

**PRESS RELEASE**

**INTESA SANPAOLO PRESENTS ITS 13TH ANNUAL REPORT ON  
THE ECONOMY AND FINANCE OF INDUSTRIAL DISTRICTS IN  
2020**

- **After an estimated decline in turnover of 12.2% in 2020, a strong rebound in production levels is expected for 2021 (+11.8%).**
- **The close proximity of supply chains is a competitive advantage for the districts: suppliers are much closer to customers here than elsewhere (on average 116 km vs 157 km).**
- **Large groups are able to find the necessary quality suppliers in the districts: district companies account for 65% of employees and turnover in the Made in Italy luxury industry.**
- **The impact of ICT and R&D on the total purchases of goods and services increased thanks to the driving force of mechanical engineering (7.1% in districts vs. 5.7% in non-district based areas, representing an advantage of 25%).**
- **The awareness of ecological transition is gaining strength: the share of environmental patents more than doubled compared to the start of the 2000s.**
- **Human Capital: the Higher Technical Institutes are playing an increasing role in providing qualified staff, though there is still a way to go in this direction. These institutes taught 1,631 technical courses to 41,000 students.**

*Milan, 22 April 2021* - **Carlo Messina**, CEO of Intesa Sanpaolo, Chief Economist, **Gregorio De Felice**, and the Head of Industry & Banking Research, **Fabrizio Guelpa**, presented the 13th Annual Report of the Research Department today. This year the report covers the **economic and financial evolution of Italian district-based companies.**

One year on from the outbreak of the pandemic, the Report aims to **present the state of health of the districts, highlighting the critical issues to be overcome, the**

**resilience factors** on which to leverage and **the priorities to be faced** for a lasting and sustainable economic recovery.

### Performances expected in 2020-21

- After an estimated decline in turnover of 12.2% in 2020, production levels are expected to rebound in 2021, with an **increase by 11.8%**. **The recovery will be partial**, reducing the aggregate district turnover to about 3% below the 2019 level. The difficulties encountered and, more generally, the general results of the beginning of the year still place the fashion industry at a disadvantage.
- The reaction is significant considering that last year 25.2% of businesses had a **negative margin**; about half of these companies were able to count on internal liquidity to mitigate the losses; the remainder were able to trigger moratoriums or guaranteed loans at subsidised rates.

### When does the relaunch start? The strength of supply chains

- More elements point toward cautious optimism and the conviction that **district supply chains may continue to be an essential feature of Italian production**. In the presence of widespread know-how and skills, the successful competition and continuous cooperation "game" continues between players in the supply chain. This has allowed many districts to successfully compete abroad or to secure a stable position in the global value chains.
- The network analysis **shows signs of a hierarchical structure of business relations**, with more transactions being processed by the leading companies. However, **relations among companies of the same size** also stand out, reflecting the strong spirit of collaboration that drives district supply chains.
- District-based companies in the fashion industry have a good footing **in the luxury industry: they account for 65% of employees and turnover**. At the same time, **the luxury industry is significant for the districts: it employs 42% of their employees and accounts for 51% of their turnover**. Some leather districts have become the luxury segment's production platform, serving Italian and French fashion houses. This is the case in the leather goods and footwear district in Florence and the footwear district of the Brenta Riviera.
- There are **cost benefits** in the districts: the abundant supply in the districts translates into a **low level of reliance on suppliers and procurement costs**. It is no coincidence that **47% of the new suppliers used during the**

**pandemic** in the districts (as opposed to 19% in the initial nine months of 2020 and 7.6% in values) **are local** (within 50 km) and have often replaced strategic suppliers that were close by. The net effect was a slight extension of the number of district supply chains (+3.1 km, in line with non-district based products), which however have a much lower supply distance than in non-district based areas (116 Km vs 157km).

- The location of production and commercial branches confirms that SMEs are most strongly rooted in the districts: not only **is the number of multi-local businesses lower (11.2% vs 13.1% in non-district based areas)**, but there is also **a higher percentage of employees working in the province of operations in these areas (78% vs 72%)**. Large district companies, on the other hand, are based on a national scale and are open to foreign trade, delivering the district products outside the confines of Italy as well.

