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## NEXX Helmets

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### Keeping up with international demand



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## Abstract

Title: NEXX Helmets – Keeping up with international demand

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This master thesis is divided into three main parts: case-study, literature review and teaching notes. With the aim of provide a real business case to be used for class discussion in a strategic/internationalization based courses, where students can apply strategic frameworks and their knowledge.

NEXX was founded in 2001; the period until 2014 was of constant growth, with increasing sales, employees and factory space. In order to leverage some strength diversification and differentiation strategies were applied.

The growth has been constrained by different factors: physical limit of production or lack of funding and bank support. The use of contract manufacturing, and factory expansion were adopted to handle production.

The main guidelines for the brand have been: differentiation and searching for other markets. By the end of 2014 NEXX was present in more than fifty countries.

The initial intent was to fulfill a gap in the international market with a clear vision of quality, well designed, and well-priced helmets.

When this goal was achieved, more than just being among the best, the company wanted to be among the five industry leaders before the year 2020.

How growth should be managed and strategy should be suited to achieve the desired position are some of the most significant challenges.

The second part of this master thesis – literature review – contains the most relevant theory to interpret and analyze the case-study, answering the assigned question present on the last section. This last content – teaching notes – aims to provide guidance but also possible solutions for the questions.

## Acknowledgments

This master thesis is the end of a path. Moreover, and as it is possible to frame this path in a time and geographic terms there are some acknowledgements and some statements I should do.

First of all I am grateful to Eng<sup>o</sup> Helder Loureiro. More than his time, valuable knowledge and help during this period I am grateful for his work at NEXX. As a Portuguese citizen I am also proud of NEXX work and achievements – showing that from a small town in the middle of Portugal is possible to do things.

Also directly linked to this master thesis I need to thank my thesis advisor, Professor Nuno Cardeal, to whom I am grateful for the time, patience, guidance, suggestions, feedback, and sympathy during this time.

I must also appreciate the time that Mariana Aparicio has spent reading and (re-reading) my words and overall support and enthusiasm.

Finally I am grateful to my family but in particular to my grandfather; for all the moments, for the lessons and experiences that I will not be able to forget.

*“Se hace camino al andar. /Al andar se hace camino, /y al volver la vista atrás/se ve la senda que nunca/ se ha de volver a pisar”*  
Antonio Machado – in *Caminante no hay camino*

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## Case Study

### The first step to become global

*“I cannot do it”. From the other side of the telephone line you would only listen the silence. Finally someone asked: “What do you mean with “I cannot do it”?”. The answer was straight and as honest as possible “I mean what I said. I cannot do it Richard. I have no way of producing so many helmets”.*

The problem was at every level in 2001. After attending the first trade show with his new helmets, manufacture brand based in Portugal, the CEO and founder of NEXX, Helder Loureiro, could not keep up with the demand.

The problem was the throughput time for sure, but there were also other concerns: there was not enough space, nor enough human resources or even enough raw materials. Of course more capital could turn these constrains in non-active ones but a scenario without constrains of any type would not be realistic.

*“When you start your own business you are incurring in risk. Balancing that risk with the capital you need is a challenge. At the beginning probably that capital comes from your own pocket, and then you are not only committing your time but also your finances.  
That is not easy.”*

*Helder Loureiro, CEO of NEXX – Helmets*

When producing motorbike helmets it is possible to identify that the main market would be formed by the riders of motorbikes or quads and their passengers. Assuming: that for every bike there is space on the market for two helmets, being one for the driver and another for the passenger; that by the end of the year of 2010, in Portugal, there were 241.500 registered motorbikes<sup>1</sup>; the total number of helmets required would be 483.000.

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<sup>1</sup> AUTO INFORMA. (s.d.). *Parque Automovel em Portugal em 2010*. Obtained October 7, 2014, at <http://www.autoinforma.pt/estatisticas/estatisticas.html?MIT=36458>

Even so, a non-profit consumer-funded program based in the USA has identified the main reasons for trade of an old helmet for a new one<sup>2</sup>:

- Crash;
- Significant drop that can compromise safety;
- It is previous to the American National Standard Institute changes on regulation of 1984;
- Does not have the standard safety stickers inside (even if new);
- Using it to non motorcycling activities;

However, it is possible to indentify other reasons to exchange an old helmet for a new one; for instance, not liking to use it any more or believing that a new one would me more adequate to the present needs (for example, one that would allow the use of a Bluetooth device). Despite the previous statements, it can be concluded that the need to change helmet every year is probably not required. Seeing as there are several different helmet brands in Portugal, NEXX would be able to profit from internationalization because the internal market would not be enough to the new brand.

