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Observatory report on the Italian automotive sector

2012

CAMERA DI COMMERCIO
INDUSTRIA ARTIGIANATO E AGRICOLTURA
DI TORINO

Camera di Commercio
Chieti

ANFIA
Associazione Nazionale
Filiera
Industria Automobilistica

Torino Chamber of Commerce Industry Crafts and Agriculture
in collaboration with Chieti Chamber of commerce Industry Crafts and Agriculture and ANFIA (Associazione Nazionale Filiera Industria Automobilistica)

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Observatory report on the Italian automotive sector 2012

The Observatory

The Observatory on the Italian automobile supply chain is run by the Torino Chamber of commerce in partnership with Chieti Chamber of commerce and the ANFIA (Associazione Nazionale Filiera Industria Automobilistica, the national association of the automobile industry supply chain), representing Italian companies operating at the very highest levels in the construction, transformation and equipment of vehicles for the individual and collective transport of people and freight. It is a strategic and relational point of reference between the automotive supply chain and Italian and international political/institutional spheres.

Set up in 1997 in order to meet the need for a better understanding of such an important industry for Piedmont's economy, the Observatory has gradually expanded its activities to include the entire Italian automotive supply chain, becoming a valuable point of reference for researchers, decision-makers, public administrators and those who operate in various capacities in the automotive sector.

The latest edition of the report, prepared by Step Ricerche, began with an extensive review and updating of the Observatory's database, which covers a galaxy of 2,700 surveyed businesses. This year's survey was based on data collected thanks to 272 questionnaires and on an analysis of the financial statements of 2,489 companies with share capital.

As ever, the state of the Italian supply chain in 2011 and in the first months of 2012 was outlined, considered in its complex international context.

The main aspects covered in the latest edition of the Observatory's report on the automotive supply chain included the international context and the changes it has seen over the past five years as regards production and sales levels, the position and state of the European industry (the main market for our automotive parts manufacturers), the quantification of the national supply chain and its results, the strategies used to overcome the economic crisis (from resorting to the Wage Guarantee Fund to the diversification of a company's portfolio and markets), the role of the export market, research and

development investment policies, sources and opportunities for innovation such as 'green tech', changes in ownership structure and the performance of orders (national and international) in the first quarter of 2012.

The main figures for 2011

In a macro-economic situation which saw a growth of global GDP (or GWP) in 2011 (up 3.8% compared to 2010), even automobile production saw positive change (up 3.2%), allowing it to reach the threshold of 80 million units produced. Overall, European production grew 6.6%, while Italian production fell by 5.7%.

Italian parts manufacturers, engineering services and car design, parts and systems companies invoiced €41.8 billion in 2011, employing 179,000 people (down 5.1% compared to the previous year).

In all, 898 companies with share capital working in the automobile supply chain are based in Piedmont. In 2011, these companies invoiced just under €19 billion (45.2% of the national figure), employing over 94,000 people (down 4.3% compared to 2010).

Total revenue from the national supply chain grew by 3.5%, moving one step closer to regaining the levels enjoyed before the economic crisis. Piedmontese companies saw an increase in turnover of 2.3%.

These positive results were largely due to our companies' export capabilities.

Of the companies surveyed nationwide, 77% (84% of those surveyed in Piedmont) managed to export, so much so that the impact of revenue from across national borders on total supply chain turnover was 57% (47.2% for Piedmontese companies: the two figures are not contradictory because Piedmontese companies have stronger links with foreign countries, but at the same time Fiat's national orders can have such an impact that they counterbalance income from abroad).

The positive trend is confirmed by data from ISTAT (Italy's

National Institute for Statistics), which quantifies the value of **Italian exports** of parts and components at **€19.1 billion** – a level that has never been reached before – up 16% compared to 2010. In 2011, **Piedmontese parts manufacturers** also saw exports rise (though less than in the rest of Italy), exports worth approximately **€7.5 billion,** almost 40% of the national figure.

