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INTERNATIONALIZATION STRATEGY OF SKYPRO SHOES TO JAPAN

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Executive Summary

Skypro is a footwear brand targeted at the aviation professionals' niche market, explored by the Portuguese microenterprise Abotoa Lda..The saturation of the Portuguese market led Skypro to expand to different worldwide countries and to be a footwear supplier of Airlines from the USA, Qatar or Australia, among others. Abotoa aims for its 2014's exports to represent around 80% of total sales and this Internationalization Plan for Japan represents the possibility of further exploring the Asian market. Japan appears as the 2nd worldwide footwear importer and the 5th footwear consumer, with a high purchasing power – GDP per capita (PPP). This country possesses two enormous Airlines (ANA and JAL) that employ more than 15000 on-board personnel, the world's 4th busiest Airport in 2013 (Tokyo's Haneda International Airport) and a geographic structure with more than 6500 islands, implying high frequency of aerial transportation in the medium-run. These aspects make Japan an adequate country to invest in. At the course of this Work Project, trustworthy recommendations are provided for the current state of Abotoa and for the introduction and implementation of this Internationalization Plan. These findings strongly suggest that Skypro should indeed penetrate Japan's market.

Key words: Skypro; Abotoa; footwear; Airlines; Japan; Tokyo; Internationalization Plan

Firm's Description

Abotoa Lda. is a Portuguese microenterprise founded in 2004, based in SANJOTEC – Centro Empresarial e Tecnológico of S.João da Madeira -, using a rented office near to the shoes factories and raw materials suppliers. Moreover, the firm has a Sales/Administrative office in Carnaxide. It operates in the Footwear Industry, specially

targeted to the Aviation sector, designing footwear components and the Skypro Men's and Women's shoes.

In 2014, only 7 employees make part of this family business. The number of employees has been decreasing by more than half in the last year.

Abotoa centers its core activities in the design of new differentiated footwear technologies and its development and prototype execution, with the collaboration of CTCP (see Industry Map).Only after this stage, the Portuguese factories are contacted to produce the different models with the set of specific technologies**(exhibit 1**). Since it outsources production, it is possible for Abotoa to have so few employees and still succeed when larger orders and market expansion take place. It's product portfolio comprise 14 Men's shoes and 23 Women's shoes models and leather complements like handbags, belts and gloves.

The CEO Jorge Pinto is the major shareholder of the company with 71,9%, of the 128 thousand euros enterprise capital **(exhibit 2**).

Abotoa's history is marked by its relation with Lanidor, starting as a franchisee of this company in 2003, and later with Aerosoles (owned by Investvar Group) in 2005. In 2006, Aerosoles Pro came up in the market; a new brand for corporate footwear developed within a partnership with Abotoa and Investvar Group, representative of the US brand Aerosoles in Portugal. The financial crisis of 2008 in Portugal affected the Investvar Group and Abotoa finished the partnership with Aerosoles, mainly due to delays and insufficient supply of products. It also sold its positions in Lanidor, in order to develop two new brands. A new era was rising for Abotoa, with the creation of the brands Skypro and Muffins; this last one not existing anymore since it became non-profitable.

Skypro achieved comparative advantage since the beginning of its existence, due to the experience of Abotoa in the segment of comfortable footwear, due to the CEO's knowledge of this market and to the initial contract to become TAP's – major Portuguese Airline - footwear supplier in 2010. Skypro are specifically designed to target the aviation professionals, and were the first and only Portuguese brand to reach this niche market. These leather aviation shoes possess a classic design and are the only Portuguese brand having a Certificate of the International Organization of Standardization – EN ISO 20347 - for airline professionals. In 2012, this brand was also awarded with the GAPI award, attributed by a panel of 5 Portuguese intellectual property and innovation entities. It was considered the Best Footwear for the Aviation sector by its technology and innovation.

Skypro realized that the Portuguese market (**exhibit 3** – airline industry in Portugal) was already saturated in 2010, with TAP, PGA and Euro Atlantic Airways as its main clients in Portugal. The Portuguese ground–handling companies GroundForce and Portway are also Skypro's clients. SATA and HiFly, are in tests and negotiations with Skypro. The remaining Portuguese Airlines (**exhibit 4**) don't provide shoes to their employees or aren't interested.

Despite detaining the largest Portuguese clients, Skypro's suppliers have a higher production capacity, where some factories can produce 3000 pairs per day. TAP buys 4500 pairs of shoes per year, on average, while the remaining Portuguese clients order less than 8000. Comparing the production capacity with the Portuguese demand, we see that Skypro's orders represent a tiny part of the factories' production. Hence, Abotoa has the means to expand internationally.

Business Mission and Strategic Objectives

The **business mission** of Abotoa, with its current brand Skypro is to develop especially comfortable and highly technological footwear to the sectors of Airline companies, Ground handling firms, Air Forces and frequent flyers.

Skypro's **Vision** for the next 3 years, is to be European leader and recognized worldwide amongst the Aviation footwear sector.

Regarding **strategic objectives** for the end of 2014, Abotoa targets to achieve maximum growth on the international markets, with sales growth of 30% from the previous year, and exports representing 80% of total expected revenues (around 3 Million euros). Abotoa also has the objective of decreasing the discrepancy between Women's shoes sales and Men's shoes sales, which is currently around 90% and 10%, respectively.

To achieve the strategic objectives it is exploring:

1) New external clients like Kenya Airways, Royal Air Jordania, Bulgarian Air Chart or the Portuguese Airline Sata, among other potential clients (**exhibit 5**).

2) A new e-commerce partnership with the Scandinavian SAS Airline

3) Two airport stores in Brisbane (Australia) and Frankfurt (Germany), besides the already existent partnerships (**exhibit 6**).

4) Enter in the Dutch Retail sector with the promotion and sales of Skypro shoes, in 3 different retail stores, yet to be announced

VRIO Framework – Resources Based View

Skypro offers the World's First Certified Footwear for Aviation Professionals, combining the special microcellular structure for extreme comfort with a set of four bundled technologies. They are the anti-skid to prevent falls and decrease the risk of

injuries, anti-static protection from electric discharges, alarm-free avoiding the airport X-ray scanner and ambicork for thermal control and long life cushioning. From here, results the first core competence- a footwear concept with a set of differentiated characteristics, designed by Abotoa in partnership with CTCP. **Exhibit 7** shows Skypro's characteristics compared to its direct competitors.

Secondly, this firm has a respectable clients' database, nurturing a strong Customer Relationship Management. Since 2010, Abotoa has been enlarging and updating its international clients' CRM, finding if these clients offer footwear to their employees, and data like the average number of employees allocated by gender or their willingness to spend. Participating in events like the MICAM (Milan's famous footwear fair), ITCA (international travel fair) or the WTCE (World Travel Catering Expo) contributed to the expansion of the client network and increase in brand awareness. In this last mentioned fair, Skypro was the only footwear brand present.

The differentiated footwear and the CRM are valuable, since Abotoa takes advantage of them by being the Portuguese leader in the Airline niche market, with an average markup of 40% in the B2B platform and an extremely high average markup of around 70% in the B2C platform. The differentiated footwear's characteristics also mitigate the threat of new entrants like indirect competitors (see Industry Map) - comfort footwear firms for instance. Additionally, the product's technologies are rare in Skypro's case, because they are bundled in the same shoe. However, these technologies are available in the market and not patented by Skypro. Only the brand/trademark is registered in some countries like Portugal, USA, Australia or Turkey. Competitor firms would not incur in a

significant investment to develop the technologies in its own shoe, needing only to create a new production mold. Therefore, this core competence is not hard to imitate.

The market database – personal connections constructed along the years - is also considered rare due to its high level of development, but it is easy to imitate in the medium-run, if the competitor is attracted to this niche market.

Lastly, Skypro is organized to take advantage of these resources by having a 7-employee structure that controls the quality of the outsourced production, as its leader position in Portugal proves. Yet, it centralizes the critical processes and decisions on the firm's CEO. Summing up, Skypro detains a temporary competitive advantage in both core competences.

Methodology

The objective of the first part of this thesis is to evaluate and analyze Skypro; both internally and also the external environment where it plays. The second part has the purpose of clearly defining the strategies and steps for the Internationalization of this brand to the nipponic country.

With the aim of developing the several stages of this thesis, a set of procedures was established and several entities were contacted. Weekly reunions were performed with Dr. Jorge Pinto (Abotoa′s CEO), so as to get the necessary information about Skypro and the national/international footwear markets.

Along all the course of this thesis, the University's online/physical library and internet were a great source of information. Moreover, phone calls and e-mail interviews were performed to more than 30 non-Japanese Airlines, both clients and non-clients of

Skypro, to analyze the most valued shoes' characteristics, willingness to pay and Skypro's potential clients perception or brand awareness. Only White Airways and Transaero Airlines accepted to give interviews (**exhibit 8**). E-mails and phone interviews to Japanese Airlines were also accomplished. This was done with the aim of collecting information about their footwear suppliers, their prices, and number of pilots, co-pilots and flight attendants that each firm employs; so I could better define the demand for Skypro. Interaction with several organizations such as Aicep (Dr. José Fernandes), APICCAPS, JETRO or Lisbon's Japanese Embassy was established.

Industry Map (Exhibit 9)

The Industry Mapping is a powerful tool to study the Portuguese Footwear Industry. By reviewing it, one can comprehend the relationships between Abotoa and its related key players.

Suppliers

Abotoa chooses its suppliers (**exhibit 10**) according to numerous aspects: production quality, price, option of supervising the products quality during the production, and conditions of payment. This list of Skypro's suppliers is extensive in order to diminish the risk of delays or supply failures. These factories from the footwear cluster of S. João da Madeira highlight themselves by the differentiation capacity and raw materials quality. Moreover, they have a great bargain power over Skypro, since their orders are relatively small, infrequent and factories have to spend high amounts in production molds; reasons to consider rejecting a partnership with Skypro.

Clients

Skypro's clients list, besides the individuals that order the products detachedly-generally frequent flyers-, is composed by Ground handling firms, Airline companies, Air Forces and others. The portfolio, with the current clients and projects in negotiations is exposed in **Exhibit 5**.

Distributors

Skypro uses numerous distribution channels like website partnerships (B2B and B2C in Russia, Switzerland and USA), airport stores and retail stores (B2C in Australia and Germany), its own e-commerce store (B2C) and the usual direct approach (B2B). This direct approach consists of e-mails, phone calls, website demonstrations and exhibitions at the Airlines' headquarters. It was the first type of distribution used, but still accounts for around 80% of sales. A detailed description can be seen in **exhibit 11**.

Direct and Indirect Competitors

Direct competitors can be classified as those firms who sell shoes specifically for Aviation Professionals. In the Portuguese market, Lavoro[1] is the only company selling corporate footwear with a segment for aviation employees. However these shoes are more safety oriented, not focusing so much on comfort. For the foreign market, we already find more competitors.

Those companies that sell corporate/classic or comfortable footwear, but not specifically targeted at the Airline Industry, are seen as **Indirect Competitors**. In this last category, uniform companies providing footwear for the Aviation industry are also included(**exhibit 12**).

Institutional Players

1 Based in Guimarães, Portugal. It's present in almost 40 markets.

In addition to the standard key players previously referred, Abotoa maintains relationships with APICCAPS, CTCP and QREN, expounded in **Exhibit 13**.

Industries' Contexts

Given the limitation of space, the **Portuguese Footwear Industry Trends** and the **Worldwide Footwear Industry Trends** are presented in **exhibit 15** and **exhibit 16**, respectively.

Value Chain

As Michael Porter stated in 1985, "competitive advantage stems from the many discrete activities a firm performs in designing, producing, marketing, delivering, and supporting its product." [2]

Skypro makes use of outsourcing in several areas: Accountancy, Marketing and the Management of Human Resources - recruitment.

Value activities are divided into primary and support activities. The primary activities of Abotoa include outbound logistics, sales and aftersales service. The outsourced production process only begins after the client's order, except for the B2C platform. Outbound logistics occurs with the physical distribution of the footwear to the Airline, generally with the Portuguese clients picking up the products directly at the factory, or by using the services of transport companies (see Industry Map - Distributors). A women's pair of shoes costs 25,50 euros to produce, while 42 euros for the Men's case, on average. Pricing, making part of the Marketing and Sales value activity, has the "at least 35% gross margin" constraint, according to Abotoa's CEO. Lastly, the aftersales services include web

2 (Porter, 2008).

services to contact directly with clients in relation to feedback and warranties, as well as a 60-day fair return policy.

