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INTERNATIONALIZATION OF PAPO D'ANJO TO MEXICO

Francisco Domingos Duque de Matos | Number 569

SME Competitiveness: Internationalization Strategy

With Supervision of: Prof. Sonia Dahab

And Prof. Filipe Pamplona de Castro Soeiro

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## 1. Executive Summary

Papo d'Anjo wanted to expand its international operations to new markets and so this was the purpose of my work in the field of SME competitiveness: Internationalization strategy. With my analysis I reached the Mexican market as the best market for Papo d'Anjo to expand its operations, for example due to its attractiveness in sales of luxury goods, as it is within the top ten markets in the world. After that I pointed that the company should start with a corner in El Palacio de Hierro and then expand its operations, in channels, where Papo d'Anjo is used to perform its activity.

Finally I think that my analysis is constructed in order to help this Portuguese young company to build a strong brand in the Mexican market and have success in its internationalization.

## 2. Description of the firm

Papo d'Anjo is a Portuguese SME founded in 1995, with sales revenue of 7.7 million in 2009. Catherine Monteiro de Barros founded the company when she moved from the United States of America to Portugal and saw that there were few clothing brands in the USA providing a classic European style, as the majority of the brands there have a more urban style. At that time she had small children, so she was in a privileged position to get core insights/ focused in the target segment, and so she decided to launch an apparel brand for kids, having in mind the USA market, as key market to sell the products.

Papo d'Anjo sells clothes to boys and girls from 6 months to 14 years old, with a modern approach and with timeless design, as the clothes are designed to pass from one generation to other<sup>1</sup>. Their products have high quality, just possible with the use of

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<sup>1</sup> See Papo d'Anjo promotional pictures in exhibit 1;

quality fabric in the manufacture of their products, and with high quality standards in the production of the final products<sup>2</sup>. The fabrics are supplied from the best factories in Europe and the majority of the production is done in Portugal, in some cases, in small studios in which the manufacture of some products is done one by one, also the fact that the company works with small companies allows them to easily adapt to the market.

Papo d'Anjo started to sell their products in the USA market to specialized retailers and through specialized companies of trunk shows. Two years later in 1997 the company started its own business of trunk shows<sup>3</sup>, creating its own network.

In the trunk shows, they have representatives of Papo d'Anjo who are not specialized sales agent, but are housewives that invite friends and other potential clients that live in the area, to come to their houses and see the next collection. They receive a commission of their sales. The client pays in advance what she will receive in three months. This allows their clients to do all their shopping for a season just one time, knowing that they will receive the products before it gets available to the general public and that they will not have problems with stock-outs. To Papo d'Anjo it allows them to predict trends in terms of products and colors and to receive some capital that will support the production of the next season.

In 2003 they opened the Lisbon shop, located in Chiado district, it gives visibility to the Portuguese market and works as the link of Papo d'Anjo with its Lisbon origin<sup>4</sup>.

In 2006 Papo d'Anjo stated his partnership with El Corte Inglés, with a corner in Madrid, Spain. Also in the same year the company opened a Distribution Center in St. Paul, Minnesota, to support USA operation, which allowed the company to start direct

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<sup>2</sup> See also Papo d'Anjo Values in exhibit 2;

<sup>3</sup> See exhibit 3, Trunk show business;

<sup>4</sup> See exhibit 4, Lisbon in Papo d'Anjo logos.

mailing in the USA market. During the same year the catalogue sales were also introduced in the USA market.

Recently in 2009 there was a structural change in Papo d'Anjo as the design office of Papo d'Anjo was opened in London. This facilitated the company to have an exclusive baby collection with fabrics from Liberty of London, and the opening of a corner in Harrods, London. After moving to London, Catherine Monteiro de Barros<sup>5</sup> as creative director, designs and thinks the next collections of Papo d'Anjo, she has a deep knowledge of the market, capability to predict and follow new trends.

Recently the company opened a corner in El Corte Inglés, Lisbon (2009) and one in Bergdorf Goodman, New York (2010).

There is an interconnection between the different sales channels<sup>6</sup> as the catalogue business leverages web sales and creates awareness to potential and current clients that attend the trunk shows. The trunk shows also increase the awareness of the online-shop and attracts new clients to request a catalogue. The shops give the client the touch and feeling and create brand awareness among potential clients.

Globally the majority of the sales of Papo d'Anjo are done through the Trunk show business, with 94 events twice a year, it represents 47% of total sales<sup>7</sup>. The Catalogue and online-shop business represents 37% of its sales, the company sends 9 catalogues per year, with a revenue of \$6.25 per catalogue of the 750,000 catalogues sent in 2009. The wholesale business only represents 10% in store-in-store corners (El Corte Inglés, Harrods and Bergdorf & Goodman) and other multi-brand shops. The other sales channels represent 6% and include the shops owned by Papo d'Anjo, online outlets (Hautelook and Guiltgroup) and charity sales.

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<sup>5</sup> See Management Team of Papo d'Anjo in exhibit 5;

<sup>6</sup> See exhibit 3, Catalogues and Wholesale & Retail business channels;

<sup>7</sup> See exhibit 6, sales per channel worldwide.

In exhibit 6 are also presented the distribution of sales per channel worldwide and sales per country, as sales revenue between 2006 and 2009. Where it is possible to observe that USA represents 86% of Papo d'Anjo sales, the products are in majority (47%) sold through trunk shows and that the sales revenue decreased 18% from 2008 to 2009.

### 3. Perspective on Business Mission and Vision

**Mission:** provide high quality, European classic clothes to children.

**Vision:** Portuguese brand that wants to be a reference in the high-end apparel in 2015.

**Mantra:** Classic style clothes.

### 4. Strategic Objectives

- Papo d'Anjo expects to grow 50% until 2015 and achieve sales of around USD \$11 million, it is possible with a recovery in the USA market, combined with the entry in new markets, together with other strategic objectives.
- Entry in new markets will allow Papo d'Anjo to increase its brand awareness in potential growing markets as the Latin America ones. The company chose **Brazil** and **Mexico** as the countries for future expansion in the next two years.
- They also want to increase their presence in multi-brand shops or department stores, in current markets as Spain, where they want to increase the range of El Corte Inglés with their corners during the current and next year, and in new markets as Mexico in the next two years.
- Regarding organic growth Papo d'Anjo wants to increase its line of products as the range of portfolio, in the current year the company introduced new products in its baby line and started to sell more basic products as leggings. In the future, until

2015, the company also wants to study how new segment would fit in Papo d'Anjo brand or if it would be reasonable to launch a new brand for those segments, because usually Papo d'Anjo launches a special product for the boy and the father in the father's day or the girl and the mom in the mother's day, that have huge success.

## 5. Criteria of Country Selection

The selected market should have **high synergies** between the current markets where the company has a stronger presence and the potential market that mostly leverages those synergies. As Papo d'Anjo has a strong presence in USA market, an expansion to Latin America would be a good option and advantageous for the company.

In the Latin America market, Mexico seems the most attractive market as it is the country that has a higher business relation with the USA, as it is the third exporter to the USA (9.1%) after China (15.4%) and Canada (11.6%) and the second biggest importer of USA goods (8.3%) after Canada (13.2%)<sup>8</sup>, moreover the NAFTA (North America Free Trade Agreement) was implemented in 1994 between Mexico, USA and Canada<sup>9</sup>.

Also the new market needs to be **financial attractive** and **demographic attractive**, as Mexico has the second biggest GDP per capita (US\$ 8,143) in Latin America<sup>10</sup> after Chile (US\$ 9,644.5), and has the second biggest population (107,431,225) in Latin America<sup>11</sup> after Brazil (193,733,795), so those conditions seem to be fulfilled.

Moreover, at least 5.2% of the Mexican society can be considered upper-middle class, as they live with more than US\$ 8,000 per month, also the middle class with incomes

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<sup>8</sup> <http://www.bea.gov/> (visited on April 4, 2011)

<sup>9</sup> [http://www.usembassy-mexico.gov/eng/eatag glance\\_trade.html#nafta](http://www.usembassy-mexico.gov/eng/eatag glance_trade.html#nafta) (visited on February 15, 2011)

<sup>10</sup> The World Bank – Data concerning 2009

<sup>11</sup> The World Bank – Data concerning 2009

between US\$ 8,000 and US\$ 3,500 per month represents 11.8% of the population, and 16% of the population has a monthly income between US\$ 3,500 and US\$ 1,100<sup>12</sup>. The main luxury brands are targeting Mexico as it is a market with high potential, while the mature markets are more saturated, for example Louis Vuitton has eight shops in this market.

Also, according to KPMG International Consultancy Company, the high socio-economic segment (A, A+), and some of the middle-class segments (B+), account for approximately 7.2 million people<sup>13</sup> in Mexico.

Besides these conditions the new market needs to be **attractive in sales of luxury goods** as it would be easy for the company to enter in a market where luxury goods are culturally accepted and where there is a predisposition to buy them, and so the Mexican market accounts for 55% in sales of luxury goods in the Latin America market, above Brazil and Argentina<sup>14</sup>, and is amongst the top ten markets in the world.

## 6. Environmental Context

### PEST Analysis

#### Political Factors

There is a free trade agreement signed between European Union and Mexico stating that after 2007 there would be no importation tariffs over European apparel<sup>15</sup>, meanwhile if Papo d'Anjo decided to export to the Mexican market through its USA company, the NAFTA free trade agreement would not be applied as Papo d'Anjo products are

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<sup>12</sup><http://info.hktdc.com/imn/08082204/brand043.htm> (visited on February 15, 2011);

<sup>13</sup> <http://static.globaltrade.net/files/pdf/20101001060417.pdf> (visited on May 1, 2011);

<sup>14</sup> <http://static.globaltrade.net/files/pdf/20101001060417.pdf> (visited on May 1, 2011);

<sup>15</sup> <http://www.usmcoc.org/b-nafta5.php> (visited on April 5, 2011);



produced outside NAFTA, and so, a tariff of 30% would be applied over apparel products<sup>16</sup>. This is a positive context factor for direct exportation from EU to Mexico.

### **Economic Factors**

The Mexican economy was affected by the subprime crises in 2008, mainly due to its dependency of the USA market, but the GDP of 2010 was around 5% which shows a turn to growth<sup>17</sup>. Also the consumer spending per capita was US\$ 9,564 in 2009. The Mexican retail sector should grow 43% in the next five years, according to the National Association of Supermarkets and Department Stores, the Mexican consumer goods sector has grown rapidly, and increase in demand for sophisticated imports, in the last years, due to a growing middle class and stable economy.

