



New challenges and the future of Italian superyacht yards

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Abstract

This work aims to acquire greater knowledge on the structure of heterogeneous oligopoly in the superyacht production industry, and to investigate how the fierce competition mounted by newcomers who seek to beat down the price of superyachts can lead to problems for the large European, American and above all Italian yards as well as small accessories manufacturers. As a reference point of this study attention will focus on the Viareggio cluster whose companies are recognized as ranking first in all the international classifications. If stiffer competition or a decline in demand or, above all, sharply predatory prices set by the newcomers, were to create severely adverse conditions, the large companies in EU and USA and particularly in Italy mounting their counter-attack.

Keywords: Shipyards; Superyacht; New comers; SMEs; Italian superyachts; Competition.

1. Introduction

This work aims: to acquire greater knowledge on the structure of heterogeneous oligopoly in the superyacht production industry and to investigate how the fierce competition mounted by newcomers who seek to beat down the price of superyachts can lead to problems for the large European, American and above all Italian yards as well as small accessories manufacturers. As a reference point of this study attention will focus above all on the well known Viareggio cluster.

In the first section in depth the main countries, the most important shipyards, the structure, performance and conduct of the superyacht industry are examined.

In the second section the fierce battle to capture a share in the megayacht production market is underlined. Financially aggressive new entrants such as Taiwan or Hong Kong, China, or Dubai and others, have now entered the battle.

All these new comers are low labor costs countries and all the shipbuilding countries are endeavoring to ensure that their yards capture not only the markets of the rich

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Western countries but also at least a part of the Middle Eastern markets and the emergent markets of Russia, India and the Far East as well as demand from the charter companies.

In conclusion we suggest that if stiffer competition or a decline in demand or, above all, sharply predatory prices set by the newcomers, were to create severely adverse conditions, the large companies in EU and USA and particularly in Italy declare that they are already reducing costs with various different methods. Among the latter, the following are of considerable importance: an already highly accentuated process of consolidation and diversification in the field of superyacht services, marinas, hotels is being further speeded up; production systems similar to those characterizing the automobile sector are increasingly adopted; a further process of selection of suppliers/outsourced enterprises is being undertaken, retaining close cooperative links only with the best suppliers and moving towards a more vertically integrated organization; the shift towards buying all or part of the accessories from the more esteemed SMEs that are developing in the newcomer countries, and/or towards expanding relations with international suppliers, is already well under way; finally, delocalizing all or part of production in emerging countries has already begun.

We specify that even if the issue is of a great interest, unfortunately the scientific literature doesn't treat it; only statistical data are available.

2. The superyacht industry

2.1 A special industry

Analysis of the structure of superyacht shipyards requires a number of complex considerations. *Firstly*, it is important to note that superyachts represent a very special type of production, they are situated in the top range of the pyramid of luxury (Icomia 2005) and currently account for about 40% in value of the world nautical market. Luxury yachts are extremely costly products in the supreme luxury range.

These "super-yachts" cannot fail to be privy to a very wealthy clientele that, in the glossary of high finance is defined as "ultra high net worth individuals". This elite category includes those individuals with financial assets of over thirty million dollars. In 2002 the number of "ultra high net worth individuals" present around the world amounted to about 60,000, of which more than half evenly distributed between the USA and Europe.

The fact that from 1996 to 2002 the number of "ultra high net worth individuals" rose by 60% shows how even a negative macro-economic result has a lesser impact on this clientele compared to the average one of the sector. The ultra-high net worth individuals (UHNWIs) is comprised of people with financial assets in excess of US\$37.2 trillion. In the global population, they represent approximately 1% of the total high net worth population (Source: Merrill Lynch, <http://www.capgemini.com>; Global Private Banking/Wealth Management Survey 2006, PricewaterhouseCoopers). Three years ago, *Forbes* magazine listed 476 billionaires on its list of the world's richest people. The magazine's most recent list, released in March 2006, shows the number of billionaires around the globe has climbed to 793. This cannot fail to be reflected also in

the demand for super-yachts, these too marginally affected by the general economic trend, for these boats, in fact, literature speaks of anti-cyclical demand. Thus the demand of superyachts keep on with factors such as perception of one's personality, exclusiveness and uniqueness in the sense that it is impossible even for the rich to own a similar product of niche.

Secondly, it should also be noted that the growth of world GNP has influenced demand for these special luxury goods (normal luxury goods are typically dependent on the economic cycle). The great increase in world GNP after 2002 has led to a rise in the number of the super rich in some countries (in 2003 GNP rose by 4.0%, in 2004 by 5.1%, in 2005 by 4.3%, in 2006 by 4.3%, Source IMF).

