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FANTÔME
AN EXPANSION PLAN

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ABSTRACT

Fantôme: An Expansion Plan

This thesis applies Born Global (BG) theory to analyze the luxury mobile consumer industry and phone company start-up Fantôme, which recently launched its first luxury phone, the Arcane. Then a structured analysis, using weighted relevant indices, is made of a large selection of countries for suitability of expansion for Fantôme. Further analysis is performed from a short selection of the top ranking countries with two of these countries being deeply analyzed, resulting in a strategic marketing plan developed accordingly for the company.

1. COMPANY PROFILE

1.1 COMPANY PRESENCE

Fantôme is a technological start-up company which launched their first product, a luxury smartphone called Arcane, publically in 2017. Based in Hong Kong, Fantôme is a company born international. The company only counts one full-time employee - the director of engineering Ben. All of the co-founders and board members have their own main jobs in the technology or luxury goods retail industries, and work on Fantôme as a side job without pay. This setup enables the company to have minimal R&D expenditures since most technological development is outsourced; allows for a very lean cost structure thus a lower break-even point; takes advantage of the board members know-how and leverages the partnerships and network of suppliers from their respective main jobs. On the other hand, this approach is quite unusual in the industry therefore it's relatively uncharted.

Their initial product, the smartphone Arcane, aims to slot in the market segment between premium manufacturers such as Apple and ultra-luxury brands such as Vertu. In development for over three years, its retail price is 118k/138k HKD (~€12.5k/14.5k) in its basic form.

Several material, service and accessories options are available that can significantly increase

its price. At its inception as a luxury brand, Fantôme faced two main issues, lack of brand awareness and retail channels. Initially, they chose to sell the phone by invitation only, and have actually sold five phones through this mean. However, this was seen as poor means to accelerate sales. Therefore, the board chose Macau as its first public market. In the well-known casino Venetian, Fantôme inked a partnership with the luxury goods retailer in the VIP room placing Arcane in a show box among famous luxury brands in order to cultivate the brand image (Appendix 1). In return, the retailer charges 30-50% of the sale, a common rate in the industry. Within 3 months, another five smartphones have been sold to high-rolling gamblers from mainland China. However, the sales volume is far away from the break-even point.

The company is currently expanding its points of sale to Hong Kong and Paris in the same fashion. In Hong Kong it has an agreement with a high street luxury watch to display a show box and sell the Arcane. In Paris, the capital of the co-founders home country, negotiations are ongoing with Merci boutique.

At this moment, Fantôme is considering expanding into new markets. Meanwhile the management board is also thinking to launch an updated version of the Arcane. However, both require a significant investment and places more risk and strain into the company's financial structure.

1.2 MANAGEMENT BOARD

The company's management board is composed of five persons, three of which are the French cofounders. They hail from diverse fields. Chris Meunier has a background in IT technology, software development and handles the technological and financial aspects of the company; Thorsten Flaquiere is a sales and supply chain specialist working with IT multinationals having B2B experience in Asia and sees through the manufacturing, logistics planning and

execution; Emmanuel Dannenmuller is the owner of a design house in France and is an artist and industrial designer who created the design and philosophy of the brand and oversees its image. As for the non-founders, Frank is a corporate governance executive who sits on the board of the Richemont luxury goods holdings company and brings forth his extensive experience and network to heel; Sechu, a non-voting advisor, has supply chain management experience, worked as VP for three US tech giants and handles Fantôme's supply chain with an in-depth vendors network.

1.3 FINANCIAL SITUATION

In terms of initial capital investment, Fantôme is a very small operator in the industry. For instance, Sirin Labs, an Israeli direct competitor which obtained a thirty-fold initial investment, is still considered a small player in the industry.

However, in this industry, companies usually have to order a minimum amount of components in order to be eligible for a transaction. These are the Minimum Order Quantities (MOQs) which can be very sizeable. This phenomenon will raise the entry barriers for a new entrant.

Through networking and extensive negotiations with suppliers, the firm was able to significantly lower the MOQs for several of its components, in a few cases making the difference between a viable and an unviable operation given their low capital.

For some of the expensive components, such as the battery, system-on-chip (SOC) or main board, MOQs were lowered by negotiating with the upstream suppliers the acquisition of components manufactured during production trial runs - a crucial testing period for highly-automated electronics manufacturers when the factory's production line is mostly stopped while it is made certain that the production has no flaws. In this way, the MOQ for the battery was of 6000 while the typical MOQ is of 50000. The same workaround was

applied for the SOC. As for smaller components that go into the main board, it was negotiated with the final assembly factory, a downstream supplier to Fantôme, to split the order between them. Since the components were standard fare in most electronics products, the factory would be able to use the remainder on other clients' manufacturing. This lowered the effective MOQs for Fantôme even further.

The company managed to find strategic partners, a few of them suppliers, to outsource the whole manufacturing process from R&D to final assembly. This allowed it to skip possession of costly fixed assets such as labs and factories. These unique abilities enable Fantôme to maintain a high current ratio (current assets/current liabilities) as a small player in the market.

2. LITERATURE REVIEW

Several studies have suggested that the development of channels and infrastructure have lowered the commitment threshold for SME to enter foreign markets and accelerated the speed with which they are able to internationalize (Knight and Cavusgil 2004; Gabrielsson et al 2008). Hence, companies have increasingly been involved in international business instead of solely focusing on domestic markets. Some of them grew internationally gradually and acquired knowledge and resources linearly. Yet, scholars have been noticing that an increasing amount of new entrepreneurs start internalization at, or close to, the inception stage (Oviatt and McDougall 1994). These new entrepreneurs generally have former international experiences which allow the company to establish a congenital learning model quicker (Chetty and Campbell-Hunt 2004, Pellegrino and McNaughton 2015). This high entrepreneurial and learning orientation has a positive effect on the firm's international performance (Jantunen et al 2008). These companies are defined as Born Globals (BG) or international new ventures (INV).

