CONFINDUSTRIA Lombardia

ASSOLOMBARDA

INTERNATIONALIZATION OBSERVATORY 2023

REPOSITIONING AND NEW GEOGRAPHIES OF THE LOMBARDY ENTREPRENEURIAL SYSTEM

IN COLLABORATION WITH

ISPI ISTITUTO PER GLI STUDI DI POLITICA INTERNAZIONALE

SACE

INTERNATIONALIZATION OBSERVATORY 2023

REPOSITIONING AND NEW GEOGRAPHIES OF THE LOMBARDY ENTREPRENEURIAL SYSTEM

Short key excerpt from the Italian version of the Report.

FULL ITALIAN VERSION CAN BE DOWNLOADED FOR FREE

The Observatory has been carried out by Confindustria Lombardia, in collaboration with SACE and ISPI, with the scientific coordination of Centro Studi di Assolombarda and the involvement of the other territorial associations included in Confindustria Lombardia: Associazione Industriali Cremona, Confindustria Alto Milanese, Confindustria Bergamo, Confindustria Brescia, Confindustria Como, Confindustria Lecco e Sondrio, Confindustria Mantova, Confindustria Varese.

The data and report processing has been carried out by the following team: Marina Benedetti (SACE), Alina Candu (Confindustria Lombardia), Chiara Fanali (Assolombarda), Lucia Florenzano (Confindustria Varese), Pietro Frecassetti (Confindustria Bergamo), Tommaso Ganugi (Confindustria Brescia), Ivano Gioia (SACE), Paola Grassi (Confindustria Como), Paola Margnini (Confindustria Varese), Vittoria Marvelli (Confindustria Varese), Alice Morosini (Confindustria Lombardia), Valeria Negri (Assolombarda), Emanuele Orsillo (Assolombarda), Marcello Panzone (Confindustria Lombardia), Angela Signorelli (Assolombarda), Francesca Silingardi (Assolombarda), Alessandro Terzulli (SACE), Alessandro Zecca (Confindustria Como).

We thank ISPI for its precious contribution.

Report published on 12 September 2023

Preface

The 2023 edition of the Observatory on Internationalisation by Confindustria Lombardia and Assolombarda, prepared with the contribution of all the territorial associations of the Lombardy Confindustria system, provides a snapshot of the activities, strategies, and trends that companies implement when they decide to cross national borders.
Based on a sample of over a thousand manufacturing companies, the study already represents a fundamental tool for understanding the directions and results of the decisions of entrepreneurs facing global competitive markets on a daily basis.

In this period of uncertainty and major changes, studies such as the Observatory on Internationalisation are for entrepreneurs like nautical charts for ship captains in a stormy sea: they point the way and show alternative routes.

The results of the 2023 edition of the study provide numerous confirmations and valuable indications for Lombardy companies, which in recent years have been required to reposition themselves in global supply chains and face the burden of two transitions: the digital transition and the green transition. Moreover, the indications provided by the Observatory can be useful in defining measures to be developed by policy-makers to support the internationalisation process of companies.

Tensions on Europe's eastern borders, new instabilities in Central Africa, long-lasting monetary balances questioned, rises in inflation and interest rates that upset trade balances around the world, but also the reorganisation of international diplomacies into opposing blocs deserve attention and understanding because they represent key elements to be taken into account in business decisions.

For these reasons, as representatives of entrepreneurs, we consider increasingly important that geopolitics enter factories, that we discuss again topical international issues, to help entrepreneurs, through knowledge, make the most correct and far-sighted decisions. This also in light of the growing importance of exports not only for individual companies but, above all, for Italian GDP.
A contribution that every entrepreneur makes with honour and a great sense of responsibility, well aware that internationalised companies, being they large companies or SMEs, no longer need a toolbox, but reliable analyses and knowledge of international scenarios.

Internationalisation represents a fundamental route to growth and development for Lombardy companies, also given the context of instability expected in the coming months. It is therefore essential to be present abroad, explore new markets and gain new business, and to do so with that quality, innovation and dedication only our companies are capable of. Tools such as the Observatory acquire strategic importance for entrepreneurs working abroad or planning to internationalise their business.

