

**THE INTERNATIONALIZATION TO MEXICO OF A SME
FOOTWEAR PORTUGUESE COMPANY**

The real case of Passodado, Lda.

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ABSTRACT

The Portuguese footwear industry is recognized for the quality of its products and service provided. These attributes have aroused the interest of the international markets that are currently the main buyers and that contribute in a positive way to the Portuguese trade balance.

International markets have been the focus not only for multinationals, but also for small and medium-sized enterprises (SMEs) looking for new opportunities to expand themselves. The effect of the globalization approached countries, cultures, commerce, etc. and the emerging economies are starting to show very high and attractive growth rates. Mexico is one of these markets and also benefits from a strategic location and numerous population.

This study has as the main objective of understanding the strategy to be used by Portuguese footwear companies when entering Mexico. For this, the case study of a Portuguese footwear PME with the ambition to explore new markets was used (Passodado, Lda). As a result, the combination of internal and external factors made it possible to realize that this company's strategy will be the direct export through a sales agent in Mexico, benefiting from new customer orientation, controlled marketing by the company and greater control over products. It was concluded that the regular monitoring and analysis of the activities in the target market are decisive to guarantee the profitability of the business and the elasticity and agility to face possible challenges.

Keywords: Footwear sector, Portuguese SMEs, International entry modes, Internationalization strategy.

JEL Classification System: F29, M16

RESUMO

A indústria do calçado Portuguesa é reconhecida pela qualidade dos seus produtos e serviço prestado. Estes atributos têm despertado o interesse dos mercados internacionais que são atualmente os principais compradores e que contribuem positivamente para a balança comercial Portuguesa.

Os mercados internacionais têm sido o foco não só para multinacionais, mas também para pequenas e médias empresas (PMEs) que procuram novas oportunidades se expandirem. O efeito da globalização aproximou os países, culturas, comércio, etc. e as economias emergentes começam a apresentar taxas de crescimento muito altas e aliciantes. O México é um desses mercados e beneficia também de uma localização estratégica e numerosa população.

Este estudo tem como principal objetivo a compreensão da estratégia a utilizar pelas empresas de calçado portuguesas ao entrar no México. Para isso, foi utilizado o caso de estudo de PME de calçado portuguesa com ambição de explorar novos mercados (Passodado, Lda). Com resultado, a combinação de fatores do ambiente interno e externo, permitiram perceber que a estratégia desta empresa passará pela exportação direta através de agente de vendas no México, beneficiando da orientação para novos clientes, marketing controlado pela empresa e maior controle sobre os produtos. Concluiu-se que a monitorização e análise regular das atividades no mercado alvo são decisivas para garantir a rentabilidade dos negócios e a elasticidade e agilidade para enfrentar possíveis desafios.

Palavras-chave: Setor do calçado, PMEs portuguesas, Modos de entrada internacionais, Estratégia de internacionalização.

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1. INTRODUCTION

The Portuguese footwear is increasingly prominent in international markets. This sector abandoned the competition with the Asian countries for the price and bet on the quality of the its products and services, leveraging itself by the proximity with the European clients.

Foreign markets have acknowledged the efforts made by this Portuguese industry, which currently exports almost 95% of its production (APPICAPS, 2017a) and which, since 1974, has managed to ensure a positive weight in the Portuguese trade balance (APPICAPS, 2017b).

The power of globalization has been destroying barriers and bringing markets closer, contributing to the increase in sales of Portuguese footwear abroad. Nowadays, international exchanges are the decisive factor that creates new opportunities for companies. Increasingly, the SMEs are looking for foreign markets to answer topics associated with the ambition for higher profits, acquisition of know-how and expand networking, need to improve their national image through international recognition and tax incentives.

Thus, several authors have dedicated their studies to the internationalization process, with special emphasis in developed markets. However, in 2000 the emerging markets began to have more and more importance to the world economy and so, the intention of the exploit them has been growing. The Mexican market is an emerging market that has a large population and territory and benefits of a great localization. The proximity with USA can, for example, be a good bridge to expand businesses to a more saturated and difficult market to penetrate as North America.

In this sense, on the one hand there was the evidence that the Portuguese footwear sector has enormous international prestige, and from the other, there was an apparent conviction that Mexico is a country that offers strategic opportunities for growth to companies. So, by the factor of I am inserted in a family with connections with this sector and that owns a SME with the ambition to expand itself to new markets and from there to leverage its products through the international recognition, Passodado, Lda; I decided to propose to the CEO the development of a strategy for entry into Mexico. The proposal was accepted and the company used this idea as an its objective. It served as a case study to meet the objectives outlined:

- a. Analyse and understand the shoes market in Mexico;
- b. Identify the main challenges to be faced by a Portuguese SME Shoes Company in Mexico.

- c. Select the strategy to enter the Mexican market.
- d. Define and present a plan to implement the strategy.

Thus, it is important to analyse the company's features and understand its position in the markets where it is already present. Furthermore, it is crucial to realize the situation that Passodado will face with in the target country to predict the strategy to be used and possible threats and opportunities to meet there.

After all these factors have been taken into account, it should be done a careful resources analysis, to be able to decide on the most appropriate strategic alternative to follow.

2. LITERATURE REVIEW

The development of a literature review aims to support the problem of this study and the knowledge of topics that were previously explored by other authors. Thus, there are three topics to be investigated: (1) international management strategies, (2) entry modes in foreign markets and (3) Portuguese footwear.

2.1. International management strategies

Over the years, several authors have dedicated their studies to the internationalization of the companies. To understand it, it was necessary to divide this process into different phases.

Porter (1986) began by distinguishing important variables: on an axis, the coordination of activities (evaluates how the company's activities are coordinated in the different countries where it is present) and on the other, the configuration of activities (to understand where and in how many countries each activity in the value chain is present).

Thus, this author explains that the country-centred strategy has as an extreme case the domestic companies that focus only on a country and the case of multidomestic companies that understands that a multinational owns several domestic industries that compete independently.

With greater coordination between activities, Porter (1986) explains that there are companies that opt to invest heavily in foreign countries (the activities are geographically dispersed). He uses the example of Xerox that used the idea of learning to share and so concentrates R & D in the USA and then executes it in other countries.

A different example is the case of Canon, which does the production in Japan and marketing is mostly done by subsidiaries in foreign countries. Thus, this company is centred on export with a decentralized marketing.

The global strategy joins the highest point of the two variables: greater concentration and greater coordination. In their purest state, the subsidiaries conduct the activities with the consumer, responding to the directions given by the headquarters that try to concentrate the largest number of value chain activities in home country and from there and to coordinate the world operations. The objective is to achieve the maximum competitive advantage of the international presence.

When analysing companies of consumer electronics, branded package goods and telecommunications switching industries, Bartlett and Ghoshal (1989) realized that companies from different regions of the globe have different ways of internationalizing themselves.

US companies believe that headquarters are responsible for the innovation, knowledge and coordination, and they are the model to be issued by subsidiaries. This may be an advantage because the power is concentrated in one country and there is more control over the rest, however, this strategy may also limit the efficiency of firms in the target countries, since there is a reduced room for adaptation. The authors call it International Strategy.

In the case of European companies, the independence of the auxiliary companies in the target country and its innovation is valued. This means that there is an increased concern about passing liabilities to the subsidiary and it is expected that it will respond to the stimuli and motivations imposed by its country and consumers. Thus, the company is no longer seen in a global way but rather in a local way and the biggest disadvantage is the lack of global efficiency and learning. The European strategy is named Multinational.

On the prism of Japanese companies, all development and knowledge is maintained in the headquarters, however, the research is done all over the world. The subsidiaries have the role of replicating the strategies elaborated. The idea is to standardize the products in order to serve the needs of all countries. The problem with this strategy is that it is impossible to meet the specifications demanded by consumers from different markets and that it is impossible for subsidiaries to absorb what is happening in their countries. For Bartlett and Ghoshal this is the Global Strategy.

The great novelty in these authors' theory, compared to Porter (1986), is the Transnational strategy that emerges to bridge the gaps between efficiency, flexibility and learning that are pointed to the previous ones.

Here all the components of the company are important, including subsidiaries that have direct contact with their country and so are the best way to collect and develop the information assimilated. This line of thinking should be followed by large multinationals because the knowledge, skills and progresses are shared and integrated across the company, adjusting to target countries. That is, this is the ideal strategy to take the maximum advantage of the capabilities acquired internationally and that was drawn through the experience of the authors with several companies.

Also, the authors Jeannet and Hennessey (1992) consider that there are different stages of internationalization (domestic, regional, multinational and global) and to ensure the success in this process the companies should plan how to cross them. The position of the companies depends on the industry, the diversity of the needs of the target country, strategic position, etc.

Nowadays it is more and more difficult to find a company that uses a domestic strategy. This is because it is increasingly common that their markets are invaded by foreign competitors and the need to explore other countries rises. This strategy is appropriate for firms that are satisfied with the results obtained in the home country or those who have their products very focused on what home country is looking for and are not willing to change them.

Countries that are geographically close usually have more similarities with each other. Thus, it is easier for domestic companies to explore the neighbouring markets since the adaptations they need to make to their products are few or none. That's why many firms make their internationalization in the region where they are located or in two regions: Regional Expansion Strategy. Normally, the regions where they focus are Europe or North America and there are also many cases of companies that pay attention to Latin America, Pacific Basin or Asia focus.

When the company starts to develop its business in several countries and the focus is no longer one or two regions, it departs for a Multidomestic strategy. The tactical choices are still taken in the headquarters but the subsidiaries must realise them. Or, on the other hand, there are companies that decide to delegate responsibilities to the subsidiaries that are present in the target markets.

Finally, the last strategy pointed out is Global. This strategy is defined in cases where the company applies the same fundamentals in almost all or all the countries in which it operates. These fundamentals are strategic but can also refer to marketing or products. So, this thinking is usually used by multinationals.

2.2. Entry modes in foreign markets

As it is possible to observe above, the theories about internationalization strategies are directed to large companies with great resources and the evolution between the states requires a lot of time and it is very complex. In the specific case of the company Passodado, an SME with only 6 years of work (having its proper brand), with few available resources to its reach and with an

intention of action in a short time, it is more relevant to understand the theories about modes of entry in foreign markets that have been developed.

A world with well-defined borders has been transformed by the power of globalization. Levitt (1983) reported that the consumption habits ceased to be different from region to region and referred the term "*globalization of markets*" for the first time to explain this trend. This transformation had several implications: on the one hand, the extinction of regional product and services that have been replaced and on the other, the need for companies to seek new markets (Porter 2004: 287), which requires a correct entry. "*An international market entry mode is an institutional arrangement that makes possible the entry of a company's products, technology, human skills, management or other resources into a foreign country*" (Root, 1998:5).

Hill, et al. (1990) and Klein & Roth (1989) believe that to decide to enter a new market it is important understand how to organize the business abroad, because the whole process will have a huge impact on the company's activities for a long time (Anderson & Coughlan, 1987; Klein & Roth 1990).

Hill et al. (1990) said that there are three variables that influence the way of entry into the foreign country: strategic variables - product adaptations to the foreign country, existence of the same product in the other country etc. - (due to the effect of globalization and similarities between countries, this is the least important variable); environmental variables (related to country risk, affinity between countries, existing competition, existing demand, etc.); and transaction-specific variables (highlights the relevance of a firm understand the competitive advantage).

Johanson & Vahlne (1977) considered that the choice of an entry mode in the other market should be accentuated on factors such as the current state of the company, access to resources, stability, structure of the foreign market and the company's past.

There are authors like Anderson & Gatignon (1986), Klein & Roth (1989), Hill, et al. (1990) and Blomstermo et al., (2005) who support the theory that entry modes are distinguished by the levels of control, commitment, resources, and risk involved in activities. The control, explained by Brookes & Roper (2010) is the predisposition that a company should act in the management systems. Thus, more control means greater possibility of promoting the competitive advantage of the company and more return on assets. The resource commitment means the commitment

of assets for a certain use or the difficulty to reset them without costs (Sanchez-Peinado & Pla-Barber 2006).

According to Pan and Tse (2000), the first step in choosing the way to enter a foreign market is to decide between an equity or a non-equity entry mode. It is important to understand whether the company is willing to use its resources or not. As a conclusion to an empirical study carried out through the data analysis from ten thousand companies that have internationalized to China, these two authors argue that the basis of this decision are the following factors: foreign country factors (priority location and country risk), home country factors (risk orientation and management orientation), relations between home country and foreign country (trade and political relations) and industry factors (management of marketing and assets).

Root (1998:3) thinks that the strategy of entering a foreign market has several steps: “... (1) the choice of a target product/ market, (2) the objectives and goals in the target market, (3) the choice of an entry mode to penetrate the target country, (4) the marketing plan to penetrate the target market, and (5) the control system to monitor performance in the target market.” But the author also states that these steps do not have a definite order, since the entry strategy is dynamic and undergoes many changes over time.

This author suggests that the choice of the most appropriate entry mode is influenced by external and internal factors. The first ones are related with the target country (market, environmental and production factors) and the home country factors. The second ones are the company product factors and the company resource/ commitment factors.

The entry modes are divided into three different categories: export entry modes (the product marketed is produced outside the target country and then sent there); contractual entry modes (this mode does not involve capital investment and is a long-standing agreement between two entities from different countries that involves exchanges of technology or human capabilities from the international company to the one that is present in the target market); investment entry modes (requires the mastery of production units in the foreign country).

Export entry modes

This type of entry modes is appropriate for companies that do not see the control of international activities as a priority and focus on minimizing the political and international market risks. Often the best solution for manufacturers.

- a. Indirect: it occurs when the products are sold in the foreign market by intermediaries (a similar process to what is done in the origin country of the company). The indirect way of exporting allows a company to exploit the international market and make profits from sales, with little cost and without investing fixed capital. This mode of entry presents a great disadvantage compared to others because it does not allow the manufacturer to absorb knowledge of the foreign country and creates a barrier between them. Concluding, it is suitable for companies that are entering for the first time in international markets.

- b. Direct: Root (1998:57) explained the “...advantages to the manufacturer (1) partial or full control over the foreign marketing plan (distribution, pricing, promotion, product services, and so on), (2) concentration of marketing effort on the manufacturer’s product line, (3) more and quicker information feedback from the target market, which can improve the marketing effort with, say, closer product adaptation or more responsive pricing, and (4) better protection of trademarks, patents, goodwill, and other intangible property. But these advantages can be realized only when the exporting firm assumes responsibility for the international marketing effort in carrying out its entry strategy.” However, the manufacturer is also in charge of doing a previous research because it needs to be informed about the whole process, payments, risks etc. That is, compared to the indirect export mode the main disadvantages are the high initial costs, greater risks and superior need for information.
 - i. Agent/distributor: they are between the manufacturer and the final consumers and are responsible for the marketing in the foreign country. According Hollensen (2004), distributors have the control of the products when imported and must represent the company in foreign markets and normally have exclusivity in those markets. While agents do not have the mastery of these products and can work with more companies at the same time. They do the business and the company gives them a commission.
 - ii. Direct branch/subsidiary: the producer has marketing units in the foreign country, so he has the responsibility to invest capital in these facilities.
 - iii. Other: this method allows the trade between the manufacturer and the final consumer in the foreign country, this is possible through people of the company that are in the target country, mail-orders, company website etc.

Contractual entry modes

These contracts are the link between the producing companies and the companies in the target market. This category of entry modes has the benefit of allowing the exchange of intangible assets such as knowledge and skills and through the exchange of technical services, the international company certifies that the assets are used in the best and most correct way.

On the one hand, the transfer of know-how, patents, company name etc. is the great difference between this entry mode and the export mode previously discussed. On the other hand, there is also a significant difference between it and investment entry modes because there is no equity investment by the company that wants to approach the foreign market.

Albaum and Duerr (2008) defended that the advantages of strategic alliances such as licensing, contracting and joint venture must be shared between the two parties, with the idea that both are crucial in a unique way and in the long term. And thus, the market influence of this partnership is increased.

- a. Licensing: Root (1998:7) refers that “...*a company transfers to a foreign entity (usually another company) for a defined period the right to use its industrial property (patents, know-how, or trademarks) in return for royalty or other compensation.*” The international company has the advantages of being able to penetrate the market with low investment costs, while absorbing knowledge of the local company. This is also a way of protecting patents and trademarks, but it is important to keep in mind the big gap: there is no control in the foreign operations (which can be avoided with a franchising) and dissemination of knowledge and experience that was being acquired by the international company. Licensing is often used to circumvent restrictions imposed by the foreign market on import and foreign direct investment. There are two types of licensing, the current technology license (the licensee has access to the current technological advance and the future), (Bradley 2005).
- b. Franchising: “...*is a form of licensing in which a company (franchisor) licenses a business system as well as other property rights to an independent company or person (franchisee). The franchisee does the business under the franchisor’s trade name and follows the policies and procedures laid down by the franchisor.*” Root (1998:109). That is, there is a follow-up in the management, marketing and technical assistance by the international company to the company present in the target market. From the franchisee's point of view, this control and standardization also facilitates business effectiveness and efficiency since it is

guaranteed intellectual material from the international company. However, it also limits the control they have in the business itself and the profit margins.

- c. Technical agreements: this entry mode, service contracts and construction/ turnkey contracts include the exchange of services from the international company and money from the company in the target country.
- d. Service contracts.
- e. Management contracts: this type of contract allows the foreign company to manage its daily activities autonomously. However, decisions considered most important for the future of the company in the target country are the responsibility of the international company, for example, contraction of long-term debts, capital investments, investments in properties, etc. These contracts are strategically unsatisfactory in the eyes of the international company when it is entering the market because they limit the fees in a fixed period and do not establish a position for their products. Thus, they are usually accompanied by other agreements.
- f. Construction/ turnkey contracts: in this mode of entry and in contract manufacture the company that wants to go abroad hopes to receive the products that are done with the services provided to the foreign company. In a phase, a turnkey contract forces "*...the contractor to bring a foreign project up to the point of operation before it is turned over to the owner*" (Root, 1998: 113) - standard turkey contract -. After the construction is finished, there are services that are done by the contractor, for example, staff training and management. An agreement between these phases is called a "turnkey plus". Each project has different peculiarities and therefore, there is no way to use the standard turkey contract.
- g. Contract manufacture: Reasons such as the small size of foreign markets, the existence of many export restrictions or even the costs involved in exports lead the international company to select for this type of entry. The idea of contract manufacturing is to produce a product via outsourcing in the foreign country and then sell it. To ensure that the products are made according the criteria of the international company, it makes partnerships with the manufacturers using licensing or technical-assistance agreements. Thus, there is share of technology and assistance. Root (1998) concludes that this mode of entry is an intermediate option between licensing and investment entry. The problems with these contracts are the difficulty of finding a reliable local partner to ensure the correct production and the possibility of creating new competitors.
- h. Co-production agreements.

i. Others.