From a traditional perspective, companies were expected to follow the Uppsala model which predicted a linear growth path of internalization (Johanson and Vahlne 1977; Johanson and Wiedersheim-Paul 1975). Yet, as the study field of BG has broadened since early 1990s, new findings indicates that BG should rapidly expand to different market to gain experiential market knowledge and accumulate financial resources (Gabrielsson and Kirpalani 2004). Furthermore, BG should be able to adopt the learning from early on and avoid transitional costs. (Pellegrino and McNaught 2015, Hilmersson et al 2017). Another study of 78 Finnish SME, proposes that firms following a born-global pattern are more likely to sustain their global position if they have managed to accumulate significant amount of international revenues and establish a presence in multiple countries soon after inception (Kuivalainen et al 2012). On the other hand, in order to compensate the gap of experience and knowledge, BG should leverage the network of foreign partners to provide complementary resources and knowledge such as financing, access to customer, local insights etc. (Gabrielsson and Kirpalani 2004, Gabrielsson et al 2008). In a recent study, Åkerman (2015) even suggests that network-specific knowledge could be more helpful than institutional knowledge (such as understanding of laws, cultures, governmental principles) when entering into a new market. Some might argue that it's risky for BG to start internationalization at its inception due to unstable internal factors. Indeed, BG have lower room for failure in an early internalization. However, it seems like that BG are less likely to succeed without a rapid expansion. For instance, Knight and Cavusgil (1996) define BG as companies which export at least 25% of their production within a few years of their formation. But this number has more recently been claimed, also by Knight and Cavusgil's (2004) own admission, as arbitrary and not considering of other endogenous and exogenous variables (Gabrielsson et al 2008). Therefore, the optimal rate of international expansion, with long-term performance in mind, should take

the diversity of prior international experience of the company's management into account (García-García et al 2016). Furthermore, the marginal benefit of internationalization diversity and speed exhibits an inverted U-curve (Åkerman 2015, García-García et al 2016). Namely, the organizational performance would stop growing by market diversity after a certain point. A managerial implication would be that firms shouldn't blindly expand internationally and should seek their optimum entry point and speed depending on their specificities.

This thesis will therefore build upon a belief that BG should initiate its internationalization at an early stage and at a correct speed. Therefore, an internationalization plan for the smartphone Arcane from the luxury technological startup Fantôme will be developed accordingly.

3. GLOBAL MOBILE INDUSTRY AND CONSUMER REVIEW

As the mobile phone market has been growing two decades, there are plenty of mobile companies with different prices tackling various customer segments in the markets, from low-end brands like Xiaomi, OnePlus and OPPO, to luxury brands like Vertu. A comparison of the several brand's premium smartphones can be seen in appendix 2.

A few leading companies have been trying to target the needs of the consumer through different resources and strategies while charging a premium market price :

- Apple:

Apple has transformed itself into a premium mass-market luxury brand. Aside from its excellent product design, the company invests highly in every launch and sales campaign, advocating a lifestyle and personality image to consumers. Also, by cooperating with regional retailers while developing self-owned Apple stores, Apple rapidly expanded and created high brand recognition. Customer service is a focus with the "genius bar" at its stores.

- Vertu:

Vertu also designed and manufactured its own smartphone collection in England. The company developed its retail channels worldwide. However, unlike Apple, Vertu had a small product line. Therefore, unable to share the burden of high operational costs across their product line, Vertu suffered for years with their loss-making operation until bankruptcy was declared in July of 2017.

In hindsight, compared to Apple, it seems that Vertu didn't invest sufficiently in marketing to create enough brand awareness.

- Porsche Design:

Porsche Design's strategy is to pick up existing models from other established brands and give them a high-tech, sharp design, luxurious makeover through a partnership with the original brand. This low-risk approach allows the company to have short product development cycles while saving on development costs by choosing a developed or almost developed product. By leveraging the existing luxury image of its automotive parent company, Porsche AG, the company doesn't need to spend heavily in promoting its product lines across several markets.

However, in the case of the just-released Porsche Design Huawei Mate 10, Huawei also released the exact same phone and called it the "Mate 10 Pro" version but without the Porsche Design logo on it. The company should manage its brand image carefully by giving, at least, the semblance of differentiation between the mass-market brand version and the Porsche Design version, lest their consumers feel duped.

Little comparison can be made between Fantôme and these leading companies in the industry whatever the metric. For instance, to create brand awareness is essential, yet costly in the

luxury segment. However, Fantôme has no pre-existing brand image like Porsche Design. Yet, there are lessons Fantôme can learn if it is to enter a new market. Firstly, it should choose a low cost entry mode to the market - possibly similar to the current strategy. Fantôme should endeavour to create brand awareness and build on its luxury image. Although the company has no means to pay for advertising campaigns to this end, it should figure out how to boost the brand image in the eyes of the target consumer. For example, it's possible for Fantome to broaden its product line. Whereas the Arcane embodies the halo product of the brand, lower priced but still premium products could be added to the range, such as stationery, leather goods or watches. It could develop a strategy in this regard, to develop its design language further, while keeping R&D costs relatively low. However, for this strategy to work, a stronger brand awareness and image must exist. Therefore, it doesn't seem viable at this moment for Fantôme without a strong brand awareness.

As a clarification, there's no clear frontier between the premium and luxury phone market. However, in this thesis, the luxury phone market refers to brands such as Vertu, Prada, TAG Heuer, Porsche Design with higher than premium price (Apple included). Also, in the statistics from EuroMonitor the same distinction is made.

In terms of consumer needs, as the mobile market grows mature, a new trend has appeared in which personalisation is replacing standardisation. It has been shown that when choosing a mobile phone, consumers not only try to fulfill utilitarian needs (a mobile phone with good usability and features), but also their hedonic and symbolic needs. This phenomenon can be more observed in the luxury industry.

