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Internationalization Strategy of Shoes Closet to the United Kingdom

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Executive Summary

This Work Project analyzes the internationalization strategy of Shoes Closet, a Portuguese footwear SME, to the United Kingdom. It was based on fundamental support information provided by the company’s founder, on desk research and on market research. It tackles the domestic market, with a comprehensive internal and market scanning. It also analyses the British market, justifying the country choice and studying the competitive environment. Subsequently, this Work Project concludes that it is necessary to consider Portugal as a tactical market, implementing a deep change to foster the sustainable development of the company, to enter in the British market afterwards.

Keywords: Footwear, Internationalization, Tactical Market, the United Kingdom
1. Firm Overview

Shoes Closet (SC) was founded in 2010 by Mr. Miguel Oliveira, educated in production engineering, to compete in the women’s non-sports footwear market. Manager of the two *Leninha* multi-brand footwear stores that belong to his family since 1969, Mr. Oliveira acquired knowledge of the Portuguese market and realized that women were missing a footwear brand that combined good quality, affordable prices and an appellative but usable design. Adapted to a multifaceted lifestyle, SC’s footwear is thus aimed to modern women from the middle-upper class that worry with their day-to-day appearance, aged mainly between 20 and 45 years old (see exhibit 1 for the Brand DNA). Hand-made high quality¹, casual design, comfort and affordable prices² (with a good quality price ratio) are key features. Further, SC’s concept relies on the development of four themes per collection. This Autumn|Winter (A|W) collection explores: Fado, rural wonders; 60’s and 70’s art movements; and French cinema (see exhibit 2 for the catalogue ads). The firm’s activity embraces the conception, design and commercialization of mainly leather women’s footwear. The majority of the added value activities, R&D and Marketing, are developed in-house. The R&D includes the new product development (NPD). Manufacturing and logistics ³ are external. Manufacturing is subcontracted to four small production plants located in São João da Madeira, an important cluster for the Portuguese footwear industry, to which SC accounts between 40% and 60% of the total production capacity. Selected due to its core competencies, each plant specializes in one theme, as it embraces similar models (see exhibit 3 for the flow chart of the NPD and Production processes). The owners of the plants informally undertake quality control during the production and report to Mr.

¹ From this point on and along all this report, quality denotes properties such as durability, resistance and chemical properties.
² Average Price to the final consumer (percentage of the typical sales mix): 99€, more precisely: Boots: 142,5€ (15%); Shoes: 92,5€ (65%); Flats: 87,5€ (20%); Source: Mr. Oliveira.
³ Usually, the suppliers ensure inbound logistics. Outbound logistics is outsourced.
Silva, an experienced SC’s employee that goes through the plants to coach the employees and follow the production process. Later, on the warehouse the products are checked, labelled and processed (located in one of the Leninha stores). The percentage of defective products in production rounds the 2%. From all the activities, as delineated in the figure 1, Procurement has the highest cost share (see exhibit 4 for the allocation of costs) and is exposed to a great volatility of purchasing prices. The profit margin is estimated to be of 15% to 20% (see exhibit 5 for the value chain analysis). SC has a multidisciplinary team of 9 elements (see exhibit 6 for the organizational structure) and leverages on the knowledge of Mr. Oliveira, of his sister, educated in management and fashion design, and on the experience and specific know-how of employees on design and modelling. Its small dimension and informal relations ease the dissemination of information, favourable to the development of customer focus, people involvement and continuous improvements, elements of the total quality management that are positively related to innovation in the Portuguese footwear industry (Abrunhosa, 2001).

Points of Sale (PoS) comprise a flagship store (since September 2011) near Parque das Nações, the two already existent Leninha stores (vertically integrated), also in Lisbon, and SC’s website. With a sales volume of 901 pairs (SC’s brand) between January 1 and October 31, 2011, equal to 65.460€ (VAT free), and an estimated sales volume of 1.250 pairs in 2011, efforts are being made to set up the firm and positioning the brand.

Perspective on Business Mission, Vision and Strategic Objectives

SC’s business mission is to offer a strong brand alternative to women from the middle-upper segment focused on quality, design and consumer proximity, supported by innovation. Its vision is smoothly reinventing the shoe by innovating in the creation/use

\[^4\text{Quality prevention and appraisal costs refer to a small portion of João Silva’s wage and of the Leninha store employees’ salary.}\]
of new materials, and become one of the biggest Portuguese producers of footwear in its
segment, exporting 60% more than the value of domestic sales by 2013.

SC’s main **strategic objective** is to attain sales revenue from exports of €405k (thousand) in 2013 (see table 1), fuelled by quality improvements, international proliferation to strategic markets, and promotion initiatives. Quality objectives are to obtain ISO9001 and the Biocalce certification of specific models in 2012 and ISO14000 in 2013, and to reduce from 20% to 5% the fraction of inputs imported. To protect from imitations, some models will be registered at a National or European level through GAPI. Geostrategic objectives are to enter in Germany and France in 2012, and to analyse the Belgian, the Dutch and the British markets. Promotion objectives include the participation in the main International Fairs, GDS (Dusseldorf) and MICAM (Milan), on the social networks and increased advertising in newspapers and magazines.

**Industry Mapping**

Figure 2 presents SC’s main interactions\(^5\). Partnerships with CTCP\(^6\) and with the Universities of Aveiro and Minho assist the R&D. To access vital information and the opinion of experts on the industry a straight contact is held with APICCAPS\(^7\).

\(^5\) The main suppliers contemplate repeatedly interactions; Commercial items are, e.g., boxes and bags; See exhibit 7 for the legend.
\(^6\) Centro Tecnológico do Calçado de Portugal.
\(^7\) Associação Portuguesa dos Industriais do Calçado, Componentes e Artigos de Pele. It promotes the Portuguese Shoes and organizes participations of the cluster in International Fairs.

