in*, in fact, I wrote that irrational and emotional aspects have got nowadays a great relevance in the purchase decisions. Starting from this statement, it is easy to understand the importance of the intangible attributes characterizing products *Made in Italy*.

This emotional aspect is fundamental in goods that involve deeply all the five senses: food is extremely sensory, as a consequence, the purchase decision by customer is much more personal and complex than the majority of other goods.

Even within the food&wine category each product is different from another, as well as the emotions involved change: for sure, wine is the product with the highest level of emotional involvement, due to its euphoric nature.

Wine, so, is the highest expression of emotional product in the food&wine category: its consumption can be considered more in terms of experience, in which memory can play an important role.

The Italian wine producers well know this aspect and they try to take care of the physical quality of the product as well as the image and effect that their wines can arouse in the mind of consumers.

Obviously, also other kinds of products have these features, so what it is important to understand is that only taking care of both the tangible and intangible aspects Italian firms can gain a competitive advantage against their foreign competitors.

4.4) The concept of *TERROIR*

At this point, to complete the analysis about the link between wine and territory it is necessary to introduce the concept of *terroir*. But which is the correct meaning of *terroir*? Actually, referring to the wine world, the answer is quite complex, whereas the same word used for other products, like coffee or tea, has got a relatively simple meaning.

Both in the written and pronounced form, this term reveals its French origin: in France, in fact, an excellent wine is produced, and French wine producers have taken advantage of *terroir* (as well as other factors) in the creation of a wine empire.

According to many people it results to be very difficult to explain exactly what *terroir* means referring to wine, because this term includes in it so many meanings that it is impossible to define it completely.

Translated into literal terms, *terroir* means soil or ground, however French attribute to this term a wider meaning, not necessarily tied to the soil alone.

Referred to the world of wine, *terroir* assumes quite a complex meaning: it is a set of different factors which are so typical of a limited area, in many cases a single vineyard, that wines acquire unique and peculiar features depending on the area of production.

This is undoubtedly true: two wines produced with the same grapes, even though by the same producer, but from different vineyards, they are undeniably different. Regarding to this, the French are absolutely right in recognizing the diversity of each wine according to the place of origin; concepts such as *cru* and *terroir* have got an enological high value. Definitely, if it is true that a grape can be “transferred” and cultivated in every place, the specific characteristics of a soil are always unique and not replicable elsewhere. There may possibly be similar conditions, but in no case exactly the same.

As I wrote, the concept of *terroir* includes the definition of different factors, such as the conditions created by climate, ground morphology, altitude and exposure, geological features of the soil and the mineral and organic elements that compose it, water drainage, typical indigenous yeast and, not least, practices and wine culture adopted in the production phase.

Among all these elements, only the wine practices are exportable elsewhere, I mean the experience and how man uses these factors, all the other elements are not exactly replicable elsewhere.

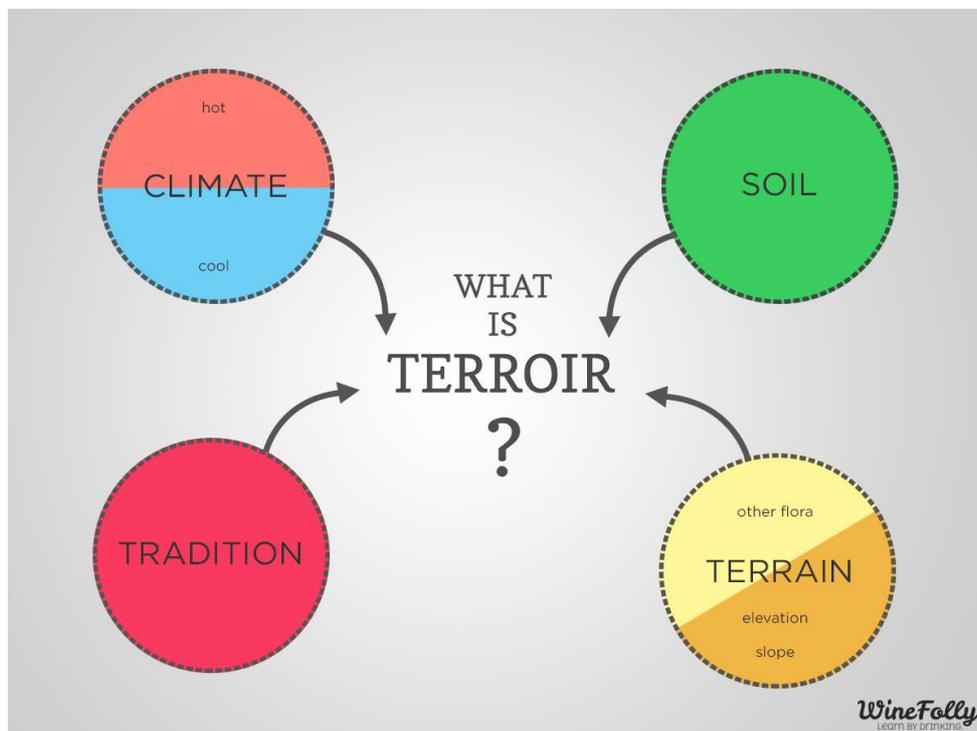


Figure 5: the different components of *terroir*

In other words, just to mention one of the “usual” comparisons, *Champagne* can exist only in the Champagne region, while *Franciacorta* can exist only in Franciacorta; which is the best – always a subjective and relative consideration – it doesn’t matter: each one is the expression of its own *terroir*, although they are sometimes produced with the same grapes.

All these factors, granted to each location by nature, are inevitably altered, or better, interpreted by the man action, often exalting the peculiar qualities of a *terroir*, sometimes destroying the advantage offered by this unique heritage.

Considering that wine is not self-made and it needs not only favourable environmental conditions but also human intervention, this last factor represents often a considerable difference.

In other words, having high quality grapes and an extraordinary *terroir* does not mean that wine will be characterized by high quality as well. If human intervention it is so wicked to destroy, in the wine cellar, these conditions, the result won’t be exciting at all. Conversely, from a mediocre *terroir* it can be produced an equally mediocre wine if the human intervention is careful and meticulous, a very bad wine in all other cases.

Human intervention can also alter the *terroir* in other ways, such as for example, using yeast selected in laboratory rather than the indigenous ones present in the place: the wine features will be different.

Once again, the real quality of a wine is strongly conditioned by human work: in the best cases man can take advantage of favourable environmental conditions, which contribute to the outcome, while in other cases those conditions are used in a disgraceful way, leading to questionable outcomes.

This also explains why not all the wines with the same denomination – that is, wines born in relatively homogeneous and similar *terroirs* – once poured into the wine glass they seem to be not only different, but even distant.

Therefore the way *terroir* is used becomes fundamental and, in these terms, human actions can make the difference. Without detracting from the undeniable merits of a good *terroir*, the quality of wine remains a feature tied to human factor, a precise and established production decision for which the *terroir* represents one of the most important elements.

The charm of *terroir*, for a wine, can often make the difference, even due to purely psychological reasons, but sometimes – tasting what is poured into the glass – one wonders how much that producer has truly understood about its *terroir*.

In view of this analysis, it is simple to understand that behind the concept of *terroir* enormous commercial interests lie, to the point that this factor has been used more for mere speculation rather than for wine real quality.

In fact, lots of times a wine is commercialized just to take advantage of the good name and reputation of the area in which it is produced, without taking care of quality.

5) LOCAL KNOWLEDGE IN GLOBAL VALUE CHAIN

5.1) Generative and replicative knowledge

Before analysing the different case studies, it is necessary to understand the value and the role of technology in the internationalization processes.

Knowledge has undoubtedly a central role in modern economy, to the point that in the economic literature the studies about “knowledge economy” have been interesting many scientists, researchers and professionals, and the new global context, overall globalization, has made the debate about this issue extremely up to date and relevant.

The expression knowledge economy means the study of economic processes that lead to the generation of economic value through the use of knowledge.

In this thesis I get back the notions and ideas of the Italian Professor Enzo Rullani², who wrote several books about this issue.

First of all it is important to clarify some statements and aspects: knowledge economy is considered, generally, as a section of economy: that part referring to investments in knowledge (research, training, education, university, technologic transfer, consulting), a sort of noble economy, with high intellectual content. But we have to consider that nowadays nearly all the works, all the objects and all the services are high knowledge content, in the sense that they use mainly cognitive work and only exceptionally energetic-muscular work.

The energetic work was the rule at a previous time, while by now it has become an exception or a minor part of all the works carried out in the current production system.

Considering that machineries, technology and artificial energy are in turn products obtained through a strong use of knowledge, it is easy to understand this statement: all modern work, save few exceptions, is cognitive work, included the worker that controls a machinery or the truck driver.

So knowledge economy is a method or a way of managing the general economy, putting in motion not only the ideas, but also the resources employed, included the material ones.

² ENZO RULLANI: *Economia della conoscenza. Creatività e valore nel capitalismo delle reti*, 2004

It is possible to identify two different kinds of knowledge that can be considered as complementary: generative knowledge and replicative knowledge.

The first kind of knowledge generate new ideas, which are different from the pre-existing ones, new visions of the world, new meanings and new codes, new technical or organizational solutions, and so on. Generative knowledge is linked to people and to the practical contexts in which it came into being: it can be reproduced, transferred and reused by people and contexts different from the original ones, but only with difficulties, at high costs and with uncertain results.

This kind of knowledge is fundamental for the process of economic value production, because it has generative capacities, this means that it can produce new knowledge or adapting existing knowledge to new problems.

Replicative knowledge, instead, is codified and produced with the intent to be used by everyone in different contexts, as long as the abstract operating instructions are respected. Its main feature, that is the reason why it is so precious for the economy, is to be replicable, meaning that it can be reproduced and reused an unlimited number of times. Examples that involve replicative knowledge are a scientific theory, a chemical formula, an electric drill, a CD, a photo, and so on.

I wrote that the two kinds of knowledge are complementary, so in the next passages I'm going to explain why.

Only people, not machines or mathematic models, have got generative capacities. Replicative knowledge, every time they are used, they produce an additional value to which don't correspond costs; but the problem is that they lose value rapidly, as they are reused.

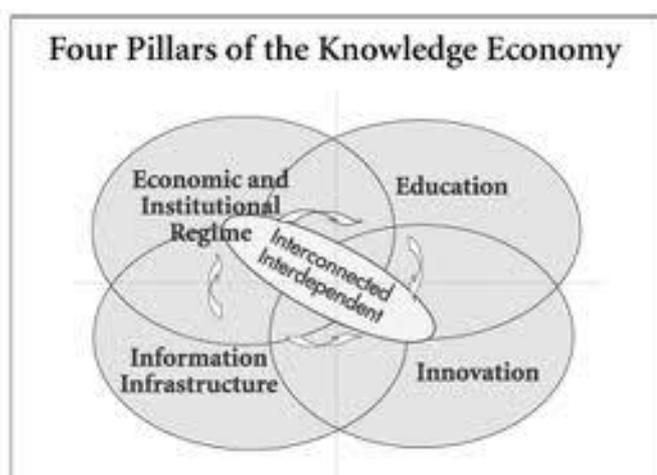


Chart 7:
the four pillars of knowledge economy

Therefore, in order to compensate the loss of value they have to be regenerated, renewed, changed, or adapted, and all these operations can be carry out only by generative knowledge, which is connected to people and to real context: this is the reason of complementarity.

