

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

THE INTERNATIONAL EXPANSION STRATEGY OF STRIYAH IN POLAND



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Executive summary

This work project provides analysis and evaluation of Striyah's expansion strategy to enter the Polish market. Methods of research include online and live surveys conducted on the sample of 200 Polish customers, analysis of Central Statistical Office reports, Information and Foreign Investment Agency website, websites of fashion industry companies present in Poland, reports of Jones Lang LaSalle, Colliers International, Ober Haus as well as cooperation with Striyah representatives and other sources.

Striyah is a registered fashion trademark in a portfolio of a Portuguese company - R&P Import - Export Ltd. The company's designers create new collections combining the latest fashion trends with their own vision. R&P clients are mainly young and middle – aged men and women. The company's offer combines clothes, shoes, handbags and accessories like earrings, necklaces and hairpins.

Since its foundation in 1996 R&P has been steadily boosting its annual revenues to achieve €1.47 million in 2010. The two major business layers include wholesale and retail activity. R&P sells its products to around 25 multi brand stores across Portugal, 5 international brands and via its own retail chain in Lisbon consisting of 4 *Rep design* brand shops.

The vision of Striyah is to become a recognized brand all over the world offering high quality, stylish products at a reasonable price. As the fashion market in Portugal is highly competitive due to the presence of well recognized international brands and their scale of business as well as the recent financial crisis, the management team plans to expand the R&P's business operating area to boost the competitive advantage and explore other markets opportunities. The new venture is focused on the opening the R&P fashion stores in Poland under the brand – Striyah.

The major areas of this work include new business opportunity description based on Polish market analysis and a review of major competitors as well as an expansion plan providing a preliminary entry mode, marketing strategy and financial plan.

Poland offers a lot of opportunities for the entrant due to big consumer market and positive GDP growth trends. The echoes of the recent crisis in 2009 are fading. The recovery period Poland faces nowadays is a great opportunity for Striyah to negotiate the rent terms. Moreover, as the consumer demand is reviving, it should be the appropriate time to start launching the marketing campaign to raise brand awareness.

Striyah plans to enter by opening 5 stores in different cities within one or two years. After establishing this initial retail chain, the company considers opening its headquarters and warehouse in Gdańsk seaport, where the goods would be delivered.

The most important part of the business plan are the financial projections which are very positive and determine return of the invested capital within one year. The net present value of the initial investment and discounted cash flows in 5 year time perspective remain positive for all the period. Due to such an optimistic forecast, Striyah should definitely consider its international expansion in the Polish market, following its vision of structuring a recognized retail chain and heightening the market share.

R&P resources and experience in the fashion business could unquestionably influence the success of investing in Poland. The company's key advantages include the motivation and skills of managers, long – term relations with suppliers, the team of talented designers, the existing infrastructure and distribution channels.

The financial analysis provided by this business plan results in an optimistic forecast for the five – year – long investment period. NPV of the venture amounts to € 481 760 and the ROI equals 133,6%.

Introduction

This thesis consists of three sections.

The first section – Business Opportunity – concerns the Polish market analysis in terms of attractiveness for the foreign investors and evaluates the power of competitors in the fashion industry. In order to develop this part, I summarized the latest data concerning the Polish market in areas of location, political system, consumers market and socio – economic aspects as well as projections of the Polish economy growth in 2011-2015. This part provides also the analysis of the major Striyah'a competitors focused on their current retail chain and positioning.

The second section of this business plan concerns the Company's structure. It explains the company's evolution, profile and most important aspects of the business model. This part was developed due to my cooperation with Striyah representatives and the insight into company's Retail Briefing and Striyah Brandbook. I also visited R&P headquarters in Loures.

The last section – Expansion plan – is divided into 3 subsections: Entry mode, Marketing strategy and Financial plan. Entry mode concerns the stores location problem. Marketing strategy develops the idea of launching Striyah's brand in the new market and its positioning. Finally, the financial plan constitutes the initial budget projections and the investment evaluation by NPV method. It also implements the break – even analysis in order to indicate the volume of sales needed to cover total variable and fixed expenses.

Business opportunity

In this section I will explicate the business opportunity of entering Poland by Striyah fashion brand. Firstly, in terms of the domestic market socio-economic, political and geographical characteristics and secondly, from the perspective of competition in the fashion industry.

Polish market overview

Analysis of the Polish market confirms that Poland can be perceived as an attractive country to invest for Striyah. I concentrated my study on the areas of strategic location, political stability, consumer market and economic situation.

Strategic location

Poland is an important point on the transit trails due to its central location in Europe and after the EU enlargements in 2004 and 2006. With the access to the Baltic Sea and three international sea ports (Szczecin – Świnoujście, Gdańsk and Gdynia) there appear a possibility to create a smooth supply chain directly to the country. Poland borders with Germany, Czech Republic, Slovakia, Ukraine, Belarus, Lithuania and Russia.