At the same time, **dependence on Fiat** has fallen: of the companies surveyed, the number of exporters now exceeds the number of those who supply Fiat, both in Piedmont (where

The Italian automotive supply chain - 2011

ITALY	Companies	Employees 2011	Employees 2010	% Change Employees 2011/10	Total turnover 2011	Total turnover 2010	% Change turnover 2011/10	AUTO turnover 2011
		Estimated	*Estimated*	*Estimated*	*Estimated in bln*	*From financial statements in bln*	*Estimated*	*Estimated in bln*
TOTALS	**2,489**	**179,101**	**187,102**	**-4.3%**	**€41.802**	**€40.369**	**+3.5%**	**€35.488**
Piedmont	898	94,303	99,357	-5.1%	€18.933	€18.504	+2.3%	€15.278
Rest of Italy	1,591	84,798	87,745	-3.4%	€22.869	€21.865	+4.6%	€20.211
Engineering & design (E&D)	247	14,132	14,608	-3.3%	€2.851	€2.845	+0.2%	€2.793
Systemists and modulists (OEM)	58	25,322	26,816	-5.6%	€6.171	€6.425	-4.0%	€5.748
Specialists and subsuppliers (SS)	2,184	139,647	145,678	-4.1%	€32.780	€31.099	+5.4%	€26.95

PIEDMONT	Companies	Employees 2011	Employees 2010	% Change Employees 2011/10	Turnover 2011	Turnover 2010	% Change turnover 2011/10*	AUTO turnover 2011
		Estimated	*Estimated*	*Estimated*	*Estimated in bln*	*From financial statements in bln*	*Estimated*	*Estimated in bln*
Piedmont	**898**	**94,303**	**99,357**	**-5.1%**	**€18.933**	**€18.504**	**+2.3%**	**€15.278**
Engineering & design (E&D)	129	9,662	10,036	-3.7%	€1.847	€1.764	+4.7%	€1.804
Systemists and modulists (OEM)	33	16,580	17,578	-5.7%	€4.019	€4.239	-5.2%	€3.895
Specialists and subsuppliers (SS)	736	68,061	71,743	-5.1%	€13.067	€12.501	+4.5%	€9.579

Source: Step Ricerche analysis of figures collected from interviews and financial statements

84% of companies export and 79% are either direct or indirect suppliers of the Fiat Group) and in the rest of Italy (70% export and 55% supply Fiat).
Finally, we would like to stress the importance of other sources of revenue, such as production for commercial and industrial vehicles and buses (68.5% of the companies surveyed nationwide operate in this market; 65.7% of those in Piedmont) and the spare parts market (over 62% of respondents work for the aftermarket), while 28.4% of the companies surveyed owe at least a fourth of their turnover to products that are unrelated to the automotive industry.

The international picture

In 2011, global GDP (or GWP) grew by 3.8%, compared to the 5% growth seen in 2010. Automotive production also rose (up 3.2%), with 80 million units produced, though less than the 25.7% growth seen in 2010. After years of market share losses, the oldest industrialised countries either saw increases above, or in line with, the world average: up 10.6% in NAFTA countries (the North American free trade zone); up 3.5% in Western Europe. The expansion of automobile production affected the entire American continent (up 3.2% in South America, mostly thanks to Argentina, up 15.7%) and the European continent as well, where the newest members of the EU increased the volume produced by 3.3%. When we