Abotoa's support activities are constituted by the Firm Infrastructure - stock storage and quality management in this case- , the Procurement of resources by organizing outsourcing to supply Skypro's specific technologies, and the differentiated Technology Development. The footwear storage and maintenance for the e-commerce store, is made at the sales office in Carnaxide. Regarding the Procurement of raw materials, they are currently supplied by SIACO [3] and SBR, based in S. João da Madeira and near to Abotoa's office.

After the footwear production being supervised by a Skypro's employee in the Portuguese factories, the quality of the final product is tested; with a quality management divided into 5 phases. **(exhibit 17**).

The estimates present in the Value Chain diagram(**exhibit 18**) were based on Skypro's Profit and Loss Statement of 2012.The obtained gross margin of 52,4% is a weighted average, based on the total revenues and total COGS of the B2B and B2C sectors.

The key aspect of Abotoa's supply chain is that production is outsourced, making it possible for Abotoa to have such a small structure, and deal successfully with larger orders or with a peak of clients. Despite the contract with a marketing agency, Abotoa promotes its footwear to its clients in aeronautics fairs and with exhibitions at the Airlines' headquarters.

3 Sociedade Industrial e Comercial de Artigos para Calçado.

Criteria for Japan's selection

One of the reasons behind Japan's choice as a new destiny for Skypro, is the objective of captivating the attention from the Asian market and creating a higher brand awareness in this country; that will lead to a greater recognition of Skypro in Asia.

Moreover, the Japanese society has a significantly high purchasing power, occupying the 36th position in terms of GDP per capita, measured in a purchasing power parity basis to adjust for different prices. The European Union average comes in 41st place and Portugal in 64th [4]. This fact is important to state that the Japanese will have a higher propensity to buy this premium-priced footwear. The footwear that Japanese Airlines acquire is highly priced, as well as the indirect competitors' prices; a positive factor for the entrance of Skypro in Japan.

Additionally, Japan was ranked in 2013 at the second position as World Footwear Importer, with a 5.9% world share and 678 million pairs imported, only behind the USA; this fact denotes that there is a potential high demand for Skypro, besides the Airlines' niche. The Japanese Footwear Industry appears also as the 5th nation in the world that most consumes footwear, with 690 million pairs (**exhibit 19**).

Additionally, the Tokyo Haneda International Airport was placed at the fourth position in the World's busiest Airports, in terms of passenger traffic. It is currently the second Asian busiest airport, after Beijing Capital International Airport. Haneda Airport offers service to 18 international and 7 domestic airlines. (**exhibit 20**). Around 69 million passengers passed by this airport in 2013, with a notable raise of 2,6% comparing to the previous year. Since this Airport handles primarily domestic traffic, rather than

4 (Central Intelligence Agency - The World Fact Book,2014).

international traffic like the Tokyo Narita Airport, a higher percentage of Japanese flight personnel and Japanese frequent flyers will be reached this way. Haneda should be the chosen Airport to explore an Airport store, as posteriorly seen in the Mode of Entry section.

The facts that Japan is composed by more than 6500 islands and has a population of more than 127 million also increase the transportation necessity. This could mean a likely creation of new airports, airlines, ground-handling firms and more employees with necessity of footwear in the medium-run.

Japanese Airlines

All Nippon Airways (ANA) and Japan Airlines are the two leaders in passengers carried, with 45,1and 38,6 million in the year of 2013, respectively.[5]

To understand and study the demand for Skypro's footwear in the B2B Japanese sector, it was crucial to know the current number of on-board personnel – pilots, co-pilots and flight assistants - that each Airline employs. After interviewing by phone call and e-mail the Japanese Airlines and the Aicep representative in Tokyo (Dr. José Fernandes), it was possible to know the majority of this data. For some Airlines, the number of pilots and hostesses was estimated (**exhibit 21**).A total number of 9366 pilots and co-pilots was obtained, while the 23589 is the total of flight assistants. In addition, 12 of the 24 Airlines do not provide footwear for their employees, while the information for 4 of the 24 was impossible to obtain. ANA, the major Japanese Airline, doesn't provide footwear to its employees. On the other hand, the second major Airline – JAL – does provide.

5 (All Nippon Airways - Group traffic results, 2014).

SWOT Analysis – Skypro in the Japanese Footwear Market

By mixing the internal strengths and weaknesses of Skypro with the external opportunities and threats of the market (SWOT), one will be able to create different strategies and actions to improve the current firm's situation (TOWS) and the future one in the Japanese market.

Internal Strengths	**Internal Weaknesses**
• S1- Product differentiation and partnership with CTCP • S2 - Portuguese Leader • S3 - Extremely high and high markups in the B2C and B2B platforms, respectively • S4- Little fixed costs (no capital expenditure on factories, only e-commerce stocks) • S5 - Footwear Customization • S6 - Outsourcing of Production and capacity to invest in external markets • S7 - Comfort Know-how • S8- Quality Management • S9 -Respectable clients' database (CRM)	• W1- Low control on delivery deadlines (factories dependent on the raw materials' producers) • W2-Inexistence of suppliers' contracts • W3- Low Brand Awareness • W4- Inexistence of patents or utility models • W5 - High bargaining power of suppliers • W6- Incapacity to constantly innovate and invest in R&D • W7- Low Economies of Scale (relatively small orders) • W8 - Company's Size (little resources)
External Opportunities	**External Threats**
General Opportunities	General Threats
• O1- Expansion of distribution channels • O2-Promotion through Social networks' • O3 - Advertising in Airports' staff areas, exhibitions at the Airlines' bases and participation in fairs(B2B and B2C) • O4 -Buying power of Airline and Ground-handling firms • O5 - High footwear agreements' duration • O6-Market dimension of Airline firms and Aerial armed forces • O7- Partnerships with engineers/stylists • O8-European Aviation fairs	• T1- Comfort/safety Footwear as substitute products • T2-International Crisis • T3-Financing difficulties • T4- Foreign exchange risk • T5 -Vertical Integration risk by Skypro's suppliers
Japan's Opportunities	Japan's Threats
• O9 -Exploration of other niche markets • O10-Population of Tokyo (around 35 million habitants; 25% of Japan's population)[6] • O11-Japanese E-commerce trends	• T6 –Japanese Long-term economic problems (aging population and negative economic growth)[7] • T7- Relatively small aviation niche market • T8- High customs fees to export footwear to Japan (24%) • T9-Bargaining power of clients

TOWS Analysis

Maximize External Opportunities using Strengths

6 (World Population Review, 2014).
7 (Quartz, 2014).

S1+S5|O4+O6 – Maximize Skypro's differentiation and its ability to customize the product to different customers, to explore the great dimension of Airlines and Aerial Armed forces and its high purchasing power.

S4+S6|O1+O5+O11 – Explore the capability of outsourcing production and its high production capacity, in order to sell to new external markets through different distribution channels, like website partnerships and retail or airport stores. Here, Airlines will use Skypro's footwear for many years renewing its agreements, and that creates a long/term source of revenue.

S7|O7+O9 – Rely and reinforce its past experience on comfort shoes' know-how to establish partnerships with stylists to develop new footwear for Airlines, or for other markets like hospitals, train companies or maritime forces.

S6+S7|O10 – Choose Tokyo as the Japanese internationalization destination.

Avoid Threats by means of Strengths

S4|T2+T4+T6 – Despite the high purchasing power and willingness to spend on footwear, Abotoa should maintain the same selling prices and gross margins in Japan, for B2B and B2C, mainly due to the long-term Japanese economic problems. Additionally, it should try to establish the foreign contracts in euros or use forward contracts with fixed prices, to avoid the Yen's oscillation.

S1+S6|T7+T8 – In Japan, Skypro should take advantage of its set of differentiated bundled characteristics and charge the same premium prices, with the same gross margin; despite the relatively small aviation market and the high export custom fee.

S1+S5|T1+T5 - Keep innovating and offering customized shoes by intensifying the partnership with CTCP, promote the set of differentiated characteristics to the Japanese Airlines, in order to enter and expand continuously the market share.

Reduce Weaknesses by embracing External Opportunities

W3|O1+O2+O3+O8 –The exploration of new distribution channels abroad, the more intensive use of social networks mainly for the B2C platform, the advertisements/exhibitions and the participation on European fairs (WTCE,MICAM) can increase Skypro's brand awareness.

W6|O7 – Through partnerships with international or Portuguese engineers and stylists, the firm can fight its inability to be creative and innovate with new designs and characteristics

W5+W7|O1+O9+O11 – Focus on economies of scale through the expansion of new external markets and the possible exploration of other niche markets, with orders increasing and consequently decreasing the cost per unit. The same happens when using E-commerce, with the need to have more inventories.

Reduce Internal Weaknesses and avoid External Threats

W1+W2+W4+W5|T5 –By making formal contracts with the Portuguese suppliers and registering the respective patents or utility models, Skypro would be able to control more effectively the orders' deadlines and avoid the copy by vertical integration.

Porter's Five Forces Analysis of the Japanese Airline Footwear Market

To complement the analysis of the Japanese Airline Footwear Market potential and characteristics, an extensive analysis was developed in **Exhibit 22**.

On the topic of the **buyers' power**, some Airlines are able to pressure and discriminate Skypro's prices within a certain range, while in the B2C platform the clients' bargaining power is lower.

Airlines tend to use the same customized uniform and footwear models for extensive periods, which increases the switching costs to choose another supplier. This favors Skypro in case of penetrating the market and reaching the Airlines.

Concerning **suppliers**, most of the transacted footwear of Japan comes from low-cost manufacturers, mainly from South-East Asia, and their number is relatively large. Skypro's Portuguese suppliers have a higher quality production process and use high-quality raw materials. Besides, Skypro needs to pick production samples and test them; that would be more difficult with Asian factories. For these reasons, and because Skypro's mission is not to be a low-cost brand, but the worldwide reference in comfort footwear for aviation professionals, it's preferable to maintain the same Portuguese suppliers.

New Entrants of this niche market are most likely to be the Japanese indirect competitors **(exhibit 23**).Nevertheless, Skypro's bundled technologies are highly differentiated, which increases the likelihood of success in case of entering this market. The main entry barrier is considered to be the high customs fee – 24%.[8]

The **threat of substitutes** from an intra-market perspective is significant, due to the fact of a shoe for Aviation professionals can be replaced by a safety or comfortable shoe. There is a high existence of cheap alternatives from Asiatic origins, but no other brand that supplies the Japanese Airlines possesses all Skypro's characteristics (**exhibit 7**).

8 (European Commission - Market Access Database,2014).

In relation to the degree of **Rivalry**, the Japanese Airlines have several different footwear suppliers (**exhibit 21**). Ginza Kanematsu (Japan), Regal (Japan) and Dalibai (China) are the main brands with Asiatic origin. Airline Shoes (UK) and Cabin Shoes(Scotland) are the foreign footwear providers. Ginza Kanematsu provides footwear for three Airlines, with JAL as the most important. Dalibai sells for two Airlines each; while Regal, Cabin Shoes and Airlines Shoes provide for one. Only Ginza Kanematsu, Airline Shoes and Cabin Shoes are considered direct competitors, since they sell footwear specifically for aviation professionals.

Let's compare Skypro's selling prices with its direct competitors. Starting by Skypro, prices, from a B2C perspective (via e-commerce), range from 145 to 192 euros in the case of Men's shoes, and are between 109 and 134 euros in the Women's case. In the case of transactions between Abotoa and other companies (B2B perspective), prices are much lower; between 38 and 55 euros for the Women's case and between 53 and 70 euros in the Men's case. These values depend on each shoe model and on the negotiations with the given buyer firm.

As we can see in **Exhibit 21**, Ginza Kanematsu, Dalibai and Cabin Shoes sell its footwear to the Japanese Airlines for an average price of 54,7, 52,5 and 67,5 euros respectively. Regal and Airline Shoes' footwear are more expensive, being sold by an average price of 80 and 90 euros, respectively. The best-seller "Mary Miers" women's Skypro shoe will sell for around 60,87 euros for the Japanese Airlines, according to the Pricing Strategy(**exhibit 24**).Despite the high customs fee, this is still a competitive price comparing with the prices above, only higher than Ginza and Dalibai's prices.

Comparing the footwear suppliers of the Japanese Airlines with Skypro, we see that none of the stated brands possesses all the characteristics that Skypro shoes have (**exhibit 7**). Ginza Kanematsu, Regal, Dalibai and Cabins Shoes have only the anti-skid and comfort features. The brand Airlines Shoes is the one that gets closer to Skypro, in terms of technologies, but still lacking the ambicork technology for temperature control and the anti-skid for extra grip. Thus, we should conclude that Skypro not only charges a competitive B2B price within the range of prices of its competitors, but also seems to possess the most advanced shoe in terms of technology/features.

