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INTERNATIONALIZATION STRATEGY OF JJ HEITOR SHOES TO SOUTH AFRICA

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EXECUTIVE SUMMARY

JJ Heitor is a small firm focused in the production of women leather footwear. Recently, it has launched its own brand, JJ Heitor Shoes, targeting the medium-to-high segment. Its main goal is to ensure the sustainability of its business by increasing its own brand sales and not being so dependent as a manufacturer for other brands.

For that purpose, diversifying its sales and emphasizing its position in international markets is a key solution. As a result, the aim of this internationalization strategy is to answer the focal question if JJ Heitor Shoes should internationalize to South Africa or not. Hence, study the potential of this market for the brand. It is the most developed economy of Africa; belongs to the G20 and BRICS group; is the largest consumer of footwear in the continent and the 16th worldwide. It has high consumer expenditure per capita by regional standards and is represented by several global goods brands, in which there is room for the high-end segment to be present.

Furthermore, it was possible to conclude that JJ Heitor Shoes should internationalize to South Africa, precisely at first, to Johannesburg and Cape Town through direct selling to distributors mostly given the fact that it is a distant market and the firm does not have the necessary knowledge about it neither the resources to implement other strategies.

It should be understood that it represents a gateway, a strategic emergent market that allows JJ Heitor Shoes to further easily expand to the African continent, which is expected to become a new consumer space and fashion powerhouse.

Keywords: JJ Heitor, JJ Heitor Shoes, Footwear, Internationalization Strategy, South Africa, Johannesburg, Cape Town.

INTERNAL ANALYSIS

Company Description

JJ Heitor is a Portuguese small enterprise founded by Joaquim José Heitor that belongs to the Portuguese footwear industry. It is located in Santa Maria da Feira in which it has 89 employees and an average daily production of 700 pairs of shoes. Currently, it has specialized its operations in the production of leather shoes for women.

After fifty years of producing footwear for several reputable international brands under private label regime (B2B), the firm gained high knowledge about the sector and decided to launch its own brand – **JJ Heitor Shoes**. It is possible to observe a brief summary of its history and process of knowledge creation below.

	History – JJ Heitor
1962	When Joaquim José Heitor returned to Portugal from Venezuela his wife and son convinced him to stay and focus on the production of shoes, which was already an area of expertise for him.
1963	The shoe brand *QUERES* was registered, which began by producing men leather shoes. There were only two clients at the time hence to increase the sales António Heitor (son) had to sell in Oporto and Matosinhos. Later expanded to the centre producing for other brands.
1975	Father and son constituted a company and spread the commercial activity to the whole country, based on the tacit knowledge that had acquired through experience.
	But the sudden death of Joaquim José Heitor forced António and his brother Joaquim da Silva Heitor to assume, with some struggling, the management of the business (2nd generation).
1985	The firm initiated a new phase of growth – a change in the business model. In a new industrial production unit, the firm started exporting and made significant investments in its employees' training. A tight commercial policy, together with the products' quality and the firm's rigour in meeting the deadlines, positioned JJ Heitor in a new stage, in which it moved to producing women leather shoes exclusively targeting a medium-to-high segment.
2013	It is still managed by the 2nd and also the 3rd generation of the family (the brothers António, Joaquim and Vasco Heitor), who embodied the explicit knowledge of the firm in which it was possible to follow a 'spiral of knowledge' creation through socialization, combination, externalization and internationalization (Nonaka, 1994). A new landmark in the growth of the firm was the creation of its own brand – **JJ Heitor Shoes** celebrating the firm's 50th birthday.

JJ Heitor is already an export firm. In fact, 95,22% of its private label sales were abroad in 2013 and 4,78% was in Portugal. From those international sales, 66,52% were in Europe mostly in France, Germany and Belgium. The remaining were mainly in Canada and USA. These allow it to attain sales around €5,2 million (See **Appendix 1**).[1]
Moreover, the private labels account for approximately 98,5% of the global volume of business whilst the own brand solely represents 1,5% (See **Appendix 2** for a list of private label clients).[2] In fact, it was the sustainability proportionated by the private labels that allowed for the starting of this new phase hence representing a financing support for the creation of the own brand. However, *"the brand launch is, from the very start, a long-term project and a brand exists when it has acquired power to influence the market."*[3] Since it takes time and demands a continuous effort the firm has to ensure

[1] Even though the own brand was created in 2013, it only started generating sales in 2014.
[2] The average price is €75 to private labels allowing approximately a 5% profit margin (low safety margin).
[3] p.204. Kapferer, J. N. 2012. *The new Strategic Brand Management.* Kogan Page 5th Edition.

that it does not harm the strategy for the private labels. It has a second line of production thus has the capability to increase its production capacity without hurting it.
Furthermore, the target market segment of JJ Heitor Shoes (B2C) is characterized as active and independent women, from 25 to 50 years old, with medium-to-high purchasing power who appreciate sophistication, refinement and elegance. Thus, represent the stereotype of the financially independent women.[4] The brand is in its third collection, selling abroad and the retail price per pair of shoes ranges between €150 and €290 (See **Appendix 3** for its product portfolio).[5] It has an online shop for the end-consumer to easily reach the products and have access to news of the brand.[6]

Financial Situation

To comprehend if JJ Heitor has the financial resources to expand its own brand to another foreign market it is vital to analyse its current financial situation (See **Appendix 4**). Firstly, the negative evolution of sales over time demonstrates how JJ Heitor at the moment requires new sources of revenue. Its economic profitability is slightly below the average of similar firms in the industry and its profit margin could be improved.
Regarding liquidity, it is in a positive situation that displays a high networking capital, availability of funds, relies on borrowed capital and has received a subsidy from QREN to reinforce its international position through its own brand.
Overall, there is in fact a need to expand and diversify its sales as well as the profit margin, which could be pursued through an internationalization strategy. Currently, the firm has the capacity to do it and it could be the most suitable opportunity to enhance its position in foreign markets and consequently boost its financial situation.

Mission, Vision and Strategic Objectives

JJ Heitor's mission is to offer sophisticated and refined woman leather footwear that is characterized by the superiority in design and in the high quality of the raw materials selected. Additionally, in terms of the specific **mission** of the **firm's own brand**, it has the goal of providing the excellent, zero-defect shoe by representing the personality of

[4] Nevertheless, this concept might slightly differ in relation to each country's reality.
[5] It is present in Portugal, Austria, Belgium, Bosnia, Canada, Italy, France, Holland, Russia and USA through representative agents in Europe and distributors in distant markets. Even though it is represented in several countries it is on a small scale in each (apart from Portugal, the highest number is France in which it sells in 5 stores).
[6] Currently it is only selling online for European Union countries and Switzerland.

each woman. Furthermore, the brand embraces design excellence, finishing quality and material.

Additionally, JJ Heitor's **vision** is *"to ensure the business sustainability keeping intact the family spirit and the corporate culture settled all over the years. Human resources enhancement, at both professional and personal levels, is a constant concern, along with investments in innovation, equipments and technology that allow for productivity gains."*

Moreover, it is possible to understand that the underlying long-term goals of JJ Heitor are to guarantee the sustainability of its business; preserve the family spirit and corporate culture; upgrade the human resources; and invest in innovation that yields efficiency gains. Its **values** are the family spirit, excellence, training and innovation.

