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RUTZ – AN INTERNATIONALIZATION PLAN

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Executive Summary

This paper concerns the internationalization plan for a company named Rutz. Rutz is a footwear enterprise still at an early-stage of its business that manufactures its shoes mainly with cork. Furthermore, the company is already exporting thirty percent of its total sales but it needs an expansion in sales out in order to be able to grow and develop its business in a sustainable way. As a means of effectively increasing its volume of sales, Rutz intends to expand its reach in the United States of America, where it is already present in three different states, and start doing business in California, more precisely in the San Francisco and in the Los Angeles metropolises.

The company produces both male and female cork shoes, a niche market in the footwear industry that has the potential to be very successful due to its privileged headquarters location – Portugal, the country with the largest amount of cork in the world.

The upcoming text is composed of eight distinct chapters. In the first chapters, the current reality of the firm is observed and discussed. In the later sections there is a study of how Rutz should enter the Californian market being discussed. Overall, there is an intensive analysis of the competitive strengths and weaknesses of the company and of the manner in which these can affect the performance of Rutz in the geographic area aimed to internationalize to.

Thus, the main purpose of this work is to study whether these two geographic areas are suited to incorporate Rutz's footwear and, if so, what are the best approaches to succeed in this undertaking.

Key Words:

Shoe Industry, Cork, Portugal, EUA, Export, Strategy

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1. Description of the Firm

1.1 The Beginning of the Company

The name of the company, Rutz, was originated from the merging of two contrasting concepts – ‘roots’ and ‘routes’. On the one hand, roots, a symbol of tradition – in this particular case, Portuguese tradition - and heritage, is related to the past and it influences the design of some of the collections of the company by the fact that elements of the Portuguese culture are embodied in the footwear. On the other hand, routes, the road yet to come, a word that transports us into the future. The idea behind it is linked to utilization of mainly cork, an eco-friendly material, in the production of the footwear for a more sustainable environment and future. As an environmentally concerned enterprise, the entirety of the inputs required for the production of the shoes is as ecological as possible – all the cork that is used is natural cork and none of the inputs, such as the glues, the leather and the paints, have chromium in its composition. (See [Annex 1](#) for more information on Cork) In the end, even though these two ideas – roots and routes - are antagonistic, one looks into the past and the other to the future, the combination of the both creates a new and unique concept applied to footwear.

Rutz is a limited partnership established on the 3rd of January of 2012, with the fiscal headquarters in Guimarães and the actual headquarters in Lisbon, at the Lx factory. This is a family company founded by three partners that are all part of the same family.

Family business, is “a form of enterprise with unique attributes, such as a long-term focus, strong efforts in sustainability, social working conditions, and strong ties to their location.”¹

The early business model of the company was uncommon as it was based on the concept of Just In Time, i.e. pull by demand, characterized by the concept “Make to order” where production and supply operations are grounded on actual demand.² The first move of the partners was to produce a batch of the minimum amount of footwear possible and then, they

¹ (Krappe, Goutas, and Schlippe 2011)

² (Asprova Corporation)

went door-to-door, trying to understand whether the market would accept their product well enough for them to advance with the project. Consumers were very receptive to the merchandise, which helped the partners both financially and in terms of discovering whether they should take the project to the next level, and the venture went forward. Nowadays, Rutz is a firm that is thriving in the market and that will continue to grow and expand both at a national and international level.

Another crucial aspect of the business is that all of the production of the company is outsourced – strategic outsourcing -, which has implications in terms of relationships with suppliers, corporate governance and the organization of the supply chain, which will be addressed at a later stage.

With regard to the organization of the enterprise, at the present time, Rutz is composed of three partners but only one of them is effectively employed by the company as the General Manager. Consequently, the decision-making is centralized as one of the partners decides about all everyday situations and the major decisions are taken just by two of the three partners. In addition, Rutz has a second employee that is external to the partnership and whose functions are related with managing Rutz's marketing campaigns and provides support in the LX factory store.

1.2 The Business Vision, The Mission Statement & The Values of the Company

The company's Business Vision is related to the selling of a product that is 100% Portuguese and that can also be easily exported. In essence, it is to 'sell Portugal in all four corners of the world'. Rutz's mission statement is to innovate in the shoe industry and to create something that would be different from everything that already exists by using mainly cork to manufacture footwear. The company at hand is connected with two main concepts, the environment and heritage, that have already been mentioned previously and that are even contemplated in its name – Rutz. This means that the values that Rutz upholds are the eco-

friendliness and sustainability of its products and of the methodology it uses as a company; and the pride in the Portuguese roots and preservation the Portuguese tradition that is present in the footwear and in the brand image of the enterprise.

1.3 The Key Strategic Objectives

Rutz key strategic objectives, both on a short-term and long-term basis, are related with internationalization. The company aims to internationalize approximately 60% (this high percentage is connected with the fact that the company sales are still low and, if there is an increase in sales, even if it is not very large, it can significantly affect the percentage of exports) of its sales in the next five years with particular emphasis on the USA. (See [Annex 2](#) for SMART Objective)

2. The Competitive assessment of the company and the VRIO framework

2.1 The Competitive assessment of the company

“Core competencies —the company’s collective knowledge about how to coordinate diverse production skills and technologies.”³ Rutz specializes in producing shoes that use cork as the main component for the production of the footwear. As a result, this unique concept allows the company to provide its costumers with a very special value-added – the unique knowledge that one can only acquire by the continuous implementation of a certain technique or production method that, in this case, is the production of the footwear where the main input is cork. The entire process, from the selection of the inputs to the manufacturing of the shoes, is very demanding in terms of having the right knowledge. Furthermore, it requires a large amount of time to learn and, thus, once the assimilation of the process is complete, the firm will have an advantage over all of its competitors or potential competitors in the market for shoes produced with cork.