Knowledge economy involves a deep difference from classical economy: the aim of classical economy is to allocate work (a scarce resource) to the uses in which it could create the maximal value. The market and the economic calculations, in fact, are necessary to move scarce resources from low value uses to higher value ones, till the achievement of optimum.

This model, however, goes out if value is no longer produced by work (with knowledge involved) but by knowledge detachable from work.

Replicable knowledge is a particular kind of resource, because it is dis-embodied from people and context, it is mobile thanks to ICT and globalization, it is not consumed by use and, if well codified, it can be reproduced at no cost: for these reasons it is not scares, but multipliable.

To create value through knowledge, therefore, it is necessary to organize the multiplication, enlarging as more as possible the reuse basin.

This resource does not need to be better allocated, there is no reason to subtract it to someone in order to give it to some other; it is not necessary to choose between the possible uses, rather the aim is to reach each of them, enlarging as much as possible the basin of possible uses.

In addition, knowledge is a resource that has not the role of mere “vehicle”, differently from the classical material factors, on the contrary it strongly influences the goals of the subjects that use it because it produces links and creative experiences. Basically, knowledge creates new worlds, new ways of living, working and thinking that are different from the pre-existing ones.

Worldmaking economy is, in the current context, much more important than factory economy, where it is stressed mostly the physical factors’ efficiency. This trend is, nowadays, stronger and stronger, thanks to the max media and the internet, and more in general to globalization.

If, hypothetically, we buy quality jeans for 100€ in a retail store, and the production cost is 10€, the other 90€ added in the supply chain are the result of the process of

worldmaking that designed the product, organized the supply chain, displayed it in the retail chains, made it recognisable through a brand, gave it a meaning through communication and transformed it into an identity product through communities and youth groups.

This is true not only for fashion products, but for all the products that go beyond the logic of mass production and standardization, demanding on the contrary personalization, meanings, services and guarantees: generative knowledge creates value developing replicative models that supply those qualities. Doing this, it stops to be a vehicle and starts to be a force oriented to create value through *worldmaking*.

From these considerations it is easy to understand that knowledge economy is extremely important in a global world, where the power of knowledge can be spread through the global value chains.



Figure 6: knowledge can be spread worldwide thanks to global value chains

Nowadays, with the development of global market that gives access to very different places, generative knowledge, that is linked to its places of origin, organizes the reuse of replicable models so that they can be spread in the foreign chains; these foreign chains, in turn, transfer the activities of reuse of the codified knowledge in different places situated far each others in the global market.

This is the reason why, in Italy, replicative works are losing value, while generative works are increasing it becoming the active centre of wider and wider global chains.

Obviously both these kinds of works have suffered from the crisis but we have to admit that many of the replicable works, so frequent at a previous time, have been moved elsewhere, or there are not anymore. And in the case they are present, they are less and less productive.

It is a great change we have to get used to, working for the development of a strong nucleus of generative knowledge in our country and of strong connections between this nucleus and the global value chains.

At this point a fundamental question arises: who take advantage of the economic value produced?

Replicative knowledge produces a value surplus that is multiplied and spread around the world through the supply chains, because each one of the reuses of this knowledge generates value at no cost; in the long run, however, the replicative model loses its value, because it is reproduced or overtaken by other models but, before losing it, part of it returns to the place of origin of the generative knowledge.

Generally, part of the value generated is spread worldwide and it is not possible to catch the totality of it, for obvious reasons; but the part of value coming back to the place of origin can be reused to finance new generative knowledge useful to produce new innovation, like a sort of a virtuous cycle.

The amount of value scattered around the world is an issue linked to intellectual property, and in general to appropriation of results: in fact on the one hand replicative knowledge needs to be spread as much as possible in order to be effective, while on the other hand generative knowledge must be defended with the right instruments, mostly the legal ones, to avoid of being stolen or copied worldwide.

At this regard, in the next paragraph I will analyse the phenomenon of *Italian sounding*, which represents one of the greatest risks and challenges for food&wine Italian movement.

It results clear that the issue of repositioning within the global value chains represents a big challenge for Italian firms and, more in general, for the *Made in Italy* as a movement, especially in this period of crisis for our country.

Italian firms are all focusing their attention to the present and to the short-run problems: dropping profit margins, unpaid debts, decreasing demand, and so on. The same thing happens for employees, self-employed, consumers and citizens: they are all so worried about the future that they are not able to see the potentialities lying in the future.

In particular, it is necessary to specify two important things: firstly, what people are living is not a crisis, but a transition, a new emerging paradigm; secondly, this transition is not abstract and intangible, but it bases its strength on concrete and powerful forces.

Who doesn't look at the future is not able to identify and use these forces that could lead him out of the crisis: world is changing rapidly so we can't use the models of the past to face the future, a competitive repositioning is needed and it has to involve the companies' business models, the role of professions, the governance structures and the consumption models.

The economist at International Monetary Fund Andrew Tiffin observed that in Italy, in spite of a decrease of the competitiveness indexes over the last twenty years, the export has grown steady. This can be explained, probably, with the obsolescence of those traditional indexes (mostly the cost of labour per unit of output, ULC); if we use another index, like the *producer price index* (PPI), we see that the Italian competitiveness has decreased but not so much: this can be explained with the fact that labour cost is just a part of the entire production cost.

So, if the predominant business models change, Italian labour can contribute to the production of quality products and services as it modifies its role within global value chains.

The same hour of work can imply higher costs as well as higher performances in terms of quality, image, new markets served, product/service personalization, innovation and post-sale assistance.

What results clear from this reasoning is that the Italian case is not a contradiction, rather – as Tiffin says – it is the evidence of a qualitative transformation of the system, which leaves the cost competition and a slot of low cost products, to move toward higher value added products.

We have to admit that the qualitative repositioning of the Italian export has been strong and steady in the last 15 years: in fact, Italian leading firms have been able to reach new growing markets, even out of Europe, increasing in some cases the quality standards. This

result has not been simple at all, on the contrary it has been possible only thanks to the courageous acceptance of lower profit margins and lower investments in the name of an easier future situation.

Now, the matter for Italy is this one: is it possible to follow the trend set by leading firms if there are a lot of different and conflicting visions about the current evolution?

It seems to be very difficult to find a convergent path if innovative companies and inactive companies, employers and employees, investors and financing banks, private actors and public administration, producers and consumers have got their own vision contrasting with that of the others.

This issue has to be the starting point of a productive debate: all the Italian actors have to find a common way of interpreting the current situation, in order to build a shared future. The Italian transition pass through a different distribution of knowledge within global value chains and the creation of a new knowledge geography.

The flow of codified knowledge that goes towards emerging countries, that are ready to receive and absorb it, is huge; these countries have seen substantial growth rates and structural transformations: the manufacturing production world share belonging to China has increased from 8,3% in 2000, to 14,3% in 2007, to 30,3% in 2013; it has been an incredible growth, actively sustained by American, Japanese and German multinationals. Behind China there are the other emerging countries (Brazil, Russia, India); the BRIC group as a whole has lead its share from 12,8% in 2000, to 21,8% in 2007, to 38,2% in 2013.

At the same time U.S.A. and Japan have been decreasing considerably their manufacturing production share: this changed industrial geography has surely brought advantages to BRIC countries, but also to U.S.A., Japan, and Germany that have profited from the fact of being active protagonists of this change through their multinationals.



Figure 7: All the production of Apple devices takes place in China by *Foxconn Corporation*

The value surplus generated by new global value chains, in fact, is not distributed equally, rather it is intercepted and captured by strong enterprises, which give to the chain an irreplaceable contribution.

Nowadays we are seeing a process of re-shoring by industrialized countries (mainly U.S.A): it can be intended a redefinition of the roles in the global value chains; they have understood that the low cost bracket is not profitable anymore, because prices have fallen in line with Chinese costs, so they are repositioning on a higher quality bracket.

This is the proof that the most industrialized countries are focusing their attention to kinds of knowledge that can't be delocalized or replicated easy.

At this regard, it is important to highlight that also the generative knowledge can be shared between different actors thanks to ICT and digitalization: as a consequence, the most industrialized countries can take advantage of its use creating large knowledge networks and clusters, which can be multi-localized in different places worldwide. This new knowledge geography allows the improvement of generative knowledge thanks to the synergies that can be built between the connected poles of the network.

How can Italy adapt and take advantage of this changing situation? The answer is: repositioning the “Made in Italy”.

In the following list I illustrate 4 strategies that Italian firms should follow to implement the repositioning process successfully:

1. To place their activities in a global value chain which organizes the co-production of value thanks to many localizations. The global value chain has to be interactive in order to be as more flexible as possible; in some cases the Italian producers can be the leaders of such a chain, but in many other cases they will have to connect to chains headed by others.
2. Delegating someone else, every time it results convenient, to the productions involving codified knowledge, investing, on the contrary, on the productions involving generative knowledge. In this way generative knowledge will be original and excellent, in comparison to the competitive alternatives, so that its value will be recognized and appreciated by the other actors of the chain.
3. To modify the kind of products offered as a consequence of this shift from codified to generative knowledge. Standard products, in fact, will become soon commodities that few multinational corporations will deliver at huge volumes and low prices.

It is necessary, therefore, to pass gradually towards quality, niche and high customized products, or in alternative towards the development of products which link the manual ability of craftsmen with the creativity of designers, supporting this development with ICT in order to be recognized effectively in the supply chains. It is the case of the so called “future craftsman”, according to the definition given by Italian Professor Stefano Micelli³.

So, a possible solution for our SMEs could be to focus on the delivery of services and products on demand implying a high level of customization: a cluster or network structure could certainly facilitate this process.

4. To face the difficult challenge of labour, due to the devaluation of executive labour, that is all the work implying codified knowledge and procedures conceived by others.

³ STEFANO MICELLI: *Futuro artigiano. L'innovazione nelle mani degli italiani*, 2011

As I already explained, this kind of work is doomed in all the countries with high production costs, like Italy, as long as the replicative activities will be addressed to low cost countries.

In place of replicative work Italy has to focus on generative work, but this shift for Italian firms is not simple at all, because it implies a transformation and modification of workers' education, training and skills.

In the process of transition explained above, it results crucial the development of a knowledge network, because it could allow small enterprises to go beyond their limits in terms of financial resources, competences and relationships.

