Innovation oriented business: the Piquadro case
Analysis of the key factors

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Abstract
An analysis of Piquadro, an Italian leather goods brand, towards an understanding of its working sector, its current business organization and its future opportunities. The study of the environment as a conditioning factor for the strategic key decisions and for the brand’s future development allows the identification of the essential factors every company needs to take into account for a correct view of the market.

Keywords: Piquadro, Market Analysis, Analysis of the external environment, Market for leather goods, Innovation.

Introduction
It is important to be aware of the risks and at the same time of the advantages of the world outside the company’s walls. It is equally essential to know who we have to compete with, because even though it is true that in war one should know his enemies better than his allies, it is also true that, on the market, knowing one’s competitors grants a company not only its survival but its development as well. And if one eye is focused on the outside, the other has to look within the organization because no company can afford to overlook its own internal management, especially as far as the financial economic aspect is concerned.

In the last decades commercial relations among countries have changed significantly, driven by the globalization impulse and the thunder of a competition that is no longer merely local but global. This is true for every economic sector and it affects each of the thousands of companies that make up the commercial landscape. Actually, what could once be defined “the productivity challenge” is nowadays an innovation and quality one. Consequently, the strength of a modern company is no longer measured just by the number of invoices it issues, but also by the image it communicates as well as the level of its customers’ loyalty.

Therefore, it is clear that in such a changing and competitive environment every company needs to look further, to move rapidly and, now more than ever, it has to think about what its strengths are, since these are the very elements which make a firm unique and uniqueness is the only guarantee for a better future.
strategic planning is necessary both to set goals and to determine how to achieve them. Being aware that companies today must deal with these new types of challenges we decided to choose one company among many others, in a sector among many others, in a country among many others. We then analyzed the current situation of Piquadro, an Italian enterprise that manufactures leather items designed to meet the needs of working and traveling people.

Background

Born in 1987 from an idea by Marco Palmieri, the brand has been able to develop in a very fast and dynamic way. Its mission: "To enhance the emotion of the product, placing it in the consumers’ dreams, even if this product is at the service of technology rather than fashion." Piquadro is now one of the most innovative Italian companies in the “luxury-leather goods” sector. Its products are the perfect blend between traditional Italian material processing and the most technologically advanced solutions.

This combination of tradition and Hi-Tech has been the key of its success. Through Environmental Analysis we are able to assess why it is necessary for the company to improve the technological contribution of their products in order to assert the brand on foreign markets in Europe and worldwide. It is also worth pointing out that the company has been on the stock market since 2007.

Design, comfort and technology are the three fundamental principles of Piquadro’s mission and the company considers research and development the main targets for its future growth. The constant attention to the technological innovation of the product is confirmed by the large portfolio of patents filed by the company. Another distinguishing factor is undoubtedly the all Italian design edited by a team of designers who know and interpret the company’s key values, developing cutting edge solutions and new materials. Moreover, Piquadro renews its style with the essential contribution of young talents by cooperating leading Italian and foreign design schools.

Due to their technological and design features the brand’s products’ life cycle is ample in comparison with other leather goods firms on the market, linked exclusively to the fashion factor. The current product lines cover different functions: from business bags to luggage and small leather items.

The typical Piquadro customer is a man (60%) or woman (40%) between 26 and 50, economically independent, a professional, graduate or young employee, has got both culture and money, open and attracted to new technologies, unique design and functionality of the product.

Piquadro currently trades in more than 50 countries by means of a distribution network which counts more than 1500 dealers and 79 of them are one-brand stores (46 in Italy). The organization directly chooses the available raw material on the Italian market with a focus on quality, aesthetics and technique.

The production was entirely moved to China in 2008: 40% of the production is performed in Zhongshan (South China), totally in accordance with the ethical and the quality European standards. The remaining 60% is outsourced in the same geographical area.

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Storage and logistics, two key factors for long-life-cycle products such as these, are found in the establishment of Gaggio Montale (Bologna), equipped with an automated warehouse capable of handling orders for 24-48 hours with an extraordinary efficiency. R&D, design, engineering, quality control, marketing, communication and distribution are centralized in the same Italian Piquadro head office. As for distribution, Piquadro uses two different channels: DOS (direct sales) and Wholesale (franchising).