Regarding the indirect competitors and its prices in the Japanese Market(**exhibit 23**), Dr. José Fernandes from Aicep helped me by providing the main stores and its respective leading brands. From here, we see that Skypro's prices for B2C are competitive and within that range, with the "Mary Miers" selling for 125,89 euros(see Pricing Strategy-**exhibit 24**).

Analysis of the Japanese Airline Industries (exhibit 25)

Internationalization Process

Mode of Entry

In my opinion, Licensing or Franchising Skypro's products wouldn't be valid options. Skypro doesn't hold any patent in order to license it and doesn´t have enough brand awareness to open Skypro's stores through Franchising. Additionally, it wouldn't be possible to continue producing Skypro's footwear in S.João da Madeira factories. Outsourcing production to Asian factories would put at risk Skypro's premium quality. It would originate "problems of quality control, lack of control over technology and inability

to realize experience curve economies".[9] There would be the risk of deteriorating the Skypro brand reputation.

On the other hand, the Exports mode of entry requires lower capital resources and since Skypro doesn't have the ability to make large investments at the time, it seems more adequate. Additionally, the previous experience with this mode of entry in some non-EU countries also eases this process, together with the "ability to realize global scale economies".[10]

The Japanese orders are manufactured in S.João da Madeira, and only then dispatched to the customer through vessel transportation. Therefore, additional Investments in Japanese Infrastructures wouldn't be needed. It would help Skypro to expand, have lower manufacturing prices and economies of scale, diversify risk, while maintaining the operational control. On the disadvantages side we have high customs fees (24%), paperwork of trade barriers and the management of customers. After deciding that **direct exporting** to Tokyo is the preferred mode of entry for Skypro, we have to choose from the different exporting alternatives:

1) Choose a Japanese distributor of Skypro's products; **preferably** an already existent retail store **or** airport store.

2) Establishment of its own retail store **or** airport store.

3) Direct Selling to Japanese Sales Agents, representing Skypro in Tokyo.

4) Improvement/translation of the e-commerce store (with help of local distributor) .

5) Direct contact with Airlines (with help of local distributor) .

9 (Hill, 2008).
10 (Hill, 2008).

- **<u>Chosen modes of entry</u>: 1), 4) and 5).**

One of the possible modes of entry in the Japanese market would be the **establishment of its own brand store** or a **contract with a local distributor** to resell the footwear in its retail store. The **Placement** of this store could be in one of the two airports of Tokyo or in the city center. Since the frequent flyers and flight personnel of each Airline spend a great part of their working time in the different Airports, having pauses between flights, this mode of promoting and approaching Skypro's target clients is especially efficient. For this reason, this airport location is preferred over a retail store in the city center. Preferably, Haneda International Airport would be the chosen one because of its higher traffic passenger, which represents more flights, with more flight personnel, and more frequent flyers. Oppositely, Narita Airport would be the place to launch a store in case of not finding a distributor for Haneda(**exhibit 20**).

As already stated, the current financial state of Abotoa wouldn´t allow such a large investment as the establishment of a store with its own brand. It would also be considered a too risky investment, particularly in a continent and city never tested before.

Abotoa should follow a more cautious strategy at first, testing the Japanese market with a lower investment and see if it's profitable and able to expand. Therefore, it could instead make a contract with a **Japanese Airport distributor** to buy Skypro's footwear and resell them in its Airport store. The choice of this distributor would be an important task; due to the enormous cultural and geographic distances between Portugal and Japan, choosing an appropriate local intermediate is a key performance factor.

Besides the location factor, Skypro should choose its distributor according to his sales record, the size and capabilities of its sales force, its retail facilities, and its marketing

and promotional strategies.[11]In addition, this aspect can influence the success of Skypro in Asia, since Japan/Tokyo can be an Asiatic trendsetter.

Skypro could try to contact one of the following Haneda's fashion Airport stores: Travel Pro-Shop TOKO, Maker's Kamakura, Omoshiro or Rink.[12]In Narita's Airport, the options would be ABC-Mart, Uniqlo, russet, Urban Research, Override or Omise Parco.[13] Oppositely, if Skypro couldn´t establish a contract with an Airport store, it should choose another distributor like a footwear importer. Some of the possibilities would be: Abahouse International Co., Alco International Ltd., EuroPacific Japan Ltd., Isetan Mitsukoshi Ltd., Kawamura & Co.,Ltd., Ogitsu Co.,Ltd., Takashimaya Co., Ltd., Toho Lamac Co., Ltd., among others.[14]

At this stage this distributor had already purchased Skypro's footwear, which means a significant source of revenues and risk decrease, contrarily to the case of a Sales Agent.

Likewise, in this case of such a high distance between Portugal and Japan, distributors offer a significant advantage: the possibility of stock storage. However, with the change of product ownership, there are some disadvantages: the control of the sales and aftersales service, as well as the control over branding, are limited. Another advantage of this mode of entry is that the local Japanese distributor already knows the contacts, laws, language, business procedures and cultural aspects of the country; contrary to the exporter itself.

Distributors buy Skypro products, but only if they evaluate the potential demand of the market as positive or optimal. Or else they would prefer not to risk buying footwear that

11 (Radebaugh, Sullivan, and John Daniels , 2009).
12 (Haneda Airport, 2014).
13 (Narita Airport, 2014).
14 Information from Dr. José Fernandes - Aicep.

they thought they wouldn't sell. Here is where this demand-driven method contrasts with the supply-driven method of Sales Agents,[15] that doesn't incur in the risk of buying footwear stocks.

A partnership with a **sales agents** (with a royalty per unit sold), like ANA's or JAL's flight attendants, would be a cheap alternative since these agents would only need some stocks and catalogues to promote the products. They would be the right agents since they have already the necessary contacts in Skypro's target market and would know better than anyone how to promote Skypro's characteristics. However, "in Japan, the classic system of a sales agent on a commission basis does not exist in the footwear market. It can only be found in very rare cases", as Dr. José Fernandes from AICEP explained to me. For this reason, I think it would be **very difficult to establish this mode of entry in a successful way**.

"**E-commerce** is especially vital to SME's that can´t afford to establish a sales network internationally. Research suggest that e-commerce is easy to engage, provides faster and cheaper delivery of information, generates quick feedback on new products, improves customer service, accesses a global audience, levels the field of competition, and supports electronic data interchange (EDI) with both suppliers and customers."[16]

"Japan is the second largest B2C e-Commerce market in the world after the U.S., according to eMarketer, and has over 100 million internet users, according to Internet World Stats. E-commerce sales growth from 2012 to 2017 tends to be 3,3% per year. The

15 (Cyert, 1963).
16 (Radebaugh, Sullivan, and John Daniels , 2009).

online retail represented 3,9% of total retail, in 2012."[17] These figures demonstrate the Japanese E-commerce potential. Responding to a Nielsen Global Consumer Report about global trends in online shopping, shoes/clothing/accessories were the second product most likely to be purchased in the next 6 months, only behind books.[18]

The distributor could opt by cloning Skypro's website and translate it to Japanese, to attract the B2C segment, since the majority of Japan habitants are not English proficient.[19] He would be responsible to deal with every aspect, including the storage and distribution of the footwear. The frequent flyers and pilots or flight assistants of Airlines that do not offer footwear, could be reached this way. The main barrier to this approach is the fact that customers cannot try the shoes and evaluate the quality and characteristics. For this reason, this distribution channel would be only a complement, mainly targeted at the B2C platform.

Besides the previous options, Skypro has always the typical way of approaching the Airlines and ground-handling firms. The **direct contact** approach consists of a cheap way of contacting the companies through mails or phone calls, and tries to promote and understand their interest in the Skypro brand. The interested firms can then visit the e-commerce store or ask for demonstrations of the footwear. Again, the local distributor would be responsible to support these actions. Preferably the chosen distributor would be the same for the Airport Store, E-commerce and direct contact with Airlines.

After the firm entering the Japanese market, Skypro should develop partnerships with uniform companies (Daimaru Matsuzakaya Department Stores or DESCENTE) that

17 (JLL - E-commerce boom triggers transformation in retail logistics,2014).
18 (Nielsen global consumer report, 2014).
19 (Japan Today, 2014).

do not produce footwear. It should also evaluate the Japanese customers' satisfaction with online and phone surveys, and try to improve the customer loyalty it through e-mails with related Aviation websites and with special offers and discounts.

Implementation Plan

Before implementing any mode of entry in Japan, Skypro should strengthen its relation with CTCP, investing more funds in order to create new technologies/designs by researching the needs and specificities of Japanese consumers; new sources of differentiation. This could also be achieved through partnerships with engineers and stylists, as previously stated. Abotoa should also register its trademark and the possible patents in Japan, to avoid protection problems.

The **promotion** through Asiatic Aviation fairs would not be the right choice. This is due to the fact that this investment is too high (more than 35000€ per fair) for a not yet tested market, and because the Japanese Airlines are already present at the Hamburg WTCE, which Skypro attends. Instead, Advertisement through Adwords, Google display websites, Airlines' Magazines and Pilot Stores should be accomplished.

The contacts with Aicep and JETRO would also be crucial to better define the internationalization strategy.

With the aim of implementing the export strategy using three different channels, a **4 M's** approach was defined to study the needed investments in capital, time, human resources and the respective strategic actions to accomplish the objectives. The **Pricing Strategy (exhibit 24)**- following the respective Incoterms-, the **Financial Projections** and **Risk analysis** are also accomplished.

4 M's

Minute and Money

	Activity	Duration (months)	Dependency	Money (€)
	E-commerce Store			
1	Recruitment of a Japanese translator for the initial website translation	1	-	1500
2	E-commerce store translation and improvement	2	1	5000
3	Orders to S.João da Madeira for footwear stocks	0	1	0
4	Production of footwear stocks in S.João da Madeira	2	3	49329
5	Shipment of stocks to the Japanese airport store	1	4	7770
6	Storage of footwear($15m^2$x15€x12)	1	5	2700
7	Attribution of the management of orders to the local distributor	0,5	3	0
8	Online Advertising (AdWords, Google Display Websites, Airline Magazines, pilot stores(3% of Revenues))	1	5	5000
9	Initiate Mode of Entry	1	7	0
	Primary Investment			71299
10	Translator costs	Twice per year	8	2500
11	Improvements to website and maintenance	3 times per year	8	2000
	Airport Store with Local Distributor			
1	Search for the appropriate local distributor willing to resell in its Tokyo airport store	2		2000
2	Selection of retail airport store	3	1	0
3	Orders to S.João da Madeira for footwear stocks	0	1,2	0
4	Production of footwear stocks in S.João da Madeira	3	3	49329
5	Shipment of stocks to the Japanese airport store	1	4	7770
6	Initiate Mode of Entry	1	5	0
	Primary Investment			59099
7	Monitoring costs (accommodation, airplane tickets)	Twice per year	6	2000
	Direct contact with Airlines			
1	Contact Japanese Airlines through e-mails and phone calls	1	-	200
2	Contact personally the Airlines with the help of the local distributor	1	-	500
3	Contact with Airlines though footwear exhibitions/demonstrations at the Airline's headquarters	2	1,2	1000
4	Initiate Mode of Entry	0	3	0
	Primary Investment			1700
	Total Investment (3 Modes)			132098

(Stocks and shipments costs estimated in **Exhibits 26.1** and **26.2**)

Men

One retail Japanese distributor should be contracted by Abotoa, to be representing Skypro with the Airport Store, the E-commerce store and to contact directly with the Airlines. For the E-commerce store, a Japanese translator should be hired. Being fluent in Japanese and English would be a necessary requirement for both. The management of the online orders, requests, privileges and questions would be responsibility of the local distributor.

