



A Work Project, presented as part of the requirements for the Award of a Master Degree in Finance from the NOVA – School of Business and Economics

**Reflection on the CEMS-MIM Business Project about
Renova's Internationalisation and New Sales Channels Expansion
With a Brief Analysis on Exchange Rate Risk Management and Hedging Strategies**

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Abstract

The present work project examines Renova's intent to enter four new markets, namely Hong Kong, Dubai, Macau and Las Vegas, and to expand into new sales channels, specifically the luxury Horeca segment. The study deals also with the analysis of the risk of exchange rate changes, which Renova might face during its internationalisation plan and how it can manage its exposure.

Findings show that Renova should enter Hong Kong and Macau in a segmented way by targeting few specific hotels and restaurants and by exporting its premium coloured paper products. Furthermore, the company should hedge its exchange rate risk exposure.

Key Words

Internationalisation, luxury Horeca segment, exchange rate risk, hedging

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1 Brief Context

1.1 Client

Renova – Fabrica de Papel do Almonda SA is a major player in the Portuguese tissue and hygiene market with around 600 employees, a value share of 10% in the Portuguese retail tissue and hygiene market in 2014 and a value share of 18% in the Portuguese retail tissue market in 2013 (Euromonitor International, 2014). Renova was founded in 1939 in Torres Novas and started its business as paper producer. However, in the late 1950s the company focused its strategic plan on the production of tissues and hygiene products, for both the retail and the away-from-home channel (Seabra de Sousa, 2010). The company got famous and enhanced its international coverage thanks to the innovative idea that the current CEO, the engineer Paulo Pereira da Silva, had in 2005 of producing black toilet paper, which was followed by eight other colours soon after (Santos, no date). Currently, besides coloured toilet and table paper products, Renova offers several hundred different designs and the possibility to have customized items as well. Through the black and coloured toilet paper, the company was able to gain a reputation as a luxury brand and to position itself in a premium segment with its upmarket black label brand. Renova has been supporting its strategic positioning and choices through innovative marketing and selling initiatives, like “The Sexiest WC on Earth” in Lisbon or “Renova-on-the-go”, a pioneering way to sell toilet paper rolls through vending machines placed in unusual places like metro stations. However, at the same time the company produces cheaper products, as the Olé and the Renova Green lines, in order to adapt to the economic situation of Portugal, which has led to lower consumers’ purchasing power (Euromonitor International, 2014).

1.2 Market Overview

Renova operates in the Portuguese tissue and hygiene market, where it is one of the most significant players. The market is characterized by a growing price-sensitivity due to the uncertain Portuguese economic situation, which has led consumers to prioritize cheap prices over quality. Due to this reason, private labels have recently expanded their presence in the market, by offering growing product range at low prices (Euromonitor International, 2014). The market is expected to remain stable overall; however, a differentiation between the away-from-home (AFH) and the retail segment has to be made.

In 2014 the value of the Portuguese AFH market segment was 122.8 million euros, a 1.6 % increase compared to 2013. AFH incontinence products, which benefited by the ageing

population, largely drove the growth; however, due to the Portuguese economic situation the prices per unit remained stable between 2013 and 2014. On the other hand, almost all the tissue categories posted a volume decline, mainly caused by the crisis of the Horeca channel, which accounted for 64% of sales. However, despite the decrease in volume of sales, the average price per unit of tissue products increased in the years considered, due to lower margins and higher production costs, which forced producers to raise prices. The competitive landscape of the AFH market segment is quite fragmented with some foreign players and some local players, among which Renova positions itself as a premium brand. The AFH segment is expected to grow, mainly driven by incontinence products, which are anticipated to post a CAGR of 4%, while forecasts for tissue categories are less optimistic, expecting a CAGR of only 1% due to a slow recovery of the Portuguese economy (Euromonitor International, 2014 & 2015).

With regard to the retail tissue and hygiene segment in Portugal, the market size decreased to a value of 473.4 million euros in 2014, after having peaked at 497.7 million euros in 2010. The most relevant competitor in the retail segment is P&G with a market share of 26.3% in 2014. Renova is the second biggest player in the retail tissue and hygiene market segment with a market share of 10.6% in 2014 and is the only Portuguese company ranked among the first five players in Portugal in 2014. Other relevant competitors are SCA Group, Kimberly-Clark Corp and Johnson & Johnson Inc. In terms of brand share, the retail market is clearly dominated by P&G with two brands, Dodot and Evax, which in 2014 posted a brand share in Portugal of 17.2 % and 5.1 % respectively. Renova remains a leading player and the only Portuguese company in the highest-ranking positions with a brand share of 8.6 % in 2014. With regard to distribution, supermarkets, hypermarkets and discounters remain the most popular distribution channels with a market share of 48.9%, 21.7% and 15% respectively in 2014. At the same time, internet retailing has been growing steadily since 2009, reaching 1.6% market share in 2014. Finally, value sales in the retail segment are expected to drop due to the increasing impact of competition of private labels (Euromonitor International, 2014 & 2015).

1.3 Current Client Situation

As mentioned above, Renova holds a key role in the Portuguese tissue and hygiene market. Its flagship product has become coloured toilet paper, in particular black toilet paper, since the launch in 2005 (Santos, no date). However, it has the biggest market share in paper tableware in Portugal, with a value of 25.1 % in 2013 (Euromonitor International, 2014). Due to the increasing power of private labels, Renova has focused its strategy on differentiation by offering high-end innovative and niche market products, which sell at higher prices due to better quality.

Besides its domestic market, the company exports more than one third of its production to more than 60 different countries worldwide (Seabra de Sousa). However, its international presence is still very limited comparatively to its domestic strength, as reflected in Chart 1. For this reason, internationalisation and new sales channels may represent a valuable growth opportunity for a premium and innovative brand, such as Renova.

1.4 The Business Project Challenge

The two main objectives of the study are linked to the growth opportunities that Renova may exploit in the international market and in new sales channels. Indeed, the Business Project research has been focused on defining which international markets Renova should enter, among the suggested Hong Kong, Dubai, Macau and Las Vegas, and on how it should enter in order to succeed in the Horeca channel. Therefore, the study may be divided into two main aspects, which can be summarized by “what” and “how” and have been developed through both primary and secondary research. The “what” regards the analysis and the identification of the target markets and segments, which may represent the most valuable growth opportunity for Renova. The “how”, instead, consists of selecting the products to export to the new selected markets and segments, of defining the best type of entry strategy to use and the negotiation process. The “what” and the “how” are then merged into the business model development in order to be quantified from a financial point of view.

2 Reflection on the Work Done

2.1 Problem Definition

The main objective of the study has been to define and value new opportunities for Renova’s business in terms of new markets and new sales channels. The relevance of the problem addressed is clearly linked to the current situation of Renova, namely its strong market presence and brand awareness in Portugal, which is not met by a similar market penetration and brand share worldwide. Therefore, entering new markets, such as Hong Kong, Dubai, Macau or Las Vegas, and targeting their luxury hotels, restaurants and casinos, might be a valuable opportunity for Renova. Indeed, the company has already positioned itself as a premium brand in Portugal, by offering high quality and extremely innovative paper products through both traditional and new sales channels. The internationalisation and the channel expansion could give Renova larger global presence, better brand awareness worldwide and incremental revenue opportunities.

2.2 Methodology

2.2.1 Hypothesis

The central hypothesis at the basis of the project is that the luxury Horeca channels in Hong Kong, Dubai, Macau and Las Vegas are profitable opportunities for Renova. A further hypothesis is that Renova has the financial and human resources and the knowledge necessary.

2.2.2 Work Plan

The methodology used in order to develop the project consists of four main phases: market analysis, industry analysis, recommendations about the target markets and segments and about the entry strategy and, finally, business model development (see Business Project, slide 7). Overall, the research has been based on secondary data, at a first stage, and then on primary data to deliver more significant and exhaustive results.

