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Online Market-Penetration Strategies of Josefinas to South Korea

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Title

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Abstract

Josefinas is a luxury brand that sells online globally since its inception. The purpose of this project is to develop online market-penetration strategies for Josefinas to increase sales and brand awareness in the South Korean market. An internal analysis was developed to assess the competitive potential of the firm's resources and capabilities, and the firm's internal strengths and weaknesses. An analysis of the market was also performed to understand the external factors that directly affect the company as a market player. Finally, this project suggests different market-penetration strategies for the company to meet its business goals.

Key Words: Josefinas, market penetration, e-commerce, luxury, footwear

1. Introduction

Small and Medium Enterprises (SMEs) play an important role in the economy. Their contributions include employment generation, technological change, innovation and market decentralization and regeneration (Acs and Audretsch, 1993). Bloomers SA is a Portuguese SME, and founder of the brand Josefinas. Josefinas is a luxury-footwear brand that has been selling its products at a global scale since its founding, with online sales accounting for 90 percent of their total sales. In terms of geographical region, 40 percent of sales come from the USA, 40 percent from Europe and only 20 percent come from Asia. Therefore, one of its current business goals is to increase sales in the latter region, as they recognize the size and growth potential of its luxury market. The purpose of this study is to develop market-penetration strategies for the brand in the South Korean market. Market penetration is "an effort to increase company sales without departing from an original product-market strategy. The company seeks to improve business performance either by increasing the volume of sales to its present customers or by finding new customers for present products" (Ansoff, 1957). Thus, the main research question to be answered is how can Josefinas increase brand awareness and customer acquisition to increase sales in the South Korean market. Other sub-questions addressed to answer the main question are what are the main challenges in the South Korean luxury market and how to tackle them, which are the competitive advantages of Josefinas and how can they be brought to their full potential in the South Korean market. In order to answer these questions, a VRIO analysis was performed to assess the competitive potential of the firm's resources and capabilities, followed by a Porter's 5 forces analysis to examine the competitiveness of the South Korean luxury footwear industry. Thereafter, a situation analysis was developed with the SWOT framework, and strategic options were generated with a TOWS matrix. Finally, strategies are suggested for Josefinas to increase brand penetration in the South Korean market.

Josefinas is a born global, as it has been selling its products at a global scale since its inception. Thus, this study will research some of the strategies adopted by another born global firm: Farfetch. Launched in 2008, Farfetch is a digital platform for high-end fashion retailers from around the world, that had a valuation of USD 1 billion just after 7 years since its founding. Thus, some of the strategies adopted by the brand will be studied and selected as benchmarks for Josefinas's market-penetration strategies in South Korea.

2. Literature Review

Josefinas is an interesting business case to study mainly because of their managerial global vision from inception and their rapid success. Thus, the literature reviewed in this work project includes research studies about the theory which sought to explain firms of Josefinas's nature: The born global theory. These firms have shown to follow a different internationalization process that is not in line with neoclassical theory. Many authors have attempted to explain their strategy and one of the theoretical frameworks linked to it is the resource-based theory, which is also reviewed in this section.

2.1. Born Global Theory

The early internationalization of firms was an unusual event, and it was possible thanks to two main factors: the globalization of markets which enabled global sourcing, production and marketing, and strategic alliances with foreign firms for product development and distribution; and the homogenization of buyers' preferences that simplified firms' decisions in market segmentation (Knight and Cavusgil, 2004). Research studies found that neoclassical theories, applicable mostly to MNEs, could not describe the nature nor theorize this new phenomenon (Oviatt and McDougal, 1994). Large multinational enterprises are well-known for practicing international business. Conversely, in this contemporary environment, firm size is no longer an obstacle (Cavusgil and Knight, 2009). The most common and widely accepted term to address these firms is born global (Cavusgil and Knight, 2009). Oviatt and McDougal

(1994) have defined this type of firm as “a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries”. Born globals can be spotted in most industries, and they are characterized as follows: SMEs with very few financial and tangible resources; managerial global vision from inception; high value creation through product differentiation with a unique product or unforeseen design of superior quality; learning strategy; and strong international marketing management (Cavusgil and Knight, 2009; Rialp et al., 2005; Bell et al., 2003; Conviello and Munro, 1995). These firms can survive and prosper in the international environment largely because of the internal resource commitment of key organizational resources and capabilities deeply rooted in the organization’s culture (Grant, 1996; Knight and Cavusgil, 2004). Consequently, this literature review also addresses the resource-based theory, the theoretical framework used to analyze the inner organizational resources of a firm that can build a firm’s potential competitive advantage.

2.2. The Resource-Based Theory

The first contribution to this subject was made by Penrose (1959) who stated that a firm’s rate of growth is dependent on its existing human resources and the firm’s knowledge scope. The resources of the firm can be classified as tangible or intangible. The latter was also named intellectual capital and it was stated that these assets bring the most value to an organization (Bontis, 1999). Tangible resources are those that show up in the balance sheet such as cash, buildings and machinery, among others (Bontis, 1999). Conversely, intangible resources are assets that are not physical in nature. They can be divided into three forms: human, structural and relational capital. Human capital comprises the skills, competencies and abilities of the workforce. It refers not only to an individual’s talent, but also to the collective skills of a team. Structural capital refers to the knowledge-based assets of the firm: patents, trademarks, copyrights, administrative systems, models, documents, among others. Relational capital is the value of relationships with any stakeholder of the firm (Stewart, 1998; Bontis, 1999). There is also an important distinction between resources and capabilities. Capabilities "are information-based, tangible or intangible processes that are firm-specific and are developed over time through complex interactions among the firm's resources" (Amit and Schoemaker, 1993). They are "a firm's capacity to deploy resources" (Amit and Schoemaker, 1993). As mentioned before, many authors agree that the early internationalization of born globals, done in a successful manner, is highly correlated to the managers' focus on the firm's inner resources and capabilities (Oviatt et al., 1994; Rialp and Rialp 2006). Rialp, Rialp and Knight (2005) stated that a pattern exists in the factors that trigger the early internationalization of the firm. That list included the following factors: "unique intangible assets based on knowledge management, strong use of personal and business networks, high value creation through product differentiation, strong customer orientation and customer relationships, a managerial global vision from inception, high degree of previous international experience of managers, management commitment, market knowledge and market commitment, quality leadership, niche-focused, proactive international strategy in geographically-spread lead markets around the world from the very beginning, and flexibility to adapt to rapidly changing external conditions". An important set of factors determines early internationalization, and they are mostly of an intangible nature since these firms are characterized by their lack of financial resources, properties, plants, equipment and other physical assets. Thus, a born global firm focuses on their intellectual, specifically human, structural and relational capital. Their strategic combination generates key organizational capabilities difficult to replicate by other competitors, at least in the short-medium term, that allow these firms to access international markets from inception.

