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The success story of NOBRAND

A Case Study on Strategy

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Dissertation written under the supervision of Professor Nuno Cardeal

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ABSTRACT

Title: The success story of NOBRAND – *A Case Study on Strategy*

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Keywords: strategy; resource-based view; resources; capabilities; competitive advantage; comparative advantage; porter's national diamond; related and supported industries; clusters; internationalization; strategic alliances; collaboration.

The following thesis, presented in the form of a case study, aims to report the successful story of NOBRAND, a Portuguese company within the footwear industry, whilst serving as pedagogical tool for exploring and reflecting on strategic frameworks.

For this purpose, the case-study is written in a way that it may serve as a proper analytical tool for developing the strategic topics of resources and capabilities, the importance of clusters for competitive advantage and modes of internationalization based on strategic alliances.

NOBRAND functions as a good example of a company that has worked on its resources and capabilities as a way to establish competitive advantage, whilst also taking advantage of its presence within the Portuguese Footwear cluster. By establishing international collaboration agreements and diversifying on their nature and conditions across different markets, the Portuguese footwear brand managed to expand its brand and products overseas. With a strong international focus, more than 90% of NOBRAND's production is exported to international markets.

Taking into account the resource-based view of the firm, a critical reflection on the most important resources and capabilities of NOBRAND is explored and considerations about the contribution of the synergies of the footwear cluster to NOBRAND's distinctive resources and capabilities is also taken into account. Finally, there is a reflection on NOBRAND's international strategic options, which leads to the conclusion that modes of internationalization are very much affected by the resource-commitment that a firm wants to pursue and also on its aversion to risk.

ABSTRACTO

Título: A história de sucesso da NOBRAND – *Um caso de estudo sobre estratégia*

Autor: Mariana Escudero de Beires Côrte-Real

Palavras-chave: estratégia; visão baseada em recursos; recursos; capacidades; vantagem competitiva; vantagem comparativa; diamante de Porter; indústrias de suporte e relacionadas; polos industriais; internacionalização; alianças estratégicas; formas de colaboração.

A presente tese de dissertação, que toma a forma de um caso de estudo, tem como objectivo dar a conhecer a história de sucesso da NOBRAND, marca portuguesa de calçado, servindo ao mesmo tempo como uma ferramenta pedagógica para explorar e reflectir sobre tópicos de enquadramento estratégico.

Com este intuito, o caso de estudo é escrito de forma que possa ser utilizado como uma ferramenta apropriada para desenvolver os temas estratégicos relativos a recursos e capacidades, importância dos 'clusters', e, finalmente, formas de internacionalização e alianças estratégicas.

A NOBRAND funciona como um exemplo de uma empresa que procurou desenvolver os seus recursos e capacidades por forma a estabelecer vantagem competitiva, e, que, ao mesmo tempo, tirou proveito da sua presença no 'cluster' de calçado português para suster esta mesma competitividade. Com um foco internacional muito forte, a marca portuguesa estabeleceu diversas alianças estratégicas para penetração nos mercados externos, explorando diferentes tipos de colaboração, e, consequentemente, mais de 90% da produção da NOBRAND é exportada para mercados internacionais.

A presente dissertação apresenta uma reflexão crítica sobre os mais importantes recursos e capacidades da NOBRAND e explora ainda de que forma a contribuição de sinergias criadas pelo 'cluster' contribuíram para este desenvolvimento interno da marca. Finalmente, é feita uma análise das decisões estratégicas da NOBRAND no que toca à internacionalização, que leva à conclusão de que os modos de internacionalização escolhidos tem muito que ver com o investimento em recursos que a empresa pretende seguir e também com sua aversão ao risco.

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THE BIRTH OF NOBRAND - A “MISCASTING MISTAKE”

As the CEO of NOBRAND, Sérgio Cunha, says, he was born “inside of a shoe”. It all started back in 1935, when his father founded *Grupo Pedreira* with the establishment of a footwear factory, the first one in the county of Felgueiras.

Sérgio spent all of his summer holidays working at the factory and at age 19 he officially joined the family business.

It was 1975, and, as a result of the Portuguese revolution, with regards to foreign interest, Portugal was stepping out of the shadow because deals could be made in the currencies of the different countries and this aspect made Portuguese prices inevitably competitive. Regarding the footwear industry, back at that time, prices were incredibly attractive and thus there was a high *boom* in the industry, stimulated mostly by the Scandinavians, the Germans and the Dutch.

After two years involved in all the different production stages, Sérgio joined the commercial department of *Grupo Pedreira*, becoming responsible for sales and deliveries all across the country.

> “*When I went to deliver the orders to the clients, I would also take samples with me, so I could simultaneously sell the shoes in other stores and fairs. I would do the same thing the following week and so on, and I would often stick to this modus operandi for a while.*”
>
> Sérgio Cunha, NOBRAND’S CEO

As the business kept growing, Sérgio realized that there was potential in the market for other kinds of products that could not be produced in *Pedreira’s* factories, due to the way it was organized. Wondering about the possibility of introducing new products in the production section and also thinking about the idea of commercializing articles from other companies, Sérgio started considering establishing a trading company.

It was on a flight back from a business fair in New York, that Sérgio discussed his thoughts with his friend, and future business partner, Francisco Lusquiños Ferreira - at the time one of the most well paid commercial people on the Portuguese footwear market. Francisco, also known as “Chico”, decided to accept the challenge and thus, with effort, determination and the knowledge that both had of the markets, Sérgio and Chico established their Trading Company.

The company started working by creating a contacts network that grew naturally over time and that lead to a turning point when the two business partners decided that it would be

interesting to create their own collection – that way they would on one hand be more protected from competition attacks, on the other hand they would be guaranteeing to their clients that the articles they were providing them with were somehow exclusive.
For this purpose Sérgio and Chico had to make big investments – a small pavilion, some machines and employ technicians and stylists – and that's how their first studio was created, where they would develop their own collection and exclusive products.

After presenting the first collections, the two business partners rapidly came to the conclusion that they made a "big miscasting mistake"– although collections were only made twice a year (Spring/Summer and Autumn/Winter), they had to pay their employees for 12 months and thus, besides the investment that the partners had to recover, the Trading Company left them with enormous costs to deal with.

As a way to try to minimize costs, Sérgio and Chico decided that the company should start producing and so the two business men invested on a machine for production. "*But in a company or in a factory, you can't be small or relatively small, otherwise the profits don't offset the expenses"*[1] – and this is how the business partners realized that they had to invest in a whole manufacturing factory.

> *"In a blink of an eye, a company that had as a basis idea to be strictly commercial had to be completely rearranged and become big enough to sustain itself – the manufacturing factory was created, we had to develop a structure for marketing, product conception, design, a commercial department… and this is how NOBRAND was born."*
>
> Sérgio Cunha

The Trading Company that gave birth to NOBRAND still exists nowadays - Sérgio focuses more on NOBRAND, dealing with the brand's product conception and production, and Chico turns his attention to the Trading Company, Rondon Shoes, a firm that buys and sells shoes from 12 local factories and also works as a purchase agency. Although both businesses are interconnected, the two partners try to keep them living independently.

Maximo's Internacional Business Model

On the 11th of March of 1988, with the creation of the manufacturing factory, the company *Maximo Internacional – Importação e Exportação SA* was officially established – the mother firm of NOBRAND and other Private Labels.

[1] Sérgio Cunha, CEO of NOBRAND – October 2017

Right from the beginning, upon the big investment in a manufacturing facility, Sérgio and his partner decided that the factory would always save some part of the production to Private Labels, in order to assure the financial health of the mother company. That way, the Private Labels would not only secure a possible weakened sales season of the core label NOBRAND, as, on the other hand, by keeping production for Private Labels, the partners guarantee their access to other sources of information within the footwear industry.

Up until now, more or less 50% of *Maximo's Internacional* production is reserved to NOBRAND and the other half to production for Private Labels. Among some of the Private Labels, the factory produces shoes for brands such as Armani Jeans, Dune London and Aldo for example. **Exhibits 1 a-b)** detail the weights of NOBRAND and Private Labels within *Maximo Internacional*.

Also in *Maximo's* facilities, the showrooms are divided in two – you have one for the Private Labels and one other where NOBRAND's shoes are presented. Although living independently, samples that do not make it to NOBRAND's collection are redirected to *Maximo's* showroom, and it is also possible, though very rarely, that a client wants to buy a NOBRAND's shoe for some Private Label, and, in that case, this particular shoe is removed from NOBRAND's collection. Within the relationship between the two businesses, the most important thing is that NOBRAND keeps its exclusivity.

Regarding NOBRAND itself, 98% of the production for the modern brand is sold internationally. The foundation of the business is made through Multibrands Stores and in some countries the brand is sold through a franchising business model or even on consignment, in which case NOBRAND has a percentage over the selling price. Finally, NOBRAND has an online store since 2010 and it also sells to other well-known online retailers, such as Minty Square, Amazon and Zalando. Up until 2017, NOBRAND has only opened one own store, namely in Medellin, Colombia.

NOBRAND's Identity

Over the past 30 years, NOBRAND has become one of the greatest players in the Portuguese Footwear Industry. In contrast with other traditional Portuguese Shoe-Making players, the brand became famous for its cutting edge and also for having the capacity of permanently reinventing the classic, which is probably one of the most important capabilities of NOBRAND.

Vision

> *"To be a reference of the sector in the domestic and international markets, and recognized as a solid brand for its exclusivity and quality."*
>
> NOBRAND's Vision Statement

According to the vision statement, NOBRAND follows a management model based on two major premises – innovation and internationalization - with the compromise of always creating value in the markets where it operates. By reinventing the new without ever underestimating the old, NOBRAND aims to be a unique brand of excellence in the footwear industry.

Mission

> *"Provide an excellent product to our customers, known for its bold design and innovation."*
>
> NOBRAND's Mission Statement

For NOBRAND, customer's satisfaction is one of the most important paths to success, along with the constant adjustment of the products to customers' needs. It is by focusing on providing customers with innovative and high quality solutions, *"handmade with love and care and tons of attitude"*, that NOBRAND establishes its competitive advantage. For this purpose, the footwear brand invests on the continuous professional development of its employees - through an adequate balance between training, practice and a challenging and enjoyable work environment – and also on the permanent improvement of the quality control systems and compliance with the regulatory legislation.

Values

> *"Innovation. Cohesive Team. Honesty. Customer and client satisfaction. Humility."*
>
> NOBRAND's Values Statement

Having been born with the purpose of creating shoes with high quality standards and with a very particular innovative DNA, NOBRAND is a label with a very strong character, as a result of its history and of the people that sustain it.

Following a corporate governance leadership model based on a family structure, NOBRAND works with transparency and humbleness, having always the main goal of providing the best customer satisfaction. Living up to its slogan, – "*There's no brand like NOBRAND"* – NOBRAND counts with a young, unified team, full of determination to grow and set the difference within the shoe-making standards.

HR Development – "This business doesn't work, but it's funny"

> *"My first experience with the company made all the difference. At the entrance I immediately noticed a framed illustration with a slogan where you could read 'This business doesn't work, but it's funny!'"*
>
> Hermínia Sampaio, Planning Department of NOBRAND

NOBRAND started out with a very small group of people, a crew of four enthusiastic and polyvalent people: both business partners, Sérgio and Chico, Manuela Mendonça, today's NOBRAND'S Chief Operating Officer and Luís Laranjeira, a charismatic young designer.
Around 1989, Maximo invested on hiring four more people, who would later compose the Logistics department.
It's important to highlight, that, back to the first days of NOBRAND and Maximo Internacional, there were actually no clear functional departments. The first people to be hired had to be very multi-skilled, since, at that time, every team-member would do a bit of whatever was necessary for the first growth steps of the company. Thus, back then, NOBRAND followed most of an organic structure to enhance creativity and where people with heterogeneous backgrounds would work as a team.