³ (Prahalad, Hamel, and June 1990)

Following a comprehensive analysis, one can determine that there is a combination of factors that account for Rutz's main core competence. Firstly, it is important to remark that Rutz is a pioneer in the market for shoes exclusively manufactured with cork, the additional inputs are merely a detail in the final product (rare). Secondly, the process of working and treating cork is a very difficult and challenging one (valuable and difficult to imitate). And last but not least, different cork and shoes suppliers have different working methods as well as advantages and disadvantages. Hence, Rutz's main core competence is the experience – the human capital - and the 'new' factor achieved by the merging of the three reasons stated above. This experience allows Rutz to choose the appropriate suppliers for each specific necessity and to have a safety margin regarding the accumulated knowledge already in possession of the partners - organized to capture the value. In the future, Rutz considers to innovate with a product exclusively cork-made.

Moreover, Rutz possesses a very diversified line of products that combines the most varied set of colors and animal prints, thus creating new patterns and designs (valuable). This line of products is commercial, meaning that the footwear is similar to what already exists in the market – the purpose here is not to innovate in terms of creating new shapes and models for the shoes, but rather to create a commercial product manufactured exclusively with cork (rare). In fact, Rutz applies a mix of designs in its models that depends also on the supplier at hand – the pure replication of the models in the market, the own adaptations of the company and finally, the adaptations made with the collaboration of the suppliers. As a result, the other core competence of Rutz is the Design – an innovation and creativity resource - that is unique in the market given its diversity, the patterns and the cork. It consists in putting together the most varied set of colors and animal prints, thus creating new patterns and designs.

The 'new' use of cork on the manufacturing of the footwear and Rutz's relationship with its suppliers can also be considered core competencies, as these are two points where Rutz

differentiates itself drastically from its competitors. The first one demands specialized knowledge and handling meaning that being able to manage it is valuable and rare, since not many people have this expertise. Moreover, it is difficult to imitate because of the knowledge and rarity required for it. A table of the VRIO will be presented next.

2.2 The VRIO Framework - Valuable, Rare, Non-Imitable, and organized to capture the value of the resources

' A resource or capability that meets all four requirements can bring sustained competitive advantage for the company.'⁴

VRIO Analysis						
	Valuable	Rare	Difficult to Imitate	Organization	Competitive Analysis	Performance
<i>Experience – 1st mover</i>	Yes	Yes	Yes	Yes	Sustainable Competitive Advantage	Above Average
<i>Design</i>	Yes	Yes	No	No	Temporary Competitive Advantage	Above Average (at least temporarily)
<i>'New use' of Cork</i>	Yes	Yes	Yes	Yes	Sustainable Competitive Advantage	Above Average
<i>Relationship with suppliers (mentioned in the upcoming text)</i>	Yes	Yes	No	No	Temporary Competitive Advantage	Above Average (at least temporarily)

3. The Value Chain

3.1 The Value-Chain in 2014

Costs	(% Cost/Total Costs)
COGS 141 868	68,0%

⁴ (Jurevicius, 2013)

Supplies and External Services	41 939	20,1%	Total Revenues	247 449
Personnel	13 890	6,7%		
Impairment Losses	9 534	4,6%	Margin	15,67%
Other Losses	1 450	0,7%		
Total Costs	208 681			

As can be observed, the COGS have the largest impact on the total costs of Rutz with a weight of 68%. Rutz has a margin of 15,67% according to the calculations, which is a good value considering that this still a small company trying to expand its business.

The entire of Rutz's outsourced production proceeds directly to the stores or to be shipped out of the country – to export. Therefore, the company does not hold an inventory stock *per se*; it retains only a larger amount of products in the LX factory, when compared to the other boutiques in Portugal where it sells. With regard to the transportation of the goods, Rutz purchases the services of Chronopost both in the Portuguese and European routes, and it uses UPS for the North-American routes.

At the present time, Rutz is operating mostly on three fronts - the Marketing, the Sales and the Design Departments. As mentioned thereupon, the Sales department operates both in the internal and on the external markets. The Marketing division is very present in the company.

Rutz's customer service is in accordance with the law and it follows that customers have 14 days to return the product. In case of it being necessary to repair the footwear, Rutz takes responsibility for the matter; if it is not possible to do so, the costumers are reimbursed.

4. The Industry Map

4.1 The Suppliers

As mentioned above, the production of the company is entirely outsourced, meaning that the suppliers of Rutz consist of two factories that supply cork and five other factories that

manufacture the footwear as a final product. The cork suppliers are located in Montijo and in São João da Madeira, and each of these factories specializes in the R&D of new cork applications. Moreover, these two companies provide assurances regarding the color of the cork, the paints are as natural as possible and they do not use chemicals. In the end, the process is rather straightforward - Rutz purchases the cork directly from the cork factories and then sends it to the outsourcing companies, which are responsible for all the remaining inputs. With regard to the outsourcing companies, Rutz collaborates with five different ones – 3 of them are in São João da Madeira and the other two are in Benedita - and each of them specializes in a different type of shoes. Hence, the two companies in Benedita focus in the Goodyear Welted technique and the on production of Mocassins/boat shoes and children shoes; and the other three are experts on manufacturing heels, casual shoes and both flats and fleets. Besides these firms, Rutz also possesses connections with companies in Italy and Spain that provide some specific cork treatment procedures and then ship the inputs to the factories in Portugal.