Luxury consumers nowadays care if the phone's design and aesthetics are pleasing and if the phone's brand can express their personality and status to others (Mack and Sharples 2009).

In the luxury mobile market, a reasonable price is not the foremost factor in a purchase decision. “Price does not have to be explained rationally: it is the price of the intangibles (history, legend, prestige of the brand)” (Kapferer and Klippert and Leproux 2014). “The belief that spending more is a sign of self-worth which authenticates success and status” (Allsopp 2005).

A purchase of a luxury phone nowadays would be made mainly on brand image and a need to display personality and social status. Thorsten Flaquiere, a cofounder of Fantôme, indicates that several times, in his experience, luxury phones owned by business executives were displayed deliberately during business meetings as a symbol of their personal financial wealth.

Also, in many cases, luxury phones are offered as gifts. Consumers sometimes purchase presents with exaggerated price tags in order to impress another.

To conclude, companies like Fantôme should increase the hedonic and symbolic benefit perceived by consumers in order to raise the market price.

4. INTERNAL ANALYSIS OF FANTÔME

Strength	Weakness
<ul style="list-style-type: none"> ● Lean cost structure ● Strong network of suppliers and retailers from management board ● Experienced breadth of experience of management board 	<ul style="list-style-type: none"> ● Lack of strong brand against sales and negotiation with retailers ● Lack of retail channels ● Small product lines ● Low risk endurance due to small capital amount ● Lack of market experience due to the limited presence

5. INTERNATIONAL EXPANSION

5.1 MOTIVATION

For many companies, a market expansion is normally executed after a certain stable presence has been achieved in their current markets. The drivers are profits and growth goals. In such cases, companies are usually more prepared in terms of resources and experience. However, for Fantôme, an expansion seems more of an option for survival than simply the drivers mentioned above. As mentioned in the company profile, Fantôme only sold 15 phones since the Arcane was launched. Even for a high-end luxury good, the current sales amount is insufficient for the company to be profitable.

Moreover, according to Euromonitor, the current Hong Kong luxury portable consumer electronics has been shrinking since 2015, from \$.86.1 USD million to 45. The market size is expected to continually drop to \$10.1 USD million in 2022. (Appendix 3)

Looking into the luxury phone market size among different continents, perhaps surprisingly, it shows that 78.9% of the sales come from Asia/Pacific and Western Europe. On the other hand, the Middle East and Africa only stand for 6.9% of the global market. (Appendix 4) Nevertheless, to enter foreign markets in such a situation can be a risky move, However, it's essential if Fantome wants to become profitable.

5.2 COUNTRY SCREENING CRITERIA

A pre-selection of countries is made according to a minimum GDP and/or GDP per capita and also according to a public availability of relevant statistics. To rank the countries whose markets would be suitable for Fantôme, a method provided from Cavusgil et al (2014) was used: a set of indices based on overall market attractiveness. Thereupon, each factor is weighted according to the level of impact for Fantôme which is subjectively thought to matter most at this stage when entering new markets. Afterwards, listed countries will be scored

according to these weighted indices and ranked. A selection of the top ranked countries will then be further analyzed and discussed.

WEIGHTED INDICES

- National luxury consumption by millionaires (weighted **25%**)

According to previous analysis, Fantôme should target the luxury section of the smartphone market and address the need for individuality and status distinguishment of the luxury consumer. Considering the price of Arcane, Fantôme isn't a mass-market luxury brand driven by middle or upper-middle class consumers but instead a high-end luxury brand driven by upper class demand. Therefore, the size of the high-end luxury consumption market is considered of primary importance. This index methodology counts the millionaires (people with a net worth of over 1 million USD) residing in each country. The intent of which is to predict national demand and expansion opportunities to a second city in the same country after first expansion has been made to a sales point in a primary city. Also, it may predict a higher inflow of customers that reside outside the city where the sales point would be located. The listed countries are sorted accordingly in a ten-tier system that yields a linear factor from 0 to 1. The objective of which is to lower the relative weight of extremely large countries. For this index, data from The Wealth Report 2017 (TWR), an yearly publication by Knight-Frank, a global real estate consultancy firm, was used.

- National luxury electronics consumption (weighted **25%**)

Whereas the previous index of national luxury consumption focuses on the overall potential customer base which could eventually acquire a Fantôme product, this index concentrates on clients even more likely to acquire a Fantôme due to their spending patterns on luxury electronics. Although data describing the need for customers to “show off” their wealth with the purchase of a flashy luxury electronic product is hard to come by, it is believed this index

is an indirect proxy for such an effect since, as can be seen in Appendix 2, above a certain price point the marginal technological value increase is shallow. The index methodology uses data on forecast national consumption on luxury electronics for 2017 - which includes luxury smartphones, smartwatches and MP3 players. In the current global market, although the smartwatch segment is growing, the smartphones' segment still contributes the most to the market sales (Appendix 5). Therefore, it's believed that this data is highly relevant to Fantôme's market research. Although several of the listed countries have no data available, regional data analyses suggest that those countries have a low expenditure on luxury electronics and are therefore assumed to have zero consumption for the purpose of this index. The countries are sorted accordingly in a ten-tier system that yields a linear factor from 0 to 1. The objective of which is to lower the relative weight of extremely large countries and to minimize the downward effect on countries assumed to have zero consumption. For this index, forecast data from EuroMonitor was used.

- Luxury consumption of the richest city (weighted **15%**)

For a very small BG such as Fantôme, an initial expansion should be made to cities with a high density of millionaires to maximize the potential customer base and sales. This index methodology counts the millionaires residing in the richest metropolitan area of each listed country. The intent of which is to predict local demand where an initial national primary sales point would be inaugurated. The performance of which would be crucial for a very small BG. The few countries where no relevant data could be obtained about their metropolitan wealth, twenty-two of them, were counted as having no millionaires in its richest metropolitan area since almost all of them are underdeveloped countries with relatively small economies. The listed cities are sorted accordingly in a ten-tier system that yields a linear factor from 0 to 1.