> *"The environment was not formal at all – you could listen to music in the office, it had a very relaxing atmosphere (...) everyone would treat each other by their name, without room for stating differentiations between status. The management would always show interest in our opinions on a diversity of matters, so the team always felt integrated in every single project, and that's extremely rewarding."*
>
> Hermínia Sampaio

In alignment with the growth of the company, NOBRAND adapted its structure and, at the present time, the company is composed by eight departments, which aggregate different cross-functional teams. In total, NOBRAND grew from 4 to 122 employees, 25 form the administrative part and the other 97 make up the production process. The organizational structure of NOBRAND is shown in **Exhibit 2.**
Although each department has its own distinctive functions, all the departments function interdependently, as there is a common thread underlying the whole shoe-making process – from Design and Conception to the actual Production of the shoes, following Quality Control and later on Marketing and Sales.

Following the development of NOBRAND's organizational structure, processes became more standardized and also formalization had to increase. Still, NOBRAND proceeds more like an Ambidextrous Organization - the Manufacturing Division is more mechanistic and standardized, in order to maximize efficiency and reliability; on the other hand, other divisions such as the Design and Conception function as organic, with lower formalization and standardization, which encourages creativity and innovation.

Also, NOBRAND's team is part of Maximo's Internacional structural design, but, instead of having specific employees focused only on the own brand, Human Resources are the same for Private Labels and NOBRAND, and these manage their time to each business accordingly to the needs.

Finally, regarding internal incentives, NOBRAND believes that its employees are crucial for this labor-intensive business and this is why the brand invests in providing its members with continuous training – every year, a percentage of the employees is selected to have tuition in innumerous areas such as languages, computing, methods and timings, production and quality, among others. Also, in terms of internal motivation, the brand assures a good working environment – quite unformal, fomenting opinion-sharing and integration among all team-members.

BEHIND THE SCENES – THE SHOE-MAKING PROCESS

NOBRAND's products

NOBRAND produces both female and male shoes, boots and sneakers, mainly made of leather (**Exhibit 3)**. The distinctive capability of the label is reinventing traditional shoes, under the motto of "*having a foot in the past and another foot in the future, and creating the new by never underestimating the old."*

Due to the innovative design, high-quality materials, and technical details, NOBRAND positions itself in a mid/high-end segment, with pricing varying from 90€ to 200€. The target of the brand are young adults from 25 to 50 years old, who look for modern shoes, while at the same time look for distinction in details. It is for this audience that NOBRAND produces its shoes, "*Handmade in Portugal with love and care*" as it is written in NOBRAND's packages.

A quality shoe undergoes numerous stages of production before it is completed. In the past, shoemakers were responsible for the entire process, top to bottom. Today, tasks are divided among several departments within the company and the factory, which is represented in detail in **Exhibit 4.**

> *"The NOBRAND creative team develops for each season a different collection, resulting from a complex market research strategy and a detailed analysis of new materials, techniques and trends. "*
>
> NOBRAND's Institutional Presentation - Collection Conception

Conception

At NOBRAND, it all starts in the Design and Conception Department, one of the brand's most strategically important divisions. Twice a year, for Spring/Summer and Autumn/Winter, the team analyzes the trends of the fashion world and plans charismatic designs, "*creating fashion lines tailored to customer needs*". After developing the soles, if that's the case, the team develops the forms for the shoes and then they need to do a drawing containing all the details that they wish to see included in the design, even inside lines and certain applications may be underlined in the drawing.

> *"BRAINSTORM: We discuss key ideas in group, taking into account trends and market research. CONCEPTUALIZATION: The ideas converge into a homogeneous view on a central theme. PROPOSAL: Once the concept is established, we make the first prototypes."*
>
> NOBRAND's Institutional Presentation - Collection Conception

After the prototypes are ready, almost all Department Heads at NOBRAND come together for decision-making – the Board, the Commercial team, Conception & Design, Buyers, Production, Quality and Marketing. All the 'NOBRAND-Network' is invited, even resellers, agents and private clients, and in this gathering everyone contributes for deciding which models will make up the collection of about 100 models per season.

> *"Then it goes to the modelling team and the whole plan is made manually first, and only afterwards is it digitally converted to CAD. Subsequently, a technical form is filled-in, by which all the technical details of the shoes are described, the materials that should be used and the color palettes for each model."*
>
> Hugo Melo, Shoe Designer, for NOBRAND's 25th anniversary magazine

Manufacturing and Assembly

It's in the manufacturing factory that the shoe will develop from a design to an actual shoe. It combines craftsmanship, technology and high-quality materials to offer contemporary and innovative products.

First, materials are separated and go into an automatic cutting machine. The cut materials are then forwarded to the pre-sewing division, in order to be skived, and afterwards to the sewing section. After being sewn, the shoe is finally shaped around the mold.

The next phase is the Assembling phase, the core component of the shoe-making process. The shoe is firstly brought to a hot oven, in order to reactivate the glue and shape the form around the molding, and then it follows to a cold oven, in order to solidify the shape. It can then be taken out of the mold to be sewn on the sole. Finally, the shoe is ready to be cleaned and polished, based on the characteristics of the chosen materials.

The whole manufacturing phase is made through an automatic circular process, where workers are allocated to one particular task within the process. The cycle spins automatically, so that all employees work at the same pace and efficiency is maximized.

Because high-quality is at the top priorities for NOBRAND, during the whole manufacturing process, the shoe undergoes five different quality-control checkpoints – after the cutting section, then after the sewing phase, later on after the assembly, then once the finishing phase is over, and one last time after packaging.

Regarding the whole manufacturing process, most of NOBRAND's shoes are made in-house, at one of the three factories of *Maximo Internacional*. Still, NOBRAND also subcontracts within the cluster, especially regarding the cutting and sewing components.

Indoor, *Maximo Internacional* has the capacity of producing around 800 pairs of shoes per day and with subcontracting the capacity arises up to 2500 pairs of shoes daily.

Fitting Tests, Marketing and Sales

Once the shoe is ready it follows one of three possible paths – either it goes to fitting tests, or it can be designated for Marketing purposes, or finally it can carry on to selling or trial orders.

Fitting tests are very important for NOBRAND. Indeed, every model developed is tested by the employees and this is one of the ways that the label ensures that the shoes it produces are guaranteed to be comfortable to the final costumer.

Regarding Marketing, NOBRAND offers shoes to bloggers and public personalities, in order to increase the brand's visibility. Also, the modern footwear-label has its products shown among media channels and makes use of the most important social networks.

Concerning sales, NOBRAND acts through a wide number of channels to trade its exclusive models, as it is presented in **Exhibit 5.** Namely, it sells its shoes through Business-to-Business (B2B) canals -resellers, agents and distributors, and franchising or consignation business partners which NOBRAND mostly acquires at trade fairs – and also through Business-to-Consumer (B2C) means – either selling directly to stores, or making use of its own online store.

The diversity of sales-channels used has proven to be very important for the success of the brand.

READY, SET, GO! – NOBRAND'S EXPANSION

The domestic Market

In the beginning of its activities, NOBRAND addressed the domestic market, selling its products directly to footwear stores across Portugal. The idea was to first consolidate the brand within the domestic market, and only later open up the horizons to international markets with full energy.

However, the strategy adopted by the young brand proved to be premature, as neither NOBRAND, nor the domestic market were prepared – NOBRAND was still very new, with little recognition and, at that time, without a very clear and specific line in terms of collections; on the other hand, Portugal was not a market with enough purchase power for the prices that NOBRAND charged and also many stores failed to stand up to their financial liabilities towards the company.

With the arrival of the first international experiences, which proved to have a lot of potential right from the beginning, the domestic market became second plan for NOBRAND. In 2004, the Shoe-Manufacturer-Brand decided to establish a partnership with 'Pano de Fundo', a Representative and Distributor Company of fashion brands in Portugal, which acts both as an agent and as a distributor. Ever since, NOBRAND's approach to the domestic market has been made through partnership with this company, who is totally responsible for all the distribution of NOBRAND's shoes across Portugal and also decides about stores locations and in which parts of the country to invest in. On the other hand, in this collaboration, NOBRAND is responsible for setting the price of its products and also for developing all the promotional materials, such as catalogues, posters and products for windows displays.

Having learned from its past experiences, NOBRAND's decision for adopting a partnership for its retail sales within Portugal, has shown to be the most viable way to grow the brand in national territory. Indeed, since 2004, NOBRAND has exhibited a favourable evolution in sales – which can be checked in detail in **Exhibit 6** – and, along with the sales, the brand also managed to grow its awareness and recognition among Portuguese consumers.

International Predator

Although having been born in 1988, it was only about three years later that NOBRAND started focusing on its international expansion, participating therefore in the biggest and most important international fairs of fashion and footwear, with the aim of looking for professional

agents and distributors with vast contact networks interested in potential partnerships. By that time, NOBRAND's collections were already much more consolidated, presenting a single and irreverent design, and the label would use its stands at the fairs as a live showroom for its products, investing on differentiated layouts for the stands and drawing attention also due to entertainment mechanisms such as music, which was quite unusual back in the nineties.
At the same time, NOBRAND endorsed several events such as fashion shows in discos to present its collections, rally racings and partnerships with well-known models that would use NOBRAND's products. All these activities increased NOBRAND's visibility and expanded importantly its network of contacts.

Putting into use Sérgio's and Chico's previous professional contacts and through regular presence in all the important fairs related to footwear, in 29 years NOBRAND successfully managed to find partnerships and bring its products to more than thirty countries, from Canada until China, and about 1200 stores worldwide (**Exhibits 7a-b**).

The decision to indirectly export, through international business partners, was made deliberately after considering the available resources of the company and the possibilities of risk-taking. Through indirect exportation, it is up to NOBRAND's business partners, agents and distributors, to communicate the DNA of NOBRAND within each market, attending to the diverse cultures and market types. This cooperation strategy has proven to be crucial for a proper brand penetration and thus NOBRAND opted for applying this approach whenever doing international business.

Regarding the markets where NOBRAND is present, the most preferred business channel is through distributors or agents, who sell the label within multi-brand stores. However, that doesn't mean that there are no exceptions and the Board carefully decides which sales-channel is more suited for each market. For instance, in the Netherlands and Norway, NOBRAND chose to sell directly to stores, without any interference of intermediaries, because the small-dimension markets did not justify the use of indirect exportation. Also, the Shoe-Manufacturer Label is open to various kinds of partnerships - franchising and even consignment, case in which some partners have the possibility to return a percentage of the collection in the case not all products were sold.

France

Considered the first big international market for NOBRAND, the french market served as a boost on the pursuit for international expansion. Among some of the reasons for NOBRAND's success in France were the French taste for fashionstyle and the historic relationship between Portugal and France. As it was the first international market to where NOBRAND exported, the company cautiously opted for a partnership with local distributors. **Exhibit 8** details the evolution of the weight of the French Market for NOBRAND.

Germany

Germany grew from a scenario where NOBRAND sold directly about 50 pairs of shoes to a few stores, to a reality when the number of pairs sold rounded the amount of 70000, in 2013, as is visible in **Exhibit 9.** Right now, in 2017, the German market is accountable for more than 70% of NOBRAND's turnover and exports for this market are made through an intermediary agency who works only for NOBRAND and one other label. The agency has control over Marketing, Distribution and Promotion of NOBRAND within national territory.
The German market represented a very important challenge to NOBRAND's production, design and innovation, because of the initial unfamiliarity with the German culture and its fashion preferences. However, acknowledging the importance of this country to NOBRAND, the label decided to always include the trade representative in decisions regarding product conception, and this person has even the possibility to refute or accept specific shoe models, according to the German taste.

New markets

After consolidating success at European level, NOBRAND opened its horizons, looking for internationalizing also to other continents. Thus, the brand started exporting, among others, to New Zealand, Australia, Canada, China and Colombia.

China was expected to have a lot of potential, but after all the market wasn't still ready and revealed itself as a 'closed-culture market':

> *"China might become a big client 10 years from now, but, at the moment, Chinese customers are not willing to spend 120€ in a pair of casual shoes. Right now, the luxury segment is the one in growth in China, and even for this sector I understood that there is a different approach when selling in China. We keep NOBRAND in a showroom, but for now the Chinese seem to be very cautious and difficult to understand, so we will keep our expansion projects for this market on-hold."*
>
> Sérgio Cunha, October 2017

Regarding the expansion to Colombia, the plan came to discussion when a former shoe-trader of UK decided to establish its own business in Colombia and take with him the labels that he considered most suitable for the market, taking into account his experience within Europe. NOBRAND was one of the chosen brands, and, because of the success that aroused from the first store in Medellin, the trader became a commission-agent and distributor within Colombia, expanding NOBRAND to other cities such as Bogotá. Colombia gained huge importance to NOBRAND, when, within three weeks, sales grew up to a quantity of 3000 pairs of shoes. In the beginning of 2015, the Colombian agent suggested the creation of a mono-brand NOBRAND store in Medellin. As NOBRAND's commercial department had never pursued this sales-method before, the label opted to grant to the partner the rights to use the image and NOBRAND's products, and all other charges would remain on the side of the agent, such as rents and promotion. Still, NOBRAND's commercial department gives special attention to this store, observing it like an experiment, which might open new doors for the brand.