<table>
<thead>
<tr>
<th>Table 1 – Sales Revenue Forecasts</th>
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<tbody>
<tr>
<td>Sales, k€</td>
</tr>
<tr>
<td>Portugal</td>
</tr>
<tr>
<td>Exports</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>
2. Methodology

**Primary data** was collected through several meetings with SC’s founder between September and December 2011. Market research was conducted through three online surveys: one assessed the footwear preferences of women living in Portugal; one evaluated the brand name; and the other appraised the footwear preferences and consumption patterns of women living in the UK, whose results, due to the low number of responses, were mainly taken as supportive of other information sources (see exhibits 8-13 for the surveys and results of SC’s target). **Secondary data** was collected through contacts with: APICCAPS, AICEP\(^8\) Portugal and its office in the UK, British Chamber of Commerce in Portugal, Portuguese Chamber of Commerce in the UK and BFA\(^9\). Footwear brands (present in Portugal and in the UK), and retailers, department stores and agents in the UK were emailed, but responses were minimal and did not disclose information. To predict activities’ durations and costs, IT and communication companies were also contacted. Meetings with Prof. Vítor Centeno, Prof. José Mata and Prof. Tomasz Miaskiewicz were scheduled to obtain the opinion of experts. At last, data was collected via Internet and through literature review on the following subjects: International Business, Quality Management, Strategy, NPD and Marketing.

SC’s **internationalization** aims to expand sales and mitigate the risk. European markets are geographically close and consume the majority of the high added value footwear. Considering their relevance, Mr. Oliveira selected three markets to explore (arbitrarily distributed among the group members). Following the market analysis, entry in the UK will not be feasible and profitable in the short-term, but it concludes that Portugal is a tactical market to later enter in the UK, so this work further exploits this issue.

\(^8\) Agência para o Desenvolvimento e Comércio Externo de Portugal.

\(^9\) British Footwear Association.
Limitations in obtaining SC’s analytical indicators were faced, as well as in obtaining information to accurately estimate future sales. Thereby, analytical forecasts were based on assumptions that are mainly representative, being subject to considerable variations.

3. Situation and Competitor Analysis for Shoes Closet in Portugal

The Portuguese footwear industry is predominantly composed by SMEs specialised in medium to high quality leather footwear, which, in 2010, accounted for about 90% of the production value, from which 45% referred to ladies’ leather footwear (APICCAPS, 2011a). Despite fragmented, with 1.354 companies responsible for a total production of €1.376k (61.543k pairs) in 2010 (refer to exhibit 14 for the industry trends), it is similar to the Spanish and Italian markets, its leading rivals (APICCAPS, 2011a). Geographically concentrated on three clusters in the north of Portugal, which drives the knowledge proliferation, it was, in 2010, the eight largest leather footwear exporter globally. Portuguese footwear imports were also geographically concentrated. Spain held the strongest position (46% in value, 35% in volume), whilst China, though the value was roughly 12%, held 41% in volume (APICCAPS, 2011b). Regarding the competitive landscape (Porter, 2008), the industry is very fragmented, but large international groups have high market shares. The internal rivalry is higher among them (see exhibit 15 for brand shares). With no relevant entry or exit barriers, new entrants are common. Fixed costs are relatively low, but, due to the presence of large established retail groups, it is tough for them to integrate forward and benefit from scale economies. The threat of substitutes is low, but within footwear the level of differentiation is high, with various brands offering different products with an attractive cost-benefit tradeoff. The power of final consumers is low, as they are numerous and disperse, with each sale impacting a little on firm’s total revenue. But, as retailers play an important role, the bargaining power of buyers is medium towards high. Suppliers of components (more
concentrated and specialized industry) and of customized materials have a high power, often imposing large minimum quantities. Contrarily, the power of raw materials’ suppliers is low, with typically many alternatives for the same material.

**Market Attractiveness: External Scanning**

Portugal was hit hard by the 2008 global economic downturn. Presenting an unfavorable economic environment, per capita disposable income of women is set to rise by only 5.5% over 2011-15\(^\text{10}\). Sales of women’s non-sports footwear were of 14mn pairs in 2010, correspondent to €515mn, following a compound annual growth rate (CAGR) of 1.4% in quantity and 3.4% in value over 2005-10. For the period 2010-15 the sales volume is expected to remain stagnant, whilst the forecasted CAGR in value is of 0.4%, anticipating a market value of €524mn for 2015 (Euromonitor, 2011a) (see exhibit 16 for yearly forecasts). Despite a rising price consciousness among Portuguese consumers, it is expected a shift in their preference towards higher quality and comfort footwear (Euromonitor, 2011a). The unitary price of the women’s footwear consumed in Portugal is predicted to rise to 36.2€ by 2015, yielding a CAGR of 0.4% over 2010-15\(^\text{11}\). Actually, market research revealed that 48% of the respondents on SC’s target selected comfort as the most important attribute, with importance increasing with age. Further, more than 90% of the respondents selected comfort, design and quality as the three leading attributes. Whereas design is the second most important feature for younger ladies (surpassed by comfort), it typically loses relevance as age increases. Brand comes in 5\(^{th}\) place, after versatility. The brand name is not decisive to non-sports footwear purchases, with only 15% of respondents unveiling loyalty to a restrictive group of brands. Further, social trends denote that, despite less impulsive, a growing

\(^{10}\) At constant 2010 prices. Statistics retrieved on November 18, 2011, from Euromonitor GMID.

