



# **PROMOSEDIA**

Marketing support - Furniture

*Michele Clara*

September 1998

Case Study prepared for project US/GLO/95/144 -

UNIDO/Italy Programme for SME Development

This paper has been prepared in the framework of the UNIDO project US/GLO/95/144 - UNIDO/Italy Programme for SME Development and is one of the project vehicles for exchange of information and experiences on key issues pertaining to the development of small and medium enterprises (SMEs).

The views expressed in this paper are those of the authors and should not be attributed to UNIDO. Nor do the conclusions represent official policy of UNIDO

This paper has not been edited.

## **1 Introduction**

*Promosedia* is a limited liability company with a paid up capital of Lit. 200 million (equivalent approx. to 100,000 USD), 70% of which is held by around 90 chair-manufacturers operating within the industrial district of Manzano (Italy) and 30% by the Chamber of Commerce of Udine. While it may appear that this is a relatively small number (when compared to the 1,200 enterprises which currently operate in the district), it is estimated that over 80% of the total district exports are accounted for by the associates of *Promosedia*. The mission of the agency is to promote world-wide the image of the Chair-Manufacturing district of Manzano and to support the efforts of its associates towards an improvement of the characteristics of their production. As of 31/12/1995, the total revenue of *Promosedia* was of Lit. 2,673 billion (equivalent approx. to 1.5 million USD): 25% of such revenues were accounted by public grants to the agency operating expenses while the remaining 75% by the sale of the agency's services. *Promosedia* is currently housed in a recently renovated building located at the very heart of the district and it employs 8 full-time employees, including the administrative staff and the agency's management. The main task of *Promosedia* is to organise the annual International Chair Exhibition which takes place in October in the near-by town of Udine. In 1997, the Exhibition drew 15,000 visitors (over half of whom from outside Italy) and it accommodated 200 manufacturers and nearly 5,000 pieces of furniture. *Promosedia* also participates in a number of international furniture fairs, either on behalf of its members (presenting collective catalogues of its associates' production) or supporting them (renting collective stands as well as handling transport and customs clearance details). The agency further publishes a range of magazines and newsletter, targeted both at its members, and at potential customers such as interior designers or architects.

## **2 The establishment of *Promosedia***

*Promosedia* was set up in November 1983 as a branch (*Azienda Speciale*) of the Chamber of Commerce of Udine. Initially, the Chamber of Commerce held the majority of

the agency's paid-up capital and therefore appointed its president. Since the beginning, however, the district manufacturers played a key role in the management of Promosedia, appointing its three-vice presidents representing, respectively, the interests of the micro-sized handicrafts, of the small- and of the medium-scale end-producers. A range of other public and private institutions (local banks, the regional artisan support agency, the local administration) also participated actively to its establishment. *Promosedia* acquired its present configuration (in terms of ownership) only in 1994, when the Chamber of Commerce of Udine decided to re-capitalise the agency and required the district manufacturers to acquire the majority of Promosedia's 200 shares.

## **2.1 *The emergence of a "problem"***

*Promosedia* was established as an institutional response to a crisis which hit the district in the late 1970s. As a result of the Oil Shock and of the emergence of strong competitors in the wooden-rich countries of Eastern Europe, a drastic contraction of demand triggered a dramatic slow-down of the rate of growth which had characterised the district for much of the 1960s and 1970s. The most apparent features of the crisis were a) the collapse of the foreign market (particularly the German and French ones which absorbed more than half of the district total production), b) the demise of some of the larger local producers (leading to an abrupt increase in redundancies and unemployment benefits) and c) a dramatic slow down in the growth of aggregate turnover (which fell by 5% in real terms in 1981 and remained stagnant for the first half of the decade).

