

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

ANNEXES

SME COMPETITIVENESS: INTERNATIONALIZATION OF EXCEED FOOTWEAR TO TOKYO

Susana Luísa Antonino Correia #1496

A Project carried out on the Management course, under the supervision of:

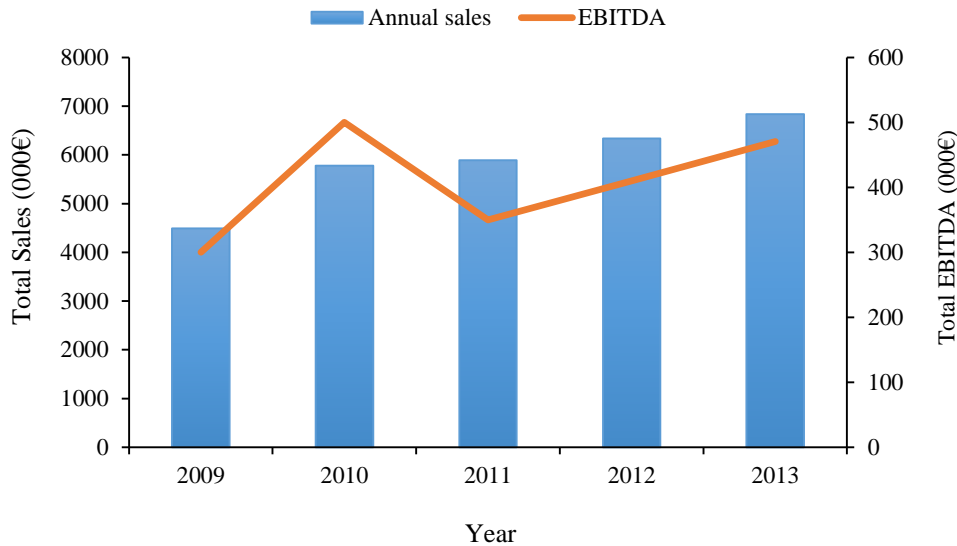
Professor Sonia Dahab

January 2015

Index

ANNEX I –Financial data of Dura.....	1
ANNEX II – Exceed collections	4
ANNEX III – The Portuguese footwear cluster	5
ANNEX IV – The Portuguese footwear industry.....	9
ANNEX V–VRINO framework.....	10
ANNEX VI– The Japanese footwear industry	13
ANNEX VII – Footwear companies in Japan	15
ANNEX VIII: Recommended Japanese partners – importers.....	17
ANNEX IX- International fashion shopping areas in Tokyo	18
ANNEX X – Tasks for the implementation plan	19
ANNEX XI – Documentation required to export.....	21
ANNEX XII – Investment to enter in Tokyo	22
ANNEX XIII – Transportation: incoterms and costs estimation	23
ANNEX XIV – Pricing of Exceed shoes in Japan	26
ANNEX XV – Financial projections.....	28
ANNEX XVI – Sensitive analysis.....	29

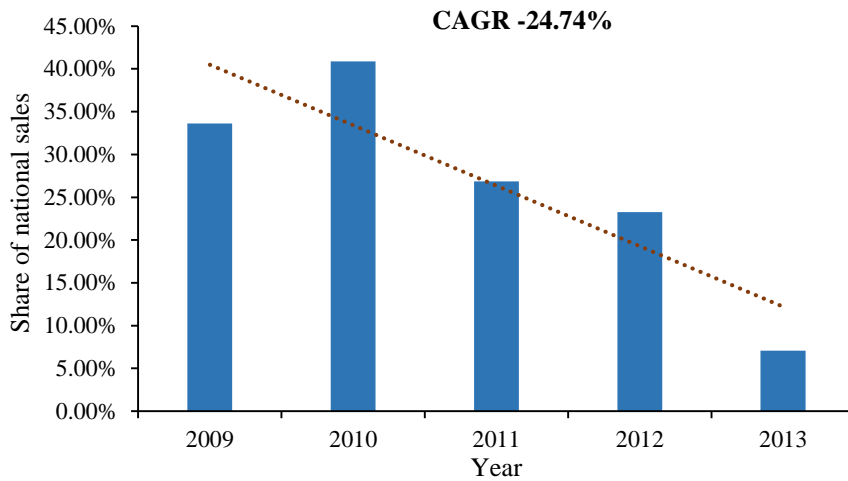
ANNEX I –Financial data of Dura



Source: Informa D&B Portugal [9]

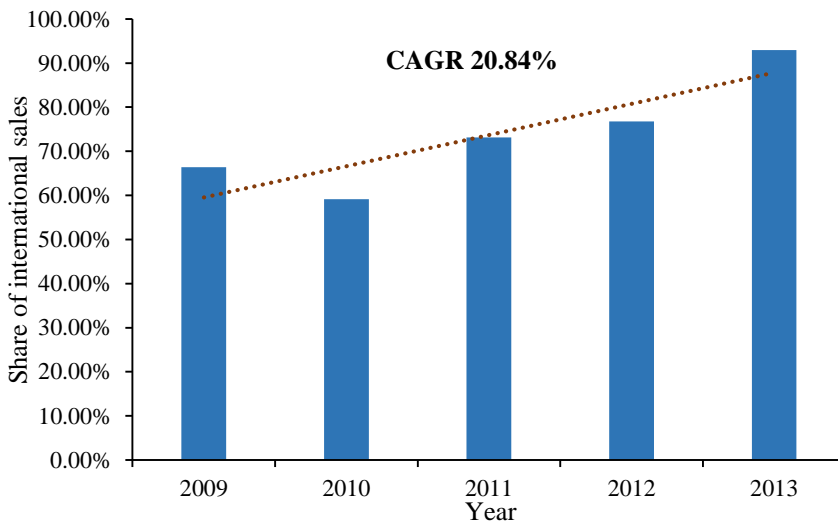
Figure I.1 - Annual sales and EBITDA evolution: 2009-2013 period

Figure I.1 presented above display the sales and EBITDA evolution between 2009 and 2013. One can conclude that between 2009 and 2010 there was an upward trend as the sales rose by almost 29%, a trend followed by a sharp EBITDA increase. In 2010, EBITDA attained its maximum value. Although the sales enhanced slightly, the EBITDA declined severely, a sign that shows that the company was not able to capture enough value from its sales. An input cost increase, a sale price decrease, an unexpected expense or a major investment can give rise to this change. Between 2011 and 2013, Dura was able to boost its sales by 16% and substantially improve its EBITDA, approaching the maximum EBITDA reached in 2010. In 2013, Dura presented an annual revenue of 6.8 M€ and an EBITDA of about 480 000€. Over the analyzed period the company increased its sales by 11.10% CAGR and the EBITDA by 11.9% CAGR. However the EBITDA margin, a measure of operating profitability, had a maximum of 8.65% in 2010, a minimum of 5.94% in 2011, being 6.88% in 2013.



