A Work Project, presented as a part of the requirements for the Award of a Master Degree in Management from the NOVA- School Business and Economics.

Internationalization of Josefinas to New York

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January 2016

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Executive summary

Josefinas is a luxury shoe company founded in 2014. The Portuguese House only sells its products online, which represents a challenge in this market.

As an up-coming brand in the luxury sector, Josefinas' strategic objectives are: the increase of the brand awareness, the rise of international sales and the creation of a unique and exclusive shopping experience to their clients. To do so, the company aims to open a physical store in New York.

The USA represents the second country where the brand sells more. Moreover, this is one of the biggest luxury markets in the world (Deloitte 2014). Despite, the considerable investment and risks associated with the implementation of a physical store in this country, Josefinas has an opportunity to increase its profits and achieve its objectives.

This thesis aims to understand: *How should Josefinas open a store in New York?*

Key words: Luxury, Josefinas, Internationalization, New York

Literature Review

The concept of luxury is not objective or consensual. Luxury is defined as *"a very qualitative hedonistic experience or product made to last, offered at a price that far exceeds what their mere functional value would command. Tied to a heritage, unique know-how and culture attached to the brand"*, which is only *"available in purposefully restricted and controlled distribution"*, with *"personalized accompanying services"* (Kapferer and Bastien 2012). The product or experience represents *"a social marker, making the owner or beneficiary feel special, with a sense of privilege"* (Kapferer and Bastien 2012). As a consequence of this particularities, Kapferer and Bastien (Kapferer and Bastien 2012) defined the anti-laws of marketing.

Luxury has a close relationship with dream, thus hampering the process of buying the product, which increases the desire for it among the audience. As a result, companies create obstacles to consumption, such as waiting lists, limited editions and the use of expensive rare materials.

The Fast Moving Consumer Goods have a volume growth oriented strategy. As mentioned above, luxury brands make their products difficult to buy, and because of that they do not pressure the clients to purchase. Instead, companies engage clients through the story of the product and craftsmanship incorporated, making consumers desire it.

Another key rule is related to advertising to target groups. Luxury brands need awareness among the non-targets. To be considered luxury, a brand has to fulfil two characteristics: the individual function, which implies high quality substance of the product and the social function-symbolism – that luxury has to provide to their consumers (da Silveira 2015b). As a consequence of the last characteristic, companies have to advertise to everybody, in order to make sure that every person would recognize the brand and identify it as exclusive and prestigious.

Moreover, luxury brands should never trade down or cut prices. Instead, they should increase the prices over time (da Silveira 2015a).

All in all, the only way for luxury brands to grow without damage the dream equation is adopting an international strategy (Kapferer and Bastien 2012).

Methodology

In order to develop the following internationalization plan it was necessary to study not only the company but also the market where Josefinas wants to implement their physical store. Therefore, it was conducted an initial interview with the CEO of the company aiming to collet general information about it. Additionally, I worked at Josefinas during two months in summer, which allowed me to have unique insights about how everything works.

To study the market AICEP[1] NY was contacted with the aim of obtaining specific legal information. Moreover, a market research, through in-depth interviews, was also undertaken. Lastly, a financial projection for the project was drawn.

1. Company Overview

Founded by Filipa Júlio – creative director- and Maria Cunha – CEO of the brand- Josefinas is a luxury shoe company that sells mainly ballet flats. The headquarters are based in Braga and the production in São João da Madeira, where the shoes are produced by the hands of experts

[1] Agência para o Investimento e Comércio Externo de Portugal

in the art of shoemaking, part of Santos & Lima Company. Founded in 2014, Josefinas is a private company limited by shares: 80% divided equally by the two founders and 20% owned by the Company BloomIdea. According to the brand, its mission is "t*o produce handmade shoes that would be delivered to the clients 'door with a whole lot of love'*". Apart from that, Josefinas aims *"to be the effortless chic and exclusive fashion brand, which inspires the woman empowerment through the savoir-faire"*. Guided by the highest quality standards in order to provide the customer with the best experience and product, Josefinas was awarded, in November of 2014, with the "Mercúrio award – best trade and services" in the category online trade and services (Vieira 2014). Moreover, the quality of the products and its design is also recognized by the authorities of the industry. The Condé Nast Traveller, a luxury and lifestyle travel magazine, recommends Josefinas to their readers (Traveler 2014), and in 2015, Chiara Ferragni - founder of The Blonde Salad, which adds up 4.5 million of followers on Instagram (Ferragni 2015)- published a photo wearing the Cheshire Cat flats by Josefinas (Josefinas 2015), which proves the recognition of the public towards the brand.

Being a luxury company, Josefinas follows the traditional approach of luxury, which relies on traditional qualities and it contemplates three main characteristics: the physical rarity of the offer (with qualified labour and materials), the multisensory experience and the strong human content that the product or service contains (for the complete analysis see appendix 1).

Moreover, the brand identity of the Portuguese Luxury House was defined. The six facets presented on the Appendix 2 characterize the brand, and should be taken into account in every decision the company takes.