Due to his previous knowledge about the industry, the CEO of NEXX, was aware about this space on the market.

*“I went to trade show with a homemade prototype. I did it in my garage. In my opinion it was gorgeous, even today. At that first trade show a lot of people agree with me.”*

*Helder Loureiro, CEO of NEXX – Helmets*

In this case internationalization has begun as the company begun. When Helder Loureiro attended his first trade show as CEO of NEXX, he confirmed the international potential demand. If NEXX could supply, and fulfill a share of this demand it would be in the international market.

An evidence of this potential for internationalization are the results at the end of 2014. The Portuguese markets account for 9% of the total number of helmets sold by NEXX. These numbers of helmets could also be measured in terms of revenues from this market, 9.719%.

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<sup>2</sup> Bicycle Helmet Safety Institute. (2010). *When Should I Replace My Helmet?* Obtained October 7, 2014, de <http://www.helmets.org/replace.htm>

## From the beginning

The history of NEXX is relatively recent, since it was created in April 2001. The term recent is applied if we compare NEXX with some well-known competitors (taking as an example *Arai Helmet* from Japan which was formed in 1926 and *Shark* that was founded in 1986 in Marseille, France).

Back in 2001 Helder Loureiro wanted to start a new business. Based on his experience as a manager of other helmet brands in Portugal, he knew that there was space for improvements as well as a space for another brand with the eagerness to compete in the international market.

*“My former employee does not drive bike, actually he does not want any of his employees to drive motorbikes. As a rider I have a different approach and a different view on the needs of our users. But this is not only a matter of passion, it is a business.”*

*Helder Loureiro, CEO of NEXX – Helmets*

A lot has changed in the past 13 years. NEXX was born in 2001, with the prototypes helmets, but production only started a year later in 2002 with the first orders.

In 2002, there was considerable differentiation from other Portuguese brands, as NEXX was the only national company producing fiber helmets.

In 2004 a new kind of helmet was created by NEXX, the X60 Vintage (exhibit 2). This model was designed for a different kind of market, urban riders concerned with their style and appearance who wanted a little bit more of design than what could be found in the traditional elements but without the need of an integral helmet. This new helmet combined the use of different materials (as leather) with high quality built. Suddenly it became a success such that it was copied for several other manufactures.

This helmet has also been the basis for another emblematic one, the X60 Denim (exhibit 3), launched two years later in 2006. This helped to gain brand awareness as it became noticed in magazines, thematic websites and specialty blogs<sup>3</sup>. More than brand awareness it also contributed to differentiate once again in what concerns design and use of different materials with the required quality and safety.

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<sup>3</sup> Nexx Helmets . (2014). *About Us 2001-2014*



Also, in this year NEXX started a certification program (ISO 9001:2008) to differentiate itself from the other national helmet brands, as well as assure its reputation in what concerns manufacture quality to the international market.

In 2008 another attempt to create a new market occurred and a new type of helmet was created, the X30 creating the market for the Maxijets. A year later this helmet won the award of best new product in the Indianapolis dealer expo<sup>4</sup>.

NEXX helmets are available in different sizes but since 2009 some helmets are made for kids, being different from the others not only in terms of size but also in terms of design (exhibit 4).

Another design attempt occurred in 2011 when a helmet was designed combining the look of the 70's and modern technology (exhibit 5).

Physical growth has also been a constant to keep up with market demands. At least if measured in terms of square meters. In the beginning the factory had 700m<sup>2</sup>, in 2005 NEXX moved to a new building with 1800m<sup>2</sup>. During the year of 2014 two new buildings were bought to accommodate the new factory layout. The goal is to increase the total space used to an amount close of 8000m<sup>2</sup> during the year of 2015.

Also, the number of employees have increased, for instance at the beginning of 2014 NEXX had approximately 100 staff members, and at the end of this same year the number has increased approximately 40% (more than 140 employees).

### Why NEXX was there

NEXX is not in the market competing for number of units sold. If this was the criteria, then most well-known brands of helmets would not be considered.

According to Helder Loureiro, NEXX wants to be perceived as a premium brand. For this reason, a lot of the effort is not only in producing quality helmets, in terms of materials used and design, but also in acquiring brand awareness and customer loyalty.