In particular, it is fundamental to go beyond the typical individualism of Italian entrepreneurship, trying to achieve a surplus value through the creation of synergies and shared experiences.

Basically, the traditional approach of Italian firms, based on individualism, could allow them to survive thanks to defensive strategies oriented to the present, but now it is not sufficient anymore: firms have to understand the economic advantages of a steady collaboration in order to do a step forward that would allow them to develop new business models.

Italian clusters have been an example of this collaboration between small firms; however, the connections created have been in many cases informal and invisible, so that in the current context these links must be strengthened in some cases and rethought in others.

5.2) *Italian Sounding*: not just a risk

The other side of the coin of Italian quality and reputation is the growth, in recent years, of a parallel economy that is stealing market shares to the protected products, damaging heavily the Italian companies.

This phenomenon is known as *Italian sounding*, which is the use of geographical denominations, images and brands that evoke Italy in order to promote and commercialize products that cannot be attributed to our country.

It represents the most evident form of unfair competition and fraud against consumers, especially in the food industry.

Globally, the annual turnover of *Italian sounding* is rated at about 60 billion euro, more than twice the value of Italian export of food products.

Thus, at least two out of three products commercialized abroad can be attributed only apparently, but not properly, to our country. The foreign companies use improperly marks and information and promotional descriptions linked somehow to our country; they adopt marketing techniques that induce consumers to attribute to their products Italian quality characteristics that actually they do not have got: in this way they compete unfairly in the market and they gain a competitive advantage over the other firms, not only the Italian ones.

In Italy, as I already wrote, strict rules over food production exist, whose aim is to protect the high quality of the products as well as the health of consumers.



Figure 8: a clear example of *Italian sounding*

As I explained in the previous paragraphs, *Made in Italy* indicates not only a quality product, but also a safe product: the others, only apparently Italian, cannot be considered like that. In northern Africa, only to give an example, they are using pesticides that in Italy are prohibited since many years.

It is undoubtedly necessary a wider information and education by our companies toward the national and foreign consumers, in order to defend them. But in this battle the

diplomatic relationships between Italy and the other countries are fundamental, even though there are enormous conflicts of interest in play.

To be honest Italy is partially guilty of the increased diffusion of this phenomenon: over the years the Italian companies haven't been able to reach a part of foreign consumers that was asking for Italian products, Italy as a whole has failed in defending the quality of its products and in satisfying the global demand.



Figure 9: another example of *Italian sounding* represented by the Spanish franchising restaurant *La Mafia*

This opinion is sustained by Oscar Farinetti, the founder of the slow food chain *Eataly*: in its vision, shared by other expert too, the *Italian Sounding* is not just a risk and a damage, but also a great opportunity; he highlights the lack of a strong and effective communication strategy to promote the true Italian food&wine products worldwide; Italy have high quality products, but it is not able to spread this quality abroad.

The solution proposed by Farinetti is to gather the authentic Italian products together below a unique national brand (Italy) over which doing communication investments in a medium-long run vision. In this way, Italy would be the first country to have a unique national brand recognised worldwide.

5.3) A real challenge: the loss of the *industrial commons*

The statements explained in paragraph 5.1 have necessarily to be integrated with the considerations that I'm going to make in this paragraph.

As everybody knows Internationalization is not just an economic choice, it is also strategic and involves several important aspects that have to be analysed carefully; the analysis has to focus on all the possible risks and threats in order to avoid dangerous and damaging mistakes on the long-term.

In paragraph 5.1 I mentioned that generative knowledge must be defended to avoid of being stolen or copied worldwide, this is the matter: what does a firm (or at a higher level a country) risk to lose internationalizing?

The answer is quite complex, because it involves both tangible and intangible factors, but it should be the base of analysis of all the decisions regarding internationalization.

With some adaptation the same reasoning is true, from the point of view of both companies and countries, also referred to the process of outsourcing.

In particular, in this thesis I will focus the attention on the concrete risk of the loss of the *industrial commons*.

What is an *industrial commons*? According to the definition of Gary Pisano⁴, it can be defined as:

"...the R&D and manufacturing infrastructure, know-how, process-development skills, and engineering capabilities embedded in firms, universities, and other organizations that provide the foundation for growth and innovation in a wide range of industries."

The statements and theories exposed by Pisano refer to America, but they can be effectively applied to nearly all the most industrialized countries, such as Italy.

The analysis made by Pisano in its book has got the aim of demonstrating that the outsourcing of manufacturing activities is leading America to the loss of *industrial commons*; in particular, he affirms that there is a critical misconception about the role of manufacturing within a national economy: lots of people thinks that manufacturing is a low-value-added activity that requires low-qualified workers and can be outsourced elsewhere without negative consequences.

⁴ GARY PISANO: *Producing Prosperity. Why America needs a manufacturing renaissance*, 2012

This is not what happens in reality, actually manufacturing, in the majority of cases, is strongly tied to the innovation process, but often this connection is not recognized. Sometimes the link between manufacturing and innovation is so strong that it is impossible to separate them, they have to be carried on together; so, if a country decides to outsource manufacturing it risks to lose and erode the main source of innovation processes, provoking a dangerous and irreversible effect.

The loss of the commons is usually due to the combination of bad decisions by companies, bad management thinking and bad policies by governments.

Of course, as I wrote, not all manufacturing can't be outsourced, on the contrary it can be useful and convenient to a company or a country as a whole to outsource a certain amount of it, but it is necessary to understand which part of it can provide the base for future innovation and which part can not.

It is important to specify that the outsourcing of manufacturing doesn't regard only the traditional sectors, but also the high technology ones.

The idea that a country can base its economy just on services and high-value activities is full of risks because the increase of export due to the development of these two components of national economy can't always compensate the fall of export due to the loss of manufacturing activities.

Services, in fact, can't be exported as easily as products, because of their local nature. They involve a huge amount of generative knowledge, while products and manufacturing activities involve a considerable part of replicative knowledge, so they are more "volatile".

But here the misconception lies: the fact that manufacturing activities can be exported easier it doesn't mean that it is convenient to outsource all of them and that a country can grow and prosper without them.

Many people think that it is perfectly normal that manufacturing activities of even high-tech products take place in low-cost countries, from the moment that high-industrialized countries can buy them at a lower cost, and what is really important are the R&D and design activities: if high-industrialized countries follow this vision they will see their competitiveness weakening soon.

In fact, the technical skills incorporated in the manufacture of complex products are strictly connected to the country's ability of producing and catching value from

innovation processes: as Pisano affirms: “...*Manufacturing and innovation share the same industrial commons.*”

The frequent turnover of industries in the global context is not a negative process in itself, in fact industries are free of moving from a country to another when it results economically and strategically convenient; what has to be avoided is the loss of the *industrial commons*, because it implies the loss of capacity, skills, talent, universities and suppliers.

It is conceptually wrong to consider the R&D activities separated from manufacturing, because the sources of innovation can be found in the first as in the second: an innovation, by definition, must have a usefulness and an application in the market, so R&D has certainly an important role in the innovation process, but it is not the only important thing; in the case of some complex products, for instance, the design activities have to be highly integrated with manufacturing activities in order to be effective, so that considering them separately entails that the innovation involved in phase of design can't be transferred successfully to the final product.

In a lot of cases the process of design can't be possible without knowing crucial features of the manufacturing process.

Not in all the cases, however, the two processes need to stay together, it depends on two factors:

- The strength of interdependence between them (the degree of modularity)
- The maturity of the manufacturing-process technology

Another fundamental aspect to take into consideration is the connection across the sectors: when an industry loses its competitiveness all the linked industries face a problem, in particular the crisis involves the suppliers of capabilities, causing a chain reaction and a vicious circle; when a *commons* moves abroad, firms are forced to follow the *commons* to keep their competitiveness, and it very difficult to regenerate it once it is lost.

This is the reason why the *industrial commons* represents a value shared with a lot of actors, and for this reason it must be defended, because its loss or erosion provokes a structural damage hardly curable.

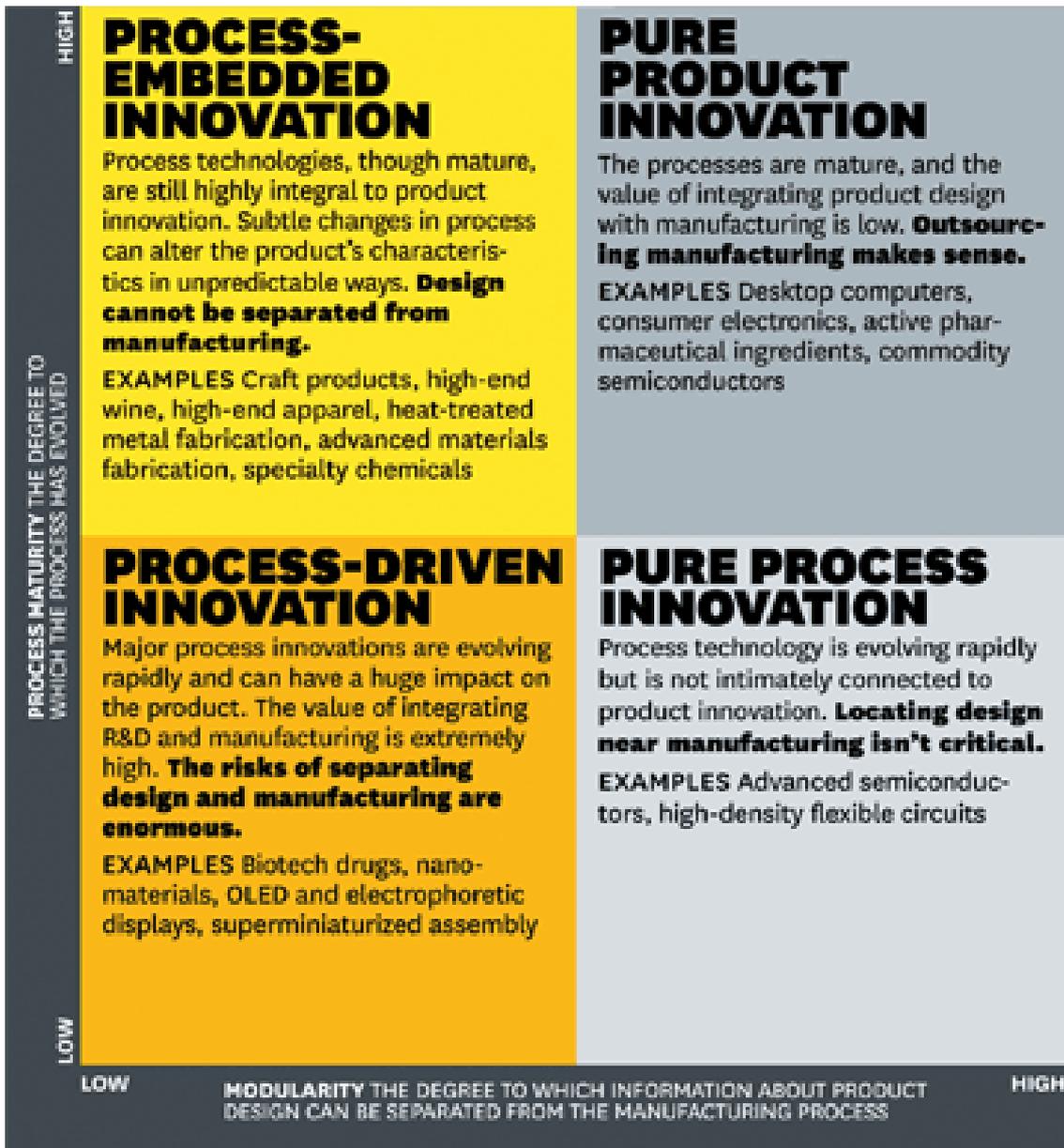


Chart 8: The modularity/maturity matrix

The defence of the *commons* has to involve both the business as well as the national level: managers and policy makers have got a crucial role.

