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Luxury Yacht Market and the Anti-Cyclical Industry: An Empirical Comparison Among the Worldwide Leaders in Italian Shipyards

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Abstract

The competitive context in which companies in the luxury nautical sector operate (i.e. Mega Yachts) is characterized by profound structural changes and dynamic developments, caused, above all by the current economic-financial crisis. An understanding, of how the Italian shipyards, world leaders in this sector, are facing this global crisis, one which has affected all sectors of the economy, becomes therefore fundamental. Literature claims that the Mega Yacht sector is characterized by a 'notable anti cyclical nature', the shipyards producing luxury ships are immune from the negative effects of the global economic and financial crisis. The luxury nautical sector could be considered untouched by the economic recession, given that the potential clients are High Net Worth Individual (with a patrimony exceeding 30 million dollars). In the light of this consideration this paper proposes an in depth study of Italian worldwide leaders producing Mega Yachts in the period 2006-2011. In particular, we wish to study whether the anti-cyclic nature of the luxury nautical sector can be effectively verified in the leading worldwide luxury yacht production in Italian shipyards. Italy ranks number one in the world for the production of Mega Yachts and has held this position for 10 years, indeed.

Keywords: *Luxury Yacht Market, Anti-cyclical Industry, Leader Shipyards, Italy*

1. Introduction

In the current economic scenario companies find themselves operating in a context which is increasingly changeable and turbulent. We need therefore, a variety and range of adaptable procedures which can be activated in a prompt and effective manner (Poddighe, 2001: 15). In such a complex and instable situation every possible effort must be made to understand the motivation, the effects and the available options in order to adapt in the most effective way to an environment in continual flux (Madonna, 2004: 37). This is fundamental if we wish to reach, maintain and improve the '*economic equilibrium*' (Giannessi, 1979: 38) of firm. The company, must, therefore try to 'create systems around growth projects of development and competitiveness' (Deidda Gagliardo, 2007: 82), with the aim of exploiting such efforts derived from the external environment (Cestari, 2009: 29) in order to reach the objective of economic equilibrium. The current context '*complex, dynamic, uncertain, ambiguous*' (Zattoni, 2006: 31) characterized by serious global economic – financial recession, represents a test of soundness of

the company in so far as it ‘accentuates the weight of critical success factors and at the same time renders the need for an equilibrium between real and financial sustainability in growth models particularly urgent’ (Buratti and Scarsi, 2012: 2).

The competitive context in which companies in the luxury nautical sector operate (that of the Mega Yachts) is characterized by profound structural changes and important dynamic developments, caused, above all by the current economic-financial recession. An understanding, of how the Italian shipyards, world leaders in this sector, are facing this global crisis, one which has affected all sectors of the economy, becomes therefore fundamental.

The Mega Yacht sector represents an area of specialization in the Italian economy and is a sector which has, in the course of time developed strong ties with other important sectors, (manufacturing, services, technology etc). At an international level the nautical sector in Italy is associated with the Mega Yacht or luxury yacht sector, a market sector in which Italy is the indisputable leader of 2000 (Deidda Gagliardo, 2008: 9).

Despite the dramatic world situation Italy has been able to maintain this leadership; in fact literature claims that the Mega Yacht sector is characterized by a ‘notable anti cyclical nature’ (Cazzaniga Francesetti, 2005: 125; Deidda Gagliardo, 2008:149; Quagli, 2008: 9; Bruni and Carcano, 2009: 332; Nastasi, 2005: 1) The shipyards producing luxury ships are immune from the negative effects of the global recession which pervaded the world economy in 2008.

In the light of this consideration this paper proposes an in depth study of Italian worldwide leaders producing Mega Yachts in the period 2006-2011. In particular, we wish to study whether the anti-cyclic nature of the luxury nautical sector can be effectively verified in the leading worldwide luxury yacht production in Italian shipyards.

The paper is divided into five parts. In the following (part 2) the background of the luxury ship building industry on a national and international level will be described together with a description of the economic context in which it operates. In the third part we will define the object, the objective, the research questions, the methodology and the research phases. In the fourth part the research results will be shown, the result of a study and an analysis of consolidated finance statements and Annual financial statements of Italian shipyard world leaders in the aim of establishing the anti-cyclic nature which characterizes the Mega Yacht sector. In the concluding part (part 5) various points raised by the analysis carried out will be the subject of discussion.

2. Background of national and international shipbuilding in the luxury yacht sector

The shipbuilding of luxury yachts represents a “jewel in the crown” for Italy which ranks high in the production of Mega Yachts at world level. In particular, in 2000 it became the world leader among Luxury Yacht producing countries; for the number and the length of vessels produced. The paper will look at the principal characteristics which literature indicates as the key success factors which led to the growth and consolidation of the luxury nautical sector in the world market.

In particular the *qualitative characteristics* of the Mega Yacht at national and international level will be described, and then the quantitative aspects will be considered, with the aim of reaching a better understanding of the business humus of the leading companies which will then be analysed. First of all, the independence of the demand for Mega Yachts from general economic cycles, otherwise known as anti-cyclical is the first reason for the growing interest in this sector. In particular, the development of the luxury nautical market is strongly tied to the number and the wealth of millionaires known as High Net Worth Individual (HNWI)¹. Secondly, the evolution of the concept of wealth today involves a new paradigm; that of “advanced luxury”, from the concept of “accessible luxury” we pass to the concept of “absolute luxury”. In other words, if at first the Mega Yacht was characterized by look, now the latest generation Mega Yacht is associated with the idea of total luxury (Fortezza, 2008), the last word in refinement and attention to detail, complete innovation involving all tangible assets (material, components, engine etc) and intangible ones (design, services, exclusiveness etc). Thirdly, the Mega Yacht sector is characterized by constant technological innovation and by a super-specialization, that is to say a focusing on the core business with expansion aimed at offering a wider range of services to the customer (Cazzaniga Francesetti, 2008). The widening of range, if followed up is often the result of collaboration with other realities which are specialized in the type of productivity which the company wishes to implement. Fourthly, a distinguishing feature of the Mega Yacht is that it is an independent brand of an important shipyard company (Baan, 1996). The shipyard often develops from a local craftsman based context. Growth follows as a result of the purchase² of other yards, perhaps ones which are going through a period of economic difficulty or competitors, with the aim of widening the brand’s portfolio and the brand’s range of services and products. Fifthly this sector is characterized by technical and outfitting aspects which are similar to the luxury cruise ship sector. In both cases, we are dealing with ‘a restricted market with strong competition imposed by the necessity of producing mega yachts and cruise ships with wide product differentiation where the class of product plays an important role’ (Bruni and Carcano, 2009: 242).

