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**INTERNATIONALIZATION STRATEGY OF  
ABOTOA/SKYPRO SHOES TO UNITED STATES OF AMERICA**

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## **Executive Summary**

In a world where it is even more important to be a global company to remain competitive, it is important that companies act not only regionally but also in foreign markets. In this report, I will develop an internationalization strategy for a small and medium enterprise, Abotoa, in order that one of its brand, SKYRO SHOES enters the USA market. Since the company already supplies the majority of the Portuguese airlines and has the desire to increase its sales volume and improve its brand awareness, following an internationalization process seems the right way to do this. It is important to note that I will highlight only one brand of the Abotoa, SKYPRO, because it is the one that, presently, has the highest potential for internationalization and that generates higher profits. At the end of this work project, I will provide reliable recommendations and solutions that could be adopted by Abotoa, in order to help this company to achieve its goals.

## **COMPANY OVERVIEW**

### **Description of the firm**

Abotoa is a small company based in S. João da Madeira that creates and designs footwear for its two trademarks: SKYPRO and MUFFINS. Founded in 2004, Abotoa is a private company limited by shares that is 56,60% owned by CEO Jorge Pinto as shown in Exhibit 1. Abotoa has 16 workers, 11 of which are store employees and managers. The remaining 5 employees are directly involved in MUFFINS and SKYPRO management, sharing their working time according to Exhibit 2.

At the beginning, the company was a LANIDOR franchisee and grew by opening LANIDOR and AEROSOLES stores, being this last brand specializing in comfortable footwear. In 2007, Abotoa developed a brand specializing in corporative footwear,

AEROSOLE/PRO, for the biggest Portuguese exporter of footwear, INVESTVAR group. Two years later, due to the INVESTVAR insolvency, AEROSOLE stores and corporate clients suffered several supply failures, which led Abotoa to cease its positions in AEROSOLE. At the same time, the company also decided to close its LANIDOR stores to create new concepts and to be totally focused on its own new brands, MUFFINS and SKYPRO SHOES.

Despite both brands being focused on satisfying their customer comfort needs, due to the experience provided in AEROSOLE partnership, their target markets are very different. On the one hand, MUFFINS – “delicious shoes” has as target market customers around 45 years old, belonging to the upper-middle class, who value comfort as the main quality. MUFFINS is a brand but also a retail project, since in its four MUFFINS stores Abotoa sells both MUFFINS shoes and other recognized brands as GEOX, ECCO, STONEFLY and ROCKPORT. On the other hand, SKYPRO SHOES – “Walk in Heaven”, is a footwear brand for airports frequent users, who work for an airline company or at the airport handling, or whose professional life depends on the airplane’s trips. SKYPRO products have a classic design but they are technical and innovative, since SKYPRO shoes: i) are extremely comfortable, ii) are antiskid, iii) are antistatic, iv) have a control temperature system and v) do not make the alarm go off in the airports metal detectors. In Exhibit 3 it is possible to see some of the products of SKYPRO.

### **Perspective on Business Mission and Strategic Objectives**

The mission of Abotoa is to create comfortable corporate and general footwear, with an innovative design.

Moreover, Abotoa/SKYPRO's vision is to be a reference supplier of footwear for airlines in Europe in three years and to be present in all continents in the next five years.

For 2014, Abotoa aims to achieve the following objectives:

- That 70% of the sales (around 900.000€) come from foreign markets;
- Increase the company dimension and simultaneously improve awareness and reputation through ten new contracts with airline companies, having 50.000 pairs of shoes as a production goal;
- Develop a new sole, more environmentally sustainable.

## **Methodology**

In order to manage this project and to achieve the desired goals, some procedures were taken into account. The information of the company was collected through group meetings with the CEO of Abotoa, and all the conclusions related to the company in the Portuguese market were considered by all of the group elements that are doing its project based on this company. Moreover, in order to study the quality of SKYPRO products, the group elements carried out interviews with TAP and WhiteJets that are clients of the brand, and they also tried to contact the remaining Portuguese airlines by email, only getting an answer from Luzair. The group also carried out 78 questionnaires to flight attendants, 65 of them in the Lisbon airport and the other 13 on the internet. Regarding the internationalization in the USA, this was an individual task that relied on internet research and with questionnaires to some airlines and airports, carried out via email. However, in over twenty emails sent to American airlines and six to Airports, only eight answered, five airlines and three airports. Finally, during the workshop development, both advisors met with the group and gave some workshops.