The growth of the economic worldwide cycle affects the demand for superyachts in the sense that the rich who are not sufficiently affluent to be able to purchase and maintain superyachts may opt instead to hire them. Thus superyacht hiring is a financially profitable investment for the chartering companies engaged in this rental sector. In addition to purchasing for hiring, as is typical of chartering companies but also banks and financial institutions (which frequently use yachts as venues for corporate hospitality events with their best customers), other forms of purchasing can also be found, such as shared ownership.

2.2 Superyachts: countries and shipyards.

The Global Order Book 2006 of Showboat International reports that 688 projects (81,852 feet of yachts) are currently contracted or under construction. Italy retained its position as the world's leading luxury yacht-building nation, with 260 units (29,804 linear feet of boats). The United States ranked second in that category, with 85 units (10,621 linear feet). The Netherlands and the United Kingdom retained third and fourth place, respectively, while Germany surged to fifth place.

Table 1: Top 10 countries in 2006.

<i>Country</i>	<i>Total length in meters</i>	<i>Average length in meters</i>	<i>N° of project</i>	<i>Rank 2005</i>
1 - Italy	9084,26	35,05	260	1
2 - USA	3237,28	38,10	85	2
3 - Holland	2430,17	46,63	52	3
4 - UK	1602,94	29,26	55	4
5 - Germany	1414,58	74,37	19	6
6 - China	1092,10	30,48	36	8
7 - Taiwan	1045,46	28,35	37	5
8 - Denmark	907,08	31,39	29	9
9 - NewZealand	740,97	46,33	16	7
10 - France	462,08	38,40	12	10

Source: ICOMIA.

On the strength of its total construction, Azimut-Benetti (I) retained its position as the world's leading builder, while the Ferretti Group (I) held its position in second place. Sunseeker (UK) advanced to third place, supplanting Rodriguez Group, which fell to fourth (Rodriguez produces only semicustom superyachts). Royal Denship (NL), which

ranked ninth last year, jumped to fifth place. We point out that Germany and the Netherlands in the custom motor superyacht business produce superyachts with a length longer than all other countries in EU.

Table 2: Top 20 Shipyards in 2006.

<i>Shipyards</i>	<i>Total length in meters</i>	<i>Average length in meters</i>	<i>Number of projects</i>	<i>Rank 2005</i>
1 - AzimutBenetti	2575,56	37,19	69	1
2 - Ferretti Group	2555,77	32	77	2
3 - Sunseeker	1329,84	27,13	49	4
4 - RodriguezGroup	1035,71	28,65	36	3
5 - RoyalDenship	907,08	31,39	29	9
6 - Fipa Group	718,72	34,14	21	-
7 - Feadship	642,21	58,22	11	6
8 - Lurssen	631,55	70,1	9	5
9 - Horizon	604,42	27,43	22	11
10 - Trinity	579,42	48,16	12	8
11 - Westport	571,2	38,1	15	7
12 - Heesen	500,48	41,76	12	19
13 - Sensation	464,82	51,51	9	13
14 - PeriniNavi	446,23	55,78	8	15
15 - Hatteras	402,34	24,99	16	12
16 - Kha Shing	331,93	30,18	11	10
17 - Cheoy Lee	317,6	28,96	11	-
18 - Burger	297,79	42,37	7	80
19 - Amels	295,35	59,13	5	14
20 - Christensen	283,77	47,24	6	17

Source: Showboat International 2006.

It is worth noting that Italian shipbuilding industry is in continual growth: over the last years (2003-2005) it has gone from 33.5% to 38.2% of the total output, almost 5 percent in only 3 years.

But since 2004 also the growth of shipyards of the so-called emerging countries with lower labor costs has been considerable: in 2006 the ten yards of Taiwan that are active in the sector of superyacht production, in which they have been present for quite some time, have orders for 37 yachts. We underline that Taiwan is also planning a 46.5 hectare yacht manufacturing center for small accessories or third party manufacturers, which are expected to provide support above all for superyacht construction.

Four Chinese yards (Cheoy Lee, CMI, Kingship, Marlow Marine), despite having only recently entered this particular sector, already boast 36 orders.

In Moscow, where there are three yards (MCC3, Hotchya, Nakhimov), there is undeniably a development of superyacht construction specifically oriented towards large constructions made of steel based on know-how acquired in the building of metal ships, above all military vessels.

In Poland a number of yards, among which Royalship plays a prominent role, have been converted for use in the construction of large recreational boats. Brazil registered one yacht on the order book in 2001, this year's list shows three yards building 11 yachts. Also worth mentioning are the large united shipyards of Dubai in the UAE, the

seven Turkish yards, one in Argentine Philippines, those in Croatia etc. Source: Global Build Report, 2005-6, Luxmedia Group.