Memo (2-year time)

	Objectives	Target	Measurement	Initiative
Financial	• Increase revenues • Enlarge portfolio of clients (B2B and B2C)	• 80% of total revenues from foreign markets • Payback period of 2 years	• Number of B2B and B2C clients • Number of pairs of shoes sold • External and Internal Sales volume	• Direct contact with Japanese Airlines • Representation of Skypro in Tokyo's airport store
Customer	• Become the worldwide leading footwear brand for aviation professionals • Create brand awareness in Japan and Asia	• 75% awareness in Airline surveys • 90% of customer satisfaction	• Market research on Brand Awareness • Market share • Surveys to Airlines and Ground-handling firms • Number of Asian website visitors	• Participation in European aviation fairs (MICAM,WTCE) • Special training to the local distributor • Japanese translation/cloning of the website
Internal	• Establish partnerships with uniform companies • Present annual fairs at ANA's and JAL's headquarters	• 2 local partners • 2 annual fairs	• Number of strategic partnerships • Number of annual fairs	• Visit and support the Japanese local distributor to reach agreements on the fairs exhibition
Learning	• Take advantage of economies of scale • Gain reputation in Asia • Obtain knowledge about the Asian market • Innovation	• Decrease average production cost by 5% • Create a new relevant footwear characteristic/technology	• Decreased Average cost of production • International prizes • Number of new technologies	• Renegotiate orders' prices with Portuguese suppliers • Participation in European aviation fairs • Contact JETRO, Japanese Federation of Pilots • Increase R&D investment • Reinforce partnership with CTCP

Source: primary source

Financial Projections (Exhibit 27)

In order to evaluate the financials of this internationalization project, an Incremental Forecast of the P&L and Cash Flow Statement was completed. The objective was to evaluate the financial potential of this project, helping to provide a decision on whether to implement this Internationalization Plan or not at all. The ultimate goal of these financials was to find the incremental NPV of this project from 2015 until 2019, discounted by the WACC of Abotoa for Japan. The WACC (6,84%) was obtained by applying the usual CAPM model formula, with an addition of the Japanese Country Risk Premium(0,9%)[20], to take into account the additional risk of investing in Japan's market.(see **exhibit 27.1**)

Three Scenarios (Pessimistic, Normal and Optimistic) were evaluated, according to the amount of revenues obtained in each mode of entry and genre. The necessary investment is composed by the investments of the 3 modes of entry. The operating, personnel, advertising costs and other costs like storage or shipment costs were based on the Minute and Money (4M's). The working capital was achieved as seen on **Exhibit 27.2**, with the Stocks of goods to be sold obtained from the 4 M's.

The Revenues for each Scenario are divided by Mode of Entry and by Genre, as it is seen on **Exhibit 27.3.** For the direct contact mode of entry, a percentage of the number of pilots and hostesses of the Airlines that provide footwear to its employees was considered as the demand. For the other two modes of entry, the same occurs but considering the Airlines that don't offer footwear. (see **exhibit 27.4**)

It was estimated that the number of Women buying Skypro shoes was 4 times higher than the quantity of sold Men's shoes. For the Revenues' estimation, the number of

[20] **Adamodar**.2014.Country Default Spreads and Risk Premiums http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/ctryprem.html (accessed April 26, 2014)

frequent flyers that pass by the Haneda Airport (68,9 million in 2013) was not took into account, due to the tremendous difficult in estimating the demand for Skypro's footwear. An incremental NPV of 175664 euros was obtained for the Normal Scenario. (see **exhibit 27.5**)

Regarding the other two Scenarios, the only parameters that suffer changes are the Revenues, the Cost of Sales and the Advertising, that depends on Revenues. In the case of the Pessimistic Scenario, the quantity sold was assumed to be two thirds of the Normal Scenario, in every mode of entry and genre. The final estimated incremental NPV was 62222 euros. (see **exhibit 27.6**)

The Optimistic Scenario assumes that Skypro will be the footwear supplier of JAL, with 7770 on-board personnel for the direct contact approach. Besides that, we assume an increase of 20% of quantity sold in the other modes of entry, comparing to the Normal Scenario. An Incremental NPV of 477864 euros was obtained.(see **exhibit 27.7**)

Concluding, the three scenarios have positive incremental NPV's, suggesting that Skypro should penetrate the Japanese market, following the three established modes of entry.

Risk Analysis

Summarizing the key risks of the implementation project, one can highlight the **high dependency on the local distributor**; the importance to choose the right distributor, and the importance of him reselling to an airport store in Tokyo. If this factor is accomplished, instead of the retail store being located in the center of Tokyo and away from the "habitat" of the target market, it is much more likely that the internationalization process will succeed. This distributor will be able to affect Skypro's reputation in Tokyo,

Japan and possibly Asia, in a positive or negative way. The positive point of this is that the distributor buys Skypro products, so there is a risk sharing.

There is also the risk of having **low brand awareness** in this niche market. This problem could be fought by participating in more European aviation or footwear fairs. Exhibitions and demonstrations at the Japanese Airlines headquarters could also be a solution, as well as advertisements in Tokyo's airports or ANA's or JAL's websites.

The **exchange risk** is always a risk present when making international deals. Due to the oscillation of the Yen value, Skypro should try to close deals in euros; with the aim of preserving the same margin of profit. Forward contracts with fixed prices in euros should be arranged. Another risk is the **footwear stocks investments**, for the e-commerce and airport store. In case of not selling these products, they would have to be customized with the Airline logo, in order to be sold to the B2B platform. Another problem could be fact that the sizes of the shoes not matching with the Airlines' employees, making it impossible to sell them.

The Skypro brand would also have to be registered in Japan, to avoid **protection problems**. Registering a patent for the possible technologies of the shoe is also recommended. Furthermore, the high custom fee to export footwear (24%), taxes and transportation costs can inflate the selling price, and consequently generate a **lower demand than expected.** On the other hand, Skypro exports to Kenya Airways, where the customs fees are higher (25%**)**.These risks can be mitigated by using the services of consulting firms or help from Japanese banks, providing information plans to reduce these costs.

Lastly, the **high dependency on the Portuguese suppliers** is a critical risk. In case of these not delivering the orders in the due time, the credibility of Skypro and the execution time of this project are seriously put at stake.

Conclusions and Recommendations

After completing Abotoa's internal and external analyses, scanning Japan's industry and the project's financials, it was concluded that Skypro should enter Tokyo's market with direct exporting through three chosen modes of entry. Direct contact with Airlines is a cheap and effective way of approaching the B2B platform; on the other hand a store in Tokyo's Haneda airport efficiently reaches the B2C target of Skypro. The translated E-commerce store would act as a supporting tool to complement these modes of entry, as well as approaching the B2C sector of frequent flyers, pilots and hostesses that are not provided with footwear by their Airline. In addition these three entry modes would also be supported and managed by its local Japanese distributor.

Vis-à-vis financials, it was concluded that Skypro should penetrate the Japanese market. A necessary primary investment of 132098€ would result in positive forecasted incremental NPV for the three scenarios: Pessimistic (62222€), Normal (175664€) and Optimistic (477864€), with the JAL's contract. In order to maintain its 41% average gross profit margin as well as 52% for the Airport/E-commerce stores distributor, Abotoa should maintain its current Pricing Strategy. That being said, Skypro should sell the Women's "Mary Miers" model for 43€. The Japanese Airlines, E-commerce and airport store would buy it for around 60, 87€, after duties and transportation costs. Later on, the distributor would attribute a final price of 125,89€ in its e-commerce and airport stores. In case the

distributor's margin would be reduced from 52%, unprofitable contractual terms would deter the beginning of a possible partnership.

Skypro charges a competitive price when comparing to suppliers of the Japanese Airlines. None of these direct competitors possess all the technologies that Skypro has, which together with competitive prices, represent major advantages when choosing what footwear to buy. Concerning indirect competitors, we saw that Skypro's B2C prices were competitive, as exemplified by the "Mary Miers" case.

The Risk Analysis of this Internationalization suggests high dependency on a Japanese local distributor, and the importance of reselling to an Airport Store instead of a retail store not located in Tokyo's Airport. Likewise, to avoid the oscillation of the Japanese Yen, Skypro should transact in euros and establish forward contracts with fixed prices. Skypro's trademark should also be registered in Japan to avoid protection problems, as well as registering a patent for possible technologies. Finally, the dependency on the Portuguese suppliers should be minimized by creating formal contracts.

Finally, Skypro should make other internal improvements before starting the implementation plan. Inability to constantly innovate would be fought with a stronger partnership with CTCP and partnerships with stylists to develop newly and customized footwear to Airlines, or simply by exploring other niche markets: hospitals and train companies, for instance. Constant participation in European aviation and footwear fairs – WTCE and MICAM – would be mandatory to promote brand awareness and gain new Airlines as clients.

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EXHIBITS

INTERNATIONALIZATION STRATEGY OF

SKYPRO SHOES TO JAPAN

DANIEL TEIXEIRA CORREIA | # 1449

A project carried out on the SME Competitiveness: Internationalization Strategy Field Lab, under the supervision of:

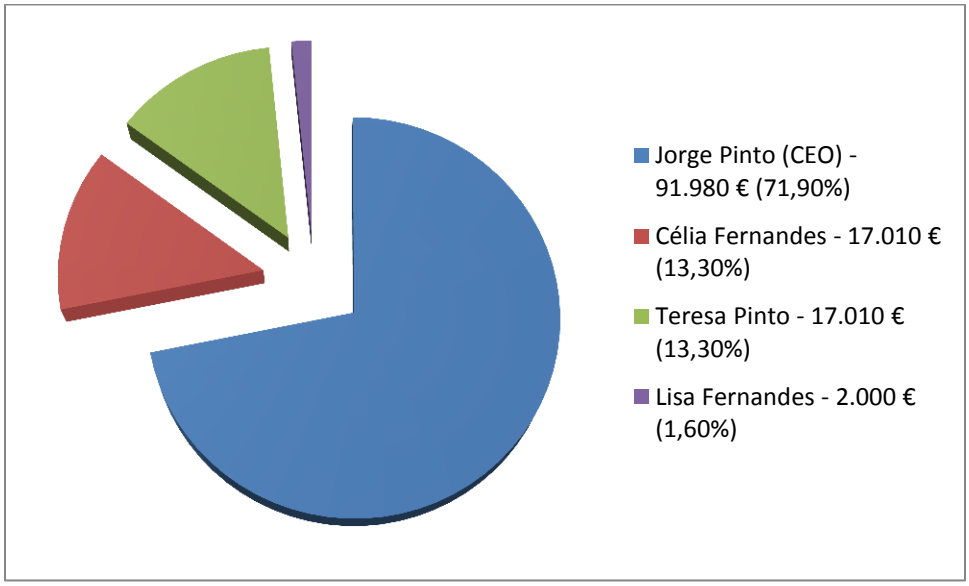
PROF. SÓNIA DAHAB

May 2014

Exhibit 1 - Skypro's characteristics

Source: Skypro. 2014. http://www.buyskypro.com/en/ (accessed February 2, 2014).

Exhibit 2 - Abotoa's current share distribution



Source: meeting with Abotoa's CEO.

Exhibit 3 – Airline Industry in Portugal

Currently, there are 13 Airlines in Portugal, with the majority based on the capital. Over the latest years, 4 Airline companies were extinct. On the Ground-handling sector, there are 6 firms.

In 2012, the aviation personnel in Portugal registered a total number of 10864, an increase of 2% comparing to 2011.On-board personnel accounted for 5280, with pilots and commandants being 2143, growing 3.1% from 2011.Comissionaries, flight attendants and other complementary personnel sum up to 3137; a raise of 3,2% from 2011. The personnel with land tasks accounted for 5584.

The last trimester of 2013 registered a homologue increase in the number of operated movements of 2%, and the total number of transported passengers grew by around 8%. The international regular traffic raised by 5,1% in number of movements and 8,5 % in number of passengers. This last trimester of 2013 totalized 6.437.584 passengers in all Portuguese airports, a homologue variation of 7,92%.

Source: - (INAC/INE - Estatísticas dos Transportes, 2013).

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Exhibit 4 - Portuguese Airlines (Clients and non-clients of Skypro)

Airline	Main Base	Situation	Fleet
Aero VIP	Portimão	Does not offer footwear to employees	2
AgroarCargo	Lisbon	Does not offer footwear to employees	2
Euroatlantic Airways	Lisbon	Current Client	6

Hi Fly	Lisbon	In negotiations	7
LuzAir	Lisbon	Does not offer footwear to employees	1
Omni	Lisbon	Not interested	9
Orbest	Lisbon	Does not offer footwear to employees	3
PGA	Lisbon	Current Client	14
PGA Express	Cascais	-	-
SATA Air	Ponta Delgada	In negotiations	6
SATA International	Ponta Delgada	In negotiations	8
TAP Portugal	Lisbon	Current Client	55
White Airways	Lisbon	Not interested	6

Source: Airlineupdate.2014. http://airlineupdate.com/ (accessed March 17,2014).

