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## CASE STUDY: MORESCHI, ITALY

### Abstract

*Moreschi Spa is a family owned company, specialised in the manufacturing of high quality men's shoes. Moreschi has succeeded in keeping and improving its market position through a clearly defined strategy, based on direct control of production and continuous innovation.*

*The company has implemented a "quick response" solution aimed at speeding and smoothing the flow of goods and information from production to point of sales. This system connects and integrates orders to production and supports the company in minimising errors and out-of-stock at shop level. The full exploitation of the benefits from this system at company and at shop level requires further investment in change management and computer skills.*

#### Case study fact sheet

■ Full name of the company:	Moreschi Spa
■ Location (HQ / main branches):	Vigevano (PV) Italy
■ Main business activity:	Footwear production
■ Year of foundation:	1960s
■ Number of employees:	450
■ Turnover in last financial year:	35 m euros
■ Primary customers:	Specialised distribution
■ Most significant geographic market:	Export (80% of turnover in EU and USA)
■ Focus of the case study:	"Quick response" system
■ Key words	Innovative manufacturing, CAD and value chain integration

### Background and objectives

Moreschi Spa is a family owned company, specialised in the manufacturing of high quality men's shoes. It is located in one of the oldest shoe-manufacturing districts in northern Italy, the area of Vigevano. Until a few years ago, this small town had also a leading edge production of machines for shoe making but, presently, the relocation strategy adopted by most of the local manufactures has impacted the whole supply chain.

Many manufacturers have reduced employment and equipment suppliers are facing severe difficulties, in many cases even closing their activity.

### **Highly innovative handcraft production**

Moreschi has succeeded in keeping and improving its market position through a clearly defined strategy, based on direct control of production and continuous innovation. The company offer is positioned in the high quality market segment and relies on a loyal customer basis. A pillar of the company strategy is the control over the quality of the materials as well as of all the production phases – including manual finishing – which still positions the company in between handcraft and industrial production. The choice of producing internally has been supported by strong innovation of manufacturing equipment, which however still involves relevant manual intervention, and by innovative solutions for managing the distribution network. The company puts much emphasis on skills and education. Training is carried out internally through an ad hoc structure.

### **Control over distribution**

A key point in the company's strategy is control over the distribution network. Moreschi relies on ten proprietary shops, 30 shops bearing its name but managed as franchises, and a network of about 500 wholesalers all over the world (mainly EU, North America and Asia).

## **e-Business activities**

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### **e-Business and production**

In the past years, Moreschi has been investing in an innovative manufacturing system, which presently supports about 80% of total production. This system manages design and cutting: the digitalised design is imported in a CAD<sup>1</sup> module, which in turn produces the instructions for the cutting machine. This solution allows the company to skip one phase in the design activity (there is no longer need for paper forms that were previously used to cut leather) and optimizes cutting, thus reducing wasting of leather. The introduction of this system has brought relevant gains in productivity (about three times, as the new machine requires one operator (versus three previously needed). The cost (140,000 euros the single machine, seven machines working, i.e. a total cost of 980,000 euros) has been paid off in one-year time, considering the reduction of labour cost, the quality standards assured and the savings in raw materials. The introduction of this kind of machines, however, has required the hiring and training of new labour force.

Another phase of production, which has been automated, is the activity of sewing and hemming. This is a very critical task because of the high number of operations involved (on average, this activity comprises 20 to 50 operations for 2,000 batches at a time). The system, costing about 1 million euros, manages the distribution of batches among the different operators and controls the flow of operations.

These two areas have been developed and automated separately. The backbone of integration along the company value chain is represented by the *quick response* system described below.

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<sup>1</sup> CAD (Computer Aided Design) is the use of a wide range of computer-based tools that assist the engineering process from conceptual design and layout, through detailed engineering and analysis of components to definition of manufacturing methods

## **e-Business for managing warehousing and distribution**

In addition to investments in the production area, Moreschi started in 2004 a project named "quick response", which aims at speeding up response times and smoothing the production-warehousing-delivery activities. *Quick response* was funded with the support of a regional grant, covering about 50% of the total investment. It involved the network of ten proprietary shops. Other shops and wholesalers are still managed in a traditional way although the company is planning their integration in the future. The overall cost of the project was about 400,000 euros.

The core of the system lies in the integrated control of the different production and assembling activities, down to the delivering to shops. This is possible through the automatic scanning of a bar code, which is applied to each single production batch. The entire flow is monitored across the different phase in which production is organised and then in the downstream activities of delivery and selling. The workstations within the factory are connected through a Wi-Fi <sup>2</sup> system. Each shop is then connected to the factory; orders are managed electronically and double-checked. Once goods are within the shop, sales trends are monitored centrally and are visible to the other shops of the network. This makes it possible to exchange items which may be out of stock in a single sale point and to know what is available and in which time from the factory. With such a system the company aims at minimising errors and avoiding out-of-stock at shop level. This is also made possible by the fact that production is organised in such a way that the manufacturing of any item can be assured within one working day.