*“Measuring the number of helmets sold would not allow NEXX to be in the first league. Neither would be the brands we see as competitors to be there. Probably the first places would belong to some Chinese companies selling less expensive helmets.”*

*Helder Loureiro, CEO of NEXX – Helmets*

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<sup>4</sup> Nexx Helmets . (2014). *About Us 2001-2014*

To understand the work NEXX has done it is useful to analyze some of the articles published by two different international magazines during the year of 2013.

Motorrad magazine awarded NEXX XR1.R as test winner when compared with twelve other full face helmets with prices between 149€ and 250€ (exhibit 6). The scores were assigned based on different criteria, such as: impact absorption (tested by an independent lab), weight, safety, handling, acoustics, aerodynamics and ventilation<sup>5</sup>.

During the same year another journalist from MCN – Motor Cycle News magazine had classified the NEXX XR1.R Carbon as “the best road helmet I’ve worn” and “a joy to wear”<sup>6</sup>. In the same review it is also highlighted the low weight of the helmet, its ventilation, fit and look (exhibit 7).

One of these magazines is from the UK (MCN) and the other one from Germany (Motorrad). These two markets combined represented 27.11% of the total number of helmets sold by NEXX during 2014 (accountable for 29.13% of the revenues).

Articles, reviews, and tests like these have contributed to the brand awareness NEXX has today, as well as trade shows presences, distribution, and sales network. However, another useful tool has been some of the partnerships made during the last years with other brands, particularly since 2010.

It started with a partnership with Peugeot Motorcycles, a subsidiary of the French automaker Peugeot that builds motorcycles mainly for the European market. Peugeot claims to be the fifth most sold brand in Europe with a share of 9% of the market<sup>7</sup>.

With this agreement, NEXX helmets would be sold through the official dealership network of the brand in France.

During the same year, 2010, Hugo Boss and NEXX established a two year agreement. During this period NEXX would be responsible for the design, production, and worldwide distribution of the first motorcycle helmet with the Hugo Boss brand (see exhibit 8).

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<sup>5</sup> Herder, V. K., & Lohse, J. (1 de March de 2013). Produkt Test - MultiTools. *Motorrad* , 62 - 67

<sup>6</sup> Aspel, D. (2013). Nexx XR1R Carbon review. *MCN - Motor Cycle News*

<sup>7</sup> Beckendorff, J. (9 de October de 2014). *Indian M&M To Take-Over Peugeot Scooter Business*. Obtained January 20, 2015, de BIKEEurope Connectig professionals : <http://www.bike-eu.com/Home/General/2014/10/Indian-MM-To-Take-Over-Peugeot-Scooter-Business-1617909W/>

*“To not renew the partnership with Hugo Boss has been a decision made by NEXX. The needs we have to partner with them in the beginning changed during time and we would need to negotiate better terms. “*

*Helder Loureiro, CEO of NEXX – Helmets*

During 2012 NEXX has created the Luna helmet made with Swarovski elements. Defined as being simple and luxurious at the same time<sup>8</sup>, it has not only contributed to the brand premium luxurious perception, but also to the brand awareness when it was exposed at the Swarovski Kristallwelten (Swarovski Crystal Worlds) where it could be viewed by seven hundred thousand visitors per year<sup>9</sup>.

More recently during the year of 2014, NEXX has established a partnership with SENA Technologies Inc to develop two new wireless (Bluetooth) communications systems, X-Com and SX.Com.

*“Partnering with NEXX was the perfect opportunity to advance our growing network of industry partners and to help continue providing units for riders that have great quality, contain advanced technology and provide all of the necessary functions while still being easy to use.”*

*Tae Kim, CEO of Sena Technologies, Inc<sup>10</sup>*

## **A constant issue**

Since the beginning one of NEXX’s main problem has been fulfilling the demand. This problem started when NEXX started. The orders after attending the first trade show could be seen as a success but the company was not been neither expecting nor prepared.