Investment entry modes

The entry modes that will be analysed in this point are probably best suited for companies that intend to build or perfect a solid and lasting position in the target market. First and following the thought of Root (1998), it is important to realize that there are different types of investors in foreign markets:

- the *extractive investors* (they intend to obtain raw materials through foreign subsidiaries);
- *sourcing investors* (their aim is to obtain products or parts of products at lower prices and to achieve them, the investors seek markets where there is more abundance of resources or inputs needed for production);
- *market investors* (the most common manufacturing investment in a foreign country, their purpose is to use a production unit abroad to penetrate the market).

There are several advantages to these modes. Starting with the control: in the other modes of entry, a part of the company is transferred abroad, nevertheless, here there is a transfer of the whole company to the foreign market. Thus, the international company achieves a more competitive position. Lower costs of supply: the production is not affected by import barriers, the increased rates or the high transportation costs, while it is benefiting from reduced costs with the inputs (energy, raw materials etc.). That is, ideally there will be a less limited production, available in the appropriate quantities and distributed more quickly and according the consumer needs. Then marketing: the production is done in and for the target market, so it is tailored to its needs and interests.

These advantages are obtained when investment entry modes are compared to other modes, however, they are based on a major disadvantage: greater resource entanglement. In addition, when an international company enters the market through an investment model, it limits the course by various local forces: economic, political, sociocultural, etc.

- a. Sole venture: new establishment: when the international company starts the business with no background, which means, from scratch.
- b. Sole venture: acquisition: when the international company starts its business in the foreign country through the acquisition of an existing company. The acquisition can be classified as: "...*horizontal (the product lines and markets of the acquired and acquiring firms are*

similar), vertical (the acquired firm becomes a supplier or customer of the acquiring firm), concentric (the acquiring firm has the same market but different technology or the same technology but different market), and conglomerate (the acquired firm is in a different industry from that of the acquiring firm)”, Root (1998:143).

- c. Joint venture: new establishment/acquisition: when the international company divides the ownership of the foreign company with another. This division can be made in equal parts (50-50 ventures) or in different parts (majority or minority ventures). Usually this partnership is only created to overcome barriers imposed by the government to sole ventures because the main disadvantage of the joint venture is the lack of absolute control in the operations of the company, sometimes leading to conflicts between the two parties.
- d. Others.

2.3. Portuguese footwear

The Asian countries, especially China, have long been globally known for providing ridiculously cheap products to the market. The effect of globalization made these products more available to other markets and, therefore, Portugal had to stand out and make a difference. Thus, it bet on the quality of service provided benefiting from the proximity with the other European countries.

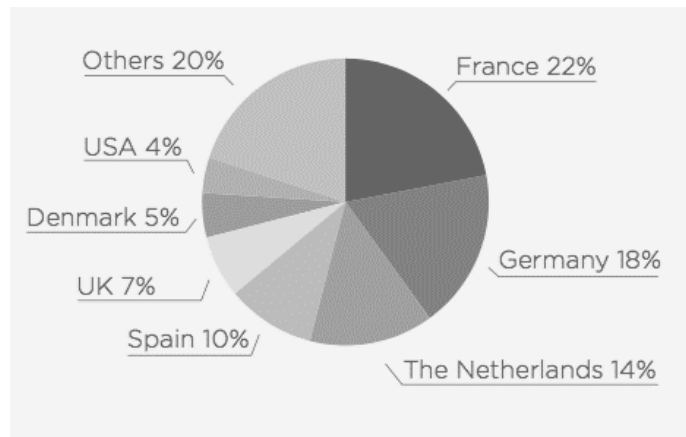
Portugal began by highlighting the rapid response to small orders - which is not the case in Asian countries, which always require large quantities to start processing orders, according to Vitor Frazão at one of the meetings.

In addition, this country has been recognized internationally for the high quality of manufactured products and modern design, thanks to the combination of the latest technology with traditional and manual production techniques, according to APPICAPS¹ (2017a).

Currently more than 95% of footwear products with Portuguese origin are exported to the five continents, as it is showed in the following graph.

¹ APICCAPS is the Portuguese association of the industry of footwear components, skin articles and substitutes (in Portuguese: Associação Portuguesa Indústria. Calçado Componentes Artigos Pele Sucedâneos).

Graph 1. Destination markets of the Portuguese shoes (2016)



Source. APICCAPS (2017a)

The following table shows the evolution of this sector in six years (2010-2016):

Table 1. Footwear sector snapshot 2010 vs 2016

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

Source. APICCAPS (2017a)

The production of shoes is mainly situated in the municipalities of Felgueiras, Guimarães, Santa Maria da Feira, Oliveira de Azeméis and São João da Madeira, all of them north of the country (APICCAPS, 2017a). The proximity between the companies in this sector simplifies the work and helps them the access to the materials needed to carry out their activity.

The Portuguese association has designed a strategic plan "FOOTure 2020" for Portuguese footwear that aims to improve the areas of innovation, internationalization and qualification. This plan is focused about speed of response and small series to ensure the customer satisfaction (APICCAPS, 2015a).

Again, this plan pushes away Asian competition and positions the customers of the Portuguese shoes in a medium-high segment through "*...capacity to produce good quality products, incorporating design and innovation, allied to the provision of exible service and a quick response*" APICCAPS (2017a:14).

The international fairs are events promoted by the association inside and outside Portugal in order to highlight and leverage this sector and to establish contacts with new clients and possible partnerships between companies.

3. OVERVIEW OF THE WORLD FOOTWEAR INDUSTRY

3.1 Production

When analysing the annual report published by the World Footwear (2016b), it is concluded that the production of footwear in the world decreased by 0,4% between 2014 and 2015. Starting to produce 23 billion pairs.

The Chinese production also presented a catastrophic fall in its results (5%). But even so, China remains the largest footwear producer in the world, contributing in a significant way to Asia being the continent that leads global production (87%).



Figure 1. Production of shoes worldwide per continent in 2015

Source. World Footwear (2016b:3)

In an opposite way, Vietnam, India and Indonesia could increase their total production. In this list, there are only two countries that do not belong to the Asian continent: Mexico and Brazil.

In the list of the 15 countries with the highest export value of shoes, China is again at the top and presents USD 51 194 million and about 40% of market share. Portugal appears in the 13th position with 1,6% of market share and an export value of USD 2 069 millions. Curiously, this list does not include any Latin American country.

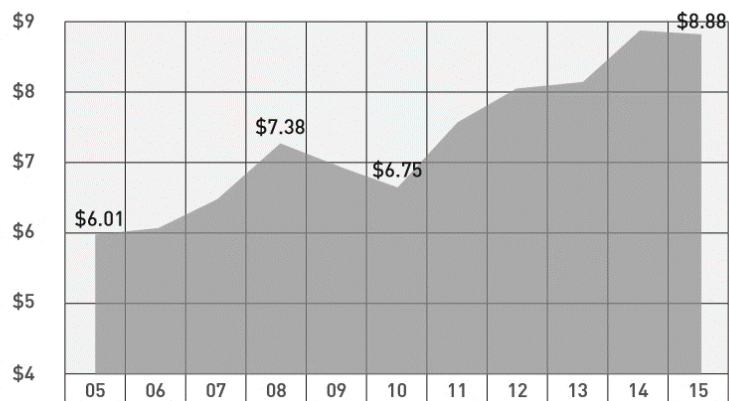
Table 2. Top 15 exporters in the world (value) in 2015

#	COUNTRY	USD (MILLIONS)	WORLD SHARE
1	China	51 194	40.3%
2	Vietnam	15 041	11.8%
3	Italy	9 595	7.6%
4	Belgium	5 415	4.3%
5	Germany	4 691	3.7%
6	Indonesia	3 972	3.1%
7	Hong Kong	3 578	2.8%
8	Spain	3 270	2.6%
9	France	3 149	2.5%
10	Netherlands	2 801	2.2%
11	India	2 465	1.9%
12	United Kingdom	2 191	1.7%
13	Portugal	2 069	1.6%
14	Cambodia	1 363	1.1%
15	United States	1 194	0.9%

Source. World Footwear (2016b:9)

The world average export price graph presented in the next graph shows that between 2005 and 2015 the values were increased significantly: USD 6,01 to USD 8,88.

Graph 2. World average export price 2005-2015



Source. World Footwear (2016b:8)

3.2 Consumption

An information request by email to Dr Carlos Silva, director of study office of APICCAPS, showed that in the footwear sector, the global shoes consumption is considered equal to the global production. In addition, Dr Carlos Silva recommended the reading of the World Footwear Yearbook 2017, where is specified the apparent global consumption of shoes. In this document, it is possible to realize that from 2015 to 2016 there was a growth of approximately

9,6% in the consumption of shoes around the world (Wold Footwear, 2017a). The global consumption is showed in the next table.

Table 3. Consumption of shoes in the world (in millions of pairs) 2016

Year	Consumption (millions of pairs)
2010	20 052
2011	21 166
2012	21 499
2013	22 589
2014	23 134
2015	22 978
2016	23 000

Source. Self-development based on World Footwear (2017a)

The number of pairs consumed per country in 2016 appears in the following figure, which concludes that the largest consumer is China.

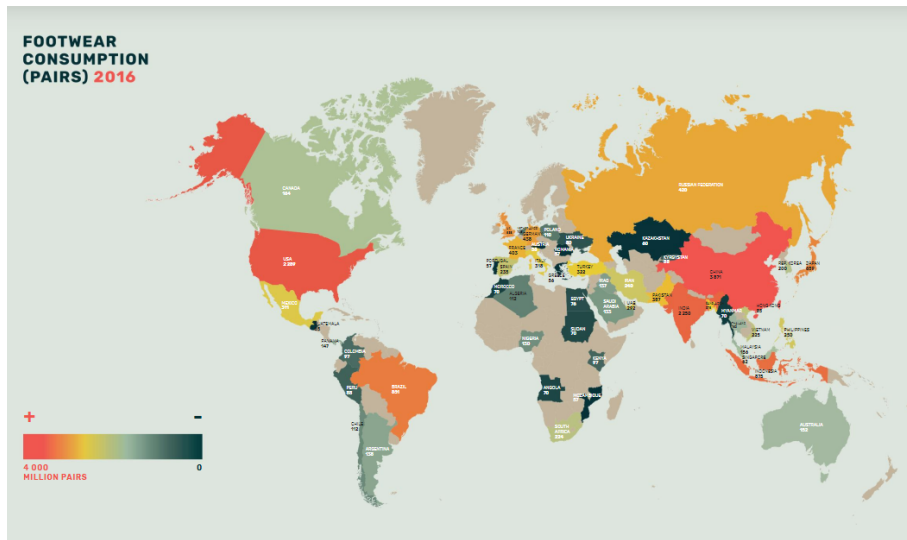


Figure 2. Distribution of the footwear consumption (pairs) 2016

Source. World Footwear (2017a:9)

The data available by World Footwear (2017b) in the annual report confirm that the continent that imported most footwear in 2016 was Europe (36% of the world imports).

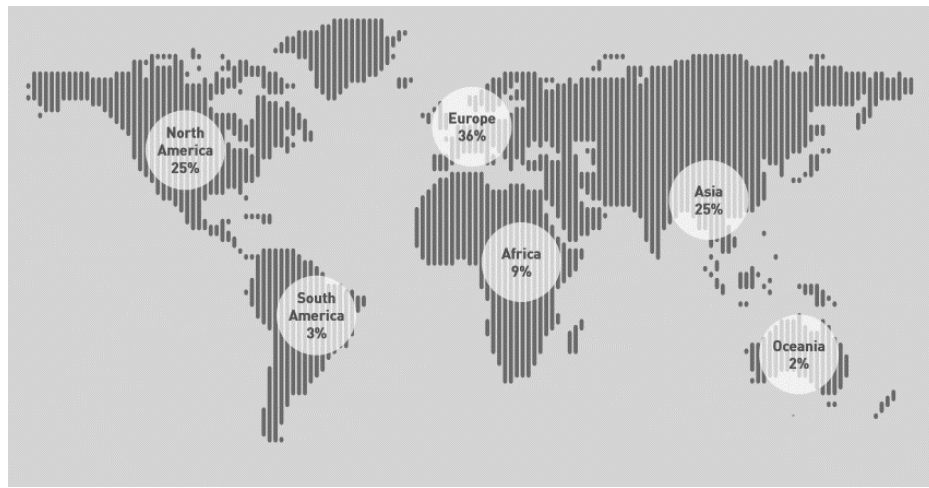


Figure 3. Importation of shoes per continent in 2016

Source. World Footwear (2017b:4)

This statistic indicates that the European continent remains an advantage in terms of consumer purchasing power and the opening to the markets. The United States of America buys 1 out of every 5 imported shoes in the world, and they are the country that more imports.

Another study published by the World Footwear (2015:11) forecasts changes in this sector: (a) "*economic growth in emerging countries*" (focusing on Asian countries), (b) "*demographic dynamics in emerging economies*" (more proactive labor market, growth of economic power and purchasing power), and (c) "*the gap is closing*" (emerging markets with access to new technologies).

4. METHODOLOGY

The main objective of the present dissertation is to design a strategic internationalization process to Mexico of a SME footwear Portuguese company.

In this sense, it was crucial to construct a literature review based on three topics: international management strategies, entry modes in foreign market and Portuguese footwear. Thus, the information collected will allow the production of new conclusions from an interpretive and critical perspective.

After it, the efforts were done to obtain information about the economic, financial and footwear sector around the world throughout an analysis that identified and understood the biggest challenges that can be faced by a SME footwear company.

In order to elaborate a Framework for the whole process the case study methodology was used because it "*...allows investigators to retain the holistic and meaningful characteristics of real-life-events...*" Yin (2009:4).

It was chosen an inductive case study because its purpose is the reach of general conclusions from particular situations and it is considered exploratory because it will construct interpretive and critical perspectives.

This case study is relative to a specific Portuguese SME shoes company, Passodado. In this way, and because it is a single case study, the results that will be obtained cannot be extrapolated to the entire population of Portuguese SME shoes companies.

The discussion and findings chapter will include an implementation plan, which have two variables in mind: the internal environment and the external environment of the company.

The first variable will be developed based on the qualitative and quantitative information collected with a cyclical methodology (1) meetings at the facilities of Passodado, (2) exploration (3) development. In these meetings were present the CEO (Mr. Vitor Frazão), one of the designers and currently responsible for three foreign markets (Mr. Pedro Vieira), the accountant (Dra. Elisabete Cruz) and the warehouse director (Mr. Joaquim Clemente). The investigation of the internal environmental will allow to identify the opportunities, strengths, threats and weaknesses of the SME shoes company from a SWOT analysis.

The second variable, external environment, will be built through a PESTEL analysis with the data about the target country and its footwear industry. In addition, it will be included an interview via email to APICCAPS's director of studies, Dr. Carlos Silva (the guidelines can be consulted in the attachment 1) and requests for information, also via email to the Camara do Comércio Luso-Mexicana and the Embajada de México en Portugal. Again, this method allowed the collection of qualitative and quantitative data.

So, the information obtained in the literature review and the qualitative and quantitative data that will be obtained in the analysis of the internal environmental and external environment of the company will allow to respond the proposed objective and to create conclusions.

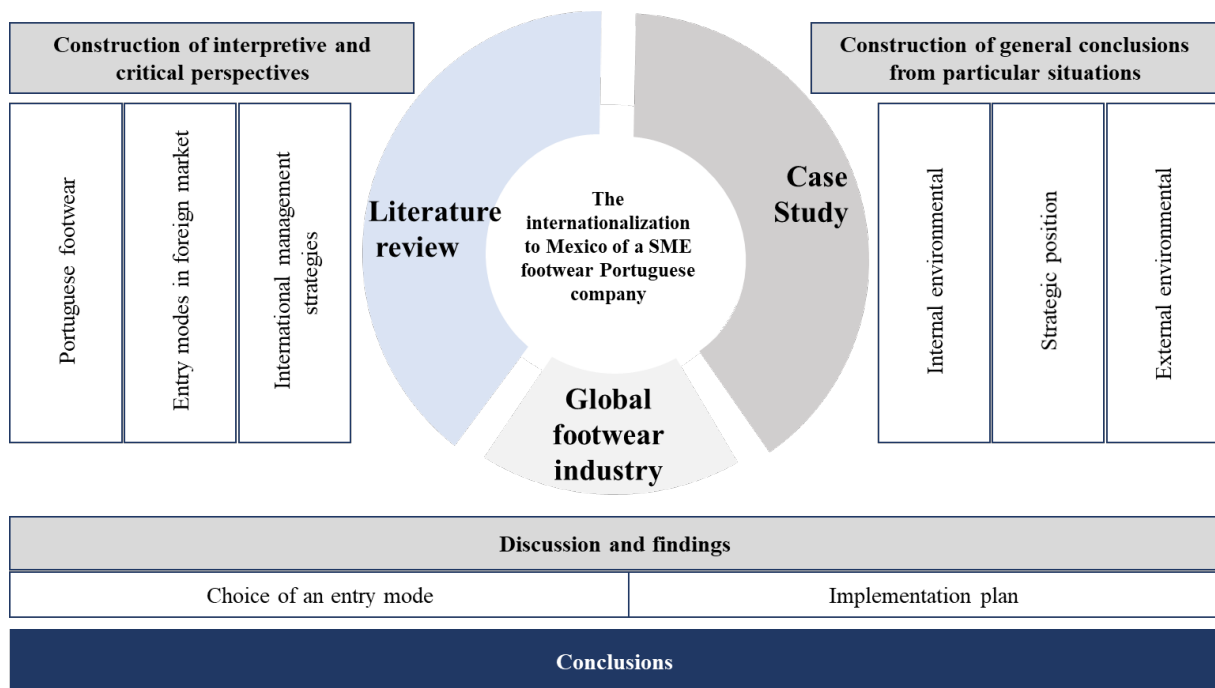


Figure 4. Methodology for the dissertation

Source. Self-developed.