Internationalization is one of the most important premises on NOBRAND's business strategy, and, in 2017, exports represented about 98% of the label's turnover.

> *"On the horizon is the consolidation of the brand in the European Market, for I believe that there is still a 25% - 30% potential growth that can definetly be explored. Beyond Europe we're also starting to extend our business network to the merging market like the Russian or the Ex-Portuguese colony markets. I feel it is of extreme importance to consolidate the business in the 'Old Europe' before looking forward. The Europen Continent is still a showcase mostly desired and highly appreciated by foreign countries."*

Sérgio Cunha for NOBRAND's 25th anniversary magazine

“THERE IS NO BRAND LIKE NOBRAND” – DISTINCTIVE FACTS

Financial Excellence

In the years of 2011, 2012 and 2013, NOBRAND was acknowledged as an ‘Excellence Small- and Medium-Size Firm’, which is a Portuguese Award for distinguishing the contribution of small and medium-size firms for overall economy’s prosperity and recognizing their professional merit. This Award signalizes the competitiveness and high financial health of NOBRAND and aims to work as a reputation stamp.

Footwear Cluster

> *“Nowadays, the footwear industry is noted as being one of the most important sectors of the Portuguese economy. Indeed, within the space of two decades, the Portuguese footwear industry has been genuinely transformed. From a traditional, labour-intensive industry it has changed into one that is modern, outward-looking and highly competitive, attaining the position of one of the most important European and worldwide exporters, particularly in the leather shoe sector. (...) In 2016, Portugal exported more than 81.6 billion pairs of shoes with a total value of more than 1.9 million euros. (...) With a strong geographic concentration, footwear manufacturing is mainly distributed by two hubs, one being in the municipalities of Felgueiras and Guimarães and the other being in Santa Maria da Feira, Oliveira de Azeméis and São João da Madeira. All these five cities are located in the north of the country within sixty Km of each other. Altogether, these five municipalities account for more than three-quarters of the sector’s employment. This geographic concentration gives the companies easy access to a full range of services and materials they need for the manufacturing process.”*
>
> Report “Facts and Numbers 2017” by APICCAPS – Portuguese Footwear, Components, Leather Goods Manufacturers’ Association

By being part of the Portuguese Footwear Cluster, NOBRAND both takes advantage of an easy access to materials, suppliers and information as also contributes to the growth of the sector by creation of employment, innovation and awareness, among others. It is also important to highlight, that, due to the great significance of the footwear sector for Portugal’s economy, cluster institutions such as APICCAPS, CTCP[2] and CFPIC[3] have been established, which help strengthen the competitive capacity and companies’ performance by seeking to refine products, services and the human resources available in the cluster and also help promoting the “Made in Portugal” brand both domestically and internationally by encouraging firms to participate in

[2] CTCP - Footwear Technology Centre of Portugal
[3] CFPIC – Footwear's Industry Professional Training Centre

fairs. Both the cluster and these institutions have proven to be of great strategic value for NOBRAND. **Exhibits 10 a-b)** provide a snapshot of the Portuguese footwear sector.

Most of the players within the Portuguese footwear cluster are manufacturing companies, NOBRAND is however not only a manufacturer, it distinguishes itself within the cluster by creating value through a brand, namely NOBRAND.

> *"Known for its young, modern and irreverent spirit, NOBRAND has quickly revealed itself as one of the strongest brands in the Portuguese shoe sector (...) and it is one of the greatest Portuguese ambassadors in Europe and in the rest of the world."*
>
> Paulo Gonçalves, APICCAPS PR, for NOBRAND's 25th anniversary magazine

Exclusive Suppliers and Outsourcing

Part of NOBRAND's production is subcontracted within the footwear cluster. This makes the brand indirectly accountable for multiple job creation, contributing with strategic value creation to the region where it is based. Moreover, it is important to highlight, that NOBRAND worked since early on exclusive contractual arrangements with its suppliers and subcontractors and so, indeed, most of the outsourcing is made exclusively for NOBRAND. This is a very significant aspect for the sustainability of the competitive advantage of the brand.

'Flash' Production

> *"We are part of a cluster and there are lots of shoe producers within this industry. The thing is, our ability to design and develop a shoe while adapting to the various customers' demands is inimitable and, besides this, we have the capacity of offering the whole process from conception and production until delivery of the first products within five weeks, which is something that not all players can offer."*
>
> Tiago Cunha, Head of Marketing and Board Member of NOBRAND, October 2017

ACTION! … CUT? – CHALLENGES FOR THE FUTURE

Despite being a success case of growth and value creation, NOBRAND is currently facing up some challenges.

Growth from Online Retail

As e-commerce is gaining market, physical stores might develop into becoming just a street showroom, whereas the real purchase will be made afterwards through online channels. This outlook is concerning NOBRAND, which has an investment plan on-hold because of feeling reticent about the future of traditional commerce, which might not be up to the pressure of online commerce. For instance, regarding the domestic market, the brand has already an investment plan for traditional own mono-brand stores in both Porto and Lisbon, with the aim of taking advantage of the growing shopping tendency of 'national pride' and because NOBRAND has been showing a very good sell-out in all its stores across Portugal, where the brand's products are normally all sold before sales-period.

Still, because feeling threatened with the development of e-commerce, NOBRAND's commercial department is considering whether, how and when might be the most prudent way of entering the domestic market.

Decreasing sales and purchasing power

> *"As a matter of posture and responsibility, and consequence of a decreasing purchasing power, customers feel that giving away 200€ for a pair of casual shoes is simply fool. Also, besides the fact that people don't spend as much now as they did before, lifestyle has changed and now consumers privilege experiences over goods – such as restaurants, holidays, trips. For this reason, people end up buying their products at cheaper imitators and saving money for experiences that they value more. Consumption is decreasing and/or being bought at the wrong places."*
>
> Sérgio Cunha, October 2017

The decreasing purchasing power and redirection of its use are endangering a lot the future of the industry. Adding on this the fact that customers are looking for cheaper options when buying their shoes, all these occurrences are contributing to decreasing sales, and thoughts on how to manage this situation are one of the biggest concerns for NOBRAND.

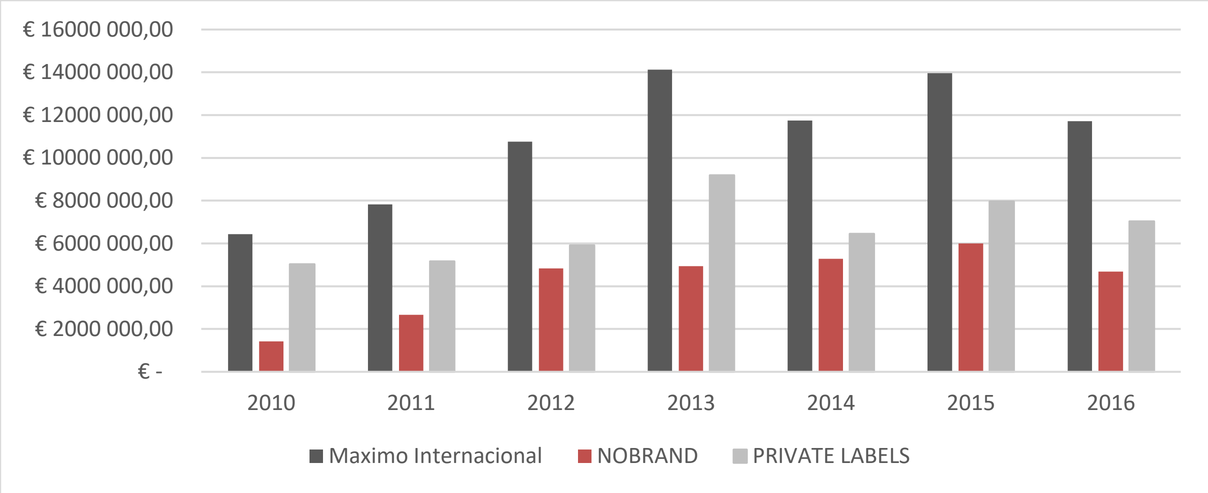
Threat of big labels and Chinese Imitation

> *"It worries me a lot when I come across big brands such as Nike or Adidas starting to develop casual and formal shoes. And it also preoccupies me if other countries, such as China, who has already started going after all the leather across warehouses, begin to learn how to treat leather properly. Portugal has a comparative advantage because we know how to work with natural leather, we have an own and distinctive skill and there is a whole industry structured around that. The price of leather is going up as a result of Chinese imports and the Portuguese footwear industry is apprehensive towards the future of footwear production."*
>
> Sérgio Cunha, October 2017

The market is unclear and there is not a certain direction for success. The question now is: how should NOBRAND adapt to the changing environment and sustain its success position?