The objective of which is to lower the relative weight of extremely rich, or rich and very large, cities. Data from TWR was used.

- National luxury market growth (weighted **10%**)

It's important to forecast the future growth of a potential market expansion. A promising growth will make a current investment more valuable in the long term. However, this index was given a relatively low weight due to the necessity of generating revenues in the medium-term. The index methodology calculates the relative growth of millionaires in the selected countries in the 2016 to 2026 period. The intent of which is to predict future national demand and future national expansion opportunities. The listed countries are ranked accordingly on a normalized factor where 0 represents no growth, 1 represents the country with the highest relative growth, and a proportionally adjusted negative value represents negative growth. Forecast data from TWR was used.

- Pre-existing network (weighted **15%**)

As discussed in the literature review, a pre-existing network of suppliers and acquaintances from previous work and entrepreneurship can be crucial to a BG. Also, as mentioned in the company profile, the founders, board members and investors hail from diverse backgrounds. If Fantôme were to leverage its network, it would partly address the gap of knowledge and resources when entering into a new market. Even though some of the network may not deal with the end customer, they may have some local insights and have their own network which might have end sales knowledge. Such indirect network, on a case-by-case basis, was taken into account resulting in a lesser, yet above zero, valuation of the network. The index methodology sorts each country on a scale of 0.0 to 1.0 on the judged strength of the available network. A subjective qualitative method is used to ascertain the breadth of the network, for each listed country, by interviewing Fantôme founders and board members. Since the

company has already obtained the EU's "CE" mark ("Conformité Européene") for the Arcane, and since advanced partnership negotiations are underway for the opening of their first sales point in a Paris store, all of the countries in the European Single Market were attributed a minimum of 0.5 for this index.

- Ease of doing business (weighted **10%**)

The ease with which business is performed in a foreign environment is a factor of success to companies regardless of their size. However, given Fantôme's limited resources, and besides their network, the founders have stated in interviews that they will have to rely more on the "friendliness" of local operation without having to perform extensive market research or having to resort to expensive specialized intermediaries such as internationalization lawyers or consultancy firms. For this reason, the relative weight of this index is moderately emphasized. The factors which define the ease of doing business are stated in the "Doing Business" report put out annually by the World Bank Group. These include, among others, the time, cost and procedures to starting a business; the payable taxes; and the bureaucracy and costs of importing/exporting products. Data from the report's 2018 "DTF" (distance-to-frontier) ranking, the primary ease of business ranking, was collected for all the listed countries and normalized on a scale of 0, for the lowest-scored listed country, to 1, for the highest-scored listed country.

5.3 COUNTRY ANALYSIS

After the first stage of screening (Appendix 5), the seven top ranked countries were chosen to further analyze in light of different aspects.

5.3.1 China

Without a doubt, the Chinese market is the strongest and most promising one in the world. It is estimated that the number of millionaires will come second only to the United States in 2026. It is also worth noticing that the buying power of younger generations is booming. In general, the growth of the luxury goods market is slowing down due to the central government's crackdown on corruption and the overall economic growth tapering-off. Nevertheless, the Chinese market is still seen as an emerging and appealing one to new entrants.

There are several factors maintaining the momentum of luxury markets including raising disposable income and the culture of showing-off their social status with pricey products. Moreover, Chinese are increasingly opting for smaller niche brands over well-established ones in order to highlight their personality.

Traditionally, Chinese tend to purchase luxury goods overseas because the retail prices were usually more favourable. However this phenomenon is disappearing since most international brands started to narrow price differentials in different countries through price standardization.

On the other hand, Fantôme already has a similar market experience in Hong Kong and Macau. Also, once Fantôme enters the Chinese market, it would reach not only locals but other wealthy mandarin-speaking tourists from Southeast Asia. Furthermore, the market knowledge could also be used in the future if expanding to other mandarin-speaking countries such as Taiwan from a long term perspective.

5.3.2 United Kingdom

The United Kingdom is one of the richest countries in the world despite the uncertainties brought by Brexit. The number of wealthy individuals is increasing in the country, leading the

growth of this iconic luxury market. Rich tourists from the Middle East, China and Russia are also contributing to market sales. However, the varied customer base poses a challenge in terms of marketing.

Additionally, the degree of diversity in brands and products is high. In the luxury smartphone markets, Vertu is still the leading company, while several smaller players are thriving by offering additional technological features. Therefore, to enter the market, Fantôme needs to be able to provide unique innovation.

In spite of Brexit, the UK still has a lot of favourable regional trade agreements with the EU. Therefore, once Fantôme hits the UK market, the European continental market would be more accessible.

5.3.3 Japan

Even having suffered from a long period of economic recession, Japan still stands as a strong economic entity in Asia with a high number of millionaires. The growth of the luxury goods market is mainly driven by two distinct groups: middle-aged Japanese male and tourists, the former being an ideal target for Fantôme. In general, the market is highly competitive, filled with leading international brands and numerous niche boutiques. Japanese strongly prefer stores selling a single brand exclusively.

In terms of the cell phone market, Japanese don't consider mobile phones as a luxury good. They put emphasis on function and quality rather than brand name. Most importantly, a large screen is essential for entertainment purposes which is not a strength of Arcane. Therefore, luxury phones are nonexistent in the current market. Even if Fantôme were to fill the vacuum, it would be challenging.

Firstly, Japanese consumers are accustomed to buying cell phones through 3 retailers which form an oligopoly. This would decrease Fantôme's negotiation power with distributors.

Secondly, considering the above mentioned local consumer behavior, a physical store investment would be necessary yet costly for the company. Moreover, a strong player in luxury, TAG Heuer, dominates the luxury smartwatch segment 100%, collaborating with Google and Intel. This creates a strong entry barrier for Fantôme and makes Japan not an ideal new market.

