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IWP STRATEGY – SME COMPETITIVENESS:

Cofemel´s Internationalization Plan to Poland

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Index

1- Executive Summary

Internationalization has become a crucial process for the survival and growth of firms in general so that, this thesis presents an internationalization plan through a franchising strategy for Cofemel. It is a clothing company creator of the brand *Tiffosi* in 1978. Its main activity is to manufacture and trade exterior apparel, which includes the common clothing, such as: trousers, shirts, jeans, sweaters, dresses and accessories.

Since Cofemel opened its first *Tiffosi*´s store, the brand started to grow fast. But, contrary of what seemed a good performance in 2008, the firm was near the bankrupt mostly because it was a family´s business where members were poorly prepared exercising executive and strategic positions. The strategy and objectives were not clear for a long period before 2008 so that it lead the company to have 29 millions of sales but a negative net income of 6 million euros in that year. VNC Group – a group led by António Vila Nova – in 2008 decided to buy Cofemel in that situation and thanks to his long experience in this market he was able to restructure the company totally and turn it into a competitive and sustainable firm. In 2009, the results became positives and Cofemel with its brand *Tiffosi* started to growth strategically on the market, establishing objectives for the future. Therefore, it emerged the opportunity to expand to Poland and the entry mode was chosen using an analysis of various available hypotheses and a market study. It also presents an implementation plan with duration of two years.

Key Words

Internationalization, Strategy, Poland, Apparel Industry

2- Description of the Company

Nowadays, *Tiffosi,* a brand created by Confemel – Sociedade de Vestuário, S.A., is known as a Jeans' brand, outstanding by its high quality and competitive price. In Portugal *Tiffosi* is a clothing brand with great recognition and its presence in other countries of Europe had been increasing since 2008.

Before 2008, *Tiffosi* was a casual brand that had no characteristic that could differentiate it in the market however, one reason for the apparent success was the shopping malls´ explosion. From 1996 until 2008 the gross leasable area accumulated had a huge increase (see Exhibit I). In 2008, Portugal was the 9th country with more commercial area in Europe. Thus, during this time it was possible to open a lot of stores in places where the brand could be known by a lot of people that started to use shopping malls to shop. At the time the company was working mainly through four channels:

- Mono-brand – Own stores or franchising;
- Multi-brand – *Tiffosi* was present in a store together with others brands;
- Catalog – *Tiffosi*´s products could bought through catalog;
- Department stores – *Tiffosi* started to be present in *El Corte Inglés*.

After the acquisition by VNC Group, *Tiffosi* became a jeans´ brand with a new image, price strategy, store concept, internal structure and new lines of products. As Mr. Rui Silva, wholesale manager at *Tiffosi*, said "VNC Group renew the company at all levels and basically the only thing that stayed the same was the brand´s name, *Tiffosi*" because it had reached a good level of brand awareness.

It is important to notice how VNC Group could turn Cofemel into a competitive firm regarding the economic difficulties that have started in 2007 and the consequent effects on the economy. Firstly, VNC Group decided to adopt its own international strategy, it decided to rationalize the existing international distribution channels by closing some unprofitable stores and re-organize its franchising system by buying franchisee stores to develop its own new concept. Therefore, they renew the concept of the stores, for instance the design and decoration to reflect the brand identity connected to the old times when people were used to do and buy clothes in tailors. The pricing policy was also managed through a different strategy, more adapted to the company's values and objectives. New lines of products and redefinition of season´s presentations of new collections were also changes made by the company. This new organization meant a lower cost which was translated in better performance throughout the company. Moreover, the company expanded, repositioned and developed its channels of distribution:

- New reposition of the brand on mono and multi-brand channels;
- The number of department stores where *Tiffosi* was present increased;
- Catalog was substituted by internet.

Tiffosi´s portfolio continued to evolve through a relentless pioneering and innovative spirit and became a brand much more adapted to the international market. As a result, Net income rose 2 million driven by sales turnover growth in average 18.21% along the past two years (see Exhibit II).

Currently, Cofemel has more than 68 stores in Portugal and around 600 employees in Portugal and abroad, and it is also one of the fastest growing Portuguese's clothing brands in a market where the apparel and textile industry´s turnover was characterized by a decrease on average from the last four years of 9% (ATP 2011).

3- Perspective on Business Mission and Strategic Objectives

These satisfactory results, together with the opportunities for global growth, have made possible to re-invest the funds generated in the expansion of the Group, for instance, in Spain. Cofemel opened a company there in order to manage its spaces within the *El Corte Inglés* and to expand the network of clients´ multi-brand. In fact, the objective not only include opening or increasing the size of stores in the countries where it is already present but also find new opportunities in different markets.