5. CASE DEVELOPMENT

5.1. Presentation of the company

Passodado is a Portuguese SME that was founded in 2009 by Mr. Vitor Frazão (CEO) and Mrs. Fernanda Pereira – they still the current owners and the company is dedicated to the footwear industry. In the early years Mr. Vitor Frazão was the only employee of this SME and sold fashion and production consulting services to other companies in this sector: he selected the collections, decided suppliers for production and gave support to sales.

In 2011, Vitor Frazão decided to abandon the initial activity of the company and to add all his knowledge regarding footwear in a brand with his signature, Lapierce. A brand with a female target and with a range of diverse products - from sports shoes to classic shoes.

Since the first collection, all manufacturing of shoes services are done by factories for this purpose, leaving only the design, marketing and post-production logistics to charge this company.

Thus, in early 2011, Passodado rented a small warehouse, hired some employees and designed the first collection (produced in China) - Fall/ Winter 2011-2012 - which sold out the stock produced.

The stock policy has been maintained ever since: the purchases from suppliers are made according to customers' requests, thus it can avoid the accumulation of products from one time to the next.

Another policy that has been in place since the beginning of the activity with the Lapierce brand and later with the other brands created by the company is related to the six-month product life cycle - fall/ winter and spring/ summer catalogues.

With the growth of sales and with new orders there was a need to create new brands in 2012 and the established names were Uah! to Coolsleep. Thus, the current product range is divided between:

- Lapierce: women's and children's shoes;
- Uah!: sports shoes for all walks;
- Coolsleep: bedroom shoes, such as slippers;

The sales volume of the first two collections developed by Passodado through its own brands was concentrated in two large customers, representing more than 50% of the total sales. Since the Portuguese market had a small size and because the company did not want to saturate the stores, it felt the need to internationalize itself, starting the process for Spain.

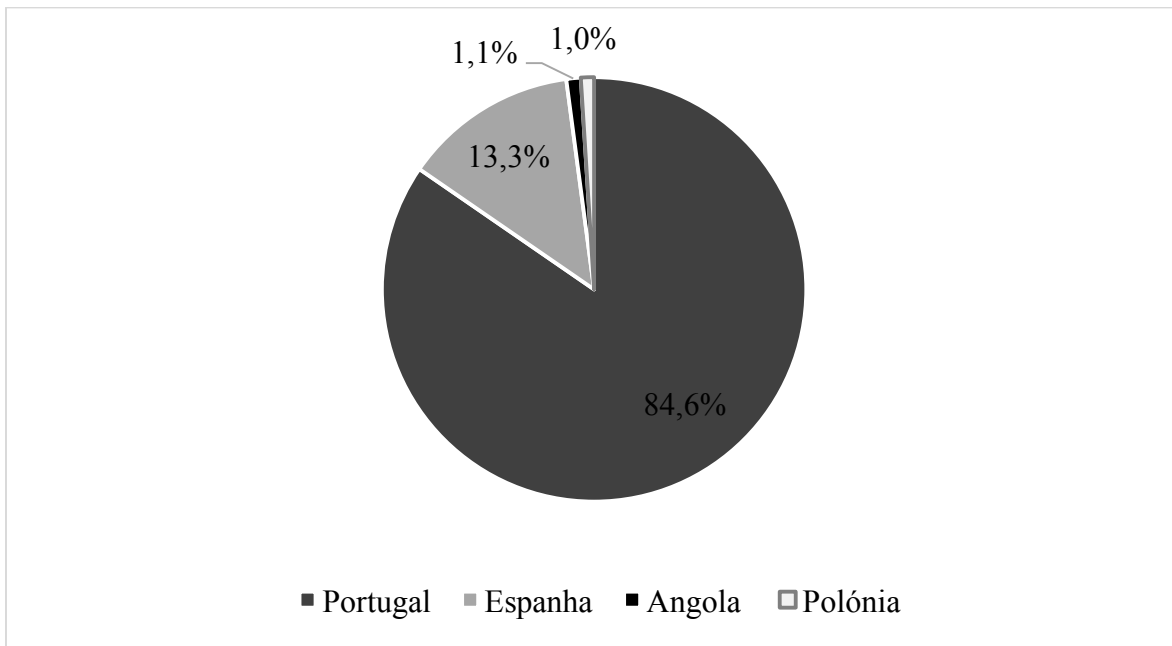
By 2014, the global economic crisis led to Passodado to believe that compete in terms of cost and design with its competitors was the perfect way to increase its sales. However, in 2015, this perception was faulty. On the one hand, there was a constant invasion of new players with the same philosophy in the market and, on the other, because of the international expansion of the company required the rethinking of its positioning model.

The foreign markets know Portuguese footwear brands for their quality. That is, the theme of the Passodado was no longer to have shoes at a low price and with an attractive design, but to achieve all this with superior quality and comfort. So, in 2016 it created the first range of footwear produced in Portugal, in a factory in Barcelos (maintaining most of the production in China). Thus, Passodado expanded its product offering and responded more effectively to the needs of different markets.

Of course, to stop having only brands with footwear produced at very low prices by Chinese manufacturers also having brands with ranges of products with higher prices, produced in Portugal, takes some time and requires a huge cultural transformation in the company. In addition, Passodado had to change its strategy and stop selling only to large retailers, but also to small retailers focused on smaller volumes. Thus, the company is still in the period of adaptation of this new culture.

From 2011 to 2017 the company was able to be present in 4 different countries what demonstrates the intention to grow and to cross borders. Nowadays it sees its products to be sold in Portugal (mainland and islands), Spain (mainland and islands), Poland, and Angola as shown in the following graph.

Graph 3. Sales geographic distribution of Passodado (2016)



Source. Self-developed based on data provided by Passodado

However, the previous graph can show the level of dependency of the national market. This means that the company should increase further the efforts for the internationalization and it should develop planned strategy to overcome the risk of the concentration of activities in only one country will be reduced.

This presence in four different countries leads to an increment of the main challenge that Passodado faces: imitation. To design a new model it needs creative minds, many hours of research and attention to new trends that are constantly changing and that differ from country to country. All of this is expensive, but the imitating is cheap. The product patents in the fashion world are particularly limited and so the only option is to stay focused on the constant innovation from collection to collection.

Lastly, during these years dedicated to the footwear sector with own brands, Passodado has presented a volume of sales in constant growth (attachment 2).

5.2. Passodado mission and strategic objectives

Currently, the mission of Passodado is clear and unequivocal "*To have brands focused on the vision of the consumer and to be recognized worldwide*". This mission can be divided into different parts, analysing them separately:

- a. "...having brands focused on the consumer's vision" it shows the desire to give voice to the consumer and puts it as a fundamental and differentiating element, making the consumer a promoter for the sustainable development of the company;
- b. "to be recognized worldwide" increases the importance of the foreign markets;
- c. "recognized brands" rises the ambition to the nonstop growth and to the improvement of the proper brands.

The vision of the CEO of the company, Mr. Vitor Frazão, is present in the daily routines the only 6 effective employees: the company is also of all of them and they are one of the main machines of its activity. All employees have defined goals with the CEO from the short to long term and they have opportunities to develop a successful career here.

The remaining stakeholders are also really important for a sustainable growth of the company as shown by the model of relation with them in the attachment 3.

Thus, the strategic objectives defined in a plan between 2018 and 2020 are essentially related to five levels:

- a. *Marketing*: increasing brand awareness among the consumers and to reshape the offer according to existing brands with the possible creation of a new brand;
- b. *Financials*: increase the profit margin of each of its products;
- c. *Information Systems*: development of the IT Systems to support decisions made by the company;
- d. *Human resources*: align individual needs and objectives and broaden career growth opportunities;
- e. *Production and sales*: achieve a turnover of 5 million euros; increase internal capacity with a focus on sales of footwear produced in Portugal; expansion to new markets (motivation for Mexico).

At the end of each year, these goals are the basis for building individual bonuses for each employee. Thus, if they are monitored in the real time, the company will be able to allocate them in a fairer way.

5.3. Internal environmental

Based on Porter's (1985) theory, it is perceived that the competitive advantage of a company is observed as the solution that it obtains to surpass the production costs, generating value for the

customers and making them prefer the products of this one to the detriment of the competitors' products. This author defined two main drivers for the creation of the competitive advantage: cost and differentiation. So, the value chain is the instrument used to maximize this competitive advantage.

Consequently, a value chain of the Passodado was designed with its essential activities to understand how it generates the profit margin of its products.

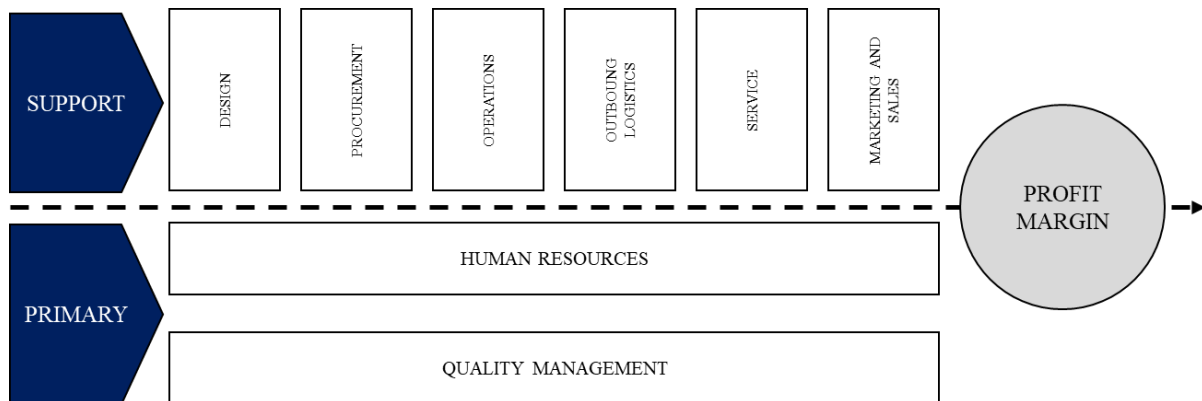


Figure 5. Value chain of Passodado

Source. Self-developed based on Porter (1985)

In each of these activities the associated "value" and "cost" elements are analyzed.

5.3.1. Design

As it was already mentioned, the solution found to meet the confront of imitations to be face of the lack of patent effectiveness, in the shoes fashion, world was one of the biggest challenges for the company. However, the Passodado looks at this apparent powerful threat as a motor for the pursuit of the constant evolution of its philosophies and models.

Thus, there are values and maxims always present when the company thinks in new products: (a) short life cycles; (b) zero stocks policy; (c) focus on innovative design and appropriate market trends; (d) keeping traces of its DNA in the marks; (e) increasing the variety of models; (f) increase the visibility of the marks.

- a. The idea of creating two collections per year is no different than most brands, but in fact it is the one that best suits the company. Firstly, because it distinguishes between the hot and cold seasons of the year and the second because, since the production process is subcontracted, there is no total control in it, taking about 90 days to be produced by

motivating adjustments along the way (as will be explained posteriorly). That is, this process of model design is cyclical. Sometimes there are exceptions of this cycles when the clients request intermediary collections that are negotiated with them;

- b. The zero-stock policy is also a lever for the brand image in constant innovation: customers are not faced with the same products on sale in different years;
- c. The visual part is obviously one of the main ones, if not the main advantage in the design of the models. Usually the attractiveness of the shoes depends first on how much it visually satisfies the consumer. This is not only the good taste of the designer because this feature is subjective and personal. For this reason, Passodado makes a point of being attentive to the most current designs and trends in the fashion world. The designers of the company visit the European fashion capitals (Milan and Paris) every six months and the fashion fairs of Garda (Italy), Madrid (Spain) and Guangzhou (China) and other countries;
- d. Despite the constant innovation in the design of new models, to emphasize the name of the brands and to ensure that their continuity is recognized, when the designers are making the models, they always apply two key concepts: simplicity and sophistication, that is, lines are not overly elaborated but they have a touch of class and glamor;
- e. Strategically and throughout the collections, Passodado has been increasing its range of products to meet the needs demanded by the different target segments, which it has also been expanding;
- f. The bet on Portuguese footwear is a response to the requests from foreign markets, and brings with it the leverage of visibility and brand prestige. Footwear produced in Portugal is known for comfort and quality, as already mentioned.

To summarize, based on all the previous information, the Passodado uses a more or less equal process for all collections: (1) design of the models and (2) allocation in the brand portfolio (Lapierce, Uah! Or Coolsleep).

5.3.2. Procurement

All production is contracted by outsourcing services. Some models are produced in Chinese factories and others in Portuguese factories, so it is obvious that the logistics of entry to the warehouse of Passodado is different for each of these productions. This is because the Chinese merchandise must pay customs duties at the entrance of Portugal.

However, there is a common disadvantage when outsourcing production to any country: there is no guarantee that production will be exactly the same as the prototypes that were traded. This led the company to form a multidisciplinary team (the designers and an expert in textile materials and raw materials outside the company) to ensure that quality standards are effectively followed. This team visits the factories once before the start of production and again when the goods are finished and ready to be sent to the Passodado warehouse.

The cost at this stage is associated with the cost of the production, which represents approximately 79,7% of the total billing for 2016. This percentage includes all transportation costs from the manufacturer to the company's warehouses and all customs and community taxes.

Table 4. Procurement costs

Type of expenditure	Cost (€)
Products	2 873 078,00 €
Total	2 873 078,00 €

Source. Self-developed based on data provided by Passodado

Finally, at this stage the acquisition process is rigorous and requires more money and time, especially when deciding on which supplier to produce each model. This is because when a close and lasting relationship with the supplier is built, there is less likelihood of errors and failures with the goods. In the future, these possible mistakes can be reproduced in high costs and cause customer and consumer dissatisfaction.

5.3.3. Operations

Since 2011 sales have been increasing and therefore the volume of goods is obviously growing and in 2015 Passodado did not rent only one pavilion, but three. In that year, it decided to end these agreements and moved to a bigger one than the previous three together (with 1000 square meters). This decision has put an end to the extraordinary costs of logistics and maintenance between warehouses and disorganization. However, and once again, in 2017 the space is already small and it starts talking about a possible second rent.

The cost of operations is related to the rental of the warehouse, maintenance and the salaries of the workers. In this case, the total value of the company's wages is used, since all the workers collaborate in the warehouse activities (because it is a small company). Thus, in the calculation

of the profit margin, the wages are not added in the other activities. All this accounts for about 5,3% of annual revenues, as it is possible to understand in the following table.

Table 5. Operations costs

Type of expenditure	Cost (€)
Warehouse income: 1267,17 € per month	15 206,04 €
Wages	163 771,00 €
Conservation and repair	11 335,00 €
Total	190 312,04 €

Source. Self-developed based on data provided by Passodado

The value element: the idea of constantly changing warehouses may not seem the best since it involves expenditures with the changes and adaptation in the work and still requires a reorganization of the warehouse. But, in an industry as inconstant as the fashion industry, the CEO of the company prefers not to run the risk of buying a warehouse that may, in the short term, be inadequate. But this is undoubtedly an option to consider as soon as the company sees the most solid and mature brands in the global market.

5.3.4. *Outbound logistics*

The transportation of the shoes for the clients of the Passodado of the Leiria district is made by the company itself up to approximately 300 pairs. However, due to the reduced number of employees, the lack of larger vehicles and the low costs in the transportation services by third parties, for the larger volumes or for the orders of the customers outside this perimeter, Passodado outsources other entities. The company works with three logistic operators: CTT (Iberian transport by land), DHL (transport to the remaining countries by land and airplane) and Rhenus (transport by sea).

Passodado recently began to increase its sales to small retailers, thus increasing profit margins, since there are fewer intermediaries in the process. But this situation has created a logistical problem since these clients have warehouses with limited capacities and therefore they prefer to split the reception of goods in different stages. That is, the volume for each delivery decreases and in the end, there is an increase of the transportation expenditures reflected in the unit cost.

This strategy is still recent and it is more widely used in the Iberian Peninsula. But, if the company considers extending it to other European countries, it may be interesting to think about

to have another warehouse in the centre of this continent. Obviously, this can only happen when and if the sales are sufficient to dilute the fixed costs associated with this hypothesis.

Alternatively, it can change the export mode. That is, with rare exceptions, sales are made through the company's own employees or through local agents who are responsible for attracting new customers, for sale and after sales. These agents receive a commission between 6% and 8% of what they can sell. The disadvantage in this process is that they do not have the capacity to store the goods and so they go directly from the Passodado infrastructures to the customer. In some countries, it may make sense to replace these agents by distributors (controlling logistics costs). The topic of entry modes in foreign markets was discussed in the literature review and it will be explored later in the discussion of how internationalization will be done for Mexico.

The cost element here includes transport costs (from Passodado to the client), agents' commissions (for the purpose of the calculation it is used the value of commissions in 2016 and not their percentage because there are sales made by the employees) and other outbound logistics costs. In total, outbound logistics costs represent 2,85% of total sales per year.

Table 6. Outbound logistics costs

Type of expenditure	Cost (€)
Transportation	51 084,00 €
Commissions	36 711,18 €
Others	14 595,13 €
Total	102 390,31 €

Source. Self-developed based on data provided by Passodado

The value is perceived by the importance of delivering the merchandise when the customer wants. The actual customer era has new assumptions and the dissatisfaction can be generated if the delivery is done before the need or if it is done after the need. In this way, it will be an advantage to monitor the response time to each market.

5.3.5. Service

The trade of this company is divided done by the service to the distributors or the sail to retailers (B2B).

The B2B service requires, as it was already mentioned, the delivery of the merchandise at the moment that the customer needs it, (customer power is increasing: "Now!", "For me!"; "I

know!" - IWWIWWIWI); the after-sales service must be effective (for example, when the client detects defects in the shoes, Passodado analyses the complaint, exchanges for a new one as soon as possible or, if it is not possible, returns the money); and promotional materials at points of sale should be attractive.

Passodado does not sell directly to the public and therefore the contact with the final consumer is minimal. This contact is made only through social networks (Facebook and Instagram) that allows the company to know the final consumer, his needs and clarify any doubts.

This activity requires few resources and therefore its reflection on costs is almost insignificant. Services provided in foreign countries are shared with the distributors and agents present in them who take responsibility for supporting clients.

This company has a very small size and it allows the quite close relationship with distributors, agents and retailers. It is easier to ensure their loyalty by demonstrating an adequate level of service. In the end, this relationship may be more worth than a relationship-driven price.

5.3.6. Marketing and sales

For a company like the Passodado it is difficult to trace a precise model of this department. There are two particularly important axes: promoting and following trends.

