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SME COMPETITIVENESS: INTERNATIONALIZATION OF EXCEED FOOTWEAR TO TOKYO

Susana Luísa Antonino Correia #1496

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Professor Sonia Dahab

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Executive summary

Fábrica de calçado Dura is a family business producing leather footwear both for other brands and for its own brand – Exceed. Dura's strategic objectives are towards internationalization of Exceed into Asian markets to reduce the dependence on the European countries, where the macroeconomic conditions are unfavourable. Japan, the 2nd world footwear importer and the 5th footwear consumer, appears as a large potential market. Tokyo, the world richest city, with 13.2 million inhabitants, where consumers value good quality western products with distinctive details, seems to be an attractive market to the Exceed brand. Despite the cross-cultural challenges, the fierce competition and the entry barriers into Japan, exporting Exceed collections to Tokyo is a great opportunity to expand sales of the own brand in substitution of the private label, increase its profit margin and diversify risk. Once successful in Tokyo, Exceed would have enhanced opportunities in the Asian market. This thesis is a consulting project aiming to answer the question: *How should Fábrica de calçado Dura enter Tokyo with its own brand label Exceed?*

Key words: Exceed, Fábrica de calçado Dura, footwear, Tokyo, Japan, internationalization

Methodology

The first chapter of the thesis aims to present an internal analysis of Fábrica de Calçado Dura in order to assess its competitiveness. With that purpose in mind, a visit to the factory facilities, in Felgueiras, and an interview to one of the managers, Mr. Agostinho Marques were prepared. The information of this visit was complemented with a research work and additional communications with the company throughout the work development.

The second chapter of the work is devoted to the analysis of the attractiveness of the Tokyo market, in which AICEP, APICCAPS and the Nova SBE physical and online database (mainly the Passport market database) were important sources of information.

The project finishes with an implementation plan, which defines a strategy to enter with Exceed in Tokyo, analyses the financial viability of the project and makes recommendations for the future. The workshop organized by Professor Sonia Dahab provided guidance and clarifications of the implementation framework.

Communication with Dr. José Fernandes from AICEP in Tokyo (via email) was established, along with a freight forwarder operating in Japan and a Tokyo footwear fair organizer, for the purpose of cost estimation. Besides, an interview to a Japanese person living in Tokyo provided practical insights about the Tokyo footwear market.

1. SME competitiveness: Fábrica de calçado Dura (Dura)

1.1. Firm overview [1]-[7]

Founded in 1964, Fábrica de calçado Dura is a Portuguese footwear company specialized in the production of high-quality leather footwear for man. Located in Felgueiras, this family business is run by the second and third generations. See note[1] for the explanation of family business characteristics. With an output capacity of 1000 pairs of shoes per day, the company has a headcount of 118 employees oriented by core values as professionalism, dedication, rigor and commitment.

In 2013, Dura had an annual revenue of 6.8M €, a 7.9% increase relative to that of the previous year and an 11.10% CAGR (compound annual growth rate) between 2009 and 2013. There is a notable increase in the importance of international markets, which in 2009 represented 66.4% of the total sales and in 2013 already accounted for 92.9%, a 20.8% CAGR between 2009 and 2013.On the other hand, national sales are in a downward trend, having decreased by a -24.7% CAGR in the same period. [9] In 2013, Dura was awarded as SME[2] of Excellence by IAPMEI due to its quality of performance and risk profile. ANNEX I provides a more detailed analysis of financial data of Dura.

<u>Milestones of Dura</u>

- 1964 – Dura was founded
- Until the 80's – Dura produced a fixed quantity of a small variety of models, totally directed to the Portuguese market. The production quantity was forecasted based on speculative demand (push strategy).
- 80's - 90's – With the APICCAPS[3] support, the company started to attend international fairs in an attempt to reach foreign markets. The first exports markets were the British and the French.

- 90's – Today- As Portuguese demand started to fall, Dura has mainly focused on international markets, using a pull strategy (production to order). Formal procedures for quality management were implemented.
- 2011 – Dura launched its own brand (Exceed) and invested in the Dura rebranding to reinforce the two different positionings. This event reflects the maturity stage of the enterprise.

1.2. Fábrica de calçado Dura: Private label and Exceed products [1]-[7]

Fábrica de calçado Dura - Shoe Makers, at its inception was a factory that produced shoes exclusively to private label clients[4]. However, in 2011 the company decided that their accumulated knowledge and experience in hand craft shoes production would be useful to create its own brand: Exceed –Shoe Thinkers. The accumulated know-how was acquired through a knowledge creating process that combines tacit and explicit knowledge. See note[5] for the explanation of these concepts and the knowledge transmission process. The launch of the own brand was also result of investments as Exceed branding and Dura re-branding (in collaboration with a communication agency), trademark registration (in collaboration with CTCP[6]), hire a designer to develop collections, create a website and start to attend international fairs with their own collection. Those investments were financed both with the profits of Dura as a manufacturer and with European funds as through QREN and Compete.

Nowadays, 90% of the total production and 85% of total sales is allocated to private label clients, whilst the remaining 10% of the production is dedicated to own brand, which accounts for 15% of total sales. Despite the growing importance of the own brand revenues, Dura's activity is still financed by private label sales. On the other hand, the creation of an own brand is a channel to increase the overall profitability of the company as it competes on a premium segment and, additionally, gives brand identity to the product rather than just producing it, implying a certain level of vertical integration.

The private label production is totally directed to international clients, who target the medium-end segment. In this field, there are four companies with high bargaining power as they consume 70% of the total production of the factory. The involvement level of Dura in the private label shoes design, ranges from developing standard models (updated twice a year); provide advice regarding trends based on visits to international fairs; joint procurement of materials with clients; or uniquely produce the model planned by the client, which incurs higher adaptation costs, increasing the selling price.

The own brand production is directed mainly to foreign markets (80%) as Europe (Belgium, Denmark, England, France, Germany, Greece, Netherlands, Norway, Serbia, Spain, Sweden and Switzerland), Thailand and South Korea (since 2013), the national market accounts for only 20%.

Exceed competes in the high-end segment, as is defined in the following position statement: to contemporary and cosmopolitan man aged 25-50 years old who is style conscious (*target*), Exceed provides high-quality leather footwear (*frame of reference*) using differentiated materials and design with a superior handmade finishing (*points of difference*) manufactured with the accumulated know-how acquired over the last 50 years (*reasons to believe*) [11] (defined by the group of two students developing two different internationalization plans for Dura). The differentiated Exceed collections are developed by the designer João Pedro Filipe and display a more diverse set of models than private label. Exceed offer comprises two collections: Dress and Casual presented in ANNEX II – Exceed collections. Periodically, Exceed launches videos to communicate the values of the brand and to show the characteristics of the new collections released.

Exceed relies on sales representatives to sell their products to retailers in the country of destination, being for this reason a business to business (B2B). According to the characteristics of the market and the feedback received from the local intermediaries, the brand selects the models that best fit the needs and expectations of each market.

The launch of an own brand is a decision that may jeopardize the relationship of Dura with its private label customers, as they could fear that Exceed takes advantage of inside information. In fact, the factory knows in detail the collections of private label clients, namely the materials selected, the design of the product and the production processes behind it. To avoid compromising the relationship established over the years with private label clients, which represents the main source of revenue, Exceed targeted a different segment of the market, producing high-end shoes instead of medium-end and hired a designer, João Pedro

Filipe to develop a distinctive design. Moreover, Exceed launches its collection before private clients and avoids having aggressive presence in markets where important private clients are.

1.3. Mission, vision and strategic objectives

Before formulating a strategy, the first step is to bear in mind the mission and vision statements that the company pursues. Although Dura does not have a formal **mission** statement, a closer look to the company allows to define “why the organization exists, especially what it offers to its customers” [14]: *Design, test and produce men's leather footwear, using generations of accumulated craftsmanship, combined with today's modern techniques to conceive high quality hand finished exclusive shoes* (defined by the group of two students developing two different internationalization plans for Dura).

To stretch and challenge Dura, one can propose a long-term **vision**: *To be recognized as a distinctive male shoes maker that creates value, consistently providing their customers with the best high quality product and an exclusive handmade finishing, being a reference in international markets. They intend to stand out as an innovative company able to respond to the most challenging request.* In the short-run, Dura is more focused on its own brand, thus the proposed short-term vision is: *to be present with Exceed in three new Asian countries by 2020* (defined by the group of two students developing two different internationalization plans for Dura).

The company translated its ambitions in the following **strategic objectives**: i) increase the own brand production to 20% of the total production within 5 years; ii) reduce the dependence on private label clients; iii) retain and engage new clients in international markets; iv) develop market studies to prepare future international expansion to Asian countries.