Political stability

As a democratic multi – party republic Poland is offering political, social and economic stability, which is testified by its membership of OECD (1996), IMF (1986) and the World Bank (1986). The country's stability confirms its credibility in international transactions, as oppose to Belarus or Russia. Poland joined the EU on 1st May 2004 and the Schengen area in 2007. As a member of the EU, Poland participates in the Single European Market and benefits from the freedom of movement of people, goods, services and capital. The EU membership of Poland facilitates the foreign investments due to the harmonization of Polish law with EU regulations and enables the investors to apply for EU structural funds. ¹

¹ JP Weber Advisory Report: „Invest in Poland” 2010

Consumer market

The country has a big domestic market of more than 38 million of inhabitants which is 8th largest in Europe and 6th largest in the EU. Approximately 61% of Poles dwell in cities and urban areas (2007-2009). 64.5% of the population in 2009 was at working age and there is a positive demographic increase in the number of the country's population since 2007. However, it is worth emphasizing that in years 2002-2010 the number Polish citizens has decreased by 0,05%. Polish population can be therefore classified as young, but aging, which is typical for the Eastern European countries, for instance Romania (-1,7%), Hungary (-0,9%), Estonia (-8,9%), Latvia (-6,4%), etc.² The unemployment rate in Poland equaled 12,3% in 2010 and dropped significantly since a record high of 20% in 2002 and 2003.³

Economic situation

Poland has a stable, growing economy which is 21th largest in the world and 8th largest in Europe. The average GDP growth was almost 4.5 % between 1996-2010. It remained positive regardless of the past crisis during the last three years (2008-2010). Polish economy was the only one in the EU to avoid recession mainly due to the recovery of consumer demand. The positive trend of consumer demand since 2010 is one of the reasons why the potential future investments in Poland may be successful.⁴ Consumer purchase power measured by GDP per capita PPP has been increasing gradually since 2000 and was doubled between 2000 and 2009 (\$7.200 in 2000 and \$15.500 in 2009).⁵ In 2009 Polish GDP per capita PPP rose to 61% of the average in EU from 56% a year before. Poland was ranked before Lithuania (53%), Latvia (49%), Romania (45%) and Bulgaria (41%).⁶ Compared with the last decade the average inflation rates in Poland has fluctuated since 2002 between 1 and 4%, so in a relatively stable

² Central Statistical Office, Poland in figures, Warsaw 2010

³ http://www.paiz.gov.pl/polska_w_liczbach

⁴ http://www.paiz.gov.pl/polska_w_liczbach

⁵ <http://www.indexmundi.com/g/g.aspx?c=pl&v=67>

⁶ Forbes.pl *Polski PKB per capita to już 61 proc. średniej UE*, 21.06.2010

threshold in comparison to the last 20 years.⁷ The projections for 2011 and 2012 equal 4.1% and 2.9% respectively.

Economic projections 2010-2015

According to the study commissioned by the Polish Ministry of Economy, Labor and Social Policy⁸ for the years 2010-2015, the economic situation in the Polish market will be improving. It is estimated that there will be the GDP growth of 5.5% and the individual consumption growth of 4.1% in the years 2010-2015. As a result, the development gap between Poland and Western Europe will be gradually reducing. In 2010, Polish GDP per capita amounted to 61% of the average GDP of the EU-27 by purchasing power parity and until 2015 this measure should achieve about 68%. Table 1 below captures more economic indicators.

Table 1 Economic projections Poland 2011-2015

	Data				Dynamics		
	2003	2006	2010	2015	2004-06	2007-10	2011-15
GDP per capita in PPS (const. prices); UE-27 - 100	49	52	61	68			
GDP (const. prices)	103.9	106.2	103.8	106	4.8	5.4	5.5
Individual consumption (yr 2003 = 100)	100	112	134	164	4.0	4.6	4.1
Unemployment rate	20.0	14.8	12.3	-			
Inflation CPI	0.8	1.0	2.6	-			
Public debt as % of GDP	46.8	48.4	55.0	-	3.35	13.7	-

*source: Prognoza zmian sytuacji społeczno-ekonomicznej Polski, Witold M. Orłowski, Warszawa 2006, p.15
 Positive GDP and individual consumption growth trends can be explained by the anticipated reduction in the long-term development barriers in Poland due to: adoption of the euro currency (planned for 2015), easier access to capital and secure financing, significant fiscal reforms and transfers from the EU, increase in the spending on infrastructure and R&D as well as gradual improve of the business and investment environment.⁹ Poland's economic growth prospects are enhanced by its role as a co-host of the upcoming Euro 2012 football

⁷ <http://www.tradingeconomics.com/poland/inflation-cpi>

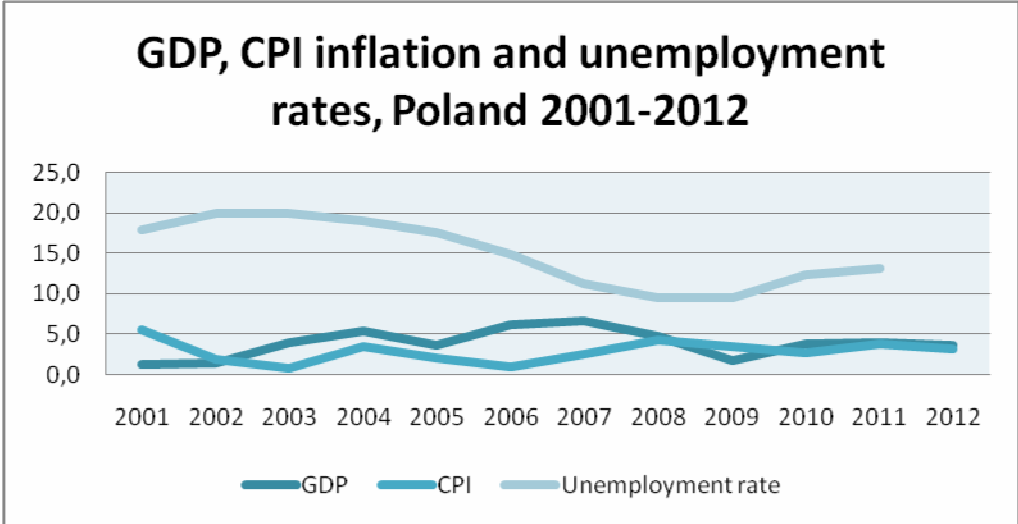
⁸ Prognoza zmian sytuacji społ.-ekon. Polski, Witold M. Orłowski, Warszawa 2006