## Market Segmentation: Industry mapping

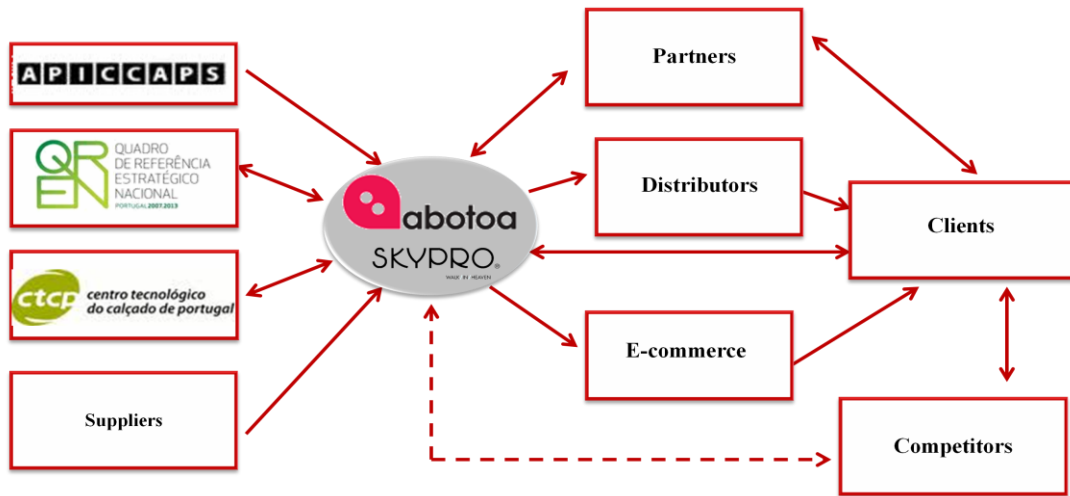


Figure 1 –Industry mapping

Looking at the previous figure we can understand who are able to affect or to be affected by the company. APICCAPS (Associação Portuguesa dos Industriais de Calçado, Componentes, Artigos de Pele e seus Sucedâneos) is the association in Portugal that provides information and data about the footwear industry. This agent supports SKYPRO through European funds and helps it in footwear fairs organization, from samples transportation, people's accommodation and travel, and mainly in regards to the exposition Stands (execution, transportation, assembly and disassembly).

QREN (Quadro de Referência Estratégico de Portugal) is another important entity that supports SKYPRO through community funds. However, the role of QREN will be discussed in more detail in the chapter referring to the value chain of the company.

Regarding technology, the partnership with CTCP (Centro Tecnológico de Calçado Português) is very useful for the company due to the fact that this is the first technological center related to the footwear industry that is focused on developing footwear technology. This center carries out footwear tests (for example leather resistance), provides education and training to SKYPRO employees and it is also through this center that is possible to register patents and quality certificates (ISO 345).

SKYPRO believes that it is working with the best suppliers due to several factors provided: price, quality, payment conditions (in 90 days), the project acceptance by factories, and the possibility of having SKYPRO employees in factories to control and assure and the quality of products that are being produced. Since suppliers are divided by gender, Abotoa is supplied by three factories for men footwear (Fábrica de Calçado da Mata, Centenário and Valuni) and four for women (Cort Gin, HMC, Mestra, Identidade Clássica). Abotoa/SKYPRO works with several factories to minimize risks and to ensure that client's order will be satisfied, but according to the CEO the most frequent suppliers are Fábrica de Calçado da Mata and Cort Gin.

Abotoa has partnerships with two companies, ImageWear from Switzerland and LSG Sky Chefs from Russia, that sell SKYPRO products.

Regarding distributors, SKYPRO SHOES uses FEDEX, DHL and TNT for urgent samples shipment and AZKAR to transport orders for some European airlines.

The main potential clients of SKYPRO are airlines and ground handling companies, namely those that provide footwear to their employees (the Exhibit 4 shows the actual portfolio of clients). However, there are several companies that do not provide shoes to their employees and, in order to be able to sell its products to each individual person (pilots, flight attendants, and frequent passengers) SKYPRO is now investing in creating an electronic store. The electronic store's orders will be managed and stored by SKYPRO, and deliveries will be made through express mail service.

Finally, SKYPRO has direct and indirect competitors that could affect its sales. Direct competitors are those that provide footwear for the specific niche market of airlines, even not having exactly the same characteristics as SKYPRO's products. Despite the weak design and poor comfort of its products, LAVORO is the only direct competitor in

Portugal due to its technical characteristics. However, as LAVORO's footwear meets ISO 347, Abotoa distributes them to complement its line. On the other hand, indirect competitors are considered all the uniform companies that usually subcontract footwear companies to provide classic shoes, brands that sell airport friendly shoes and brands that sell comfortable classic shoes that are usually used by aviation professionals. Looking at Exhibit 5 it is possible to see the most important competitors of SKYPRO.

## **Situation and Competitor Analysis for SKYPRO in Portugal**

### Industry Context

Being a footwear company focused on providing products to flight attendants, I think that it is important to analyze the footwear and the airlines industries in Portugal.

The footwear industry is extremely centralized in Asia, 87% of the world production and 85% of the world exports come from this continent. The reason for this continent having such high values, comes from the fact that China is the biggest producer in the world, representing 62% of global production, and 73,4% of global exports. Still regarding the production, the other continents produce much less than Asia as South America produces only 6%, Europe 4%, and Africa and North America 2% each (Exhibit 6). On the other hand, Europe is the second largest exporter in the world, contributing 11% for the total exports (Exhibit 7), and the biggest importer (43%), followed by North America (28%) and Asia (21%) (Exhibit 8). Finally, Asia consumes 49% of the total production, followed by Europe with 20% and North America with 17% (exhibit 9).

Currently, Portugal is the 20<sup>th</sup> ranked country that produces more pairs of shoes in the world, being in sales value the 11<sup>th</sup> biggest exporter in footwear and the 8<sup>th</sup> regarding leather footwear (Exhibit 10). In the last 30 years, the footwear industry in Portugal has

witnessed significant increases, but since 2000 sales have started to decrease, registering in the last five years a production level around 1.300.000 million Euros (Exhibit 11).

There are 1.354 footwear companies, mostly concentrated in the north of the country, particularly in Felgueiras and Guimarães, and also in Santa Maria da Feira, S. João da Madeira and Oliveira de Azeméis. The companies in this industry are usually small or medium enterprises, having on average 25 employees (more than its Italian and Spanish competitors), being characterized by their high quality and innovation, mainly in leather footwear. The three biggest footwear exporters in Portugal are Kyaia group, Jefar and Campeão Português<sup>1</sup>.