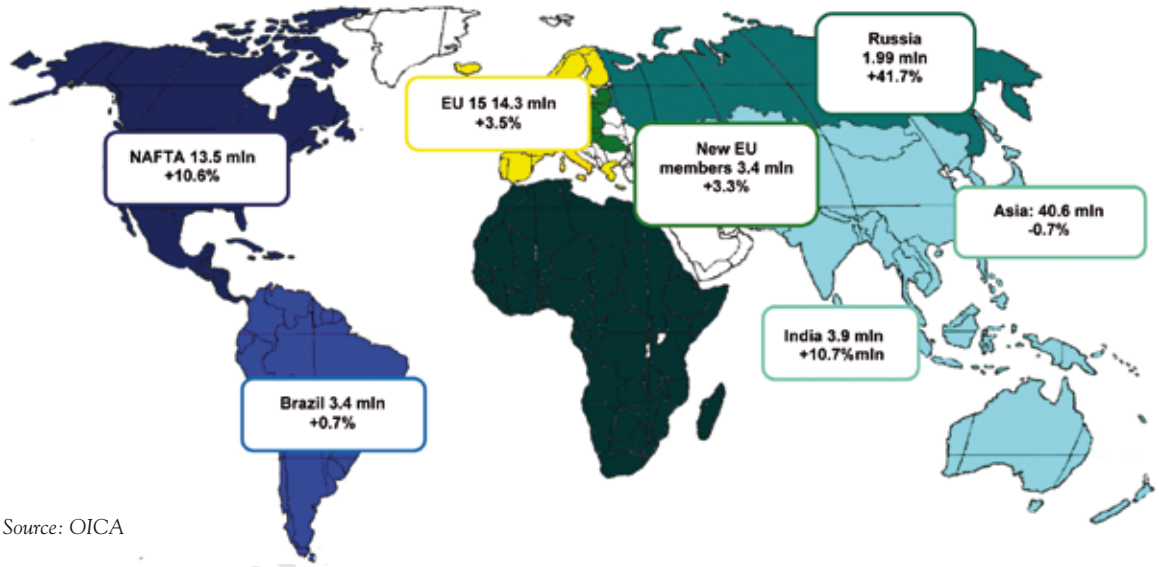
look beyond the borders of the EU, we can note how countries that are not part of the single market (particularly Russia and Turkey) have moved one step closer to the full development of their industries, with an average increase in production of 26.2%.
The only negative figure comes from Asia: down 0.7%. Here, the difficulties faced by Japan following the earthquake of 11th March 2011 (down 12.8%) were supplemented by the slowing down of the Chinese economic engine (up 0.8%), which has paused for breath after years of massive investment and incentives.

The Observatory on the Italian automobile supply chain: all the figures

This year's survey was based on **272 questionnaires** compiled online by the Italian automotive supply chain's companies themselves[1] (of these, 146 have their legal head office in Piedmont), from April to early May 2012. It was also based on an analysis of the financial statements of **2,489 companies with share capital** surveyed by the Observatory, whose 2011 revenue was estimated[2].

After general conditions of stability in 2010, Italian production fell once again in 2011 by 5.7%, with a total of 790,000 vehicles assembled. This aggregate change conceals the contrasting tendencies of various sectors: car production continued to fall (down 15.3%), as did bus production (down 22.7%); unlike the commercial vehicle sector (up 14.5%) and

Global automotive production, total value and change in 2011 compared to 2010



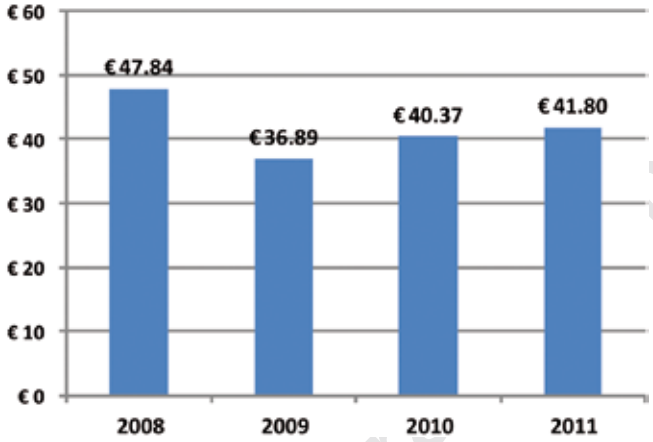
Source: OICA

[1] The supply chain includes engineering & design (E&D), specialists, OEM (modulists/systemists) and subsuppliers.

