

**RePro  
Project**

Real-Life Business Projects in  
Multicultural Student Centered Learning



## RePro Case



# Mario Cavelli

## The origin

In 1933 the entrepreneurial effort of Mario Cavelli led to the birth of a new enterprise, which still today bears the name of its founder. Thanks to the support of his brother in law, Antonio Genellina, Mario set up a new business in the town of Busto Arsizio. The area, where both the partners were born, was famous for its dynamic and brisk industrial environment, mainly rooted in the production of textile and fabrics. Since its foundation, the company started producing unbleached fabrics for mattresses on behalf of a third party; this fact was also due to the competences acquired by Mario's working partner, Antonio, who used to work as a technical assistant in a cloth mill in the same town. To start this activity Mario had to buy used machineries, also for the lack of financial resources. The textile sector, however, was characterized by a low level of profitability, thus forcing the company to start looking for the development of new products and new segments of markets to enter. For this reason Mario Cavelli started producing cotton fabrics for curtains. Those years' market, in fact, was still developing: cotton was the only fibre being used for the production of curtains and even the consumer was not aware of the specific features of curtains' fabrics.

In 1940 Mario's triplets children were born; two of them would replace him in the company's management. A few months after his children's birth, Mario had to leave for the front. Therefore, in the period of World War II, the company suffered the absence of its founder and its production was entirely converted into military fabrics. At the end of the war the company faced a period of troubles. All the raw materials, the yarns, were sold during the conflict, but all the revenues had no longer value for the depreciation of the Italian Lira that started immediately after the end of the war. The company was therefore forced to completely restart its activity. The choice taken by Mario Cavelli was to concentrate more on the business of fabrics for curtains and to produce for company's direct customers, no longer acting as a subcontractor of bigger companies.

The first products were mainly made of acetate, which determined frequent substitutions of the curtains that easily deteriorated, when exposed to the

sunlight. Beginning from the early fifties the demand started growing fast. Among the main reasons for this increase in demand, it is worthy to mention the introduction on the market of polyester fabrics. Polyester, in fact, presented specific characteristics that made it more comfortable: it was easier to be washed, it didn't need to be ironed and it was also more resistant. Mario Cavelli, following the trend of the demand, started growing also facing some periods of excess of demand, which was not only increasing, but also becoming more sophisticated and differentiated. Customers started asking products with more aesthetic value and able to meet specific needs. All these factors contributed to the growth of the company and of its product range.

In 1956 Antonio Genellina left the company and Mario, after changing the trade name into "Mario Cavelli S.A.S", decided to start a new enlargement programme of the company.

At the same time the market of textile products for interior decoration was taking a particular shape, based on the characteristics of the customers served. The highest quality segments of the market were served by the so called "textile editors", while for medium and low quality products the distribution pipeline was characterized by the role of the distributors. Textile editors used to buy high quality products from different companies and to combine the product chosen to develop their own catalogue and present it only to the more sophisticated and rich traders; products sold to the editors by producing companies were generally realized with a sole right agreement. The mark-up applied by editors on the catalogue products was very high; given the commercial nature of these actors, their aim was to maximize the profit per item. Not being direct producers, in fact, they paid less attention to the quantity being sold. The high prices (that also reflected the quality of the products) contributed to reduce the size of this segment of the market.

Products of medium quality could be sold through distributors, that then sold their products to decorators, upholsterers, traders and hawkers. Given the crucial position in the distributive network of the distributors, producers were interested in establishing stable relationships with them. Of course distribution through this channel was characterized by lower prices and higher volumes and it was targeted to the mass market. Competition among producers was

centred around costs, as less importance was given to features such as quality, design and style.

The choices taken by Mario Cavelli to face an increasing demand were mainly focused on the development of a set of new products of good quality and on continuous innovation. The company wanted to benefit from economies of scale and scope, minimizing the production costs but at the same time remaining flexible to adapt to the evolving market. To pursue such goals the company relied on distributors more than on textile editors.

Consistently with the aims of the company, a strong financial effort was made to support the enlargement of the company and the establishment of a new production department. In 1960 a new weaving factory was built in Lurago Marinone, in the province of Como, an important historical area in Italy for the textile industry<sup>1</sup>. The process of vertical integration went further in the following years, through the creation of the dyeing, finishing and printing department, then with the phases of spinning and twisting (at the end of the '60s) and it was completed with the establishment of an embroidery dpt. within the company. The growth of the company also called for the enlargement and adaptation of the warehouses, that the management has always kept technologically updated until recent days, in order to offer the best service to its customers. Today the warehouse is completely automated and can contain up to 18,000 rolls, ensuring to answer the customers' orders in the shortest time possible.