Also in the case of Mexico as the peso felt in the last years now Mexicans are travelling less and buying more at home, which increased sales of luxury goods in the last years<sup>18</sup>. According to KPMG, 5.2% of the population in Mexico had the capability of buying luxury goods in 2009<sup>19</sup>.

Moreover AICEP points that the business ranking of Mexico is 6.9 out of 10 and it is positioned in the 34<sup>th</sup> position out of 82 countries, also they evaluate the credit risk of Mexico as 3 (being 1 the minimum and 7 the maximum).

Also according with the World Bank the Latin America region is in good conditions to surpass the upcoming economic challenges and attraction of foreign investment, also the vulnerability of this region decreased, comparing with previews economic effects or other growing regions.

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<sup>16</sup> <http://web.ita.doc.gov/tacgi/overseasnew.nsf/alldata/Mexico#Tariffs> (visited on April 13, 2011).

<sup>17</sup> See more macroeconomic data in exhibit 7;

<sup>18</sup> <http://www.bloomberg.com/apps/news?pid=newsarchive&sid=a3eKogEO36uA> (visited on April 27, 2011);

<sup>19</sup> <http://static.globaltrade.net/files/pdf/20101001060417.pdf> (visited on April 29).

The Value Added Tax is also lower, between 11 and 16% depending on the region.<sup>20</sup>

### **Sociocultural Factors**

There is a social stratification in the Mexican society, as the “wealthy Mexicans live in neighborhoods that are sealed off by armed private guards.” They try to show their wealthy by buying expensive goods even that implies a deterioration of basic needs, it is important to show richness. “Wealthy people dress elegantly according to international clothing standards and wear expensive watches and jewelry. Dress codes are very strict in Mexico, especially at work and school. In primary and secondary school, students wear uniforms. Since colonial times, the use of sandals has been associated with the countryside, poverty, and Indians.” Also the major difference in classes is in the “access to all sort of private facilities”, they do not use state crowded facilities<sup>21</sup>.

Regarding clothing sales channels, the Mexican society prefer to buy their clothes in shops at enclosed shopping malls, it represents 51%, the second most preferred channel are department stores (26%), then come specialized shops outside shopping malls (9%), also catalogue sales represents 1% of Mexican preferences<sup>22</sup>.

There has been a security concern in Mexico due to an increase in crime, even the crime in the majority of the cities is compared with the crime in many other countries as pick pockets and other small robberies, in the northern part of the country the predominance of drug cartels has been the major concern of security in that area.

### **Technological Factors**

In the specific case of high-end apparel market, the main technological factors may be related to logistic processes, business and customer relationship management level. At the logistic process level, the stock or order control is an issue that the company should

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<sup>20</sup> <http://www.latinamericamonitor.com> (visited on February 20, 2011)

<sup>21</sup> Culture of Mexico <http://www.everyculture.com/Ma-Ni/Mexico.html> (visited on March 3, 2011);

<sup>22</sup> See exhibit 8, Mexican shoppers' retail channel preference.

be aware as a new market implies more orders, more stocks and more efficiency that can be achieved with a software that can easily track orders or manage stocks.

Moreover at the business and customer level, as the company wants to sell through its online shop, Papo d'Anjo may be aware that e-commerce in Mexico has increased 30% since 2009, currently it represents 1.5% of country sales and is expected to reach 10% in the next few years, mainly due to a fast-growing internet access<sup>23</sup>, security improvement and better logistic services<sup>24</sup>.

## 7. Competitive Assessment

### Porter's Five Forces<sup>25</sup>

This analysis concerns high-end children apparel, the segment in which Papo d'Anjo develops its role.

#### **Buyer bargaining power (medium)**

- Easy to shop different brands – in the apparel market customer can easily shop different brands, it is easy to switch between brands.
- Sort of brand loyalty – there is not a brand loyalty as in the beverage industry, as the customer can easily switch fashion trends by shopping other brands, they just gain brand loyalty if they like the brand and are being satisfied during their purchases.
- Limited age – Papo d'Anjo sells clothes to children between 6 months to 14 years old, their age range is limited comparing with other brands, for example Ralph Lauren has a line of products to different age segments. In the case of Papo d'Anjo

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<sup>23</sup> Internet users represent 29.4% of the population; data from December 2010 (visited on April 8, 2011);

<sup>24</sup><http://www.marketwire.com/press-release/Latin-American-eCommerce-Is-Just-Beginning-Declares-Francisco-Ceballos-MercadoLibre-1386374.htm> (visited on April 8, 2011);

<sup>25</sup> See Porter's Five Forces Matrix in exhibit 9.

it means a specialization in a segment, in which the company can perform better than its competitors, but once their customers become older, the company loses a loyal customer.

- Avoid made in China – Customer want products with quality, so they try to avoid products made in China as these products have lower manufacture quality, when the customer is buying a premium product he wants quality and design. Papo d’Anjo manufactures 74% of its products in Portugal<sup>26</sup> with the highest quality standards.

#### **Supplier bargaining power (medium)**

- Supply different brands – The majority of the suppliers produce in big scale, so they try to produce in big quantities and try to reach economies of scale in their production.
- Seek for the best price – They try to sell their products at the highest price possible, while companies as Papo d’Anjo want to have the best price possible for the highest quality of the fabrics.
- No exclusivity – they do not produce just for one brand and try to reach the majority of the companies as possible, for small companies it is difficult to have exclusive products and so they sell the same fabric to many companies as possible. Just big companies can have an exclusive production if they are able to buy in big quantities.
- Some privileged relations – Even there is no exclusivity, it is possible to have some privilege relations and be the first to have some fabric before it is produced in big scale.

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<sup>26</sup> See exhibit 10, production of Papo d’Anjo products by region.

**Threat of new entrants (low)**

- High initial investment – It is not easy to enter in this segment as companies need to find a distribution channel, find good suppliers, have a good marketing strategy and start producing before been able to sell their products, which requires a high initial capital to invest.
- Problems with Net Working Capital (pay before receives) – Apparel companies have to design, promote and produce their products before they reach the market, even the production is done in the beginning of the season the design is done one year in advance, so when finally the company starts selling, it would have one year of operations with no sales, in which it needs to pay the products that are already manufactured.
- Difficult to implement a strong brand – It is not easy to catch the consumer eye and turn him into a loyal consumer

**Threat of substitutes (high)**

- Customers are more rational – Due to financial crisis customers are more rational that they were before, now their buying decision takes more time, they try to balance quality with price, which in some cases make them to prefer cheaper products with lower quality.
- Cheaper brands with good quality – There are in the market many brands with cheaper products and a reasonable quality as Zara Kids or Sears. Those brands are widely spread, which gives to the customer an easy access, also those brands are in the mind of the majority of the customers.

**Industry rivalry (medium)**

- Big market share of large corporations – The high end apparel is dominated by big brands with high market share as GAP kids, Burberry and Ralph Lauren, which makes this market a difficult one for small companies that are not widely spread and cannot serve the customer as big corporations that have a high brand awareness.
- Many well established brands – This market is characterized by well-established apparel brands that have the majority of the market share and have loyal customers that shop within those brands.
- Many made in China products – Many companies outsource their production to Chinese companies, as they want to gain economies of scale, which in many cases represents a lower quality of the final product. Any company that promotes their products as being made with quality catches the consumer eye and gains his loyalty.
- Important to have brand equity – This industry is quite competitive as there are many companies, so if the consumer knows the brand, it is easier to make him buy the products as he knows the values of that brand and if it corresponds to his desires.

**Positioning**

Papo d'Anjo is positioned as a brand with high quality, that does not sell products with a high basic design and neither sell products that follow fashion trends, their design is within both, as Papo d'Anjo products moderately follow the new trends but at the same time are made to last and pass from one generation to another, with an timeless design and an unparalleled quality.<sup>27</sup>

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<sup>27</sup> See Positioning Map in exhibit 11.

### **Value Chain**

The value chain analysis presents the contribution margin of each activity to the final product, the primary activities are Design, Outbound Logistics, Marketing and Customer Service, while the activities that support the primary activities are Financial & Accounting Department, Human Resources Management and Procurement activities, and are called support activities<sup>28</sup>.

The main costs are in procurement and marketing of the final product, with a contribution margin of 35% and 15% respectively. In the procurement the main cost are in the acquisition of the fabrics and payment of subcontracted production (to specialized companies).

### **Business Model**

Papo d'Anjo is good in selling good quality apparel for the high-end market, the majority of their clients are mothers that want to dress their children with an exclusive design that is neither fashion trended and neither disposable.

The majority of the company costs are variable and are at the acquisition of the fabrics and production, which shows the importance of quality of the raw material and final product. When entering in the Mexican market, the majority of the costs would be also variable, before opening a warehouse in Mexico, as it is presented in the implementation plan. Also the partnership is going to be essential to the entry in the Mexican market, this may not be a major problem to Papo d'Anjo as the company has been able to find and retain the best partners<sup>29</sup> for their business.