The company’s current strategic plan to develop its presence on the national and the international markets can be summarized in the following five guidelines:

- Constant research and development;
- Expand and strengthen the brand’s presence internationally;
- Expand the distribution network by opening new franchised stores;
- Develop the offer in the sub-sector of women’s handbags;
- New communication strategies and brand development.

As far as strategy is concerned, research and intellectual property represent the company’s basic competitive points of strength.

PEST Analysis

PEST analysis allows a focus on the most important environmental factors influencing the company in question. The political, economic, socio-cultural and technological aspects are analyzed. In this way, a detailed and exact view of the context of the company’s situation is provided which gives the reasons for decisions taken in recent years to better understand the direction the company will take in the future and the motives that led to such considerations.

In the first place, the analysis of the political factors reveals that in this sense the company is not subject to any specific influence derived from the context: the only exception seems to be the decision of transferring the production to Asia, specifically to China. This initiative has in fact led to a series of measures mainly related to the trade regulations and work rules. As far as the first are concerned, the company feels the need to regularly test its products, in order to ensure a certain quality standard level. In that sense, it is worth mentioning the European regulations and directives all the company’s products are subject to. However, Piquadro is not affected by these standards in a negative way since its products have always proved to be in line with the standards of control, in this way giving the company a quality image. On the other hand, as far as the work regulations are concerned, Piquadro is affected in a positive way in terms of costs, since the production in China allowed their considerable reduction. At the same time, the different working attitude and environment have played a negative role given the peculiarities of the European and the Chinese realities. Nonetheless, the relocation of the production has not been a


decisive factor only from a political point of view, but also from an economic one: the use of Chinese workforce can reduce staff costs and other sector costs. The different location involves different costs not only in terms of workforce but also of energy, real estate, etc. Another economic factor worth mentioning is Piquadro’s ability to cope with the economic cycles, without being effected by any specific changes: the overall tendency consists in the steady company’s intention to take advantage of the changing economic factors in order to experiment and implement new winning strategies, as shown by the transfer of the production. In addition, the company has not reported lower income rates despite the crisis of recent years; this trend is partly due to the above listed reasons and in part to the type of target (medium-high) which the company addresses itself to.

In the second place the analysis of the socio-cultural factors reveals that the company is influenced in a positive way by many of them, such as demographics, income distribution, educational levels, factors related to lifestyle change. As regards these variables, the target Piquadro aims to address to has proved to be decisive: this is a medium high socio-economic class, since Piquadro mainly manufactures luggage and work items. It follows that factors such as demographics, distribution of income and educational levels do not produce relevant changes on the existing market. As far as the opening of new markets is concerned some considerations can be made; the target is decisively important when considering the opportunity to establish new markets. Therefore, a high variation in the purchasing power can affect the company’s sales, although it is useful to remember that the positive change in the average income in developing countries is a positive factor for the increase in revenues. This last aspect is also linked with the subject of the educational level present in emerging countries, which suggests a future increase in the income of the populations from these areas and, therefore, represents an opportunity for Piquadro. It is worth reporting that in recent years there has been a change in lifestyle and in the way work and free time are conceived. This is not a risk for the company, as the products it offers can cover both the sectors of work and travel products.

Finally, in relation to the technological factors, the company has been subject to a conflicting influence about the availability of co-operation and guidance to the development of new products: on one hand, the total lack of interest from the Italian Government, on the other hand the spirit of co-operation of some companies and universities. As regards the Italian government, evidence of potential developments of innovative products are still accompanied by a complete lack of adequate IT support and pragmatism. However, the company has been able to count on the participation of some of the firms which operate in the ICT field to fund the research and the development of several innovative products: among these Sagem, Tim, Windows and Samsung are to be mentioned. In addition, since 2002 the company has established an ongoing collaboration with various design institutions such as the IED


13 Image Building. Cartella stampa Piquadro [on line]. Page 8, La collaborazione con gli Istituti di Design. Available on:
of Milan and Barcelona and the University of Florence. Thanks to the great attention given to technology and design, Piquadro products are able to maintain an extended useful life span despite the periodic cycles dictated by fashion. Some aspects, such as the speed of technology transfer and the rate of obsolescence affect the organization since they become key research factors in the study phase of the product, with the aim of creating products connected not only to fashion, luxury and design, but also to technology and functionality.

