

How a small family company responded to developing a new product outlet in the Italian market.

MFR SRL Rome: The Italian Family Business Affair

Phil Harris, A. Frasca and Uwe Jäkel

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Background

In Italy the private sector economy is proportionately the smallest in the European Union and accounts for less than 40 per cent [1]. It is also remarkable for its large number of small and medium enterprises (SMEs) (90 per cent of firms employ fewer than 100 employees, the average number of employees in an Italian firm is 7.6). Throughout the European Union 99.9 per cent of companies are SMEs employing over 80 per cent of workers.

In Italy, the state still dominates business, although with recent plans this could dramatically change over the next five years – although the recent corruption trials and demise of the ruling Christian Democratic Party may speed up this process. Business is still dominated by the size of the state sector, the large number of family concerns that may have wider motives than just profit, and the small firms sector which provided much of the vibrancy and energy in the Italian economy in the 1980s and early 1990s.

This case tells the story of one small company – MFR SRL – and its entrepreneurial owner Massimo Frasca's response to developing a new product outlet for his energies and company.

Introduction

MFR SRL is a small company based in Rome. It was set up in response to earlier problems which Massimo Frasca experienced in running a small business with his brothers which had ended in interminable rows and was just impossible to run effectively in such a perpetual conflict situation. MFR operated in the wallpaper market as a marketing, sales and production company. Initially Massimo Frasca and his brothers acted in accordance with Italian law and commercial practices and there were no problems in managing the business. In fact, each brother managed a specific area of business without interfering in the others.

Massimo Frasca was originally in charge of production and product development in the old family-run MFR operation. However, once the factory achieved maximum capacity and had a full order book, friction within the family erupted and the brothers could not agree on a new strategy for the company. As a result Massimo, who had strong ambitions and wanted to use his entrepreneurial flair to the full, was disillusioned with the family operation and decided to leave and set up his own company.

Establishing a new business was difficult, with exceptionally long hours being worked in the first year as Massimo grappled with the complex problems of its development. Core issues he had to address were the complete restructuring of his channels of distribution as a result of splitting from his family business; the isolation of setting up from scratch in a marketplace where the company would have to build up its own credibility and image; and finally the development of new customers and a good customer base to sustain the business.

MFR SRL – The Establishment of Autonomy

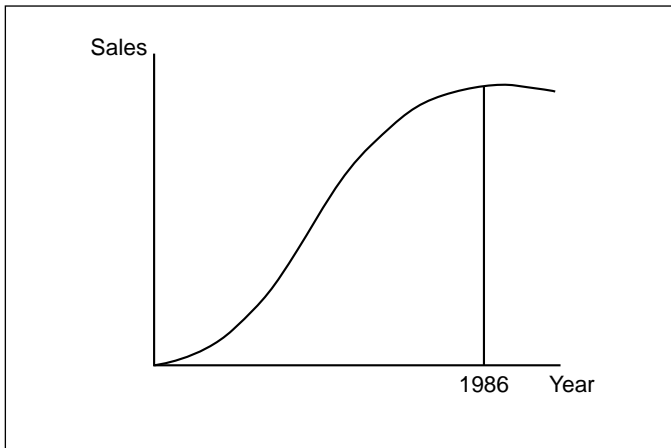
The year 1986 was decisive. It was the year in which Massimo Frasca decided it was no longer viable to continue the investment of time and money in a business with an uncertain future, so he founded, with his wife Enza and his sons Roberto and Alessandro, the MFR SRL with the aim of putting into practice his 30 years' experience in the wallpaper and paints market.

In this respect he asked himself if the wallpaper and paints market was the only market he should invest his money in, or were there lucrative alternatives in other markets?

The Italian product life cycle curve for wallpapers is illustrated in Figure 1.

The market for wallpaper and paints was in its mature stage and it was in this market and with these products

Figure 1. Italian Product Life Cycle Curve for Wallpapers



that Massimo Frasca had had the bulk of his experience. Entering this market would reduce potential problems to his business; he already owned the premises for the new activity, it would lower barriers to market entry, and give easy access to distribution channels linked to this field.