At a deeper level, however, the crisis acted as an indicator of a much deeper malaise, the roots of which were related to structural problems rather than to a downturn in the business cycle. On the one level, the crisis proved the inability of the producers to adapt **individually** to the evolving characteristics of the product market. The traditional strategy to boost competitiveness by reducing profit margins and by out-sourcing a greater share of their production to the local sub-contractors and part suppliers proved unable to address the cash-flow problems of the chair-manufacturers of the district. The crisis of the early 1980s proved to the local producers that they were largely unable to control the key determinants of their businesses' competitiveness, which was

increasingly reduced as a result of mounting inflation, rapidly increasing input costs (including the cost of energy and of imported raw materials such as wood) and escalating interest rates. The crisis also highlighted the inability of the end-producers to link up with their final consumers and their ignorance about the evolution of their preferences. This feature was the result of the over-reliance of the district chair-manufacturers upon foreign wholesalers as means to address the main European markets. As these wholesalers reduced their demands and/or requested increasingly lower prices from the district producers, the lack of adequate marketing competencies reduced the ability of the latter to access the most lucrative segments of the value chain.

The crisis also displayed the limits of the **collective** demands which were traditionally presented by the district manufacturers to the local policy-makers. Faced with a crisis which was simultaneously affecting all the industrial sectors of the regional economy, the regional administration displayed a clear propensity to help those industries organised around large-scale enterprises where the labour force was more heavily unionised and therefore politically more influential (as in the mechanical and steel-manufacturing sector) rather than a cluster of poorly coordinated SMEs. The crisis also adversely affected the two institutions that had emerged over the 1970s as a result of the cooperation among the district end-producers, namely the sale consortium and the Chair Exhibition in Udine. The first of the two collective organisations had effectively ceased to constitute a viable instrument to address the foreign markets at least since the second half of the 1970s for two main reasons. On the one hand, the local producers had tacitly displayed their preference to the foreign wholesalers who could grant marginally higher profit margins. On the other hand, the management of the sale consortium (CONSEG) had repeatedly failed to cater for the diverging demands of its associates who were addressing very different portions of the chair market and who therefore resented very undifferentiated marketing approaches. Dissatisfied with the strategy of CONSEG, some of the larger and more entrepreneurial chair-manufactures of the district had become increasingly involved in the organisation of the Udine Chair Exhibition. After a promising start in 1977, however, the Exhibition failed to move beyond a regional scale and . As a result, also this second collective organisation proved unable to attract a sufficiently large number of foreign customers to match the reduction in wholesalers' demand.

In other words, the crisis which broke out in 1980 involved a set of challenges that could not be handled adequately relying only upon the strategies that had been developed during the post-war boom, neither the ones which involved the efforts of the individual producers, nor the ones which required a collective response by the manufacturers and the policy-makers of the district. *Ex post* it is abundantly clear that this challenge simply displayed the existence of a gap in the structure of governance of the district. This gap could only be filled by a new type of cooperative organisation which could overcome the limitations of the more “traditional” collective responses thus equipping the district manufacturers with the competencies needed to re-position their businesses along the value chain and on the world markets. At the time, however, the characteristics and, above all, the feasibility of such an organisation were surrounded by the greatest uncertainty and the feeling was widespread among the key actors of the district that the local economy was about to be wiped away.

## **2.2 *The identification of a strategy***

The event which triggered a reaction within the district and that can be identified as the founding moment of *Promosedìa* was the alleged failure of the 1983 Udine Chair Exhibition. After a rapid increase in the number of visitors (from nearly 500 in 1977 to nearly 3,000 in 1981), the Udine Chair Exhibition seemed to have lost much of its momentum: the total number of visitors stagnated in 1982 and in 1983, while the proportion of foreign visitors actually dwindled to a few hundreds. The opinion was shared by the overwhelming majority of the exhibitors that the fair was actually failing to bring about a significant number of new orders and that it was not even worth investing on the forthcoming 1984 Exhibition. Significantly, water was leaking into the exhibition stands and many producers were angry at the choice (made by the Exhibition organisers in 1982) to admit foreign producers to the fair. It was within this rather bleak scenario that two of the administrative staff of the Exhibition put forward their proposal.