Exhibit 5 - List of Skypro's clients and potential clients

International Current Clients		International Potential Clients	
Condor Airlines	Germany	Kenya Airways	Kenya
Lufthansa	Germany	Royal Air Jordania	Jordania
Air Berlin	Germany	BH Air	Bulgaria
Norwegian	Norway	Air France	France
Wideroe	Norway	Turkish Airlines	Turkey
LuxAir	Luxemburg	EasyJet	UK
Transaero Airlines	Russia	Sky Airlines	Chile
TAAG	Angola	ArkeFly	Netherlands
Air 26	Angola	JetAirlfy	Belgium

Air Astana	Kazaquistan	Austrian Airlines	Austria
Amiri Flight	Qatar	Ethiad	USA
Aegean Airlines	Greece	Air Mauritius	Mauritius
WhiteJets Airways	Brazil	-	-

Source: primary source

Exhibit 6 - Foreign Partnerships (Website partners, Airport and Retail Stores)

Partner	Country	Category	Airlines
D&F Marketing Inc.	USA, Canada	Website Partner	Delta Airways Southwest Airways United Airways
The Aviation Store	Australia	Airport Store	Air New Zealand Quantas Airways Virgin Australia Jetstar
Image Wear AG	Switzerland	Website Partner	Swiss Airways Swissport
LSG Sky Chefs	Russia	Website Partner	Aeroflot AeroExpress Demodovo Transaero
Ringeltaube	Germany	Airport Store	-
Paolo Salotto	Netherlands	Retail Store	-

Source: primary source

Exhibit 7– Comparison between Skypro's characteristics and international competitors

Firm/Characteristics	Alarm free	Ambicork	Comfort	Anti-Skid	Anti-static	Extreme Comfort
SKYPRO	✔	✔	✖	✔	✔	✔
Crew4Shoes	✖	✖	✔	✖	✖	✖
Walk Footwear Ltd.	✖	✖	✔	✖	✖	✖
Hush Puppies	✖	✖	✖	✖	✖	✔
Crew Shoes	✖	✖	✔	✔	✖	✔
Regal	✖	✖	✔	✔	✖	✖
Ginza Kanematsu	✖	✖	✔	✔	✖	✖
Dalibai	✖	✖	✔	✔	✖	✖
Airline Shoes	✔	✖	✖	✖	✔	✔
Cabin Shoes	✖	✖	✔	✔	✖	✖

Source: primary source; Sites of these brands.

Exhibit 8 – Interviews to Airlines

a) Answers from White Airways, SA **(non–client of Skypro)** Interview with Mónica Ferreira (Flight Operations)

b) Answers from Transaero Airlines JSC **(client of Skypro)** Interview with Alexandra Kirilina (Deputy division manager)

1 – Footwear is supplied to your company to what categories of employees (pilots, board assistants, engineers, ground staff,…)? Both to Men and Women?

a) White Airways offers footwear for the board assistants and ground staff, both to male and female.

b) Transaero Airlines only buys shoes for our stewardesses; no more Skypro's items are supplied.

2 -Do you know SKYPRO? How did you get in touch with Skypro? What do you look for in a footwear's supplier?

a) Yes, we discovered this brand by a referral of another supplier. We look mostly for comfort, durability and a good relation price-quality.

b) We met with Skypro through the LSG Sky Chefs Catering Logistics GmbH and chose this brand because it works specifically for airlines, with differentiated characteristics. We have a contract with LSG Sky Chefs Catering Logistics GmbH since 2011.

3- Do you know other companies like Skypro that create footwear specifically for the Airlines Industry?

a) No, we don't

b) No, Skypro is the only one of this kind that we know

4 - How many pairs of shoes(for pilots, hostesses) do you buy annually, on average? Does your firm also supply footwear to the seasonal pilots/board assistants that only work temporarily? How much it increases on those seasons?

a) In the last couple of years no footwear was purchased. The last time it occurred, my female colleagues received two pairs of shoes and Men received one pair, to both long and short term contract employees.

b) On average, Transaero buys 3000 pairs for 2-3 years. In the previous year there was the need to buy 2 pairs of shoes per employee, but in 2011 and 2012 only 1 pair per employee was supplied.

5 – What Skypro's characteristics do you think are more important?

a) We value the anti-skid and comfort the most.

b) The comfort and the alarm-free technology seem the most appreciated among our employees.

6 - Do you think Skypro's shoes are significantly more expensive than its competitors, on average? How much are you willing to pay for a comfortable/with these characteristics pair of shoes?

a) I think Skypro shoes' prices are on average when compared with their competitors and I think the price is fair, considering the quality and durability of the supplied shoes.

b) I think it is worth to pay for the comfortable, non-slip and alarm-free footwear. Skypro's prices are are high, but good quality cannot be cheap.I would say we're willing to pay between 60 and 80 euros.

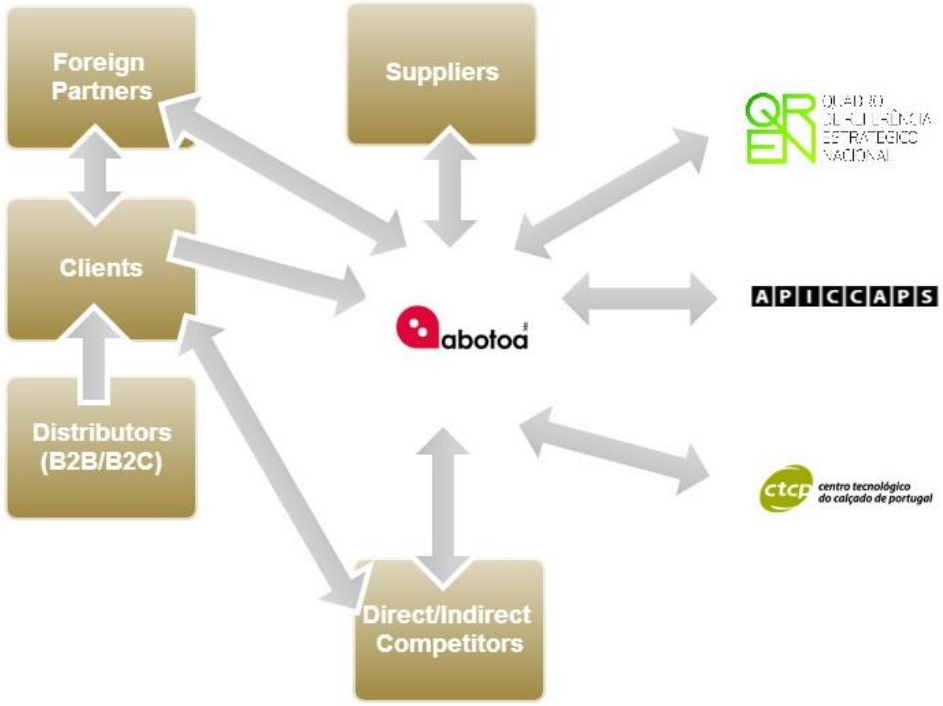
7 - On what currency do you make your footwear contracts?

a) We establish our contracts always in euros.

b) These contracts are usually arranged in euros.

Source: e-mails and phone interviews to these Airlines.

Exhibit 9 – Industry Map of the Portuguese Footwear Industry



Source: primary source

Exhibit 10 – Skypro's suppliers

Suppliers	Men	Centenário Valuni Fábrica de Calçado da Mata
	Women	Cortgin JJ Heitor SanBru HMC

Source: meeting with Abotoa's CEO.

Exhibit 11 - Skypro's distributors

Direct approach to its clients (B2B)

The great part of Skypro's revenues comes from the annual contracts, through direct contact – e-mails, phone calls, website demonstration and word-of-mouth from previous customers - with foreign Airlines (B2B). Some of these are established through trials and exhibitions of the different shoes' characteristics on these firms' headquarters – examples of Luxair in Luxemburg and Lufthansa in Munich. Regarding the shoes' distribution, Abotoa uses transporters as TNT or FEDEX for urgent transport matters, mainly to deliver outside Europe. AZKAR is generally the chosen company to transport the goods to European Airlines. However, the firm prefers to assign the distribution and logistics to its customers, being these ones to collect the footwear. It's cost advantageous for the Portuguese Airlines to collect the footwear near the factories, due to the economies of scale in transportation costs.

Airport and Retail Stores (B2C)

Skypro has already signed the contracts for its products' distribution by 2 Airport stores, in Australia and in Germany. In the next months, these partnerships will be completed, with The Aviation Store in Brisbane's Metropolitan Airport - distributing to 4 Airlines -and with the Frankfurt store (Ringeltaube) in Germany . Abotoa is also negotiating another B2C collaboration with 3 Dutch retail stores (Paolo Salotto), so the Skypro shoes will be distributed by these local stores.

E-commerce (B2C)

The Skypro's e-commerce store is divided into two websites: the main one – buyskypro.com – with English and German as languages, and another specially designed for the American market, mainly from the US and Canada. Its main goals are to attract individual customers, as hostesses or flight attendants, working in a company that does not offer footwear or that gives freedom for their employees to choose.

The client has the opportunity to search the shoes by size, color, heel height and price range. Skypro offers a free return policy of 60 days to European Union habitants; it's a good strategy to fight the risk of the shoes not fitting well, since with online shopping there is no try on.

Customer service is also available via website message, e-mail or phone number. There is the possibility to ask for products' returns or purchasing items with vouchers. The e-commerce sales represent around 10% of total sales.

Website Partners (B2B and B2C)

Besides its own e-commerce store, Abotoa has 3 international partners, selling Skypro products through their website. LSG Sky Chefs in Russia – a management of in-flight service processes – and Image Wear AG in Switzerland -clothing consultancy in the corporate fashion sector – were the first ones. In 2012, a partnership with D&F Marketing Inc. was established, a marketing and sales US company to the transportation industry.

Source: primary source.

Exhibit 12 - International Indirect competitors

Indirect competitors - retail or online	Clarks
	Moda Spana Nella
	Gentle Souls
	Shoes n Feet
	Aerosoles
	Mary Jane's
	Soft Shoes
	Kelly and Katty
	Easy Spirit
	Camport
	Zappos Online store
Indirect competitors - Uniform companies	Imagem and Companhias
	Weill Corporate Wear
	Veste Imagem
	Forma Única
	ICW UK

Source: meeting with Abotoa's CEO.

Exhibit 13- Skypro's relationships with APICCAPS, CTCP and QREN

APICCAPS is the Portuguese Association of footwear manufacturers, components, leather goods and substitutes. It offers footwear industry statistical studies, news and it

mainly helps Abotoa organizing its participation in the related fairs. In this particular case, this Association helps Skypro by offering support in the presence of Skypro in ITCA, WTCE and MICAM fairs; with transportation of stocks, assemblage of the stand, accommodation of employees and logistics.

CTCP represents the first Portuguese Technology Center of Footwear. Technological support of Skypro products, formation of Skypro workers, quality improvement and the execution of physical and chemical tests, are some of the main tasks it performs. The resistance of leather or cancer potential of some chemicals represent some of the performed tests. Quality certificates and patent registries are other CTCP's roles, with this last one being supported by the organization's technicians and by European funds.

Abotoa is presently investing in CTCP's plan to improve leather quality, design and shape; an investment worth of 75000 euros, from 2012 to 2015.

QREN – National Strategic Reference – is another organization that helps Skypro with European funds, destined mainly to internationalization processes, but also to the advertising of its website store, improvement of its products, patent register and personnel training. In Exhibit 14, some examples of the funds use can be grasped.

Source: primary source.

Exhibit 14 - Examples of QREN funds' destinations

Description	Value (€)
Stylists/ Design Development	3200
Informatics Software	201,9
E-commerce platforms	1050
Website with electronic catalogues	1948
Prospection trip to the USA	346,31
Prospection trip to the UK	333,84
Participation in Aircraft Interiors Fair of Hamburg (Renting Space)	24576,7
Catalogues Production	510
Brand Register in the USA	849

Source: meeting with Abotoa's CEO

Exhibit 15 – Footwear Industry in Portugal and international overlook at Portugal

The following data was obtained with the help of Skypro's CEO, providing me the World Footwear Yearbook 2013 and the Portuguese Statistical Study of Footwear, Components and Leather Goods 2013, both analyzing the past year of 2012.

According to the APICCAPS "Statistical Study 2013" for the year of 2012, 1354 companies employing 35355 workers were established in the Footwear Industry; producing 74156 thousand pairs of shoes, valuated in 1797,03 Million euros. In what regards consumption, 51787 thousand pairs were bought, appreciated at 614,288 Million euros.

Regarding Production, it is possible to state that from 2010 to 2012 it has been raising meaningfully, contrary to the downwards tendency since 2000 – due to the lower international trade barriers and full access to the Asian production markets. Nonetheless, relocation procedures are being developed to Africa, for example, exploring the low salaries.

From 2011 to 2012, the number of pairs produced by employee(on average) improved by 4%, to almost 2100, the highest value since 2002.Since then, several enormous production facilities had closed, being the small firms of higher importance in the last years, with the number of produced shoes decreasing. This fact penalized productivity levels. However, the Industry recovered from 2010 to 2012, as stated.