1.4. Industry mapping

The industry map refers to the enterprises, organizations or public entities that hold important relationships with Dura. One important group are the **main suppliers**, who account for the most expensive inputs in the production process: leather suppliers, mainly Italian but also Portuguese, and soles suppliers, mainly a local company belonging to the footwear cluster –

Solart that customizes the soles of Dura - but also Italian companies. In general, suppliers of the remaining inputs are Portuguese and Italian, with exception to the lining suppliers who are from Taiwan. Dura has stablished long relationships with suppliers, some of them for more than 10 years, who usually come to the factory to show their products or, more recently, display their products in specialized fairs. Regarding **services**, Dura outsources non-core activities as accounting and distribution (performed by Chronopost and Fedex). **Clients** are another group composed by: private label clients (i.e. international brands) and Exceed clients (i.e. shoes and apparel stores, department stores and the online store that Exceed has partnership with - “The feeting room”). Note that as Dura is part of the geographically concentrated footwear cluster, it increases its chances of attracting private label clients when they visit Portugal to select a production supplier.

In what concerns to **partnerships**, as other companies belonging to the cluster, Dura is supported by the organizations involved in the cluster. For example, APICCAPS developed international communication campaigns that increase the visibility of Dura in international markets as a Portuguese footwear company. Besides, the company received monetary incentives from APICCAPS to participate in international fairs. CTCP carried out laboratory tests regarding the chemical components of leather used, the gluing durability and the designed models ergonomics. Moreover, Dura received counselling on its marketing plan, logistics and warehouse management, factory layout planning to promote efficiency and support to register the brand in international markets. AICEP[7] provided market information, sectorial statistics and contacts of possible international partners. In fact, AICEP and IAPMEI, play an important role as they are the entities in charge for assessing the needs of Portuguese SME of different industries and allocate European funds through QREN and Compete to companies and industry’s organizations. While Dura can apply for funds to support its internationalization, APICCAPS also receives funds to support the cluster’s companies investing in the strategic objectives/priorities of the industry. The development of Exceed brand and its internationalization has been financed by QREN and Compete, along with the company’s activity profits. ANNEX III provides a description of the Portuguese footwear cluster: the business model progress, main organizations involved and the cluster networks.

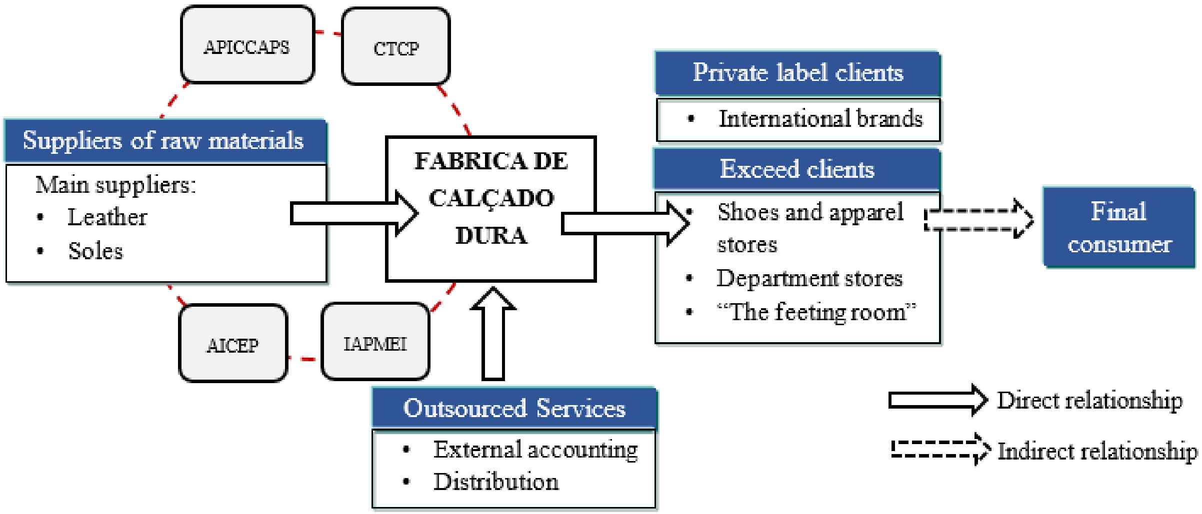


Figure 1: Industry map

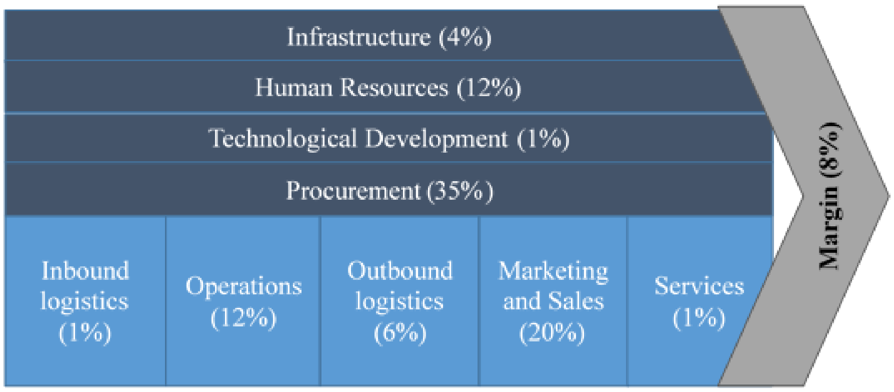
1.5. Value chain of Dura

According to M. Porter, "The value chain disaggregates a firm into its strategically relevant activities in order to understand the behaviour of costs and the existing sources of differentiation" [25]. Dura intends to stand out by its differentiated offer achieved through a focus on its **core business:** the **procurement** and the **operations**.

The value chain is divided into support activities and primary activities. Regarding **support activities**, the **firm infrastructure** (4% of the total revenue) is organized in five departments that support the general management: modulation and design, production management, maintenance, commercial & marketing and external accounting (an outsourced activity as it is not core in the business). Although it is a family business, the management and support team is composed by different departments, each specialized on a subject, a factor that contributes to the professionalization of Dura. The **human resources** (12% of the total revenue) is especially important in the business as employees are the vehicle of transmission of accumulated know-how, acquired over the years, which potentiates the continuous improvement. Shoes manufacturing is a labour intensive activity, thus the relatively high expense in this field[8].The **technology development** of Dura (1% of total revenue) follows the pace of the footwear industry, mainly supported by CTCP. Despite not providing a differentiator factor, the equipment is an imperative for the operations and its maintenance is considered critical to sustain the quality standards and the flexible production capacity. The **procurement** activity (35% of total revenue) is responsible for the highest cost share. This activity includes visiting materials fairs, in order to learn the latest options in the market and, thereby be able to respond to the private label requests and use differentiated materials in Exceed products.

Regarding **primary activities**, **inbound logistics** (1% of total revenue) the focus is cost savings as the inputs are acquired according to the orders, reducing the inventory to minimal levels and decreasing the working capital requirements. **Operations** (12% of total revenue) refers to the production process (exclusively to order) that starts with the design, followed by the regular production process[9]. The hand finishing and the quality assurance[10] are two phases that contribute to the product differentiation. The production cost of a pair of shoes of Exceed ranges from 45€ to 50€, being sold at 150-250€ to the final client. The production cost of the private label ranges from 35€ to 40€, the retailing price is controlled by its own brand. The **outbound logistics** (6% of total revenue) is also cost saving oriented as the factory does not produce to stock, saving warehousing costs and eliminating the risk of unsold finished goods. The transportation is an outsourced service for Exceed products (Delivered duty paid[11]) or responsibility of the client for private label products (Ex-works[12]). **Sales and marketing** (20% of the total revenue) is an important function mainly when a company intends to stand out as providing a differentiated product. Despite having an internal marketing department, the company hires specialized counselling and technical assistance for major campaigns or branding actions[13]. Regarding sales, the department is responsible for the attendance of international fairs and to maintain and attract new clients. Besides, there are sales representatives in the markets where Exceed sells its products. Dura provides a guarantee **service** (1% of total revenue) with a return policy or issuance of credit notes in case of defective products. Finally, the **weighted average gross margin** is 8%, the gross profit margin for the private label production is 7%, whereas for exceed products it is 15% (see calculations in note[14]). While the profit margin of Exceed is almost double that of private label production, the sales volume is substantially lower.

