There's Nothing to Smile About: Value Distribution Along Global Fashion Value Chains

Tommaso Ferraresi Leonardo Ghezzi





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Source: Sudd Cobas Prato

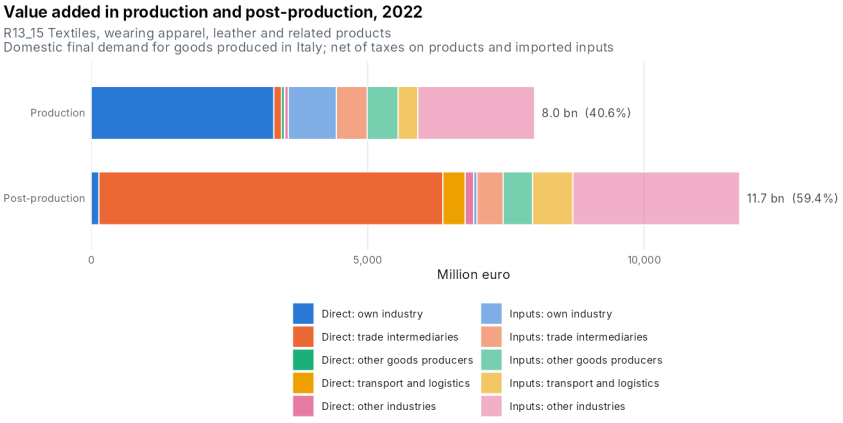
Global value chains, positioning, and value capture

- Global fashion production is organized through **fragmented but hierarchically governed GVCs**
- Firms and regions **enter the chain at different stages**:
  - **Pre-production**: design, R&D, product development
  - **Production**: manufacturing, assembly
  - **Post-production**: branding, marketing, distribution
- These positions imply **asymmetric access to value**:
  - Higher value-added in pre- and post-production activities
  - Lower value capture in manufacturing stages

$\Rightarrow$ **Smile curve**: value distribution reflects structural positioning within the chain

$\Rightarrow$ **Key implication**: firms, workers, regions are **heterogeneously remunerated** depending on their functional specialization and this may deeply affect firm performances, business and sectoral dynamics etc.

The smile curve in a macro IO framework



Direct: value added of the producer of the good or of the suppliers of the margins. Inputs: value added of upstream suppliers (lighter colours).
Source: elaborations on ISTAT Supply and Use tables.

From macro IO the micro-macro IO

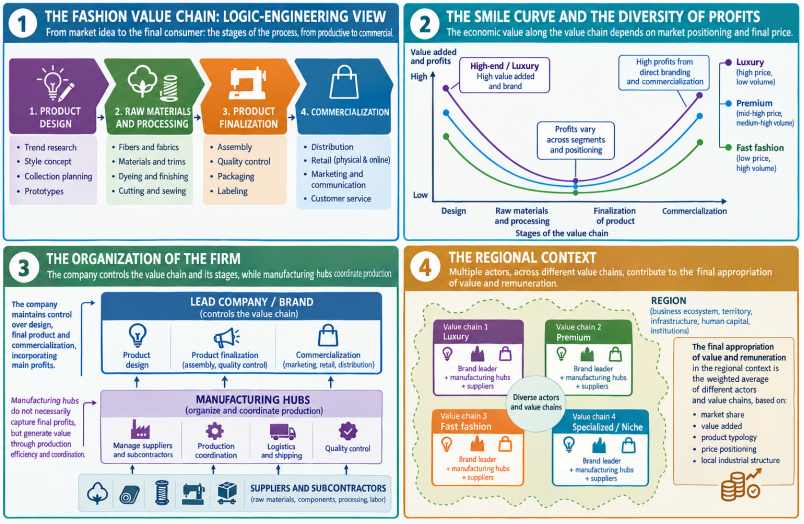
Key limitations of standard IO approaches:

- Standard approaches on standard tables miss post-production phases
- Aggregated picture: it mixes sectors, different market niches, different value chain organizations

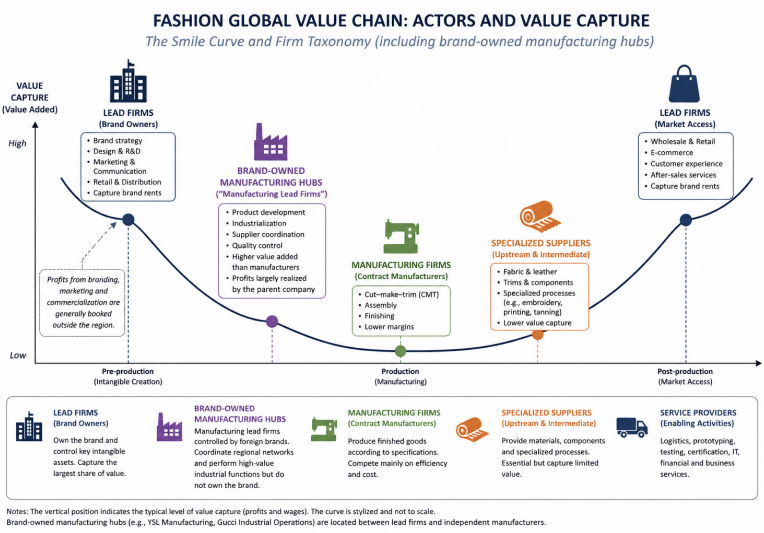
How do we address them here:

- We buildup IO from the bottom-up starting from plants
- We use different data sources in order to identify the role of each fashion firm in the value chains: from intermediate goods provides to sub-contractors to manufacturing hubs to brand managers
- We do obtain a micro-macro representation of fashion value chains we can be exploited to derive a macro smile curve as a distribution of smile curves; a distribution of firm performances across all the nodes in the smile curves

Grounding value chain Analysis in Regional Economics



When lead firms are present



Why Tuscany as an object of study

Manufacturing hub

- Final goods producers (garments, leather goods, footwear)
- Intermediate goods producers (tanning, textiles)
- Subcontractors / *conto-terzi* service providers

Strategic node

- Fashion brands controlling design, branding, commercialisation
- High-value functions *co-located* with manufacturing

Key tension

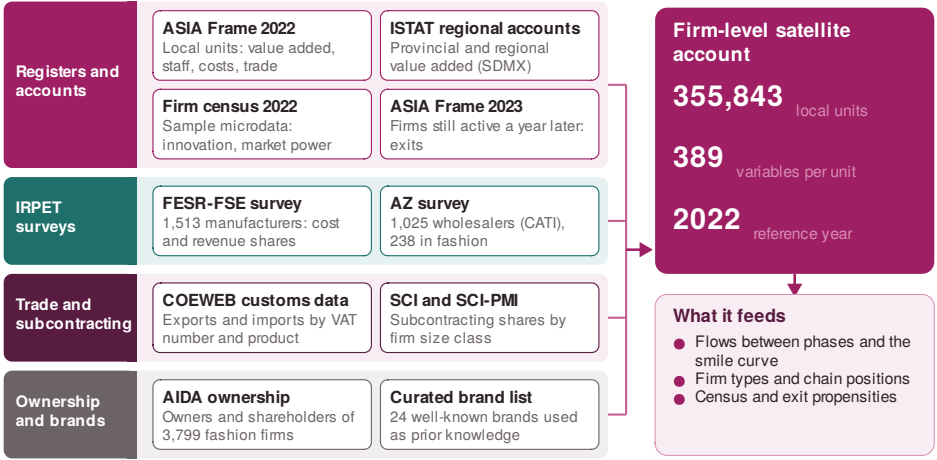
When lead firms are locally embedded ⇒ region **internalises** high-VA activities.

When only manufacturing subsidiaries are present ⇒ profits accrue **outside** the region.

Network relationships are **complex and non-linear**: overlapping connections, quasi-integration, blurred boundaries between manufacturing and services.

Data sources

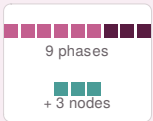
Every Tuscan fashion firm, rebuilt from public registers, IRPET surveys and ownership data



Methodology in a nutshell

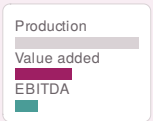
From firm-level accounts to the smile curve and to the position of each firm in the chain

1 Perimeter



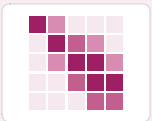
Nine manufacturing phases (ATECO 131 to 152), plus wholesale, design and brand nodes downstream.

2 Firm accounts



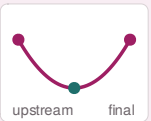
Each local unit: production, value added tied to ISTAT accounts, labour cost, EBITDA. Survey shares imputed (MICE).

3 Phase flows



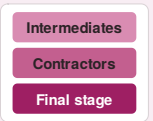
Goods, wholesale and subcontracting purchases, balanced (IPF) around an ownership and supply-chain prior.

4 Smile curve



Leontief inverse: value added embodied in each phase's final demand. Repeated for labour cost and EBITDA.

