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Competitive strategies in fashion industries: Portuguese footwear industry

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Abstract. Portugal is an important player in the European fashion industry. The Portuguese footwear industry, “low-tech” and traditional industry, dominated by SMEs and located in two main clusters, is a success case in the Portuguese economy. After a long period of decline until 2009, the footwear companies prepared new strategies that made big changes in the image and performance achieved. Since 2009, exports have increased more than 55% and the Portuguese footwear has grown in almost all the most important foreign markets. The competitive strategies followed by the Portuguese footwear companies are different and they can be clearly identified according Porter’s three generic competitive strategies: cost leadership, differentiation and focus strategy. This paper had analysed seven Portuguese footwear companies (seven cases, case study strategy) and the results obtained shows how important is to have the right approach to the markets, according the internal and external resources that each firm has available. The footwear clusters in Portugal and the sectorial organizations are also very important in this competitive performance achieved by the companies. Last years the Portuguese governments recognize this increasing importance of the fashion industries and prepared several programs to promote these industries in Europe and other continents.

1. Introduction

Portugal is an important player in the European fashion industry, regardless of whether you are talking about textiles, clothing, furniture or footwear. The Portuguese footwear industry, “low-tech” and traditional industry, dominated by SMEs and located in two main clusters, is a success case in the Portuguese economy. After a long period of decline until 2009, the footwear companies prepared new strategies that made big changes in the image and performance achieved. This industry had in the last six years a remarkable performance in several indicators, a reference in the Portuguese industry [1]. In 2016, Portugal exported more than 81 million pairs of shoes, an amount of more than 1 923 million euros, a growth of 3.2% over 2015. Leather footwear are the main category of Portuguese footwear exports, that gives the 10th position in the international context (value of 1 840 million of USD in 2015 and a World Share of 3,4% - Table 1). As a result of an unprecedented investment in international markets, Portugal now exports more than 95% of its production to 152 countries on five continents [1].

These research fulfil the lack of empirical knowledge in the linkage between competitive strategies, innovation and own brands in “low-tech” industries. Moreover, as fashion industry, footwear, apparel and textile are strategic for the national authorities. The European Framework for Research and Innovation – Horizon 2020, is assumed as a main instrument to the companies became more competitive. But the financial resources and internal skills has to be focused in the right strategic direction. Both footwear clusters are very committed to cooperate and to take a chance to increase his position in news markets, mainly outside of Europe.



Table 1: Top 10 Exporters of Leather Footwear 2015

<u>Rank</u>	Country	USD Million	World Share	Pairs Millions	World Share	Average Price \$
1	China	10 922	20.5%	725	33.1%	15.05
2	Italy	7 695	14.4%	125	5.7%	61.50
3	Vietnam	5 965	11.2%	293	13.4%	20.37
4	Hong Kong	2 455	4.6%	90	4.1%	27.34
5	Germany	2 392	4.5%	69	3.1%	34.74
6	Indonesia	2 233	4.2%	95	4.3%	23.48
7	Spain	2 132	4.0%	57	2.6%	37.46
8	Belgium	1 968	3.7%	71	3.2%	27.86
9	India	1 923	3.6%	115	5.3%	16.72
10	Portugal	1 840	3.4%	59	2.7%	31.00

Portugal exports more than 85% of his footwear production to the European markets. The five more important Portuguese footwear markets and trade partners are all European: France, Germany, Netherlands, Spain and United Kingdom and they import more than 70% in value (Table 2).

Table 2: Main trade partners 2015 (Exports)

Export Markets	USD Millions	Value Share	Pairs Millions	Quantity Share
France	454	22%	16	20%
Germany	381	18%	13	17%
Netherlands	297	14%	10	13%
Spain	209	10%	14	17%
United Kingdom	148	7%	9	7%

2. Methodology

The research was done with an active participation of the sectorial organizations, helping in definition of the sample of innovative footwear companies (a short list of twelve innovative companies were used). The research methodology was qualitative and the strategy for data collection was the multiple case studies [2]. To select the seven innovative companies were used the intentional sampling. The logic and the power of purposeful or intentional sampling are based on the selection of cases that are rich in information for in-depth study of a particular phenomenon, central to the purpose of the investigation [3]. The companies selected were: FELMINI, SAVANA, CENTENÁRIO, PROCALÇADO, KYAIA, SOZÉ/DKODE and ACO. All of them are located in the two Portuguese footwear clusters. Regarding the number of cases considered appropriate, some authors [4] say that a number between four and ten works normally well. Other author [5] considers that although numerous cases diluting the overall analysis, the researcher typically chooses "no more than four or five cases". There are several strategies to select the innovative footwear companies using the intentional sampling. The maximum variation strategy and the sampling with criteria was the most appropriate to the research, as suggested by sectorial organizations APICCAPS and CTCP.