In the first line, there is an effort to promote the brands and their articles near to the retailers and final consumers. The company participates in international footwear fairs - in Madrid, Barcelona, Bilbao and Poznan - where it exposes the articles and introduces to the clients and Prospects. It also makes catalogues whenever it launches a new collection and sends a printed copy and one by email to each client. In addition, the company also makes billboards and puts them in prominent areas, such as the highway that links Porto to Lisbon. Less expensive is the advertising made through the internet (website and social networks) and it is quite assertive. It would even be interesting to bet on opinion leaders to increase demand and brand recognition.

On the other axis, trends that should be anticipated as much as possible and that should always be present during the design of shoes and are particularly important in the textile fashion industry. As previously mentioned, to collect them, designers regularly visit international fairs, fashion capitals and other countries. For example, in 2017 Vitor Frazão visited Africa because he felt that the standards of this continent would be a must in the fall/ winter collection.

Thus, marketing and sales costs are associated with international fairs (0.64%), commercial trips (1.36%) and advertising (0.5%). These expenditures make a total of (2.5%) of the annual revenues.

Table 7. Marketing and sales costs

Type of expenditure	Cost (€)
International Fairs	23 000,00 €
Publicity and promotional material	17 572,00 €
Commercial Trips	48 885,79 €
Total	89 457,79 €

Source. Self-developed based on data provided by Passodado

Marketing is essential to the activity of this company and, therefore, as a driver of value it can be identified the perception that Passodado cannot compete exclusively with the price but also with the high level of quality. Lastly, and again mentioning, the imitation that often exists in this sector due to the lack of patents makes marketing and sales even more valuable to the company.

5.3.7. Margin billed up decomposition

In conclusion, at this moment the greatest weight in the cost structure is related to the costs of the materials sold. Therefore, it should be noted that the efforts must be made to minimize them. For this, Passodado can try to renegotiate the prices of its orders with suppliers or even look for another ones. In addition, if the company could do this, it could use more resources in others indispensable activities like design and marketing, adding value to the core areas of the value chain. This may, of course, bring advantages to the profit margin.

Table 8. Decomposition of the margin billed up

Total revenues	100,0%
Products cost	79,9%
Gross Margin	20,1%
Outbound logistics and commissions	2,9%
Marketing	2,5%
Operations	5,3%
Total	9,5%

Source. Self-developed based on data previous data

5.4. Swot Analysis: Passodado strategic position

This analysis helps to understand how the company can turn threats into opportunities, devalue the power of weaknesses and maximize strengths.

Strengths	Weaknesses
<ul style="list-style-type: none"> • International and dynamic team; • Association with the Portuguese production (international recognition); • Portuguese and Chinese collection to respond to the consumer main needs; • Great reputation of the CEO to customers. 	<ul style="list-style-type: none"> • Large dependence of the 2 largest customers represent (25% of annual turnover); • Consumer indifference to the names of designers; • Customer cannot understand the difference between the two productions without experimenting; • No direct relationship with the client.
Opportunities	Threats
<ul style="list-style-type: none"> • The growth of the shoes consumption and a post-crisis period in world provide a huge opportunity for Passodado to internationalize its business to the emergent markets; • Consumption shift; • Global consumer preferences. 	<ul style="list-style-type: none"> • Downward price pressure (eastern companies); • Excessive amount of customs duties for Chinese production; • Increasing number of new players in the marker. • Markets geographically disperses.

Figure 6. SWOT Analysis of Passodado

Source. Self-developed based on data provided by Passodado

Taking into account that the footwear sector has already been growing and growing more and better, it is not enough to compete for price, but also for quality design, etc. Therefore, partnerships can add a great value. For example, the association with known clothing brands is a possible lever: when a consumer buys clothing of a brand, the consumer can receive a discount for a pair of shoes of Passodado; on the label of the cloths can have a QR code that forwards the consumer to the shoes of the Passodado’s website that, theoretically, combine with the piece of clothing, etc.

Online sales through the website could also bring a positive impact: on the profits (since there would be no intermediaries in the process and the profit margin would be higher); brand reputation (further developing a tool for interaction with the end consumer and facilitating the knowledge of the same) and in the expansion of the company (brands with online sale can be acquired by citizens of any part of the globe).

The pattern of well-defined and distinct markets in the world has been replaced by increasingly the global markets, where traditional products give way to those that are searched transversally. Therefore, brands like Lapierce, Uah! and Coolsleep can invest in these products in order to meet the common needs of the countries where they are present and thus they will not need adaptations.

Passodado categorizes its products through the brands it has and their characteristics. However, there is not a clear distinction when cataloguing products produced in Portugal and China. The suggestion is simple but helpful: in each of the three company brands, a Premium follow-up could be created for the shoes that are produced in Portugal, emphasizing the theme of the extra quality in them. The segment produced in China could remain the “normal” segment of the brands.

The signature of a known internationally designer in a different product line can also bring brands recognition and can help them to compete worldwide.

The bet on innovation, design and branding must remain, helping to overcome the theme of imitations and competition for price.

Of course, as it was already perceived by the company, the internationalization is the key for to overcome the bigger dependency of the two biggest clients of the organization and it should try to engage more and more in this process by exploring new markets.

The emerging markets are becoming increasingly attractive because of their growth and the impact of globalization. Many of them are countries with a very high number of citizens, divided fundamentally into two classes: one with high economic power (focus of Portuguese production) and the other with limited economic power (focus of Chinese production). They can then represent an important lever for the Passodado.

5.5. External environmental: Mexico

To understand the target country, Mexico, it was important to develop a PESTLE analysis that helps to identify trade opportunities and possible local challenges to face, and another analysis to the footwear industry in this country to realize how it behaves.

5.5.1. PESTLE Analysis

Political

CIA (2017) explains that Mexico is a Federal Constitutional Republic with 31 states and a Federal District, the capital city. The Head of State and Head of Government is President Enrique Peña Nieto (since December 1, 2012). The president is directly elected by popular vote for a term of 6 years.

The President has implemented a legislation on energy, finance, tax and telecommunications to improve the competitiveness and growth of the Mexican economy, however in 2015 the statistics were much lower than expected, according to the Santander Trade Portal (2017).

In addition, the current government has implemented measures to combat violence and drugs. An example of this was the arrest of Joaquin "El Chapo" Guzman, one of the most powerful drug traffickers in the world.

Economic

Mexico is considered the 5th largest emerging economy with a strategic location because it boundaries the United States of America (which has influence in the judicial review of the legislative acts of this market). According to CIA (2017), the second largest economy in Latin America in numbers:

- GDP per capita: \$18,900 (2016);
- Inflation rate: 2,8% (2016);
- Unemployment rate: 3,9 in 2016 (improved by around 0.5% compared to 2015);
- Foreign domestic investment (direct): \$473.5 billion in 2016 (much less than in 2015);
- Imports: 387.4 billion (2016); exports: 374.3 billion (2016); deficient trade balance.

A manufacturing-oriented economy with more than 90% of trade under the free trade agreement still shows a highly uneven income distribution (nearly half of the population is considered poor), CIA (2017).

In 2014, the automobile industry proved to be highly important for the economy of this country, considered the largest producer of cars in Latin America.

In 2015, Mexico was challenged by the world's oil decline and simultaneously it reduced the production and exports of this raw material, which had a 38% impact on oil revenues.

More recently, in a declaration, Angel Gurría, General Secretary of OECD (2017) admitted that Mexico is going through a difficult economic period due to falling oil prices and the impact of USA restrictive policy.

However, in the same declaration, Angel Gurría also said that the prospects are encouraging the country and by 2017 the economy is expected to grow by 3,2% thanks to the rising of the domestic demand, the improvement of non-oil exports and the near-constant inflation. Thus, the productivity in energy, financial and telecommunications sectors has increased significantly. All of these are good news for the Latin American country.

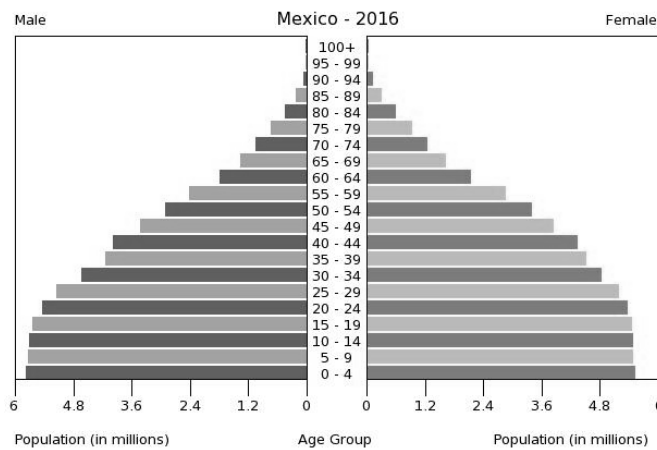
Social

Mexico has approximately 124,6 million residents, according to CIA (2017). The same source also reveals that most of the population lives between the states of Jalisco and Veracruz. The capital, Mexico City, is almost a quarter of the population of the country.

The Mexican population has a growth rate of 1.1%, with most people between the ages of 25 and 54 and the average age being 28 years old by 2016. The average life expectancy is 73,1 years for men and 78,8 years for women.

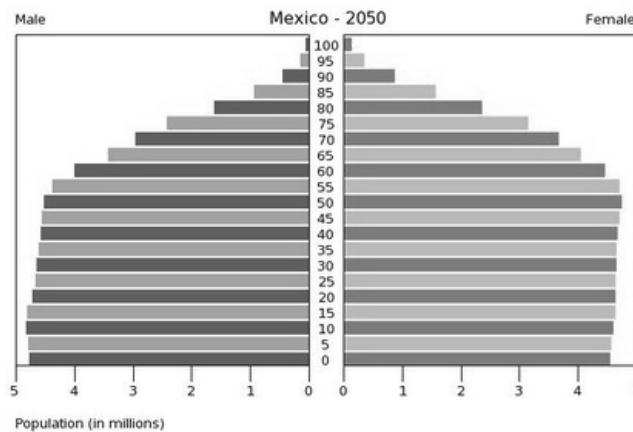
The change in the paradigm of the ages distribution of the Mexican population, as the following two graphs show, will certainly have strong variations in the market of the commerce.

Graph 4. Mexico age structure in 2016



Source. CIA (2017)

Graph 5. Mexico age structure predicted to 2050



Source. CIA (2017)

In addition, the literacy rate registered in 2015 was 94,5%, but in 2009 there were still 5% of child labour (between 5 and 14 years).

Technological

The CIA (2017) also reveals that there is still a relatively low percentage of Internet users in Mexico, about 59,5% registered in 2016. This quickly points to the need for investment in this area. However, e-commerce is growing fast.

The good news is about the products manufactured in Mexico and then placed in American production chains, giving them greater recognition and increasing their demand. In addition, the automotive sector has been looking for the production made in Mexico, which since 1990 produces for major brands such as BMW and Mercedes Benz.

Legal

According to the The Heritage Foundation (2017), property rights protected by the modern legal framework present the evident weaknesses of the judicial system. This is because, often bribes are requested by officials and even bureaucrats; damaging companies and individuals who do not want to compromise with this system.

According to AICEP (2017), the creation of a company takes approximately six days, however the licensing requirements are more time consuming and it delays the process of activity initiation and have no minimum capital required.

Environmental

Again, the CIA (2017) showed that this country has about 1964375 km², 170 km² are considered natural protected areas. The climate is considered diversified, varying between tropical and desert. The following objectives were set for 2012: by 2024, 35% of the used energy must be generated from clean energy sources and, by 2050, there should be a 50% reduction in CO₂ emissions (from the figure recorded in the year 2000).

5.5.2. Footwear industry in Mexico

There are several advantages to entering this market, such as the size, the large population, the proximity to the USA, the growing integration with North American production chains, the free market trade agreements and the encouraging economic prospects.

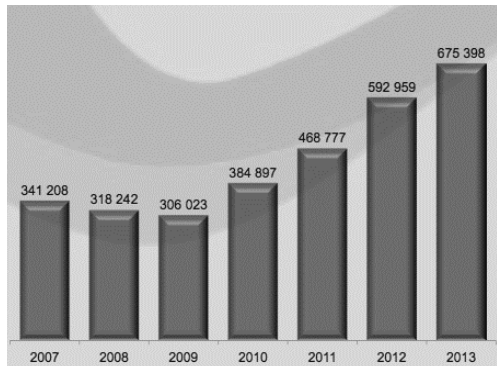
According to what the Instituto Nacional de Estadística y Geográfica (INEGI) (2014) could calculate with the economic censuses of 2009 the footwear industry employed approximately 113 thousand people directly (2,4% of the total occupation of the manufacturing industries of the Mexico) and 17 thousand people indirectly (with the industry suppliers).

The same census also found that the most important municipalities (percentage of people employed at national level; percentage of national production) are Leon (50,6%; 57,8%), Guadalajara (9,9%; 10%) and San Francisco del Rincón (7,5%; 6,7%) (attachment 4).

In 2012, the exports of footwear from Mexico accounted for 0,5% of world exports (Portugal had a weight of 1,8% in this statistic and China was the leader with 39,4%) (attachment 5).

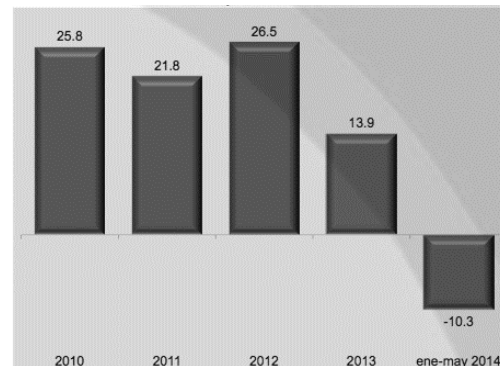
In Mexico, from 2010 to 2012 exports in the shoes sector increased by 20%, however, from the first 5 months of 2013 and 2014 they decreased by 10,3%, as shown in the following graphs:

Graph 6. Evolution of the exportation of shoes from Mexico (2007-2014) (thousand dollars)



Source. INEGI (2014:19)

Graph 7. Evolution of the exportation of shoes from Mexico (2007-2014) (annual percentage change)



Source. INEGI (2014:19)

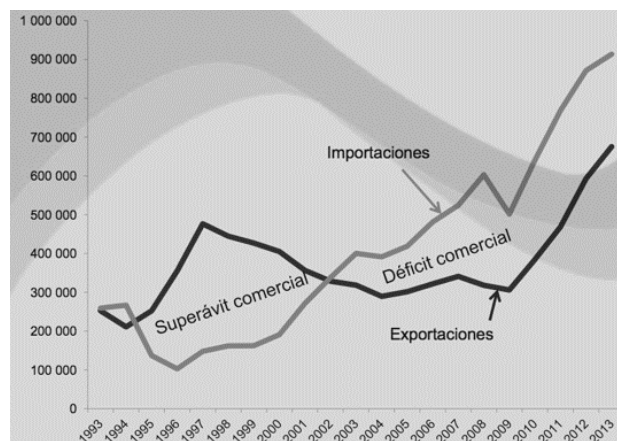
The shoes with the upper part of natural leather (for the construction or specific sport modalities) still represent the majority of the exports, 74,3%.

Regarding imports, based on the graph in attachment 6, it is perceived that they increased from 2010 to 2013. The most heavily imported types of shoes are footwear with superior textile, footwear with the top of natural leather and footwear with sole and rubber or plastic upper. In 2013, these 3 types totalled a weight of 92,2% in footwear imports in Mexico.

The imported footwear had a majority origin in China (35,4%) and Vietnam (29,9%). Portugal ranks 10th in the list of leading exporters to Mexico with a percentage of 0.6% (attachment 7).

In the end, the Mexican trade balance in the footwear industry shows an insufficiency, as it is shown in the following graph:

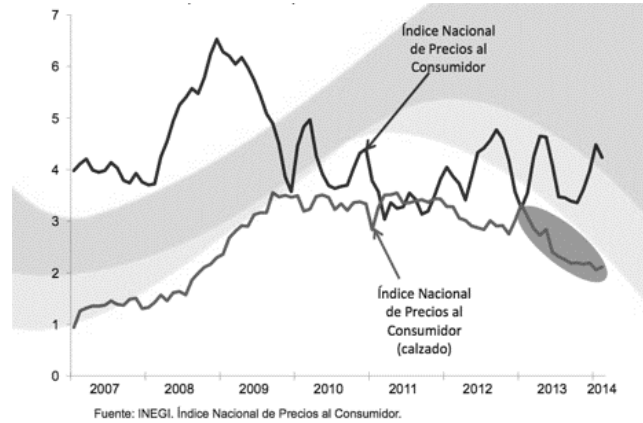
Graph 8. Evolution of the exportation and importation of products of shoes (thousands of dollars)



Source. INEGI (2014:26)

The inflation explains the changes in the national consumer price index which normally increases at a higher rate than the general price of footwear as it possible to see in the following image:

Graph 9. Inflation (percentage variation regarding the moth of the previous year)



Source. INEGI (2014:13)

However, the different types of footwear have suffered different price variations all over time, and by 2011 the sneakers values were significantly higher than the rest, but they were exceeded by the men's shoes on a large scale (attachment 8).

6. DISCUSSION AND FINDINGS

After doing a scanning of the characteristics of the company, to understand the strengths and weaknesses of the same, their experience and ambitions, and after to understand the market in which the project will be unrolled, it is essential to respond to the remaining objectives, which are:

- a. Select the strategy to enter the Mexican market;
- b. Define and present a plan to implement the strategy.

The first objective will be based on the theory developed by Root (1998) about entry into foreign markets, described in the literary review previously presented. The second one is developed following the information collected so far to define the strategy that the Passodado will use in a 3-year project.