Sometimes for firms it is simply economically convenient to outsource, due to the advantage of producing part or the totality of a good in a low-cost country, such as China, so on the short-run it represents a profitable choice from the companies point of view; nevertheless, on the long-run, if all the firms follow this strategy the suppliers of capabilities in high industrialized countries won't find it convenient to invest in innovation, R&D and human resources, and this leads to a fall of performances.

So, as we can easily understand, this vicious circle begins with a management decision, or better, it is the result of many management decisions.

Government policies have got a crucial role as well: they can create the right conditions so that companies, mainly the biggest ones, can find it convenient to keep the strategic activities at home.

This can be made by governments through economic instruments and focused investments in research programmes and scientific hubs.

The first step, of course, has to be made by governments, which have got a social responsibility in front of their citizens, even though without the contribution of firms this purpose risks to remain an unattainable utopia.

The access to *industry commons* is not free, but it is important to understand that the management decisions of firms can lead to individual advantages, while the development of the *commons* leads undoubtedly to shared advantages, and its erosion leads to shared damages.

I would like to highlight, however, that companies don't have to defend the *commons* for sympathetic or patriotic reasons: they should understand that the individual advantages obtained on the short-run won't compensate the disadvantages coming from the loss of the *commons* on the long-run.

I already mentioned the strong links existing between different sectors: these links often regard knowledge, information and technical capabilities, which are the most effective vehicles to spread innovation across the different industries; for this reason the process of innovation is not something involving a single sector, it can be hardly isolated, rather it comes into being from a complex context in which industrial networks play a crucial role.

As Marshall's studies demonstrate, there are cases in which distance matters a lot: considering the numerous phenomena of geographic clustering, we can affirm that in some cases the geographic proximity between firms (or even between different industries) is, or has been, a source of competitive advantage; but is it really like that in an increasingly flat world? Thomas Friedman⁵, in his book *The world is flat* affirms that not, distance boundaries have definitely fallen down.

⁵ THOMAS FRIEDMAN: *The world is flat: a brief history of the twenty-first century*, 2005

There are many people thinking, on the contrary, that distance still matters a lot, like the economist Pankaj Ghemawat⁶.

Personally, I agree with this second vision: in the light of the considerations exposed in paragraph 5.1 about Enzo Rullani's ideas, I think that although the volatile and codified component of knowledge can be transferred across countries at no cost, an important part of knowledge remains local and can't be pulled out from its context.

I think it is important to take into consideration the role of tacit knowledge lying behind informal relationships and routines within organizations: sometimes, local knowledge simply can't be transferred elsewhere.

⁶ PANKAJ GHEMAWAT: *Why the world isn't flat*, publication on Foreign Policy n° 159, March/April 2007

6) CASE STUDIES

6.1) *Rigoni di Asiago*

As I wrote in the introduction to this work of thesis, I complete my analysis with a few case studies: the first one refers to an Italian firm, called *Rigoni di Asiago*, whose products are all organic; they include: organic honey (*Mielbio*), organic jam (*Fiordifrutta*), organic fresh fruit (*Tantifrutti*), organic sweetener (*Dolcedi*) and organic hazelnut cream (*Nocciolata*).

Rigoni di Asiago represents to me a very interesting example of modern and successful firm that has adopted a completely different strategy from that of the majority of its Italian competitors.

In fact, even if the main values of the firms could sound like those of a lot of organic firms that operate all over Italy (organic origin, sustainability and ethic), its way of conducting its business respecting these values is peculiar and definitely smart.

All *Rigoni*'s products have gained a good position in the national market and a high level of sales.

The story of *Rigoni* is similar to those of other Italian family-run enterprises that became larger and larger over time: the company has been able to combine tradition and innovation.

All began in the 20s, when grandmother Elisa decided, with her sons, to transform her hobby of producing honey in a real business, in order to face the family's economic difficulties: in this way the *Apicoltura Rigoni* was founded in 1923 in Asiago town (Veneto).

In 1979 the firm had grown enough to start a process of diversification of the products: in fact, it started to commercialize other kinds of honey coming from different Italian regions.

In 1990 a new plant was opened in Foza, a village in the Asiago upland, while in 1992 a very significant fact happened: all the *Rigoni*'s production became totally organic, and all the products got a certificate.

In 1993 *Rigoni* started to be present in Bulgaria (Montana and Pazardjik), taking advantage of the environmental conditions: in fact, the fields seemed to be absolutely suitable for organic farming, in particular for the plantation of organic fruit.

The two main Bulgarian firms controlled by *Rigoni* are *Ecoterra* and *Ecovita*.

The great availability of cultivable areas in that country was due to the population migration from the countryside to the towns.

Over time, the direction of the business has passed to the grandsons Andrea, Antonio, Luigi and Mario, who try to continue the family tradition.

In 1996 they created *Fiordifrutta*, a 100% organic jam produced with just fruit and apple juice.

In 1997 *Apicoltura Rigoni s.n.c.* became *Rigoni di Asiago s.p.a.* with the entry of new partners, even though the majority share remained to the Rigoni's brother.

In 2005 a new logistic centre in Verona was opened, while in the same year the Rigoni brothers reacquired the totality of equity share.

In 2007 *Rigoni di Asiago USA* was created, while in 2008 two new organic products were launched: *DolceDi*, an apple organic juice, and *Nocciolata*, a cocoa and hazelnut cream.

In 2009 the French section of Marseilles was inaugurated, while in 2012 the logistic centre in Albaredo d'Adige was redoubled in extent and in storage capacity.

After this short story recap, in the course of this paragraph I will focus the attention on the *Rigoni's* internationalization process, in Bulgaria, because it represents the most interesting aspect to the aim of my work of thesis.

From 15 years *Rigoni di Asiago* has got the full control over the supply chain, from the plantation of raw materials to the packaging of finished product; all the process takes place under the guidelines of the operative centre in Asiago, which deals with the strategic management of commercial activities.

The plant in Foza is addressed to the production: all is designed to reduce the energy consumption; each year 6,000 tons of fruit are kneaded, the production cycle is totally computerized; furthermore, all the passages of the production process are recorded to guarantee the traceability of raw materials used; the Foza's plant has got a potting capacity of 18,000 units per hour.

At the logistic centre in Albaredo d'Adige the storage of finished products takes place.

The control of the supply chain by *Rigoni* has been possible thanks to multi-year agreements and partnerships with organic farmers and beekeepers, that supply the totality of Italian honey and Mediterranean fruits as oranges, lemons, tangerines, peaches, apricots and so on.

The deep and total control over the supply chain guarantees the high quality of the raw material.

In Bulgaria, on fields addressed exclusively to the organic farming, *Rigoni* harvest the majority of the fruit bound to the production of *Fiordifrutta*; in that area, the firm has found the best environmental and climatic conditions to farm the organic fruit, so that, over time, it has enlarged its business through the acquisition of new cultivable areas.

Nowadays, in Bulgaria, the annual production counts for nearly 3,000 tons of fruits, such as strawberries, mixed berries, blackberries, plums, cherries, sour cherries, walnuts, raspberries, currants, gooseberries, apples, blueberries and sloes.

Rigoni deal with the issue of innovation very seriously, in fact it has a lab where the quality of its organic products is continually tested throughout all the production phases. Specialized and highly qualified staff realizes tests on the raw materials, on the production process and on the finished products; furthermore, the lab delegates other independent labs to carry out a hundred of additional tests each year.

The R&D department makes a considerable effort, in terms of product and process innovation, in order to offer the best quality to the company's clients.

A great importance issue is that of certifications: to guarantee a 100% organic production *Rigoni* is exposed to inflexible controls by European certification systems; the organic certification is given only after administrative and analytical controls carried out during the production process.

The organic products must show on the label the organic farm origin, the certifying body's name, the ministerial authorization's number and the alphanumeric code, that represents the product's identity card.

In addition, the products by *Rigoni di Asiago* have received, since many years, the *Kosher* certification.

Rigoni has received also certifications about quality and food security referring to the business as a whole, such as, for instance, the *ISO 9001*, the *IFS food* and the *BRC food*.

The three company's main values are: organic origin, sustainability and ethics.

Since the origin of the business, the quality of the products has ever been the aim of the firm: to maintain the original and traditional tastes *Rigoni di Asiago* has decided, since 1992, to offer only organic products and this strategy has confirmed the success of the business over the years.

Rigoni has been one of the first Italian firms to produce organic products and this led the company to become market leader; the strict controls and certifications guarantee the high organic quality, thanks to them *Rigoni* is able to preserve the brand authenticity and the link with territory.

The organic choice, from the firm's point of view, it means to join the global path toward a sustainable development; in fact, the aim of this choice is to reduce the impact of production on the environment, especially referring to the fossil fuel consumption and the greenhouse gases emission, but also to avoid the intense use of soils and water.

The company has done huge investments on this direction: the Foza's productive plant, in the Asiago upland, obtained the environmental certification *Emas 14000* thanks to the installation of a cogeneration system that produces hot water and electric energy starting from methane, reducing the fossil fuel consumption by 50%.

The whole production works at low power consumption and the water used is distributed again only after being treated and purified.

In addition, photovoltaic panels have been installed on the productive site, on the administrative department in Asiago and on the logistic centre in Verona.

Ethic has a great importance in the company's way of conducting business as well: strong points of *Rigoni* are the respect and enhancement of every single worker in every kind of job, guaranteeing a work ethic and going against any discrimination.

The firm pays great attention to health and security at the workplace; in particular, the company sustains the economic development of the Bulgarian areas where it cultivates and harvests tons of fruit each year.

Referring to fruit, it can arrive from Italy, where *Rigoni* has agreements with farmers that supply organic fruit (citrus fruit in Sicily, peaches, cherries and apricots in Emilia Romagna), or it can arrive from the Bulgarian fields in case that the type of fruit could not be available in Italy.