### **Priorities: digital and green**

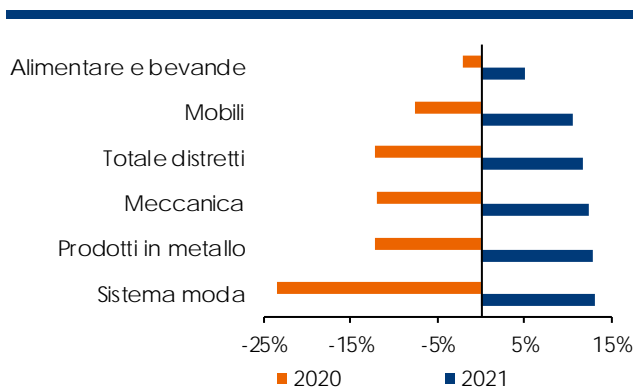
- **The coming years will be crucial for the relaunch of the Italian economy.** It will be essential to make good use of the Next Generation EU resources and ensure the distribution of investments in 4.0 machinery, digital, green and human capital. District SMEs can conquer these challenges.
- On the digital front, even before the pandemic, **the impact of ICT and R&D on the total purchases of goods and services had already increased in the districts, rising to 4.1% in 2019** (from 3.7% in 2016), thanks to the **driving force of the mechanical sector (7.1% vs. 5.7% in non-district based areas, or 25% more)**. Digitalisation processes **accelerated in 2020**, especially in respect of remote work and districts. However, there are still delays, particularly among smaller companies.
- In the mechanical sector, companies that adopted **4.0 solutions** are experiencing **significant returns** in terms of **quality** improvement (as indicated by 84% of companies), an increase in production **speed** (73%), **flexibility** and **customisation** of production (71%), improved **safety** (69%), **improved** warehousing (61%) and **cost reduction** (59%). Whereas in 8 out of 10 cases, 4.0 machinery manufacturers declare that they can increase the profitability of maintenance on the machines sold and collect data to be used for R&D and innovation.
- Environmental issues have also taken on an increasingly important role in recent years. In the districts, **11.8%** of all companies have plants for the production of energy from renewable sources and receive **GSE (Gestore Servizi Energetici) incentives (14% more than in non-district based areas)**. This increases to **25.2% of large companies**, as compared to **20.3% of medium-sized companies, 13% of SMEs and 6.4% of micro-enterprises.**

The growth of green investments was accompanied by gradual technological development: among the Italian district companies, **the share of green patents over the total rose to 6.3%** in recent years (2014-2018), **more than double** compared to the initial part of the 2000s.

### **An innovative and educational system at the service of businesses: Competence Centres and ITSs**

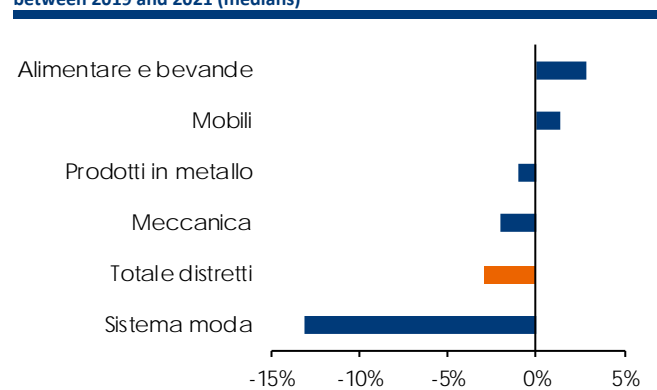
- **Technology training and transfer are the two keys to encouraging the more investments in the digital world and the green sector.** Competence Centers (CC), Digital Innovation Hubs, Higher Technical Institutes (ITS) and Corporate Academies can forge the way for Italy to develop an innovative and educational system that meets the demand of Italian companies for technology (digital and green) and human capital.
- The Report describes the first years of activity of the eight Italian Competence Centers: **Bi-Rex, SMACT, CIM 4.0, Artes 4.0, Start 4.0, OFFICE, MedITech and Cyber 4.0.** The technological mission of each centre is linked to the specific characteristics of the territories in which it is located, as the centres are consortia composed of research bodies that are already active locally. To date, most **efforts have focused on training and research tenders** that have also involved district SMEs and launched mixed working groups with university researchers. In some cases, **pilot lines have been activated** in the form of factories where new 4.0 technologies are integrated with traditional technologies in a digitally interconnected environment. In the medium term, the success of the Competence Centers will depend on how well they do in the industrial field, i.e. their ability to carry out applied research and technological transfer projects, as is the case for Fraunhofer in Germany.
- An in-depth study is also dedicated to **ITS**: they were created in 2010 to narrow the mismatch between the work offered by young people and the difficulties companies encountered in finding candidates with suitable skills; they are a **specialist, service training model** of excellence, that is **quite widespread in the districts.** From 2010 to 2020, 1,631 ITS courses were taught in Italy, involving a total of 41,086 students. **The results achieved so far are brilliant:** in areas with high district intensity, **84.1% of graduates are employed 12 months after receiving diploma** and **94.4% of them use the skills acquired in the company that employs them.** However, there is still a long way ahead, especially insofar as increasing the number of graduates. Inspiration can be taken from the success of the Fachhochschulen, by investing in communication, orientation and physical structures, and also by forging a professional path benefiting both students and the labour market, representing a different, but equally constructive path.