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<sup>8</sup> Nexx Helmets . (2014). *About Us 2001-2014*

<sup>9</sup> SWAROVSKY. (2013). *PRESS INFORMATION - SWAROVSKI KRISTALLWELTEN TO BE EXPANDED*

<sup>10</sup> NEXX. (14 January 2014). *NEXX HELMETS SIGNS PARTNERSHIP WITH SENA*. Obtained January 22, at NEXX: <http://nexx-helmets.com/en/media/news/nexx-helmets-signs-partnership-with-sena/21>

*“The main reason for the success of the first order was the friendship of the client; he was more like a partner. Actually he has financed the order production.”*

*Helder Loureiro, CEO of NEXX – Helmets*

The problem could be disassembled into three different direct problems: Firstly are constrains and issues associated with the attaining financial loans, secondly is the lack of space to process the order, and lastly the quality of the labor.

The first problem has several related issues. To the CEO, this difficulty was causing the delay to conclude the factory’s expansion. Helder Loureiro goes further and state the lack of banking power to support the growth NEXX faced during several years (average of 30% year). Another related problem was that the financial institutions (BES) which had supported NEXX during several years faced several problems during the year of 2014.

The problems of space were a bottleneck at different levels. From the production of helmets, to the space to install the paint zone or to assemble the final products, it has been extremely difficult to accommodate a production line able to respond.

NEXX operates in a region of Portugal where there are more helmet manufactures; consequently, the demand for labor (from the companies) is higher than the offer from families. NEXX, being the newest company producing in this region, had to work with less skilled workers than their competitors.

Some decisions have already been taken to address these issues of being short on production. On one hand , in 2014 NEXX did not produce for other brands – once this is not as profitable as producing its own brand (however, this more than just lead to the production of fewer helmets, also leave the space for other competitor). On the other hand, NEXX is making a successful work in increasing the quality of production, as an example from 2012 to 2013, and from 2013 to 2014 the money spent in producing products with defects was constant (production has increased in all the years, leading to an increase in production efficiency). A lot of the effort concerning this matter was in employee skill improvement. Since the quality control process has to be rigorous, it was vital to make everyone understand the importance of being careful in the production of a helmet that is almost hand built.

Another decision from the board was the creation/production of helmets with a lower throughput time, the result was the creation of the SX line, as well as the outsourcing of a share of the production.

## Outsourcing

One way to deal with the increasing demand would be outsourcing part of the production. According to Helder Loureiro, NEXX had different experiences with this management decision.

In 2014, NEXX had a rule which consisted of outsourcing 30% and keeping the remaining 70% in-house. More than just allowing the production of more units, this also allowed managing the risk of possible demand's seasonality (despite of that during 2014 these outsourced units have been kept to fulfill the faced demand).

But NEXX had some bad experiences with this method. On one side there was the risk of low quality; Helder Loureiro commented that the quality demand by NEXX is difficult to achieve (for example regarding sewing criteria) and some suppliers do not perform the required employee training to achieve it. There are also logistical issues. Once again, Helder Loureiro remembers a specific situation: at a certain moment NEXX placed orders for a specific subpart to be delivered in three moments of the same year. The first container had a significant delay and the last one was delivered in advance. The consequence was that the three orders were delivered almost at the same time. Notice that NEXX does the design, production and assembling of the helmets in-house.

## The disruptive helmet

The SX line has a significant lower throughput time if compared with the X line. To produce a helmet of the second line 175minutes are required, to produce one belonging to the first segment the time drops down to 45minutes. Despite of time difference, this was not the only variable taken into account. Both lines have different impact and requirements for NEXX.

The main difference is the raw materials used. SX helmets are made mostly from thermoplastic; X line helmets could be made using different materials: carbon, fiberglass or *tricomposite* (carbon, glass fiber and Kevlar).

These raw material requirements also have an impact on the price of the final product: a helmet made with thermoplastic by NEXX costs between 80€and 200€; a helmet from the X line could cost between 200€and 500€.

This difference between materials is meaningful for the consumer, mostly in terms of impact protection at high speed; the demand for the two lines is distinct and it is segmented by NEXX in terms of usage.

*“We are producing close to 90.000 helmets per year. NEXX has two lines: X, the top of the range (...) and SX for urban use”*

*Helder Loureiro, CEO of NEXX – Helmets*

NEXX’s managers did not analyze only the time requirement for the decision. The CEO stated that the profit margin from producing a premium helmet (vis-à-vis a thermoplastic) was higher. However, the probability of occurring problems along with the overall difficulty in producing a premium helmet is also higher. On the other hand, producing thermoplastic helmets allow NEXX to deal with larger orders creating scale economies.