Concerning the **strategic objectives** of the firm those are the following:[7]

- Objectives for the private labels:
  - *"Renew the portfolio of clients"* by moving from clients in saturated, slow-growth markets to clients in more appealing markets in 5 years.[8]
  - *"Increase the firm's reputation and credibility in the foreign markets, leveraging JJ Heitor's corporate familiar brand in the next years."*
- Objectives for the own brand (JJ Heitor Shoes):
  - *"Increase global sales of the own brand so that represent 10% of the firm's total sales in 5 years."*[9]
  - *"Expand to emergent markets."*

Value Chain

By understanding how the firm operates it is possible to comprehend how it can provide the greatest value for its customers (Porter, 1985). For that, an analysis of the value chain should be performed (See **Appendix 5**).[10]

Concerning the primary activities, more specifically the **inbound logistics**, at JJ Heitor after the samples and the planning of an approved order, the production process is initiated in which the necessary inputs are sent to cutting. Those are stored in the

[7] Information provided in the meeting by Vasco Heitor and Justa Oliveira (JJ Heitor's consultant).
[8] Mostly, shift from the European market to emergent, more attractive markets.
[9] In 5 years, own brand sales representing approximately €520.000 if sales value remains at €5,2M.
[10] The value chain was analysed taking into account that private labels are the ones that support the own brand and that most of the activities are common to both private labels (B2B) and own brand (B2C).

factory. **Operations** is the primary activity in which JJ Heitor focuses its efforts the most since it transforms the inputs into the final product – women leather footwear. It is constituted by a labour-intensive production process that requires the following of several steps from the cutting to the oven until the quality control and packaging (See **Appendix 6**). When the final product is achieved, the products are stored until being shipped to the clients. This is the **outbound logistics**, which are responsibility of the firm that relies on external services to do so.

Moreover, for the **marketing and sales** exist a commercial team who deals with the diverse aspects. The presence in the MICAM fair is essential to promote the firm.[11] Regarding the own brand, an agency was responsible for its entire communication. Given that, the firm is pursuing a strategy of activation of the brand in the social networks, which is integrated in marketing actions in the offline environment such as showrooms and product samples that the representative agents promote.

Concerning the support activities, the **firm infrastructure** is solid and includes the areas of production, modelling, accounting and sales.[12] In the **human resources management**, the firm focuses on its employees both in the qualification and in the good working conditions. To qualify them it ensures that training, especially in the areas of quality, leadership and health at work is given, which might be financed by the firm or by several programs.[13] In addition, employees receive an assiduity prize and a health private insurance from Multicare with reduced prices for their families.[14] There are a high percentage of senior employees since the firm believes in stability in the workplace and desires to maintain the family spirit.

It exists an investment related with **technology development** to guarantee that the firm has the necessary tools and technologies to apply in its products and processes, which will positively affect the internal performance and the customer service. It recently integrated an R&D program – *TopicShoe* organized by *Centro Tecnológico do Calçado de Portugal* that allows for the creation of innovative solutions aimed at answer the requirements of the footwear market.

Regarding **procurement**, JJ Heitor already has a well-established relationship with its

[11] It is the most important footwear fair that takes place in Milan, Italy.

[12] In the modelling area, for the own brand the firm has a full-time designer whereas for the private labels it reproduces the required models hence contracts under a licensing agreement.

[13] Such POPH – *Programa Operacional Potencial Humano* and *Formação PME.*

[14] In the future, the firm wants to alter the prize to include assiduity, performance, communication and behaviour.

suppliers of leather, outsoles and linings. Generally, 80% of the raw materials are from national suppliers whereas the remaining is shipped from abroad – Italy and Spain.

Core Resources – VRIO Framework

The core resources are *"fundamental inputs to the firm which subsequently become its key source of adaptive capacity"* (Grant, 1991).[15] JJ Heitor core resources are vital for enabling its competitive position. Those are aligned with the business environment highlighting a positive future outlook for the firm. The firm's trustworthy and positive **reputation among private labels** (B2B), which has been constructed over fifty years of experience as well as its **organizational culture** based on family spirit and excellence are fundamental resources to ensure the development of the business strategy.

The **rigorous selection of raw materials** and the **innovative design** allow the firm to create and capture value with the final product, which is highly essential for its own brand. Thus, being capable to apply a differentiation strategy (source of competitive advantage). Ultimately, the **positive externalities from the Portuguese shoe cluster**, a truly architecture of relations, have boosted the worldwide position of Portuguese footwear firms by the knowledge that can be taken and applied from the cluster.

To evaluate the competitive implications of each resource there are four questions that should be addressed. Those are a question of value, of rareness, of imitability and of organization applying the VRIO Framework to the firm's core resources (Barney, 1995), which is fully analysed in **Appendix 7** and a summary of the results is below.

Table 1 – VRIO Framework

VRIO / Core Resources	Valuable	Rare	Inimitable	Organizationally Embedded	Competitive Implications
Company Reputation among Private Labels	✓	✗	✗	✓	**Competitive Parity**
Organizational Culture	✓	✗	✓	✓	**Competitive Parity**
Rigorous selection of raw materials	✓	✗	✗	✓	**Competitive Parity**
Innovative Design	✓	✗	✗	✓	**Competitive Parity**
Positive externalities from the shoe cluster	✓	✓	✓	✓	**Sustainable Competitive Advantage**

✓ – pass the test ✗ – fail the test

[15] p. 678. Morgan, Robert E., and Constantine S. Katsikeas. 1997. "Obstacles to export initiation and expansion." *Omega International Journal Management Science* 25 (6): 667–690.

Furthermore, *"a firm can gain and sustain a competitive advantage only when it has resources and capabilities that satisfy the VRIO criteria."*[16] By performing the test to the firm's organizational resource platform only one of the core resources excelled in all the requirements – the positive externalities from the Portuguese shoe cluster. Hence, it is the only that allows the firm to hold a potential sustainable competitive advantage (Barney, 1995). Even though the others are extremely important for the success of the firm, especially if its aims to expand its international presence, those are merely sources of competitive parity since the majority of the firms also benefit from similar core resources. In general, those are not rare since several firms from the industry also own it neither difficult to imitate. Nonetheless, the five are highly valuable in order to deliver the best product and the firm is fully organized to exploit each one.

Moreover, the rigorous selection of raw materials, the innovative design and the positive externalities from the shoe cluster are crucial strengths for the internationalization of the firm's own brand. It reflects the offering of a high quality *Made in Portugal* shoe (home for fashion and quality) produced with the most recent, sophisticated and elegant materials displaying a modern, appellative and innovative design in every collection. In addition, the shoe cluster provides the firm with *"an intangible network, specific, unique and therefore hard to replicate"*[17] among its participants; a higher knowledge circa the foreign players; joint strategic efforts; strong international reputation; and a shaped diversified industrial base.

EXTERNAL ANALYSIS

Industry Mapping

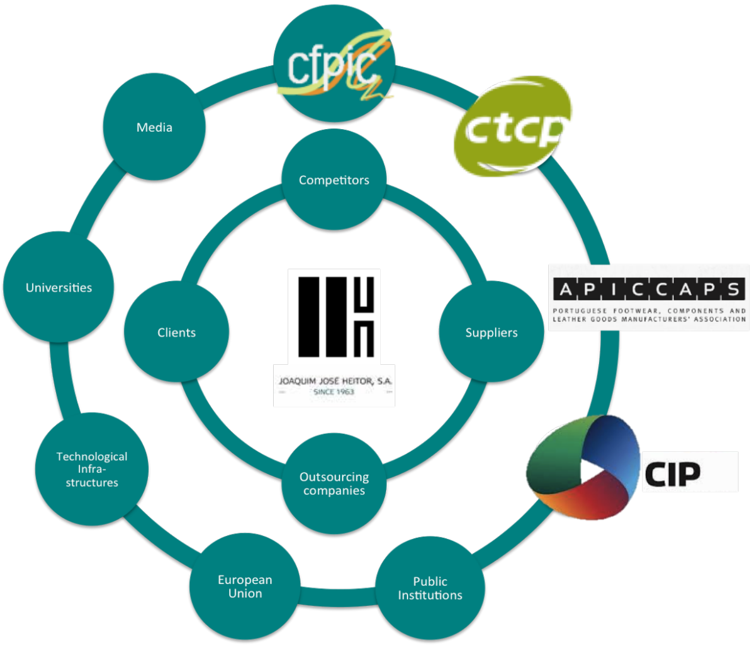
The industry mapping is a key tool to comprehend the relationship between JJ Heitor and its stakeholders (See **Figure 1** in the following page and **Appendix 8** for the players' description).