By analysing the value chain of Dura one can conclude that activities aligned with the core business are oriented towards differentiation, while the remaining are focused on cost saving. With this approach, Dura, especially through Exceed's offer, is able to provide a high quality product composed by differentiated materials and with a careful hand finishing at a reasonable price-quality ratio. From the created value, 8% is captured (profit margin).



Source: primary

Figure 2: Value chain

1.6. Competitive advantage of Fábrica de calçado Dura: VRINO framework [29]

The resource base view "emphasizes the uniqueness of each company and suggests that the key to profitability is (…) exploiting differences." [30]. From the VRINO framework applied to Dura one can conclude that, as with other companies in the cluster, Dura possesses valuable resources as **flexible production management**, **procurement process**, **design capability**, **accumulated know-how** and **customer retention**. However, they are not rare among competitors as it is possible to build them with modest investments or they are accessible through business procedures and competitors might use them in a similar way. In fact, many competitors possess these competences, for that reason they are **sources of comparative parity**.

The **human resources management** and the **registered trademark** are valuable and rare. The first is a result of long-term actions related to the personal relationship between managers and employees and the company's culture and values; the second involves major investments in terms of time and money which constitutes a barrier. As they are not common among competitors, they are **source of temporary competitive advantage**. These resources are not inimitable as other companies might have other human resources management strategies to achieve similar results and the trademark registration is available in the market for any company willing to invest in protecting its intellectual property.

Whereas the sustainable competitive advantage allows a company to capture abnormal returns, the competitive positioning of Dura is translated into normal returns, the necessary condition to operate in the national and the international market. ANNEX V - VRINO framework presents a brief description and a full analysis of each of the mentioned resources.

2. The internationalization process to Tokyo, Japan

2.1. Country selection

The internationalization plan will be devoted to Exceed brand, in accordance with the Dura's strategic objectives, mainly because it is the own brand that allows Dura to capture a higher profit margin. As stated in Dura's short-term vision, Exceed aims to enter into Asian markets. The brand is already present in several European countries, where the economic conditions are unfavourable and the competition is fierce, therefore it is no longer an attractive market to enter. In contrast, the Asian continent is a promising growing market, as it is the most populous continent and has the second largest GDP of all continents (after Europe). The city of Tokyo, in Japan, was the selected market by the company, whose PESTEL conditions will be analysed in the next section.

Although the population has been shrinking since 2008, Japan is still one of the most populous countries in the world with 127.3 million inhabitants [32], [33]. Japanese sophisticated consumers have one of the highest purchasing powers, being the country with third largest economy in the world, after US and China [34]. In 2013, Japan had a GDP of 4 920B USD (4 083B €) [35]. However, it is worth to highlight two important episodes that had a strong impact in the country's economy: i) the economic recession between 2008 and 2009 and ii) the Great East Japan earthquake and tsunami in 2011. Since then, the economy has been consistently growing. According to the World Bank, GDP is expected to grow at a 1.3% rate in 2014 and 2015 and at a 1.5% rate in 2016 [35].

Tokyo is very dense in population, about 13.2 million (2013), not including the 2.5 million people who commute to work in this city [36]. Tokyo, the largest metropolitan area in the entire world and the Japanese financial capital, is the richest city in the world with a total GDP of 1 520B USD (1 289B €) [37].

The country is an attractive market for footwear companies because it is the 5th largest world footwear consumer and the 2nd world importer. Japan imports quantities equivalent to 88.9% of its consumption, representing a market of 599 million pairs of shoes and 5 592M USD (4 521M €). [18] In 2012, Japan was the 10th leather footwear importer, representing 2.8% of the world share (in value). Portugal was the 10th supplier and the 3rd European supplier of leather footwear in Japan, with a 1.9% of market share. In turn, Japan was the 15th client of leather footwear for Portugal (0.7% of leather exports in value). [38] These facts confirm that there is room to expand the Portuguese leather footwear presence in the Japanese market. Given that Italy is the 2nd world importer in Japan, it is logical to consider that this market appreciates European products, which reinforces the chances of success of footwear Portuguese companies in Japan. According to AICEP, on average, Japan imports leather footwear at 33€/pair. The Portuguese leather footwear is the 4th more expensive at 51€/pair, after Italy, Spain and USA [38]. Please see ANNEX VI for a summary of the Japanese footwear industry.

To conclude, Tokyo has a potential market size of approximately 878 000 people, i.e. 6.7% of the Tokyo population are estimated to be male between 25-50 years in the upper and upper-middle class (data of 2010) [39], [40]. Calculations made are explained in note[15]. However, one has to bear in mind that besides the gender, age and income level factors, a footwear purchase is a decision dependent on personal preferences.

2.2. Market attractiveness: PESTEL analysis [41]

The PESTEL analysis provides information of the Japanese macroeconomic situation relevant to access the nation’s business environment, the market attractiveness and to select the most suitable strategies to bring the Exceed brand to Tokyo.

Political aspects: Japan is not marked by corruption episodes and incidents of bribery are uncommon, being the 18th country (out of 177) in Transparency International’s Corruption Perceptions Index 2013 [42]. Regarding trading agreements, in 2008, Japan signed an Economic Partnership agreement with ASEAN[16] that provides free trade and eliminates taxes on leather shoes imported from those countries. This agreement might explain that 36.7% of the total amount of leather footwear imported by Japan came from those countries in 2012 [38]. Portugal and Japan entered into a convention for the avoidance of double taxation and prevention of fiscal evasion [43], which can promote the trade between the two countries.

Economic aspects: Classified as a high income country by OECD, the country has a relatively equal income distribution (Gini index of 0.34 in 2009) [44]. Japan is known as a middle-class nation, though it has worsened mainly since the economic downturn and the consequent deteriorating employment conditions[17].

The Japanese private consumption increased by 1.9% in 2013 and is expected to grow at a slower pace of 0.4%, 0.6% and 0.7% in 2014, 2015 and 2016, respectively, owing in part to the consumption tax increase from 5% to 8% in April 2014 [46]. On average, Japanese people employ 60.9% of their income on discretionary goods, however spending patterns vary significantly with the decile of the population. In fact, decile 10 of the population accounts for 23.8% of the total clothing and footwear spending, whereas decile 1 spending on this category was negligible [47].

It is important to mention that, relative to the Euro, JPY has devalued recently and its exchange rate has been very volatile [48]. This currency movement does not favor the Portuguese exports to Japan.

Social aspects: Japanese people are characterized by its introversion, seriousness, perfectionism, timeliness and collective interest. Aspects that can be observed in a business environment: decisions are cautiously made after reaching a consensus, there is true commitment towards the agreed conditions and a total respect for the payment policy [49]. See note[18] for critical aspects when dealing with Japanese business partners.

Japanese sophisticated consumers, increasingly more westernized, have great appetite for foreign goods and expect high quality and zero-defect products in their purchases, even on middle-low end goods [41], [46]. Moreover, Japanese consumers are characterized by *kodawari* meaning being obsessed with the details [50]. The term *ikemen* meaning good-looking-man became very popular because Japanese male have a special care with beauty, fashion and grooming. [51]

Traditionally, Japanese people wore *geta* - wooden clogs and *zori* - sandals made from rice straw or lacquered wood. Since the Second World War, Japan has been replacing their traditional shoes to the western style ones, however the ritual of removing one's shoes when entering someone's home was maintained [52]. This aspect of the Japanese culture induces people to prefer easy to wear shoes. Besides, Japanese people used to have shorter and wider feet, reason why most manufacturers bring out smaller shoes (up to 28cm for man). Foreigners and young people, who mostly have bigger feet, find poor variety and quantity on their sizes in common stores because retailers do not want to stock bigger sizes shoes [53].

Japan and Portugal established an historical relationship that had a strong influence in the Japanese culture. Nowadays, footwear "made in Portugal" is renowned by its quality, since Portuguese made shoes were sold in Japan through international brands over the last decade.

In footwear consumer spending three movements are observed: i) upper and upper-middle class privileging design, quality and fashion trends and appreciating avant-garde and innovative design, as well as, colors in footwear ii) young people prefer fashionable footwear at affordable prices iii) comfort footwear, a niche market that emerged with the aging population [38]. Due to the wet climate and the quite variable temperatures[19], Japanese people tend to value the impermeability of shoes during the rainy seasons and prefer sandals on the summer peak, along with breathable shoes.

Technological aspects: Japanese people have a strong tradition in technological innovation. By being the world leader in footwear technology [16], Portuguese footwear might appeal Japanese consumers. Besides, there is a growing potential of e-commerce and online marketing in Japan. According to the AT Kearney study about online retail (2013), Japan had the second highest online market attractiveness score in the world[20]. With 100 million internet users, 75 million online buyers and 52B USD (42B €) in online sales, the online retail market is expected to reach 80B USD (64.7B €) by 2018 [55]. In 2013, footwear internet retailing in Japan already accounted for 8.2% of total sales [56].