It is to be noted, in conclusion that the structural model of reference in the sector under study is that of oligopolistic competition. Each business, operates in fact, on the basis of rival strategy, at the same time it acts in an environment in which it is not possible to apply a policy of price leadership nor collusive behavior (Arnold, 2008: 251). As we are dealing with an ambiguous oligopolistic market structure we cannot use all the instruments which are typical of a market structure in which there is continuous movement with new entries, bankruptcies and several strong consolidated yards (TABLE 1).

¹ They are those with US\$1 million or more at their disposal for investing; investable wealth does not include the value of personal assets and property such as primary residences, collectibles, consumables, and consumer durables. HNWI’s are also separated into three discrete wealth bands: those with US\$1 million to US\$5 million in investable assets (so-called “millionaires next door”); those with US\$5 million to US\$30 million (so-called “mid-tier millionaires” or “Very -HNWI’s”) and those with US\$30 million or more (“Ultra-HNWI’s”) (Capgemini and Merrill Lynch, 2012; Tartaglia and Marinozzi, 2006: 64).

² There are a number of possible motivations that may result in a merger or acquisition, characterizing leader Group in Luxury Yacht market, such as Azimut – Benetti and Ferretti. One of the most oft cited reasons is to achieve economies of scale or vertical integration. A related idea to economies of vertical integration is a merger or acquisition to achieve greater market presence or market share (Singh and Montgomery, 1987; Tracogna, 2010: 44).

TABLE 1 *Qualitative Characteristics of the Mega Yacht Sector*³

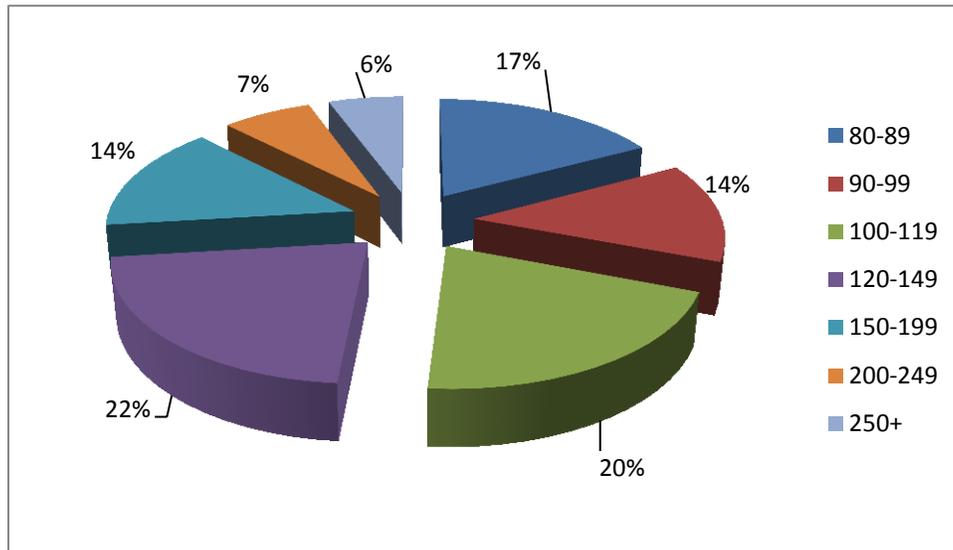
Characteristics of the Mega Yacht	Description
Anti-Cyclical	Shipyards producing luxury ships are immune from the negative effects of the global recession.
Advanced Luxury	Attention to detail, complete innovation involving all tangible assets (material, components, engine etc) and intangible ones (design, services, exclusiveness etc).
Technological Innovation & Super-Specialization	A focusing on the core business with expansion aimed at offering a wider range of services to the customer.
Independent Brand	Shipyard often develops from a local craftsman based context.
Luxury Cruise Ship Sector	A restricted market with strong competition.
Oligopolistic Competition	An ambiguous oligopolistic market structure, actually.

After having outlined the qualitative characteristics of the Mega Yacht sector, the development trend from 2000 to today (*quantitative characteristics*) will be briefly described.

As regard 2013 Mega Yacht⁴ orders, we note that the category of smallest yacht – i.e. 80-89 feet – continues to suffer, particularly in Italy. We can also note a tendency for an increase in the top end those exceed in 250 feet, 44% with respect to 2012 (Fig. 1).

³ Source: our elaboration.

⁴ The terms Mega Yachts, Super Yachts, Luxury Yachts refer to expensive, prestigious and elegant yachts. A Mega Yacht can be either motor or sailing yacht. Thus, they are generally a very large and they measure over 250 feet. Conventionally, seven Super Yacht categories exist: 80-99 feet; 90-99 feet; 100-119 feet; 120-149 feet; 150-199 feet; 200-249 feet and over 250 feet (art. 3 Legislative Decree 171/2005-The Nautical Code).

Fig. 1 *Mega Yacht: subdivisions for 2012 orders per yacht based on length*⁵

It is interesting to highlight that the market of the large super yacht registered 270 yachts in the year 2008, the year in which the world economic crisis exploded (+20% with respect to 2007) for a total of 10.8 thousand feet of length in total. The principal buyers were above all in the United States of America and in Europe; while the Middle East and Eastern Europe are those geographic areas which mark the highest growth rate. The year 2009, due to the current recession registered a decline in the number of orders of 15%; the deliveries refer to the orders received in the course of 2007 and in 2009. In 2010, in contrast, we can note an increase in the number of orders for Mega Yachts with lengths exceeding that of 200 feet, for a total of 10 with respect to that of 2009. In the last 3 years, (2011-2013) the most significant loss is registered in the smaller size sector. On the other hand in the period 2003-2013 the growth in orders of Mega Yacht (with dimensions exceeding 250 feet) is constant, with the exception of 2009 where a slight decrease occurred (TABLE 2).