According to the company management, the quick response system is not yet fully exploiting its potential as the sales personnel within the shops, despite training, are not yet attuned to using the system properly and completely. Moreover, one of the objectives of the system, i.e. the possibility of cross-provision of items among the various shops requires a strong coordination of logistics activities which had not been envisaged at the beginning of the project.

### **Concerns about RFID<sup>3</sup>**

The management of Moreschi considered the possibility of adopting RFID as a mean to control production and delivery. Whether RFID could substitute bar codes was also evaluated. The company decided not to proceed, as the cost-benefit balance is not yet convincing. Concerns are twofold: on the one hand the cost of supporting equipment, such as readers and writers; on the other hand and more importantly there are concerns about technical reliability of the solution proposed. As the bar code still leaves ground for manual intervention in case of technical default, this solution is still preferable, lacking other objectives.

### **Planning a CRM**

One of the most promising developments foreseen at Moreschi is the implementation of CRM. The basis of the project would be a loyalty card storing customer's data. As the customer base is loyal, the company aims at collecting direct information and feedback in order to better tailor the services. The final objective is to increasingly address the need for customisation at the top segments of the customer base.

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<sup>2</sup> Short for "wireless fidelity", popular term for a high frequency wireless local area network (W-LAN). Wi-Fi technology is an alternative or a complementary infrastructure to a wired LAN.

<sup>3</sup> Radio Frequency Identification – see also Section 4.3 of this report.

## Technical issues

All the systems described were developed ad hoc. The costs indicated comprise both the equipment and the consulting activity. The main motivations for the choice of ad hoc solutions were that the entire information system was developed internally with the support of a specialised consultant, and that the migration to other solutions would imply an effort which is not presently envisaged. The next plan is to adopt a 3D CAD system in the near future.

## Impact

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The adoption of automated systems in the area of production has delivered remarkable gains in productivity and a quick pay off of the system.

The effort of integrating these advanced solutions with those related to distribution however, has not yet been successful. A more positive impact of the *quick response* system has been hindered so far by the under-use the system, thus not exploiting its full possibilities both within the company and at shop level. This can be attributed to a combination of conservative attitudes and lack of skills. According to the company's management, moreover, better coordination between the factory and the sales points should be accompanied by an increased availability of stocks at factory level, at least for the so-called "*carry-over*"<sup>4</sup> products. This apparently contrasts with the preference of companies in this sector to minimise stocks. The case of Moreschi, however, may be regarded as different. The company sells, in fact, a great deal of high quality men's shoes to a traditional and loyal customer basis, which is not so much influenced by seasonal and fashion changes.

## Lessons learned

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The case of Moreschi is representative of a particular segment of this market. High quality products, enabled by high investments in the quality of material, design and production techniques, are the pillars of its strategy. It is interesting to note the usage of CAD as a source of value chain integration. So far, investments have been made mainly in these areas and have secured the company's success for now. In effect, the e-business strategy has aimed not so much at reducing costs, but more at efficiency gains and support to customer service. The investment strategy was supported by a regional grant covering 50% of the investment for the *Quick response* project.

A few points arising from the Moreschi case study are of particular interest:

- The change management and **skills** issue. The main factors hindering the full exploitation of the solution lie in the lower-than-expected involvement of the sales personnel and the difficulty of ensuring that the new system is used fully and properly.
- The issue of **information collected at the sales point**. The company is aware that, at shop level, relevant information may be collected about customers' habits, tastes and requirements. This information, however, is presently non-structured and gets almost completely lost. The planned implementation of CRM starts from the consideration that the process of collecting information needs to be managed

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<sup>4</sup> *Carry-over* is an item which is not subdued to seasonal or fashion fluctuations and whose shelf life can therefore be extended from year to year

directly. This is particularly true as the company aims at increasingly tailoring its offer.

- The issue of **out-of-stock** and its impact on profitability. It is well known that this is one of the most critical issues in this industry. The huge variety of items and sizes, the fluctuation of demand, delays in receiving information, the lack of knowledge about changes in models, the non-coordination between the factory and the vendors cause losses of sales due to the lack of goods at the point of sales. Moreschi has implemented a system in response to such issues which is quite peculiar in the industry scenario. It is in fact based on a strict control over internal production and on the strategic choice to enhance links with customers.

## References

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*Research for this case study was conducted by Databank, on behalf of e-Business W@tch. Sources and references:*

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