The growth of the company is also evident looking at the number of employees who increased from 30 to 96 between 1956 and 1968. During the '70s the company also started printing terrycloth and this caused a further increase in the number of workers that reached the peak of 153. The size, however, was a crucial aspect to compete in a growing industry, where productivity and the ability to penetrate the market with big volumes of sales were two competitive success factors. For these reasons, Mario Cavelli followed this strategy of growth, without disregarding the quality of its products and the level of service guaranteed.

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<sup>1</sup> The area of Como is one of the most important textile industry districts in Italy. It is famous worldwide for the production of silk and it is one of the areas of excellence of the national industry, even if today the district is called to face an unfavourable international competitive environment.

Gradually, since the end of the '50s, Mario's sons started working in the enterprise, also for the increasing need of control and coordination typical of a growing firm. Sergio was mainly concerned about administration and accounting, while Mauro about production and supply management. Later, also Mario's daughters (Marina, Rita, Angela and Carla) joined the company. After Mario's death (in 1975) the company's trade name changed into "Mario Cavelli SpA" and the ownership of the company was divided in equal parts between Mauro and Sergio.

Just a few years after their entering the company, Mario's sons were called to take an important decision, whose consequences would have affected the company even in the following years.

From the end of the '60s, in fact, the world economy was facing a period of deep change, also due to turbulences in the political, social and economic field. These changes, of course, affected the textile industry, too. Since the end of World War II the capitalist economy benefited of a high rate of growth also due to factors like the low costs of labour force and of raw materials, the driving role of increasing consumptions and the technological achievements; but this trend started slowing. Episodes of social protest both in and outside the factories combined with an economical slump due to over production and with an increasing competition from emerging countries. Some years later the first oil crisis came on top of that. The sum of all these factors led to a stagnation of most of the economies: companies had to face new competition from emerging countries with lower production costs and at the same time the consumers were suffering an increasing inflation and a generalized lack of confidence in the economy.

## **A winning strategy: the development of a company catalogue**

In spite of an unfavourable context like the one described, the Cavelli brothers wanted to make their company grow, to make it independent from the market dynamics that were creating more pressure on the enterprise and to escape from the cost based competition of emerging companies. The main issue the family was called to deal with was the adoption of a more appropriate growth

strategy, also considering the organizational implications of the alternative chosen.

The company decided to attack the medium-high segment of the market. Breaking the tradition of the industry, Mario Cavelli developed its own catalogue, to be presented directly to the distributor. This choice was a radical innovation for the market in which the company operated. In this way for the first time the use of catalogue entered the distribution without control by the textile editors. The rationale of Mario Cavelli was to increase the average quality of products in the mass market distribution: the higher margins obtained through the sale of products with higher prices would also have guaranteed the distributor to retain higher profits. In this way the relationship between the distributor and Mario Cavelli became more stable and reliable, also thanks to the collaborative orientation of Mario Cavelli that accepted to share the higher margins with its distributors. This choice aimed at combining the higher volumes of the mass distribution with the higher quality of the demand.

The fact that Mario Cavelli was the first company presenting a catalogue of products in the channel of mass distributors made it benefit from a series of advantages related to the changes of the process of sales. According to the traditional system, the decision maker in the distribution pipeline was the distributor: it was the distributor, in fact, to decide which product to buy from the different producers and in which quantity and then to promote the products with his customers. With the introduction of the catalogue, instead, it was the final consumer that could decide which product would be suitable to his needs on the base of the catalogue available by the distributors. This new functioning of the pipeline ensured a lot of advantages for Cavelli. First of all, the company acquired more visibility by the final consumer that was able to identify Cavelli company thanks to its own catalogue. Another advantage was a closer contact with the market: producing according to the explicit demand of the market allowed the company to monitor the evolution of tastes and preferences of the consumers in real time without the intermediation of the distributors.

Being the first company to launch a catalogue, Cavelli was also able to exploit another kind of first mover advantage. Offering the distributors the opportunity

to move their offers toward higher segments of the market, Mario Cavelli was also able to recover part of the costs of the realization of the catalogue by sharing the cost of catalogues' creation with the distributors. The competitors that wanted to join this new form of distribution, on the other hand, were forced to distribute their catalogues for free, losing the opportunity to recover part of their costs. This aspect is of particular importance, given the fact that each year a company can develop up to twelve catalogues, distributed in thousands of pieces and with a cost of 30/50€ each. The management of a catalogue, therefore, can have a great impact, also considering the small size of the company in this industry. Companies that fail to develop a catalogue according to market trends can face the risk of not covering the cost of catalogue development; in this light the close contact with the distribution system acquires further importance.