Ernesto Caiazza (a retired Army officer) and Sandro Vittorio (an architect and design expert) tried to rally the support of the district producers around the idea of an agency which should follow up the organisation of the Udine Chair Exhibition throughout the year and which should publicise this event world-wide. Jointly, these two men could

master a significant range of competencies that proved highly important for the establishment of *Promosedia* including the logistic skills required to organise missions abroad (Caiazza) and the knowledge of foreign buyers, markets, and exhibitions which should be targeted as an immediate priority to promote the image of the district of Manzano (Vittorio). The vision put forward by Caiazza and Vittorio was relatively simple: if the district producers could side-step the foreign wholesaler and tap into foreign markets independently, it was argued, than they could withstand the crisis by accessing the most profitable segments of the value chain.

While this vision certainly appeared very optimistic to many of the participating chair-manufacturers, it struck immediately the most entrepreneurial element within the district and, among them, many second-generation entrepreneurs. The latter were the sons and daughters of the producers who had operated through the fast growth period of the 1950s and 1960s: young people who could speak foreign languages, who normally held a degree in economics and who realised far too well that profit margins in this mature-technology industry could only accrue from the financial and managerial ability to undertake risky marketing investments on the establishment of own brands. Yet they were painfully aware of the need to first address issues like identifying foreign markets, contacting the local sellers and/or major consumers, learning about their taste, and providing them with the opportunity to inspect products and to formulate their requests. The realisation that the costs to be borne to solve these preliminary problems were largely beyond their individual capacities constituted the key reason behind their interest towards the project put forward by Vittorio and Caiazza

The third key figure behind the establishment of *Promosedia* was certainly Gianni Bravo, who was at the time the president of the Chamber of Commerce of Udine. The peculiar feature of Bravo was certainly the realisation that, beside a few large-scale industrial establishments, the bulk of the regional economy was gravitating around a few mature-technology industries populated by a large number of micro- and small-scale artisan enterprises. In his mind he was working on an embracing project which was to become known as the 'Made in Friuli' Programme to promote the image of the regional most characteristic products. The vision put forward by Caiazza and Vittorio certainly struck a chord with Bravo who could commit a significant amount of financial and human

resources to the idea of *Promosedia*. Furthermore, Bravo was backed up by the key policy-makers of the regional government and he could therefore rapidly rally support of the highest profile to *Promosedia*.

### **2.3 The evolution of the Promosedia**

The strategy selected by Bravo, Caiazza and Vittorio for *Promosedia* was initially very simple and relatively inexpensive. Caiazza and Vittorio were requested to draw a list of promising foreign markets that should be contacted as a first priority. The two were then sent literally around the world to promote the 1984 Udine Chair Exhibition among potential consumers in Europe (various cities in Germany, Belgium and France), in the United States, Canada, South Africa, and Singapore. The expertise of Vittorio was of crucial importance in this phase, but *Promosedia* could also count on the ethnic network of the expatriates who had migrated out of the region in the early post-war period. The missions of the staff members of *Promosedia* were funded through grants of the Chamber of Commerce and of the regional government and involved establishing contacts with local retailer chains and with the organisers of furniture fairs. Repeatedly the two would highlight the significant savings that would be available to the potential customers if there had been ready to side-step the traditional furniture wholesalers. It should be noted that Caiazza and Vittorio were never involved in selling chairs to foreign clients nor in acquiring orders on behalf of the producers of the district. Much unlike the managers of the numerous sale consortia that had been previously established (with little fortune) in the district, they had no reason to hold information about potential foreign clients, which were on the contrary circulated freely to the members of *Promosedia* after their return back to Udine.

This initial strategy proved to be immediately successful. The 1984 Udine Chair Exhibition was significantly better attended than the previous two: the number of visitors increased by 60% and, more importantly, the number of foreign buyers nearly trebled to 1,600. The success of the Exhibition had two implications that were to prove of key importance for the future of *Promosedia*. On the one hand, the Udine Exhibition proved a valuable source of revenue for the new-borne agency which was granted by the regional government the right to be its sole organiser. With a steady increase in the number of