Quality Control – “the degree to which products conform to previously agreed product characteristics (...) the word product is used in a broad sense, i.e. including packaging, instruction manuals, and service.”⁵ Rutz’s outsourcing companies are fully responsible for the Quality Control and its repercussions, until the final customer since there is a person from the factory responsible to go the stores and attest for quality. However, in case a deficiency is not detected before it reaches the final consumer the name of the brand is affected due to negative publicity.

As described above, Rutz relationship with its suppliers is very particular and requires a large amount of interaction – this is challenging to maintain and manage and thus, it is valuable and rare. Rutz interaction with the suppliers is made on a daily basis and the communication is

⁵ (van der Bij and Ekert 1999)

essentially conducted by e-mail. Since this a ‘long-distance’ collaboration, it is difficult to communicate on a timely manner and to keep targets and production outcomes on schedule. As a result, the footwear is sometimes not available for sale when it was predicted to be, the sales season starts and, due to lack of product, there can be no sales at the time which results in a decrease of the total number of sales.

Despite the the previous inconveniences, outsourcing has several valuable advantages such as the significant decrease of fixed costs of the company (no owned factories – no capital investment and no salaries of workers), the higher diversity that is possible in terms of producing different types of shoes and the more specialized are the shoe-makers.

Also, the higher the number or outsourcing partners, the lower the risk associated with outsourcing since, even if one or two of them fails to deliver, the other three or four will secure the product production.

4.2 The Distribution Channels

The distribution channels outside of Portugal consist of 3 different types of collaborators. Firstly, there is the stores that directly import the products from Rutz and thus, the profit margins for both parts are higher. Second, the distributors, who assume all the responsibility over the product and usually purchase larger volumes at once, but the profit margin for Rutz is lower. Lastly, the agents that work on commissions - they always report back to the company and their only connection to Rutz is the payment.

4.3 Associations & Government Programs

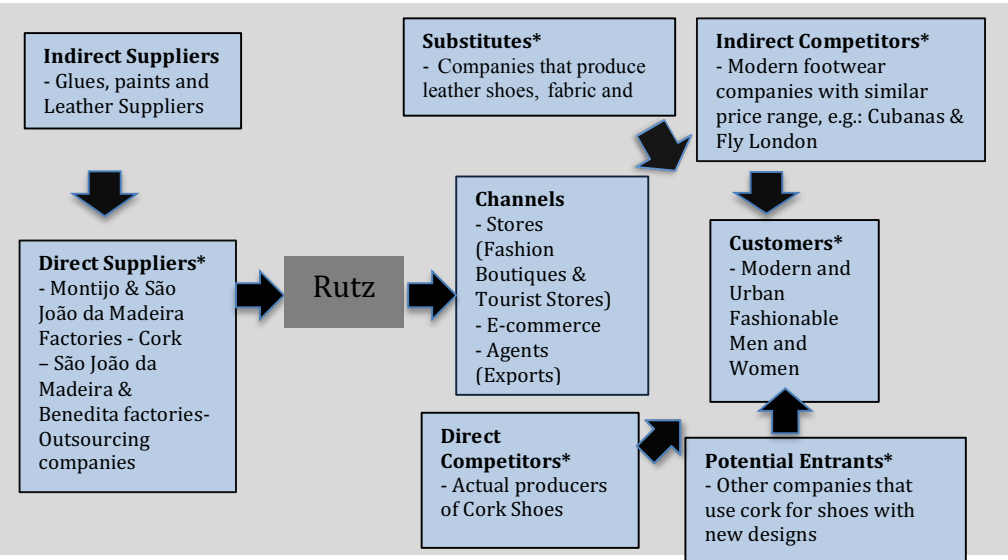
“APICCAPS – Portuguese Footwear, Components, Leather Goods Manufacturers’ Association - is a nation-wide association based in Porto, founded in 1975.”⁶ APICCAPS functions as a foundation for the footwear industry and it supports companies such as Rutz to

⁶ (APICCAPS)

develop their projects. This association has been assisting Rutz in its expansion abroad mainly in terms co-financing the company’s participation in the international footwear fairs - through the ‘Portugal 2020’ project, a partnership between Portugal and the European Commission that is funded by the 5 Structural and Investment European Funds, APICCAPS receives funds that are then re-distributed among footwear companies. In order to be a part of this process, Rutz must fulfill certain criteria such as having no debts to the Social Security. Moreover, Rutz had to establish its fiscal headquarters in Guimarães so that it could be able to receive the financing since the portion of the funds allocated to companies that are established in Lisbon ends very fast given the high demand for it. The financing is completed by reimbursing the company up to 45% of the expenses of the international fair it participated in. However, the investment is very high and this support is not sufficient for the company.