**Sales performance of district companies by sector (% change, medians)**



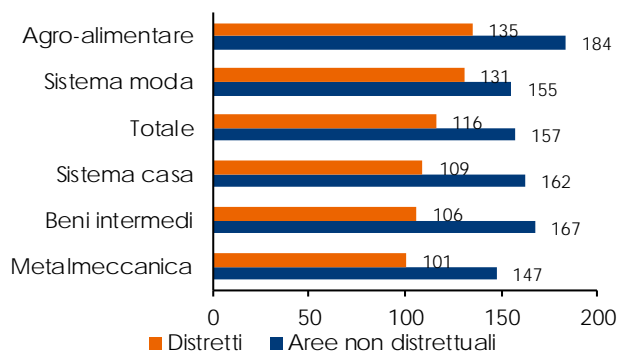
Source: Intesa Sanpaolo Integrated Database (ISID)

**How far off was 2019: % change in turnover of district companies by sector between 2019 and 2021 (medians)**



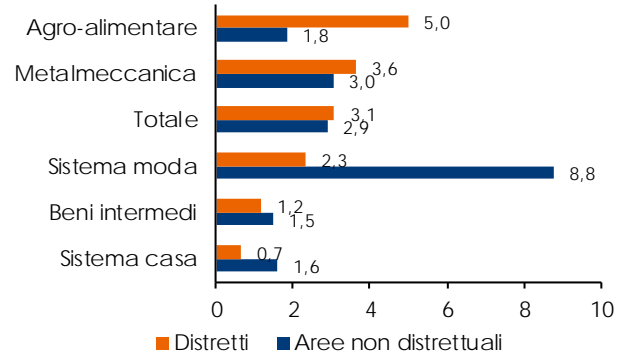
Source: Intesa Sanpaolo Integrated Database (ISID)

**The average distance for purchases (initial nine months of 2020; Km weighted by amounts)**



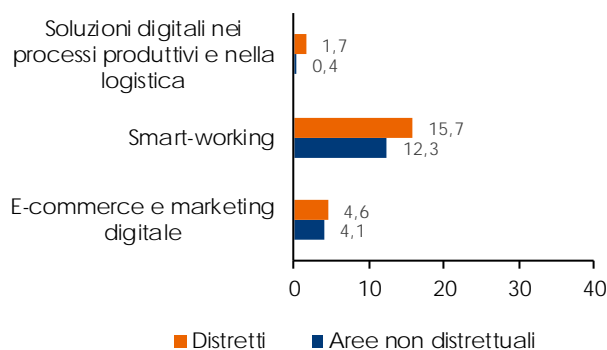
Source: Intesa Sanpaolo Integrated Database (ISID)

**The change in the average distance of supply between 2019 and 2020 (initial nine months of the year; in Km)**



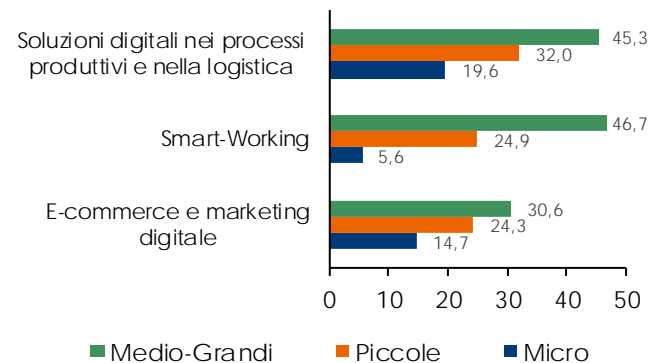
Source: Intesa Sanpaolo Integrated Database (ISID)

**Districts: spread of digital technology, difference in share of companies by company size 2019 and 2020 (%; net of "I don't know" responses)**



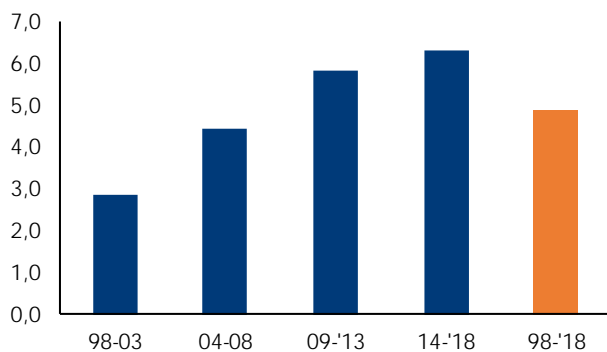
Note: internal survey October-December 2020

**Districts: spread of digital technology in 2020, by company size (%; net of "I don't know" responses)**



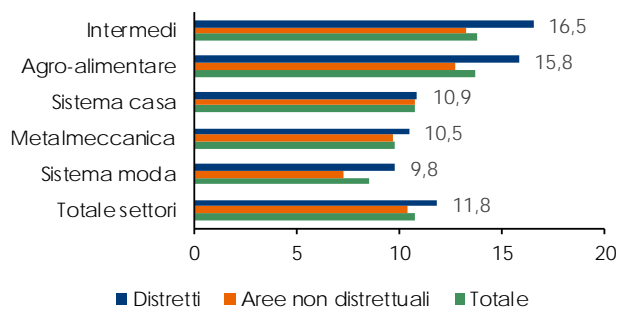
Note: internal survey October-December 2020

**Evolution of the weight of green patents on total industrial district patents from 1998 to 2018 (%)**



Source: Intesa Sanpaolo Integrated Database (ISID)

**Percentage of GSE beneficiaries by macro-sector that belong to districts (%)**



Source: Intesa Sanpaolo processing based on GSE and ISID data

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