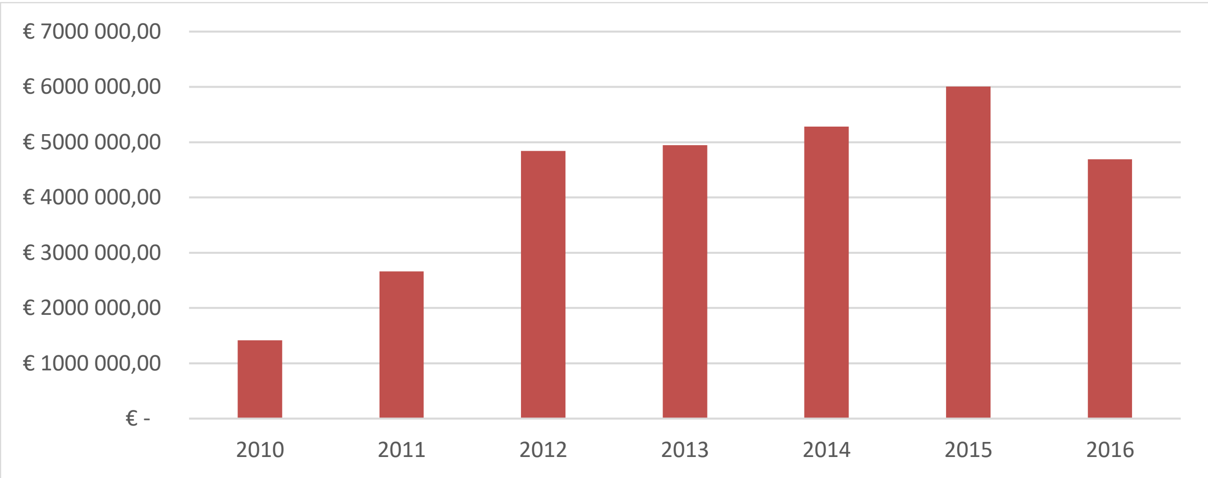
II. EHIBITS

Exhibit 1a) Net sales Maximo Internacional – Weights NOBRAND vs. Private Labels



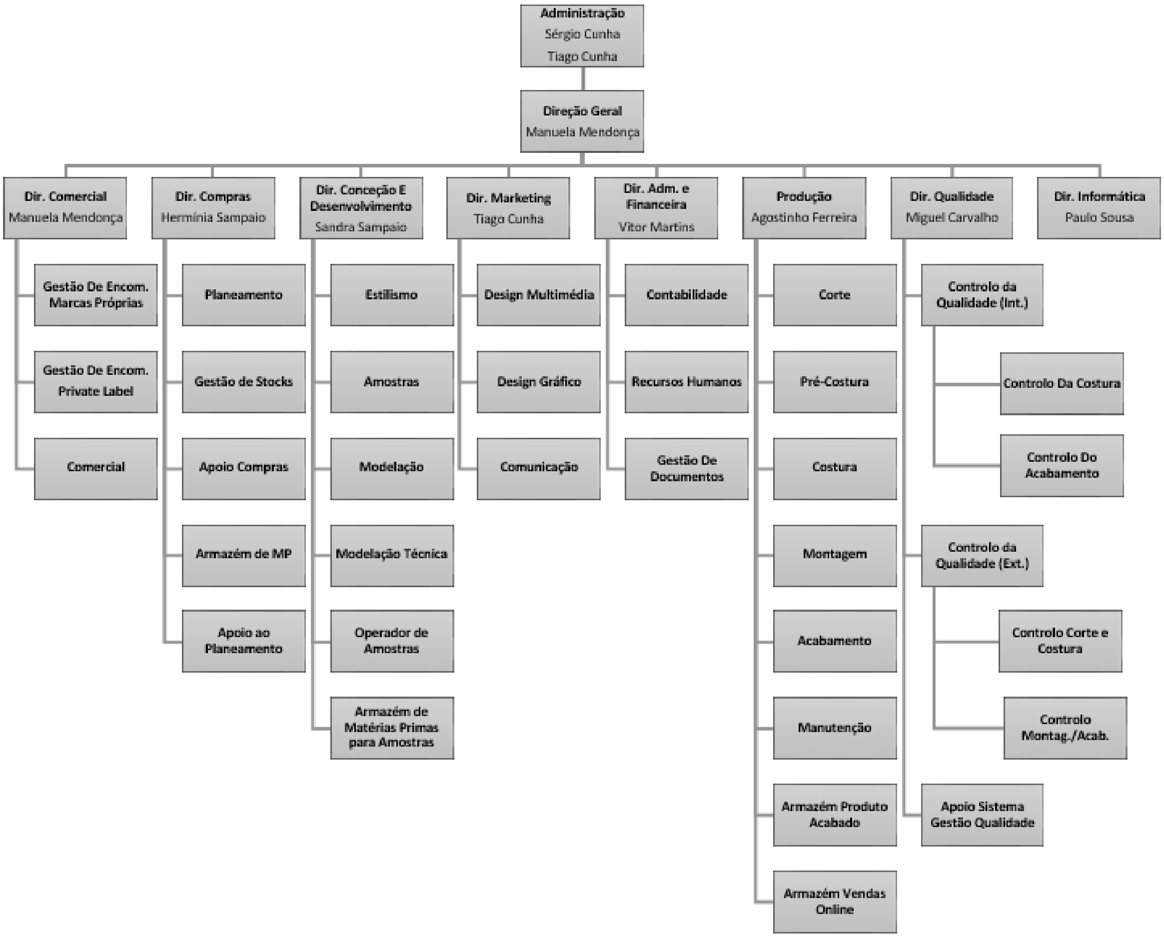
Source: NOBRAND's Financial Department

Exhibit 1b) Net sales NOBRAND



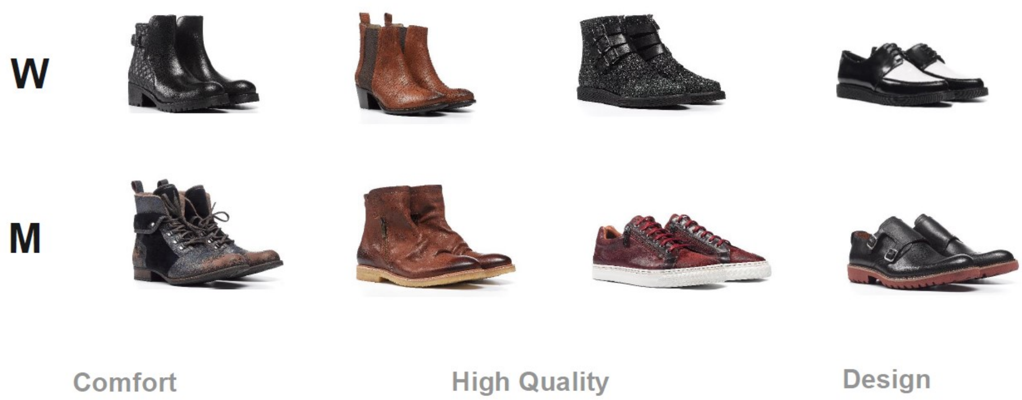
Source: NOBRAND's Financial Department

Exhibit 2 Maximo International - Organizational Structure (2017)



Source: NOBRAND's Commercial Department

Exhibit 3 NOBRAND's products



Source: NOBRAND'S institutional presentation

Exhibit 4 NOBRAND's process map

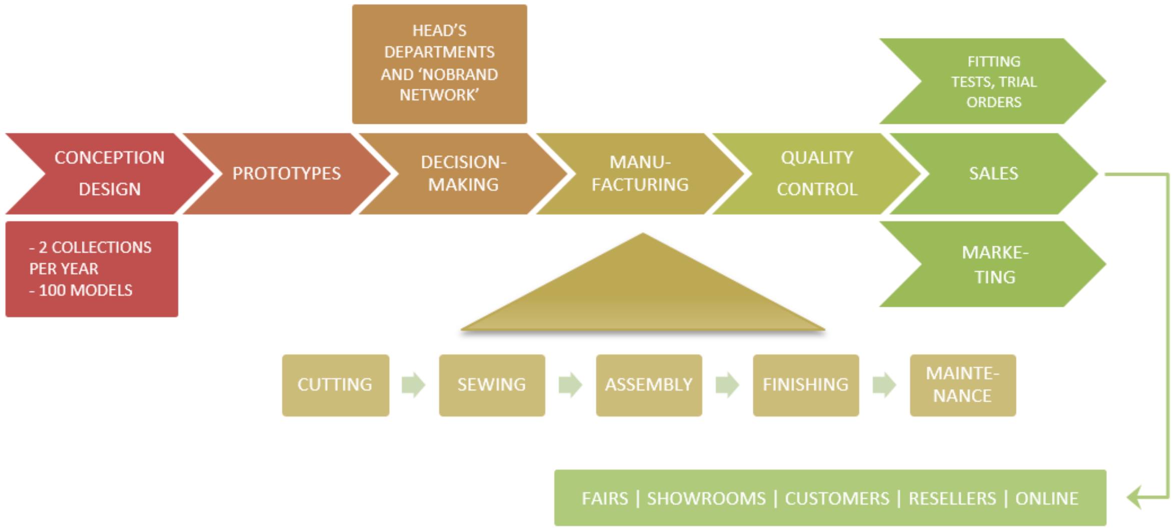


Exhibit 5 NOBRAND's Distribution and Sales Channels

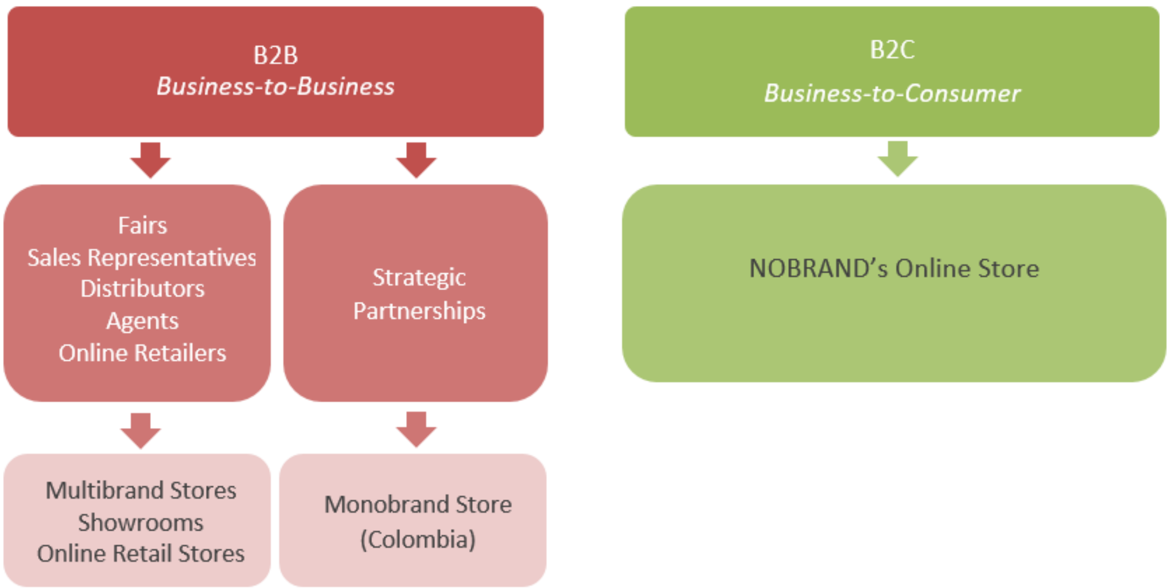
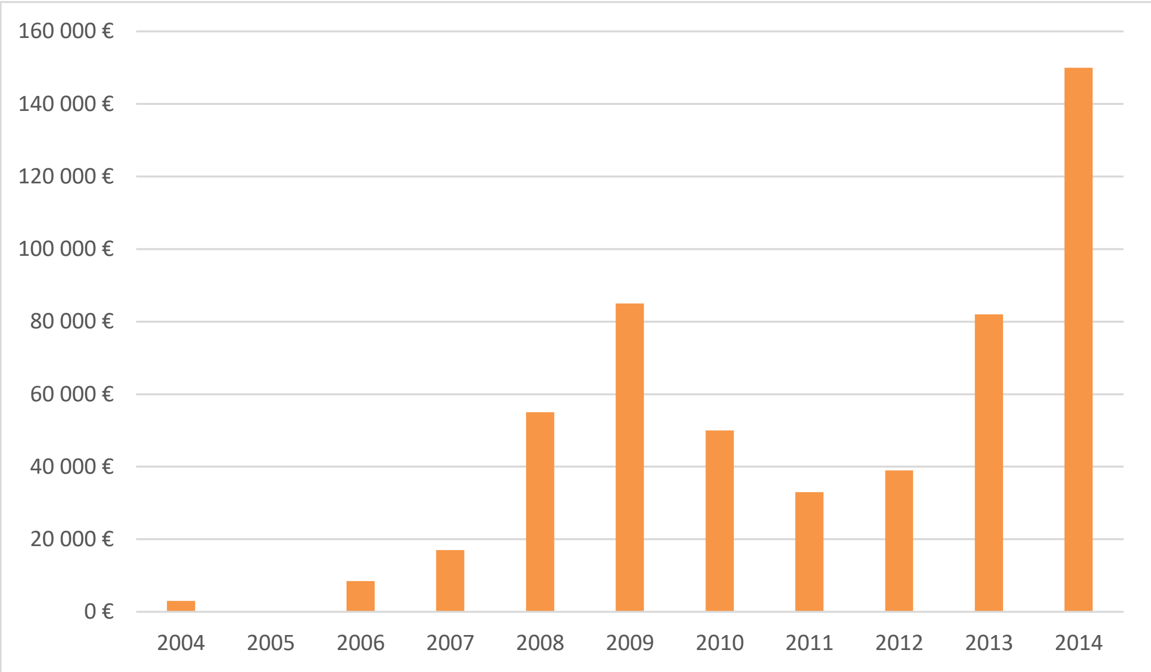
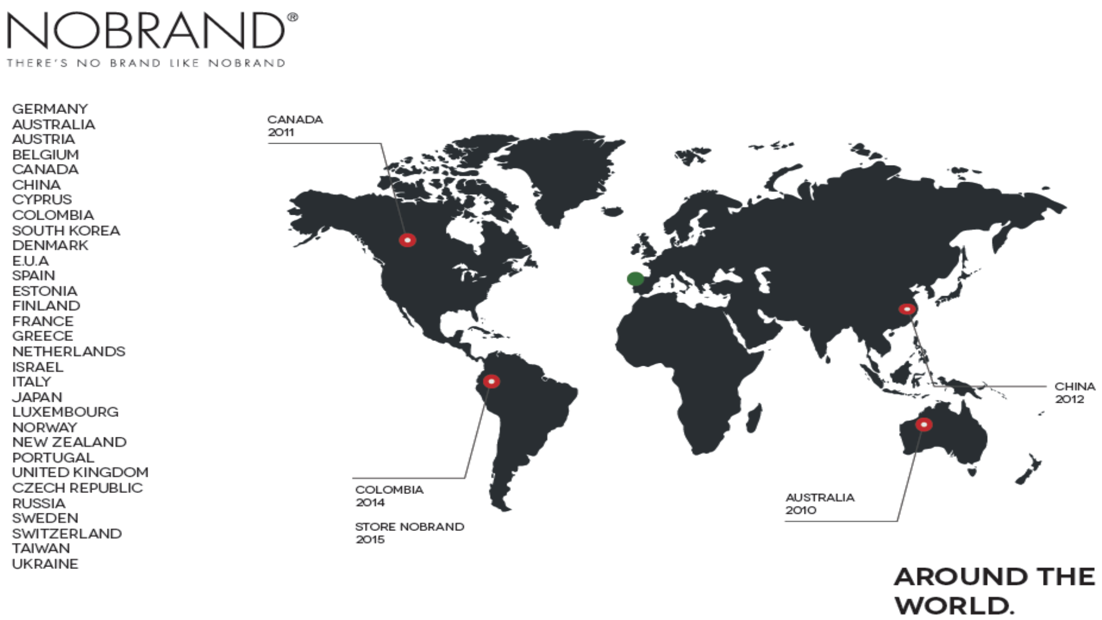


