



EMCC case studies

Liola S.p.A. – creating a supply chain

Company facts

Market dynamics and company changes

Organisation and the market

Workforce and the market

Education and training

Research and development

Virtualisation of the workplace

Contact details

Source list



EMCC case studies are available in electronic format only

Company facts

At the group level, Liolà S.p.A. is a women's wear company with its head offices and showroom in Milan and a factory in Borgomanero (Novara). It also serves as a holding company for the group, with total control over:

- Les Lunis Dormello S.p.A. of Dormelletto (style office and production of fabrics for the group and on contract);
- Liolàprint S.r.l. of Legnano (dyeing and printing for the group and on contract);
- Liolà London Limited, commercial branch office in England;
- Liolà 2 S.a.r.l., commercial branch office in England;
- Rubens S.r.l., a real estate company which owns 40 shops run by licensees. An additional 120 Liolà shops are owned and operated by others, and the company has three direct points of sale of its own.

The group has a total of about 50 shops abroad, mostly in the EU, eastern Europe, China, Japan and South America.

The company group is owned by the Giulini family, and members of this family hold the most strategic positions in the company. Managing Director Vittorio Giulini is also president of the National Fabrics and Apparel Association (*Sistema Moda Italia, SMI*). The SMI is a trade organisation that promotes the 'Made in Italy' branding strategy.

The total number of employees in the group in 2003 was 315, comprising

- Liolà S.p.A.: 209 employees;
- Les Lunis Dormello S.p.A.: 50 employees;
- Liolàprint S.r.l.: 54 employees.

The table below shows the evolution in numbers of Liolà S.p.A. employees:

2000	2001	2002	2003
222	221	215	209

Liolà is strongly rooted in a long history of craftsmanship in knitting and was founded 150 years ago. In the 1960s, it began integrating the manufacture of knitwear garments. In 1967 it opened its dyeing and printing plant, and in the 1990s it began opening shops selling its own brand, thus completing its integration of the value chain. As part of the branding strategy, Liolà has chosen to situate its shops in prime urban locations, often in old buildings. These shops are then renovated so as to preserve the original Italian characteristics while at the same time adding the 'Liolà brand'.

Liolà's brand combines the maintenance of product and social qualities traditionally associated with crafts companies with advanced technologies throughout the integrated value chain.

The company now offers a high-end total look intended for middle-aged woman (aged 45 to 60), offering extra large sizes (up to 60) and focusing on knitwear. The target group is characterised by style preferences that remain more stable than those of younger consumers. Currently the company is planning to slightly widen their target group to include 35 to 45 year-old women.

The Liolà brand may be divided into three lines:

- Liolà (traditional);
- Botto (innovative);
- Liolà Sport (sportswear).

Lines are organised around two annual collections which are presented in special catalogues distributed through points of sale. The garments appearing in the catalogues may be reordered throughout the season, as products are kept in stock. Liolà may therefore be characterised as a high-end ready-to-wear company based on the flexibility and efficiency of the group organisation covering the entire value chain.

The company is positioned in a well-established market niche, with a fairly stable turnover guaranteeing good profits even in the presence of negative market trends such as those prevailing at present. Its turnover the last four years (in millions of euro) is as follows:

2000	2001	2002	2003
21.0	20.9	20.3	20.0

65% of sales are in Italy and 35% are abroad, especially in the EU, Eastern Europe, China, Japan and South America.

The company sells products made through a fully integrated system located entirely in Italy, guaranteeing consistently high quality and a close link with Italian cultural roots. The company's main partners are two group companies which supply ready-prepared knit fabrics. The company turns to external suppliers for other types of fabric not produced within the group.

In some cases, when the business appears sufficiently attractive, they expand on their knitting business with acquisition of new technologies; this happened recently in the case of quilted fabrics and seamless knits.

Liolà has chosen the 'Made in Italy' policy in order to adhere to Italian craftsmanship culture. This implies social responsibility towards employees, protection of the environment, and protection of the health of the consumer. The Guilini family also holds a central position in local agricultural and cultural activities, managing vineyards and historical manors as well as collecting and thus protecting historical music instruments.

Liolà therefore focuses on the benefits of centralisation, vertical integration, and the tradition and quality of Italian-made products, falling within the niche of high-quality garments in special sizes with a highly successful, differentiated brand and products which are easily identifiable thanks to a chain of flagship stores.

Vertical integration permits a high degree of flexibility and constant monitoring of the market, permitting implementation of quick-response strategies guaranteeing an excellent delivery and reordering service.