Environmental aspects: Japan entered into the CITES convention that aims to preclude the trade of endangered species in the member's territory, requiring exporters a special authorization [57]. Concerned about the high energy consumption of the country, the

Ministry of the Environment launched the Cool Biz campaign that encourages business casual outfit in the office to reduce the usage of air conditioning in summer. As a consequence, demand for casual footwear is increasing among male business workers [56].

Legal aspects: In "Doing business" 2014, Japan performed well, ranking at 27th out of 189 countries, whereas in "Starting a business" the country is not well positioned (120th), due to the number of procedures, time taken and costs involved [42]. Regarding leather shoes, the Japanese government protects the national production through a variable quota system (Pooled Quota). For leather footwear the applicable tax is 24% [58].

2.3. Industry analysis: Porter's 5 forces of the Japanese footwear market

In order to better understand the rivalry dynamics that will determine the attractiveness and profitability of the footwear industry in Japan, a 5 forces analysis was conducted, in which the central position is occupied by footwear companies trading in Japan, whose suppliers are input providers and buyers are retailers, responsible for selling the product to the final client.

As is going to be analyzed in the modes of entry section, the most suitable entry mode to Exceed in Tokyo is exporting, meaning that the production process will occur in Portugal with the current suppliers. As no suppliers change will occur, **suppliers' power have no influence** on the Exceed entry in Tokyo.

The **buyers** group is composed by four main categories: clothing, footwear and sportswear stores (59.6% of footwear traded in Japan in 2013), department stores (20.4%), internet retailing (8.2%) and hypermarket, supermarket and discounters (7.5%) [56]. While powerful international brands have enough reputation and dimension to establish their own store, smaller brands depend totally on retailers to place their products in the market. In general, stores acquire products from different categories and brands to build a bulk that matches the store's identity and potentiates the store's revenues. As there is a large number of possible brands involved, stores have relatively strong bargaining power, which allows them to negotiate good profit margins. The backward integration was confirmed to be possible by ABC-MART, a major retailer that has been developing their private label products (producer of Nuovo) and holds trademarks rights of other brands (importer of Vans and Hawkins) [56]. In general, the bargaining power of buyers (stores) is **strong**.

The footwear product category itself is difficult to **substitute**, however the footwear market is occupied by different product concepts which can substitute each other. In general, shoes can be easily compared as they are displayed in the same physical or online store. Conversely, once customers are satisfied with a brand, their propensity to change is diminished because durability and comfort are difficult aspects to evaluate at the time of purchase. Low differentiated products, predominated by budget prices are easily substitutable within its product category as they satisfy the same basic need. However, the differentiated approach of each brand toward a specific consumers' need may contribute to reduce the product substitution, [59] as is the case of Exceed that is *specialized in male high quality leather footwear with contemporary and cosmopolitan design and materials for casual and business occasions*. However, there are western companies presented in ANNEX VII providing similar products to Exceed in Tokyo. The substitution force is **moderate-high**, implying less sustainable selling prices.

The **threat of new entrants** is **moderate.** As footwear companies are moving towards non-European markets with a large pool of consumers with high purchasing power, it is expected that new footwear companies arise in Japan. Capital expenditures necessary to settle a footwear company are low, mainly if the manufacturing is outsourced, and regulatory requirements are easy to obtain. However, entry barriers as high tariffs on footwear imports (24%) may deter non-ASEAN companies to export to Japan[21].

The **intense rivalry** existing in the footwear market drives down prices (price competition) or elevates the costs of innovation, design and marketing (differentiation competition). In fact, the industry is generally characterized by **low profit margins** driven by labor intensive processes and strong retailer bargaining power. As Exceed bets on a high-end product, targeting less price sensitive customers, it might benefit from relatively higher profit margin.

The footwear market in Japan is fairly fragmented. International and Japanese sports brands as Adidas (9%), Mizuno (5.9%), Nike (5.3%), Asics (5.2%) and Puma (2.4%) takes the lead, while Clarks, a medium-end international brand, achieved a 2.4% market share and renowned luxury international as Tod's (1%), Salvatore Ferragamo (0.6%), Louis Vuitton (0.4%), Burberry (0.1%) and Marc Jacobs (0.1%) achieved important proportions of the market. Finally, 39.5% of the footwear market share is allocated to smaller Japanese and international brands with residual market shares. [56] High-end shoes focused on differentiation rather than a brand tag would belong to this last fragmented group of the market, providing room for SME with less brand awareness and with low output as Exceed to succeed.

In 2013, the Japanese male market represented 36.6% of the footwear volume and 43.6% of the footwear value, corresponding to 4 476M USD (3 619M €) [56]. In the period between 2008 and 2013, the men's footwear market in Japan decreased in value by -1% CAGR and between 2013 and 2018 is expected to grow in value by 0.2% CAGR, reaching the value of 4 517M USD (3 652M €) [56]. Despite of the expectation for industry growth being limited, the Japanese footwear industry has **moderate attractiveness for new entrants producing differentiated products** as Exceed. The biggest challenge when entering in the Tokyo footwear market is to build brand awareness and get shelf space at a reasonable price. For the future, the online retailing is expected to undergo dynamic evolution, which might contribute to a decrease of the retailers' bargaining power.

2.4. Exceed in Tokyo, Japan: SWOT and TOWS analysis

Having analysed the resources of Dura and the Footwear market in Japan, one has the necessary conditions to analyse the strengths and weaknesses of Exceed in Tokyo (SWOT) and establish priority strategies to successfully enter in this market (TOWS).

Table 1: SWOT analysis	
Strengths	**Weaknesses**
S1- Differentiated offer: high quality leather footwear; design; variety of colors and materials **S2- Production flexibility** allows to accept small orders to test market acceptance **S3- In-house manufacture**: control over production timings and quality **S4- Good price-quality ratio** of Exceed shoes compared to luxury brands **S5- Belong to the Portuguese footwear cluster**: internationalization support, information spillover **S6- Outward oriented company** with experience in demanding foreign markets **S7- Willingness to invest in Asian markets** (strategic objectives and vision) and **easiness to pronounce** "Exceed" in Japanese[22] **S8- Presence of Exceed in South Korea** may provide useful insights about the Asian culture **S9- Exceed website in English**: impact on visibility	**W1- Product similarity** compared to other European and North American brands (Italy, France, Spain, UK, USA) **W2- Low level of brand awareness** of Exceed in international markets **W3- Difficulty in developing marketing initiatives** in the target market (limited market knowledge and physical distance) **W4- Production at capacity** **W5- Lack of scale economies** **W6- Unregistered models** permit copiers **W7- Weak R&D activity** in what concerns technological innovation **W8- High price comparing to the average leather footwear price in Japan** of 85€ [38] **W9- Non-existent on-line sales platform** for international markets
Opportunities	**Threats**
O1- Japan is a populous country: 127.3 million inhabitants and is the **second richest world economy** **O2- Tokyo is the world richest city with a large population** of 13.2 million **O3- Economic recovery** **O4**- Japanese are demanding consumers, gradually more **westernized** (receptive to foreign products) **O5**- Japanese male value **grooming and fashion and crave for novelties** **O6**- Knowledge about Portugal due to the **historical relationship**. Japanese people associate "Made in Portugal" footwear with high quality **O7- Tokyo fairs** specialized in fashion and footwear [70] **O8**- Pervasive **internet access and internet retailing** is a growing channel that already accounts for 8.2% of the footwear sales **O9**- Demand for **western accessible luxury** **O10- Portugal is leader in footwear innovation**	**T1- Contracted consumption** due to increased VAT **T2- Shrinking market**: decreasing number of inhabitants and population aging **T3- Leather footwear is a relatively small market** in Japan: 8% of imports in 2013 [18] **T4- Male footwear market stagnation**: - 1% CAGR (2008-2013) and forecasted 0.2% CAGR (2013-2018), in value [56] **T5- Portugal is not renowned by its** footwear **design capability** in Japan **T6- Difficulty in conquering shelf space in Tokyo** due to the high bargaining power of stores **T7- Fierce competition** **T8- Proximity to China**, the world leader producer that in 2012 were responsible for 21.5% of Japanese footwear leather imports [38]