**Competition**

The leather goods world market is characterized by a large number of competitors, from big international businesses to small local firms. The main product categories on the market include luggage and handbags, representing respectively 39% and 36% of the total number. Business items, the core production of the Group, represent only 8% of the total market. However, it should be noted that there are sharp differences between markets according to their geographical area. In Italy, for example, the product category which represents the highest percentage of the market is that of women's bags (40%), followed by leather accessories (29%) and luggage (12%).

The leather industry is highly fragmented, as it includes a large number of competitors with different characteristics and sizes which range from large global companies to small local firms. The number of international companies which offer a wide range of leather goods (such as Louis Vuitton, Hermes, Gucci and Prada) is relatively small; other businesses tend to focus on a specific product category. This is the case of Tod's, Furla and Coach for women's bags, Samsonite, Delsey and Roncato for travel goods and Tumi, Hartmann and The Bridge for business items.

The differences among competitors on the leather goods market determine a wide range of prices as well. The price usually depends on the importance of a brand and on distinguishing factors such as design, quality and innovation.

Piquadro's competitive market can be analyzed in relation to two different aspects: **Value Proposition**, namely the reasons for the product's purchase and the need the product is supposed to meet, and **Price Positioning**, which considers not only the consumers' purchasing power but also the reasons underlying the decision to purchase a specific product. As regards Value Proposition we can distinguish three types of product: **Performance Product** when it is designed to satisfy a specific purpose (document transportation, travel, etc.), **Fashion product** when its design depends mainly on fashion trends, **Lifestyle Product** when it is distinctive of a particular lifestyle or social status. According to Price Positioning three different classes of products can be distinguished: **Medium/Low** for affordable items, **Premium** for aspirational articles; **Luxury** for exclusive products.

Piquadro classifies its products as **Premium/Performance** and it combines the

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aspirational content of its collections with the ability to meet a specific need.\(^\text{17}\)

In order to succeed over competitors Piquadro should focus on the improvement of its products’ performance mainly through technological innovation and provide new solutions before its competitors to overcome the main barriers imposed on the product by its traditional use, developing new technological-related features.

Finally, it is important to notice that in recent years the leather industry has undergone a positive trend, with an annual growth rate exceeding 3%. In particular, the category of women’s bags exceeded the annual growth average of the market, recording a 5.3%, while the category of luggage recorded an annual growth of around 2%. \(^\text{18}\)

Economic and Financial Analysis

The following section briefly reports the results of the analysis in order to evaluate the company’s economic and financial performance. The main economic and financial indicators have been taken into account. It is worth noting that the company’s turnover on 31\(^{th}\) March 2010 (Piquadro fiscal year closes in March) was €52.2 million\(^\text{19}\), with an increase of 1% compared with the previous year and an average growth of 21.1% during the last six years. \(^\text{20}\)


\(^\text{19}\) Piquadro. Financial reports. Italian stock exchange Website. [Consulted on: January 17\(^{th}\) 2011]. Available on: www.borsaitaliana.it


From the income statement and balance sheet data of the last five years the trend of the company can be clearly identified thanks to the economical and financial indicators.\(^\text{21}\)

<table>
<thead>
<tr>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
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<tbody>
<tr>
<td>Sells (S)</td>
<td>23.572</td>
<td>35.742</td>
<td>45.982</td>
<td>51.701</td>
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<tr>
<td>Operating Margin (M_o)</td>
<td>5.336</td>
<td>9.612</td>
<td>12.201</td>
<td>12.525</td>
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<tr>
<td>Profit (P)</td>
<td>3.059</td>
<td>5.320</td>
<td>6.485</td>
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<tr>
<td>Equity (E)</td>
<td>4.908</td>
<td>7.817</td>
<td>12.378</td>
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<tr>
<td>Invested Capital (K_i)</td>
<td>29.259</td>
<td>36.008</td>
<td>41.357</td>
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<tr>
<td>Operating Capital (K_e)</td>
<td>16.494</td>
<td>19.086</td>
<td>24.115</td>
<td>27.319</td>
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<tr>
<td>B.T. Liabilities (L)</td>
<td>10.219</td>
<td>14.035</td>
<td>15.644</td>
<td>17.555</td>
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<tr>
<td>Stock (St)</td>
<td>4.495</td>
<td>6.456</td>
<td>8.290</td>
<td>6.667</td>
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<tr>
<td>Actual Currency (C_a)</td>
<td>3.685</td>
<td>4.050</td>
<td>2.251</td>
<td>6.396</td>
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</tbody>
</table>