Firstly, the markets of Hong Kong, Dubai, Macau and Las Vegas have been studied in details through a CAGE analysis and a precise categorization of the Horeca segment. More precisely, through the CAGE analysis, the elements of distance that each of the four markets has in comparison to Portugal have been examined. As part of the market analysis, the luxury Horeca segment has been identified and analysed in each of the four locations. Therefore, four- and five-star hotels, Michelin or famous restaurants and casinos have been selected in the four markets and categorized on the basis of several different criteria (see Table 1). As conclusive part of the market analysis, the potential demand of the Horeca segment in each of the four markets has been estimated through a set of assumptions in terms of products and usage. At the end of the market analysis, the markets to target have been selected among the four ones initially suggested by Renova.

Secondly, the analysis has been focused on the industry of tissue and hygiene products in the Horeca segment of the markets selected. Competitors, products, buyers and distributors have been studied, on the basis of interviews with industry experts and professionals, both in Portugal and in the markets chosen. The analysis of the competitors has been focused on the identification of the key players for each market and on the analysis of their products. The buyers, specifically hotels, restaurants and casinos, have been investigated by sorting between chains and stand-alone and by examining their bargaining power and price sensitivity. Finally, the last step of the industry analysis has consisted of studying the distribution mechanisms of paper products to the Horeca customers in the selected markets and identifying the relevant players.

At this stage, the specific segments to target within the Horeca channel have been identified for each of the selected market. Furthermore, specifications on the entry strategy have been given in order to provide Renova with detailed recommendations about product categories, type of entry strategy and negotiation techniques.

As final step, the business model has been developed in order to quantify the profitability of the project. In order to have reliable and realistic financial results, assumptions have been made about a marketing plan, operations in terms of resources and value chain and financials. A Gantt chart has concluded the whole model in order to plan in details how Renova should proceed to execute the project suggested in the next five years. As a conclusion to the study, an innovative business solution, called *Horeca Freemium*, has been studied, both in qualitative and quantitative terms, by introducing the idea behind the project and by assessing the value added to Renova.

2.2.3 Analysis

The analysis can be divided into market analysis and industry analysis, which have been both based on theoretical academic frameworks, adapted to the specific needs and scope of the study.

The market analysis consists of a market appraisal through the CAGE framework, a study of the Horeca sales channels and an estimation of their potential demand in the four markets. Ghemawat's CAGE framework (2001) helps to identify the differences between different countries in terms of culture, administrative setting, geography and economy, in order to support companies in evaluating global opportunities. In the present research, the reference market has been Portugal, as domestic market for Renova. Specifically, the Hofstede model has been used in order to assess the cultural dimension of the CAGE framework according to the six theorised dimensions, which are power distance, individualism, masculinity, uncertainty avoidance, long-term orientation and indulgence (The Hofstede Centre, 2015).

Hong Kong appears to have different cultural traits and beliefs compared to Portugal, whilst from an administrative point of view it shows some good opportunities, as free trade policy with no tariffs is adopted (Hong Kong Government, 2015). This market is geographically very distant from Portugal; however, it has a very advanced land, sea and air transport systems, being a strategic port in Asia and the busiest airport by cargo traffic worldwide (Airports Council International, 2013). In terms of economy, Hong Kong has been quoted as the market with the highest degree of economic freedom in the world, thanks to its free trade policies, low taxation and the minimum government intervention (Hong Kong Monetary Authority, 2015; World

Bank, 2015). Therefore, overall, Hong Kong appears to be a favourable market for Renova to enter.

Dubai's beliefs and cultural habits significantly differ from the Portuguese culture, mainly due to religion, which might pose a critical barrier to overcome. From an administrative and political point of view, Dubai is part of the United Arab Emirates; however, it relies on its own judiciary system (Tarbuck, 2009). Moreover, Dubai has free-trade zones, created in order to incentivize foreign investments (World Trade Organization, 2015). Geographically, the emirate is far away from Portugal, but it has advanced infrastructures, especially in terms of sea and air transport connections. Dubai's GDP is mostly based on real estates, trade, shipping, retail and luxury tourism, offering valuable opportunities for Renova. Furthermore, Dubai charges very low trade tariffs and does not apply any corporate or income taxes, any value added taxes or any sales taxes (World Bank, 2015). Therefore, Dubai might represent a valuable hub for Renova in terms of administrative and economical setting and because of its well-developed transportation; however, the cultural barrier might overcome the positive aspects.

From a cultural point of view, Macau results to be the closest market to Portugal because of the fusion between Chinese and Portuguese cultures based on history. However, language might be a barrier to entry. The city has been a Special Administrative Region of China since 1999, which assures a high degree of economic and social autonomy. The original framework of the legal system is widely based on Portuguese law (Macau Government, 2015). Macau has good connections to other Asian airports and ports; however, the high level of traffic in the region might cause congestion issues. From an economical point of view, Macau has a high degree of economic freedom and one of the highest GDP per capita in the world, especially due to gambling and tourism industries (World Bank, 2015). Therefore, Macau may represent a profitable market opportunity for Renova, thanks to the influences from the Portuguese culture and to the solid economic and administrative landscape, notwithstanding the fragile transportation system.

Regarding Las Vegas, the Hofstede analysis shows some major differences between the Portuguese and the American cultures; in particular, American people tend to be more proactive, individualist and favourable to risk. From an administrative point of view, Las Vegas is part of Nevada and, thus, of the United States of America. The United States, as the other three markets considered in the study, are part of the World Trade Organization (WTO) and they currently have free trade agreements (FTAs) with 20 countries worldwide (U.S. Federal Government, 2015). The transportation is well developed and the city is served by McCarran International

Airport. From an economic point of view, the biggest drivers of income are tourism, gambling and conventions; however, the city still has to recover after the financial crisis, as tourism spending remains low and the construction industry has not experienced a full rebound yet (World Bank, 2015). Overall, Las Vegas might not be the best choice for internationalisation for Renova because of the uncertain situation in the tourism and real estate industries.

The second step of the market analysis consists of the identification and categorization of luxury hotels, restaurants and casinos in each of the four markets. The data have been collected through secondary resources, as Booking.com, Tripadvisor or other travel web pages and magazines.

Looking at the Hong Kong market, 93 hotels are identified as potential target segment, most of which being four-star (58%), stand-alone (53%), high-priced (54%) and business (53%) hotels. Furthermore, 83 restaurants are selected as belonging to a premium segment; most of them are stand-alone (71%) and have high prices, meaning below 100 euros per meal. From the research, Hong Kong results to be the country with the largest number of Michelin-starred restaurants in the world.

Concerning the Dubai market, 135 hotels are identified as potential target; most of them are five-star (65%) and business or city (87%) hotels, belonging to a chain (84%). In terms of restaurants, 18 of them are considered attractive for Renova; 94% of them are part of a hotel and 61% of them have premium prices. A further interesting result of the study is that, Dubai has no Michelin-starred restaurants, but famous or Michelin-awarded chefs own some of them.

As it emerges from the study, neither Hong Kong nor Dubai have casinos as gambling is not allowed. Indeed, in Hong Kong gambling has been regulated since 1977 and nowadays it is only permitted in the Hong Kong Jockey Club, where only bets on horse races and football matches and a lottery are taken (Hong Kong Government, 2015). Similarly, in Dubai gambling is illegal because of religion beliefs and rules (Blitz, 2007).

In Macau, 26 hotels are selected among the target group, most of which are five-star (81%) and business (65%) hotels, belonging to a chain (58%) and with a premium price range (93%). Furthermore, 58 restaurants are identified as potential target, all of them placed in the targeted hotels. The majority of them belongs to the premium category (93%) and has no Michelin stars (81%). Macau results to be a major hub for gambling; in fact, 28 casinos are selected, most of them placed inside hotels (79%) and of small size (43%).