1.1 Current Josefinas' Four P's analysis

The marketing mix, or four P's analysis, "*is the set of tactical marketing tools that the firm blends to produce the response it wants in the target market"*. (Kotler et al. 1996). The following four parameters summarize the current situation of the company.

Product: Josefinas is known for creating handmade shoes, which include ballet flats, sneakers, boots and loafers, produced with the finest materials. At the moment, the company has also a keychain line. These products are delivered to clients in an elegant handmade black and pink box, which contains a handwritten card made especially for each client. Additionally, the brand always offers a surprise (for example, a luxury soap from Ach Brito) and *"a five star costumer service!"* (Santos 2015), according to clients, which also embraces free returns of the products. **Price:** The current price of Josefinas' products is from 139€ to 3379€. Since it is a luxury product, the company does not compare or stablish prices taking into account other products that already exists, once each product is special and unique. Moreover, being in the luxury sector, Josefinas never applies discounts or special offers to its clients. **Place:** The Portuguese House only sells its products online, shipping worldwide. The user-friendly and elegant website is translated in Portuguese and English. **Promotion:** Josefinas has a strong social media presence publishing content everyday, in order to engage consumers and to make them dream about their products. Instagram and Facebook are the strongest channels, but the brand is also present on Twitter, Pinterest, Snapchat, Google+ and Tumblr. Furthermore, a weekly newsletter is sent to clients updating them on the company's news. Josefinas has also a high media coverage in all channels, such as fashion magazines, tv programmes, and specially blogs, which represent a crucial role on promoting the brand.

1.2 Competitive advantage

Aiming to better understand the company's position in the market, and also if Josefinas has a competitive advantage or not, the organizational resource platform was drawn. To do so, a complete analysis of Josefinas competitors was developed as well (see appendix 3).

After running the organizational resource platform for the luxury market, the key resources to compete there were identified (see appendix 4 for the complete analysis). The marketing strategy, the customer relationship management and the design are the key competences. Regarding the specialized assets, the flexible production management, the savoir-faire, the reputation on quality, the heritage of the brand and the controlled distribution are crucial to compete. Lastly, the relationship with trendsetters, celebrities and the media, the manufactures partnership and the customer loyalty are fundamental in this unique market. Moreover, the strategic importance of each resource and the relative strength from Josefinas vs Competitors was quantified (See Appendix 4).

In order to have a competitive advantage, the company' resources need to fulfil some specific characteristics, meaning that they need to be valuable, rare, inimitable, non-substitutable and organizational embedded (see appendix 5 for the detailed description of VRINO framework).

Competitive advantage manifests itself through cost advantage (offering a similar product at a lowest price) or through differentiation (offering a unique product with a premium price) (Lobo 2015).

Josefinas has a "wow customer" culture, trying to surprise and engage its customers by providing them with wonderfulness at every contact with the brand. The customer relationship management in the company is therefore valuable, rare and organizational embedded, which provides to it a temporary competitive advantage. Moreover, the flexible production management enables the personalization of each client's experience, turning the product even more special. The *savoir-fair* is present in every piece that Josefinas develops, and this is only possible due to partnerships with manufactures with decades of experience (see table 3).

However, in order to have a sustainable competitive advantage, Josefinas has to turn the key resources into something that fulfils all the VRINO characteristics.

All in all, Josefinas has a competitive advantage through differentiation, which means the company is offering a unique product with a premium price.

2. The internationalization Process

2.1 PESTEL analysis

When expanding the business, Josefinas needs to be aware of the external environment that it would face. Thus, a PESTEL analysis of the US market was developed.

Political-Legal Trends : The US market ranked in the seventh position, according to Euromonitor International (International 2015b) , regarding the ease of doing business in the country. However, to establish themselves in the country, companies have to create its own society according to US legislation (the main steps to create it are present on Appendix 6).

The United States policy normally supports the free access to the US market by foreign investors, who would benefit from equal treatment when compared to US companies (AICEP 2015). However, there are different legal structures (see appendix 7 for detailed information) that companies can choose when starting a business, and therefore each one of it would have several legal and tax implications. Moreover, when entering in the market, companies have to ensure that they fulfill all the requirements to sell their products. Regarding labeling, the US government only requires the country of origin on imported products. Nevertheless, if the products contain wool, leather, or fur there are additional requirements, which have to be taken into account. For example, the state of New York has specific legislation regarding faux-fur (AAFA 2015).

In 2013, the European Union and the US started the Transatlantic Trade and Investment Partnership negotiations. The aim of this agreement is to reduce the tariffs between the two markets, but also to eliminate other types of barriers such as technical regulations and procedures, in order to facilitate the transactions (Portugal 2015).

Social-Cultural trends: According to The Boston Consulting Group projections of 2014 the estimated size of the Luxury Market was 1.3 trillion €, in which 715 billion € in experiential luxury and 605 billion € in Luxury Goods (Abtan et al. 2014). In fact, the luxury consumption patterns are changing over time, and people are moving from accumulating luxury goods to enjoying exclusive and unique experiences (da Silveira 2015a). In addition, Luxury consumers are now more educated, and it has been observed a shift to *"less bling, more discretion"* (Witting et al. 2014).