Regarding the airline industry, through exhibit 12, it can be observed that in Portugal this industry has increased the sales volume, and the number of employees remains constant, verifying that every year the number of navigation personnel increases and the number of land personnel decreases. There are six Portuguese ground handling companies and twelve airlines, TAP air Portugal being the largest.

Value Chain

The Abotoa/SKYPRO’ value chain is the following<sup>2</sup>:

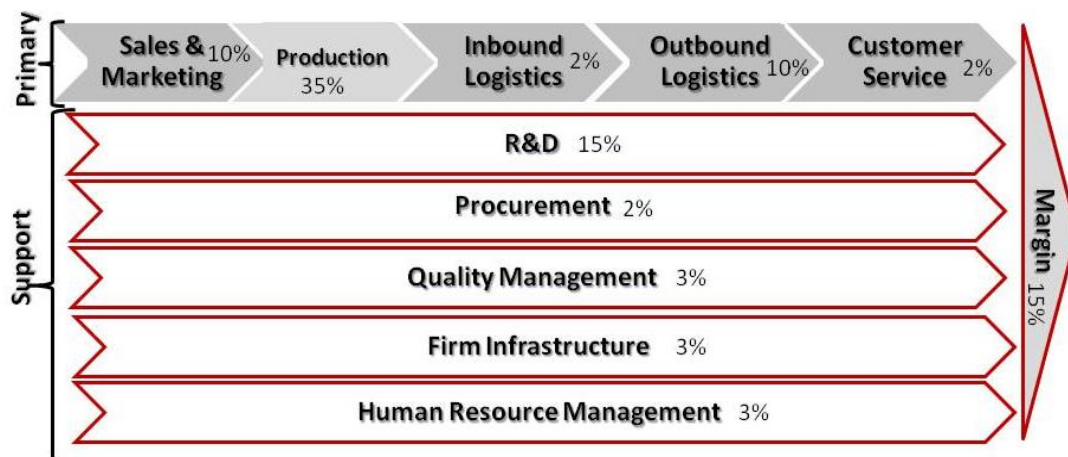


Figure 2 – Value Chain

<sup>1</sup> AICEP, Portugal Global.

<sup>2</sup> Percentages present in Figure 2 were estimated according Exhibit 13

SKYPRO uses a make to order process, meaning that production begins only when the customer buys the product. It starts by promoting and selling its products directly to clients or by participation in aviation fairs. Then, SKYPRO orders its suppliers to start producing its products, which charge on average 22,70€ for one pair of woman shoes and around 35€ for a pair for men. After the production is concluded, SKYPRO is responsible for inbounds logistics, as storage of all products, and also for outbound logistics that is their distribution. Distribution is done according to the client's preferences and SKYPRO uses the following types of distribution: Ex-Works, when customers get their orders in factories; CIF to ship orders for airports, namely Frankfurt, Rome and Paris; or can deliver the orders directly to the client. SKYPRO also provides customer service after sales, namely shoes warranty and receives feedback from clients about its products by talking to the person responsible in the purchases department.

Not directly involved in the production process, SKYPRO also performs five support activities. Regarding R&D, SKYPRO develops its product technology with CTCP. Moreover, SKYPRO receives subsidies from QREN designed for fairs participation, promotion trips, international meetings, e-commerce store promotion, brand register and product development. In March of 2011 SKYPRO carried out one project, amounting to €100.000 that was 45 % financed by QREN. Also in 2011, SKYPRO invested €212.905 of which €95.807,25 was financed by QREN, in order to develop industrial property (1,88%), product design (33,81%), digital economy (8,45%) and internationalization (51,63%). SKYPRO has also received some funds with regard to human resources training. In 2011, SKYPRO had a training program of 700 hours, that cost €20.000 and that will be 90% reimbursed by POPH.

Not less important, quality management is considered a support activity since it is fundamental to have stringent quality controls during all the production process. The SKYPRO's product director is responsible for control and ensures all the quality procedures in each factory. In each order, SKYPRO products are subject to a quality control divided into five stages: raw materials control; leather quality and color match control; cut & stitching quality control; assembly quality control; and trim and packaging control. In Exhibit 14 a detailed description of each stage is presented.

### VRIO framework

SKYPRO has two core competences. The first one is the combination of several technologies (antistatic, antiskid, control temperature system, not make the alarm go off in the airports metal detectors) with comfort knowledge acquired through AEROSOLE'S partnerships, that results in a differentiated shoe. The second core competence is the market knowledge, because over the last few years SKYPRO has created a data base by contacting the airlines in order to find out if they provide footwear to employees. At the same time the SKYPRO brand is being advertised.

Both core competences are considered temporary advantages since they are extremely valuable for customers, they are rare and they are organized because the company takes advantage through them. However, they are not difficult to imitate because the technologies used in SKYPRO Shoes already exist in the market and the only thing that SKYPRO did was combine them into a single shoe. Also, the data base created by the company is not difficult to imitate since every company could create a similar data base over time.

### Porter's Five Forces Model

This model analyzes the industry's attractiveness by the following subjects: threat of new entrants, power of suppliers, power of buyers and existence of substitute products and internal rivalry.

The threat of new entrants in this industry is classified as medium, for the reason that exist other footwear companies specialized in comfortable shoes that are able to enter in this niche market, namely those that actually provide corporate footwear. Moreover, there are not many barriers to entry since the business model developed by SKYPRO requires low capital investment (few fixed costs and no stocks due to outsourced production) and high product differentiation. However, it should be taken into account that SKYPRO is completely focused on this niche market and has advantages like comfort experience, market knowledge, and is the leader in the Portuguese market, providing footwear for TAP, the biggest Portuguese airline. These advantages will make the entry of new firms into this niche market difficult.