5 Firms and positions



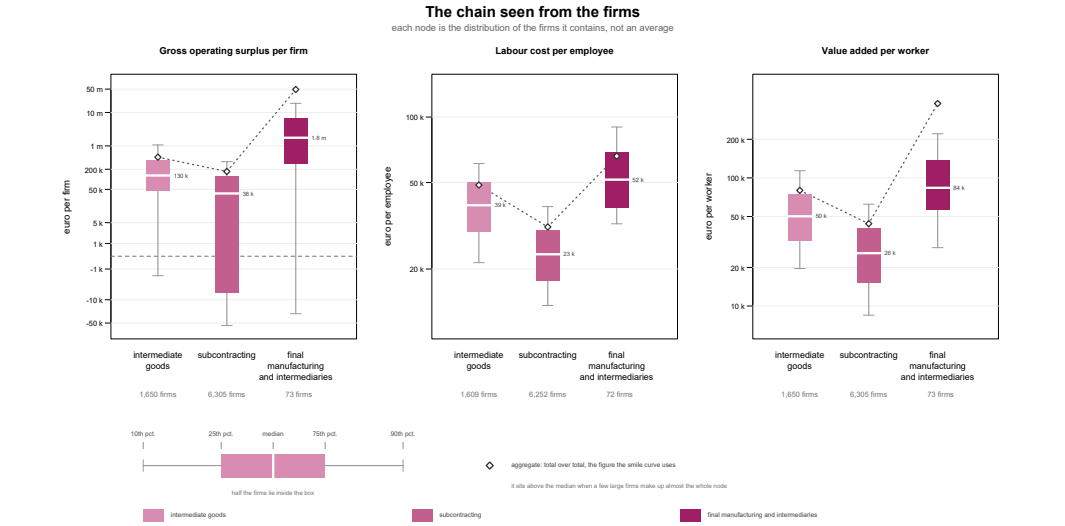
Nine firm types grouped into three chain positions; quartiles, case studies, census and exit propensities.

Regional, not interregional
Flows are phase by phase inside Tuscany.

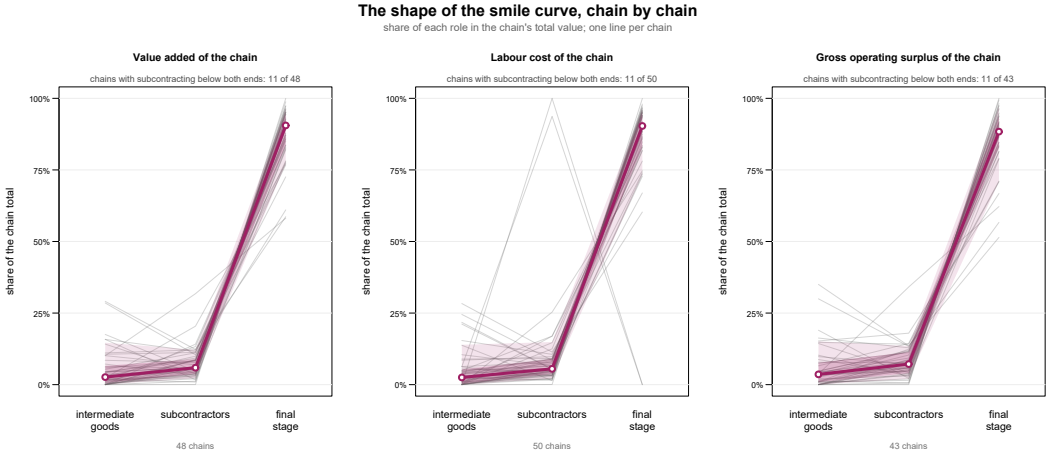
Micro-founded
Firm by firm first, then aggregated.

Descriptive, not causal
Types and quartiles say where firms sit.

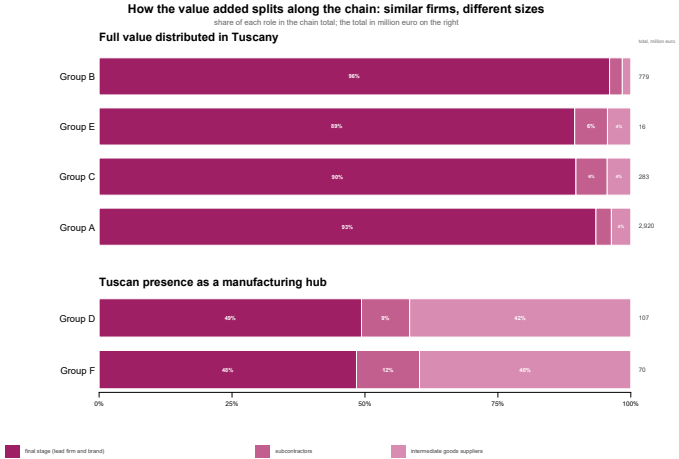
The micro-macro representation of the smile curve