3. Methodology

In this work project, a qualitative research was used to develop Josefinas's market-penetration strategies to South Korea. Primary data was collected through a questionnaire answered by the CEO of the company to further understand the company's business and internal environment. Secondary data was also used to analyze the market and develop strategies for a successful brand penetration in the South Korean market.

4. Firm Overview

Josefinas is a Portuguese luxury-footwear brand founded by Filipa Julio and Maria Cunha in May 2013. A thirty thousand euros' investment enabled the brand to launch their first collection of ballet flats in seven different colors. Today, the brand sells not only ballet flats, but also sneakers and a handbag available in two different sizes. The brand was named in honor of Julio's grandmother who took her to her ballet classes when she was a little girl. These childhood memories are the inspiration behind the signature Josefinas ballet flats. Josefinas is a true appreciation of Portuguese craftmanship. Their shoes are handmade in a small shoe factory in the Aveiro district, near S. João da Madeira, by two Portuguese shoemakers, Jorge and Carlos, alongside a group of seamstresses. After 3 years as an online business, Josefinas opened their first flagship store in New York City's Nolita neighborhood in July 2016. The company, Bloomers SA, was founded in November 2013 in Braga district. It has currently seven employees: Maria Cunha, the CEO of the company; Sofia Oliveira, the chief social media officer; Maria Inês, the design planning manager; Joana Esteves, the chief customer officer; António Fernandes, the chief quality officer; Catarina Vieira, a digital marketing intern and Azumi Peixoto, the Japan market and media manager.

The company's business model also integrates corporate social responsibility: they partnered with a nonprofit humanitarian organization, Women for Women International, which serves the most marginalized women who live in war and conflict-affected areas. Josefinas's Women for Women collection helps one woman for every 10 editions sold.

The brand celebrates strong and independent women. Their mission is to help them, inspire them, and change the world through business by doing little gestures that focus on empowering women, because the company believes they are an agent of positive change in the world.

5. Value Proposition, Positioning and Target Consumer

Josefinas's value proposition is to deliver high-quality shoes through an appreciation of Portuguese craftmanship that creates unique pieces of art and delivers total comfort due to the use of breathable and flexible leather, and the adjustable shoe strings that enables the shoe to loosen and tighten in accordance with the shape of any women's feet. The founders believe they developed the perfect flat-shoe model which is already patented. The brand's positioning is to deliver high-quality, handmade shoes for independent, ambitious women that want to look fashionable but comfortable to pursue their dreams, and successfully achieve their personal and professional goals. The target consumer is a woman between the ages of 25 and 45 that is urban, active and modern and that appreciates the simplicity and uniqueness of handmade, high-quality products such as the Josefinas's ballet flats.

6. Josefinas's Competitive Advantages – VRIO Analysis

A VRIO analysis was performed (**Exhibit 1** in **Appendix A**) to evaluate the competitive implications of Josefinas's resources and capabilities.

The company's temporary advantage is its patent of its flat-shoe model. Its resources that are at parity with competitors include common characteristics of SMEs such as its flat organization where all employees have informal relationships with one another and are highly involved in all processes, and the flexibility of the production system that brings speed in supplying customers and adapting to their changing demands. Josefinas has also resources that are at parity with other luxury brands: a strong brand identity and excellent product-development capabilities. The brand identity and personality have traits of feminism, independency, strength and kindness that are integrated in all components of the brand: from its company workers representing the brand, to the logo, the name, advertising and the product's packaging. It also has excellent product-development capabilities, as the shoe designer of all the product lines, Filipa Júlio, takes inspiration from travel adventures, special moments of her life and women all over the world. She is a true luxury-brand designer who creates pieces of art and focuses on setting trends rather than following them. As a result, every design is unique and exclusive to the brand. Their differentiation strategy provides other capabilities at parity with competitors which include the offered customer experience – from the handmade packaging, to the small gift sent in addition to the product, to the handmade letter; production know-how of experienced Portuguese artisans; superior product quality thanks to the craftmanship behind it and the selection of the finest leathers; high-quality customer service; highly-marketing oriented as they often do influencers marketing campaigns (with both celebrities and fashion bloggers), invest in digital marketing in social media, and promote through PR. Other capabilities that give the company competitive parity are their global vision and global presence from birth, experience in online and direct selling, the Portuguese footwear industry's positive image and reputation for quality, and the incorporation of corporate social responsibility in the company's business model.

7. South Korean Luxury Market

In **Appendix B** there is an in-depth explanation, with key statistics and facts, of the reasons why the South Korean market offers one of the best opportunities for a brand like Josefinas. Regarding the competitive landscape, the market players leading the overall luxury goods market in South Korea are Louis Vuitton Korea Ltd, followed by Prada Korea Ltd and Richemont Korea Ltd, with market shares of 11.6 percent, 6.7 percent and 6.4 percent respectively.

8. Porter's 5 Forces Analysis of the South Korean Luxury Footwear Industry

Bargaining power of suppliers: **Moderate**

Josefinas's strategic intent is not to shift or acquire additional sources of manufacturing supply, but this force must be included to have a complete analysis.

South-East Asia is the main source of raw materials for South Korea's footwear industry. They are low-cost manufacturing countries that are high in number. Therefore, switching between suppliers can be easily done due to the economic advantage of Western buyers, which implies that bargaining power of suppliers is low. Although, labor costs have been increasing in these countries. Consequently, Western companies' costs of supply might increase in the future. Moreover, high-quality manufacturing and technology suppliers in South Korea are scarce; and synthetic rubber and leather costs are rising, affecting footwear sales and the brand's product mix. These factors increase bargaining power of suppliers to an overall moderate level.

Bargaining Power of Buyers: **Moderate to Low**

In the luxury footwear industry, consumers typically purchase products in low volume several times a year, and there is a low concentration of buyers (higher number of buyers relative to suppliers).

In South Korea, socioeconomic classes can be divided into 5 segments defined according to household annual income that is shown in **Exhibit 2** in **Appendix A**. Class A earns the highest income (more than 100,000 dollars a year) and class E earns the lowest income (less than 5,000 dollars a year). Class B and C, the middle and upper-middle class, were responsible for most of the total spending of miscellaneous goods and services (which includes luxury goods), accounting for 41.2 percent and 44.4 percent respectively in 2016. Followed by class A, the upper class, which accounted for 12.3 percent of total spending. Thus, on one hand, the Korean upper class is not very price-sensitive, because one purchase represents a small share of their disposable income. On the other hand, the middle and upper-middle class, which account for a good portion of the South Korean population and are also important customers for luxury brands, can be more price-sensitive because the same purchase will represent a larger portion of their disposable income. The latter might choose one luxury brand according to its price tags and look for discounts in outlets.

Highly-differentiated products, such as luxury footwear, can decrease bargaining power of buyers, because they are harder to substitute. It is difficult for consumers to find comparable goods, because their value proposition includes benefits to consumers other than quality and other physical attributes. They also offer psychological and social benefits that determine what the product means to the consumer and how it makes him or her feel (e.g. display taste, affluence, one’s own creative identity, passion of a creator, among others).

