

# Agro-Food Firms' Competitiveness: Made in Italy in the World

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## Abstract

*Agro-food industry has great relevance in Italy. However few studies have analyzed factors affecting global competitiveness of small and medium agro-food firms. At the aim to fill this literature gap we investigate factors supporting the Made in Italy in the world. The paper presents a qualitative analysis realized through some semi-structured questionnaire and a case study. We evidenced that innovation and internationalization affect competitiveness of Italian agro-food firms in the world. This paper offers a new perspective on agro-food firms' strategies to compete globally.*

**Key Words:** Agriculture Food, Firm, competition, Italy.

## Introduction

Most studies have identified both internationalization and innovation as main drivers of global competitiveness of agro-food small and medium firms. The first field of research includes studies on factors that lead agro-food firms to grow internationally. The second field of research includes studies on innovations in agrofood industry as drivers of firms' international competitiveness. The first driver of internationalization of agro-food firms is markets' imperfection and nations' disparity in institutional systems. According to Kindleberger (1970) firms go abroad to achieve benefits by exploiting imperfections of foreign markets. The author identifies as factors underpinning these imperfections the existence of differentiated products, industrial concentrations, technological gap between countries and government interventions. However, the limited knowledge of market and barriers to entry will reduce the convenience to operate in foreign markets. Thus, internationalization strategies can be justified by the existence of advantages that firms would enjoy (Hymer 1976). Buckley and Casson (1976) have identified firms-specific factors (i.e. organizational structure, human heritage) and location-specific factors (i.e. political situation, economic and fiscal cost of factors, and the cultural and geographical distance between countries) as sources of these advantages. The Eclectic paradigm of Dunning (1981, 1986) summarizes internationalization drivers into ownership, location and internalization aspects (OLI Theory). According to this model, companies go abroad if they have skills that can be better exploited outside the national borders, if foreign markets offer attractive investment opportunities and if it is able to internalize these advantages (Markusen, 1995).

Starting from these assumptions, literature on agrofood small and medium enterprises (SME) has adopted an evolutionary approach able to consider also the relevance of resources and innovation activities on firms' competitiveness. According to this perspective, SMEs' global competitiveness has to be based on a process of internationalization focused on both resources and innovative activities. According to Uppsala school, researchers have developed a model that considers internationalization as a process that requires an

increasing involvement of resources (Eriksson et al., 2000; Knight and Liesch, 2002). Such strategy, in turn, increases firms' knowledge in a virtuous circle (Cavusgil, 1980; Reid, 1981; Oviatt et al., 1995). Thus, the ability of agrofood SME to create and maintain a global competitiveness depends on their capability to innovate for improving their products (Conner, 1991). Not only the possession of resources but also the ability to innovate developing new resources in foreign markets represents an indispensable element for the international competitiveness of the agrofood SME (Montgomery and Wernerfelt, 1997).

## Methodology

We presented results of a survey questionnaire submitted to a sample SME of tomato industry. The sample was taken from the database of the National Association of Industrial Vegetable Canned Food (Anicav). Through the structured questionnaire we obtained information on main internationalization strategies and innovation activities of Campanian SME.

## Results

From our sample of SME we evidenced that tomato firms have an experience of 20 years on foreign markets. Thus, internationalization process is actually an established strategy for SME. More than 45% of the sample has 10 foreign clients. More than 70% of the sample showed stable profits despite of the global economic crisis.

The reasons that have pushed companies to start a process of internationalizations are: need to find new markets for their products and new opportunities to increase their revenues; need to defend the domestic market by foreign competitors; need to take advantage from Government incentives.

Most SME exports 60% of their products. Exports are realized through national or international exporters or commercial buyers on foreign market. However there also are few cases of foreign investment. The main market are Switzerland, EU countries (Germany, United Kingdom, Belgium, Netherlands), Northern and Eastern European countries (Czech Republic, EU, non-EU, as both the Russia), and other important continents (Usa, Canada, Japan, Australia, Republic Of South Africa). More than half of the companies in the sample have planned to enter in new emerging markets (South America, China and Southeast Asia and other Eastern European countries).

Quality of products and innovation are the main drivers of competitiveness of Italian Made in Italy on the global market. However main factors of risks on hosting markets are: strong competitiveness; problems in controlling prices; high distribution costs; lack of information about the target markets; lack of experience in undertaking strategic actions abroad; risk of unfair competition; difficulty of dealing with a cultural diversity; local barriers (tax, currency, techniques, etc.); risks relating to firm's strategic action.

Opportunities that lead SME to internationalize are: improvement of image; increase of profits; possibility of a growth of corporate size; new market share. The main strategic actions that companies have to adopt to improve their competitive position on the global markets are: develop innovation for foreign market; cooperate with foreign companies; get new international quality certifications; improve promotional activity.

## Case Study

We also present two cases (Aniello Longobardi Srl and Pomilia Spa) aimed to better evidence main drivers of global competitiveness of tomato SME. The interviews allowed us to evidence some aspects of firms' global competitiveness that do not emerge from official reports or surveys.