In 2014, the production of SX helmets accounted for 60% of the total number of units produced and 40% of the revenues (X line accounted for: 40% of the production and 60% of the revenues).

NEXX has other products to launch in the near future to complement these lines. A problem that may occur is the cannibalization of SX lines in favor of this new line due to the kind of technology used and price charged.

## **Handling production**

According to Helder Loureiro, there are important guiding vectors regarding improvement of employee’s skills and knowledge. This also produces an impact over working methodology at NEXX. A great effort is being made by learning with larger companies (frequently outside NEXX industry) and for that reason, NEXX implemented in 2007 the Kaizen method. This methodology could be described as a daily process of improvement. It is composed by three main steps: firstly planning and preparation; secondly implementation and finally the follow up.<sup>11</sup> A worldwide brand

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<sup>11</sup> Glover, W. J. (2014). Events: Assessing the Existing Literature and Convergence of Practices. *Engineering Management Journal* , 39-61

that also applies this work method is the Japanese automotive manufacturer Toyota<sup>12</sup>. The main goal is the constant improvement of efficiency in production.

Moreover, NEXX identified Kaizen method as a process that creates a greater human work environment, reduces the hard work by teaching the employees, independently of the position they may perform on the hierarchy, by applying scientific methods and approaches<sup>13</sup>. This may have a useful role at NEXX as it is expected to reduce waste, leading to an increase in efficiency.

Another process implemented at NEXX, since 2007, to allow an increase in productivity, safety, and quality is recognized as the 5-S<sup>14</sup> methodology.

This methodology is based on five Japanese words: *seiri* (sort), *seiton* (set in order), *seiso* (shine), *seiketsu* (standardize) and *shitsuke* (sustain) (exhibit 9).

The main goal is achieved through a combination of organization, preparing, and cleanliness.

This method is not only designed to involve all the employees as it goes a step further in requesting a cultural shift seeing that it is the foundation for more self-control in the work environment as we as better work and products.

Methods to increase productivity and efficiency in the assembling line play a fundamental role at NEXX when the major problem is fulfill the demand.

There is another field that is embedded in conception and production of helmets at NEXX, safety.

Since 2006 this has been a concern, and for that reason NEXX resorted to a quality certification with the intent of being the first certified company of the industry producing in Portugal (ISO 9001/2008). This was also certified in 2011 by TÜV Rheinland. In the same year, TÜV Rheinland started the certification process of NEXX management system of innovation, research and development regarding helmets manufacture according to the NP 4457/IDI. In 2013 NEXX announces that it is certified.

However, in this industry it is possible not only certify the process, but also the final product's quality. NEXX does it in different ways. Not only by testing the prototypes

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<sup>12</sup> Greimel, H. (2010). Toyota wants more kaizen in its r&d. *Automotive News* , 4-35

<sup>13</sup> Nexx Helmets . (2014). *About Us 2001-2014*

<sup>14</sup> Hossein Hojjati, S. M. (2011). IMPLEMENTING 5S SYSTEM IN PERSIA NOOR FACTORY. *International Journal Of Industrial Engineering* , 425-431

and running product control at the factory, but also by asking for international and established third-party certification. These tests have been done in an independent test center, IBSR – Belgium.

This way, in 2014 NEXX helmets were certified according to three different norms tied to three different regions representing almost 90% of units sold and 88% in terms of revenues. The norms are DOT (EUA), NBR 7471 (Brazil) and ECE 22-05 (ECE stand for European Economic Commission and this norm is accepted in 47 different countries)<sup>15</sup>. For example, the certification by ECE requires certain specifications, for example peripheral vision through 105° from the helmet midline, as well as submitting a sample of helmets and visors up to fifty units to a designated laboratory applying the ECE standards under the United Nations agreement, and verification of quality control during on-going production. The certification also requires approval in several different tests such as: testing the retention system as well as the surface of the helmet for abrasion resistance, impact absorption testing and tests rating the rigidity of the shell of the helmet by measuring the deformation when progressively more load is applied (up to 630 Newtons).

For all these reasons NEXX is proud of the safety of its helmets, stating: “NEXX helmets Offers the highest safety level.”<sup>16</sup>

## Marketing

NEXX wants to compete in a premium segment, or at least does not want to compete in terms of price with products of lower quality. To accomplish this goal, and since NEXX does not have the heritage of worldwide known competitors, an increased marketing effort is required.

This marketing effort is divided in different segments. From partnerships to brand redesign NEXX had played different techniques to accomplish the desired goal.