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<sup>28</sup> See exhibit 12, Value Chain;

<sup>29</sup> See some partners of Papo d'Anjo - Industry Map, exhibit 13;

## 8. Internal Analysis

### TOWS Analysis<sup>30</sup>

	<p style="text-align: center;"><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• Made in Portugal;</li> <li>• Current relations with suppliers and customers;</li> <li>• Design, Brand &amp; Marketing;</li> <li>• High quality at a competitive price;</li> <li>• Multi-channel presence;</li> <li>• Business network;</li> <li>• Customer service.</li> </ul>	<p style="text-align: center;"><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>• Low brand recognition internationally;</li> <li>• High focus to the USA market;</li> <li>• Soft relations with suppliers;</li> <li>• Lack of quality certification.</li> </ul>
<p style="text-align: center;"><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>• Latin America markets;</li> <li>• Leverage current markets;</li> <li>• Leverage current channels;</li> <li>• Public exposition.</li> </ul>	<p style="text-align: center;"><b>S-O (Maxi-Maxi)</b></p> <ul style="list-style-type: none"> <li>• Increase the presence in Latin America markets;</li> <li>• Use the network to future expansions;</li> <li>• Increase sales with higher public exposition.</li> </ul>	<p style="text-align: center;"><b>W-O (Mini-Maxi)</b></p> <ul style="list-style-type: none"> <li>• Increase brand recognition in Latin America markets;</li> <li>• Diversify in the American continent;</li> <li>• Strong brand with high bargaining power;</li> <li>• ISO certification.</li> </ul>
<p style="text-align: center;"><b>Treats</b></p> <ul style="list-style-type: none"> <li>• Customers can switch between brands;</li> <li>• Easy to copy;</li> <li>• Competition from Chinese companies;</li> <li>• Attractive market to new brands.</li> </ul>	<p style="text-align: center;"><b>S-T (Maxi-Mini)</b></p> <ul style="list-style-type: none"> <li>• Increase customer loyalty as a brand with good customer service;</li> <li>• Differentiate from other brands with quality;</li> <li>• Become known as “the brand”.</li> </ul>	<p style="text-align: center;"><b>W-T (Mini-Mini)</b></p> <ul style="list-style-type: none"> <li>• Increase public exposition of Papo d’Anjo;</li> <li>• Rethink international strategy;</li> <li>• Become an attractive brand to suppliers.</li> </ul>

Table 1

### Strengths and Opportunities (Maxi-Maxi)

- Increase the presence in Latin America markets – Asia and Latin America have been the markets that have grown in sales of luxury goods in the last years and as they continue to grow the consumption of luxury goods continue to grow<sup>31</sup>. Even the Latin America market has significant lower average incomes than Europe or

<sup>30</sup> See exhibit 14, SWOT Analysis.

<sup>31</sup> <http://seekingalpha.com/article/221121-the-luxury-goods-sector-as-an-emerging-markets-play> (visited on April 6, 2011).



North America, their upper class consumes a disproportional amount of world's luxury goods and services, and so it is a market that Papo d'Anjo can explore as their products have high quality at a competitive price combined with a timeless design, and so Papo d'Anjo should enter in Mexico and Brazil.

- Use the network to future expansions – Papo d'Anjo has a strong business network and strong partners that trust in the brand and want to be associated with it as Liberty, they already produced a line of fabrics exclusively to Papo d'Anjo. The company may use this advantage to expand to the Mexican market showing to future partners that it is a trustable brand or using current partners to go abroad with them. In the Mexican market the company does not have a special contact but can use its current partnerships to show that is a reliable company able to maintain and honor its partnerships.
- Increase sales with higher public exposition – Papo d'Anjo already experienced the promotion of their products when Kiernan Shipka used a dress of Papo d'Anjo in the Golden Globe Awards, so to expand to new markets and increase sales in current markets the company may increase the personalities that use and promote Papo d'Anjo products, also the sponsoring of charitable events may increase brand awareness. If the company combines these strategies during the entry in Mexico, it is a good way to increase brand awareness in that market, either by using American personalities, which are a reference for the Mexicans, or by using Mexican personalities.

#### **Weaknesses and Opportunities (Mini-Maxi)**

- Increase brand recognition in Latin America markets – As Papo d'Anjo has low brand recognition internationally and has an opportunity in the Latin American

markets, they should promote more the brand to increase its brand recognition in those markets and become them as potential markets to their online-shop, Papo d'Anjo should combine the translation of its web site and online shop to Portuguese and Spanish with public exposition of its products by personalities known in the South American country

- Diversify in the American continent – After having a strong presence in the Mexican market it would be possible for Papo d'Anjo to expand to other countries in Americas. Targeting new countries with high potential as Argentina and Brazil. As at this stage the company may have good brand recognition in the Latin America markets, who now shop online, but where a physical presence reinforces the company position.
- Strong brand with high bargaining power – The strategy of exploring the Latin American market combined with reinforcement in the current markets will give to Papo d'Anjo a higher negotiable power with their suppliers as now the company order bigger quantities and may have some supplier with high dependency on the company orders.
- ISO certification – If Papo d'Anjo implements ISO 9001, the company is going to transmit to their partners that their management design is thought in an efficient way and that the company is focused in satisfying customer and other stockholder needs. Even the quality or the design of the final product is important to sell their products, the ISO certification may be useful to establish new partnerships or as a guarantee to Papo d'Anjo clients.

### **Strengths and Threats (Maxi-Mini)**

- Increase customer loyalty as a brand with good customer service – Papo d’Anjo may increase its customer loyalty by promoting its customer service practices, or by showing that the customer satisfaction is the main focus of the company. By promoting these practices during the expansion in the Mexican market, it would be a pull strategy of brand awareness within the high-end apparel and consequently brand loyalty.
- Differentiate from other brands with quality – The majority of Papo d’Anjo products are made in Portugal, the Portuguese DNA in Papo d’Anjo products demonstrates that their products were made with high quality and attention to detail. In the Mexican market this is going to differentiate Papo d’Anjo product from other international high-end apparel brands, as many brands outsource their production to third parties, having lower quality standards. In the corners Papo d’Anjo can have the cards promoting the made in Portugal, what is also visible in the clothes labels where is written “Made in Portugal with Love”.
- Become known as “the brand” – Besides becoming known as brand that also sell children clothes in the Mexican market, Papo d’Anjo should struggle to become “the brand” that represents a classic timeless design within the Mexican well living society. In this way Papo d’Anjo can differentiate from its competitors and become an exclusive brand that does not fear competition.

#### **Weaknesses and Threats (Mini-Mini)**

- Increase public exposition of Papo d’Anjo – At this stage Papo d’Anjo may have a strong presence in the American continent or at least in the main markets, the ones that are more attractive in the high-end apparel, in order to keep its growth and increase customer loyalty, Papo d’Anjo may increase its exposition, it is already

known in the markets where it is present but the company needs to remind the customers to buy their products, so by sending catalogues to previews customers combined with a translation of the web-site and online-shop the customers may remind Papo d'Anjo more often when doing their shopping.

- Rethink international strategy – It would be natural for Papo d'Anjo to rethink its international strategy, as there is space to grow and new markets to explore, China and Russia had positioned themselves in the last years as attractive markets for luxury goods, also a reinforcement in the European market may be considered.
- Become an attractive brand to suppliers – If Papo d'Anjo reaches a moderate international presence, the company would become attractive to suppliers and now they can implement contracts with suppliers more favorable to Papo d'Anjo, or have exclusive contracts with some suppliers.

## **9. Analysis of the Mode of Entry and Collaborative Arrangement**

The entry of Papo d'Anjo in the Mexican market will be done in four main steps, the first step is going to be the opening of a corner in a department store, Papo d'Anjo will have to find the best partner, where they will open the corner and exhibit the Papo d'Anjo merchandise. Within the upper class, where Papo d'Anjo products are positioned it is possible to find two department stores in the Mexican market that would be possible partners in the business, El Palacio de Hierro and Saks Fifth Avenue<sup>32</sup>.

The best choice would be El Palacio de Hierro, with this company Papo d'Anjo would have a wider visibility to the Mexican market, due to its larger number of stores, comparing with Saks Fifth Avenue, and also El Palacio de Hierro is planning to open

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<sup>32</sup> See exhibit 15, Department stores in Mexico sorted by social class and description of El Palacio de Hierro and Saks Fifth Avenue.

new stores in the next five years. Besides the stores El Palacio de Hierro also has an online-shop that serves customers who prefer to do their shopping at home or the ones that live in areas not served by their stores.

After having corners in some department stores customers are going to be aware of the Papo d'Anjo brand and will search for it in the internet, where they will find the company web-site and its online-shop. There they can shop easily from the comfort of their homes, so the second step will be the send of catalogues to Mexican customers that shop online in the Papo d'Anjo online-shop and the ones that subscribed it in the corners present in the department stores. The corners gave visibility to the brand but now the company needs to expand to other retail channels and gain even more customers.

The third step is going to be the expansion of Papo d'Anjo brand to multi-brand shops, in this way the company can reach areas that the other channels cannot reach and give even more visibility to the brand and pushing more customers to the online or catalogue business.

In the last stage, Papo d'Anjo needs to evaluate if it is valuable to open a warehouse in Mexico to support its operations there or if the direct exportation from Portugal directly to the final customers still worthy.

## **10. Proposal of Implementation Plan – 4 M's**

### **Men<sup>33</sup>**

In the beginning Papo d'Anjo will just require a sales agent to represent the company in front of El Palacio de Hierro, that person is going to be the one that is currently the

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<sup>33</sup> See Men tasks in exhibit 16.

representative of Papo d'Anjo with El Corte Inglés, therefore there is no need to new hires as the sales person is fluent in Spanish and is used to deal with a department store. Some years after start its operation in the Mexican market, Papo d'Anjo may have to open a warehouse there to support the volume of operations, this will imply the recruitment of 3 employees to manage the operations and shipment of the product to the customer.

### Money

The money required to this internationalization is going to be one upgrade to the sales agent salary, the flight tickets to Mexico, the stay there and the Spanish Classes. The salary upgrade will be done because the sales agent will have frequent trips to Mexico and is going to spend some time there, besides keeping her role as representative of Papo d'Anjo in El Corte Inglés, the upgrade would be around 1.000€ per month. The airplane ticket from Madrid (sales agent works in Madrid) to Mexico City is around 900€<sup>34</sup> and 3 or 4 trips will be required, also a hotel room will be needed, it costs around 100€<sup>35</sup> per night and 8 night are the minimum for the 4 trips.

The Spanish course is 412€<sup>36</sup> and will be taught to three call center employees in the Portuguese office, as Papo d'Anjo mainly hires English native call center operators.

After Papo d'Anjo have a strong brand in the Mexican market and a significant business volume the opening of a warehouse in Mexico is desirable in order to have a higher control over the operations there and to lower transportation costs, the rent of a warehouse with 300 square meters is around 2,079.84€ or 35,000<sup>37</sup> Mexican pesos. This space will be managed and operated with Mexican employees. Being the minimum

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<sup>34</sup> [www.edreams.pt](http://www.edreams.pt) (visited on April 11, 2011);

<sup>35</sup> <http://www.accorhotels.com/pt/booking/rates.shtml?packId=42628840032> (visited on April 11, 2011);

<sup>36</sup> [http://lisboa.cervantes.es/pt/cursos\\_espanhol/cursos\\_espanhol.htm](http://lisboa.cervantes.es/pt/cursos_espanhol/cursos_espanhol.htm) (visited on April 11, 2011);

<sup>37</sup> [http://estadodemexico.locanto.com.mx/ID\\_111608456/RENTO-LOCAL-300M2-LAGO-ATITLAN-NEZAHUALCOYOTL.html](http://estadodemexico.locanto.com.mx/ID_111608456/RENTO-LOCAL-300M2-LAGO-ATITLAN-NEZAHUALCOYOTL.html) (visited on April 11, 2011).

wage in Mexico 1,215€ per year. Papo d'Anjo should pay above the market in order to retain these employees and to gain their confidence and so as the average income of a specialist on production is around 241.18€<sup>38</sup> per month, this should be the value paid by Papo d'Anjo to their 3 warehouse employees. Besides the warehouse rent and employees' wages Papo d'Anjo is going to have administrative expenses with the opening of the warehouse and to establish Papo d'Anjo Mexico Inc., the division of Papo d'Anjo responsible to receive the finish product from Portugal and send it to the Mexican market.