Aniello Longobardi Srl is an historical Campanian firm operating in the industry of transformation of tomato and preparation of ready sauces according to the EU specifications. It is a business leader in production and distribution of tomatoes and its derivatives, with a company policy totally based on quality. It is equipped with its own laboratory and logistics warehouse that stored its productions. In its transformation are used only fresh tomatoes from selected crops controlled by internal technical staff. The traceability of all the steps of production process ensures compliance with all the mandatory requirements of law. From 1997 the firm obtained a certification able to ensure quality, safety and hygiene of products and productions. The qualification was confirmed during 2003 because the products and processes respect the standards of quality known as Vision 2000. The company is also certified according to BRC standard in Switzerland, Germany and England.

Aniello Longobardi Srl sell the 70% of its production on foreign markets while the 30% is directed to the domestic market. In Italy the group is well-represented in the large-scale retail trade. It provides Sisa with the entire range of the red line to private label. In Italy, the Lombard Brothers is also the supplier of tomatoes for the Barilla's products. The exportations, started 10 years ago, are realized through commercial intermediaries residing in foreign markets. The target markets of the exports are the Scandinavian countries, Switzerland, Australia and Japan. On the Swiss market the company experiences little competition essentially thanks to the consolidated relationship of trust that has been established with local partners. Trade relations with the Japanese market are closely linked to quality control throughout the manufacturing process.

The prevailing rationale underlying the decision to go abroad is to be found in the search of new markets, but also in the search for greater accuracy and reliability in business relations evidently compared to the domestic market. The strengths of the process of internationalization are again the high quality of the product and the advantage of image of "Made in Italy". The company also exports a small production fee resulting from organic and integrated farming method, upon request of market niches abroad, notably Australia, which surely in the future will be a factor for further expansion.

The elements of weakness once again should be sought within the framework of the high cost of production, which cause suffering in terms of competitiveness. The fix derive essentially from the cost of raw materials, but also from that of the labour force. In the agro-nocerino-sarnese area there are about 120 canning companies that have very different cost structures among them. Additionally significant differential costs compared to other companies in the industry arise from the desire to respect the contracts and not to succumb to selling at a loss or worse by not respecting the deliveries. The attention to quality involves additional costs. A carton of tomatoes made with 40 kilograms of raw material and sorting is obviously more expensive than an equivalent obtained from 30 kg without sorting. As a result, the main retractable opportunities from internationalization process has to do with a decrease in production costs and a further improvement of the image of the company. The target markets are selected based on availability to be able to recognize the quality and pay it. Also in this case the main threats come from the risk of unfair competition in the form of imitation and counterfeiting on international markets. As a result, the options for action and improvements to enable the achievement of more international certifications such as ISO 14000, EMAS, ISO 22000, and also the development of additional services, essentially, for the foreign market. The company strengthens its brand awareness through participation in trade fairs (Fiera di Parma), and was present at Foodex in Tokyo with its own box booked through ICE (foreign trade Institute). It stresses the need to activate by the Regione Campania big advertising investment for enhancing the image of agricultural and food products from Campania in General and the canning sector in particular, with special attention to the peeled tomato.

The Pomilia Spa was founded in 1973 for the production of tomatoes, vegetables, fresh fruit and mushrooms. Already the onset of the production process is oriented looking for superior quality, which immediately found recognition and appreciation from consumers, consolidating the brand a middle-high

quality and spreading rapidly to other regions of North and South Italy. Later, other types of products are accompanied to the peeled red line and, in particular, Mediterranean Tomatoes and tomato Pulp. The manufacturing process is based on works and cutting-edge technologies in the field of process of transformation of the tomato, which over the years has allowed us to meet the continuously growing demands of the national and international market, increasing the production volumes, until you reach the current size of establishment and current processing volumes of raw material. The Pomilia Spa, located in the Agro Nocerino-Sarnese, historically is part of an industrial district, among the most important in the world for the preservation of food, agricultural products in the territory of Nocera Superiore. In this area in the Sarno River plain is an excellent agricultural activity, and is known for the cultivation of the San Marzano Tomato. The company belongs to the Consortium, San Marzano tomatoes, which credits a limited number of companies and is protected by regione Campania. Pomilia activity therefore takes place within an area especially dedicated to the production of tomatoes and integrates perfectly with the tradition and culture of the territory itself.