Las Vegas market presents 40 hotels as potential target, the majority of which are “Casino Hotels” (77%) with a high price. On average, they are four-star, while all of them belong to a

chain. Moreover, 27 restaurants are identified, of which 93% are part of a hotel, 74% have high prices and 48% have more than one Michelin star. Las Vegas is a major attraction for gambling tourism, especially the Las Vegas Strip, which is considered as potential target. 31 casinos are selected, most of which are medium or large and are placed in Caesars Entertainment's hotels.

The final step of the market analysis consists of estimating the potential demand of the Horeca segment in each of the four markets. The potential demand has been computed separately for each segment, namely hotels, restaurants and casinos, in each of the four markets, by considering as product portfolio toilet paper, paper towels, tissues, napkins and kitchen rolls in each sales channel (see Business Project, slides 23-25). Moreover, calculations for the demand of each sales channel in each market have been based on further numerical assumptions, in line with the information gathered through interviews with experts and professionals (see Business Project, slides 127-130). The results show that Las Vegas promises the highest demand for hotels and casinos, followed by Macau, where the demand for hotels is influenced upward by the high room turnover, due to very short periods of stay. Indeed, as reported by the professionals interviewed, every time the guests leave a room, all the amenities, as toilet rolls or tissues, are replaced with new ones, being the target four- and five-star hotels. In terms of restaurants, Hong Kong displays a major opportunity for Renova. Dubai does not show interesting results for any of the sales channels or products examined (see Business Project, slides 26-35).

In light of the market analysis results and of Renova's feedback after the presentation of the described outcomes, two markets have been chosen as specific targets: Hong Kong and Macau. Hence, the first hypothesis has been partly rejected. Indeed, Dubai might present high cultural barriers and does not show an attractive potential demand of the products considered in the Horeca segment. Furthermore, the majority of the hotels and restaurants belong to large chains, both international and local, which might have a high bargaining power and settled procurement systems, potential obstacles for Renova. Las Vegas, despite its high demand for restaurants and casinos, is characterized by the presence of large chains, which might bring the same threats as in Dubai. Furthermore, the United States are the home market of two of the most relevant competitors of Renova, Kimberly-Clark and P&G. Therefore, the market is saturated and such big players might threaten Renova's entry. For these reasons, Dubai and Las Vegas have been excluded, while Hong Kong and Macau appear to be valuable opportunities. Indeed, Hong Kong has the highest percentage of stand-alone hotels, which are potentially easier to enter than chains, the highest number of Michelin-starred restaurants and a free-trade policy. Similarly,

Macau is the new hub for gambling with high growth potential and has a quite large proportion of stand-alone hotels. Furthermore, these two markets are geographically close to each other, which would allow Renova to establish an “Asian hub” and benefit from synergies in shipping and distributing there. Furthermore, in the long term, Shanghai might represent an attractive addition to the “Asian hub”.

The industry analysis has been focused on the hygiene and tissue industry in the Horeca channel of the two selected markets, Hong Kong and Macau. Specifically, the industry analysis has been run through a Porter Five Forces framework (Porter, 1979), adapted to the context and to the information requested directly by the company. Therefore, instead of focusing on the competition of the industry based on potential new entrants, power of suppliers, power of customers and threat of substitute products, the analysis has been focused on assessing the attractiveness of the industry by looking at competitors and buyers as well as specifically at products and distribution.

Through primary and secondary data research, six competitors have been identified in the two markets, mainly from Mainland China. Indeed only two of them are American: Kimberly-Clark and P&G. The former is positioned in the high-end segment by offering superior quality products and has a retail value market share of 10.2%, while the latter has a dominant presence in retail hygiene where it is perceived as a high-quality producer and has a retail value market share of only 3.9% (Euromonitor International, 2014). The other four competitors, all Chinese, are: Guangdong Zhongshun Paper Industry Group Co Ltd (C&S Paper), producer of tissue products only and focused on volume and distribution enlargement; Hengan Fujian International Group Company Ltd, focused on mid- and high-end products; Guangdong Vinda Paper Co Ltd, which displays a wide variety of product range and luxury brands; Gold Hongye Paper Group Co Ltd, whose strategy is based on sustainability. Among all of them Hengan appears to be the market leader in 2013 with 11% of retail value market share (Euromonitor International, 2015). Thereafter, the competitors have been examined according to products, namely wipes, paper tableware, kitchen towels, toilet paper and tissues. Hengan results to be the dominant player within the residential sector, followed by Vinda (Euromonitor International, 2015). Primary data resources indicate that Vinda is particularly strong in the Horeca segment, together with C&S and KC. On the other hand, P&G has a strong position in the baby and sanitary sectors in Hong Kong and Macau, thus representing a low competitive threat for Renova in the Horeca channel. Therefore, in consideration of the competitors’ analysis, Vinda

and Hengan are the key players in the Horeca segment of Hong Kong and Macau as regards Renova's product range.

The analysis of the products has been based on secondary data from Euromonitor International and has been focused on tissues, kitchen towels and toilet paper, being the most relevant products for the Horeca segment, as shown in the potential demand forecast results and due to lack of data availability. Being accessible only retail prices, the Horeca clients are assumed to buy at 25% discount on the retail price. Moreover, in line with primary data responses, pricing and products have been assumed the same in Hong Kong and in Macau and the Hong Kong dollar has been converted into euro at a reference exchange rate of 1 EUR = 0.115 HKD. In particular, product specifications, as number of plies, retail price and expected Horeca price, on average and for the top quartile, are summarized in Table 2. Finally, primary data has elucidated that wrapping and packaging depends on each single brand; hence, they are not an entry requirement for the Horeca segment.

With respect to the analysis of buyers, represented by the Horeca channel in Hong Kong and Macau, a distinction has been made between stand-alone players and chains, in order to examine the diverse bargaining power and price sensitivity. The research, based mainly on primary data, shows that chains have usually high bargaining power. Indeed, when buying tissues and other paper products, they use a central procurement system based on a yearly bidding system focused on price. Therefore, these players are likely to switch supplier in case of lower price opportunities, which results in a lack of long-term relationship engagement with vendors. Moreover, their bargaining power is emphasized by economies of scale, as they purchase large volumes of products, and by their brand reputation. Being their bargaining power so vast, price sensitivity is high, as briefly referred above. This depends as well on the fact that tissues, toilet rolls and the other paper products are usually treated as commodities as they are not critical to succeed in the Horeca segment. Hence, the possibility to pass on the costs to customers is critical, especially in case differentiation through premium products, as the ones Renova could offer, is pursued. On the other hand, stand-alone hotels, restaurants or casinos have a medium bargaining power, as they do not use a central and standardized procurement system. Therefore, they value synergies and long-term relationships with vendors more and they are open towards innovative products, like Renova's. Moreover, their price sensitivity is lower than the one of chains because product differentiation is highly valued as it might bring better reputation and image. However, the possibility to pass on costs to clients remains important. Finally,

professionals indicate that Horeca clients generally pay 22-34 euro cents per roll and buy packs of ten rolls, which are shipped in container loads.

The conclusive part of the industry analysis concerns the distribution system and is based on the answers received from the professionals interviewed. Distribution to the Horeca channel in Hong Kong and Macau follows the Delivered Duty Paid (DDP) model. This means that the seller, in this case Renova, is responsible for all the costs associated with the delivery to the buyer's door, which can be either the hotel door or the harbour or the airport. It is particularly important to establish what the buyer's door is, in order to transfer the ownership of the products shipped. The potential costs to cover are import tariffs, duties and fees. However, Renova would not need to pay those costs, as Hong Kong is a free port and shipping or flying is possible only there and not to Macau directly, because of capacity issues. Furthermore, five key distributors have been identified through the research: Great Time Limited, H S Chan Co. Limited, Forton Enterprises Limited, Elliebase China Paper and Nam Kwong, which however has no experience in tissue products. These companies distribute products of some potential Renova's competitors, as Vinda. However, some local players in the tissue and hygiene industry have also their own distribution system, as they have factories in China (e.g. C&S and Vinda). A final important remark is that distributors hold an average margin of 10%, according to primary data.