⁹ Prognoza zmian sytuacji społeczno-ekonomicznej Polski, Witold M. Orłowski, Warszawa 2006, p. 14

championships.¹⁰ Analyzing the dynamics of GDP, inflation and unemployment rates during the last decade, we notice a significant upswing since the economic downturn in 2009. It is estimated that GDP and CPI rates will level off in 2011 and 2012. This trend is a signal of a recovery, which is an important point supporting the Striyah’s decision to invest in Poland.

Graph 1 displays the changes of GDP, inflation and unemployment rates over the last decade.

Graph 1 GDP, CPI, and unemployment rates in Poland, 2001-2012



*source: Annex 1

The economic slowdown in 2009 had also a negative impact on the dynamics of the clothing and footwear market in Poland.¹¹ In 2009 the clothing and footwear market in Poland grew by 1.1%. For the year 2010 and 2011 PMR provided projections of a slightly higher growth of 3.8% in 2010 and 5.3% in 2011. Comparing the clothing and footwear market growth rates in 2009-11, we can see that they change in tune with GDP rates. Therefore, the projections of positive GDP growth for the Polish economy in 2011-2015 should be followed by the growth of the clothing and footwear market, which is confirms the probability of Striyah’s success in Poland.

¹⁰ <http://www.poland2012.net/stadiums-in-poland/>

¹¹ PMR - a British-American company providing market information, advice and services to international businesses interested in Central and Eastern Europe as well as other emerging markets

Analysis of competitors

Striyah's business opportunity is also affected by the competitors. There is a great variety of fashion brands operating currently in the Polish market. In order to evaluate the internal rivalry in the fashion industry the most popular brands have been listed. Table 2 presents competitive fashion brands according to their positioning and existing sales network in the nine representative biggest cities.

Table 2 Fashion brands and their stores in Poland

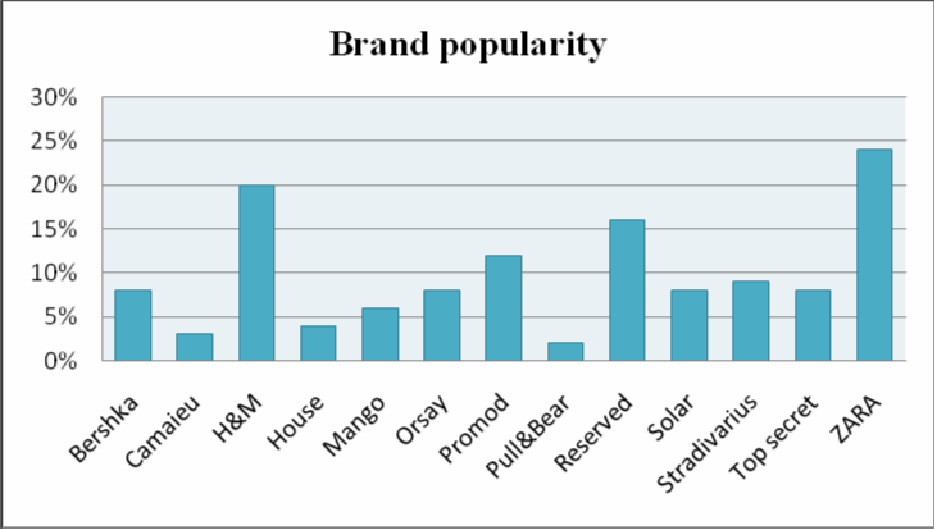
Brand	Stores (PL)	Warsaw	Cracow	Wroclaw	Poznań	Gdańsk	Bydgoszcz	Łódź	Katowice	Szczecin
Bershka	20	4	2	2	1	1	1	2	3	2
Camaieu	99	12	6	5	4	5	3	2	2	2
Carry	83	7	6	4	7	4	4	4	3	3
Cropp Town	202	10	5	5	5	4	1	4	3	2
Deni Cler	30	6	2	4	1	1	2	1	1	1
H&M	71	9	4	2	5	4	2	4	4	3
House	182	9	7	6	4	5	2	3	3	3
KappHal	44	5	3	2	2	2	1	3	1	1
Mango	26	6	3	2	2	1	1	2	2	2
New Yorker	67	3	3	5	4	4	2	3	2	3
Orsay	126	13	5	8	5	6	4	4	3	4
Oysho	8	2	2	2	1	1	1	2	1	0
Promod	25	6	3	2	2	2	2	3	2	2
Pull&Bear	17	3	4	3	0	1	2	0	0	0
Reserved	176	14	8	6	4	7	4	6	4	3
Solar	117	8	6	5	8	5	2	4	1	3
Stradivarius	27	6	2	3	2	1	1	2	2	2
Tally Weijl	48	5	3	3	1	1	2	3	1	2
Tatum	49	11	5	7	6	3	2	3	1	2
Terranova	10	5	3	2	2	1	1	4	3	1
Top Secret	140	4	1	2	4	1	2	5	2	3
Vero Moda	39	5	2	2	2	4	1	3	2	2
ZARA	24	7	4	3	3	1	1	3	4	3
Total		160	89	85	75	65	44	68	50	49
City population [th.]		1711	755	632	556	456	358	745	308	406
Target group (aged 20-49) [th.]		752,8	332,2	278,08	244,6	200,6	157,52	328	135,52	178,64
Target group/# of stores		4,705	3,733	3,272	3,262	3,087	3,580	4,817	2,710	3,646

