

## **Ferretti Yacht Trading Case Study** *Edited by Sabrina Bandini*

### **Introduction**

The information provided in this paper comes from a direct interview to the CEO of Ferretti Yacht Trading following a questionnaire which has been prepared and tested by the CETRA team and from the elaboration of some economic data provided by the company itself about the Ferretti Group<sup>1</sup>. Therefore the case study is composed of three sections in the first we provide some general information about the Ferretti Group, in the second the outline the main answer coming from the interview and the third section represents some general conclusions about the company as a Case Study.

### **Section 1 – The Ferretti Group**

The Ferretti Group, based in Forlì, is one of the leading companies in the world of design and construction of luxury motoryachts and sporting boats, marketed with the following brands: Ferretti Yachts, Pershing, Itama, Bertram, Riva, Apremare, Mochi Craft, Custom Line and CRN.

The Group is involved in the design, production and sales of luxury crafts measuring from 7 to 65 meters long. Their superior technology, high performance, innovative design, comfort and exclusive detailing have earned Ferretti Group boats a devoted worldwide following in the luxury motoryacht market. Today the Group consists of: Ferretti Yachts division (flybridge motoryachts, 14 to 27 meters), Pershing S.p.A. (high performance open cruisers, 11 to 35 meters), Itama Cantieri Navali S.p.A. (open motoryacht, 13 to 23 meters), the American Bertram Yacht, Inc. (sport fisherman motoryachts, 11 to 22 meters), Riva S.p.A. (open and flybridge motoryachts, 10 to 35 meters), Apremare S.p.A. in Sorrento (“gozzo sorrentino”, 7 to 16 meters), Mochi Craft division (lobster boats, 15 to 23 meters), and CRN S.p.A. (steel megayachts, 30 to 65 meters), one of the world’s most highly regarded companies for this particular sector, which also builds Custom Line crafts (flybridge maxiyachts in composite materials, from 29 to 43 meters). The Group also includes: Ferretti Group USA, Inc., the company responsible for importing Ferretti Yachts, Pershing, Riva, Apremare, Mochi Craft, Custom Line and CRN motoryachts to the United States and Canada, Ferretti Group Luxury Yachts Asia Pacific PTE LTD, which represents the Group’s motoryachts in Oceania and the Far East, Resin Sistem S.r.l., a company specialized in the production of fiberglass products for Ferretti Group boats, Diesse Arredamenti, a company specialized in the production of boat interiors for all the companies in the Group, Diesel Center, a distributor of diesel marine engines, propulsion and control systems, reversers, reducers and generators, as well as Pinmar S.L., European leader specialized in yacht painting and refitting, Zago S.p.A., a company specialized in the production of wooden fixtures and furnishing for megayachts over 100 feet and lastly Slys (Spezia Luxury Yacht Service), Yco S.a.m. of Montecarlo and Cantiere Navale M.Morini S.p.A. of Ancona.

### **Group structure**

With a surface area totaling approximately 488,000 m<sup>2</sup> (indoors and out) and more than 2,000 employees, not including side-line businesses, Ferretti Group’s shipbuilding yards, split into various production units, fully meet the criteria of the most advanced international boatyards and succeed in combining efficient industrial production with unbeatable quality of details guaranteed by the craftsmanship in each production phase. In detail, the group has 17 boatyards to date, 16 of which are in Italy and one in Miami in the United States where Bertram crafts are manufactured.

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<sup>1</sup> Ferrettigroup Company Profile february 2005

As at August 31, 2004 the Ferretti Group achieved a consolidated turnover of about 557 million euros, showing a 45% increase compared to 385 million euros for the previous year.

EBITDA (gross operating margin) also saw an increase (+34%), going from 62 million euros as at August 31, 2003 to 83 million euros in the same period in 2004.

The investments made during 2003 / 2004 totaled 45 million euros according with the company's strategic plan which provides nearly 200 million euros investments over a 3-year period.

The 2003 / 2004 investments were dedicated to the updating and expansion of the group's production capacity and the introduction of new crafts models.

As regards production at the Group level, 373 boats were delivered in the 2003 / 2004 nautical year compared to 323 in the previous year, and 15 new models were presented among the various Ferretti Group brands.

### **A history of steady growth**

Founded in 1968 by Alessandro and Norberto Ferretti, the Ferretti boatyards started out marketing boats of various sizes and in 1971 produced their first motorsailer. In the 1980s the Ferretti boatyards, anticipating expansion in the market for motor crafts, became specialized in the production of luxury motoryachts, establishing a new production unit at Forlì which today serves as the Group's headquarters.

In the 1990s Ferretti achieved its standing as a leader in the production of midsize flybridge crafts.

Starting in the late 1990s, the Ferretti Group strengthened and expanded its position at the top end of the motoryacht segment, through a growth process carried out both internally (by improving design and production capacity), and through the acquisition of new companies.

The Ferretti Group's growth plan began in 1998 with the acquisition of non-active partners' share in Custom Line, a company that was already an affiliate, and with the purchase of a controlling interest in Pershing and the American company Bertram Yacht. 1999 saw the purchase of CRN in Ancona, one of the world's leading producers of luxury megayachts, and in 2000 the prestigious Riva shipyards in Sarnico were acquired. Also in 2000, in order to consolidate the growth and development process undertaken in this period, the Ferretti Group was officially listed on the Italian Stock Exchange and in 2001 was admitted to the STAR segment (index of high requisite stocks).