To obtain the data, the investigators made eleven semi-structured interviews during more than five months (in four companies were made interviews to more than one person). They visited the seven footwear companies several times and all the interviews were digital recording and after transcribed to text. A questionnaire was completed by the companies to gather and connect dispersed data and to

make links between some concepts and results. Sometimes the interviews at a cluster company were decisive in approaching other companies, some of them suppliers or partners in previous research projects and others are yet in common research projects.

The MAXQDA software was used to make the qualitative analysis of data gathered and to prepare some conceptual models.

3. Results and discussion

Throughout the investigation, have been formulated several hypothesis. The competitive strategies followed by companies are identified by their owners, CEOs and administrators, and lead to better results and a differentiated competitive positioning. This hypothesis was formulated in the beginning of the research and was clearly validated during the research. Figure 1 shows a “planetary model” that highlights this assumption. The generic competitive strategies, as proposed by Michael Porter in 1980 [6], are clearly identified in this research. Cost leadership, differentiation and focus strategy are the Porter’s competitive generic strategies and the focus strategy can be divided in “focus on costs” or “focus on differentiation”.

Conclusions about competitive strategies and competitiveness of the footwear companies were very simple to obtain and they are very clear. Even if the owners or administrators does not know the Porter’s designation to the competitive strategies, they can describe the principles that they are based on and recognize if their company is following one or the other. Table 3 shows the results obtained during the research (Table 3).

Table 3: Cases from Portuguese footwear industry (2013)

	Felmini	Savana	Centenário	Procalçado	Kyaia	Soze/Dkode	ACO
Turnover (million €)	13.4	8.9	9.2	21	56	10	33.5
N° workers	183	142	74	296	620	160	741
Ratio Turnvr/Wrk (€/Worker)	73 460	63 050	124 150	70 950	90 320	62 500	45 200
Exportation Value (million €)	13	7.9	9.1	10.5	50	9	28.7
Own Brand (%)	100%	10%	0%	60%	90%	60%	10%
Competitive Strategy	B,D	A	C	B	B,D,E	B,D	A
Innovation (Oslo Manual)	Product Marketing	Process Organiz.	Product	Product Marketing	Product Organization Marketing	Product Marketing	Process
Cooperation with Cluster (1 to 5)	4	2	3	5	5	3	2

Notes: A – Cost leadership
 B – Differentiation
 C – Focus strategy
 D – Quick Response
 E - Synergy

Cost leadership is followed by two companies: ACO and Savana. ACO is the biggest company analysed with 740 workers and with a turnover of 33.5 million euros in 2013. Both work mainly in

private label regime, with a low percentage of own brand products. These two companies have others factories that belongs to the same main company, working in some process operations: cutting, sewing and assembling. ACO has one factory in Cabo Verde (Africa) with 260 workers and other one in Ponte de Lima (Portugal) with 100 workers. Quality control is done in the main factory, before to be sent to the final customers or clients (private label regime). Savana has a small company in Baião (Portugal) with 30 workers. These smaller companies belongs to the same owners and are located in the same region (footwear cluster in the north of Portugal)

Differentiation strategy is followed by four footwear companies: Felmini, Procalçado, Kyaia and Soz /Dkode. They have own brands, with own products and footwear collections. The percentage of own brand products is higher than 60% in all the cases, remaining a percentage of production to the private label. Quick Response strategy is followed and identified by three companies, which joins the differentiation strategy already indicated above. The synergy strategy proposed by Aaker [7] is assumed only by one company: Kyaia. Aaker's synergy definition corresponds to the capacity that two or more entities or companies have to jointly generate more value, which is greater than that achieved separately by each one. Kyaia participates frequently in research projects, being mostly of the times project leader.

Being close to the retail and the final consumer is a common feature of the differentiation strategy option and "to move consumers' involvement from low to high" [8] with brands' linkage. Focus strategy is clearly followed by Centen rio. Production process is very peculiar and with a high value added (Goodyear production system) with a complex system that requires skills and competences not easily available in other countries. The shoes are produced with special leathers and skins of exotic animals (alligator, skin snake, Brazilian fishes, etc.), in private label regime. The company is preparing a new product line to the American market: golf footwear in high quality leather and exotic skins. The company has own brand, prepares own products without a collection, but it represents a small share. It is important to keep the quality level of the company and to test some techniques and production improvements.