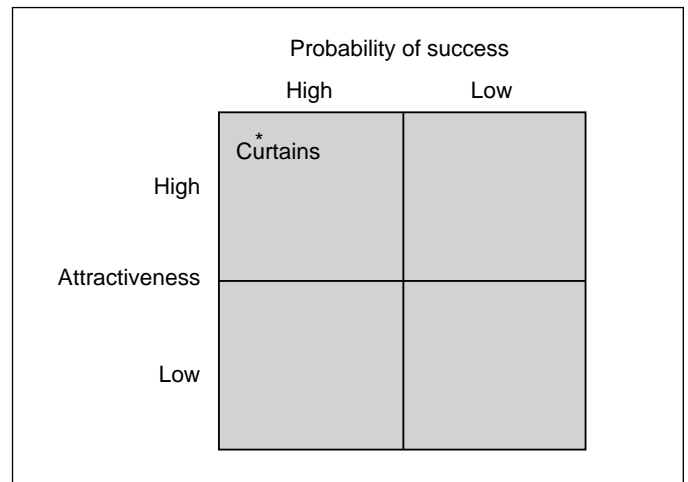
It was essential to develop new products

Furthermore the prospects looked good since at least the costs would be covered for the new business during the early years of the product life cycle. However, in evaluating the maturity stage of the product in Italy and in other countries it was not possible to hope for any further growth within the market if all efforts were concentrated on this sole product area. It was therefore essential to develop new products to satisfy consumer needs and to meet the demands of a constantly expanding market.

The new product that Massimo Frasca was considering, and on which MFR had put in a considerable investment, was sun curtains for indoor and outdoor use. The opportunities matrix shows the product has both a high probability of success and high attractiveness. Therefore the choice of this product can be shown to have a “positive” positioning in the opportunities matrix (see Figure 2).

At the same time an analysis of the threats matrix shows a situation in which the level of competition was of such a nature that the product had a higher quality standard than the market segment average. At that time the high quality sun curtains were in the position shown in the threats matrix (Figure 3).

Figure 2. Opportunities Matrix



The number of threats coming from competitors have given cause for concern. On the one hand the market segment was highly competitive, on the other hand consumer demand was high for high quality products. This made it possible to introduce the new product in a higher market segment than that of its competitors. This position is illustrated in Figure 4.

When operating in the wallpaper and paints market, Massimo Frasca had the necessary know-how and experience to operate effectively. He was a novice in the sun curtains market and needed support from the market leader. This gave him the necessary know-how and the tools to enter the market in Rome effectively as a new competitor and supplier.

When operating in the wallpaper and paints market, Massimo Frasca was primarily concerned with simply selling the product directly to the customer. In the sun curtains market, however, it was also necessary to offer an assembling and installation service due to the increased sophistication of the product. This service is an

Figure 3. Threats Matrix

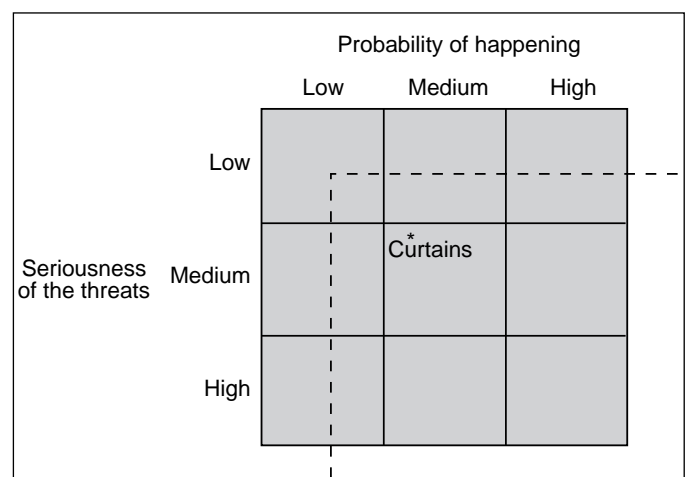
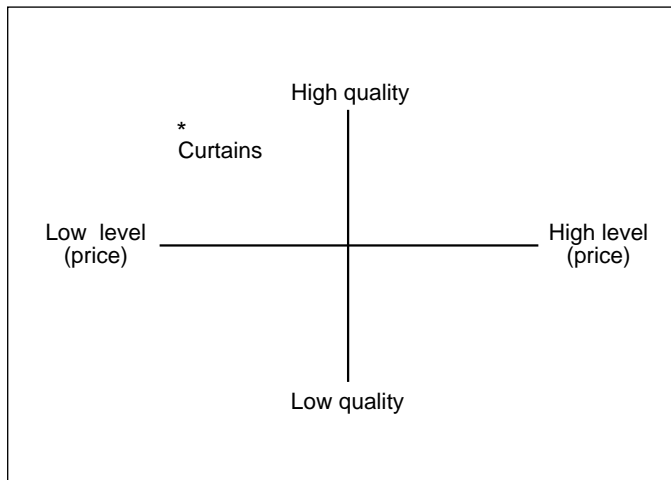


Figure 4. *Quadrant Model*

important feature offered with the product since the customer does not like to install the blinds himself.