For US consumers, the luxury experience is key. Passport conducted an analysis of the US Luxury Market (International 2015a), where it was pointed out its importance. Consumers expect to have a unique experience of the brand universe, with an exceptional customer service. Furthermore, the country of origin has always been an indicator of quality, *"due to a validation effect of certain qualities intrinsically linked to products that come from a certain place"* (Corbellini and Saviolo 2009). According to a recent article published by The Business of Fashion (Mellery-Pratt 2015), the Portuguese label has been increasing his reputation. In 2014, Portugal was among the top 15 exporters of footwear in the world, being ranked in the twelveth position, which represents a 1,8% of the world share (Footwear 2015).

Economic trends: According to Deloitte (Deloitte 2014), the United States represents the biggest luxury market in the world. This market has been benefiting from the increases of the disposable income of the US women, but also from the rise of luxury tourist in the country (International 2015a). Despite, the raise of income of the US women, this was not enough for most of them to afford high-end luxury brands, and this is why they are more focus in accessible luxury brands. (International 2015a). Regarding the luxury tourism in the US, Euromonitor International's Travel expects the market to grow from 69 million trips in 2013 to 85 million in 2018, which include an increase of two digits in the number of trips to US from China, who are one of the main luxury consumers in this market (International 2015a).

Technological trends: The evolution of the e-commerce in the US has been positive. According to US Department of Commerce (Commerce 2015), in the second quarter of 2015 it represented 7.2% of the total retail sales (see figure 2).

Ecological trends: PETA (People for the Ethical treatment of Animals) has been increasing its position and convictions in the industry. Among the different campaigns they develop to banish the leather and fur use, they bought in the summer of 2015 shares from Hermès, in order to force the company to end the use of real leather in their products (Conlon 2015).

2.2 SWOT analysis

After a deep analysis of the external environment, it is important to analyze the company internally. The SWOT analysis summarizes the strengths, weaknesses, opportunities and threats of the company (see table 4 for the summarized analysis).

Strengths: One strength of Josefinas is the excellent customer service provided to clients. According to feedback, the company has *"a five star customer service"* (Santos 2015), which consequently improves the consumers experience, so extremely important in Luxury. The other strength of the brand is the savoir-faire. The master shoemakers have years of experience in the field and their expertise is key. As it was mentioned in the description of the company, 20% of the shares are from BloomIdea – a digital marketing company – meaning that Josefinas benefits from significant knowledge and skills to explore the market. Moreover, the experienced and committed employees who work for the company are above all passionate about the brand, doing everything for its success. Lastly, the design and quality of the products is also a strength of the brand offering comfortable shoes, with excellent quality and unique design. **Weaknesses**: Among company's weaknesses is the low brand awareness internationally. Although, the international sales represent already 30% of the total sales[2], Josefinas does not benefit from a broad awareness in this market. Furthermore, the brand only has an online store, which does not allow the company to provide a multisensorial experience that Luxury Brands should offer. Moreover, some potential clients can be sceptical to buy through this channel. In addition, Josefinas has merely few categories of products, selling only flat shoes, which limits the number of potential consumers. Finally, the company has relatively less experience compared with well-established competitors, such has Repetto, who has already a strong awareness and reputation in the market. **Opportunities:** The increasing number of Luxury consumers constitutes an opportunity for Josefinas. According to Bain and Company, the total number of Luxury Consumers increased from 140 million worldwide in 2000 up to 350 million in 2015 (Bain & Company 2015). The opening of a physical store is also an opportunity for the company, allowing Josefinas to increase its awareness and to capture the segment of clients who are sceptical to shop online. **Threats:** The increasing number of campaigns against fur and leather can affect Josefinas, since its products are produced with these materials. Moreover, Luxury Brands frequently have problems with counterfeit products, and this can also constitute a future problem for Josefinas.

2.3 Market Research

A market research was developed aiming to understand the luxury consumer, namely their buying behaviour and the importance of the physical stores for this segment of consumers. Moreover, it meant to understand how NY is as a luxury market, and how Josefinas is seen in the eyes of consumers who wear their products, or products in the same category.

The insights from this research would be used during the following analysis. The detailed research can be consulted on the appendix 10.

[2] Information provided by the company.

2.4 The physical store as an experience channel

It was mentioned before that the opening of a physical store constitutes for Josefinas an opportunity. Since, it implies a significant investment from the company it is crucial to understand the reasons and impacts of it. For all brands, distribution is an important issue that should be carefully managed. Luxury brands have to ensure that their strategy works in feeding the dream and restricting the access, and this game does not involve simple and easy decisions. Therefore, distribution plays a big role in maintaining the prestigious brand image of each luxury company.

As it was analysed before, the traditional approach of luxury implies a multi-sensorial experience that it is very difficult to provide online when compared to offline.

