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## Fiat Suppliers Turn to VW to Survive Italy's Crisis

By Tommaso Ebhardt - Oct 14, 2012

For almost three decades, Salvatore Giordano had a stable business supplying plastic parts to [Fiat SpA \(F\)](#) from his small factory in northern Italy's Asti wine region. The debt crisis and Fiat's subsequent decision to retrench in its home country put that under threat.

As orders from Fiat tumbled, the former Alfa Romeo worker was forced to cut 18 of his 68 employees. Pushed by his son Gianluca, Salvatore sought new sources of revenue, including making furniture, to reduce his reliance on the Italian carmaker. His latest lifeline is Fiat's archrival [Volkswagen AG. \(VOW\)](#)

"We understood that if we want to get through this grave crisis, we have to go abroad," said Gianluca, who was a university classmate of Fiat Chairman John Elkann. "After a trip to VW's headquarters in Wolfsburg in July, we are now in talks to become a supplier."

Italian parts makers are sacrificing traditional corporate loyalties to survive after 75 companies failed last year. With Fiat's production down by a third since 2009 and its plan to invest 20 billion euros (\$26 billion) in Italian factories canceled, expansion abroad is the only option for many of the country's component manufacturers.

"German companies are interested in our products," said Mauro Ferrari, head of the components division of Italian auto association [Anfia](#). "Thanks to the exports, the sector managed to offset a slump in orders from Fiat in [Italy](#) last year. On the flip side, small companies, which don't make high-value products, are going to die."

### Spending Cuts

While Italy's sole carmaker can fall back on profits generated by Chrysler Group LLC, many suppliers are exposed to the full brunt of the slowdown in the country, where car sales are poised to drop to their lowest level in 30 years.

Small family-owned businesses like Giordano's company Elmeg are most at risk from the slowdown as they have a limited product range, lack resources and depend on a few key contracts. Their troubles stem chiefly from Fiat.

The Turin-based manufacturer is cutting production in Italy to about 420,000 cars this year from 650,000 in 2009, according to [Anfia](#). Fiat's goal to increase output to 1.4 million vehicles by 2014 under its so-called Fabbrica Italia plan is almost certainly unachievable after the company cut spending in [Europe](#) by 500 million euros this year to save cash.

“Any supplier depending on Fiat’s European operations has to look elsewhere or risk going bust,” Flavio Gussoni, vice president of global sales at Magneti Marelli, a Fiat unit, said at a supplier event in Wolfsburg, VW’s home town.

## Idle Factory

At Fiat’s main Mirafiori plant in Turin, a giant facility that covers an area about half the size of New York’s Central Park, the nearby streets are devoid of the bustle seen in better times. About 5,500 employees at the factory work just a few days a month and will produce less than 50,000 Alfa Romeo Mito hatchbacks this year. The plant’s official capacity is about 250,000 vehicles.

About 8,000 jobs were cut in the Italian auto-parts industry in 2011 after revenues dropped 13 percent from 2008 to 41.8 billion euros last year, according to **Anfia** and the Turin Chamber of Commerce. Another 10,000 of the remaining 179,000 jobs will probably be cut before the end of next year, **Anfia’s** Ferrari said. About 75 percent of the companies in the Piedmont region, Italy’s industrial hub, have furloughed workers to cut costs as orders dry up.

“The car-parts sector is the epicenter of the crisis,” said Giorgio Airaudo, head of the auto workers’ unit of Fiom Cgil union, which is organizing a nationwide rally to highlight the crisis in the component sector.

## Volkswagen Fair

Some workers are independently drawing attention to their plight. Last week, three laid-off employees of Viberti, a trailer maker, camped on the roof of the company’s factory in Nichelino.

To secure high-grade, low-cost parts, Volkswagen held a fair for Italian suppliers at the headquarters of its Italdesign unit near Turin in May. Giordano’s Elmeg, one of more than 30 manufacturers presenting their products, showed light-weight containers for fluids such as windshield cleaner.

VW’s move to attract Italian suppliers comes amid growing tensions with Fiat. In July, Stephan Gruehsem, Volkswagen’s communications chief, called on Fiat CEO Sergio Marchionne to resign as president of the European automaker association ACEA over comments that the Italian executive made suggesting that VW was behind a price war.

Marchionne, whose efforts to push for industrywide capacity cuts have been thwarted by VW, dismissed the call and threatened to quit the organization in protest. VW Chief Financial Officer Hans Dieter Poetsch in turn said at the Paris Motor Show last month that carmakers in southern Europe will struggle to survive the crisis without government help.

## Paris Handshake

The Fiat CEO also took issue with VW’s continued interest in buying the Italian carmaker’s Alfa Romeo unit, telling VW Chairman Ferdinand Piech to “drop it.” Marchionne and VW CEO Martin Winterkorn eased the tensions by shaking hands and smiling for journalists gathered outside an

ACEA meeting in Paris late last month.

The dispute reflects the tough car market in Europe, which is forecast to shrink for the fifth consecutive year in 2012. Volkswagen's financial muscle and profitable operations outside the region has helped it offer deals to win new customers from rivals. The German manufacturer's market share through August rose to 25 percent from 23.2 percent a year ago. Fiat's share slumped to 6.5 percent from 7.3 percent, according to ACEA data.

With Marchionne delaying new models like the Punto hatchback, Italian authorities are helping suppliers look for alternatives, including efforts to lure other carmakers to the country. In the Turin area, where 50 percent of the parts industry is based, the local chamber of commerce has a project called "From Concept to Car," which helps companies get clients outside of Italy, especially in fast-growing countries such as Russia and [China](#).

"Our focus is to help small companies grow abroad and become suppliers of other carmakers," said Alessandro Barberis, a former Fiat CEO who heads the Turin Chamber of Commerce.

The Giordanos have followed this advice, teaming up with Japanese designer Takahide Sano in 2009 on a line of plastic chairs. The company's light-weight fluid containers impressed VW's procurement chief Francisco Garcia Sanz in Italy in May, prompting a visit to the Wolfsburg headquarters in July. Discussions of a potential supply deal are under way.

"As we saw orders halving in 2009, we understood that we couldn't just sit there," Salvatore Giordano said.

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