Such a strategy was reinforced by a constant and active presence in the most important international trade fairs of the industry (Frankfurt, Bruxelles, different exhibitions in the USA, ...), which allowed the company to further increase its visibility by the distributors.

Implementing this change was not easy and immediate, of course, but it called for many adaptations. The most evident aspect is the strong effort the company was called to make to develop its catalogue. Many investments were made to realize the catalogue and more and more attention was put on the activities of research and development of new products. To strengthen the creative power of the company a graphic artist was employed, whose task was to plan and to coordinate the activities of setting up and printing the catalogue and the creation of the most appropriate milieu to promote the company's range of product.

Being a pioneer in this activity, Cavelli also had to take different initiatives to change the industry culture and to convince the distributors to accept the catalogue's introduction, an innovation most distributors were sceptical about. The network of contacts and distributors on the national territory was therefore reinforced in order to inform, to involve and to commit the distributors. The involvement of the distributors was of particular importance, because the company had the opportunity to get important feedbacks and suggestions about the best way to present its products. A first draft of the catalogue was

realized within the company and then presented to the Italian distributors through a network of agents to gather comments and impressions and to identify the correct number of catalogues that should have been printed. This process once more strengthened the relationship between the company and its distributors.

Looking at the production side of the strategy, the need of continuously developing new products reinforced the need of flexibility and adaptability. The process of vertical integration was therefore completed to cover all the production steps. Without the control of the entire production process, in fact, the company would not have benefited of the virtuous relationship between high volumes, wide range of products and flexibility in answering the customers' demand.

The introduction of the catalogue has also modified the composition of the company's customer base. With the introduction of the catalogue, in fact, Mario Cavelli entered in competition with the textile editors even if its offer was targeted to a different market segment. Most of the editors, as a consequence, decided to abandon Mario Cavelli as a supplier, even if the company has continued to produce some articles exclusively for the editors. Today 98% of the revenues of the company comes from distributors, while editors represent only the remaining 2%.

All the choices described so far were at the base of a great success, also in the following years. In the '80s the company continued to expand its activity without facing any particular problem, also thanks to the depreciation policy of Italian Lira adopted by the Italian government to support exports. Even in those years, however, the company continued to focus its efforts on continuous innovation and improvement and technological updating. So, also the '80s were characterized by the launch of new products and the entrance into new geographical markets. Even if with minor adjustments, the catalogue was exported into new countries, always with good results. Since September 2001 the warehouse and the offices of the company have been located in a new bigger building in the modern industrial area of the town of Busto Arsizio. According to the management, the intuition of launching a catalogue in the market, to be presented to the distributors, is at the base of the good results that still today Cavelli is obtaining in the industry:



*“Today our luck in facing globalization lies in the fact that we already have an organizational structure oriented towards process and product innovation; this has put our company in a good position on the path we have to follow to face today’s competitive scenario”*

Mauro Cavelli – Chairman of BOD

## **Today’s competitive landscape**

The end of the last century, however, saw the emergence of a set of new challenges for Mario Cavelli. Globalization is in fact a carrier of big opportunities, but also of new threats. The company started opening towards new markets, even very far away (e.g. China and Russia), but, at the same time, the liberalization of textile world trade and especially the end of the “Multi Fibre Agreement” from January 1<sup>st</sup> 2005, allowed new players with low production costs to enter the market.

Broadly speaking, the Italian textile industry is facing the competition of Chinese products, which relies on big volumes of production and low costs of labour. In the specific segment where Cavelli operates, however, Chinese competition has not been very tough yet. The higher segment of textile products for interior decoration, in fact, is not attackable by Chinese producers, that are more focused on basic production sold in huge quantities. The high quality of Cavelli’s products, in this sense, has helped the company to escape from the competition of Chinese companies and of other players from South-Eastern Asian countries. The new competitors that Cavelli and the other companies are called to face come instead from Turkey, who also benefit of lower production costs, but are also able to offer good quality products. The competitiveness of Turkish product increased thanks to the acquisition of production know how through agreements with important European companies for the use of advanced technologies and the experience of many Italian technicians that started working for Turkish firms. The presence on the market of Turkish products is very intense, at the point that the producers offer their articles to all the actors of the distribution pipeline (distributors, traders and decorators), altering somehow the traditional

functioning of the industry. The quality of Turkish production is very good in most of the cases, in spite of the lower costs, even if the final consumer is not aware yet of the characteristics of these products.