"The store is the scene in which the representation of the brand universe is played out, with the sales personnel as its actors – and with audience participation" (Kapferer and Bastien 2012). Therefore, the store should truly represent the brand' identity and it would be not only the physical representation of the brand's world, but also a statement of its power.

Having a physical store allows the brand to make sure that the client has the opportunity to know the story behind each product and to feel it, providing a complete and unique purchasing experience. *"A first store also opens a dialogue between a brand and its customer – a designer can test out products, get feedback first-hand, clarify their product assortment, and have full control over how it is presented, sold and discounted"* (Abnett 2015).

2.5 Mode of entry

There are different types of modes of entry that Josefinas can choose.

The first method, <u>direct exporting</u>, occurs when the company directly sells its products to an independent intermediary outside its home country, who then sells the product to the local consumer (Daniels, Radebaugh, and Sullivan 2015). The second method, <u>indirect exporting</u>, takes place when the company sells its *"products to an intermediary in the home market, which then exports those products to other countries"* (Daniels, Radebaugh, and Sullivan 2015). Lastly, foreign direct investment refers to the *"investment from one country into another that* *involves establishing operations or acquiring tangible assets, including stakes in other businesses"* (Times 2015a).

Moreover, Josefinas has to decide the type of store it wants to open, which would have implications in the mode of entry. The multi-brand exclusive distribution is a distribution agreement between the brand and a multi-brand store, in which the first defines how the products are displayed and sold. In the store each brand has their own space and environment, and the staff is trained by the brand, which allows them to have full control of the personnel, the closest agent to the consumer (da Silveira, 2015) (see table 7 for the advantages and disadvantages). In turn, multi-brand selective distribution refers to the agreement in which the products are sold at wholesale to dealers and retailers, including specialty stores, which would afterwards sell them to the end consumer in their own country (da Silveira, 2015). The advantages and disadvantages of this model are summarized in the table 6. In addition, the mono-brand owned store is the distribution system that allows the brand to have a full control. Using this system the brand guarantee the quality of the service provided through the sales personnel selected and trained by the company. Moreover, this is the only system that protects clients from counterfeiting products (Kapferer and Bastien 2012) (see table 7 for the advantages and disadvantages of this model). One variation of this system are the Pop-up stores, which allow companies to create a temporary sales location (Witting et al. 2014), being very effective to test the market and also to increase the brand awareness.

The last distribution channel is the mono-branded franchise stores, which are very similar to the distribution system presented before. Within this mode of distribution the brand concedes the rights to sell its products to an independent businessperson (franchisee) under the brand's name and to use its business practises (Times 2015b). *"In return, the franchisee pays an up-front fee and ongoing royalties to the chain operator"* (Times 2015b). However, in the point of view of the luxury brand, is always better to provide a direct contact, rather than a franchisee, with clients. They would be closer to the brand universe, and the brand would have unique insides of the client.

Overall, the best two options for the company are the Mono-brand owned store and the Multi-brand exclusive distribution. Therefore, these two options would be both further analysed, in order to help Josefinas taking the most likely right decision.

2.6 Location

For Luxury brands, the location of the stores is crucial, and it says a lot about the brand for itself. As a luxury brand the store has to be located in a place that it is already known as a luxury shopping district. Regarding Department Stores, Just Luxe (Luxe 2015) defined the best locations to Shop in NY. Bergdorf Goodman, Saks Fifth Avenue and Barney's are among the best luxury department stores, which should be considered by Josefinas (for the detailed analysis see table 8). Moreover, the mono-owned brand store is also an option for the Portuguese House, in which the location is even more crucial. According to The Condé Nast Traveller (Hoen 2013) the best NY neighbourhoods to shop are Soho, Midtown and the Upper East Side (see table 9 for the detailed analysis).

2.7 Luxury Consumers in NY

When entering in a new market, brands need to have a deeply knowledge about their potential consumers. This encompass not only residents but also a big percentage of tourists. According to *Luxury Goods in the US* report (International 2015a), NY has an influx of wealthy tourists specially from China, but also from Brazil, Japan and Argentina.

Since, the experience provided to consumers is so important in this market, a deep analysis of their preferences and their behaviour was conducted and it can be consulted on appendix 13.

Ultimately, luxury consumers appreciate a high level of customer service and the opportunity of having amazing in-store experiences that make them feel special.

3. Implementation Plan

3.1 Financial analysis

In order to decide whether the company should open the store in NY or not, a financial analysis for both alternatives (mono-owned brand store or a corner at a department store) was developed.

At the moment, Josefinas has an online store shipping worldwide, and due to this fact only the additional investments, costs and sales resulting from the store opening would be considered.

To do so, a 5 years financial projection was conducted. In order to better sustain this decision a scenario analysis was developed based on assumptions, which are explained in detail on appendix 14. *"This approach examines a number of different likely scenarios, where each scenario involves a confluence of factors"* (Ross et al. 2008). Additionally, a sensitivity analysis to the key parameters was also drawn.