5.3.4 Germany

Germany is the largest economy in Europe with a population of 82 million. In terms of the number of millionaires, which is the potential customer base of Fantôme, German is ranked 4th worldwide. As the economy of Germany grows stably, the luxury good market is also seeing a steady growth. Also, the buying pattern is changing. Traditionally, Germans prefer products with high quality at a reasonable price, yet, it is observed that consumers are switching towards real luxury products with higher intangible value.

However, German consumers maintain a pragmatic mindset when making purchasing decisions. Instead of chasing after flashiness, they value heritage and craftsmanship more. Therefore, it could be a good opportunity for Fantome if the feature of high quality is well marketed.

On the downside, when compared to other European countries such as France and England, Germany is traditionally not a favorable tourist destination. Under this circumstance, the benefit of investing a physical presence in Germany will be relatively limited.

5.3.5 United States

As the unquestionably strongest economy in the world, the United States is expected to see constant growth in GDP and number of millionaires. However, in contrary to popular belief, the domestic market of luxury goods is shrinking due to decreasing willingness to spend

income on leisure. What's more, the strong US dollar has deterred inbound tourism, which results in an overall slowdown in the luxury market.

E-commerce channels in the US are widely accepted, including for the luxury goods segment. This significantly lowers the operational cost for new entrants. On the other hand, it also implies limited gains from a physical store.

In the luxury smartphone market, what American consumers value most is functionality and usability. The idea of luxury phone is not well-known, nor popular. Overall, the smartphone market is forecasted to be price-oriented.

6. STRATEGIC RECOMMENDATIONS

6.1 CHOSEN MARKET

With a belief that BG should enter in different markets rapidly in order to gain profits and market knowledge, China and the United Kingdom are the chosen countries for Fantôme to expand in the short-term with the most favourable environments.

6.2 ENTRY MODE

It is considered that an export-driven focus for Fantôme will yield stronger returns in the short to medium-term rather than as a joint venture, via franchising, or as a greenfield investment.

Selecting the export mode would be less risky, cheaper, and could lead a rapid expansion onset since it requires close to minimal cost overhead, running expenses and liabilities.

In opposition, a joint venture that would yield such a combination of low-risk, cost, and expansion-potential is a wild card. Given a company with the size and resources of Fantôme we believe it hard to find, unless they already had one to begin with.

As for franchising, the cost would be higher to prove and promote a yet non-existing business model in a crowded market of franchising opportunities. Conversely, the type of franchisee that would be advantageous for our franchisor would also be difficult to obtain - namely, one

of established presence and experience. Thus, a probably low rate of franchise pick-up would negate a rapid expansion which, in the case of this company, is a risk in itself.

Finally, if Fântome were to set up an independent physical shop in the chosen market it would be a high-risk and high-cost entry mode that wouldn't result in strengths and opportunities worthy of the weaknesses and threats. The biggest, and perhaps only, advantage above all other entry modes would be the ability to exercise a high degree of control over its brand image.

To favour the export approach, it is proposed that established local partners must be proactively found in the form of optionally-physical luxury or premium retail chains, or reputable independent stores. Gathering insight from a few of the best practices of franchising, the company should endeavour to learn from its traders and retailers the know-how and unwritten local knowledge. Doing so would foster a better understanding of the local operating environment thus preparing the company for better dealing and operation in the initial city and future expansion cities. For partners with an established image, Fantôme should explore ways to leverage from their image. A disadvantage of the export-based entry mode would be that Fantôme will have lower control over its brand image than it would compared with the alternative entry modes.

6.3 MARKETING MIX

6.3.1 PRODUCT

As mentioned at the end of the company profile (page 5), after the initial launch of the Arcane this year, the company is now considering the introduction of a new version of Arcane to the market. This might damage the image of Arcane as a classic luxury smartphone if a new version can be ready in such a short time. Also, the R&D costs of the new version would put the company in greater financial risk if the company were to provide a completely or partially

new phone with notable improvements. Furthermore, the opportunity cost of an improved phone when compared to the cost of a more aggressive international expansion with the current phone is believed to be very high. Therefore, Fantôme should instead focus on building its sales with the current product.

However, there are several ways the company can resort to in order to enhance the perceived value and competitiveness of the product. Firstly, the company should try to improve the software and interface in pursuance of better user experiences and functionality. Secondly, since Fantôme is targeting consumers with needs of uniqueness, they could as well provide wider options of accessories such as leather, or exotic material, cases. This tactic will ingratiate customer needs while having a low R&D cost. Also, providing a convenient and efficient global warranty and customer support which can be integrated with customer services, sales points included, is a simple and effective method to optimize the sales from tourists.

Vertu, the leading company in the industry, has been providing its customers with an all-day concierge service. Indeed, this kind of special offer would boost the level of satisfaction despite being potentially expensive. According to Fantôme's management board, it's being considered to offer outsourced discounted deals for concierge services, ranging from the simple to the all-inclusive services. This would be in line with the strategy to keep running costs low.

From a long-term perspective, since more and more consumers in the luxury segment find that functionality appealing, the company should try to constantly invest in concierge technology and user experience research.

6.3.2 PRICE

A premium retail pricing, or skim pricing, strategy would be best suited for the Arcane at this stage. The phone's industrial production is currently constrained at a relatively low rate for a number of factors which are linked together by their common denominator of Fantôme's concern to keep unnecessary costs down for the present rate of sales, such as, for instance, using off-peak times for factory line usage, the need to keep final assembly labour costs down, among others. In this way, a premium pricing enables the company to throttle demand while it scales supply to meet demand as closely and efficiently as possible. At the same time, maximizing profits due to a higher profit margin per unit. Furthermore, a retail price decrease later on is more manageable marketing-wise than a price increase.