The out circle represents several organizations that impact all enterprises and support the activities of the Portuguese shoe cluster such as APICCAPS, CTCP, Public Institutions, media amongst other.[18] As narrowing down (inner circle) are the key players that are directly related with the firm – clients, competitors, suppliers and

[16] Rothaermel, Frank T. 2012. *Strategic Management: Concepts.* McGraw Hill.
[17] p. 31. APICCAPS. 2013. "Footure 2020 – Strategic Plan of the Footwear Cluster."
[18] *Associação Portuguesa dos Industriais de Calçado, Componentes, Artigos de Pele e seus Sucedâneos* and *Centro Tecnológico do Calçado de Portugal*

outsourcing companies – that ultimately stands in the centre. Those have a direct consequence on the firm's activities and profitability. JJ Heitor establishes more explicit relationships with the players of the inner circle, but also fundamental ones with the other critical players, which are all interconnected.

Figure 1 – JJ Heitor Industry Map



Footwear Industry

Summarizing, throughout the years the footwear industry has been growing not only in Portugal but also at a worldwide level. The complete analysis of both the worldwide and Portuguese footwear industry is in **Appendix 9**.

It has achieved the highest global production and consumption ever, in which Asia is the major player continent with China as an unquestionable leader. As a result, both worldwide exports and imports have boosted over the years. Asia and Europe have relevance as footwear exporters whilst Europe continues to hold its leadership import position even though Asia and Africa have increased their worldwide import shares.

Regarding the home country of JJ Heitor, *Made in Portugal* is now associated with high-quality, sophistication and fashionable shoes. As a consequence, Portugal has been able to establish a strong position in the market worldwide. It produces more than consumes and exports more than imports. Portugal was ranked in the 11th position of footwear exporter in 2013 and holds the second highest average export price.

SOUTH AFRICA'S MARKET ANALYSIS

To conduct the internationalization plan for JJ Heitor Shoes it was necessary to select the host country. This was chosen by the firm, which wanted to study the potential of **South Africa**. Nevertheless, it is extremely important to add that South Africa can be viewed as a gateway to Africa, especially to the countries of the Sub-Saharan Africa.[19]

In fact, Africa is becoming more attractive to investors because of its strong growing consumer markets (Euromonitor International, 2014). Consequently, it was vital to perform an **analysis of other potential African countries** precisely Angola, Mozambique and Nigeria in order to examine its characteristics and environment. It allowed to explore if have the potential or not and if South Africa can be considered as a platform to further enter other African countries (See **Appendix 10**).

Overall, these countries were selected mainly due to enhanced performance over the years (strong GDP growth), the future potential as fast growing economies and the fact that many high-end and luxury goods brands are targeting these markets. By being present in South Africa, the firm can more easily expand its presence into the continent.

Moreover, the rising middle class with their increasing disposable incomes in Africa has contributed to an expansion in the demand of high-end products, which are considered to be a sign of status and success. To add, the recent development of new shopping malls has significantly aided international brands to enter the continent providing a suitable retail area (Euromonitor International, 2014).

Nigeria is the most populated African country (174 million people) representing Africa's largest consumer base being considered a key place for upmarket brands as the largest economy of Africa.[20] Despite problems such as the fact that *"the government continues to face the task of reforming a petroleum-based economy, whose revenues have been squandered through corruption and mismanagement"* it is starting to emerge.[21] It has economically diversified, robust growth, high consumer expenditure and disposable income being the third African country that consumed the most footwear in 2013. Nowadays it has several designer brands present and more want to go there.[22] Additionally, several high-end and luxury brands also have plans for Angola and

[19] "South Africa: The gateway to Africa." *The Economist.* 2012. http://www.economist.com/node/21556300

[20] This year Nigeria surpassed South Africa and became Africa's largest economy, but it is not the most developed.

[21] CIA – The World Factbook Nigeria

[22] Such as Ermenegildo Zegna, Hugo Boss, Prada, etc.
Retrieved from http://www.bdlive.co.za/business/retail/2014/05/02/purveyors-of-luxury-goods-have-one-eye-set-on-africa (Accessed October 16, 2014)

Mozambique. In fact, Angola is the third largest economy of the Sub-Saharan Africa and is expected to undertake strong growth, mainly due to the oil sector. In 2013, consumed 153 million pairs of shoes, which is a high value for its population size. Mozambique even though displays lower values on its indicators being a low-income country it has had one of the Africa's strongest performances in the last years and might be an early-mover advantage to be there (The World Factbook Mozambique).

On the other hand, one of the main constraints of Angola and Mozambique as consumer markets is their sizes of 21,5 and 25,8 million, respectively.[23] However, the strong relationship with Portugal plays a major role in both of these countries aiding to slightly overcome the diverse constraints.

JJ Heitor Shoes can enter the continent through South Africa as a strategic market, further analysed, allowing it to have the necessary mechanisms to gradually expand to other prospective African markets. By briefly evaluating the above-mentioned countries it was possible to understand that there is in fact potential in other African countries.

Macroeconomic Environment

Firstly, to deeper study the potential of South Africa it was key to perform a **PESTEL Analysis** (See **Appendix 11**) in which it was possible to analyse its macroeconomic environment and further understand opportunities and risks.[24]

South Africa is considered as the most developed economy of the African continent belonging to the Sub-Saharan Africa and the second largest one. It is *"an upper-middle income emerging economy, rich in natural resources, with well developed financial, energy, communications and transport sectors."*[25] It has top infrastructures and is headquarters of many international companies as it represents a gate to enter in Africa.

Moreover, *"South Africa has a strong and established economic infrastructure, stable legal and regulatory environment and sophisticated capital markets with its position as a gateway to the rapidly expanding economies of Sub-Saharan Africa."*[26]

Nowadays, it operates under a multi-racial democracy with a medium to low political risk. In fact, it has a close relationship with the European Union by being a member of the *Trade, Development and Cooperation Agreement* – a free trade zone.

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[23] Less than half of South Africa's population.
[24] The entire PESTEL Analysis is in **Appendix 11**.
[25] ITC – International Trade Centre
[26] Retrieved from http://www.linklaters.com/Insights/Outlook-for-2014/ (Accessed October 16, 2014)

South Africa is definitely the economic powerhouse of Africa belonging to the BRICS group of emerging economies and representing Africa in the G20. Despite the previous strong growth, it is experiencing a slowdown of its economy. In 2013, it had a GDP growth of 1,9%. Nevertheless, until 2018 its GDP growth is expected to increase and grow at rates higher than 4%. In addition, it has high consumer expenditure per capita by regional standards and the annual disposable income has increased over the years.

However, it has the most unequal income distribution in the world with the richest 10% holding 48,5% of the share of total annual disposable income. Since the country has a fraction of high-income earners it is seen as an important market for luxury goods, in which it contains 60% of Africa's millionaires (Euromonitor International, 2014).

South Africa has a youthful population. From that, 18,5% of the total population are female with ages between 25 to 54 years old meaning 9.801.669 women. The majority of the population lives in an urban setting (62,4%). It is important to notice that Johannesburg is the largest city by population being *"a diverse cosmopolitan city with a unique blend of first-world sophistication and emerging market vitality."*[27] Cape Town, known as the mother city, is also highly vital due to its European lifestyle, by being the place for fashion and culture in the country and the second most populated city.

Footwear Market in South Africa

South Africa's Footwear Profile

It is vital to examine the country's profile in terms of footwear imports (See **Appendix 12**). Over the years, its imports have substantially increased. Moreover, it consumes more than it produces being the African country that consumed the most footwear in 2013 (272 million pairs of shoes). It holds the 16th position of worldwide footwear consumption. Given that, it had to import 216 million pairs of shoes representing a value of €782M. However, the average price of footwear imports in 2013 was €3,61.