exhibitors and visitors over the Eighties, the Udine Exhibition was to become the prime source of funding for a whole range of promotional activities abroad and for the day-by-day running of *Promosedia*. To give but an indication of the significance of this phenomenon it should be recalled that in fiscal year 1995 Lit 1.3 billion (equivalent approx. to 730,000 USD) were earned uniquely from the sale of services related to the Udine Exhibition, which amounted to almost 50% of *Promosedia* entire turn-over. On the other hand, this success gave a clear indication to the district manufacturers that there were some very tangible and immediate returns from co-funding the investment of *Promosedia* on acquiring foreign markets. On this side, the managers of *Promosedia* could count on very clear pieces of evidences proving that, often, the chairs which were acquired by the wholesalers were sold on the product market at prices which were two or even three times what had been paid to the district manufacturers. *Promosedia* could therefore put forward the realistic prospect of an instant doubling of profit margins to producers that had grown accustomed to struggle hard with their workers and sub-contractors to marginally increase profitability.

On the basis of this growing support, *Promosedia* started to change its strategy and to adapt its role to the emerging requests of the district producers. Collective stands to foreign exhibitions were increasingly organised, whereby a pool of district producers with a sample of their products would be flown abroad and they would be provided all the support (legal counselling and above translation services) required to enable them to gather orders for the limited period of the Exhibition. From the very beginning, this experience was funded by the producers themselves who could however significantly reduce overhead costs by pooling their resources together. Not only was *Promosedia* identifying profitable new services the demand for which was growing in the district, but these opportunities for collective participation to foreign exhibition effectively acted as a device to boost the morale of its member firms and their awareness of wider opportunities for cooperation.

As time went on and as the success of the Udine Chair Exhibition gained greater stability, *Promosedia* effectively started to act as a promotion agency *within* the district as much as outside of it. The lesson learned over the first years of operation appeared

unquestionably that the high-quality section of the chair market was the one that could guarantee the greatest profit margins. To operationalise this perception, *Promosedia* also ordered an in-depth survey to an Italian research centre of primary importance. In order to increase the ability of its associates to adapt their production to the requirements of this specific market segment, *Promosedia* promoted two broad projects that were invariably backed up by the enthusiastic support of the agency's president Gianni Bravo.

On the one hand, *Promosedia* started to contact some of the most famous furniture designers in the country and to organise design exhibition as side-events of the Udine Chair Exhibition. By admission of the organisers themselves, the aim of this program was not to transform *Promosedia* into a self-funding design consultant, but rather to help increasing the design content of the district production. The rationale for this choice was the hope that, by providing adequate stimuli to a small number of dynamic local producers, the agency would eventually convince a much larger number of manufacturers about the profitability of addressing the high-quality market segment. To strengthen the prospects for such a transition, *Promosedia* decided to award annually prizes to the district manufacturers that had successfully adapted their production to the latest trends in interior design. Within this program, the agency also managed to forge close links between promising young designers (often from the vocational school in San Giovanni or from the Faculty of architecture of the Venice University) and the individual producers who displayed the greatest motivation.

On the other hand, *Promosedia* tried to help its associates to establish themselves within the so-called 'contract market' namely the sale of furniture through architects and interior designers to final consumers such as restaurants, exhibition halls, theatres, airport waiting rooms and so on. For this purpose the agency organised a workshop for its associates with experts drawn from the most successful Italian furniture producers and it circulated a number of technical bulletins highlighting the key problem to be solved to successfully enter the contract market. Moreover, *Promosedia* decided to issue a newsletter aimed at interior designers and architects and to participate regularly to the main publications in the field.

Rarely were the products within this program self-funding. Most of such services shed many of the features of so-called public goods, namely goods that, once provided

to meet the demand of one consumer, are effectively available to any other consumer, and not only to those who were ready to contribute to cover their cost. As with any other public good, it therefore proved too difficult to ensure private financing for the provision. At the very same time, however, *Promosedia* found itself unable to draw upon public grants, as these activities shared too little in common with the promotion of the district production abroad. *Promosedia* therefore had to broaden the range of its supporters. Some of the locally-based banks proved keen to fund projects such as the design exhibition hosted at the Udine Chair Exhibition or the design prizes to be awarded to the district producers. More generally, it was thanks to the funds earned as a result of the organisation of the Udine Chair Exhibition, and largely within the control of the agency's management, that *Promosedia* could successfully broaden the range of its activities within the district. By the early 1990s, nearly 50% of the agency's income came from public grants, while the remaining 50% was the result of the sale of services to its own member firms.