In 2011, S. João da Madeira is the 5th Municipality with higher number of employees in the Footwear Industry – 1760 - , being Felgueiras the leader with 12104 workers.

If we analyze the revealed comparative advantage rates, we conclude that Portugal has the greatest relevance in the international footwear trade, contrary to any other Portuguese Industry. The index is calculated using the proportion of footwear exports value in the given country, compared to the proportion of footwear exports value worldwide. Portuguese Footwear exports have a proportion value of 550% of the global exports. There is no other country close to this figure, with China and Italy being the closest ones, with around 3 times, respectively.

94,5% of Portuguese footwear exports were focused to Europe, while in the remaining part, 2,2% belong to America and 1,7% to Asia.

The Portuguese Footwear Industry was classified as the 11th World Exporter (measured in value), with exports worth of 2122 Million USD, an average price of 29,90 USD and 1,9% of World share.

Regarding Imports, Portugal occupied the 32nd position in 2012, with values worth of 541 Million USD and an average selling price of 11,11 USD. However, imports decreased by 14 million pairs, from 2011. Therefore, Portugal shows a significant trade surplus, with an increase of average export and imports prices, comparing to the previous year.

74 Million pairs of shoes were produced and 52 million were consumed. Portugal exports mainly to France and Spain, respectively with 17 and 13 million pairs. Regarding the imports markets, Spain is the main one with 44% of value share and 19 million pairs, but China is also an important market with 13 million pairs imported (only 9% of value share), showing the great difference in prices.

Source: APICCAPS.2013.*World Footwear Yearbook 2013*.Oporto: CEGEA. ; **APICCAPS.**2013.*Statistical Study – Footwear, components and leather goods*. Oporto: CEGEA.

Exhibit 16 – International Analysis of the Footwear Industry

Production has stabilized at 21 billion pairs in 2012, with Asia keeping its enormous leadership, manufacturing 87% of the worldwide pairs of shoes and possessing 6 countries

in the top 7.China produces more than twice the sum of all other worldwide countries, followed by India with 10% share. After these two, Brazil appears with 4% share.

China is also the top consumer, with 17,3% share worldwide, followed again by India with 11,9% share and 2260 million pairs bought. Asia undeniably detains the leadership in consumption, with 50% share, with the European continent coming after with 17% and North America with 15%.

Regarding exports, 85% of the world exports are Asian, and only 11% European. Again, China is the top leader is stabilized compared to 2011, with 10072 million pairs exported, around 20 times more than the second exporter country, Vietnam, despite the growth in the last years. Italy is the main European exporter, followed by Belgium, but neither of them achieves the 2% share level.

Unlikely the exports, the geography of imports suffered a significant change over the last years. Europe, with 34% imports' share, is still the leader, but with a 5 percentage points drop over the last 2 years. Asia's share (25%) has increased by 3 pp and left North America (24%) behind. Nonetheless, North American and European countries still dominate the list of top10 world importers, despite the lost share compared to previous years. USA takes the lead with 2292 million pairs, but also with a decrease of almost 10 pp in the last decade, followed by **Japan** with **678 million pairs.**

Source: APICCAPS.2013.*World Footwear Yearbook 2013*.Oporto: CEGEA

Exhibit 17 - Steps of the Quality Management process in the Portuguese factories

1. Control of raw materials: Abotoa checks the raw materials stocks, approving for production depending on their quality.

2. Control of leather and color: The thinness, resistance, smoothness, level of deficiencies makes part of the leather quality control, as well as the color. Chemical tests are realized for Chromium 6 and Formaldehyde.

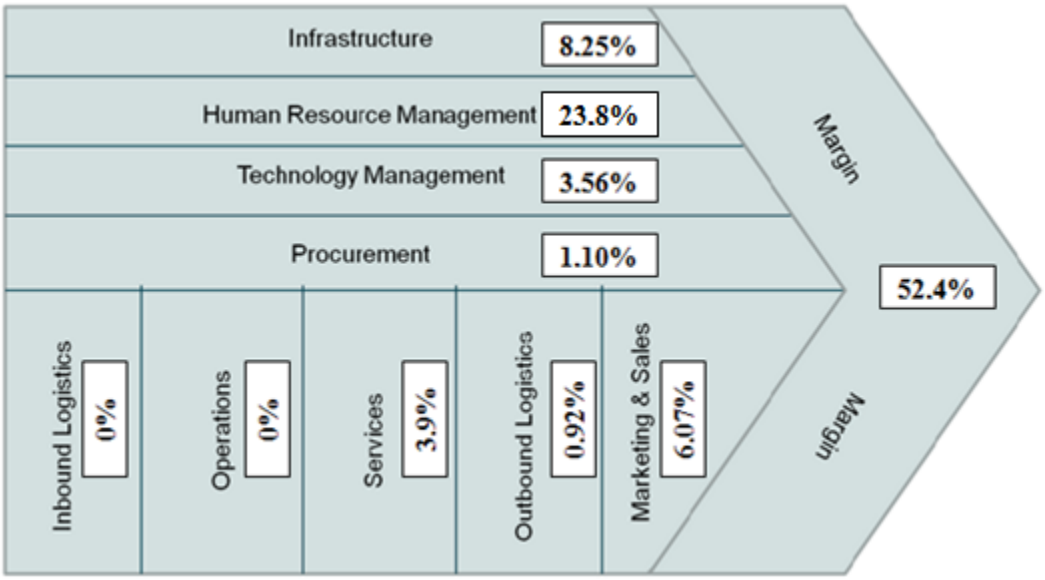
3. Stitch and Cut Control: The firm analyses the effectiveness of the process of cutting and stitching. It is also checked if the production deadlines are on time.

4. Control of Assembly: The goal here is to path any problem in the assembly steps, as soon as possible. This way, it's less likely the product will be unstable or irregular.

5. Packaging Control: This is the last phase and most rigorous, with the goal of identifying quality problems in the previous phases, and details like amount of glue, pigments, cataloguing and packing conditions.

Source: meeting with Abotoa's CEO.

Exhibit 18 - Value Chain Diagram



Source: Primary source.

Exhibit 19 - Japanese Footwear Industry

According to the World Footwear Yearbook 2013, Japan is the second country that most imports footwear, with 678 million pairs, only behind the USA. In what regards consumption, it is also a major player, being the 5th consumer in the world, with 690 million pairs in the year of 2012. On the other hand, Japan doesn´t bet so much in areas like production and exportation, being ranked at 43rd and 76th, respectively with only 13 and 1 million pairs of shoes.

Hong Kong, Republic of Korea and China are its main export markets, with a value share of 35%(14 million USD) for Hong Kong, but with exports to China growing 212% in the last 5 years. On what concerns the imports' markets, China is the major leader with 66% value share – 3661 million USD. It is important to note the discrepancy between the

values of exports and imports, where the major export market has a value of 14 million USD, while the main import market detains 3661 million USD. We clearly see that Japan shows a significant trade deficit; it is a world's main importer but a relatively unimportant exporter.

Source: APICCAPS.2013.*World Footwear Yearbook 2013*.Oporto: CEGEA.

Exhibit 20 - Airports of Tokyo

Airport	Millions of Passengers (2013)	Millions of Domestic Passengers (2012)	Millions of International Passengers (2012)	Number of slots per year	Number of Japanese cities
Haneda International	68,9	58,8	7,9	410000	49
Narita International	35,3	3,7	26,9	270000	14

Source: - (Airports Council International - Preliminary 2012 World Airport Traffic and Rankings,2012)**; - Narita International Airport**.2014. Monthly Traffic Statistics 2013. http://www.naa.jp/en/airport/traffic.html (accessed April 3,2014)

Exhibit 21 - Japanese Airlines and footwear suppliers

Airline	Main base	Pilots	Flight Assistants	Fleet	Offer footwear to employees?	Footwear Supplier	Buying Prices (€)
Air Do	Tokyo (HND)	57[1]	145[1]	13	✔	Regal (Both genres, Japan)	80
Air Japan / ANA	Tokyo (HND)	23[1]	59[1]	3	✖	-	-
Airtransse	Hakodate (HKD)	7[1]	17[1]	4	✖	-	-
Amakusa Airlines	Kumamoto (KMJ)	5	13	2	N.A.	-	-
ANA - All Nippon Airways	Tokyo (NRT)	2000	6000	192	✖	-	-
ANA Wings	Tokyo (HND)	33	78	37	✖	-	-
Fuji Dream Airlines	Shizuoka (FSZ)	9	25	7	N.A.	-	-
Hokkaido Air System	Okadama (OKD)	6[1]	14[1]	3	✖	-	-
Ibex Airlines	Sendai (SDJ)	11	27	9	✖	-	-
J-Air	Nagoya (NKM)	98	243	22	✔	Ginza Kanematsu (Women, Japan)	49 – 65
JAL Express	Osaka (ITM)	35[1]	89[1]	40	✔	Ginza Kanematsu (Women, Japan)	45 – 60
Japan Air Commuter	Kagoshima (KOJ)	141	353	11	✖	-	-
Japan Airlines(JAL)	Tokyo (HND)	2466	5304	112	✔	Ginza Kanematsu (Women, Japan)	49 – 60
Japan Transocean Air	Okinawa (OKA)	54	134	14	N.A.	-	-
JetStar Japan	Osaka (KIX)	100	250	18	✖	-	-
New Central Airlines	Ryugasaki	12	43	4	✔	Dalibai (Women, China)	50-55
Nippon Cargo Airlines	Tokyo (NRT)	61[1]	153[1]	9	✖	-	-

Oriental Air Bridge	Nagasaki (NGS)	5	14	2	N.A.	-	-
Peach	Osaka (KIX)	42	114	10	✖	-	-
Ryukyu Air Commuter	Okinawa (OKA)	76	187	5	✖	-	-
Skymark Airlines	Tokyo (HND)	158[1]	399[1]	12	✖	-	-
Skynet Asia Airways	Fukuoka (FUK)	36[1]	91[1]	7	✔	Airline Shoes (Women, UK)	85-95
Star Flyer	Kitakyushu	41[1]	105[1]	8	✔	Cabin Shoes (Scotland)	65-70
Vanilla Air	Tokyo (HND)	65	75	7	✔	Dalibai (Women, China)	-
TOTAL	-	9366	23589	551	-	-	-

[1] - Knowing the total number of employees of the given Airline, the number of pilots and hostesses was estimated based on ANA's and JAL's ratios of pilots and hostesses to the total number of employees. With a weighted average of these, results of 6,9% and 17,4% were found. Therefore, a given Airlines will have 6,9% of pilots /co-pilots and 17,4% of hostesses, of its total number of employees.

Sources: -Airlineupdate.2014. http://airlineupdate.com/ (accessed March 17,2014).

- (Japan Airlines, JAL Report 2013).

-Websites of these Airlines.

-Phone calls and e-mails.

Exhibit 22 - Porter's 5 Forces – Japanese Footwear Industry

In order to evaluate the internationalization expansion of Skypro to the Japanese Footwear market, a Porter's 5 Forces Analysis will be conducted. The drivers, factors and respective levels, influencing each force, are stated. The key buyers are considered

individual consumers and Japanese Airlines, suppliers belong to the footwear manufacturers category, and Skypro acts as the footwear player in this case.

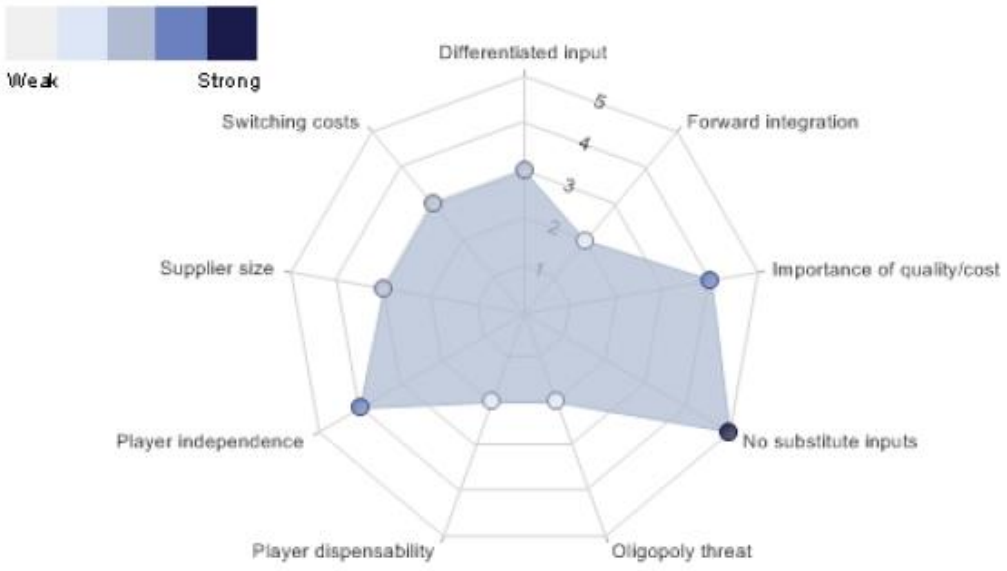
Buyers' Power (Moderate)

It is possible to state that the bargaining power of individual consumers is significantly low in the B2C platform, however it's high from an Airline or Ground-handling company perspective. They have high bargaining power given its size and due to the fact that they are few in this niche market. In addition, these facts make it possible for Airline firms to pressure and lower/discriminate Skypro's prices within a certain range; Skypro charges different prices for each client.