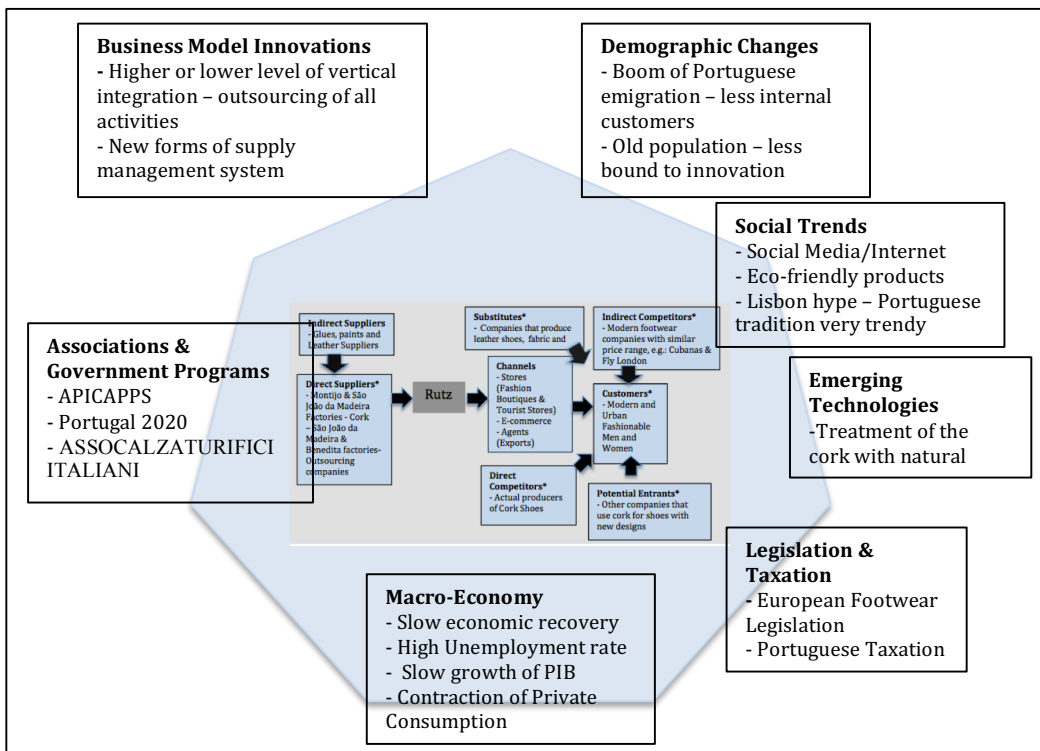
As an additional strategy APICCAPS supports the publication of articles in international magazines as a means to contribute for the international exposure of the brand.

4.4 Adapted Enhanced Industry Mapping by TKA⁷ (an independent management research and consulting firm) and Porter Five Forces*



⁷ (The Knowledge Agency)

4.5 Adapted ‘comprehensive map of the competitive ecosystem of a client/target company’⁸



5. The Market

5.1 National Market

The national market consists of 70% of the total volume of sales, which means that the majority of sales are occurring in Portugal. Rutz possesses two different channels of distribution in its home market – Tourist Stores or Boutiques/Footwear Stores - and the on-line platform (E-commerce). The Stores are located in multiple cities such as Lisbon, Porto, Coimbra, Vila Real and Lamego - these are the most relevant form of distribution at a national level, which accounts for 90% of the national sales.

The e-commerce has a minimal impact on sales, merely 10% of the national sales, and it is used mainly as an on-line catalog for customers to have a clear overview of everything that the company has to offer.

⁸ (Banco de Portugal)

5.2 International Market

Rutz is currently exporting about 30% of its total volume of sales. Moreover, the United States of America is the country that accounts for the largest amount of the exports, where the products are already being sold in three different states – Florida (Santa Rosa Beach), Louisiana (New Orleans) and New Mexico (Santa Fe). Recently, Rutz conducted some studies on the reasons for the presence of the products being more substantial in the North American market than in Europe and their conclusions were very revealing. For instance, American consumers are less rational than European ones - if they see a product that they like, they simply buy it and they are not as concerned about the quality of the material or whether it will last for a long period of time. They do not ask many questions about the footwear and they interpret it as Internal Tourism, ‘the tourism of visitors, both resident and non-resident, within the economic territory of the country of reference’.⁹ In addition, Rutz also exports to other European countries like Germany and Switzerland.

5.3 Mode of Entry: Country chosen

The USA is a very large and populated country which means that there is a great number of potential consumers in that market. Furthermore, Rutz is already present in three different states in the United States. Since the sales of the company are still low, being able to expand its presence in a country such as this one could be a great opportunity in terms of sales growth. Given the data mentioned above and the present necessities of the enterprise, this paper will focus on the San Francisco Metropolis and the Los Angeles-Long Beach-Anaheim Metropolitan area markets. To study the entire USA market or even the Californian one would be too time consuming and therefore, there would not be sufficient time for an in-depth analysis.

⁹ (OECD)

6. International Analysis and Implementation Strategies

6.1 San Francisco Vs. LA, 2013

	San Francisco	Los Angeles
<i>GDP (\$millions)</i>	375,203	797,080
<i>Area (km²)</i>	6,397	12,500
<i>#Inhabitants (millions)</i>	4,5	13,116
<i>People aged 15 to 64</i>	68.9%	67.5%
<i>Average annual disposable income per Household (\$)</i>	149,800	120,200
<i>Employment rate</i>	76%	68%
<i>Spending in Education</i>	3.2	3.0
<i>Spending in Clothing and Footwear</i>	3.1	4.3

After performing an analysis on this strategically chosen main figures one can conclude that LA is approximately twice the size of San Francisco, except for the number of inhabitants in LA that is considerably more than double San Francisco's ones – these imply that the market in LA is larger than the market in San Francisco. Moreover, the average annual disposable income per household and the employment rate in San Francisco are higher than in LA, meaning that the quality of living is better in San Francisco and the purchasing power is also higher. In terms of preferences, people care more about education in San Francisco, which means they also demand to be better informed here, and in LA the population is more concerned with the way they look given their high expenditure on clothes and footwear.

