

FOCUS ON ITALY

●● ITALIAN ECONOMY: A GENERAL OVERVIEW

After some years of stagnation, the Italian economy is now growing again, supported by the world trade development and the positive cycle of the Euro. Exports have increased from 5.5 to 9.0%, the service sector has seen an homogeneous development since 2006 and occupation seems to be increasing, after the crisis of the two previous years. Investments and production are still lower than in other European countries but the last two years show a positive trend compared to the former modest economic performances, especially to the losses of the critical period of 2000-2003.

The progress in productivity and the dynamism of exports are the results of a process of reorganization which is being directed towards more efficient and competitive assets. The technological conditions and the competition have narrowed the selection of the enterprises, especially in traditional sectors as textile, leather, footwear, wood and furniture.

Tertiary activities, such as IT-based services, marketing, customers assistance, are on the other hand gaining a prominent role in the economic environment.

●● IMPORT-EXPORT

Italian import has seen an important increase in trade from Asia and new members of the European Union, such as Poland and Ukraine, due also to cooperation in production between Italian and local enterprises. The German and French markets are traditional partners in Europe, but relevant flows have also been registered with Russia, China, UAE, Middle East and Northern Africa.

The European Union, however, is still the major partner for Italian enterprises and the recent enlargement to Bulgaria and Romania has been particularly important for the country's strategies of internationalization, stimulating the flow of Foreign Direct Investments in order to access the local dynamic markets and resort to new

workforce. The Euro-Mediterranean trade region planned for 2010 could mark a significant step towards commercial and productive integration. In addition to the corporations of western countries, many companies of East Asia are establishing trade partnerships with Italian ones, constantly increasing in dynamism and investment capability. The fragmentation of production takes place in bilateral agreements with foreign enterprises and in forms of direct participation. Small and middle enterprises strongly feel the competitive pressure of emerging economies and are therefore developing new strategies to access foreign markets.

The Italian branches of multinational companies show positive features in terms of productivity, labour quality, investments and solidity of the financial structure.

Import percentage in 2006 for geographical areas:

European Union (25).....	36.9
Euro area.....	27.4
New EU members.....	3.4
Other European countries.....	5.8
Africa.....	2.6
North America.....	18.6
Central & South America.....	5.2
Middle East.....	3.3
Central Asia.....	2.4
East Asia.....	23.7
Oceania and other territories.....	1.4

Source: ICE elaboration on IMF-DOTS data

●● THE ITALIAN HEALTHCARE SYSTEM

The public sector plays an essential role in the Italian healthcare system, accounting for about 75% of health expenditure. The National Health Service (NHS), established in 1978, aims at granting universal access to a uniform level of care throughout the country, financed by general taxation. A universal coverage has been achieved although regions widely differ in terms of health care and health expenditure with a clear-cut between north and south of Italy.

The private sector, however, is increasing in importance and number of structures. It often guarantees a faster service and a more qualita-

Basic Indicators, 2007

Population.....	58,147,733
GDP (million US\$).....	1,844,749
GDP real growth rate.....	1.9%
Trade per capita (US\$, 2004-2006).....	16,104
Trade to GDP ratio (2004-2006).....	53.0%
Exports in US\$ billion f.o.b.	474,8
Imports in US\$ billion f.o.b.	483,6

Rank in world trade, 2006	Exports	Imports
Merchandise	8	7
Commercial services	7	7

Source: WTO



tive approach to healthcare also as consequence of the introduction of co-payment schemes (agreements between public and private). The last decade witnessed a series of radical and innovative changes, including the devolution of administrative and fiscal responsibilities to the regions.

The state has exclusive power to define the basic benefit package (Livelli essenziali di assistenza - LEA), which must be uniformly provided throughout the country and the 20 regions have responsibility for organizing and administering the health care system. Local health units (public health enterprises legally independent from the region) have responsibility for delivering healthcare services at the local level.

Although the main aim since 1978 was a quick move towards progressive financing of the NHS, throughout the 1990s social health insurance contributions still represented more than 50% of total public financing. In 1998, a regional business tax replaced social contributions. This tax is supplemented by a national grant financed with revenues from the value-added tax to ensure adequate resources for each region.

Users need to directly purchase private health care services and over-the-counter drugs. About 15% of the population has complementary private health insurance either individually subscribed or offered by employers.

Italy has an increasing proportion of elderly people in the population and the number of Italian people aged 65 years and older is expected to grow an estimated 28% by 2030. Nursing and rest homes are mainly private, while the public structures, though constantly improving, seem still insufficient in providing a good coverage of services for the eldest population.

The shortage of coverage especially in inpatient care doesn't only concern the aged population. According to WHO statistics, the number of hospital beds per 1 000 pop. has decreased from 7.2 in the '90s to 4.0 in 2000s.