3.1.1 Limitations

The limitations of this analysis are mainly related with the difficulty of finding the real values for most of the variables. In order to get information for the sales predictions, AICEP NY was contacted aiming to obtain data from similar brands already established in NY. Despite this effort, no information was available to be forecasted in this analysis.

Moreover, the value for the rent of the corner in a department store adequate for Josefinas was not available as well. Saks 5TH Avenue was contacted in order to obtain accurate information, but the company does not reveal neither values or contractual terms. Due to all this facts, assumptions were defined.

3.1.2 Mono-owned brand store

In the **pessimistic scenario**, it was assumed that the store would not have any impact on the online sales, which means that the company would sell in store the same quantity it is selling now in the online store (international sales). Moreover, the rent used to forecast the NPV -$144 000- was higher than the one considered in the realistic scenario, since the store rents in NY are very likely to change. Based on these assumptions, the NPV of the project would be -$548 338,28. For more detailed information see appendix 15.

On the other hand, in the **realistic scenario**, the company would benefit from the opening of the store and from the investment in advertising in three main ways: **Increase of the online sales**: Josefinas works with a considerably low stock level and each pair of shoes is made especially for each client. This principle would also be a part of the physical store policies.

Therefore, a significant percentage of the sales would be done through this channel. Since, the customers were influenced by the experience in store or by the advertisement of it, this has to be considered in the financial projection. From 2014 to 2015, Josefinas had an increase of more than 300% on their online international sales[3]. For this projection it was assumed a growth of 100% for the first year, which means that on average the company would have 2 purchases per day with an average price of $201,75. For the following year, it was assumed an increase of 50% comparing to the previous year, which means an increase of one purchase per day, as a result of the increasing awareness (this value encompass the new clients and also repeated purchases). The same reasoning was applied for the following years (see table 18 for the complete calculations). **Increase of the Store sales**: In the first year it was assumed that Josefinas would have an increase of 50% on sales, comparing to the international online sales that the company had in the previous year, equivalent to 1,4 purchases per day. In the following year it is expected to have an increase of the growth rate, to 60% compared to the previous year, due to the higher awareness of the brand (see table 19). **Increase of the Business to Business sales**: The company expects to have a higher bargaining power when opening the store. The rise visibility and prestige of the brand, which would result from this investment, would allow the company to sell their products for other shops, for example, market places. It was assumed in this scenario an order of 200 pairs of Josefinas, four times per year, in the first year. The growth rate is expected to increase smoothly for the following years, as a result of the awareness and increasing demand for Josefinas' products (see table 20).

Based on these estimations, the project has an NPV of $564 935,95 and a payback period of 2 years and 9 months. Moreover, the Internal Rate of Return of this alternative is 94%, and this value is above the industry WACC of 6,76% (Damodaran 2015)that was considered for the projection. Lastly, the ROI calculated equals to 24,51%. For the detailed analysis and calculations, see appendix 16.1.

- <u>Sensitivity analysis :</u>

[3] Information provided by the company

The financial projection explained before was developed based on values that might change during the implementation of the project. In order to give the company a more trustful projection, a sensitivity analysis was developed, aiming to understand how the NPV changes as the underlying assumptions change (Ross et al. 2008).

The first approach was to verify the sensitivity of NPV to rent changes. From the table 21 it can be concluded that for each 10% increase on the rent value, the NPV would decrease 6%.

Moreover, the initial investment is also a key variable estimated. According to calculations (see table 22 and figure 4), a 10% increase on the initial investment would be translated in a 0,4% decrease of the NPV.

The quantity sold, the price growth and the productions cost growth variation are also crucial variables, which are responsible for the highest impact on NPV. A 10% variation on the price growth would decrease the value of the NPV by 12% (table 23). On the other hand, a 10% variation on the quantity growth would result in a 29,7% increase of the NPV (table 24), which means that the changes in this variable are the ones which have the biggest impact on NPV. Lastly, from the table 25 it can be seen that a 10% variation on the production costs growth would be translated in a 13% decrease on NPV.

The last scenario – **the optimistic scenario** – reflects the best expectations for the sales projections and it would happen if the awareness of the brand increases exponentially and also if the product is well accepted and desired by consumers. As in the previous scenario, the store would impact the company' sales in three main ways: on the online sales, store sales as well as the business to business sales. Moreover, it was considered that Josefinas would find a store with a lower price - $100 000. In the optimistic scenario, the NPV of the project would be $2 069 681,05 (See the complete calculations on the appendix 17)

3.1.3 Multi-brand exclusive distribution

As it was explained previously, department stores have some advantages when comparing to mono-owned brand stores. The association of the brand Josefinas with a well-known department store would benefit the brand recognition, and consequently the sales.

Since Josefinas is an up-coming brand with a low bargaining power, it is likely that the contract with the department store would imply not only the payment of the rent, but also a commission of the sales. Therefore, in this financial projection, it was considered the B2B price also for the sales in-store (see assumptions on appendix 14).