\(^{11}\) Euromonitor. 2011. Statistics retrieved on December 10, 2011, from Euromonitor GMID. The rise in the unitary price is decomposed in two effects: the price increase of low-cost manufacturers such as China and other Asian countries; and the consumers shift towards higher quality footwear, which typically have a higher price (Euromonitor, 2011a).
number of women are increasingly paying more attention to their appearance. Hence, within SC’s target, competition occurs mainly on the relation between comfort, quality, design and price. Two major groups were identified as SC’s main competitors. The first group sets prices at par with SC and includes brands that offer a casual/classic design, such as Massimo Dutti and Lanidor, and brands that offer trendy products, such as Aldo and Foreva. Market research indicated that women do not associate these brands to very high quality neither high comfort. The second group sets prices above par with SC and is the frame of reference in which SC aims to compete. It includes brands that offer very high quality and design, such as Uterque and Helsar. Frequently, they also disregard comfort as a key attribute. Uterque offers a more casual/classic design and is the closest reference to SC in the combination of quality and design. Helsar’s products are more stylish and sophisticated, reflecting also a higher price gap related to SC (see exhibit 17 for a competitors’ comparison). Brands as Fly London (distinct design) or Stonefly (more conventional design) were not mentioned since that, though priced at par with SC and emphasizing comfort, they target a different niche segment. Concluding, to succeed, SC has to differentiate through its combination of high quality, design, comfort and affordable price. Observing the PoS, consumers prefer clothing and footwear specialist retailers, which, in 2010, gathered 73% of the footwear retail value. But, though consumers like to try the footwear before the purchase, Internet retailing presented the highest growth, climbing, in retail value, from 0,3% to 1,7% over 2005-10 (Euromonitor, 2011a) (see exhibit 18 for an analysis by distribution format).

**Competitive Advantage of Shoes Closet: Internal Scanning**

SC’s strengths relate to its product attributes: hand-made high quality, casual design and comfort. First, the hand-made production, traditionally perceived as of superior
quality, is monitored, developed and based on the specific know-how of experienced workers, thereby delivering a high quality product. Second, it also leverages on Mr. Oliveira’s network that gives him access to relevant opinions. Third, the low degree of automation gives production flexibility to customize the products in the last phases of the production process, eased by the concentration of components’ suppliers in the clusters. At last, partnerships provide to SC the access to important know-how and equipment. The footwear is tested in CTCP labs, crucial to ensure quality, comfort and ergonomics in general. SC’s weaknesses are related, first, with the lack of visibility of the flagship store, a conservative customer base at Leninha stores and non-existent promotion of the website, which makes products’ visibility and sales still unnoticeable. According to an expert’s opinion, Tomasz Miaskiewicz, e-marketing professor at NOVA SBE, the website is not attractive: it lacks the ability to catch a visitor’s attention and SC’s value proposition is not evident. Second, the abstract illustrations that combine art with fashion do not entice the final consumers. When questioned about the type of promotional campaign that triggered most of their interest, about 80% of the respondents selected images where only the shoes appear (48%) or where they appear as a complement of a look, framed on a visual (30%). Opinions were that the illustrations of SC’s catalogue do not highlight the shoes. Third, the name Shoes Closet may not be adequate. As supported by market research, it can be easily associated with shoes that are placed on a closet, denoting that they are not for a daily use or that they are not a beloved choice. Fourth, centralized decision-making and reporting, with workers very dependent of the founder, delays decision-making and is very time-consuming to him, who needs to focus on financial and strategic planning. At last, financial constraints prevent SC from undertaking more and of higher dimension promotional initiatives and

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12 Market trends are also accessed through WGSN services (subscribed), the leading online trend analysis and research service.
from continue expanding through flagship stores (see exhibit 19 for the SWOT analysis). To this end, the Portuguese market seems to uncover an opportunity because SC offers a combination of quality, design, comfort and affordable prices (high quality price ratio) that is valuable and uncommon. But, as evaluated in the table 2, it does not have a sustainable competitive advantage. SC’s valuable hand-made quality and design are not rare, being competitive parities, whilst its comfort is a temporary source of competitive advantage.

Table 2 – VRIO Analysis in relation to SC’s main competitors

<table>
<thead>
<tr>
<th>Quality</th>
<th>Valuable</th>
<th>Rare</th>
<th>Costly to Imitate</th>
<th>Organized</th>
<th>Competitive Assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Design</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Competitive Parity</td>
</tr>
<tr>
<td>Comfort</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Temporary Competitive Advantage</td>
</tr>
</tbody>
</table>

Accordingly, SC should invest in skills and capabilities that are valuable, rare and costly to imitate in order to develop tangible or intangible resources. Tangible resources could be achieved with the development and registration of valuable exclusive components or models. Intangible resources could refer to an efficient understanding of the consumer, key for a successful NPD, distinct research capabilities or thriving partnerships.

4. Criteria of country selection: the UK market

The United Kingdom is a major player in the footwear market and one of the strongest economies in the EU, having the seventh greatest GDP per capita in terms of purchasing power parity (Datamonitor, 2010). It is the seventh world biggest consumer of footwear in value (1\textsuperscript{st} in Europe) (APICCAPS, 2011a). With 62mn inhabitants, it had a footwear market value of €9,073.5mn\textsuperscript{13} and consumed 504mn pairs in 2010\textsuperscript{14}, from which 97mn pairs (€4.220mn) were of women’s footwear. Women’s non-sport footwear was a strong performer, holding a CAGR of 3.8% in volume and of 3.4% in value over 2005-10\textsuperscript{15}. Further, the UK is the fourth world largest footwear importer in value (3\textsuperscript{rd} in quantity).

\textsuperscript{13} Currency conversions from sterling pounds to euros assumed fixed 2010 exchange rates (Information accessed on Euromonitor).
\textsuperscript{14} Euromonitor. 2011. Statistics retrieved on November 10, 2011, from Euromonitor GMID.
\textsuperscript{15} Euromonitor. 2011. Statistics retrieved on November 10, 2011, from Euromonitor GMID.
In 2010, China gathered 65% of its imports’ quantity and 36% of its value (a rise of 69% over 2005-10), followed by Vietnam and India, but Italian imports also rose (APICCAPS, 2011a). Further, though the Portuguese exports to the UK declined by 35,30% in quantity and 24,10% in value over 2005-10, in 2010 they rebounded, increasing 6,71% in quantity and 16,80% in value (APICCAPS, 2010a). The UK hold 10% of the Portuguese exports both in volume and in value, equivalent to 6.315k pairs and €130.293mn (APICCAPS, 2011a). Lastly, the geographical proximity to Portugal allows short response times and positively impacts the commercial activity’s costs.