Available substitute products impose a threat for luxury footwear. There are several alternatives in the footwear and luxury industry that offer the same benefits (quality, low-price, luxury, prestige, among others). In terms of switching costs, there is no financial or procedural switching costs (loss of time, effort or financial resources), but relational switching costs can be high: psychological and emotional benefits such as personal relationships and identification with the brand and employees increases brand loyalty, especially if the brand offers customer loyalty programs. Therefore, the overall bargaining power of buyers is moderate to low.

<u>Threat of New Entrants</u>: **Moderate**

Barriers to entry on one hand are strong due to the presence of several global luxury houses that are incumbents in the market. These luxury brands follow a differentiation strategy as well, have strong brand equity and benefit from strong customer loyalty. Consequently, consumers might be less inclined to switch between brands.

Nevertheless, barriers to entry for an e-commerce business are weak because capital requirements are low: companies can simply add a South Korea shipping option at checkout and e-exporters can skip a lot of formalities required of traditional exporters (product registration, safety, testing, labelling, among others), if the customer is importing the product for his or her own use. South Korea has signed multiple free-trade agreements and it is the only country in the world to have FTAs with the European Union, US and China. Unlike Japan that has depended heavily on its robust domestic market, South Korea has always been a much more outward-facing economy that is now the 7th largest trading nation in the world (the EU is its 3rd largest trading partner). After the implementation in 2011 of the Korea-EU FTA, most import duties were removed, and shipments valued below EUR 6,000 can be imported by South Koreans for personal use with reduced paperwork. In conclusion, the overall threat of new entrants is moderate.

Threat of Substitutes: **Moderate**

A luxury footwear consumer that values the quality benefits, and symbolic benefits of luxury products such as prestige and social status, have many different substitute products and brands to choose from within the luxury goods industry. A luxury footwear consumer that follows fashion trends may conclude that the same benefits can be acquired by purchasing from a fast-fashion brand such as Zara or H&M - internet accessibility enables these brands to copy runway collections in a matter of days, and their products can be made available in the market even before originals. Luxury footwear consumers that are price sensitive may switch to other middle-price footwear brands or counterfeit goods. In terms of switching costs, like it was mentioned before, the financial and procedural costs are low, but relational costs can be high for the consumer.

Rivalry: **High**

In 2016, 99.6 million units of shoes were sold in South Korea representing a CAGR of 2.2 percent from 2011 to 2016. In terms of value, footwear saw a healthy 2 percent growth from 2015 to 2016 and reached KRW 5.2 trillion (USD 4.6 billion).

The competitive landscape can be divided into four different existing competitive positioning strategies in accordance with two dimensions: competitors' quality/price range (**Exhibit 3** in **Appendix A** shows price ranges of the top footwear market players) and the type of footwear they are offering (**Exhibit 4** in **Appendix A** shows the competitors' positioning map). International players dominate South Korean footwear. The athletic/premium positioning strategy is leading it and global players Adidas, Nike and New Balance hold the highest market shares (**Exhibit 5** in **Appendix A** shows the top footwear market players' respective market shares). In the non-athletic/luxury positioning strategy, global luxury companies are the direct competitors of Josefinas, but they have a small luxury-footwear market share (less than 2 percent). In addition to that, the number of players competing in the South Korean luxury-footwear market are increasing due to the growing presence of new brands and products in the market.

Moreover, some industry trends are intensifying luxury brands' competitive landscape: although luxury brands in South Korea are benefiting from the development of consumers' tastes due to the growing presence of new brands and products in the market, dress shoes made from leather saw a decline in demand due to the emergence of the normcore (unisex fashion trend characterized by unpretentious, normal-looking clothing) and athleisure trends currently affecting the whole industry (Euromonitor International, 2017).

Therefore, although in theory athleisure footwear brands are not direct competitors of brands such as Josefinas, the athleisure and normcore trends are blurring the lines and forcing luxury brands to compete with sports-footwear brands that are leading the footwear industry, turning the South Korean-footwear competitive landscape highly intense.

In conclusion, the overall level of competitiveness in the South Korean luxury footwear industry is moderate.

9. TOWS Analysis

The SWOT analysis can be found in **Appendix C**.

SWOT Analysis and TOWS Matrix	Strengths		Weaknesses	
	S1	Strong brand identity and personality	W1	Lack of brand awareness in South Korea
	S2	Experience in online selling	W2	Weak knowledge of South Korean market
	S3	High-quality Products	W3	Few resources due to company's size
	S4	Top-quality customer service and customer experience	W4	Only one point of sale
	S5	Highly marketing focused		
	S6	Excellent product development capabilities		
	S7	Differentiation strategy		
Opportunities		**S-O Strategies**	**W-O Strategies**	
O1	Mature consumers' taste	S1 – O1, O2	W1 – O8	
O2	South Korea is the test bed for new brands	S2 – O6, O7	W4 – O6, O7	
O3	South Korea is the "it" place for luxury shopping in Asia	S3 – O4, O5		
O4	Purchasing power is rising	S6 – O1, O2		
O5	Unmarried professionals are increasing	S7 – O1, O2		
O6	Internet retailing is growing			
O7	High Internet penetration			
O8	International players dominate the market			
Threats		**S-T Strategies**	**W-T Strategies**	
T1	Store-based retailing continues to lead luxury distribution	S5 – T2	W1 – T1	
T2	Lack of Portuguese footwear industry image	S7 – T3	W2 – T1	
T3	Intense competition			

<u>Strategies that use strengths to maximize opportunities:</u> Demand for new luxury brands with differentiated products is increasing due to the increasingly developed and sophisticated consumers' tastes. They want to stand out and differentiate themselves from others. Josefinas will take advantage of this opportunity through the brand's differentiation strategy, strong brand identity (i.e. what it stands for), and excellent product-development capabilities that generates unique designs and high-quality products. True luxury connoisseurs will recognize the value of the brand, and their appetite for newness will be satisfied (S1 – O1, O2/ S6- O1, O2/ S7 – O1, O2).

The tech-savvy South Korean consumer is one of the reasons behind the growth of internet retailing in South Korea. As an essentially online brand, Josefinas will take advantage of this opportunity, through their experience and expertise in online sales (S2 – O6, O7).

Purchasing power is rising, and the number of unmarried professionals (they have greater disposable income than married ones) is increasing. These consumers are increasingly spending on discretionary items such as luxury goods, which means demand for luxury products is increasing. Josefinas will take advantage of this opportunity, as a luxury brand itself, with high-quality products that use the finest materials and Portuguese craftmanship (S3 – O4, O5).

Strategies that use strengths to minimize threats: One of the company's competitive strengths is their strong focus in marketing. Promotional incentives should be held to increase awareness of the Portuguese footwear industry's positive reputation, that is not recognized in the South Korean market. This is important because the country-of-origin effect can influence consumers' luxury-brand perception and purchase intentions. The company could include some historical background and relevant data on its website to minimize this threat (S5 – T2).