Regarding South Africa import trading partners (See **Appendix 13**), mainly relies in low-cost producers such as China, Vietnam and Indonesia, which account for €670M meaning 86% of the South Africa footwear imports value share. Those are followed by Italy with 5% of the value share competing over quality and design (differentiation). Additionally, there are different types of footwear traded (See **Appendix 14**). The one

[27] Retrieved from http://www.joburg.org.za/ (Accessed October 20, 2014)

that South Africa imports the most are the ones made of rubber and plastic (46%), followed by textile (42%) and leather (8%).

Furthermore, the South African footwear market comprises the total revenues generated through the sale of all shoes categories (See **Appendix 15**). By 2013, the total footwear presented a market size of €2.917,91 million highlighting the fact that the market since 2009 experienced strong growth in terms of value by increasing 12,4%. From that, €1.123,31 million regarded the women's footwear meaning approximately 39% of total footwear revenues were from the target relevant for JJ Heitor Shoes.

For the future, there is a trend for the market to continue to grow until 2018. Nevertheless, the performance of the South African footwear market is expected to decelerate, displaying a forecasted growth of 3,9% for the period of analysis. Simultaneously, it is expected a 4,8% grow of the women's footwear. Thus, it is projected that the total footwear market will have a value of €3.534,07 million in 2018 and the women's footwear of €1.417,34 million (Euromonitor International, 2014).

Market Distribution

In South Africa, the distribution of footwear is mostly pursued through store-based retailing (97,1%) instead of non-store retailing such as home shopping or Internet (See **Appendix 16**). As a result, the clothing and footwear retailers represent the leading distribution channel in the South African footwear market in 2013, accounting for a 67,2% of the total distribution of footwear. Those are followed by the department stores (9,3%), hypermarkets and supermarkets (9,1%), sportswear retailers (5,5%) and by other distribution channels with less relevance (Euromonitor International, 2014).

Main Players

The **retailers** with more significance in the market offer mostly products from the low-to-medium segment. This is aligned with the fact that the majority of the country's footwear imports are from Asian low-cost producers. These leading domestic retailers such as Woolworths, Jet and Mr Price amongst other hold a high share value of the footwear market selling fast fashion footwear at affordable prices. On the other hand, there is also a huge room for medium-to-high end and luxury retailers. South Africa has the continent's most developed luxury retail sector, which is represented by several global brands.[28] Most of the medium-to-high end retailers are located in shopping malls in more affluent suburbs and areas around these shopping malls.[29]

Another crucial point within South Africa retailers is the rising of Internet retailing. Even though it is not commonly used as a footwear distribution channel in South Africa (1,7%), retailers aim to intensify their online presence letting consumers to shop online reaching higher household penetration (Euromonitor International, 2014).

Regarding the footwear **brands**, the ones that hold a greater share are from the medium-to-low segment of the market. However, for the pursuit of this analysis, only brands that belong to the same market segment of JJ Heitor Shoes and above in the South African market were analysed. Hence, brands such as Christian Louboutin, Stuart Weitzman, Carvela and Nine West were identified (See **Appendix 17**).

From the analysed brands, the retailers' average price to the end consumers ranges from €89 to €1162 (See **Figure 2**).[30] As a result, JJ Heitor Shoes in this market should focus on its differentiation factors of quality, design and image of its product and not compete over price. This will be crucial to increase the perceived value of the brand.[31]

Figure 2 – Positioning of brands in the South African footwear market (according to average retail price)

Footwear Trends

In South Africa, there is a high preference for sports and casual footwear. At the same time, low-cost footwear is also widely used. However, over the years both men and women have become more adventurous in their footwear choices, which was due to the growing focus on global fashion trends and self-expression through clothing and footwear. This was highly encouraged by the spread of Internet access and an increasing

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[28] Such as Chanel, Louis Vuitton, Cartier, Gucci, Ralph Lauren, Burberry, Fendi, Giorgio Armani, etc. (Euromonitor International, 2014)

[29] E.g. Sandton city in Johannesburg and Nelson Mandela Square – the largest retail complex in Africa.

[30] According to the different types of footwear (sandals, shoes or boots).

[31] JJ Heitor Shoes can gain through tangible (observable product characteristics – colour, shape, packaging) and intangible differentiation (characteristics that appeal to the customer's image, identity and status).

number of South African fashion blogs and websites.[32] In fact, there have been strong tendencies for women shoes in the last years and sales are rising. Women have become more attentive in global fashion trends. Hence, South African women are strongly searching for shoes that have clear characteristics.[33] Additionally, international brands are perceived as aspirational in the South African market due to the fact that to be watched buying or using a foreign brand is still associated with wealth. However, it is extremely important to pay attention to the fact that fashion and quality are more important than the fact of being a well-known brand (Euromonitor International, 2014).

Market Dimension

To achieve the value of the potential market for JJ Heitor Shoes in South Africa it was necessary to perform specific computations. First of all, it is crucial to understand that, in this first stage, the firm should solely focus in the cities of Johannesburg and Cape Town since as previously observed in the PESTEL analysis are the major cities in the country in terms of population, shopping and fashion references.

Given that, to achieve the **market dimension** several steps had to be pursued (See **Appendix 18**). Firstly, it was necessary to take into account the size of the population living in Johannesburg and in Cape Town (urban areas), from those which ones are female from 25 to 54 years old and have medium-to-high income since is the target of JJ Heitor Shoes. The result is of **460.901 women**. Thus, these represent the potential market of JJ Heitor Shoes in Johannesburg and Cape Town. It is fundamental to remember that South Africa has the most unequal income distribution in the world and has 60% of Africa's millionaires. Hence, the medium-to-high income earners might be a minor percentage of the population but have quite to expend.

SWOT Analysis

By conducting a SWOT analysis of JJ Heitor Shoes in the South African footwear market it is possible to monitor the internal (overview of weaknesses and strengths) and the external environment (overview of opportunities and threats) in which it will be present (Houben et al., 1999).

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[32] Such as mjandstuff.wordpress.com or all4women.co.za.

[33] Women in this country highly appreciate shoes with straps or heels; shoes with ankle cuffs or straps and stilettos; platforms and wedges; as well as flat pumps, especially with toe caps.

Table 2 – SWOT Analysis

Internal Strengths	Internal Weaknesses
S1 – Positive externalities from the Portuguese shoe cluster **S2 –** Organizational culture **S3 –** Rigorous selection of raw materials **S4 –** Export-oriented firm (95,22% of sales abroad) **S5 –** Product differentiation (quality and design) **S6 –** Flexibility in order size **S7 –** Capacity to invest the own brand in foreign markets **S8** – Activation of the brand in social networks **S9 –** Quality Management	**W1 –** Negative evolution of sales **W2 –** Reduced profit margins **W3 –** Low brand awareness of JJ Heitor Shoes **W4 –** Few own brand experience compared with private labels experience **W5 –** Little knowledge about how to act in South Africa with the own brand (distant market) **W6 –** Company's size (few resources)
External Opportunities	**External Threats**
O1 – Upper middle income emerging economy **O2 –** High and increasing footwear consumption; as well as imports **O3 –** Recognized footwear trends in South Africa and appreciation of international brands **O4 –** Expansion of footwear distribution channels[34] **O5 –** Establish its presence through distributors **O6 –** South African fair of the footwear sector **O7 –** E-commerce **O8 –** Increasing number of South African fashion blogs and websites **O9 –** Well established international trading regime: EU Free Trade Agreement, WTO and SADC[35] **O10 –** Johannesburg as the major city in terms of population, shopping reference for Africa and strong cross border trade; Cape Town as the city with European lifestyle and home for fashion. **O11 –** Gateway to other African countries	**T1 –** Slowdown of the South African economy **T2 –** Relatively high trade tariff on footwear (20,7%) **T3 –** Low cost Asian producers and the powerful relationship with China **T4 –** Unstable currency **T5 –** Strong international competition **T6 –** High unemployment rates in South Africa **T7 –** Growing number of outlets and variety stores offering economy Asian imports **T8 –** Consumers increasingly price sensitivity **T9 –** Increased focus on affordable fast fashion by leading domestic footwear retailers **T10 –** Global financial crisis **T11 –** High preference for sports and casual footwear; high imports of rubber and plastic.