Primary health care is provided by general practitioners and pediatricians who are independent contractors of the National Health System, mainly paid on a capitation basis. They act as gatekeepers to secondary care.

Local health units are in charge of protecting and promoting public health mainly through disease prevention (especially immunization), health promotion and food control.

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Statistics 2006

Life expectancy at birth m/f (years)	78/84
Healthy life expectancy at birth m/f	71/75
Total expenditure on health per capita (Intl \$, 2004)	2,414
Total expenditure on health as % of GDP (2004)	8.7
Public sector health expenditure as % of total health expenditure	77.1
General govt. expenditure on health as % of total govt. expenditure	13.7 (2004)
Private expenditure on health as % of total expenditure on health	24.9 (2004)
Physicians (number)	241,000
Physicians (density per 1000 population)	4.2%
Pharmacists (number)	44,000
Pharmacists (density per 1000 population)	0.74%
Nurses (number)	403,000
Nurses (density per 1000 population)	6,9%
Hospital beds (per 1000 population)	4 (2004)

Source: WHO, HFA database

Public secondary hospitals are granted some financial autonomy but remain under the control of local health units. A prospective payment system for inpatient care based on diagnosis-related groups (excluding rehabilitation and long-term care) is in place, with the regions defining the tariffs. Hospital physicians are salaried employees.

Tertiary hospitals are provided the status of trusts, so that they enjoy expanded financial freedom.

Specialized services are provided either directly by local health units or through contracted-out public (61%) and private (mainly not-for-profit) facilities accredited by local health units.

Some challenges that still need to be addressed are the guarantee of a basic benefit package free of user charges and uniform levels in quality of healthcare across the regions.

•• **DENTAL CARE**

Dental care in Italy is mainly private, with an expenditure of about 1.15% of GDP.

The dental industry in Italy, with about 500,000 operators, has a yearly turnover of around 780 million €, 2/3 of which come from implant products and the rest mostly from consumer products. Export accounts for over 45% of the turnover, with tops of 80% for specific product types.

The Italian dental field has confirmed its good position on international markets thanks to a production known worldwide for the reliability of its components, the advanced technological solutions and the fine design.

Dental Workforce in Italy

Active Dentists	50,922
Population/dentist ratio	1,154
Free Professionals	87%
Men	75%
Women	25%
Dentists in public services	1,100
In private practices	44,000
In universities	150/300
In armed forces	15
Chairside Assistants (dental nurses)	60,000
Dental Hygienists	2,300
Laboratory Technicians	70,000
Base formation	5 years
Continuous formation/update	150 hrs in 4 years

Sources: FNOMCeO, FDI

Distribution of dental practices per geographical areas:

North: 45%

Centre: 30%

South: 25%

According to recent studies, about 45% of the dental practices have a single specialization, while about 54% is multi-specialized. In Northern Italy there is a predominance of mono-specialized practices, while in the rest of the country the second type of practices is the most common.

The dental practices can be divided into two main categories:

a) **Professional dental practices**: activity of a dentist in a single or associated ownership.

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b) **Dental practicing structures:** where the structure operates independently from the owner. The structure comprehends multi-specialized doctors and health consultants as well as its own dental laboratory and employed dental technicians.

The highly specialized dentists can often have more than one practice, even in other cities. Professional cooperation with private nursing homes or consulting activity at colleagues' practices is also usual.

Most of the practices have from 1 to 3 operating professionals and assistants.

Permanent co-workers as doctors, hygienists etc. are employed in about half of the practices in Italy, mostly operating in orthodontics, implantology, conservative and endodontics, prosthesis and parodontology. Many practices also receive patients from other structures in order to carry out specific performances.

Renewals, both in furniture and equipment, occur with an average frequency of 5 years for about 30% of practices.

In order to trace a general profile of dental care in Italy, it is important to focus on the independent individual practices, which cover the great majority of the market.

On average, over 90% of the total turnover of the practices comes from private customers.

The average yearly expenditure for dental materials is low for practices specialized in orthodontics and partial dentures (approx. 4,600 €), but the expenses for external manufacturing is quite relevant, especially for small practices that can spend up to more than 8,000 €, one third of which in braces.

Practices specialized in implantology, parodontology and dental surgery, as well as those producing partial dentures and other devices on their own, face an average expenditure for dental materials oscillating between 10,000 and 15,000 €.

Disinfection, sterilization and single-use disposables weigh on total expenditure for an average of 2-4,000 €, more for specialized practices resorting to external products than for others.

Dentists operating mainly for private health structures (group practices, clinics, nursing homes, rest homes, analysis laboratories) focus on endodontics and prosthesis (respectively 32% and 21% of turnover), but activities in orthodontics, implantology and parodontology are usual too.