2.3 Recommendations

In light of the findings of the market and industry analysis and of Renova's feedback, the company should enter the Horeca segment in Hong Kong and Macau in a segmented way. In particular, Renova should enter 16 design hotels in Hong Kong and the respective 17 restaurants because of the value opportunity this target might offer. Entering design hotels in this market might help Renova to create and enhance brand awareness worldwide. Indeed, Hong Kong has design hotels, which are recognized internationally and belong to design organizations. Furthermore, according to the business experts interviewed, design hotels would be able to transfer the higher cost of Renova's products to clients who expect original furniture and amenities in the hotel rooms. Hence, Renova would offer a higher value proposition to this specific target. Therefore, because of their strategic focus and of clients' expectations, design hotels would be more willing to pay a premium price for coloured paper products due to differentiation potential and Renova might have a higher bargaining power when targeting design hotels.

Renova should also enter Macau by targeting six five-star stand-alone hotels and the respective 27 restaurants. In fact, Vinda and C&S dominate the Horeca segment in Macau as suppliers of

tissues and other paper products, being able to compete through low prices and high volumes. Moreover, most of the hotels in Macau belong to American chains and uses a central procurement system with decisions based on price; hence, similar market conditions would seriously threaten Renova's entry. For these reasons, the company should target a limited number of hotels, with which it can preserve a large bargaining power: stand-alone and five-star hotels willing to pay higher prices for innovative paper products for differentiation purposes. Casinos are not targeted since the beginning because of resource availability reasons.

As concerns the products to bring to Hong Kong and Macau, Renova should choose its premium label coloured toilet rolls and tissues. Indeed, Renova cannot compete with its white professional products due to a very competitive offer from Chinese producers. Hence, Renova should position itself as a premium brand by offering only innovative and high-quality flagship products, in order to build a competitive advantage and improve its margins. Moreover, the possibility of product customization might add further value to Renova's proposition. Regarding specifically the type of products that the company should bring to Hong Kong and Macau, toilet rolls, both normal size and jumbo, and facial tissues are recommended. The specifications of each product category are set in details by adapting the features of the current coloured products to Renova's professional range (see Business Project, slide 52). Coloured napkins are not considered as attractive product to export, at least initially, because the targeted restaurants do not use paper napkins, but fabric ones. Furthermore, when dealing with the colour selection, Renova should consider cultural differences in terms of colour association in order to enter the markets successfully. Thus, red should be emphasized within the colour range because in the Chinese culture it is a symbol of popularity, passion, excitement, power, joy, happiness, love and fortune (Cousins, 2012).

In terms of entry strategy, different models have been examined, as direct exporting, indirect exporting through an export management company or indirect exporting through a distributor. After assessing advantages and disadvantages of each of them, direct exporting has been recommended because it provides the best learning experience and the highest margins for the company that would go directly into to new markets without the help of any third party. Besides the steep learning curve and the potential for higher profits, direct exporting also allows greater control over the products and the transactions, better relationship with the clients, more flexibility, better protection over intellectual properties and market insights, which might be useful for Renova in the long term (Delaney, 2013). However, exporting directly to new far-

away markets implies the need of financial and human resources and more risks and responsibilities, which might be outside Renova's capabilities.

Furthermore, it is recommendable for Renova to prioritize Hong Kong because numerous design hotels are present and design events are frequently organized, which might be an opportunity for Renova's brand. Shipping costs are also lower and tariffs are zero. Specifically, four hotels have been selected as first target to negotiate with, the ones managed by the hotel manager Angela Lee, namely One96, The Jervois, The Putman and 99 Bonham. Indeed, this strategy would allow Renova to have direct access to four hotels simultaneously and to enter Angela Lee's network, which might help the company to access other design hotels in Hong Kong more easily. Angela Lee and her hotels might be a brand advocate for Renova, due to their high brand awareness and reputation.

Additionally, a general negotiation strategy, which is applicable not only to Angela Lee's hotels, but to any other case, has been suggested based on theoretical studies. Specifically, it consists of three elements: sequencing, referencing and trialability. It is important for Renova to choose which parties to prioritize when starting a negotiation (sequencing), either the distributors or the Horeca players, named respectively forward negotiation and backward negotiation (Sebenius, 2004). In consideration of the analysis done, it is recommended to engage in a backward negotiation by prioritizing the Horeca players because this would let lock-up prices with hotels, restaurants or casinos, giving Renova more flexibility with its clients. Moreover, in this way, Renova would first establish the contract terms with the key players of the market, meaning the Horeca segment, which would facilitate the negotiations with distributors. However, Renova should pay attention not to set a too low price, which would not cover the costs for distribution. Referencing is based on the fact that, the Horeca channel being highly competitive, industry players need to differentiate among others by building a strong image and positive reputation, which depends on customer satisfaction, repeat patronage, word-of-mouth and service quality (Choi & Chu, 2001). Renova's products might represent a valuable differentiation factor for Horeca players in Hong Kong and Macau. Therefore, the company should offer special prices and implement the *Horeca Freemium*, subsequently explained in the report, in the first targeted hotels, which would represent flagship clients for further negotiation. Finally, trialability is suggested to test the attractiveness of the product range through a trial phase during which the selected Renova items will be placed first in the guest rooms of the hotels, where guests are able to take the amenities after their stay. Therefore, Renova could easily identify a sample of consumers' preferences, which would increase its bargaining power

in further negotiation phases (Touryalai, 2014). In this regard, specific practices have been suggested to Renova, for instance using the selected hotels in Hong Kong and Macau as flagship hotels or testing different colours with a sample of at least 500 guests belonging to different customers' groups.

Further recommendations have been given in relation to the business model development and can be divided into strategic, operational and financial. As mentioned before, Renova should position itself as a premium brand offering coloured paper products with particular emphasis on red in order to adapt to the local cultural traits. It should accentuate the quality of its products and the ability to provide design and differentiation factors to commodities such as toilet paper and tissues. The company should stress how such sophisticated products are in line with the concept and strategy of luxury and design hotels and would increase customers' willingness to pay. In order to support this value proposition, several marketing initiatives are suggested: marketing events, as sponsoring art exhibitions or Hong Kong and Macau Design Centres or the Hong Kong Fashion Week; trade and hotel fairs, as Hofex which is the largest international tradeshow in Asia for hospitality industry; promotional videos with testimonials and advertising campaigns for hospitality magazines. The aim of these initiatives is to enhance Renova's brand awareness among the Horeca players in Hong Kong and Macau, to establish long-term relations with them and to create trust in the quality and innovativeness of the products. The attendance at similar events and the development of a specific advertisement campaign would imply for the company investments of more than 5 million euros, spread over the five years considered in the business model (see Business Project, slide 73).