Francesco Buzzella
Chairman of Confindustria Lombardia

Veronica Squinzi
Vice-Chairman of Assolombarda

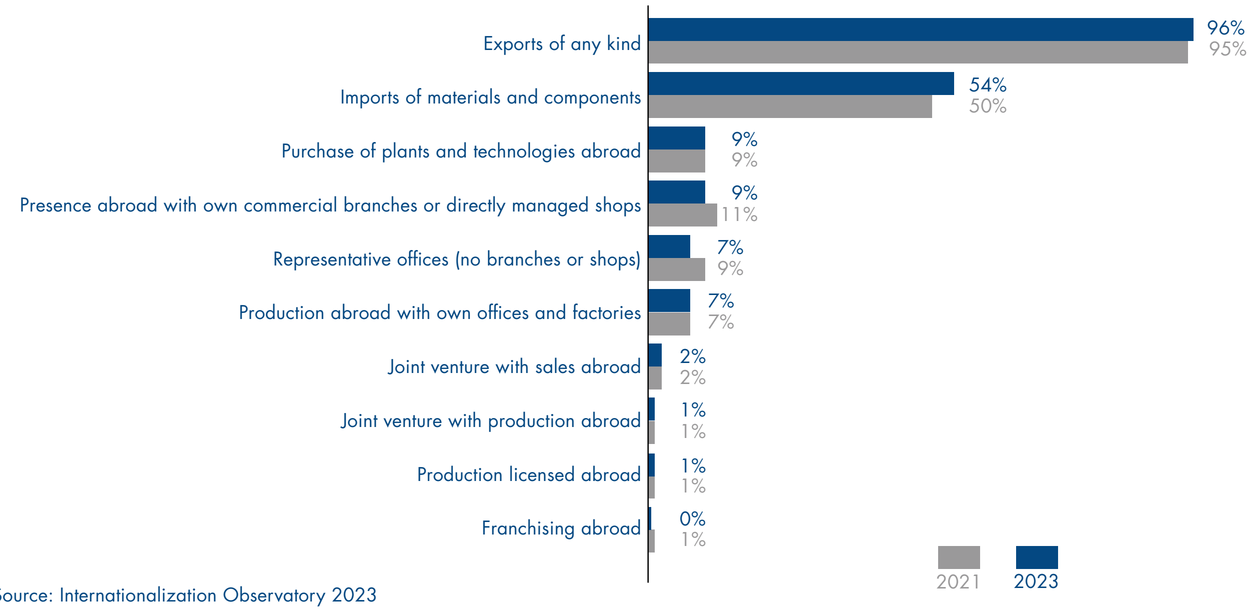
Introduction

The Observatory on Internationalization, carried out by the 9 Associations of Confindustria Lombardia, surveys every two years - at a regional level - the presence abroad, the geographical areas involved and the main obstacles faced by local manufacturing companies.
The 2023 edition collected information from **1,002 companies** and investigated the impact of the Covid-19 pandemic and the effects of geopolitical tensions on the international competitiveness and positioning of Lombardy companies.
Since 2020, companies working in international trade, and more generally production chains, have been exposed to mutually reinforcing headwinds on a global scale: the health emergency, soaring prices of raw materials and energy, geopolitical tensions (the invasion of Ukraine by Russia being particularly relevant for European and Lombardy companies), and production changes connected to the environmental and digital "twin transitions".
The main results can be summarised in ten key messages, some of which represent confirmations, while others are new.

The Observatory collected responses from 1,213 participants, of which 1,002 have relationships abroad and, therefore, represent the sample on which the report processing is based.
The most represented sectors are metals (22.6%), machinery (19.1%) and fashion (12.2%), which together constitute more than half of the sample.
Finally, as far as the size category is concerned, most of the sample is represented by small enterprises (53.8%), followed by medium-sized enterprises (30.1%). The remaining percentage is made up of micro (9.5%) and large enterprises (6.6%).

1. Exports still represent the most popular type of presence abroad, involving 96% of respondents. Trade through imports, both of materials and components, and of plants and technology, represents the second type and involves 54% and 9% of the sample, respectively. It is followed by being present in foreign countries with one's own commercial branches or directly managed shops (9%), representative offices (7%) and production abroad with one's own offices and factories (7%). These **results are in line with the results of the 2021 edition, showing that the ways in which Lombardy manufacturing companies deal with foreign countries have not been significantly modified either by the pandemic or the Russian-Ukrainian conflict.** Furthermore, it must be pointed out that **the presence of Lombardy companies on international markets is not characterised by high dependence on foreign orders,** since only 5% of exporting companies use subcontracting channels (either exclusively, or together with other strategies).