Regarding the threat of substitute products, in this niche market, there are several brands of classic shoes that can be considered as substitute products. However, they are not designed for airline employees since they are less comfortable and do not have the technical characteristics. Substitute products do not represent a dangerous threat because they are not extremely comfortable, being this one of the main characteristics that flight attendants value, and they are not customized. In addition, SKYPRO sell each pair of shoes at 45€ to airlines, which is not a large difference between substitute products and SKYPRO's price.

Suppliers are extremely powerful for several reasons. Firstly, there are many footwear factories in Portugal but only a few accept SKYPRO orders because they are infrequent orders. Secondly, some of these factories have a production capacity of 3000 pairs per

day, meaning that the SKYPRO orders are meaningless to them. Thirdly, both SKYPRO and the factories need to highly invest in moulds. While SKYPRO develops and invests on base moulds, factories have to invest in production moulds, where shoes are made. This represents a risk for factories since they invest in expensive moulds, but they cannot achieve economies of scale because SKYPRO orders are small compared to other clients. Fourthly, the threat of forward integration is present because factories internalize the know how to build SKYPRO shoes, and since the company does not have any patents to protect its products (it only has a patent to protect the brand name), factories could easily start to replicate shoes with the same characteristics. However, the CEO of SKYPRO does not consider this as a dangerous threat since factories are focused on footwear production and not on technological development. Lastly, despite industry transparency which allows SKYPRO and other companies to know exactly the raw materials and labor prices, as well as the suppliers' margins, suppliers have some capacity to discriminate price as only a few of them are available to accept infrequent and small orders (in their view) like SKYPRO's orders.

As referred to previously, the main clients of SKYPRO are airlines and ground handling companies, hoping that in the near future they can achieve, through an online store, flight attendants and pilots from companies that do not provide shoes, and also frequent passengers. Focusing only on airlines and ground handling companies, the power of buyers is considered as medium/high since they are extremely concentrated and they can change suppliers without having any additional cost. Airlines also have high capacity to discriminate prices, because each client is very powerful and has large bargaining power, meaning that they are able to pressure SKYPRO into adjusting the selling price according to the order size. In addition, since airlines do not change their

uniforms frequently, SKYPRO has the opportunity to be the footwear supplier for fifteen or twenty years using the same tools, since it keeps the airline satisfied.

The internal rivalry existent in this niche market is medium/high since the product is highly differentiated, the number of competitors (especially indirect competitors) is high and the exit barriers practically do not exist. Moreover, all competitors in this niche market must be aware that clients' orders represent large and infrequent sales volume, that will increase the competition among existing firms to get a client, and in the case a firm loses a reliable client, it will incur a high cost.