Smile curve distribution



Different firms imply different smiles.. or not

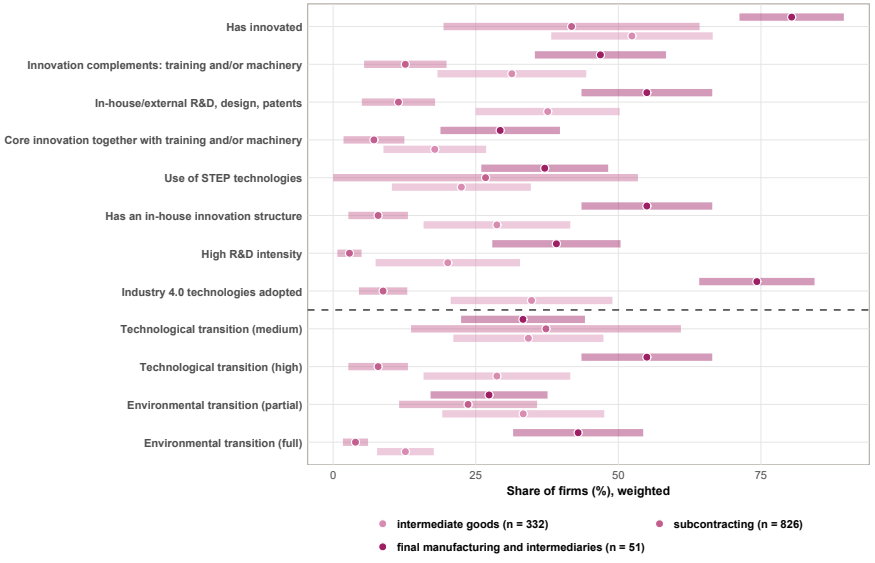


- When branding controlling firms are localized in the regional context, the value generated within their value chains is extremely concentrated at the top
- In case of manufacturing hubs of foreign owned brands, value distribution is much less polarized
  $\Rightarrow$ Profits are realized abroad

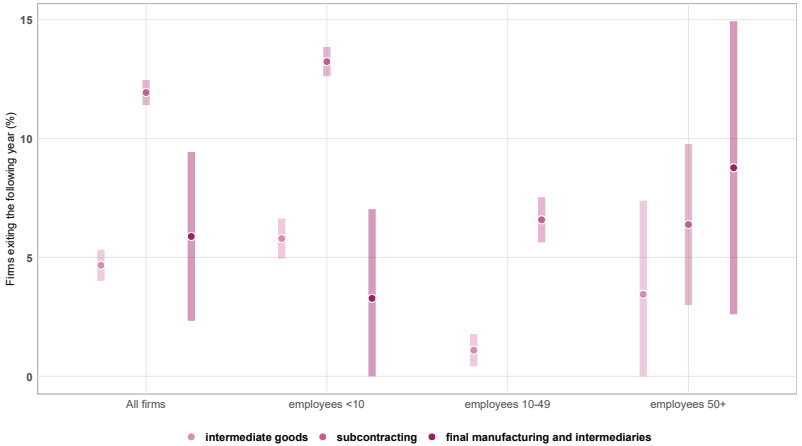
Profits, productivity, wages



Innovation


Has innovated
Innovation complements: training and/or machinery
In-house/external R&D, design, patents
Core innovation together with training and/or machinery
Use of STEP technologies
Has an in-house innovation structure
High R&D intensity
Industry 4.0 technologies adopted
Technological transition (medium)
Technological transition (high)
Environmental transition (partial)
Environmental transition (full)
0
25
50
75
Share of firms (%), weighted
intermediate goods (n = 332)
subcontracting (n = 826)
final manufacturing and intermediaries (n = 51)
Dot: estimated share; band: 90% interval.

Survival


15
10
5
0
Firms exiting the following year (%)
All firms
employees <10
employees 10-49
employees 50+
intermediate goods
subcontracting
final manufacturing and intermediaries
Dot: estimated share; band: 90% interval. Cells with fewer than 10 firms not drawn.

Summing Up

1. Fashion GVCs in Tuscany show a **strongly asymmetric** value distribution, consistent with the smile curve.
2. **Lead firms** controlling design, branding, and commercialisation capture the bulk of value added; manufacturers retain thin margins.
3. Tuscany has a **dual structure**: manufacturing hub + strategic node. But the two roles generate very different economic outcomes.
4. At firm level, **weaker position in value chains** translates into lower profits, lower wages, lower survival, and less innovation — reinforcing each other.
5. A key nuance: vertical dependence can provide *stability* (predictable orders) but at the cost of **limited autonomy and structural upgrading constraints**, whereas upgrading to new functions can provide *value capture* but at cost of **being more at risk in terms of market volatility**.

Policy Implications

Support upgrading capabilities

- Investments in **design, branding, and intangible assets** for manufacturing firms
- Strengthen linkages between production and higher-VA functions *within* the region

Protect the manufacturing base

- Address **generational turnover** challenges
- Support industrial commons and specialised local knowledge

Account for GVC governance constraints

- Upgrading *within* hierarchical chains is structurally limited for smaller suppliers
- Collective / district-level strategies may be more effective than firm-level interventions alone

Open question

How can regions sustain their manufacturing base *while* improving value capture? No easy answer — but understanding the structural constraints is the first step.