LA's income level is still well above the national average despite being lower than the San Francisco's one. Los Angeles is a geographic area that is more concerned with appearances – the way people look and dress, which includes the footwear they use, due to the cluster in high-value-added positions in the creative industry and the business services area. As a result, consumers in LA are more likely to spend a larger portion of their available income on footwear. Furthermore, Los Angeles has the largest footwear Fair in the world and it should be interesting to analyze the shoe market in a city with such a high propensity for this

industry. As a way of narrowing down the target market, in order to accommodate the conclusions presented previously and to develop a more detailed and precise analysis of the problem at hand, onwards only the Los Angeles market will be discussed. (See [Annexes 3](#) and [4](#) for more detailed analysis)

6.2 Matrix Diagram - Increasing the Consumption of Rutz's Products in Los Angeles

											Total
Annual Income level per Household (in thousands \$)	[25 – 50]	(1) *	]50 – 75]	(6)	]75 – 100]	(9)	]100 – 150]	(6)	] +150]	(1)	23
Propensity to spend on footwear	Very Low	(1)	Low	(1)	Medium	(6)	High	(9)	Very High	(9)	26
Propensity to Experience Foreign Products	Very Low	(1)	Low	(1)	Medium	(6)	High	(9)	Very High	(9)	26
Income concentration California Gini Coefficient 2011 = 0.4812 (very high) ¹⁰	10% Lowest Income	(1)	30% Lowest Income	(6)	50% Highest Income	(9)	30% Highest Income	(6)	10% Highest Income	(1)	23
Age range	[0 – 15]	(1)	]15 – 30]	(9)	]30 – 45]	(9)	]45 – 60]	(6)	] +60]	(1)	26
American Culture ¹¹	High propensity to consume	(9)	Willingness to experience new things/materials	(6)	High cultural diversity	(6)					21
Forms of advertisement	Social Media (Facebook, Twitter)	(9)	Celebrities and Singers	(9)	Publicity on TV	(9)	Fashion magazines	(6)	Exterior Big Publicity Boards	(6)	39
Channels of distribution in the USA	Tourism shops	(6)	Department stores	(9)	Shoes Retailers	(9)	Airport shops	(9)	Fashion shows	(6)	39

Impact*:

\$\$\$ - High (9); \$\$ - Medium (3); \$ - Low (1)

¹⁰ (Maciag 2012)

¹¹ (Zimmermann 2015)

6.3 Matrix Diagram analysis

From the analysis of the previous Matrix Diagram one can conclude that the 'Forms of Advertisement' and the 'Channels of Distribution in the USA' are the factors that would have the highest impact on the consumption of Rutz's products in California, both with a score of 39. Advertisement through the social media, celebrities and television are very well received in the U.S since these communication means have a large presence in the American society and consequently, these should be the dominant resources used to increase brand awareness internationally.

With regard to the the channels of distribution, department stores, shoes retailers and airport shops are the channels that are more used in Americans daily lives and thus, they should be Rutz's first target in terms of footwear exposure. Likewise, the main target age is between 15 and 45 years old as during this interval people are more likely to try new and different products and ideas; moreover, it is also the time of peoples' lives where they are more concerned about their appearance and thus their propensity to consume increases.

In terms of income level, the first group does not have sufficient income in order to afford the footwear and the last group possesses different and more expensive preferences. As a consequence, the prices of Rutz's footwear are more adequate for people that are in the middle of the spectrum of the income level since consumers in these categories have the means to afford them. Thus, the consumption of the footwear will be higher in the intervals of]50 – 75],]75 – 100] and]100 – 150]. Regarding income distribution, the Gini coefficient for California is very high - this means that there is a high discrepancy in the income distribution of consumers - there are very rich people and very poor people in this geographic area. As such, people from both ends of the spectrum will not purchase a significant amount of footwear from Rutz due to the fact that the first group has more expensive preferences and the last does not have the means to afford Rutz's products.

6.4 Porter 5 Forces – Industry analysis in LA

Forces	Implications
Supplier Power	Non-existent since the product is already manufactured when it reaches LA
Buyer Power (Agents and Distributors)	Very high because Rutz is new in the market and thus it has no bargaining power to negotiate with the buyers
Threat of New Entry (All other leather shoes, cloths shoes, all kinds of artifacts shoes)	Very high due to LA being one of the world's fashion capital and there being a high potential for success for entrants in this market
Competitive Rivalry (producers of cork shoes)	Low because competition is more on a domestic level since cork, its producers and the footwear manufacturers are located in Portugal
Threat of Substitution (all other shoes that are not made of cork)	Very high since LA is one of the world's fashion capital and it has the largest footwear fair in the world

6.5 SWOT Analysis – Company Analysis in LA

Internal Strengths

- § Knowledge and expertise on the challenging process of manufacturing shoes with cork - Sustainable competitive advantage
- § Geography - Portugal is the main producer of cork in the world
- § The unique and innovative design
- § Relationship with suppliers
- § Very unique selling proposition
- § Good value for money

Internal Weaknesses

- § Not being able to prevent other companies from imitating their products in the Long-run
- § Start-up Cash-drain
- § Lack of competitive strength - Weak Brand Name
- § Continuity - having permanent contracts with distribution channels
- § Lack of information about the market