Type of cost	Cost	Cost per year
Salary upgrade	1,000€ per month	14,000€
Flight ticket	900€ per trip	36,000€
Hotel room	100€ per night	800€
Spanish course	412€ 4 months course	1,236€
<b>Total</b>		<b>52,036€</b>
Warehouse rent	2,079.84€ per month	24,958.08€
Warehouse employees	241.18€ per month	8,682.48€
Administrative costs	5,000€	5,000€
<b>Costs with the Warehouse</b>		<b>38,640.56€</b>
<b>Total Costs</b>		<b>90,676.56</b>

Table 2 – Internationalization costs, total per year<sup>39</sup>.

### Minute<sup>40</sup>

The internationalization to Mexico is planned to last four years and starts with the negotiation with El Palacio de Hierro (1 month) in order to establish a partnership with them. In the beginning it would be just one corner in one store, in order to test the market and the partnership. Also before the market entry Papo d'Anjo must train some of their call center employees in Spanish (4 months). After the Spanish course the company should also translate the web site to Portuguese and Spanish (2 weeks). After

<sup>38</sup> <http://www.worldsalaries.org/mexico.shtml> (visited on April 26, 2011);

<sup>39</sup> The Spanish course is only taught once;

<sup>40</sup> See exhibit 17, Implementation Plan Timeline.

the negotiation the corner may be opened, it may last 4 month, depending on the availability of El Palacio de Hierro. If the partnership with El Palacio de Hierro and the trial corner runs well, Papo d'Anjo should expand to other El Palacio de Hierro stores (36 months, Papo d'Anjo experience with El Corte Inglés shows that it will take time to reach the 10 stores of El Palacio de Hierro). Latterly the company should start sending catalogues to Mexican customers (one year after the Spanish course) and expand to other multi-brand shops (24 months). After that Papo d'anjo should translate the online-shop in order to reach more customers, less used to English language.

In the fourth year the company should open the warehouse, after a financial analysis it was possible to assess that the warehouse will be profitable after the company achieves an annual exportation of 16,041 packages of 3kg to the final customer, an amount that may be reasonable possible in the fourth year of operations, as the 20kg packages can be sent directly to shops, only the 3kg packages are taken in consideration in this analysis<sup>41</sup>. More than an economic decision, the opening of a warehouse in Mexico is also a logistic decision in order to have a higher customer service there.

Activity	Duration	Dependency
Activity 1: Negotiate with El Palacio de Hierro	1 month	
Activity 2: Spanish Course	4 months	
Activity 3: Open the corner at one El Palacio de Hierro	4 months	Activity 1
Activity 4: Translate the web-site to Spanish and Portuguese	2 weeks	Activity 2
Activity 5: Expand to other El Palacio de Hierro de Hierro department stores	36 months	Activity 3
Activity 6: Send catalogues to the Mexican customers	1 month	1 year after Activity 3
Activity 7: Expand to other multi-brand shops	24 months	Activity 6
Activity 9: Translate the online-shop to other languages	1 month	Activity 7
Activity 8: Open a warehouse in Mexico	4 months	Activity 8

Table 3 – Internationalization activities and duration.

<sup>41</sup> See in exhibit 18, packaging analysis.



### Memo Strategic Theme

Strategic Theme	Objectives	Measurement	Target	Initiative
<b>Financial</b>	Increase sales revenue.	Sales revenue; Web-sales for Mexico.	50% of sales revenue growth until 2015.	Partnership with El Palacio de Hierro; Send catalogues to the Mexican market.
<b>Customer</b>	Increase brand awareness internationally; Reach new clients in new markets.	Number of new clients in Mexico; Brand Awareness among target market.	Have 5% of Papo d'Anjo sales in Mexico in 2015; Have 30% of brand awareness in 5 years (assessed with a market study).	Use partnership with El Palacio de Hierro and catalogues as a way to leverage sales in the online-shop; Be present in multi-brand shops.
<b>Internal</b>	Invite the Spanish sales agent to be responsible with the Mexican Market; Train call center employees; Open a warehouse; Recruit Mexican workers.	Level of training; Number of workers in Mexico.	Have 3 employees with good Spanish skills; Find the best place to open the warehouse after reach 16,041 packages of 3kg sent to Mexico; Recruit 3 Mexican workers.	Training; Recruiting; Foreign language classes.
<b>Learning</b>	Have the web-site available in other languages; Adapt the online-shop to Portuguese and Spanish languages.	Time to implement;	Change the language of the web-site in 2 weeks; Change the language of the online-shop in 1 month.	Adapt the web-site; Adapt the online-shop.

Table 4

## 11. Risk Management

The main risks associated with the internationalization of Papo d'Anjo to Mexico may be commercial, financial, operational and implementation. The **commercial risk** may

be associated with the partnership that Papo d'Anjo wants to establish with El Palacio de Hierro, as they may not accept to have a partnership with Papo d'Anjo, also it may be difficult to sell Papo d'Anjo cloths without some adaptation to the Mexican culture and still keeping the firm core product, as there are always some cultural differences that are difficult to assess and predict. The **financial risk** is associated with the currency differences, Papo d'Anjo policy is same price everywhere, each year Papo d'Anjo establishes the currency for that year, so if Mexican peso drops during the year the company loses money in that operations. There is also an **operational risk** as the packages that are sent to Mexico may disappear or be damaged during the trip and the possibility of having stock outs in the shops. The last risk concerns the **implementation**, as what is planned not always is easy to implement in the field so it may be difficult to Papo d'Anjo to gain brand awareness in the beginning of the internationalization and also there may appear some bureaucracy problems with the Mexican authorities.

## 12. Contingency Plan

In order to overcome these risks Papo d'Anjo may be prepared to overcome them and so the contingency plan details how to face those risks. Regarding the **commercial risks**, if Papo d'Anjo fails to establish the partnership with El Palacio de Hierro, the company should approach Sacks Fifth Avenue that is at the same level of El Palacio de Hierro, but has just two shops in Mexico or Liverpool department stores that are more focused on upper-middle class but have 57 shops in Mexico. Also in order to overcome possible cultural differences Papo d'Anjo should order a marketing research of Mexican apparel style. The **financial risk** may be solved by reevaluating the currency, fixed in the

beginning of the year, more often, if the Mexican peso becomes too instable. Regarding the **operational risk** while internationalizing to Mexico, the company has to see if their stock control is prepared to more orders and how far it can go, if the existing one is enough or if there is the need for a new one. Also it would be important to choose a good partner to transport the goods from Portugal to the final client, if any problem appears Papo d'Anjo should be fast enough to solve it, in order to maintain high level of client satisfaction and change the transportation company if needed. The **implementation risks** may require a higher public exposition of Papo d'Anjo in order to be overcome it would be a good idea to sponsor some charitable event in Mexico, passing the image that Papo d'Anjo is there to help Mexicans and be part of Mexican society. The company should be prepared to take more time solving bureaucracy that what is planned, as happened to many international companies there.

### 13. Conclusion

With this analysis it was possible to see that the Mexican market is an attractive market for luxury goods and attractive for a company as Papo d'Anjo, a market where it should be present. This internationalization is going to help Papo d'Anjo to diversify its markets and diminish risks associated with its dependency on the US market.

Moreover Papo d'Anjo should rethink its catalogue strategy, as the company has a sales per catalogue of 6.25 and sends 9 catalogues per year, it seems a lower value, so I recommend that the company could reduce the number of catalogues sent, to 6, or one in two months, and be more specific in the customers for which they send the catalogues as many of them may not buy any product, with this indications Papo d'Anjo may be able to increase its sales per catalogue.

Also it is recommendable for Papo d'Anjo to buy a market study, in order to diminish risks associated with the Mexican market and find other opportunities that were not possible to find or access during this study.

Concluding I think that this internationalization plan goes in the direction of Papo d'Anjo interest, by detailing how to expand to new markets with a lower capital required and be sustainable in the long run.

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## **Exhibits**

NOVA School of Business and Economics

Master in Management

Spring Semester 2011

### INTERNATIONALIZATION OF PAPO D'ANJO TO MEXICO

Francisco Domingos Duque de Matos | Number 569

SME Competitiveness: Internationalization Strategy

With Supervision of: Prof. Sonia Dahab

And Prof. Filipe Pamplona de Castro Soeiro

Monday, June 06<sup>th</sup>, 2011

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**Exhibit 1**

**Papo d'Anjo promotional pictures**



Figure 1



Figure 2



Figure 3



Figure 4

## Exhibit 2

### Papo d'Anjo Values

The first value is **high quality & design** as the company provides clothes with the best quality available, which in some cases imply one by one manufacture. It is just possible with the use of high quality fabrics in order to assure the best final quality. Regarding its design, Catherine Monteiro de Barros the creative director tries to follow the seasonal trends, keeping in mind the European Classic style that characterizes Papo d'Anjo.

The **European style** is a key value at Papo d'Anjo as the company was founded because Catherine saw a need in the US market for a style of European classic clothes. The company is also lined with a **same price everywhere** strategy, any customer in any place pay the same price for the same product, the company does not pass to the customer customs tariffs, also the currencies are defined in the begging of the season and are kept constant during that period.

To be **made in Portugal** is important for Papo d'Anjo as the customer perceives the product as a quality one. The products of Papo d'Anjo are “made with love in Portugal”, that is what they put in the labels of their clothes, this sentence clearly represents the **excellence & attention to detail** how their clothes are made and how it contributes to the high quality of the final products. This contributes to the **exclusivity** that characterizes the products of Papo d'Anjo, a product with high durability that can be used in special events or daily life, this value is also represented by their target market, medium-high, high class.