The **pessimistic scenario** considered was the same as the pessimistic scenario of the mono-owned brand store, which means that the brand association and advertisement related to the store did not have any impact on sales. Thus, the quantity sold in store would be the same that Josefinas is already selling online (international sales). Furthermore, the rent was also changed to $200/squared foot. As a result, the NPV of the project in this scenario would be -$617 434,05. For the detailed calculations see appendix 18.

The **realistic scenario** assumes an impact from the store in three channels: **Increase of the Online international sales**: the same reasoning used to project the sales for the mono owned brand store was applied here. The store would have an impact on the brand recognition, which would result in an increase of the online sales (table 32). **Store sales**: Department stores have already a regular customer influx at the store. By being present at a luxury department store Josefinas would be more easily identified as a luxury brand by this consumer segment, who knows that all the brands that are featured there are trustful and elegant. Moreover, department stores also advertise new brands and offer industry guidance in order to potentiate a faster growth path. Thus, it was considered for the first year a 2,5 purchases with an average price of 201,75$. Over the years, Josefinas would have a smooth increase of the sales volume (see table 33). **Increase of the B2B sales**: The association with the department store would allow Josefinas to negotiate the selling of their products with other market places, as it was considered in the analysis of the alternate project. However, the impact would be higher considering that the brand would already have received the acceptance stamp from authorities in the field. Thus, it was considered that the company would get a contract to sell their products in two online market places (see table 34).

Hence, the NPV would be $565 741,89, which means that this project would be profitable for Josefinas. Therefore, if Josefinas implements it, it would take 2 years and 4 months for the company to recover its initial investment, taking into account the time value of money. Moreover, the internal rate of return of this project would be 114%, which is bigger than 6,76%, meaning that the company has incentives to undertake the project. Lastly, the return obtained by the company over the investment on opening a corner at a department store would be equal to 24,5%.

- Sensitivity analysis

Regarding the financial projections estimated before, a sensitivity analysis for the same key variables already identified was developed.

The first variable analysed was the rent, with a result of 7,7% decrease on NPV for each 10% increase on the rent value (see figure 8). The impact on NPV from the rent variation is higher in this case, when compared with the mono-owned brand store. The variation on the initial investment would have the same impact as in the previous scenario, meaning an increase of 10% of this variable would be translated in 0,4% decrease on NPV (see figure 9).

Furthermore, the price growth variation would have the same impact on NPV as it happened with the mono-owned brand store – a variation of 10% of the price growth would result on 12% decrease on NPV (see table 38). Regarding the quantity growth variation, the impact on the NPV is smaller in this case. A variation of 10% on the quantity growth would be translated in an increase of 26% of the NPV (table 39). Lastly, the impact of production costs growth variation would be higher in this case, which means that for a variation of 10% on this variable, the NPV would decrease by 1.8% (table 40).

Finally, the **optimistic scenario** was based in assumptions that would likely happen if the awareness of the brand increases among customers, if the brand increases its bargaining power to easily negotiate the entrance of their products in market places and also if the customers like the product and brand. Additionally a better value for the corner rent would be considered ($100/square foot). Therefore, if this scenario verifies the NPV of the project would be $ 1 667 008,55. For the detailed financial projection see appendix 20.

3.1.4 Conclusions

After a deep evaluation of both hypothesis and after performing diverse financial ratios and analysis, one can conclude that although Josefinas would have a similar performance with both projects the department store project would have slightly better results.

However, the establishment of a corner in a Department Store does not depend only on Josefinas, but mainly on the other contracting party. Usually, brands are invited by the department store to open a corner on their facilities.

Due to this fact, it would be easier for Josefinas, in the short-run, to open their own store. The advantages and disadvantages were discussed before, and it was concluded, in a consumer experience point of view, that a mono-owned brand store would be a better suit. With the financial statement in mind, the opening of this kind of store, would also be a good decision for Josefinas, which would obtain an NPV of $564 936,30, lower than the alternative but still significantly positive.