Key elements of Cofemel´s strategic plan are the following:

Vision – "Became one of the best jeans´ brand in a European environment until 2021"

Mission – "Have the right products with high quality were the consumer can feel that he/she was the one that won with the purchase of the product"

Target – "As the company offers a broad line of jeans-wear it appeals to a diverse demographic group who loves jeans". The positioning of the company has been changed in 2008 coming up with a new marketing strategy. *Tiffosi* is a brand of jeans especially for men and women belonging to a middle and upper middle class that want a blend of innovative style because of its special fits and designs. In Portugal it is not an objective of the company to open new stores. On the contrary, the company wants to increase the size of the stores in order to combine in the same store Adults´ and Children´s collection. This strategy enables the decreasing of the overall cost, for instance, reducing staff and rents. Expand internationally is the most important strategy especially in Europe. Portugal already seems to be small for such a brand that is growing fast. Currently, through its network of agents, Cofemel has about 300 clients (within Europe and excluding Portugal) in the following countries: France, Germany, Austria, the Netherlands and Slovenia. The main goal for the next three years is to get in these countries 1,200 clients. The international business represents 3,1% of total turnover but the company aims that in 2015 it will represent about 30%.

4- Analysis of the product/service

A clothing brand cannot look only for its main product, in *Tiffosi*'s case for jeans, to achieve business sustainability. The brand´s reputation is not only created thought the quality of jeans but also by all the products. All categories are created to have similar levels of quality so that the brand can become national and international competitive. However, the main focus goes for jeans because those are the ones who differentiate and characterize the brand. To achieve a good level of product quality, *Tiffosi* pays much attention on the quality control and also tries to control good work relationships between them and the suppliers. Jeans´ production of Cofemel is made largely in Portugal and North Africa. Other kinds of products are manufactured in the Far East in countries like: China, Bangladesh and Pakistan, which can offer products with an excellent price-quality ratio. Its good relationship with suppliers permits Cofemel to benefit from lower costs. Actually, Cofemel can make good deals with suppliers due to its managers´ knowledge, experience and network.

Departments such as Human Resources, Technology Development, and firm´s infrastructure are behind all the processes that allow the company to add-value to its products supporting its main operational structure (see Exhibit III and IV). Most of the company production is outsourced but the company has a laundry where part of the jeans´ production manufactured abroad is finished. This laundry is responsible for introducing some finishings in jeans, for instance, defines the finishing of the pockets, and subsequently proceeds to its washing. Authenticity and originality characterize the brand together with a creative and innovative spirit, in which some of the products have qualities that can differentiate it in the market. For instance, it produces Waterproof Jeans, an innovative technology that prevents water´s penetration, Wash&Wear where jeans do not need to be ironed, Anti-Cellulite Jeans which are jeans with micro capsules incorporated in their own fabric which release moisturizing agents on skin thus preventing cellulite and, finally, Quick-Dry that are jeans that dry 20% faster.

5- Industry Mapping and Business Model

Analyzing the apparel sector, this can be divided in two man industries that are vertically organized. At upstream, we find textile industry which comprises some of the following steps related with the productive process: fiber preparation, spinning, weaving, knitting and finishing (dyeing, printing and finalization). At downstream, we find the apparel industry which compromises the manufacture of clothes and accessories. From this information we easily realize that Cofemel is situated in the downstream side. Cofemel´s industry map seems to be very complex because it contains strategies that the company uses to sell in different countries (see Exhibit IV). In some European countries (e.g. France) Cofemel works through a network of Agents, that are responsible to find new clients, and it outsources a special company to collect the customers´ payments called FDI. In Portugal and Spain, it works mainly directly with its own stores.

6- Competitive Advantage of the Enterprise and Value Chain

6.1 –Internal Scanning

Regarding the enterprise internal scanning and degree of internationalization the following competitive advantages can be enhanced (see Exhibit III and V):

- **Product** – *Tiffosi* products´ quality and price position is one of the main sources of competitive advantage. Cofemel demands high quality jeans from suppliers and the good connection between the design developed by Cofemel together with the quality of denim produced by suppliers can make the final product very pleasing to the consumer. Also due to the good relationship between Cofemel and its suppliers, the company can have the products at a good price (Company´s perspective). This allows the company to have a sustainable advantage. Additionally, *Tiffosi* has a Product Innovation that completely differentiates its jeans and Cofemel uses it in its products´ promotion not only in store but also to attract new clients.

- **Top Management Profile –** Cofemel seems to be a new company on international markets however this is not true regarding to the managers of different areas. Most of them came from a long experience apparel´s sector, for instance António Vila Nova and Beatriz Vila Nova were the main owners of Salsa some years ago, and now they are leading VNC Group with its high experience in the market bringing with them experienced managers to lead each business area. Another example is Mr. Rui Silva who had help me on this project. He also has a large experience on the market due to the fact that before Cofemel he worked for Salsa Jeans, D Sample Jeans and Levis Strauss.