SWOT

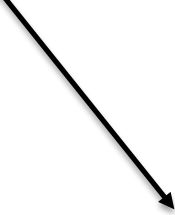
External Opportunities

- § Market Niche - Being a first mover in the market for shoes manufactured primarily with cork - less competition, price premiums
- § Expansion to new markets - E.g. San Francisco, LA
- § Ecological fashion trends & Lifestyle trends - Lisbon hype
- § Footwear is adequate for all year round season
- § California benchmark for new fashion trends

External Threats

- § Other companies that might imitate shoes manufactured primarily with cork - increase of direct competitors
- § Trade barriers on exports
- § Competitors - competition from other cork shoes producers in LA

6.6 TOWS Analysis

<div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;"> <p style="text-align: center;">Internationalization Policies</p> </div> 	<p>External Opportunities (O)</p> <ul style="list-style-type: none"> § Market Niche - Being a first mover in the market for shoes manufactured primarily with cork - less competition, price premiums § Expansion to new markets - E.g. San Francisco, LA § Ecological fashion trends § Lifestyle trends - Lisbon hype § Footwear is adequate for all year round season given the climate of California § California benchmark for new fashion trends 	<p>External Threats (T)</p> <ul style="list-style-type: none"> § Other companies that might imitate shoes manufactured primarily with cork - increase of direct competitors § Trade Barriers on Exports § Competitors - competition from foreign countries
<p>Internal Strengths (S)</p> <ul style="list-style-type: none"> § Knowledge and expertise on the challenging process of manufacturing shoes with cork - Sustainable competitive advantage § Geography - Portugal is the main producer of cork in the world § The unique and innovative design § Relationship with suppliers § Very unique selling proposition § Good value for money 	<p>(SO)</p> <ul style="list-style-type: none"> - Emphasize when advertising that this a Portuguese (Lisbon) Nationally Produced Product - Innovative design that is appropriate in a place that follows the newest fashion trends - Emphasize the uniqueness of the product – niche market - and of the knowledge to produce it 	<p>(ST)</p> <ul style="list-style-type: none"> - Always have the best product available in the market at the best price so that it is of superior quality than any competitor's products - Create a product of such quality and uniqueness that countries will decrease the trade barriers on exports
<p>Internal Weaknesses (W)</p> <ul style="list-style-type: none"> § Not being able to prevent other companies from imitating their products in the Long-run § Start-up Cash-drain § Lack of competitive strength - Weak Brand Name § Continuity - having permanent contracts with distribution channels § Lack of information about the market 	<p>(WO)</p> <ul style="list-style-type: none"> - Invest in marketing publicity in order to take advantage of the hypes surrounding Lisbon, fashion and ecological trends and thus increase brand awareness - Invest in market expansion to increase sales and thus increase financial security - Take advantage of the market niche and create a trademark that other companies cannot imitate 	<p>(WT)</p> <ul style="list-style-type: none"> - Manufacture shoes that are difficult to imitate just by themselves - Export to several locations in order to spread the risk of the trade barriers on exports - Develop the brand name through the Social Media, TV publicity and celebrities. - Conduct market research about LA to minimize information discrepancies

7. Mode of Entry¹²

Internationalization is based on three main concepts – market expansion, risk minimization and resource acquisition but the last one does not apply in this situation. Through the first two notions, a company is able to increase sales and, therefore, increase profits as well; diversification is another advantage since the company becomes able to sustain itself without being dependent on one or two countries. (See [Annex 5](#) for table with all Modes of Entry)

7.1 Mode of Entry: Export

The advantage of exporting is related to the retaining of core competencies within a company and threading it through the value chain rather than opting to license, outsource or sell it.

Exporting is the most adequate mode of entry for Rutz in the San Francisco and Los Angeles markets since it involves a significant smaller amount of know-how, time and investment than other options for internationalization such as FDI. There are two types of exporting – direct, in which ‘the goods are sold to an independent party outside of the exporter’s home country’, and indirect, where ‘the goods are sold to an intermediary in the domestic market, which then sells the goods in the export market’ – which should be taken advantage of simultaneously.

First and foremost, Rutz must capitalize on export intermediaries - indirect exporting. These are an opportunity to build brand awareness and attract clients with a low risk exposure and considerable less challenges in terms of export and custom bureaucracies, since the intermediary will conduct this part of the process. The third-party intermediaries that would be more suitable for Rutz are Export Management Companies (EMC) – ‘operate on a contractual basis’ that specifies price, financials, promotion details, credit, methods of payment and credit and they also supply ‘exclusive representation on a well-defined foreign territory’ - and export agents. Moreover, EMCs usually profits from commissions on sales which is a major incentive for great performance.

¹² (Daniels, Radebaugh e Sullivan s.d.)

Secondly, e-commerce, one of the options for direct exporting, – this is a means to internationalize that requires a very low investment, the website is already in place and what is required to move forward is the increase of trust and product awareness on the consumer's side. If this approach is successful, it will also work as an advertisement strategy.

A third procedure, the direct selling through distributors would provide a controlled means - since the company should develop an in-house team 'to monitor the actions and activities of foreign distributors'- for directly exporting the footwear abroad. This option requires more investment and more risk but it can also be more profitable since there are no intermediaries.