Competition is becoming fiercer and even though the engines, the steel, various parts, famous naval architects or special skills have to be bought in on the international market at the same price for all purchases, the low labor costs enable the new yards to achieve considerable savings.

2.3 Structure of the market

On the worldwide level, the structure of megayacht construction yards is that of heterogeneous oligopoly.

In heterogeneous oligopoly a small number of large yards dominate the market. Each country has just a very few large yards, a number of medium-sized yards and a plethora of small yards which may engage in independent production activity or work as third parties, or may undertake refitting, or possibly only wintering, or in some cases a mix of all these activities. The small yards may produce one or two superyachts roughly every two years (which represents the average length of time required for completion of a yacht). All the large and medium yards with their wide range of small suppliers (accessories manufacturers) assemble the products in the yard that bestows its own brand on the superyacht. (D. Cazzaniga Francesetti 2005).

The presence of strong demand enduring over time, as has been the case during approximately the last ten years, together with a context of recognized tradition and capacity, may also lead to new entrants. Thus in countries with a well-known tradition in this type of construction (USA and Europe) small/medium-sized yards may enter the market. (On account of world mean yard size, these yards are considered small in the main producing countries, but the number of employees are above the world average in the USA. The world average stands at roughly 20 employees, Source Icomia.) However, this should not be confused with the case of new entrants in low labor cost countries, where new entrants on this growing market represent often a speculative investment.

The Viareggio cluster, whose ramifications extend throughout Tuscany, will be taken as the reference point of this study, on the basis of its world-wide fame. Data from 2005 show that Tuscany has one of three major internationally esteemed Italian yards, Benetti (Azimut-Benetti) located in Viareggio, the second is Ferretti located in Forlì, and at a distance the third: the Rodriguez group.

The cluster in Tuscany features roughly 229 small/medium-sized yard companies involved in recreational boating, 26% of these being located in Viareggio. In addition, the Tuscan cluster includes roughly 450 small accessories manufacturers (producers of goods and services). These are mainly located in Viareggio and the surrounding Lucca area (27%), 11% in Massa Carrara and a similar percentage (11%) in Pisa.

Some of the medium-sized yards located in Viareggio, known on a world level, likewise produce superyachts with the typical assembly procedure used throughout the world in both large and small/medium shipyards. It is worth mentioning medium-sized yards such as: Codecasa, CBI Navi Viareggio, Overmarine 1 and 2, Polo Nautico, Versilcraft, Italyachts, Tecnomar, Antago, Falcon (owned by Spreafico), Cantieri Riva (owned by Ferretti). In the surroundings of Viareggio one also finds medium-sized yards, some owned by the major Italian protagonists, who draw advantage from the closeness to Viareggio, such as Cantieri Arno (Rodriguez), Cantieri di Pisa (Camuzzi),

Cantieri Rossi, Fita Maiora. Both the large and medium sized yards make use of the SMEs of the Tuscan districts (for example the furniture-making district) and of the enterprises belonging to the cluster.

It may seem surprising that quite a number of yards which are far from large have orders for yachts over 24 meters. But this is precisely due to the fact that the demand is growing and that Viareggio has achieved solid international renown as a producer of large recreational craft.

Alongside the yards, in Viareggio highly skilled workmanship are assured at very high level by the galaxy of accessories manufacturers of the local system, the districts and the third parties that surround the megayacht construction yards. Fine craftsmanship is not only an intrinsic feature of the central assembly yard. It is worth to emphasized that accessories manufacturers do not serve merely the national and international shipyards, but also pleasure harbors and private or chartered boats or other customers who constitute important market segments.

In effect, Viareggio has become a 'brand', and producing in Viareggio is now a guarantee.

2.4 Performance and conduct

Superyachts are either totally custom-made or are 'semicustomized' products but it is always problematic to distinguish between custom and semi-custom yachts. It is important to note that in the superyacht construction sector the large yachts, have a partially industrial character. The 'industrial' aspect refers to the materials used for megayacht construction. The use of steel or fiberglass implies an industrial type of production as compared to the earlier wood treatment processes performed by shipwrights.

Semicustomized yacht production allows preparation and delivery times to be speeded up, with the benefit that the challenge of competition can be faced more successfully and marketing activities aimed at satisfying the demands of impatient customers are facilitated. The larger yards have a substantial share of profits from these preconstructed vessels. Profits are higher as customers' requirements can be met promptly. As is frequently the case for successful yacht designs, a small series of identical hulls is produced, each of which will then be personalized according to the customer's desires and under the customer's supervision. The demand for semicustomized yachts is increasing, as the range of customers now includes not only individual purchasers but also the chartering companies (which also purchase a substantial quantity of second-hand yachts).