Figure 1 – Type of foreign relationships (% of companies in the total of respondents)



Source: Internationalization Observatory 2023

[1] Since the samples are not statistically representative (although numerically large), it was verified that the time comparison made between the open samples of the last two editions (1,256 companies in 2021 and 1,002 in 2023) is substantially reflected in the trends shown by the closed panel of respondents of both surveys.

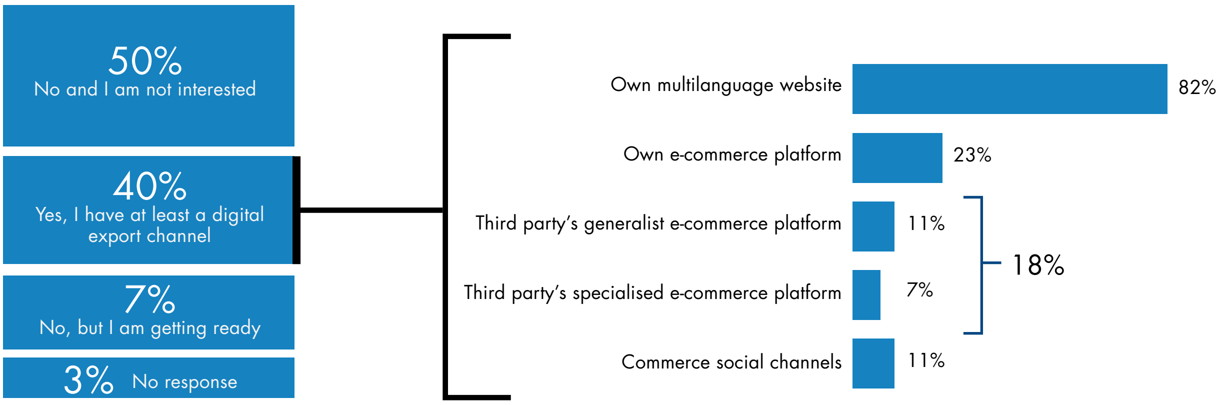
2. The use of digital platforms in internationalisation strategies is becoming widespread within the manufacturing sector: **40% of exporting companies uses at least one digital export channel and 7% is preparing to implement one.** As for the distinction between sectors that are more focused on B2B and B2C, the share of use of digital export channels is 38% and 45%, respectively.

However, this difference appears moderate, given the higher degree of customisation of B2B commerce; therefore, **further spreading possibilities of digital sales methods can be envisaged in the future, especially for the predominantly B2C-focused sectors.**

40%
Exporting companies with at least a digital export channel

7%
Exporting companies that are preparing to implement one

Figure 2 – Use of digital export channels (% of total exporting companies)



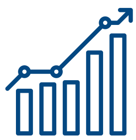
(% of total exporting companies)

(% of companies that have implemented at least a digital export channel)
(multiple responses allowed)

Source: Internationalization Observatory 2023

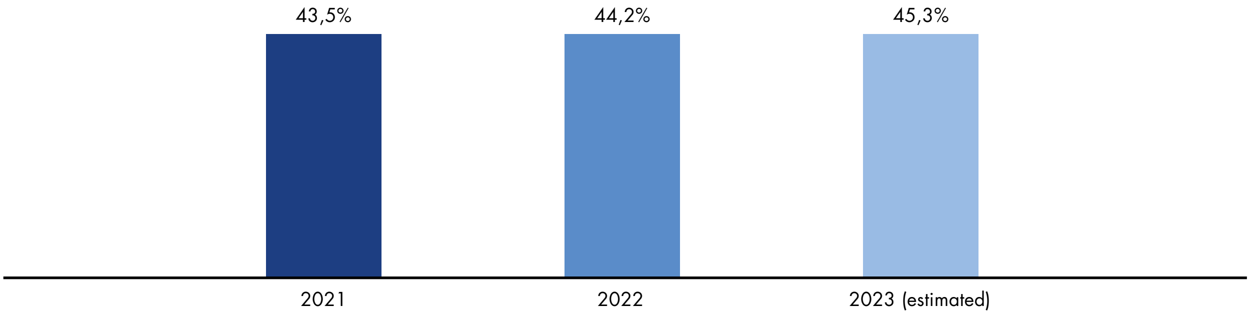
3. In 2022, the turnover percentage generated abroad rose to 44.2% from 43.5% in 2021, and **the portfolio of countries of internationalised manufacturing companies expanded, with each company serving an average of 23 markets in 2022** (21 in the previous edition). Moreover, in terms of diversification, the tendency of companies to geographically concentrate their exports is confirmed: about a quarter (25.7%) of the foreign turnover is generated in the main target market, a percentage higher than in 2021 (24.6%) and well above the 2019 figure (19%).