5. Situation and competitor analysis for Shoes Closet in the United Kingdom

*Market attractiveness: External Scanning*

Looking at the **structural context**, the VAT’s rise to 17,5% in 2010 and to 20% in 2011 forced retailers to raise prices and made consumers more cautious in selecting products offering a good value for money (Euromonitor, 2011c). The rising food prices and the austerity measures announced by the government since 2010 threat disposable incomes, raising the competition (Euromonitor, 2011d). Besides, the British currency has been depreciating against Euro in the recent years (Datamonitor, 2010a) and is also predicted to depreciate over 2012\(^\text{16}\), increasing imports’ costs in euros. Another factor against imports competitiveness is the decrease in the inflation rate verified since 2007. Though the GDP declined 4,5% in 2009, hitting the UK with a recession, the real GDP is expected to grow 1,5% in 2011 (Euromonitor, 2011e). Yet, it is forecasted a no growth situation in terms of private consumption, with a recovery not being expected before 2013 (Euromonitor, 2011e). Alongside, the footwear’s average unitary price is projected to rise to £33.28 by 2015, ascending nearly £3.00 over 2010-15 (Euromonitor, 2011c) due to VAT increases (causing retailers to increase prices), to higher import costs and to

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rises in production costs, following increases in the costs of materials, distribution and manufacturing. Nevertheless, in 2010, the UK only produced 4mn pairs, which contrasts with its consumption of 504mn pairs (APICCAPS, 2011a). Analysing the market’s growth, sales of women’s non-sports footwear grew 1% in volume and 5% in value in 2010, but this is explained largely by the strong performance of boots, which typically have a higher price when compared to flats or shoes, as a result of the harsher winters of the last years (Euromonitor, 2011c). Also, whereas in the period scanning 2005-10 its CAGR was of 3,8% in volume and 3,4% in value, for the years over 2010-15 it is expected a slower CAGR of 1,7% in volume and 2,9% in value, anticipating a market volume of 90mn pairs (€3.407mn) for 2015 (Euromonitor, 2011c). As for the social and cultural context, emergent trends denote that the younger generation and women aged 25-45 years enjoy changing their footwear regularly, relating new clothing’s trends to new footwear that fits them (Euromonitor, 2011c). Also, consumer behaviour has been changing, shifting towards the low-end of the market. In 2010, while the mid-market products suffered, the private label footwear performed very well. Low priced operators, such as Primark and New Look presented a high growth as they suit the British ladies, who enjoy “grab and go” purchases of flats and sandals (Euromonitor, 2011c). Despite Clarks, a British middle-upper market retailer reliable due to its history and quality, continues presenting the highest value share (6,8%) and had a retail value CAGR of 4,9% over 2007-10, Primark, number two in value share (6,2%), held a CAGR of 9,6% over the same period17 (see exhibit 20 for brand shares). Likewise, with an increasing number of consumers looking for price over quality (ICEX, 2008), discount retailers and grocery stores also increased its share in the footwear market. On the other hand, as the UK footwear market is extremely polarized,

there are also a growing number of consumers from the upper segment willing to pay a premium for value-brand purchases with a high component of design (ICEX, 2008). The US branded footwear designer Tory Burch, common choice of premium Hollywood’s public figures, opened its first UK store in December 2010 and is expected to perform very well. Premium designers promoted in the popular US TV series are also popular, as well as special collections in which they collaborate with low-end retailers, such as Jimmy Choo for H&M (Euromonitor, 2010). In retailing, consumers have been shifting their focus from the product towards the in-store experience, with unforgettable and extravagant in-store practices raising the perceived value of the brand. In the UK there has been room for the “pop-up” phenomenon, characterized by temporary retail venues that call for people’s attention. This, together with the impact that celebrities and popular TV series have on consumers, makes entry more costly to SMEs because high investments in marketing and sales are usually required to attract potential customer’s attention. The footwear’s distribution is characterized by the presence of big footwear retail chains, as Clarks, that have a high bargaining power. These chains gathered, in 2007, 26% of the retail value and typically target the mid-market segment. They have been taking away sales from specialized independent stores, which, in 2007, had a value share of 6% (ICEX, 2008) (refer to exhibit 21 for the distribution by format). In general, the market value of clothing and footwear specialist retailers decreased from 58,6% in 2007 to 57,6% in 2010, in favour of mixed retailers (grocery, discount and department stores) and Internet retailing (Euromonitor, 2011c). The share of mixed retailers has been increasing both in the low-end and in the premium segments, with consumers increasingly seeking for convenience. Further, Internet retailing showed a huge growth

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13 This value includes both own-brand and multi-brand stores.
in 2010 and its value share is projected to double over 2010-15\(^9\). Overall, **competition** is fierce, with large retail groups having strong positions. Mid-market retailers, such as Marks & Spencer and Clarks will struggle to grow, making competition fiercer, as a result of the consumers’ tendency to seek super-premium or value-end products. *Clarks*, with its reputation for quality, high investments in R&D and targeting the middle-upper segment, would be a relevant competitor for SC, though it offers a mix of conventional and casual design. *Marks and Spencer* is also a competitor, as it offers high-quality products at middle-low prices and a strong spatial convenience (Euromonitor, 2011f). Other relevant players are *Next*, which provides trendy products at mid-market prices, and *Steve Madden*, which offers casual and stylish products and quality at medium-high prices. *Aldo* and *Massimo Dutti* are also relevant competitors (as in Portugal).