TOWS Analysis

Applying a TOWS analysis aids in the process of strategy formulation by understanding what strategic alternatives exist, based on both the internal and external environment, in order to succeed and be effective in the attainment of the firm's goals (Weihrich, 1982).

Maximize External Opportunities using Strengths – *Maxi-Maxi Strategy*

1. By maximizing JJ Heitor Shoes product differentiation, which is based on the excellent quality and design it is possible to take advantage of the favourable conditions presented in the South African market such as being an upper middle income economy,

[34] Mainly in shopping malls and Internet retailing
[35] As an open gate to the countries of Southern Africa

with high footwear consumption and imports and an appreciation of international brands **(S2+S3+S5+S9|O1+O2+O3)**.

2. Choose Johannesburg and Cape Town as the cities to enter the market **(S4+S7|O10)**.

3. JJ Heitor Shoes is already present in other countries. Given that, it can continue to adopt the mode of entry it uses in distant markets and establish its presence by selling through distributors, in which the well-established international trading regime with the EU will play a major role to facilitate the business **(S4|O5+O9+O10)**.

4. Since the firm has the capacity to invest and implemented a strategy of activation of the own brand in the social networks, it can explore other forms of selling to distant markets. It can rely on e-commerce since South Africans are increasingly browsing for footwear and are becoming regular users of buying online[36] **(S4+S7+S8|O7+O8)**.

5. South Africa can be viewed as a gateway to Africa. Hence, JJ Heitor Shoes should enter the African continent through this advanced emerging country (test market) and then study the expansion to other economies with potential[37] **(S7|O1+O9+O11)**.

Avoid Threats by means of Strengths – *Maxi-Mini Strategy*

1. Even though many South African consumers are becoming more price sensitive, footwear imports from Asia have increased and low-cost products are more widely available, the fact is that consumers are also more focused on global fashion footwear trends in the country and value fashion and quality when choosing footwear, which JJ Heitor Shoes has and should use that in its advantage **(S3+S5+S9|T3+T7+T8+T9)**.

2. Due to the global crisis and the current slowdown of the South African economy, the final prices of JJ Heitor Shoes should take into consideration the competition in the market segment. It should pay attention to the unstable currency situation and protect itself from the depreciation of the South African Rand[38] **(S5+S7|T1+T4+T10)**.

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[36] AICEP Portugal Global. April 2013. "Dicas Internazionalização: África do Sul." *AICEP*.
[37] Such as Angola, Mozambique and Nigeria (See **Appendix 10**).
[38] For instance, establish the contracts in euros or use forward contracts with fixed prices.

3. Despite the international competition and the high preference for other types of footwear, there is still room for high-end brands to be present. By belonging to the Portuguese shoe cluster, JJ Heitor Shoes has a tremendous help in product innovation and international promotion allowing the brand to grow and be stronger in the foreign market competing head-to-head with the other brands **(S1+S2|T5+T11)**.

Reduce Weaknesses by embracing External Opportunities – *Mini-Maxi Strategy*

1. The negative evolution of sales and reduced profit margins influences the need to achieve new sources of revenue. The favourable conditions of South Africa concerning the footwear market support the internationalization strategy **(W1+W2|O1+O2+O3)**.

2. By entering the African country firstly through the cities of Johannesburg and Cape Town, JJ Heitor Shoes will be placed in the continent's economic hub. From that on, it can grow having the possibility to expand and diversify its sales **(W1|O9+O10+O11)**.

3. The firm's history relies on private labels thus it does not have the necessary knowledge neither resources to deeply enter the market. Hence, it can establish its presence through a foreign distributor that knows how the market works, can overcome distance and cultural barriers and has access to potential clients **(WA+W5+W6|O4+05)**.

4. The participation in the South African footwear fair, the distributor marketing capabilities, the channels and the use of fashion blogs and websites to advertise can increase JJ Heitor Shoes brand awareness **(W3|O4+O5+O6+O8)**.

Reduce Internal Weaknesses and avoid External Threats – *Mini-Mini Strategy*

1. If it is capable to increase its brand awareness, JJ Heitor Shoes will have the possibility to enhance its presence in the market and compete with the strong players not being hurt by the affordable fast fashion segment **(W3|T5+T9)**.

Porter's Five Forces Analysis

By performing a Porter's Five Forces analysis of the South African footwear market it is possible to provide an overview of the intensity of competition, which is affected by the industry structure (Besanko et al., 1996).[39]

Firstly, the retailers were considered as JJ Heitor Shoes buyers in the South African footwear market. **Buyer power** is assessed as moderate to strong and the trend is to maintain. Even though, retailing in South Africa is highly fragmented there are already several large and well-established retail groups, which are capable to leverage significant economies of scale in which there is a high degree of rivalry.[40] They understand how much the brands depend on them for being present in the market and can exercise that pressure, especially in low recognized brands. However, their costs from switching to sell other brands are not low since include diverse aspects thus cannot be constantly changing.

Secondly, independently of the host market the **suppliers** will remain the same since are capable to offer good quality inputs and already have a well-established relationship with the firm. In South Africa, the majority of suppliers are low-cost manufacturers from Asia, but in this case do not hold any type of power and the trend is to maintain.

The **threat of new entrants** in this market can be considered as strong due to several reasons and the trend is to increase. First of all, apart from sports footwear and luxury designer shoes, brand recognition in this market is relatively low. Hence, it enables the entrance of new players such as JJ Heitor Shoes. In addition, due to the high number of low-cost producers, a player can easily establish its operations with sustainable supply chains. The growing popularity of Internet retailing in South Africa also represents an opportunity for new entrants to join launching an e-commerce business. The low switching costs from one brand to another, the low necessary investment in intellectual property and the easy access to both distributors and retailers encourage new entrants.

Since footwear is a necessity for all, the **threat of substitutes** to the footwear market is low and limited and the trend is to maintain. Nonetheless, it is possible to observe a certain degree of substitution between the different types. For instance, South African consumers widely use sports footwear as a substitute of other traditional footwear types. At the same time, luxury designer shoes are highly valued and recognized by the high-income earners who search for quality, fashion and do not substitute it.

As previously observed, several international brands from the medium-to-high segment

[39] The industry was analysed taking into consideration that the key suppliers are the Portuguese suppliers of JJ Heitor, the key buyers are the retailers and JJ Heitor is in the centre.
[40] Mainly through bulk purchasing and the pooling of back office activities.

are already present in the South African footwear market.[41] However, many more still do not operate there and if yes it is normally on a small scale (Euromonitor International, 2014). As a result, there is still room to operate and the **degree of rivalry** can be considered as low to moderate within this segment and the trend is to increase. On the other hand, there is in fact a strong rivalry among the various low-medium footwear brands offering fast fashion and continuously updating their collections reaching consumers through their affordable shoes having the possibility to expand their output capacity, which boosts rivalry (Euromonitor International, 2014).

According to the previous analysis, the footwear industry in South Africa for JJ Heitor Shoes has a moderate competitive intensity, which reflects its attractiveness influencing its potential profitability for the brand.[42]

INTERNATIONALIZATION PROCESS

Entry Mode

After having decided the market, a firm is confronted with another crucial decision: which mode of entry should it adopt? Moreover, the firm has to determine its most suitable strategic form of entering the target country to achieve its goals (Rugman and Collinson, 2008). Thus, when making this decision it is vital for JJ Heitor to consider its characteristics and performance, the strategic objectives it wants to achieve, the business conditions in the host market as well as how it has previously entered in other foreign markets – its experience and expertise. In fact, the chosen entry mode is a critical determinant of the likely success of the foreign operations.

