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SME Competitiveness: Internationalization Strategy

“Internationalization Project for D’Assenta”

António Filipe dos Santos Marques

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Professor(s):

Sónia Dahab

Filipe Castro Soeiro

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1- Executive Summary

This thesis describes a potential Internationalization Process from the Portuguese shirt manufacturer D'Assenta to Sweden. D'Assenta is already an international company but the weak financial situation of the company and the negative forecast for the Portuguese economy in the years to come stimulate the company to begin a new international experience. The thesis begins with the description of the firm, its history, strategic objectives, competitive advantage and competitive context.

D'Assenta has been prospecting the Nordic Countries for a potential internationalization, namely Sweden. As being so, all the research and focus of the Thesis have Sweden as target. Nevertheless, a set of arguments against and for this decision was built. The study provides initially an overall description of Sweden and of its textile market. After the market analysis, it is described what is believed to be the best way for the company to approach the market and a detailed description of the how, when and what resources this process involves. The mode of entry and implementation plan suggested are the ones that, I believe, will better suit the company and allow it to succeed in the Swedish Market.

The thesis was built with primary information provided by the firm and secondary data, compiled and displayed on the Bibliography. The data treatment and thesis construction was supervised by Prof. Sónia Dahab and Prof. Filipe Castro Soeiro.

2- D'Assenta¹

Sociedade Têxtil da Assenta was born in 1981 and its activity consisted on the creation, manufacture and sell of shirts. It begun as a family business but, throughout the time, the company understood that it had to diversify its business, not only because the competitors were offering a more complete solution but also because the domestic market was becoming saturated. So, from 1999 onwards they begun to develop

complete collections for men and kept the production of shirts. The company did not have the financial capability to support this evolution by itself so, they decided to open it to two venture capital companies (SULPEDIP – Sociedade para o Desenvolvimento Industrial, S.A. e ES-Capital – Sociedade de Capital de Risco, S.A.) and the company was converted into an Open Capital company. D'Assenta kept on only producing the shirts; the other men collection items are purchased from suppliers and sold under the D'Assenta brand. In 2001 they opened their first store in Torres Vedras. In 2002 a second store was launched in Lisbon and one year later they already had opened 6 more stores throughout the country, namely, in Lisbon, Oporto, Matosinhos, Vila Nova de Gaia, Viana do Castelo and Castelo Branco. D'Assenta received some financial help from the State Program, PME Investe, in the launch of 5 of their stores. They have more or less 80 clients that own multi-brand stores in Spain, Belgium, Mozambique, Angola, Brazil and Italy. Exports account for 50% of the Company's billing, being Italian and Brazilian markets the most relevant and Spain sales having a residual impact. D'Assenta has an average production capacity around 110 000 shirts per year, being the maximum production capacity between 120.00 and 130.00 shirts per year (considering a single shift from 8:30 to 17:30, 9% turnover and 75 direct workforce). The company has, currently, close to 100 employees, around 80% work in the production process, 5% is in stores, 4% in cleaning, there is one worker in the computer department and the remaining 10% corresponds to administrative positions and warehouse management. The gross average profit margin is around 50%. They had, last year a turnover of 1.300.000 Euros and are going to present an economic loss of 237,000 Euros in 2009 and a profit of 55,000 Euros in 2010. The company is now going through a financial and operative reorganization. D'Assenta will extinguish their retail activity and will withdraw its brand from multi-brand stores. This decision is

mainly due to financial issues since with these measures, D'Assenta will be able to cut some of its expenses: withdraw the contracts of some retail agents, distribution costs due to the lower number of products exchanged and it is no longer required the existence of showrooms. Finally, it also allows D'Assenta to avoid some financial problems that resulted from a lack or delayed payment from multi-brand and retail stores clients. The company's functions were spread within two buildings but it is also going on a logistic transformation since D'Assenta is now concentrating all its operations in the same place, hoping this will cut costs and increase productivity. As the other business areas (retail and multi-brand) were extinguished, they will, from now on, focus their business in the private label and own brand segment. D'Assenta produces shirts and sells to other enterprises in a "private label" system or sells it with the complete collection for men as the brand "D'Assenta". They master the art of manufacturing shirts and this activity is really the core function of the company: produce high quality shirts for men. And their quality (6 points per cm²) results, essentially, from its quality in the selection of the raw materials and its excellence on the manufacturing processes.

3- Mission, Vision and Strategic Objectives

The company's mission is to "develop, produce and sell, with excellence, D'Assenta brand products for the modern man, seeking their satisfaction and simultaneously allowing the company's prosperity". Their vision is "to be recognized in the medium-term as the best Portuguese shirt manufacturer and expand the company internationally, within 5 years, either through their own brand or private label. Their strategic objectives are: enter the Nordic market in the next two years, with private label and have a positive return in the first year; grow, in this year 15% in Portugal and 16%

in the international markets (mainly in Italy and Brazil). They also aim to wide their target and try to reach a younger segment by changing their design.

The Company accomplished to assure quality in the manufacturing and finishing process but due to the lack of investment in Design and R&D, they are not taking full advantage of the market opportunities and potential. Their target is men in medium-high segment outside Portugal and medium segment nationally, between 30 and 55 years old.

4- Industry Mapping

There are several entities that establish a role of relations with D´Assenta and Play a major role in the industry´s everyday life:

Suppliers: we have two types of suppliers in this industry, the ones that sell the raw-material and the ones that sell the ancillary material. In the first category we have mainly the suppliers of cloth (usually the items are 100% cotton or are mixed with polyester), that are mainly situated in Italy and in the North of Portugal (we have the example of Somelos, a major supplier of textiles for D´Assenta), suppliers of buttons, textile lines and buckram. In the second category we have the suppliers of strip and plastic cards, labels and individual boxes.

Competitors: In this segment we have the clothing stores that sell to the final client and the ones that manufacture shirts and sell to other companies in a b2b business strategy.

Clients: The clients, depending on the business area we are talking about are either the final individual consumer or a company that buys shirts to resell them.

Selling Agents: They are of most importance in the retail and private label business model since they are the ones that prospect new clients for the manufacturing companies and assure the product´s runoff.

Industrial Associations: In the Portuguese market we can outline ATP (Associação Têxtil e Vestuário de Portugal), AEP (Associação Empresarial de Portugal),

AINEC/APIV among others. These associations have the Job to advice their associates and provide them tools to perform better (statistical reports, industry analysis, etc.)