3.2 Four P's analysis for the store

In order to potentiate the opening of the store and guarantee a positive result of it, a successful marketing plan is needed. The combination of the right product, with a suitable price at the appropriate place and using adequate promotion, would allow the company to achieve the aimed results. **Product**: As aforementioned, in the luxury sector companies have to offer more than just a quality product, they also have to offer a unique experience to customers. According to the authors of *Rethinking Luxury* (Witting et al. 2014), to succeed luxury brands have to offer something that consumers have not experienced before – *"Prospective customers want to be surrounded in an emotional experience that showcases a company's branding"* (Witting et al. 2014). Josefinas would offer its products – handmade elegant shoes and accessories – aligned with an exquisite experience in store. In order to accomplish the objective of providing a unique experience to customers, sales people have to be highly skilled with a strong focus on customer service. When hiring the sales people, Josefinas has to be conscious that *"the sales associate's knowledge and familiarity, coupled with respectful distance, should be yet another extension of brand identity and the experience a brand offers"* (Witting et al. 2014), turning this recruitment process into a key factor that influences the success of the business. **Price:** As it was assumed before, Josefinas should increase the price of its products to covert the possible fluctuations of the exchange rate. Moreover, the price of the products (business to business and business to consumer) should increase over time, since Josefinas is a luxury brand. **Place:** At the moment, Josefinas only sells its products online. With the internationalization investment, the products would be available in a physical store. The store has to be more than a place to sell. It would be the representation of the brand's world and it should work like a *"brand ambassador"* (Witting et al. 2014). As so, Josefinas' store should be a place that would provide an outstanding shopping experience to their customers. From the insights from the interviews and from the deep research regarding customers' tastes in NY, the store should be entertaining to customers, having a digital interaction with them, which would be appreciated by the main NY luxury consumers. Clients would have the possibility to see and try the products, but also to have access to all the information concerning them (from the story behind each model to the production process). Every detail of the store decoration should be carefully analysed. The architecture and décor has to be aligned with the brand personality and to translate its values, with *"interiors that would invite customers to come shopping and linger"* (Witting et al. 2014). Since Josefinas would not have a great quantity of shoes at store, some of the sales would be through the website. These products could be picked up at the store or sent to the clients' house. **Promotion:** In order to potentiate the impact of the store, Josefinas should develop some promotive initiatives with the aim of increasing its awareness and its desire. The company should take into account that luxury communication message should be more emotional and personal to distance the brand from mass-premium companies, translating its world and aura. **Social media:** The Portuguese House is known by its strong online presence. Therefore, Josefinas should be actively present in the main social networks, in order to create the desire on consumers. As it was explained before, the advertisement campaigns should be developed also to the non-targets, thus Josefinas should use these channels to increase its recognition among the society, and associate the brand with exclusivity.

This marketing effort should be developed before the brand enter the market, with the aim of increase the impact of the store opening. **Invitation only-events:** Luxury has always been related with exclusivity. Luxury brands know whom their customers are, and therefore should take advantage of it. By identifying its key clients and strategic relations and inviting them to a special event in-store with the Designer and CEO of the company, consumers would feel special and valuable. The brand would reinforce its relationship with them presenting its first store, allowing the customers to ask personally any question regarding the brand. The client would after feel an emotional connection with brand, being part of one of the most important landmarks in the history of Josefinas. <u>Customized invitations for special occasions</u>: For the launching of new collections, clients would receive a customized invitation with their name to come to the store and see the new collections. Moreover, on client's birthday, Christmas and other special dates, customers would receive a handwritten card congratulating them. All these tactics would help the company to nourish its relationship with the customers. **Public Relations:** The Public Relations department of the company would be in charge of making contacts with strategic market places where the company wants to be, showing them its attractiveness and potentiating the store opening as a credibility signal of the company's growth strategy. Moreover, it would also have the responsibility of making contacts with bloggers, trendsetters and media. <u>Bloggers and trend-setters</u>: *"More than one-quarter of European and American consumers are looking to blogs to help make decisions about brands"* (Witting et al. 2014). Therefore, Josefinas should continue investing on building a long-term relationship with bloggers, who would use the products, and consequently advertise them. <u>Media</u>: The opening of a store in NY would be a crucial moment for Josefinas, and a signal of its exclusivity and success. Thus, the company should try to find a media partner to cover the exclusive opening event, making sure that the occasion would be noticed by all. **Store opening event:** This event would allow the company to physical present itself to the public. Josefinas should prepare a "wow event", in order to give expose to the occasion. One of the brand values is the women empowerment, thus the Portuguese house could use that as the opening theme brining to the store powerful women who have the same beliefs, sharing their thoughts at an elegant event.

Real-time stream :With the aim of potentiating even more the impact of the event, and also to make customers all around the world part of this moment, the opening event should go alive allowing customers to see it. This would give also the opportunity to the company to thank all customers for making that happening. **Videos of the design creation and production process**: The savoir-faire and story about each product is key in the luxury business. Therefore, Josefinas should present in-store small videos to their customers, increasing the value of its products and creating an emotional connection between the client and the brand. The same approach can be used to the store, producing small videos explaining how everything was developed. These intimate videos make clients feel part of the brand, and it potentiates their loyalty. **Store window**: The store window is the key point of the store. Josefinas should create outstanding store windows, in order to persuade customers to enter the store and try the products. It should translates the brand image and its positioning.

3.3 Operating and Control Systems plan

To ensure the proper functioning of the store and to provide the necessary conditions for the project success, Josefinas would need to follow a plan to regulate their operations.

In the appendix 21 is stated the current process followed by the company. With the opening of the store, this process needs to be adapted. Therefore, the following plan must be complied.

Ordering and receiving products: The request of products to the supplier should continue to be done by the Sales Department in Portugal. However, the sales person in NY would have a software to manage the stock. Therefore, it would be possible to check if the product is available in store, at the warehouse or if it is necessary to order it, which would consequently allow the sales person in store to immediately tell to the clients whether they would need to wait or not for the product, and also for how long. Moreover, a minimum stock would be defined for the store by the administration and the orders would take into consideration these values. The reception of the products would be done by the store manager, who would be responsible for re-checking the quality of the products and who would confirm that the products arrived in store are the ones ordered by the headquarters. After this process the stock management software would be updated by the store manager.