These last values represent Papo d'Anjo way of doing business combined with company's **happiness / friendship**, shows how the company maintains long relations with their suppliers.



## **Exhibit 3 – Sales Channels**

### **Trunk Show**

Trunk show is a specialized sales strategy in which the vendor presents its next collection to a restrict group, before they reach the market, general public. In the case of Papo d'Anjo they do it twice a year, three months before each collection (Fall and Spring) be launched. It allows the customers to buy the clothes for the next season, at one time, having all the products available and receive the clothes before they reach the general public. The orders are received in the beginning of the season, but paid when ordered, which gives some capital to the company, as shows trends to the next season.

### **Catalogues**

Nowadays the company sends 750,000 catalogues during a year, the catalogues are sent to clients that attended the trunk shows, the ones that shop online (90% of web clients receive a catalogue) and to other previews clients, but Papo d'Anjo also tries to attract new clients by buying lists, of potential clients, at marketing research companies.

In 2009 they printed 750 thousand catalogues, with revenue per catalogue of \$6.25, also the company sends nine catalogues per year with two catalogues having the new season collection, while the other seven just have small changes.

### **Wholesale and Retail**

Papo d'Anjo has several corners in department stores these are spaces in which the company controls the merchandising, and disposition of the products in the place. They allow to support and reinforce the global image of the brand. Papo d'Anjo products are sold in more than 60 specialized shops in the US.

## Exhibit 4

### Clothes Labels



Figure 5

## Exhibit 5

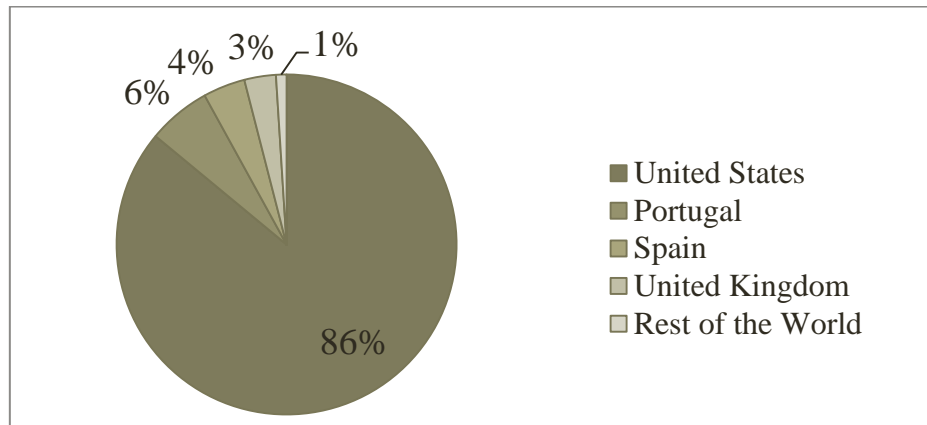
### Management team

Catherine Monteiro de Barros founded the company in 1995 and now is the creative director of Papo d'Anjo in London, where is the design office, there she works with one designer.

Vera d'Orey started in 2009 and is currently the managing director of Papo d'Anjo, she is responsible to manage Papo d'anjo on daily bases, but each strategic decision has to be communicated to Catherine, who has the final decision.

## Exhibit 6

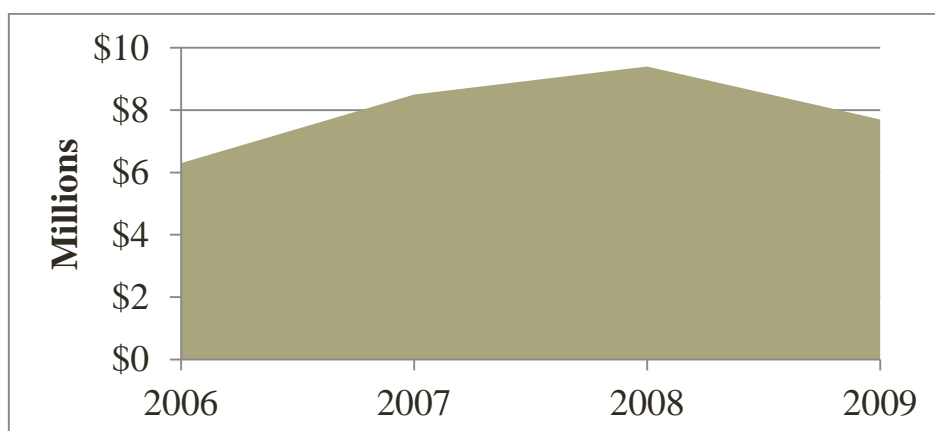
### Sales per Country



Graphic 1

It is possible to observe that 86% of Papo d'Anjo sales were done in the USA market, 6% were in Portugal, 4% in Spain and 3% in United Kingdom, while other markets represent 1% in sales. In Portugal and Spain sales are done through corners at El Corte Inglés or owned shops (with the flagship shop in Lisbon and outlet store in Madrid), in the UK sales are done through Harrods and trunk shows and in all the markets sales are done through the online-shop or catalogues that Papo d'Anjo sends to frequent customers.

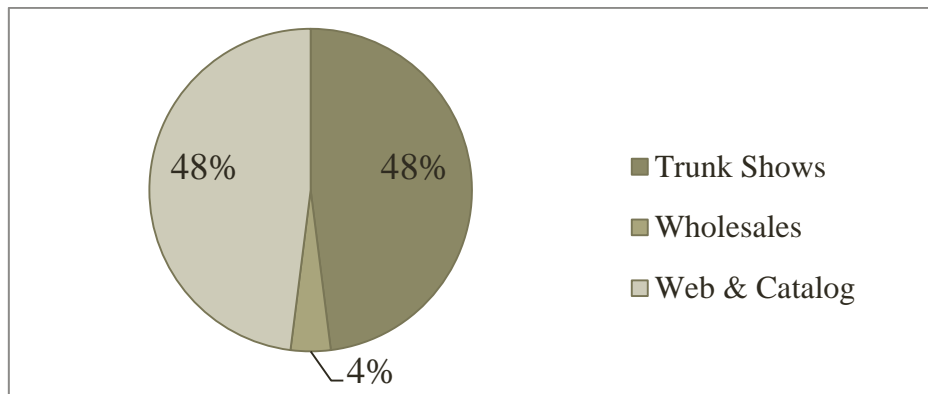
### Sales revenue



Graphic 2

The sales of 2009 were around US\$7.7 million, 18% below the \$9.4 million in 2008, the best year in the history of Papo d' Anjo.

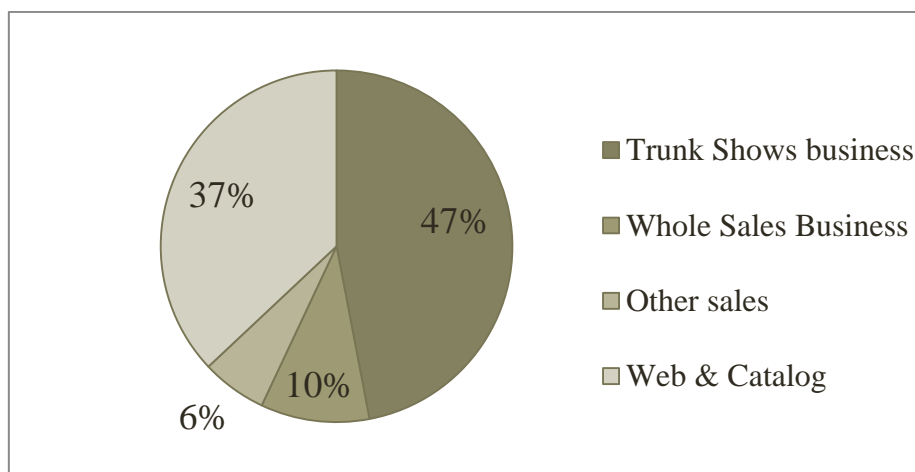
### Sales per channel in the USA market



Graphic 3

The USA sales are divided 48% done through trunk shows, 48% done through catalogue and online-shop and the other 4% through wholesales in multi-brand shops and department stores.

### Sales per channel worldwide



Graphic 4

## Exhibit 7

### Macroeconomic data

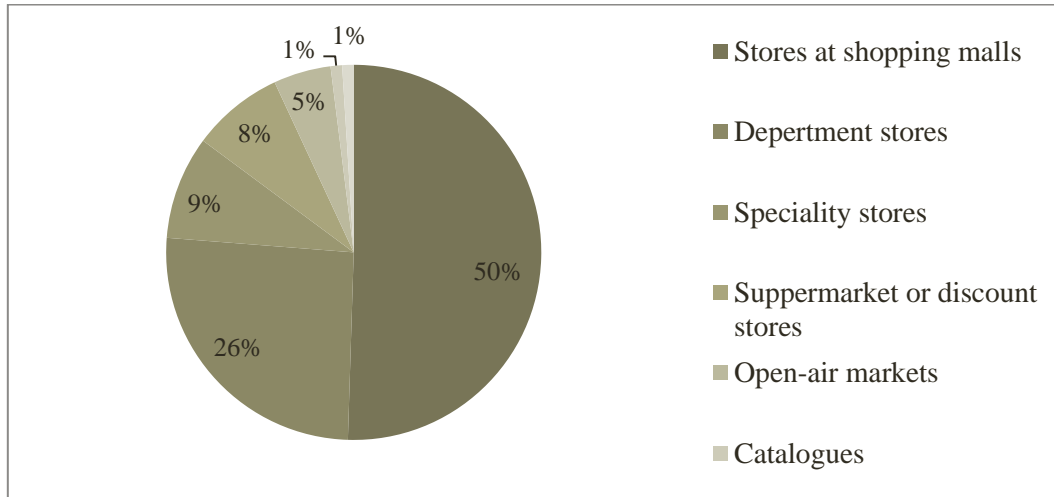
In 2008 Mexico was affected with the subprime crises mainly due to its dependency on the US market, which lead to an economic contraction of 6.9% in 2009, but to 2010 the effective GDP should be around 5% and in the next years it is expected to growth around 3% (3.5% in 2011 and 3.3% in 2012)<sup>42</sup>. Also in the last year Mexico had the lowest trade deficit (US\$ 3.12bn), since 1997, due to a very impressive export performance, in 2011 the trade deficit may increase but it is limited by a weak outlook for consumer credit growth<sup>43</sup>.