Public Institutions: In this sector usually help either financially or advisory the companies in the sector. In Portugal we have the case of AICEP that who provides monetary incentives for companies through tools like PME Invest or QREN to companies in special conditions.

Distribution Companies: Usually the manufacturers and sellers do not have their own transportation means so they have to outsource the gathering of materials and the distribution of the finished product to external companies.

Clusters: There is a Textile and Clothing cluster in the North of Portugal. Like any other cluster, there is a group of companies that operate in the same business sector and that, helped by geographic proximity, collaborate within themselves to improve their product, be more productive and have a stronger bargaining power. Technological cluster are also of great importance in this industry since some breakthroughs in the materials and production processes in the last years have resulted from the synergies between the two. (See Exhibit 1)

5- Situation Analysis for D'Assenta

In their “own brand” segment D'Assenta has been following a differentiation strategy, producing their 5 shirt lines, exclusively for men: exclusive, D'Assenta, sports, hybrids and ceremonial. This differentiation strategy has allowed the company to achieve a high average profit margin per item (50%) since the customer is willing to pay a premium price for an exclusive, quality product.

D'Assenta's production process is their source of competitive advantage: the know-how acquired throughout the last 30 years, the decision to have a “labour-intensive” (keeping technology away from the process) productive process, increasing

the uniqueness of the shirts and their quality. This decision, to run a much “labour-intensive” process, with the minimum amount of equipment capital necessary, increases the uniqueness and quality of the clothes but, at the same time, decreases and slows down the production capacity and keeps the production costs at higher levels. As being so, the human resources are a valuable asset and play a vital role in the company’s performance. With this in mind, D’Assenta tried to provide some formation. We can outline the following workshops: POPH in 2009, Centro de Novas Oportunidades and the Cenatex program by ANIVÉC/APIV. Almost all of them focus on general knowledge and, although every kind of knowledge is of value, maybe there should have been more technical courses that could have a greater impact in the workers’ performance in the production process

D’Assenta has also the advantage to work closely with their private label clients. These clients have the option to order the type of shirt they want and buy the finish product or can just “rent” the productive process. In this last system, the client buys the raw materials directly to the supplier and transports them to D’Assenta’s facilities where the shirt will be produced according to the clients pre-ordered specifications. In the b2b model, the client waits 6 months since he ordered the product (time-to-market) although, after 3 months D’Assenta starts to send progressively some items that are already finished to avoid stock retention costs. The collections start being design one year before they enter the market.

The company lost their quality certificate. It is D’Assenta belief that, until now, they have not lost any client as a result of this. Nevertheless, for a company with a differentiation strategy, a clear focus on quality and a residual brand image, the ownership of a quality certificate will be crucial to grow internally and build a stronger brand and, most important of all, help the company to enter international markets (since

the quality certificate, in countries where D'Assenta is not recognized, is the best asset you can promote).

6- Critical Analysis

D'Assenta owns a valuable know-how of the industry and craft of clothing but, for one reason or another, this asset is not helping the company to succeed. This may be happening for a several number of reasons: lack of technological innovation, lack of production capacity expansion over the last years, lack of focus in a concrete segment. D'Assenta is stuck in the middle of two areas; it either focuses on a niche or increases capacity and standardizes production and sells it to the masses. This decision has to be made because this vagueness is not allowing the company to grow. There has been some investment in the overall knowledge of the workers but at the same time there has also been a lack of investment in the technical formation of the workers and on promoting and strengthening the brand. Contrary to what the industry is doing³, D'Assenta did not invest in technological innovation both on design and procurement. And they should have done it internally and externally trough settling agreements with universities and design/fashion faculties namely by working with the company on the analysis of Fashion trends and design of collections.

In my opinion, and most important than all, the company is lacking a long-term strategy that will allow the company to surpass this negative situation. It appears that D'Assenta is just thinking about the next steps, embracing opportunities as they come along the way, without having a strong long-term view of where they want the company to be in the next 10 years. And without changing the paradigm it will be very difficult for D'Assenta to star having positive returns on investment. There are three main strategies: differentiation, focus or cost leadership and consequent production standardization. I believe that focus on a niche would be the best strategy for the

company. D'Assenta should start to produce top-quality shirts and enter the high-quality segment. This strategy would allow the company to resist better to the crisis since luxury products, in percentage, are the ones that suffer less with the crisis and it is very difficult to a Portuguese Company to expand its productive capacity and fight in scale with the Asian players. D'Assenta still has a very manual working process what only can be seen as an asset in a luxury segment where every item has to be unique. This shift to the high-quality segment would force the company to invest in new materials, to regain the quality certificate, to make a higher investment in marketing and re-adapt some of the production processes. Overall, it would be a significant financial effort for the company but I believe that in 2 or 3 years D'Assenta would come back on track and better than ever.

If this "face-lift" in the private label business model is achieved successfully, the second step could consist on entering the markets in which D'Assenta already has a presence (Brazil, Italy and Spain) with their own label, targeting the high-quality segment and taking advantage of the contact network and distribution and communication channels they already use.

If the company decides to follow this strategy it is my belief that D'Assenta should only focus on the core business: producing and selling shirts. The decision to diversify the business and offer the complete collection of items for men should be reviewed in order to amend its real contribution to the company's revenues.

7- Clients and Competitors Analysis

Main competitors- In the same segment we have Sacoor, Massimo Dutti, Decénio and Dielmar. In a highest segment but that sometimes enters in direct competition with D'Assenta (due to special promotions, for example) we have Labrador, Wesley and Giovanni Galli a. In the case of Dielmar, the target and segment is very similar to

D'Assenta. The two companies even established a partnership where D'Assenta produces private label shirts that are sold by Dielmar. This can be very dangerous since the two companies are in the same segment there is a high possibility that D'Assenta's "own label" shirts will be competing against D'Assenta's private label shirts sold by Dielmar. What we call cannibalization. There is though, a main difference between Dielmar and D'Assenta: the first one tries to establish a relation with each customer and fulfil the needs of every client. In this process was important the maintenance of the quality certificate, that also boosted the company to international markets like Italy, France and Germany. Sacoor has a wider target than D'Assenta since they also sell clothes for women and kids. The production is outsourced so the company can focus on R&D, design and quality control. And they did not focus only in the production of shirts and suits; they offer complete collections with jeans, shirts, shoes, etc. Another major difference is the marketing strategy as Sacoor made a considerable investment in publicity, namely by hiring celebrities to promote their clothes. The brand is already present in countries like the U.S.A, Canada, Russia and Dubai.