At the same time, a new philosophy highlights the production not only of semicustom yachts but also of totally custom-made superyachts. For the industry this means increasing investment in Research and Development and involving all SME suppliers of the main components in a model of a 'shared platform'.

The 'platform' approach to product development means accelerating time to market and getting it right the first time. 'Platform' is a team of professionals who work together on the design of a new boat from the start under the guidance of the large yard. With this approach, the supplier can pre-assemble the parts *as in the car industry*, but this implies that suppliers must learn know-how in a drive to improve performance by the

combined use of R&D, computer-aided design and expertise. Clearly, however, in this perspective the dependence of SMEs on the larger company is intensified.

The LVMH Group and Azimut group are implementing this model. Owing to the high labour and wage costs as well as high technological capabilities that characterize the European (and, within Europe, the Italian) production landscape, these companies in the boat-building sector here, like their counterparts in other manufacturing segments, are increasingly orienting themselves towards technology-based mass production methods.

The costs and the prices of superyachts cannot be defined univocally for all yards and all yachts as they depend on volatile elements such as the fame of the yard and the designer, quality and innovative character of the fittings that are typical of the particular yard in question, perception of the luxury of the interior fittings, the latter being the most costly aspect: according to P. Miller of IUMI (2002 data), 30% of the costs are attributable to 'interior design and fittings', plus 3% of 'extras' and 'special equipment'. An increase of just a few meters in the length of the yacht may double the overall price.

Megayachts are often a *brand* of a large nautical company, or sometimes of a large conglomerate, due to the considerable financial backing required.

2.5 Concentration

The first thing to underline is the considerable concentration of the market: in fact the first 4 countries (Italy, the United States, the Netherlands, the UK) represent overall the biggest share (over 60%).

Yet the overall degree of concentration in the main superyacht producing countries decreased from 2003 to 2004 as compared to 2004-2005.

For the 2004-2005 shipbuilding year all the main industries/countries show a diminishing market share, with the exception of Italy and the United Kingdom which shows a trend inversion.

Tabel 3: Number of orders: Italy, USA, Holland, UK, New Zealand, World.

	Italy	USA	Holland	UK	<i>NewZealand</i>	WORLD
2000	100	78	50	8	17	317
2001	140	86	53	17	15	428
2002	170	99	61	18	22	505
2003	178	82	65	34	22	481
2004	189	76	49	33	22	507
2005	249	97	48	58	22	651
2006	260	85	52	55	16	688

Source: UCINA, ICOMIA, 2006.