TABLE 2 *Trend number of projects by length 2003 - 2013*⁶

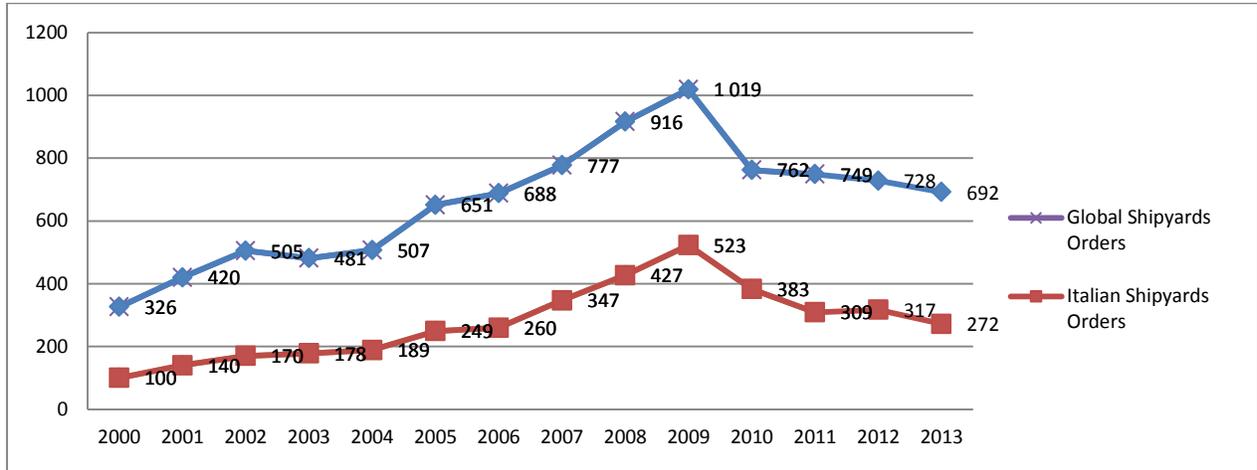
Length (in feet)	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
80-89	132	140	207	216	207	253	286	187	158	178	119
90-99	54	67	71	86	109	114	117	89	78	70	94
100-119	114	112	145	146	155	179	190	144	151	151	142
120-149	84	83	115	110	152	175	193	150	155	150	151
150-199	72	68	84	90	108	125	145	112	132	109	100
200-249	16	22	21	28	28	47	40	41	45	43	47
250+	10	15	9	12	18	23	21	30	30	27	39
Total	482	507	652	688	777	916	992	753	749	728	692

⁵ Source: our elaboration from Global Order Book, 2013.

⁶ Source: our elaboration from Global Order Book 2003 – 2013.

Italy has been defined by the Global Order Book ‘the world’s leading yacht-production country’ (Brobow, 2010: 63). In 2013, Italy registered 272 orders out of a total of 692, almost 40% or the total number of orders worldwide (Fig. 2).

Fig. 2 *Orders trend 2000/2013 for world production and for Italy*⁷



Turning attention from the trend of total orders of Mega Yacht to the shipyards, we can see that in 2013 the top 20 at world level include 7 Italian shipyards which account for 33,2% of the total orders and 29,3% for total length. The first three in the world is Italian shipyards (TABLE 3).

⁷ Source: our elaboration from Global Order Book, 2013.

TABLE 3 *Top 20 Mega Yacht Builders 2012 - 2013*⁸

2013 Rank	Company	Country	Total length (ft)	Projects	2012 Rank	Company
1	Azimut-Benetti	Italy	8,566	70	1	Azimut-Benetti
2	Ferretti Group	Italy	5,738	50	2	Ferretti Group
3	Sanlorenzo	Italy	3,730	33	3	Sanlorenzo
4	Sunseeker	United Kingdom	3,110	29	4	Lürssen
5	Feadship	The Netherlands	2,884	13	5	Sunseeker
6	Lürssen	Germany	2,185	6	6	Feadship
7	Princess Yachts	United Kingdom	2,080	22	7	Westport
8	Amels	The Netherlands	1,775	9	8	Hessen Yachts
9	Hessen Yachts	The Netherlands	1,618	10	9	Horizon
10	Horizon	Taiwan	1,473	15	10	Amels
11	Westport	USA	1,460	15	11	Fipa Group
12	Oceanco	The Netherlands	1,227	4	12	Overmarine
13	Trinity Yachts	USA	1,191	7	13	Trinity Yachts
14	Fipa Group	Italy	1,165	10	14	Perini Navi
15	Overmarine	Italy	1,139	10	15	Princess Yachts
16	Perini Navi	Italy	1,116	6	16	Palmer Johnson
17	KSE/Monte Fino	Taiwan	1,020	11	17	Christensen
18	Palmer Johnson	France	1,017	5	18	Proteksan-Turquoise
19	Cerri-Baglietto	Italy	997	8	19	Kha Shing
20	Christensen	USA	981	7	20	Dream Ship Victory

The Mega Yacht sector, and in particular the luxury nautical sector represents a specialization of the Italian economy and it has developed, in the course of time, strong ties with other important sectors, for example that of furnishings, of mechanics, of technology and of services. It is interesting to note that Italy boasts world leadership in 2000 in the production of Super Yachts. We can also note that three Italian companies, Azimut-Benetti, Ferretti Group and San Lorenzo hold the top 3 positions at world level for the construction of luxury ships⁹.

⁸ Source: our elaboration from Global Order Book 2012 and 2013.

⁹ Ferretti e Azimut-Benetti have been at the top of the classification of the Global Order Book for several years. According to the magazine Global Order Book 2013 the 19th position at world level for number of orders of Mega Yachts is Cerri-Baglietto. In 2012 SIAS (Società Iniziative Autostradali e Servizi), Italy's second largest highway maintenance and management group, quoted on the stock exchange, acquired two Italian shipyards: Baglietto Group and Cirri. As they merged together in 2012, it has not been possible to analyse financial statements of Cerri-Baglietto, because it is a new company born in 2012, and we study the period 2006 – 2011. For this reason, we consider financial statements and ratios of two different shipyards (Baglietto and Cerri), separately. Cantieri Baglietto has been in liquidation since 2010.

The Turkish and Asian shipyards have also made their appearance in the world classification in recent years thanks to low labour costs and a specialized and skilled workforce¹⁰.

National and international literature, rather limited in the field of luxury shipbuilding, has concentrated mainly on the principal characteristics of the mega yacht sector and on analysis of the luxury yacht as a complex, strongly symbolic product (Bruni and Carcano, 2009: 175). There have been very few studies devoted to business and accounting aspects which highlight on company characteristics in the production of mega yachts.

This research is concerned with this latter context and aims at contributing towards the study of the Mega Yacht Sector with respect to an accounting and business profile, taking into consideration all those yards which are world leaders with particular attention being dedicated to Italian companies.

3. Object, Objective, Research Questions, Methodology and Research Phases

The luxury nautical sector could be considered untouched by the economic recession, given that the potential clients are HNWI's (with a patrimony exceeding 30 million dollars). However the recession has sparked off a strong selection process among the yards, rewarding those which enjoy good management and reliable as far as their economic and financial situation is concerned. From a study of national and international literature it emerges that research contributions which study the luxury nautical sector under the profile of *accounting and business* are very few.

Studies have concentrated largely on *management, value creation, technical and planning characteristics in shipbuilding*. It clearly emerges that one of the characteristics that define the Mega Yacht sector is the fact of its anti-cyclic nature, therefore economic fluctuations of the shipyards are barely registered during a period of global economic recession such as the one that we are living through at present.