Main Clients- The clients in the b2c model are the individual consumers. On the b2b business model (private label) we have the following clients: from Italy (client?), Brookfield in Brazil, Oxford, Dielmar and Labrador in Portugal. It is very interesting to notice that, in Portugal, D'ASSENTA competes with its "own brand" against companies that are at the same time their clients in the "private label" segment (see the case of Dielmar).

8- SWOT Analysis

Strengths - D'Assenta is a company with 30 years and throughout the time acquired know-how and a wide range of contacts within competitors, clients, suppliers that can be of great use. The know-how allowed them to increase their quality and become more

effective and now, their quality in manufacturing shirts is recognized in the industry. It has good relations with its employees and suppliers. They managed to internationalize their business (spreading risks and increasing growth potential). It is also an important strength that D'Assenta is able to manufacture handmade shirts, a rarity within the competitors. The ability to work in private label has allowed the company to increase their production and expand internationally.

Weaknesses – The more visible is the lack of a quality certificate (by decision of the company). For a company so focused on quality, not having a certificate can be particularly harmful and hinder the company's growth internally and externally. The geographical distance to the textile and clothing cluster, in the North, is also a factor that weakens the company, namely in terms of technological development, bargaining power, access to clients and raw materials. The negative financial situation of the company may stop necessary investments and block the company's growth potential. The weakness of the brand D'Assenta due to the low investment in publicity and marketing campaigns will not contribute to the rise of the company as an own label. There is no R&D or Tech office in D'Assenta, the company relies on and incorporates some of the breakthroughs accomplished by the suppliers and clients.

Opportunities- The established presence in high growth potential countries like Brazil can be of great use in case of an international expansion necessity. The financial and logistic re-organization of the company can stimulate the company and take it in a new direction. Private label (a business mode that D'Assenta has been using for 30 years now) is gaining importance in the world industry and textile. The investment in HR qualification has been residual so far. A strong policy of HR formation both on administrative and production jobs could have a very positive impact in the company's performance. The investment in the new internationalization process may be the

impulse needed to make the company recover the quality certificate that can be of great help in the process of expanding in international markets where the Brand D'Assenta is not recognized.

Threats – Technology is gaining importance in the production processes and in the materials used². D'Assenta's decision to keep obsolete technology on the factory and its distance from the cluster's synergies in the North may pose a great threat to the company's survival in the medium-long term. The Asiatic players are now starting to enter the medium-segment³ and this can be very harmful if they manage to produce with the same quality and lower price (due to economics of scale and low operative costs). The escalation of oil prices can jeopardize the exportation to Brazil and to the European Countries (very high increase in transportation costs).

The Portuguese economy is and will be in the next few years in a deep economic crisis leading the market to stagnate⁴. Despite the optimistic long-term forecast in terms of sales for the World clothing market, the next two, three years in the Portuguese Market will demand great management skills and innovative approaches by the Portuguese players to surpass the financial and economical crisis that will affect all Portuguese sectors of activity. In Exhibit 2, 3 and 4 a detailed description of the Portuguese and World Clothing market is offered. In the next topic the Clothing market's attractiveness will be evaluated with resort to the Porter's 5 forces framework.

9- Industry analysis (Porter's 5 forces)

Threat of substitute products – There are no goods that can substitute clothes but we can consider as substitutes, products that are in different segments than D'Assenta. And, in this case, the threat of substitutes is high since discounts in high-segment brands and special editions in lower-segment brands are done in a regular basis and compete directly with D'Assenta's products.

Threat of new entrants- The threat of new entrant is medium-low since there are some barriers to enter the market (it is very easy to open a small clothing store but expanding and gaining critical mass is much more difficult). As a barrier to entry we may refer the high initial investment needed to start the business both in the production process (infrastructures, machines, raw-materials) and on the design process (designers, Procurement, R&D). In the Portuguese market, contacts/network, reliability and worth of mouth are still very important. It is important to outline that in this industry the learning curve plays an essential role since time and experience have a huge impact on cost reduction and quality improves. The existence of a high number of players decreases the probability of retaliation to entrants. In the “own brand” segment (b2c), there is an additional financial and logistical obstacle that is the necessity to open a store, design and implement marketing campaigns.

Buyer Bargaining Power- In the b2b segment the purchasing power of buyers is not very high, since, usually, companies sign medium-term contracts, what means that companies will have the switching costs if they want to withdraw the contract. Nevertheless, a breach of contract from the client could have a considerable negative impact on the Seller, and by knowing that the buyer gains bargaining power. On the other hand (and this is common to the b2c segment), the industry is saturated what means that there is plenty to choose from. Also, the access to information by the consumers is very high, allowing them to compare prices and quality easily, empowering their bargaining power.

Supplier bargaining Power – There is a high number of suppliers in the industry and if we add the low switching costs and low differentiation of the product we can conclude that the supplier bargaining power is low. Adding to this we have to say that the

manufacturers are bond through powerful associations that have reinforced strengths when dealing with suppliers.

Rivalry- The Portuguese textile and clothing market has a huge number of players that vary in size and power. There is a high access to information and due to the fact that we are talking short lifecycle items, there is a high incentive to cut prices and incur in price wars. In the b2c segment this is particularly noticeable since the stores are constantly fighting in prices and promotions. The small size of the Portuguese market and the high exit barriers also contribute to a higher rivalry. On the other hand, the forecasted slowdown in the growth rate of the Portuguese Textile and Clothing Market may lighten rivalry. Nevertheless, it is high (overall).

10- Internationalization Strategy

The Portuguese economy is stagnating and everything indicates that its situation will not get better in the next few years⁵. The clothing industry is no exception and the consequences of this economic crisis are already being felt by the players in the market⁶. The Portuguese population is losing purchasing power⁷ and D'Assenta, by selling a product with medium-high quality will be greatly harmed by the environmental context. The internationalization decision appears at this time as an emergency escape and as a right strategy to follow.

Historically, the Portuguese market for textiles and clothing is small and with limited growth⁸. Internationalisation has been the solution adopted by many companies to address this problem. With the change of the growth paradigm in Portugal, due to the rise of labour costs in relative terms, the companies had to modify their profile, moving up in the value chain of the product. This increase resulted from the incorporation of factors such as fashion, design, technology, marketing or advanced logistics, differentiating themselves from the rest of the market and showing a wide range of

solutions to the customer. Company's ultimate goal should be to perform as high-quality intermediates, as well as private label or own brand sophisticated companies, targeting the final consumer, taking advantage of higher margins since Portuguese companies no longer have cost advantage (and consequent lower prices) and production capacity to bet on quantity at low prices.