Market dynamics and company changes

There have been three types of changes in the textile industry during the past years which are central to Liolà's strategy.

At a macroeconomic level, there has been the dismantling of the multifibre agreement and the introduction of the WTO system within the sector. This has resulted in apparel production being relocated to developing nations and an ensuing deregulation of the market that can be seen as both a threat and an opportunity. Less predictable markets can be an opportunity for competitors who offer more efficient service and pay attention to the evolution of demand, and new markets with great potential can emerge, such as in China. Competition on quality rather than merely on costs has led Liolà to take another pathway to competitiveness than delocalisation.

At the social level, there has been growing insecurity and decreased household purchasing power following the stock exchange crash and the growth of international terrorism. This has changed the composition of household spending, which has increasingly targeted other consumer goods than clothing. While social insecurity has slowed the growth of sales somewhat since 2000, technological innovation has at the same time permitted the company to implement an increasingly product-centered strategy (in terms of more innovative stylistic content), to renew its points of sale, and to improve communications and services (constant reordering). This has allowed the company to maintain satisfactory profit margins despite the crisis in the market and growing competition.

At the technological level, there has been the spread of the Internet and new technology used for the purposes of integrated design, improved production, and quality control. With regard to Internet and eBusiness models, the company feels that this is still in an embryonic stage in relation to its full potential.

These changes have not had any drastic impact on Liolà. This is largely due to its general organisational culture, which is atypical for the textile sector but typical for the Italian knitwear industry. It is based on the adoption of a 'second strategy', seeking new competitive variables linked with quality, style, product innovation, and technology deployment. As a result, production - typically organised in so-called industrial districts - is allowed to remain in Italy. Another strong point is that Liolà's organisational structure has always been highly streamlined and concentrated in the hands of the owners.

The company's position in a market niche based on quality and tradition has allowed the company to consolidate its strategies over time, and they have proven successful, even in times of increasing difficulties such as the present. The strategy may be summarised as follows:

- vertical integration of the value chain from yarn purchases right through to the consumer;
- production entirely in Italy;
- safeguarding of levels of employment;
- inclusion in a market niche based on quality and tradition;
- network of flagship stores giving the brand high visibility;
- ongoing monitoring of the market;
- quality reordering service fostering fidelity among the trade and consumers;
- maintaining average turnover with high margins.

Competitive challenges are seen in Luisa Spagnoli (lower range), Elena Mirò of the Vestebene Group, and Marina Rinaldi of the Max Mara Group, all of which target chains of flagship stores but are more focused on special sizes. Both Henriette and Domina target multi-brand stores and are less aggressive, the latter being currently for sale following the bankruptcy of the Multimoda Group, which purchased it in 2000. Liolà feels that all of the above companies implement a strategy of decentralisation of production, which makes product quality less constant and dependable, and renders their delivery service less efficient compared with that of Liolà.

The same themes of market turbulence dictated by social insecurity and progressive market globalisation aided by increased Internet use are also seen as the most important coming challenges.

At present Liolà is planning to meet these challenges through ongoing investment in:

- technology (ICT connection of points of sale and updating of production technologies throughout the value chain to shorten lead time from design to market and to obtain greater flexibility in permitting economically viable small batch production. These investments are always accompanied by special training courses for employees);
- product development (a younger, more dynamic look);
- marketing (renewal of points of sale so that they can become meeting points and places for holding cultural events as well as places for shopping; increased use of customer-friendly communications, also through the corporate magazine distributed through various points of sale; increased shelf life of catalogue goods, which may be reordered throughout the season).

There are few organisational or structural changes foreseen. The product line will be expanded somewhat to include a younger age group (35-45 years), and exports will be increased by targeting new growing markets such as eastern Europe and China. Despite this, there is no change foreseen in the partners/collaborators/supplier chain. The overall company strategy will still be to maintain high margins rather than increasing sales. In addition, ownership and centralised production will remain the same as will current - and recent - employment levels.

Staff number and composition have remained relatively stable during the past five years. There has been a very low staff turnover, which is taken as an indication of a high level of satisfaction among employees and a good relationship with the management/owners. The staff profile is as follows:

- 25 men and 184 women;
- 150 workers, 51 clerks, 6 management level staff, 2 executives;
- average age: 35 to 40 years. In recent years, the average age has decreased somewhat as employees reaching retirement age have been replaced with young employees.

Organisation and market

Company organisation is based on company functions, and the organisational structure is both highly streamlined and highly centralised.

General management directs the following departments:

- commercial/marketing;
- production;
- personnel;
- accounting/finance.