Table 2: TOWS initiatives	
Boost External Opportunities using Strengths	**Minimize Weaknesses using External Opportunities**
Attendance of Tokyo Fashion fairs is a great opportunity to communicate Exceed orientation toward traditional craftsmanship, quality, design and the avant-garde fashion concept. Besides, buyers can order small quantities to test the market acceptance. **(S1&2&3|O4&5&7)** **Maintain a reasonable price-quality ratio** in comparison to other international luxury rivals because Japanese consumers look for affordable brands with good style. [71] **(S4|O9)** **Translate the Exceed website to Japanese**[23]. Exceed website must focus on: i) the 50 years of history and the familiar character of Dura that might appeal the spirit of craftsmanship and tradition of Japanese consumers [50] and ii) on the logo, product's distinctive design and materials as Japanese consumers appreciate details. **(S9|O8)**	**Product placement near European and American competitors** to reinforce the brand positioning. The historical relationship with Portugal might give preference to Portuguese products. **(W2|O6)** **Target business people more price insensitive** that value quality and fashion exclusive products **and people interested in arts**: architects, designers and manga, anime, cosplay culture[24]. **(W8|O1&2&3)** **To develop breathable shoes with waterproof leather and soles** with the support of CTCP, taking advantage of the Portuguese leadership in footwear technology. **(W7|O10)** In Tokyo Fashion fairs, **establish contacts with local intermediaries** who are better positioned to develop promotion and marketing initiatives in Tokyo, on behalf of Exceed. **(W3|O7)** **Establish contracts with online retailers in Japan** to sell its shoes **(W9|O8)**
Mitigate External Threats using Strengths	**Minimize the impact of Weaknesses and External Threats**
Upon sales outcome, consider the entry in other Asian cities. Japan, mainly Tokyo, is a fashion reference among Asian countries. [41] **(S7&8|T3&4)** **Adequate the products to the needs and preferences of the Japanese market,** taking full advantage of the accumulated know-how and experience in demanding markets. For example, select slip-on shoes or with zippers or elastic bands due to its easiness to wear, brown and light colors to fit with the casual cool biz outfits. (**S6&8|T7)** **Take benefit of the learnings achieved by other footwear companies in the cluster** that entered in the Tokyo market, through APICCAPS. **(S5|T6)**	**Take advantage of European connotation** of high quality and design footwear. Reinforce the "made in Europe" production. **(W1|T5)** **Progressive replacement of private label to Exceed production** (higher profit margin) **and focus on selling footwear to a representative population group:** men between 25-50 years old with a middle-high/high income level. **(W4&5|T1&2)** **Require AICEP in Tokyo support to establish relationships** with local intermediaries of other European footwear brands. **(W1|T6)** **To be proactive in launching collections** with new distinctive elements, if possible including advanced technology, to difficult copies by Chinese and other rivals. **(W6|T8)**

2.5. Analysis of the mode of entry

There are several modes of entry that Dura could adopt to operate with Exceed in Tokyo, including Exporting, Contractual Agreements, such as licensing or franchising and Foreign Direct Investment (FDI), such as joint venturing, acquiring an existing company or establishing a wholly-owned Greenfield investment from scratch [73], [74]. The entry mode chosen will determine the level of resource commitment, the risks it will bear in the host country, and the control over its foreign operations [74]. The risk increases progressively from the exports to contractual forms and to the FDI.

Dura as a SME has limited resources, thus is not suited to stablish facilities in the host country (FDI). Moreover, being a family-owned company, it could be less willing to share control with a partner through a joint venture [74]. For these reasons **FDI** does not seem to fit the Dura's global strategy.

Dura has a family culture that enables the rapid information flow and potentiates responsiveness toward the dynamic market. Besides, its in-house production allows control over quality and intellectual property. For those reasons, and due to the low brand awareness of Exceed, **contractual agreements** are not either adequate.

Exporting, an entry mode that requires little capital investment, which enables Exceed to enter gradually in the foreign market, avoid risks of international operations and restrictions on foreign investment [73], seems to be the most suitable choice. However, exporting has pitfalls as market trade barriers (in the case of footwear, tariffs of 24%) and high transportation costs [73]. Nevertheless, when a company enters a new market it tends to be more concerned with minimizing risks, which reinforces the selection of exporting for Exceed. Besides, this mode of entry is a powerful learning process to subsequently, adopt more sophisticated and risky modes of internationalization [75]. Exporting can take the indirect and direct form and the direct selling/own exports [75].

Indirect exporting occurs when products are sold to an intermediary in the home market, an export management or a trading company, which then exports them through foreign agents. Intermediaries often work under a contract, and can establish relationships with agents in the foreign country to generate orders. They might also be in charge for monitoring marketing, sales outcomes, packaging, distribution and payment issues [76], [77]. Usually intermediaries work in a commission basis, requiring a higher payment compared to direct exporting [76].

Indirect exporting involves reduced resource commitment and risk, and might give access to the most adequate foreign agents. However, the company remains highly dependent on the intermediary decisions and does not have control over the marketing, sales and distribution nor receives feedback from the intermediary in the host market, which exposes it to risks and prevents it from learning about the market dynamics. This entry mode is, in most cases, a transition phase more suitable for firms new to exporting [76] (due to easy initial penetration), which is not the case of Dura that is already present with Exceed in 14 international markets.

Direct exporting takes place when the company sells its products directly to a host market intermediary, such as a sales representative, distributor or retailer, responsible for selling the product in the foreign market [76], [77]. Given intermediaries are local, they have a profound knowledge about the modes of doing business, the language, the cross-culture issues and the adequate institutional relationships. Besides, they hold information about the customer's preferences, the most appropriate retailers to sell each product and, eventually have prior contacts or know tactics to reach retailers. The main disadvantage of this mode of entry is the limited experimental knowledge about the market, and lack of control over the customer management as the communication with the local client is done through an intermediary.

<u>Sales representatives</u> act as an extension of the company in the host market, being responsible for raising orders, using samples or catalogues to present the product to potential buyers, and collecting payments, for the contracted period [75]. This way, the company is provided with a customized selling service adapted to the market characteristics. As the company controls the selling price, it incurs reduced risks. Working on a commission basis, sales representatives have increased incentives to sell. In fact, this is the entry mode adopted by Exceed in foreign markets. However, according to Dr. José Fernandes from AICEP Tokyo, this mode of entry is not commonly used in the Japanese footwear market, thus not recommending this option.

<u>Distributers</u> order and take ownership of a set of products to resell them to retailers for a profit [78]. Establishing longer and straighter relationships with exporters than sales

representatives, these intermediaries require higher discounts than the commissions paid to sales representatives as they are in charge for the marketing, after-sales service, logistics and transportation [75]. In pursuing a risk avoidance strategy, distributers select the most attractive products for the market in question, with a low probability of not being sold. In opposition to sales representatives, distributers work with a demand-driven method, which allows the company to gradually understand the customers' preferences. Once the products are purchased, the distributers are highly committed to sell them because otherwise they would have to incur the expense, which contributes to a greater sales volume and a rapid sales expansion.

The main disadvantage of this method is the dependence on the distributer and on its individual network. In fact, stores became loyal to distributers, rather than to the brand itself, which, in case the company decides to change distributers, might imply not being represented in stores with proven success for Exceed. Another pitfall of this entry mode is the fact that the distributer has the power to adjust the price at his convenience, risking to damage the western accessible luxury Exceed positioning.

Direct selling to physical retailers is not a wise approach due to the mentioned high bargaining power of stores, the low brand awareness of Exceed and the cultural differences with impacts on the modes of doing business. For those reasons, it is not an usual entry mode among small foreign footwear brands. However, retailers can be cumulatively importers and producers of their own labels, a situation common in Japan. In contrast, online retailers are a promising and a growing opportunity to expand sales. On the one hand, a contract with an online retailer platform would have the great advantage of reducing the number of intermediaries involved, not requiring major initial investments and allowing Exceed to display a more diverse variety of models and supply the young customers who are "outsized" in the Japanese stores. On the other hand, when purchasing online, customers expect a rapid delivery, in which the distance between Japan and Portugal is a barrier. While the maritime transportation is more time consuming, having consequences on the delivery time lag, the air transportation is more expensive, increasing the merchandise price. Besides, as clients buy individually rather than in bulk, the unit production and transportation cost would increase. Moreover, selling online has the disadvantage of not allowing customers to try the shoes, even more important as the numeration method in Japan is different. This mode of entry is not considered adequate because initially the brand awareness would be low and consumers would not know the product characteristics to generate orders with reasonable quantities.

All in all, direct exporting provides the seller more control over the process and a closer relationship to the overseas marketplace [75]. This approach is most advisable for regular exports, as is the case of Exceed, and requires the company to devote more resources to select a reliable partner and organize the distribution channels and the bureaucratic paperwork.