11- Sweden PEST Analysis

Political- Sweden is a monarchy and it presents a very stable political environment. The market is correctly regulated but there is still some excessive bureaucracy regulating the activity of the companies and making it more difficult to create new companies⁹. Other State-controlled regulations like high tax rates and restrictive labour laws constitute the two other main obstacles for doing business in Sweden¹⁰. On the other hand, Sweden has one of the lowest corruption levels in the world and the Global Competitiveness Report of 2010/2011 names Sweden as the country with the World's most transparent and efficient public institutions¹¹.

Economical –*"At the moment Sweden is a beautiful story (...) the growth outlook is good, exports are rising, interest rates are moving higher and the budget situation is good..."* says David Bloom, global head of foreign-exchange strategy at HSBC in London¹². And Sweden was, for a long time, a desert in what foreign investment is concern but, nowadays, is probably one of the most interesting countries for foreign to invest throughout the world¹³. It has a welcoming business climate, a strong domestic market, high technological density, a qualified labour force (namely within management knowledge) and a strong social benefits network. It is also important to outline that Sweden has the second lowest corporate tax in Europe¹⁴. In the last decade foreign direct investment has increased more than in any other country in Europe¹⁵.

In 2010 Sweden was the country that grew the fastest in Western Europe (with a rate of 5.5%)¹⁶. The Krona (official currency) has been rising a lot in against the Euro (8.8 per Euro) what worried the manufacturers due to the possible hinder of exports. On the other hand inflation remains low, unemployment is decreasing (8.2% in January 2011) as well as the national debt and the O.E.C.D forecasts a growth of 3.9% in 2011 and 3.4% in 2012¹⁷.

Social – Sweden is a very tolerant and respectful society. Values like gender equality, expression freedom, transparency and sustainability and are very dear to the Swedish people. Environmental issues and working conditions are among the main concerns of the Swedish Society. The primary and higher Education system function correctly and Sweden ranks above the Top20 in all Education standards of the Global Competitiveness report. English is the second language and is mastered by the great majority of the population¹⁸.

Technological – Like mentioned before, the Global Competitiveness Report of 2010/2011 reports a strong focus of Sweden on education (places 2nd in education and training) that combined with the world's strongest technological adoption contributes to a developed and sophisticated business culture and to be a world's leading innovators (5th place). Sweden also leads on Company's R&D investment, availability of the latest technologies, firm technological absorption and internet bandwidth and use¹⁹.

12- The Swedish Clothing Market

In 2008, there were almost 35.000 people working in the fashion and clothing sector, the consumption reached 75.1 billion SEK and exports accounted for 11 billion (a 100% increase comparing to 2003)²⁰.

In these last couple of years Swedish commerce has suffered too: fashion sales decreased shopping centres and stores closed down²¹. However, many companies

decided to increase their investment during this crisis and got better results than ever. Nowadays, Sweden is the second largest exporter of clothes in the Scandinavian Market and there is an increasing number of fashion designers expanding internationally²². To address the international markets in a coordinated and strongest position, the companies formed a joint organization, the Association of Swedish Fashion Brands (ASFB), in 2009.

Currently, Swedish collections have a more powerful profile and are more fashionable. The clothing industry is modern, quality-oriented, with advanced technology, continuous product development and cutting-edge in environmental and social issues. Time, craft skills and cost consciousness are three vectors that receive constant focus and are greater than ever²³.

It is an international industry: in the supply of raw materials, product adaptation, product collaboration, marketing and export. The production of clothes suffered a great transformation in Sweden. Nowadays, most of the sewing is done by partners in Asian countries, but always assuring that the Swedish Producers engage in product design and development, purchase of material, cutting, quality, environmental policies and supervision, logistics, warehousing and, finally, in marketing the products under their own established trademarks²⁴. Most companies, in this industry, are concentrated in the south-west of the country and the city of Sjuharad is a particularly good location for textile and clothing companies (See Exhibit 9).

Swedish Clothing Consumer Profile²⁵ – Swedish people want clothes that fit their lifestyle, daytime or evening, good-looking and cool without being too pretentious. And this model has proved to be a success not only indoors but also internationally since Swedish fashion is becoming known for its functionality, quality and price. And, like said before, with a strong brand profile or not, functionality is the key. Swedish

design consists of clean styles, bold cuts, well consisted designs, knitwear, perfect fits and casual wear. There is an increasing interest among the Swedish consumers for organic clothes, especially for children's wear. Some of the bigger chain stores are planning to start selling this kind of clothes in their stores, in a near future.

It is also important to outline that fashion in Sweden tends to incorporate elements from the Swedish culture by incorporating symbolism and material objects addressing history themes or folklore, for example.

The wealthy Swedish costumers often search for foreign brands in the luxury and high fashion goods for both adults and children. Being the mid and mid-high segment the most suitable for Swedish products. The average woman in Sweden spends 845 dollars on clothes per year, while the man spends around half of that amount.

Finally, is worthy of mention the great attention that the Swedish consumer and media give to corporate social responsibility (namely environmental and working condition issues) and the carefulness the companies have to have to avoid serious damages in their brand image and consequent negative financial effects.

13- Reason For country Selection

D'Assenta has a Portuguese contact that is currently residing on Sweden²⁶. This link to the market was the main driver for the Company's internationalization choice. This Target-Country selection approach based only on the existence of a known contact in the area seems insufficient for us. And the emergency situation of D'Assenta demanded a more rigorous selection and analysis of the market since there will be no error margin. The entry in Sweden may will the near-future situation of D'Assenta. Sweden may not be the most suitable choice for D'Assenta but, in theory, it appears like a correct one. It is a country where the population has a high purchasing power, the business model is most of the times based on outsourced production in foreign countries

and by being an E.U. member, and all the trading is facilitated. On the other hand, the high productivity of the industry, the mandatory compliance with quality and safety certificates and the high technological density may hinder D'Assenta's entry in the Swedish Market.