The unemployment rate in 2010 reached the highest value in 15 years, 4.94%, but the expected value to the end of 2011 is 4% and 3.8% for 2012. In the last years the inflation rate was been around 4.5% (4% in 2007, 5.1% in 2008, 5.3% in 2009 and 4.1% in 2010) and is expected to be around 4% in 2011 and 3.6% in 2012, reaching a value equal to 2007, its increase may be explained by an increase in the VAT in 1% (to 16% and 11% in the border).

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<sup>42</sup> AICEP Portugal Global; México Ficha de Mercado; February 2011

<sup>43</sup> <http://www.latinamericamonitor.com> (visited on February 20, 2011)

**Exhibit 8****Mexican shoppers retail channel preference**

Graphic 5

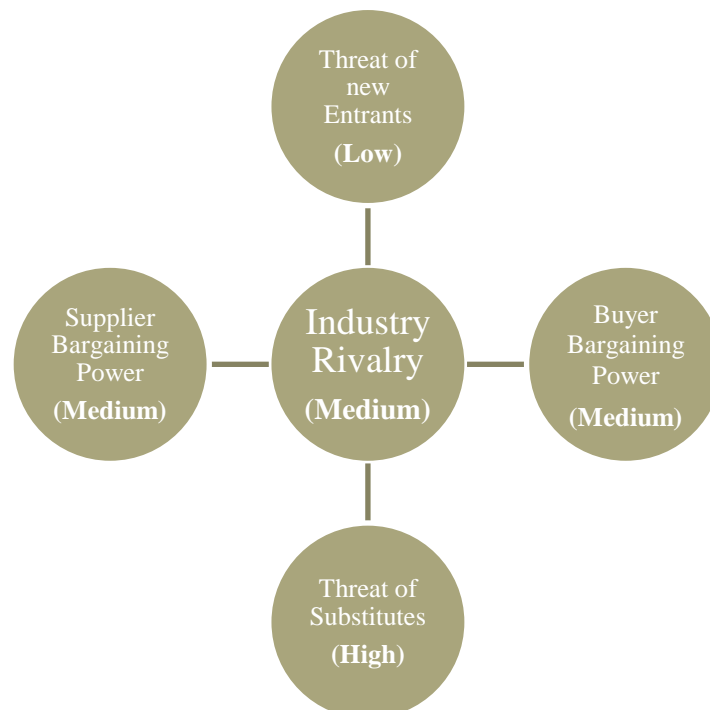
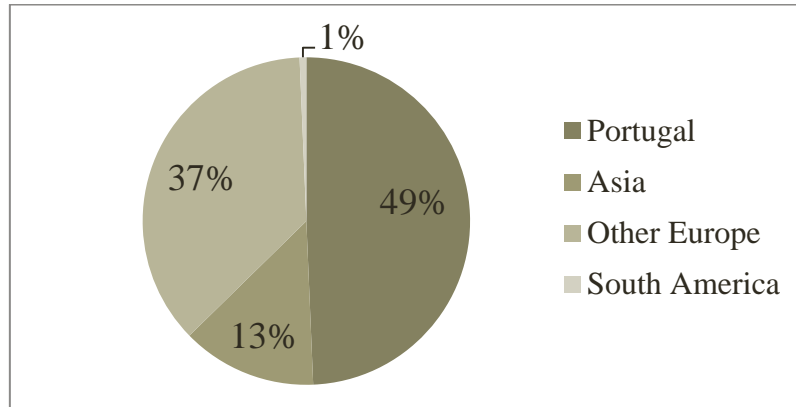
**Exhibit 9****Porter's Five Forces Matrix**

Figure 6

**Exhibit 10**

**Production of Papo d’Anjo products by region**



Graphic 7

**Exhibit 11**

**Positioning Map**



Figure 7

## Exhibit 12

### Value Chain

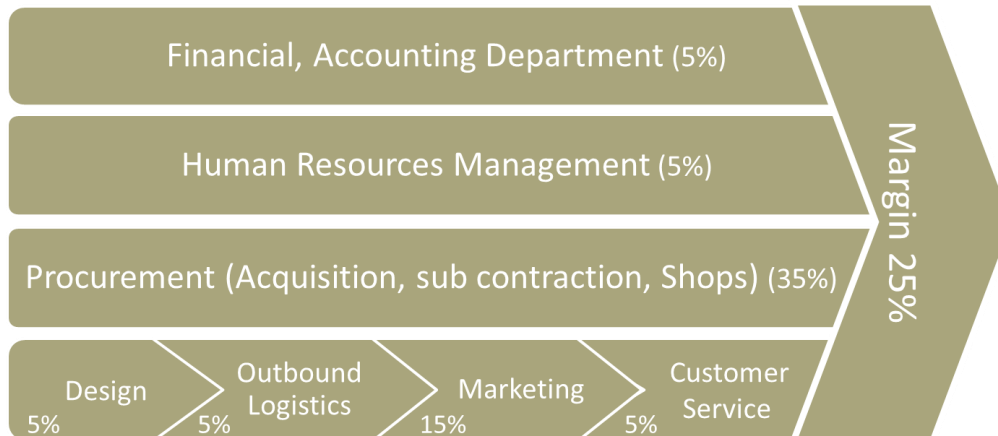


Figure 8

The value chain analysis presents the contribution margin of each activity to the final product, the primary activities of Papo d'Anjo are Design, Outbound Logistics, Marketing and Customer Service, while the Financial & Accounting Department, Human Resources Management and Procurement activities, support the primary activities are called secondary activities. The main costs are in the acquisition of the fabrics, production of the final product (sub-contracted to specialized companies) and marketing of the final products.



## Exhibit 13

### Industry Map

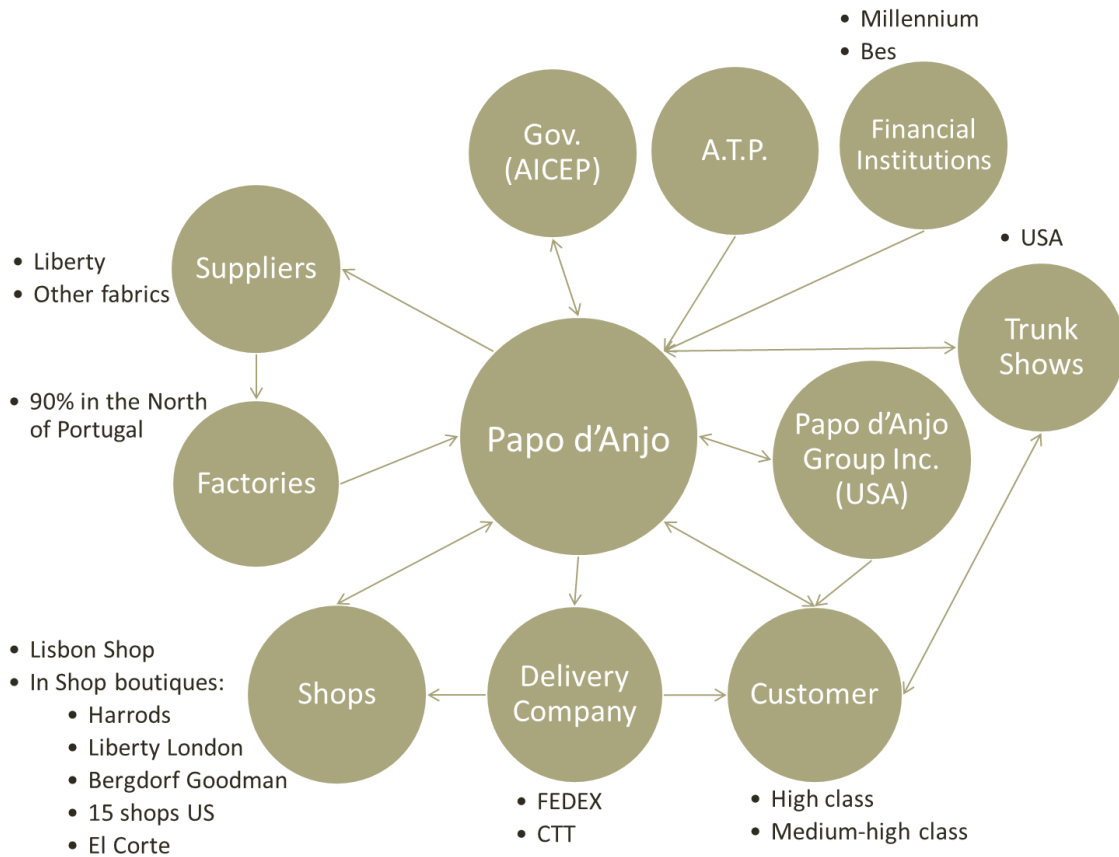


Figure 9

The Industry map of Papo d'Anjo includes several organizations, each one develops a specific role that contributes to the success of Papo d'Anjo:

**Suppliers** – Papo d'Anjo works with the companies that offer the best quality of fabrics, they work mainly with European fabrics. The fabrics are sent to Papo d'Anjo warehouse in Lisbon.

**Factories** – They receive the fabrics and other material to produce the products and sent it back after production. The company works with small factories where in some cases the products are made one by one, 74% of their products are made in the north of Portugal.

**Selling points** – Are the place where Papo d’Anjo products are being sold, it includes multi-brand shops, the Lisbon shop and corners at department stores, each one orders the products directly to Papo d’Anjo, and then they are sent through a specialized delivery company.

**Delivery Company** – The delivery company works by order, as Papo d’Anjo orders all their packages to be delivered in a specific address, the company does not have a specific contract with these delivery companies, usually the company works with FedEx and CTT. Papo d’Anjo orders are mainly to the selling points and final customer (except USA market, where the final product go first to the warehouse and then is sent to the final customer, in order to achieve economies of scale in transportation).

**Papo d’Anjo Group Inc.** - Is the US division of Papo d’Anjo responsible to receive the final product from Portugal and send them to the final customer (only in USA market). The warehouse is located in St. Louis, Minnesota, as this central location allows them to achieve efficiency in distribution to the USA market.

**The Trunk Shows** – Is a sales strategy used by Papo d’Anjo in the USA and UK markets, in which the responsible receives the products of the next season and shows them in her house, she receives a commission of her sales, the products that she sold will be directly send to the final customer three months later, when the season starts.

**The customer** – Papo d’Anjo customers are mainly mothers with more than one child, belonging to the middle-high, high class, that want to dress their kids with a classic design combined with good quality. The customers can buy directly from Papo d’Anjo, by shopping online, by phone or in the trunk shows, he receives the product by mail, but if the product does not correspond to customer expectations Papo d’Anjo sends a new product to the customer without charging any additional amount.