[2] After over 10 years of existence, the Observatory's database has been completely updated, completing a task designed to: update existing information with companies which have either ceased trading or have been newly set up; expand the number of companies surveyed to include those that work in the car industry but are listed in different ATECO economic activity classifications; tap into southern-central supply chains with a particular focus on the Abruzzo, Basilicata and Campania regions, where a large amount of final automotive production is carried out.

the industrial vehicle sector (up 20.1%) which continued to enjoy a recovery that began in 2010.
Results concerning final production in Italy are largely due to a further decline in the automotive market, both in Italy (down 10.8% in 2011 compared to 2010) and in the rest of the European Union (down 1.6% in 2011). This is the fourth consecutive year of decline in both these markets.

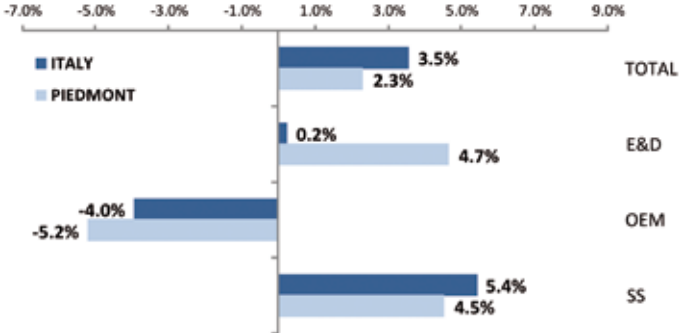
The total turnover of companies in the Italian automotive supply chain, from 2008 to 2011 (in billions of Euros)



Step Ricerche analysis compiled from interviews, financial statements and company registration information

Piedmont has proved itself to be the region which has specialised most in this industry: this is where 898 companies with share capital have their legal head offices, employing over 94,000 people in total. The increase in revenue in 2011 (up 2.3%) allowed Piedmont's automotive businesses to reach a total turnover of €19 billion, or 45.5% of the national total.
By breaking down the results of the survey by production sub-sectors, we can see how the companies manufacturing car modules or systems – traditionally more dependent on local production – suffered most from the decline in national production (in Piedmont as in the rest of Italy). Companies supplying engineering and design services also encountered difficulties linked to the downturn in new product designs or their insourcing (Piedmont is doing better thanks to a greater ability to sell itself abroad). Finally, we have seen the success of those specific component manufacturers and subsuppliers who in recent years have managed to beat the competition by diversifying their potential markets.
The crisis not only affected company revenues; it also affected the use of plants and consequently the employment levels necessary to carry out production activity. Of the Piedmontese companies interviewed, 75% declared that they have resorted to the Italian Wage Guarantee Fund (ordinary, emergency and special, to differing degrees) at some time from 2008 to the present day. In the rest of Italy, this figure stands at 51%.

Variations in the total turnover of the national supply chain (and comparison with the Piedmontese supply chain), broken down by category, 2011 compared to 2010



Step Ricerche analysis compiled from interviews, financial statements and company registration information

The supply chain is growing, particularly thanks to exports

The news isn't all bad: most of the figures depict a supply chain that – though put under pressure by the constant decline in national production, plus the onset of a continental downturn as well – manages to fight back, finding the resources necessary to tap into new sources of revenue. Just one figure can be taken as proof of this: the number of exporters is now greater than the number of companies supplying the Fiat Group (in Italy or abroad). This is not only happening nationwide, but even in a region like Piedmont, historically tied to this Turin-based Group.

Indeed the penetration of Italian products abroad continues to grow, both in absolute and relative terms. In 2011, revenue from abroad continued to rise. The national supply chain owed almost 60% of its turnover to foreign markets, while this figure came to almost 50% for the Piedmontese supply chain.

The trend highlighted by the companies surveyed is in line with what was recorded by ISTAT and compiled by the ANFIA, which quantify the value of parts and components exports at €19.1 billion, with a positive balance between imports and exports of €7.3 billion.

Even the exports of Piedmontese parts manufacturers grew in 2011, though less vigorously than in the rest of Italy. Piedmontese exports last year were worth approximately €7.5 billion, a figure that accounted for almost 40% of the national total.