14- Mode of entry

Nowadays, D'Assenta does have neither a strong brand image nor productive capacity to enter the Swedish market with their brand. So, starting with Private Label seems like the right choice to do. And the fact that D'Assenta is obtaining great results in Brazil and Italy with this business model is an incentive to replicate it in Sweden. Adding to this, the fact that the Swedish Clothing Companies prefer to outsource the production of shirts, but always controlling all processes from the design to the distribution channels, is a positive point since D'Assenta already works in this model with some clients in Italy and Brazil. The initial investment is much lower than if it would be to start with own label, what having in mind the financial situation of the company, plays a crucial role. A possible partner for D'Assenta is the Swedish Clothing Company "Tiger of Sweden" (see Exhibit 8). It is a company that targets a medium-high income consumer and that has a small range of shirts in its collection.

Among SME's in the retail fashion industry, exporting is the most common first step in internationalization (Wigley and Moore, 2007). By exporting, D'Assenta will spread the risk and decrease costs but, on the other hand, the control over the product once it leaves the factory is lower than in other trade models. It will also allow D'Assenta to focus on its core business (manufacture quality shirts) and leave the distribution and promotion of the product to entities that have a better knowledge of the market.

A recent study ranked the high-quality shirt segments as the “5th best sales prospect in Sweden” and this is exactly how the company should address the market²⁷. Due to its know-how and “labour-intensive” manufacturing process that confers uniqueness to each item (but at the same time decrease production capacity and increases costs), the best strategy for the company would be to target the high-quality shirt niche. Nevertheless the high-quality segment will demand a quality certificate so it is urgent that D’Assenta is able to be certified again. The best way to approach the Industry players would be through the presence in trade shows and fairs (See Exhibit 7). In a second stage, and as mentioned before, D’Assenta’s strategy could pass by entering the Swedish market with “own label”. This action would have to be deeply weighted and put to practice 2 or 3 years after entering as private label. To avoid direct competition with the private label clients, entering the market with very high-quality products could be the most rationale solution. The first step would be to open a store in Stockholm and from that point onwards, evaluate the potential for expansion.

Marketing Strategy

Product: The product has to deliver excellent quality, a clean style and functionality. Due to the different Physiognomy, the shirts sizes and scales will have to be modified. A “care labelling” with recommendations or instructions on how to treat the garment is encouraged. Textile products should be labelled according to EU directives.

Pricing: The Swedish Consumer has a higher purchasing power and has more disposable income to spend on Clothing than the average European²⁸. With that in mind and the fact that D’Assenta is targeting the medium/high-quality segment, the price practiced should be considerably higher than in Portugal. Despite this, the company has to pay attention to the following information (since it will determine and increase the final selling price of the product): Tariffs and regulations- Non-preferential supplier

countries have to pay the following tariffs when exporting²⁹: raw materials – 0%, fibres and yarns – 0%, fabrics and made-up products – 8%, garments - 12%. This tariff structure is significantly lower than most of the EU's trading partners which have limited their tariffs within the WTO in levels of 40% and higher. Wholesaler mark up on CIF price is approximately 10-50%, retailer mark up is approximately 200-300% on wholesaler price. A VAT (Value Added Tax) of 25% is added on the retailer price³⁰. Usually, the reseller prices the product three times higher than the purchase cost. For example, if our client buys a shirt for 300 SEK, the end consumer will pay around 900 SEK. D'Assenta should sell each shirt at an average price within the interval 30-40 Euros. This means that the final price to the consumer would be between 90 and 120 Euros what corresponds to a value between 800 and 1100 SEK without VATA, a price that is already practiced by Tiger of Sweden and other medium-high quality shirt sellers.

Promotion: Due to D'Assenta's financial constrains, the investment in the product's promotion has to be low. Nevertheless, in order to access the Swedish textile and clothing industry it is advisable to hire an agent. The Swedish Association of Agents has about 600 members of which 50% are working in the clothing industry. The association offers an opportunity to advertise in their newsletter that is send to all agents in Sweden. Since we are speaking of B2B, media promoting channels are not necessary. The presence in Showrooms and Swedish fairs is crucial to promote the product and the brand D'Assenta. Quality is highly valued by the Swedish consumer so; the fact that all the shirts are almost 100% cotton has to be a flag of the company in its promotion to foreign companies.

Place: Since this is a B2B model, D'Assenta will not have responsibility in the delivery of the product to the final consumer so, the geographic distribution and presence of the products will depend on the reseller capacity and vision.

15- Implementation Plan

Men:

Since the company will export private label shirts, there is no necessity of having a fixed physical presence in Sweden. It will be necessary though to hire a Swedish Agent. The Agent will have the task of analysing the market and look for new partnerships between D'Assenta and Swedish clothe resellers. He will have as missions: establish a link between D'Assenta and the Swedish Companies, taking advantage of his/her know-how, knowledge of the market and contacts network and help in all the legal and logistic process of transportation to the Swedish Partner. The payment will be based on the number and dimension of contracts closed with his/her mediation. The Agent will have a crucial role in the beginning of the process (first months) and launch of D'Assenta in the Swedish Market but his link with the company has to be reviewed in the end of the first semester: after this first semester D'Assenta will already have to have settled contracts with a/some Swedish company(ies) so the link with the Agent will have to be extinguished or his mission has to be reset for analysing neighbour countries (like Finland and Norway) or identifying new business opportunities in the Nordic Countries. There will have to be a person inside D'Assenta designated to supervise the company's activity in the Swedish Market. This person will have to be available to negotiate and help the Swedish Agent and Partners from Portugal and travel to Sweden. It has to be someone with managing and direction responsibilities and with an overall knowledge of the company. In my opinion, this person should be Mr. Pedro Lucas. It is still unknown if it will be necessary to hire new employees due to the

necessity of producing more shirts to answer the demand of the Swedish Market.

Money (Detailed Expenses in Exhibition 10):

Since D´Assenta will only be responsible, in a first phase, by the production of the shirts, the main costs will be the agent fee (5 to 10% of the annual revenue from sales in Sweden), the plane trips (2 trips in the pre-entry stage, after that, 3 trips per year until the 3rd year. In the 3rd year when D´Assenta enters the market with an own brand, we consider a total of 5 trips.), accommodation in Sweden (an average of one week per trip in a 3* hotel) and the tickets to the fairs. The distribution process should be similar to the one D´Assenta has with the Brazilian customer where all the transportation expenses are responsibility of the client. D´Assenta forecasts a sale of around 5.000 shirts in the first year, at an average cost of 25 Euros. The current factory in Torres Vedras is now reaching its maximum production capacity so, it would be most likely that D´Assenta has to outsource part of the production of the shirts to another company that has been working with D´Assenta for the last years. The average production cost in the “outsourcing factory” is equal to the one the company already has when producing at its “home factory”.