The answer of the Italian companies to the new challenges is very heterogeneous. Some companies have decided to de-localize (entirely or in part) their production process to benefit of lower costs of countries like China or the ones in Eastern Europe, keeping in Italy only the creative steps of the process. This strategy, however, is not easy to adopt for those firms that have always leveraged the “Made in Italy” image as a synonym of style and quality. Other enterprises have adopted niche strategies, focusing on specific needs of a selected group of customers, or pursuing product innovation to introduce new products that are more difficult to imitate. Most of these strategies, however, are not easy to be followed by the Italian companies for their small size and, therefore, for the lack of financial resources and adequate managerial competences.

At the same time the demand is continuously evolving, becoming more and more sophisticated: small batches instead of big quantities, short times of delivery, narrow and specific qualitative requests and attention to social and environmental aspects related to the production are clear signs of a consumer that is getting more conscious of his need and preferences. The scenario is more complex as all these phenomena occur in a moment of reduction of consumptions and of economic growth in most of the western countries.

## **Mario Cavelli on the international market**

Most of the growth of Mario Cavelli’s turnover is due to its expansion on foreign markets. In the ‘60s the company started operating on the US market, with a very simple product. As new competitors emerged on the market, especially for basic productions, Cavelli was forced to modify its presence on the American market and now it only sells niche products to very specialized customers. During the ‘70s, instead, much attention was devoted to the European market: Austria, Germany, Spain, Greece, Malta and Cyprus became the destinations of the company’s products. Mario Cavelli found more difficulties in entering the French market, for the particular distributive

structure of the market. In the French market, in fact, there are only a few distributors with the prevalence of direct relationships between producers and traders or upholsters. In the same period also the Canadian and Japanese markets increased their importance with respect to Mario Cavelli's sales.

Today export accounts for 37% of total revenues, while 73% of the turnover comes from domestic sales. Among the most important destinations of exported goods it is worthy to mention Russia, that represents 25% of foreign turnover, Germany (15%), Spain (10%), China, Portugal, Japan and France (all of them with a share of about 5%). Mario Cavelli also sells its product in marginal markets difficult to penetrate for the absence of an established and structured network of distributors. This is the case of countries like Hungary, where the low level of demand does not justify the maintenance of big supply quantities by distributors. In such a context Cavelli takes care also of other downstream phases of the pipeline, selling even the single piece of textile. This rapid overview underlines how, with the passing of years, the company lost or reduced its presence on some markets, while new countries catch the management's attention today.

The composition of Mario Cavelli's export, in fact, was dramatically changed by globalization and its consequences and the emergence of new markets with high potential. Two in particular are the markets that seem to present the most interesting opportunities for future growth: China and, even more, Russia.

In the Russian market, in particular, all the most important international players are active (Turkey, China, Pakistan, Romania, ...) but Cavelli managed to find a clear position on the medium-high segment of the market that helped the company in overcoming the decrease of revenues in the traditional markets. To be mentioned is the set of initiatives the company had to set up to inform and to better meet the specific nature of this market. Even if the Russian market is very interesting under the quantitative profile, its customers do not have well defined preferences and tastes, as it is a very recent and young market. According to this aspect, what happened to the company in the Russian market is emblematic. Cavelli entered this market thanks to direct contacts with some builders, that had the need of suggestions and indications about how to furnish the new apartments. The builders

therefore found a great help in Cavelli's catalogue, as it presented the company's products contextualized in a complete environment. So the "Made in Italy" culture, famous worldwide for its attention on design, quality and life-style, helped the company to enter the Russian market. In the first negotiations the company presented the same catalogue as the one used in Italy, but after a few years the market started evolving and presenting specific needs; thus Mario Cavelli developed a new catalogue only for the Russian market.

Also on the Chinese market the company is moving with similar initiatives. Recently the management has met a delegation of Chinese architects and journalists who have explicitly refused to see a sample book of thousands different articles. They asked instead for ideas of a complete and integrated environment, where textile products are already combined with other products, like pieces of furniture, lighting, households, according to the Italian tastes and sense of aesthetic. The presence of Mario Cavelli on the Chinese market is today related to a strong relationship with a distributor located in Shanghai selling its products in the whole country thanks to a network of 15 agents. The distributor uses Mario Cavelli brand on its products, unlikely what happens in other markets, as a guarantee of Made in Italy quality and style. These products are distributed on the base of a sole right agreement also to protect the distributor's activity.