*source: Central Statistical Office, Population. Size and structure, Warsaw 2010

Target customer group are customers aged between 20 and 49 years. According to the Central Statistical Office this sample constitutes 43.88% of the Polish population.¹² By dividing the target customer group by the number of popular fashion stores in each city I calculated the rating to compare the competition in each city. The higher the number of potential customers by each store, the less saturated the market. Therefore, the least saturated is Łódź and the most Katowice.

Moreover, I surveyed 200 Striyah’s potential target customers aged 20-45, questioning about favorite fashion brands. It allowed me to indicate competitors according to their popularity in the sample. 76% of my respondents were women and 24% men. The outcome of the research is presented below.

Graph 2 Brand popularity



Summarizing the data of table 2 and the survey outcome, we can see that the most important market players are currently: **LPP SA** (Cropp Town, House and Reserved) **Inditex Group** (ZARA, Bershka, Stradivarius, Pull & Bear) as well as Top Secret, Camaieiu, Solar, H&M, Orsay. Moreover, 82% of my respondents claimed to have their favorite brands, when the rest



¹² Population. size and structure by territorial division, Central Statistical Office, Warsaw 2010, p. 15-16

18% did not pay attention to brand while clothes purchasing. In the majority of cases, respondents had 3 to 5 favorite brands, which indicates that their preferences may change depending on the seasonal collection.

SWOT analysis

Striyah’s business opportunity is very much dependable on the resources the company possesses. As stated before, the optimistic growth projections should stimulate the success of investing in the Polish market. The fashion industry is already dominated by big market players with well – established sales network and high brand recognition. Additionally, changeable trends in the fashion industry create both great challenges and opportunities for Striyah engaging its resources in the new market. In order to visualize that the company’s strengths outweigh the weaknesses and the business opportunities are greater than threats for this venture, I presented the SWOT analysis in table 3 below.

Table 3 Striyah SWOT analysis

<p style="text-align: center;">Strengths</p> <ul style="list-style-type: none"> • Over 15 – year – long experience in the fashion industry • Good historical performance and credibility in bank credits applications • Own design lab • High sells volume boosted by wholesale activity – high bargaining power with suppliers • Competitive prices* 		<p style="text-align: center;">Weaknesses</p> <ul style="list-style-type: none"> • Low brand recognition in the retail industry both in Portugal and in Poland • Not well established retail chain in Portugal – low experience in the retail industry • Low familiarity with the eastern Europe fashion markets
<p style="text-align: center;">Opportunities</p> <ul style="list-style-type: none"> • Growing fashion awareness among the citizens of Eastern Europe, including Poland • Big domestic market • GDP and individual consumption growth perspectives • Possibility lease negotiations due to the market slowdown in 2009 		<p style="text-align: center;">Threats</p> <ul style="list-style-type: none"> • Competitors with high brand recognition and well established retail chain • Changeable consumer trends • The increase in raw material and work labor costs in the countries of supply

Company's profile

R&P Import - Export Ltd. was founded by an Indian couple Palvina and Ravindra Gordhandas in 1996 with one store located in Lisbon. In 1972 Ravindra began his experience in the fashion business, working as a shop assistant in a jeans store in Maputo in Mozambique. The couple moved to Portugal in 1985. Before engaging in the retail fashion market, the family created a wholesale business in Portugal as importers from London selling the clothes all over the country. Opening the first retail shop in Odivelas (Lisbon district) and buying a warehouse in Loures in 1996 allowed to expanded the collection to a wide range of shirts, dresses, trousers and cardigans. Between 1996 and 2010, R&P boosted its annul revenues to €1.47 million, opened 4 more stores andenlarge its employees base to 18 people. The company's rapid development resulted form changing the country of supply to South Asian low cost manufactures, product differentiation due to introducing shoes, bags and accessories to the base clothing collection, creating own design lab and expanding the customers base in wholesale and retail layers. The company's present operating system allows it to achieve a competitive cost advantage and deliver its products at a low price in comparison to the incumbent competitors. The cost advantage was achieved due to the wholesale activity which boosted the size of turnover and in consequence the bargaining power with the suppliers. R&P sourcing markets are mainly:

- China (all garments, shoes) – rising labor cost¹³, efficiency, high quality
- India (cotton items and high fashion handwork embroideries)
- Bangladesh (heavy gauge knitwear) - low cost workmanship, duties exemption for European Union countries¹⁴
- Spain (ready made garments, shoes, accessories).

¹³ Bloomberg Businessweek, How rising wages are changing the game in China, 27.03.2006

¹⁴ Bangladesh economic news, Simplified market access to EU cheers export industry, 1.01.2011

To raise brand awareness and expand the suppliers and customers base, R&P takes part in international fashion fairs, for instance India International Garment Fair in New Delhi, Hong Kong Fashion Week and Madrid International Fashion Fair.

R&P employees base consists of: CEO (Ravindra Gordhandas), Operations manager and Striyah Brand manager (Amit Gordhandas), a fashion designer, 8 shop assistants, 4 store managers, an office manager, an accountant and a warehouse worker.