In a second stage, if the company decides to enter the Swedish Market with their own label (keeping the private label business since D´Assenta´s product would be competing in a higher segment) the extra main costs would be: renting and decorating a store and a small warehouse in Stockholm, hiring 2 employees and 1 store manager, administrative expenses to open a business and transportation costs to send products from Portugal to Sweden.

Minute (See Exhibit 12):

Phase	Activity	Duration	Dependency
Pre-entry	1. Market and mode of entry analysis	3 months	

	2. Hire agent	1 month	1
	3. Presence in Fairs and Showrooms	3 weeks	2
	4. Negotiation with Swedish companies	2 months	3
Entry	5. Business Launch	2 years	4
	6. Analyse potential new markets for expansion	6 months	
Pos-entry	7. Market analysis and business plan for “own brand” entry	3 months	
	8. Prospect Store and warehouse in Stockholm	1 month	7
	9. Recruit employees and manager	2 months	7

Memo:

	Objectives	Measure	Target	Initiative
Financial	Increase private label sales revenue	% increase in total sales revenue of private label	Increase 10% in the first 2 years	Private Label partnership with Swedish Clothing Company
Customer	Increase Brand Awareness	Level of awareness within potential clients (medium-high segment clothing companies)	>80% positive answers	Participation in Fairs and Showrooms. Questionnaires to assess the level of awareness
Internal	Introduce J.I.T. strategy	% decrease in number of stocks and % decrease in time2 market	Decrease 30% in the first 2 years	Process analysis in order to re-organize/reduce number of suppliers. Introduction of more technology to reduce leading times and number of hours allocated to activities that do not add value to the product

Learning	Increase HR Formation	% of budget spent on HR training and development	Increase 20% the budget directed to formation	Agreement with CIVEC ¹ and partnership with design and technical schools
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¹*Civec (Centro de Formação da Indústria do Vestuário e Confecção)*

16- Conclusion and Recommendations

The Swedish Environmental Context and Clothing market appear as a great opportunity to D'Assenta to invest. The fact that Swedish Sellers give preference to work with foreign companies in the private label business model can only be seen as a win-win situation since D'Assenta is comfortable with this business model. The lower cost level of selling through private label (since the company only has expense with the production process) allow the company to, in the next two years, increase its sales without a significant increase in costs. This gains relevance as the last two years were financially hard for D'Assenta that will, in the short run, proceed with the restructuration of the Company. The entry in the Swedish market has a high probability of success and may very well be the boost for a successful and longing economic performance of D'Assenta.

A Work Project, presented as part of the requirements for the Award of a Masters Degree in Management from the Faculdade de Economia da Universidade Nova de Lisboa.

APPENDIX

SME Competitiveness: Internationalization Strategy
“Internationalization Project for D’Assenta”

António Filipe dos Santos Marques

Number 579

Master in Management

A Project carried out on the International Business major, with the supervision of:

Professor(s):

Sónia Dahab

Filipe Castro Soeiro

6th of June 2011

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17- Appendix

Exhibit 1 - Industry Mapping

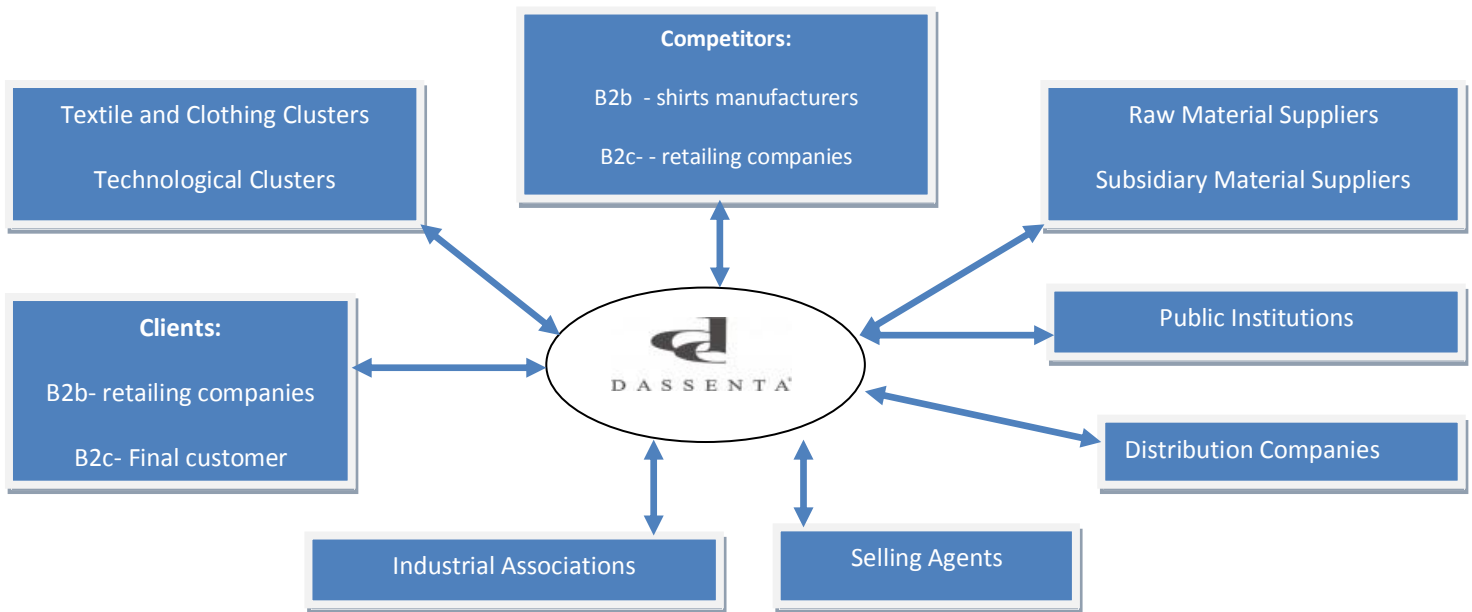


Exhibit 2 - World Textile and Clothing Market ³¹

The textile and clothing sector has followed, over the last decade, the growth of world economy, growing an average of 6.8% between 2000 and 2006. The rise of exports in this sector appears inextricably linked to the change of large scale competitive advantages, resulting from the emergence of new players like China and other Asian countries like India, Pakistan and Bangladesh, North Africa and Eastern Europe. The European Union, Japan and the United States remain as the top consumers. This rise to power of the Asian powers was in large part a consequence of the liberalization of textile and clothing trade in 2005.