From the analysis of the possible entry modes and, taking into account the Japanese market *modus operandi* and the Exceed's global strategy, one recommend the direct exporting through distributers.

The main challenge and also the key success factor in entering the Tokyo market is the selection of an adequate local partner. From the list of footwear distributers in Tokyo provided by AICEP, one selected the intermediaries whose scope is aligned with the Exceed's concept: European high-end footwear. Barneys New York and United Arrows are examples of retailers who, are simultaneously producers and importers that could be willing to acquire Exceed collection. Euro Pacific Japan, GMT, Okuni Japan and The world Co are examples of potential importers which already work with European footwear brands. ANNEX VIII – Recommended Japanese partners: importers summarizes the recommended local intermediaries. However, before any decision the company must contact AICEP in Tokyo and Luso-Japanese chamber of commerce to require references of the professionalism, reliability and performance of potential local intermediaries. Besides the company must attend fashion and footwear related Tokyo fairs to engage in direct contacts. Japanese distributers would be in charge for placing Exceed shoes in department stores and multi-brand stores (both apparel and footwear) focused on premium products, in the international fashion shopping areas of Tokyo presented in ANNEX IX.

3. Implementation Plan

3.1. Four M'S framework: Memo, Minute, Money, Man

By internationalizing to Tokyo, Exceed would have the opportunity to expand sales. In that sense, the company would have to invest intellectual, financial, time and human resources to enter the new market and adapt to its specificities. Due to the limited experience of Exceed among Asian markets, one suggests reduced resource commitment until a successful experimental period.

The implementation plan based on the TOWS initiatives has 4 main objectives: i) Exceed sales in Japan represent more than 10% of Exceed sales by 2021; ii) select at least 3 reliable distributors and be present in 5 department stores and 8 multi-brand stores in Tokyo within the first two years of exporting; iii) sell 1000 pairs of shoes/year in Tokyo in the first year and increase sales by 15%, 15%, 10%, 5% and 0% in the following 5 years of exporting; iv) achieve a positive accumulated FCF within 4 years; v) test the success in the Tokyo market before increasing the company's resource commitment and expand to other Asian markets.

The operational plan is analysed under the 4 M's model (Memo, Minute, Money, Man).

Memo: In the assessment phase Dura must focus on analysing market information and doing a prospective visit to Tokyo. With the support of AICEP in Tokyo, Luso-Japanese chamber of commerce and Japan Leather and Leather Goods Industries Association (JLIA- See explanation on note[25]), the company is well positioned to decide whether Tokyo is an attractive market to export Exceed products. If so, in the preparation phase, Dura would have to register the Exceed brand in Japan, obtain export documentation, organize the transportation process and create a Japanese version of its website. Besides, it would be critical to attend fashion fairs as the Tokyo shoes expo (see fair description on note[26]) to display its products and recruit distributers. The partner selection is a key success factor when entering a new market, being recommendable to carry out due diligence of possible partners. It is recommended to sign contracts with distributers under FOB incoterms (explanation on note[27]) and letter of credit payment policy (explanation on note[28]), as well as negotiating their marketing responsibilities. Finally, Exceed shoes can be exported to Japan through distributers (exporting phase). Dura must establish long-term relationships with distributers based on ongoing communication and continuous monitoring and periodically attend fashion fairs. Five years after start exporting a business plan review is recommendable. ANNEX X presents a more detailed description of the mentioned tasks. A KPI plan was developed to assess financial, customer, internal and learning objectives:

Table 3: Key Performance Indicators				
	Objectives	**Measurement**	**Target**	**Initiative**
Financial	- Increase the share of Exceed sales in Japan (diversify risk)	- Weight of Japanese market in Exceed sales	>= 10%	- Establish relationships with local distributors in charge of selling Exceed shoes - Contracts with distributors that respect the Exceed pricing strategy -Exceed mark-up (30%)
	- Increase the sales volume in the first years of exporting (start by selling 1000 pairs/year)	- Sales growth	15%, 15%, 10%, 5%, 0% in year 1 to 5 after start exporting	
	- Improve Exceed profitability	- Gross profit margin per pair of shoes	> 15%	
Customer	- Japanese retailers satisfaction	- Satisfaction survey (carried out by distributors)	70% satisfaction rating	- Maintain the high quality standards; reinforce quality inspection (zero-defect) - Select the most adequate shoes to the market according to the demand, with the support of distributors - Japanese version of Exceed website - Negotiate with distributers: to place products in various and suitable stores; to develop marketing campaigns (increase brand awareness); product placement near other European and American brands (similar positioning); to apply reasonable mark-ups (western accessible luxury positioning) - Keep innovating in each new collection with special attention to details
	- Brand awareness in Tokyo	- % of man aged 25-50 living in Tokyo who recognize the logo (monitored by distributers)	10% recognition rate (after 4 years in Tokyo)	
	- Product perception: high-quality reasonable price; similarity with other Western brands focused on quality and design	- % of respondents who associate the brand with its characteristics (monitored by distributers)	Design: 80% Innovation: 70% High quality: 70% Good value for money: 60%	
Internal	- Establishment of local partnerships with distributors	- Nr. of contracts with local distributors	> 3 distributers after 2 years in Tokyo	-Visit Tokyo: communicate with footwear associations (JLIA), attend fashion fairs (Tokyo shoes expo) and meet with local partners -Contact AICEP and Luso-Japanese chamber of commerce to obtain references of local partners - Manage the production mix (weight of private label and own label) to use the full capacity and allocate an increasing proportion to Exceed production - Ongoing communication with distributers (periodic reports and contacts) - Keep updated with the downstream processes
	- Distributors loyalty and monitoring	- Nr. of repeated purchases of distributers - Nr. of department stores where Exceed shoes are sold - Retailer average price	>= 3 consecutive collections 5 department stores and 8 multi-brand stores after 2 years in Tokyo <400€	
Learning	- Learn about the market specificities (way of doing business, legal framework) - Knowledge of Japanese Customers	-------------------------	----------------------	- Contact AICEP and Luso-Japan chamber of commerce to obtain market information and statistics - Contact with APICCAPS and CTCP to know about their learnings of the Tokyo market -Visit Tokyo: observe the consumer behaviour in the shopping areas - Learn from the distributers feedback

Minute: The time allocation for the analysed period (2014-2021) is summarized below:

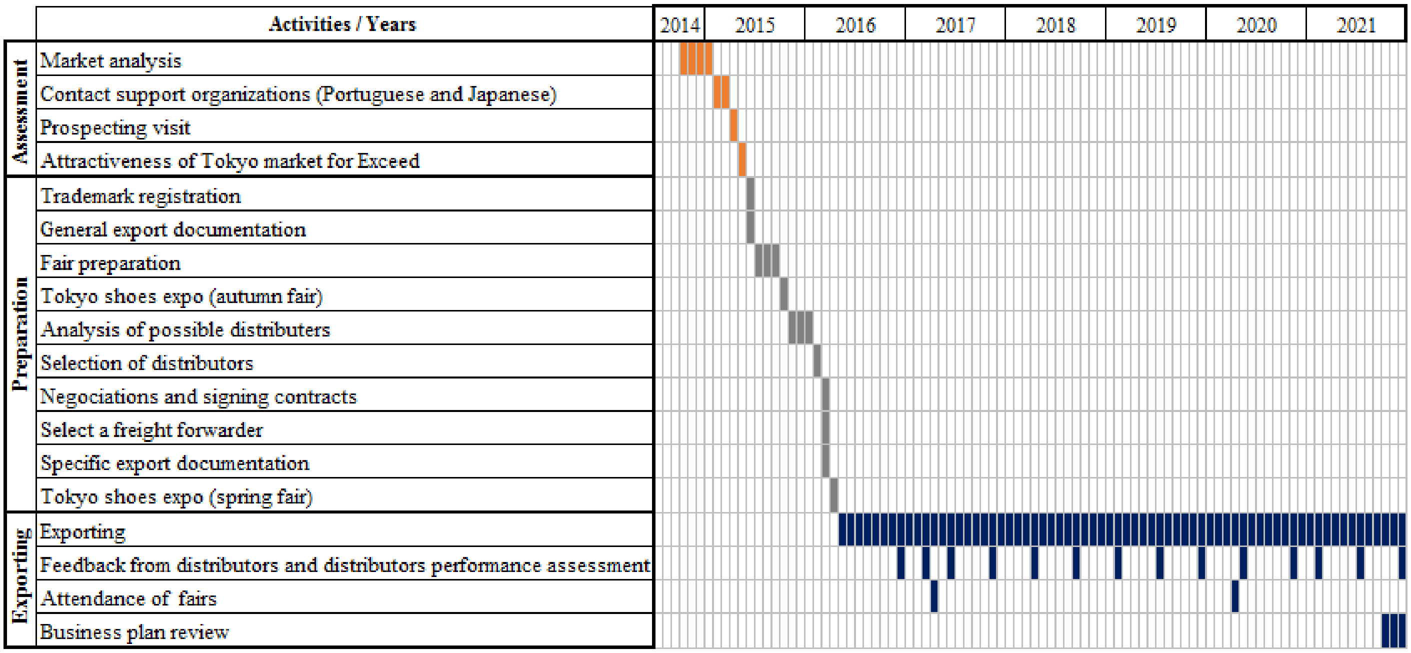


Figure 3: Time allocation (minute)