Overall, there are several entry modes that can be assumed by a firm and those range from licensing and franchising, through exporting directly or through independent channels, to foreign direct investments (joint ventures, acquisitions, mergers and wholly-owned new ventures) (Rasheed, 2005). Each one has different implications in relation of level of control over foreign operations, resource commitment, flexibility and risk minimization. Low control strategies such as exports imply minimum control, limited resource commitment, maximum flexibility and low risk (Hill et al., 1990).

Daniels et al. (2013) argue that for SMEs that employ less than 250 employees, with low brand awareness, without much international involvement and capacity to perform

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[41] See **Appendix 17**

[42] Another force could be added – **Complements** as clothing, accessories among others and have a moderate power.

large investments the most prevalent mode of engaging in international business is trough **exports**. This is exactly the case of JJ Heitor. By exporting a firm is capable of expand and diversify its sales, which is aligned with the strategic objectives of JJ Heitor Shoes. In fact, an export strategy might be a very attractive vehicle for a firm and its products to gain exposure in the foreign markets (Rugman and Hodgetts, 1995).

Besides that, JJ Heitor is already an exporting-firm. Consequently, by opting for exports it is following its export intention to enter other international markets with the aim of expanding its export involvement (Axinn et al., 1994; Reid, 1983). As previously referred, the domestic pressures that the firm is facing as the negative evolution of sales are considered a potent stimulus in this export decision.

Furthermore, for a firm there are several advantages in choosing to export that can be extremely *"evident in the form of product and process innovation, better utilization of capacity, skills development and generally improved business performance."*[43]

Additionally, according to empirical research both the number of overseas markets to which the firms sells its products and the perceived psychological distance from them do not have an effect on export barriers apart from firm resource constraints (Leonidou, 2000). The firm should rely on exports and that is the reason why it is vital to perform a deeper analysis of this entry mode.

Overall, JJ Heitor Shoes products are produced in its own factory and by having a long history in manufacturing for other brands that led JJ Heitor to start producing its own brand. Hence, to take advantage of its capabilities it should continue to produce the footwear of JJ Heitor Shoes exactly in its infrastructures. Nonetheless, it is extremely difficult for the firm to be responsible for the entire export process. Thus, it is possible to overcome certain limitations mainly of the insufficient information about the target market by selecting partners who possess such knowledge (Inkpen and Beamish, 1997).

As a result, there are two principal types of exports, which are the indirect and direct exports (See **Appendix 19**). By **indirect exports** are the products sold to an independent domestic intermediary who later sells it in the export market (Daniels et al., 2013). The firm is transferring the responsibility of managing the diverse complications to the export intermediary having to pay a fee for the service. It can be considered a valuable resource since are capable to deal with questions that the firm might not be.

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[43] p. 677. Morgan, Robert E., and Constantine S. Katsikeas. 1997. "Obstacles to export initiation and expansion." *Omega International Journal Management Science* 25 (6): 667–690.

Moreover, there are two major types of indirect intermediaries. Those are the export management company (EMC) that operates normally as an agent of the firm; and the export trading company (ETC) that operates according to the demand (See **Appendix 20**). Even though it has numerous benefits such as a rapidly access to the market and the release of the burden of dealing with the export process it simultaneously holds disadvantages. In fact, it has a greater associated risk for the firm since it is not in control and does not gain knowledge about how to internationally operate.

On the other hand, by **direct exports** are considered the products sold outside of the exporter's home country (Daniels et al., 2013). This allows the firm to exercise greater control, have more information about the target market and might offer the possibility to earn higher profits. Selling through distributors, to retailers or even over the Internet are three distinctive forms of direct selling (See **Appendix 21**).

Taking into account the two diverse forms of exports, the direct exports are more suitable for the firm. Overall, direct exports are more efficient if the sales volume is small (Daniels et al., 2013) and that is exactly this case. Also allow for a higher control over the process and greater information feedback, which is permits learning more about international operations in order to further replicate it.

Unfortunately, it will take a longer time to reach the market and higher start-up costs are involved. If the product is not successful, the firm will have many costs that are mostly irreversible. To add, this is the most widely used strategy by the firm when approaching international markets. Thus, it would be aligned with the previous international activities of the firm. In fact, in closer markets, JJ Heitor Shoes sells to retailers through representative agents whereas in more distant markets it relies on distributors.

Given that, it is critical to choose the best direct selling mode for JJ Heitor Shoes in South Africa. Firstly, even though e-commerce allows overcoming both capital and infrastructures limitations at this stage that the brand is it would not be viable. It is important to do it because many South African consumers are increasingly searching for footwear ranges online, but the majority prefers to try before purchase and buy it over store-based retailing (Euromonitor International, 2014).

Therefore, the two other options are selling to distributors or to retailers (See **Appendix 22**). If it sells directly to the foreign distributor, it would be capable to work with a well-established business structure that has a physical presence in the target market. This structure takes a long time to implement and involves large financial investments. JJ Heitor would be capable to save in structural expenditures. Based on the understanding of the local market, the distributor buys the product on its own and profitably sells it to the retailers representing an up-front commitment. As a result, the distributor requests from the brands competitive prices to ensure own margins and of the retailer.

If the firm sells to the retailer it requires establishing a partnership with a representative agent. The firm is capable to diminish the number of intermediaries along the supply chain, increase its margins and have a higher contact with the client. On the other hand, it is not easy in terms of capabilities and resources to launch and sustain its own brand in a foreign market. It involves several costs that it has to bear and questions to deal with that it might not have resources and competences to do so (Daniels et al., 2013).

Bearing in mind all the above-mentioned, the most suitable option is to choose **direct selling through distributors**. Even if it is more difficult for JJ Heitor since it has to find one willing to distribute immediately the product of an unknown brand, in distant markets it is the most suitable option given its inability to undertake other more expensive forms and satisfying its objectives. It is in line with past experience and even though the margins for JJ Heitor will be lower there are several other costs that the firm will not have to worry since will be covered by the foreign distributor.

This strategy has the potential of being effective since the foreign distributor will immediately contact its network, has knowledge about the consumers and the market, has a marketing infrastructure and is prepared to answer cross-cultural barriers that might appear (Daniels et al., 2013). The need of investing in high expensive infrastructures is eliminated thus distributors represent an excellent alternative for small-to-medium exporters as JJ Heitor being perceived as a lower cost and financial risk option. Overall, the distributor normally carries an inventory of the products. In general provides support, customer and financial services.[44] Usually, distributors work on a contractual basis in which the terms and length of the contract are established.[45]

Nonetheless, it is also vital for the firm to understand that exist difficulties and risks in doing through this form. The firm would be highly dependent on the distributor since it would be solely selling its footwear in the foreign market hence having lower control about where the product is placed. In fact, the retailer gains a strong attachment to the

[44] Services circa sales, customer feedback, logistics, formalities and legal requirements, etc.
[45] In general, territory exclusivity is required by the distributor.

distributor that might be a problem if the firm decides to switch distributor. The firm has to guarantee that the identity and positioning of the brand do not suffer with the actions of the distributor mainly over via contractual. It has to monitor the distributor, in which has to ensure that the relationship between the two parties is well managed and must imply constant feedback regarding sales and customer response, problems that might be occurring, tendencies of the market among other.

The choice of the "right" distributor is critical for the success of the brand in the country otherwise operations might fail. From past experiences, to ensure that the most appropriate selection is done JJ Heitor searches for distributors who have credibility in that market and also for the portfolio of brands of each. JJ Heitor wants to guarantee that the current brands that are being distributed fit with JJ Heitor Shoes. Hence, this choice is probably one of the most important ones for the firm, which requires research.[46] By examining several distributors in the country, it was possible to propose a list of potential distributors for JJ Heitor Shoes to further contact and analyse that might answer the firm's selection criteria, which will narrow the selection phase (See **Appendix 23**). In fact, highlighting the *House of Busby* due to its potential as importer for JJ Heitor Shoes in South Africa.