There are several trends concerning market, product and consumption for the industry's near future: an overall increase in consumption and production of textiles and

clothing and consequent internationalization of enterprises, especially China, in this case, as the largest producer and exporter in the near future. We will also see a progressive increase of introduction of technologies in various stages of the production process and marketing of the products. This higher technological density may come from a more qualified staff, new materials and production processes. There will also be a growth in the mid-low, medium and medium-high, segment, where we find quality products with a lower degree of differentiation and reduced lifetime. The consumption increase in this segment will match the lowering of prices as a result from lower production costs and a more "professionalized management". Distribution will gain importance in the value chain structure. The decrease of transportation costs, the modernization of logistics and expertise in segments of the production process may be very important sources of competitive advantages in the future. The attempt to achieve these competitive advantages will force companies to grow internationally to seek solutions for the production and sale of their products, enhancing the growth of intra-sector and B2B relationships.

Exhibit 3 - Portuguese Textile and Clothing Market³²

The market for the Portuguese textile and clothing industry is by nature very open to the exterior, making it more exposed to fluctuations in global economy but also in a privileged position to tackle new challenges and international opportunities.

The liberalization of the global textile and clothing led to a paradigm shift, since the Asian players got the monopoly of commodities' production (due to low prices, to economies of scale and lower production costs). The companies had to redefine their structure, adding value and differentiating the product. This includes a strong focus on

fashion, design, logistics, distribution and marketing and the truth is that Portuguese companies have been taking longer than is desirable to apply this change. There is still a large duplication in the industry, some companies are already grabbing the opportunity to change and internationalize, and others are still clinging to the paradigm of the past, with the risk of disappearing in the medium- long term. These companies have to hire qualified staff for management positions, give more emphasis to service, diversification of the product and finally, take the step of internationalization. However, the Portuguese companies have some aversion to the "brand", failing therefore to successfully implement a model b2c, targeted directly to the consumer. The alternative (quite valid) is to focus on B2B business, leveraging the expertise of the Portuguese companies in the production process to innovate and develop products. Appear, therefore, three possible strategies for national companies: focusing on fashion brand, the market for technical and functional textiles and, finally, through private label, product-oriented or customer-oriented.

We can consider, in the textile and clothing market, 5 major strategic areas of interest: human resources, internationalization, competitiveness and productivity, innovation, diversification and differentiation, and finally, expansion capability.

Exhibit 4 – Portuguese Textile and Clothing Market Data³³

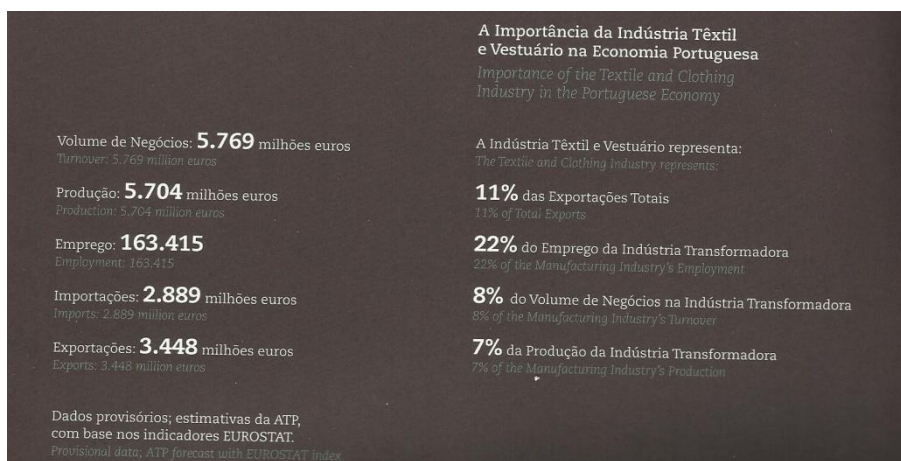


Exhibit 5 – Portuguese Clothing Market SWOT Analysis

Exhibit 6 - The Swedish Association of Agents ³⁴

The Swedish Association of Agents is a membership organization with the task of facilitating the international trade for small and medium-sized businesses. Our members are mainly agents, suppliers and distributors operating in many exciting fields. Through national and international networks, trade fairs, training, professional activities, lobbying, and membership services, we work to both on short and long term improve the everyday life and profitability of our members. If you are about to start up

your business The Swedish Association of Agents can because of its' long experience help with both big and small issues. Companies included in our network have access to valuable business advice and attractive offers and discounts. A very important goal for us is to reduce all trade barriers and thereby improve conditions for all operators of this type of activities in Sweden. Hence, we can be found where decisions are made and act as a reference authority when the government is enacting new laws affecting our members' businesses. To take advantage of our members' interests both in Europe and globally, we are since 1948 a part of The Nordic Federation of Commercial Agents and since 1953 a part of IUCAB (Internationally United Commercial Agents and Brookers). Our Chairman of the Board, Jan Björnum, is the Vice President of IUCAB and included in their board Excom. We are also active in the ICC, International Chamber of Commerce. For our members, we create cost effective training courses and seminars in the areas needed. Every year we hand out a scholarship for the continuous training of member companies. Today we are divided into network groups, both line of trade and districts – who conduct their own program. We organize trade fairs for the shoe and textile businesses; Nordic Shoe & Bag Fair, Preview Fabrics & Accessories, Nordic Fabric Fair, Purchasing Days in Stockholm and Varberg, To us, each member is unique and important and has great ability to influence.

Exhibit 7 - Fairs Calendar

- Week 32, 8 to 14 August 2011: Stockholm Fashion Week



Nordic Shoe & Bag Fair is the largest venue in the Nordic region for sellers, buyers and media working with shoes and accessories. Nordic Shoe and Bag Fair, together with Stockholm Shoe House and the fashion fair Bomullsbörsen are gathered in the beautiful premises of Factory Nacka Strand in Stockholm, Sweden.

Location: Factory Nacka Strand, Augustendalstorget 6. Stockholm, Sweden

Fair dates: 10-12 February 2011, open 9-18 all days.

**INKÖPSDAGAR
VARBERG**

Buying Days in Varberg is a fair that focuses on order intake. The Buying Days are always arranged directly after the Nordic Shoe & Bag Fair. At the fair almost 70 exhibitors are gathered in Sparbankshallen in Varberg.

Location: SPARBANKSHALLEN, Kattgattsvägen 4.