## **A family firm rooted in the local community**

Mario Cavelli SpA is a typical family business, now run by the third generation of the Cavelli family. Since 1980 Sergio has been external consultant for the technical sections, dyeing plant, and administration and so Mauro has been the Chairman of the current BOD, where his children (Cristiano and Matteo) and Sergio's ones (Roberta and Alessandro) are now sitting. The passage of the control of the company into the hands of the third generation of the family, however, was not automatic:

*"The company will be managed by members of the family if and only if there will be, within the family, capable and motivated people who really want to*

*continue the activity of the firm. [...]. Nothing is due to anyone”*

Mauro Cavelli – Chairman of BOD

At the end of the last decade the company was called to manage the entrance of Mauro and Sergio's children into the managerial team of the company. In those years, in fact, some managers of the company were about retiring and the company needed to substitute them. According to the philosophy of the company, however, the acquisition of managerial role by Mario's grandchildren was not straightforward. Cristiano joined the company for a six months period of probation and he was asked to obtain specific results as a trade manager. If Cristiano had not been able to obtain these results, he would not have covered a managerial position and he would have been sent to gain more experience in other companies, instead.

The head of the dyeing dpt. is now Alessandro, Sergio's son. Once he finished his studies in chemistry and dyeing, he could learn more technicalities by working in close contact with his father, who took care of his entering the company by transferring to him all the know how and past experiences he acquired during the years. The combination of the theoretical knowledge acquired during his studies with the practical experience of his father, makes Alessandro an esteemed technician within the company. Roberta is at the moment working within the administrative dpt., while Matteo is concerned about new product development and HR management. All these examples remark the attention put on the continuity of the family management, but, at the same time, on the proper development of a set of managerial competences by the members of the family.

But the sense of belonging, typical of family firms, is not only proved by the relations between the enterprise and the members of the family. Mario Cavelli in fact, is deeply rooted in the town of Busto Arsizio, with different contacts with the local community and also with some of its competitors.

Much attention, for example, is devoted to the personnel, that is considered crucial for the company's survival and success by its management. Training and education are of great importance with respect to HR management. Most of the employees are asked to take part in specific courses by some local institutes and a lot of emphasis is given to “on the job learning”, to ensure

communication and the flow of knowledge within the company. The creative team of Mario Cavelli developed through a long experience in different areas of the firm; as they embody the style and creative soul of the company, they are given incentives to remain there, and to refuse the many job offers of the competitors.

It is considered of big importance to combine on the job learning with school education, because instruments and tools learned in school need to be contextualized and find applied utility in the real company's process.

*“The knowledge of the most recent techniques and methodologies, such as the Computer Aided Design tools, for example , are of extreme importance. But it is not enough to learn them in the classroom. It is necessary that these competences work according to the firm's strategy and processes: thus the knowledge of the whole system of the company is fundamental”.*

Mauro Cavelli – Chairman of BOD

The commitment of the company goes even beyond these aspects and involves the whole local area. Many are the local sport teams sponsored by the company and recently the company has supported different theatre initiatives promoted in the town of Busto Arsizio. This was also possible because of the passion for theatre by some members of the family.

*“Our commitment to support the theatre season in Busto Arsizio is not of course a promotional campaign in the narrow sense. It is instead an attempt to stay close to the local area and interact with it and with all the people living in our town<sup>2</sup>”*

Matteo Cavelli – Trade Manager Mario Cavelli Spa

Mauro Cavelli, moreover, is an active member of different industrial associations, both at local and national level. He is often involved in several projects that link the company to local schools and technical institutes. In particular Mauro was among the promoter of the “Consorzio di Promozione del Tendaggio Italiano” (Consortium for the promotion of Italian curtains).

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<sup>2</sup> Translated from <http://www3.varesenews.it/economia/articolo.php?id=39243>

*“More than twenty years ago, some representatives of the industry and I founded an aggregation of firms, the “Consorzio di Promozione del Tendaggio Italiano”. At the beginning, we probably didn’t have the perception of the usefulness of such an aggregation, but we gathered and in this way we approached the emerging markets. [It was possible to create this group] thanks to reciprocal trust. We all esteemed each other even before we took this decision that emerged long time before the importance of networking appeared. It was a period when it was difficult for companies to aggregate and it was rare to see competitors collaborating. When, in more recent years, this collaborative approach was seen as a way to face the competition and manage difficulties, we were an already functioning reality<sup>3</sup>”.*

Mauro Cavelli – Chairman of BOD

## **Mario Cavelli spa: key figures**

Mario Cavelli is a small enterprise: the company’s revenues are approximately 20 millions €; the employees, after a recent reduction, are about 120 and the capital invested is of the same value of the annual revenues. In spite of its small size, the company is one of the biggest Italian producers of textile products for interior decoration, with a share on the domestic market of about 7% - 8%. Such a figure highlights the fragmentation of the Italian industry into a great number of small producers.