Premium pricing also signals to the consumer the high quality of the product. This is specially important for the company since it doesn't have an established brand image in the market, thus, this price-quality signaling would form part of the effort to build a luxury brand image and create the discussion among medias and customers.

With Fantôme being a mostly unique product in an underserved market, it can benefit from its uniqueness and associated low demand elasticity. This is distinctively true of technology products.

6.3.3 PROMOTION

Fantôme's website is poorly developed at the moment. It must be immensely improved since it is a most seen presentation of the brand. As market information is becoming more transparent and accessible, consumers tend to research before an important purchase. An elegant, functional, informationally complete and well-designed web portal could contribute significantly to the building of brand image, awareness, and may even facilitate online ordering.

Initially, to create an image of exclusivity, Fantôme tried to sell its smartphones by invitation only. Several international brands have exploited similar strategies to cultivate a group of longing and loyal customers. However, it doesn't seem feasible for a company without a well-established brand awareness to try to leverage its products desirability without a brand image to leverage on. For such a new luxury start-up like Fantôme, it's crucial to quickly create an adequate volume in the market with a relatively small budget against massive-premium brands like Apple. For instance, in 2017, a famous TV project aptly-named "The Most Expensivest Shit" produced by the magazine GQ introduces outrageous luxury goods such as a bottle of mineral water selling for \$10,000 USD. If Fantôme can procure similar projects for placement marketing, it has a chance to have low cost marketing promotion while raising awareness. Besides advertisement in magazines, which is costly but may be used selectively, sponsoring celebrities with the Arcane can also serve as a testimonial in terms of quality and taste for this new entrant to the market. Luxury mobile phone company Vertu used to avoid celebrity marketing until recently when they conducted several campaigns with public figures. Finally, the way the point of sale is designed and developed plays an important role in the promotion of the Arcane.

6.3.4 PEOPLE

The company must spend a much greater amount of resources on management dedicated to the development and management of export and marketing operations before it considers a product-line expansion. The creation of the post of marketing director (MD) is recommended, as a full-time duty, with regional and competence responsibilities delegated to sub-managers as the workload, in due course, requires. At this stage, the overarching aspect of the MD's responsibilities is to acquire regional, national and local market insight and its specificities. The initial responsibilities of the MD would lean heavily on distribution channel

development, to further research market expansion opportunities, in addition to the usual marketing direction responsibilities which are secondary at this point. It would be a key responsibility to develop training material, customer service manuals and to keep very close contact with the outsourced sales staff, specially the staff directly handling the customers, with occasional quality control inspections of the physical points of sale. A flat and lean marketing management structure is desirable with a sharp focus on high quality customer service to be instilled in all of the staff. At some point in the future, Fantôme may conservatively consider the possibility of having their own face-to-face sales staff if a sales point's demand fully justifies it cost-wise.

6.3.5 PLACE

In the global luxury portable consumer electronics sales, only 5% comes from online retailing (Appendix 6). It is to be understood that, in the luxury segments, the consumer prefers to shop and acquire more information, in person, in a physical store. Therefore, a physical presence is a foremost element. Furthermore, the careful choice of compatible retail partners with top-grade interior furnishing, customer service, and atmosphere is crucial as well.

However, Fantôme's management board mentioned a dilemma during the interview: "When we were entering the French market, it was difficult to negotiate with places such as Galleries Lafayette, because they are too popular". Therefore, a small boutique jewelry or watch retailer would be a better choice for the company at this stage.

6.3.6 PHYSICAL EVIDENCE

Fantôme's initial sales point (PoS) in the Venetian Casino in Macau has a small area with a glass-bound luxury showbox (Appendix 1) with staff on hand to support inquiries and sales. This model is appropriate considering the need for keep costs low while giving a high quality sales experience. The PoS could expand to include phones in several external configurations

and all available accessories while minding costs. In each PoS, a sizable video screen looping smartly designed promotional video content could be a worthy addition. A Fantôme sales staff uniform coherent with the company's design language should be considered. Co-locating the PoS with other luxury brands will also instantly enhance brand image by proxy.

6.3.7 PROCESS

Given the size of the company and the bigger failings it has to address urgently, process design and demonstration shouldn't be a major concern for now. However, an initial effort on training, customer service and quality control should be made, in line with the MD's responsibilities, while the brand image is practically nonexistent and easier to mould.

7. CONCLUSION

This international expansion plan is based on a believed theory that BG should expand to different markets rapidly due to their different nature and resources when compared to traditional SME. However, the most common problem is lack of market knowledge and experience. Therefore, a growing trend of literature suggests that BG should address this challenge by leveraging local networks in order to access foreign markets efficiently.

Indeed, in the specific case of Fantôme, the situation is more challenging and risky, signaling from the bankruptcy of Vertu, the dominant company in the luxury mobile phone industry in 2017. However, since current markets have withered, the company has no choice but to aggressively expand to foreign countries, in a cost-efficient manner, to avoid losing momentum. Presently, the most pressing tasks are the cultivation of the brand image to raise the negotiating power with distributors, and to gain market share. However, the company should maintain a balance maintain a balance between expansion and financial risk.

Therefore, export-import partnerships with local jewelry or watch boutiques are the most viable to way to expand at this stage.