Bigger dental practices are more articulated, with a relevant presence of collaborators and outsourcing. Their average expenditures is significantly higher than in the other sectors:

Dental materials: 14,805 €

Disinfection, sterilization, single-use disposable materials: 3,422 €

External manufactured prosthesis: 23,555 €

Orthodontic braces: 2,538 €

Endodontics and prosthesis account for respectively 32% and 31% of total turnover, but implantology, parodontology and oral surgery are also relevant (14%).

The cluster of professionals with more than one practice, from 2 to 3, is particularly common in the areas of prosthesis (39%), endodontics (28%), orthodontics (10%).

This cluster too presents a higher rate of average expenditure in dental materials (15,900 €), disinfection, sterilization, single-use disposable materials (3,550 €), externally manufactured prosthesis (28,700 €) and braces (3,150 €).

Many dentists, moreover, share a practice with other professionals or cooperate with group practices, performing also specialist/diagnostic tasks for 30% of turnover, usually in the form of societies (45% companies, 47% partnerships) with an average of 3 operators.

● THE DENTAL MARKET

Import-export

The Italian dental market is characterized by a relevant role in domestic production, where exports reflect the importance of such internal market, as confirmed by UNIDI (the Italian Dental Industry Association) statistics:

Export extra EU: 29%

Export towards EU: 24%

Domestic Market: 47%

The production is carried out only for a small part in other countries. However, the external market is becoming increasingly important, both in EU and extra-European countries. Exports mostly focus on finished products, towards local dealers and importers.

France, Spain and Germany are the European countries that mostly attract Italian dental export due to market conditions, short distances and similarities in certification requirements. USA and Australia are also traditional, consolidated partners for the Italian dental industry. A prominent space is also being gained by the Arabic and Middle-East countries, where the Italian presence on local markets is reaching good rates.

Italian exporters are also focusing their interest towards China, Russia, Japan, Singapore and some East European countries, especially Poland, where an increase of 10% in the number of dentists has been registered in the latest years.

The domestic market

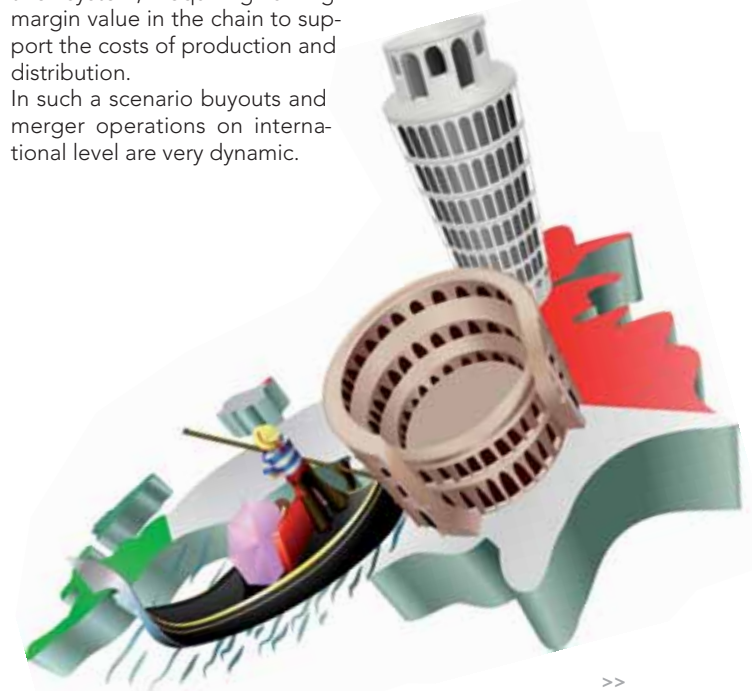
The Italian dental market in sales to dentists reaches almost one billion Euros.

The business for materials and equipment can be divided in two major areas:

- materials, counting as consumer products;
- equipment, counting as durable goods.

The market for materials, namely for consumer products, grows in average 3% - 5% every year. It is a multi-face and heterogeneous market, characterised by a great variety of products. These are all factors conditioning the industrial and distributive system, requiring a high margin value in the chain to support the costs of production and distribution.

In such a scenario buyouts and merger operations on international level are very dynamic.



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Factors influencing the market

The dental materials and equipment market lies under the influence of different elements:

- **External factors**

The dental market reflects the national economic trends at two different levels: on the population attitude towards dental care and on the dentist's profession.

The tendency of the population to enter a dentist's practice must account, beyond cultural aspects, also of cyclic negative economic trends and of increased households' expenditures, detracting from the families the income partly intended to "extraordinary expenses", including dental care, when it reaches a relevant cost.