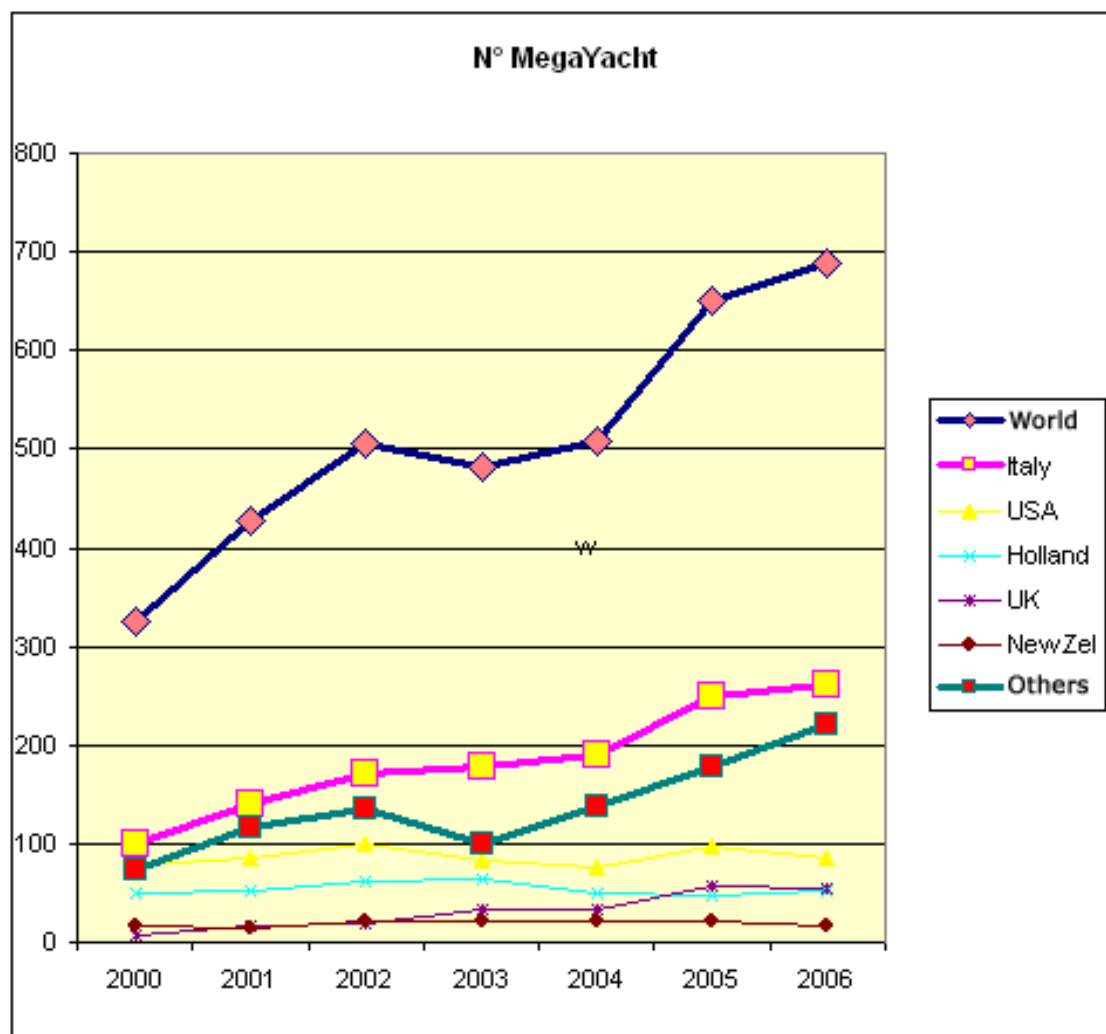


Figure 1: Orders: Italy, USA, Holland, UK, New Zealand, World.

Demand's growth push Europe's boat-building industry into a transformation to even stronger industrial manufacturing and a stronger consolidation of companies.

The top ten companies generate more than one quarter of Europe's total market volume. The top three companies in Europe and in the world (2006) Azimut-Benetti, Ferretti, Sunseeker, account for more than 10% of total market sales.

We show two examples.

The Azimut-Benetti group consolidated and systematically diversified its position: in 2000 it acquired the Lusben area in Viareggio and set up a boat repair and maintenance service center, with a roughly 40 berth private marina. During 2001 the group took over the Gobbi-Sariano yard of Piacenza and the yard of Fano in the Marche region, and in 2003 the Orlando yard in Livorno. It also entered into commercial agreements with Fraser Yachts World-wide and with Fincantieri for the design, building and marketing of steel megayachts over 70 meters long. The group can offer a service covering the complete cycle, from construction and management to the hiring of exclusive yachts for a select clientele. In addition, it organizes marinas and has interests in the hotel sector.

Ferretti is second of the world's leading manufacturers of high performance luxury motor yachts (2006). The group has grown the business significantly both organically and via complementary acquisitions. In 1998, Ferretti acquired Bertram Yachts and

Pershing, CRN in 1999, Riva in 2000, Apremare and Mochi Craft in 2001, and Itama in 2004. Now the business operates through nine leading brands: Ferretti, Pershing, Itama, Riva, Apremare, CRN, Custom Line, Mochi Craft and Bertram, all focused on the top end of each market segment. Permira acquired the Group in 1998, brought the Company public in 2000 and took it private again in 2002.

On 2006-11-07 Candover and Permira, announce the acquisition by Candover of a majority stake in Ferretti SpA ("Ferretti") from Permira. Majority equity funding is being provided by the Candover 2005 Fund (approximately 60%) with Permira Funds, Norberto Ferretti, Chairman, and his management team re-investing the remaining 40%. The acquisition is conditional upon EU antitrust approvals.

But this strong concentration-consolidation to favor economies of scale and to improve the market control must take into account new phenomena.

3. New comers and competition

The annual growth rate of the global recreational superyacht market was over 20% from 1998 to 2006. It is clearly a highly attractive market.

It is not only Italy, the USA, New Zealand, Holland, UK, Germany and other traditional production countries that are engaged in a fierce battle to capture a share in the megayacht production market. Other (above mentioned) financially aggressive new entrants such as Taiwan or Hong Kong, which has construction yards in China, or the United Arab Emirates with shipyards in Dubai and others, have now entered the battle.

All these new comers are low labor costs countries and all the shipbuilding countries are endeavoring to ensure that their yards capture not only the markets of the rich Western countries but also at least a part of the Middle Eastern markets and the emergent markets of Russia, India and the Far East.

The most interesting feature is that all the new entrants seek to avail themselves of highly skilled operatives and top ranking naval architects: in other words they "buy" in the USA and Europe not only the design engineers but also the outsourced/accessories manufacturing firms and the best workers and fitters for the period of the fitting out the boat. Thus local craftsmen learn by the Western know how.