In terms of value chain operations, as analysed before, Renova should export directly to Hong Kong and use a DDP system as common in the market. This implies that Renova would be responsible for all the costs until the clients' door, namely production costs (ex-works), transport to harbour, local distribution and arrival to the Horeca clients. In this regard, key suggestions are that Renova should ship directly to Hong Kong, as it is about 35% cheaper than Macau, with the usage of 40'' HC containers at full capacity. Moreover, Renova should adopt a cost-based pricing system with a target mark-up of 25% for the Horeca segment in Hong Kong and Macau in order to support a skimming strategy. This type of pricing approach theoretically allows maximizing profits by charging high prices to early adopters, to create a prestige aura around the product and to have an insight of customers' willingness to pay (Dean, 1976). Following these suggestions and considering calculations based on the analysis previously done and on Renova's information about transportation costs, toilet paper is priced

at 21% and 24% premium over the top quartile Horeca prices of Hong Kong and Macau, respectively, while facial tissues at 4% and 6%. As concerns Capex, marketing investments are the most significant ones, whereas legal fees represent just a small percentage and are due to the fact that Hong Kong and Macau laws request companies to have a local representative as firm's secretary. In the five-year period considered, toilet paper products represent on average 77% of the total volume and Macau weights for 85% of the total units sold. The whole internationalisation project will bring an EBITDA of 911,301 euros in the first year, growing at 33% per year, up to 3.7 million euros in the fifth year, meaning that the EBITDA margin will reach almost 23% in 2020. The Return on Investment is expected to be 33% in the first year and the Free Cash Flows are expected to stabilize in 2019 and 2020 at around 14% of revenues (see Business Project, slides 68-78). In summary, looking at the implementation plan (see Business Project, slide 79), Renova should undertake marketing initiatives with a long-term and continuous perspective, prioritize four design hotels in Hong Kong, negotiate firstly with them, and then expand its business to Macau with a similar strategy.

Finally, a new business idea is recommended to Renova: the *Horeca Freemium*. This project consists of establishing a small sale corner inside hotels in order to sell coloured toilet paper rolls to hotel guests. Renova should secure the sale corner by selling paper products to the targeted hotels at discount. In this way, the company would acquire bargaining power, set valuable relations with the Horeca channel, enhance brand awareness and facilitate future negotiations. Renova should sell toilet rolls to the hotel at 2.83 euros, which is the average Horeca price per package of ten rolls in Hong Kong, while the retail price for hotel guests should be of 10 euros. In this way, Renova would lose 0.41 euros per pack when selling to the hotel; however, it would pass on this cost to the hotel guests with a realized profit of 6.76 euros per pack. By selling at a lower price than usual to the hotel, Renova would sustain an opportunity cost, specifically the rent paid for the selling space, which equals 4,342 euros, a value 24% lower than the average rent in Hong Kong for a space of 4 sqm. In line with those recommendations, the *Horeca Freemium* would reach the break-even by selling only 643 units per year, meaning a minimum of two units per day, which is a more than reasonable assumption when considering that the targeted hotels in Hong Kong have an average of 111 guests per day and the average spending per night is 170 euros.

2.4 Limitations

The key shortcomings identified in the study are related to data availability, cultural and geographical challenges and assumptions taken.

First, as concerns data availability, Renova has not shared some sensitive data, which could have been crucial for the study. Moreover, the response rate to interviews has been low, due to confidential information that professionals could not reveal. Because of those issues, the comparability of the data gathered might be limited in some cases.

Second, in terms of cultural and geographic challenges, it has been arduous sometimes to reach people and companies in Hong Kong and Macau, to collect primary data because of the long distances, the time difference and the language barrier. Moreover, the so-called liability of foreignness has been experienced, due to the partial knowledge about the markets and due to the different managerial practices adopted there.

Numerous limitations derive from the assumptions made in the demand forecast, in the business model development and in the *Horeca Freemium* prototype. In terms of demand forecast, the selection of hotels, restaurants and casinos in each market might not reflect the complete market picture. Moreover, in order to estimate the total potential demand a formula for each type of product in each Horeca segment has been assumed; however, result discrepancies might arise. In order to compute the demand value, assumptions have been made about the number of public WCs and employees' WCs based on average values and about the lifetime and the turnover of rolls and tissues, possibly leading to imprecise results. In the business model, ex-works costs are assumed on the basis of Hong Kong producers' cost structure, which might not reflect Renova's real data. Furthermore, Horeca segment is assumed to buy at 25% discount compared to retail prices and margins of producers and retailers are also assumed; hence, the results might show some discrepancies from reality. Prices of products are expected to grow at inflation rate, while in reality they might be locked-up through a contract. Finally, marketing investments might vary depending on the requests from the client's side, leading to changes in the business model outcomes. Additionally, the new business proposal, the *Horeca Freemium*, is a prototype based on Hong Kong data, which might lead to discrepancies when implemented in other locations. Finally, the product demand in the hotel, where the corner store would be placed, is assumed equal to the average demand of the whole Hong Kong market.

Beside the limitations mentioned so far, the cultural analysis based on the Hofstede model might lead to discrepancies due to the fact that the model does not address specifically Dubai, Macau and Las Vegas; consequently, United Arab Emirates, China and the U.S.A. have been taken respectively as proxies. Finally, in the product analysis, the prices are based on values of retailing and supermarkets in Hong Kong, which might lead to imprecise results for Macau.

3 Reflection on Learning

3.1 Brief Literature Review on Exchange Rate Risk Management

Risk is defined by the literature as performance variance, which cannot be forecasted ex-ante, due to uncertain environmental variables, which reduce performance predictability (Miller, 1992). The uncertainty can come from the general environment (e.g., political instability, macroeconomic developments), from the industry (e.g., competitive uncertainty due to rivalry or potential entrants) or from the firm itself (e.g., agency problems, production uncertainty). Specifically, among the different types of risks, international companies, meaning companies with either operations or business flows abroad, like Renova, face exchange rate risk.

Exchange rate risk is defined as the effect of unexpected exchange rate changes on the value of the firm (Papaioannou, 2006). Indeed, it can cause direct or indirect losses in the firm's cash flows, balance sheet, net profits and market value. Therefore, corporate hedging, meaning the use of off-balance sheet instruments, in order to reduce the volatility of the firm value, is crucial for an international company (Nance, Smith & Smithson, 1993). According to the literature, similar companies have to identify and measure foreign exchange risk, develop a specific policy about exchange rate risk management if hedging is considered valuable, decide how to hedge and, finally, evaluate the results and adjust the practices periodically in line with the business and the macroeconomic environment (Export Development Canada, 2010). In this way, the firm is able to reduce its vulnerability due to major exchange rate movements, which could negatively influence the firm's profit margins, value of assets or market value.

Exchange rate risk can be classified into three different types: transaction risk, translation risk and economic risk (Papaioannou, 2006). The first type is linked to the firm's cash flows as it deals with the effect that exchange rate moves might have on receivables, payables and repatriation of dividends. Typically, exporters (or importers), as Renova, face this kind of risk when they are paid in foreign currency and changes in the exchange rate of the home currency, against the currency of the country of trading, result into a lower (or higher) amount of money than anticipated. The second type of exchange rate risk is linked to the firm's balance sheet, as it regards the effect that changes in the exchange rate may have on foreign subsidiary, whilst consolidating it in the parent company's balance sheet. The latter type of exchange rate risk explains the overall impact that exchange rate fluctuations may have on the company's value, due to its competitiveness in the international market.

After having identified the type of foreign exchange risk, the company should measure its exposure, for instance through the Value at Risk (VaR) approach, which is currently widely used in practice. The VaR approach is defined as the maximum loss, which a firm may experience for a given exposure and over a given period of time. In other words, this method is used in order to appraise the riskiness of a foreign exchange position over a certain period and under normal conditions (Papaiouannou, 2006).