#### **2.4 The emergence of new challenges**

In 1993, Gianni Bravo retired from the presidency of both the Chamber of Commerce of Udine and of *Promosedia*. His successor's first act was to announce that all of the Chamber's special agencies were to be 'spun-off' and turned into private limited liability companies. The move was not meant as a dis-engagement of the Chamber from supporting the agencies which provided real services to SMEs, but rather as an attempt to draw new (i.e. previously uncommitted) private resources into the management of these agencies. *Promosedia* was no exception to this rule even though the transition to a privatised status was by no means an easy one. A prolonged debate broke within the members of *Promosedia* and it took a month of lengthy and steamy discussions before some kind of consensus emerged around the name of Giovanni Masarotti. Masarotti was at the time 33 years old, the son of a successful entrepreneur who had been among the founders of the agency and himself the manager of a relatively small-scale enterprise targeting the medium-quality household market. It was no doubt thanks to this rather low-

key profile that the majority of the agency's members failed to perceive Masarotti as a threat and therefore elected him as the president of *Promosedia* at the end of 1993.

From the beginning it became clear that a successful 'privatisation' of *Promosedia* depended upon the solution of two different challenges. On the one hand, the new president realised that a significant number of the agency's members had grown dissatisfied with the flamboyant managerial style of Bravo and had therefore ceased to be active members of the agency. An indication of this phenomenon was drawn from the fact that, while the number of visitors to the Udine Chair Exhibition had kept growing over much of the early 1990s, the number of exhibitors from among *Promosedia*'s associates had declined both in terms of absolute numbers and in terms of their significance as exporters. At the very same time, however, what had grown significantly was the occurrence of side-events (such as the inauguration of a brand new show-room or clearance sales) that the associates organised autonomously (and unsurprisingly) during the very same week of the Udine Chair Exhibition to capture the flood of potential consumers attracted by the latter. What appeared to be resented was that the Exhibition was providing to the potential consumers the opportunity to easily compare the price of competing products and therefore to boost consumer sovereignty at the expenses of the producers' profit margins.

On the other hand, it was evident that the largest and the most dynamic district producers had effectively overtaken even the most far-reaching proposals put forward by Bravo in the late 1980s and that they were addressing the global market at a pace that *Promosedia* could not keep up for long. With respect to this 'elite' of manufacturers, *Promosedia* had become a victim of its remarkable success: as they had realised the profitability of adapting to the new characteristics of demand, they had started to develop in-house the competencies and skills required to undertake such adaptations and therefore to reduce their dependence upon the services of the agency. The establishment of own contacts abroad, of show-rooms, of long-term arrangements with retailers, of trust-based relationships with customers or the investment on advertisement campaigns had reduced the 'dependence' of the leading district manufactures upon the Exhibition and therefore their involvement with *Promosedia*.

In 1993, *Promosedia* was therefore trapped in a widening gulf between the needs and requests of its smaller associates (who could increasingly free-ride upon the investment of the agency to draw visitors to the Udine Chair Exhibition but who had little interest in addressing more actively the foreign markets) and those of its larger and more dynamic ones (who resented a slow-down in the globalisation of the activities of *Promosedia* but for whom the Udine Chair Exhibition had lost much of its early appeal). The burden of this twin challenge threatened to sink the agency, especially as its leadership had to be taken up by chair-manufacturers who could not commit themselves full-time on this task. The first response of Masarotti was therefore to re-think the management structure of *Promosedia*: an executive committee was formed, composed of five district entrepreneurs and a newly-appointed managing director (initially Attilio Scollo but from 1995 Luciano Snidar). Much of the functions and responsibilities which were previously the exclusive domain of the agency president were effectively shifted to this new governing body, in the attempt to broaden the range of competencies but also to reflect the widest possible spectrum of views compatible with the effective management of a privatised agency.