Money: To assess, prepare and actually enter in the Tokyo market Exceed would have to make an **initial investment of 17 338€**. This amount includes a 10-days prospecting visit to Tokyo for 3 people (flight, accommodation and other expenses), the attendance of Tokyo shoes expo fair for 5 people (fair stand, flight, accommodation and other expenses), the development of a Japanese website version, promotion and communication materials to the fair and trademark registration in Japan. Periodically, Exceed would have to make **additional investments of 10 838€** to attend Tokyo shoes expo fair. One recommend to attend fairs in the first 3 consecutive years and afterwards every 3 years. Overall, the investment in the analysed period (2015-2021) would be **49 852€**. ANNEX XII displays the estimated partial and total investments to enter with Exceed in the Tokyo market.

Men: The human resources allocated to the project include: i) the **marketing and management team** in charge for the market analysis, evaluate the project viability, prepare and attend fairs, organize and contract transports and logistics partners, negotiate contracts with distributers and financial analysis; ii) **Japanese translator and website designer** responsible for creating a Japanese website version; iii) **Exceed designer**, who creates collections with the different market specificities in mind, eventually would adapt models and materials to the market preferences and also represents the brand in international fairs.

3.2. Four P'S framework: Product, Place, Promotion, Price

Throughout the work one defined the Product - *footwear with innovative design and materials, aimed at contemporary and cosmopolitan man who look for exclusiveness and premium shoes for casual and business occasions*, the Place where it would be sold– *department and multi-brand stores in Tokyo focused on international fashion premium products*, the Promotion – responsibility of the distributer, with the main goal of *positioning Exceed as a western accessible luxury brand*. The ANNEX XIII presents the incoterms rules and the transportation cost estimation. The Price of Exceed shoes must be adjusted to cope with additional transportation costs, custom duties, other logistics or bureaucratic costs, consumption taxes and applied mark-ups. At the bottom, the selling price must match with the positioning pursued by the brand. The merchandise, distribution and retailer price is given by the following formulas:

Merchandise price (MP)	(Production + Transportation costs of Exceed) x (Exceed mark-up)
Distribution price (DP)	(MP + Transportation costs of the distributor) x (Distributer mark-up)
Retailer price (RP)	DP x (1 + Consumption tax) x (Retailer mark-up)

The mark-ups applied were: 1.3 for Exceed, 1.7 for distributers and 1.8 for retailers, resulting in an approximate **merchandise price** of **88€, a distribution price** of **152€** and **retailer price** of **296€**. Please see ANNEX XIV for the explanation of pricing of Exceed shoes in Japan.

3.3. Risk analysis and management plan

The internationalization of Exceed to Tokyo might arise uncertain events with direct effects on the project objectives. The risk management - process of identifying, analysing and responding to risks - is the approach suggested to deal with possible negative events. [102].

There were identified five main risks: i) JPY currency has been volatile, has devaluated recently and the government promotes its continued devaluation. In response, Exceed must negotiate the signing of contracts in Euros or buy forward currency contracts from a Portuguese bank. The currency forward is a binding contract that locks in the exchange rate for the purchase or sale of a currency on a future date (settlement date). This solution has the advantage of protecting the currency from value declines, does not involving any upfront payment and could be tailored to the amount and delivery period, unlike standardized currency futures. The transaction costs and fees to be paid to the bank are the main pitfalls [103], [104]. ii) High dependency on local distributors who have control over the price and placement, which might affect Exceed positioning and reputation. To mitigate this risk Exceed must select more than one distributer and promote the continuous communication with distributers, inform about the pursued positioning and require feedback about the selling process and the type of stores who acquire the products. It can additionally involve AICEP in Tokyo and Luso-Japanese chamber of commerce in monitoring Exceed in Tokyo. iii) Relatively high merchandise, distributor and retailing price mainly driven by high production costs and high distributers and retailers margins (approximately 100% each), which may affect the pursued positioning and the forecasted demand. To reduce the probability of this risk, Exceed should negotiate margins with distributors in order to allow Dura to capture value and, simultaneously avoid major price increases. Besides, Exceed must select experienced distributers with bargaining power to negotiate with retailers, interested in long-term partnerships and provide payment flexibility to compensate for the high merchandise price. iv) Low brand awareness and weak product acceptance is a risk that could be mitigated with a Japanese version of the website and Exceed placement near Western competitors. Moreover, visiting the Tokyo shopping areas, observing local consumers and requiring feedback from distributers would be helpful to select the models that best adapt to the local needs and, thus increase the chances of success in the market. v) Exposure of Exceed brand to a new market (i.e. risk of other footwear brands using similar brand name or logo) and Product imitation by Asian producers. Exceed must avoid the risk through the trademark registration in Japan and launching innovative products every season to keep a time lag in relation to copiers. Given Exceed launches two collections a year, with new materials, design or details, a responsive approach is more suitable than registering models.

3.4. Financial projections and sensitive analysis

Since Dura already produces Exceed shoes for other markets, only the additional investments, costs and profits will be considered for undertaking this project - incremental analysis. The main goal is to analyse the financial returns of the project to support the decision of whether the company should export Exceed to Tokyo or not.

The time frame analysed is the first 7 years, period from 2015 to 2021, in order to include the first 5 years of exporting (from the second half of 2016 to the second half of 2021). Based on the estimated investment, average production and transportation cost, quantity sold and merchandise price defined previously, one can conclude that the project has a **NPV of 54 085€, the payback time 3 years and 4 months and the IRR 65.4%.** Please see ANNEX XV for the financial projections table.

The low NPV indicates the lack of scale economies and the modest quantities estimated to be sold, however this project allows Exceed to diversify risk, increase sales of the own brand in substitution of the private label and improve its profitability margin. Note that although Dura has to pay for the investments upfront, it will be partially reimbursed by European funds as QREN and Compete, which will contribute to a higher NPV than estimated. Dura would have negative results in the first three years due to the investments made. The IRR is the discount rate that makes the NPV of a project equal to Zero. As the IRR is well above the industry WACC of 6.96%, the project will not result in losing money [105].

Given estimated merchandise price, quantity sold and investment are liable to change, a sensitive analysis was carried out. From the **sensitive analysis** one can conclude that the merchandise price is a factor with stronger impact on the NPV. A 10% variation in price will result in a 69.8% impact on the NPV. The quantity sold also plays an important role as is has direct impact on sales. A 10% variation in the quantity sold will result in a 16.1% impact on the NPV. Finally, the investment variation is the factor with less potential to impact the final NPV. If investments increase by 10%, the NPV will be impacted only by 6.1%. The complete sensitive analysis with graphs and further explanations is presented in ANNEX XVI.

4. Conclusions and Recommendations

Exceed would be positioned in the Tokyo market as a western accessible luxury footwear 100% "made in Portugal", focused on high-quality and minimal defects, differentiated design and materials and exclusive details. Exceed shoes could be wore both in a daily basis for casual and bolder looks (casual collection) or in a more formal business context (dress collection). The brand would target men between 25-50 years old of a middle-high/high income level who value the product characteristics itself, rather than the brand tag. The retail price of 296€ is aligned with its western competitors and matches the pursued positioning. Besides, it signals rivals that Exceed does not want to compete on prices.

In order to minimize the investment required, maintain the familiar and local-culture spirit and the protection of the intellectual property of Dura acquired over the last 50 years, exporting is the recommended entry mode. Given Dura has limited knowledge about the market *modus operandi* (i.e. legal framework, mode of doing business, logistics chain and local relationships) direct exporting through distributors is the most suitable option as intermediaries have a profound knowledge of local business environment and consumers preferences. For that reason, the attendance of Tokyo fashion fairs and the support of AICEP in Tokyo and Luso-Japanese chamber of commerce is critical to engage in contacts with local partners.