The new entrants once again demonstrate the extremely competitive and globalized nature of the sector.

Within this far-reaching international panorama, China is beginning to occupy a special position (D. Cazzaniga Francesetti, 2006). For instance in July 2004 Kingship, financed by capital from Hong Kong, opened a shipyard at Zhongshan on the estuary of the Pearl River in Guangdong, only 40 km from Canton. A number of other superyacht producers are also present in China, such as Cheoy Lee Shipyards of Hong Kong, the foreign companies Marlow Marine and CMI Custom Marine International, financed by American capital.

Yet according to reliable forecasts there will be no domestic market in China for another 10 years or so. Thus, taking a quick look at an example, Kingship is already producing luxury yachts for foreign customers. The yard carries out on-boat assembly of international products deriving above all from Dutch and American accessories manufacturers who do not yet find it advantageous to delocalize but who send their own experts for the assembly phase. Kingship also assembles Chinese products, which

increasingly are high-quality products as shown by their success at international trade fairs such as Mets at Amsterdam.

Thus even the Chinese yards are adopting the production model whereby it is the large yard that assembles the parts manufactured by other smaller enterprises, including the local SMEs.

The aim of Kingship, with the two superyachts that the yard has already produced and a similar number in progress, is to build up a strong position on the domestic and international market. Like other shipyards in China, Kingship is adopting a strategy that seeks to train and take on the greatest possible number of employees. At present they have 200 employees but they aim to reach 500, in order to have the capacity to assemble up to 7 yachts at a time.

All the newcomers set their prices much lower than Italian levels or those of other European countries, and likewise lower than American levels, despite the fact that they have to accept the international prices of many of the parts to be assembled. But the core of their challenge is always based on price.

Despite the fact that their purchasers are immensely wealthy, the markdowns are such (even up to 30%) that the substantial reductions prove highly attractive. In particular these superyachts are attractive if the boat is destined to be used by chartering companies.

The growth, but also the cases of rapid disappearance, of large yacht yards demonstrates the rising attraction and the difficulties of the international nautical luxury business (speculation investments). Source: Yachts Magazine, Global Build Report 2004-2005, LuxMedia group.

Although the growth of orders in 2006 even Italy lost a few points despite benefiting from 37 new orders, by virtue of which it raised the performance, i.e. the total market share of the first four countries.

This decrease (see particularly the Netherlands and the USA) followed by an overall growth of the whole international order book is certainly the symptom of an increasing level of competitiveness on the luxury vessel market. It is also a result of the entry of new shipbuilding industries from the so called emerging countries, which until not long ago could be defined as of little importance in this sector. Basically, the exceptional increase of 144 orders in 2005 resulted in a favorable outcome for numerous yards not belonging to the four major countries.

But a much more interesting aspect is the presumed growth trend, see Figure 2. The 'other' countries, which do not include New Zealand since the latter is not a low labor cost country, are experiencing an increase that appears to be unstoppable; it is countered only by the continuous growth trend of just one country, namely Italy, while the USA, Germany, Holland, the UK and New Zealand seem to be undergoing a marked decline, at least as far as number of orders is concerned.

Maybe, in few years, the newcomers (the 'others') will outstrip European yards – among which Italian yards – and those of America.

The great fame of Italian production in this sector to some extent shields it from the challenge of competition by newcomers. However, the great Italian shipyards are already preparing to defend themselves against the danger represented by the low prices of the newcomers (see the project to form 'platforms', consolidation of the larger yards, diversification in the field of superyacht services, marinas, hotels etc).

But in Italy, in particular, there exists another problem for the larger yards. The problem consists in the fact that the greatest competition faced by the major Italian

yards comes not only from abroad, that is to say from the traditional American, European, New Zealand competitors and the new comers, but also from within Italy itself.

A considerable number of small/medium-sized Italian yards have been set up in the wake of the rise in worldwide demand and the success of the Italian style. The presence, mentioned earlier, of numerous medium-sized yards producing superyachts in Viareggio is a very obvious example of this phenomenon.

Tabel 4: Trend of market shares of the main production countries.

	Italy	USA	Holland	UK	New Zealand	Others
2000	31,55%	24,61%	15,77%	2,52%	5,36%	20,19%
2001	32,71%	20,09%	12,38%	3,97%	3,50%	27,34%
2002	33,66%	19,60%	12,08%	3,56%	4,36%	26,73%
2003	37,01%	17,05%	13,51%	7,07%	4,57%	20,79%
2004	37,28%	14,99%	9,66%	6,51%	4,34%	27,22%
2005	38,25%	14,90%	7,37%	8,91%	3,38%	27,19%
2006	37,79%	12,35%	7,56%	7,99%	2,33%	31,98%

Source: Our elaboration from UCINA, ICOMIA data.