In 2001, the Group continued its expansion plan by finalizing an agreement for the purchase of the Apremare S.p.A. boatyards in Sorrento (Naples), the leading producer of gozzo sorrentino boats, and by acquiring the Mochi Craft boatyards in Pesaro, a longstanding, celebrated name in the Italian boating world, specialized in the production of open and flybridge crafts.

In 2002, after the launch of a takeover bid by the Permira Private Equity Fund, the Group left the stock exchange with the objective of continuing its corporate growth plan through acquisitions, mergers, and extraordinary financial transactions, as well as consolidating its integration process in order to take full advantage of the various elements in the Group.

As part of this strategy, in 2003 the Group finalized the acquisition of the Cantiere Navale M. Morini S.p.A. in Ancona - allowing the CRN boatyards to expand their production capacity - as well as the purchase of several companies in complementary sectors, such as Pinmar S.L., a Spanish firm specialized in yacht painting and refitting in Europe, and Zago S.p.A., an Italian firm specialized in the production of high profile wooden fixtures and furnishings.

Through Pershing, the Ferretti Group purchased the Itama Cantieri Navali S.p.A. in Rome from the Opera Fund in 2004, acquiring a prestigious niche company specialized in the construction of open motoryachts.

### **Distribution**

Distribution and marketing of Ferretti Group products is entrusted to an international network of dealerships, made up of approximately 60 distributors in primary strategic markets, who have been carefully selected over the years for their professional skills and competence.

Dealers in over 70 countries and 5 continents can guarantee Ferretti Group customers high value-added services, while also playing an important role in monitoring the market to keep tabs on consumer trends.

With a 66% share of exports in its total sales volume as at August 31, 2004, the Ferretti Group chiefly operates on the Western European and US markets.

In US, Canadian, and South American markets, on the other hand, the Ferretti Group has made a specific strategic choice to operate through its subsidiary, Ferretti Group USA, Inc., responsible for importing Ferretti Yachts, Pershing, Riva, Apremare, Mochi Craft, Custom Line and CRN brands to these markets.

In order to develop and build up its presence in the United States, the Ferretti Group signed in 2003 an exclusive agreement with MarineMax, the leading US distributor of pleasure crafts.

According to this agreement, MarineMax – a company listed on the New York Stock Exchange with a turnover of over 600 million dollars – will be the exclusive distributor of the following brand names: Ferretti Yachts, Pershing, Riva, Apremare, Mochi Craft, CRN and Custom Line in the USA, Bahamas, Caribbean Islands, as well as Bertram, with the exception of Puerto Rico, Florida Panhandle, Massachusetts, New

Hampshire, Rhode Island and Maine through its current 65 points of sale over the territory.

The agreement also foresees the creation of approximately 15 new “boutiques”, designed according to the classic dictates of Italian Style, located in the largest US cities, and entirely dedicated to the exclusive sale of all Ferretti Group yachts and services. In Oceania and Far East, Ferretti Group boats are represented through the subsidiary Ferretti Group Luxury Yachts Asia Pacific PTE LTD.

### **Technology and Research: the Engineering Division and the Research and Development Center**

The Ferretti Group has always demonstrated its keen interest in research and development, dedicating ongoing commitment, high investments, and appropriate resources to the study of technological and design solutions. The Engineering Division (located at the Group headquarters in Forlì) has been active since 1989, and in 15 years has grown from 4 specialized engineers to over 80.

Originally conceived of and strongly desired by Norberto Ferretti, today the Engineering Division is one of the world's most advanced centers for nautic research and design, carrying out coordination among the planning and engineering departments of the Group's various brands. Thanks to the implementation of a sophisticated computer network, the experience and expertise that come out of the Engineering Division are drawn on in designing the crafts of the entire Ferretti Group. One example is the research and application of the ARG (Anti Rolling Gyro) system, an innovative stabilization system capable of significantly reducing onboard rolling due to the motion of waves, both while cruising and when stopped or anchored in harbour.

Developed in collaboration with Mitsubishi Heavy Industries, until 2006 it can be exclusively fitted to all Ferretti Group brands. The studies carried out by the Engineering Division are applied and tested by the Ferretti Group's Center for Research and Development. The center is responsible for carrying out trials of new materials, processes, and technologies. Every innovation adopted and employed in production at the boatyards must pass all of the tests designed to ensure the high standards for quality and safety that are the hallmark of the Ferretti Group. Just a few examples: saline cloud testing, to verify in advance how all the components and equipment mounted externally on the Group's crafts will age in a saline environment, and endurance test of fiberglass laminates to assess the material's quality, elasticity, and strength, as well as to identify any possible defects.

Various highly technical and specific tests are employed at the Center for Research and Development Center, such as traction, bending, and compression tests, or calcination, e.g. verification of the glass fibre and resin content of a laminate. This year, such research has allowed some Ferretti Group crafts to offer a wide window in the center of the boat; stretching to almost 2 m<sup>2</sup>, it is composed of combined layers of glass, polycarbon, and polyurethane film to ensure maximum safety in the event of impact with water or other objects. This provides direct contact

with the sea and lets natural light illuminate the entire cabin. Another example of the Engineering Division's ongoing commitment to applied research is its investigation of ways to ensure maximum soundproofing for the cabins, reducing noise through innovative systems which acoustically insulate the engines and navigation devices.