SWOT Analysis

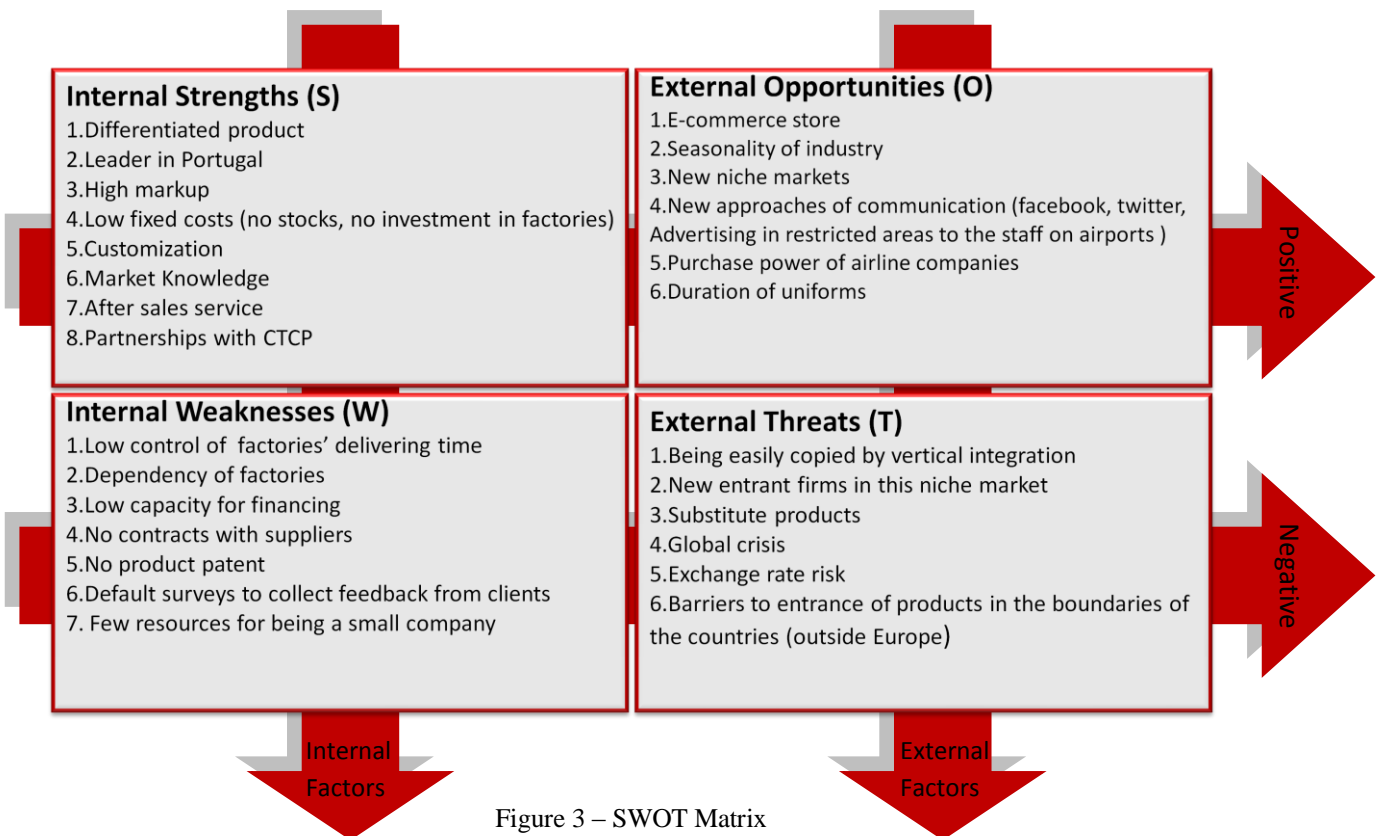


Figure 3 – SWOT Matrix

TOWS analysis

Exhibit 15 shows a Tows matrix. The main objective in this analysis is to create solutions that combine strengths and weaknesses with opportunities and threats.

➤ Maximizing opportunities through strengths:

1. SKYPRO could use its knowledge about customer's needs to set up an e-commerce store, reaching new types of clients such as pilots, flight attendants and frequent passengers.
2. Through partnerships with CTCP and product customization they could create new products in order to maximize the possibility to enter new niche markets where footwear with special characteristics is necessary.

➤ Minimizing threats through strengths:

1. SKYPRO could use its product differentiation, market knowledge, and partnerships with CTCP to improve its products and in this way decrease the threat of product substitutes (classic shoes) to compete in this niche market.
2. Use the fact that it is the leader in Portugal and has large market knowledge, not only the knowledge of customer's needs but also due to its companies' database, to reduce the possibility of new firms entering this niche market.
3. SKYPRO should consider reducing a little its high markup to face the Global crisis, remaining a competitive company.
4. Use the reference as leader in Portugal to create partnerships with entities in foreign countries, minimizing barriers to the entrance of products in the countries outside the Euro zone.

➤ Minimizing weaknesses using opportunities:

1. SKYPRO could reduce its dependency on factories using e-commerce, since with this tool it will create more stocks, giving more power to SKYPRO in its relationships with factories.

2. Use new approaches of communication such as FACEBOOK or TWITTER to create questionnaires for people who really use SKYPRO products, improving the default of surveys to collect feedback from clients. Through this, SKYPRO would be able to understand what the main claims and problems in its products are.

➤ Avoiding threats and minimizing weaknesses:

1. Register patents and sign contracts with manufactures to avoid product imitation through factories vertical integration, to minimize factories delays and factories' dependency, and to eliminate the fact that the company does not have any contracts with suppliers or patents to protect its products. Additionally, since it is very difficult for one single person to control product quality in seven factories, by creating partnerships with one or two factories, SKYPRO could improve quality management and product quality.

### **Main results of companies and flight attendants questionnaires**

Based on surveys carried out with some Portuguese airlines and flight attendants, presented in Exhibit 16, 17, 18, 19 and 20, we can draw some conclusions. Regarding the airlines that buy SKYPRO products to employees, we note that they are satisfied with the products, that they consider the relationship between price-quality as good, and that they value comfort and additional characteristics such as not whistling in airport metal detectors. Also, TAP informed us that the company buys around 4000 pairs of shoes per year.

We also had contact with one Portuguese airline, LuzAir, that is not a SKYPRO' client. The company told us that it knows the SKYPRO brand, but in their company employees buy their own footwear, being reimbursed afterwards. Moreover, LuzAir also told us that if it provides footwear to its employees it will be willing to pay between 80€ and 100€, above the SKYPRO price that is 45€, for comfortable and technical shoes.

Finally, the majority of flight attendants value comfort as the main characteristic, they are not willing to pay more than 80€, and they will not buy footwear on e-commerce, mainly corporate shoes, since they can't try them on. It was also found that the SKYPRO brand is not recognized by people who do not wear SKYPRO. In addition, some of the people who use SKYPRO footwear told us that the shoes are not extremely comfortable and sometimes they do whistle in airport metal detectors. However, we noted that the flight attendants that have the latest model of SKYPRO were satisfied with the products, leading us to conclude that SKYPRO has improved its products over the last few years.

## **INTERNATIONALIZATION STRATEGY**

### **Country criteria**

In this study, I will try to develop an internationalization strategy for SKYPRO Shoes for the United States of America. One of the reasons for choosing this country is due to the fact that in the entire world there are approximately 1775 airlines, 204 being based in North America (124 in USA, 61 in Canada, 18 in Mexico and 1 in St Pierre & Miquelon). USA is the country that has more airlines and, through Exhibit 21, we can note that in the top ten airlines that carried more scheduled passengers, five of them are American. Furthermore, considering the top ten airlines with the world's largest fleets in Exhibit 22, five of them are also American, and four of these American airlines are ranked in the first five positions. This could be useful to my project assuming that airlines with larger fleets have more pilots and flight attendants to operate the aircrafts. Finally, looking at the thirty busiest airports in the world (Exhibit 23), thirteen of them are based in the US, meaning that this country is probably the one that has the largest passenger air traffic.

## **Industry analysis**

### Business in U.S.A

The United States is situated in North America and it is one of the world's largest countries in terms of territory and population. The fact that the U.S. has one of the biggest and strongest economies in the world leads the country to be chosen as one of the preferred places to immigrate. The U.S has a diversified and multicultural population of 317,6 million people and in 2010 had a GDP per capita of 47,284\$.