**Financial Institutions** – These institutions work as a bailout in some rush moments or to support some specific project, but Papo d’Anjo policy is not to use financial leverage in its business. The institutions with which the company works mainly are Millennium BCP and BES.

**Associação dos Têxteis de Portugal** – Is the Portuguese apparel association in which Papo d’Anjo is present, it works as an interconnection between all the Portuguese apparel brands, promoting best practices and helping the associates to develop new projects.

**Government** – The government institutions that mainly interact with Papo d’Anjo are the tax authority, municipal authority and AICEP, AICEP is a governmental institution that supports Portuguese companies during the internationalization process.

## Exhibit 14

### SWOT Analysis

#### Strengths

- Made in Portugal – To be made in Portugal is perceived as high quality and perfectionism, so Papo d’Anjo promotes it and thinks that in this way will transmit to the customer that quality is the main value of its products.
- Current relations with suppliers and customers – Papo d’Anjo has privileged relations with some suppliers, for example Liberty, which allows the company to have access to some products before the other companies. They also have privileged relations with some customer as El Corte Ingles, Harrods or Bergdorf Goodman.
- Design, Brand & Marketing – Products of Papo d’Anjo are characterized by their European classic design under this unique brand, which turns them into something exclusive and special, also their marketing strategy facilitates the link between the company and the final consumer.
- High quality at a competitive price – The products of Papo d’Anjo are produced with the best quality available as they are sourced from the finest mills in Europe, to the manufacturing companies that have high quality standards. Everything is done to guarantee that the final product is within the best quality products in the industry. Besides this their products are sold at a competitive price, comparing with other high-end apparel companies that sell children clothes.
- Multi-channel presence – The company is present in different distribution channels, they have trunk shows, a web shop, they send catalogues to the target market and is present in some shops that not only serve to sell products but more than that are a

place to show their products, which lead some customers to latter purchase their products by any other channel. All the channels are interconnected and serve as leverage to the other.

- Business network – This is a key element of Papo d’Anjo as the company has been able from its beginning to leverage its network, which contributed to the entry in Harrods, the partnership with Liberty and many other advantages that contributed to gain brand equity.
- Customer service – The customer service of Papo d’Anjo is essential for a company that wants to be on the side of the customer and help him always when he needs, this forces the company to have a call center in Lisbon open from 9am until 2am, as the company prefers to do it in house rather than outsource it, also when the customer complains about some defect or wrong size the company immediately substitutes the piece, these are just some examples of what the company does to maintain their customers satisfied.

### **Weaknesses**

- Low brand recognition internationally – Even Papo d’Anjo is well known within the markets it is present, internationally the company has low brand recognition.
- High focus to the US market – The company started due to a market niche that Catherine saw in the US market, so since the beginning the objective was to serve this market. Now that the company is present in other markets and wants to expand to other markets the high focus on the US market may lead future expansions to fail.

- Soft relations with suppliers – The company does not have long term contracts with suppliers their relations are based in truth and past experiences, but if a competitor shows a better offer to the supplier he may easily change between companies.
- Lack of quality certification – Papo d’Anjo could have a certification demonstrating that they have a good design of the management systems, which they work in order to meet the needs of their customers and other stakeholders as the ISO 9001.

### **Opportunities**

- Latin America markets – Latin America had become more attractive in the last years due to its economic growth and potential in the future, according with the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), this region is estimated to grow by 4.2% in the year<sup>44</sup> and was able to overcome the 2008 financial crisis, while Europe and USA were severely affected.
- Leverage current markets – Papo d’Anjo can leverage current markets, by increasing the selling points on them, for example if the company opened corners in the majority of the El Corte Ingles in Spain it would have a wide presence in this market and would reinforce its position.
- Leverage current channels – The company may gain efficiency by using current channels to have more sales, the company may use current facilities or distribution channels to support more sales in existing or new markets.
- Public exposition – The use of Papo d’Anjo clothes by public personalities may be a good way to increase public awareness of the brand as to show that it is a good brand also used by personalities as it happens with Kiernan Shipka. It is usual to

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<sup>44</sup><http://www.latinbusinesschronicle.com/app/article.aspx?id=4713> (visited on April 9, 2011).

any company in this segment to borrow their clothes to personalities or have a special relation with someone that represents the values of the company.

### **Threats**

- Customers can switch between brands – In the apparel industry it is easy for the customer to switch between brands as he can easily go to other shop or website, so it is important to any company in this industry to keep a high level of satisfaction of its customer in order to do not lose them.
- Easy to copy – Also it is easy to any company to copy the design of the clothes as there is no legal protection, which forces the company to bet on the quality of the raw materials and consequently the high quality of the final products.
- Competition from Chinese companies – As the clothes are easy to copy any company can easily copy its design and outsource it to a Chinese company, that product may cost much less than what Papo d'Anjo pays for its products, but the quality is much lower.
- Attractive market to new brands – The high-end apparel is attractive to new entrants as there are emergent markets in this sector which becomes it quite attractive to new companies. But these companies may have no brand recognition or business network anyway the incumbent firms may expand to new markets, consolidate the existing ones and diversify their portfolios.

**Exhibit 15****Department in Mexico stores sorted by social class**

Department Stores/ Social Class <sup>45</sup>	Name	Number of stores
<b>Upper Class</b>	El Palacio de Hierro	10
	Saks Fifth Avenue	2
<b>Upper Middle Class</b>	Liverpool	57
<b>Middle Class</b>	Fabricas de Francia	25
	Sears Mexico	50
	Sanborns	125
<b>Lower Middle Class</b>	Suburbia	86
<b>Working Class</b>	Coppel	79

Table 5

**El Palacio de Hierro** has founded in 1891 and wanted to be an upscale, upper class shop, like the ones that exist in Paris (Le Bon Marché), New York (Macy's) and London (Harrods), nowadays the company has department stores in Mexico City (7 stores), in Monterrey, Puebla and Guadalajara.

The other company that has department stores in Mexico and serves the upper class in **Saks Fifth Avenue**, this is an USA company, founded in 1924, it was located in a residential area and offered the finest quality men's and women's fashions, as well as an extraordinary program of customer services, Saks Fifth Avenue has several shops around the US and six stores in international locations, in which two of them are in Mexico City.

<sup>45</sup> [http://en.wikipedia.org/wiki/Department\\_store](http://en.wikipedia.org/wiki/Department_store) (visited on April 3, 2011)



### Exhibit 16

#### Men Tasks

Tasks
1. Sales Agent: represent Papo d’Anjo in the Mexican Market (internal recruitment)
2. Warehouse employees: receive the packages from Portugal and ship it to the final customer