Business structure

Currently, R&P Import and Export Ltd. operations concern B2B and B2C areas, as presented at the business model scheme below.



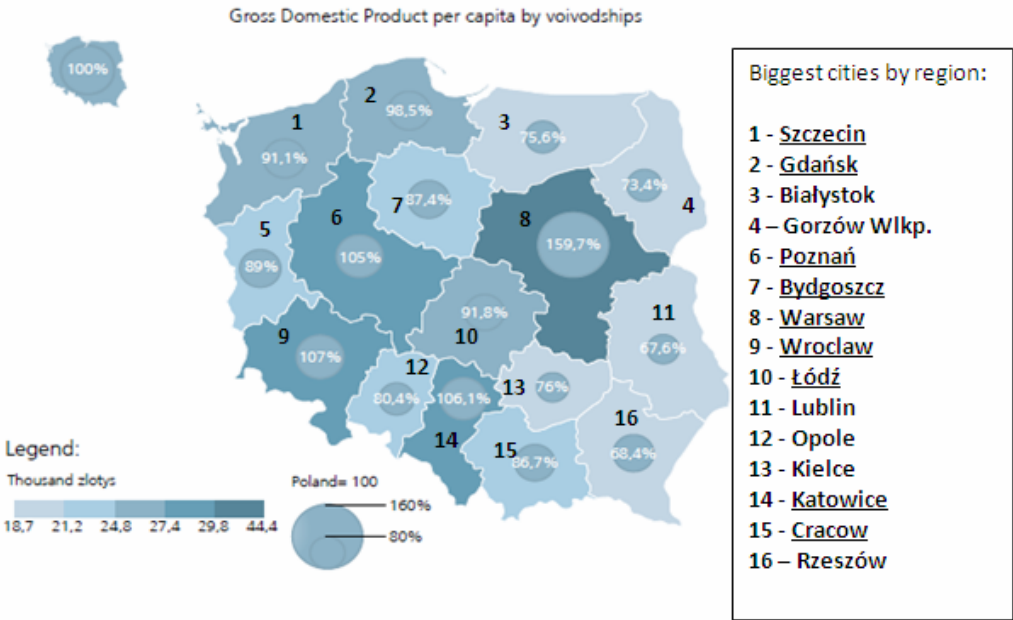
B2B involves dealing with small volume purchasers, who are retailers holding one or two fashion stores and with large volume purchasers, so retailers who sell through more than 15 stores (Salsa Jeans, Lanidor, Decenio, W52). Average annual revenues in 2008-2010 in the Wholesale Department amounted to €300.000 and in the Trading Department to €450.000.

B2C layer concerns R&P retail activity through the 4 brand stores located in Lisbon in Avenida Almirante Reis, Alcantara, Loures and Benfica. The average stores area equals 200 m² and allows to display both man and woman collection with focus on the styles for women. Average annual revenues in 2008-2010 per R&P store equaled €180.000 (€500/day).

Expansion plan

The first part of the Expansion plan is devoted to entry mode, which concerns locating Striyah’s stores. R&P plans to penetrate the market by opening 5 shops in different cities within 1-2 years. In order to recommend potentially the most beneficial sales network, I listed 16 biggest cities, one from each administrative region. Next, I compared the cities in terms of GDP per capita, as can be seen at the map below.

Exhibit 1 Gross domestic product per capita in particular administrative regions of Poland (2009)



The first step of my analysis allowed me to select 9 cities with the highest GDP per capita, so highest consumer purchase power. Afterwards, I compared the cities in terms of:

- target customer market size,
- GDP per capita,
- rental costs in shopping centers and retail streets,
- internal rivalry (competition)
- distance from HQ
- foreign tourists visits.

Table 4 Cities comparison

	Szczecin	Bydgoszcz	Gdańsk	Warsaw	Łódź	Poznań	Cracow	Wrocław	Katowice
GDP per capita	91,1%	87,4%	98,5%	159,7%	91,8%	105%	86,7%	107%	106,1%
Rental cost [€/m2]	20-35	20-35	25-60	60-85	20-40	30-45	35-50	30-45	25-50
Market size [th.]	178,64	157,52	200,6	752,8	328	244,6	332,2	278,08	135,52
Competition	3 646	3 580	3 087	4 705	4 187	3 262	3 733	3 272	2 710
Distance from HQ [km]	361	165	0	374	337	296	601	438	532
Foreign tourism	20%	1,8%	6,4%	16,1%	2,7%	4,8%	21,2%	10,1%	5,9%

GDP per capita – represents GDP per capita in particular region in 2009 in relation to the country’s average GDP per capita (Poland = 100%) . (Exhibit 1, page 15)

Rental cost – concerns the lease prices of space areas in shopping centers according to Ober Haus report.¹⁵

Market size - target customer group, customers aged between 20 and 49 years, who according to Central Statistical Office constitute 43.88% of the Polish population, here calculated for each city as 44% of the particular city’s population.

Competition – is reflected by the number of target customers in each city per major competitors’ store, internal rivalry (Table 2, page 11)

Distance from headquarters – distance to Gdańsk seaport, the goods delivery destination and the location for an office and a warehouse.

Foreign tourism – concerns the accommodation of foreign tourists by regions as a percentage of all registered overnights in 2010.¹⁶

I considered GDP per capita and market size the most important criteria, therefore I recommend Gdańsk, Poznań, Warsaw, Wrocław and Katowice for Striyah to invest. Depending on the lease negotiations, Cracow seems also an attractive city due to the second after Warsaw market size and biggest in Poland tourists visits during a year.