Global luxury houses are powerful incumbents, and new brands are entering the market. Therefore, Josefinas will take advantage of its differentiation strategy for the brand to stand out and be able to compete amongst intense competition (S7 – T3).

Strategies that minimize weaknesses by taking advantage of opportunities: International brands have a positive image in the market and are preferred by most luxury consumers over domestic brands. The brand will take advantage of this opportunity to increase brand awareness in South Korea, because consumers will be receptive to try products from a foreign brand such as Josefinas (W1 – O8).

Josefinas does not have any point of sale in the market, which can be a weakness. There are some disadvantages of not having physical stores, such as the inability to learn about certain aspects of the market by having a physical presence. High-mobile penetration, high internet usage and luxury internet retailing growth, will positively affect a brand like Josefinas, that makes its sales predominately online (W4 – O6, O7).

Strategies that minimize weaknesses and avoid threats: Department stores are key outlets for luxury purchases in South Korea, and Lotte, Hyundai and Shinsegae retail chains are responsible for most sales. These department stores happen to also be e-tailers: they have an online presence through their online shopping malls, that include brands not available in their department stores. Josefinas can partner with these e-tailers for them to advertise and carry the brands' products. This strategy will increase brand awareness in the South Korean digital space and the alliance with an in-country partner will provide quick and reliable market-access information.

In 2017, Farfetch, the company selected as a benchmark for Josefinas in this work project, partnered with JD.com, China's second largest e-commerce company after Alibaba, to increase its brand awareness, sales and website traffic in the Chinese market by having access to JD.com's marketing strengths, technology and logistics, while maintaining its brand operations in China intact (W1 – T1/ W2 – T1).

10. Product Strategies

The perfect target consumer for Josefinas are the so-called *Gold Misses* (in **Appendix D** there is a proposed segmentation of the market and an in-depth description of the suggested target consumer). These women are trendsetters who want to stand out and differentiate their style from others. Thus, product customization should be further developed to increase customer value, by enabling them to create unique pairs of shoes that are exclusive to them.

11. E-Business Strategies

Companies engaging in cross-border e-commerce should factor localization strategies into any market-penetration strategy. In this section, the born global Farfetch will be benchmarked in basic features such as local-language translation, and in some of the other suggested local tactics.

11.1. Website and E-commerce

Local Website and Language Support

South Koreans have moderate proficiency in the English language. Thus, Josefinas must translate its website into Korean for a seamless navigation experience. The cost of translation varies with the type of service chosen by the company, but to provide an example, translation costs of the service provided by Gengo, a crowd-sourced platform of native-speaking translators, has a per-word pricing that ranges from USD 0.05 to USD 0.17 (Markidan, 2015). In addition to that, a Korean customer support is also crucial. South Korean customers are used to a very high standard of customer support. This way, the company can better retain their customer base, and it is more likely to benefit from free word-of-mouth marketing. Costs of adding local staff will depend on the salary set by the company.

Farfetch offers customer support and website translation in 9 different languages including Chinese, Japanese and Korean.

11.2. Digital Marketing

Organic and Paid Search (SEO and SEM)

Naver is the number one search portal in South Korea, reaching 42 million registered users in 2016, but their search-engine result page is very different from that of Google. Top results are usually not standard organic results with a few sponsored ads. Instead, an average of twelve Naver sections such as blogs, shopping, news or Q&A are displayed. Search result pages display very few organic web results, and they also appear almost in the bottom of the page after the long list of Naver's sections. In order to get visibility, content is important. Josefinas must remain active and cultivate its social media and user-generated content to get visibility in the first sections. Some of the common strategies adopted by marketers are using Naver blog and Naver Cafe for that effect, which will be explained in upcoming sections.

Paid search in Korea comes in two main forms. One is the premium paid-advertising option, which offers "Brand Search Ads" in the form of an image or video with a quick website link, right at the top of the search result page. The other option is to have "Paid Power Links".

“Brand Search Ads” can be linked to a maximum of 30 keywords, and its cost is a fixed fee that starts at 500,000 Won (USD 440) and it increases in accordance with the total search volume of the chosen keywords on the last 30 days (Lee, 2017). The cost of “Power Links” depends on the keywords selected by the company, and the number of keywords linked to the ad. The minimum bid for a keyword is 70 Won (USD 0.06) and the maximum bid is 100,000 Won (USD 88.30) (Lee, 2017).

In 2014, Farfetch invested in search-engine optimization (SEO) content with a blogger-outreach campaign to increase brand awareness and the company’s organic search performance. It contacted fashion bloggers, and allowed them to incorporate Farfetch’s “Boutique Finder” widget on their websites. The widget helped customers and bloggers find Farfetch boutiques around the world, and shop the boutique’s collection directly on Farfetch’s website.

In terms of SEM, Farfetch has accounts in several search engines such as Google, Bing, Yandex, Yahoo! Japan and Naver, that its marketing management uses to promote the brand through paid search advertisements for growth and customer acquisition purposes.

Korean Pop Culture

Korean Pop Culture has an important influence over consumer search behavior, and purchase intent. Several brands had a dramatic increase in Naver search volume, and products sold out in all department stores, when popular TV shows featured the brands’ products. The popularity of the brand increases not only in South Korea, but also in neighboring Asian countries as well. Josefinas already does influencer-marketing campaigns and it must do it so in South Korea through product placement in K-Pop stars. Product placement in popular Korean TV shows costs a minimum of 100 million Won (USD 122,310) (The Straits Times, 2014), but the company can have great returns on investment.

Farfetch developed an editorial in which trend-setting celebrities from the music, sports and art industry were using designer brands according to their own personal style.

11.3. Social Media: Kakao Plus Friend and Kakao Story

KakaoTalk is the main mobile instant-messaging platform in South Korea that had 42 billion monthly-active users in the fourth quarter of 2016. In 2011, KakaoTalk launched a feature called "Kakao Talk Plus Friend", which enables users to connect with brands by subscribing to brand updates, events and promotions through instant messaging. Kakao Story, a photo-sharing social platform, has grown rapidly since its launch in 2012 and has a higher monthly-active user rate (55 percent) than Facebook (28 percent) and Twitter (13 percent) in South Korea. These two platforms are important social media outlets for Josefinas to engage with consumers, advertise and increase their online presence in South Korea.

Farfetch not only is active on Facebook, Twitter and Instagram, but also in local social platforms such as Weibo and Wechat to be able to increase brand awareness and engage with consumers in China.

11.4. Complementary Strategies

Naver Blog: Fashion Bloggers

Blogging is very popular is South Korea and blog results are always featured in Naver's top-banner of search results. Naver's very-popular blog service has 23 million users. Josefinas can increase brand awareness by increasing their visibility in popular blogs. It can partner with South Korean fashion influencers, or simply offer them sponsorships (e.g. free samples) in exchange for mentions and "shout-outs" on their social-media channels.