Tabel 5: Annual Growth %.

	World	Italy	USA	Holland	UK	New Zealand	Others
2000							
2001	35,02%	40,00%	10,3%	6,0%	112,5%	-11,8%	60,3%
2002	17,99%	21,43%	15,1%	15,1%	5,9%	46,7%	15,4%
2003	-4,75%	4,71%	-17,2%	6,6%	88,9%	0,0%	-25,9%
2004	5,41%	6,18%	-7,3%	-24,6%	-2,9%	0,0%	38,0%
2005	28,40%	31,75%	27,6%	-2,0%	75,8%	0,0%	28,3%
2006	5,68%	4,42%	-12,4%	8,3%	-5,2%	-27,3%	24,3%

Source: Our elaboration from UCINA, ICOMIA data.

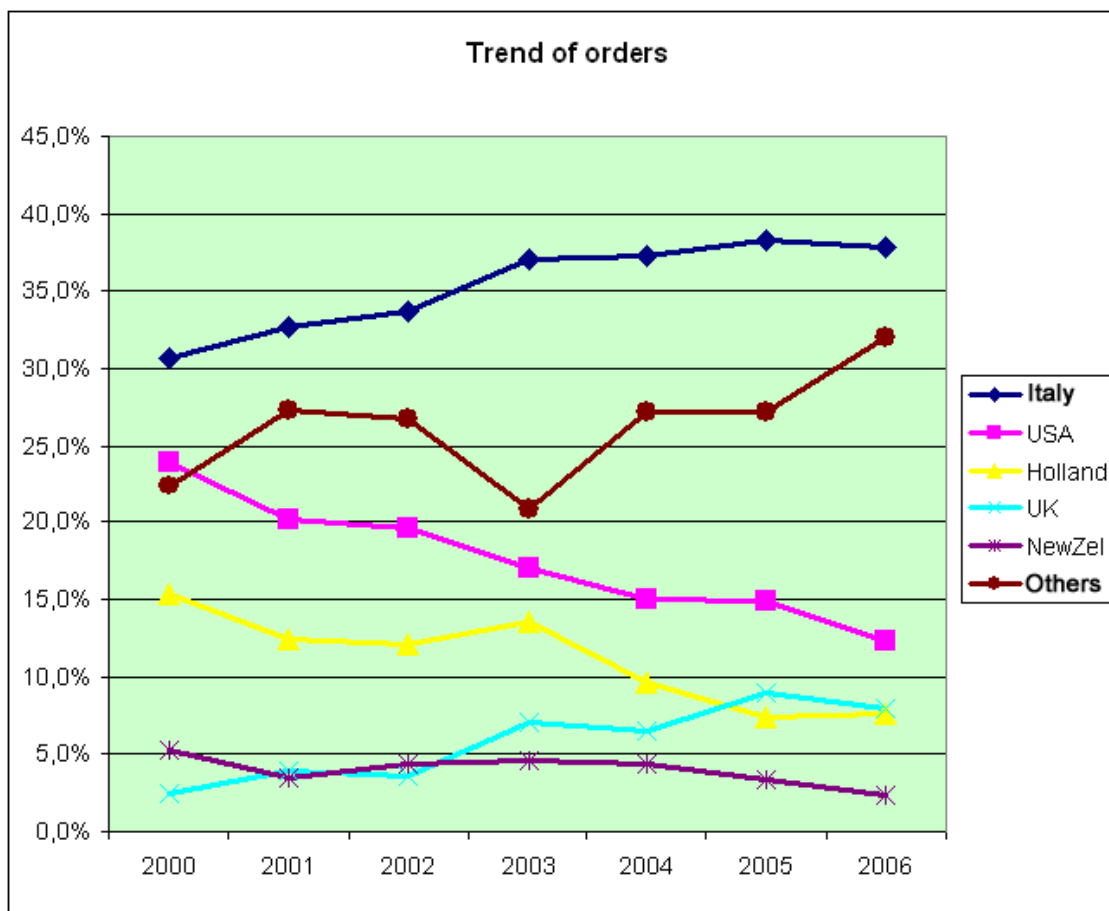


Figure 2: Trend of orders.
Source: Our elaboration.

The table demonstrates clearly that the ‘others’ show a steep linear trend in % (from 2003). The extrapolation suggests that Italy could be overtaken in a short time: 2004: +38, 2005: +39, 2006: +43.

Summarizing: superyacht builders display the following characteristics:

A - All yards seek to achieve an optimal size and organization.

B - A production setup in which superyachts are products resulting from assembly by experienced small-sized accessories manufacturers or outsourced businesses. These constitute the so-called pipeline that produces for yards, and it is undergoing rapid development in newcomer countries as demonstrated by the earlier cited example of Taiwan.