Additionally, it is important to understand the **sales channels** that suit the best JJ Heitor Shoes in order to succeed. Each sales channel is characterized by diverse levels of product specialization and service customization, which influence the retail price.[47] Moreover, the main channels are the mass merchants, department stores, national chains, specialty stores and independent retailers (See **Appendix 24**).

The mass merchants and national chains are considered the leading retailers in South Africa selling diverse types of footwear from different brands. Nevertheless, the most effective sales channels for JJ Heitor Shoes are both the specialty stores and independent retailers (higher specialization and customization), which preferentially are located in urban centres and/or in shopping malls due to the increasing preference for buying in those by the consumers.[48]

Summing up, according to the performed analysis it is possible to conclude that the

[46] In this phase, AICEP and other institutions have a critical role since have access to the database of footwear distributors/importers. As well as the trips to the country that allow the firm to get in touch with potential distributors.
[47] The higher the product specialization and service customization, the higher the final retail price.
[48] It corresponds to the Place in the Marketing Mix (4 P's).

most suitable option for JJ Heitor is to sell directly through foreign distributors that will be more efficient if place JJ Heitor Shoes products mainly in **specialty stores and/or independent retailers**.

Implementation Plan Proposal

Once the entry mode is chosen, the firm has the challenging task of implementing it. Despite the several mentioned benefits that derive from exports, the entry and operations in the foreign market are not easily achieved. In fact, a firm encounters obstacles in implementing such a strategy. Consequently, those can limit the firm's potential to exploit foreign opportunities and weaken its financial capabilities (Leonidou, 2000). Thus it is vital to understand that those present a challenge that must be managed, in which the implementation plan has a critical role. The firm must be fully aware of what is important, what is possible to perform and establish a solid market-oriented basis reinforcing its competitive advantage (John R. Darling, 2004).

Taking that into consideration, for the implementation it is essential to define necessary aspects. Firstly, it is possible to conclude that according to the average price JJ Heitor Shoes sells to the distributors (€84,5) and by achieving the margin it aims to in emergent markets (23,1%), the average distribution price will be €130 (distributor's margin of 35%) and an estimation of the average final retail price of JJ Heitor Shoes in South Africa would be between €212 and €240 (See **Appendix 25**), depending on the retailer's margin.[49] This price is aligned with the competition of similar brands in the market and allows the identity of JJ Heitor Shoes to be respected.

Additionally, the firm is capable to accomplish in South Africa a market size of 38.946.134,5€ taking into consideration its potential market dimension and the price it sells to the distributors, both previously referred.

Secondly, the whole supply chain process and its logistics to South Africa are described in **Appendix 26**. In fact, the most suitable contract to make with the distributor is under the FOB – Free on Board incoterm, in which JJ Heitor is only responsible for the expenses at the origin. Accordingly, it also has to select the route to take the products. It can be directly to the port of Cape Town or to the port in Durban, the nearest one, since

[49] It corresponds to the Price in the Marketing Mix (4 P's). It allows the retailers to have a margin between 30%–38% and takes into consideration the consumption tax. The margins of the distributor and of the retailer are decided by them and were assumed, in this case, given the industry practices.

Johannesburg does not have a maritime port and afterwards by rail. The costs for the firm of transportation to South Africa were also estimated, which are around €430.[50]

According to the analysis undertook the internationalization strategy of JJ Heitor Shoes to South Africa, in this first stage, should focus in developing several initiatives mainly with a commercial and research aim to establish contacts; gain knowledge about the market; ensure the "right" distributor is identified and selected; and receive orders by the distributor that will cover the cost of this strategy. To analyse the investment needed in human resources, time, capital and strategic actions a 4 M's approach was outlined defining the implementation plan (See **Appendix 27** for the detailed implementation plan proposal). The initial investment to start exporting is about €36.511,40.[51]

Overall, throughout the year of 2015 it should realize a trade mission to the country and also participate in a professional fair, specifically in *International Apparel, Textile and Footwear Trade Exhibition of Southern Africa* in Cape Town since it is the only import trade exhibition for footwear. These export promotion activities will allow reaching the final decision of the distributor and start exporting in January 2016. It should realize focus sessions with representatives of the target market and realize if any alterations to the product need to be done suiting the footwear and fashion trends of the market.

It will also has to register the trademark in South Africa. In fact, the commercial team will have a crucial role since has to deal with all these export questions, revise the business plan and manage the relationship with the distributor, that should be monitored mostly through continuous feedback and the established contract.[52]

Financial Projections

It is vital to perform financial projections to evaluate the financial potential of this internationalization strategy plan aiding in reaching a final conclusion if it should be implemented or not. For that, an incremental forecast analysis of the Profit & Loss (P&L) statement and Cash-flow statement was executed (See **Appendix 28**).

If achieved a positive NPV of this project, it supports the development of the internationalization strategy of JJ Heitor Shoes to South Africa. To do that, a time frame

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[50] Cost per container sent. It has to be double per year since two collections will be shipped.
[51] It corresponds to the Money in the 4M's.
[52] It corresponds to a summary of the Men and Minute in the 4M's.

of 10 years was considered in order to achieve the strategic objective.[53]

In fact, to be as complete as possible three different scenarios were assessed – normal, pessimistic and optimistic. For the scenarios the parameters that suffered an alteration were the quantity sold and its growth rate. Thus, in the pessimistic and in the optimistic scenario the firm sells 15% less and 15% more of the quantity sold in the normal scenario, respectively, and that quantity grows at different rates every year for each scenario. In fact, in the normal scenario the initial quantity sold was computed given the fact that per year the firm will sell two collections. Each collection has an average of 31 models. Hence, assuming that in the first collection sent the distributor will be interested in 50% of the models at a certain quantity and in the second will choose 75%, it was possible to achieve the quantity sold, the cost of goods sold and ultimately the revenues of the firm.

The needed initial investment was established on the 4M's approach (Money). It is relevant not to forget that the analysis was executed under an incremental perspective. Thus, costs that can be internalized by JJ Heitor were not considered. Two employees will have to be hired to deal with the production for the own brand to the target market (personnel costs). The majority of the transportation and marketing costs will be at the responsibility of the distributor and stipulated in the contract.[54]

Conclusively, the incremental NPV of the normal scenario was €99.602,48 with a time frame of 10 years. It allows for achieving 31,45% of the strategic objective for JJ Heitor Shoes in 5 years[55] and in 10 years to achieve a market share of 0,57% in South Africa. The payback period is 4,7 years. Also, the pessimistic scenario has an incremental NPV of €4.228,76 whereas the optimistic scenario one is €303.927,29.

Risk Analysis

Taking into consideration the implementation analysis there are several risks that JJ Heitor can encounter in the South African footwear market and should be fully aware. First of all, the importance of having the **most suitable distributor** in the foreign market is extremely vital. If it is not, the firm faces a high risk of failing and the

[53] In 5 years the firm wants to increase own brand sales to 10%. However, since it takes a long time for a brand to fully penetrate it is difficult to accomplish it and a horizon of 10 years was selected.

[54] The firm has to pay for the transportation costs at the origin (FOB) and for 20% of the marketing costs per year.

[55] However, this objective is for the total sales of the brand and not solely in this market. In the end of the project (2025) it accomplish 51,49% of the same objective.

investment made might not be recovered. The fact that the firm is **highly dependent** on the distributor plays the major risk since its network, activities, experience and capacity to sell the product will be the major basis to ensure the profitability of this internationalization strategy. The distributor might not deliver the required sales and profit by the firm and might not be capable to offer a consistent level of support.

In fact, the way the brand is going to be perceived in the market mostly relies on how it is going to be managed by the distributor. Hence, it has the possibility to positively or negatively influence the image and reputation of JJ Heitor Shoes thus there is a risk of **brand image and reputation** that consequently might affect its **sustainability** in that market. Overall, the high dependence on the distributor might imply a possible negative influence on the brand image and reputation, substantial margin losses and limited knowledge retention if the relationship between both parties is not well managed.