Thereafter, the company should define its strategy in order to decide if hedging the risk is valuable. The decision to either hedge or not depends on exposure factors, for instance the relevance of foreign operations and trade, as well as on variables associated to hedging theories (Allayannis & Ofek, 2001; Nance, Smith & Smithson, 1993; Brown, 2000). Specifically, regarding the latter category, the tax structure can influence the decision about hedging; in particular, having a progressive tax schedule, meaning a system where high incomes are taxed more, enhances the benefits of hedging, as expected taxes would be reduced. Second, hedging can help companies to lower expected costs of financial distress since it helps controlling the volatility of the company's value. This benefit is higher for those companies, which have greater probability of financial distress and more costs in case of such event happens, for instance companies with high fixed claims or small companies since costs are less than proportional to firm size. On the other hand, however, big companies are usually more likely to hedge, due to informational and transactional scale economies. Additionally, hedging allows companies to have lower agency costs, in particular in case firms have numerous investment opportunities, which might increase the agency problem between shareholders and debtholders and lead to underinvestment. This is valid in particular for companies, which already have high fixed claims to pay to debtholders, because undertaking new projects might further reduce shareholders' wealth. Through hedging, instead, the volatility of the company would be limited and shareholders would be more favourable towards new investments. Hence, higher leverage and more growth opportunities are a good argument in favour of hedging. According to academic research, other elements, which cause hedging of foreign exchange risk to be more valuable for a company, are high investments in R&D due to their unsecure outcomes, higher fixed assets than liquid assets and a policy of high dividends (Nance, Smith & Smithson, 1993).

At this stage, if it results that the benefits of uncertainty reduction are higher than the cost of hedging and the company decides to hedge, the technique has to be agreed, namely natural hedging and/or financial hedging. On the one hand, natural hedging consists reducing a firm's exposure by diminishing the difference between receipts and payables in foreign currency, for

instance by borrowing in the foreign currency in case of an exporter (Export Development Canada, 2010). On the other hand, financial hedging instruments may be either over-the-counter (OTC) or regulated contracts (Papaioannou, 2006). Examples of OTC instruments are currency forwards and cross-currency swaps. A currency forward is a contract between a bank and a customer which implies the delivery of a specified amount of currency against another currency at a specified future date and at a price, namely at an exchange rate, set today. The forward contract can involve physical delivery of the currency (outright forwards), or it can be settled on a net cash basis (non-deliverable forwards). By using this type of contract, the firm is fully hedge and does not pay for a purchase price; however, it carries the risk of not benefiting from movements of the currency, which are opposite to the ones expected (Papaioannou, 2006). Cross-currency swaps consist of the simultaneous selling and buying, or vice versa, of a foreign currency with the aim of helping the firm match receipts and payables in a foreign currency. Two are the most common types of cross-currency swaps: cross-currency coupon swap and cross-currency basis swap. The first type of contract involves buying a currency swap while paying fixed and receiving floating interest payments. The second type of contract, instead, involves buying a currency swap while paying floating interest in one currency and receiving floating in another currency. Therefore, while the first instrument allows managing foreign exchange risk and interest rate risk, even if the firm will not be completely hedged, the second type of contract allows better hedging for interest rate risk. Swaps do not imply direct purchasing costs (Papaioannou, 2006). Besides OTC instruments, exchange-traded derivatives for hedging are currency options and currency futures. Currency options are standard contracts, which give the company the right, and not the obligation, to buy or sell a standard amount of a selected currency at a fixed exchange rate (strike price) in the future. Differently from forwards, options allow the company to benefit also from favourable movements in the exchange rates; hence, they usually have an upfront cost. Currency futures are contracts, which imply the delivery of a standard quantity of a currency, at a set exchange rate on a set delivery date. Even if similar to forwards, futures are standardized instruments, easy to liquidate as traded in organized and stable markets; however, they are limited to certain currencies, dates and sizes. Furthermore, their price will be in line with forward rates, for a given currency and a given settlement date (Cunha, 2015; Papaioannou, 2006).

In order to conclude the brief literature review about foreign risk management, it seems appropriate to compare Modigliani-Miller theory with more recent ones. Indeed, according to Modigliani and Miller, exchange risk management is irrelevant to the firm. Indeed, in the world

of efficient capital markets, investors could easily build a diversified portfolio in order to eliminate exchange rate risk; therefore, hedging would not add any value to the firm (Parsons & Mello, 2011). However, recent theories, based on the flaws of Modigliani-Miller model, suggest that a hedge premium exists and that hedging increases the firm's value. Specifically, the study by Allayannis & Weston (2001) demonstrates that hedging is valuable for those companies, which either have operations abroad or are exporters or importers. Indeed, the hedging premium is statistically and economically significant and equals on average 4.87% of the firm's value due to lower expected taxes, reduced bankruptcy costs and mitigation of underinvestment risk, as already examined above while describing the determinants of corporate hedging. Furthermore, hedging foreign exchange risk would also increase investors' valuation of the company, because of the diminished uncertainty exposure.

3.2 Exchange Rate Risk Management Applied to Renova's Internationalisation and Sales Channels Expansion

In entering new foreign markets and new sales channels, as studied and recommended in the Business Project, Renova will face exchange rate risk. Specifically, it is recommended to target the Horeca channel in Hong Kong and Macau. This would cause Renova to deal with two new foreign currencies, the Hong Kong Dollar (HKD) and the Macau Pataca (MOP). Therefore, by following the method described in the previous paragraph, Renova should identify which type of foreign exchange risk it will face and measure it. Afterwards the company should decide if hedging is valuable considering both internal characteristics of the firm and macroeconomic factors, then formulate a consistent policy by choosing the right type of hedging instruments and the level of hedging, and finally evaluate the performance achieved. Due to the limited scope of the present report, the focus of the study application to Renova's case is on the type of exchange risk faced by the company, the determinants of the hedging decision and the methods and instruments that could be used.

In terms of type of risk, when exporting to Hong Kong and Macau, Renova will face transaction exposure due to exchange rate changes, which would cause the company to receive less money than expected from receivables, if the company is paid in foreign currency. Indeed, having foreign sales can be seen as having a net long position in a foreign currency: Renova would benefit in case of euro's depreciation, while it would suffer in case of euro's appreciation since it would receive less cash inflows. Thus, hedging is more beneficial in the second scenario. Moreover, Renova will face economic exposure, due to the overall impact that a depreciation or appreciation of the euro may have on the company's competitiveness abroad.

Regarding the decision of hedging, Renova should first consider the magnitude of its exposure. Specifically, Renova is already exporting more than one third of its production. The new internationalisation project would increase the revenues coming from abroad by around 5 million euros in the first year, which equals 4.2% of the total revenues in 2013 (113.6 million euros according to Renova's financial results published on Amadeus), up to around 17 million euros, which equals 14.61% of the total revenues in 2013 (see Business Project, slides 74-75).

Furthermore, the decision of hedging is determined by some other factors, related to the fiscal structure of home market and to the firm itself, as studied previously. In terms of tax structure, according to the data from KPMG for 2015, the Corporate Income Tax in Portugal is levied at 21%, to which may be added a municipal surtax up to 1.5% on taxable profits, and/ or a state surtax of 3% on taxable profits exceeding 1.5 million euros, of 5% on taxable profits exceeding 7.5 million euros and of 7% on the part exceeding 35 million euros. Therefore, being the Portuguese tax schedule adapted in accordance to the level of income, hedging could have favourable impacts on Renova's value, especially because it is a medium-sized company with its taxable income in the progressive region of the tax schedule. Regarding fixed claims, Renova level of leverage can be a reliable measure. The gearing ratio decreased from 2011 to 2013 from 14.37% to 3.45%, meaning that Renova either raised equity or lowered the amount of debt, and thus of fixed claims. Meanwhile, in the same period, the current ratio, which measures the ability of the company to pay off its current liabilities with its current assets, improved from 1.37 to 1.95 (Amadeus, Renova's financial data 2011-2013). Therefore, even without a comparison with peers due to lack of information, Renova seems to have reduced its fixed claims over the recent years. However, other elements have to be considered in order to formulate a final recommendation for Renova. Indeed, the company has numerous investment opportunities coming from the internationalisation to Hong Kong and Macau and from entering the luxury Horeca channel. Furthermore, despite precise numbers could not be found, R&D costs are assumed to be high for Renova, given its focus on innovation in terms of products, marketing campaigns and sales channels. Additionally, looking at Renova balance sheets of 2011, 2012 and 2013, liquid assets consistently exceeded the value of fixed assets (Amadeus, Renova's financial data 2011-2013). Finally, the dividend policy cannot be analysed in depth, as the company does not disclose it.