The *object* of research therefore deals with aspects of company-economics relating to World Leading Italian shipyards producing Mega Yachts for more than 10 years.

The decision to study the Mega Yacht sector paying particular attention to Italian constructors has been taken for various reasons. First of all the luxury nautical sector represents an important area of specialization in the Italian economy (in terms of import and export) it is no coincidence that Super Yacht represents a symbol of the Made in Italy production. Secondly the Italian companies are world leaders in the construction of super-luxury yachts. Italy ranks number one in the world for the production of Mega Yachts and has held this position for 10 years. Finally the Italian shipyards represent the typical characteristics of the average industrial firm operating with success in a national context.

The *objective* of this research is to verify whether the notion that an anti-cyclical trend is actually found in the Italian shipyards which hold the position of world- wide leaders.

We are, therefore looking for answers to the following *Research Questions*:

¹⁰ For example the Turkish yards have costs inferior by 20-25% with respect to the European yards. One of the strong points of Turkey is the availability of specialized manpower using the system of specialized contractors. China is present in the top 10 of 2008 thanks government subsidies (e.g. investment in intangible asset, brand, license, etc.) and tax relief.

RQ1) Do the economic - financial performances of the shipyards analysed show evidence of anti-cyclical nature typical of the Mega Yacht sector?

RQ2) In the case of shipyards producing Mega Yacht which do not confirm the underlying assumption, what are the critical factors that determine the trend?

RQ3) In the case of shipyards producing Mega Yacht which do confirm the underlying assumption, what are the critical success factors which determine the trend?

The *methodology of research* regarding the empirical observation of the Italian companies is of the deductive – inductive type (Ferraris Franceschi, 1978) and is expressed in three stages:

- Deductive: critical analysis of national and international literature relating to luxury ships and Mega Yacht;
- Inductive: research and analysis of company documents of the companies investigated (Annual Financial Statements and Consolidated Financial Statements and management reports, statements and calculation of the main ratios for Financial Statement;
- Feedback: final comments/considerations on the effects of the global economic crisis of 2008 on the performance of the companies under investigation.

The research phases can be divided into:

- i. Identification of the sample under investigation;
- ii. Recovery of Annual Financial Statement and Consolidated Financial Statement, management report and other documents of interest through the data bank of Bureau Van Dyik AIDA and the Chamber of Commerce of Ferrara (Italy);
- iii. Calculation of principal accounting ratios⁸. We take into consideration the principal ratios regarding the financial-balance sheets together with the economic situation. In particular, with respect to the balance sheet index, the following are to be considered: Net Financial Position(NFP) Equity Ratio, Current ratio (Bliss, 1923; Gilman, 2008); while, with respect to the economic ratios we will analyse Earnings Before Interest Taxes Depreciation Amortization (EBITDA), Return On Sales (ROS) e Return On Equity (ROE) (Siddiqui, 2006);
- iv. Interpretation of results. These are divided in two components: *temporal and special*¹¹. The former makes reference to company analysis in the period 2006-2011; whilst for the special component a comparison is made of the performances of the companies which draw up Consolidated Financial Statement and those who draw up the Annual Financial Statement.

4. Research Description

Firstly, we have examined the world classification table 2013 (prepared by Global Order Book 2013)¹² of the 20 major shipyards producing Meg Yacht. Then the Italian companies operating in the sector were selected; they boast world leadership for over 10 years. The analysis sample, therefore is made up of seven Italian shipyards constructing Mega Yacht who are world leaders according to the international classification of Global Order Book 2013.

¹¹ In order to identify companies “health condition” (Caramiello, Di Lazzaro, Fiori, 2003), we should compare financial and economic ratio among firms of the sample (i.e. so-called space comparison) and performance trend during a certain period, in this case 2006 – 2011 (i.e. so-called time comparison).

¹² Available at: www.boatinternational.com

In particular the Annual Financial Statements and the Consolidated Financial Statements of seven companies have been studied, then performance ratios, capital-financial ratios and economic ratios have been calculated and interpreted in order to illustrate in the fullest and most immediate way the company situation of the shipyards.

The period under study is from 2006 – 2012, therefore we wish to verify the soundness – economic and, financial- of the world leading shipyards in the period prior to the economic recession to present day.

In the economic-financial analysis the sample is further subdivided into 2 parts; a) the three companies which draw up a Consolidated Financial Statement; b) the four which draw up an Annual Financial Statement. The reason for this subdivision is to guarantee a better comparison of the shipyards under study. The interpretation of the results takes into account the special and temporal components, or rather they have been interpreted by comparing the three companies which draw up a Consolidated Financial Statement and those which draw up an Annual Financial Statement (*special analysis*) considering the period 2006-2011¹³ (*temporal analysis*).

The three companies which draw up a Consolidated Financial Statement are: Ferretti Group, Azimut-Benetti S.p.A. and Perini Navi Group; while the four that draw up the Annual Financial Statement: SanLorenzo S.p.A., Overmarine S.p.A., Cirri - Baglietto., Fipa Yachts.

It is necessary to point out that the 19th place in the Global Order Book 2013 is held by “Cerri – Baglietto”: a new company founded in 2012. Indeed last year SIAS (Società Iniziative Autostradali e Servizi), Italy’s second largest highway maintenance and management group, quoted on the stock exchange, acquired two Italian shipyards: Baglietto Group and Cirri. As they were merged together in 2012, it was not possible to analyse financial statements, it is a new company born in 2012, and we study the period 2006 – 2011. For this reason, we consider financial statements and ratios of two different shipyards (Baglietto and Cerri), separately. Thus, regarding financial statements we consider five shipyards: SanLorenzo S.p.A., Overmarine S.p.A., Cerri Cantieri Navali, Cantieri Navali Baglietto and Fipa Yachts.

The ratios were taken from the data base of Bureau Van der Aarde, they were then interpreted through the help of notes to the financial statement and documents attached to the statement.

The financial ratios under study are:

- *Net Financial Position (NFP)*; it shows the difference between total cash position (cash, cash equivalents and marketable securities) net of total financial debt (bank overdrafts, current portion of long-term debt and long-term debt).
- *Equity ratio* refers to the relative proportion of equity applied to finance the assets of a company.
- *Current ratio* shows the current assets available to cover current liabilities at the Balance Sheet date (Fleming, 2004).

¹³ The balance sheets are available up to the financial year 2011, the data relative to 2012 are still being elaborated (according to national law).

The ratios of an economic nature under study are:

- *Return On Equity (ROE)* measure the return on investments of investors. It is the ratio between net income and total shareholders' equity (Östring, 2004: 81).
- *Return On Sales (ROS)* indicates effectively the firm is transforming sales into profits. It is calculated by dividing net income after taxes by net sales (Pride, Hughes and Kapoor, 2011: 518);
- *Earnings Before Interest Taxes Depreciation Amortization (EBITDA)*.