The strength of Massimo Frasca was to offer a high quality product and service. This not only included the assembly of the sun curtains, which is often the case in the low level competition of this market sector, but also offering a warranty in terms of after-sales service. In the next section we can see how these marketing initiatives have placed MFR SRL within the market, and to what extent these targets have been reached.

MFR SRL – Birth and Growth

In 1986 Massimo Frasca and his family established MFR SRL, in which SRL is the equivalent of a limited company where the property of the company is separated from that of its members.

During the first five years of activity the MMFR SRL was restricted to one activity area. The business required a series of further investments to become effective in reaching the critical mass in the marketplace. In Table I, assets, sales and income records of the company show the trend of MFR SRL from 1986 to 1992.

Since 1986 the business activities and sales of MFR have increased dramatically. Economic results have often suffered as a result of the wide and constant investment

policies adopted by Massimo Frasca when managing his business. Two important stages can be cited; the first in 1988 when the agreement was signed for the production and distribution of sun curtains in the Rome area. This agreement was signed with the company market leader in Italy. The second was in 1991 when MFR SRL took over another outlet and started to sell sun curtains as well as wallpapers, satisfying a wide consumer range within the same outlet.

Economic results have often suffered

Due to the high costs of these investments in 1991, MFR SRL was affected by a consistent loss which was stemmed in 1992. The activities of the business have begun to generate profits and margins to cover fixed costs. The combination of wallpapers and sun curtains has also increased the overall sales of wallpaper. This is because the market leader for sun curtains who signed an agreement with MFR SRL has its own promotional campaign backing its marketing strategy.

This strategy consists in advertising the outlets associated with the brand, in such a way that the customer can select the nearest outlet. Using this advertising channel for sun curtains has indirectly stimulated demand and increased sales for wallpapers which are often bought in conjunction with sun curtains.

MFR SRL is currently developing a co-production agreement with a significant wallpaper producer, aiming to distribute a special range of papers on a national scale.

An Overview of the Italian Entrepreneur

It can be seen in this case that the history of MFR substantially reflects the life and stages of the development of its founder. The birth, the evolution and the present state of development of the company form

Table I. *Assets, Sales and Income Records ('000s Lira)*

	1986	1987	1988	1989	1990	1991	1992
Assets	24.000	66.800	222.845		260.670	425.969	505.812
Sales	3.000	10.480	112.605	262.300	264.311	395.089	421.498
Income							
(Loss)	(2.018)	(3.670)	5.714	7.072	4.522	(40.429)	27.292

part of the three main phases of the working life of the entrepreneur Massimo Frasca.

In examining his business life it is possible to highlight how the product was marketed by him. The wallpaper was developed in a form of generative continuity starting from when the firm was established under the supervision of his father to when it separated from the company managed by his brothers. The conflicts between the brothers created an impetus that led to a mutual understanding of how a business is run, and this gave rise to a new efficient and effective management style.

Conclusion

Family businesses do not always run smoothly and this can result in their eventual demise as siblings and family cease to agree a strategic direction. In MFR SRL's case the company was born out of this conflict and the drive of the founding entrepreneur, Massimo Frasca. It shows the need to capitalize on market strength and the need to build effective distribution leverage in design-led consumer markets.

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Further Reading

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Phil Harris is a Senior Lecturer in the Department of Business Studies, and Uwe Jäkel is currently undertaking study in Business in Europe at the Manchester Metropolitan University. A. Frasca is a Graduate of La Sapienza University of Rome, Italy.

Application Questions

- (1) How dependent on Massimo Frasca is MFR SRL for its future?
- (2) How easy was it for MFR to move into the sunblind market? What advantages did they have?
- (3) Is Massimo Frasca typical of the Italian entrepreneur behind SMEs?