Fair dates: 22-27 February 2011. 9-17.

Buying Days in Stockholm

In springtime we also arrange Buying Days in Stockholm.

Location: Stockholm Shoe House

Fair dates: 27-29 March, 9-17 all days

BOMULLSBÖRSEN

Bomullsbörsen Tradeshow – since 2006

Bomullsbörsen is the alternative venue for urban and high end commercial fashion, shoes, accessories and denim brands during Stockholm Fashion Week. We attract trendy independent buyers as well as department stores. Our exhibitors are established fashionbrands as well as interesting new abilities. Bomullsbörsen values well organized, experienced salespeople with creative minds. Our focus is to create a warm and simple environment for buyers and exhibitors to meet up twice a year with focus on signed and healthy orders.

Bomullsbörsen is an organisation created by former and present salespeople and entrepreneurs in the fashionbusiness. The show had its premier in 2006 located at Hornstulls Strand and has continued to evolve.

A new cooperation was founded in April 2009 when Bomullsbörsen became a part of the Swedish Association of Agents who are the new owners of the organization. This will give Bomullsbörsen the opportunity to grow and keep the original crew in charge to make sure the culture and felling will stay the same. After this, the show was moved to the wonderful and rustic settings in the old Factory building in Nacka Strand (10 minutes outside of Stockholm) and is now located in the same area as Nordic

Shoe & Bagfair and Stockholm Skohus who are also owned by the same organization.

Bomullsbörsen offers a network of people with many years in the fashion industry as salespeople, buyers, exhibitors and know the value of closure which is why we are a credible tradeshow!

It is a platform for showing new collections, making real business and exchanging experiences.

Location: Factory Nacka Strand, Augustendalstorget 6. Stockholm, Sweden

Fair dates: 10-12 February 2011, open 9-18 all days.

For more info, pls visit www.bomullsborsen.se

nordic fabric fair

Nordic Fabric Fair is the Nordic regions most important meeting place for buyers/designers and suppliers of fabrics, interior design textiles, fur, leather, accessories and much more.

Location: Åhaga, Lillåvägen 4 in Borås, Sweden

Dates for next fair: 2-3 March, 2011

Opening Hours: 09.00-18.00

Website: www.nordicfabricfair.se



Preview Fabrics & Accessories, Stockholm

Preview Fabrics & Accessories is a trade fair where designers and buyers have a unique opportunity to see the first fabrics and accessories of the season.

Location: Svenska Bilfabriken, Cylindervägen 3 in Nacka Strand, Stockholm.

Dates for next fair: 26-27 January 2011

Opening Hours: 09.00-17.00

Website: www.previewstockholm.se.

Exhibit 8 - Tiger of Sweden³⁵

History

Tiger of Sweden's history started in 1903 in Uddevalla, a small town on the Swedish West Coast. The brand has its foundation in a strong confection tradition and solid tailoring skills, refined for 107 years.

In 1993 the brand was repositioned with a clear vision of "taking the suit from the bank to the street". Since then, Tiger of Sweden has gone from being a tailoring brand for gentlemen to become an international design brand, including men's, women's and jeans collections with a range of shoes and accessories.

Design

Tiger of Sweden works in close collaboration with the best fabric mills available, developing its own fabric designs that create the brand's uniqueness. Combining materials with a clean cut based on craftsmanship creates the unique and beloved Tiger fit, whether it is a suit, blazer or a pair of jeans.

Core consumer

The brand constantly challenges the fashion scene and is positioned as a high attitude brand in the mid-price segment. Tiger of Sweden attracts a creative citizen, who moves effortlessly in style between different cosmopolitan environments, an independent individual that loves the clean, well fitted tailored cut, with high quality and modern Scandinavian attitude.

Mission

Tiger of Sweden breathes "a different cut" - a symbol for a different mindset that implies a constant on-going development, both design-wise and intellectually. The unexpected combinations of silhouette, cuts, materials and details have given the brand its unique position.

Highlights 2009/10

During the financial year, Tiger of Sweden successfully launched a new online store, and opened new stores in a number of cities including Gothenburg, Oslo and Umeå, leaving us with a total number of 42 stores in Sweden, Denmark, Norway, Finland, Germany, Canada and South Africa. Main focus for the coming year will be on developing the Nordic markets, and opening new franchise stores in order to remain profitable and continue building the brand.

Tiger of Sweden generated revenue of DKK 476 million for 2009/10.

Distribution

Agents and distributors today distribute Tiger of Sweden in 18 countries and at more than 1,200 sales points.

Exhibit 9 – Sjuharad

Sjuharad is a particularly good location for textile and clothing companies:

- It has a population of 263.000 people; it is located in the West with direct access to 1.5 million people and 100.000 university and college students within a hour´s drive.
- Proximity to Gothenburg and Landvetter international Airports
- Long tradition in enterprise and home to many foreign businesses
- Traditional industries in commerce and textiles, with many head offices there.
- International companies in the engineering and electronics industries
- Proximity to the University college of Boras and Technical Research Institute of Sweden.

Exhibit 10 - Detailed Expenses

Phase	Cost Description	Unitary value	Value per Phase
Pre-entry (6 months)	Plane tickets	200 €	400€
	Hotel& Others	1,000€	2,000€
	Fair tickets	?	?
Entry (2 years)	Plane tickets	200€	1,200€
	Hotel	750€	4,500€
	Agent	13,000€	
	Shirts	5,000*25€	125,000€
<i>Total</i>			133,100€
<i>Revenues</i>		5,000*35	160,000€

Agent: (30-40€) p/ shirt and (5-10% commission) – 35*5.000=175.000

175.000*0,075= 13.125 Euros

PS. In the entry stage the stay is for less days (2,3,4)

Exhibit 11 – Swedish retailer’s preferences on the relationship with their suppliers

	1 Agree	2	3	4	5	6	7 Disagree
JIT	9.5 %	19.5 %	9.5%	23.8 %	9.5 %	14.3 %	14.3%
Quality	58.3 %	20.8 %	16.7%	4.2 %	0.0%	0.0%	0.0%
Price	45.8%	25.0%	20.8%	4.2%	4.2%	0.0%	0.0%
Flexibility	33.3%	33.%	16.7%	12.5%	0.0%	4.2%	0.0%
Delivery	87.0%	8.7%	0.0%	0.0%	4.3%	0.0%	0.0%
You have a good relationship	47.8%	21.7%	21.7	4.3%	4.3%	0.0%	0.0%

Table 9

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