Overall, Renova's financial ratios would not support hedging practices; however, the relevance of the new exposure, the Portuguese tax system, the numerous investment opportunities coming from the new project and the assumed high R&D costs are in favour of the adoption of a

structured policy in order to hedge the risk. This argument is further supported by the fact that Renova is a medium-sized company, and according to Nance, Smith & Smithson (1993) small- and medium-sized companies are more likely to hedge since they are impacted by financial distress more than large firms. Moreover, according to information collected from Renova, the company has adopted some hedging practices, for instance selling in euros or passing the risk on to distributors, however not in a structured way or using financial instruments.

At this stage, in order to either further support the decision of hedging or not, it is relevant to examine the currencies involved from a macroeconomic perspective. The Hong Kong dollar (HKD) has been pegged to the U.S. dollar since 1983 at a level of $1 \text{ USD} = 7.8 \text{ HKD}$ since 2005, but the currency can trade between 7.75 and 7.85 (see Chart 2). In the last few months, the Hong Kong Monetary Authority (HKMA) has intervened more than once buying U.S. dollars and selling Hong Kong dollars in order to defend the currency peg after the currency strengthened against the dollar too much due to a very high demand for Hong Kong's stocks (Li & Chen, 2015; Chen, 2015). Moreover, after the Swiss National Bank decided to free the Swiss franc from the euro, rumours have started about a similar outcome for the Hong Kong dollar. Indeed, the HKMA had to step in several times in the last year in order to keep the peg with the U.S. Dollar, which led to the purchase of huge volumes of U.S. dollar and to the surge of property values in Hong Kong (Back, 2015). Moreover, by now the United States are not anymore the main trade partner of Hong Kong, counting only for 5% of the city's business, while China has risen to 15% (Hughes, 2015). Therefore, it would be assumable a switch to a peg with the Chinese yuan, however only in the very long term when the Chinese currency would be freely internationally convertible.

The Macau Pataca (MOP) is pegged to the Hong Kong dollar at a rate of $1 \text{ HKD} = 1.03 \text{ MOP}$. The authorities do not expect to change this in the foreseeable future due to the vast reserves of Hong Kong dollar in Macau and because the Hong Kong dollar remains the main settlement currency in the gambling sector (World Trade Organization, 2013). Being pegged to the Hong Kong dollar, the Macau Pataca is indirectly connected to the U.S. dollar at a current rate of $1 \text{ USD} = 7.98 \text{ MOP}$ (see Chart 3).

Finally, between spring 2014 and January 2015 the euro depreciated by almost 20% against the U.S. dollar, which means that it had the same path against the HKD and the MOP (see Chart 4). A similar condition has favoured the exports from the euro-area to the United States or to countries with currencies pegged to the U.S. dollar (European Central Bank, 2015), which would benefit Renova's new business in Asia. According to the European Central Bank's

macroeconomic report of March 2015, the USD/EUR exchange rate will either remain at a level similar to the present one, meaning around 1.13, or the euro will further depreciate against the U.S. dollar until 1.04 in 2017, due to a divergence in euro area's and the United States' growth prospects.

Therefore, on the one hand, in light of most of the current firm's characteristics and of the business opportunities, Renova is suggested to define an exchange rate risk management policy. On the other hand, the weak euro and the outlook of a possible further depreciation against the U.S. dollar suggest favourable perspectives for euro-area's exporters towards the United States or countries with currencies pegged to the U.S. dollar, either directly or indirectly as Hong Kong and Macau. Hence, with the current macroeconomic projections, Renova would have no need to hedge, since a further depreciation of the euro would translate either into higher cash inflows for the Portuguese company when exporting to Hong Kong or Macau, in case of receivable in foreign currency, or into stronger competitiveness. However, due to the sharp movements that have happened and might happen in the next years in the exchange rate markets and due to the high impact that the new internationalisation project would have on Renova profitability, it is recommendable for the company to develop a structured approach to foreign exchange hedging (European Central Bank, 2015). Specifically, Renova should decide to hedge its position against the Hong Kong dollar, for two reasons: first, because the company would negotiate initially with the Horeca segment in Hong Kong; second, because the Macau Pataca is pegged to the Hong Kong dollar.

Renova could choose between different hedging techniques. Firstly, among the financial currency derivatives denominated in Hong Kong dollars (or in U.S. dollar as currency of reference), in line with the theory examined above, Renova is recommended to choose currency options. Indeed, they are standardized contracts and would allow the company to benefit from possible depreciation of the euro while being protected against its appreciation. Future and forwards contracts would not permit this and, furthermore, forward contracts, even if tailored to a firm's needs, are usually adopted for large transactions and cannot be liquidated in the market.

However, being Renova a medium-sized company and not accustomed to the use of financial derivatives, other hedging possibilities are also considered. For instance, natural hedging might help reduce the difference between the receipts and the payments in Hong Kong dollars. One specific example would be borrowing in Hong Kong dollars. Even if apparently easier, a similar strategy would require the company a long-term commitment.

In conclusion, Renova is recommended to hedge the exchange rate risk exposure, which would derive from exports to Hong Kong and Macau and specific suggestions have been examined. However, due to the limited scope of the present report, further studies on the financial instruments available and on the sensitivity of Renova's financial results depending on exchange rate movements have not been possible.

3.3 Personal Experience

Personal strengths and weaknesses have emerged throughout the Business Project.

The first strength, which I would mention, is perseverance, which is in general typical of me and has appeared throughout the Business Project task. Indeed, since the very beginning, I have showed my proactivity and willingness to work together with my team, with our Academic Advisor and with Renova in order to achieve the best results possible. I have been able to keep my motivation high, throughout the whole project, which, in my opinion, has helped the enthusiasm within the group. Secondly, I have been able to define a schedule of the project since the first meetings. This has helped the group to have a clearer path of the whole assignment in mind. Third, my ability to listen to people and to conciliate ideas and behaviours has helped in more than one occasion. I have been able to mediate between my team members and to facilitate a positive and constructive work environment, especially in the second half of the project.

Certainly, some aspects of my contribution to the group work could have been improved. First, I could have been more flexible in my ideas especially during situations when pressure was higher. Indeed, in similar occasions I am aware that I tend to lose my listening skills and impose my own ideas as best way to solve the issues. Moreover, I have found some difficulties in expressing myself in a direct and sincere way with some of my team members in few occasions. This is due to my reflective attitude, which leads me to think numerous times before sharing my opinions.

Therefore, in the next team projects I will be involved, I will focus more on listening openly to others' ideas by having better trust on their abilities and skills, in particular during pressure situations. Additionally, I will work on my capability of communicating more spontaneously, by learning to think less on my own, share concerns with my team members and give action to my thoughts.

3.4 Benefit of Hindsight

During the Business Project with Renova, I have both acquired and developed specific technical knowledge and gained soft skills and valuable insights from the business world.

In terms of specific technical knowledge, I have studied in detail the hygiene and tissue industry and one of the key competitors in Portugal, Renova. I had never visited a factory of paper products before; hence, the first visit to the company's headquarters was for me of great help in order to get an overview about the processes behind paper goods. Moreover, through the detailed CAGE analysis and the study of the Horeca segment, I have gathered extensive knowledge about the cultural, administrative, geographical and economic aspects of the four markets initially suggested by Renova. Additionally, it has been particularly interesting to study the hygiene and tissue industry and the supply chain to the Horeca channels in Hong Kong and Macau through primary data.