¹⁵ Ober Haus, Report on the commercial market, Poland, Q3 2010

¹⁶ Central Statistical Office, Accommodation base in Poland, 23.03.2011

Shopping centers vs. retail streets

The second important question concerning stores location is whether Striyah should enter to shopping centers or high retail streets. According to my survey, the proportions of respondents indicating their most frequent shopping place was the following: 86% - shopping centers, 7% - retail streets, 4% - outlets/second hands and 3% - online services. The great shopping centers popularity among Polish customers results from the high convenience of purchasing. These giant commercial facilities concentrate a wide range of brand stores, services, entertainment entities and parking places.

Polish market provides a vast choice of trading areas, both in shopping centers and high retail streets. For several years there is an increase in the supply of shopping centers areas and still the average saturation of commercial space in Poland is lower than the average in UE. This implies a great opportunity for the retailers to expand their sales chain via shopping centers.¹⁷

According to Jones Lang LaSalle's research the turnover gained from one sqm of the leased area in retail streets is lower than in shopping centers for 67% of the tenants.¹⁸ At the same time the rent costs per sqm is in 58% cases higher in retail streets than in shopping centers.

Taking into consideration all the above mentioned facts, R&P Import and Export Ltd should first place the retail chain of Striyah in shopping centers, which are more secure distribution channel and provide better turnover projections.

Marketing strategy

The fashion market is a highly active one, influenced by seasonal trends and shaped by fashion dictators. It is also brand driven, and consequently requests to take into account the variety of individuals' perceptions and attitudes towards brands and fashion trends.

¹⁷ Colliers International, Retail Poland Q3 2010

¹⁸ Jones Lang LaSalle, a report on High retail streets, May 2010

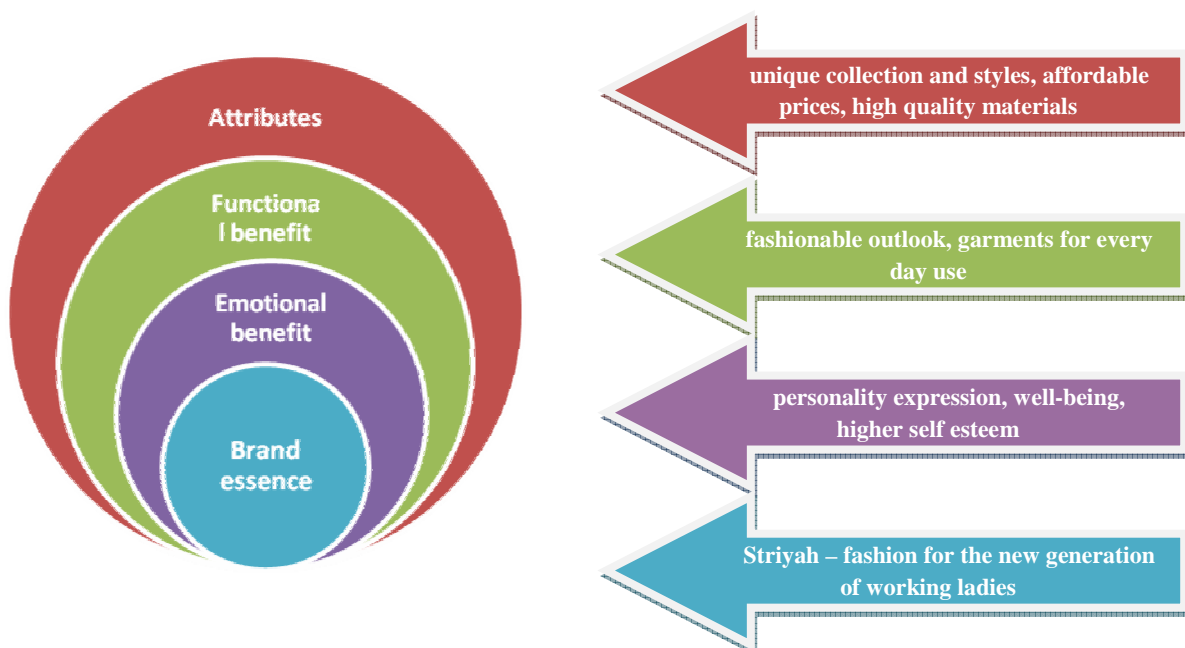
Positioning

Striyah is positioned among medium purchase power consumers as a brand delivering high quality products with fashionable styles and slightly below the average prices charged by its direct competitors.

Brand's description

Striyah was created due to passion for fashion. The brand is targeted at women who wish to always keep their feminine outlook during the intensive career life. Striyah collection invites them to well – being combined with chic and style. It all stems from a wide range of crafted knitwear, high – quality woven clothing and occasional dresses. The company's mission is to offer the latest fashion trends and always ensure the best quality at an affordable price. Staying in cost advantage with most label brands, Striyah provides a lot of opportunities for consumers to discover their own personal style. Therefore, it stands for individuality. Even while the world around is changing, Striyah will never lose touch with the independent working lady, who was the spark that initiated the brand.

Diagram 1 Laddering process¹⁹



¹⁹ Marketing in a Dynamic World course slides - "Positioning: a buzzword or the essence of marketing" by Prof. Victor Centeno

Targeting

Striyah target are mainly 25 – 45 aged ladies, working generation, preferring classical lines, but not deprived of chic and in tune with current fashion trends. Striyah customers are those who want to maintain their fashionable outlook all day long, also at a working place.