The strategy that was identified by the management of *Promosedia* to respond to these newly emerging challenges was broadly in line with the one initially identified by Bravo, Caiazza and Vittorio. The main innovation was to re-focus it as to target the medium- and small-scale members and as to enable them to address the world market very much as the largest district manufacturers were at the time already doing with a visible success. Very much as in the early 1980s, *Promosedia* identified a range of promising markets (this time in the Far East and in the neighbouring Central and Eastern Europe) and of furniture exhibition (Singapore, Shanghai, Moscow, Warsaw, Budapest) which should be targeted as a matter of priority. Initially, *Promosedia* set up so-called 'institutional' stands where it publicised the Manzano district as a whole and it distributed collective catalogues of their associates production. As a sample of district producers displayed their interest towards this strategy, the 'institutional' role was increasingly reduced (and it will entirely disappear in 1998) while *Promosedia* could invest greater resources in the organisation of 'collective' stands where a pool of its associates would exhibit their products side-by-side.

A number of other changes facilitated the successful 'privatisation' of *Promosedia*. The growing success of the Udine Chair Exhibitions certainly helped the agency to strengthen its financial independence. The choice to formally present this event at the largest furniture exhibitions in Europe (Milan and Koeln) helped to further double the number of visitors from around 7,000 in 1992 to around 15,000 in 1997. As a result nearly 75% of the agency's running costs are currently covered by the sale of services to its associates and to their customers. Secondly, the re-location of the agency's headquarters to Manzano (thanks to a grant made available by the Chamber of Commerce) helped to strengthen the relationship between the agency and the largest number of district manufacturers. Thirdly, *Promosedia* repeatedly attempted to broaden its role. The organisation of training courses on marketing in 1994 was certainly an example of such an approach. The result of this attempt have been disappointing so far: attendance to the courses was lower than expected, in spite of the fact that they were offered free-of-charge to the members of *Promosedia*. Furthermore, the scope for such kind of activities had to be limited for fear that it would be conflicting with the mission of the producers' organisations whose views and priorities are heavily represented on the board of governors of *Promosedia*. Symposia and workshops are however still frequently organised on a variety of topics which are deemed to be of prime importance for the district exporters.

### **3 Conclusion**

*Promosedia* has been now operating for more than 15 years. In spite of a rather short-lived infancy, the life of the agency has not been without its troubles, which proved to be particularly serious in the early 1990s as as a result of the attempt to 'privatise' it. The relatively fast success of its main activity (the organisation of the Udine Chair Exhibition) assured to *Promosedia* a certain degree of certainty concerning its financial viability and its opportunity to experiment with the provision of new services to its members. It is quite clear, however, that over the years the target group of the agency changed rather significantly. The largest and most dynamic enterprises of the district reacted very rapidly to the new marketing opportunities that the management of

*Promosedia* disclosed to them. As the success of these producers provided a clear template to the smaller or the more conservative manufacturers of the district, a new audience emerged for the real services provided by *Promosedia*. This feature proved to be a most fortunate one since the ability of the agency to keep up its contributions to the profitability of its 'initial' supporters proved to be very limited.

The prospects for *Promosedia* appear to be presently very promising. The organisation of the Udine Chair Exhibition has become a largely standardised endeavour and the technical staff employed by the agency has developed all the competencies required for such task. Significantly the greatest constrain to the growth of the Exhibition is becoming the shortage stands available at the Udine Exhibition Hall. New challenges and opportunities are becoming available as the district manufacturers attempt to gain a truly global position of the world market. The drive of *Promosedia*'s management towards the so-called emerging markets is certainly contributing significantly on this road. Presently the main limitations facing the agency appear to be of two rather different kinds. On the one it is still to achieve a clear involvement of its associates in the decision-making process, and above all, in the identification of its long-term strategies. On the other hand, as a result of the cut in public contributions, *Promosedia* is facing the challenge to use its funds more efficiently, especially for the range of long-term projects which it necessarily needs to invest upon to diversify its range of activities but that its associates have proved repeatedly unwilling to fund.