Source: Informa D&B Portugal [9]

Figure I.2 – Share of national sales in the total sales: 2009-2013 period

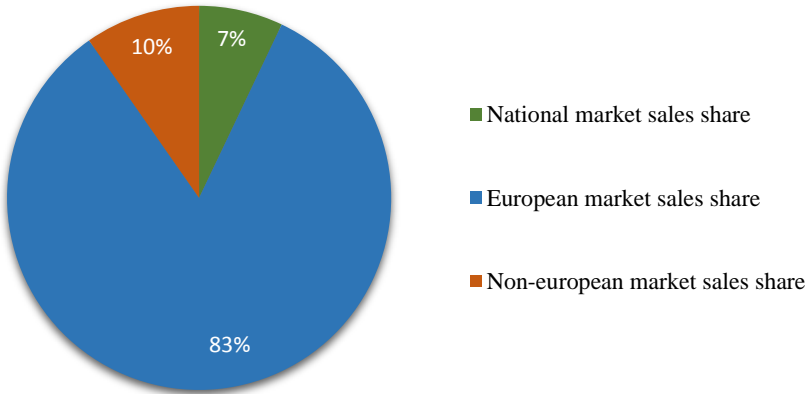


Source: Informa D&B Portugal [9]

Figure I.3- Share of international sales in the total sales: 2009-2013 period

From figure I.2 and I.3 one can conclude that, at least since 2009 Dura has been more outward oriented as the majority of its sales come from international markets. In 2009, 33.6% of the sales were towards the national market and 66.4% were to other countries, while in 2013, national sales only represented 7% and the large majority 93% were to international markets. All in all, between 2009 and 2013 national sales decreased by 24.74% CAGR and international sales increased by 20.84% CAGR.

However, one can notice two opposite moves: between 2009 and 2010 sales in international markets were smoothly decreasing and sales to national markets were increasing in about the same proportion, whereas in the period between 2010 and 2013 the movement has gone precisely in the opposite direction.



Source: Informa D&B Portugal [9]

Figure I.4: Sales distribution by National, European and Non-European countries: 2013

Figure I.4 presents the sales distribution in 2013, highlighting a strong dependency from the European market that represents 83% of the total sales, followed by the non-European market which accounts for the 10% of the total sales and the remaining 7% sales share belongs to the Portuguese market.

ANNEX II – Exceed collections [2]

Exceed was conceived to satisfy two target markets, having created two different collections for that purpose. The **Dress collection** comprises a more classical range of products, with an innovative and differentiation character, aimed at urban and classical man between 20-50 years old who looks for smart and casual look. Examples of Dress collection shoes are presented below.



Source: Exceed website, Spring-summer collection 2015 [2]

Figure II.1: Dress collection shoes

The **Casual collection** is a re-interpretation of classical products for more informal occasions. Fashion and slightly irreverent, those products are targeted to men who value good quality shoes of an informal style. Examples of Casual collection shoes are presented below.



Source: Exceed website, Spring-summer collection 2015 [2]

Figure II.2: Casual collection shoes

ANNEX III – The Portuguese footwear cluster

The business model progress [15], [16]

Three decades ago, the Portuguese footwear production was characterized by its low-efficient processes and undifferentiated products that could only compete on a price basis. Attracted by the cheap manufacturing labor, foreign companies outsourced the production process to Portugal or, instead, established their own factories there.

With the international trade liberalization, mainly after the adherence of China to the WTO (2001), new opportunities to reduce production costs arose and, consequently foreign-owned manufacturing units left the country (2001-2005).

Confronted by not being able to compete with this business model, the Portuguese footwear companies started to invest on quality, production flexibility to produce small orders and responsiveness toward customer expectations. Besides, the product development capacity was improved based on design, innovation and technology. Gradually, Portuguese footwear companies shifted from a price competition model to added value activities focused on product differentiation, progressing in the value chain and conceiving products increasingly more sophisticated. Some companies, inclusively transformed the creative capacity into a core activity, developing their own brands. The new approach of the Portuguese footwear companies must be communicated in international markets, requiring an ongoing investment in marketing and internationalization.

The outward orientation of the Portuguese footwear aligned with the focus on design and fashion and the evolution of the business model lead to a nearly 100% price increase over the last two decades. In 2013 the Portuguese footwear had the second world highest export average price of 31USD (25.5€), right after the Italian leader [17], [18].

Nowadays the Portuguese footwear industry, perceived as a design and fashion trendsetter, is strongly oriented to foreign markets, exporting about 95% of its production to 150 different markets, which already accounts for 1 600M €. With a trade surplus of 1 200M €, the footwear industry has an important contribution to the Portuguese trade balance. Please see ANNEX IV for the description of the Portuguese footwear industry.

Main organizations

The Portuguese footwear cluster comprises three support entities responsible for promoting the industry development and for the formal network within the cluster - APICAPPS, CTCP and CFPIC.

APICAPPS (Portuguese Association of Footwear, Components, Leather goods and their Substitutes industry) is a key organization among the cluster, as it is a connector of the cluster's companies. It provides services in different areas as: i) internationalization: in cooperation with AICEP and other public entities, it promotes the presence of footwear companies in international fairs/exhibitions, provides support on prospecting missions and engages in major international marketing and communication campaigns of the Portuguese footwear cluster (Eg. *Portuguese Shoes TV, Footwear, the sexiest industry in Europe and designed by the future*); ii) innovation: in collaboration with CTCP, companies, suppliers, universities and scientific or technological entities it incentivizes innovation to strengthen the cluster's sustainable competitiveness; iii) studies and information: develops and disseminates prospecting market analysis, sectorial and statistical studies and other relevant information about the industry and its future trends as the *World Footwear Report* or *APICCAPS newsletters*. In collaboration with "Universidade Católica Portuguesa", it has been developing strategic plans for the industry as *Footure 2020*; iv) technical assistance: provides legal advice, licensing support, access to national and international databases. [19]

In an international context, APICCAPS tries to lobby the process of assigning European funds as QREN and COMPETE. In the first phase, with European Confederations, APICCAPS practices a weaker influence since several sectors and countries are competing for the same funds. However, in the second phase, APICCAPS plays a more important role defining its strategic objectives according to the public institutions' priorities (IAPMEI and AICEP), in a way that they match and funds can be assigned to the footwear industry.

CTCP (Technological Center of the Portuguese Footwear) looks for unexplored opportunities and respond to footwear companies' needs carrying out lab tests and economic and financial viability studies. Having the product improvement and the industry efficiency in mind, CTCP tests the resistance, impermeability and the chemical components of new materials. With the collaboration of GAPI (National Institute of Industrial Property), it also provides industrial property registration support. [20], [21]

CFPIC (Center for Professional Training in the Footwear Industry) promotes technical training to students or professionals adapted to the footwear industry's needs, incentivizing competence, technical knowledge and creative expression among the cluster. [22]

These organizations are examples of cohesive forces that keep the network together and take joint actions that foster the efficiency and the competitive positioning of the Portuguese cluster enterprises. The referred entities act for the benefit of the overall companies within the cluster, not providing special treatments nor exercising influence in their commercial activities.

Cluster networks [17]

M. Porter states that “a nation's competitive industries are not spread evenly through the economy but are connected in (...) clusters”. Its emergence is mainly driven by “domestic rivalry” and “geographic concentration”. [23]

The footwear industry is one of the most important clusters of the Portuguese economy, in which footwear components (suppliers of uppers, soles and heels and other components) and leather goods enterprises are connected by a network of formal and mainly informal interactions. Over time footwear and footwear supplier companies have concentrated geographically in the north of the country, in five municipalities: Felgueiras, Guimarães, Feira, Oliveira de Azemeis and São João da Madeira that together represent more than 75% of the footwear industry's employment.