**Competitive Advantage of Shoes Closet: Internal Scanning**

The UK footwear market is polarized in two main groups. The first is extremely price sensitive. Its main critical success factors (CSFs) are price, design, spatial convenience and brand image. SC is cannot compete on price. The second values premium products from reputed brands that have a high component of design. Its CSFs are the brand, design, quality and spatial convenience. SC should not enter in this segment because its global strategy is not to be a premium brand. Further, it lacks the financial resources (and sales volume) to contract reputed designers or to invest on an aggressive marketing communication strategy. In parallel, it exists a **shrinking middle segment**, in which SC could intend to compete, that have as CSFs quality, design, price/affordability, comfort and spatial convenience (ICEX, 2008), suggested also by market research, but large chains dominate it. Analogously to the Portuguese market, SC’s **strengths** would be its hand-made quality, know-how and experience within the firm and the production plants,

Mr. Oliveira’s network and the partnerships. The flexibility of the production process that could allow SC to offer customized footwear may unveil an opportunity. Market research corroborates that women in SC’s target care with their daily appearance, with more than 90% of the respondents stating that they like to look pretty every day. Indeed, 75% of them referred that they would like to be able to customize their footwear, remarking: “I would love all sorts of customization options as I rarely find exactly what I’m looking for” (Respondent answer, 2011). Worthwhile, there is a positive externality effect related to presence of various high quality Portuguese exhibitors on the main International Fairs, MICAM and GDS, and, in the UK, in Pure London. But, and though Portugal has one of the highest export’s unitary prices, it is still lower than the price of Italian products with similar apparent quality (APICCAPS, 2010a). Farther, market research suggested that the perceived quality, design and comfort of Portuguese footwear is lower than the Italian and only surpasses the British footwear in comfort. Thereby, it seems that the promotion of the Portuguese cluster has a higher effect on the intermediaries than on final consumers. Possibly, this is partially because the final consumer when purchasing footwear does not pay attention to the country where it was manufactured, as referred by 79% of the respondents. SC’s weaknesses regard: the non-developed negotiation and contract management skills; the financial constraints that prevent SC from undertaking high investments in improving the internal processes and in marketing & sales; the lack of spatial convenience and of an established brand image and reputation in the UK; and, as aforementioned for the Portuguese market, the poor website, the type of promotional illustrations and the debatable brand name. Nearly 70% of the respondents living in the UK selected images where only the shoe appear or where it is framed on a visual as the promotional campaigns that enthralled them the

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20 Customized footwear is already available within the sports footwear market, but it is not being offered within SC’s target market.
most (SWOT on exhibit 22). All in all, **SC does not hold a competitive advantage.** For instance, *Clarks* has very high brand awareness and brand image, makes substantial investments in R&D, in promotion and in increasing loyalty, and has very good perceptions in terms of quality and comfort, offering a mix of features that fits its mid to mid-high segment. *Steve Madden*, offers casual and stylish quality products at mid-high prices, and benefits from its established brand image and heavy promotion. So, SC’s design, comfort, high quality (good quality price ratio) are points of parity (valuable but not rare), whilst the lack of spatial convenience is a competitive disadvantage. Withal, SC could leverage on its hand-made production, rare among its main competitors and, if the products customization reveals to be practicable at a larger scale, then the hypothesis to export the concept to the UK should be analysed, as it would provide SC a valuable and rare competitive advantage costly to imitate by large-scale producers.

**6. Considerations on Entering in the UK market**

The appropriate mode of entry would be **exporting**, with SC’s selling to retailers in the UK, similarly to the internationalization of some Portuguese firms, such as Guava (see exhibit 23 for an interview). Due to the dominance of large retail chains, SC could directly carry out the contacts and negotiations, relying on the direct mail of catalogues, on the presence in trade fairs and on trips to the UK. Although an external agent would have a wider network of contacts in the market, SC would have to pay a commission. Overall, SC would benefit from the intermediaries’ distribution channels and marketing & sales (logistics are negotiated) and would decide where its footwear is distributed, ensuring that intermediary buyers fit its objectives. But, to succeed, it has to make contacts and build relationships, which implies management commitment and time. Given customers’ growing quest for spatial convenience and the sales growth in mixed retailers, SC could consider entering through **department stores**. This allows SC to
place its footwear in an established distribution system with high spatial convenience and profit from their significant investments in multichannel sales and marketing, being in the forefront of Internet and Mobile retailing. Further, if not colliding with the negotiated contract and with the prices charged by the intermediaries, direct sales to the final consumers could coexist through SC’s website. A possible department store to consider would be House of Fraser\(^{21}\), the fifth largest mixed retailer in value in 2010 with 61 stores spread over the UK and large investments in multi-channel activities (its online sales rose by 130%). It strives to offer high quality products at affordable prices, having been enriching its brand offer, cautiously selecting products offering style at affordable prices. LFL\(^{22}\) sales of fashion accessories rose by 4.7% on the previous period\(^{23}\). Within this category, footwear performed well, with an improved performance of mid-high priced brands\(^{24}\). Nonetheless, besides the in-store competition of well-known brands, SC would be subject to a high bargaining power, probably reflected in the demand of large payment periods or very low margins. Given the lack of negotiation and contract management skills, the lack of a competitive advantage in the UK market and the need to improve key processes, together with the increasingly fierce competition, the shrinking middle segment and growing polarization of the British market, it is not advisable for SC to enter the UK market straightaway. It should first develop key capabilities that maximize its probability of success in crafting the UK market in the future, defining Portugal as a tactical and instrumental market, once that the domestic environment and buyers can help SC to gain advantage, anticipating needs and enhancing vital capabilities (Porter, 1990) to entry in the British market.