Exhibit 6 Net sales Portugal



Source: NOBRAND's Financial Department

Exhibit 7a) NOBRAND around the world



Source: NOBRAND'S institutional presentation

Exhibit 7b) NOBRAND's stores

PORTUGAL
Amarante
Aveiro
Baião
Braga
Braga
Castro D´Aire
Espinho
Joane
Leiria
Lisboa
Palhaça
Paredes
Penafiel
Porto
S. João da Madeira
S. Pedro do Sul
StªMaria da Feira
Viana do Castelo
Vila das Aves
Vila Nova de Gaia
Guimarães
Póvoa do Varzim

ENGLAND
London

NETHERLANDS
Rotterdam
Amesterdam
Tilburg
Numspeet

RUSSIA
Moscow

ITALY
Gais
Roma
Milan

SWITZERLAND
Zurich

JAPAN
Tokyo

CHINA
Shangai
Nantong

ISRAEL
Ramat Gan

IRELAND
Dublin

CANADA
British Columbia
Abbotsford
Kelowna
Mission
Sidney
Surrey
Vancouver
Victoria

Alberta
Calgary
Edmonton
Medicine Hat

SASAKATCHEWAN
Regina
Saskatoon

Manitoba
Winnipeg

ONTARIO
Fergus
Kingston
Ottawa
Stratford
Toronto

Blenheim
Cambridge
Christchurch
Dunedin
Gisborne
Greymouth
Hamilton
Hanmer Springs
Havelock North
Invercargill
Masterton
Motueka
Mt. Maunganui
Napier
Nelson
New Plymouth
Oamaru
Palmerston North
Queenstown
Rotorua
TaupoTimaru
Wanaka
Wanganui
Wellington
Winton

QUEBEC
Bromont
Drummondville
Laval
Montreal
Quebec City
Saint Hyacinthe

NEW BRUNSWICK
Caraquet

NEWFOUNDLAND
St.Johns

NEW ZELAND

SOUTH ISLAND
Akaroa
Arrowtown
Ashburton
Auckland

AUSTRALIA
Melbourne

FRANCE
Paris
Le Touquet
Berck Sur Mer
Amiens
Rouen
Lille
Angers
Limoges
Saint Quentin
Lens
Grenoble
La Rochelle
Avignon
Lyon
Bourgoin Jallieu

SPAIN
Barcelona
Sitges
Badalona
Granollers

Blenheim
Cambridge
Christchurch
Dunedin
Gisborne
Greymouth
Hamilton
Hanmer Springs
Havelock North
Invercargill
Masterton
Motueka
Mt. Maunganui
Napier
Nelson
New Plymouth
Oamaru
Palmerston
North
Queenstown
Rotorua
TaupoTimaru
Wanaka
Wanganui
Wellington
Winton

Vic
Girona
Figueres
Platja d'aro
Andorra
Madrid
Valencia
Bilbao
Santander
San sebastian
Burgos
Palencia
Valladolid
Vigo
La coruña
Sevilla
Almeria
Granada

SOUTH KOREA
Seoul
Dae gu
Gwang Ju
Bu San,
Jeon Ju
Ul san
Chang Won

NORWAY
Bryne
Egersund
Eikefjord
Harstad
Gjøvik
Jørpeland
Kristiansand
Kristiansund
Notodden
Nærbø
Odda
Oslo
Molde
Sandnes
Stavanger
Trondheim

DENMARK
Copenhagen
Silkeborg

GERMANY
Munique
Berlin
Aachen
Aalen
Augsburg
Bad Hersfeld
Bremen
Chemnitz
Dresden
Dusseldorf
Ettlingen
Gelsenkirchen
Gelnhause
Giessen
Gütersloh
Hamburg
Hannover
Heilbronn
Herford
Juterborg
Karlsruhe
Kiel
Koln
Landau
Landsberg
Löhne
Lübbecke
Magdesburg
Mainz
Manheim
Mayen
Moers
Nürnberg
Offenbach
Osnabrück
Passau
Reutlingen
Rosenheim
Rostock
Saarbrücken
Stuttgart
Wiesbaden
Wurzburg
Zwickau
Winton

AUSTRIA
Linz
Viena
Insbruck
Graz
Salzburg
Bregenz

GREECE
Amfissa
Kallithea
Volos
Agrinio
Ierapetra

Keratsini
Petroupoli

Peristeri
Aridaia
Trikala
Patra
Tripoli
Chania
Athens
Kalamata

Glyfada
Katerini
Livadia
Thessaloniki

Nafplio

Megara
Corfu
Veroia
Argiroupoli

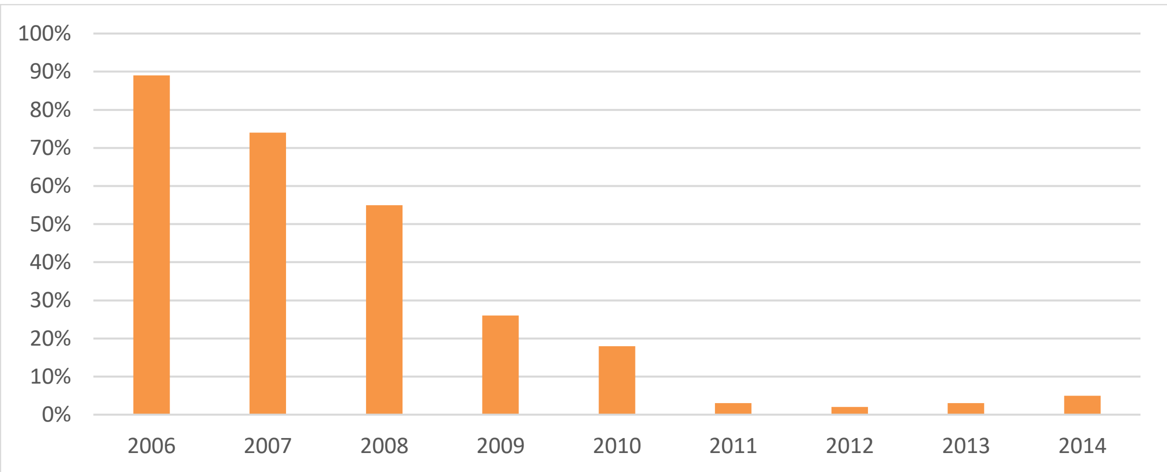
Iraklio
Serres
Giannitsa

Kastoria
Zografou

Argos
Ioannina
Kolonaki
Lefkada
Chalandri
Alexandroupoli
Korinthos
Korydallos
Chaidari
Aigaleo
Vrilissia
Pallini

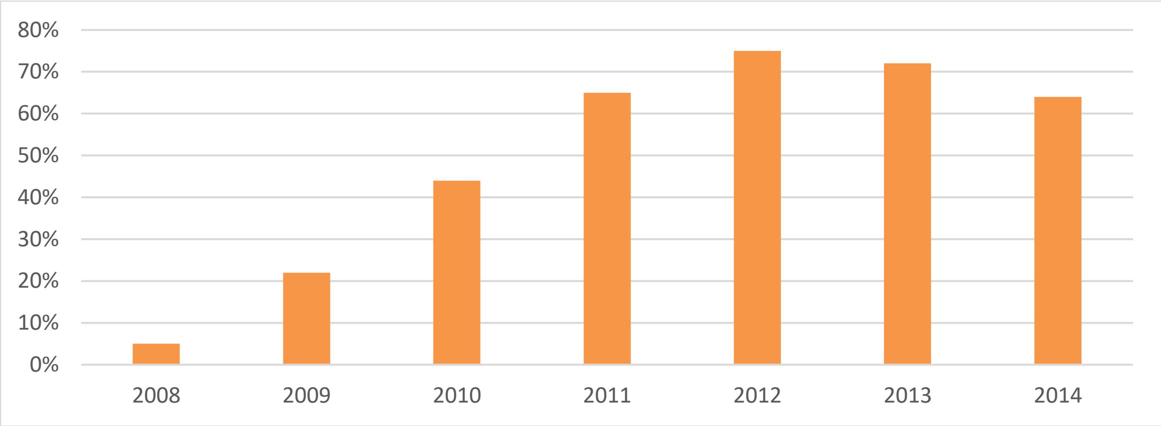
Source: NOBRAND'S institutional presentation

Exhibit 8 Weight of the French Market for NOBRAND



Source: NOBRAND's Financial Department

Exhibit 9 Weight of the German Market for NOBRAND



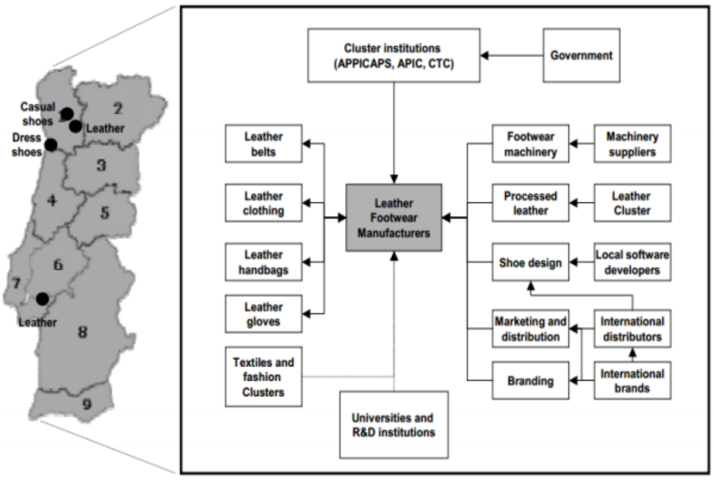
Source: NOBRAND's Financial Department

Exhibit 10 a) Portuguese Footwear Sector Snapshot

FOOTWEAR SECTOR SNAPSHOT	2010	2016
Companies	1 245	1 473
Employment	32 132	38 661
Exports		
Million Pairs	69	82
Million Euros	1 297	1 923
Imports		
Million Pairs	66	57
Million Euros	426	597
Trade Balance		
Million Euros	872	1 326

Source: APICCAPS

Exhibit 10 b) Footwear Clusters in Portugal



Source: Porter (2002)

III. LITERATURE REVIEW

RESOURCES AND CAPABILITIES AS THE FOUNDATION FOR STRATEGY

Strategy and the Resource-Based View of the Firm (RBV)

Because external environment has become increasingly unstable, strategy should be concerned with matching a firm's resources and capabilities (R&C) to the opportunities that arise in the external environment (Grant, 1991).

Thus, based on the premise that close competitors differ in their resources and capabilities in important and durable ways, the RBV provides and explanation of competitive heterogeneity, emphasizing the uniqueness of each company and suggesting that the key to profitability is not doing the same as other firms but rather through exploiting differences, namely establishing competitive advantage through the development and deployment of R&C (Helfat and Peteraf, 2003).

Resources and Capabilities

According to Helfat and Peteraf (2003) a resource consists on an asset or input to production, tangible or intangible, that an organization owns, or has access to on a semi-permanent basis. Resources are the productive assets owned by the firm; capabilities refer to the ability of an organization to perform a coordinated set of tasks, using organizational resources, for the purpose of achieving a particular end result (Helfat and Peteraf, 2003). Individual resources do not confer competitive advantage, they must work together to create organizational capability. (Grant, 1991). Capabilities are the 'roots of competitiveness' (Prahalad and Hamel, 1990).