6.1. Choice of an entry mode

6.1.1. *The choice between export, contractual or investment entry modes*

Following the thinking of the author Root (1998), there are two factors to consider when choosing the mode of entry into a foreign country: internal and external factors. Thus, it was important to create a structure for the basis of this analysis:

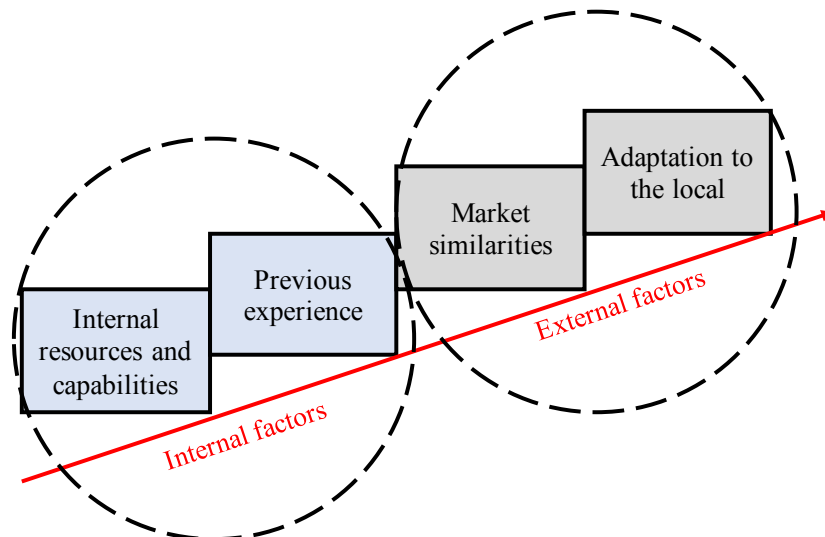


Figure 7. Variables to consider for implementing the entry mode

Source. Self-developed based on Root (1998)

Passodado is a recent company, but it has already reached a considerable extent in foreign markets. Its internationalization has always been done through import and export. The export

theme has been developed through different ways of direct contact, depending on the characteristics of each country: by the relationship with retailers, manufacturers, associations and agents.

The direct export sales from the company to retailers in foreign markets are made exclusively in Spain, because it presents many synergies with the national market, especially in the culture and outbound logistics. In Spain, there are also some sales done by distributors. And in the remaining countries, sales have been performed by local agents, facilitating the entry process and customer knowledge.

The decision to enter a market like Mexico is more delicate because there is no previous experience or knowledge of the market (or the continent, Latin America) by the company. That is, despite the success story of the international relations of the Passodado (focus on Europe), this cannot be a total reference to enter in a so different country.

It would be risky for this SME to think about direct sales to the public. Firstly, because it never did it and secondly because the company has limited resources and capacities: just 6 employees and a turnover of less than 4 million euros. Finally, and of course, the process of establishing a Portuguese SME in Mexico is much more complicated than in the European countries.

Thus, according to Root's division (1998), it does not make sense to think of investment entry modes, since they require an investment in production units in the foreign country, which is not compatible with the objectives and strategy of Passodado.

Despite of this, being a company with limited resources, even in the country of origin, contractual entry modes do not seem to be a hypothesis, since they happen when there is sharing of technology and/ or human resources. In addition, although the company vision to create long-term relationships, it can only invest its skills when it knows the customer better.

Finally, the export seems to fit perfectly in the company's intention to take their shoes from Portugal to the target country, with reduced risks.

6.1.2. Direct or indirect export entry modes

After realizing the most appropriate way for the entry of the Portuguese company in Mexico and again based on the theory of Root (1998), it is important to understand which export method to use.

In the literature review, it was mentioned the two modes of exportation: indirect (when the products are sold by intermediaries – without intervention of the company - in the target country with minimal costs, but without abortion of knowledge of the country and clients, making the internationalization process much more difficult); and the direct (the exporting company has control of the marketing plan, the focus is on its products and it can absorb knowledge of the final consumer, but with the disadvantage that the initial cost is higher).

However, in the particular case of Passodado, its mission demonstrates the importance of giving voice to the customer "*Having brands focused on the consumer's vision and recognized worldwide*". So, the indirect export option is automatically excluded. It does not make sense to use a mode that does not allow the collection of information about the consumer. In the limit, the company would be selling its products without responding to the market needs and at inappropriate prices.

6.1.3. Which type of direct export entry mode

Considering that the export mode to be used is the direct one, it is important to select whether it will be through direct branch/ subsidiary, agent, distributor, online sales or other.

Previously, two modes of entry into foreign markets (contractual entry modes and investment entry modes) were excluded and one reason was the lack of company resources, both financial and human. Also, selling through direct export by direct branch/ subsidiary would require that Passodado have a marketing unit in Mexico. That is, and of course based on the earlier argument, this entry mode should be quickly excluded.

Having said this, after rejecting various forms of entry into Mexico based on Passodado's resources, mission and strategic objectives, it is important to create an approach that will help the company to choose which process to use among the others.

To be analysed are the direct export modes through: online sales, agent or distributor. Each of these modes has its advantages and disadvantages and there are ones that adapt to one type of country and others to another.

Online sales

The online sales have never been tried by Passodado, however they are one of the possibilities open, since it has been thinking about the direct sales. In this model, there are no commissions

or intermediaries, which contributes to a much more significant profit margin. However, this mode of entry requires an extra administrative work by the employees of the SME. Without an external body, there is more control over the service provided, but it also hinders the level of service: product information, outbound logistics, after-sales service, etc. Without a local intermediary help, knowing the Mexican shoes market and regarding the cultural and physical distance between Mexico and Portugal, it is more difficult to Passodado to understand the final consumer and meet their needs. Furthermore, online sales in the footwear sector still present a great risk, for example, when the sizes are inappropriate for the buyer (since the shapes could change depending on the type of shoes and supplier). So, the exchange system will probably be another barrier to the logistics department.

Local sales agent

Agents are paid through relatively low commissions (6% to 8%). They do not buy the merchandise, they only operate as a bridge to connect the exporter to the importer. They do not need to invest in the products and they receive a quantity of money based on the quantity that they sold, with few expenditures. Therefore, they do not have significant risks and they are much more supply-side oriented. Consequently, the ownership of the shoes passes directly from Passodado to the retailer. This factor brings several advantages to the company, both in terms of control and quality of service provided, and in terms of branding.

Local distributors

Distributors are like Passodado customers who buy its products and sell to the retailers. They offer the great advantage of having a storage space where stock management is done closer to retailers. In addition, this type of intermediary is also culturally close to the final consumer, helping to improve the knowledge of the exporting company about him. The risk of this mode of entry is the poor choice of the distributor, who may question the company name in Mexico market. Therefore, these distributors are usually chosen on the basis of a strict criteria: geographical proximity of the retailers and consumers, market knowledge, prosperity of services provided, etc.

Thus, the final selection methodology to choose between these three modes must be linked with the one provided in the figure 6 (Variables to consider for implementing the entry mode) and have three axes: characteristics of the model, characteristics of the Mexican market and the

national and international experience of Passodado. Only then is it possible to develop a concise implementation strategy with effectiveness and efficiency.

In this way, it was analysed various geographical, personal and economic indicators of the footwear sector of each country where the company's clients are during the year 2016. Then it was calculated the weighted average of these indicators with the weight of each country in the total sales of 2016. The results obtained formed a following list of indicators of a fictitious market "Middle Market". More details results can be found in attachment 9.

Table 9. Comparison between indicators of Middle Market and Mexico

		Middle Market	Mexico
	Year	Data	Data
Geographic²			
Total area (sq km)		161963	1964375
People and society³			
Population	2017	16388828	124574795
Median Age (years)	2016	42	28
Urban population	2017	66,40%	79,8%
Literacy	2015	95,82%	94,5%
Internet users	2016	71,15%	59,5%
Economic⁴			
GDP per capita (\$)	2016	\$ 30,00	\$ 18,90
Inflation rate (consumer prices)	2016	0,83%	2,8%
Distribution of family index (gini index)	2015	34,23%	48,2%
Unemployment rate	2016	11,42%	3,6%
Ranking (with 190 countries)⁵			
Ease of Doing Business Rank	2017	28	47
Protecting Minority Investors	2017	65	53
Paying Taxes	2017	39	114
Trading across Borders	2017	3	61
Enforcing Contracts	2017	23	40
Footwear Industry (million pairs)⁶			
Consumption	2012	87	299
Production	2012	64	254
Exportation	2012	73	22
Importation	2012	96	68

Source. Self-developed based on data provided by the sources in the foot notes

With this approach, it was possible to draw observations, ideas and understandings for the entry into the Latin America country.

² Source: Central Intelligence Agency (CIA) (2017)

³ Source: CIA (2017)

⁴ Source: CIA (2017)

⁵ Source: The World Bank Group (2016)

⁶ Source: World Footwear (2012)

The online sales have not yet been experienced by Passodado. However, it is a subject that is being thought by the company. The outside company that was hired to develop the website is already generating the shopping section within it. It is estimated that in the next 6 months the online sales are already taking place. This tool can serve not only for the domestic market but also for the rest of the world.

As in Mexico only about 60% of the population uses the internet, this mode of entry should not be understood as fundamental. It can be thought complementary to the sales process to use, to ensure that more population is covered.

The difference between the Middle Market and Mexico is quickly felt by the giant difference in the geographical area and the population. Passodado is not accustomed to dealing with markets of this size and therefore the strategy to be defined on geographical coverage should focus on, for example, one city and over time try to expand to the other cities. In this way, the SME shoes company will have more control in its internationalization process and will be able to adapt gradually to the requirements of the market (attachment 10).

The cultural and physical difference, as it has been reinforced, is a great barrier that in no way favors the entrance of Passodado in Mexico's market and much less favors a direct way of entering between the company and the retailer/ final consumer. Thus, it is extremely important to have a local intermediary to facilitate this activity.

A distributor would be a plus for Passodado mainly because, since it had a place to store the merchandise, the shipping costs and deadlines between the customer's order and delivery would be significantly reduced. Furthermore, in the case of Mexico, a country with several small retailers, whose orders will be fragmented, having a distributor with place to store the goods would streamline the relationship with customers.

In the case of choosing an entry mode through a local agent, the control over the marketing mix is made by Passodado, which is very important to the start in a new market. Only in this way it is possible to pass to the target country the image that Passodado wants, building a solid base among retailers and final consumers.

Another important aspect is the need for an intermediate element that is focused on supply and does not take risks when selling large quantities. The agent does not have to use his financial

resources (or uses few resources) for the sales, therefore and because he does not incur in greater risk when increasing sales, he will have more interest in doing so.

In short, both online sales and distributors and agents have their advantages and disadvantages at the entrance of Passodado in Mexico – a country with a large potential since the consumption of shoes is much more bigger than the consumption of the Middle Market. Thus, the construction of the table 11 helped to understand the critical success factors for entry into Mexico which are:

- a. Control of the transportation costs: small retailers make fragmented orders;
- b. Energetic approach next to the retailers: generate demand and not only answer to the existing demand;
- c. Control of the risk: The initial investment and operating risks should be as low as possible;
- d. Control of the marketing mix: to transmit a controlled message to ensure a correct capture of consumers.

For the construction of the table 11, the variables that were previously identified as important for the choice of entry mode were analysed and classified: internal resources and capabilities, previous experience, market similarities and adaptation to the local.

For the assessment between the Middle Market and Mexico, are identified the advantages (in green) when the entry mode is suitable for a target market characteristic, and the disadvantages (in red), when entry mode is not adequate with a characteristic of the target market.

Table 10. Selection of entry mode: summary

		Online Sales	Distributor	Agent
Internal factors	Internal resources and capabilities and previous experience	<p>When there is high % of internet users and when the people have a cultural openness to buy shoes online</p> <p>1. Initial investment: moderated - development of the website</p> <p>2. Previous experience: none</p>	<p>When there are a great physical and cultural distance in relation to the home country</p> <p>1. Initial investment: limited/ moderated - searching costs</p> <p>2. Previous experience: Portugal</p>	<p>When there are a great physical and cultural distance in relation to the home country</p> <p>1. Initial investment: limited - searching costs</p> <p>2. Previous experience: Portugal, Spain, Poland, Angola</p>
	Geographic distance	<p>It is impossible to have a store for the online orders in Mexico because of the costs, so the transportation costs will be very high (by airplane).</p>	<p>The logistics in Mexico and the post service are a responsibility of the distributor: loss of control.</p>	<p>There isn't storage capacity.</p>
External factors: Market similarities and Adaptation to the local	Economic distance	<p>The GDP per capita, inflation rate and gini index have values have much higher values in Mexico, which means that the company must concentrate its efforts on the population with greater economic power to minimize the impact of the difference and instability economic.</p> <p>To minimize the risk of the currency, the company should work with the help of a financial insurance entity.</p>		
	People and Society distance	<p>Reduced number of internet users.</p>	<p>Need for a local intermediary due to enormous cultural differences.</p>	<p>Need for a local intermediary due to enormous cultural differences.</p>
		<p>The high population density to which Passodado is not accustomed implies a planned strategy:</p> <p>1- focus on a city; 2- With the evolution of internationalization, reaching more cities / people.</p>		
	Ranking distance	<p>N.A.</p>	<p>Need for a local intermediary due to the difficulties of doing business.</p>	<p>Need for a local intermediary due to the difficulties of doing business.</p>
	Footwear industry distance	<p>Shoes of Passodado's brands available to more consumers, everywhere and with easy access.</p>	<p>It has storage capacity; Sales made by a local intermediary help in adapting to the market;</p> <p>Approach focused on existing demand.</p>	<p>Sales made by a local intermediary help in adapting to the market; The agents' mentality is to sell as much as possible, responding to existing demand and generating more demand;</p> <p>There aren't storage capacity.</p>

Source. Self-developed

In conclusion, online sales should not be a fundamental element, as it was previously explained, but as an instrument that supports the sales and marketing departments. It allows the company to reach more consumers, in a faster way.

The distributor has advantages because it allows the control of the transport costs, however, its way of dealing with the sales does not seem to be the best one to increase the demand. That is, the distributor neglects three of four of Passodado's critical success factors: energetic approach next to the retailers, control of the risk and control of the marketing mix.

Finally, analysing the characteristics of the sales agent, it presents a sales-oriented approach to response and creation of demand; allows control over marketing in Mexico; and even has lower market demand costs than the distributor (since it does not require warehouse visits), and has the great advantage of no product ownership change. All this enables the reduction of the initial investment and the operating risks. That is, the entry through a local agent shows more advantages when entering the Mexican market.

However, with the development of the operations, the need for storage may be essential, since it could minimize the transportation costs and reduce the customer waiting time for the products. If this condition is met, distributors will be the alternative or the complement to the sales in Mexico.

6.1.4. Criteria for the agent selection

In order to not create friction between the various distributors and/ or agents, it is important that the geographic areas covered by them are well delineated and that there are no intersections. Each element should have a geographic exclusivity. Therefore, the importance of having a good local agent is even more relevant. As already mentioned, the poor service provided by the local entity that represents the Passodado in a foreign country can be destructive to the activity in that country.

Given this, the characteristics to take into account for the selection of agent in Mexico should be:

- a. Experience in the footwear market in the target segments and country: portfolio of clients concentrated around the area of interest;
- b. Agents with exclusivity availability under the Passodado brands (preferred); it is important because they cannot be competitors of Lapierce, Uah! or Coolsleep.

6.1.5. Geographic coverage

The target market has a very high poverty rate, almost 50% of the population. According to the interpretation of the high values of the urban population rate and the Gini index, it can be deduced that the urban areas are those that present greater economic power.

Most of the population lives in the centre of the country, almost a quarter in Mexico City, so entry into the country must be done through this zone.

Passodado must manage the evolution of the businesses in this market according to the results that it obtains. However, a basis for the expansion strategy may be to follow population density (attachment 10). Never forgetting that the experience gained in each city should also serve to understand the best way of entry into the following ones.

6.2. Implementation plan

Now, there are information about the the internal environmental of the company, the way it positions itself in the different markets, the way of entering the Mexican market - through direct export by an agent. So, it is crucial to define the strategy to be used by Passodado in Mexico.

The company needs to understand and plan how will be the entrance and the permanency in the target country. This approach will be related to three years (2018 to 2020) and has four key variables: human resources, time/ moment, shipping products from Portugal to Mexico, monitoring and financial resources.

6.2.1. Human Resources

The mode of entry through the direct export by a local agent has the great advantage of requiring few human resources of the Passodado.

In order to ensure that the exchange of information between the agent and the company is not dispersed and does not change though the flow, Passodado must select a human resource in Portugal to communicate with the Mexican agent. That is, the agent must report to a single person in the company and that person directs the request/ information to the correct department where it will be processed. Again, the opposite circuit of information will be: department, company human resource and, finally, agent.

Currently, according to the CEO, in the sales to international markets almost all agents already report only to one person of the company (Mr. Pedro Vieira). However, as Pedro is now focusing on the design and in the interactions with suppliers, he is passing the responsibility of the international markets to Mr. João Caçador, the team's most recent member. Thus, in a short time, the Mr. João Caçador will be responsible for the management of the Spanish and Polish markets and Mr. Pedro Vieira will devote himself to the remaining functions. The Angola's market is the total responsibility of the Mr. Vitor Frazão.

Given that Mexico is a very different market and far from those that Passodado is accustomed, in beginning, it is important that the company's human resource be a person with experience leading the operations in foreign countries. Mr. Pedro Vieira seems to be the right person to occupy this place because he has the know-how of the international operations, he accompanied the process of entry into new markets and he has experience with the Passodado's products. Furthermore, in the short term, this manager will also be free of the responsibilities of Spain and Poland.

So, Mr. Pedro Vieira will be a key resource upon the entry into Mexico and he will have the control of the internationalization project, see attachment 11. Its activities are to administer agent orders, to manage deliveries to customers and their payments, to monitor the evolution of the business in this market and to establish punctual contacts with customers and/ or final consumers.

In this project it is estimated that in the first year the company will need two agents and in the second and third year, it will need three agents.

If more resources are needed during the entry process, they can be hired according to team gaps through temporary work – a process that the SME already uses when it has more work or some specific need.

6.2.2. Time and moment

In other markets Passodado has used the international fairs (that happen at the beginning of each season) to identify the new trends; to exhibit their products; to launch new collections; to know customers with whom it works through agents or distributors and establish contacts at various levels (new distributors and new agents, opinion influencers, new customers, suppliers and even competitors).

The Ifema Fashion Fair in Madrid, Spain, has been the stage for the official launch of the new collections since 2014. It is a recognised fair in the world of fashion, large and visited by the main customers of Passodado.

To enter Poland, a market that was unknown, the company began by exhibiting the shoes at the Poznan shoes fair in 2016 where the SME was able to create the contacts that it needed at the moment, recruit agents and understand the market.

As it was already mentioned several times, the Mexican market is completely unknown by the eyes of the company. The lack of contacts in the footwear sector and the cultural distance are the two major barriers to the organization. Therefore, replicating the procedure used for entry into Poland seems to be a good strategy for entry into Mexico.

SAPICA is the most important international footwear and leather goods fair in Latin America and it is located in the centre of the country (in Leon, the most important municipality for the Mexican footwear sector). In 2018, the fair is scheduled for March 13 to 16 and for the beginning of September.