Table 6

### Exhibit 17

#### Implementation Plan Timeline

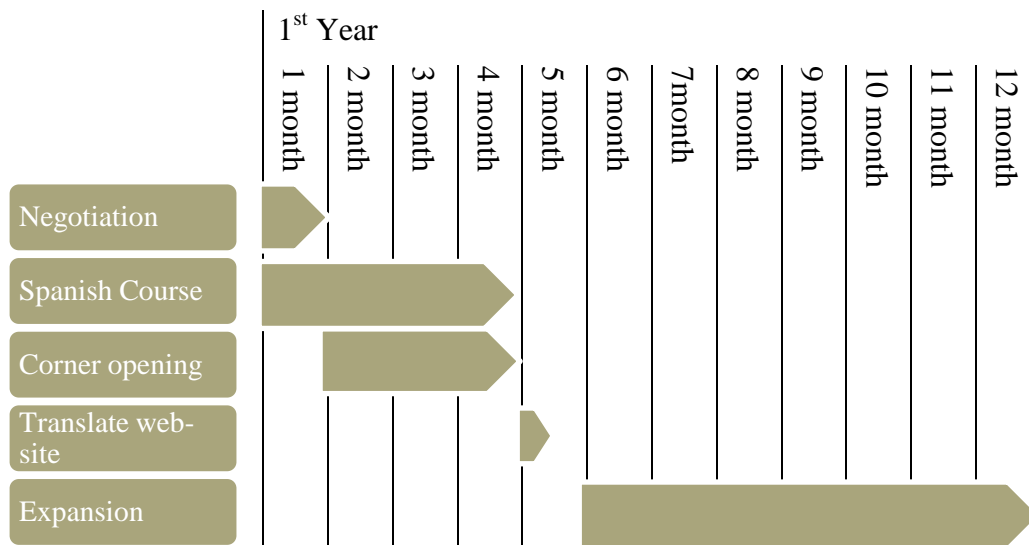


Table 7

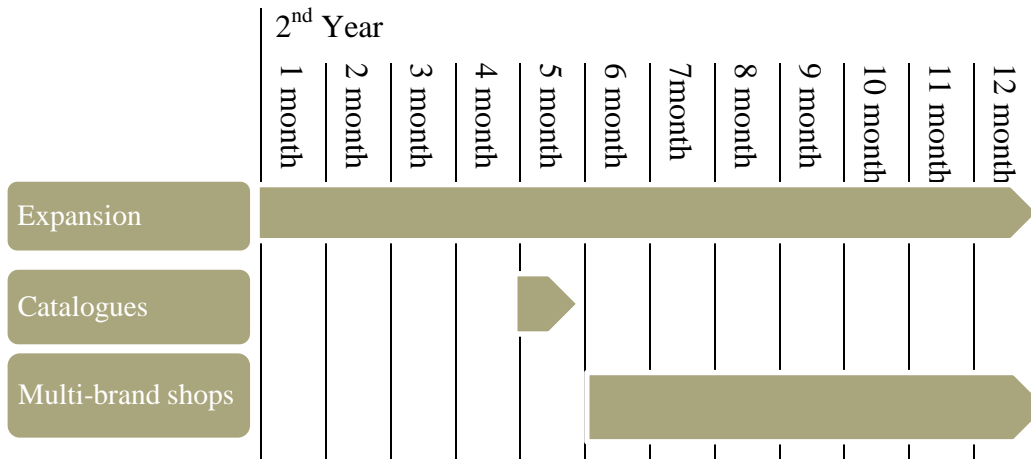


Table 8

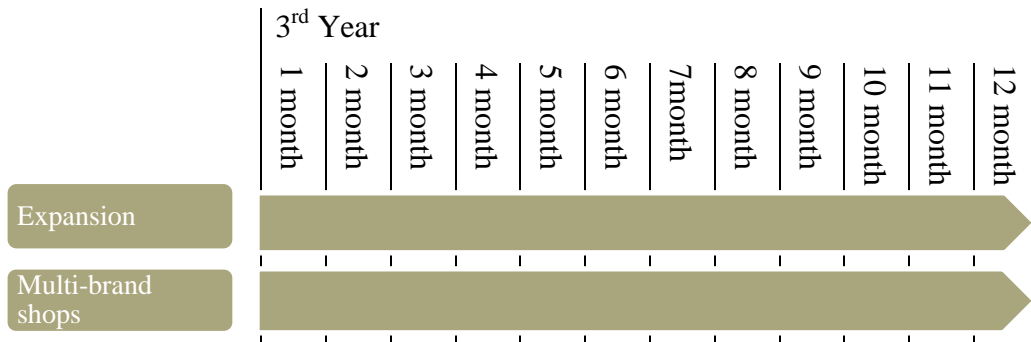


Table 9

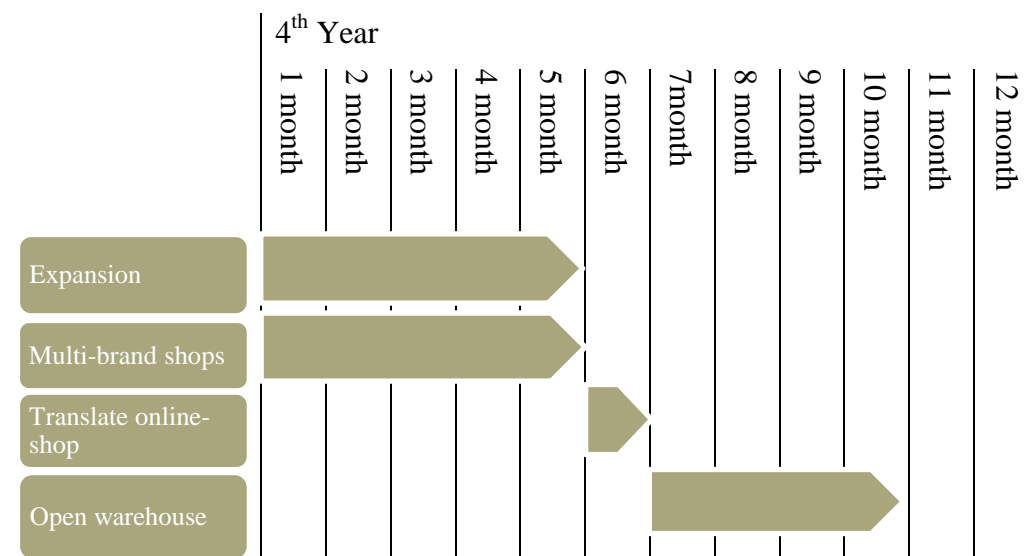


Table 10

## Exhibit 18

### Mailing costs

	Direct Mailing	Indirect Mailing (through the warehouse)	
	3kg package (Pt-Mex)	20kg package (Pt-Mex) <sup>46</sup>	3kg package (Mex-Mex) <sup>47</sup>
<b>Transportation cost</b>	44.92 EUR	144.31 EUR	9.2859 EUR
<b>Extra charge insurance</b>	---	---	7.7289 EUR
<b>Fuel Surcharge</b>	---	---	0.3063 EUR
<b>Subtotal</b>	44.92 EUR	144.31 EUR	17.3211 EUR
<b>Taxes</b>	10.33 EUR (23%)	33.19 EUR (23%)	2.7714 EUR (16%)
<b>Total Cost</b>	55.25 EUR	177.50 EUR	20.0924 EUR

Table 11

### Break-even in the number of orders

	Original Cost	3kg orders	20kg orders
<b>Costs related with the Warehouse</b>	38,640.56	38,640.56	38,640.56
<b>(Mex-Mex)</b>	20.0924	20.0924	133.9493
<b>(Pt-Mex)</b>	218.325	32.74875	218.3250
<b>(Pt-Mex)</b>	55.25	55.25	368.33333
<b>Break-even point in the number of orders</b>		16,041.08	2,406.16

Table 12

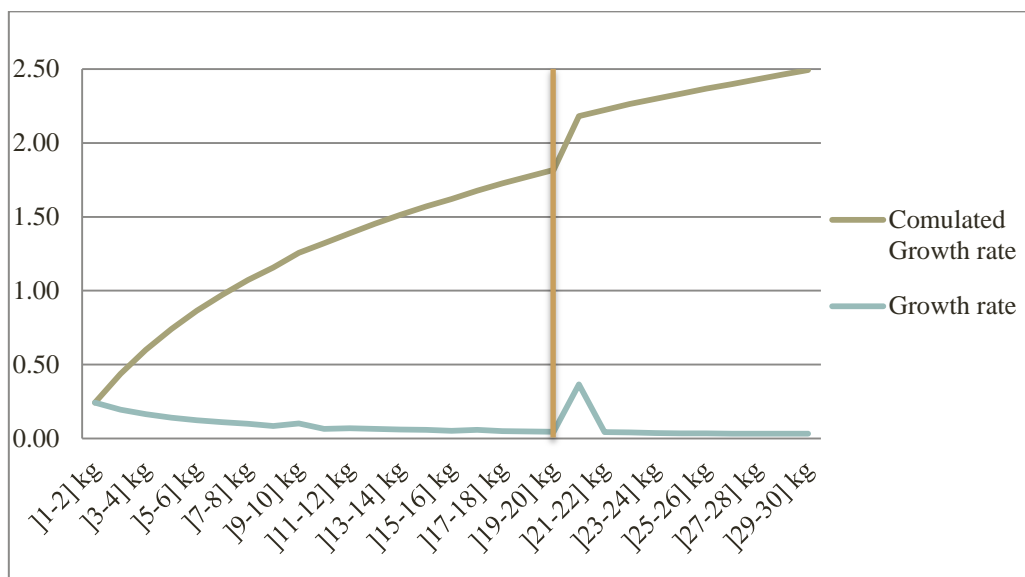
With this model it is possible to observe that the break-even point in which compensates more to open a warehouse in Mexico than sent the packages directly to the final consumer is 16,041 packages of 3kg. For the packages of 20kg it is indifferent to have a direct export, from Portugal to the corners in El Palacio de Hierro or other multi-brand shops, or have an indirect export through the warehouse. In the case of 3kg packages, it

<sup>46</sup>[http://www2.ctt.pt/fectt/wcmservlet/ctt/empresas/correio/envio\\_internacional/encomendas/encomenda.html](http://www2.ctt.pt/fectt/wcmservlet/ctt/empresas/correio/envio_internacional/encomendas/encomenda.html) (visited on April 19)

<sup>47</sup>[http://www.dhl.com.mx/en/logistics/warehousing\\_and\\_distribution.html](http://www.dhl.com.mx/en/logistics/warehousing_and_distribution.html) (visited on April 19)

compensates to open the warehouse just after achieve a volume of more than 16 thousand packages, these are the packages that go to the final consumer, when we buys products in the internet or in by catalogue, it is expected to achieve this volume after 4 years of operations, so in the fourth year the company should open the warehouse in Mexico.

### Package price growth rate



Graph 8<sup>48</sup>

Based on the prices of the packages it is possible to observe that the 20kg packages are the ones in which the increase of one kg more is lower than the increase in the next kg (21kg), this is explained by the Value Added Tax, as after 20kg the VAT value is added to the price.

<sup>48</sup> Based on the prices obtained in table 13

## Package price

	Package Price	Increase	Growth rate	Cumulative Growth rate
<b>]0-1] kg</b>	€ 32.00			
<b>]1-2] kg</b>	€ 39.75	€ 7.75	0.242188	0.242188
<b>]2-3]kg</b>	€ 47.50	€ 7.75	0.194969	0.437156
<b>]3-4] kg</b>	€ 55.25	€ 7.75	0.163158	0.600314
<b>]4-5] kg</b>	€ 63.00	€ 7.75	0.140271	0.740585
<b>]5-6] kg</b>	€ 70.75	€ 7.75	0.123016	0.863601
<b>]6-7] kg</b>	€ 78.50	€ 7.75	0.109541	0.973142
<b>]7-8] kg</b>	€ 86.25	€ 7.75	0.098726	1.071868
<b>]8-9] kg</b>	€ 93.50	€ 7.25	0.084058	1.155926
<b>]9-10] kg</b>	€ 103.00	€ 9.50	0.101604	1.25753
<b>]10-11] kg</b>	€ 109.50	€ 6.50	0.063107	1.320637
<b>]11-12] kg</b>	€ 117.00	€ 7.50	0.068493	1.38913
<b>]12-13] kg</b>	€ 124.50	€ 7.50	0.064103	1.453233
<b>]13-14] kg</b>	€ 132.00	€ 7.50	0.060241	1.513474
<b>]14-15] kg</b>	€ 139.50	€ 7.50	0.056818	1.570292
<b>]15-16] kg</b>	€ 146.50	€ 7.00	0.050179	1.620471
<b>]16-17] kg</b>	€ 154.80	€ 8.30	0.056655	1.677126
<b>]17-18] kg</b>	€ 162.50	€ 7.70	0.049742	1.726868
<b>]18-19] kg</b>	€ 170.00	€ 7.50	0.046154	1.773022
<b>]19-20] kg</b>	€ 177.50	€ 7.50	0.044118	1.81714
<b>]20-21] kg</b>	€ 183.50	€ 64.72	0.36462	2.181759
<b>]21-22] kg</b>	€ 191.25	€ 10.23	0.042234	2.223994
<b>]22-23] kg</b>	€ 199.00	€ 10.23	0.040523	2.264516
<b>]23-24] kg</b>	€ 206.00	€ 9.24	0.035176	2.299692
<b>]24-25] kg</b>	€ 213.00	€ 9.24	0.033981	2.333673
<b>]25-26] kg</b>	€ 220.25	€ 9.57	0.034038	2.367711
<b>]26-27] kg</b>	€ 227.25	€ 9.24	0.031782	2.399493
<b>]27-28] kg</b>	€ 234.50	€ 9.57	0.031903	2.431396
<b>]28-29] kg</b>	€ 242.00	€ 9.90	0.031983	2.463379
<b>]29-30] kg</b>	€ 249.50	€ 9.90	0.030992	2.49437

Table 13