Resources

It is helpful to identify three major types of resources – tangible, intangible and human resources.

Tangible resources involve financial resources and physical assets, which are identified in the firm's financial statements.

Intangible resources imply intellectual property, which includes technological and artistic resources where ownership is defined in law, reputational assets, such as brand names and other trademarks (Grant, 1991), contracts and licenses, databases, personal and organizational networks and the know-how of employees, professional advisors, suppliers and distributors (Hall, 1993).

Finally, the firm's human resources consist in the expertise and effort offered by employees. The reason for including human resources as part of the resources of the firm is their stability and the fact that most firms devote considerable effort to appraising their human resources (Grant, 1991). The ability of employees to harmonize their efforts and integrate their separate skills depends much on the organizational context, which, because of affecting internal collaboration, is determined by a key intangible resource: the culture of the organization (Grant, 1991). Organizational culture is identified as a firm's resource of great strategic importance and that is potentially very valuable (Barney, 1986).

Capabilities

Porter (1991) argued that resources are not valuable on their own, but they are valuable because they allow firms to perform activities and tasks by working together. An organizational capability is a firm's capacity to deploy resources for a desired end result (Helfat et al., 2007). The RBV approach takes special interest on those capabilities that can provide a basis for competitive advantage. Thus, core competencies, those that are fundamental to a firm's strategy and performance, are those that make a disproportionate contribution to ultimate customer value, or to the efficiency with which that value is delivered, and those that provide a basis for entering new markets (Prahalad and Hamel, 1990). To identify 'distinctive' or 'core' capabilities, two approaches are commonly used – a functional analysis identifying organizational capabilities in relation to each of the principal functional areas of the firm; or a value-chain analysis, following Michael Porter's scheme of distinguishing between primary activities and support activities.

Competitive Advantage based on Resources & Capabilities

Competitive Advantage

A firm is said to have a competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors and it is said to have a sustained competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy (Barney, 1991).

Conditions for establishing and sustaining Competitive Advantage

For R&C to generate sustained competitive advantage, four factors must be analysed – value, rareness, imitability and substitutability (Barney, 1991). By definition, rareness implies that resources possessed by large numbers of competing or potentially competing firms cannot be sources of neither a competitive advantage nor a sustained competitive advantage (Barney, 1991). On the other hand, R&C are valuable when they enable the firm to respond to environmental threats or opportunities (Peteraf and Bergen, 2003) and are relevant to the key success factors in the market (Grant, 2010).

Valuable and rare resources can only be sources of sustained competitive advantage if firms that do not possess these resources cannot obtain them (Barney, 1991). This depends on whether R&C are durable and whether rivals can imitate the competitive advantage they offer. Unique historical conditions, causal ambiguity between the link of resources possessed by a firm and a firm's sustained competitive advantage, and social complexity on the resource generating advantage, are three factors that create imperfect imitability of firm's resources (Barney, 1991). Asset mass efficiencies, i.e. when a strong initial position in technology, distribution channels, or reputation facilitates the subsequent accumulation of resources; and time compression diseconomies, i.e. the additional costs incurred by imitators when attempting to accumulate quickly a resource or capability, constitute two major sources of incumbency advantage (Dierickx and Cool, 1989). Transferability may also be a barrier to imitation: some resources are not easily transferred – either they are entirely firm-specific or their value depreciates on transfer.

Finally, one last requirement for a firm's resource to be a source of sustained competitive advantage is substitutability - even if a resource is valuable, rare, and costly to imitate, if it has strategically equivalent substitutes that are themselves not rare or not costly to imitate, then it cannot be a source of sustained competitive advantage (Barney, 1991).

IMPORTANCE OF CLUSTERS TO COMPETITION

Definition of Clusters

Although competitive advantage relies much on what happens inside a company, e.g. in its R&Cs, clusters reveal that the immediate business environment outside companies plays a major role as well.

Clusters are defined by geographic concentrations on interconnected companies and institutions in a particular field (Porter, 1998). They include an array of linked industries and other entities important to competition, such as suppliers of specialized inputs, manufacturers of complementary products, government and other institutions and also often clusters spread downstream to channels and customers (Porter, 1998).

Clusters can also be perceived as a new way of organizing the value chain. Indeed, the proximity of companies and institutions in one location, together with the repeated exchanges among them, fosters coordination and trust between them (Porter, 1998).

Importance of Clusters

Clusters influence competition by increasing productivity of companies within it, by driving the direction and pace of innovation and by stimulating the formation of new businesses. Also, they promote both competition and cooperation (Porter, 1998).

Deepening the benefits of clusters, we can firstly highlight that clusters confer a better access in sourcing inputs. Regarding employees, clusters can result into a pool of specialized and experienced employees, thereby facilitating the search and transaction costs in recruiting (Porter, 1998). Also, clusters normally provide a deep and specialized supplier base which is advantageous regarding transaction costs and delays and also decreases the chance of overprice by the suppliers. Because of the specialization of supplier base within clusters, normally they assume a better alternative to vertical integration, by being more cost-effective and responsive (Porter, 1998).

Information flow is also of extreme importance within clusters. Indeed, specialized information accumulates within clusters and personal relationships and community encourage trust, which facilitates the flow and access to the information (Porter, 1998).

Thirdly, due to the fact that members of the cluster are mutually dependent, good performance by one can boost the success of others, which results in great complementarities to all members. Among complementarities we can point out the coordination of activities between companies to optimize collective productivity, access to a variety of joint marketing mechanisms such as trade fairs and trade magazines, the attractiveness for customers due to the multi-sourcing within the cluster and access to institutions and public goods, namely through investments made by government or other public institutions.

In addition to enhancing productivity, through all the factors mentioned above, clusters stimulate the speed rate of innovation and upgrading. This is mainly because a company within a cluster can more easily source what it needs to implement innovations and due to the fact that clusters imply “sheer pressure – competitive pressure, peer pressure and constant comparison” (Porter, 1998), and thus, the path that one firm follows influences the overall direction of the cluster.

Lastly, it’s important to highlight that companies within a cluster have two kinds of resources to assist internationalization – one is the cluster’s reputation, which reflects the perception of the area’s past performance; the other kind of resource refers to the available factors within the cluster (Reid et. al, 2006), such as availability and quality of local labour, advanced infrastructures and quality and quantity of information (Enright, 2000).

INTERNATIONALIZATION

Patterns of Internationalization

Internationalization takes place through trade – the sale and shipment of goods and services from one country to another – and direct investment – building or acquiring productive assets in another country (Grant, 2010).

According to the internationalization process model proposed by Johanson and Vahlne (1977), when exploiting overseas markets, a firm gradually increases its international involvement, following a sequential process from the initial export activities to the setting up of foreign production units (Melin, 1992).

The ability to internationalize early and succeed in foreign markets is a function of the internal capabilities of the firm (Autio et al., 2000).

National Influences – Comparative Advantage

In international industries, competitive advantage does not only depend on a firm's internal resources and capabilities, but also on the national environments, namely in the availability of resources within the countries where it wants to operate (Grant, 2010).

According to the theory of comparative advantage, a country has a comparative advantage in those products that make intensive use of the resources available in abundance within that country (Adam Smith and David Ricardo). In the same way, when a firm has a resource that is rare among competitors, it has the potential for producing a comparative advantage, to the extent that, relative to competitors offerings, it is perceived by some market segments to have superior value and/or can be produced at lower costs (Barney, 1991).

Porter's National Diamond Theory

The national diamond framework, a tool for understanding comparative advantage by examining the dynamic through which particular industries within a country develop the resources and capabilities that confer international competitive advantage, identifies four key attributes that determine a country's competitive advantage within a particular sector (Porter, 1990).

Factor conditions refer to the nation's position in factors of production, such as skilled labour or infrastructure, necessary to compete in a given industry (Porter, 1990). Porter emphasizes the role of highly specialized resources, mostly 'home-grown', as the most enduring basis for competitive advantage.

Demand conditions have to do with the nature of home-market demand for the industry's product or service (Porter, 1990). Porter places particular highlighting on the role of home demand in being a primary driver of innovation and quality improvement.

Related and supported industries are the third attribute that Porter points out as determinant for establishing the required resources and capabilities that confer overseas competitive advantage. Related and supported industries represent the presence or absence in the nation of supplier industries and other related industries that are internationally competitive (Porter, 1990). One of the most striking empirical findings is that national competitive strength tend to be associated with clusters of industry.

Finally, national competitive performance in particular sectors is related to the strategy and structure of the firm, as well as its domestic rivalry (Porter, 1990). Intense domestic competition is highlighted as being a driver for innovation, efficiency, and the upgrading of competitive advantage.

Porter's National Diamond Theory is particularly useful for examining how national conditions influence international strategies, namely decisions on where to locate production and on how to enter a foreign market.

Determining Geographical Location

Decision on where to manufacture requires attention to three factors – national resource availability, firm-specific competitive advantages and tradability issues (Grant, 2010).

Modes of entering foreign markets

The success of international expansion depends on the firm's capability to establish competitive advantage within it (Grant, 2010). Firms can pursue external growth by means of transactions or by means of direct investment. For considering between different market entries, a firm should weight several factors.

First, it's important to assess whether the competitive advantage of the firm is location-specific or firm-specific. If the competitive advantage is domestically-based, then the firm should engage in international expansion through exports.

Secondly, it's important to take into account the tradability of the product and whether there are barriers to trade. If there are transportation constraints or import restrictions, then the best way to exploit new markets is by investing in overseas production facilities or by licensing the use of key resources to local companies within the specific market (Grant, 2010).

Moreover, one major factor to consider when expanding internationally is whether the firm possesses the full range of R&Cs for establishing competitive advantage in the new market. The easiest way of accessing additional R&C for overseas competition is through collaboration with local partners – appointing agents or distributors, or exploring licensing agreements (Grant, 2010).

Finally, when choosing between different market entries, firms should carefully analyse which transaction costs are involved for each market entry (Grant, 2010).

Alternative modes of overseas market entry are directly affected by which resource commitment the firm wants to pursue. Also, before going global, companies should consider three questions – if the strategy can generate substantial benefits for the firm, if the firm possesses the necessary capabilities to achieve those benefits, and, last but not least, it's very important to consider whether the benefits will outweigh the costs (Alexander and Korine, 2008).

Strategic Alliances

Strategic alliances are voluntary cooperative inter-firm agreements aimed at achieving competitive advantage for the partners (Das and Teng, 2000). From a resource-based perspective, Eisenhardt and Schoonhoven (1996) view alliances as "cooperative relationships driven by a logic of strategic resource needs and social resource opportunities."

Among reasons to collaborate, besides the wish to acquire new technologies or skills, companies use alliances as learning opportunities, as a means to avoid investments in terms of reducing costs and risks, strengthen competitive advantage or core competencies and gain technological advancement, market access and insights into the partner's business practices and strategies at a relatively low cost (Hamel and Prahalad, 1989).

Most studies on cross-border cooperation distinguish between equity vs. non-equity alliances. Whereas equity alliances include joint ventures and minority equity alliances, non-equity alliances refer to other cooperative arrangements that do not involve equity exchange (Das and Teng, 2000). For non-equity alliances, unilateral contract-based agreements involve transfer of property rights, such as licensing, distribution agreements and R&D contracts; on the other hand, alliances are called bilateral contract-based when the partners have sustained production of property rights and put in resources and work together on a continuing basis, namely through R&D joint marketing and promotion, joint production and enhanced supplier partnership (Das and Teng, 2000).

Risks and problems of collaboration

Looking into the risks and problems to determine the reasons why strategic alliances fail, one first factor that must be appointed is the risk of clash of cultures and 'incompatible personal chemistry' that alliances potentially undergo – communication itself and also differences in attitudes, as different cultures operate in different ways (Elmuti and Kathawala, 2001).