Competences

- **Productive Efficiency** – Cofemel has a competitive advantage by the way it organizes and processes all the necessary activities from the creation of new collections until the distribution and sales as we can see through the low percentages on the primary activities (see Exhibit III). It is a firm conscious of the current economic situation of Portugal and Europe and thus it is cost-conscious at every stages, for instance, by having few middlemen, a simple system to deal with clients (B2B) and workers only use low-cost flights. This competitive advantage maybe came up with the fact that VNC group bought Cofemel in 2008, year when economic crisis become visible.

- **Level of efficiency in the stock market in the logistic chain** – Cofemel´s structure of management stocks is not very flexible. Basically the company has to have all the customers' orders six months before the delivery date and because the company only has two main collection costumers have only two main periods to make orders. As all the company production is outsourced from several companies, it takes long time for suppliers to receive Cofemel´s orders, to manufacture the products and to deliver them in Portugal. In addition, clients have access to an Internet´s platform where they can see all the company´s stock. With this online system called B2B, the client can not only make orders but also see the products in the platform which allows Cofemel to introduce some new products and promote them. This system is already used by many companies but it is very useful to better organize the relationship with clients.

6.2 - External Scanning

In Portugal the textile and apparel industry is concentrated in three main regions: North, Centre and Vale do Tejo (Vasconcelos 2006). This concentration of the industry is explained by several factors related with the production as it is the fact of lower labor cost and raw materials. In fact, this concentration of the business enables companies to benefit from economies of location which means that companies can cooperate among each order, which will be translated in lower costs. Cofemel is located in the region of Vale do Ave where companies benefits also from the proximity of universities and research centres that supports this sector as it is the case of CITEVE and ATP.

Regarding the information included in Porters Five Forces (see Exhibit VI), SWOT (see Exhibit VII) and TOWS (see Exhibit VIII) analysis it is important to enhance some points. First of all, apparel market is highly competitive. There is a huge amount of companies working in this sector, some of them are part of power economic groups, for instance, Group Inditex. Secondly, it is easy to appear new brands and companies, however creating brand´s awareness is difficult and takes time. In addition, product innovation and the following of trends are very important in order to not become a less valuable brand by consumers which can lead to a loss of reputation.

7- Criteria of country selection

Shortly after the acquisition of Cofemel by VNC Group, the brand started to have some clients abroad that nowadays have some impact on all the company´s business (see Exhibit IX). This commercial expansion occurred mainly through European markets, which have been selected mainly considering the logistic proximity. This is the case of Spain, France, Germany, Austria, Switzerland, Belgium, Andorra and Luxemburg. Despite the recent agreement with an important local group of the Kingdom of Saudi Arabia that immediately opened four stores, the main focus is on Europe. If Cofemel´s internationalization process goes towards new destination markets in the global context it will have some problems related to the management of the logistic and control.

In a meeting with Mr. Rui Silva about the country selection, Poland appeared as a potential market to which the firm can expand and take an important step to achieve its objectives. We agreed that this country represents a potential growing economy at all levels which it is unthinkable for a brand that wants to become a major brand of jeans in Europe not be present there. Therefore, Poland was chosen and the main reasons of it were: Growing Economy, Geographic Position, Significant Market and the fact that it is a country member of European Union.

8- Introduction of Poland analysis

Poland is an important European country (member since 2004), both in terms of political and economic performance. It has a stable political system, which is evident from the fact of being a member of the EU, OECD and NATO. Agriculture plays an important role in the economy as well as raw materials in the industry, which can be observed in the development of high-tech industries and specialized services. The GDP per capita growth observed is the following:

Table 1 - Gross domestic Product at market prices (unit: Euro per inhabitant; * Provisional)

Geo/Time	2004	2005	2006	2007	2008	2009	20010	2011
European Union (27 countries)	21.700	22.500	23.700	25.00	25.00	23.500	24.500	25.200
Poland	5.300	6.400	7.100	8.200	9.500	8.100	9.300	
Portugal	14.200	14.600	15.200	16.000	16.200	15.800	16.200*	16.000*

Source: Eurostat

Although it occupies the 22[th] position among the major economies of the planet, its GDP per capita is still below the European average (The World Bank 2012). The economic growth in Poland is based in a large part of the international trade. The value of imports of goods and services of Poland in 2011 reached 171 billion of euros and the value of exports of the country in 2011 totaled 167 billion of euros. Portugal isn´t one of the main partners of Poland, however in 2011, the Poland´s trade with Portugal amounted to highest value of the history.

Table 2 - Foreign Trade Turnover of Poland with Portugal in mln Euros

Specification		*2000*	*2005*	*2010*	*2011*	
						In percentage
Portugal	Imports	164	221	335	399	0,3
	Exports	212	340	451	476	0,3

Source: Central Statistical Office of Poland (GUS)

Poland is one of the most recipients of FDI in the region of Central and Eastern Europe which could mean that companies see this country as a potential economy characterized but its fast growth, solid banking system and flexible and qualify workforce (Steind 2012).