The total assets of the company in the last three years is grown passing from 17.5 m. € to 21.6 m. €. Such an increase is mainly explained by the rise of the circulating capital items (credits and stocks), while the value of fixed assets remains stable in the period observed. Among the fixed assets, the prevailing

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<sup>3</sup> Translated from <http://www3.varesenews.it/economia/articolo.php?id=39243>

items are plants and machineries. Looking at the debit side, instead, it is worthy to mention the increase of long-term ones, while dues to suppliers decrease. The company has in fact issued a bonded loan and has increased its debts towards banks.

Looking at the profit and loss account, the reduction of the revenues is clear, while the value of stocks increases. This can suggest the fact that the company is maintaining the same volume of production of the previous years, but changing its supply management policy. Production costs are stable, while extraordinary increases and decreases of income vary a lot in the three years. The net income (26.052 € in 2002) notably increased in 2003, while it fell to 65 thousands € in 2004.

<b>ASSETS</b>			
	31/12/2004	31/12/2003	31/12/2002
<b>A. CREDIT TO SHAREHOLDERS</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>B. NET FIXED ASSETS</b>	<b>4.639.681</b>	<b>4.867.071</b>	<b>4.817.090</b>
<u>B.I. INTANGIBLE ASSETS</u>	<u>187.183</u>	<u>217.852</u>	<u>208.700</u>
B.I.1. Setting up and enlargement costs	8.542	9.343	2.053
B.I.3. Design patent	56.158	46.066	60.689
B.I.6. Intangible assets in progress	0	18.093	0
B.I.7. Other	122.483	144.350	145.958
<u>B.II. TECHNICAL FIXED ASSETS</u>	<u>4.259.786</u>	<u>4.438.349</u>	<u>4.372.534</u>
B.II.1. Land and premises	186.947	157.369	174.621
B.II.2. Plants	3.687.441	3.952.490	3.832.327
B.II.3. Equipments	11.452	27.493	44.353
B.II.4. Other	366.006	298.497	320.891
B.II.5. Construction in progress	7.940	2.500	342
<u>B.III. LONG TERM INVESTMENTS</u>	<u>192.712</u>	<u>210.870</u>	<u>235.856</u>
B.III.1. Shareholding	128.417	128.417	128.417
B.III.1.a. Controlled companies	122.736	122.736	122.736
B.III.1.d. Other companies	5.681	5.681	5.681
B.III.2. Long term credits	64.295	82.453	107.439
<b>C. CURRENT ASSETS</b>	<b>16.427.316</b>	<b>14.318.399</b>	<b>11.903.795</b>
<u>C.I. INVENTORIES</u>	<u>8.772.992</u>	<u>7.335.853</u>	<u>6.808.601</u>
C.I.1. Raw materials	2.357.334	2.407.813	2.377.424
C.I.2. Half finished products	207.650	368.810	429.044
C.I.3. Work in progress	1.489.368	582.942	0
C.I.4. Finished products	4.718.640	3.976.288	4.002.133
<u>C.II. CREDITS</u>	<u>7.624.874</u>	<u>6.973.924</u>	<u>5.090.330</u>
C.II.1. Short term to customers	6.829.281	6.357.923	4.805.782
C.II.1. Long term to customers	0	0	2500
C.II.4.bis Short term fiscal credit	202.556	0	0
C.II.4.bis Long term fiscal credit	2.066	0	0
C.II.4.ter Short term credit for	1.788	0	0



anticipated payment of taxes			
C.II.4.ter Long term credit for anticipated payment of taxes	2.670	0	0
C.II.5. Short term to other	586.513	613.935	279.982
C.II.5. Long term to other	0	2.066	2.066
<b>C.IV. TOT. DISPON. LIQUIDE</b>	<b>29.450</b>	<b>8.622</b>	<b>4.864</b>
C.IV.1 Bank Deposit	27.188	5.437	2.939
C.IV.3. Cash	2.262	3.185	1.925
<b>D. ACCRUALS AND PAYABLES</b>	<b>540.480</b>	<b>648.830</b>	<b>803.328</b>
Below par Issue	0	0	0
<b>TOTAL ASSET</b>	<b>21.607.477</b>	<b>19.834.300</b>	<b>17.524.213</b>