23
countries served by each company on average



25,7%
of the foreign turnover generated in the main destination country

Figure 3 – Turnover generated abroad (average; % of total turnover)



Source: Internationalization Observatory 2023

4. As for the countries served, there are both confirming and new elements. European markets are still the main destination for foreign sales, with about half of the respondents indicating France (53%) and Germany (52%) among the top 5 foreign countries in order of importance, followed by Spain (33%). The Top10 also includes important logistical nodes such as the Netherlands and Belgium, showing the strengthening of Lombardy companies' connections with Europe and the rest of the world. Substantial stability also characterizes the distribution of business facilities (Top3: United States, Germany, France) and production facilities (Top3: China, United States, Germany). **Among the new factors, there is a tendency to expand into more distant markets**, not only for the present (currently served countries include India, the United Arab Emirates and Brazil), but also in the future, with the United Arab Emirates, Australia and Canada in the Top10 of countries that companies are looking at. Finally, other **elements of difference with respect to the past concern interest in Russia and China as prospective countries: for both countries, there is currently less attention by Lombardy companies, due to political factors for the former and trade uncertainty and the zero Covid policy for the latter.**

Figure 4 – Top 10 foreign countries by sales, business facilities and production facilities – 2023 ed. vs 2021 ed.

Sales

		2021 ed. rank
1.	France (53%)	(2)
2.	Germany (52%)	(1)
3.	Spain (33%)	
4.	U.S.A. (29%)	
5.	U.K. (19%)	
6.	Switzerland (19%)	
7.	Poland (14%)	
8.	China (12%)	(9)
9.	The Netherlands(11%)	(10)
10.	Belgium (11%)	NEW
:		
17.	Russia (6%)	(8)

Business facilities

		2021 ed. rank
1.	U.S.A. (33%)	
2.	Germany (28%)	
3.	France (26%)	
4.	Spain (24%)	(5)
5.	China (17%)	(4)
6.	U.K. (13%)	
7.	India (9%)	NEW
8.	Poland (7%)	
9.	United Arab Emirates (5%)	NEW
10.	Brazil (5%)	NEW
:		
30.	Russia (2%)	(7)

Production facilities

		2021 ed. rank
1.	China (32%)	
2.	U.S.A. (26%)	
3.	Germany (16%)	
4.	France (16%)	
5.	India (15%)	
6.	Spain (13%)	(8)
7.	Brazil (10%)	(9)
8.	U.K. (7%)	NEW
9.	Rumania (7%)	(6)
10.	Tunisia (6%)	NEW
:		
16.	Russia (3%)	(14)

Source: Internationalization Observatory 2023
Note: number of companies that have stated the country among the Top5 for sales, business facilities and production facilities calculated on the total of respondents. The symbols indicate the shift in ranking compared to the 2021 edition, the numbers in brackets indicate the ranking in the 2021 edition.