Geography

Poland is the ninth largest country in Europe in terms of area. It is often considered the "heart of Europe "due to its central location and its borders are: Germany to the West, the Republic Tchecha and Slovakia to the South, Ukraine and Belarus to the East, and at North with Lithuania and Russia (Kaliningrad) (see Exhibit X). In addition, it has a maritime border with Sweden and Denmark. Moreover, its central location, borders and its air, road and sea routes with major capitals of some countries out of EU attract many investors from the entire world. Therefore, investments in Poland allow access to a market of millions people in Western and East Europe and also, Poland meets the conditions to become one of the main distribution centers in Europe. The majority of modern warehouses are located in outskirts of Warsaw (Mroczek, Kurowski and MikeAtwell 2012). Besides Warsaw cities like: Łódź, Poznań, Gdańsk, Wrocław and Katowice, have strategic locations, developed logistic centers with access to neighboring markets (Real Estate Market Report 2011 - Poland 2011).

Political factors

Currently, Poland is a liberal democracy that adopts the parliamentary system of government, which guarantees freedom of the economic activity. Governments work to support partners businesses interested in taking advantage of the commercial opportunities. Therefore, EU enlargement effects can be seen in the field of business cooperation with EU countries, a result of the fact that Poland began to follow uniform principles applicable in the EU internal market. Due to the some EU financial support numerous important motorway investments have been implemented. The major priorities of Poland’s policy in the EU referred to maximization of chances resulting from EU membership, efficient adaptation to functioning in the EU and gaining the position of an influential Member State. Balance the goal of public finance reforms with measures to promote economic growth is also a main economic policy issue. Euro adoption is unlikely to be a priority in the near future, given likely problems in narrowing the budget deficit, and increased doubts about the advantages of euro area participation.

Population and Unemployment rate

Poland has a population around 38.5 million which means that its market is the eighth with highest population in Europe and the thirty fourth at global scale. The population is also one of the youngest in Central and Eastern Europe (CEE), with more than 38% of all citizens in 2010 in the 20-44 age range (Poland Retail Report Q4 2012 2012). In terms of population density, the country is the sixteenth at European scale with 123 habitants by km^2.

The biggest city is the capital, Warsaw, with a population of 1.7 million inhabitants. Krakow (0.75 million), Lodz (0.75 million), Breslau (0.6 million) and Poznan (0.55 million) are the following cities with more population.

Regarding to the labor market, the unemployment rate had decrease from 19% in 2004 to 9,5% in 2008. Probably due to some effects of the current crisis, this rate increased to 12,1% in the next years and in 2011 it stayed at 12,5% (Eurostat 2012).

Wages and Expenditures

At the time, the gross minimum wage in Poland is approximately 336.47 euros. The average gross wages and salaries are 874 euros concerning units employing (GUS 2012). This value has increased all over the years and it is expected that it will continue to grow. Moreover the uneven distribution of equivalent income measured with the Gini coefficient dropped from 2007 until 2011 by 2%. If we analyze the minimum wages in terms of power purchase, adjusting for differences in price levels, this wage has more power due to the fact that price in general inside the country are cheaper than in other countries. Thus, we will have a minimum wage in PPP of 606 euros that is very close to the Portuguese minimum wage in PPP (647 euros) (Eurostat 2012).

Regarding the implementation of an internationalization plan, it is also very important the average monthly per capita expenditures in household by region. Thereby, the region that has higher level is the Centralny region (508,2€) followed by Pólnocno-Zachodni (415€) and Pólnocny (395,5€). According to the average monthly clothing and footwear expenditures per capita, Centralny has the highest value with 17,1€ followed by Pólnocny with 12,3€ and Poludniowy with 11,9€ (See Exhibit X and XI).

Masovian is the province with highest monthly per capita available income compared to the national average (Poland =100) in 2011 with 132,33% and also the one that has higher level of expenditures with a value of 128,9% (National average =100). Łódz in spite of not having a value above the average in terms of available income (98,1%), has a value of expenditures that represents 102,7% of the national area. These are the two provinces that constitute the Centralny region. There are also other provinces where monthly per capita available income are above the national average such as Pomeranian, West Pomeranian and Lower Silesian with 104,9%, 100,3% and 104,6%. On the other hand, there are also some provinces with an average monthly per capita expenditure above the national average such as: Pomeranian, Lowe Silesian, Opole and Silesian with 104,5%, 104,2%, 103,3% and 102,4% (GUS 2012) (see Exhibit XI).

Consumption Pattern

In 2004, the average monthly per capita available income was 180 euros where the percentage of expenditure was 94,5% while in 2011 the average monthly per capita available income was 300 where the percentage of expenditure was 82,7%. The structure of household expenditures in 2011 can give some useful information (see

Exhibit XII). Regarding expenditure on clothing and footwear the percentage increase from 4,1% in 2008 to 5.1% of total expenditures in 2011 (GUS 2012).