The U.S is the fifth ranked country where it is easiest to do business. Starting a business or registering property has few procedures and it only takes six and four days, respectively. On the other hand, it is one of the countries that most protect investors and, as far as trade is concerned , takes on average six days to export products, having a cost of \$1,050 per container, and five days to import products, costing \$1,315 per container. Some of the most problematic factors for doing business in the U.S are related to tax rates, inefficient government bureaucracy, access to financing, tax regulations and inflation.

### Footwear and the Airline Industry in U.S

The U.S. is the number one footwear importer in the world in quantity as well as in value, and in 2010 represented 24% of the total imports with an average price of \$9. The main imported products in this sector are rubber and plastic shoes or leather footwear, being the major U.S.'s importers China (representing 87% of the total footwear imports), Vietnam, Italy, Indonesia and Brazil. In addition, the US ranks in second position in terms of world footwear consumption, meaning that this country consumed 13,4% of total production in 2010. Furthermore, the US is not focused on exporting its footwear, since it ranks in the position seventeen of the largest exporters in the world.

As for the aerospace industry in the US, this has verified a large global growth in recent years, generating around 10,5 billion of dollars in 2010 (Exhibit 24). For 2011 it was estimated that the industry capacity will increase by 4,5% and that Revenues Passenger for Miles (RPMs) and passengers emplaned will grow 4,9% and 3,5% respectively. During the period from 2011 to 2031 it is estimated that, per year, the RPMs will grow 3,8% and passengers emplaned will increase 2,8%. Moreover, the industry capacity is expecting to increase 3,6% per year in this period<sup>3</sup>.

Despite the raises occurred in the last few months, from 2008 to October of 2010 the employment in the airlines industry started to decrease<sup>4</sup>, and in May of 2010 it was estimated that 88.020 people worked as flight attendants and another 29.900 were commercial pilots. The majority of flight attendants (86.570), work in scheduled air transportation and have an annual mean salary of \$41.560. They are also concentrated in the American East and Southwest, mainly in Texas, Nevada, Arizona, Hawaii and Illinois. Regarding commercial pilots, their mean annual salary is \$67.500, and contrary to flight attendants, they are more concentrated in the American West, more specifically in Alaska, Hawaii, South Dakota, Alabama and Oregon.

The US has 5.170 airports that can be used by the general public, but only 503 of them offer commercial services and 382 are considered as primary airports. As it is possible to see in Exhibit 25, the major American airports are concentrated in the West Coast and in the East of the U.S.

### Tendencies of U.S.' Airlines

One of the most important facts to keep in mind in the SKYPRO business is to know if the airlines are willing to provide footwear to their crews, or not. This is very important,

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<sup>3</sup> Based on FAA Aerospace Forecast for fiscal years 2011-2031;

<sup>4</sup> Data from Bureau of Transportation Statistics

since it is much more profitable and efficient for SKYPRO to make a contract with an airline where thousands of pairs of shoes are sold for all the airline employees to wear, instead of selling its products individually to each flight attendant or pilot. However, despite the importance of this information, it is very difficult to get it since the only way to know if the airlines provide footwear to their employees is by contacting them, which usually are not available to provide it. Thus, I chose the major 13 American airlines (Exhibit 26), according to the number of employees, fleet size and passengers enplaned, to study the tendencies of the overall airlines in the U.S.

By analyzing them, I can conclude that the bigger the fleet is, the higher is the total number of flight attendants and pilots and also the number of passengers enplaned. In contrast, independently of the number of flight employees, the airlines shown in Exhibit 26 do not provide footwear<sup>5</sup>, which leads me to conclude that the majority of the airlines in the U.S do not provide footwear, being the employees who buy their own shoes. Consequently, SKYPRO needs to adopt a different strategy in this market, more focused on single flight employees as a client.

### **Mode of Entry**

As referred to previously, SKYPRO should adopt a strategy centralized on each individual flight attendant and pilot. Below, I clarify some different approaches that SKYPRO could implement in order to enter the U.S. market.

#### E-Commerce

The U.S. consumers have a strong home shopping culture, where people are reasonably comfortable buying products on the internet. These values were embedded in Americans

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<sup>5</sup> This result is based on the answers of Alaska, Atlantic Southwest, SkyWest, Southwest and United Airlines to a questionnaire sent by email to all of the ten airlines presented in Exhibit 26.

even before the electronic commerce appeared, since U.S. consumers were able to buy products by phone, when they were only seen by television commercials or catalogues. According to this, one of the modes of entry that I would suggest to SKYPRO is to sell its products through e-commerce.

The company could use this tool in two different ways: it could develop a single platform where it only sells SKYPRO products or it could try to create a partnership with a “virtual mall” already established, that sells several footwear brands. However, both options have pros and cons. On the one hand, having its own e-store, SKYPRO could control much better its products and services and how the transactions are made, but it requires that the company is responsible for all the investment (costs of building the platform and advertising). On the other hand, creating a partnership with a virtual mall brings advantages to SKYPRO since the advertising, shipping and customer service costs are shared. Also, due to the fact that customers are in a “mall”, with different products and brands, and most of the times products are organized by categories, they do not need to be familiar with the SKYPRO brand to buy its products. For example, in an online store like this one, a flight attendant would search products in categories as “comfortable” or “airlines workers”, where SKYPRO shoes must be included. So, in this way she does not need to know the brand to buy shoes with the characteristics that she is looking for. However, using this way to enter e-commerce, SKYPRO has less control over its products and transactions, it needs to pay fees to its partner and the company reputation could be affected by the partner reputation.