The general director (Dr L. Gaspari) is also the commercial and marketing director, and the director of production (Mr Del Curto) is also personnel director. Ms. E. Chiarinotti is administrative director.

There have been no major organisational and workflow changes within the past five years. The main company manufacturing activities are centralised throughout the value chain, and there are no sub-suppliers for any of the manufacturing processes, as these are all performed within the group.

The company does not feel that the next three to five years will bring any major organisational changes. Given that the company perceives itself in an embryonic stage with regard to eBusiness models, developments here could bring about changes that at present are not perceived. Liolà will continue its strategy of vertical group integration combined with streamlined, centralised corporate organisation. The company feels that this strategy has been successful, especially when faced with the rapid pace of market change. There are, however, plans for the expansion and renewal of sales points, and these have already been placed online with company warehouses. The programme for this online link was created in-house by the IT manager.

The removal of trade quotas and ensuing globalisation has definitely intensified price competition. The company has not, however, felt any major impact from these developments, since Liolà works within a high-end niche market. While Liolà has not changed its organisational or market tactics, it has nevertheless intensified investments in technology and machinery in order to optimise production and sales processes. At the same time the company aims at maintaining the level of quality in its products. The company's information and communication technology is integrated under an expert who prepares software appropriate to the group's functional needs. Employees' professional skills are upskilled to meet the needs of this technological implementation.

Supplier relations

Supplier relations are definitely considered as long-term, strategic relations rather than short-term and assignment-driven. Liolà feels that there is an interconnection between long-term, strategic supplier relations and the quality of products that it offers. In future Liolà will therefore increasingly focus on this type of supplier relation.

The style office in the Dormelletto knit factory is the function that identifies suppliers. Relationships with suppliers are subsequently handled by the purchasing department, which works directly under the production department.

Workforce and the market

Central to Liolà's success and its ability to attract highly skilled labour when needed is the fact that there has been a stability of workforce with few lay-offs and natural staff replacement as older staff retires. This means that skills that are not easily codifiable are organically transferred through working practices. This stability is expected to continue in the future.

Almost all the staff work full time; there are only 12 part-time employees, and there are no temporary employees. The number of part-time employees has increased slightly during the past five years.

Changing skills demands in employees have been driven mainly by technological evolution rather than by any direct organisational change in the company. Special in-house courses ensure that staff skills profiles are gradually adapted to new demands.

Recruitment is carried out mainly through CVs and through acquaintances. The company has been able to hire people with previous experience who already possess the required professional skills. If necessary, however, new employees' skills are adapted with special training courses.

In manufacturing, there is a fear that growing industry delocalisation could make it more and more difficult to locate adequately prepared employees in the future. Liolà sees evidence of this already. Italian companies concentrate more and more on styling and marketing, while manufacturing is increasingly done in developing nations. This could lead to a loss of the manufacturing tradition that has made Italian clothing so successful all over the world, and Liolà feels that this tendency will have an overall negative impact on the country's economy.

In an additional perspective, delocalisation could also have a negative effect on product and process innovation in the high end of the industry due to an insufficient skills base bridging traditional sector specific crafts and manufacturing skills with the deployment of advanced design and production technologies.

Salary

Salary structure is tied to individual professional skills and to professional groupings. There are also bonuses for presence (lack of absenteeism) and for work quality. These bonuses are based on precise parameters determined by an internal commission.

Employee contracts do not necessarily contain provisions for education and training.

Labour relations

Liolà has an equal rights policy, although the company also recognises and rewards personal skills.

Liolà employees are unionised. They are not directly involved in managerial decision-making, neither through formalised nor representative structures, but are informed of managerial decisions. Employees are only directly involved in management decision-making when this deals with collective agreements regarding subjects such as holiday, flexibility, bonuses, etc.

Liolà feels that the major function of its union policy has been to maintain a relationship of reciprocal collaboration, comprehension, and support, so that employees can work in a tension-free climate. The company feels that the success of this approach is reflected in the company's low turnover rate.

Liolà's management sees the future of unions in the textile industry as being linked to the increasing amount of outsourcing of manufacturing processes to developing countries. This could lead to a decrease in the number of textile industry employees in Italy and in Europe, depending on competitive models that are adopted and how the sector deals with innovation. This in turn will lead to an evolution of professional skills out of manufacturing and into marketing and services, as is already the case for many European textile companies.

Liola's management sees a possible proactive role for trade unions in this regard in terms of safeguarding employment and defending workers' rights, and of slowing down the phenomenon of outsourcing to developing nations. This can be achieved both by providing incentives for professional development and by limiting and compensating for the progressive drop in employment.