Economic factor

The Polish economy has been growing steadily for almost 20 years and even in difficult times as the current crisis, that started in 2007, it did not stop to growth:

Table 3 - GDP at market prices in billions of euros (* provision)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
EU (27 countries	11072,2	11441,7	11812,3	11852,6	11343,3	11578,3	11756,4	11726,5 *	11773,8 *	11962,4 *
Portugal	154,3	156,5	160,2	160,2	155,5	157,7	155,1	150,5*	149*	150,2*
Poland	244,4	259,6	277,3	291,5	296,2	307,7	321	328,7*	334,7*	343,4*

Source: Eurostat

The potential of the market is huge, from 2005 until 2014 it supposed to increase its GDP in almost 100 000 millions of euros. Also from 2005 until 2011 Poland´s GDP at current prices had growth in average 4.5% per year that is clearly above EU-27 (1.2%) and Portugal (0.2%). Moreover, the Eurostat's estimation growth on average for next years (2012, 2013 and 2014) are 2,3% for Poland, 0,6% for EU-27 and -1,1% for Portugal. If we take a look in GDP per capita in PPS (Purchasing Power Standard) comparing with EU-27 it is easy to conclude that Poland economy has being converging very fast to the average of EU, which can be seen as a limitation because it is below the European average. However, on the other hand, it can mean that Poland´s economy has been very dynamic. As its growth is higher than EU-27, it is impossible for any investor to not see this country as one of the highest potential growth economy in Europe.

Table 4 - GDP per capita in PPS (Eu-27=100)

	2004	2005	2006	2007	2008	2009	2010	2011
Portugal	77	80	79	79	78	80	80	77
Poland	51	51	52	54	56	61	63	65

Source: *Eurostat*

Prices

Since Poland entered in European Union its average level of inflation was around 3,1% per year which means that prices from 2004 until 2011 increased around 23,2% (Historic Inflation Poland 2012). Its inflation rate became more stable all over the years, however it is the EU’s second-highest and it will remain above the Central Bank’s 2.5 percent target until next year (Inflation Report 2012). The average inflation for Poland (the average of 12 monthly inflation rates of a calendar year) was 3,83% for 2012 until October and 2011’s inflation rate was 4,24% (Historic Inflation Poland 2012).

Looking for Poland´s price levels of final consumption the main conclusion is that prices in Poland are still below EU-27 average and comparing with Portugal in order to have a higher perception about it they also have a lower level of prices.

Table 5 - Comparative price levels of final consumption by private households including indirect taxes (EU-27 = 100)

	2004	2005	2006	2007	2008	2009	2010	2011
Portugal	87,4	85,1	85	85,7	87,9	89,2	88,2	87,5
Poland	53,3	61,1	62,5	61,7	69,2	58,2	61,9	60,1

Source: *Central Statistical Office of Poland (GUS)*

Regarding now more specifically the price index of clothing and footwear from the last three years, we observe a small decrease in each year. If we compare with 2000 and 2005, we concluded that a huge decrease occurred which could mean that nowadays in Poland clothes and footwear are more accessible for any person or that companies, due to the increase in competition, started to practice more competitive prices. To be more specific, on average a pair of jeans (Levis or similar) has a price of 60 euros and it ranges from 50 to 75 euros (Cost of Living in Poland 2012).

Table 6 – Price Indices of Consumer Goods and Services

Specification	2009	2010	2011		
	Previews year=100			2000=100	2005=100
Clothing and footwear	92,6	96,2	98,5	63,0	70,4

Source: *Central Statistical Office of Poland (GUS)*

International Trade

Comparing 2004 Poland´s exports to 2011´exports, they have more than doubled, which was the largest value in the history of export Polish registered. The Foreign direct investment, focusing on areas such as: automobile industry or in Electronic Products contributed to this accretion of exports. The imports also increased reaching a value of

150000 million Euros. Next table show us that textiles and textiles articles exportations and importations´ shares have decreased all over the years. However, it is important to emphasize the fact that Poland now have a deficit in this field which could be justified by switching of production to countries with lower labor costs, such as: China and India or by the entrance of new foreign brands in the market.

Table 7 – Imports and exports of Poland by Sections of combined nomenclature

Section	Specification	2000	2005	2010	2011	
		In percentage				In million €
Total	Imports	100	100	100	100	150 000
	Exports	100	100	100	100	135 412
Textiles and textile articles	Imports	6,5	5,1	4,5	4,3	6 481
	Exports	8,7	4,2	3,3	3,2	4 305

Source: *Central Statistical Office of Poland (GUS)*

The value added by the section of Manufacture of textiles had increased over the years but if we look at the percentage of the total gross value added of industry, it represents less in 2010 than in 2005, which means that this section of the industry had not followed the average growth of industry.