In a strategic way, Passodado can visit the first fair of the year just to observe the trends of the country and the rest of Latin America and to create some contacts and/ or partnerships and meet some possible local agents to work with.

To maximize its first visit to Mexico, Passodado should explore the Santander Trade Portal. Through this platform the company can research and contact agents in the target country. If the organization meets someone who fits the candidate profile, the first meeting will be scheduled for the fair period in León with the members of Passodado present.

Furthermore, there may also be a prior contact with APICCAPS to request contacts of potential candidates for agents.

The trips to Mexico should be done by two elements of the company: Mr. Vitor Frazão, the CEO and who has the maximum authority to make decisions and Mr. Pedro Vieira, the employee who will be responsible for the Mexican market.

During the meetings with the candidates, two important factors must be taken into account: the delineation of the geographical areas in which each one will operate and the attributes mentioned above as relevant.

If Passodado finds entities that meet its expectations, it should not consider an exclusivity agreement. As it has already explained, a bad service performed by the local agent can destroy the image of the company with its clients, prospects and/ or final consumers. Thus, the two entities can negotiate an experimental period, beneficial to both parties, and only after that period to think about exclusivity. The time duration of this phase should not be too long to prevent a bad impact on sales. However, this stage must be of a sufficiently long term for the local agent to be well accustomed. In addition, in this timeframe, all actions and activities must be monitored and analysed to the conclusion to be as reliable as possible. The experimental period should be approximately 1 year in order to ensure that both collections will be covered (not being a cold country, the hottest collection will have less impact on sales and a most delicate selection).

In order to minimize the probability of incurring on extraordinary costs and to ensure that the service provided in this country is successful, the exporting company will be able to take advantage of training the agents in the first days of the second visit to Mexico.

Finally, the company will travel to Mexico once a year in the second and third year to design goals, strategies and plans with the local agents. In addition, the SME can go to the target country in the days of the fairs to know the trends and it can visit some clients receive the feedback of the service provided by the agents and to know and understand their needs. Eventually, if the company wants to recruit more agents, the interviews and training can be in those days.

The previous suggestions are summarized in the calendar presented in the attachment 12.

6.2.3. Shipping products from Portugal to Mexico

The merchandise will travel at CIF (cost, insurance and freight) Veracruz or at CIF Altamira, that's why the expenditures related to the transport from Passodado to the ports of Mexico are under the responsibility of the Passodado. All other expenditures in Mexico are borne by the client company.

Transportation

Due to the physical distance between the exporting country and the importing country, the goods must be shipped from the port of Lisbon (Portugal) to the port of Altamira or Veracruz (Mexico). In this sense, it was requested an estimative price for the Rhenus, with whom

Passodado works from the beginning in the context of maritime transport and clearance of goods at the custom-houses.

According to the information obtained, the estimated transit time is 14 days for Veracruz and 16 days for Altamira.

The expenses of one complete container 20'DV are of 979€; and the expenses of one full container 40'DV/ HC are 1533€.

Furthermore, the costs of exporting in the port of Lisbon are 255€ per container, and per export order, 75€ per commercial invoice.

The land transport of the containers by truck has costs of 250€ per container, from the Passodado warehouse to the port of Lisbon. This value is fixed, independent of the size of the container.

Insurance

The insurance of the goods is made by the company Generali. The price of insurance can be considered a competitive advantage for Passodado because the insurers normally have a service price of 25€ for every 10 000€ of transported merchandise. However, Passodado is able to obtain it a lower price, since the SME imports and exports large quantities, twice a year. The price negotiated between Passodado and Generali is 15€ for every 10 000€ of merchandise.

If something goes wrong with the goods (e.g. an accident or a theft), Generali pays, in accordance with the terms of the contract, the value of the merchandise at the price that it would be sold to the retailers in the foreign country. The Passodado prefers to hold the merchandise at the sales price because, despite having more costs, if something goes wrong, the company does not affect its operating income. If the company only insured the value of the shoes cost, it would not have direct expenses but could not obtain margin to pay indirect expenses (warehouse, logistics, etc.).

6.2.4. Monitoring

A process as complex and delicate as entering a market that is physically and culturally very distant from the country of origin requires special attention.

Mexico has a very risky and uncertain economic environment, which makes Passodado's operations much difficult. Thus, even an analysis of the internal and external environmental of the company may not be sufficient to prepare for the risks it will face.

All the tools that can help to monitor the actions done in this country can be a significant advantage provided to measures the activity in Mexico with the right indicators and a regularly evaluation. Adapting Passodado to the conditions it will face over time will only be a success if done at the right time. In addition, if failures and gaps are identified in the real time, it will be much easier to overcome them.

The sales will be done by an agent without storage capacity, so the logistics must be planned enough to minimize costs and prevent that, for example, containers are not fully loaded with merchandise. It is possible that there will be a gap between the order and the customer's waiting time for the goods, which can generate a feeling of dissatisfaction in the retailer. In short, the logistics process has to be organized enough that there are no unnecessary costs with empty spaces in the containers, but agile to the point of not causing too much waiting on the part of the retailer.

If the gap created between the cost factor and the waiting time has a very relevant impact on the final price of the shoes to the customer, the company must rethink its positioning. This means that, if this happens, the Passodado should consider the idea of exporting directly through a distributor or having a storage location for the products. Of course, this way of marketing will reduce the waiting time of customers for the products and the cost of transport.

This decision can only be made if, from the beginning, the entire evolution of the activity, is analysed and evaluated regularly (ideally once a month). Thus, monitoring will be a fundamental tool in support of logistics deliberations.

About the sales made in the Mexican market, it is important to understand the margin that exists on them and how it is generated. At the limit, the company may be selling in a significant quantity of shoes, but do not take the maximum benefit from it. Again, with monitoring, these questions can be quickly clarified.

The quality of service is another important aspect of internationalization that is not fully controlled by the Passodado. The service provided by the company can be very good, however,

if the agent performs a poor service, he can harm the footwear company's reputation, or vice versa.

Thus, actions like sending newsletters to the customer with questionnaires, once per each collection sold, can help to understand the value that is being created in this country. These questionnaires should refer questions about the product, the service provided by the agent and the degree of overall satisfaction.

In order to establish objectives and frameworks with the goals for the local agents' work, it could be created indicators to evaluate their performance throughout each collection. Thus, it is possible to perceive and measure the work that has been developed by him. Moreover, it is possible to justify whether it is worthwhile to continue working with this local agent in the target country.

Having said that, and if all the topics that have been addressed will be leveraged with a tool to monitor activities in Mexico, there has been a search on some instruments that are available online.

As can be seen in attachment 13, Cascade Strategy Software (2017) has four distinct functionalities: *“to create a complete strategic plan, rating people how engaging in the strategy, to see the individual and collective performance, to do reports, to track activities, to create reminders and others...”*. This company is already used by the largest companies in the world that have come to prove the benefits of using it.

The value of the basic package, interesting for the experimental phase is 17,8€ per user, per month and paid annually. If the company likes and adapts to this platform it may prefer to upgrade later to a more complete version.

In conclusion, this is a tool that can support the internationalization of Passodado for Mexico, but which may also be applicable to the activity in the other countries where the company operates. If all employees and agents use it, it will be a huge asset and will allow the strategic alignment of all departments of the company.

6.2.5. Financial resources

The total initial expenditures of entry into the target country is 20 316,24€, which includes all expenditures related to the first and second trips.

For the purposes of travel to Mexico, Passodado workers do not need a visa because their activities are not remunerated by entities in this country and the trip has less than 180 days - information available on the Portal das Comunidades Portuguesas (2016).

The company's first trip to the target country will have expenses related to flights, accommodation, room reservations and daily expenses for two employees (Mr. Pedro Vieira and Mr. Vitor Frazão). As it is a company that markets footwear, the entrance in the fair is free. The company will visit the fair two days. The interviews with the candidates for agents will be held in the hotel, in a room reserved for the purpose for two mornings (if it is necessary more time, it can be later requested). The total expenses in this phase are 3 200,00 € (attachment 14) and in total the employees will stay 5 nights in Mexico.

The second visit to the foreign country will have increased expenditures: more nights of stay in the country (16 in the total), expenditures of the fair will be counted (4 fair days and 2 days for assembling and disassembling) and there will be also costs associated with training of the local agents.

SAPICA does not present fixed values for the stands of the fairs of 2018 nor in previous years. And, until the time when the calculations were developed, the administrative department of the fair it did not respond to the budget requests. Therefore, it was used the tabulated values for other international fashion fairs in León, in this case the Fair of Belleza Mexico (FBM) (attachment 15).

It will be the first time of the Passodado in this country and, since the remaining expenditures have a high value, an Cabecera Stand was chosen, this stand has one of the lowest value, 10 216,24€. This stand stands out for having two fronts: one for each passageway. The value already includes the communities needed to the exhibition of the initial models: income, company name in the upper of the stand, 2 outlets of 1000watts, 1 Slim Line Lamp, 1 display table, 2 chairs, 4 shelves and 1 vinyl billboard.

The exhibition will have few models (because of the limited size of the stand: 10m²) and for this reason the Passodado can transport the samples in the flight to Mexico by their collaborators, paying only the excess of luggage.

The training given by Mr. Vitor Frazão and Mr. Pedro Vieira to the local agents will have a duration of 6 hours for 5 days. The beginning is at 10am, the lunch period (in the hotel) is 1 hour and at it ends at 5pm.

The calculations for the second trip expenditures can be found in attachment 16).

This second trip represents most of the initial expenditures for entry into this market (17 116,24€). Therefore, during this stay, it is important that Passodado can be able to gather as many contacts as possible to carry out a successful work in the future. Some contacts may not seem relevant at this stage, but maybe they will be needed later. In the case of agents, for example, contacts can be established with more than those initially required, to speed up the costs and the recruitment process in the future.

The total of initial costs (in 2018) means 20 316, 24 € of expenditures in this project, as it is demonstrated at the attachment 17.

In addition to the initial expenses, in the second and third year of the project, the company will travel to Mexico once a year to outline objectives and strategies with agents. In addition, the SME can eventually visit some clients for the purpose of knowing them and getting closer to them. For these trips it is considered the value of the first trip, since the needs of expenses are very similar (3 200,00 € per year).

In an initial phase, we will assume that a container with capacity for approximately 9200 pairs will be exported to Mexico. The quantity and value of footwear in a container obviously depends on the models (occupied volume) present in it. Therefore, a fictitious order was established to calculate estimated sales of 3 years. The models used for the fictitious order can be consulted in the attachment 18.

For first year and based on the collection that was marketed in 2016, the sales in Mexico will start with the spring/ summer 2018 collection. Again, the calculations of these figures are attached, attachment 19.

In the second-year sales are thought based on the two collections of the company, which, greatly increases sales. In addition, it was considered that the quantities of the spring/ summer collection, at least double, like what has happened in other markets where Passodado has already entered (attachment 19).

In the third year, the sales behaviour is expected to continue to growth, however, at a much lower rate, in this case, 50% in the spring/ summer collection. The autumn/ winter collection, the quantities should double, like what happens in the second spring/ summer collection sale. (attachment 19).

All increases in the number of sales, regardless of the year and collection, are explained by the greater penetration and acceptance of the brand in the market and to a greater number of clients covered by the agents. Mexico is a large country with many residents, so the orders should be biggest than in the Middle Market.

Because this target country is a new and different market for Passodado, one of the requirements of Mr. Vitor Frazão is that all payments are made as soon as the order is in Portuguese customs. This detail should be taken into account, since it reduces the financial risk in a very significant way.

In all years, there are operational costs related to the costs of the products sold (CMS), the logistic in the Passodado warehouse, the transportation and insurance from Portugal to Mexico, the material, publicity campaigns to be developed and the commissions of the agents and monitoring software (attachment 20).

Summarizing, the net profit of operations in 2018 is 30 177,77 €, in 2019 it is 126 040,33 € and in 2020 it is 207 496,33 € (table 12).

Table 11. Financials for the project implementation

	2018	2019	2020
Sales Revenues	146 055,00 €	420 000,00 €	693 945,00 €
CMS	77 405,00 €	237 202,50 €	397 000,00 €
Agent comission (7%)	5 418,35 €	16 604,18 €	27 790,00 €
Transportation costs	3 538,00 €	10 614,00 €	16 386,00 €
Insurance Costs	219,08 €	630,00 €	1 040,92 €
Operational costs (5,3%)	7 740,92 €	22 260,00 €	36 779,09 €
Promotional costs	1 168,44 €	3 360,00 €	4 163,67 €
Monitoring software	71,20 €	89,00 €	89,00 €
Sales margin	50 494,01 €	129 240,33 €	210 696,33 €
Initial costs	20 316,24 €	- €	- €
Annual trips to Mexico	- €	3 200,00 €	3 200,00 €
Profit	30 177,77 €	126 040,33 €	207 496,33 €

Source. Self-developed based on the previous calculations

7. CONCLUSION

In order to analyse the entry of a SME footwear Portuguese company in the Mexican market, it is important to gather the key points for the development of this study. Thus, it was used the structure identified in the methodology and painted according to the general evaluation of each topic: red if it does not make sense for this study; yellow makes sense for the study when approached with attention; and green if it is perfectly suited to this study.

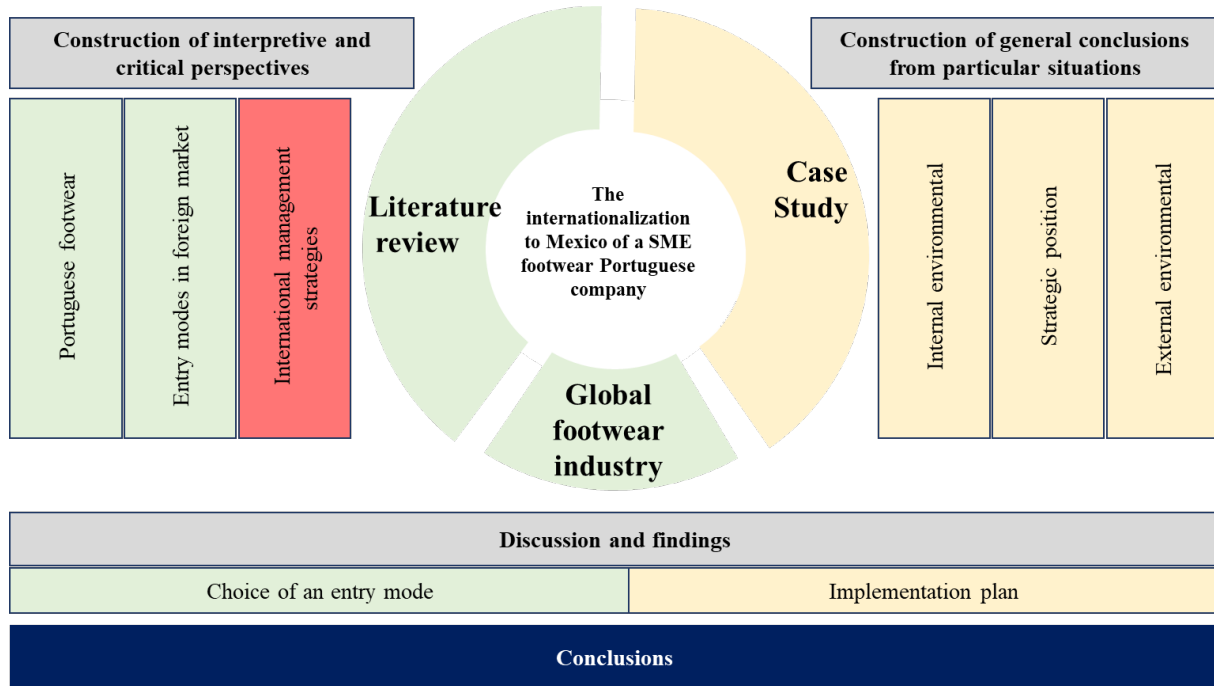


Figure 8. Evaluation to the variables studied, the real case of Passodado

Source. Self-developed

In the particular case of SMEs, companies with limited resources and capacities, it is concluded that it does not make sense to consider international management strategies for the internationalization process. It is simpler and more appropriate to think of the modes of entry into foreign markets, as Root (1998) has shown. This author clarified that the decision of the entry mode must contain external and internal variables.

When analysing the Portuguese footwear industry, it became evident that this sector has great relevance for the country and that it has strong indicators of growth, thus it makes sense to take it to international markets.

At the global level, this industry still has a very large share of production in China, but this is also the country that buys more shoes, followed by USA. In general, over the last few years,

both the value of exports and consumption have grown, making it a promising industry. One of the trends pointed out is the economic growth of emerging markets that boosts the purchase of shoes by them.

The case study that was the basis for general conclusions through the concrete situation of Passodado has a yellow colour, because there are interesting indicators presented that fit the purpose of the study. However, they must be approached with special attention to the activities be more likely to be successful.

The fact that Passodado is heavily dependent on the national market (84,6% of 2016 sales volume) and the intention to achieve greater recognition of its brands are the most important reasons for the company's decision to expand its sales globally.

When analysing the margin billed up in 2016, it was concluded that about 79,9% of the sales value served to cover the costs of the materials sold. So Passodado should make efforts to fill this number, for example, it can renegotiate contracts and conditions with suppliers or even look for others.

The strategic position of the company through a SWOT analysis validated the need and importance of the international expansion of Passodado. However, there are details that the company must take into account and that it must put into practice in order to improve its competitiveness: the positioning and clear differentiation of the products produced in Portugal and China; partnerships with clothing brands; linking to internationally recognized designers and influencers; and online sales.

The large Mexican market with a strategic position (bordered by the second largest consumer of footwear) has favourable economic and financial growth prospects. However, the climate is still instability, so it requires a very planned and thoughtful entry. Regarding the footwear sector in this country, exports have been increasing, however in segments of shoes not competing with Passodado. The consumption and imports of footwear have also increased, which are favourable indicators for this company.

Later, when thinking about the mode of entry in Mexico, some options were excluded because it is a company with few resources, but that intends to apply the consumer centricity concept. Comparing the characteristics of this market with the rest in which the company operates, it was decided that it makes sense to use the direct export mode through local agents;

complementing sales with the online platform. In addition, Passodado should follow the population density to expand its business in Mexico, starting it in Mexico City.

The implementation plan is based on four axes: (1) human resources, which establishes that the communication between Passodado and the agents should be done through a manager appointed for sales in Mexico (Mr. Pedro Vieira); (2) time/ moment, launches the calendar of actions, which includes the exhibition at SAPPICA fair as part of the entry strategy; shipping from Portugal to Mexico, the merchandise travels by CIF Veracruz or CIF Altamira; (3) monitoring that shows the need to follow and analyse the actions in Mexico, through a platform such as Cascade Strategy; and (4) financial resources, which show that the project has conditions to generate profit from the 1st year.