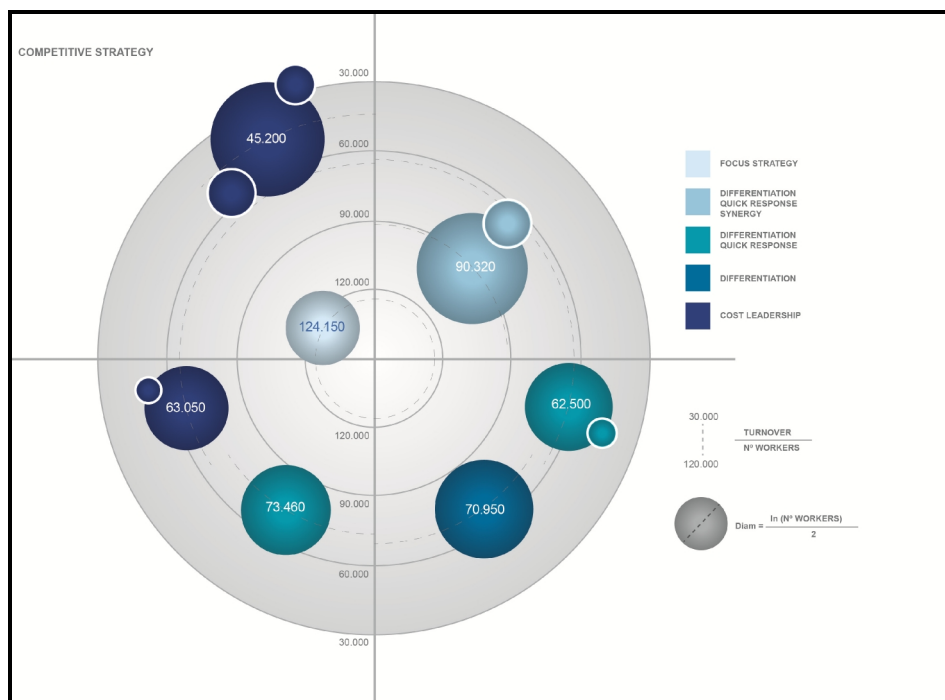


Figure 1: Competitive strategies in innovative footwear companies

The cooperation with the cluster occurs in different levels. Some companies, usually more innovatives and with “Innovation in Products” and “Innovation in Marketing”, and with strong brands, have a very good cooperation in the cluster. They are frequent partners in innovation projects, involving also equipments producers and software houses. High Speed Shoe Factory was a project led by Kyaia that had involved several sectoral partners, including machinery producers, software house, footwear companies and technological centers.

This analysis fits in previous studies already done in the Portuguese industry [9]. Traditional industries are important if they have the right competitive strategy and if they can compete against the main international players. The clusters plays also a very important role, mainly if they can collaborate in innovation processes and creating competitiveness inside the cluster[10].

4. Conclusions

There are a link between the category of innovation followed by the innovative firms (according Oslo Manual - OECD) [11] and the competitive strategy adopted in these companies [6]. This conclusion is very clear in this research and recognized by the sectorial players. Differentiation strategy is followed by the same companies that have “Innovation in Products” and “Innovation in Marketing”, according Oslo Manual classification.

The ratio “Turnover/worker” of the footwear companies is related with the strategy followed. Centenario has the highest ratio “Turnover/Worker” with a value of 124,150 euros/worker and the strategy followed is “Focus Strategy”. On the other hand, ACO follows a “Cost Leadership” strategy and has the lowest ratio “Turnover/Worker” with a value of 45,200 euros/worker. If Portugal wants to continue to be more competitive in traditional sectors, with a very positive trade balance as it happens with footwear, clothing and textile, then the companies need to take advantage of the this EC Framework HORIZON 2020. They have to prepare competitive strategies to entry in new markets, with products more sophisticated, with good design, own brands and with high quality. Portuguese footwear quality is already recognized by the international markets, mainly in leather products category. The experience and know-how obtained in private label regime by the Portuguese footwear, textile and apparel industries were very important to the quality levels that these industries are showing nowadays. Own products, own collections, own brands and innovation are elements that contribute for these results, even if these companies are mainly SME’s [12] as it happens in the Portuguese fashion industry. The Spanish Group Inditex has in Portugal an important supplier to their fast fashion products [13]. In textile and clothing industries, Spain is the main commercial partner with Portugal (exports and imports) [14]. The high qualification of human resources and workers, the technological upgrade and the entry in sophisticated markets are helping to keep this competitive performance.

The road ahead is long and difficult but it is the only way to remain competitive in global markets. Cooperation between partners and good decisions are critical to keep the road open. Future research should enhance the strategic options of companies in these important and traditional sectors of the Portuguese economy.

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