Table 8 – Gross Value Added in Poland of Industry by sections and divisions in mln €

Specification	2005	2006	2007	2008	2009	2010
Total	51929,9	55998,9	61294,3	65561,9	71678,8	72211,8
Manufacture of textiles	630,3	654,5	700,9	692	767,9	790,4
In percentage	1,21	1,16	1,14	1,06	1,07	1,09

Source: *Central Statistical Office of Poland (GUS)*

Currency

The zloty (Polish Zloty, PLN) is the official currency of Poland. Since 2000, the zloty is a floating currency whose exchange rate is determined only by the forces of supply and demand, this means that exchange rates are not fixed by the Central Bank. According to Portuguese Central Bank the exchange rate at 12-12-20012 was 1 Euro= 4,0969 Zlotys.

Taxation

The basic rate of value-added tax (VAT) rose to 23% at the beginning of 2011, where it is scheduled to remain until 2014.

Competitors and structure of the market

The structure of the polish market of Jeans is similar to that one that exists in many countries, characterized by three segments. The first and the smallest one is the segment of luxury designer products represented in Poland by brands, such as: *Armani*, *Diesel*, *Miss Sixty*, *Guess* or *Pierre Cardin*. These brand´s target customers are those with the highest income bracket that can afford to pay the highest prices. The largest segment covers apparel retailers of "near luxury" or "aspirational" brands target customers from the middle and upper-middle class who desire to wear the latest fashions, but cannot afford to pay premium. Brands such as *Mustang Jeans*, *Pepe Jeans*, *Levis Strauss*, *Tommy Hilfiger*, *Tom Tailor*, *Big Start*, *Wrangler* and *Jack&Jones*, together with *Tiffosi*, are positioned in this segment (Woodhull 2007)(see Exhibit XIII**)**.

There are quite a few of Polish brands and most of them have their clothes made in China. LPP S.A. is a leader among Polish clothing companies and last year recorded a net income of 66 million euros. It is presented in 12 European countries in Central and Eastern Europe and the brands it carries are: *Reserved*, *House*, *Mohito*, *Cropp*, *Sinsay* and *Promostars*. *House* is the brand that competes in the jeans´ segment. Its jeans´prices range from 15 to 50 euros and it is the cheapest brand in the second segment.

Big Star Limited is also another Polish jeans´ brand that currently has a network of more than 260 shops in Poland and abroad. This brand is in the second segment and its jeans´ price range from 35 to 60 euros. Their main focus is to develop its sales network in the European markets (Germany, Slovakia, Hungary, Ukraine, Belarus and Lebanon).

Outside the Jeans wear segment Cofemel will face indirect competition of Group Inditex (*Zara*, *Pull & Bear*, *Massimo Dutti*), *H&M, Tatuum, Redan*, *Cubus* and *GAP*.

Market Place

At the end of 2011, Poland had 2232 marketplaces registered, including 2015 with a predominance of small-retail sales outlets. It also has over 270 modern shopping centres. Around 94% of these are traditional shopping centres and 6% are retail parks and factory outlets. Out of a total 6.5 million square metres of shopping-centre space in Poland, two-thirds are located in major cities. The largest area was reported in case of marketplaces in Masovian, Łódz and Greater Poland (Internal Market 2011).

9- Analysis of the Entry Modes

Several authors define different factors that will influence the entry mode decision (see Exhibit XIV). In Cofemel´s internationalization process the firm had chosen practically to export through a network of agents in the different countries essentially thought the multi-brand channel, but it also has some own subsidiaries in Spain and some franchising in Portugal and with a group of Middle East. Cofemel´s choices of entry mode for Poland can be grouped into three main categories regarding to the market analysis and Cofemel´s competences: Export, Franchising and Wholly-owned ventures.

Export (Agent or Distributor)

The entry mode Export is known as a non-equity based entry mode (Pan and David Tse, 2000 and Dole & Lowe, 2008) which means that it do not involve high financial investments. In fact, it also does not imply the commitment of many resources. The two parts are bound by a contract that will allow Cofemel to handle the volatile environment, however, because of physic distance the company loses a lot of control about its products and its operations abroad such as marketing and after-sales service. In order to use this strategy it is crucial to establish a business contact with a Polish agent or distributor. Usually these importers and agents are interested in long-term relationships with committed suppliers to ensure precise deliveries and product quality. The position of agents entails the responsibility to find clients that will buy directly from Cofemel. Posteriorly, the company will pay a commission to the agent according to its sales. The position of agent is not yet very developed in Poland. The most common form is through a distributor. As a distributor, it will buy the commodities directly from Cofemel at a price more affordable and it will stay with the task of making the distribution and sale of them. These two positions usually don’t have any marketing´s responsibility merely they work as intermediates between clients and Cofemel.

One of the main ways to find this agents or distributors is to consult the website or other information about local companies. One important source that can be used to find them is the kompass data-base (http://www.kompass.com). Also visiting and participating in some fairs is a good way to contact with local businesses and meet potential partners.