The number of patients and accesses to practices have a direct impact on the demand towards the dentist, influencing the dentist's incomes and expenditures as well as his readiness to invest, all essential elements for the purchase of materials and equipment.

Even legislative and social aspects have their influence on a dental practice behaviour: from tax breaks and laws to the use of specific techniques and products.

- **Quantity of demand**

The demand is related to the type of dental performances, to the evolution of dental pathologies, to the demographic evolution and to the development of new products and techniques. This last factor determines the quantity and quality of the products used in dental practices and laboratories, for instance in implantology, aesthetic development of dental material and so on.

- **Quality of the offer from manufacturers**

Thanks to efforts in research and development, Italian manufacturing companies offer always more sophisticated materials and equipment as well as always more efficient working skills, allowing dentists and laboratories to operate in comfort, safety and efficiency. Such development leads to an evolving offer and to an increasing convenience for the final users. In this way, the productive and distribution system is influenced positively and manufacturing companies can promote their products with added value and consequently more economic value.

The variation of the prices on consumer products is estimated around 3% per year, the variations of prices on equipment occur in particular in stock renewal, usually in durable goods.

Exports represent for many companies over 50% of production, but the internal market keeps its leading position for the majority of them. Companies' strategies to gain higher market shares in such an articulated scenario are all based on the services and information culture, privileging the constant and tight contact with the customers and their expectations.

- **THE DISTRIBUTION SYSTEM**

The wholesale dealers can be divided into two bigger groups according to their dimensions:

1 Less than 10 operators - 1 to 3 regions or district coverage, target customers: dentists (52%) and laboratories (32%). Of these, 58% are companies and 42% are made up of individual firms.

76% of their income comes from dental consuming materials, 21% from medical instruments and equipment and 24% from products for prosthesis and orthodontics.

The main channel of dental material and equipment supply within the Italian territory is through traditional dealers (41% of purchase) and manufacturing companies (39%); however, 43% of dealers turn to importers or foreign companies for a relevant share (42%) of their purchase.

2 More than 10 operators and salesmen/representatives - over 3 regions of coverage, broad-dimensioned structures with big show-rooms. 48% of their income comes from dental materials, 22% from medical instruments and equipment and 19% from electronic and computer medical devices.

Often a service of technical assistance is guaranteed (58%), as well as products installation (51%) and delivery service (74%).

Most of their turnover comes from dentists (46%) and dental laboratories (15%) but over half of them also turn to other wholesale dealers (35%) as well as hospitals, clinics, public practices (17%).

The company is exclusive dealer of one or more producers in 66% of the cases.

The dental distribution system in Italy is undergoing a process of slow but progressive modernisation. New models have already been introduced that will in the long term completely modify current trends: aggregations, buyouts and international players have already altered the distribution structure, making it more competitive and service oriented.

Today's scenario of distributing companies in Italy is under some aspects similar to the other Mediterranean markets but quite far from Anglo-Saxon and North European countries. It is characterised by small companies, family run businesses, with a plain organisational structure, revolving around the entrepreneur: they are usually first- or second-generation firms, often family successions. These are business models that have managed to create profitable enduring relationships with customers.

This model, however, needs to be re-organised as consequence of the new market trends and major groups investing in the Italian market. A great business opportunity for a market considered the second biggest in Europe.

Dentists often tend to address themselves to several different suppliers, especially for consumer products. Small dealers localised on the territory meet different needs from the bigger dealers that focus their marketing more on the price/service relationship. Elements concerning localisation seem to be of little relevance for consumer goods but they are strategic for equipment. Technical assistance services have great importance, the interventions on calls must be rapid and effective.

In order to compete significantly the Italian distribution sector still needs to better implement technical assistance, services and consulting to create a tight customer relationship. In a modern distribution system the organization and management of logistics as well as the ability to create and maintain profitable relationships with customers is constantly gaining importance. Such a perspective also includes modern IT marketing in order to communicate and run the commercial network. Italian distributors should follow the example of major international dental distributors by developing and implementing instruments like the CRM (Customer Relationship Management) strategy.

Greater attention should also be paid to post-sale service, a key factor for an enduring relationship with the customer, since efficiency and convenience are the parameters binding the supply of products and services. The dealers that will be able to correctly structure an efficient customer and post sale service will be able to gain a privileged position within the Italian distribution market.

The Italian sector is a multi-face market as part of its distribution is also made directly by the manufacturing company. This situation can be changed by creating a significant space for importers and dental dealers that can hold a central role in the direct relationship with dentists. The distributing system, sometimes weak from an economic and organizational point of view, is in fact basically important from the strategic point of view.

Sources:

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