In 2013, Farfetch launched a Weibo campaign to increase brand awareness, website traffic and customer conversion rates in China. Farfetch created shops within its website of key Chinese opinion leaders such as leading fashion blogger Gogoboi, that were linked back to the influencers' Weibo account.

Naver Cafe: Community forums

Naver Cafe is Naver's community platform, heavily used in South Korea, that allows Naver users to create internet communities. Anyone registered in Naver can start a cafe for free, and build a community on a topic of the person's interest. Josefinas can collaborate with owners of successful cafes with high traffic, engagement and considerable community size. Additionally, it can also choose to build their member following on its own cafe to increase its visibility by interacting with customers on any topic, allowing customers to engage in Q&A sessions and encouraging them to do product reviews.

KakaoTalk Gift Shop

Another way for Josefinas to take advantage of the social media platform KakaoTalk is to make its products available in its in-app Gift Shop. KakaoTalk Gift Shop allows users to send mobile vouchers from brands to their friends, and it currently has 2,000 brands and 100,000 products available.

User-generated Content

Josefinas can also host online events by creating original and captivating user-generated content. In 2017, Farfetch launched a WeChat HTML5 campaign where consumers were able to create looks by combining clothing pieces according to their own personal style. 8,000 users participated in the campaign after a week of its launch, and the campaign increased traffic on the brand's website as consumers visited Farfetch's website to purchase the products used on the campaign.

12. Results and Discussion

Primary data revealed Josefinas has no sustainable competitive advantage. Secondary data showed that the South Korean luxury-footwear industry's level of competitiveness is moderate. It also revealed that rivalry is high and increasing, but has no market leaders, and it is highly fragmented.

Global luxury houses may not hold a large market share, because luxury brands have a unique positioning and niche targeting within the larger mass markets. Moreover, they impose strict limits in volume and market share to remain exclusive and unattainable (Kapferer and Bastien, 2009). Josefinas not only competes with well-established incumbents, but also with other new and modern luxury brands that are entering the market. This is due to the shift in consumers' tastes to a more developed and sophisticated one. They are now looking to differentiate themselves by trying new and modern brands. The overall fragmented market also means customers are not loyal to one brand, because they tend to look for new businesses and are more willing to experiment. Josefinas doesn't have to fight for market share and engage in advertising campaign wars. Unlike other brands, luxury brands do not differentiate merely on product attributes, but also in brand experience to hold superior value. Not only is Josefinas an innovative brand with its strong product development capabilities, but it also has a strong brand identity and personality with a well-built symbolic value targeted to a selective consumer segment, making them feel they belong to a certain community through its positioning. A differentiation strategy with a well-defined target consumer enables customers to choose between them by their personal preferences and they are less sensitive to price, as their preferences play a more important role. Therefore, because the market presents a constant and healthy growth, companies can share a large piece of the profits. Most importantly, "luxury is superlative and not comparative". Luxury brands are unique, and they are faithful to an identity rather than worry about where it stands in relation to competition (Kapferer and Bastien, 2009). Therefore, although according to primary data Josefinas has no sustainable competitive advantage, for all the reasons above-mentioned, one can conclude that Josefinas is able to compete in the South Korean market.

USA and Europe account for 80 percent of Josefinas's sales, and Asia only 20 percent which is the region that generates more global luxury goods' sales. Market research revealed that low brand awareness is rooted in the absence of a coordinated and localized marketing strategy that is making sales in South Korea sporadic. Localized strategies are an effective way to increase the customer base and turn accidental shoppers into repeat shoppers. Josefinas needed to learn about the South Korean e-marketplace: the most-used search engine is different, as well as language, social media, online retailers, among others. All the strategies proposed in this work project **are not interdependent**, and the adoption of just one of them will further increase brand awareness and the company's sales in the South Korean market. This work project focused on developing brand-penetration strategies, but limited information was provided by the company itself. It is suggested that subsequent studies evaluate the viability of the proposed strategies after an evaluation of the company's financial and other resources. Finally, a rising consumer segment, the *Gold Misses*, was selected as Josefinas's target consumer in South Korea, but no data was found about the consumer segment's size. Future studies should collect primary data to determine its profitability.

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Online Market-Penetration Strategies of Josefinas to South Korea

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nº 27316

APPENDICES

A Project carried out on the Master in Management Program, under the supervision of:
Prof. Youtha Cuypers

3rd of January 2018

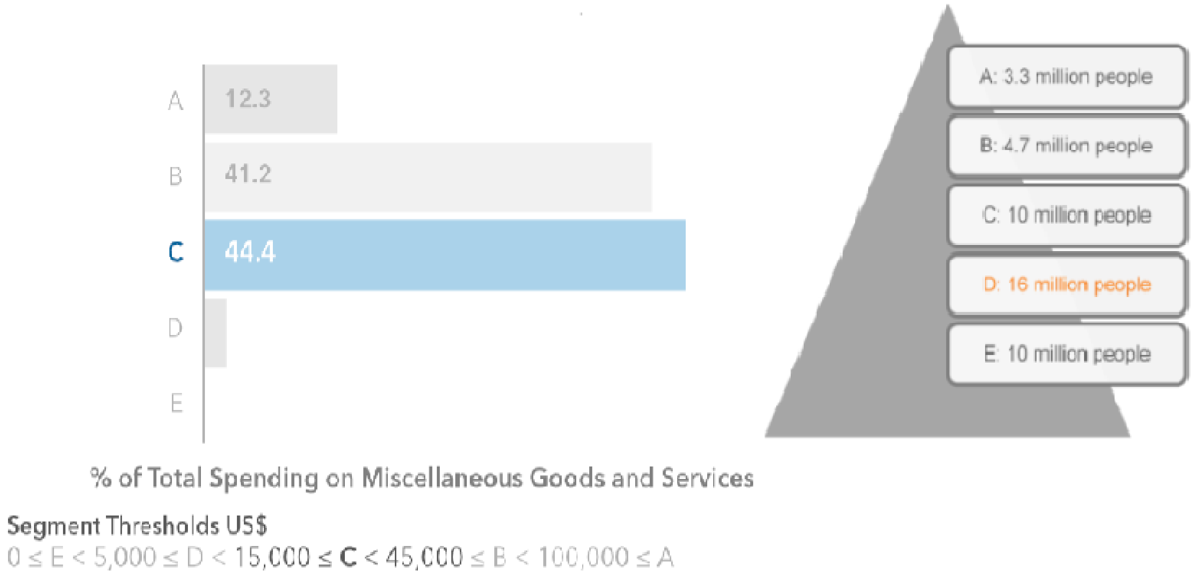
Appendices

Appendix A: Exhibits.

Exhibit 1: Josefinas's VRIO Framework.