Lack of trust also has the potential to ruin strategic partnerships. This issue is closely related to relational risk, which refers to the possibility that a partner firm lacks commitment to the alliance and that its opportunistic behaviour undermines the prospects of the alliance

(Elmuti and Kathawala, 2001). Because firms tend to be more focused in pursuing their self-interest than in the common interest of the alliance, this may cause opportunistic behaviours such as appropriating partner's resources, distorting information and concealing hidden agendas (Das, and Teng, 2000). Between firms that are also competitors, risk of 'competition for competence' (Hamel, 1991) may arise, which is when each partner seeks to access the other's capabilities. Also related to this issue, firm's collaborating with other firms must pay attention to the risk of free-riding, which is defined as a partner's decision on effort-withholding when facing the dilemma on how much to commit to the alliance (Fonti et. al, 2017).

Coordination also plays a major role when considering strategic alliances. Indeed, alliances imply significant coordination costs and thus lack of coordination between management teams can prove particularly disruptive (Elmuti and Kathawala, 2001).

Performance risk, one other threat that collaboration agreements potentially undergo, is the probability that an alliance may fail even when partner firms commit themselves fully to the alliance (Elmuti and Kathawala, 2001). Performance risk is affected mostly by environmental, market and internal factors.

Finally, when entering any strategic alliance, firms must watch out for not becoming too dependent on the alliance. Indeed, in the search of 'collaborative advantage', many firms are finding their performance and survival increasingly dependent on their collective activities with other firms (Das and Teng, 2001).

Benefits and reasons of collaboration

One first reason for engaging in cooperative arrangements is that collaboration provides an opportunity for firms to internalize the skills of its partners, and thus improve their position both within and without the alliance (Hamel, 1991).

Additionally, alliances enable the sharing of risk among partner firms – through collaboration they can share the risk and costs to R&D investments, achieving economies of scale and scope, jointly bidding for large projects, and entering new markets (Das and Teng, 2001).

In a scenario of global competition, alliances also allow smaller partners that ally to compete more effectively against global common enemies, rather than one another (Bartlett and Beamish, 2014).

While former traditional goals for partnering was to gain market access to existing products, the modern form of strategic alliances are broadening to other factors such as technology exchange, global competition, economies of scale and alternatives to merger (Bartlett and Beamish, 2014).

IV. TEACHING NOTE

SYNOPSIS

From 1988 to 2017, the Portuguese shoe-manufacturer NOBRAND (NB) transformed itself in an international brand, managing to bring its products to more than thirty countries worldwide.
The case offers insight into the overall development of NB, describing with detail its core activities and identity foundations, the internationalization process and the challenges that the brand is facing currently. These descriptions offer a basis for analysing the resources and capabilities (R&C) that form the substance for NB's competitive advantage.

The performance of NB overseas raises important questions about NB's ability to engage in international business and about the most adequate way to pursue it, presenting successful and less successful examples of expansion markets. In the light of these examples, students can reflect about the pros and cons of the different internationalization strategies and, if it is the case, suggest the type of strategy that will offer NB the best chance of sustaining its competitive advantage both domestically and internationally.

TEACHING OBJECTIVES

The case should be used to introduce the analysis of resources and capabilities, aiming to help students to identify distinctive resources and capabilities and appraise to what extent these different R&C can confer competitive advantage. The case allows an interesting extension of the resources and capabilities analysis into the importance of clusters, showing how the presence in a cluster may contribute to the development of competitive resources and capabilities.

Finally, the case deals with the topic of internationalization strategies, serving as a tool for evaluating different market entry strategies and understanding the benefits and risks of collaboration strategies.

ASSIGNMENT QUESTIONS

1. In which of NOBRAND's principal functions and activities do its main competitive advantages lie? Identify the distinctive resources and capabilities in each of these functions and activities.
2. To what extent does the geographic presence within a cluster contribute to NOBRAND's attainment and development of resources and capabilities?
3. NOBRAND pursues strategic alliances for commercializing its products internationally. What are the overall risks and benefits of such collaboration strategies? Was this the right approach to engage in international expansion?
4. What are the relative strengths of the different strategic options pursued by NOBRAND? What would be the strengths of opting for expansion through internal development?

CASE DISCUSSION AND ANALYSIS

Identifying and assessing NB's distinctive resources and capabilities

To evaluate the sources of NB's competitive advantage we need to look into its resources and capabilities. To organize the various R&C, it is useful to examine the company's main activities and functional areas and then explore to what extent the company has developed distinctive resources and capabilities at each of the main functions and activities.

Some of the key elements that students should include are:

- *Organization and Management* – Evidence on the case suggests that NB's Organization and Management is strongly shaped by its leaders – Sérgio Cunha and Francisco Lusquiños, which are a fundamental resource of the company.

  At the core of organizational capabilities are individual skills and capabilities and, indeed, there are several competences from these two leaders that students should point out as strategically important to the success of NB, among them:
  - Their know-how and vast contacts network, marked by their previous experiences and also by their access to information through the Private Labels business (p. 7-8);
  - Their risk-management expertise, noticeable in the case in several situations – the decision for dividing production between NB and other Private Labels (p. 9); their ability to adapt to changing circumstances (e.g. changing the way of domestic entry) (p.16); the choice for indirect exports and different cooperation strategies;
  - Team-management, coordination and integration skills, which is visible by the statement of Hermínia Sampaio (p.11) and by the description on Product Conception Decision-Making Process (p.13);
  - Relationship talents, evidenced by the leaders' ability to establish international alliances.

- *Human Resource Management* – The motivation, cooperation and flexibility of employees is fundamental to NB's capabilities across all its activities.

  Regarding Human Resources, it's important that students refer following aspects:
  - Employees' expertise and know-how, which can be inferred by the fact that they are possibly recruited mostly within the Portuguese Footwear Cluster;

- People Management within NB, which, as suggested in the case implies motivation mechanisms such as training, efforts of a good working environment and integration mechanisms such as the fitting tests, for example. Also the description on Human Resources and even the testimonials give the impression of life-time employment (p. 11-12);

Moreover, as the performance of employees depends not only on their skills but also on the organizational context, it is of major relevance that students highlight following elements:

- The interdependent structure of NB – evident by the different contributions of all departments underlying the whole shoe-making process (Exhibit 4) and by the inclusive decision-making process – which is essential for fomenting motivation, cooperation and cohesion within NB (p.14);
- The adaptability of NB's structure to the nature of the different activities – as stated in the case "*the Manufacturing Division is more mechanistic and standardized, in order to maximize efficiency and reliability; on the other hand, other divisions such as the Design and Conception function as organic, with lower formalization and standardization, which encourages creativity and innovation*";
- The organizational culture, a key intangible resource of NB, that, as suggested by the mission and vision statements of the company (p. 10), is based on major premises such as innovation, emphasis on people and outcome, attention to details and customer satisfaction.

- *Supply* – NB maximizes the impact of its buying power through:
  - Exclusive outsourcing and subcontracting agreements, which provide the brand with control over scheduling its deliveries and complete the integration of the supply chain (p. 21);
  - Location of the most important suppliers within the cluster, which confers proximity, quicker access in sourcing inputs, cost-effectiveness and fast responsiveness.

- *Product Development and Design* – Four fundamental features characterize NB's Product Development and Design:
  - Distinctive design capabilities, with the special ability of 'reinventing the classics' (p.13);

- Innovative and fast-cycle new product development – in close relationship with the Manufacturing and Assembly Department (p.21);
- Responsiveness to market trends. new materials and techniques (p. 13);
- Attention to customer needs (p.13-14).

- *Operations / Manufacturing and Assembly* – the three manufacturing facilities and the strategically fundamental location of those facilities, along with some automation and standardization of processes, are key elements for some distinctive capabilities of NB:
  - Flexibility and speed of response in manufacturing, allowing for unique flash-production ability (p.21) and meeting of customers' preferences;
  - Efficiency in volume manufacturing, implicit by the relationship between the number of shops and still the ability for flash production;
  - Superior quality, sustained through the several quality controls within the production process (p.14).

- *Distribution and Sales* - Main resources and capabilities regarding this activity include:
  - Geographical extensive distribution, through diverse business channels, which allows NB to penetrate markets more easily and faster, to gain access to different market insights and to the contact networks of its partner's and to lower risk. The ability to adapt to different cooperative agreements increases the possibility of gaining customers and has proven to be fundamental to NBs success;
  - Superior supply service in terms of responsiveness to customers' demands, speed of delivery and quality standards;

Students are expected to also refer two very important resources of NB that are not connected specifically to any activity or function:

- Financial consistency – attested by the Award granted to the brand (p. 20);
- The reputational asset of the brand itself – having established brand value for more than 25 years, the brand is a key intangible resource that comprises NB's coherence and a clear market positioning within the footwear industry.

Evaluating which R&C confer sustained competitive advantage

After listing all the different R&C related to each activity or functional area it is important that students assess which are the core competencies of NB, those that make disproportionate contribution to value-creation and that provide a basis for entering new markets.

For this, it's necessary that students assess the relative importance of each R&C – which ones are essential to the business but not scarce; on the other hand which ones are 'needed to win' and thus can help sustain competitive advantage. They are expected to use the concepts of value, rareness, imitability and substitutability:

Value and durability - Among NB's R&C, the following should be pointed out as the most durable:

- The leaders' know-how and vast contacts network;
- Innovative and fast-cycle new product development;
- Manufacturing capabilities;
- Global distribution;
- Brand strength.

Rareness – NB's most important firm-specific R&C, those that would lose value on transfer, are:

- The Organization and Management skills, which are firm-specific to NB and the way it was established;
- Supply resources, because the main part of them are available in abundance due to national conditions (cluster);
- Product Development and Manufacturing capabilities, due to the fact that they are complementary and interdependent and so detaching one of the parts would most probably cause the other part to lose productivity and value.

Replicability – In practice, all of NB's production process is difficultly replicable, as it is based on interdependent complex organizational routines. Moreover, due to its 'mature age', NB benefits from asset mass efficiencies – regarding its technology, distribution channels and reputation – and also from time compression diseconomies – mostly because of the economies of scale and experience it has accumulated over time. Thus, although imitability might be possible, these two aspects protect NB from potential imitators.

Substitutability – Though there is no detail on the case about equivalent substitutes to NB's distinctive R&C's, the threat of Chinese Imitation (p. 23) can be mentioned as a potential substitute.

After ceasing the analysis above, students are expected to answer to the question 'on which activities and functions do the main competitive advantages of NB lie' referring that core competences are mostly related to '*Organization and Management*', '*Product Development and Design'* and '*Operations / Manufacturing and Assembly'*, which are the ones more fundamental to the firm's strategy and performance.

Assessing to what extent the cluster contributes to R&C

Through this assignment question, students are expected to understand the importance of the cluster to NB's competitive advantage and come up with possible new resources and/or capabilities that derive from the cluster, which possibly did not occur to them when answering to the first assignment question.

The analysis of cluster importance should begin with asking students to provide the definition of a cluster – "a geographic concentration of interconnected companies and institutions in a particular field" – exemplifying through referring for example the existence of cluster institutions such as APICCAPS, or pointing out the several number of companies located in the cluster, 1473.

Subsequently, we need to explore the importance and benefits of clusters and relate those benefits to the specific R&C of NB.

Key aspects to be pointed out:

- *Quicker access in sourcing inputs and specialized supplier base* – Thus, NB's exclusive agreements are probably eased by the cluster and present for this matter a much better alternative than vertical integration;
- *Creation of pool of specialized and experienced employees, which facilitates recruitment and transaction costs* – As mentioned in the case, cluster institutions help refine the human resources available in the cluster, and hence, NB's employees as a resource, and their level of expertise, is possibly mostly boosted by the cluster;
- *Coordination of activities and productivity encouragement, due to the mutual dependence and complementarities of the cluster members* – This aspect should make

students reconsider if the capability of fast-cycle and efficient product development is entirely firm-specific to NB or if it might be sustained by the business environment around it. Would NB have the same capability if it was based in any other part of the country? Probably not, or at least the speed of access to input sources and subcontracting would be lower and this would certainly affect the core competence of flash-production.