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APPENDIX 1: Fantôme's Showbox (PoS) in the Macau Venetian Casino VIP Room



APPENDIX 2: Mobile phones technical comparison

	Fantôme Arcane	Vertu Signature Touch	Porsche Design Huawei Mate 10	Huawei Mate 10	iPhone X	Samsung S8
Release date	Jun/17	Oct/15	Nov/17	Oct/17	Nov/17	Apr/17
Price (EUR)	13000	12400	1400	700	1150	600
OS	Android 6.0	Android 5.1	Android 8.0	Android 8.0	iOS 11	Android 7.0
Processors	Qualcomm Snapdragon 801	Qualcomm Snapdragon 810	Kirin 970	Kirin 970	A11, M11	Qualcomm Snapdragon 835
Display	Sapphire crystal, 4,7", 473 ppi	Sapphire crystal, 5.2", 424 ppi	Corning Gorilla, 6.0", 402 ppi	Corning Gorilla, 5.9", 499 ppi	Reinforced glass, 5.8", 458 ppi	Corning Gorilla Glass 5, 5.8", 570 ppi
Cameras (front MP / rear MP) and video	13 / 8 4k@30 fps	21 / 2.1 4k@30 fps	Dual 20+12 / 8 4k@30 fps	Dual 20+12 / 8 4k@30 fps	12 zoom / 7 4k@60 fps	12 / 8 4k@30 fps
Storage / RAM (GB)	128 / 3	64 / 4	256 / 6	64 / 4	64-256 / 3	64 / 4
Case materials	PVD-coated titanium unibody	Titanium, calf leather	Aluminium and glass	Plastic and aluminium	Aluminium	Plastic and glass
Audio	Mark Levinson, quad-microphone noise cancellation	Dolby Digital Plus w/ active noise cancellation	Hi-fi speakers, active noise cancellation	Hi-fi audio, active noise cancellation	Active noise cancellation	Hi-fi audio with active noise cancellation
Security	Hardware-accelerated full disk encryption, virtualization, SMS, data and call encryption	n/a	fingerprint authentication	n/a	Facial authentication	Iris and fingerprint authentication
Battery and charging	2300 mAh	3160 mAh Li-ion Qi wireless, Quick Charge 2.0	4000 mAh Li-po rapid charging	4000 mAh Li-po rapid charging	2716 mAh Li-ion Qi wireless	3000 mAh Li-ion Qi wireless, rapid charging
Services	Concierge with varying levels of service ⁽¹⁾	Vertu Concierge ⁽²⁾	n/a	n/a	n/a	n/a
Special features	Dual SIM, removable battery, microSD slot, IP67 water and dust protection	microSD slot	Dual SIM	microSD slot, Dual SIM	IP67 water and dust protection	Dual SIM ⁽¹⁾ , microSD slot, IP68 water and dust protection

⁽¹⁾ Not included in base price.

⁽²⁾ Discontinued as of Dec/17.

APPENDIX 3: Luxury Portable Consumer Electronics (LPCE) market size among countries

Geography	Category	Unit	2017	2018	2019	2020	2021	2022
USA	LPCE	USD million	59.5	98.1	154.7	228.4	307.7	368.1
United Kingdom	LPCE	USD million	176.2	190.4	204	218.6	234.1	247.8
China	LPCE	USD million	137.4	131.9	127.9	125.4	124.1	123.5
Turkey	LPCE	USD million	57.9	60.6	65	68.5	73	78.6
Japan	LPCE	USD million	29	40	50.2	59.5	68.7	77.6
Germany	LPCE	USD million	49.2	51.3	53	54.4	55.5	56.2
Italy	LPCE	USD million	46.1	46.7	47.2	47.8	48.3	48.8
France	LPCE	USD million	42.3	41.6	42.8	44.2	45.3	46.2
India	LPCE	USD million	30	31.9	33.7	35.2	36.7	37.8
Australia	LPCE	USD million	33.5	33.8	33.9	34	34	34.7
United Arab Emirates	LPCE	USD million	13.4	12.7	13.5	14.5	15.8	16.7
Netherlands	LPCE	USD million	8.1	9.1	9.9	10.8	11.6	12.1
Spain	LPCE	USD million	10.2	10.5	10.9	11.2	11.6	12
Russia	LPCE	USD million	12	10.1	9.7	9.9	10.3	11.1
Switzerland	LPCE	USD million	9.4	9.4	9.5	9.4	9.3	9.1
Hong Kong	LPCE	USD million	45	10.7	10.1	9.7	9.3	8.9
Malaysia	LPCE	USD million	4.4	4.9	5.4	6.1	7	8.2
Singapore	LPCE	USD million	16.9	13.8	11.4	9.2	7.8	6.4
Poland	LPCE	USD million	5.6	5.6	5.7	5.7	5.8	5.9
Taiwan	LPCE	USD million	3.9	3.6	3.3	3.1	3.1	3.1
Romania	LPCE	USD million	2.1	2.2	2.3	2.4	2.6	2.7
Indonesia	LPCE	USD million	1.3	1.4	1.5	1.6	1.8	1.9
Ukraine	LPCE	USD million	1.6	1.6	1.6	1.6	1.7	1.8
Thailand	LPCE	USD million	2.7	2.5	2.3	2.1	1.8	1.6
Sweden	LPCE	USD million	0.8	1	1.1	1.2	1.3	1.4
South Africa	LPCE	USD million	0.8	0.8	0.8	0.8	0.8	0.8
Mexico	LPCE	USD million	0.2	0.3	0.4	0.5	0.6	0.7
Philippines	LPCE	USD million	0.2	0.2	0.2	0.2	0.3	0.3

Note 1: Data type is Retail Value RSP.

Note 2: Fixed 2017 currency exchange rates.

Note 3: Research resource: Euromonitor (trade sources/national statistics.)

APPENDIX 4: Luxury Portable Consumer Electronics (LPCE) market size among continents

Geography	Category	2012	2013	2014	2015	2016	2017
World	LPCE	1,335.50	1,136.70	1.102.1	1.051.4	920.2	891.1
Asia Pacific	LPCE	487.1	324.9	335.4	335.3	320.7	288.7
Australasia	LPCE	39.8	36.9	34.6	32.3	33.8	35.9
Eastern Europe	LPCE	92.2	75.8	59.7	38.1	32.9	30.3
Latin America	LPCE	0.6	0.5	0.3	0.2	0.3	0.5
Middle East and Africa	LPCE	353.3	318.2	271.3	233.7	105.3	61.6
North America	LPCE	9	9.7	9.8	22.2	35	59.5
Western Europe	LPCE	353.6	370.7	391	389.7	392.2	414.5

Note 1: Data type is Retail Value RSP.