At the same time, companies – at least medium-to-large sized companies – are gearing up to produce directly in situ. The survey highlighted 22 plants opened by the companies surveyed from 2010 to the present day (10 of which were opened by Piedmontese companies). These plants are generally opened in those places that are attracting the frontier of production (Central-Eastern Europe, Turkey, India and China) or where the top of the national supply chain concentrates its investments (NAFTA and Brazil). However, this year was the

first time we detected a certain number of closures, not only in mature markets where production is falling (Great Britain and France), but even in industrially developing markets such as those of Central Europe. This figure has not yet been statistically consolidated, but it is a warning sign which should be watched carefully: competition is also growing in expanding markets, where success is not a foregone conclusion.

Plants opened abroad from 2010 to 2012

(22 plants opened, 5 closed)

Plants opened abroad by Piedmontese companies

Country	No. of plants
Brazil	2
Poland	2
China	1
India	1
Mexico	1
Romania	1
Russia	1
Turkey	1
Total no. of New Piedmontese Plants Abroad	**10**

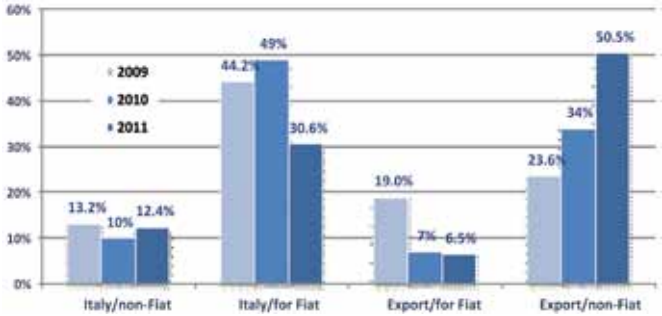
Production diversification and 'new trades'

Over the past few years, the Observatory has found that one of the answers to the crisis in the car industry has been to use the expertise and skills developed in this sector to tap into orders from other industries: the latest survey reveals that over one in four respondents invests at least a fourth of its turnover in sectors that are related to, but different from, the automotive industry.
This is done for two reasons: the first reason is that other manufacturing sectors are generally suffering less than the car industry from the economic crisis; the second reason is that the businesses that make up the automotive supply chain are generally companies used to market challenges (quality, innovation, price) and thus find themselves to be more competitive than the competitors they come across in other industries.
Nevertheless, not all companies can embark on this strategy and most of the time it cannot substitute all the business previously guaranteed by the automotive industry. However, it remains a positive driver and, if nothing else, an extra potential resource.
It is also worth highlighting the constant addition of new features to vehicles (in terms of safety, mobile information and entertainment systems, the reduction in pollutants etc…), which has encouraged the entry of companies from other industries into the supply chain.

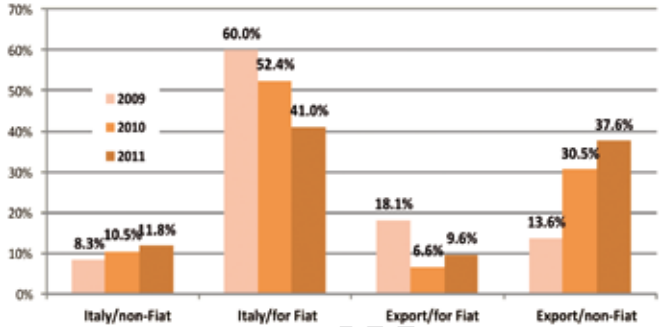
Dependence on Fiat

With the fall in national production, the industry's dependence on Fiat fell compared to the previous year, both as far as Italian companies overall and Piedmontese companies were concerned.
In Italy, one in three companies no longer trades commercially with this Turin-based group. In Piedmont, this ratio falls to one in five.
Even the Fiat Group's impact on total supply chain turnover fell below 40% for the national cluster and just over 50% for Piedmont's cluster.

The distribution of the national supply chain's turnover per end customer: 2009-2011 comparison



The distribution of the Piedmontese supply chain's turnover per end customer: 2009-2011 comparison



Source: Step Ricerche analysis from interviews and financial statements

Competitive levers: quality, flexibility, collaborations and networks of companies

Of the companies surveyed, 73% (74.5% of those in Piedmont) declared that their product or service was their best competitive lever. One in five companies is then able to beat the competition thanks to its ability to respond to production peaks or changes requested by customers. The number of companies focusing on price (21.3%) is still low, but it is rising compared to the previous year (when the proportion was 12.6%)[3].