5. Results of research

As follows, we give evidence - in comparative form - of different performance ratios - financial and economic - which are useful to illustrate in the fullest and most immediate way the company position of those shipyards which draw up a **Consolidated Financial Statement**, in particular: Ferretti Group, Azimut-Benetti S.p.A. and Perini Navi Group.

TABLE 4 *Net Financial Position 2006 – 2011, Consolidated Financial Statement*

<i>NFP</i>	2006	2007	2008	2009	2010	2011
Ferretti Group	448.916.000	720.014.000	735.559.000	618.172.000	597.654.000	669.456.000
Azimut Benetti S.p.A.	-33.375.000	-63.007.000	-981.000	70.169.000	40.506.000	216.000
Perini Navi Group	N/A	-17.438.238	4.228.122	-13.054.000	6.153.000	9.568.000

Net Financial Position (NFP) represents an important indication of the capacity of a company to meet its financial obligations. It shows the difference between total cash position net of total financial debt. These ratios are positive for the Ferretti Group in the period under study, while Azimut-Benetti and Perini Navi-Group register a negative value respectively in the three year period from 2006-2008 and from 2007-2009. The Ferretti Group registers the highest level of debt due to a series of ongoing, extraordinary operations carried out. The confirmation of an excessive financial burden can be evidenced by the fact that in 2012 75% of the company was sold off to a Chinese company from Shandog Shig-Weichai. The remaining 25% of the Ferretti shares are held by the two greatest creditors of the Royal Bank of Scotland and the American Funds Strategic Values Partners (TABLE 4).

TABLE 5 *Equity ratio 2006 – 2011, Consolidated Financial Statement*

<i>Equity ratio</i>	2006	2007	2008	2009	2010	2011
Ferretti Group	18,4%	13,94%	14,13%	12,62%	9,20%	-40,13
Azimut – Benetti S.p.A.	35,06%	29,70%	30,13%	32,60%	34,36%	38,1
Perini Navi Group	N/A	22,55%	20,65%	22,26%	23,75%	23,34

The financial Equity Ratio which measures the degree of equilibrium or rather the degree of imbalance among the financing sources reveals that generally the yards prefer financing with credit capital rather than using their equity. The only company which registers a ratio equal to, or above 30% of the total financing capital is Azimut-Benetti; the company registers a positive trend. The increase of equity, even though partially eroded by the loss of the financial year 2009 and 2010 can be attributed to the advance received for the merger of Atlantis S.p.A. Perini Navi Group registers a growing equity rate even though it is below 30%. The reasons can be traced to the fact that a larger percentage of the profits have been allocated to facing possible market risks. In none of the cases under study can we note an increase of an increase in share capital against payment or free of charge (TABLE 5).

TABLE 6 *Current ratio 2006 – 2011, Consolidated Financial Statement*

<i>Current ratio</i>	2006	2007	2008	2009	2010	2011
Ferretti Group	0,67	0,36	0,69	0,57	0,63	0,29
Azimut – Benetti S.p.A.	0,59	0,47	0,34	0,23	0,26	0,41
Perini Navi Group	N/A	0,39	0,27	0,37	0,44	0,39

Current ratio calculated as the division between current assets (without considering inventories) and current liabilities reveal that none of the yards enjoys a positive position that is to say one that exceeds one. The yards with the soundest position are the Ferretti Group and the Perini Navi Group which register a trend in constant growth due to a progressive increase proportionally much greater than the deferred and immediate liquid assets. The Perini Navi Group shows a decrease in the debt towards suppliers in the 2009 operations, given the reduced production, but there in an increase in customers' accounts with respect to work orders. The Ferretti group, on the other hand registers a higher rate of liquidity –though less than one – than Perini. This is due to a positive management of the financial sector¹⁴ which has generated the necessary liquidity to cover about 60% of the debts in the short term (TABLE 6).

¹⁴ In particular the Ferretti group adopted a strategy of centralizing liquidity for the whole company group; the so called *cash pooling* (i.e. It combines their credit and debit positions in various accounts into one account).

TABLE 7 *EBITDA 2006 – 2011, Consolidated Financial Statement*

<i>EBITDA</i>	2006	2007	2008	2009	2010	2011
Ferretti Group	118.409.000	151.621.000	165.407.000	2.560.000	23.001.000	23.734.000
Azimut – Benetti S.p.A.	101.660.000	77.067.000	119.084.000	36.195.000	36.923.000	35.921.000
Perini Navi Group	N/A	2.637.641	11.929.576	14.717.000	12.676.000	6.238.000

EBITDA (*Earnings Before Interest Taxes Depreciation Amortization*) registers a peak in 2008 (the year in which the global economic recession hit in), and then reduced drastically in the successive Accounting years. This is due to the orders placed before 2008 which were completed and sold in that year; following this, the sales of yachts of smaller dimensions diminished because the buying power of the average saving holders slightly decreased. At the same time, however there was an increase in the wealth held by those who possess net assets higher than 30 million dollars, we are speaking about the so called Ultra HNWI's. However, the Perini group is the only yard which was able to increase its EBITDA in the accounting years after the onset of the recession and to stabilize it. The shipyard which registers the most significant reduction between 2008 and 2011 is Azimut-Benetti, with a fall of about 70% (TABLE 7).

TABLE 8 *ROS 2006 – 2011, Consolidated Financial Statement*

<i>ROS</i>	2006	2007	2008	2009	2010	2011
Ferretti Group	14,1%	14,93%	12,91%	-1,42%	0,57%	N/A
Azimut – Benetti S.p.A.	10,72%	7,41%	10,11%	1,16%	2,15%	1,36
Perini Navi Group	N/A	-2,02%	-1,01%	3,42%	5,27%	2,19

ROS, ratio measuring the operating performance of a firm, reached its highest level in the 2008 operations with the exception of the Perini Navi Group, it then registered a marked reduction in the following two accounting years. It should be pointed out that Ferretti registered a slight dip in 2008 with respect to the preceding period. Perini Navi shows the highest level of ROS in the sample under investigation in the two year period 2009-2010; it therefore proves to be the yard with the best performance in net sales revenue. The ROS fell slightly in 2011, due to the decline in sales, due, in turn to the shrinking of orders of Mega Yacht in the preceding years. These orders, however, indicate an increase in 2011, a sign that this market is starting to bounce back. The two leaders in the luxury nautical sector Ferretti and Azimut-Benetti register a slight worsening in the final period under study caused by the drastic fall in sales of yachts and ships. Both yards reorganized their costs management structure in response to the reduction in sales and the consequent fall in revenue, Ferretti registered a slight improvement in 2010, as a result of having aimed at the sale of stock accumulated in the previous operating period (TABLE 8).