C - A structural model of heterogeneous oligopoly, which however is even more competitive because each enterprise deploys its optimal choice given the strategy of its rivals, but acts within an environment where neither a predatory price policy nor collusive activities are possible as long as all the stronger yards in EU and USA are facing the same production conditions and specialized high cost labor markets, as has indeed been the case to date. On the one hand, megayachts require a minimum scale of efficient high capital intensity production, yet at the same time economies of scale do not occur or are low (but it is possible that it will change with the new ‘platforms’). The markets are affected by the fierce competition arising from the need to produce yachts

with highly differentiated production features, where product uniqueness and luxury are considered outstanding features and play a overwhelmingly important role.

Thus while the market structure can be described as heterogeneous oligopoly, it is of an ambiguous type, which cannot make use of all the typical instruments of this structure. In this framework it is of particular relevance that US and EU yards are becoming under attack by the newcomers who are setting their prices far lower (predatory policy).

As a consequence it is interesting to inquire into the type of circumstances that could trigger a fall in demand for luxury.

The following aspects can be mentioned for all countries:

- a sudden change in luxury tastes;
- an excessive numerosity of yards, as excessive supply would result in a decreased perception of “uniqueness” by the purchaser.

And for USA and EU shipyards:

- an extremely strong pressure on prices, with true predatory features, by the new Arab, Chinese and other competitors in parallel with *qualitative* development of productions in low cost countries.

In the complex scenarios outlined above, it is of interest to determine whether the large American, European - among which the Italian- shipyards would consider it more advantageous to set more binding conditions on the cluster enterprises.

At present particularly in Italy top level yards adopt a mixed organization, awarding priority to close relations with outsourced groups of trusted and highly skilled first-level but partially verticalized suppliers, also maintaining horizontal relations with businesses that form part of the clusters or districts.

If stiffer competition or a decline in demand or, above all, sharply predatory prices were to create severely adverse conditions, the large companies in EU and USA and particularly in Italy declare that they are directing efforts towards reducing costs by:

- adopting production systems similar to those characterizing the automobile sector;
- carrying out a further process of selection of suppliers/outsourced enterprises retaining close, cooperative links only with the best suppliers,
- imposing to SMEs very strict times scales, more tightly controlled specifications moving towards a more vertically integrated organization
- buying abroad all or part of accessories from the more esteemed SMEs that are developing in the newcomer countries or/and accept to expand relations with international suppliers
- delocalizing all or part of production in emerging countries. This is, for instance, the choice opted for by Codecasa and by Perini (the latter having produced the ‘Falcon’ entirely in Turkey. Maltese Falcon is a \$ 100 million (source: http://news.com.com/2300-1008_3-6094519-1.html) sailing-yacht boasting top technology for an 87,5 meter yacht that evokes the image of nineteenth-century ships. The ship has fifteen square sails (five per mast) which open in six minutes. This example indicated the level of expertise achieved by some yards where Italy has delocalized and put considerable effort into increasing know-how.

What can be proposed in order to safeguard Italian SMEs and their creative flare? Experience shows that these small enterprises are reluctant to work in some form of

associative arrangement or to cooperate, or engage in acquisitions in order to achieve medium-large size. Independence is their buzz word and perhaps their strength..

However we note that the majority of accessories manufacturers/outsourced enterprises, in particular those in the Viareggio area and generally in Italy and in high cost countries, have already acquired international renown, they are branded and have high export levels (as much as 100%, Cazzaniga Francesetti, 2005). This points to a possible opportunity for accessories manufacturers/outsourced enterprises. It could be based on a strategy of even greater internationalization of the products of the cluster.

Enhancing the international image of the accessories manufacturers/outsourced enterprises would perhaps become the only alternative open to these small businesses as a means to counter the pressure towards verticalization and rough selection.

4. Conclusion

Examination of this rather special niche sector of superyacht production yards reveals that precisely because it has experienced a prolonged period of growth in demand, a series of new phenomena have arisen.

The pressure on prices brought about by the new entrants (but also the possibility that demand may in the future suffer a decline - and the decline could be abrupt) seems to be leading towards:

- fierce selection among EU and US yards, from which only Italy has so far escaped unscathed;
- a situation whereby the low labor cost emergent countries are taking over greater and greater market shares;
- a stronger de-localization, among other defense methods, of Western and Italian yards;
- the development of technological platforms by the major yards (which are undergoing pronounced consolidation); such platforms are likely to result in savings on costs, verticalization of relations with SMEs and a strong increase in production delocalization)

Finally, a fresh look should be taken at the possible means of defense of cluster SMEs as well as Western and Italian districts operating in the field of large yacht production.

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