Launching Striyah in the new market

Striyah as a new brand in the Polish market needs to enter with the specific steps of the marketing campaign. To raise the brand awareness the company should start communication process before the date of entry. Approximately two months before opening the first 5 stores there might be advertisements appearing in newspapers or shopping centers newsletters announcing the entry timing and encouraging to view the company's website. Customers may be asked to post there the opinion about Striyah collection. As an incentive to subscribe to receive Striyah's newsletters, the company may offer to send to 100 first to log users purchase coupons with a fixed discount rate for Striyah collection. Additionally, the internet can be the first source of revenues. On – line sales may start before shops opening and in this period Striyah may offer free delivery from some purchase amount. The Striyah website as a brand showcase may provide data concerning production process and quality reports conveying a sincere and reliable brand image. Other way of communication could be direct mailing, billboards or other advertising products via most popular Polish internet portals (Interia.pl, WP.pl, Onet.pl) to reach fashion oriented customers from the particular city.²⁰

Together with opening the particular stores the company may attach to each receipt a small leaflet with brand's website and start offering customer loyalty present cards. In order to gain free journalistic coverage the company may take part in fashion fairs that occur every year in Poznań and in regular fashion events. Seasonal sales should be announced in the stores window displays.

²⁰ <http://reklama.interia.pl/cennik/,mailing,en>

Financial plan

Striyah is planning to enter Poland by opening stores in five different cities. The last part of this work provides the financial evaluation of the venture based on net present value calculation of projected future cash flows. I assumed that Striyah opens 3 stores in the first year of investment and 2 stores in the second year. All the assumptions for the financial analysis are presented in table 5.

Table 5 Financial assumptions

Estimated annual sales per store	350 000 €
Stores area	150 & 200 m ²
Rent sqm/month	20 €
Cost of goods sold	Revenues/mark up on cost of goods
Mark up on cost of goods sold	350%
Shop furnishing	€ 200/sqm
Shop materials	€ 5/sqm
Number of staff per store	5
Cost per employee	800 €
Service and promotion charge per sqm	5 €
Marketing expenses per sqm	6 €
Estimated inflation rate for 2011-2012	3,50%
Discount rate for the fashion industry	15,00%
Corporate income tax	19,00%
Avg. sales price/piece	15 €
VAT	23,00%
Lease deposit = 0 €	Bank guarantee

Net present value

In order to assess the profitability of the Striyah venture in Poland, I calculated the projected cash flows gained from opening 3 stores during the first year and 2 stores in the second year of investment. I used the CAPM model to find the discount rate for the fashion industry, which equals 15%. The time horizon for the financial analysis is 5 years. There is no tax shield for the venture, as since the first year it brings profit. Cost of goods sold amounts to about one third of the estimated revenues, as Striyah's average margin is 350% of the selling price. As can be seen in the table 6 in, the net present value of the initial investment and the discounted future cash flows equal to 481 760 €, which means that the investment is profitable and is already paid off after the 1st year of entry.

Table 6 Projected cash flow and NPV

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Total No. of Shops		3	5	5	5	5
Total Retail Space (m²)		450 sqm	850 sqm	850 sqm	850 sqm	850 sqm
Total No. of Staff		13	25	25	25	25
Investment						
[€]						
Shop furnishing	90 000	80 000	0	0	0	0
Shop materials	2 250	2 000	4 250	4 250	4 250	4 250
Utility set up fees (a laptop computer, 2 cash registers, a telephone, CRM program)	15 000	10 000				
Lease deposit	0	0	0	0	0	0
Company registration	1 000					
Others	6 000					
TOTAL	114 250	92 000	4 250	4 250	4 250	4 250
Cost of Goods Sold (in €)		291 429	485 714	485 714	485 714	485 714
Sales (in €) - exclude VAT (sales tax)		785 400	1 309 000	1 309 000	1 309 000	1 309 000
Sales quantity (in pcs)		52 360	87 267	87 267	87 267	87 267
Gross Profit (in €)		493 971	823 286	823 286	823 286	823 286
Operating Expenses (in €)						
Shop Rental		108 000	204 000	204 000	204 000	204 000
Staff		124 800	240 000	240 000	240 000	240 000
Advertising		35 100	66 300	66 300	66 300	66 300
Service charge		27 000	51 000	51 000	51 000	51 000
Electricity/telephone/internet		21 600	36 000	36 000	36 000	36 000
Others		18 000	30 000	30 000	30 000	30 000
TOTAL		334 500	627 300	627 300	627 300	627 300
Operating Profit (in €)		159 471	195 986	195 986	195 986	195 986
Profit before Tax		159 471	195 986	195 986	195 986	195 986
Tax Rate on Operating Profit (%)		19%	19%	19%	19%	19%
Tax Amount (in €)		30 300	37 237	37 237	37 237	37 237
Net Profit (in €)	(114 250)	129 172	158 748	158 748	158 748	158 748
	Discounted CF	129 172	138 042	120 037	104 380	104 380
	NPV	481 760				

Table 7 below summarizes some relations concerning the investment and expenses.