### **The new nautical centers at La Spezia and Torre Annunziata**

The Ferretti Group's strategic growth plan, as outlined upon delisting, foresaw the enhancement and expansion of production capacity and facilities through the acquisition and construction of new shipbuilding yards. This expansion strategy includes the creation of a nautical center at Torre Annunziata and work to enlarge the boatyard at La Spezia. Once finished, the new boat production center at Torre Annunziata – where work began in November 2002 and onshore construction has been partially completed - will be a new, modern shipbuilding yard extending over an area of approximately

185,000 m<sup>2</sup> (65,000 m<sup>2</sup> of it covered). The new center will be completed by the end of 2006 and will include an internal private dock measuring approximately 10,000 m<sup>2</sup> and offering nearly 100 moorings, with a channel providing access to the sea and coastal defense structures necessary for the expansion of production activity, as well as for protection of the coastline.

The new boatyard, for which total investments are currently estimated at approximately 55 million euros, will feature a travel-lift which can be used on very large boats, making it possible to carry out quick, hassle-free inspections and testing at sea, as well as haulage for all Ferretti Group boats.

This significant project not only permits the development and consolidation of Apremare's logistical and production activities, but also has strategic importance for the entire Ferretti Group, which can thereby offer service and support to customers based in (or passing through) the Tyrrhenian Sea, in a key area only 15 nautical miles from Capri, 13 from Ischia and 5 from Naples.

The nautical center at Torre Annunziata also has significant social implications, creating new job opportunities in an economically stagnant region, as well as environmental importance, helping an area that until now was used for industrial purposes refocus on tourism and boating.

Today, the shipyard is up and running, and Apremare expects in the 2004/2005 nautical year to produce 82 new crafts out of a total of 105, employing highly innovative technologies though maintaining a craftsmanlike approach to most stages of construction.

The new production center at La Spezia became operative in March 2004, and has particular strategic, industrial, social, and environmental importance.

The La Spezia boatyard represents the largest and most important touchstone for the Ferretti Group in terms of technical, logistical, and sales support in the northern Tyrrhenian Sea.

Conceived as a production and sales center employing the most advanced construction techniques available, the new boatyard, where work began in May 2003 and will involve an overall investment of 26 million euros, currently produces Riva brand crafts over 21 meters long.

Covering a total area of over 15,000 m<sup>2</sup> the boatyard will include 2 industrial buildings and two office buildings, as well as approximately 400 meters of piers and docks, served by a mobile 400-ton travel-lift.

In addition to areas devoted to production activities, this modern plant – an example of the world's most advanced shipyard technology - will feature a center for the testing, launching, and delivery of Ferretti Group crafts. The boatyard also will provide harbor and support services to customers of all Ferretti.

### **Target market \***

The boating market is a global one, international both in scale and in evolutionary trends. It is characterized by a high level of fragmentation, so much so that there are over 6,000 shipyards in the world that build boats under 24 meters long. The nautical market can be divided by product type into three distinct sectors: sailboats, inflatable boats, and motorboats. One should note that motorboats account for over 86% of the current world fleet, sailboats for approximately 11% and inflatable boats for the remaining 3%. At an international level, in the sector of motor crafts up to 24

meters, the United States lead the world in number of shipyards, sales volume, and number of employees, followed in Europe by Italy, Great Britain and France. In the segment of superyachts with hulls over 24 meters long, Italy is the international leader in terms of number of projects under construction, followed by the United States, the Netherlands and Great Britain. The value of Italian pleasure boats production in 2003 was approximately 1,720 million euros, up 10% over 2002 (1,561 million euros). One should note that the contribution to GNP of the entire boating sector, including correlated industries, registered a 7% increase in 2003 and an overall value exceeding 2 billion euros (1,953 million euros in 2002). Despite the international economic crisis, the Italian boat industry maintains a strong proclivity towards export, which in 2003 accounted for 67% of boat production value (approximately 1,152 million euros). Growth in the internal market - i.e., the value of imports and Italian production sold in Italy - was significant (+61%), stabilizing at around 862 million euros; this was due in part to the success of nautical leasing, which became strongly competitive starting in June 2002, and in 2003 saw an increase by +128%.

\* Source of data: UCINA

### **The brands: Ferretti Yachts**

Ferretti Yachts, the Group's historic brand name, is one of the world leaders in the design, production, and marketing of fiberglass flybridge crafts from 46 to 88 feet (14 - 27 meters), built with an open upper deck and two steering positions - indoor and outdoor.

Advanced style solutions, use of solid cherry and other fine woods, leather upholstery and wood panelling, bascule glass windows, stern spoilers, and external materials that are highly resistant to wear and tear: all features that position the Ferretti brand at the top of the luxury yacht market. Ferretti Yachts target clientele has an average age of 45 to 50 and considers boats as a luxury item that will allow them to enjoy total comfort on brief cruises over the course of the year. That is why all Ferretti Yachts models offer quality, elegance, superior comfort and attention to detail, combined with superb technical performance, including excellent seaworthiness and top speeds that in larger models can reach 36 knots.

In order to meet the growing demand for Ferretti Yachts, the new boatyard in Cattolica is now in full operation. Measuring 14,000 m<sup>2</sup> (9,000 of which are indoors), it is an example of the most state-of-the-art shipbuilding the world has to offer.

### **The brands: Pershing**

Pershing is one of the world leaders in the production of open fiberglass yachts with a single steering position, in lengths ranging from 37 to 115 feet (11 – 35 meters). The mid-to-high range models primarily offer a "coupé" version, with a hard top protecting the cockpit. Pershing primarily targets a demanding, but sports-oriented type of customer, offering them a wide range of boats with high-speed performance, exceptional design, and uncompromising comfort. The hallmark of Pershing products is the way they combine outstanding sporting performance with interiors that are both extremely luxurious (employing the finest materials) and rendered liveable through an efficient use of space.