\(^{21}\) Product offering include: Clothing (men, women and children); Fashion accessories, Beauty Cosmetics and Fragrances, Products and Accessories for Home Interior, Restaurants, Cafes and Food.  
\(^{22}\) Like for Like Sales. It excludes effects of expansion and other occurrences that artificially enlarge the firm’s sales.  
\(^{23}\) Comprise the 52 weeks ended January 29, 2011.  
Table 3 – Processes Matrix: Affinity Analysis to determine the key Processes to Improve

<table>
<thead>
<tr>
<th>Processes</th>
<th>Critical Success Factors</th>
<th>Total of Impacts</th>
<th>Quality</th>
<th>Cost %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Design</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Comfort</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Perceived Quality</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Price/Affordability</td>
<td>-</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Spatial Convenience</td>
<td>-</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>HRM</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Procurement</td>
<td>-</td>
<td>✗</td>
<td>✗</td>
<td>✗</td>
</tr>
<tr>
<td>Quality Management</td>
<td>-</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Production</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Logistics</td>
<td>-</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Marketing&amp;Sales</td>
<td>-</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Service</td>
<td>-</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
</tbody>
</table>

This analysis concludes that a priority must be given to R&D and Marketing & Sales. Though, quality management (Goetsch, 2010) cannot be disregarded. In this sense, SC seems to be on the right path, as a new employee will be recruited to monitor the production processes, analyze defects, perform basic tests, send products to the CTCP labs to be carried a set of quality control tests and take control of the Biocalce certifications and implementation of ISO9001. These certifications are mainly relevant to intermediary buyers, being an important asset to successfully negotiate with retailers offering high-quality products. To strengthen its R&D, enhancing its quality, design and comfort, it should fully exploit the partnerships. Also, it should gather information about the latest trends and about the consumers to better respond to their wants and needs, moreover decreasing markdown sales (Kotler, 2009) and costs with season-end inventories. Designers should thrive to create commercial products that pass the quality control tests. About Marketing & Sales, SC should first settle a strong positioning statement to be communicated, establishing as PoP the quality and design (stating as

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25 Quality Management also embraces quality control and quality assurance.
26 Ergonomic, physical, chemical, and comfort tests.
27 ISO9001 is internationally recognized and key to enter in department stores that offer quality products, such as House of Fraser. Biocalce certifies the footwear’s comfort, quality, resistance, durability and exemption of toxic materials for the environment and for the user. It is not internationally recognized, but it may be promoted. Accessed through http://www.biocalce.org/index1.asp.
the frame of reference high-quality products that compete on design and usually charge a premium) and as PoD the affordable daily comfort, this is, the fit between comfort and price that allows purchases for a “daily use”. A re-branding could be considered to set up a name that is more often associated with SC’s values. To have effective promotion in Portugal (and later in the UK), SC should improve the illustrations of the catalogue by changing its style, presenting a combination of images of the shoe alone with the shoe framed on a concrete look. The website should also be improved. First, the entry screen should have an option to choose the country, so that it can be adapted in terms of currency, range of products and availability of online store. Second, a business-to-business (B2B) area should be included to ease direct contacts with intermediaries. Third, the homepage should load quickly and catch the visitor’s attention by highlighting the PoD (but not selling the products yet), and should have a user-friendly navigation bar that forward the visitor to the online store (where the tabs should scan the products by type of footwear and occasion of use), brand DNA, production, contacts, etc. The production process should be communicated in detail (including certifications and tests) to help to create a perception for quality and customer focus. To promote customer proximity, to promote re-purchases and to have a more accurate understanding of customers’ needs and expectations, helpful to NPD, SC should develop customer relationship management (CRM) practices that are low-tech, simple, and not very expensive, but still effective (Rigby, 2000). A customer database with information on individual contacts, preferences and previous purchases should be created to allow SC to communicate with customers on an individual basis, for instance, by email, promoting a shoe that matches the clients’ preferences. However, to successfully improve these processes and later enter the British market, the financial constraints
that combined with the tough economic environment threat the firm’s prospects cannot be disregarded. With IPMAEI and AICEP’s tight funds and absent credit access from Portuguese banks, SC should try to settle with Business Angels and/or seek for foreign financing sources. Complementarily, it should seek for cost reduction opportunities in the value chain. For instance, SC could design for commonality components (e.g. soles and high heels) and products, with differentiation in the last phases: production costs and the probability of errors would decrease, and order sizes of common inputs would increase. To increase its EBITDA, to improve its competitiveness, to develop key capabilities such as negotiation and contract management skills, capacity to respond to orders, and to understand the feasibility of offering customized footwear at a large scale, SC should explore PoS in the Portuguese market. Given that the Leninha stores are vertically integrated, a re-creation of their concept should be considered in order to fit the target, which, according to Mr. Oliveira, is being planned. The lack of visibility of the flagship store is also a concern as it increases fixed costs. This store should be actively promoted during one year to understand if its sales volume pays its costs. If it accomplishes a sales volume of at least 544 units (without discounts) per year (see exhibit 24 for the breakeven analysis), it may be profitable; otherwise SC should disinvest and close it or change it to a traffic location. It is vital to place the products in multi-brand and department stores, developing the on-going negotiations with El Corte Inglés, which sells mid-priced to premium brands and has performed very well recently (Euromonitor, 2011b), and investing in negotiations with multi-brand footwear stores in the regions of Lisbon, Leiria and Aveiro\textsuperscript{28}, where consumption of apparel is higher, people are more fashion conscious and the risk of stores not paying by the

\textsuperscript{28} The regions of Lisbon, Center and North gather the higher value shares of apparel consumption and have a forecasted period growth over 2010-15 of 4,76\%, 3,84\% and 4,78\%, respectively. Statistics retrieved December 10, 2011, from Euromonitor GMID.
orders is lower. These stores must fit SC’s target, with a suggestion being *Made-in*. The footwear should continue to have affordable prices, with no discrepancies between the vertically integrated PoS and intermediaries, to avoid sales cannibalization. At last, SC should test whether it would be feasible to offer **customized footwear** at a large scale, allowing customers to choose between a range of colors and applications. To promote the flagship store, to understand the firm’s ability to respond to customized requests as the number and volume of orders increases, and to assess the average incremental costs, a trial should firstly happen in the flagship store, where an **in-store self-service station** that allows the customer to visualize and choose her footwear could be placed. If the concept reveals to be feasible and advantageous, then it should start to be offered in other stores in Portugal and exported to the UK, where the service could be available on SC’s online shop or through the entrance and placement of self-service stations in intermediaries’ stores. The participation in the **GDS** and **MICAM** are strategic to enhance promotion, to become acquainted with the market trends, to gain reputation, and to expand the network of contacts, possibly assuring contracts/deals.