Table 7 Analysis of financial data

	Year 1	Year 2	Year 3	Year 4	Year 5	
Average Shop Size (m²)	150	170	170	170	170	
No. of Staff per shop	4	5	5	5	5	
Investment (in €)per additional Shop	38 083	46 000	0	0	0	
Furnishing investment (in €)per additional sqm	200	200	0	0	0	
Investment (in €)per additional sqm	254	230	0	0	0	
Sales per sqm (in €)	145	128	128	128	128	
Average price (in €)	15,0	15,0	15,0	15,0	15,0	
Gross Profit %	62,9%	62,9%	62,9%	62,9%	62,9%	
Shop rental per sqm (in €)	20	20	20	20	20	
Expenses as % of sales	Shop Rental	13,8%	15,6%	15,6%	15,6%	15,6%
	Staff	15,9%	18,3%	18,3%	18,3%	18,3%
	Advertising	4,5%	5,1%	5,1%	5,1%	5,1%
	Electricity/ telephone/ internet	2,8%	2,8%	2,8%	2,8%	2,8%
	Others	2,3%	2,3%	2,3%	2,3%	2,3%
	TOTAL	42,6%	47,9%	47,9%	47,9%	47,9%
Operating Profit as % of sales	20,3%	15,0%	15,0%	15,0%	15,0%	
Tax Rate on Operating Profit %	19,0%	19,0%	19,0%	19,0%	19,0%	
Net Profit %	16,4%	12,1%	12,1%	12,1%	12,1%	
Return on Investment (in %)	113,1%	172,6%				

The break – even analysis was made for 3 and 5 shops, so for different values of fixed and variable costs incurred during the investment. It has shown that Striyah has to sell 10.136 pieces per store annually to cover fixed and variable costs during the first year, which gives 28 pieces a day (forecast - 49 pcs/day). Then, in the second year there must be 11.405 pieces sold annually per store to cover total costs, which gives 32 pieces a day (forecast – 49 pcs/day).

Conclusion

The analysis of the Polish market has indicated many opportunities for Striyah. Regarding the economy, there occurred positive growth trends in the last two decades and an optimistic forecast for the next few years, which make Poland a country with a potential of investment success. The competition in the fashion industry is high and there is a great variety of well – established brands, including the closest ones in terms of product line. The surveys results as well as the study concerning the number of the competitors stores has specified the most important Striyah's competitors: ZARA, Reserved, H&M, Promod, Stradivarius, Top secret and Solar.

Fashion industry is driven by trends, demographic conditions and pricing. In such a climate, Striyah is likely to be awarded its investment opportunity due to the customer focused approach, operating excellence, design creativity and competitive prices. Striyah management team is confident to achieve an appropriate sales forecast, which according to my analysis amounts to € 785 400 in the first year and to € 1 09 000 in the rest four years. With the split of the investment into two years Striyah enhances its liquidity and achieves the return on the investment for the first year equal to 113,1% and for the second to 172,6%.

Around 5% of annual sales invested in advertising allows to start building the brand recognition and run a regular marketing campaign. During the first 5 years of its presence in the Polish market Striyah should focus on local marketing communication. Further business development will unveil the need for national advertising or even international.

R&P achieved a great sales margin due to its excellent procurement model and low purchase prices. This secures the company against any fluctuations of the demand. In order to cover total costs during the first year Striyah needs to sell 28 pieces a day and 32 during the rest four years, which is high below the forecast level.

The initial investment of five stores can be operated from R&P headquarters in Lisbon and requires hiring the project manager. Warehouse will be only necessary to open, if the real sales exceed the forecast ones and the regular goods shipments occur too expensive.

Summing up, as the company is able to meet its investment funding requirements, Striyah should be able to achieve operational success in Poland for many years to come.

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Appendix

Annex 1

Table 8 Economic rates Poland 2001-2011

Variable	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
GDP (bn PLN)*	780	809	843	925	983	1,060	1,175	1,266	1,342	1,412	1,470 ^{b)}
GDP change (preceding year=100)*	101.2	101.4	103.9	105.3	103.6	106.2	106.7	104.8	101.8	103.8	104 ^{b)}
FDI inflow (EUR million)**	6,372	4,371	4,067	10,24	8,330	15,74	16,67	10,97	8,384	7,351	2363 ^{c)}
Unemployment rate (%)*	17.5	20.0	20.0	19.0	17.6	14.8	11.2	9.5	9.5	12.3	13.1 ^{d)}
Exports (EUR million)**	46,54	49,33	53,83	65,85	77,56	93,41	105,9	114,6	96,33	586,9	38026,4 ^{c)}
Imports (EUR million)**	55,094	57,039	58,913	70,399	79,804	98,945	118,26	139,33	105,05	559,52	39280,4 ^{c)}
Inflation rate (CPI, preceding year=100)*	105.5	101.9	100.8	103.5	102.1	101.0	102.5	104.2	103.5	102.6	103.8 ^{e)}

Source: *Central Statistical Office (GUS), **National Bank of Poland (NBP)

a) data from I-III Q of 2010

b) European Commission forecast:

http://ec.europa.eu/economy_finance/articles/eu_economic_situation/pdf/2011-03-01-interim_forecast_en.pdf

c) As of Feb 2011

d) As of Mar 2011

e) As of 1st quarter 2011

Annex 2

Salaries:

A minimum wage in Poland since 1st January 2011 equals 1386 zł gross (€347), source:

<http://www.firma.egospodarka.pl/niezbednik-firmowy/Minimalne-wynagrodzenie.html>

Shopping center opening hours during the week: 6* 12h + 1*10h = 82 hours. There will be two shifts of sales people: 10.00 a.m. – 16.00 p.m. and 16.00 p.m.- 22.00 p.m., so 41 of working hours a week; and two similar shifts for store managers.