In both situations, there should be defined a good product return policy since the main concern when people buy shoes online is that they can't try them on<sup>6</sup>.

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<sup>6</sup> This result is based on the 78 questionnaires made to flight attendants.

## Direct Selling

By direct selling, a sales agent presents, demonstrates and sells the products directly to consumers without having a retail location. Most of the time the process occurs in customers' house or workplaces, or sometimes through a party plan, where it is possible to explain and demonstrate all the product's characteristics.

This could be another possible way to enter in the United States market. At the beginning, SKYPRO could contract a small number of flight attendants that are working for some of the major airlines like Delta Airlines, America Airlines or United Airlines to be its sales agents. The biggest advantage for choosing flight attendants to play this role is that they would know better how to sell the products' characteristics since they know what flight attendants value the most, and also because they probably have in their networks many people who are also flight workers, SKYPRO's target market. In order to guarantee that the sales agents are engaged in products sales, SKYPRO should sign an agreement with them where it is explicit that they will receive only a percentage of each product sold, for example 10 or 20 per cent.

One of the biggest advantages of this method is that the investment and risk of losses are very low due the fact that the agent sales only needs to have some catalogues and few stocks available to do the demonstration. If the customer wants to buy the products they would be delivered at home.

## Direct exporting via a local distributor

The early stages of internationalization often start by exporting through an agent or distributor, i.e. someone or some organization that manage the exporter's business in a foreign country. In the SKYPRO case it makes sense that the company starts to export via a local distributor because, despite both agents and distributors representing the

product in a specific country, the distributor purchases the exporter's products, representing risk sharing and an investment source for SKYPRO. Furthermore, contrary to the agents, distributors represent only one brand, creating a higher level of engagement in product sales. This mode of entry could be useful because distributors usually know better the values and laws of the foreign country than the exporter, which could increase SKYPRO's sales volume. It could also support the previous modes of entry since it will be much easier to implement the direct selling and the e-commerce store having a distributor of the brand in the U.S that has available stocks.

Finally, considering that some of the uniform companies that provide clothes to airlines do not produce footwear, SKYPRO could take advantage by developing partnerships with them, or asking that they become its distributors, since they already have contact with airlines.

### Airport Store

As every other worker, airline professionals spend a large part of their time in their workplace. Though, their workplace, the airports, is filled with stores and restaurants to attract not only the airline passengers but also the flight employees. So, one of the best ways to capture American customers, in particularly flight attendants and pilots who work in airlines but also frequent passengers, is to open a store in one U.S. airport.

The choice of the airport should take into account a very important factor that is the level of airport traffic. It doesn't make any sense to open a store in one airport that has low passenger traffic meaning that the number of flights is also low and consequently the number of flight workers that go through the airport is lower. For that reason, I would suggest that SKYPRO opens its store in one of the busiest airports of the U.S. According to Exhibit 27, the company should consider the Hartsfield Jackson Atlanta

International Airport, O’Hare International Airport, Los Angeles International Airport, Dallas/Fort Worth International Airport, Denver International Airport or John F. Kennedy International Airport.

### Implementation Plan

In order to implement successfully the previous modes of entry, I have developed a 4Ms approach (Minute, Money, Men and Memos) to analyze the cost, time and human resources required in these plans. However, due to high investments required to open the airport store, I think that this mode of entry should only be taken into account in the long run, when SKYPRO has the required financial resources to support that. For that reason I will not develop an implementation plan for the airport store.

In Exhibits 28 and 34, it is possible to identify the 4Ms approach of the projects, namely activities required, cost, duration, resources and objectives for each mode of entry. Based on them and in Exhibit 35, I developed the following Gantt chart, representing the total investment and duration for realizing the three projects simultaneously.