However, I deem that the most valuable knowledge that I, together with my team, have acquired through the Business Project, is about real business life. Indeed, I have experienced how maintaining a continuous and constructive relation with a company might be rewarding and challenging at the same time. For instance, it has been very difficult and sometimes not possible to receive all the information needed for the project because of confidentiality issues. Therefore, being not able to work with all the data needed in theory, proactivity in solving and managing the problem has been a key skill. Moreover, I have attended meetings with business people from Renova and have understood how each of them is driven by different factors, for instance depending on their salary or bonus structures, which make them react and focus on different aspects of the same project. Additionally, I have proven myself in the research of primary data, facing the challenges that gathering resources directly from business experts or institutions might present. Furthermore, I have realized that the most important element a company is looking for, in order to engage in a new project is how much that new project would increase the company's value and profitability.

In conclusion, I think that a great benefit to the whole project has been given by the constructive collaboration with my team members and, most of all, by the continuous support and advice from the Academic Advisor, João Silveira Lobo. He has been able to teach us more than only theoretical knowledge by guiding us throughout a real consultancy experience.

List of Figures

Table 1. Criteria for the categorization of the Horeca channels

Channel	Criteria
Hotels	Chain; Number of Stars; Number of Rooms; Price Range; Type of Hotel (e.g., business hotel, city hotel, design hotel, etc.); Association (e.g., Small Luxury Hotel of the World, Design Hotels of the World, etc.)
Restaurants	Location (e.g., stand-alone or part of a hotel); Number of Michelin Stars; Type of Food; Price Range
Casinos	Location (e.g., stand-alone or part of a hotel); Size based on Number of Square Feet

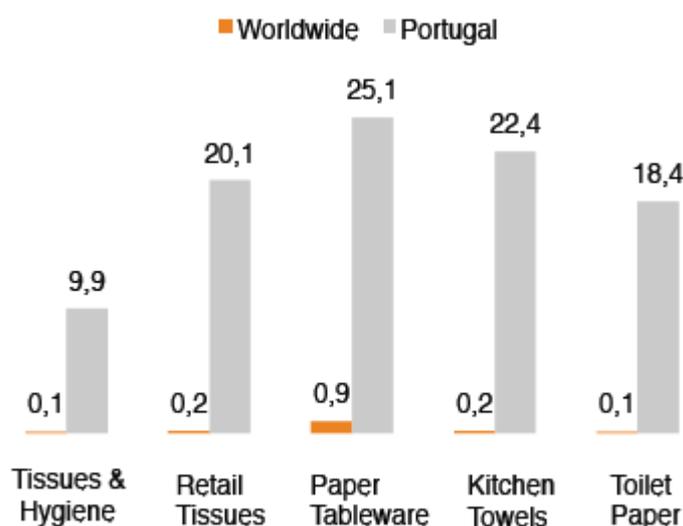
Source: Business Project

Table 2. Specification of Paper Product in Hong Kong

Type of Product	# of Plies (Average)	# of Plies (Top 25%)	Retail Price in € (Average)	Retail Price in € (Top 25%)	Expected Horeca Price in € (Average)	Expected Horeca Price in € (Top 25%)
Toilet Paper (10 rolls)	3	4	3.77	4.48	2.83	3.36
Tissues (1 pack)	2	2	1.8	2.29	1.35	1.72
Kitchen Towels	n.a.	n.a.	2.25	3.46	1.69	2.59

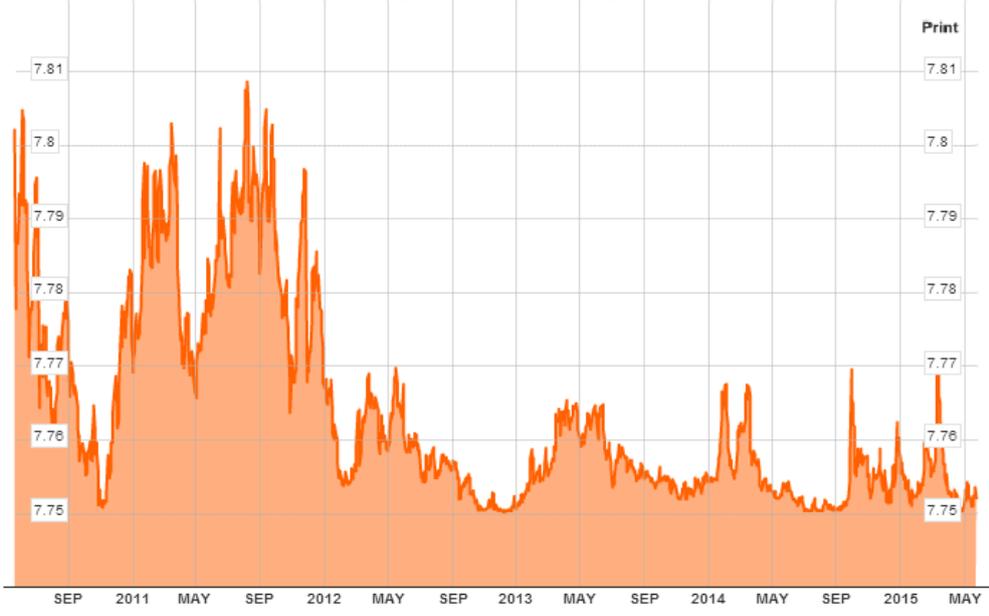
Source: Euromonitor International, 2013; Business Project

Chart 1. Renova's Retail Value RSP 2013 (% breakdown) in Portugal



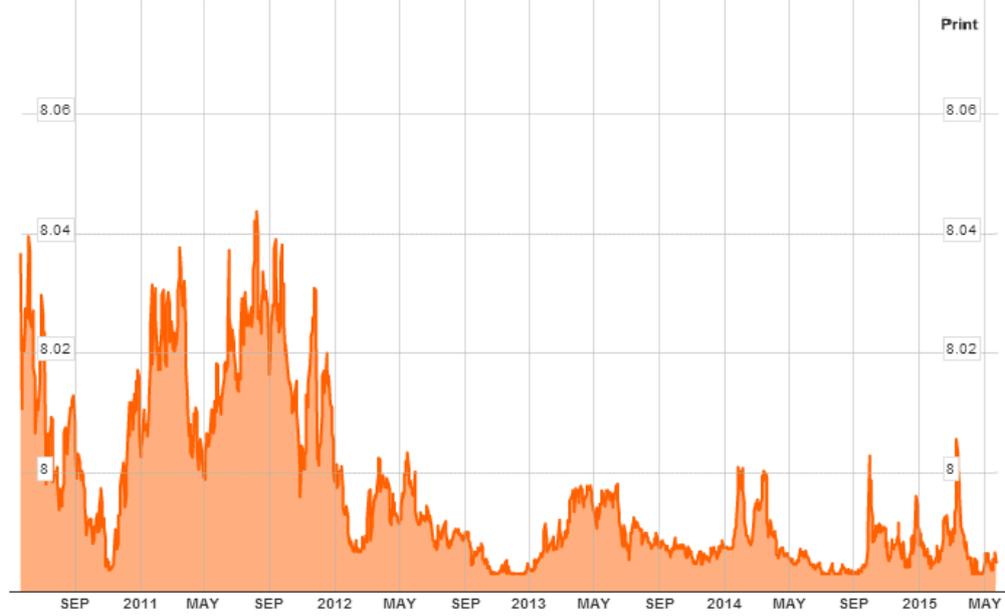
Source: Euromonitor International, 2013

Chart 2. U.S. dollar-Hong Kong dollar Exchange Rate



Source: Bloomberg

Chart 3. U.S. dollar-Macau Pataca Exchange Rate



Source: Bloomberg

Chart 4. Euro-U.S. dollar Exchange Rate



Source: Bloomberg

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