According to M. Porter, the existence of “related and supporting activities” motivate the development of specialized factors as inputs, skills and infrastructures, encourages the creation of more suppliers and related industries and the large demand motivates the its development [23].

As those companies are positioned upstream of the footwear industry, they are largely affected by it. In fact, the strength of footwear companies in Portugal prompted a national large demand for inputs in an extent that components companies became more inward orientated. Besides, it encouraged the development of specific skills among components suppliers due to the customization requirements. Moreover, the vertical cooperation within the industry potentiated responsiveness toward the dynamic market and lower transaction costs. The geographical concentration is also a strength of the cluster as it stimulates the diffusion of knowledge and eases the communication between the cluster's companies. [24]

However, since 2009, Portuguese footwear components were not sufficient to meet the demands of manufacturing companies. Therefore, the footwear industry requires additional inputs from foreign markets as Germany, Italy, India and France.

According to M. Porter, the domestic rivalry “has a direct role in stimulating improvement and innovation” and expands to benefits to the country [23].

The cluster of domestic rivals potentiates the development of technologies, innovative materials, manufacturing processes and business model evolution as the risk is shared. Together, SME of the cluster may make investments that individually would not be possible and, this way achieve a collective learning that favors the competitive position of Portuguese footwear companies when compared to international competitors. [24] While CTCP has specialized knowledge to support R&D, APICCAPS plays an important role in the diffusion of main discoveries within the cluster. As a result of this mechanism, the Portuguese footwear industry enhanced its productivity, competitiveness and efficiency and became the leader in footwear technology. Moreover, the domestic rivalry stimulates the emergence of new rivals, the factor creation mechanisms, the development of related and supporting industries and stimulates the government investment. The effect of the “external economies” benefits the cluster’s companies overall and, thus the country [23].

Another advantage of belonging to the cluster is the convergence of objectives [24] guaranteed by industry’s organizations as APICCAPS. For example, incentives towards innovation led footwear companies to develop creative and design capabilities. The communication of the cluster’s new approach in international markets was more effective due to the offer’s homogeneity. *Footwear, the sexiest industry in Europe* and *designed by the future* campaigns had a strong impact on the national and mainly international Portuguese footwear industry positioning, nowadays renewed by its high quality, design and innovative characteristics.

ANNEX IV – The Portuguese footwear industry

The Portuguese footwear industry is composed by 1 337 companies, employs more than 35 thousand people and produces, on average, 75 million pairs of shoes annually. Its composition of mostly small and medium sized enterprises (employing, on average, 26 workers), contributes to greater flexibility and responsiveness of cluster's companies towards the dynamic fashion market. Besides, the specialization in leather footwear (90% of the companies) seems to fit with the current business model based on value added products with a higher profit margin, prevailing over the production capacity. In pursuing a differentiation strategy, as processes became less linear there was a remarkable development of the human resources qualifications, which might be in the origin of the increasing productivity level, along with the technology evolution. Note that in 2011, the majority of the workers was semi-skilled (48%), followed by skilled workers (34%) and non-qualified and top and middle management and directors (9% each). Two decades ago non-qualified workers represented almost 30% of the labor force. [17]

The strategic plan for the footwear industry between 2014 and 2020- Footore 2020 – is focused on three pillars: i) internationalization and communication; ii) qualification and rejuvenation of the human resources iii) innovation in materials, components, design, processes and technology. The referred strategic plan aims to consolidate the Portuguese position among the world's leading exporters of fashion footwear and communicate its sophistication based on knowledge and innovation. [16]

Portugal is the 18th world producer (75 million of pairs) and the 58th world consumer (51 million pf pairs). However, 95% of its production capacity is directed to exports, while the great majority of its quantity consumption is originated form imports. Taking into account that Portugal focus on high-quality and differentiation production, charging the second highest export price of 31USD (25.5 €) [18], it is comprehensible that it targets foreign markets with higher purchasing power. Over the last five years, the average export price had a remarkable evolution having increased from 19.9 € in 2008 to 25.5 € in 2013, a 6.4% CAGR [16]. Conversely, the country imports shoes with a relatively lower price of 11.3 USD (9.3 €) [18] to satisfy the needs of the Portuguese consumers with lower purchasing power. This way Portugal achieves a trade surplus of 291%, based on higher average export price, when compared to import price. Moreover, the revealed comparative advantage of the Portuguese

footwear industry, an index that compares the value of footwear exports in the country with its value in global exports, is ranked high. [17]

Portuguese footwear exports presented a strong geographical concentration: in 2012, 94.5% were directed to Europe. The main exports markets are France, Germany, Netherlands, Spain and United Kingdom, accounting for almost 75% of the Portuguese exports both in value and quantity. This five countries have some attractive characteristics in common: high purchasing power, large population, proximity to Portugal and the Euro as currency (with exception to UK). In non-European exports, the American continent prevails. Portuguese exports are highly specialized in leather footwear (76%), being the other footwear categories much less significant (between 5% and 8%). [17], [18]

One may notice that also importers are concentrated. Spain represents 48% of the Portuguese imports value share and 39% of the volume share. Although China represents only 8% of the value share, it is reasonable to admit that the country exports through other European countries as Belgium and Netherlands as those countries have reduced production capacity and are among the main importers. Finally, Portugal also imports from Italy, 9% of the value share. The majority of imports are dispersed in three main categories: 45% rubber and plastic, 28% textile and 19% leather. [17], [18]

ANNEX V–VRINO framework

One may classify the resources in: core competences, specialized assets and strategic relationships. Core competences are the combination of capabilities and skills anchored by technology/systems, processes and values. It is considered core when provides a unique cost advantage and/or a unique customer benefit. Specialized assets are tangible and intangible resources that are not available to the firm's competitors or are available at high costs. Strategic relationships relates to the internal or external relationships that allows the company to create knowledge, flexibility or adaptability to the firm. [31]

Core competences: Dura benefits from a flexible production management due to two specific investments: a modular cutting machine assisted by CAD and two assembling lines, for smaller and larger productions. The flexibility competence is valuable as the company may accept orders regardless a minimum quantity, being able to adapt its processes toward the customers 'needs. It is not rare as it is a common capability among SME of the Portuguese

footwear cluster. The procurement process of the company is focused on the selection of differentiated materials (through the presence in materials fairs) and on the establishment of reliable relationships with the suppliers (mainly Italian and Portuguese). Although Dura does not have exclusive suppliers, the process is valuable because it allows to acquire distinct materials, and the solid relationship with suppliers provides consistent high quality standards, a good price-quality ratio and adequate payments and timeliness delivery conditions. As other competitors have similar strategy it is not rare. The design capability provided by João Pedro Filipe to Exceed is another competency that contributes to turn the shoes into a distinctive product. Despite not being exclusive, the designer is responsible for customizing the products according to the brand values and the clients' expectations. Competitors focused on providing fashionable shoes pursue similar strategies, which explains its non-rareness. Over the last 50 years, Dura has been building a valuable accumulated know-how on the footwear business and on the hand craft manufacturing due to the continuous improvements on processes, equipment and business model. Although it is unique, this tacit knowledge is not rare as other competitors in this traditional industry in Portugal have developed similar experiences. The customer retention competency, more significant in private label clients, was achieved by consistently providing high quality products that adapt to the clients' needs and expectations at a good price-quality ratio. This market approach was translated into satisfied clients and repeated purchases, a competency that is not rare as the majority of SME in the cluster have their strategic clients. The human resources management is based on a small company culture and a family sense between collaborators and managers. As collaborators feel esteemed they become particularly loyal to the working place (on average employees works for Dura for 19.4 years and 30 employees work there for 30 years or more) and more committed to the overall company's results. It is rare because many competitors suffer from high employee turnovers, who are easily attracted by better economic conditions. Dura does not seem to have difficulty in attracting new talent as 27 employees (almost 23% of the employees) were hired in the last five years.