The business philosophy is focused around the goal of excellence, and the maintenance of trademark among industry leaders, thus opening to technological innovation and organizational is total and involves both executives who the collaborators, in a logic of continuous attention and reply to the question. Transformation technology joins the know-how acquired over time that helps to make products irreplaceable for loyal customers. The company is particularly attentive to safety at work, including all security systems in line with the law 626/94, and also respect for the environment, being equipped with all water treatment plants in accordance with anti-pollution regulations. The quality and safety of products are warranted by the continuous review of department managers, technicians and chemists, who follow the phases of the manufacturing process, which are accompanied by laboratory checks upon exiting the sterilization process to monitor the production parameters and intervene in case of anomalies. Agricultural raw materials and industrial processing are the two key aspects in determining the quality of the products stored. As regards the raw materials vital to give Pomilia an idea of quality is made on the fields, creating over time stable and trusted relationships with their suppliers, and following, with specialized personnel all stages of agricultural production, which takes place according to stringent specifications, so then the superior quality that comes from the industrial manufacturing process. The strict quality orientation, represents the primary success factor also within the internationalization strategy. The company has international certifications: UNI EN ISO 14001, UNI EN ISO 9002, while studying the ethical certification in the form of a common code of ethics of the National Association (ANICAV). The firm interviewed clarifies how the concept of quality is pervasive and has its hub in mindset, behaviors, the objectives of the entire organizational structure, through the Organization, for the workplace, based on certain rules and shared in dealing with customers and suppliers. The interview reveals satisfaction in relation to the proper functioning of the ANICAV, as it is reported as unsatisfactory the contribution of universities in terms of supply of knowledge. Both the trade association, the Campania region are particularly effective in leading to active, through information, the internationalization process, through a variety of tools, such as information desks, newsletters, workshops, thematic exhibitions. Are, however, reported frequent legal troubles related to inter-professional agreements, especially with respect to compliance with the contractual terms. Pomilia branded products have an established position on the market for over thirty years, reaching high levels of quality, both in the context of the retail trade, both in catering: the national territory is largely covered by a network of direct sales and Pomilia products are present in almost all large retailers and brands in the best specialty stores. The company provides products with a high turnover rate in large distribution and insignia provided are Carrefour, GS, Metro, Sisa. However, the share of production to retailing and equitably represented even in traditional channel to which the undertaking relates to be particularly interested. A big advantage is derived from working with secured credit, the company refers in fact to be unscathed by the recent failure of Despar and Alvi, thanks to this instrument. The company is not engaged in private label production in the domestic market. As regards the price policy the company refers to compete only on quality and therefore offer only products of type premium. The company is strongly internationalized if only for the red line. The potential market of products Pomilia is represented, as well as



the home, from Europe, from Japan, from South Africa, from Australia. Currently, the transformation of the tomato that is around 250,000 tons, is absorbed by the domestic market in respect of 80% from abroad (Japan, South Africa, etc.) for the remaining 20%. The internationalization path undertaken by Pomilia Spa is well established having originated over ten years ago, counting a dozen foreign customers whose 90% for the Japanese market. The primary mode of internationalization consists in exports through international exporters. You notice in this connection problems relating to licensing of importers. While on the domestic market, the company provides private label products, international markets this represents an important share in trade with Japan within the red line. The Japan is the country of export Pomilia election: it is a true partnership, under which the foreign partner is in charge of first-person controls on raw material, on the whole, during all production stages, in the July-September period. The other countries in which the company carries out important flows of exports are in order the South Africa, with a moderate weight and recently the Australia. Future export destination of the enterprise is the Canadian market. The weight of the foreign total turnover comes to 25%. The main motivation behind the decision of internationalization is linked to the search for new markets. The company refers not to enjoy certain economies of scale in relation to the main costs are those relating to the supply of tomato, tinplate, labour, and that the cost could be compression only on logistics.

Therefore the choice of internationalization responds to the need to increase profits. In particular, the cleaning of equipment takes time and a fair number of employees to devote to this fundamental task, the number of employees dedicated to product selection, affect costs in terms of productivity. The main strength of the undertaking in its internationalization activities is of course the quality of the product, which translates as importance of Made in Italy, but at the same time weigh heavily the product related services both in the presale stage next to it.

The Japanese market, in particular, is extremely picky about the packaging modes in which the enterprise is called upon to maintain the highest levels of innovation. This is directly from the local legislation in terms of waste disposal in relation to the type of container of canned tomatoes. The main point of weakness is instead connected to strong international competitiveness thanks to which the target market is achieved by products of all qualitative groups, mostly more competitive on prices. Particularly sensitive is the issue of the risk of unfair competition, in the form of imitations and counterfeits, which is referred to by the company as the primary threat: the enterprise working the San Marzano DOP tomatoes, using numbered labels with the European label, constantly facing competition from products labeled San Marzano or similar. The cultural diversity sharpens the threat making particularly delicate information tool about the quality level of the product, fix a lot stronger on the Japanese market and milder on South African and one Australian. Further possibilities for international expansion are to be referred to quality aspects and adaptation to market requirements, in particular to the study of Kosher certification as a tool for further conquering market shares.

## **Conclusions and Discussion**

The tomato sector has an important role in helping to strengthen the image of "Made in Italy" in the world. The firms are strongly internationalized, both in Europe and in other major markets, such as North America, South Africa and Australia. The main drivers behind internationalization strategies are: needs of more markets and search for opportunities to increase profits. In the process of internationalizing the sector faces threats related to unfair competition and the dangers of counterfeiting. Other problems depend on cultural differences that affect competition based on qualitative differentiation and image of the product. Strategic actions for supporting internationalization process of agro-food firms have to be based on innovation to improve quality and international certifications (ISO 22000, BRC, SA8000, ISO 14000). Local institutions (region) have to actively promote the image of Made in Italy through organization of events (fairs, workshops, trainings for professionals, establishing contacts with foreign buyers).

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