All the production is organic and certificated by *Bioagricert*; the fields suitable for organic farming have to be not farmed since many years, they have not to be in traffic congested areas and they must have a pure aquifer available.

It is far from being simple to find fields with these features in Italy, so the company found them in Bulgaria.

The internationalization strategy carried out by *Rigoni* reflects its will of controlling the whole supply chain: this company represents a very interesting case from my point of view: the object of high quality of the finished product is absolutely compatible with the strategic choice of farming and harvesting part of the raw materials abroad, from the moment that the same attention is paid to the fruit coming from national farmers as well as the fruit coming from Bulgaria.

The decision of keeping the whole production process in the Asiago upland maybe reflects the preference by managers of maintaining crucial know-why and know-how “at home”, in addition to an issue of feelings and emotive link between the family and its original lands.

As I explained in chapter 5 the risk of wasting inner knowledge through a process of internationalization is real.

Anyway, in the case of *Rigoni* the fact that the whole production process is carried out in Veneto represents undoubtedly an asset at the eyes of the consumers, and probably the managers (that represent the family point of view) don't want to risk a possible loss or damage to the brand value deriving from a deeper internationalization of the firm.

In fact, I think that few consumers know that part of the fruit used by *Rigoni* comes from Bulgaria: maybe the consumers could be biased about the foreign origin of part of the raw materials, there could be a misunderstanding about the safety and health of the products. The sensitivity of the consumers about the safety and health of agricultural products coming from Eastern Europe is high, due to the consequences of nuclear disaster happened in Chernobyl (Ukraine) in 1986, but in lot of cases there is a deep misinformation about this topic.

At this regard, in 2013 *Rigoni* had to pull back from the Japanese market the blueberry jam, because the limit of caesium 137 in that country is 100 Bq/kg and the jam presented a level of 140 Bq/kg: this is due to the fact that after the Fukushima accident the Japanese controls have raised their standard levels; in Europe, in fact, the maximum level for that

kind of product is 600 Bq/kg, so that the *Rigoni*'s blueberry jam is perfectly according to the law.

Actually, the controls over *Rigoni*'s jams and fruits reveal that they are absolutely healthy: so this fact can represent a case of bad management (lack of information between the firm and the local distributors about the destination market and regulations), rather than a case of food dangerousness.

Undoubtedly, the decision of going to Bulgaria by *Rigoni* has been absolutely aware: basically, the quality of the organic fruit produced in Bulgaria is extremely high.

As I tried to explain in chapter 4 taking about the evolution of *made in*, the quality of the finished product is not guaranteed by the fact that it is produced within a certain territory, rather by the fact that the firm's attention and accuracy during the production phases are steady and high: the company becomes itself guarantee of quality.

It could be more correct in this case to talk about *made by Italy* rather than *made in Italy*. *Rigoni* has been able, over time, to face actively the process of globalization, thanks to focused and intelligent investments (15 million € during 15 years in Bulgaria): the result is a leader position in the organic preserves market and a smart role in the global value chain.

In many cases, referring to the food&wine sector, the national or regional origin of the raw materials can't be considered an endless asset in itself, and the opposite is also true, the foreign origin of the raw materials is not necessarily a prejudice.

The *Rigoni di Asiago* case shows clearly that the Italian way of doing things can be applied abroad successfully, and that local traditions represent a starting point, not a limit. The issues of sustainability and ethic promoted by *Rigoni* don't fail in the internationalization process: the development of the Bulgarian local areas where the company operates is the tangible proof, the local workers can take advantage of the employment opportunities offered, and the health of territory is preserved through the sustainability of organic farming.

Now, to complete my analysis about *Rigoni di Asiago* I will offer an economic perspective through a short examination of the company's balance sheets.

I had access only to the balances of last three years (2011, 2012 and 2013), so the basis of my analysis refers to those years.

First of all, the company is considered a large firm by law, with 408 workers and a turnover of 71,046,202 € in 2013.

As we can see in the table below, turnover has passed from 9,520,954 € in 2011, to 59,098,669 € in 2012, to 71,046,202 € in 2013: so, over the three years the sales have increased by more than 600% in 2012 and by 20% in 2013.

Table 3: turnover for the three years taken in consideration

Period		31/12/2013	31/12/2012	31/12/2011
Currency		€	€	€
Turnover		71,046,202	59,098,669	9,520,954

To this incredible increase in the level of sales corresponded an increase of costs, especially the cost of raw materials (from 5 billion € in 2011, to 25.5 billion € in 2012, to 32.4 billion € in 2013) and services (from 3 billion € in 2011, to 25.6 billion € in 2012, to 28 billion € in 2013).

In table 4 on the next page I will show the Value Added and the *Earnings Before Interest Tax Depreciation and Amortization* (EBITDA): to do that, I will considered the total value of production obtained and the external costs of production, that are the total costs of production minus the personnel costs minus the amortizations.

The computation of value added is very significant for many reasons: it represents the wealth produced internally by the firm; in particular it is very important the computation of the value added incidence on the value of production: in firms that are vertically integrated, like *Rigoni di Asiago*, this ratio is expected to be high, but the personnel costs and the amortizations will be remarkable as well, while in firms that adopt strong policies of outsourcing the value added incidence on the value of production will be low, as well as the personnel costs and the amortizations.

In table 5 I illustrate the incidence, in percentage, of the value added on the total value of production.

Table 4: Value Added and *Earnings Before Interest Tax Depreciation and Amortization* (EBITDA)

Period	31/12/2013	31/12/2012	31/12/2011
Currency	€	€	€
A) TOTAL VALUE OF PRODUCTION OBTAINED	73,184,003	59,665,506	9,386,108
B) EXTERNAL COSTS OF PRODUCTION	59,295,449	49,839,499	7,859,749
C (=A-B) VALUE ADDED	13,888,554	9,826,007	1,526,359
D) PERSONNEL COSTS	5,810,343	4,576,185	472,565
E (=C-D) EBITDA	8,078,211	5,249,822	1,053,794

Table 5: the incidence of value added on the total value of production

Period	31/12/2013	31/12/2012	31/12/2011
Currency	€	€	€
VALUE OF PRODUCTION	73,184,003	59,665,506	9,386,108
VALUE ADDED	13,888,554	9,826,007	1,526,359
VALUE ADDED/VALUE OF PRODUCTION	18.98%	16.47%	16.26%
Period	31/12/2013	31/12/2012	31/12/2011

As we can observe, the incidence of value added on the total value of production has increased by nearly 3% in two years, and it is, in itself, a sign of health for *Rigoni*, because it means that the company is able to generate value from the ordinary activities.

Another important value I calculated in table 4 is the EBITDA: its computation has got a great importance for two reasons:

1. It is a sufficiently objective index of ordinary activities' economic performance: in fact, not including depreciations and amortizations, which are the most subjective components, this index should not be particularly influenced by the so called budgetary policies.
2. It is a potential cash flow, because values as depreciations and amortizations, that represent non-cash costs, remain excluded from the computation of this index.

The EBITDA has to be high enough to sustain and cover the costs originated by depreciations, amortizations, financial charges and income taxes.

In *Rigoni* case, during the three years considered, the EBITDA has increased steadily, by 500% in 2012 and by 55% in 2013, nevertheless in 2012 the company suffered a loss of 1,477,204 €, while in 2013 it registered a net profit of 390,379 €.

Table 6: Rigoni's fiscal year profit/loss

Period		31/12/2013	31/12/2012	31/12/2011
Currency		€	€	€
PROFIT/LOSS		390,379	-1,477,204	183,16

The loss recorded in 2012 doesn't have to alarm necessarily if the profitability and financial ratios are generally good.

Now I'm going to analyse the most important profitability ratios: the most relevant is ROE, the return on equity.

In 2011 the ROE was about 1.84%, while in 2012 it was about -8.09%: this bad performance is due to the loss that the company suffered that year combined with an increased of equity that passed from 9,973,951 in 2011 to 18,260,645 in 2012; in 2013 the ROE was about 2.09%.

Another important index is ROA, the return on assets: in 2011 it was about 0.93%, in 2012 1.57%, and in 2013 4.16%: this good performance can be explained through the increase of ordinary activities operating income over the three years.

The ROA, in turn, can be divided in two components: the ROS and the asset turnover.

The ROS (return on sales) has dropped in 2012 in comparison with 2011, returning on an acceptable level in 2013: 6.03% in 2011, 2.10% in 2012, 4.94% in 2013.

This trend of ROS is due to the incredible increase of sales in 2012 that have not been compensated for as much growth of ordinary activities operating income.

The asset turnover is the ratio of sales to assets, and it is not a percentage: it was about 0.15 in 2011, 0.73 in 2012, and 0.83 in 2013.

After this analysis on the profitability ratios of the ordinary activities, I will compute two ratios referring to the extra-ordinary activities: the ROD and the tax incidence ratio (t).

The ROD is the return on debt and it is crucial to understand the average cost that the company has to face to be financed by third parties: this ratio consists of the financial charges on the third-party funding.

This ratio is extremely important in the construction of financial leverage: in order to be effective and advantageous, the ROD should not be higher than ROA, because if not, it has harmful consequences on ROE.

In 2012 the ROD was about 5.1%, while in that year the ROA was 1.57%: this explains the bad ROE performance in 2012; in 2013 the ROD was 5.21%, while ROA was 4.16%, in fact ROE, even if higher than 2012, has not been so sizable.

Table 7: the main profitability ratios

Period		31/12/2013	31/12/2012	31/12/2011
ROE		2.09%	-8.09%	1.84%
ROA		4.16%	1.57%	0.93%
ROS		4.94%	2.10%	6.03%
Asset turnover		0.83	0.73	0.15

6.2) Casa Vinicola Zonin: the Barboursville Vineyards case

The second case study I decided to analyse is that of *Casa Vinicola Zonin*, the largest Italian wine producer.

In particular, I will focus the attention on the *Barboursville Vineyards* enterprise, which was acquired by *Zonin* in 1976: it represents a very interesting case referring to the issues of this work of thesis.

Before entering in the details of the analysis I will describe briefly the stories of these two enterprises.

Casa Vinicola Zonin was founded in 1921 by Domenico Zonin, even though the Zonin family has been linked to viticulture and production of wine since 1821.

With the establishment of the firm, Domenico Zonin organized and endorsed the family's lands and vineyards, but it was at the beginning of the 60s that a real turning point

happened: Gianni Zonin, Domenico's nephew, became chairman of the company in 1967; his main aim was to enlarge the business through the purchase of new vineyards.

Gianni's idea was to diversify the wine selection offering high quality products coming from different Italian regions with a long-time wine tradition and story; this strategic choice was brave and original, but also innovative and enterprising.

At the beginning this idea sounded hazardous and risky at the eyes of the other members of the family, for the fact of going out of Veneto, the original region where they had put down roots.

The link between *Zonin* and the Venetian territory in which they were producing their wine seemed too strong to be interrupted or jeopardized through acquisitions of vineyards placed in different regions.