Innovative design, engines that can reach 7400 Hp, and the use of surface propellers, waterjets and gas turbines give Pershing boats a true sporting configuration and allow them to reach remarkable speeds, up to a maximum of 55 knots. Lastly, thanks to the investment of approximately 12 million euros, the new facility at Mondolfo (near Pesaro Urbino in the Marche region) is now fully operational; the 53,000 total m<sup>2</sup> of the architecturally innovative site are home to the company headquarters and production department.

### **The brands: Itama**

Acquired by the Ferretti Group in December 2004 with the transfer of 100% of its capital to the Pershing subsidiary, Itama is one of Italy's best-known names in the sector of open fiberglass yachts with a single external steering position, in lengths varying from 40 to 76 feet (12 - 23 meters) and capable of exceeding speeds of 40 knots. Itama boats are unmistakable: clean, smooth lines, blue

hulls, white deck, and an unusual 22° deep V-shaped underbody to ensure perfect seaworthiness even at high speeds with wave formation. All perfectly balanced by comfortable, elegant interiors. In just over 30 years, Itama open yachts have earned a devoted worldwide following as luxury items which join elegance, style and technology. These are boats made for people who like to stay in close contact with the sea, for the sheer fun of it.

As it grows, Itama can draw on the support, experience, and production and technological capabilities of Pershing, elements which have always characterized the products of this boatyard. Moreover, it takes full advantage of the industrial and commercial synergies of the entire Ferretti Group.

The history of the Itama shipyards began in 1969, the year in which founder and designer Mario Amati began production of motorboats, christening the brand with the mirror image of his own name: Itama. The company's original headquarters are located south of Rome, on the banks of the Tiber river. Later, in order to meet increased production and servicing needs, the new boatyard was opened at Vitinia, just a few kilometers away.

### **The brands: Bertram**

Bertram, acquired by the Ferretti Group in October 1998, is one of the world's best-known and most prestigious names in the sector of sport fisherman boats. It designs and produces boats from 39 to 67 feet (12 - 22 meters) characterized by structural and design elements that make them especially well-suited to deep sea fishing. In its forty years of business, boating circles have found the Bertram brand to be synonymous with quality, reliability and power. Their famous deep V-hull design and powerful motor drives ensure exceptional seaworthiness in all boats in the product line, even in particularly challenging seas. Today Bertram boats represent a valid compromise between a sport fisherman and a full-fledged, elegantly styled cruiser, perfectly comfortable even for customers who do not practice deep-sea fishing. Ferretti Group's contribution of technology and know-how has enhanced the product, striking the ideal balance between comfort and performance, with high onboard livability, better use of space and the use of high quality materials. Under Ferretti Group's management, Bertram has launched on the market 7 new models in the last 6 years.

Produced in the company's Miami facilities, which have an area of over 73,000 m<sup>2</sup>, Bertram boats, like all Ferretti Group boats, are built using an "inline" production cycle, which is characterized by a high degree of industrialization and subdivided into four separate phases: style research and design, engineering, construction of a prototype and industrialization of the product.

### **The brands: Riva**

The acquisition of the Riva shipyards in Sarnico has allowed the Ferretti Group to consolidate its leadership in production and distribution at the top end of the luxury motoryacht sector, breathing new life into the characteristic product line of a brand that is absolutely one of the most prestigious in the boating world. Riva is one of the world's best-known and most exclusive producers of fiberglass luxury crafts from 10 to 35 meters, both flybridge and open. It is structured around two manufacturing units, Sarnico and La Spezia. Sarnico, the historic site of the shipyards, has 161 employees and a surface area of 40,000 m<sup>2</sup>. Its product range currently consists of 8 different models: Sunriva 33, Aquariva 33, Rivarama 44 and Rivale 52 (presented at the 2003 Cannes International Boat Show) of which the first 20 units have already been sold. In addition, Mercurius 59, Splendida 72 and Opera 85, the latest model to be presented and the flagship of the Riva fleet, as we await the official presentation of the 115' already in production. Founded in 1842 by Pietro Riva, today the Riva shipyards are considered a legend in the boating world, synonymous with the exclusivity and luxury that are hallmarks of Italian style.

Famous wooden boats like “Aquarama”, “Ariston” and “Florida”, so popular in the 50s and 60s among members of the so-called “jet set”, have gained Riva its standing as one of the world’s best-known and most prestigious names in luxury boating.

### **The brands: Apremare**

Since 1988, the boating world has associated the name Apremare with the handcrafted construction of the traditional gozzo sorrentino. The gozzo’s main characteristic is its double pointed hull with the same shape bow and stern. In the early 1980s, Apremare combined the most treasured aspects of this tradition with a new design for a planing gozzo, i.e. a boat with a hull capable of rising out of the water with a hydrodynamic lift effect at high speeds, which for some models can reach 38 knots. The company markets its products on a global scale, through a dealer network that covers Asia, America, and above all, Europe. At the heart of the entire Apremare line lies the company philosophy: to offer boats that are one-of-a-kind (planing “gozzo sorrentino”), available in a range of sizes and in both cabin and open versions, to better meet varying customer needs in terms of technical characteristics and type of use. There are two production units in the Apremare yards. Boats up to 12 meters in length are built in Torre Annunziata, whereas larger scale yachts are produced at the Castellamare di Stabia facility. Begun in November 2002, work continues on the construction of the new boat production center at Torre Annunziata, a brand-new, modern shipyard that extends over an area of about 185,000 m<sup>2</sup>, of which approximately 65,000 are indoors. The range of boats currently available includes 17 models - measuring from 7 to 16 meters in length - the 7 meter (open), the 7.5 meter (open, semi cabin and cabin versions), the 9 meter (open version), the 100 (open and comfort versions), the 11 meter (semi cabin, cabin and “dongiovanni” versions), the 12 meter (comfort version), the 145 and the 16 meter flagship.