Given this and the approach to the entry of Portuguese footwear SMEs in Mexico, it is concluded that any company with the mentioned characteristics can use the model shown the methodology and access the topics (as it was done in the figure x), taking into account that:

- a. The research work developed in literature review and in the overview of the world footwear industry is valid for them;
- b. The variables of the internal environment (company characteristics, margin decomposition, mission and objectives) and strategic positioning (SWOT, perceiving how to improve the weaknesses and how to prepare to face the threats) should be evaluated for each specific case;
- c. The study of the external environment (PESTLE analysis), Mexico, can also be considered by these SMEs, since soon;
- d. To understand and choose the most appropriate entry mode, companies should consider all variables previously studied: internal resources and capabilities, previous experience, market similarities and adaptation to the local;
- e. They must develop an implementation plan with at least 3 years to strategically define and validate the actions to be taken.

Finally, if the combination of these topics shows positive results, as in the case of Passodado, it makes sense for the Portuguese SME footwear company to enter the Mexican market.

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9. ATTACHMENTS

Attachment 1. Guidelines to the interview to Dr. Carlos Silva

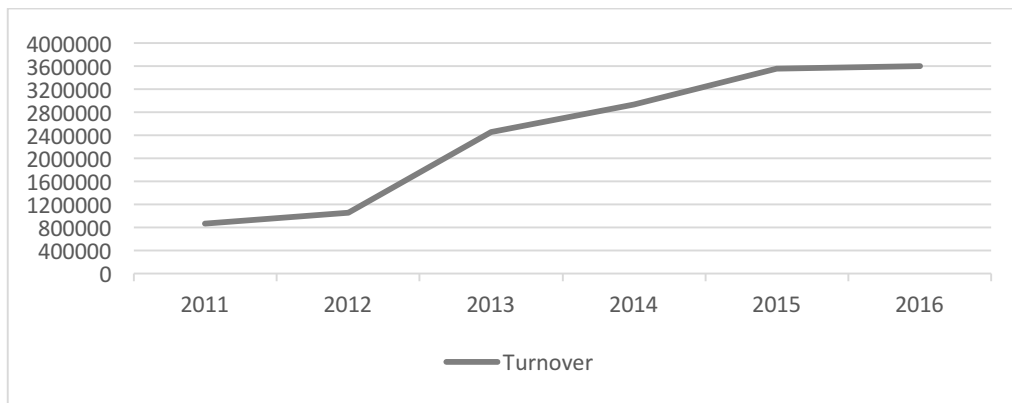
Studies department of APICCAPS

1. In the publication of the APICCAPS "2020 Footure – Plano Estratégico Cluster do Calçado " it is mentioned that "Exports will remain a priority". At this moment what are the target markets for Portuguese footwear exports?
2. Latin America is constantly growing. However, this is a market that is not part of the main buyers of Portuguese footwear, according to the tables on pages 54 and 55 of the " Monografia Estatística, Calçado, componentes e artigos de pele de 2015". Why?
3. Is it likely that this market will become an opportunity for Portuguese footwear? Why??
4. What has been the role of APICCAPS in the entry of Portuguese footwear companies into new markets? Is there any plan already defined for entry into the market in question?
5. Does the association know which Portuguese footwear company exports the most to Latin America?
 - a. If so, what input mode did they use? Export, franchising or otherwise.
 - b. What were / ate the main challenges the companies faced when entering this market?
 - c. How did they overcome them??
6. What are the main barriers to entry into this market? Do you have suggestions or recommendations for companies that intend to enter Latin America?
7. Portugal continues to be one of the world's leading exporters. However Asian countries like China are the main sources of footwear imports, which manage to sell their products at very low prices. Can price be a disadvantage for Portugal?

This interview aimed to collect information about the Portuguese footwear market, how this sector sees the internationalization and how it perceives the relevance of emerging markets (in this case Latin America, and more specifically Mexico).

Attachment 2. Evolution of turnover between 2011 and 2016

Graph. 1. Evolution of turnover (annual)



Source. Self-developed based on data provided by Passodado

Attachment 3. Relationship between Passodado and its stakeholders

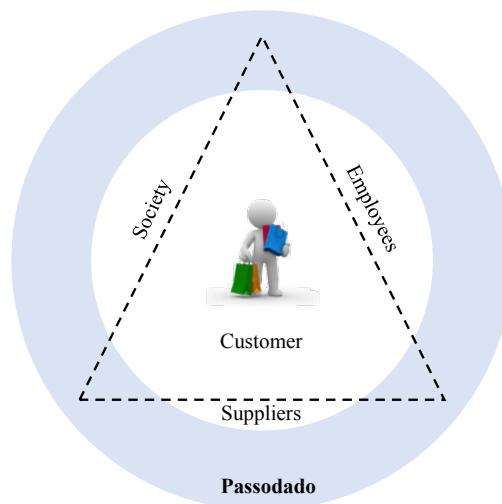


Figure. 1. Relationship between Passodado and its stakeholders

Source. Self-developed based on data provided by Passodado

- Customer*: the customer is the focus of Passodado. He is the fundamental and the differentiating element of the company, so incorporating their knowledge in the processes is to incorporate the ability to be closer to him and mitigate the differences for Prospects;
- Employees*: they are a big part of the company and it contributes for their satisfaction and fulfilment by offering them new and continuous opportunities for growth (personal and professionally);
- Suppliers*: they support the activities of the company and establish relationships with a win-win and confidence base will help the two parties to growth;
- Society*: to minimize the impact on the environmental, the company tries to control their CO₂ footprint.

Attachment 4. The most important municipalities of Mexico by footwear production

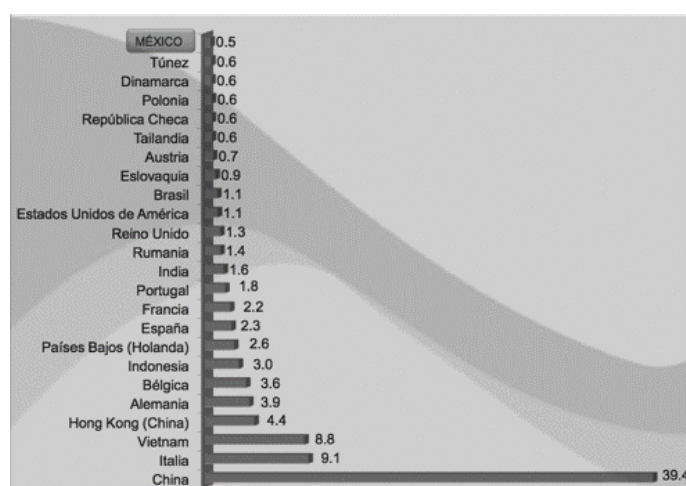
Table. 1. The most important municipalities of Mexico by footwear production

	Unidades económicas		Personal ocupado		Producción (millones de pesos)	
	Absoluto	%	Absoluto	%	Absoluto	%
Nacional	7 398	100.0	112 727	100.0	26 146	100.0
León, Guanajuato	2 330	31.5	57 064	50.6	15 119	57.8
Guadalajara, Jalisco	486	6.6	11 172	9.9	2 605	10.0
San Francisco del Rincón, Guanajuato	447	6.0	8 429	7.5	1 747	6.7
Purísima del Rincón, Guanajuato	176	2.4	4 448	3.9	1 018	3.9
Zapopan, Jalisco	60	0.8	2 791	2.5	810	3.1
Iztapalapa, Distrito Federal	7	0.1	551	0.5	353	1.4
Toluca, México	6	0.1	1 069	0.9	347	1.3
San Mateo Atenco, México	1 337	18.1	6 795	6.0	304	1.2
Suma de los 8 municipios	4 849	65.6	92 319	81.8	22 302	85.4
Resto de los municipios	2 549	34.4	20 408	18.2	3 844	14.6

Source. INEGI (2014:10)

Attachment 5. Principal countries that export shoes in 2012 globally

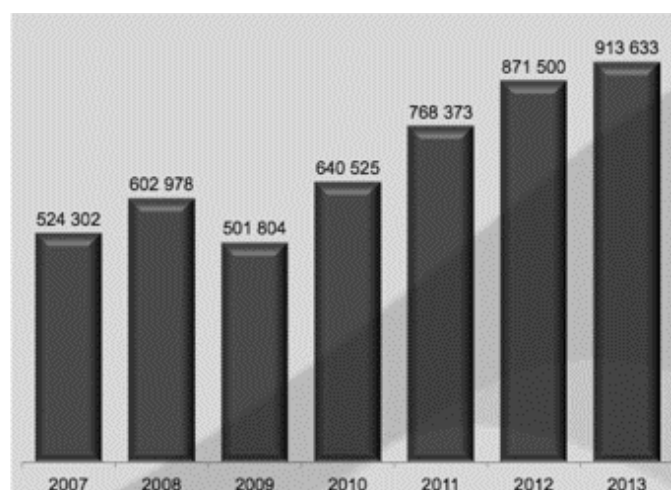
Graph. 2. Principal countries that export shoes in 2012 (in percentage) worldwide



Source. INEGI (2014:22)

Attachment 6. Mexico importation of footwear in value

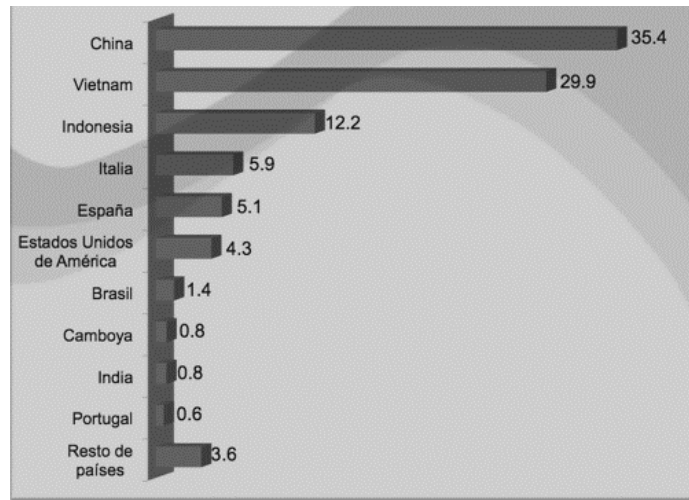
Graph. 3. Mexico importation of footwear in value (thousand dollars)



Source. INEGI (2014:23)

Attachment 7. Mexico importation of footwear per country in 2013

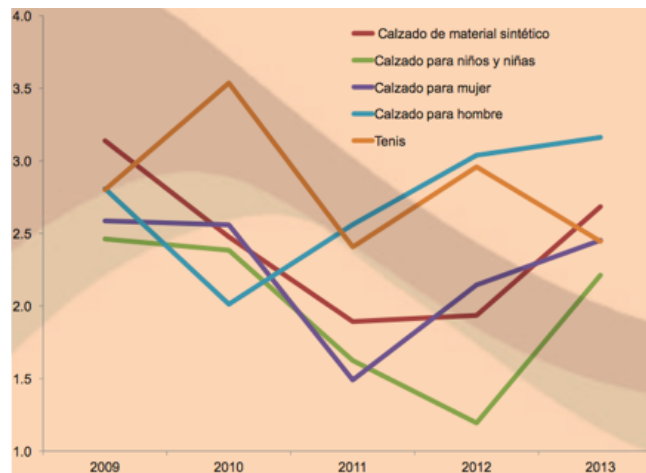
Graph. 4. Mexico importation of footwear per country in 2013



Source. INEGI (2014:25)

Attachment 8. Inflation: the impact on the different type of shoes

Graph. 5. Inflation: the impact on the different type of shoes



Source. INEGI (2014:14)

Attachment 9. Detailed data about the countries were Passodado has clients

Table. 2. Data about countries were Passodado has clients

		Portugal			Spain		
	Year	Country data	% of sales	PT Weight	Country data	% of sales	ES Weight
Geographic							
Total area (sq km)		92090	84,6%	77908,140	505370	13,3%	67214,210
People and society							
Population	2017	10839500	84,6%	9170217,000	48958159	13,3%	6511435,147
Median Age (years)	2016	41,8	84,6%	35,363	42,3	13,3%	5,626
Urban population	2017	64,6%	84,6%	54,65%	80,0%	13,3%	10,64%
Literacy	2015	95,7%	84,6%	80,96%	98,3%	13,3%	13,07%
Internet users	2016	70,4%	84,6%	59,56%	80,6%	13,3%	10,72%
Economic							
GDP per capita (\$)	2016	\$28,90	84,6%	24,449	\$36,40	13,3%	4,841
Inflation rate (consumer prices)	2016	0,6%	84,6%	0,51%	-0,2%	13,3%	-0,03%
Distribution of family index (Gini index)	2015	33,9%	84,6%	28,68%	35,9%	13,3%	4,77%
Unemployment rate	2016	10,2%	84,6%	8,63%	19,7%	13,3%	2,62%
Ranking by World Bank (in 190 countries)							
Ease of Doing Business Rank	2017	25	84,6%	21,150	32	13,3%	4,256
Protecting Minority Investors	2017	70	84,6%	59,220	32	13,3%	4,256
Paying Taxes	2017	38	84,6%	32,148	37	13,3%	4,921
Trading across Borders	2017	1	84,6%	0,846	1	13,3%	0,133
Enforcing Contracts	2017	19	84,6%	16,074	29	13,3%	3,857
Footwear Industry (million pairs)							
Consumption	2012	51	84,6%	43,146	318	13,3%	42,294
Production	2012	61	84,6%	51,606	94	13,3%	12,502
Exportation	2012	65	84,6%	54,990	130	13,3%	17,290
Importation	2012	56	84,6%	47,376	354	13,3%	47,082

The internationalization to Mexico of a SME footwear Portuguese company

		Poland			Angola		
	Year	Country data	% of sales	PL Weight	Country data	% of sales	NA Weight
Geographic							
Total area (sq km)		312685	1%	3126,850	1246700	1,1%	13713,7000
People and society							
Population	2017	38476269	1%	384762,690	29310273	1,1%	322413,0030
Median Age (years)	2016	40,3	1%	0,403	18,2	1,1%	0,2002
Urban population	2017	60,5%	1%	0,61%	45,6%	1,1%	0,50%
Literacy	2015	99,8%	1%	1,00%	71,1%	1,1%	0,78%
Internet users	2016	73,3%	1%	0,73%	13,0%	1,1%	0,14%
Economic							
GDP per capita (\$)	2016	\$27,80	1%	0,278	\$6,80	1,1%	0,0748
Inflation rate (consumer prices)	2016	-0,6%	1%	-0,01%	32,4%	1,1%	0,36%
Distribution of family index (Gini index)	2015	30,8%	1%	0,31%	42,7%	1,1%	0,47%
Unemployment rate	2016	9,6%	1%	0,10%	6,6%	1,1%	0,07%
Ranking by World Bank (in 190 countries)							
Ease of Doing Business Rank	2017	24	1%	0,240	182	1,1%	2,0020
Protecting Minority Investors	2017	42	1%	0,420	81	1,1%	0,8910
Paying Taxes	2017	47	1%	0,470	157	1,1%	1,7270
Trading across Borders	2017	1	1%	0,010	183	1,1%	2,0130
Enforcing Contracts	2017	55	1%	0,550	186	1,1%	2,0460
Footwear Industry (million pairs)							
Consumption	2012	108	1%	1,080	n.a.	1,1%	n.a.
Production	2012	32	1%	0,320	n.a.	1,1%	n.a.
Exportation	2012	39	1%	0,390	n.a.	1,1%	n.a.
Importation	2012	115	1%	1,150	n.a.	1,1%	n.a.

Source. Source. Self-developed based on the following information

In the previous data of the attachment 15 have different sources:

- a. Geographic, people and society and economic indicators - Source: Central Intelligence Agency (CIA) (2017);
- b. Ranking by World Bank (in 190 countries) - Source: The World Bank Group (2016);
- c. Footwear Industry (million pairs) - Source: World Footwear (2012);

The data about the footwear industry of Angola in 2012 is not available, but since this country represents just 1,1% of the sales, it wasn't considered the weight of Angola to the calculation of this indicators of the Middle Market.

The data from the two previous tables are not the most recent that were published, but they were chosen because they were the most recent ones with had equal sources for all countries.