Nevertheless, Gianni carried on with his idea and in 1970 acquired the *Ca Boiani* estate in Friuli Venezia Giulia, the most renowned Italian region for the production of high quality white wines.

Gianni's belief had not only the purpose to diversify the wine variety and quality, but also that of intensifying the control over the grapes and the whole production process.

His strategy continued in 1979 with the acquisition of *Castello d'Albola* estates, in Tuscany, a jewel for the production of classic *Chianti*; then, in 1980, the company acquired the *Abbazia Monte Oliveto*, another Tuscan estate, typical for the production of *Vernaccia*.

In 1985 Zonin acquires the *Castello del Poggio* estate, in Piedmont, an area famous for the production of Asti and Barbera, while in 1987 it acquires the *Tenuta il Bosco* in a place renowned for the production of the *Pinot Nero*.

During the 90s Gianni Zonin decided to enlarge the estates with the acquisition of vineyards in southern Italy: *Feudo Principi di Butera*, in Sicily, was acquired in 1997, while *Masseria Altemura*, in Puglia, became a Zonin's property in 2000.

In Tuscany Gianni acquired also the *Rocca di Montemassi* estate, in 1999.



Figure 10: all the estates owned by *Casa Vinicola Zonin*

Furthermore, *Casa Vinicola Zonin* has founded over the years Zonin USA (Miami) and Zonin U.K. (London), which work as commercial bases for these two important countries; they import the wines made by *Casa Vinicola Zonin* and distribute them in the American and British markets: they are branch offices controlled directly by the Italian *Zonin*'s headquarters.

Anyway, it was in far 1976 that he plunged into an extraordinary adventure: he decided to implant the high quality viticulture in the USA East Coast through the acquisition of the Barboursville Vineyards estate.

It was undoubtedly a very courageous choice, but time seems to reward aplenty Gianni's entrepreneurship.

I will offer a brief recap in order to better understand the story of this feat.

The Barboursville mansion was designed by Thomas Jefferson, the third President of USA, and it was intended to become property of his friend James Barbour, the 19th Governor of Virginia.

The works for the construction finished in 1821: James Barbour and his family farmed that land rotating crops and sustaining the sheep grazing.

He decided cleverly not to address the lands to a single crop, as other people did with tobacco, because this could damage the soil.

During the first half of 19th century Barbour fulfilled several important public offices, but he continued to be also a good farmer and in 1825 he became president of the Albemarle Agricultural Society, the most important farm association of Virginia: he suggested important agricultural innovations and, thanks to men like him, agriculture kept a crucial role in the whole economy of Virginia.

The preservation of a certain culture in that land has favoured the establishment of a European viticulture by *Zonin* in 1976: From that moment Barboursville Vineyards became a *Zonin* property.

Despite all the government men, farmers and common people told Gianni Zonin not to cultivate vine in that land, he continued obstinately with his idea of growing grapes.

Thomas Jefferson, who owned an estate near *Barboursville*, tried to cultivate grapes during the 19th century unsuccessfully.

On the contrary Gianni's obstinacy was rewarded and now the Barboursville estate produces successfully a great variety of wines.

I had the chance to talk with the Barboursville's Italian winemaker Luca Paschina, who helped me in this work of analysis giving me important information and supporting materials, so that I could take advantage of his knowledge and experience.

Luca Paschina has been living in Virginia since 24 years (since 1990); at the beginning Gianni Zonin decided to plant French and German vines, like *Sauvignon* and *Chardonnay*, and to grow them with Italian techniques, knowledge and style.

Initially, so, the material (the vines) was not Italian: this is due mainly to the reason that, by law, the Italian vines could not be exported and planted in a different country.

The availability of vines exportable by Gianni Zonin was limited, not only for legal reasons, but also for natural ones: the vines selected had to be adaptable to the Virginian climatic conditions, environment, and soil features.

Not all the vine varieties can be grown anywhere successfully, because every vine is different from another and any *terroir* has its own features, as I wrote in paragraph 4.4. From a certain moment it became possible, by law, to export the Italian vine varieties for planting: Gianni Zonin decided to export *Pinot Grigio*, *Vermentino*, *Nebbiolo*, *Moscato* and others.

The important thing was that these vines could adapt to the Virginian lands and to the American mid-Atlantic climate.

As I largely explained in chapter 4 the agricultural products are, for many aspects, different from any other kind of products: in a lot of cases the link of a food or a wine with its territory is so strong that it would seem impossible to consider them separately; anyway, I also said that it would be correct to analyse each single case independently, because each case is different from another.

Furthermore, wine represents a peculiar product with unique specificities, a sort of world apart: culture and territory are strictly connected to wine production and consumption.

For these considerations it is possible to understand that the project carried out by Gianni Zonin was as interesting and stimulating as difficult and risky; in fact, during the first period of planting and growing a lot of tests and experiments took place.



Figure 11: the *Barbourville Vineyards* estate in Virginia (USA)

First of all, vines spend generally three years before being productive: after a first period of wait in which the experts took note of the vines' growing process results, in a second

phase the member of the *Barboursville Vineyards*' staff started to test and evaluate the features of the new wines produced.

It is fundamental to understand how it has been possible to plant and grow successfully European vines in the Virginian territories: it is first of all a matter of human capacity.

Only a deep knowledge of the wine way of production has allowed the staff directed by Gianni Zonin to carry out this project: this is a fundamental aspect connected to the statements of this work of thesis; a deep knowledge behind the production processes is a necessary starting point in every business.

Some parts of human talent and way of doing things can be transferred and transmitted abroad at very low costs, and they represents an asset like other factors; in some cases knowledge has got a predominant role, while in other cases it has a more marginal importance: in *Zonin* case the first assumption is true.

Gianni Zonin knew that his heritage consisted not only in tangible assets, but also in intangible values like culture and knowledge, which allowed him to succeed in his business.

Technology had also a fundamental role in this story: in fact since its origin *Barboursville Vineyards* estate was equipped with European machineries, which were considered, and are still considered, the best ones for wine production.

Referring to personnel, the Italian way of making wine has been pursued firstly by Gianni Zonin, and secondly by Luca Paschina, *Barboursville*'s winemaker since 1990, and by Daniele Tessaro, the associate winemaker; the viticulturist Fernando Franco, from Salvador, occupies another important role.

They represent the expertise of the estate, while other workers from USA, Mexico, and Central America carry out different tasks.

Another aspect to take in consideration, referring to the quality of wine, is that the seasonal trend has a great relevance, each year is different from the previous ones: this implies that a year could be favourable to the production of a certain wine, while another year for the production of another one.

The knowledge and experience of *Barboursville*'s experts are crucial for the comprehension, registration and analysis of these trends in order to find the best future conditions for making wine.

The know-how of *Barboursville*'s managers in making wine have been fundamental not only in the adaptation of European wine to the American climate and soil, but also in the adaptation to the American tastes and preferences.

The North American wine consumers, in fact, prefer generally soft and easy to drink wines, which can be consumed eventually as aperitif.

Starting from this consideration, however, *Zonin* has decided to produce full-bodied and rich wines, positioning on a high quality market segment.

This is a strategic choice, coherent to the business aim of producing high quality wines: in this way, it is as if *Zonin* wanted to educate the American clients to the European style and way of drinking wine.

Nowadays the *Barboursville Vineyards*' selection includes a large variety of wines: white wines, red wines, sparkling wines and dessert wines, in addition to olive oil.

Among the white wines produced there are: *Pinot Grigio*, *Chardonnay*, *Sauvignon*, *Vermentino* and *Viognier*; while among the red wines there are: *Merlot*, *Cabernet Sauvignon*, *Barbera*, *Sangiovese*, *Petit Verdot*, *Nebbiolo*, *Octagon* and *Vintage Rosè*.

The Octagon, in particular, is considered the jewel and pre-eminent wine produced by *Barboursville Vineyards*: it has been created mixing different varietals such as *Merlot* and *Cabernet Franc*, and it is produced only in certain years, when the growing conditions for *Merlot* and *Cabernet Franc* are optimal.

In 1999 there was the opening of an Italian restaurant at Barboursville called *Palladio Restaurant*, with an Italian sommelier and an American chef: this choice has been intended to strengthen the important link between wine and food: the Italian receipts are part of the Italian culture and the aim of *Barboursville Vineyards* has ever been that of export the Italian culture and, more in general, a certain Italian way of doing things.

The promotion of food is not the unique way through which *Zonin* exports the Italian culture, there is also the promotion of wine tourism: the firm organizes wine tasting, wine tours, but over all it makes available "*The 1804 Inn*", a historic cottage in which it is possible to spend a holiday in the middle of the vineyards.

Now, I think it is the moment to sum up some issues and considerations from this case study. Talking with wine maker Luca Paschina I understood that he strongly agrees with the statements and ideas of this work of thesis: excellence is far more important than *Made in*.

Except some cases in which the link between a wine and its territory is indissoluble and lasting (Champagne, Prosecco, etc.), the brand and origin appeal won't last forever: wines have to be renewed, rethought.

In particular, the Italian wine producers have to invest in innovation constantly, because origin can't be considered an everlasting asset in itself; if they don't invest in the excellence, there is the serious risk that other countries overtake Italy in the global context.

In fact, the knowledge about wine is growing fast worldwide, also thanks to food and wine independent reviewers.

Zonin is an example of big company that operates actively in the global value chain, through a clever process of diversification and internationalization.

Barboursville Vineyards represents the result of this smart strategy: it means producing excellent Virginian wines taking advantage of the Italian knowledge and style.

The link between wine and territory remains in this case, there is no contradiction: wine is the image of its territory, and the wines produced in *Barboursville* are the image of Virginia.

The fact that the regional differentiation remains, as it happens in Italy, is due to the fact that also in USA the regional origin of the products is starting to matter a lot at the eyes of consumers.

Zonin can take advantage of a multi-generation and multi-centenary story, so, as in *Rigoni* case, the company becomes itself guarantee of quality: from *Made in* to *Made by*.

I complete my study about *Casa Vinicola Zonin* with the examination of balance sheet, as I made in *Rigoni* case, in order to complete my analysis with an economic and financial perspective.

In this case, the data refer to a time frame of ten years (from 2004 to 2013), so it is possible to make a long-term examination.

The company is a large firm with 285 workers and a turnover of 153,951,084 € in 2013.