Specialized assets: Exceed is a registered trademark in the national market, the community market and in two non-community countries: China and South Korea. Registering a brand is a valuable mechanism that protects the identity on an enterprise. However, it is complex due

to the bureaucratic process and the expenses that it incurs, a fact that discourages competitors to proceed with it, being for that reason rare.

Strategic relationships: Dura does not benefit from this resources category, however it belongs to an important footwear cluster existing in Portugal that few countries dispose from. Despite not being specific of Dura, belonging to the Portuguese footwear cluster is a key resource as it places Dura in a favorable positioning compared to other industries in Portugal and international footwear industries that does not have a cluster established.

Table V.1: VRINO framework applied to Dura

	Resources	Valuable	Rare	Inimitable	Non substitutable	Organizational embedded	Classification
Core competences	Flexible production management	YES	NO	NO	NO	NO	Competitive parity
	Procurement process	YES	NO	NO	NO	NO	Competitive parity
	Design capability	YES	NO	NO	NO	NO	Competitive parity
	Accumulated know-how	YES	NO	NO	NO	NO	Competitive parity
	Customer retention	YES	NO	NO	NO	NO	Competitive parity
	Human Resources management	YES	YES	NO	NO	NO	Temporary Competitive advantage
Specialized assets	Registered trademark	YES	YES	NO	NO	NO	Temporary Competitive advantage

ANNEX VI– The Japanese footwear industry

General footwear [18]

Japan is one of the largest markets for footwear in the world. Mainly driven by its large population. The country is the 5th world consumer (674 million pairs) and the 2nd world importer (599 million pairs). It has a reduced capacity production (76 million pairs), when compared to the national consumption, leading it to be highly dependent on imports.

Attempting to balance the commercial trade, Japan specialized in high quality footwear, displaying an average export price of 27.3 USD (22.1 €), much higher than its import price of 9.3 USD (7.6 €). Despite the price difference, Japan has a deficit in the footwear trade, as the import market value is 5 592 million USD (4 521 M €) and the export market value is only 35 million USD (28.3 M €).

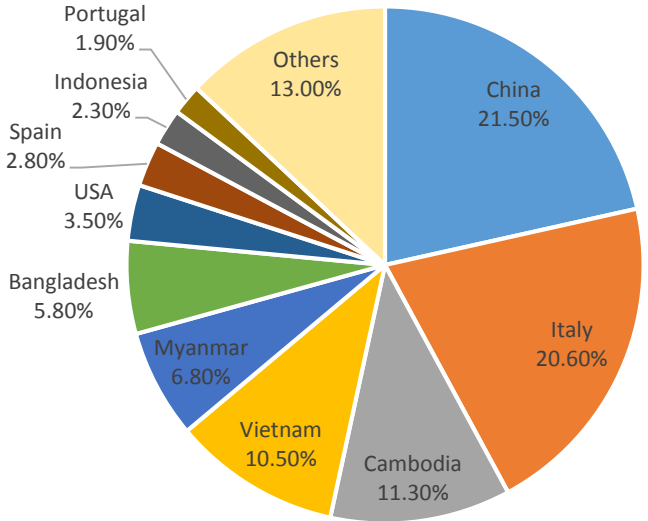
Japan exports are not very significant and are mainly directed to Asian countries. The imported footwear is originated mainly from China (64% of the value share), Vietnam (8% of the value share), Italy (7% of the value share), Indonesia (5% of the value share) and Cambodia (4% of the value share). Japan imports mainly textile footwear (56%), followed by rubber and plastic (30%) and leather (8%).

Leather footwear [38]

The leather footwear market is the most relevant to analyse since it is the product category that Portugal most exports and, in fact, is the footwear category that Dura produces.

The leather footwear imports and exports follows the general footwear trend in Japan: imports exceed exports in a large extent. In 2012, Japan was the 10th leather footwear importer, representing 2.8% of the world share (in value). Besides, between 2008 and 2012 the Japanese leather imports grew at a faster pace than the world leather imports (11.1% on average, compared to 4.5%), showing the increasing demand for leather footwear in Japan. China is still the main supplier of leather footwear to Japan (21.5% of market share), despite of its decreasing importance (decreased by 7.5% between 2008 and 2012). On the other hand, ASEAN suppliers have experienced an upward trend (increased by 10% between 2008 and 2012), accounting already for 36.7% of the Japanese imports. Cambodia (11.3% of market share), Vietnam (10.5% of market share), Myanmar (6.8% of market share) and Indonesia (3%) are the main suppliers from this group, along with Bangladesh (5.8%) that does not

belong to the group. European countries are represented by Italy, Spain and Portugal, representing together 25.3% of leather footwear imports. Italy is the 2nd import market with 20.6% market share; Spain accounts for 2.8% and Portugal for 1.9%. EUA accounted for 3.5% of Japanese leather imports.



Source: Leather footwear market in Japan, AICEP [38]

Figure VI.1: Leather footwear suppliers of Japan in 2012

On average, Japan acquires leather footwear by 33€/pair, being the Italian the highest price (113€/pair), followed by Spain (60€/pair), EUA (58€/pair) and Portugal (51€/pair). Among the Asian countries, China is the most expensive import (30€/pair), followed by Cambodia (29€/pair), Vietnam (27€/pair), Indonesia (23€/pair). The lowest leather imports price come from Bangladesh (17€/pair) and Myanmar (16€/pair). Over the past four years, Portugal was one of the 10 suppliers that registered highest growth of import prices.

ANNEX VII – Footwear companies in Japan

In Japan, consumers find a wide diversity of footwear categories organized hierarchically, as presented in the following pyramid²²:

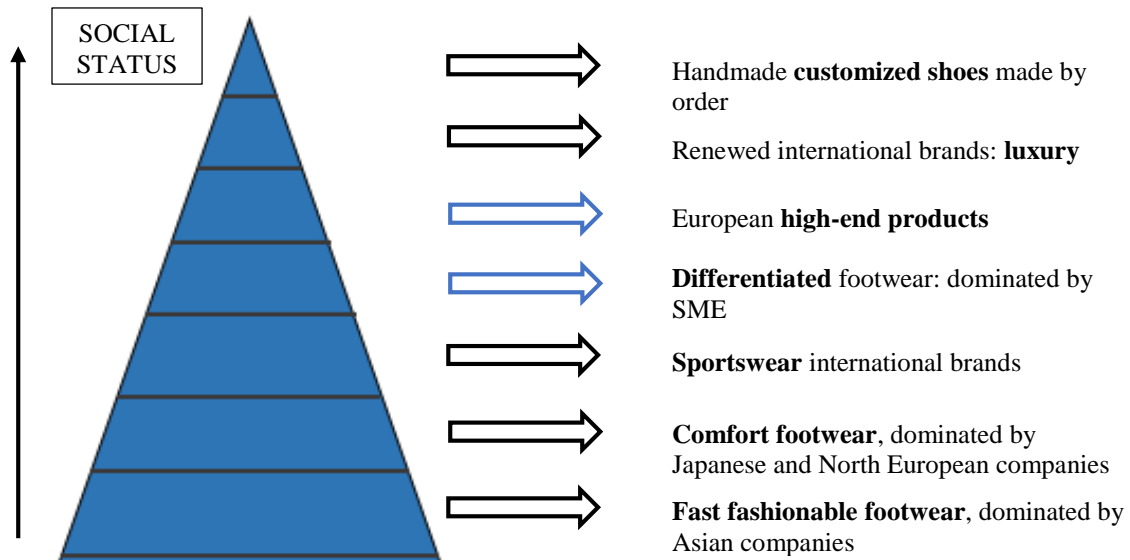


Figure VII.1: Footwear categories in Japan

Source: primary (based on an interview to a Portuguese person living in Tokyo)