### **The brands: Mochi Craft**

The Ferretti Group has launched a new project regarding the Mochi Craft brand: the Lobster Boat. In April 2003, two years after its acquisition, the Ferretti Group presented the new Mochi Craft boats to the world boating market, aimed at niche sectors. These yachts known as lobster boats are highly innovative, very appealing with an extremely distinctive appearance and go to form part of the Group’s current range of crafts. The idea of combining a longstanding celebrated name in the world of motorboating like Mochi Craft with a range of niche vessels is the result of a specific market choice that forms part of the general logic characterizing all acquisitions completed from 1998 to date: a prestigious brand name to conquer a market segment which the Ferretti Group has not ventured into up to now. Dolphin is the name of the new line of yachts produced at the Group’s boatyards in Forlì. Over the next few years, Mochi Craft will be involved in designing and building models to complete the Group’s range. The first of these was launched in August 2003 and is called 51’ Dolphin. After the success of the first model, the 51’, in the most important Boat Shows, Mochi Craft expanded its range with a larger model: the Maxi Dolphin 74’, over 22 meters long, previewed at the 2004 Genoa Boat Show. Sophisticated, old style inside and out, a limited number of high class, luxury crafts. Restyling old style. Mochi Craft reworks the old style of lobster boats – traditional American boats originally from New England which were used to fish lobsters, hence the name – to turn it into a new style of seafaring. Rounded shapes evoke the natural lines of 1950s’ designs, making their mark thanks to the harmonious overall effect.

### **The brands: Custom Line**

Custom Line is the world leader in the production of megayachts in composite materials. There are 5 production lines, from 29 to 43 meters with planing, semi-displacement and displacement hulls. Five ways to experience the sea, different in their features but equal in their styling. The planing boat line includes the Custom Line 94’, the Custom Line 112’ and the majestic Custom Line 128’, a 40-meter megayacht, the first example of which was launched in January 2004, and won the prestigious “Showboats Award” as best semi-custom yacht of the year. The semi-displacement line,

on the other hand, offers the 30-meter Navetta, soon to be flanked by the new displacement design for a 43-meter Navetta, the mold of which is currently under construction. Custom Line yachts are characterized by the use of solid wood and luxurious materials, and for the option of semi-customizing the products, i.e. all elements and components that are not inherently structural can be modified to suit customer taste. In terms of performance, Custom Line planing hull products are characterized by their dynamism and speeds that reach up to 30 knots, though they also keep to high standards of elegance and comfort. For those who prefer instead to devote their cruises to sheer relaxation, Custom Line offers its displacement and semi-displacement models, which combine comfort, elegance, classic styling and sturdiness, plus smooth and silent cruising which reaches a top speed of 19 knots. Tested for the first time with enormous success on the “Ziacanaia”, boat number 6 in the Custom Line Navetta 30 line, Anti Rolling Gyros (ARG) are patented by Mitsubishi Heavy Industries and until 2006 will be exclusively fitted to Ferretti Group yachts for the European market; today they are standard equipment on Custom Line 94’, Custom Line 112’ and Custom Line Navetta 30. This system will be fitted also on Custom Line 128’ and Custom Line Navetta 43. Thanks to this agreement, the boats built at the Ancona shipyard can employ the only system in the world capable of reducing a ship’s rolling - the primary cause of seasickness - by over 50%, both while cruising and when stopped or anchored in harbor. The production of Custom Line brand products is divided between the facility in Fano (where Custom Line 94’ crafts are built) and the facility in Ancona.

### **The brands: CRN**

With the production of over 116 crafts during 40 years of activity, CRN is one of the leading players worldwide in the production of luxury steel megayachts, completing the Ferretti Group’s top-end offer. Meticulous carpentry, enhanced by the use of solid wood and exquisite workmanship, flooring crafted with marble and inlay work, careful engineering of the building design, use of steel in the hull and aluminium in the superstructure, a high degree of customization - all features that make these yachts exclusive products, aimed at a niche of particularly affluent customers. Over the last three years, CRN has consigned two steel and aluminium boats: “Magnifica”, a 43-meter megayacht launched in 2001, and “Clarena”, a 46- meter giant which was set into the water in March 2003. Currently in construction are a second 46-meter crafts, a 46-meter sistership to the Magnifica, and two new projects: boat number 119 in the yard, a 54- meter christened “Ability”, the hull and superstructure of which are already completed, and which will be launched in spring 2005, and boat number 120, a 60-meter yacht to be delivered in 2006.

The vast boatbuilding facility in Ancona extends over a total surface area of approximately 80,000 m<sup>2</sup>, of which 35,000 m<sup>2</sup> are indoors (not counting the Custom Line facility at Fano). The growth process for the Ancona center follows the guidelines of structural expansion and optimization of production; in the near future, this will result in concurrent annual production that reaches the extraordinary number of 17 yachts from 30 to 70 meters. The project will also involve the stretch of water opposite the plant, which will become a fullfledged private tourist harbor with three 100-meter, 80-meter, and 40-meter docks, offering effective technical and logistical support to shipyard customers. \* The list includes the models produced by previous management, plus Clarena, Ability and CRN 120.