We also have confirmation of a figure that had already emerged last year, highlighting a change of course compared to the past: the desire to expand beyond corporate limitations and collaborate on jointly-run projects. Projects run with other companies do not just involve the commercial sphere (undertaken by almost 40% of respondents); they also involve investment in the R&D (34% of respondents) and production spheres (here, too, 34% of respondents) as well.

Piedmontese companies seem to have overcome their long-standing tendency towards individualism. The region has proved itself to be a place interested in collaborating with other companies to a much greater degree than the national average.

[3] As regards these figures, the differences between Piedmontese companies and those in the rest of Italy are not significant.

From 2010 to the present day, one in every two Piedmontese companies surveyed has launched collaborations in research and development projects. A high percentage declare that they have launched collaborations of a commercial nature (47.5%), while the number of manufacturing collaborations is below the national average (28.8%, compared to 37.8% in the rest of Italy).

In order to break out of an individualistic or voluntaristic mindset, companies need to carry out structural changes to their organisational models, pooling the wide range of resources they possess, without at the same time losing individual identity and entrepreneurial vigour. Many players nationwide have understood this, organising themselves in such a way as to reap the advantages of a recent legislative tool (in Italian law since 2009): the company network contract. The network contract is based on the goal of increasing the level of competitiveness of its members thanks to the levers of innovation and shared programmes and resources. An example of this is the Rete Automotive Italia, which in late 2011 signed an agreement with 56 companies operating in the Abruzzo, Basilicata and Campania regions.

Research and Development

For automotive companies competing globally, investment in R&D is an increasingly strategic lever. It is therefore unsurprising to see how 41% of companies in Piedmont (40.3% in the rest of Italy) devote over 2% of their turnover to this activity.

If we consider the declarations on turnover made by the companies surveyed, we note that out of every €100 of revenue, €3.50 are devoted to investing in research and development (in Piedmont: €3.54), approximately double the amount invested by the Italian manufacturing system as a whole, demonstrating the car industry's competitiveness and importance in terms of demand for innovation.

As regards this field, interest in public funding is growing in this industry, as is interest in the university sector (18% of the companies surveyed have ongoing projects with this sphere).

Investment in R&D as a percentage of total turnover

	Piedmont	Total
	%	%
E&D	3.0%	3.0%
OEM	2.9%	1.5%
Specialists	4.3%	4.5%
Subsuppliers	2.2%	2.1%
Total	**3.54%**	**3.5%**

Source: Step Ricerche analysis based on interviews

A focus on green tech

Compared to previous years, companies have proved themselves to be active in exploring the frontiers of 'green tech'.
Of the companies surveyed, 46% of those in Piedmont and 43% of those in the rest of Italy have recently launched projects and investment in this field, particularly in new hybrid or electric vehicles (15.4% of those surveyed), in developing and selling more efficient components (13% of those surveyed) or alternative materials. As regards the latter, Piedmont boasts a particular level of specialisation, with 26% of the region's respondents committed to this field, compared to 13% in the rest of Italy.
In Piedmont, research, development and innovation projects in the field of green technology are often promoted following a request from traditional customers (as regards 70% of those surveyed), while in the rest of Italy green tech is seen more as a lever to tap into new customers, particularly abroad.