In table 8 I show the trend of turnover for each year considered:

Table 8: the trend of turnover from 2004 to 2013

Period		31/12/2013	31/12/2012	31/12/2011	31/12/2010	31/12/2009
Currency		€	€	€	€	€
Turnover		153,952,084	140,084,238	124,119,547	105,980,292	91,150,311
Period		31/12/2008	31/12/2007	31/12/2006	31/12/2005	31/12/2004
Currency		€	€	€	€	€
Turnover		83,957,472	75,294,150	67,744,802	62,790,147	66,992,988

As we can see, except year 2005, the growth of sales has been considerable and steady. In table 9 I will compute the Value Added and the EBITDA (*Earnings Before Interest Tax Depreciation and Amortization*) for each year:

Table 9: Value Added and EBITDA for each year of analysis

Period		31/12/2013	31/12/2012	31/12/2011	31/12/2010	31/12/2009
Currency		€	€	€	€	€
A) TOTAL VALUE OF PRODUCTION		156,701,458	141,186,883	126,586,130	109,409,833	91,203,397
B) EXTERNAL COSTS OF PRODUCTION		126,039,198	109,041,247	101,876,167	88,257,684	72,173,642
C (A-B) VALUE ADDED		30,662,260	32,145,636	24,709,963	21,152,149	19,029,755
D) PERSONNEL COSTS		16,081,133	15,358,413	14,715,394	12,355,062	11,951,327
E (=C-D) EBITDA		14,581,127	16,787,223	9,994,569	8,797,087	7,078,428
Period		31/12/2008	31/12/2007	31/12/2006	31/12/2005	31/12/2004
Currency		€	€	€	€	€
A) TOTAL VALUE OF PRODUCTION		85,349,263	77,467,743	67,770,401	66,314,235	68,158,716
B) EXTERNAL COSTS OF PRODUCTION		65,790,613	59,538,446	54,021,969	54,079,982	52,884,816
C (A-B) VALUE ADDED		19,558,650	17,929,297	13,748,432	12,234,253	15,273,900
D) PERSONNEL COSTS		12,636,296	12,624,055	12,150,957	10,712,390	10,212,021
E (=C-D) EBITDA		6,922,354	5,305,242	1,597,475	1,521,863	5,061,879

The Value Added, in absolute terms, has redoubled over the last 10 years and it is undoubtedly a sign of good health for the company, because it means that it is able to produce wealth.

Nevertheless, the Value Added gains significance if related to the value of production: table 10 illustrates this data.

We can observe that this value has remained steady over the years (about 20%): it can be considered a very good level for a vertically integrated company.

Table 10: Value Added on value of production

Period		31/12/2013	31/12/2012	31/12/2011	31/12/2010	31/12/2009
Currency		€	€	€	€	€
VALUE OF PRODUCTION		156,701,458	141,186,883	126,586,130	109,409,833	91,203,397
VALUE ADDED		30,662,260	32,145,636	24,709,963	21,152,149	19,029,755
VALUE ADDED/VALUE OF PRODUCTION		19.57%	22.77%	19.52%	19.33%	20.87%
Period		31/12/2008	31/12/2007	31/12/2006	31/12/2005	31/12/2004
Currency		€	€	€	€	€
VALUE OF PRODUCTION		85,349,263	77,467,743	67,770,401	66,314,235	68,158,716
VALUE ADDED		19,558,650	17,929,297	13,748,432	12,234,253	15,273,900
VALUE ADDED/VALUE OF PRODUCTION		22.92%	23.14%	20.29%	18.45%	22.40%

The EBITDA presented very good performances in the last two years, while in 2005 and 2006 its value was very low, in fact, the firm registered losses in 2004, 2005, 2007 and 2008.

We can see the company's loss and profit for each year analysed in table 11.

Table 11: Casa Vinicola Zonin fiscal year profit/loss

Period	31/12/201	31/12/201	31/12/201	31/12/201	31/12/200
	3	2	1	0	9
Currency	€	€	€	€	€
PROFIT/LOS	3,968,263	3,089,857	1,719,242	802,923	583,174
S					
Period	31/12/200	31/12/200	31/12/200	31/12/200	31/12/200
	8	7	6	5	4
Currency	€	€	€	€	€
PROFIT/LOS	-61,196	-711,712	340,185	-2,535,243	-380,228
S					

After a difficult period from the profitability point of view, the company has registered steady good results from 2009.

Analysing the profitability ratios I can confirm this trend: ROE is growing constantly from 2009, as well as ROA and ROS, even if their value decreased a little in 2013 in comparison with 2012.

In table 12 I show the values of the main profitability ratios.

Table 12: the main profitability ratios

Period	31/12/2013	31/12/2012	31/12/2011	31/12/2010	31/12/2009
ROE	8.92%	7.55%	4.52%	2.21%	1.65%
ROA	5.49%	7.01%	2.55%	2.69%	1.76%
ROS	4.98%	6.79%	2.59%	2.80%	2.01%
Asset turnover	1.09	1.03	0.97	0.94	0.86
Period	31/12/2008	31/12/2007	31/12/2006	31/12/2005	31/12/2004
ROE	-0.18%	-4.33%	2.12%	-15.74%	-2.10%
ROA	2.68%	0.55%	-2.76%	-2.90%	2.28%
ROS	3.24%	0.62%	-2.94%	-3.16%	2.38%
Asset turnover	0.82	0.87	0.92	0.90	0.95

6.3) *Brazzale*

The last case study I analyse is *Brazzale*: it is an Italian very long-running business and one of the most important dairy producer at national level.

This company started to produce butter in 1790 in the Asiago upland (the same place in which *Rigoni di Asiago* has got its headquarters): it is the longest time Italian business in that sector.

Over the second half of 19th century Giovanni Maria Brazzale continued the father and grandfather's work: in 1898 he acquires a farm and moved to Zanè, a village near Thiene, where there was an important market place and railway yard; there, Giovanni Maria Brazzale opened a butter factory.

In that period, the firm was known as *Burro delle Alpi*.

In 1920 it started the building of the first industrial butter factory, with packaging machineries and refrigerating rooms: the combination of farming roots and industrial culture has allowed the firm to achieve the national supremacy, not only in the butter sector.

In 1937 S.A.B.A. (*Società Anonima Burro delle Alpi*) was founded: in 1945 Giovanni Brazzale started to produce *Grana Padano* (a cheese similar to parmesan) in the Venetian valley.

In 1954 *Brazzale* became part of the consortium for the protection of *Grana Padano* cheese.

In 1965 the firm built in Zanè the new butter factory, the largest and modern of the whole Italy.

In 1968, in the village of Campodoro, it started the building of the new dairy factory for the production of *Grana Padano*, with a processing capacity of 100,000 litres per day, and a livestock of 15,000 pigs.

In 1970 *Cascina Conca D'oro* in Grisignano di Zocco was the new firm's cow livestock.

In 1977 a modernization of the butter factory in Zanè took place.

In 1980 the *Alpilatte* brand was born: it identifies the line of products as milk, cream and yogurt packaged through the ultra-high temperature processing (UHT).

In 1985 new production processes started to be used: this change led to double the production capacity of the dairy factory in Campodoro and to improve the packaging efficiency of the butter factory in Zanè.

In 2000 *Brazzale* started an internationalization process carrying out a Joint Venture with *Orrero s.r.o.*, a Czech firm operating in the region of Moravia: a new plant in Litovel town was built.

In 2002 there has been another Joint Venture, this time with the Italian firm *Zogi*.

In 2003 the *Gran Moravia* was created: it is a cheese produced entirely in Czech Republic, as well as the *Verena* cheese, created in 2007.

An enlargement of Litovel's factory took place, while in 2010 *Brazzale* created the *Gran Moravia* sustainable supply chain: it is composed by 80 farms and 18,000 cows on a 100,000 ha land.

In the same year *Brazzale* created the *Verena* sustainable supply chain.

In 2011 the *Gran Moravia* supply chain received the important ISO 22005 certification by DNV; in the same year it was inaugurated "*La Formaggeria Gran Moravia*" retail chain.

In 2012 *Gran Moravia* became the first cheese in the world to quantify and communicate its water footprint.



Figure 12: *Gran Moravia* cheese

It results evident, up to this point, that the *Gran Moravia* case is absolutely interesting and modern, and it is perfectly in line with the statements and theories of this work of thesis.

The control over the whole supply chain and the fact that this supply chain is entirely sustainable, they represent undoubtedly a competitive advantage at the eyes of consumers, which recognise immediately the *Gran Moravia* as a high quality product.

Gran Moravia does not identify just a kind of cheese, rather it identifies the whole sustainable supply chain: it is strongly representative of its territory, the Moravia region. In particular, the area in which *Brazzale* exercises farming and production process has become to be considered as a pleasant place from the environmental point of view, suitable for the development of a sustainable farming.

As for the *Rigoni* case, territory represents a crucial key of success: the uncontaminated soil and pure water are two necessary prerequisites in the development of a sustainable farming and production.

High quality is absolutely the main goal of the firm, and it is guaranteed by the strict control over each single phase of production; sustainability represents the way of conducting the whole business, a not questionable starting point.

The strategy of creating a sustainable supply chain is smart and profitable, and it reveals the capacity of the firm of facing actively the changing global environment.



Figure 13: Czech Republic: in yellow it is highlighted the region of Moravia

The collocation by *Brazzale* within the global value chain is effective: in fact, the attention paid by the firm on sustainability issues and problems is deeply appreciated by the consumer, which is more and more sensitive today about food safety and health.

The internationalization carried out by *Brazzale* represents also a considerable help to the export: the firm can expand its production, diversify its products and approach to emerging markets as, for instance, Russia.

As professor Enzo Rullani affirms (paragraph 5.1), knowledge can be spread and replicated abroad at no costs, or very low costs, while the value surplus produced returns, in part, to the firm's place of origin.

In the *Gran Moravia* case *Brazzale* has been able to create a successful cluster apart in Czech Republic that can count on company's know-how, culture and tradition: it represents a sort of modern and parallel branch, built and organized in order to react rapidly to the challenges created by globalization.

So, it is easy to understand that "replicative knowledge" has got a crucial importance, but also "generative knowledge" plays a fundamental role: in fact, although the firm projection in global value chain, the Asiago dairy district (in a wide meaning and geographic ground) still gives to *Brazzale* several externalities at local level (specialized capabilities, reputation, technologies, logistic and other services, etc) that allow this firm to be competitive in global markets.

Gran Moravia represents a very interesting case for another important reason: *Grana Padano* and *Parmigiano Reggiano* are the main "victims" of *Italian sounding* (paragraph 5.2) worldwide; there are countless examples of fakes and imitations (the *Italian Parmesan*) of these two famous cheeses that lower and damage the quality and reputation of the real Italian products, with serious economic consequences.

Gran Moravia defends the cheese's reputation representing a high quality product *made by* an Italian company: the Italian knowledge is strictly built-in this cheese, which can not be considered *Made in Italy*, in the expression's strict meaning, but for sure it can be considered *Made by Italy*, and this represents undoubtedly an asset at the eyes of the consumer.



Figure 14: a picture showing the Moravian fields

Furthermore, the *Gran Moravia* brand, as I already explained, is becoming synonym of sustainability and quality, so that it is acquiring more and more economic value and awareness.