Other drivers like price sensitivity and the tendency to switch to similar goods, have a high level, increasing buyers' power.

Products' differentiation can be considered of medium-high level, strengthening the players' power over consumers, and consequently decreasing buyers' power. The threat of oligopsony, where a few large buyers have the option of buying from many sellers, is low and therefore contributes to decrease the power of consumers. Additionally, the Airlines tend to maintain the same uniform and footwear models for long periods, that are customized, leading to an increase in switching costs to choose other supplier and decreasing their bargaining power.

Exhibit 22.1 – Drivers of buyers power



SOURCE: MARKETLINE

MARKETLINE

Suppliers Power (Moderate)

Adding to the fact that most of the transacted footwear of this market comes from low-cost manufacturers, mainly from South-East Asia, their number is relatively large. Consequently it would wide widen up the choice and switching opportunities for Skypro.

If Skypro outsourced its production to Japanese factories, it would be more difficult to control the quality of the samples, as Abotoa likes to pick a sample of around 5% of the produced shoes and rate them. If the rate is not positive, the production process starts all over.

Skypro's mission is not to be a low-cost brand, but instead a firm with the objective of creating exclusively comfortable and highly technological shoes, to be a worldwide reference in the Aviation Industry. For these reasons, it is preferable for Abotoa to maintain the same Portuguese outsourced suppliers.

Additionally, the fact that oligopoly threat is low in this Japanese market, drives down the power of suppliers. It's also difficult for manufacturers to execute forward integration and sell directly to consumers, lowering its power. On the other hand, drivers as the input differentiation and the non-existence of substitute inputs of footwear manufacturing, the medium-high switching costs and supplier size, contribute to intensify suppliers' power.

Exhibit 22.2– Drivers of supplier power

SOURCE: MARKETLINE

MARKETLINE

Threat of New Entrants (Moderate/High)

Although the high number of large retail stores that benefit from economies of scale with bulk purchasing and consequent lower unit prices, capital expenditures to start retail tasks are low. The production can be outsourced, and as a result it's not difficult to enter the market with significant quantities of footwear. The Skypro's indirect competitors, selling corporate or comfortable footwear, exist in abundance and they are the most likely to enter

this Airline niche market. Though, Skypro has more experience in comfort/highly technological footwear due to its previous collaboration with Aerosoles, and is completely targeted at this niche.

However, cases of firms expanding rapidly are not frequent. Additionally, the level of retailers brand awareness is low; a positive sign for new entrants. Skypro's shoes are highly differentiated due to their se of bundled technologies; a positive aspect for Skypro as potential entrant and direct competitor. In the case of Skypro or other foreign company exporting its products to Japan, the relatively high customs fee[1] - 24% [21]- can be seen as an entry barrier.

Low-cost suppliers exist in abundance, increasing the likelihood of new players. In contrast, market growth is low and not attracting entrants. Additionally, Incumbents are not acquiescent on the entrance of new firms, driving the threat of entrants down.

21 **http://madb.europa.eu/madb/atDutyOverviewPubli.htm**

Exhibit 22.3 –Factors influencing the likelihood of new entrants

SOURCE: MARKETLINE

MARKETLINE

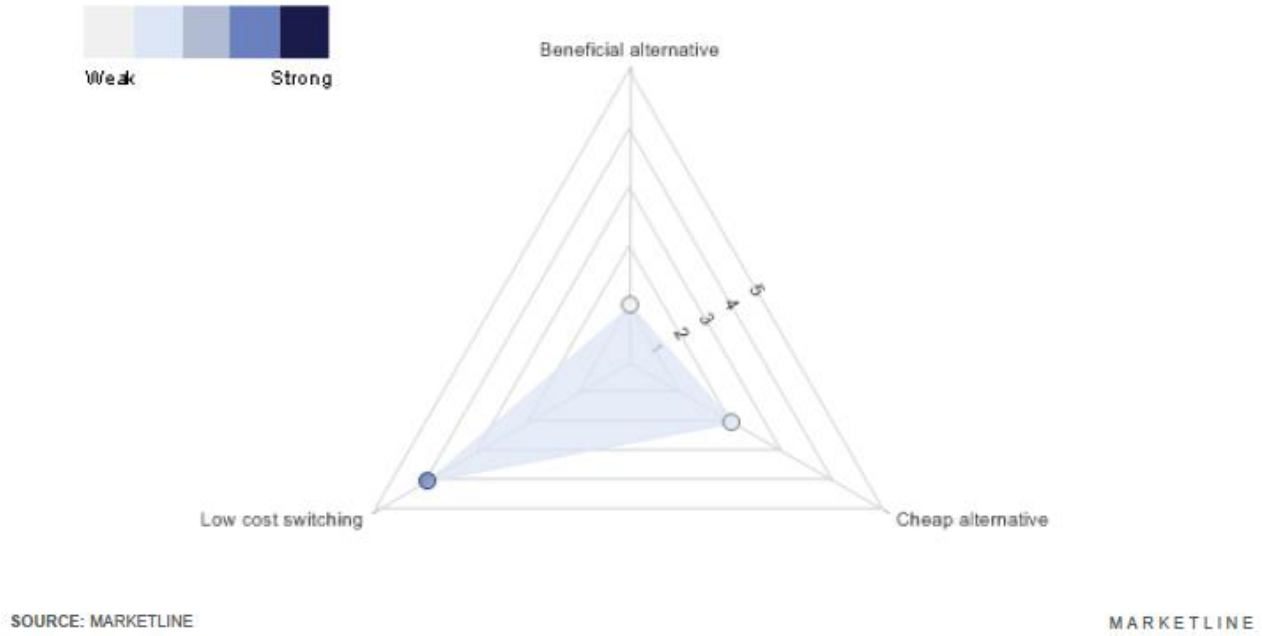
Threat of Substitutes (Low)

The threat of encountering substitutes out of this market is relatively low, since footwear is a basic necessity good. If instead, we look from an intra-market perspective, we can see a significant level of substitution between segments; a specific shoe for Aviation professionals can be replaced by a safety or corporate shoe.

The level of substitution depends on the client's willingness to pay for a shoe specifically targeted at this Industry; a trade-off concerning the price and the value added.

There is a high existence of indirect alternatives, but no other brand that supplies the Japanese Airlines possesses all Skypro's characteristics. Therefore, beneficial alternatives are low in this niche market, as we'll study in the next section Degree of Rivalry.

Exhibit 22.4 –Factors influencing the likelihood of substitutes



Degree of Rivalry (High)

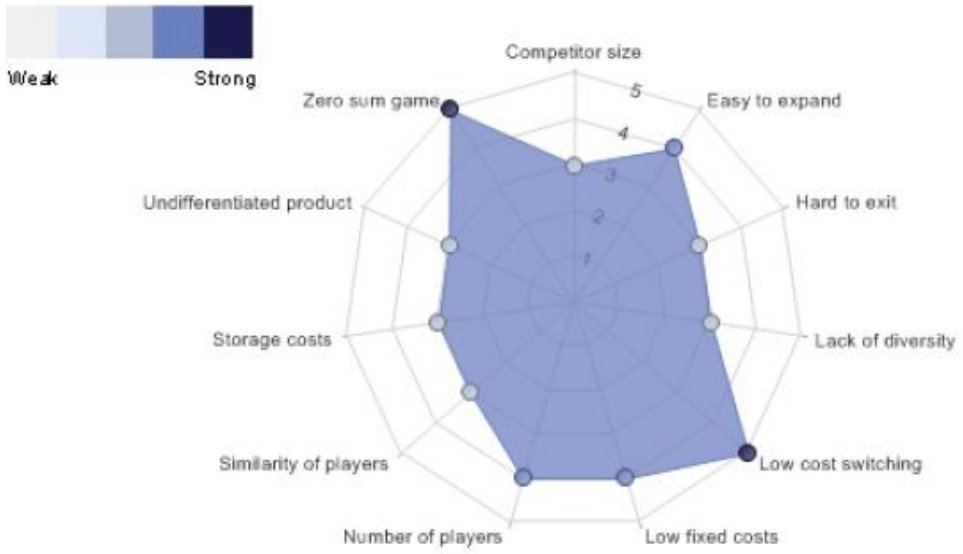
The footwear market has an intense competition between the larger retail companies, despite the existence of small firms in abundance.

The necessary fixed costs to enter are relatively low, meaning an increased number of small firms, which leads to a higher number of produced footwear and fiercer rivalry. The competitors recognize that the orders that Airline or Ground-handling companies make, are large and not so frequent.

For this reason, it is perceived as extra important to gain a new firm as client and keep it satisfied with the product for long periods; a factor increasing rivalry. The easiness for a company to expand is classified as high, storage costs are moderate-high, as well as barriers to exit.

A summary diagram with the 5 Forces is present in Exhibit 22.6.

Exhibit 22.5–Drivers of degree of rivalry



SOURCE: MARKETLINE

MARKETLINE

Exhibit 22.6 – Summary of 5 Forces Analysis

SOURCE: MARKETLINE

MARKETLINE

Sources: (**Marketline** - Industry Profile of Footwear in Japan, 2013)

Exhibit 23 – Indirect Competitors in Japan

Store	Brand	Range of Prices (€)	Average Price (€)
Toho Lamac	&Rouge	113-183	148
	Fit Partner	92-151	122
	Leon	62-98	80
	Alber Hall	132-176	154
Isetan Online Store	Paopolo Papini	155-217	186
Mode et Jacomo	Dici	123 - 165	144
Imex Co., Ltd	Alan Paine	136-170	153
	Laborer Shoes	98-145	122
Misuzu Shoji Ltd	Hilugi	140-173	157
	Paragon	75-113	94
	Hush Puppies	124-170	147

Sources:

-E-mail from Dr. José Fernandes (Aicep) ;

-Websites of these stores.

Exhibit 24 – Pricing Strategy

In order to understand what will be the selling price of Skypro and the buying prices of the Japanese Airline, the Airport Store and the E-commerce store, let's base some assumptions on a past Skypro order from the Australian Airport store. Australia is a non-EU country and similar to Japan, in terms of transportation costs.

Firstly, we know that Skypro tries to delegate the logistics of the transport to the Airlines, opting by the maritime FOB (Free on Board) Incoterm. Skypro only loads the footwear on the vessel (in the Portuguese port) and the Airline takes the costs and risk of the transportation.

Based on a previous Australian order of 1500 women's "Mary Miers" pairs of shoes (the best-seller), we'll estimate the cost of a similar order with the same quantity of shoes, but to a Japanese Airline/Airport Store/E-commerce store. The Insurance and Freight Cost (from origin to the destiny port) for Japan will be 10% more expensive than in Australia's case, due to the higher maritime distance from Portugal to Japan. The other transportation fees are assumed to be of the same value.

The "Mary Miers" were sold for 43 euros with a gross margin of around 41%.The total export value was 65232€ FOB. As we know, the FOB includes the production cost, the profit of the firm and the transportation expenses until the Portuguese origin port. The footwear Duty charged in Australia's case and the import GST (Goods and Service Tax) was 5% and 10% [22] of the FOB value, respectively. Contrarily, Japan uses the CIF (Cost, Insurance and Freight) Incoterm to calculate the Duty Charged and the import GST. CIF corresponds to the sum of the FOB value, the Insurance and the Freight.

The footwear Duty charged when exporting to Japan is 24%[23] of the CIF value, for this footwear (product code: 6403.51.01.1). This Duty is based on the tariff quota system for imported leather shoes, that the Japanese Government uses to protect the Japanese

[22] http://madb.europa.eu/madb/datasetPreviewFormATpubli.htm?datacat_id=AT&from=publi (leather footwear code: 6403

[23] http://madb.europa.eu/madb/datasetPreviewFormATpubli.htm?datacat_id=AT&from=publi

producers. In this case, the Japanese Airline would pay the lower tariff from the two existent tariffs (24%; primary tariff), since its annual orders are lower than 12,019 million pairs[24]. The import GST is 8% of the sum of duties and CIF[25].