Inventory control: The sales person with the supervision of the store manager would monitor the physical inventory in store each month in the first year, and every three months in the following years. Returns: Clients would have the possibility to exchange or return the products by sending them to the headquarters or delivering them at the store within 30 days after the purchase. Furthermore, the products must be in perfect conditions and the client has to present the receipt. Assistance to customers: Clients would continue to have the possibility to contact the company by email or phone call. Moreover, they would have also the possibility to go directly to the store and talk with the sales person to receive immediate assistance. Reporting to management: The store manager would develop a weekly report regarding all important issues, such as volume of sales, consumer behaviour in-store and feedback received. All incidents that might occur in-store should be reported by the sales person to the store manager, who in return would inform the general manager. A weekly meeting should be schedule between the staff and the store manager, and in every two weeks a meeting between the staff, store manager and management team. Disposition of the products: The products would be placed following the rules of the headquarters and taking into consideration the consumer behaviour.

3.4 Control measures

As it was analysed before, Josefinas aims to implement a physical store. If so, it would be crucial to set up a combination of controls to track the evolution of the investment and its impact. There are three aspects of the brand that should be evaluated. First the brand itself, through the evaluation of the brand awareness and also the brand's attractiveness to market places. Second, the audit of the sales evolution should be undertaken. Lastly, the customer relationship, so extremely important in the sector, should be monitored through metrics such as customer's satisfaction. For the complete description of the control measures see appendix 22.

3.5 Risk analysis and Contingency Plan

"Risk identification determines what might happen that could affect the objectives of the project, and how those things might happen" (Cooper et al. 2005). Therefore, the Portuguese House needs to be prepared for their possible appearance.

Since Josefinas would open a store in NY, the company would have to use the current currency of the country – the American Dollar –, which means that Josefinas would face the exchange risk. The company should take into consideration, when defining the prices, the possibility of currency fluctuations that might trigger arbitrary behaviour.

In addition, Josefinas might suffer from low awareness and low acceptance of its products in the market. If this scenario occurs, the company should invest in advertising in order to increase its visibility and attractiveness among consumers, reversing the tendency.

Josefinas' products are produced by the Santos e Faria company, which means that the Portuguese house delivering time depends, in part, from their ability to produce the shoes on time. With an increase of the demand, Josefinas might suffer from delays. In order to avoid this risk the company must ensure that its business partners meet the growing demand while assuring the high standards required in this market.

The opening of the store in NY would impact Josefinas' stock management, once the company would be required to have some stock in-store. This represents an up-front investment, that the company is not used to incur. In an attempt to minimize this risk, the company should forecast the sales of each product based on consumers' behaviour that are going to be monetarized in different ways. Also, the company should have a global platform to manage the stock, which means the store' stock might be shipped for clients as well (whenever this benefits the company), reducing the impact of this investment.

Josefinas should also be aware of the risk that the investment in the store might cause, which could imply the closure of the store. Taking into consideration the pessimistic scenario (appendix 15) the company would have, after the first year, a $143 058,18 loss and a negative NPV. In fact, it is not expected that the company would be able to support these losses.

Therefore, Josefinas should seek for an investor, who would inject money in the company, turning the investment possible and less risky.

Conclusion

In the luxury market, "*the first function of retail is not to distribute, it is to make tangible the brand universe and to create the luxury experience* (da Silveira 2015c)*"*. Since Josefinas only has an online store, the multi-sensorial experience is very difficult to provide. Therefore, the company fells the necessity to create its physical world.

The USA represents not only the second country where Josefinas more sells, but also the biggest luxury market in the world (Deloitte 2014). Moreover, the luxury consumers in NY encompass the locals, but also tourists from China, Brazil, Japan and Argentina, who appreciate unique shopping experiences.

During this project, two options of retail distribution channels were evaluated: the mono-owned brand store and the multi-brand exclusive distribution. The opening of a store is expected increase the brand's visibility and prestige, which would consequently impact the sales in three main ways: increase of the online sales, rise of the store sales and intensification of the B2B contracts.

After a depth analysis, of all aspects implied in the project, for both options, one can be concluded that, if implementing a store, Josefinas should opt for its own store, where the brand would have full control of the distribution, making sure that an exclusive and unique experience would be delivered to each client.

Nonetheless, the implementation of this project entail a significant risk for the company's financial solvency. Therefore, Josefinas should seek for an investor, who would inject money in the company to finance this project. Another option, would be to postpone the implementation of the store, until the time when the company has financial capability to support losses, if that occur, without compromising the solvency of the whole business.

If one of these scenarios occurs, Josefinas should be aware of the crucial importance that the control measures represent. By tracking the results of the investment, the Portuguese House would be able to take actions, in order to contradict adverse tendencies.

Moreover, Josefinas should hardly pursue a path that would allow it to build a sustainable competitive advantage, through competences that fulfil the VRINO framework.

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