While only a privileged share of the population can afford handmade customized shoes made by order, a large share of the population acquire fast fashionable footwear at a low price. Taking this approach, Exceed shoes would be positioned at the upper-middle of the pyramid ranging from “European high-end product” due to the high quality provided and consequent price positioning to “differentiated footwear” due to the design approach and materials selected.

Companies with different dimension, brand awareness and technology maturity when compared to Dura, but with similar footwear to Exceed collection are presented in the table below. Note that the price range presented is only a reference from online platforms, subjected to adaptations to the market.

Table VII.1: Footwear companies in Japan with similar products to Exceed

Brand	Origin	Price range	Exemplar
Del Toro	USA	220€ - 375€	
Grenson	UK	320€ - 680€	
Buttero	Italy	140€-445€	
Fly London	Portugal	120-190€	
Barneys New York	USA	169-542€	
Pollini	Italy	155-422€	
Paul Smith	UK	110-650€	

Source: Company's websites [61-69]

ANNEX VIII: Recommended Japanese partners – importers

Activity	Name	Concept	Contact
Producer, importer and retailer	Barneys New York	It is an American chain of luxury and high-end department stores headquartered in New York City that sells both fashion items and beauty and home products.	Mr. Yasuhito Noguchi <i>y-noguchi@barneys.co.jp</i>
Producer, importer and retailer	United Arrows	“For those who want a rich and high-quality lifestyle”. With 15 stores in Tokyo, the multi-brand store sells man and woman apparel, shoes and fashion accessories. Their private label has high-end products focused on design and timeliness characteristics	Mr. Shoji Uchiyama <i>295us@united-arrows.co.jp</i>
Importer/wholesaler	Euro Pacific Japan	Specialized on European footwear brands.	Mr. Hitoshi Suzuki <i>suzuki@europacific.co.jp</i>
Importer/wholesaler	GMT	Imports English and Italian high-end shoes.	Mr. Hideaki Yokose <i>hideaki.yokose@nifty.com</i>
Importer/wholesaler	Okuni Japan	Specialized in leather footwear, includes luxury and high-end Italian brands.	Mr. Kazuo Takemoto <i>takemoto@okunijapan.co.jp</i>
Importer and retailer	The world Co	Specialized in European high-end and luxury footwear brands.	Mr. keiichi Fukada <i>info@wfg-net.com</i>

Source: Primary (Dr. José Fernandes, AICEP in Tokyo) and company’s websites [79-84]

ANNEX IX- International fashion shopping areas in Tokyo

Location	Description	Main department stores
Ginza	Located in the financial area, is the wealthy shopping district in Tokyo where elite consumers look for renowned sophisticated international brands in department stores.	Mitsukoshi Matsuya Printemps Barneys New York Daimaru Matsuzakaya
Shibuya	One of Japan's busiest towns and a trendy shopping area that seems to be the right place for young consumers to look for the latest novelties. Despite also disposing from department stores, what stands out in Shibuya are the multi-brand stores with original storefronts and specialty products. In this area several fashion cultures coexist, being the birthplace of many of Japan's fashion and entertainment trends. Shibuya is surrounded by smaller shopping areas with similar concepts.	Shibuya Hikarie Tokyu Shibuya 109 Seibu Parco Marui
Harajuku	Combines two distinctive zones: i) Omotesando, the tree lined avenue sometimes referred as the Tokyo's Champs-Elysees, where one can find famous brand shops and ii) Takeshita Dori, the center of Japan's most extreme teenage cultures and fashion styles.	Omotesando Hills LaForet Harajuku Tokyu Plaza Omotesando Harajuku Louis Vuitton
Shinjuku	The world's busiest railway station, serving daily more than two million passengers. Around this important station there are several subterranean malls and department stores that targets fashion conscious urbanites. There are also several shops selling <i>geta</i> (traditional wooden sandals).	Isetan Takashimaya Odakyu Keio Lumine Mylord Barneys New York
Suburb areas	Where the majority of Japanese people buy low-end footwear at accessible price	

Source: adapted from Tokyo Shopping Guide [85]

ANNEX X – Tasks for the implementation plan

1. **Market analysis** of Japan footwear industry: market size; political, economic, social, technological, environmental and legal aspects that might have impact on the business; attractiveness of the footwear industry and selection of the most suitable entry modes. This master thesis already provides important conclusions about the referred subjects.
2. **Contact AICEP in Tokyo, Luso-Japanese chamber of commerce and Japan Leather and Leather Goods Industries Association (JLIA)** to obtain market information and recommendations of business partners.
3. Communicate via e-mail to **arrange meetings** with possible partners.
4. **Visit Tokyo** to meet personally with AICEP in Tokyo, JLIA and other partners; observe the consumer behaviour; visit the shopping areas potentially more attractive for footwear trade: Ginza, Shibuya, Harajuku and Shinjuku. Given the substantial investment, the travel to Asia should be used to visit other potential markets as Shanghai.
5. **Decision about whether Tokyo is an attractive market for Exceed products**, taking into account the information gathered and the prospecting visit. If yes, proceed with the next tasks.
6. **Trademark registration** for Japan through INPI (National Institute of Intellectual Property)
7. Obtain **general documentation**: export licencing and certificate of origin (Please see ANNEX XI for the Documentation required to export).
8. Hire a native Japanese with an advanced English knowledge to **translate the website contents and the catalogues**; require the website designer of Exceed to add the Japanese version to the website.
9. **Fair preparation**: registration, define objectives and budget (apply for QREN and Compete funds), prepare promotion and communication materials in Japanese (including catalogues, visit cards and roll-ups for the stand), select the most attractive samples of shoes to the Japanese market, brief all involved staff and book flight and hotel. [92]
10. **Initial screening of local distributors** in the **Tokyo shoes expo**: establish first contacts, carry out due diligences, and ask for feedback of the performance of possible local partners to AICEP in Tokyo and Luso-Japanese chamber of commerce.

11. **Select local distributors, negotiate merchandise price, incoterm conditions, payment method and marketing responsibilities.** One recommend to sign contracts under free on board conditions (FOB) and letter of credit payment policy.

12. **Enter into a contract with a freight forwarder** responsible for the transportation from Dura factory to the named vessel in Port of Leixões and the transportation documentation (bill of landing and export declaration).

13. Obtain **specific documentation:** pro forma invoice, commercial invoice, packing list and insurance certificate.

14. **Ongoing communication with distributors.** Periodically access distributors' performance analysing sales outcomes and evaluating the need to find new partners.

15. **Take advantage from the distributors' feedback to adapt the product** to the market preferences.