Resource/Capability	V	R	I	O	Competitive Implication
Flat Organization	✓	✗	✗	✓	Parity
Flexibility of production system	✓	✗	✗	✓	Parity
Highly marketing oriented	✓	✗	✗	✓	Parity
Global presence from birth	✓	✗	✗	✓	Parity
Brand identity and personality	✓	✓	✓	✓	Parity
Intellectual Property (patent)	✓	✓	✗	✓	Temporary Advantage
High Quality customer service	✓	✗	✗	✓	Parity
Socially responsible corporate image	✓	✗	✗	✓	Parity
Superior product quality	✓	✗	✗	✓	Parity
Production know-how/savoir-faire	✓	✗	✗	✓	Parity
Excellent product development capabilities/ Innovation	✓	✓	✓	✓	Parity
Portuguese footwear-industry reputation for quality	✓	✗	✗	✓	Parity
Experience in online and direct selling	✓	✗	✗	✓	Parity
Customer experience	✓	✗	✗	✓	Parity

Exhibit 2: Socioeconomic Classes' Distribution and Percentage of Their Individual Spending on Miscellaneous Goods and Services (mostly Luxury Goods), in 2016.



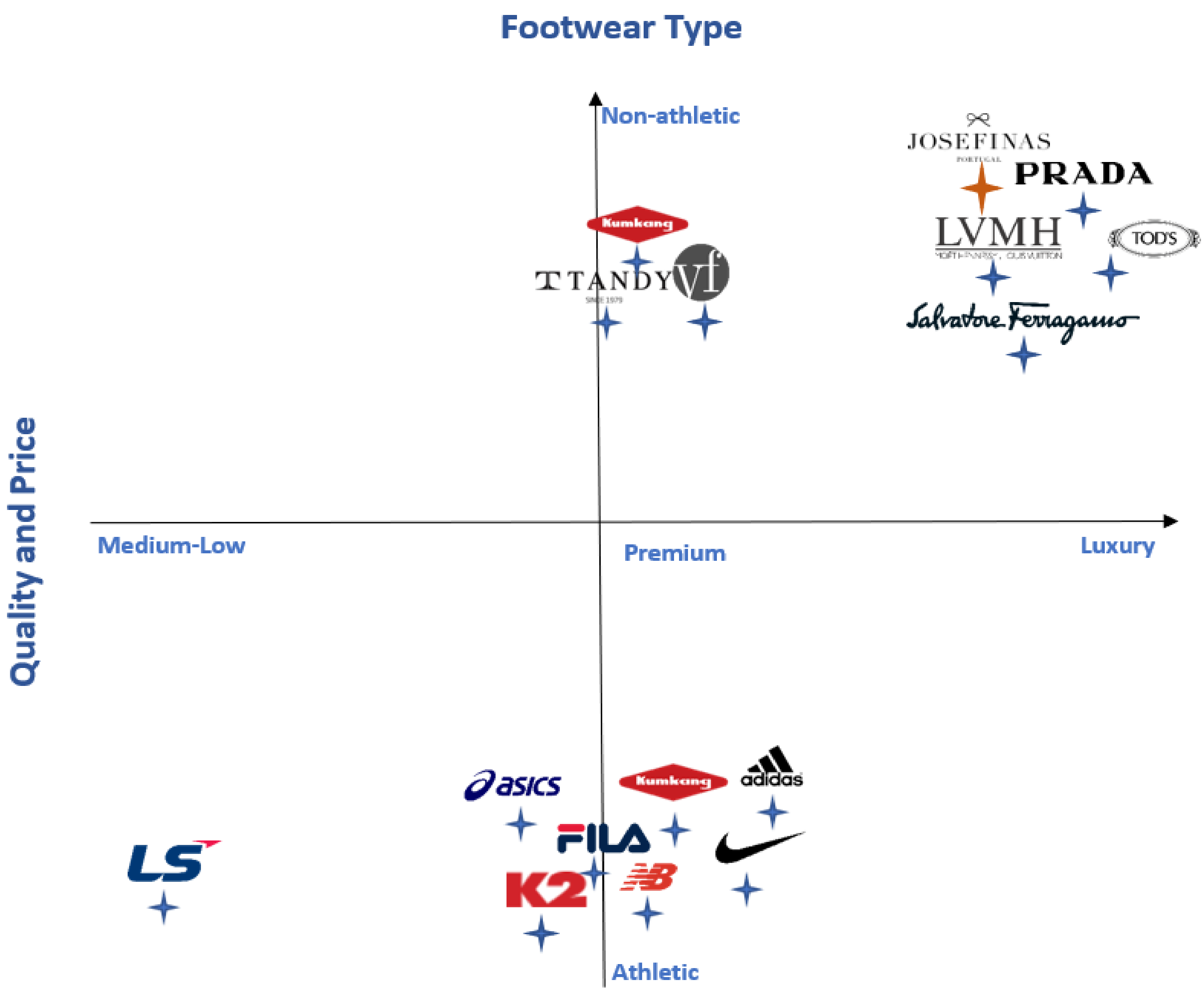
Source: Euromonitor International.2017. *Income and Expenditure: South Korea*. Retrieved from Passport database http://www.portal.euromonitor.com.

Exhibit 3: Price Ranges of Top Footwear Market Players in South Korea Including Josefinas's Price Range Highlighted in Orange (Price Range from Low to High).

Company Name	Price Range in US Dollars		
	Medium-Low	Premium	Luxury
LS Networks Co Ltd	13-80		
Fila Korea Ltd		18-140	
VF Korea Ltd		17-150	
Adidas Korea Ltd		70-203	
Kumkang Shoe Mfg Co		25-206	
New Balance Korea		18-230	
Nike Sports Korea Co Ltd		20-265	
Asics Korea Corp		20-265	
K2 Korea Ltd		96-318	
Tandy Co Ltd		80-500	
Tod's Korea Ltd			239-1257
LVMH Moet Hennessy Louis Vuitton SA			100-1450
Prada Korea Ltd			419-1735
Ferragamo Korea Ltd			275-2693
Bloomers SA (Josefinas)			180-4030

Source: Companies' official websites.

Exhibit 4: Positioning of Top Footwear Market Players in South Korea.



Source: Euromonitor International. 2017. *Footwear in South Korea*. Retrieved from Passport database http://www.portal.euromonitor.com.

Exhibit 5: Top Footwear Market Players and their Market Shares in 2016 (%Value) – Josefinas's Direct Competitors are Highlighted in Orange.

Adidas Korea Ltd	10.1%
Nike Sports Korea Co Ltd	7.7%
New Balance Korea	4.9%
Kumkang Shoe Mfg Co	4.8%
Tandy Co Ltd	3.9%
Fila Korea Ltd	3.6%
Asics Korea Corp	3.4%
Prada Korea Ltd	2.3%
LS Networks Co Ltd	2.1%
Tod's Korea Ltd	1.5%
K2 Korea Ltd	1.3%
Ferragamo Korea Ltd	1.3%
VF Korea Ltd	1.1%
LVMH Moet Hennessy Louis Vuitton SA	1.1%

Source: Euromonitor International. 2017. *Footwear in South Korea*. Retrieved from Passport database http://www.portal.euromonitor.com.