As we see in the table below, the Japan's Duties are more than 5 times higher than Australia's duties; this is the main entry barrier when exporting footwear to Japan.

Finally, we note that the Australian Airline purchased a pair of shoes for 51,73 €, while the Japanese Airline would buy it for 60,87 €, with a gross margin of 41% for Skypro. The Australian Airport Store ("The Aviation Store") sells this Skypro's shoe for 107 € (159,95 AUD[26]), with a gross margin of 51,65%. The Japanese Airport Store will sell this shoe for 125,89€, in order to have the same margin.

Production cost per pair (€)	Gross Profit per pair (€)	Skypro Selling Price (€)	Gross Margin (%)
25,5	17,5	43	40,70%

[24] http://www.atimes.com/atimes/Japan/GK09Dh01.**html**

[25] http://www.dutycalculator.com/country-guides/Import-duty-taxes-when-importing-into-Japan

[26] http://www.buyskypro.com/au/44-mary-myers.html

	Australia	Japan
FOB	65232	65232
CIF (FOB + Insurance + Freight)	-	68170,2
Duty Charge	3225 (0,05 x FOB)	16360,9 (0,24 x CIF)
Import GST	6450 (0,1 x FOB)	6762,5 (0,08 x (CIF + duties))
Insurance + Freight from origin to destiny port	2676.1	2938,2 (10% more than in Australia's case)
Cost of transportation from the destiny port to the Airline	750	750
Total Cost of 280 pairs of shoes (after GST)	43x1500 + 3225 + 6450+ 2676,1 + 750 = 77601,1	43x1500 + 16360,9 + 6762,5 + 2938,2 + 750 = 91311,6
Buying Price per pair	77601,1/1500 = 51,73	91311,6/1500 = 60,87
Airport Store and E-commerce Store		
Margin of Airport store/E-commerce store	(107-51,73)/107=51,65%	51,65%
Selling price	107	125,89

(Prices in euros)

Source: primary source

Exhibit 25 - Japanese Airline Industry

The Airline Industry in Japan generated revenues of 21.1 billion USD in 2011, expressing a negative CARC (compound annual rate of change) of -6,9% between 2007 and 2011. At this same period, the industry volumes also decreased with a CARC of -7,4%, summing up a total of 89,9 million passengers in 2011.However, it is expected that this Industry will reach 96,4 million passengers, until 2016. On the same trend, the forecast to

2016, is the expectation of an Industry value of 34,8 billion USD, in contrast to the 21.1 billion of 2011.

Source: - (ATW- World Airline Report, 2011)

- (IATA - Japan, a World Apart,2012)

Exhibit 26 – Expenses of 4 M's

Exhibit 26.1 – Expenses of Footwear stocks for the e-commerce store and for the airport Store

	Men	Women
Number of different models	14	23
Number of different sizes	8	7
Quantity of each product	6	6
Total number of pairs of shoes	588	966
Cost of production per unit (average)	42 €	25,50 €
Total Expenses by Genre	24696	24633
Total Expenses	49329	

Sizes for Men: 37, 38,39,40,41,42,43,44.

Sizes for Women: 35,36,37,38,39,40,41.

Exhibit 26.2– Expenses with Shipment of stocks to Tokyo-s Airport

Total number of pairs of shoes	966+588=1554
Shipment expenses per pair of shoes	5 €(lower transportation cost due to the usage of a full vessel container with 1554 pairs)
Total Expenses	7770

Source: primary source

Exhibit 27.1 –WACC calculation

Discount rate(WACC) = Ke x (E/(D+E)) + (1-t)Kd x ((D/(D+E))			
Discount rate(WACC)	0,068406	**Rf(10-year Treasury German bond)**	0,0145
Ke= Rf + B(Rm-Rf+CRP)	0,098	**B**	1
Kd	0,05	**Rm**	0,089
t	0,225	**D/(D+E)**	0,499484
Country Risk Premium(CRP)	0,009	**E/(D+E)**	0,500516

Source: - primary source

-**Adamodar**.2014.Country Default Spreads and Risk Premiums http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/ctryprem.html (accessed April 26, 2014)

Exhibit 27.2 – Working capital

Working Capital Requirement	**2015**	**2016**	**2017**	**2018**	**2019**
Cash security reserve	10000	10000	10000	10000	10000
Stock of goods to be sold	98658	24665	24665	24665	24665
TOTAL	108658	34665	34665	34665	34665
Working Capital Resources					
Suppliers (raw materials-credit)	40000	40000	40000	40000	40000
TOTAL	40000	40000	40000	40000	40000
Required Working Capital	68658	-5336	-5336	-5336	-5336
Investment in Working Capital	68658	-5336	-5336	-5336	-5336

Exhibit 27.3 – Revenues and Cost of Sales (Normal Scenario)

Revenues and Cost of Sales (Normal Scenario)						
Direct contact with Airlines		**2015**	**2016**	**2017**	**2018**	**2019**
Skypro - Men's shoes						
Quantity sold(5%)		445	445	445	445	445
Grow th rate (Quantity sold)		0	0	0	0	0
Unit price		55	55	55	55	55
Skypro - Women's shoes						
Quantity sold(20%)		1781	1781	1781	1781	1781
Grow th rate (Quantity sold)		0	0	0	0	0
Unit price		43	43	43	43	43
Revenues from Direct contact		101058	101058	101058	101058	101058
Airport Store						
Skypro - Men's shoes						
Quantity sold(5%)		528	554	582	611	642
Grow th rate (Quantity sold)		5%	5%	5%	5%	5%
Unit price		55	55	55	55	55
Skypro - Women's shoes						
Quantity sold(20%)		2114	2220	2331	2447	2570
Grow th rate (Quantity sold)		5%	5%	5%	5%	5%
Unit price		43	43	43	43	43
Revenues from Airport Store		119942	125939,1	132236,1	138847,9	145790,3
E-commerce store						
Skypro - Men's shoes						
Quantity sold(4%)		423	444	466	490	514
Grow th rate (Quantity sold)		5%	5%	5%	5%	5%
Unit price		55	55	55	55	55
Skypro - Women's shoes						
Quantity sold(16%)		1691	1776	1864	1958	2055
Grow th rate (Quantity sold)		5%	5%	5%	5%	5%
Unit price		43	43	43	43	43
Revenues from E-commerce store		95978	100776,9	105815,7	111106,5	116661,9
TOTAL REVENUE		316978	327774	339109,8	351012,4	363510,1
Average production cost per Women's shoe	25,5					
Average production cost per Women's shoe	42					
Total Cost of Sales		201075	207923	215114,4	222664,8	230592,8

Exhibit 27.4 –Number of pilots/co-pilots and hostesses per segment

Airlines that provide footwear	
Number of pilots/co-pilots	2810
Number of flight assistants	6095
Total	8905
Airlines that don´t provide footwear	
Number of pilots/co-pilots	2731
Number of flight assistants	7837
Total	10568
Total of the 2 Segments	19473

Exhibit 27.5 – Forecasted Incremental P&L and Cash Flow Statement (Normal Scenario)

Forecasted Incremental P&L(Normal Scenario)					
	2015	**2016**	**2017**	**2018**	**2019**
Revenues	316978	327774	339110	351012	363510
Subsidies (from QREN)	0	0	0	0	0
Cost of Sales	201075	207923	215114	222665	230593
Operating costs	10000	10000	10000	10000	10000
Personnel costs	15200	6700	6700	6700	6700
Costs with Advertising(5% of Revenues - Adwords,…)	15849	16389	16955	17551	18176
Other costs(shipment costs,storage)	18240	18240	18240	18240	18240
EBITDA	56614	68522	72100	75857	79802
Depreciation/Amortization	0	0	0	0	0
EBIT	56614	68522	72100	75857	79802
Interests and other earnings	0	0	0	0	0
Interests and other costs	0	0	0	0	0
Net Profit Before Tax	56614	68522	72100	75857	79802
Corporate income tax (22,5%-IRC 2015)	12738	15417	16222	17068	17955
Net Profit After Tax	43876	53104	55877	58789	61846

Cash Flow Statement					
	2015	**2016**	**2017**	**2018**	**2019**
Project Cash Flows					
Operational Result (EBIT- Income Tax)	43876	53104	55877	58789	61846
Depreciation/Amortization	0	0	0	0	0
Total	43876	53104	55877	58789	61846
Investment/Divestment in Working Capital					
Working Capital	-68658	5336	5336	5336	5336
CASH FLOW FROM OPERATIONS	-24782	58440	61213	64125	67182
Investment/Divestment in Fixed Assets					
Fix ed Assets	0	0	0	0	0
FREE CASH FLOW	-24782	58440	61213	64125	67182
Discount rate (WACC)	0,068406				
Discounted CF	-23195	51196	50192	49213	48258
Incremental NPV	175664				

Exhibit 27.6 – Forecasted Incremental P&L and Cash Flow Statement (Pessimistic Scenario)

Forecasted Incremental P&L(Pessimistic Scenario)					
	2015	**2016**	**2017**	**2018**	**2019**
Revenues	211435	218636	226197	234136	242471
Subsidies (from QREN)	0	0	0	0	0
Cost of Sales	134132	138700	143496	148533	153821
Operating costs	10000	10000	10000	10000	10000
Personnel costs	15200	6700	6700	6700	6700
Costs with Advertising(5% of Revenues - Adwords,…)	10572	10932	11310	11707	12124
Other costs(shipment costs,storage)	18240	18240	18240	18240	18240
EBITDA	23292	34064	36451	38956	41587
Depreciation/Amortization	0	0	0	0	0
EBIT	23292	34064	36451	38956	41587
Interests and other earnings	0	0	0	0	0
Interests and other costs	0	0	0	0	0
Net Profit Before Tax	23292	34064	36451	38956	41587
Corporate income tax (22,5%-IRC 2015)	5241	7664	8201	8765	9357
Net Profit After Tax	18051	26400	28249	30191	32230

Cash Flow Statement					
	2015	**2016**	**2017**	**2018**	**2019**
Project Cash Flows					
Operational Result (EBIT- Income Tax)	18051	26400	28249	30191	32230
Depreciation/Amortization	0	0	0	0	0
Total	18051	26400	28249	30191	32230
Investment/Divestment in Working Capital					
Working Capital	-68658	5336	5336	5336	5336
CASH FLOW FROM OPERATIONS	-50607	31735	33585	35526	37565
Investment/Divestment in Fixed Assets					
Fix ed Assets	0	0	0	0	0
FREE CASH FLOW	-50607	31735	33585	35526	37565
Discount rate (WACC)	0,068406				
Discounted CF	-47367	27802	27538	27265	26984
Incremental NPV	62222				

Exhibit 27.7 –Forecasted Incremental P&L and Cash Flow Statement (Optimistic Scenario)

Forecasted Incremental P&L(Optimistic Scenario)					
	2015	**2016**	**2017**	**2018**	**2019**
Revenues	611258	624215	637821	652106	667106
Subsidies (from QREN)	0	0	0	0	0
Cost of Sales	387282	395502	404133	413195	422711
Operating costs	10000	10000	10000	10000	10000
Personnel costs	15200	6700	6700	6700	6700
Costs with Advertising(5% of Revenues - Adwords,…)	30563	31211	31891	32605	33355
Other costs(shipment costs,storage)	18240	18240	18240	18240	18240
EBITDA	149973	162563	166857	171366	176100
Depreciation/Amortization	0	0	0	0	0
EBIT	149973	162563	166857	171366	176100
Interests and other earnings	0	0	0	0	0
Interests and other costs	0	0	0	0	0
Net Profit Before Tax	149973	162563	166857	171366	176100
Corporate income tax (22,5%-IRC 2015)	33744	36577	37543	38557	39623
Net Profit After Tax	116229	125986	129314	132809	136478
Cash Flow Statement					
	2015	**2016**	**2017**	**2018**	**2019**
Project Cash Flows					
Operational Result (EBIT- Income Tax)	116229	125986	129314	132809	136478
Depreciation/Amortization	0	0	0	0	0
Total	116229	125986	129314	132809	136478
Investment/Divestment in Working Capital					
Working Capital	-68658	5336	5336	5336	5336
CASH FLOW FROM OPERATIONS	47571	131322	134650	138144	141813
Investment/Divestment in Fixed Assets					
Fix ed Assets	0	0	0	0	0
FREE CASH FLOW	47571	131322	134650	138144	141813
Discount rate (WACC)	0,068406				
Discounted CF	44525	115044	110407	106020	101867
Incremental NPV	477864				

Source: primary source