<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
	31/12/2004	31/12/2003	31/12/2002
<b>A. STOCKHOLDERS' EQUITY</b>	<b>5.666.246</b>	<b>5.801.076</b>	<b>5.244.026</b>
A.I. Stock capital	2.600.000	2.600.000	2.600.000
A.III. Revaluation reserve	278.221	278.221	75.448
A.IV. Legal reserve	294.254	271.330	270.027
A.VII. Other reserves	2.393.873	2.158.518	2.237.975
A.VIII. Forwarded Income	34.524	34.524	34.524
A.IX. Net income	65.374	458.483	26.052
<b>B. RISK FUNDS</b>	<b>384.377</b>	<b>328.187</b>	<b>260.616</b>
B.2. Tax Fund	253.158	176.908	124.330
B.3. Other	131.219	151.279	136.286
<b>C. LEAVING INDEMNITY DEBTS</b>	<b>3.019.571</b>	<b>2.835.424</b>	<b>2.552.669</b>
<b>D.</b>	<b>12.171.070</b>	<b>10.420.593</b>	<b>9.417.097</b>
D.1. Long term bonded loans	1.500.000	1.000.000	0
D.4. Short term bank debits	5.375.047	3.363.493	2.477.095
D.6. Advance payment	23.711	9.423	7.429
D.7. Short term debts to suppliers	4.630.807	4.972.258	5.970.545
D.8. Short term securities	169.792	228.869	170.549
D.8. Long term securities	0	169.792	219.649
D.12. Short term fiscal debits	135.412	339.096	203.635
D.12. Long term fiscal debit	0	0	47.578
D.13. Short term debts to social security institutions	218.477	212.486	184.743
D.14. Other short term debts	117.824	125.176	135.874
<b>E. ACCRUALS AND PAYABLES</b>	<b>366.213</b>	<b>449.020</b>	<b>49.805</b>
<b>TOTAL LIABILITIES and STOCKHOLDERS' EQUITY</b>	<b>21.607.477</b>	<b>19.834.300</b>	<b>17.524.213</b>

<b>PROFIT AND LOSS ACCOUNT</b>			
	31/12/2004	31/12/2003	31/12/2002
<b>A. VALUE OF PRODUCTION</b>	<b>20.225.992</b>	<b>21.344.055</b>	<b>19.544.421</b>
A.1. Sales	18.499.030	20.620.627	18.600.648
A.2. Variation in finished goods inventories	1.487.618	477.412	607.806
A.3. Variation in work in progress	0	0	147.921
A.5. Other revenues	239.344	246.016	188.046
<b>B. COSTS OF PRODUCTION</b>	<b>19.533.598</b>	<b>20.110.669</b>	<b>18.996.124</b>

B.6. Raw materials	9.274.329	9.088.411	8.533.480
B.7. Services	3.661.290	4.485.902	4.662.909
B.8. Leases	817.669	831.240	767.871
B.9. Personnel	4.545.254	4.583.900	4.018.860
B.9.a. Wages and salaries	3.077.641	3.115.369	2.723.542
B.9.b. Social security contributions	1.080.948	1.071.961	945.566
B.9.c. Leaving indemnity	386.665	396.570	349.752
B.10. Depreciations	1.045.782	1.036.373	833.771
B.10.a. Intangible assets	63.097	54.384	47.079
B.10.b. Technical assets	947.317	942.503	755.572
B.10.d. Bad debts	35.368	39.486	31.120
B.11. Variation in raw materials inventories	50.479	-30.390	63.022
B.13. Other allowances	24.180	14.992	14.384
B.14. Other expenses	114.615	100.241	101.827
<b>OPERATING INCOME</b>	<b>692.394</b>	<b>1.233.386</b>	<b>548.297</b>
Value added	6.307.610	6.868.651	5.415.312
<b>C. FINANCIAL INCREASES AND DECREASES OF INCOME</b>	<b>-265.047</b>	<b>-295.798</b>	<b>-231.574</b>
C.16. Increases	19.904	22.466	49.007
C.17. Charges	279.679	318.264	280.581
C.17.bis Profit and losses on exchanges	-5.272	0	0
<b>D. TOTALE RETTIFICHE</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>E. EXTRAORDINARY INCREASES AND DECREASES OF INCOME</b>	<b>-2.986</b>	<b>90.667</b>	<b>-112.131</b>
E.20. Increases	2.765	123.640	1
E.21. Decreases	5.751	32.973	112.132
Capital loss	5.751	0	0
Taxes of previous year	0	0	111.388
<b>NET PROFIT BEFORE TAXES</b>	<b>424.361</b>	<b>1.028.255</b>	<b>204.592</b>
22. Totale Imposte sul reddito correnti, differite e anticipate	358.987	569.772	178.540
<b>23. NET PROFIT</b>	<b>65.374</b>	<b>458.483</b>	<b>26.052</b>