16. **Presence in fairs** to be aware of competitors' offer, market trends, increase the networks of contacts and, eventually find new partners. One suggests the attendance of an annual fair once a year in the first three years (2015, 2016 and 2017) mainly to promote the initial contacts with local distributors and then decrease the periodicity to every three years.

17. **Business plan review.** By 2021, after five years in the market, it is recommendable to analyse the performance of Exceed in Tokyo, namely the financial results and the partners' performance to decide whether Exceed should continue to export to Tokyo. Having acquired experience in the Tokyo market, Dura could evaluate the possibility of other possible entry modes and consider to expand to other Japanese cities or other Asian countries, exploiting the opportunity of Tokyo being a trend setter.

Taking into account that Japanese people are very cautious when making decisions, the contact with local partners must be established well in advance. For that reason, one suggests the company to engage in contacts in the beginning of 2015, but start exporting only by the middle of 2016.

ANNEX XI – Documentation required to export

Documentation	Function
Pro forma invoice	Issued upon request by potential customers, it informs about the price and product characteristics. It may prove the acceptance of an order.
Commercial invoice	It is the actual invoice issued by the exporter. It includes a product description, the exporter's address, delivery address and payment conditions
Packing list	Contains the listing of all of the merchandise items and the respective quantity. Essential to check the merchandise at the country of destination.
Bill of landing	Contract between exporter and the shipper. Is a certificate of the merchandise reception to the shipper and also serve as a purchase title for the importer
Export declaration	Displays the exporter and importer contacts, the destination of the products being shipped and the declared value
Certificate of origin	The country of origin of the goods. In the case of leather goods, a certificate of origin of leather must be added to prove the compliance with CITES.
Insurance certificate	Usually hired by the exporter to protect the goods against theft, damage and, in some cases, delays in delivery.
Export licensing	Permission to export

Source: AICEP and Audax and Emanuel Gomes [75], [91]

ANNEX XII – Investment to enter in Tokyo

In order to go along with the tasks of the business plan, there are investments needed to be made summarized in the following table:

Visit Tokyo (3 people)	
- Go-return flight	600€ x 3 people= 1800€ ^[1]
- Accommodation (10 night stay)	1300€ ^[2]
- Other expenses: meals and local transportation	500€ x 3people= 1500€ ^[3]
Subtotal = 4 600€	
Attendance Tokyo shoes expo fair (5 people)	
- Raw space + rental display:	4088€ x 1 fair= 4088€ ^[4]
- Go-return flight:	600€ x 5 people= 3000€ ^[1]
- Accommodation (7 night stay):	2000€ ^[5]
- Other expenses: meals and local transportation	350€ x 5 people= 1750€ ^[3]
Subtotal = 10 838€	
Japanese website version and promotion and communication materials	Subtotal= 1 000€^[3]
AICEP and Luso-Japanese chamber of commerce support	Free of charge
Trademark registration	Subtotal= 900 €^[6]
Total initial investment = 17 338€	

[1] Francisco Sá Carneiro Airport (Oporto) - Haneda airport (Tokyo International Airport) with Lufthansa airlines [93]

[2] 1 triple room in a three star hotel in Tokyo [94]

[3] Based on assumptions

[4] Contact via-email with the sales manager of Reed Exhibitions Japan (organizing company) in charge for the Portuguese and Spanish market [95]

[5] 1 triple and 1 double room in a three star hotel in Tokyo [94]

[6] Harmonization institute of the internal market [96]

In 2015, the **initial investment** to visit Tokyo, attend the Tokyo shoes expo fair, translate the Exceed website, prepare promotion and communication materials to the fair and register the trademark would amount for **17 338€**. However, Exceed would have to make **additional investments** to attend annual fairs in the following two years (2016 and 2017) and every three years (2020 for the period analysed), accounting for **10 838€/year**.

ANNEX XIII – Transportation: incoterms and costs estimation

To enter in the Tokyo market, Exceed would start by sending relatively modest quantities to avoid increased risks. The initial quantity is forecasted to be 500 pairs of shoes (twice a year), taking as reference the Exceed shipment to South Korea by 2013, when entered that market. In contrast with the European markets, intercontinental transportation of Exceed shoes to Japan would require two types of transport: by truck and by vessel or by plane. For bigger distances, the maritime transportation is more advisable due to the low-value non-perishable characteristics of footwear goods. Despite being more economic when compared to transportation by plane, transportation by vessel is more time consuming, leading to recommend the plane for urgent deliveries. [97]

Having selected a Japanese distributor, Dura must negotiate the shared logistics responsibility under the **incoterm** conditions (2010). Note that Incoterms are rules defined by International Chamber of Commerce that specify how the exporter and importer share the costs of transport and the insurance of goods in the international transaction and also determine the time when the buyer assumes ownership of the merchandise [75]. Incoterms range from Ex-works to Delivery Duty Paid, progressively increasing the responsibility for the exporter and decreasing the responsibility for the importer. The incoterm conditions are explained in the following scheme:



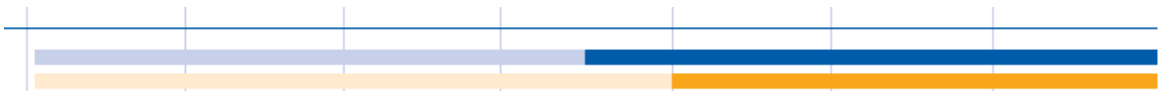
EXW (Ex- works): The seller takes minimal risk as it delivers the merchandise at his premises, being the buyer responsible for the loading, export formalities and forward phases.



FCA (Free Carrier): The seller is responsible for loading the goods and provide export documentation.



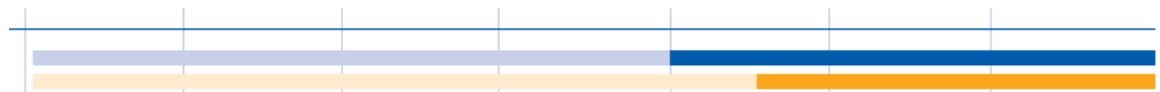
FAS (Free Alongside Ship): The seller is in charge for delivering the goods alongside the ship, at the port named by the buyer, being the buyer responsible for the handling.



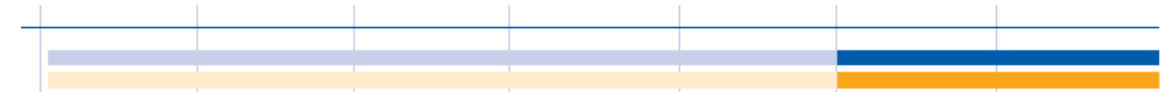
FOB (Free On Board): The seller must load the goods for export on the vessel nominated by the buyer. The buyer is responsible from the moment in which goods are on board in the port of embarkation.



CFR (Cost and Freight, term used in waterway transport) or CPT (Carriage Paid To, term used in any transportation mode): The seller must pay for the main carriage of good until the named destination port or agreed place, but the buyer is responsible for the merchandise insurance until the destination .



CIF (Cost, Insurance & Freight, term used in waterway transport) or CIP (Carriage and Insurance Paid to, term used in any transportation mode): The seller bears the cost of carriage and insurance of the goods until the port of destination or agreed place.



DAT (Delivered At Terminal): The seller pays the delivery of goods at an agreed place inside the terminal, except duties and taxes on imports.