The main risk of this entry mode is the dependence on the intermediary over customer management, pricing and placement strategy, which can damage the positioning pursued by Exceed. As the loyalty and the performance of the distributer is a key success factor, the contract between the two parties must agree on periodic sales and progress reports, conference calls/skype and e-mail contact. Besides, it should encourage suggestions for product adaptations and new product developments to boost sales of Exceed in the Tokyo market.

For the analyzed period of 7 years, the projected financial results are positive: NPV is 54 085€, the investment would be recovered in 3 years and 4 months (payback time) and the IRR of 65% is much higher than the cost of capital. Moreover, the demanding consumers of Tokyo would require internal improvements. In the entry phase, a more rigorous quality management will be implemented owing to zero-defect requirement. This will increase the company’s status in demanding markets. The launch of novelties with details in each collection would be mandatory to attract customers in Tokyo. Besides, with the support of distributers, Exceed could select the most suitable models for the Tokyo market, namely easy to wear shoes to ease its removal, brown and light colors to fit with the casual cool biz outfits and waterproof models to wear during the rainy season. This would stimulate sales and provide design know-how for the whole Asian market. In a second stage, after a proved success in the Tokyo market, Exceed could require the support of CTCP to develop breathable shoes with waterproof leather and soles, highly appreciated in the market and an asset in the neighbor Asian countries with similar climate.

The entry of Exceed in Tokyo is a good opportunity to diversify risk, increase sales of the own brand in substitution of the private label and improve its profitability margin. Given Tokyo is a trend setter among other Asian cities, once the brand succeeds in Tokyo, it could expand its sales in other locations. The caveats are currency risk, dependency on distributers and business culture difference between Portugal and Japan.

In order to best adequate the Exceed shoes to the Asian market preferences it is recommendable to establish a partnership with a local designer, who would be responsible for suggesting the shoe design, selecting the materials and defining the product characteristics, according to the Asian market trends. Given Exceed would be informed about the trends through a local designer, the company could save traveling and fairs attendance costs, would be more responsive towards the Asian expectations and, consequently, would have improved product acceptance and increased sales is this expanding market. Besides, as Exceed would have the final decision and the opportunity to make adjustments, it would incur reduced risks.

Taking into account the weight of international markets to Exceed brand and the world market dynamic outlook, the company should reorganize internally to allocate one person responsible for market studies and project viability analysis. With the support of APICCAPS, CTCP and AICEP, that collaborator would be in charge to select the most attractive markets to invest in. Alternatively, the company could hire a consultant to develop this analysis upon the needs.

5. Notes

[1] A family business has as unique characteristics its stability, continuity and good performance in the long run because family members have the sense of stewardship, encouraging to protect their heritage. However, family firms also involve increased agency costs between owners, managers and family. [8] Although Dura is a family business the support and management team is mainly composed by non-family members, which brings expertise and experiences from different areas and contributes to a more professional management, in which the long-term profitability is the priority.

[2] According to IAPMEI, Dura is a medium size enterprise with the number of employees criteria as it has between 50 and 250, however it is considered a small size enterprise regarding the revenue criteria as it is less than 7M € [10].

[3] APICCAPS - Portuguese Association of Footwear, Components, Leather goods and their Substitutes industry

[4] Private label clients are footwear brands that order the production process to Dura and sell those products under their own brand.

[5] Explicit knowledge is the formal, objective, and systematic knowledge that see organizations as a machine for "information processing" that converts data into goods and services. The tacit knowledge is the subjective, informal, intuitive and ambiguous know-how difficult to communicate as it is on "the fingertips" of employees and managers and is dependent on their personal commitment with the company. While the first results on more efficiency, lower costs and higher returns, the second has impact on the responsiveness towards customers' expectations, new markets creation and new products development [12]. Over the last 50 years both employees and managers of Dura participated in the spiral of knowledge. For example, managers have been attentive to the industry trends, the emergence of new potential markets and the business model evolution through the observation of competitors and the attendance of international fairs (tacit to tacit). The newly acquired know-how was discussed in meetings and articulated through strategic reports (tacit to explicit), combined with the previous know-how and experience (explicit to explicit) and finally internalized by managers, who guide their decisions based on the combination of new

and former knowledge (explicit to tacit). In the case of employees, craftsmanship techniques are transmitted to new generations through observation, imitation and practice (tacit to tacit), then it is formally articulated through written standard procedures (tacit to explicit), combined with the previous know-how and experience that employees might have (explicit to explicit) and finally internalized, working as guidelines for daily procedures (explicit to tacit). [12], [13]

[6] CTCP - Technological Center of the Portuguese Footwear

[7] AICEP - Agency for Investment and Foreign Trade of Portugal

[8] From the 118 employees, 97 are allocated to the production process and 21 are allocated to the functional areas, the latter having high levels of education.

[9] Regular production process phases: leather cut, sewing and gluing.

[10] The quality assurance is a part of the production process, in which the main concerns are the skin quality, the sole conditions, the gluing and the shoe cleanliness.

[11] Delivery duty paid occurs when the seller has to bear the transportation costs and is responsible for the risks until the merchandise is received by the buyer [26], [27].

[12] Ex-works is when the seller delivers goods at its business location, while the buyer is in charge for all other transportation costs and risks [26], [28].

[13] In 2011, as the own brand was created, Dura hired a communication agency to provide support in the Dura re-branding and in the Exceed branding. Twice a year, the company resorts to a photographer, a designer, a production company and models to develop their catalogues and promotional videos of the new collections.

[14] Calculations: (Private label margin (7%) x Sales volume (85%) + Exceed margin (15%) x Sales volume (15%)) x 100 = approx. 8%

[15] Potential market size: 2 624 256 man between 25-50 years old in Tokyo x 33.46% of the Japanese inhabitants belong to the upper and upper-middle class= aprox. 878 000 people [39], [40]. Note that for the income distribution decile 8, 9 and 10, who earn more than 749 000 JPY per month (about 5 000€), were considered as the upper and upper-middle classes.

[16] Association of Southeast Asian Nations, composed by a group of countries as Cambodia, Indonesia, Malaysia, Philippines, Singapore and Thailand.

[17] The 10% poorest Japanese have an average annual income of 6 000 USD (4 852€), which is lower than the OECD average of 7 000 USD (5 670€), while the 10% richest have an average annual income of 60 000 USD (48 519€), well above the OECD average of 54 000 USD (43 667€) [45].

[18] Aspects to take into account when dealing with Japanese business partners: to prepare business interactions well in advanced, to be very punctual, to be accompanied by an interpreter (despite the general knowledge of the English language, only 2% of the population is able to speak fluent English) and to use visit cards [49].

[19] Tokyo weather in winter has temperatures averaging 9ºC during daytime and negative temperatures during the night. Summer can be extremely humid and hot with maximum temperatures of 40°C. In June and September the rainy and typhoon season take place, respectively. Tokyo temperatures in autumn and spring are mild, varying from 15°C to 23°C [54].

[20] Criteria used for the rating: online market size, consumer behavior, growth potential and infrastructure [55].

[21] As mentioned in the PESTEL analysis, ASEAN countries have a trade agreement with Japan that provides zero-tariffs on leather footwear imports.

[22] Based on an interview to a Portuguese person living in Tokyo

[23] The website translation is particularly important as 41% percent of Japanese smart phone users browse a brand's global site during a purchase [71].

[24] Manga (Japanese comics) and Anime (Japanese animation) have become parts of modern Japanese culture. Characters and stories are meaningful for targets of all ages, leading them to wear costumes and fashion accessories to represent a specific character (cosplay). [72]

[25] JLIA is an organization aiming to promote the business between both Japanese and foreign companies involved in the production and distribution of leather products [86].

[26] Tokyo shoes expo is the Japan's largest international trade show specialized in all kinds of footwear and is held twice a year. This show is a privileged gateway to enter on the footwear Japanese market as manufacturers, importers, wholesalers, stores and online retailers are gathered, promoting trading opportunities and local contacts. [87]

[27] Under the FOB incoterms the seller must load the goods for export on the vessel nominated by the buyer. The buyer is responsible from the moment in which goods are on board in the port of embarkation. [26], [88]

[28] The letter of credit is a payment method to protect both the seller and the buyer. It is a guarantee from a bank that a buyer's payment will occur on the agreed time and amount. Likewise, the buyer's bank does not issue the document until the merchandise have been sent. In case the buyer does not comply with the payment upon the purchase time, the bank covers the expense. Aspects as differing legal framework and modes of doing business, physical distance and difficult communication contribute to the popularity of the letters of credit among international transactions. [89], [90]

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