7.2 Mode of Entry: Strategic Alliance

A non-export but also interesting approach is to form a strategic alliance with a well-established U.S based footwear company with a similar price range and innovative attitude such as Rutz. Besides, during a strategic alliance the companies are kept as separate and independent entities since the agreement is non-equity based, which another point of interest for Rutz given that it can maintain its core competences. At first this agreement might be challenging to arrange due to the low brand awareness of Rutz in California but, if the right arguments are formulated, this could be an excellent internationalization opportunity.

8. Implementation

8.1 Marketing – 4P's

The Product – footwear manufactured predominantly with cork that combines color and great design with a typical Portuguese natural resource. Moreover, the shoes are inspired by traditional Portuguese symbology as, for instance, the Love Letters Collection. Regarding Brand Positioning, Rutz's drive it to connect tradition and contemporaneity and to be perceived as a sophisticated, urban fashionable and provocative trademark.

The Price range in the USA varies from 70€ to 380€, which means that this brand occupies a wide position in terms of prices in the market – the footwear has several different price categories that are attributed to each of them according to the type of footwear in question. The final sales price is approximately 4 times the price at which Rutz sells the products initially to the distributor in Portugal. Footwear brands in the USA with a similar price range are, for instance, Antelope for women, and Allen Edmonds and Alan Payne for men – which are brands that are known for its exquisite design and quality price ratio. At first, the company charges a higher price for the goods, the maximum consumers would be willing to pay, and as demand decreases, Rutz decreases the prices in order to accommodate price-sensitive segments - skimming strategy.¹³ Additionally, the company forecasts a progressive increase in prices due to factors that justify this change such as improved packaging and innovations in the footwear. Rutz requires that payments on footwear must be made immediately or on a short-term basis so that the liquidity of the company is assured at all times.

The Promotion of the products is ‘low cost, high impact’ and it uses both Above the Line – mass media – and Below the Line – one to one – Advertising¹⁴. The first one includes TV, Social Media, press features, promotion by some celebrities, interviews and fashion magazines, and the later comprises social media profiles, newsletters and Public Relations events exclusively for bloggers and journalists. In addition, Los Angeles has the largest footwear fair in the world, which is an excellent opportunity for the promotion of the products. Furthermore, it participates in international events in the footwear industry – ‘MICAM, the leading international footwear fair, promoted by ASSOCALZATURIFICI ITALIANI - the Association of Italian Footwear Manufacturers’, in Milan,¹⁵ and GDS, Global

¹³ (Investopedia)

¹⁴ (The Advertising Club)

¹⁵ (The Micam)

Destination for Shoes and Accessories, a footwear fair that occurs in Düsseldorf, in Germany¹⁶.

The Place where the business is conducted is mostly offline and with a smaller impact online. On the one hand, offline there are two main targets – the distributors or the agents that Rutz sells to on a first instance and the stores that will, later on, sell the footwear to the customer. The distributors must be chosen according to the target audience of the stores that they will later sell to – for example, if Rutz intends to target costumers aged 20 to 40 years, it must choose distributors that sell to stores with same target audience. The stores are also chosen according to the target audience - fashion boutiques, department stores and tourism stores. On the other hand, online Rutz takes advantage of the firm's website (e-commerce), the social networks such as Facebook and Twitter, and partnerships with web-sites that sell for numerous brands.

8.2 4 M's

Minute - Time of Entrance

At the present time, there is a hype about Lisbon and Portugal due to its low prices, great food and weather; moreover, Rutz is still at an early-stage of its business, which means that it requires more investment in order to grow and develop its business; and thirdly, the market for footwear manufactured mainly with cork remains still a niche and this is an opportunity for higher profits if taken advantage of immediately. As a result, the company must enter the Californian market as soon as it is possible to do so since there are several opportunities to make higher profits than normally.

Money – How much money is needed

When considering the amount of investment required to enter a new market, one has to consider the costs of having a person or more travelling to the country of destiny – this costs

¹⁶ (GDS)

include the price of the flight, transfers, hotel fares and transportation. Regarding the price of a flight between Lisbon and Los Angeles is usually between 700 and a 1000€, a taxi from the LAX airport to Downtown LA costs around 50€ the price per night in an average hotel in Los Angeles costs approximately between a hundred and two hundred euros and a 7-day metro ticket costs 23€, depending on the exchange rate. If one considers the average costs for one person taking into account the previous four factors, one would get a total of approximately 2,000€ per person per seven days.

Table with Expenditures per person per seven days

	Price (€)	7 days (€)
Flight	850	850
Transfers	50	100
Hotel Fares	150	1050
Transportation	23	23
Total		2023

Man – The Human Resources

Rutz should have at least one person regularly travelling to the US in order to verify if all the processes with the distributors are conducted properly and to negotiate new contracts and options with the agents and distributors. In the beginning, one person would be sufficient since the scale of the operations would still be small but, with time and the growing of exports, additional people might be required to handle the internationalization of the company.