## **Section II – The interview to the CEO of Ferretti Yacht Trading**

Company name Ferretti Yacht Trading belonging to the **FERRETTI GROUP**

### **Profile**

**Sector:** design, production and sales of luxury motoryachts

**Founded:** 1968

**Headquarter:** Via Ansaldo, 5/7 - Forli - Italia

**Registered Office:** Via Irma Bandiera, 62 - Cattolica (Rimini) - Italy

**Internet address:** www.ferrettigroup.com

**Total revenues:**

**(1/9/2003-31/8/2004)** 557 million euros

**Book order:**

**(as at 31/12/04)** 619 million euros

**Board:** Norberto Ferretti

**President**

Giancarlo Galeone

**CEO**

Attilio Antonelli

Cataldo Aprea

Massimo Bergami

Paolo Colonna

Fulvio Dodich

Georgios Kyriazakos

Nicola Volpi

**Advisors**

22

**Production units:** Forli (Ferretti Yachts, Modelli and Stampi, Mochi Craft, Resin System)

S. Giovanni in Marignano (Ferretti Yachts)

Cattolica (Ferretti Yachts)

Fano (Custom Line)

Ancona (Custom Line - CRN - Morini for CRN)

Mondolfo (Pershing)

Castelvechio di Monteporzio (Itama)

Miami USA (Bertram)

Sarnico (Riva)

La Spezia (Riva)

Castellamare di Stabia (Apremare)

Sorrento (Apremare)

Torre Annunziata (Apremare)

Vitinia (Itama)

**Total surface area:** about 488,000 m<sup>2</sup>

**Employees:** more than 2,000, excluding side-line businesses

### **Section 1. General information about the company:**

- 1.1 Is the company part of a group ?  no  yes.
- 1.2 If yes, in which country is the head office located? ITALY
- 1.3 How many branches does the company have in the world? Where?

The Ferretti Group, based in Forlì, is one of the leading companies in the world of design and construction of luxury motoryachts and sporting boats, marketed with the following brands: Ferretti Yachts, Pershing, Itama, Bertram, Riva, Apreamare, Mochi Craft, Custom Line and CRN. Today the Group consists of: Ferretti Yachts division (flybridge motoryachts, 14 to 27 meters), Pershing S.p.A. (high performance open cruisers, 11 to 35 meters), Itama Cantieri Navali S.p.A. (open motoryacht, 13 to 23 meters), the American Bertram Yacht, Inc. (sport fisherman motoryachts, 11 to 22 meters), Riva S.p.A. (open and flybridge motoryachts, 10 to 35 meters), Apreamare S.p.A. in Sorrento (“gozzo sorrentino”, 7 to 16 meters), Mochi Craft division (lobster boats, 15 to 23 meters), and CRN S.p.A. (steel megayachts, 30 to 65 meters), one of the world’s most highly regarded companies for this particular sector, which also builds Custom Line crafts (flybridge maxi-yachts in composite materials, from 29 to 43 meters). The Group also includes: Ferretti Group USA, Inc., the company responsible for importing Ferretti Yachts, Pershing, Riva, Apreamare, Mochi Craft, Custom Line and CRN motoryachts to the United States and Canada, Ferretti Group Luxury Yachts Asia Pacific PTE LTD, which represents the Group’s motoryachts in Oceania and the Far East, Resin Sistem S.r.l., a company specialized in the production of fiberglass products for Ferretti Group boats, Diesse Arredamenti, a company specialized in the production of boat interiors for all the companies in the Group, Diesel Center, a distributor of diesel marine engines, propulsion and control systems, reversers, reducers and generators, as well as Pinmar S.L., European leader specialized in yacht painting and refitting, Zago S.p.A., a company specialized in the production of wooden fixtures and furnishing for megayachts over 100 feet and lastly Slys (Spezia Luxury Yacht Service), Yco S.a.m. of Montecarlo and Cantiere Navale M. Morini S.p.A. of Ancona.

In detail, the group has 17 boatyards to date, 16 of which are in Italy and one in Miami in the United States where Bertram crafts are manufactured.

Production units: Forlì (Ferretti Yachts, Modelli and Stampi, Mochi Craft, Resin System), S. Giovanni in Marignano (Ferretti Yachts), Cattolica (Ferretti Yachts), Fano (Custom Line), Ancona (Custom Line - CRN - Morini for CRN), Mondolfo (Pershing), Castelvechio di Monteporzio (Itama), Miami USA (Bertram), Sarnico (Riva), La Spezia (Riva), Castellamare di Stabia (Apreamare), Sorrento (Apreamare), Torre Annunziata (Apreamare), Vitinia (Itama).

1.4 Did any of the following significant changes occur to your company in the period 2000-2005?

- Turnover increased by 10% or more due to merger with another company or part of it.
- Turnover decreased by 10% or more due to sale or closure of part of the company.

As at August 31, 2004 the Ferretti Group achieved a consolidated turnover of about 557 million euros, showing a 45% increase compared to 385 million euros for the previous year. EBITDA (gross operating margin) also saw an increase (+34%), going from 62 million euros as at August 31, 2003 to 83 million euros in the same period in 2004.