DAP (Delivered At Place): The seller pays the delivery of goods at the final destination, except duties and taxes on imports.



DDP (Delivered Duty Paid): The most risky mode as the seller additionally pays both import duties and customs clearance.

	Seller's Risk		Buyer's Risk
	Seller's Cost		Buyer's Cost

Source: adapted from International Chamber of Commerce, AICEP and Audax and JF Hillebrand Portugal

Figure XIII.1: Incoterms 2010 [26], [75], [88]

When exporting to Japan, Exceed faces increased risks due to lack of control over the goods conditions from the moment they leave the factory, and due to the unfamiliarity with the Japanese logistics and customs *modus operandi*. Given the Exceed risk avoidance strategy and the entry mode through local distributors, it should transfer the transportation risk to these

intermediaries, since they are more prepared to deal with trading bureaucracies in Japan and negotiate with Japanese freight forwarders. The FOB incoterm is the most adequate for Exceed shipping, since the delivery of the goods occurs on board the vessel at the port of shipment, being the importer the responsible for the risks and the costs of goods onwards. In fact, the FOB contact is already used by Exceed to export to South Korea.

In this case, Dura would be responsible for producing Exceed shoes and transporting them to a warehouse in Port of Leixões (the nearest port to Felgueiras, about 60 km away), to pay for the bill of landing and custom duties on exports. The importer would be in charge for the maritime freight until the Port of Tokyo (nearest the city center, about 18 km away), the goods insurance, custom duties on imports and the transportation until its warehouse.

Although Dura is responsible for only a part of the transportation cost, it is important to estimate the total amount to determine the retailing price. In fact, as logistics costs are added and more intermediaries intervene, the retail price increases.

For purposes of time and cost estimation, a freight forwarder with regular shipments to Japan was contacted. The prices are based on information provided via-email by the freight forwarder JF Hillebrand Portugal. The maritime transportation (route Portugal-Japan) is estimated to take 40 days and the costs for shipping 500 pairs of shoes are presented below:

Table XIII.1: Logistics costs estimation (500 shoes shipment)

Logistics costs	€
Transportation by truck: Felgueiras – Warehouse in Port of Leixões	50.00
Warehouse and handling in the origin	53.00
Bill of landing	45.00
Custom duties on exports	95.00
Export declaration	30.00
Total transportation costs for Dura (exporter) = FOB	273.00
Maritime freight: Port of Leixões – Port of Tokyo	190.00 ^[1]
Insurance	177.68 ^[2]
Custom duties on imports: 24% of CIF for footwear	153.76 ^[3]
Handling in the destination	40.00
Transportation by truck: Port of Tokyo - Importer warehouse	45.00
Total transportation costs for the distributor (importer)	606.44
CIF = FOB + Maritime Freight + Insurance	640.68

Source: JF Hillebrand Portugal [98], [99]

ANNEX XIV – Pricing of Exceed shoes in Japan

Table XIV.1: Merchandise price, distribution price and retailer price formulas

Merchandise price (MP)	$(\text{Production} + \text{Transportation costs of Exceed}) \times (\text{Exceed mark-up})$
Distribution price (DP)	$(\text{MP} + \text{Transportation costs of the distributor}) \times (\text{Distributor mark-up})$
Retailer price (RP)	$\text{DP} \times (1 + \text{Consumption tax}) \times (\text{Retailer mark-up})$

When the mark-up is applied over the cost borne by the company (production and transportation costs), it corresponds to pure profit [100].

Currently **Exceed** has an average gross profit margin of 15%. If Exceed applies the mark-up of 15% over the production and transportation cost, it would result in a price of 78.25€. In this scenario, the company would recover the investment in 4 years and 11 months, a payback period of almost 5 years. In order to recover the investment sooner, to make the project more profitable and to have room for manoeuvre to deal with unexpected expenses, a **mark-up of 30%** was applied, resulting in an approximate **merchandise price of 88€**.

Regarding distributors, the mark-up is applied over their costs (merchandise price and transportation costs), while retailers mark-up is applied over their costs (distribution price) added by the consumption tax that would be paid to revenue authorities.

In the footwear industry, distributors and retailers have high bargaining power since small brands with limited resources and brand awareness are dependent on this intermediaries to place their products in the market. Besides, once acquired the merchandise, distributors incur risks of not selling the product or selling for a lower price than forecasted and bear costs of marketing, distribution and negotiating with retailers. Retailers, have to receive a mark-up to pay off rent, energy and salaries expenses, as well as to compensate for the inventory markdown, possible returns and even capture a profit margin.

The general rule of thumb is that the retailer price is 4 times more than the merchandise price [38], [101]. Despite being a general information of the footwear industry and because some costs were already considered, it is wise to apply a **1.7 mark-up for distributors** and **1.8 mark-up for retailers**, which results in an approximate **distribution price of 152€** and in a **retailer price of 296€**. Exceed, distributors and retailers are interested in the long-term

profitability of the project and, as a consequence, pursue a pricing strategy that leads to the adequate positioning of Exceed shoes and increased sales. Note that although the average price of Exceed shoes in Europe ranges 150€ - 250€, when entered in the South Korea, an Asian market, a similar price adaptation was made, resulting in a 100€ price increase.

Table XIV.2: Merchandise price, distribution price and retailer price

Dura	€/pair
Direct cost	45.00
Indirect cost (30% of Direct cost)	22.50
Total production cost	67.50
Transportation costs (FOB) ^[1]	0.55
Markup	1.30
Merchandise price	88
Distributor	€/pair
Merchandise price	88.46
Transportation costs ^[2]	1.21
Markup	1.70
Distributor price	152
Retailer	€/pair
Distributor price	152.44
Markup	1.80
Consumption tax	1.08
Retailer price	296

[1] Transportation costs (FOB) include transportation from the Factory to Port of Leixões + warehouse and handling in the origin + bill of landing + custom duties on exports + export declaration

[2] Transportation costs of distributors include maritime freight + insurance + custom duties on imports + handling on the destination + transportation from Port of Tokyo to the importer warehouse

ANNEX XV – Financial projections

Table XV.1: Financial projections

Nr. Year	1	2	3	4	5	6	7
Year	2015	2016	2017	2018	2019	2020	2021
Capex ^[1]	-17338	-10838	-10838			-10838	
Growth rate			15%	15%	10%	5%	0%
Quantity ^[2]		500.0	1,150.0	1,322.5	1,454.8	1,527.5	1,527.5
Sales ^[3]		44,229.9	101,728.8	116,988.1	128,686.9	135,121.2	135,121.2
Production cost		33,750.0	77,625.0	89,268.8	98,195.6	103,105.4	103,105.4
Transportation cost (FOB)		273.0	627.9	722.1	794.3	834.0	834.0
COGS		34,023.0	78,252.9	89,990.8	98,989.9	103,939.4	103,939.4
EBITDA = EBIT ^[4]		10,206.9	23,475.9	26,997.3	29,697.0	31,181.8	31,181.8
Taxes (IRC) ^[5]	-3,641.0	-132.5	2,654.0	5,669.4	6,236.4	4,272.2	6,548.2
Net income		10,339.4	20,821.9	21,327.8	23,460.6	26,909.6	24,633.6
FCF	-13,697.0	-498.6	9,983.9	21,327.8	23,460.6	16,071.6	24,633.6
Actualized FCF (WACC) ^[6]	-12,805.7	-435.8	8,159.0	16,295.3	16,758.4	10,733.3	15,380.8
Accumulated FCF	-12,805.7	-13,241.5	-5,082.5	11,212.7	27,971.1	38,704.4	54,085.2
NPV=54,085€ Payback period: 3 years and 4 months IRR=65.4%							

[1] Although Dura has to pay for the investments upfront, it will be partially reimbursed by European funds as QREN and Compete that will contribute to a higher NPV than estimated.