Note 2: Current prices.

Note 3: Research resource: Euromonitor (trade sources/national statistics.)

APPENDIX 5: Sales of Luxury Portable Consumer Electronics (LPCE) by category in 2016

Country	Unit	Luxury Mobile Phones (*)	Luxury MP3 Players	Luxury Wearable	Total Luxury Portable Consumer Electronics market sales
China	CNY million	1083.9	0	0	1083.9
United Kingdom	GBP million	118.6	0	7.5	126.2
Germany	EUR million	28.6	0	7.4	36
Singapore	SGD million	35.7	0	0	35.7
United States	USD million	11.1	0	13.2	24.2

Note 1: Research resource: Euromonitor (official statistics, trade associations, trade press, company research, store checks, trade interviews and trade sources.)

(*): Only luxury brands above the premium market were considered. (i.e.: Vertu, Prada, TAG Heuer, Porsche Design, etc. - Apple excluded)

APPENDIX 6: Country screening with weighted indices and final scores

Country	National Luxury Consumption 25%	National luxury electronics consumption 25%	Luxury consumption of the richest city 15%	National luxury market growth 10%	Pre-existing network 15%	Ease of doing business 10%	Final Score
China	1	1	0.9	0.8239010332	0.8	0.6181752874	89.92%
Hong-Kong	0.9	0.9	4	0.23564942334	4	0.9444461449	86.80%
United Kingdom	1	1	1	0.1765138886	0.5	0.9222341954	83.49%
France	4	0.9	0.9	-0.1639720246	0.9	0.8428691964	86.99%
Germany	1	1	0.9	0	0.5	0.8644037356	79.64%
United States	1	1	1	0.1765432099	0.1	0.9279813218	77.55%
Japan	1	0.8	1	0.1765432099	0.4	0.804772989	75.81%
Singapore	0.9	0.8	1	0.2353367838	0.4	0.9644396552	75.50%
Australia	1	0.9	0.8	0.4118793123	0.2	0.8848778736	75.47%
Switzerland	1	0.7	0.9	0.1177602657	0.5	0.8090876437	72.77%
India	0.9	0.9	0.7	0.8828273769	0.2	0.5368175287	72.70%
Italy	0.9	0.9	0.7	0	0.5	0.7512571839	70.51%
Netherlands	0.9	0.7	0.7	0	0.5	0.8110632184	66.11%
Russian Federation	0.9	0.8	0.8	0.350864198	0	0.8015445402	66.05%
Spain	0.8	0.8	0.6	0	0.5	0.8288433908	64.79%
Taiwan	0.8	0.7	0.8	0.1763719749	0.2	0.8836206897	63.10%
Sweden	0.8	0.6	0.6	0	0.5	0.9051724138	60.55%
UAE	0.7	0.8	0.7	0.3533784681	0	0.8595545977	60.13%
Turkey	0.7	1	0.5	0	0	0.6873204023	56.87%
Mexico	0.9	0.5	0.8	0.2355266968	0	0.7435344828	56.79%
Poland	0.7	0.7	0.3	0.1182151001	0.5	0.8338721264	56.52%
Malaysia	0.6	0.7	0.4	0.4119341564	0.2	0.8541666667	54.16%
Canada	1	0	0.9	0.2942386831	0.2	0.869612069	53.14%
South Korea	0.9	0	0.8	0.2353909465	0.2	0.9527658046	49.38%
Indonesia	0.7	0.6	0.5	0.1176954733	0.1	0.6393678161	49.07%
Norway	0.8	0	0.6	0.05879279009	0.5	0.9211566092	46.30%
Thailand	0.5	0.6	0.2	0.4124595826	0.2	0.8363864943	45.99%
Ireland	0.8	0	0.5	0.1763307632	0.5	0.8735632184	45.50%
Belgium	0.8	0	0.6	0	0.6	0.7331178161	45.33%
Austria	0.8	0	0.5	0	0.5	0.8561422414	43.56%
New Zealand	0.8	0	0.4	0.4121724063	0.2	1	43.12%
Denmark	0.7	0	0.5	0.05860688641	0.5	0.9552801724	42.64%
Philippines	0.5	0.6	0.2	0.2353909465	0.2	0.5005387931	40.86%
Portugal	0.7	0	0.4	0	0.6	0.8256106322	40.76%
Romania	0.4	0.6	0	0.05779688419	0.5	0.7543103448	40.62%
Israel	0.8	0	0.6	0.2945953361	0	0.7282686782	39.23%
Brazil	0.9	0	0.7	0.1176475346	0	0.4594109195	38.77%
Finland	0.7	0	0	0	0.5	0.8890086207	33.89%
Greece	0.6	0	0.3	0	0.5	0.6672054598	33.67%

APPENDIX 7: Global Luxury Portable Consumer Electronics (LPCE) sales among different outlet type breakdown by percentage (%)

Geography	Category	Outlet Type	2012	2013	2014	2015	2016	2017
World	LPCE	Store-Based Retailing	94.5	97.2	96.6	95.5	94.7	93.2
World	LPCE	Grocery Retailers	0	0	0	0.1	0.1	0.1
World	LPCE	Non-Grocery Specialists	67.1	64.6	61.8	61.1	59	56.2
World	LPCE	Mixed Retailers	27.4	32.6	34.8	34.3	35.6	36.8
World	LPCE	Non-Store Retailing	5.5	2.8	3.4	4.5	5.3	6.8
World	LPCE	Internet Retailing	5.5	2.8	3.4	4.5	5.3	6.8
World	LPCE	Total	100	100	100	100	100	100

Note 1: Data type is Retail Value RSP.

Note 2: Research resource: Euromonitor (trade sources/national statistics.)

Note 3: Historic regional/global values are the aggregation of local currency country data at current prices converted into the common currency using YoY exchange rates.