Franchise System

Franchise is also another non-equity based entry mode (Pan and David Tse, 2000 and Dole & Lowe, 2008) usually used for high-risk countries. Franchising can be seen as a suitable replication of the business where the franchisor is the owner of all rights and trademarks of the company while the franchisee has to follow the franchisors´ guidelines (for instance about customer service and brand communication). Usually it has to pay a royalty for use the company’s business model. It implies mutual cooperation, commitment and also requires some support from the franchisor (transmit know-how and corporate values), but it is supposed for the franchisee to have better marketing and market knowledge about the market or country place and therefore being responsible for improving the service and promoting the brand in the host country.

For this entry mode Cofemel can require the services of an experience consult firm named PROFIT system which is a firm specialized in franchise consultancy in Central and Eastern European countries such as Poland (see Exhibit XV). This firm gives full support regarding to the franchising by hiring experience professionals on legal and economic issues of franchising. According with PROFIT system report on franchising in Poland 2011, Poland´s market is considered a mature market where the franchise market is growing steadily reaching a total of 38 000 franchised outlets in 2011.

There is another important group working in Poland that can be a franchisee of Cofemel namely the Varner Group. It has a good presence in Poland (see exhibit XVI) and, for instance, it took over the franchise agreement for Levi's Store in the Nordic region. If Cofemel reaches an agreement with this group, the opportunity of going for the Northern countries (Norway, Sweden and Denmark) may be possible.

Empik Media & Fashion Group (EM&F Group) is another important group working in Poland (see Exhibit XVII). Actually it is the leading distributor of products from some categories where clothing is included. The group has a strong market position and its business is based on its own brand and business concepts, franchise and licensed brands.

Another important group that can be a possible way to enter in Poland is through the Marketing Investment Group (see Exhibit XVIII). The group works with important brands such as Timberland and it is present in more than 300 retail outlets, both through its own retail outlets and through its network of wholesale distribution.

Participate on Polish Franchise Expo 2013 will also be useful to Cofemel show its business plan and meet potential franchisees.

Wholly-owned ventures

Wholly-owned ventures are also consider an equity based entry mode (Pan and David Tse, 2000 and Dole & Lowe, 2008). In this strategy firms have two options: Greenfield investment in new facilities or acquisition or merger with a local firm. In the Greendield option, Cofemel will have the option to build in Poland the same structure and business model. Basically, it consists in copying the business structure they have in Portugal and implementing it in Poland. However, in the case of Cofemel, it does not need to copy the entire business because the main warehouse can still be in Portugal and the product can arrive in Poland through the transport´s firm. Therefore, the investment will consist essentially in buying and opening stores. It implies to deal with some bureaucracy that shall be handled with some local entity. However, I recommend to read the document "Doing Business 2013, 10th edition" that can clarify in a certain way how any firm can open a new business in Poland (see Exhibit XIX). Regarding the mergers and acquisitions, the risk will be lower due to the fact that companies try to merge synergies and competence between firms to handle the new market in the best way possible.

10- Entry Mode decision

Besides the fact that Cofemel lacks the amount of capital necessary to enter through Wholly-owned ventures, at the moment I also don't think Cofemel owns the right competences. Those competencies would be, for instance, experience with this entry mode, strong impact of the brand in other markets and the necessary contacts on the field. For instance, Cofemel does not have any own store outside Portugal or Spain, and Spain is a neighboring country where control and management are very easy due to short physic distance. To the firm achieve its objectives, adopting this strategy will imply high risks and will be necessary a long period of time (see Exhibit XX) because it is difficult for a new jeans brand to enter and conquest the market in a short time.

I wasn´t able to find specific possible agents or distributors with strong skills that could represent the brand *Tiffosi* in the best way possible; however this strategy remains a possible entry mode. It may be possible to find the right agent(s) or distributor(s) in some fairs but, all over my study, franchise becomes the entry mode that personally presents best opportunities. Besides the fact that the firm has some experience with this system, some Clothes' franchise specialized firms presented above have some power in other countries beside Poland where the brand *Tiffosi* is not present namely in the Northern countries. In this case, Cofemel will work with companies that already have own structures in the country, knowledge and experience about the market and also a good network of clients. Lastly, some of them already work with some brands that have a good global awareness and may be interested in establish a master franchising.