**Table 1 – Data extraction**

Source: Personal elaboration, Balance sheets 2006 – 2010, Piquadro

<table>
<thead>
<tr>
<th>INDICATOR</th>
<th>FORMULA</th>
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<tbody>
<tr>
<td>R.O.I. (%)</td>
<td>(M_o/K_e)x100</td>
</tr>
<tr>
<td>R.O.S. (%)</td>
<td>(M_o/S)x100</td>
</tr>
<tr>
<td>R.O.E. (%)</td>
<td>(P/E)x100</td>
</tr>
<tr>
<td>Debt Incidence</td>
<td>K/E</td>
</tr>
<tr>
<td>Financial Independence</td>
<td>E/K</td>
</tr>
<tr>
<td>Stock Incidence (%)</td>
<td>(St/K)x100</td>
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<tr>
<td>Currency Ratio</td>
<td>(C_a + C_t)/L</td>
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</tbody>
</table>

**Table 2 – Indicators**

Source: Personal elaboration

<table>
<thead>
<tr>
<th>INDICATOR</th>
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<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>R.O.I. (%)</td>
<td>32,35</td>
<td>50,36</td>
<td>50,6</td>
<td>45,85</td>
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<td>R.O.S. (%)</td>
<td>22,64</td>
<td>26,89</td>
<td>26,53</td>
<td>24,23</td>
<td>22,57</td>
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<tr>
<td>R.O.E. (%)</td>
<td>62,33</td>
<td>68,06</td>
<td>52,39</td>
<td>43,09</td>
<td>32,49</td>
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<tr>
<td>Debt Incidence</td>
<td>5,96</td>
<td>4,61</td>
<td>3,34</td>
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<td>2,46</td>
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<tr>
<td>Financial Independence</td>
<td>0,17</td>
<td>0,22</td>
<td>0,3</td>
<td>0,34</td>
<td>0,41</td>
</tr>
<tr>
<td>Stock Incidence (%)</td>
<td>15,36</td>
<td>17,93</td>
<td>20,04</td>
<td>13,04</td>
<td>10,55</td>
</tr>
<tr>
<td>Currency Ratio</td>
<td>1,31</td>
<td>1,25</td>
<td>1,33</td>
<td>1,77</td>
<td>1,91</td>
</tr>
</tbody>
</table>

**Table 3 – Indicators calculation**

Source: Personal elaboration, Balance sheets 2006 – 2010, Piquadro

The analysis which results from these data shows that the economic and financial situation of Piquadro is stable. In fact, ROI, ROE and ROS prove that the company has a good economic return from the investments it makes, it succeeds in creating positive cash flows and in having a satisfactory economic return on equity, despite the decrease in percentage. It is also worth pointing out that the financial independence of the company has increased thanks to debt relief and reinvestment of benefits within the company itself, proving it free from the pressure of external funders. At the same time, the low debt ratio allows Piquadro to ask for new loans in order to finance its assets without affecting its current independence. Finally, the company’s currency ratio shows a great capacity to cope with future outflows resulting from the maturity of current liabilities by means of future revenues deriving from the realization of current assets.

Technology and science

One of the key points of Piquadro’s strategy is to keep offering new products, expanding investments in research and development in order to search for new materials and innovative solutions. The past commitment shown by the company in this sector is witnessed by the large number of highly innovative and technologically advanced items, unusual for a sector like the traditional leather goods manufacturing. To name a few, the ecological bag label launched in the Jungle Collection in 2009 was the first bag on the market made of tecnomatrix material, a mixture of linen, polyurethane and white leather manufactured with a low environmental impact production process. Thanks to its partnership with SPD, Piquadro produced bags provided with a high-performance power generator to recharge phones and laptops. Furthermore, many partnerships have been placed to create special projects such as six limited edition items dedicated to the launch of Windows 7, P-Mobile in collaboration with Samsung, the ING Renault F1 Team equipment and the Fiat Yahamah Team equipment.