**Phase 2: Entry in the UK market**

Completed the Phase 1, SC should be more prone to effectively enter in the UK. Within this market, the regions of **London** and of the **Southwest** are the most interesting to enter, as they are economically the most important and the richest. In 2010 they held the highest consumer expenditure on clothing and footwear (two of the largest per household) and are forecasted to grow 31% and 33% until 2015, respectively.

In a **preparatory phase**, to access relevant information, it should contact the following

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29 The offer of customized products in the stores decreases the cost of returned products (e.g. wrong decision on the footwear number), which are significantly higher for customized footwear, as customers would be able to try similar products in the store.

30 The availability of footwear customization in the website should only be considered if there is no conflicts of prices with the presence in stores and if a group of tools to minimize returns are developed, such as a specific functionality (printable sheet) that allows the customer to measure her foot and order the right number of a specific shoes’ model.

entities: APICCAPS, AICEP, BFA, Portuguese Chamber of Commerce in the UK, and UK Trade & Investment. It would be crucial to prospect on GDS, MICAM and Pure London, which is the leading UK retail event that focuses on mid to high-end womenswear, footwear and accessory brands. Subsequently, in the completion phase, to set up contacts with possible intermediaries, SC should exhibit at Pure London\textsuperscript{32}, which attracts over 15,000 fashion buyers, conducts an extensive marketing campaign\textsuperscript{33} and offers the possibility to purchase a Marketing Package that assures SC an effective visibility and exposure (also contains Internet listing up to six months). In entering through retailers that significantly invest in marketing and sales (as it is the case of House of Fraser), promotion would leverage on their image, reputation and marketing campaigns and on the participation in international fairs. Complementarily, SC should expand its presence on the social networks and take advantage of its blog to create a deep relationship with the customer (e.g. tips on how to use or clean the shoes) and to attract other bloggers, as these are getting more importance in influencing readers (eMarketer, 2011). At last, the price settled by the intermediary, should consider the prices practiced by competitors and target the mid-high market segment\textsuperscript{34}. A sales mix with a higher portion of boots and rubber soles (possible product adaptations may be made) in detriment of sandals and flats may be expected due to the weather conditions.

8. Implementation Plan

\textit{Phase 1: Pre-Conditions to Internationalization & Portugal as a Tactical Market}

The first step should be the re-branding. For this purpose an external communication agency could be contacted, at a forecasted cost of €10k to €15k (expected to take 1

\textsuperscript{32} Located in London, gathers over 1,100 brands and takes place twice a year (in February and in August). According to post show visit research held on August 2011, 87% of the visitors have purchasing power (http://www.myworldofexpo.com/pure/).

\textsuperscript{33} It reaches and influences over 100,800 visitors and potential buyers online, and promotes to over 90,000 retailers. Buyers include: Independents; Multiples; Department Stores; Mail Order; and Online Retailers (http://www.myworldofexpo.com/pure/).

\textsuperscript{34} The retailer adds his markup and the VAT to SC’s B2B selling price.
Improving the website (with CRM database and B2B area) is likely to take 2 months and to cost €5k to €8k. Following the recruitment of one employee for quality control and management (3 weeks) and after an initial training (3 months), he would work on the implementation of ISO9001 (12 months). Costs with the new employee would be near of €12.600 per year (900€/month), whilst costs with the implementation of ISO9001 are not appraisable as they depend on the results of an initial audit. Costs with the participation in MICAM and GDS are forecasted at €11,8k and €11,45k, respectively (details on exhibit 25). Though the above suggestions need relatively high investments, they are key to SC’s prospects, with benefits spread over the forthcoming years and across various markets. As for the in-store self-station (to be implemented during 2012), it would have a cost per screen of €100 plus an initial cost with the software of €667 (3 months). After negotiations (2/3 months), domestic sales through intermediaries are likely from the 2012 Spring|Summer (S|S) collection on. Projected rise on EBITDAs are briefed in table 4. SC’s 2012 “base” scenario admits sales of €180k in vertically integrated PoS. The table 5 analyzes incremental scenarios.

<table>
<thead>
<tr>
<th>Probability</th>
<th>Incremental Scenario 2012</th>
<th>Number of Multi-Brand Stores</th>
<th>El Corte Inglés</th>
<th>Expected EBITDA increase relative to the 2012 collections</th>
</tr>
</thead>
<tbody>
<tr>
<td>25%</td>
<td>Pessimistic</td>
<td>1 store</td>
<td>1 store</td>
<td>No</td>
</tr>
<tr>
<td>50%</td>
<td>Most Likely</td>
<td>2 stores</td>
<td>3 stores</td>
<td>Yes</td>
</tr>
<tr>
<td>25%</td>
<td>Optimistic</td>
<td>3 stores</td>
<td>5 stores</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Includes the analysis/choice of a brand name and of developing a campaign, with ads in magazines and online included (BBDO).

A project aimed to obtain funds from Fale Inovação will be presented to Quadro de Referência Estratégico Nacional (QREN).