1.5 Total turnover in year 2004  
(1/9/2003-31/8/2004) 557 million euros

1.6 Exports of goods and services

1.7 Gross investment in tangible goods

The investments made during 2003 / 2004 totaled 45 million euros according with the company’s strategic plan which provides nearly 200 million euros investments over a 3-year period. The 2003 / 2004 investments were dedicated to the updating and expansion of the group’s production capacity and the introduction of new crafts models. totaling 45 million euros

As regards production at the Group level, 373 boats were delivered in the 2003 / 2004 nautical year compared to 323 in the previous year, and 15 new models were presented among the various Ferretti Group brands.

- 1.8 Number of employees in 2004  
more than 2,000, excluding side-line businesses
- 1.9 **Timing of the innovation process.** What is the average lifetime (in years) of your company's most important product (good or service) before it is replaced or significantly modified?
- 1.10 **Market scope.** What is your company's most significant market? (local, regional, national, international... Please specify.  
With a 66% share of exports in its total sales volume as at August 31, 2004, the Ferretti Group chiefly operates on the Western European and US markets. In US, Canadian, and South American markets, on the other hand, the Ferretti Group has made a specific strategic choice to operate through its subsidiary, Ferretti Group USA, Inc., responsible for importing Ferretti Yachts, Pershing, Riva, Apremare, Mochi Craft, Custom Line and CRN brands to these markets.  
Distribution of sales \* FERRETTI GROUP  
17% Others  
19% United States  
30% European Unions  
34% Italy  
\* by nation of dealer, net of intercompany eliminations
- 1.11 **Gender policy.** Is your company attentive to women recruitment? How many women work in your company and in which positions? Do you implement family-friendly work policies?  
The 60% of the employees are women
- 1.12 What % of the budget is spent on R&D and innovation?

Other relevant data (*please attach, if possible, the latest balance sheet*)

## **Section 2. "Innovative organization" case studies Company views on innovation and complexity management**

- 2.1 Personal role.** Could you please describe your role in the company? How long have you been in charge of this position ?

I belong to the CEO of the Ferretti Groupe and I am the CEO of Yacht Trading. Previously I was sale manager.

- 2.2 Personal skills.** What are your strategic professional skills for this position in the company, and how would you judge your involvement in the company management ?

You have to adapt to emergence. Anything might be modified at each moment, which makes the difference between a budget and a business plan. You have just to fix some points to be reached and to have technical skillness to understand. To work as a team, to transfer the common objective and a general description about how to reach these objectives. To be able to reach the objective at the same way even when you have changed conditions and to be able to transfer what you know with examples; to diffuse the knowledge. It is quite a duty to transfer knowledge.

**2.3 Mission.** How would you describe the *mission* of your company?

To excell in the Motoryacht construction. Excellence means services, quality, the best you can think and you can join which is changing concept.

**2.4 What does the word “innovation” mean for your company?** Product or process innovation? Is innovation a mission shared among the whole staff? How would you define the perception of innovation in your company? How innovative is your product/process? How do you measure the “innovation output” of your company? For example, how do you measure the productivity of your R&D staff?

It is commonly shared inside the company and it is linked to the concept of creativity. It means to be able to innovate having attention to the figures, and to identify areas to be better developed. You have to understand which are the numbers/combine things/be able to read/making new conclusions. To be able to read in a river other elements compared the normal way to observe reality which might be: a missing product, an economical offer. In our company this mission is shared because to be number 1 is our pur pose, we like it. To work amusing your self is our mission. About some index, I rather would like to explain which are the rules which guide indexes like:

- a. how many missing elements missing in the market have been included in the time unity;
- b. marginalità index before and after the innovation;
- c. in the product before and after the innovation the quantity of sales for time unity.
- d. about the engineering : survival of the object in a period.

Our kind of production is not modern because we have been transformed from and handmade production to an industrial one. The other fields bring to us the innovation ( from the field of car production, electronics we bring innovation.

**2.5 Managerial view of complexity.** Could you please define your concept of complexity ? Do you consider complexity a managerial topic? If the answer is yes please could you tell me some of your theoretical references? Has your company explicitly addressed the problems of complexity? Has it partly done so under different headings – eg learning organization, knowledge management? Does the organization make use of formal models (eg simulation models, decision support systems, expert systems, etc)?

I have in mind a net on more than one dimension. A big web which is interdependent and which can create the main chagements. Here I refer for example to Waldrop definition: something is complex when each micro-action riproduce events which cannot be forecasted. When I refer to my staff I try to make them understand that their choice interacts with the other one, for example the salary policy creates reflex of several categories. I also try to create communication with all the people in charge of the several Areas and not just to the top managers. The concept is that all the people have to work together and that they learn from each others and all together influence the other also abroad.

In factsome time the problem is that a person vision lacks of a message of proximity. For example 26 years ago I used to teach same sales techniques which represented the classical theory of a success sale manager, but if you interview a success sale manager he will not probably to conscious about how it acts. In our company the success has been created by the engeneering techniques (water spray).

**2.6. Internal organizational structure and change:** How did changes in the company’s organizational structure take place? How do decision making networks function? How is decision-making power related to company structure? How do you get the equilibrium between hierarchy and structural flexibility?

With the objective. To have the objective is a style life. My staff follows the following rules:

1. to reach the objective,
2. to perform,
3. to be humble,

Therefore morality, elegance and respect of the industrial DNA. Historical respect of the customer and of the suppliers. You should address to your self this question: who am I in history?