Liola is not moving in the same direction as its major competitors. Liola's unique vertical structure implies that the company safeguards its manufacturing tradition. While streamlining its processes, Liola nevertheless contributes to safeguarding sector employment in Italy.

Education and training

Employee education and training takes place in-house. There is no specific introductory programme for new employees, since they are normally recruited when they already have the required skills profiles. Training is for the most part carried out parallel to and based on the acquisition of new technologies. The most recent example of this is the implementation of the Internet connection between sales points and the knitting factory, which required technological upskilling of certain employees. In general, special courses that target technological professional development training for employees are becoming more frequent.

Aside from targeted courses, the bonus system is seen as a factor that motivates employees to maintain skills and competences, which is crucial to maintaining the Liola quality culture.

Research and development

Liola has always invested in research into new technologies to improve products and sales.

Centralisation of the group requires constant research in order to maintain competitive efficiency and offset the cost benefits offered by decentralisation and outsourcing employed by almost all main competitors who take advantage of technological innovation.

Formal research activities target product improvement, mostly through research into new fabrics (especially relevant to the Dormelletto knit factory).

The company also recently prepared the software for connecting sales points with the warehouse via internet. This is a part of the development of a highly efficient reordering system that is based on Liola's total value-chain integration. Liola has an extremely efficient management of stock. All products that appear in a Liola catalogue can be re-ordered at any time by any sales point. The company keeps an optimal/minimal stock of catalogue items in the warehouse. If this stock decreases under a certain pre-defined level, a re-order is automatically sent to the production units. In addition, should a store exceed a certain turnover it can replace unsold goods with other garments. In this way stocks as well as unsold goods are kept at a minimum. The system also helps increase customer loyalty, since they can find the item they want at any time, and at the same high level of quality due to Liola's value-chain integration.

Virtualisation of the workplace

Liola perceives itself to be a technologically advanced company. The company believes it has one of the most advanced Internet solutions currently on the market. The system displays pictures of each item and relative availability in any of the stores. Searches can be made by size or by model and items ordered for immediate shipment. Access to the computer system is authorised only for those Liola shops that have a personalised password.

Internet is thus seen as an effective medium to optimise the information flow among the value-chain links. This can increase organisational efficiency, which translates into greater cost savings for enterprises and increasing product segmentation and innovation.

The use of new knitting CMS technologies has shortened the period from design to the delivery of garments and has led to more flexibility in the production of small batches. It has also led to yarn savings and reduction of stocks.

ICT is employed in product development and in the management of retailers and retail services, but not for purchasing or supplier management. There is an Intranet link between the manufacturing plant (Borgomanero) and the knitting factories (Dormelletto); Internet is used to connect the warehouse with the sales points.

In a wider sector perspective, the management believes that ICT is crucial to the increase in outsourcing of manufacturing processes. The competitive scenario thus moves in the direction of a progressive market concentration in the hands of a few large, worldwide groups. Small and medium-sized enterprises can either join these groups or specialise in particular market niches. Liolà's strategy has always been the latter.

Liolà's major strategic benefit from technology has come from its use of real-time connection of the value-chain links. The company can therefore monitor demand evolution and adjust supply accordingly, leading to improved service to both stores and consumers. In the future, there will be an even greater degree of information exchange and collaboration, both among company functions and throughout external relations. The future could also bring more innovation and segmentation/customisation of supply.

While ICT may affect overall the organisation of the sector, Liolà sees a continued strategic advantage in staying faithful to its concept of the integrated value chain 'Made in Italy'. Within this concept ICT is a major instrument for increasing efficiency and cutting costs.

Contact details

Company name:	Liola S.p.A.
Website address:	http://www.liola.it
Address:	Via Matteotti 86, I-28021 Borgomanero (No)
Country:	Italy
Phone:	+39 0322 833311
Fax:	+39 0322 833366
Email:	contacts@Liola.it

Source list

Interview by Rita Molinari with Dottoressa Reguzzoni, Liolà.

Davis, H., 'The future according to Stoll', in *Knitting International*, March 2003, available at:
<http://www.inteletex.com/FrontPageFeatures.asp?NewsId=1616> [accessed on 21 May 2004]

Company's website at: <http://www.liola.it>

Bigarelli, D., 'The Knitwear and Clothing Industry in Emilia Romagna: Productive models and structural changes', Faculty of Economics, University of Modena and the Emilia Region, Italy, March 2003, available at:
<http://www.ipielle.emr.it/pilot/doc/Testo13marzoEngl.pdf> [accessed on 21 May 2004]