Environmental sustainability, energy and new materials, were the keywords of Piquadro’s innovation. But how has the market moved towards these directions? There is no single and relevant answer to the question but a series of fragmented actions undertaken by large and small companies. Pensy Maiden, manufacturer of eco-friendly bags with a clean and original style, takes the environmental sustainability as a mission, but its reference target and the volume of its business do not allow the brand to rank among the direct Piquadro competitors. In the field of energy special bags have been patented which use solar energy, but these projects are not yet supported by a prestigious brand and they gained little visibility on the market. The search for new materials is a field which sees a competition with several internationally renowned companies, such as the aforementioned Tumi and the giant Samsonite, whose research and development strategies have exponentially increased in recent years. In order to support its growth on the market Piquadro should set innovation as its main objective, looking for unexplored solutions and applying new technologies to serve the emerging consumers’ needs anticipating its competitors’ moves.

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Strategy

The Group strategy is identified by the constant growth in the sector of luggage and work items, with a particular attention to the capitalization of the key values associated with the brand: the unique combination of high quality, technological innovation, design and ergonomic efficiency.

In the near future the company is going to undertake different tasks at a strategic level. First of all, Piquadro identified the opportunity to improve its distribution through internationalization: the company’s aim is to widen its distribution network, particularly abroad, through the reproduction of the same business model implemented in Italy. Since 2008 the company has started to turn to European markets by opening stores in shopping centres in the most important European capitals, such as Madrid, Monaco, Paris and London. As far as the expansion of the franchise network is concerned, the strategic plan for the future focuses on the opening of new stores both in Italy and in Europe. Moreover, the company is considering the opportunity to extend its network by investing in retail stores in high-potential-return areas, such as Asia, with the support of joint ventures between the company and local entrepreneurs.

In relation to the existing markets, Piquadro is going to strengthen its co-operation with various European department stores in order to increase its presence on strategic markets. In the second place, the company aims to widen its range of products, particularly in the travel goods and handbags sectors, taking advantage of its know-how about leather products as well as of its existing distribution network which is constantly growing.

In addition, Piquadro feels the need for a constant research in the innovation and quality sectors. For this reason, the company annually invests most of its resources in research and development in order to study materials and innovative solutions and to discover new methods to improve the design of already existing products. In order to accomplish this, Piquadro regularly performs studies on new technologies especially in the fields of eco-sustainability, energy and new materials. Thus, the company has established several partnerships with research institutions, universities and other enterprises. Finally, the Group intends to maintain a high level of profitability in current operations.

Conclusions

The company has been described under several points of view: at first, its relations with the external environment have been analyzed; secondly, its competitiveness on the market; then the evolution of its economical and financial situation and its efforts in terms of research and development and finally, the company’s planning strategies.

From the context analysis and specifically from the PEST analysis, the company’s most determining factors have been identified as the socio-cultural and technological ones. Over the next few years, the company will probably continue to be influenced by the same factors, with additional attention to the technological ones. Apparently, the company’s network of co-operations with universities and design schools will be increased in order to maintain its creativity. These will involve other ICT companies as well, in order to develop new advanced products, in terms of design and technology. Moreover, it is reasonable to assume that

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Piquadro’s market network will expand despite the current economic crisis, since a market growth has been recently recorded. Besides, by analyzing the competitive environment and market, it worth noting that the company has recognized the need to strengthen its presence within the sub-sector of women’s bags²⁶, in line with the market demand. The company has identified this as one of the key objectives for its upcoming strategy and it will study and implement alternative solutions regarding both design and practicality. A steady interest in the company’s innovation and internal development has been detected which will allow the firm to react to any change in the customers’ lifestyle and, therefore, in the market demand. Piquadro has once more proved to be ready to cope with changes, considering them as a new challenge for the study of new products and the improvement of the existing ones. The company’s commitment shows itself in the steady interest and effort in the improvement of the practicality of its products and in the introduction of more competitive new articles in terms of innovation and technology solutions, without stooping to compromises in terms of design and quality which are the company’s driving forces. Summing up, if enterprises want to survive on the current unstable market, they have first of all to enjoy a good economic and financial situation, as Piquadro shows through its indexes, and then they have to be aware of their internal strengths and weaknesses, as well as of the opportunities and threats coming from the outside. Piquadro plans its strategies on the base of these factors, achieving objectives in line with its needs.


This allows Piquadro to keep up with the modern challenge and to be one of the most important investors in R&D, without losing the typical charm of Italian craftsmanship.