Nevertheless, this can be avoided mainly through the clauses of the established contract but also with constant communication and feedback, with the use of appropriate incentives and with support from institutions that may aid in monitoring the process.[56]

Thirdly, it is also possible to identify a **low brand awareness** risk. It will for the first time enter the African country and has a limited international exposure. Therefore, the firm must expect that the majority will not be aware of JJ Heitor Shoes. However, to overcome this the participation in fairs and events of the sector will play a crucial role as well as the distributor's advertisement and capability to sell to potential clients.

In fact, the advertisement rights are fundamental to ensure that JJ Heitor Shoes concept is **protected**. Hence, by maintaining a constant flow of information and controlling it the firm has to guarantee that its identity and positioning is not being negatively affected. It has to register the trademark in the country.[57]

The volatility of the **exchange rate** and the tendency of **depreciation** of the local currency are also a risk. South Africa's imports are becoming more expensive and this represents a problem since imports might lose competitive position. As a consequence, to combat this the firm should negotiate the contracts with the distributor in euros and establish forward contracts with fixed prices. Another fundamental risk that should not be disregarded is the relatively **high trade tariff** on footwear (20,7%) in South Africa,

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[56] Such as AICEP in South Africa, the Portuguese and South African Chamber of Commerce and the South African Footwear and Leather Industries Association.

[57] For the name, slogan and logo amongst others.

which along with the transportation costs and the taxes might raise the selling price.

CONCLUSIONS AND RECOMMENDATIONS

The completed study allowed reaching a final decision if JJ Heitor Shoes should enter the market or not. After the internal and external analysis of the firm, scanning South Africa's macroeconomic environment, the footwear industry and the project's financials it was possible to conclude that the firm **should internationalize** to the target market.

In fact, the incremental NPV of the project is positive and satisfactory, along with its payback period, suggesting that it adds value and should be undertaken. [58] Simultaneously, even though the firm reaches 31,45% of the strategic objective of sales for JJ Heitor Shoes in 5 years it has to take into consideration that this objective is a global one, which includes the sales of the brand in the other foreign markets. Thus, the achievement of the objective will be dependent on that.

Furthermore, South Africa has the highest consumption of footwear in Africa and the 16th worldwide highly influencing its position as a footwear importer (19th worldwide). In fact, it truly represents a gateway to other African countries viewed as fast growing economies with a high business potential in the future for high-end fashion brands.

Therefore, South Africa can be considered as a strategic market for JJ Heitor Shoes marking its entrance in the continent. It is an emergent market that allows to expand and that is exactly what the firm is searching for.[59]

Since Johannesburg and Cape Town are the shopping and fashion reference cities in South Africa, in this phase, surely are the most suitable options to expand the international presence of the brand. The dimension of the potential market for the brand in the two cities are 460.901 women, who are certainly willing to spend in international brands, search for quality as well as design and have a medium-to-high purchasing power. In addition, the concentration of the income distribution in the richest classes, the growth of the wealthy class and the country's youthful demographics are also promising factors for the footwear market and consequently for JJ Heitor. Even though there is a high preference for sports and casual footwear (and rubber and plastic type) there is room and demand for JJ Heitor Shoes products to be present in the country.

[58] However, it is positive for an implementation time of 10 years, not 5 years as the firm indicated since the strategic objective of increasing the global own bran sales to 10% is difficult to achieve in such period.
[59] Europe will always represent a crucial market in which brands must be present. However, firms should look for growth opportunities in the future in emergent countries since the European footwear market is a mature one.

Moreover, an export strategy trough a foreign distributor is clearly the most indicated entry mode. In a distant market, JJ Heitor can supplement its internal resources and capabilities with the aid of the distributor, which will have the network of potential clients and the knowledge about the local market. A fundamental question is the process of choosing the distributor. The firm *"can be severely hampered if an inappropriate one is selected or if this relationship is improperly managed."*[60] The ability to identify the appropriate distributor should be considered as a key element in the export strategy.

Moreover, in an intensively competitive world of today it is vital for JJ Heitor to apply effective export promotion as a way of complementing its firm specific resources (Wilkinson, 2006). For that, planning trade missions and participating in trade fairs of the sector is a central question. In fact, generate immediate brand awareness and allow rapidly acquiring more information and knowledge about the target market leading to higher levels of performance (Reid, 1985). That is the reason why these are part of the implementation plan for JJ Heitor Shoes in South Africa.

Additionally, JJ Heitor benefits from **key success factors** in this industry that are vital for its internationalization such as high manufacturing capabilities, which necessitate production capacity, operational efficiency, flexibility, product development; and differentiation from wide product portfolio, innovative design, high quality standards and image. These are pre-requisites for success. However, certain aspects should be further considered regarding the host market.

First of all, it is highly recommend that in the long-term, the firm focus in studying the viability of expanding to other populated cities in the country as Durban, Pretoria and Port Elizabeth; and to other African countries particularly Angola, Nigeria and Mozambique as previously observed since have a high potential for high-end fashion brands and many are already targeting these markets. South Africa can indeed be considered a test market for Africa.

Secondly, since the firm already has an e-commerce platform for JJ Heitor Shoes it should consider in the future the possibility of expanding online sales to South Africa. Internet retailing is starting to evolve in the country and will represent a threat for store-based retailers. After having solid brand awareness and its products physically exposed it might represent a viable option in the target market.

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[60] p. 240. Wilkinson, Timothy, and Lance Eliot Brouthers. 2006. "Trade promotion and SME export performance." *International Business Review* 15: 233–252.

Thirdly, since the brand is investing in an online activation strategy it should, after establishing its presence, rely on fashion bloggers as a traffic source to its website. If the bloggers are affiliates of the brand, will advertise for it generating more awareness and increase the likelihood to reach new customers. One possible South African fashion blogger to promote is the *'All 4 Women'* and footwear blogger is *'The Daily Shoe'*.[61]

Additionally, it is suggested that several critical factors are presented in order for the brand to succeed in the South African market. It is extremely important for JJ Heitor Shoes to convey its values from the beginning otherwise it is fairly unlikely that it will manage to become a major brand. It should build its identity by focusing on one or two key values (Schwebig, 1985), more precisely in the excellence and family spirit. "*This 'source-value' gives meaning to the brand"* and constitutes a differentiator factor in the moment of buying. [62] Hence, JJ Heitor Shoes should satisfy a target that values quality, design and image in detriment of the price. Thus, offer footwear with high quality standards and with certain characteristics that facilitate its acceptance in the South Africa market at a premium price. It must be up-to-date with the footwear trends in the country and take advantage of the fact that South African women are becoming more adventurous on their footwear choices. There is also a need for a competence in product development otherwise the firm will not be prepared to answer in terms of style, design, sophistication among other as it is required.

Conclusively, bearing all the above-mentioned in mind JJ Heitor Shoes should indeed internationalize to South Africa. It will be capable to expand and diversify its sales; reinforce its international position; increase its profits and profit margin; and think forward when viewing Africa as a future fashion powerhouse and new consumer space.

Nevertheless, since one of the strategic objectives is to internationalize to emergent markets the firm must set priorities. The fact that its strategy must be dynamic in order to prepare for the future also influences this decision. It has to well define what it wants to become (strategic intent), what it wants to achieve and how to get there. For that, the host market will be key. If it exist other markets with more potential in terms of market dimension, size and higher financial returns it should prioritize and make its decision based on exactly that. Thus, even though it should internationalize it might be the case that currently this is not the most effective option.

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[61] It was the 2013 'Best Fashion Blog' winner of the South Africa Blog Awards.

[62] p. 205. Kapferer, J. N. 2012. *The new Strategic Brand Management.* Kogan Page 5th Edition.

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