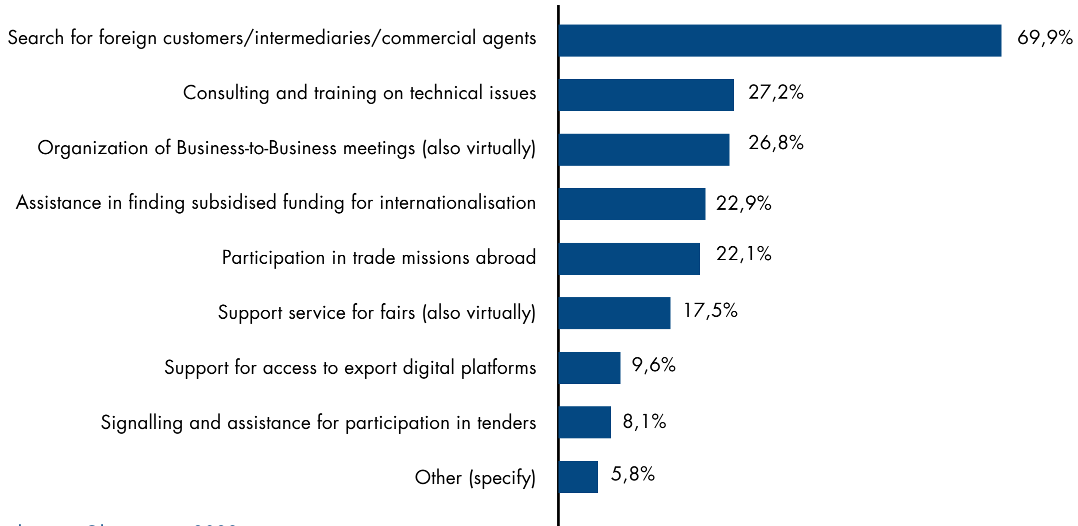
Figure 5 – Top 10 "prospect" countries (2023-2025)

		2021 ed. rank
1.	U.S.A. (24%)	
2.	Germany (15%)	(3)
3.	France (13%)	(4)
4.	United Arab Emirates (12%)	(7)
5.	Australia (11%)	NEW
6.	Brazil (11%)	(10)
7.	Canada (11%)	NEW
8.	Spain (11%)	(6)
9.	China (11%)	(5)
10.	U.K. (9%)	(9)
:		
25.	Russia (3%)	(2)

Source: Internationalization Observatory 2023
Note: number of companies that have stated the country among the Top5 in terms of interest in developing future relationships calculated on the total of respondents. The symbols indicate the shift in ranking compared to the 2021 edition, the numbers in brackets indicate the ranking in the 2021 edition.

5. The search for foreign counterparts is the most valued internationalisation service by enterprises, indicated by 69.9% of the sample; followed by consulting and training on technical issues (27.2%) and the organisation of B2B meetings, also virtually (26.8%). Of lesser interest, on the other hand, is support for access to export digital platforms (9.6%) and advice and assistance for participation in tenders (8.1%).

Figure 6 – Services supporting internationalisation (% of the total sample) (maximum 5 responses)



Source: Internationalization Observatory 2023

6. A significant improvement in the competitiveness of Lombardy manufacturing companies in foreign markets emerged in 2022 compared to 2019: 38.5% of respondents have gained market shares compared to the pre-Covid period and 47.8% kept them unchanged. Furthermore, most of the 10,3% of companies that lost market shares still believe they will regain them by the two-year period 2023-2024.

38,5%
Lombardy companies that have gained market shares

47,8%
Lombardy companies that have kept market shares unchanged

These results are confirmed by the strong buoyancy of regional goods exports in value terms, which grew by +27.5% in 2022 compared to 2019, a far stronger performance than European benchmarks such as Bayern (+14.2%) and Auvergne-Rhône-Alpes (+13.7%). Moreover, considering the strong price growth in 2022, the change remains positive even net of cost increases (+8.9% for manufacturing) and almost all sectors recorded an increase in margins due to both increases in volumes and quality improvements.

7. The quality-innovation factor and the offer of greater flexibility are the main drivers for Lombardy companies' competitiveness in international markets in 2022: the former was indicated by 63.8% of the sample, the latter by 33.3%. There is also a not negligible "aversion to uncertainty" on the part of customers, intended as the certainty of availability of products (reported by 17.6% of the companies), and as lower logistical, geopolitical and regulatory risks (17.1%).

THE REASONS WHY COMPANIES ARE CHOSEN BY CUSTOMERS
% of companies that stated the following factors

63,8%	33,3%	17,6%	17,1%
QUALITY AND INNOVATION	HIGHER FLEXIBILITY	PRODUCT AVAILABILITY	LOWER EXTERNAL RISKS

8. Compared to 2020, a shift from intention to action emerges in terms of changes in value chains: in 2022, the percentage of companies that have replaced at least one supplier rises to 20.2% (from 6.8% two years before), while the percentage of those intending to do so in the short term falls to 10.8% (from 24.9%).