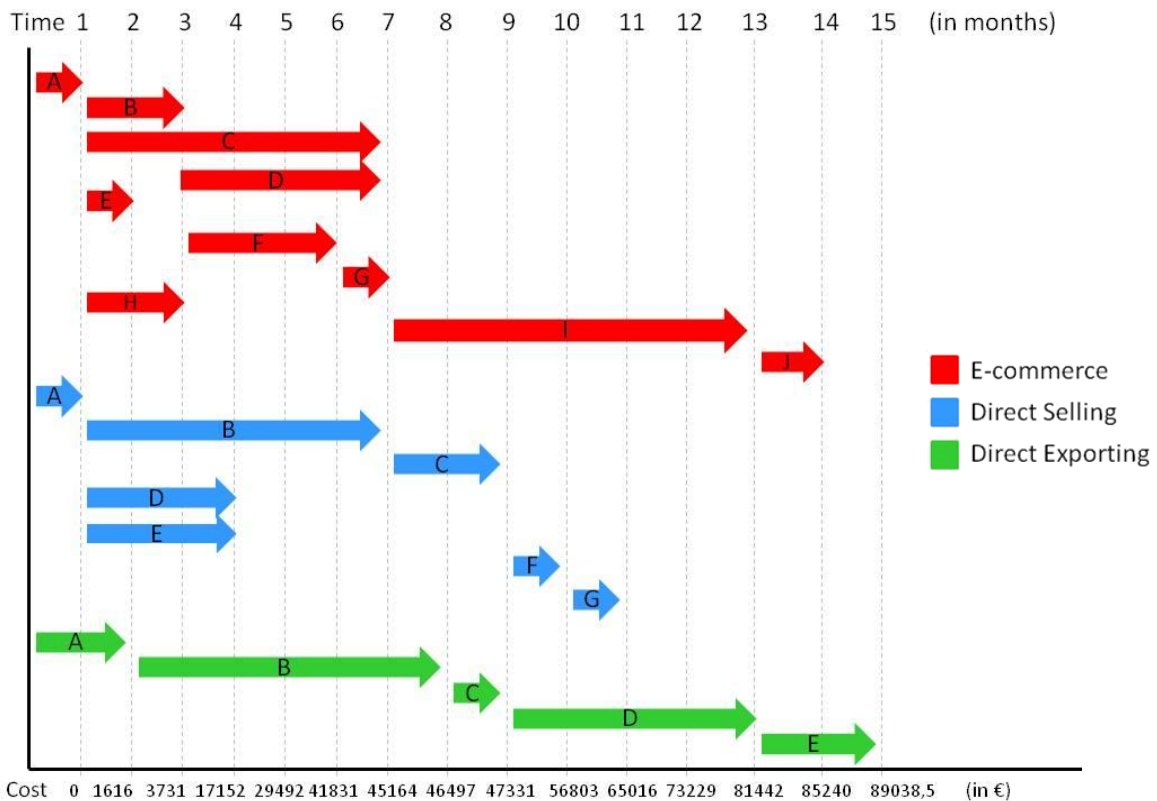


Figure 4 –Gantt Chart

According to this Gantt chart it is possible to note that the e-commerce, direct selling and direct exporting will take, respectively, 14, 11 and 15 months to be implemented. Considering that they are implemented simultaneously, SKYPRO would have an initial investment of approximately 89.038,5€, being important to state that this cost does not include operating expenses after the projects are implemented, as salaries, monitoring visits and others presented in Exhibit 28. Moreover, Exhibit 28 shows that direct selling is considered the cheapest project, requiring an initial investment of 7506,5€, while direct exporting is the most expensive, 42112,5€ being invested.

### **Risk analysis**

Like every plan, these three projects present some risks that should be taken into consideration. First, and respecting to all of them, as the trades in the USA are done in American dollars, there is the exchange risk. When fixing its prices, SKYPRO should pay attention to possible currency fluctuations in order not to incur losses and remain with the same profit margin. This is even more important nowadays where the current crises of Portugal, Greece, Italy and Spain are generating uncertainty in the markets, affecting the EURO value.

Additionally, and again relevant to all the projects, there is the risk that SKYPRO could not enter the USA market, where most of the airlines do not provide footwear to its employees, due to its prices. As referred to previously, SKYPRO has a differentiated product and consequently sets higher prices than its competitors (Exhibit 36). Also, due to transportation costs and taxes, the product's price would be inflated. Thus, with much higher prices than its competitors, SKYPRO has the chance of failing in this market if American customers do not value sufficiently its products to pay higher prices.

Thirdly, one of the most dangerous risks in e-commerce and in direct exporting is related to the high investment in stocks that company has by implementing these two projects. The products sold in e-commerce and via distributors are not customized, meaning that even if SKYPRO signs a contract with one airline, it could not sell these stocks since they are not customized for the airline and the sizes probably would not match with those required by the client. Moreover, concerning e-commerce, there are sunk costs with the online platform that would never be recovered.

Then, also important, and that affects all of the project's implementation, regards factories delivering time. If the stocks or samples' production suffer any delay, it would affect the projects by increasing their implementation time.

Finally, the major risk in Direct Selling is sales agents' selection. If SKYPRO does not make the necessary effort to recruit sales agents that have the ability or the availability to demonstrate and sell the products, the entire project has high probabilities to fail, since they are the most important tool in this mode of entry.

## **Conclusion and Recommendations**

After studying SKYPRO shoes, I think that the company has the potential to become an international company. However, there are some recommendations, in the short and in the long run that it should take into account. Starting with the short run:

1. Even before starting its internationalization plan, it is crucial for SKYPRO to develop partnerships with its most reliable suppliers, in order to ensure that the power of the suppliers and their delays will not affect the company and its clients.
2. SKYPRO should invest in strict quality control procedures, in order to reduce the number of defects per airlines' orders. As SKYPRO is focused on the quality and design of its products to set higher prices, it should ensure that they fulfill high quality patterns.

3. Regarding the mode of entry in the USA market, I would strongly recommend that SKYPRO starts by implementing Direct Selling. Despite being the project that requires lower initial investment, it is also the one that has the shortest implementation time.

4. Concerning e-commerce, one of the biggest problems relates to the fact that the company needs to make a large investment in stocks. This could be overcome by negotiating longer payment terms with suppliers and also by creating a policy based on longer delivery times to clients, for example longer than two or three weeks. Additionally, it is very important that SKYPRO develops an efficient return policy for its e-commerce clients, in order to assure that the client is satisfied with the product.

5. It is fundamental that SKYPRO controls and monitors the projects after their implementation. SKYPRO should control and monitor sales agents and distributors, by visiting them in USA every four to six months. It is also very important to collect feedback from clients that use the online store to improve its operation. It would also be interesting to get information about brand recognition in the American market after one year, for example through surveys carried out in American airports.

6. By starting an internationalization process, SKYPRO will receive more clients' orders, which will be very difficult to manage by working without having any stock available. For this reason I would suggest that SKYPRO develops a minimum "safety stock" that would make SKYPRO less dependent on factories delivery time. This would be useful for the online store and sales agents delivering SKYPRO products on time.

Regarding the long run, the next three to five years, SKYPRO could suggest to factories improvements in the production process to create economies of scale and enhance quality and design. Moreover, when SKYPRO start having more power among its suppliers, it could bargain with them to share the cost of "safety stocks".

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