11- Implementation and Monitoring Plan

The 4 M's (Men, Money, Minute, Memos)

Minute (see Exhibit XXI)

The first step should be prepare/create in Portugal a sales team conscious of the company´s objectives, possible strategies and of the market characteristics that I presented above. The second step is to establish some contacts with possible partners to make them know what the firm wants and discover what they are able to offer in order to obtain the best possible franchise agreement. Personal contact may be possible when the firm is present in some fair. I recommend to contact three firms that are: Varner Group, Marketing Investment Group and Empik Media & Fashion Group. Considering the enormous distances between the two countries, participation in fairs and exhibitions should be a component of a franchising strategy. These fairs and exhibitions may not only be focus on find franchising´s partners but also used to find and contact Agents or

Distributors in order to be able to do a better analysis of pros and cons of both strategies. Moreover, the presence in some fairs and exhibition may enhance the probability of agreement with some partner due to the fact that this presence instills some reputation and awareness in Cofemel. In fact, simply coming to fairs may not generate the expected results. Therefore, Cofemel should schedule those meeting with some possible partners in advance during its participation in fairs. This will allow the sales team to be able to show the *Tiffosi* products to the partner and to turn this trip more compensatory.

Three possible fairs and exhibitions:

- **Polish Franchise Expo 2013:** www.franchiseexpo.pl/
- **Polska Izba Przemysłu Targowego:** www.polfair.com.pl/
- **Poznań International Fair Ltd:** www.mtp.pl/en/

The third step and probably the most important should be elaborate together with the franchisee the store´s location in the Polish market. Basically, in this step, Cofemel should present how the brand should be communicated and where. The main cities of Masovian and Łódź because of its high number of potential consumers, high level of expenditures and also high gross value added, are good regions to start it. Stores may be located in main shopping areas of major cities of those regions preferably in places with good visibility where an aggressive marketing may be practice. The company should also transmit the uniform visual of the stores used in Portugal. At the same time Cofemel and the franchisee should estimate the level of products that may be sold.

The next step should be support the opening of stores. The franchisee will need to know how usually a *Tiffosi* store works, some managerial skills and necessary staff. In this phase there will be a transfer of know-how between partners. Cofemel should also develop a marketing strategy for the new market (see Exhibit XXII). At the end of each year, Cofemel should also analyze the overall strategy with the aid of the KPIs shown in MEMO´s analyze.

Men

Cofemel will need to create this team sales for Poland which I believe should be of two members. If at least one could speak Polish will be a great competence once it will avoid the company to contract a translator. This team will have to execute this plan, secure the business concept in Poland, transmit the know-how and organize the presence of the firm in fairs and exhibitions. Cofemel will also need a law consultant in order to clarify and establish all the legal issues related to the franchise contract.

Money

Estimated Costs (2013 – 2014)					
Type of cost		**Quantity**	**Unitary Cost**	**Annual Cost**	**Total Cost**
Fixed salary Sales member * (only if Cofemel decided do not use the current sales team they have)		**2**	17550€	35100€	70200€
Translator * Variable (Partners´ English and Time)		**1**	1000€	1000€	2000€
Subsistence allowances and hotels (weekly budget)* average price) http://www.booking.com		**6**	570€		3420
Flight expenses Lisbon -Warsaw (market assessment, fairs, monitoring) * average price (http://www.skyscanner.pt)		**6**	198€		1188€
Fairs stand rent	Poznań International Fair (42m^2)	**1**	2925€	2925€	2925€
	Polish Franchise Expo 2013 (30m^2)	**1**	4050€	4050€	4050€
					83783€

Memo

Strategic Objectives	**1. Increase Sales**	**2. Increase Awareness**	**3. Customer Satisfaction**
Critical success factors	- Create strategic partnerships	- Location of Stores; - Stand side by side with the strongest brands (Channel multibrand); - Communication	- Costumer Service
Specific Goals	In two years after implementation Poland´s sales	Become a general recognized brand in two years after	Meet Customers' needs and priorities

	should represent 5% of total turnover	implementation	
Core Process	Sales team;	Partnerships contracts; Communication and marketing used in the country;	General management of the product;
KPI	• Volume of sales in Poland.	• General survey to a sample of the population	• Customer´s surveys

12- Conclusion and Recommendations

Cofemel must devote time and efforts on the elaboration and implementation of its international strategic plan. I truly believe that Cofemel has the necessary competitive advantages that will allow it to be successful on its expansion through this plan. Franchise can build new opportunities for the firm, such as: enable the possibility of establishing a contract of master franchise.

Direct marketing may not be a direct foreign entry mode, however, in this case of Poland it may be useful to mention it. It is a system that exists in the country for many years and currently around 70% of the polish enterprises use it to sell their products and services. This may be important for Cofemel, because Poland leads the European e-commerce growth (Doing Business in Poland 2012). Polish consumers are used to purchase through catalog and recently they are becoming more receptive to buy through internet platforms, therefore, I recommend Cofemel to pay attention to this channel and its potentialities either as a sales channel or/and promoter channel for the future.

Cofemel can also take advantages of economies of scale to reduce the experienced difficulties on the supply chain. By increasing its sales, Cofemel may become more important and powerful towards its suppliers and may benefit from some advantages, for example, in the reduction of delivery times. Being this strategy implemented and successful, it will be a huge step regarding to the achievement of the major objective of the brand *Tiffosi*: to become one of the major jeans brands at European level.

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