- *Access to joint marketing mechanisms, such as trade fairs* – We know from the case that many of NB's customers were gained in important business fairs, the question now is: Would NB have the capacity to participate in all those fairs without incentives from the cluster?
- *Attractiveness for customers due to multi-sourcing within the cluster* – One major reason that customers turn to clusters is because of multi-sourcing possibilities, i.e. in a cluster customers lower the risk of not finding what they are looking for, since there are many alternatives concentrated in the same place. Thus, the vast contact network of NB might have been accelerated because they are based in the most attractive place for customers that are looking for footwear.
- *Superior quality and quantity of information flow* – Clusters accumulate specialized information such as market insights, new technological improvements, contact networks, reviews on launched products, and so on. Although it is difficult to specify to which informational resources NB had access to, it is certain that the information flow within the cluster helped the brand to establish its contacts, opt for specific international markets and invest in specific technological improvements, for instance.
- *Stimulation of innovation and upgrading rates* – Clusters promote cooperation but also competition. Competitive pressure influences the pace of innovation as firms tend to seek to attain the same innovation level as other firms in the same cluster. Thus, typically, if there is an innovation on machinery, manufacturing techniques or materials, for example, firms are likely to follow the path of it in order to keep up with the standards of other firms within the cluster. NB's innovation techniques are firm-specific in the perspective that decisions on which improvements to made were certainly made in-house, still, the brand was most certainly influenced by the changes in technology that were surrounding it.
- *Access to institutions and public goods* – as mentioned in the case, although not detailed, institutions such as APICCAPS have proven to be of great strategic value for NB, probably because of encouraging international expansion, and fomenting refinement in products and services, among others.

- *Cluster's international reputation* - Empirical findings suggest that national competitive strength tends to be associated with clusters of industry. Additionally, according to the theory of comparative advantage, national resource abundancy might result in international comparative advantage, which happens when a country has a resource or capability that is rare among other countries. In this case, and fomented by resource availability, Portugal has always been known for having distinctive skills on working with natural leather, for instance in footwear manufacturing. Thus, once again the question arises, to what extent has NB profited from the Portuguese Reputation related to footwear-manufacturing quality standards, when entering foreign markets? Most certainly a lot.

With this analysis, it is expected that students reflect on their answer on question number one and acknowledge the cluster as one core resource for NB's competitive advantage.

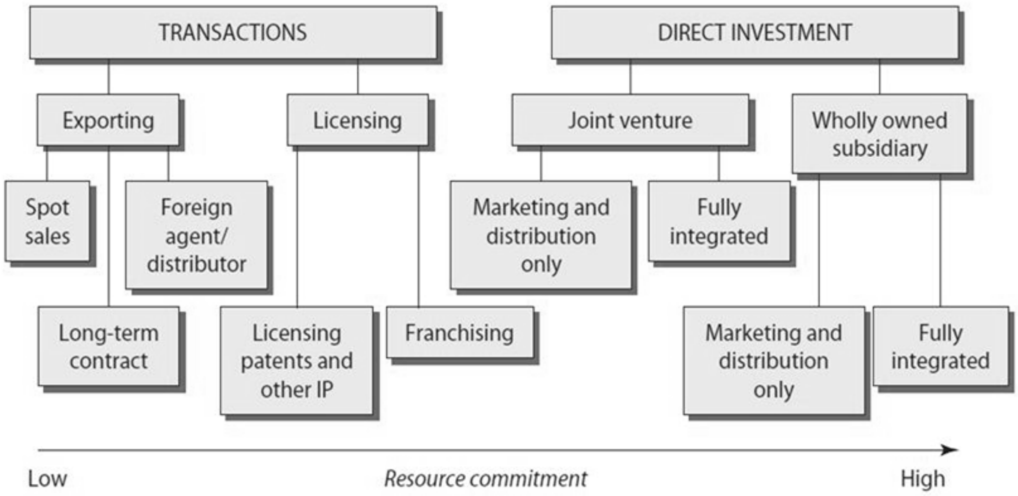
After assessing the importance of the cluster for NB, it is also possible to introduce Porter's National Diamond Theory. Looking at the different attributes of the diamond – factor conditions, demand conditions, related and supported industries and strategy, structure and rivalry – students should be able to identify that there are several conditions from the diamond in which the Portuguese footwear sector is clearly well developed, and thus NB naturally gains advantages from being inserted within the cluster. Some examples that can be pointed out are the role of highly specialized resources and skilled labour, as the CEO mentions in the case "*Portugal has a comparative advantage because we know how to work with natural leather"* and the presence of related and supported industries, which *"provide access to a full range of services and materials for the manufacturing process"*.

Overall, the positive attributes of the diamond for this industry explain why Portugal has developed R&Cs that confer international competitive advantage, which, in turn, provide a basis for competitive advantage for the companies within this industry, such as NB,

Identifying alternative modes of foreign market entry

For evaluating the strategic options that NB has selected for pursuing international growth, it's relevant to distinguish through which forms internationalization takes place – namely through trade or direct investment – and distinguish these two different alternatives between non-equity and equity alliances.

We can schematize the different modes of market entry as follows:



Subsequently, students should recognize which of the different approaches NB uses:

- *Spot Sales* – which the case of the Norwegian and Dutch Markets;
- *Foreign Agent / Distributor* – which was the selected means for entering the French and German Markets;
- *Licensing through franchising* – which is the approach used for the opening of the first NB's mono-brand store in Colombia, Medellin.

Evaluating the risks and benefits of overall strategic alliances

Benefits of strategic collaboration that students are expected to mention:

- *Risk sharing and lowering necessary investment* – We can start by asking, what was the most probable reason, why NB chose to enter foreign markets through alliances. The obvious expected answer is risk sharing and lowest requirement of investment. For first overseas experiences, and taking into account that NB had a negative past experience with the domestic market, it seems logical that the brand opted for non-equity agreements.
- *Penetration: Take advantage of the distribution capabilities and market knowledge of local companies* – Secondly, one of the expected aspects that students should point out, is that local partners have typically much more knowledge and contacts on their markets, which eases the distribution process and allows for a much more fast market penetration.
- *Accessing resources and capabilities of business partners* – Following the framework on creating competitive advantage through exploiting resources and capabilities,

students should remember to highlight that alliances are a great tool of accessing local companies' R&Cs – technology, product development, communication and marketing, market knowledge, business practices, and so on – at a relatively low-cost and thus this approach can help strengthen competitive advantage in the way that it helps the firm to gain new, or develop existent, resources and capabilities.

On the other hand, among the risks of inter-firm agreements, the following topics should be addressed:

- *Dependence* – As all of NB's expansion, both domestic and international is made through cooperation with other players, the case might cause an impression that NB is becoming somewhat dependent on strategic alliances. To what extent is NB's performance and survival increasingly dependent on inter-firm arrangements with other firms?
- *Relational risk* – One other risk that is expected to be mentioned in discussion is the possibility that a partner lacks commitment to the alliance. This risk is related to the typical opportunistic behaviours of firms, namely the use of alliances for self-centred purposes – distorting information, hiding agendas and focusing on appropriating on the partner's resources are some possible examples. Finally, students are also expected to introduce the concept of free-riding – which happens when a company takes advantage of the partner's commitment to the alliance and opts for withholding efforts;
- *Incompatibility* – between cultures and business practices is also a potential threat of collaboration that should be evoked;
- *Lack of coordination* – Firms tend to make some investments to guarantee that there is coordination between all the players. Hence, the risk of lack of coordination can be disruptive for alliances and might result in sunk costs for the companies.
- *Performance risk* – Last but not least, for every inter-firm arrangement there is always the probability that, despite of full commitment of all partners to the alliance, the alliance fails. Normally the reasons for this to happen has to do with environmental market and internal factors.

Appraising whether inter-firm agreement was the most adequate way to address foreign markets

After assessing which inter-firm agreements NB uses and all the risks and benefits of such collaboration strategies, students are invited to share their thoughts on whether this is an adequate form for external growth.

It's expected that students recognize the success of this strategy firstly using the data available on the case on net sales (Exhibit 1b) – indeed NB shows a positive evolution in sales up until 2015. On the other hand, looking at Exhibits 8 and 9, the dependence risk of collaboration should be evoked, namely how come the difference in weights of the different French and German Market is so volatile, and whether there is a great dependence on the German Market in recent years.

Furthermore, students are expected to use the theoretical framework on modes of entering foreign markets to justify their opinions. It's important that they highlight that the success of international expansion depends on the firm's capability to establish competitive advantage within it and how is the more prudent way to engage in international activity taking into account the RBV of the firm:

1. *Is the competitive advantage of the firm location-specific or firm specific?* In the case of NB, analysis on the cluster importance might imply that the competitive advantage relies much on location, and, hence, NB is being wise by engaging in international expansion through means of transactions and exports.
2. *Does the firm have the full range of resources and capabilities necessary to establish competitive advantage overseas?* Taking into account that a great part of NB's most important resources are immobile or domestically-based, and that the firm lacks experience on commercializing its products by its own means and risk, collaboration seems like the most prudent way to compete overseas.
3. *Which transaction costs are involved for each market entries?* Although we have no details on the case about the transaction costs involved in external growth, we know that growing through direct investment means implies large resource commitment. If NB hasn't pursued any direct investment up until now, most probably it does not have all the necessary resources available.
4. *Is the strategy implemented generating substantial benefits for the firm? Does the firm have the necessary R&C to achieve those benefits? Will the benefits outweigh the costs?* The answer to all these questions seems to be 'yes'. NB is increasing brand awareness

and growth by exploiting collaboration strategies. Also it is gaining experience from these arrangements, which might be boosting the creation and reputation for growing the number of such agreements. Finally, although there is no evidence in the case whether the benefits are outweighing the costs, the most intuitive answer seems to be positive from a rational perspective – if it was not going well, we would expect NB to have diversified its business strategy by now.

Assessing the relative strengths of the different approaches

For determining the relative strengths of the alternative strategic options, I suggest that instructors provide students with the table below and ask them to fill in the table. The question only requests the assessment of the approaches which are being used by NB and the inclusion of internal development, however I will expand the analysis to all the major types of strategic alliances, which can be used as a good summary for modes of entering overseas.

	TRANSACTIONS		DIRECT INVESTMENT	
	Exporting	**Licensing**	**Joint-venture**	**Solo internal development**
Risk / Cost	Low	Low	Medium – shared	High
Return	Low	Limited	Medium / High	Maximum potential
Speed	High	Quickest way to achieve global expansion	Potentially faster than internal development	Slow
Control	Complete	Medium /High	Shared	Complete
Potential for Leveraging Existing Competencies	Yes	Yes	Yes	Yes
Potential for Leveraging New Competencies	Yes	Yes	Yes	Yes
Potential for Assessing other Firms' Competencies	No	Limited	Substantial	No

Strategic Recommendations

One possible way of ending the session, is asking students which strategic advice they would offer to NOBRAND.

Possible recommendations might include:

- NB has been experiencing international growth through strategic alliances for more than 7 years now. Although business is running well with this practice, there is potential for NB to increase its returns by directly investing in foreign markets. The brand is secured by Private Labels customers and also by the risk spread on all different international collaborations, and, by this time the firm must have developed new capabilities and resources for competitive advantage in international markets – so it could be of great return to explore one other business source, for example a joint-venture in the German or Colombian Market;

- Despite the threat that physical stores might face due to the growth of online retail, NB should invest at least in one own mono-brand store. Even if it only works as a showroom, it is of great strategic importance to communicate the brand positioning of NB and to gain first-hand insights from consumers.

However, despite of the possible recommendations that students might suggest, it's important to highlight that for any kind of strategic recommendation, there needs to be consideration on the available resources that NB has, its ability to manage risk and in what way its past experience can shape and contribute to the future direction of the firm.

V. CONCLUSION

This dissertation served as an engaging opportunity to analyse a real situation of a successful company and understanding how it managed to found its basis of competitiveness, whilst relating this development to theoretical strategic frameworks. Indeed, one of the most important findings was the realization that not always do companies follow their paths based on theoretical guidelines, but, on the contrary, most commonly they set their track by adapting their resources and capabilities to the surrounding environment and challenges.

With this in mind, and taking into account the instability and unpredictability of the external environment, resources and capabilities prove to serve as a reliable basis on which to define the direction for a firm's strategy and build its competitive advantage upon.

Moreover, with regards to international expansion, the development of this case study also helped to understand that there is not one clear direction or theoretical plan on how to pursue international business, on the contrary, expansion choices are mostly made by taking into account past experiences and the type of resource-commitment that a firm is willing to carry out.

Thus, while theoretical frameworks are of major importance and can be used as basic guidelines for strategic decisions, it's important to conduct a critical reflection about to what extent different theories apply to real-business situations.

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