Memo – Key Performance Indicators of Kappla (KPI)

“Key performance indicators (KPI) measure success in attaining predetermined goals.”¹⁷

¹⁷ (Investopedia)

Rutz Balance Business Scorecard¹⁸

Financial Perspective		Customer Perspective	
Goals	Measures	Goals	Measures
Survive	Increase Cash-Flows	Preferred supplier	Percent of key account purchases
Succeed	Increase sales by increasing exports	Brand Awareness	Percent of new customers
Prosper	Increase market share	Responsive Supply	On-time Delivery

Internal Business Perspective	
Goals	Measures
Manufacturing Excellency	Client satisfaction with the product
Design productivity	Company efficiency Vs. Competition

Innovation and Learning Perspective	
Goals	Measures
Design Innovation	Client demand for the product
Technology Innovation	General improvement in performance
Time to market	New Product Introduction Vs. Competition

9. NPV Financial projection

9.1 NPV Financial projection in the Normal Scenario

P&L - Rutz											
Normal Scenario	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenues											
Sales	245 947	258 245	271 157	284 715	298 951	313 898	329 593	346 073	363 376	381 545	400 622
Services Rendered	664	677	691	705	719	733	748	763	778	794	809
Other Revenues	838	846	855	863	872	881	890	898	907	917	926
Costs											
COGS	-141 868	-146 124	-150 508	-155 023	-159 674	-164 464	-169 398	-174 480	-179 714	-185 106	-190 659
Supplies and External Services	-41 939	-43 616	-45 361	-47 175	-49 062	-51 025	-53 066	-55 188	-57 396	-59 692	-62 079

¹⁸ (Kaplan and Norton 1992)

Personnel	-13 890	-14 307	-14 736	-15 178	-15 633	-16 103	-16 586	-17 083	-17 596	-18 124	-18 667
Depreciation	-709	-723	-737	-752	-767	-783	-798	-814	-830	-847	-864
Impairment											
Losses	-9 534	-9 629	-9 725	-9 823	-9 921	-10 020	-10 120	-10 221	-10 324	-10 427	-10 531
Other											
Losses	-1 450	-1 465	-1 479	-1 494	-1 509	-1 524	-1 539	-1 555	-1 570	-1 586	-1 602
Operating Profit	38 060	43 905	50 156	56 838	63 975	71 594	79 724	88 393	97 632	107 475	117 955

9.2 NPV Financial projection in the Negative Scenario

P&L - Rutz											
Negative Scenario	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenues											
Sales	245 947	241 028	236 208	231 484	226 854	222 317	217 871	213 513	209 243	205 058	200 957
Services											
Rendered	664	651	638	625	612	600	588	576	565	554	543
Other											
Revenues	838	821	805	789	773	758	742	728	713	699	685
Costs											
COGS	-	-	-	-	-	-	-	-	-	-	-
Supplies and											
External											
Services	-41 939	-44 035	-46 237	-48 549	-50 977	-53 525	-56 202	-59 012	-61 962	-65 060	-68 313
Personnel	-13 890	-14 446	-15 024	-15 625	-16 250	-16 900	-17 575	-18 279	-19 010	-19 770	-20 561
Depreciation	-709	-730	-752	-774	-798	-822	-846	-872	-898	-925	-953
Impairment											
Losses	-9 534	-9 724	-9 919	-10 117	-10 320	-10 526	-10 736	-10 951	-11 170	-11 394	-11 622
Other											
Losses	-1 450	-1 479	-1 509	-1 539	-1 570	-1 601	-1 633	-1 666	-1 699	-1 733	-1 768
Operating Profit	38 060	24 543	10 766	-3 289	-17 639	-32 303	-47 300	-62 650	-78 374	-94 494	-111 031

9.3 NPV Financial projection in the Optimistic State

P&L - Rutz											
Optimistic Scenario	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenues											
Sales	245 947	270 542	297 596	327 356	360 092	396 101	435 711	479 282	527 210	579 931	637 924
Services											
Rendered	664	697	732	769	807	848	890	934	981	1 030	1 082
Other											
Revenues	838	880	924	970	1 019	1 070	1 123	1 179	1 238	1 300	1 365
Costs											
COGS	-	-	-	-	-	-	-	-	-	-	-

Supplies and External Services	-41 939	-43 197	-44 493	-45 827	-47 202	-48 618	-50 077	-51 579	-53 126	-54 720	-56 362
Personnel	-13 890	-14 168	-14 451	-14 740	-15 035	-15 336	-15 643	-15 955	-16 275	-16 600	-16 932
Depreciation	-709	-716	-723	-730	-738	-745	-752	-760	-767	-775	-783
Impairment Losses	-9 534	-9 534	-9 534	-9 534	-9 534	-9 534	-9 534	-9 534	-9 534	-9 534	-9 534
Other Losses	-1 450	-1 450	-1 450	-1 450	-1 450	-1 450	-1 450	-1 450	-1 450	-1 450	-1 450
Operating Profit	38 060	58 350	81 002	106 262	134 396	165 701	200 502	239 156	282 056	329 637	382 374

9.4 Analysis of the Scenarios

As can be observed from the analysis of the forecasts above, if the market conditions are average and people have a pre-disposition to purchase in regularly high amounts, the business will slowly start to grow and in 10 years it is predicted that the operating profits of Rutz will more than triple. In the case of exceptionally below average market conditions and negative sales growth, operating losses are predicted to be negative from 2017 onwards and the business would not survive. If market conditions are very favorable and the sales growth is high, the operating profits of Rutz is predicted to grow approximately ten times by the year of 2024. (See Annex 6 for the Assumptions used in the Financial Projections)

10. Conclusion

In summary, Rutz is a company with great potential for expansion in the Californian market. The unique core competences of Rutz together with propitious market conditions will lead the enterprise to increase both its sales and its brand awareness and thus, succeed in the marketplace. Initially Rutz will have to rely on business partnerships with distributors already doing business in the region but, with time and accumulated specific knowledge, the company will be capable of developing its business in a more independent manner.