Exhibit 6: Percentage Value of Distribution Channels of Luxury Goods, 2011-2016.

% retail value rsp	2011	2012	2013	2014	2015	2016
Store-Based Retailing	92.8	91.5	91.2	90.7	90.1	89.5
- Grocery Retailers	2.3	2.3	2.3	2.2	2.1	2.0
- Non-Grocery Specialists	18.6	19.6	18.8	18.8	19.1	19.4
- Mixed Retailers	71.9	69.6	70.2	69.7	68.9	68.1
Non-Store Retailing	7.2	8.5	8.8	9.3	9.9	10.5
- Internet Retailing	7.2	8.5	8.8	9.3	9.9	10.5
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Euromonitor International. 2016. *Luxury Goods in South Korea*. Retrieved from Passport database http://www.portal.euromonitor.com.

Appendix B: Why South Korea – Key Statistics and Facts.

South Korea has a good world ranking as the 8th largest luxury goods market and 3rd largest in Asia, which presented a total retail value of USD 11,235 million in 2016 that is forecasted to have a CAGR growth of 4.7 percent from 2016 to 2021.

The country’s per capita gross income and spending are higher than the averages for the Asia Pacific region, and its relatively large disposable income levels and low food costs boost the share of discretionary spending of South Korean households.

South Korea is a digital-savvy market with an internet penetration of 95.2 percent, smartphone penetration of 88 percent with one third of smartphone users making mobile purchases at least once a week, the highest internet connection speed in the world (26.3 Mbps) and the 6th largest social media penetration (83 percent). E-shoppers account for 70 percent of the population and Korea is ranked the world’s 7th largest e-commerce market. Domestic e-commerce sales have been increasing in the past few years reaching USD 55.9 billion in 2016, from which cross border e-commerce sales reached USD 1.6 billion, up from USD 1.5 billion in 2015.

South Korea is also a strategic place for companies interested in expanding their business in Asia because of the *hallyu* or the “Korean wave” phenomenon. It is the increasing global popularity of South Korean culture, specially K-dramas and K-pop music, that started as a regional sensation in Asia and later became a global phenomenon. Korean dramas and K-pop have a tremendous influence in many industries in Asia, including the luxury industry. Products that are featured in music videos and TV dramas, turn to be in high demand among consumers. Luxury brands such as Cartier, Chanel, Dior, DKNY and Céline have done product placements in Korean TV shows to boost demand for their products.

Appendix C: SWOT Analysis.

Strengths

Josefinas has a well-defined and strong brand identity that enables it to have a unique competitive positioning. The strongest brands go beyond attribute or benefit positioning. They are positioned on strong beliefs and values. They engage with customers on a deep, emotional level. They rely less on products' tangible attributes and more one creating passion and excitement surrounding a brand. According to P&G's Stengel "marketing inspires life and life inspires marketing" and that is one of the strengths of the brand Josefinas. Like it was mentioned before, Josefinas is a luxury footwear brand that wants to help and empower women all over the world. It is a brand that celebrates dreamers, feminism and female unity (S1).

The brand's main distribution channel is direct export through their website. Their online platform contributes to 90 percent of their sales. Therefore, the brand has accumulated knowledge and developed its expertise in online selling (S2).

The products' quality is high. Their shoes are handmade by Portuguese master shoemakers who have mastered the perfect fit (a pair of ballet flats can take up to 16 hours to make). They only use high-quality materials for their shoes: a standard Josefinas's ballet flat is made with the best breathable leathers and they also have adjustable shoe strings for the shoe to adapt to the foot's shape (S3).

They deliver top-quality customer service and a thoughtful customer experience. The brand believes and follows a customer WOW philosophy – to have the ability to deliver above and beyond customer experience. Each pair is sent with a handmade packaging, it carries a special handwritten note and a special gift from Josefinas to the client. Their online customer-service facilities include frequently asked questions, social support through social media accounts, e-mail and phone support (S4).

Josefinas is also highly marketing-oriented. In order to increase brand awareness, the brand focuses on using both offline and online marketing communication channels. Their marketing communication tools include public relations, digital marketing and direct selling. In digital marketing they use organic and paid social media marketing. In public relations they do talks on events that represent the philosophy of the company, do press releases and build the brand’s image in social media accounts. Finally, they also use direct selling as a marketing tool. Through direct mail and social media, the marketing team is able to interact with customers and build one-to-one customer relationships. Additionally, they also use influencers’ marketing by making partnerships with public figures (bloggers, celebrities, etc.) that promote their products in social media outlets (S5).

Filipa Júlio, the creator and co-founder of the brand, is the designer behind Josefinas’s shoe collections. On an interview, he stated that her inspiration comes from travel adventures, special moments in her life and inspirational women such as Grace Kelly and Kate Middleton, who inspired her in the creation of a bridal line; or Twiggy, a 1960s supermodel and icon, who inspired her in the designing of a high-knee ballet-flats boots. Just like any true luxury brand, the brand expresses the artistic inventiveness of the creator and not current or future fashion trends (S6).

Josefinas follows a differentiation strategy and has a defined targeted consumer. They emphasize on branding, design, service, quality and new product development. It is a strength because it is a more secure basis for competitive advantage, than following a low-cost strategy. The latter is more vulnerable to unpredictable changes in the external environment (e.g. currency exchanges), emergence of new technologies and imitation from competitors. Having a targeted consumer enables the company to generate competitive advantages for the company to better compete in a market, specially one with major players. It also enables it to develop effective marketing campaigns and to better understand its customers and their specific needs (S7).

Weaknesses

One of Josefinas’s weaknesses is the lack of brand awareness in South Korea. A large portion of the brand’s sales comes from the USA and Europe (each of these markets account for 40 percent of sales and the remaining 20 percent comes from Asia). This is mainly due to the strong promotion activities currently being held by the brand in those markets. The South Korean market must be better penetrated, but it has not yet received as much attention as the above-mentioned markets (W1).

One of the reasons for the lack of investments in the South Korean market is the company's lack of knowledge of it. Market research must be performed in order to successfully penetrate farfetched markets. In the case of South Korea, one example is the fact that social media platforms and search engines that are used by South Koreans on a daily basis, are different from those that are used in the West. This lack of market knowledge impairs any company from planning effective market strategies (W2).

Josefinas also bears common weaknesses of a small enterprise such as lack of finance, small amount of resources, difficulty of building a reputation and establishing consumer trust and confidence in the company's activities (W3).

Josefinas's only point of sale is located in New York City. The absence of a physical presence in the South Korean market, impairs management from learning about important aspects of the market, and to efficiently learn about threats and opportunities in it, that are required for business strategies to boast long-term success. Moreover, there is no contact with the consumer to, for example, be able to upsell the product; no passing foot traffic that increases brand awareness; and consumers do not have the opportunity to physically see, touch and feel the product, which may be requirements for many consumers to develop their purchase decisions (W4).