B2B Selling Prices in Portugal: Shoes: 49,35€; Boots: 76,20€; Flats: 43,70€. Average price weighted with the reference sales mix: 52,25€. A/W average price is higher, but the number of units ordered is lower, so equal values are assumed to both seasons.

Costs of the negotiations are intangible and difficult to quantify, accounting for Mr. Oliveira’s time, so they were disregarded.

With a concept change assumed for the Leninha stores during the first months of 2012. The scenarios were defined after discussion with SC’s founder and considered: the economic environment, the selection of the PoS, and the expected development of eventual negotiations. But they are susceptible to variations with the exact stores with which an agreement is reached, on the order’s volume and on consumer perspectives.

2012 collections is a generalization. In fact, the value corresponds to the S/S 2012 and A/W 2012/13 collections.
In 2013 and 2014, the EBITDA increase referent to 2012 collections may be expected to be about €11,940 and €15,131, respectively (see exhibit 26 for the detailed analysis).

**Phase 2: Entry in the UK market**

If SC accomplishes the milestones for Phase 1 (see exhibit 27 for a Memo), it could actually start to plan the entry in the UK market. Phase 1 is projected to last almost 2 years, but the preparatory phase would already start in 2013 (timeline on exhibit 28). Mr. Oliveira would visit Pure London in February and in August 2013, with forecasted costs of €643 and €712, respectively, to market prospect and networking. If the pre-conditions to enter the UK market are met, SC could aim to start selling in the UK from 2014 S/S collection on. In that sense, in 2013, it would first contact several entities, set up logistics agreements and deliberate if products adaptations are necessary. SC could participate in Pure London from February 2014 on to contact retailers. Negotiations consider two trips of SC’s founder to London. Assuming that SC will enter in the UK through House of Fraser, the expected effect on SC’s EBITDA by type of store is shown in table 6.\(^{43}\) Suitably, in 2014, considering the scenarios presented in table 7, sales at House of Fraser may be expected to increase SC’s EBITDA by €9,513. A better performance is expected for 2015, with this value rising to €34,985 (See exhibits 29-33 for the analyses and exhibit 34 for a Memo).

\(^{43}\) B2B Selling Prices to the UK (sales mix): Shoes: 53€ (60%); Boots: 74€ (25%); Flats: 46€ (15%). Average price weighted with the reference sales mix: 57,2€. The B2B selling prices projected to the UK were extrapolated from the ones settled to the German market (Information provided by Mr. Oliveira).

### Table 6 – EBITDA Projections by year

<table>
<thead>
<tr>
<th>Projections per store</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>“Big”</td>
<td>“Small”</td>
</tr>
<tr>
<td>Sales Revenue</td>
<td>€24,894</td>
<td>€5,412</td>
</tr>
<tr>
<td>COGS</td>
<td>(€19,236)</td>
<td>(€4,182)</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>€5,658</td>
<td>€1,230</td>
</tr>
<tr>
<td>Marketing Costs</td>
<td>(€140)</td>
<td>(€100)</td>
</tr>
<tr>
<td>Logistic costs</td>
<td>(€653)</td>
<td>(€142)</td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td>€4,865</td>
<td>€988</td>
</tr>
</tbody>
</table>

### Table 7 – Scenario Analysis for 2014 in the UK

<table>
<thead>
<tr>
<th>Probability</th>
<th>Scenarios 2014</th>
<th>Number of Stores in which SC is present</th>
<th>Increase in EBITDA due to stores’ sales</th>
<th>Business Trips</th>
<th>Exhibit at Pure London</th>
<th>Increase in SC’s EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>25%</td>
<td>Pessimistic</td>
<td>1 store</td>
<td>0 store</td>
<td>€4,865</td>
<td>(€550)</td>
<td>(€2,118)</td>
</tr>
<tr>
<td>50%</td>
<td>Most Likely</td>
<td>2 stores</td>
<td>1 stores</td>
<td>€10,718</td>
<td>(€550)</td>
<td>(€2,118)</td>
</tr>
<tr>
<td>25%</td>
<td>Optimistic</td>
<td>3 stores</td>
<td>3 stores</td>
<td>€22,424</td>
<td>(€550)</td>
<td>(€2,118)</td>
</tr>
</tbody>
</table>
9. Conclusions

Projected sales for the UK consider entry in *House of Fraser* and expect a small impact on SC’s EBITDA in the first year (contingency plan on exhibit 35). But, if entrance is successful, in the second year this value may increase significantly. Alike, impacts on profits may be foreseen to increase in the following years, as there is room to a deeper penetration in the market. Further, as long as they fit SC’s objectives and target, other department and multi-brand footwear stores may appear as advantageous opportunities.

SC’s success also depends on its capacity to respond to orders. Ideally, production would continue being outsourced, as it involves lower costs than integrating backwards (analysis on exhibit 36), leverages on the plants’ specialization and employees’ experience, and protects SC’s from the seasonality of the business. But, with the increase in the orders volume and number, SC has to ensure that the production plants’ capacity is sufficient. For 2012, this seems not to be an issue. Though, in the future there may be conditions that support partial in-house production, namely: unavailability of plants to subcontract; unattainability to increase the production plants’ capacity allocated to SC in detriment of other footwear producers; or existence of a business volume that generates permanent and constant sales that allows a yearlong continuous production. As its dimension increases, and given the objectives to also export for other markets, SC may have employees reporting to the head of the marketing & sales department assigned to international markets (organizational structure in exhibit 37).

Further, one element could be recruited for this purpose, in addition to one marketer (each expected to cost €12,600 per year). Ultimately, with prospects to initiate sales in Germany in 2012 (where a SC’s representative is already present) and in France in 2012/13, SC is expected to be present in these markets when entering in the UK, hence also leveraging on general expertise obtained through the related internationalization.
References

**Articles**


**Books**


**Business Databases**