PERCENTAGE OF COMPANIES THAT HAVE CHANGED ONE OR MORE SUPPLIERS

6,8% (2021 edition) → INCREASES → 20,2% (2023 edition)

PERCENTAGE OF COMPANIES THAT HAVE CHANGED ONE OR MORE SUPPLIERS

24,9% (2021 edition) → DECREASES → 10,8% (2023 edition)

In general, therefore, this confirms that **about 30% of Lombardy companies have changed or are about to change their supply chains. There is also a tendency to shorten them**: in fact, 44.6% of companies that have made changes have chosen new European, Italian or Lombard suppliers (or a combination of them).

9. The replacements in supply chains by Lombardy companies were mainly based on cost decisions: 58.4% of respondents stated to have chosen more competitive suppliers in terms of price. This is followed by the search for lower risk both in terms of product availability (33.2%) and logistical, geopolitical and regulatory issues (26,7%).

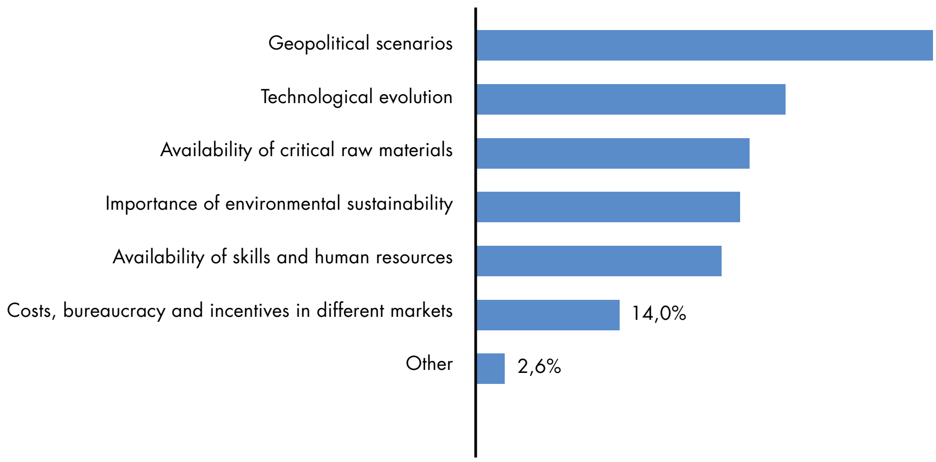
THE LOGIC BY WHICH COMPANIES CHOOSE THEIR SUPPLIERS
% of companies that stated the following factors

58,4%	33,2%	28,7%	26,7%
PRICE	PRODUCT AVAILABILITY	QUALITY AND INNOVATION	LOWER EXTERNAL RISKS

Therefore, there is a distance between the competitiveness factors of the responding companies and the logic by which they choose their suppliers: in the first case, quality and innovation prevail, while in the second one, cost containment is preferred.
This seems to indicate that the high quality of goods exported by Lombardy manufacturing companies is mostly attributable to them and therefore to their ability to create value.

10. The uncertainty arising from the geopolitical context and major technological and environmental changes, as well as the availability of human and material resources, are the macro-trends that companies consider to be most influential for their medium-long term internationalisation strategies. Geopolitical scenarios are indicated as a highly relevant factor by 43.9% of the respondents, technological evolution by 29.9%, the availability of raw materials by 26.3% and the availability of human capital by 23.7%. **These factors prevail over merely cost-related aspects**, which were considered to be a significant variable by 14% of the sample.

Figure 7 – Most influentials factors on strategic choices in the international framework (% of the total sample) (maximum two responses)



Source: 2023 Survey on Internationalisation

Conclusion

In conclusion, Lombardy exports show strong signs of a competitive repositioning in qualitative terms. On the other hand, statistics still show limited signs of a fragmentation of markets and supply chains taking place, with the exception of some sectors and countries (e.g., Russia).
However, the global trade context in which the companies concerned operate has entered a new phase: the number of protectionist measures is increasing, also with regard to direct foreign investment, and companies' attention to the risks of global supply chains and the possibility of "nearshoring" and "friend-shoring" strategies is high.

CONFINDUSTRIA
Lombardia

Via Pantano, 9 - Palazzo Gio Ponti
20122 Milano
Tel. + 39 02 58370800
segreteria@confindustria.lombardia.it
www.confindustria.lombardia.it