TABLE 9 ROE 2006 – 2011, Consolidated Financial Statement

<i>ROE</i>	2006	2007	2008	2009	2010	2011
Ferretti Group	11,8%	2,05%	5,31%	-59,2%	-51,99%	N/A
Azimut – Benetti S.p.A.	19,04%	10,78%	15,63%	-3,50%	-0,92%	-1,15
Perini Navi Group	N/A	-1,55%	-11,37%	3,42%	5,27%	-3,72

ROE, ratio measuring shareholders' profitability expressed as a percentage, shows a downward trend in 2008, with the exception of the Perini Group which is the only one to register a positive trend starting from 2009. At the height of the global economic crisis (2008) it can be seen that the financial advantage of investing in Italian companies in the luxury nautical sector was high, apart from the Perini group. Later the yards' performance worsened, the case of Ferretti is exemplary; it registered a strongly negative ROE in the last period. This can be attributed in part to a drastic fall in sales proportionally greater than the decrease of equity (eroded by losses) and in part to the excessive burden of financial charges. The year 2011 is a particularly bad year for the big players in the luxury nautical sector who were affected by the significant fall in profits for the year (TABLE 9).

We then follow by showing evidence – by comparison- of several ratios of performance: financial, economic, assets which we believe to be useful to illustrate in the fullest and most immediate way the company position of those yards which draw up *Annual Financial Statements*. In particular, SanLorenzo S.p.A., Overmarine S.p.A., Cirri-Baglietto, Fipa Yachts. It is relevant to notice that in 2012 SIAS (Società Iniziative Autostradali e Servizi), Italy's second largest highway maintenance and management group, quoted on the stock exchange, acquired two Italian shipyards: Baglietto Group and Cirri. As they were merged together last year, it is not possible to analyze financial statements; the new company was born in 2012. For this reason, we consider the financial statements and ratios of the two different shipyards (Baglietto and Cerri), separately. Finally, we consider Annual Financial Statements of five shipyards: SanLorenzo S.p.A., Overmarine S.p.A., Cerri Cantieri Navali, Cantieri Navali Baglietto and Fipa Yachts.

TABLE 10 *NFP 2006 – 2011, Annual Financial Statement*

<i>NFP</i>	2006	2007	2008	2009	2010	2011
SanLorenzo	6.707.876	2.865.966	33.385.691	62.907.729	51.362.033	64.390.969
Overmarine	-3.117.140	13.835.057	19.833.059	8.609.532	1.287.299	-1.417.333
Cantieri Navali Baglietto	-1.335.206	-9.983.688	9.225.988	11.940.685	-417*	N/A
Cerri Cantieri Navali	3.031.357	-1.071.564	-2.184.128	1.826.418	844.011	270.319
Fipa Yachts Srl	16.656.507	19.741.170	24.448.348	31.851.429	32.720.897	33.948.688

NFP registers a worsening for Cerri Cantieri Navali, the shipyards Navali Baglietto and Mondomarine; while Overmarine and Fipa Yachts register an improvement in the period under study. This confirms that the global economic recession generated a shortage of liquidity, which the yards tried to compensate for, in part by seeking financial assistance from the banks. It can be seen that Overmarine sought a considerable sum from its controlling group EFFEBI GROUP, in doing so they created an improvement in the net financial position (TABLE 10).

TABLE 11 *Equity ratio 2006 – 2011, Annual Financial Statement*

<i>Equity ratio</i>	2006	2007	2008	2009	2010	2011
SanLorenzo	30,61%	30,63%	9,51%	9,37%	10,6%	21,18
Overmarine	62,27%	44,74%	42,19%	50,19%	55,64%	63,75
Cantieri Navali Baglietto	8,09%	4,36%	-2,75%	-7,02%	78,20%*	N/A
Cerri Cantieri Navali	20,15%	13,27%	10,94%	36,12%	7,52%	33,69%
Fipa Yachts Srl	9,99%	16,26%	9,95%	7,02%	8,01%	1,79

The *Equity ratio* shows that all the yards mostly resorted to borrowed capital with the exception of Overmarine and for the Baglietto yards; however the latter has been in liquidation since the accounting year 2010, so the data is affected by this management. As explained in an added note the accounting year 2010 for the shipyards Baglietto and Cerri Cantieri Navali is not comparable with that of the preceding year due to the fact that these yards have handed over the entire company assets to Baglietto Snc. With respect to Overmarine we note that the controlling group EFFEBI GROUP granted new financial resources to the controlled company and in doing so creating an increase in financial autonomy. This same company, moreover preferred to allocate profits rather than paying dividends to the partners in this accounting year. Fipa registered an

* We should consider that the Annual Financial Statement index 2010 of Cantieri Navali Baglietto and Cerri Cantieri Navali (those indicated with“*”) are not comparable with those of the previous year according to the fact that the group was in the position of voluntary liquidation. It should moreover be noted that the yards in question already showed negative net value in 2008.

increase in financial autonomy due to a merger with AB Yachts S.r.l. in 2010 which generated an advance registered in the shareholders equity. In 2011 we note a significant decline in the financial autonomy of all the shipyards which prefer to incur debts with the banks or other bodies rather than financing themselves with equity (TABLE 11).

TABLE 12 *Current ratio 2006 – 2011, Annual Financial Statement*

<i>Current ratio</i>	2006	2007	2008	2009	2010	2011
SanLorenzo	0,48	0,36	0,21	0,27	0,35	0,43
Overmarine	1,75	1,43	1,39	0,86	0,61	2,36
Cantieri Navali Baglietto	0,28	0,21	0,17	0,24	0,04*	N/A
Cerri Cantieri Navali	0,33%	0,19%	0,29%	0,13%	0,05%	0,18%
Fipa Yachts Srl	0,21	0,18	0,12	0,23	0,28	0,63

Current ratio registers a worsening trend for all the shipyards with the exception of Overmarine which, after a collapse in 2009, shows a ratio in 2010 which 2010 is above 1. This can be attributed to two factors: on the one hand this is due to the sale of some finished vessels recorded in the ware –house and, on the other hand by the performances of “refit e repair” (the restructuring of yachts.) which determined an increase in liquid assets. The other shipyards in the sample under study show an alarming situation in terms of liquid assets which means that they are not able to honour their debts in the short term (TABLE 12).