Newly registered companies and those that have closed

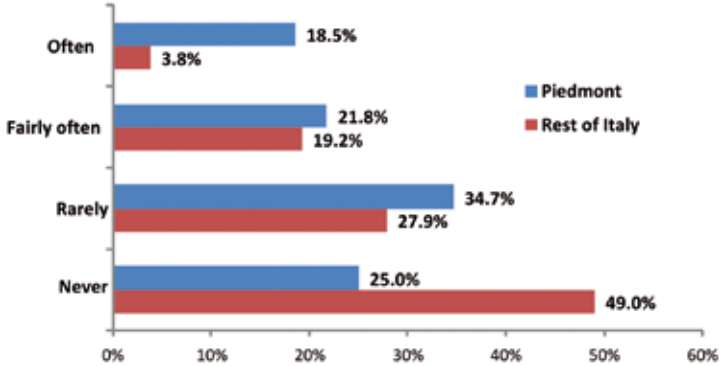
Over the past three years, the Observatory has recorded the closure of 299 companies. These companies were enjoying a turnover of €2 billion even as recently as 2007. It is interesting to note that the companies belonging to this group have no one particular trade or production expertise, a sign that there is no one particular trade that has been hit more than others. The reason for these closures should therefore be mainly sought in their inability to manage competitive levers such as production diversification, potential markets, innovation and collaborations in the best possible way. In relative terms, we can also note that there are more limited companies than companies with share capital, as if a greater organisational structure were preferable. Finally, if we analyse the geographical location of companies that have closed down, we will see that the number in Piedmont is slightly below the national average (29% of the 299 companies).
While there are companies closing down, others are opening and tackling the automotive industry. There were 49 new businesses in 2011 alone. These have been mainly set up as S.r.l. private limited companies (only 4% are S.p.A. companies), one in four has its head office in Piedmont and more than half of them (55%) are involved in the automotive supply chain, but specialise in metalworking, in manufacturing machinery, in the chemical and plastics sector, in manufacturing electric equipment, electronics and supplying engineering services.

A look at 2012

After a year when our companies managed to finish up, at least

overall, with increased turnover, despite the difficulties, 2012 is threatening to be another difficult year.
Burdened with uncertainties, consumers are delaying the decision to buy a new car.
In the first five months of 2012, the number of new car registrations in Europe fell by 450,000 compared to the previous year (down 7.7%), 160,000 of which were lost in Italy (down 19%). The difficulties being experienced this year are confirmed by the order figures supplied by the companies surveyed: 68.5% of respondents declare that their Italian order portfolio fell, in some cases quite dramatically (over half have seen a reduction of over 10%), in the first three months of 2012, compared to the 31.5% boasting an increase in orders.
Once again, foreign markets are proving to be the most promising: the companies surveyed are basically divided into two groups: those losing orders (52.6%) and those that continue to win new orders compared to 2011 (47.4%).

Companies that have resorted to the Wage Guarantee Fund (ordinary, emergency, special) from 2008 to the present day (% of total 228 respondents)



Source: Step Ricerche analysis based on interviews

Performance of national and foreign orders in the first quarter of 2012

National orders	Piedmont		Rest of Italy		Total	
	Comp.	*%*	*Comp.*	*%*	*Comp.*	*%*
Reduction of over 5%	58	*47.2%*	53	*53.5%*	111	*50.0%*
Reduction of 0-5%	24	*19.5%*	17	*17.2%*	41	*18.5%*
Growth of 0-5%	21	*17.1%*	10	*10.1%*	31	*14.0%*
Growth above 5%	20	*16.3%*	19	*19.2%*	39	*17.6%*
Non-respondents	23	*15.8%*	27	*21.4%*	50	*18.4%*
Respondents	**123**	***84.2%***	**99**	***78.6%***	**222**	***81.6%***
Total companies interviewed	146		126		272	

Foreign orders	Piedmont		Rest of Italy		Total	
	Comp.	*%*	*Comp.*	*%*	*Comp.*	*%*
Reduction of over 5%	33	*31.1%*	26	*38.8%*	59	*34.1%*
Reduction of 0-5%	21	*19.8%*	11	*16.4%*	32	*18.5%*
Growth of 0-5%	23	*21.7%*	12	*17.9%*	35	*20.2%*
Growth above 5%	29	*27.4%*	18	*26.9%*	47	*27.2%*
Non-respondents	40	*27.4%*	59	*46.8%*	99	*36.4%*
Respondents	**106**	***72.6%***	**67**	***53.2%***	**173**	***63.6%***
Total companies interviewed	146		126		272	

Source: Step Ricerche analysis based on interviews

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