

# News European Business



**STILL STRONG**  
A B&B Italia  
plant in Como

## ITALY

# FURNITURE MAKERS DON'T FEEL COMFY

A strong euro, high costs, and foreign rivals threaten a longtime stronghold

**L**UCA FERRERO AND STEFANO Dolcetti, engineers from the Muvi design firm in Turin, spent the past two years in a basement room programming a way to take home lighting to a new level. They wanted homeowners to have the option of dimming some lights, changing the colors of others, and swinging still others in different directions—all with a simple handheld remote control. With the help of a venture investor, they patented their system, called Muvis, and dressed it up in minimalist lamps designed by Giorgetto Giugiaro, who once created the look of early-model Fiats, Ferraris, and Alfa Romeos. Now it's showtime: On Apr. 13, Ferrero and Dolcetti presented it at Milan's annual furniture fair.

This is the kind of research and development that keeps Italy at the cutting edge in home design—and provides a much-needed boost to the country's economy. Italy's 36,000 furniture and lighting companies generate \$29.4 billion a year in sales, of which more than 46% comes from exports. But now most players in the industry, composed primarily of

family-run operations with fewer than 20 employees, are in a battle for survival. A strong euro has hammered exports. Lower-cost competitors in China and Brazil are improving quality and grabbing market share. Raw material costs are rising, and distribution networks are weak. "The sector is very, very vulnerable," warns Gabriella Lojacono, a professor of business management at Milan's Bocconi University. Furniture exports have dipped from \$14.5 billion in 2001 to \$13.6 billion last year.

What was once Italian furniture makers' strength—being small and flexible—has turned into a weakness. Most of these companies don't have enough capital to make crucial investments in distribution and technology. Experts say a shake-out has already begun. Some 2,000 tiny furniture companies have gone bankrupt over the past three years. Some of the

furniture designers are looking to deep-pocketed investors for help. Opera, a fund whose largest shareholder is Italian jeweler Bulgari, and Charme Fund, founded by Fiat Chairman Luca Cordero di Montezemolo and Tod's Chairman Diego Della Valle, are buying up big-name furniture brands such as B&B Italia and Cappellini, injecting them with fresh capital.

## CHINESE KNOCKOFFS

THE BIGGEST THREAT to furniture designers comes from unauthorized copies. Chinese manufacturers, and even other Italians, casually replicate the best designs. Just mention China and any businessman in Italian design will angrily lash out about how difficult it is to compete with manufacturers who "don't follow any rules." Both the U.S. and the European Union are reintroducing import quotas on Chinese textiles and clothing imports, and the Italian Furniture Manufacturers Assn. is investing heavily in technology to recognize and block fakes at the border.

Despite the challenges, furniture design companies continue to account for about 2.5% of Italian gross domestic product. During Italy's postwar boom, Milan contained a high concentration of artisans who built their businesses into leading companies, such as Artemide Group in light fixtures and Alessi in housewares. As Italy built up a reputation for design, it became a magnet for foreign designers such as Frenchman Philippe Starck. "The companies were great at transforming design into product," says Lojacono.

That's not enough to succeed in today's globalized world. Companies like Boffi, a designer kitchen manufacturer based near Milan, are paying more attention to cost and quality control while investing heavily in advertising and new stores. Despite the strong euro, there is plenty of demand in the U.S. and other parts of the world, especially Russia, says Roberto Gavazzi, chief executive of Boffi. He believes the key to survival is flexibility. "If the day comes when I have to manufacture

in China, I will do so," says Gavazzi. Design companies, especially the lesser-known ones, will have to prove as creative as they were during postwar industrialization. If they're not, the lights will only grow dimmer. ■

—By Maureen Kline  
in Milan