TABLE 13 *EBITDA 2006 – 2011, Annual Financial Statement*

<i>EBITDA</i>	2006	2007	2008	2009	2010	2011
SanLorenzo	6.929.099	10.691.407	23.522.423	13.777.309	13.514.532	22.791.200
Overmarine	17.394.588	20.666.375	16.125.582	4.390.212	1.997.724	2.208.558
Cantieri Navali Baglietto	11.889.706	4.158.278	-8.006.269	-21.885.595	-3.176.198*	N/A
Cerri Cantieri Navali	327.000	500.985	920.475	1.158.898	-1.162.935	-1.039.266
Fipa Yachts Srl	1.454.467	4.389.532	3.077.920	1.852.868	-8.077.455	-4.144.241

In general *EBITDA*, registers a marked slowing down in 2008, the year in which the global crisis is clearly evident. In 2011 only SanLorenzo registers a slight, though marginal trend improvement. The Cerri Cantieri Navali, Baglietto, Overmarine present a worsening economic situation, a situation which was already evident in 2007. We can understand from the accounting documents attached to the Financial Statement that the management revised the company finances with reduced staff costs and reduced service charges in response to the drastic fall in the

income from sales. After halving of EBITDA in 2009, San Lorenzo was able to maintain its value unchanged in the successive year (TABLE 13).

TABLE 14 ROS 2006 – 2011, Annual Financial Statement

ROS	2006	2007	2008	2009	2010	2011
SanLorenzo	3,63%	5,2%	16,53%	6,13%	4,02%	9,33
Overmarine	31,65%	33,02%	28,85%	42,55%	17,71%	2,44
Cantieri Navali Baglietto	29,60%	4,26%	-20,57%	-23,06%	-9,48%*	N/A
Cerri Cantieri Navali	1,48%	2,25%	3,11%	4,96%	N/A	N/A
Fipa Yachts Srl	2,09%	6,3%	3,71%	2,19%	-19,02%	-12,07

ROS is strongly conditioned by the global economic situation; in fact most of the yards show a serious worsening of the ratio under study, a situation already evident in 2009. However, Overmarine stands out in registering a marked improvement in 2009 with respect to 2008; nevertheless in the last Statement under study the decrease is equivalent to 25% with respect to 2009. This means that the smaller yards were more affected by the adverse effects of the global crisis compared to the larger yards. In general the fall in sales income was not accompanied by an adequate restructuring of the operating costs as testified by a reduction in operating income. Moreover, Fipa Yachts is the only shipyard in the sample study which registers a negative value in the last accounting year (with the exception of the two companies which are in liquidation) (TABLE 14).

TABLE 15 ROE 2006 – 2011, Annual Financial Statement

ROE	2006	2007	2008	2009	2010	2011
SanLorenzo	4,58%	8,29%	57,14%	17,38%	3,89%	10,86
Overmarine	52,56%	48,31%	34,61%	-12,37%	0,21%	0,56
Cantieri Navali Baglietto	59,26%	28,64%	189,84%	274,49%	-5770,23%*	-----
Cerri Cantieri Navali	5,68%	14,29%	21,14%	20,52%	N/A	-69,75%
Fipa Yachts Srl	5,91%	12,28%	3,94%	1,07%	-46,77%	N/A

ROE generally shows improved results for all the companies under study in 2008; it registers a drastic slowing down (particularly for Mondomarine) and a dramatic worsening in the successive years (for all the other companies). In the period 2009-2011 the drastic decline is due to the reduction of the profit for the year caused partly by the drop in sales revenue and by the operating costs which remained practically unchanged, and partly to the worsening of the balance in the

financial sector. The economic-financial crisis was responsible for a loss, in terms of capital, for four companies out of five. San Lorenzo is the only yard which registers a satisfactory result – only in the last year - thanks to the profit registered in 2010. In general the performance of all the shipyards suffered, the case of Fipa Yacht which registered a marked decline in ROE is exemplary (TABLE 15).

6. Conclusions

From an analysis of the Financial Statements (Consolidated and Annual Statements) and the relative ratios, it emerges that the economic and financial situation of the Italian shipyards leaders in the world in the production of Mega Yacht is not so positive, despite the fact that the wealth of their potential clients (Ultra HNWI) is in constant growth. A worrying situation emerges, and this means that the global economic crisis has also produced negative effects in this sector, traditionally believed to be sheltered from adverse economic conditions.

From the empirical analysis carried out it is possible to address the research questions formulated earlier. With respect to the first *RQ1) Do the economic - financial performances of the shipyards analysed show evidence of anti-cyclical nature typical of the Mega Yacht sector?*, it can be seen that the marked characteristics of an anti-cyclic nature do not emerge from this economic-financial analysis as sustained in literature. If we consider that the extra-luxury nautical sector (those producing ships with a length exceeding 250 feet) is for privileged clients whose assets are higher than 30 million dollars (the so called Ultra HNWI) it may seem the case that this segment is not tied to market dynamics. In fact the number of so called Ultra HNWI increased by 10.2% in the course of 2010 with respect to 2009. The assumption of an anti-cyclical phenomenon is accurate if correlated to wealth and to the number of those possessing wealth who increase each year, including periods of global crisis such as the current one. If however, we consider the axiom alongside the readiness to invest in luxury goods the concept of an anti-cyclic notion does not seem to be verified.

In 2008 (the year in which literature claims that the global recession reached its peak) most of the companies registered an improvement in the earnings ratios, (EBITDA and ROS) and in the financial ratios (in particular the net financial position). This might lead one to think that the performances of the yards under study are, effectively unaffected by the market trends; however it must be underlined that the positive results are due to the orders placed in the preceding years.

The orders of Mega Yacht, in fact, were placed at least two years prior to the recession due to the fact that the ships in question require considerable production time; they are custom, or semi - custom built. With respect to the corporate groups which produce both vessels and yachts, a marked drop can be registered with respect to earnings ratios, also for this latter category. The case of Benetti which registered a reduction in net sales of about 20% between 2009 and 2010 is exemplary.

With respect to the second research point *RQ2) In the case of shipyards producing Mega Yacht which do not confirm the underlying assumption, what are the critical factors that determine the trend?*

We report the following.

Most of the shipyards under study do not show the anti-cyclic nature which is typical to the Mega Yacht sector, not because of a decline in the wealth of the super-rich, but for other reasons.

Firstly the number of orders from 2000-2009 registers a constant growth; in 2010 there is a decline due to the global economic recession.

The latter contributed in generating *a sense of lack of trust* in the markets and a sense of guilt in this type of investment¹⁵. The orders in 2011 remained stable with respect to 2010, a sign that wealthy buyers prefer to invest in other markets, particularly in shares, in commodities and in property (above all in the Asia –Pacific area). The investment strategy of the ULTRA HNWIs, in the light of the global crisis has changed: now they prefer to diversify their portfolio, favouring investments which guarantee their capital at maturity. Indeed, bonds tend to perform better than other assets such as stocks. Moreover the super - rich have developed a high propensity to save, which has limited the demand for Mega Yacht.