**2.7 External organizational structure and change.** How would you describe/define the internal and external communication of your company? How is your external network working? (for example with municipalities, institutions, trade unions, competitors, other companies ? )

Following and informal model of communication. We don't have a burocratic approach but we just meet and we talk because this represent a natural answer to loyalty and trust. We rather avoid written communication and we have deeply in mind that innovation might comes out from each level of the hierarchy.

**2.8 Global strategy.** What is your current strategy in order to compete on the global market (reduction of costs, new investments, new strategies, R&D and training investments)?

Sometime we illustrate a strategy. The strategic committee decide which are the productive sites in which to develop things. The brand develops its product.

**2.9 Learning and training processes.** How would you describe the learning and training policy in your company ? Is formal training important? How is informal training recognised? Where do the necessary skills come from? How would you describe the type of learning in your company:

- Empirical
- Theoretical
- Good Integration of work and learning
- Strategically planned

And how it is communicated inside of the company?

- Bottom-up
- top-down
- internal meeting
- e-learning

Who takes part in decisions about training course planning? Is there any preventative training system? How do you know within the company in which field training is needed in a short future ? Do you make use of e-learning tools?

We offer it as a prize, we have courses with Alma web Master about marketing with the University of Bologna. We try to avoid e-learning and we rather prefer the direct presence. We shared these initiative with the Ducati employees. When I learn I realize how the company learns.

When I had to explain the objectives I prepared two slides and showed how the figures moves in relation to their activities. For example it is important to show how the cash flow acts in relation to the other aspect of a budget like credits, debts, account.

**“Innovation history”**

*To be completed*

### Sections 3. - Conclusions

Ferretti Yacht Trading represents the ideal organization for a CETRA case study because it combines two features: *it is highly innovative* and *it has a way to handle complexity explicitly*.

It is of course difficult to measure the degree of innovativity of the company, but here below we include some indexes which have been followed by the researchers to identify this company, among others, for the purposes of the case study:

- **Human resources indexes:** Presence of highly qualified personnel (% graduates in scientific subjects, % graduates in humanities, % technical personnel);
- **Attention to gender balance:** Number of women employed by the company, Number of women in managerial positions, Implementation of family-friendly policies, Is the company an equal-opportunity employer?;
- **Internal training:** Is there an internal training system, for instance a graduate training scheme?, Does the company implement e-learning schemes?
- **Company investment in innovation:** % of the budget spent on R&D and innovation, % of investment dedicated to product, process or organizational, innovation in the last two years;
- **Timing of the innovation process:** average lifetime (in years) of the company's most important product (good or service) before it is replaced or significantly modified;
- **"Innovation output":** number of national and European patent applications (per year), % of turnover which comes from new or renewed products, introduced since less than two years, How does the company access innovative technologies (Acquisition of advanced equipment, Cooperation with suppliers/customers, In-house R&D, Cooperation with universities/R&D specialists, Intellectual property licensing)
- **Presence of explicit ways to handle complexity:** Does the company take part to informal and formal networks?, Does the company network with educational institutions?

Furthermore the Company Ferretti Yacht Trading which belongs to Ferretti Group has been chosen as a case study because it represents a significant example of product and managerial innovation in an Italian District, subsystem of a market system geographically located in the Region Emilia-Romagna (Italy). Better an industrial district might be defined "*as a geographical concentrated production subsystem of a market system, composed primarily of small and medium firms, with a decentralized, non-hierarchic organization. As a market system subsystem, a district's organisation can be described in terms of the competence networks of which it is comprised and the scaffolds through which these networks are formed and reconfigured, and the district identity is maintained and modified*"<sup>2</sup>. Therefore, while analysing Ferretti Yacht we might learn about how describe the organization of an industrial district, how can we characterize the kinds of production activities which benefits from a district organization and what kind of processes and structures might account for the persistence or a failure of a district organization and find out that districts are one solution to organize effective local interactions in systems that "inherently" undergo cascades or rapid change.<sup>3</sup> *Furthermore this case study might help to understand that certain kinds of scaffolding structures*

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<sup>2</sup> Complexity and Local Interactions: Towards a Theory of Industrial Districts – David A.Lane in Complexity and Industrial Clusters – Dynamics and Models in Theory and Practice – Contributions To Economics – Alberto Quadrio Curzio – Marco Fortis Editors – Physica-Verlag A Springer – Verlag Company (2001)

<sup>3</sup> Rephrased from Complexity and Local Interactions: Towards a Theory of Industrial Districts – David A.Lane in Complexity and Industrial Clusters – Dynamics and Models in Theory and Practice – Contributions To Economics – Alberto Quadrio Curzio – Marco Fortis Editors – Physica-Verlag A Springer – Verlag Company (2001)

*provide support services to agents that participate in a district, independently of the market system in which the agent operates. Thus, these scaffolds can serve to promote the creation of new firm clusters that share the service they provide with existing clusters- and may even promote the integration of these clusters into pre-existing market systems, as new industrial districts.*

Our perspective is therefore an agent-network perspective which is potentially much more powerful in describing how districts do what they do than a firm – based perspective. How can scaffolding structures be identified and their functions observed ?

- District innovation processes
- Whether an industrial district is a complex system: commitments to:
  - a. process and change, not stasis and equilibrium,
  - b. a multilevel organization of entities,
  - c. entity function determined by entity structure,
  - d. distributed control and information-processing;
  - e. and emergence and self-organization

Therefore learning about Ferretti Yacht Trading means to learn about complexity at several levels : because the company considers explicitly the topic while training its managers and because it operates in a district which is a complex system.