Opportunities

South Korean consumers have many options of luxury brands and products to choose from, but consumers are seeking the most unique and exclusive items to stand out from their peers. They are mature, adventurous consumers that have passed the entry-level luxury shopping stage and have developed higher-end tastes. Therefore, they deem the overexposure of a brand logo as unsophisticated. As a result, they are not conforming to common brand choices such as traditional luxury houses and they are keeping an eye on up-and-coming luxury brands. This market opportunity encourages more domestic and international brands to enter the market (O1).

Global luxury companies are using South Korea as a “test bed” for new brands and product models. Korean consumers are not afraid to try different, not-seen-before styles and designs and they are willing to pay for worthwhile products. Thus, the market is becoming increasingly fragmented and while incumbent luxury brands still hold leading competitive positions, they are being challenged by new, innovative and modern market competitors, as the luxury market pie grows every year (O2).

South Korea is set to remain the “it” place for luxury shopping in Asia. In April 2016, the second Conde Nast (the publisher of the high-fashion magazine Vogue) International Luxury Conference, was held in The Shilla Seoul luxury hotel in South Korea. This is evidence that South Korea is being recognized as an important luxury goods market, and global luxury giants regard Korea as the next fashion and beauty capital.

Moreover, in 2016 the number of arrivals from China increased 11 percent to reach 6.6 million visitors. South Korea’s main attraction for Chinese tourists is the convenient luxury-shopping environment set for them, with complimentary services such as translation, limousine escort, free gifts and transit to hotels (O3).

The purchasing power is rising in South Korea because the population with the highest levels of disposable income is growing: The population with an annual income of USD 50,000-80,000 increased by 8 percent in 2015. In addition, consumers in their 20’s have increased significantly in this income band, and they are becoming an important luxury-goods group of customers (O4).

In South Korea, single-person households account for 25 percent of the total population and they are expected to grow to 35 percent by 2035. This is due to the increasing job insecurity, unemployment and divorce rates. Thus, consumers spend their money on themselves and enjoy the single life by traveling, dining-out and shopping. This trend is prominent in women, the key consumers of luxury goods. Unmarried female professionals, commonly called *Gold Misses*, are a major target group, as their professional success gives them substantial spending power (O5).

Internet retailing as a distribution channel of luxury goods had a 10.5 percent retail value in 2016, a healthy 3.3 percent value growth from 2011 to 2016 (**Exhibit 6** in **Appendix A** shows luxury goods' distribution channels' retail value from 2011 to 2016). Online sales' growth is greater in the designer apparel and footwear, and luxury leather goods' categories. Internet retailing has been growing in South Korea because e-commerce marketplaces are becoming more established, transparent and reliable. Moreover, young, tech-savvy consumers are becoming an important luxury consumer segment. Luxury brands are adapting to this industry trend, by launching their own online stores or by partnering with e-tailers to develop an online strategy and learn the operational know-how (O6).

South Korea is a leading technology country ranked the 3rd largest Asia-Pacific retail ecommerce market and the 7th largest in the world. It also has one of the highest internet penetration levels in the world, a smartphone penetration of almost 90 percent, the fastest internet speeds in the world and 70 percent of the population is an e-shopper (O7).

The luxury market in South Korea is dominated by international brands of luxury fashion houses that have long been established in the global luxury goods market. It proves foreign brands have a positive image and reputation for quality, that benefits any international player (O8).

Threats

Store-based retailing presented a retail value of 89.5 percent in 2016, from which department stores Lotte, Hyundai and Shinsegae concentrate more than 80 percent of sales and number of stores. Department stores remain key distribution channels in the South Korean luxury market due to their strategic placement in high-traffic city centers, and the variety of added-value services offered: promotions, cash vouchers, reward-points accumulation, personal shopper services, VIP lounges and invitation-only exclusive sales. Their value proposition inhibits flagship-branded stores to be able to compete with them in terms of sales generation (T1).

Josefinas must take into account that in South Korea there is low awareness of the Portuguese footwear industry's reputation for quality and craftmanship. Portuguese companies and products are still unknown because of their lack of promotion and communication activities in the market and their lack of market knowledge, that explains the shortage of Portuguese companies and brands present in the South Korean market. The biggest footwear exporters to Korea in 2016 were China (USD 1,103,232,000), Vietnam (USD 627 983 000) and Indonesia (USD 289, 815, 000). In Europe, the biggest exporters were Italy in 4th place (USD 255,926,000), Germany in 6th place (USD 26,168,000), Spain in 7th place (USD 24,084,000) and Portugal is only in 12th place (USD 16,431,000) (T2).

Competition in the market is high with the growing presence of a great number of diverse, new and modern luxury brands, and global fashion luxury houses are incumbents that have competitive advantages of large businesses such as a stronger brand recognition and greater amount of resources, that SMEs like Josefinas do not have (T3).

Appendix D: Segmentation, Targeting and Positioning

The market can be divided into three different women consumer segments according to psychographic measures (i.e. social class and lifestyle): *Gold misses*, *Doenjang girls* and *Ganjang Girls*.

Gold Misses have emerged in Asia due to the increasing number of women pursuing higher education, entering higher paying jobs and delaying marriage. *Gold Misses* are described as single women who enjoy a high-paying job with an annual salary of at least 40-50 thousand dollars, and a high disposable income. They are women in their 30's, single, competitive, active, assertive, highly career-focused, self-development seekers, and self-achievement motivated. These women enjoy shopping for luxury goods, and they are consumer icons that influence trends in the fashion, beauty, culture, leisure and dining industry. They also influence the demand of not only their peers, but also of women in other lower social economic classes, that aspire to have their lifestyles and professional success. Therefore, they are very selective in their purchase choices, as they only buy from brands that represent their social status.

Doenjang Girls are young women in their 20s who aspire to have extravagant lifestyles, but can't afford them. They frequently buy products from foreign brands, and seek the "western-style" look. They shop for luxury brands and eat at expensive restaurants, even though their disposable income may not cover it.

Finally, *Ganjang Girls* are women that are thrifty in their shopping. They look for deals and spend money on more affordable brands (e.g. Zara, Uniqlo and H&M), that still enable them to look fashionable.

The target market of Josefinas should be the *Gold Misses*, because they belong to a rising segment (due to the rise of purchasing power in Korea) that has needs and characteristics that match the company's original target consumer. Thus, no changes should be done in Josefinas's original positioning, because the *Gold Misses*' characteristics are very much in line with Josefinas's brand identity of powerful and independent women, and the brand's differentiation strategy will help them stand out. Also, it will create ripple effects, because the *Gold Misses*' preferences influence mass demand among their followers, as they want to emulate these affluent women. These women are also two times more prone to shop online than their western counterparts and 81 percent of their purchases are made for themselves only. Thus, Josefinas' e-business will be taken advantage, as these customers have money, but no time to go shopping in department stores.