[2] Quantity: 1000 pairs in the first year, with a growth rate of 15%, 15%, 10%, 5% and 0% in the following years. Note that in the first year the quantity is only 500 because the exporting will start by the second half of 2016

[3] Note that merchandise price = 88.46€

[4] Since there are not depreciations or amortizations EBITDA=EBIT

[5] IRC: 21% in 2015 [106]

[6] WACC for footwear industry: 6.96% [107]

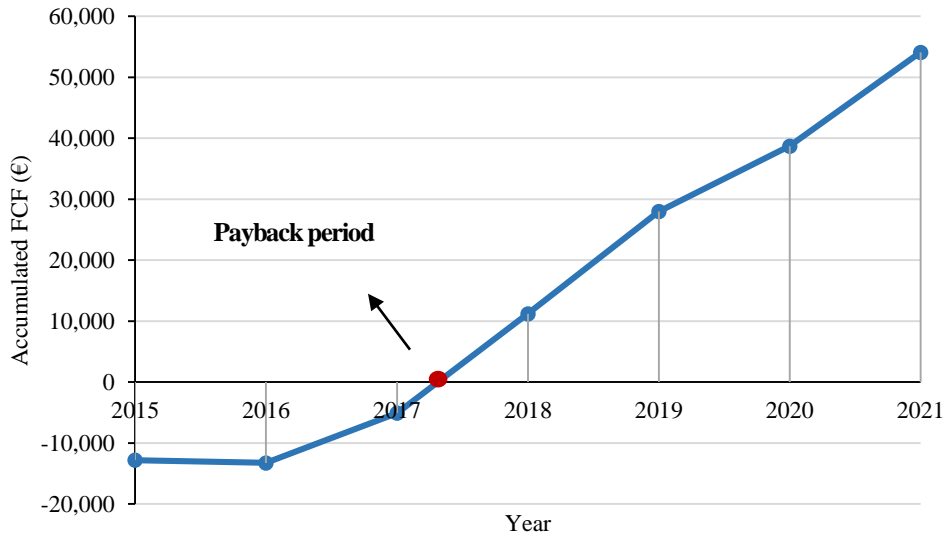


Figure XV.1: NPV evolution (2015-2021)

ANNEX XVI – Sensitive analysis

Since financial projections are subjected to be adapted to the external environment conditions, it is worth to assess the impact of changes in three variables: merchandise price, quantity sold and investment.

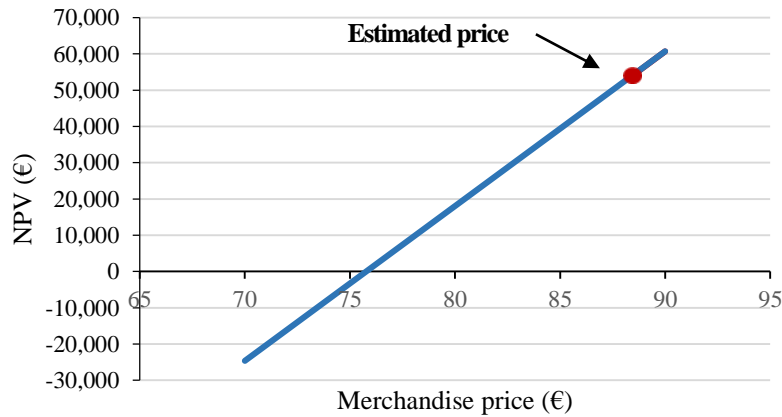


Figure XVI.1: Sensitive analysis to merchandise price

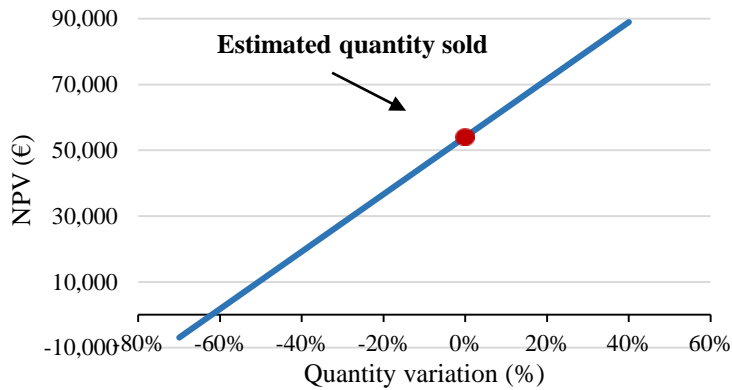


Figure XVI.2: Sensitive analysis to quantity sold

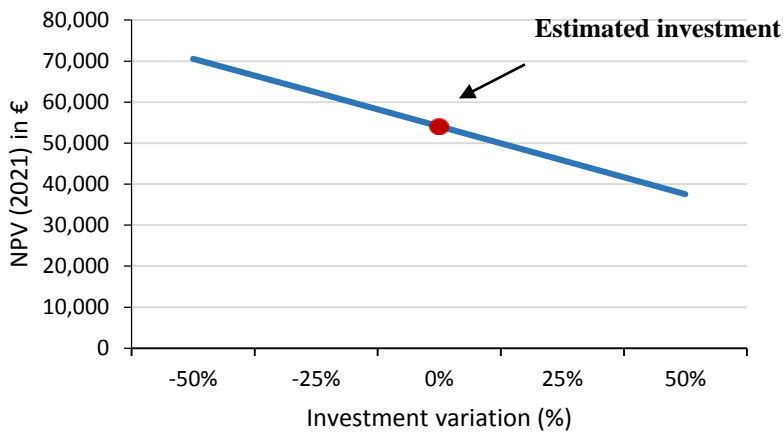


Figure XVI.3: Sensitive analysis to investment

From the sensitive analysis one can conclude that the merchandise price is a factor with stronger impact on the NPV. A 10% variation in price will result in a 69.8% impact on the NPV. In case the company decreases the price by 16.7%, charging a price of 75.78€ the NPV becomes zero. This fact reflects the inability of the company to capture profit from its sales, *ceteris paribus* (maintaining the costs). In order to recover the investment made, the merchandise price has to be higher than this frontier. In case Exceed charges an approximate price of 88€, as estimated, the NPV would be 54 086€.

The quantity sold plays an important role as it has direct impact on sales. However, the quantity decrease is compensated by lower production and transportation costs, which explains the weaker impact of this factor on the NPV, when compared to the merchandise price. Besides, the investments made are not very significant when compared to the sales

potential, even with reduced demand. A 10% variation in the quantity sold will result in a 16.1% impact on the NPV. The quantity sold would have to decrease by 62.1% to result in a zero NPV.

Finally, the investment variation is the factor with less potential to impact the NPV. Given the reduced amount invested (17 338€ in the first year and 10 838€ in year 2, 3 and 6, summing up 49 852€), Exceed can quickly dilute that amount with the incremental revenues, *ceteris paribus*. For example, if investments increase by 10%, the NPV will be impacted only by 6.1%.