Secondly the fall in sales felt by the world leading Italian shipyards is also due to macroeconomic reasons: the restrictive fiscal policy of the Central European Bank has allowed the Euro to remain strong with respect to the dollar, favouring the shift of European capital to the American yards. When, in fact the price paid for European goods is higher than that of other countries, which is the case with the strong single currency of the Euro, foreign clients prefer to purchase yachts from non European yards.

Thirdly, the *high level of debt* (evident also where the financial position is excessively positive) has contributed to worsening company performance of the yards. The serious situation of the companies is evident, culminating in insolvency in three yards under study: Cantieri Navali Baglietto S.p.A., Cerri Cantieri Navali and the Ferretti Group. The first two have been in liquidation since 2010; while the third has been bought over (75%) by a Chinese group as a cause of the excessive debt accumulated in previous accounting years. The costs of credit in times of economic-financial recession, are in fact much higher than those costs prior to the recession. Even when the companies are prepared to pay a higher interest rate because of their need for cash, the money is not forthcoming because lenders fear the risk of *default*. The so called *credit crunch* (i.e. the rationing. of credit) could also be a further cause of the diminished economic growth and a reduction of investments (Bernanke, Lown and Friedman: 1991, Hancock and Wilcox: 1998). This phenomenon has in fact determined a significant reduction in the financing

¹⁵ Powderly and MacNulty (1990: 33-34) reckon that in the 90's and in the years 2000.- 2010 demand of luxury goods increased in so far as there was the need to indulge in materialistic goods, the importance of appearance. According to research carried out by Merrill Lynch and Cap Gemini (2010: 64), in fact despite the first signs of regrowth as evidenced by various economic indicators, wealthier investors did not rush to take up the opportunities offered on the market which involved a certain level of risk. They have maintained a prudent approach indicating efficient risk management (90%) transparency and simplicity (93%) and specialized financial consultancy (93%) as their absolute priority in the current context. In recent years, nearly all HNWIs (97%) reckon capital preservation is important to them and a large number (42%) think it is extremely important. Effective portfolio management is deemed important by 94% of HNWIs. The crisis has not only made these needs more acute, it has raised or created the priority for newer issues, including specialized advice (important to 93%) and transparency on statements and fees (93%).

of the yacht sector with the reduction of the financial capacity of the distributors and the creation of liquidity problems.

Finally one of the many causes that has caused the serious crisis in the nautical sector is the difficulty on behalf of the leasing companies in granting new loans. *Nautical Leasing*, as an instrument for financing the purchases of ships and yachts became a consolidated practice in recent years. In the current adverse economic situation the leasing companies find themselves managing problems of litigation, caused by aggressive operations in the years prior to the recession. Today the leasing companies are more hesitant in the signing of such atypical contracts because of the risk of nonpayment of installments.

With respect to the second research issue *RQ3) In the case of shipyards producing Mega Yacht which do confirm the underlying assumption, what are the critical success factors which determine the trend?* - this is discussed below. In the sample of yards under study which draw up a Consolidated Financial Statement, the one which tends to show an “anti-cyclic” nature (with respect to the ratios studied) is the Perini Group. The sales revenue from 2006 onwards show constant growth, EBITDA – after a slight dip in 2008- have increased steadily. The yard would seem to confirm the premise of an anti-cyclic nature supported in literature. The factors determining the trend could be basically four; the fact of belonging to a *niche market*, a certain degree of financial autonomy which is higher than national competitors, the collaboration with the Ministry of Research and Universities, and the choice of governance. With reference to the first critical factor of success it is worth indicating that Perini belongs to the niche market of sailing ships of large dimensions, crewed by a single person or by a small crew. Despite the fact that this sector is ‘limited and selective’, in recent years it has registered an increase in the number of competitors; however Perini has remained indisputably the world leader. In other words this market sector is made up of several entrance barriers. As we can see from the latest edition of the Global Order Book (2013: 85), there has been a progressive increase in the demand for *sailing yachts* as opposed to *motor yachts* in the last few years; as the use of fuel, and the other associated costs are higher in the latter. The choice of Perini, a *trade-off* between innovation and tradition in the creation of the product and at the same time the creation of a dynamic brand management would appear to be a winning idea. The combination of innovation excellence and traditional craftsmanship, typical of the so called *Made in Italy*, appears to be a winning strategy. Perini, in fact, produces sailing yachts of large dimensions (over 250 feet) which are characterized by high technology and high quality craftsmanship. With respect to the second critical factor of success (i.e. a high level of equity ratio) it can be seen that, in contrast to the other competitors analyzed, Perini did not resort to excessive credit capital. We can see that the Equity level and correlated ratios (that of equity ratio) increased progressively as a result of the provision of profit from the profit year and of gains confirmed (realized in 2009) by a branch of the company at the Navali Beconcini shipyard. The third critical factor of success is tied to the collaboration with the Ministry of Research and Universities in the realization of an innovation project for its product. This collaboration consisted in a medium-long term loan at favourable interest rate and in grants entirely from the Profit and Loss Account.

Last but not least, without doubt the form of governance chosen (company group) and the mix of innovation and tradition, contributed to the success of Perini Navi. The company group represents an important condition for the development and competitiveness of the average company, above all in the luxury sector, in so far as it allows the company to exploit the advantages derived from

the small size of the firm¹⁶ and those derived from the *sharing economy* above all in those additional/indirect activities which play a key role in competitive advantage.

In conclusion, the notion of an anti-cyclical phenomenon described in literature has not been completely verified in times of economic-financial recession. Global crisis has sparked off a strict selection process in the shipyards producing luxury vessels favouring those which are more efficient. Italy has been able to maintain her world leadership position despite the resistance and or/difficulty in transforming its company structure into an open system. It should therefore grasp this global economic situation as an opportunity to maintain and consolidate its position; the naval shipyards producing luxury vessels should be open to the continual environment changes and to adapt efficiently and effectively to the opportunities offered by the market. The Mega Yacht shipyards could, therefore invest more in the emerging markets: the area in constant growth as far as the number of ULTRA HNWI's is concerned is, in fact that of the BRICS countries. The Italian companies in the luxury yacht sector could, in addition continue to invest in the critical success factors, for example technology, innovation, value chain: R & D, marketing and design. Italy enjoys a leadership role in the sector of Mega Yacht production and it should be able to maintain and consolidate its position within this sector despite the ongoing economic - financial recession.

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¹⁶ For example it allows for greater flexibility to the challenge of a complex and dynamic environment.

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