	31/12/2004	31/12/2003	31/12/2002
<b>EMPLOYEES</b>	<b>122</b>	<b>171</b>	<b>150</b>

Fonte: Elaboration on AIDA-Bureau van Dijk data

## **Mario Cavelli: a history of innovation**

Since its foundation Mario Cavelli focused on innovation as one of the key elements of its strategy. The introduction of the catalogue was a radical innovation at the commercial level that has forced the company in the following years to continuously launch new products, adapting year by year to the customers' changing needs and tastes. In doing so the company took also care of maintaining the costs as low as possible: the new products launched on the market were never extremely costly. This was due to a number of reasons: first of all, the target market is the one of medium and medium to high quality, thus a too high price would not have been consistent with the features of the customers. Another reason is the fact that the company did not want to squeeze the distributor's margin by applying a high price: it is in the interest of the company, in fact, to establish long-lasting relationships with its distributors and to ensure them the best conditions to offer a better service to the final consumers.

Among the innovative products launched by Cavelli, the flame retardant fabrics had a great success that met the need of increasing safety of the consumers. The company has introduced the X-FIRE® brand, used to certify some specific products. This product line is sold on the contract market, so it is composed of fabrics to furnish public places. Therefore the X-FIRE products are sold to schools, hospitals, cinemas and theatres, hotels and cruise boats. The creativity of the R&D functions and the continuous experimentation on the properties of flame retardant textiles, combined with the typical style of the companies active in the so called "Made in Italy industries", had allowed the companies, in the following years, to extend the use of the X-FIRE products also to private consumers, consistently with the image of safety that every domestic environment should communicate.

Still today, even if the role of the Italian textile industry is questioned by the emergence of new competitors, the company's philosophy is not changing. The role of innovation within the company is witnessed by the presence of 10 people completely devoted to creative activities and to the development of new products out of a total workforce of 120 people. Another sign of the

importance given to innovation is the continuous updating of machineries and equipment.

*“We cannot face the Turkish and Chinese competition lowering our production costs. We have to offer a product that is always new, combined with an excellent level of service. We have to invent a new product that other players are not able to make. I repeat it every day to my weavers: simple activities are no longer possible for us”*

Mauro Cavelli – Chairman of BOD

According to Mauro Cavelli, the textile industry is not a mature industry yet, but, on the contrary, an industry full of unexplored potentials, mainly residing within the application of new technologies. Today Mauro Cavelli is the head of a new project sponsored by the Industrial Association of the Province of Varese for the application of nanotechnologies in textile. The entrepreneur is sure that the “Chinese challenge” can be won through innovation.

*“We need to “counterattack” the new competitors [...] through innovation. Innovation, even in our industry, necessarily passes through nanotechnologies. [...] I was the first, 15 years ago, to introduce flame retardant fabrics and I want to be the first, by 2007, to produce fabrics modified with nanotechnologies”*

Mauro Cavelli – Chairman of BOD

The members of this project are eight companies, all of them from the Province of Varese, supported by the consulting service of the “Centro Tessile Cotoniero” (Textile and Cotton Center) of Busto Arsizio and of Smartex (a company of the textile industrial district of Prato<sup>4</sup>, active in the research of technology transfer opportunity in the textile industry). The project could involve also other centres of research at national level.

Some possible applications identified by the research team can be the use of wax particles to improve the resistance of the fabrics, or the use of specific polymers to protect their colour. But the objectives of the project go beyond the improvement of the physical properties of the materials. New kind of

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<sup>4</sup> Prato is another of the best known industrial district in textile in Italy.

products are studied: antibacterial fabrics to be sold to hospitals, phono-repellent products for acoustic isolation or thermoregulatory fabrics for the constant maintenance of the temperature. Mauro Cavelli is sure about that: such products are *“to be sold wherever in the world, also in China!”*

## Some possible sources of information

*Company site*

<http://www.mariocavelli.it/>

*Information about the Italian industry of textile products for interior decoration*

Italian Interior Design Project

<http://www.interiordesign tessile.it/inglese/>

Key figures about the recent industry evolution

[pittiportale.dada.net/exfiles/04EconomicoCasalmpalTA\\_7080.pdf](http://pittiportale.dada.net/exfiles/04EconomicoCasalmpalTA_7080.pdf)

*Information about the evolution of the World and European textile industry*

Euratex site

<http://www.euratex.org>

WTO site

[www.wto.org](http://www.wto.org)