Attachment 10. Geographic strategy coverage

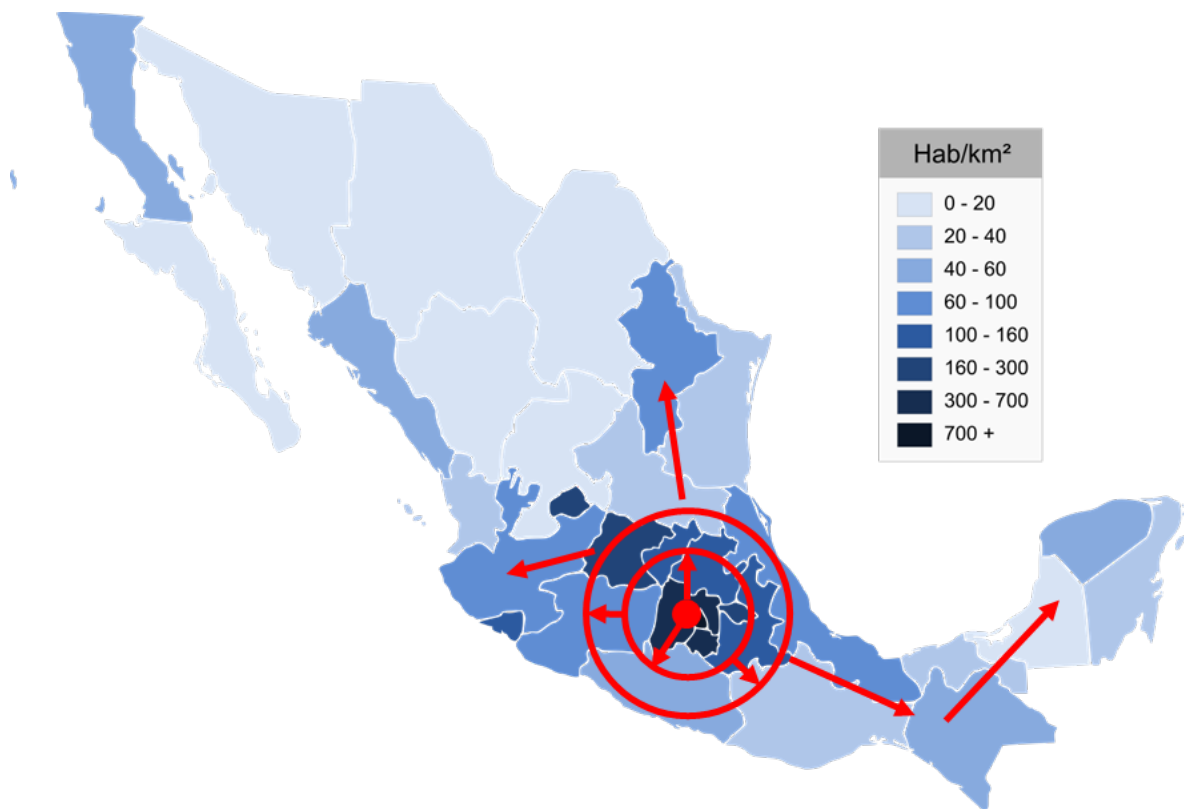


Figure. 2. Geographic strategy coverage - Mexico

Source. Self-developed

Attachment 11. Communication flows between Passodado and Mexico

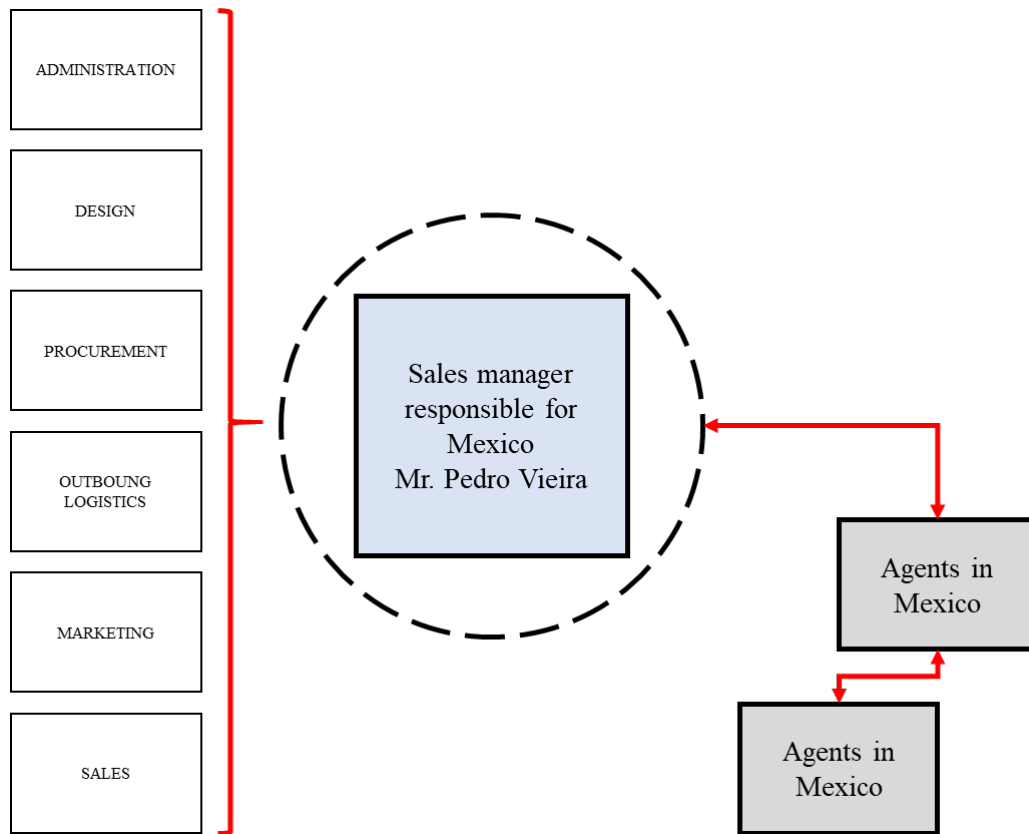


Figure. 3. Communication flows between Passodado and Mexico (normal situations)

Source. Self-developed

Summarizing, the previously calendar shows the international events planed to 2018, 2019 and 2020. In each year Passodado launches new collections in the fairs. The suggestion for Mexico is the participation in the fair of Leon, SAPICA in 2018. In this year the company will be twice in that country. The first one is to analyse the market and make interviews to the candidates to agents and the second one is to be in the fair exhibiting their products and knowing prospects and to train the agents.

In 2019 and 2020 the company will be once in Mexico and will give the feedback of the experimental period of the local agents and discuss the next stages. After the experimental period, the SME should decide if it wants or not to advance with the exclusivity contracts. If the it doesn't want, it can:

- a. If Passodado believes that will fit the target market but has bad contacts established - return to the step of the fair and exhibit the products;
- b. If Passodado believes that will fit the target market, has great contacts established with whom can negotiate directly and bad agents – return to the agent search step and try to find better agents;
- c. If the company believes that the target market doesn't fit with its features – leave the market.

Attachment 13. Cascade strategy software

Table. 4. Cascade strategy software

Plan

Structure

Evaluate/ Track

Report

Source. Self-development based on Cascade Strategy (2017)

Attachment 14. Initial costs

First trip of Passodado to Mexico (March 2018)

- Visit SAPICA;
- Meetings with agent candidates.

Table. 5. First trip costs



Expenditure type	Per 2 people
Flights (Lisbon - Guadalajara) ⁷	1 600,00 €
Accommodation (5 nights) ⁸	500,00 €
Room for meetings (2 mornings) ⁹	100,00 €
Other expenditures (food, transfers...)	1 000,00 €
Total	3 200,00 €

Source. Self-developed based on Sky Scanner (2017) and Booking (2017)

- Exhibition in SAPICA.

Attachment 15. Stand prices

Table. 6. Details of stands in the Fair

Stand	M2	Total Price (\$)	Total Price (€) ¹⁰	Image
Stand Pasillos	10	\$ 10 000,00	8 513,54 €	
Stand Cabecera	10	\$ 12 000,00	10 216,24 €	
Isla Plata	36	\$ 36 000,00	30 648,73 €	N.a.
Isla Oro	54	\$ 48 600,00	41 375,79 €	N.a.
Isla Plata	90	\$ 72 000,00	61 297,46 €	N.a.

Source. Self-developed based on IBM (2016)

⁷ Airline company: Iberia - flight on 12th of March and return on 17th of March. Request done on 1st of October 2017.

⁸ Price per night is 100€ per 2 people for a 5 stars Hotel in Leon, half board.

⁹ The rooms are booked in the hotel. In the price are included: the room, papers and pens and coffee and snacks.

¹⁰ Currency conversions were made based on the exchange rate applied on the 10nd of October 2017. According to the Banco de Portugal website, where the amounts presented are in relation to the euro, the exchange rate (euro-dollar) is 1,1746.

Attachment 16. Second trip to Mexico costs

Second trip Passodado to Mexico (August 2018)

- Meetings with candidates to agents;
- Formation to agents;
- Exhibition in SAPICA.

Table. 7. Second trip costs

Expenditure type	Per 2 people
Flights (Lisbon - Guadalajara) ¹¹	1 600,00 €
Excess baggage ¹²	300,00 €
Accommodation (15 nights) ¹³	1 500,00 €
Room for meetings (5 days) ¹⁴	500,00 €
Other expenditures (food, transfers...)	3 000,00 €
Total	6 900,00 €

Source. Self-developed based on Sky Scanner (2017) and Booking (2017)

Attachment 17. Total initial costs

Table. 8. Total initial costs estimative

Expenditure type	Cost (€)
1st Trip to Mexico	3 200,00 €
2nd trip to Mexico	6 900,00 €
Exhibition in SAPICA	10 216,24 €
Total costs	20 316,24 €

Source. Self-developed based previous data collected

¹¹ Airline company: Iberia - flight on 26th of August and return on 10th of September. Request done on 1st of October 2017.

¹² Airline company: Iberia. Policy: maximum of 32kg per person with a cost of 150,00€ per person

¹³ Price per night is 100€ per 2 people for a 5 stars Hotel in Leon, half board.

¹⁴ The rooms are booked in the hotel. In the price are included: the room, papers and pens, lunch and coffee and snacks.

Attachment 18. Fictional orders

Fictional orders have been created to understand the operational costs in Mexico.

Table. 9. Reference models to sale in Mexico

Spring/ summer 2016	Fall/ winter 2016
<p style="text-align: center;">Angela</p>  <p>ANGELA SILVER ANGELA BLACK</p>	<p style="text-align: center;">Peniche</p>  <p>PENICHE BROWN PENICHE BLACK</p>
<p style="text-align: center;">Belinda</p>  <p>BELINDA BLACK BELINDA BEIGE BELINDA RED</p>	<p style="text-align: center;">Leiria</p>  <p>LEIRIA BROWN LEIRIA BLACK</p>
<p style="text-align: center;">Carol</p>  <p>CAROL BLACK CAROL BEIGE CAROL BLUE</p>	<p style="text-align: center;">Sevilha</p>  <p>SEVILHA BROWN SEVILHA BLACK</p>
<p style="text-align: center;">Nina</p>  <p>NINA GOLD NINA SILVER</p> <p>LAPIERCE</p>	<p style="text-align: center;">Macau</p>  <p>MACAU BROWN MACAU BLACK</p>

Source. Self-developed based Lapierce (2017)

Attachment 19. Sales revenues

Table. 10. Sales Revenues estimative per year

Models	Unit price	Quantity 2018	Sales 2018	Quantity 2019	Sales 2019	Quantity 2020	Sales 2020
Spring/ Summer							
Angela	17,50 €	1300	22 750,00 €	2600	45 500,00 €	3900	68 250,00 €
Belinda	17,75 €	3500	62 125,00 €	7000	124 250,00 €	10500	186 375,00 €
Nina	15,95 €	2900	46 255,00 €	5800	92 510,00 €	8700	138 765,00 €
Carol	9,95 €	1500	14 925,00 €	3000	29 850,00 €	4500	44 775,00 €
Subtotal	61,15 €	9200	146 055,00 €	18400	292 110,00 €	27600	438 165,00 €
Autumn/ Winter							
Peniche	21,95 €	0	- €	2100	46 095,00 €	4200	92 190,00 €
Leiria	19,95 €	0	- €	1850	36 907,50 €	3700	73 815,00 €
Macau	19,95 €	0	- €	1200	23 940,00 €	2400	47 880,00 €
Sevilha	19,95 €	0	- €	1050	20 947,50 €	2100	41 895,00 €
Subtotal	81,80 €	0	- €	6200	127 890,00 €	12400	255 780,00 €
Total per year	142,95 €	9200	146 055,00 €	24600	420 000,00 €	40000	693 945,00 €

Source. Self-developed based data provided by Passodado

Attachment 20. Initial investment

Cost of materials sold

According to what it was able to obtain during the visits to Passodado, the costs of the materials that will be commercialized in Mexico are:

Table. 11. Products costs

Models	Unit price	Quantity 2018	Sales 2018	Quantity 2019	Sales 2019	Quantity 2020	Sales 2020
Spring Summer							
Angela	9,10 €	1300	11 830,00 €	2600	23 660,00 €	3900	35 490,00 €
Belinda	9,30 €	3500	32 550,00 €	7000	65 100,00 €	10500	97 650,00 €
Nina	8,75 €	2900	25 375,00 €	5800	50 750,00 €	8700	76 125,00 €
Carol	5,10 €	1500	7 650,00 €	3000	15 300,00 €	4500	22 950,00 €
Subtotal	32,25 €	9200	77 405,00 €	18400	154 810,00 €	27600	232 215,00 €
Autumn/ Winter							
Peniche	14,40 €	0	-	2100	30 240,00 €	4200	60 480,00 €
Leiria	13,90 €	0	-	1850	25 715,00 €	3700	51 430,00 €
Macau	11,75 €	0	-	1200	14 100,00 €	2400	28 200,00 €
Sevilha	11,75 €	0	-	1050	12 337,50 €	2100	24 675,00 €
Subtotal	51,80 €	0	-	6200	82 392,50 €	12400	164 785,00 €
Total per year	84,05 €	9200	77 405,00 €	24600	237 202,50 €	40000	397 000,00 €

Source. Self-developed based data provided by Passodado

Portugal – Mexico: Transportation costs

In the specific years of the project, freight expenditures will be:

Table. 12. Transportation costs

	Unit Price (€)	Num. 2018	Total cost (€) 2018	Num. 2019	Total cost (€) 2019	Num. 2020	Total cost (€) 2020
Passodado - Port of Lisbon (per container)	250,00	1	250,00	3	750,00	5	1 250,00
Port of Lisbon - Port of Veracruz/ Port of Altamira (20'DV) (per container)	979,00	0	-	0	-	1	979,00
Port of Lisbon - Port of Veracruz/ Port of Altamira (40'DV/HC) (per container)	1 533,00	1	1 533,00	3	4 599,00	4	6 132,00
Export expenditures of the Port of Lisbon (per container)	255,00	1	255,00	3	765,00	5	1 275,00
Export Clearance (Per commercial invoice)	75,00	20	1 500,00	60	4 500,00	90	6 750,00
Total per year			3 538,00 €		10 614,00 €		16 386,00 €

Source. Self-developed based data provided by Rhenus

To understand the costs related to the transport, it was important to analyse what are (1) the number of pairs per order and (2) type of containers required per year, according to sales that were previously estimated. And always with policy that containers must be full, in order to minimize the costs. In addition, expenditures related to transport, port of Lisbon and export clearance were also accounted for.

The number of customers is uncertain and difficult to estimate, so it is assumed that each larger container has merchandise for 20 customers and each of the small ones has merchandise for 10 customers. So, each customer on a different business invoice.

Thus, expenditures for 2018, 2019 and 2020 will be approximately: 3 538,00€, 10 614,00€ and 16 386,00€, respectively.

Portugal – Mexico: Insurance costs

As it was already mentioned, the costs of the insurance are 15€ per each 10 000€ of products.

Table. 13. Insurance costs

	2018	2019	2020
Total sales value	146 055,00€	420 000,00€	693 945,00€
Price of insurance	219,0825€	630,00€	1 040,9175€

Source. Self-developed based data provided by Generali

Sales agents: commissions

The current sales commissions of the agents are assigned according to the negotiation between the agent and the company itself. So, there are several factors that weigh in this negotiation: type of market, objectives, type of customer, etc. However, so far, when they are traded, commissions only change over time for exceptional reasons. That is, they are fixed and are comprised in intervals of 6% to 8%.

For Mexico's business, the value to consider is the average among the commissions of the remaining countries: 7%.

But, as a recommendation to the Passodado's strategy, the commissions should differ the percentages attributed to the agent according to what are the proposed objectives and according to the initial negotiations. Thus, by increasing the commission depending on the effort made by the agent, he will certainly get better results.

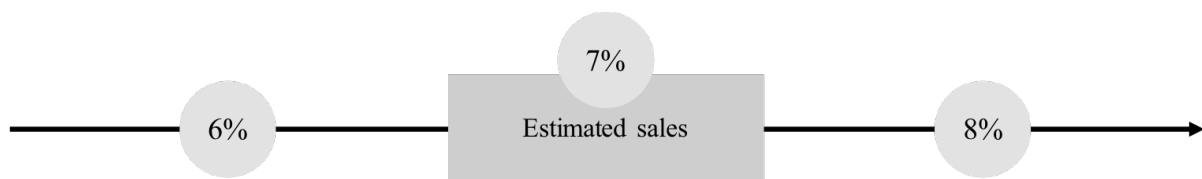


Figure. 5. Suggestion to distribution of agent commissions

Source. Self-developed

Promotional costs in the client

These expenses refer to catalogues and promotional material for points of sale, as shown below.



Figure. 6. Example of promotional materials

Source. Self-developed based on data provided by Passodado

In the reference year for this project, in 2016, the costs totalled 17,572€. What does this mean that for every 1€ billed, Passodado spent 0.0048€ in promotional material.

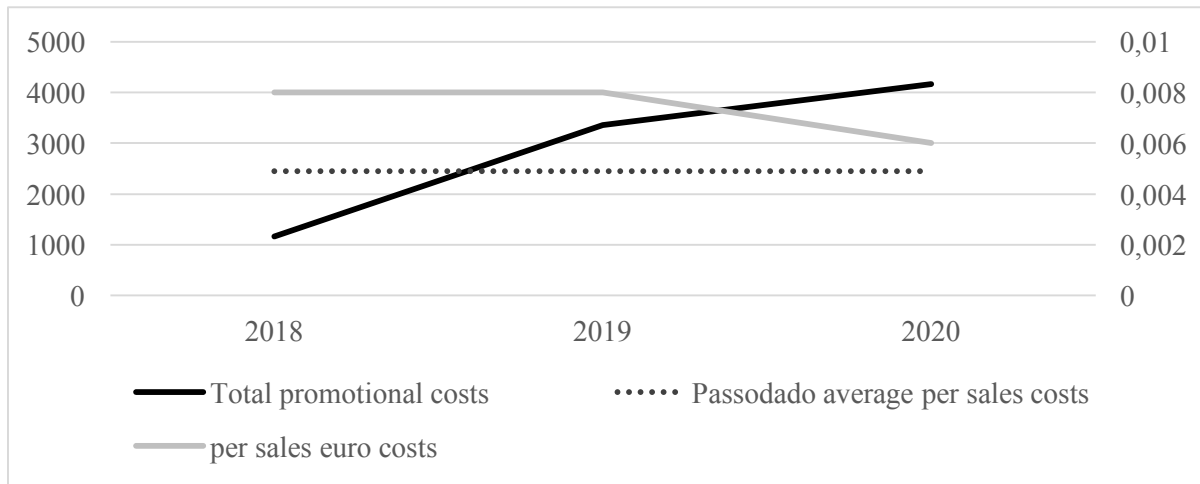
As there is still no (or nearly any) relationship between the company and the retailers, it is expected that the brands awareness will increase in this market with the aim of creating a better image and greater visibility to the final consumer.

Thus, 2018 and 2019 will be the years in which the campaigns should have more impact and therefore, the expenses will be 0.008€ for every 1€ sold in Mexico. From the year 2020 the

expenses may already decrease with respect to promotional costs and will have an impact of 0.006€ per 1€ of sales.

The following graph shows that the effort made with advertising will have positive benefits and impacts throughout the project, even when the decrease in these expenses will increase sales. This behaviour also reflects the result of previous campaigns.

Graph. 6. Distribution of advertising per sales



Source. Self-developed based on previous data