Authenticity is maintained and renewed, through a strong link between this cheese and the Moravian territory; *Brazzale*, an Italian firm, captures the economic value originated by the sales of *Gran Moravia*. In this way, the phenomenon of *Italian sounding* is effectively contrasted through a smart internationalization strategy.

I will conclude the analysis about *Brazzale* giving a general overview of the economic situation, as I did for the previous case studies; the period considered includes ten years, from 2004 to 2013.

The turnover during this period has doubled: from 70,360,191 € in 2004 to 151,792,639 € in 2013.

Table 13 shows the turnover trend over the years considered.

Table 13: turnover from 2004 to 2013

Period		31/12/2013	31/12/2012	31/12/2011	31/12/2010	31/12/2009
Currency		€	€	€	€	€
Turnover		151,792,639	143,985,988	149,179,320	129,108,547	92,273,991
Period		31/12/2008	31/12/2007	31/12/2006	31/12/2005	31/12/2004
Currency		€	€	€	€	€
Turnover		95,641,841	80,372,175	67,881,850	70,157,126	70,360,191

As we can see, even though in some years the turnover decreased or remained steady (in 2005, 2006, 2009, 2012), the general trend has led to a significant growth of the sales volume.

I will compute now the Value Added and the EBITDA, showing the results in table 14.

Table 14: Value Added and EBITDA

Period		31/12/2013	31/12/2012	31/12/2011	31/12/2010	31/12/2009
Currency		€	€	€	€	€
A) TOTAL VALUE OF PRODUCTION		159,413,333	151,142,188	158,320,252	124,255,226	91,169,351
B) EXTERNAL COSTS OF PRODUCTION		149,303,928	138,211,409	148,566,310	115,799,336	83,115,782
C (A-B) VALUE ADDED		10,109,405	12,930,779	9,753,942	8,455,890	8,053,569
D) PERSONNEL COSTS		9,644,396	8,757,761	5,903,725	5,534,173	4,959,021
E (=C-D) EBITDA		465,009	4,173,018	3,850,217	2,921,717	3,094,548
Period		31/12/2008	31/12/2007	31/12/2006	31/12/2005	31/12/2004
Currency		€	€	€	€	€
A) TOTAL VALUE OF PRODUCTION		90,432,492	100,572,627	67,710,754	65,705,622	75,873,312
B) EXTERNAL COSTS OF PRODUCTION		87,306,245	91,242,908	60,448,455	61,190,726	66,430,101
C (A-B) VALUE ADDED		3,126,247	9,329,719	7,262,299	4,514,896	9,443,211
D) PERSONNEL COSTS		4,344,999	4,203,214	5,672,650	5,398,692	5,277,328
E (=C-D) EBITDA		-1,218,752	5,126,505	1,589,649	-883,796	4,165,883

In 2005 and 2008 the company registered a negative EBITDA, due to a bad Value Added performance, while in the other years the situation is generally good.

I will compute also the incidence, in percentage, of the Value Added on the total value of production and will show the results in table 15.

Table 15: the Value Added on the total value of production

Period		31/12/2013	31/12/2012	31/12/2011	31/12/2010	31/12/2009
Currency		€	€	€	€	€
VALUE OF PRODUCTION		159,413,333	151,142,188	158,320,252	124,255,226	91,169,351
VALUE ADDED		10,109,405	12,930,779	9,753,942	8,455,890	8,053,569
VALUE ADDED/VALUE OF PRODUCTION		6,34%	8,56%	6,16%	6,80%	8,83%
Period		31/12/2008	31/12/2007	31/12/2006	31/12/2005	31/12/2004
Currency		€	€	€	€	€
VALUE OF PRODUCTION		90,432,492	100,572,627	67,710,754	65,705,622	75,873,312
VALUE ADDED		3,126,247	9,329,719	7,262,299	4,514,896	9,443,211
VALUE ADDED/VALUE OF PRODUCTION		3,46%	9,28%	10,73%	6,87%	12,45%

As we can observe in 2008 the Value Added has been very low, and this is the reason why the company has suffered a loss in that year: I resume the profits and losses in table 16.

Table 16: Brazzale's fiscal year profit/loss

Period		31/12/2013	31/12/2012	31/12/2011	31/12/2010	31/12/2009
Currency		€	€	€	€	€
PROFIT/LOSS		5,527,833	357,196	285,994	217,480	140,686
Period		31/12/2008	31/12/2007	31/12/2006	31/12/2005	31/12/2004
Currency		€	€	€	€	€
PROFIT/LOSS		-3,183,921	810,419	980,887	-2,921,791	1,166,627

The company's profit is growing steady since 2009, and in 2013 it registered a very good performance with a profit of 5,527,833 €.

To conclude my analysis, in table 17 I will compute the firm's main profitability ratios.

Table 17: the main profitability ratios

Period	31/12/2013	31/12/2012	31/12/2011	31/12/2010	31/12/2009
ROE	55.44%	7.48%	6.48%	5.05%	3.44%
ROA	-1.66%	2.13%	2.76%	2.39%	2.68%
ROS	-1.27%	1.47%	1.70%	1.44%	1.96%
Asset turnover	1.29	1.42	1.62	1.65	1.36
Period	31/12/2008	31/12/2007	31/12/2006	31/12/2005	31/12/2004
ROE	-80.56%	11.36%	15.51%	-54.66%	14.11%
ROA	2.79%	5.00%	0.50%	-5.52%	3.58%
ROS	1.80%	4.33%	0.40%	-4.04%	2.91%
Asset turnover	1.54	1.14	1.23	1.35	1.16

The ROE trend registered an extremely bad performance in 2005 and 2008, nevertheless its value is growing steady since 2009; the ROA and ROS presented an alarming negative value in 2013, but it could constitute just a temporary result: in this sense the 2014 balance sheet will give us a more explanatory response.

7) CONCLUSION

I'm going to draw a conclusion from my work of thesis, recapping the main concepts and evaluations deriving from my analysis.

The food sector, in Italy, is generally in good health and it has dealt successfully with the Italian and European crisis, thanks to a solid regional industrial structure and thanks to export.

The sector is composed by firms that are completely different each other in terms of dimension and structure: small, medium and large enterprises coexist and have got different market scopes. Some of them operate just at local, regional or national level while others have carried out processes of internationalization by which they can expand their production and sales, as well as positioning effectively within the global value chains and obtaining more influence and power in the global context.

In this work of thesis I focused my attention on this second kind of firms: as I have seen, actually very few food&wine Italian firms are organized to face the global competition, because they are often old family-run businesses with an inefficient structure.

According to my work of thesis, the Italian firms that want to update their inner organization have to focus on three important levers: technology, networks and governance.

In fact, nowadays, an efficient ICT represents a powerful factor in the structure's optimization, but it has to be integrated necessarily with the other factors of organization, otherwise it risks to be disadvantageous and counter-productive. In the globalization context, the extraordinary potential of ICT has to be exploited by every firm that want to succeed.

The second lever is represented by network: the small firms that want to operate at global level have the possibility to work as part of a network: a network composed by small firms can act as a single large enterprise, as the existence of industrial clusters demonstrate.

Furthermore, the network offers several advantages to the actors who participate in it: industrial commons, cost advantages, positive externalities, know-how and talent sharing, logistic sharing, reputation, financial opportunities and so on.

Thirdly, governance and control have to be renewed and improved, increasing the use of ICT and training constantly managers and employees.

Going deeper into the analysis of food&wine sector, I underlined that Italian firms have to pay particular attention to the issue of sustainability, because it has a great importance in the consumers' purchasing choice; in fact, for instance, in the *Rigoni* and *Brazzale* cases, sustainability represents a core value for the development of the business.

Another concept that I tried to analyse is *Made in Italy*: in particular, how this expression changes and evolves with globalization.

Until the end of the last century people used to consider all the production phases as activities taking place in the same location: now the situation has deeply changed. ICT and global opportunities allow the companies to carry out different business activities in different places; as a consequence, the concept of *Made in* is becoming sharper, because the real connection between a product and its country of origin is even more vague.

Nevertheless, this connection is absolutely important in the consumer's mind, because countries are considered just as firms, with their own brand represented by *Made in*; in fact, the firms' success contributes to strengthen the country image and reputation, and also the opposite is true, that is, the country reputation becomes guarantee of the firms quality.

In this work of thesis, as I already mentioned, I focused on companies that have decided to internationalize: referring to the products of these firms it should be more correct, maybe, to talk about *Made by Italy*. In fact, even if these products are materially made beyond the Italian boundaries, they are the outcome of Italian companies that use Italian knowledge, Italian talent and workers, Italian brand and reputation and in many cases Italian technologies. In the majority of cases, the work behind the production process is fundamental, so that the Italian way of doing things seems to be as important as the raw materials country of origin.

I tried to explain that a part of knowledge involved in the development of a business can be transferred abroad by the Italian companies that decide to internationalize: this part is called "replicative knowledge" and it can be codified and reused worldwide an unlimited number of times.

Another part of knowledge is called “generative knowledge”: it is strongly connected to the place of origin and the context where it was born and to the people that created it; for this reason, it is considered more local than replicative knowledge.

Generative knowledge plays a fundamental role in the development of local competitiveness: in fact, although a firm projection in global value chain, the local industrial structure still gives to the firm several externalities (specialized capabilities, technologies, logistic and other services, etc) that allow the firm to be competitive in global markets.

Generative knowledge represents that part of knowledge more related to innovation and it is able to produce replicative knowledge.

The reuse of replicative knowledge worldwide implies no additional costs and, thanks to its rapid spread, it can produce a surplus value; the surplus value produced by replicative knowledge returns, in theory, to the generative knowledge place of origin.

This theoretical model helps us to understand that there are several economic advantages obtainable by a firm that wants to internationalize; of course, there are also strategic advantages, as, for instance, a more effective position within the global value chains or the geographic proximity with important emerging markets.

Anyway, internationalization implies also some risks: the most dangerous risk is the loss of the industrial commons.

I wish to remind again that industrial commons means the set of infrastructures, know-how and capabilities embedded in firms, universities and other organizations that provide innovation in nearly every sector.

Losing the industrial commons it would mean to damage more than one industry at the same time, from the moment that industries are strictly connected each other; furthermore, the industrial commons represents a competitive advantage: for this reason, it is in the interest of all to keep it within the national boundaries, because once a country have lost it, it results very difficult to bring it back.

Concluding, the three case studies I analysed (*Rigoni, Zonin and Brazzale*) represent the tangible proof that an internationalization strategy is feasible by food&wine Italian firms. Today, maybe, it is too early for affirming that they are totally successful: it would be more prudent to wait for some more years in order to understand the real effectiveness of such an internationalization strategy.

Anyway, they represent a model to be studied by other companies that are trying to face the new challenges set by globalization.

According to my work of thesis, Italian firms can count on a cultural story, heritage, set of knowledge and reputation that very few firms have worldwide, so they just have to find the way to express their true potential, spreading their local knowledge and taking a leading role in the global value chains.

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