Partnerships had already been mentioned. NEXX helmets are frequently presented in motorbike manufactures advertisement campaigns as well at sponsored events.

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<sup>15</sup> UNITED NATIONS. (2002). *Regulation No. 22 UNIFORM PROVISIONS CONCERNING THE APPROVAL OF PROTECTIVE HELMETS AND OF THEIR VISORS FOR DRIVERS AND PASSENGERS OF MOTOR CYCLES AND MOPEDS*

<sup>16</sup> Nexx Helmets . (2014). *About Us 2001-2014*



Regarding brand redesign (had occurred in 2006, 2007 and 2011 (exhibit 10)), it was intended to add not only color but also dynamism.

Since the beginning there was an important place for advertisement: the international industry trade shows. NEXX made an additional effort to get a well located spot and the CEO tries to be present in as many fairs as possible. This allows Helder Loureiro to talk personally with the distributors, search for industry news and trends, as well as to research NEXX competitors. These trade shows have a worldwide range, occurring in different regions. For example NEXX is usually present at: Dealer Expo, Indianapolis (U.S.A.); INTERMOT, Cologne (Germany); EICMA, Milan (Italy); JPMS, Lyon (France); MOTROCYCLE TRADE EXPO, Birmingham (U.K.) or FERIA DE LAS 2 RUEDAS, Medellin (Colombia).

Worldwide presence is achieved not only through trade show presence, but also with mentioning at several magazines. Such as: “In Sella”, “International Dealer News”, “City-Z”, “Le Monde”, “Vanidad”, “FHM”, “Reader’s Digest”, “GQ”, “Max” and others.

## Diversification

To leverage their revenues streaming through their distribution network, NEXX had diversified the products sold. At the end of 2014 the products are related with motorcycle riding but in different categories.

In this subset is possible to find two different ranges of products: clothes and helmet accessories.

Clothes are mostly: jackets, pants and gloves belonging to a designed and developed brand in Netherlands – Macna; and footwear (motorcycle boots) from a German well-known brand – Puma.

On the other hand, accessories comprise mostly two categories: communication systems (as result from the partnership with Sena) and *pure* helmet parts: padding systems, covers, screws, visors and others.

Despite of that, the core business stills in selling helmets. The other products revenues are accountable for less than 5% in 2014.

## Distribution

Trough this network, in 2014, NEXX was present in fifty four countries and was negotiating to enter in other seven countries (exhibit 11).

NEXX uses three different types of distributors: distribution made by NEXX (furthermore referred as NEXXPro) and distribution made by distributors with or without exclusivity agreements.

NEXXPro is responsible for its closest markets: Portugal, Spain, France and United Kingdom. Between themselves these four markets represent 41% of the total amount of helmets sold by NEXXPro and are accountable for 39% of the revenues. This distribution is not equally spread between the four countries: France appears as the most significant one and the United Kingdom as being significantly less important.

The two non-exclusive distributors are responsible for the Russian market, accounting for less than 1.6% of the revenues.

All the other regions are covered by exclusivity agreements. Inside this broad category we find different markets, the most significant one is composed by the union of Germany and Austria. These two markets have been attributed to the same distributor which represents more than 22% of units sold and 23% of the revenues streaming.

After this, the most important market is the U.S.A. this one accounts for 4.93% of units sold and 6.24% of revenues. This market as assigned to NEXX-U.S.A.

If during the first years all the distributors were good to work with NEXX, things had changed. In 2014 NEXX could already choose their partners. Issues as aligned values were getting more important with distributors competing between themselves to represent NEXX.

These companies, although, are much more than just product distributors. They are also responsible for marketing the brand NEXX in the assigned countries. This means that NEXXPro is responsible for marketing the brand in the four assigned countries as well as monitoring and orienting the work done by the other distributors. To do this work were assigned in 2014 four employees supported by external marketing agencies (namely in France and Spain). NEXX works with small and national agencies. According to Helder Loureiro this is due mostly to market differences and specifications.

## NEXX U.S.A

To Helder Loureiro one of the distributors represents a major challenge: NEXX-U.S.A. Despite the name until the end of 2014, NEXX-U.S.A was completely independent, without funding: neither from NEXX nor from the founder Helder Loureiro. This had changed in 2014 when NEXX acquired its distributor.

Helder Loureiro also recognizes the riskiness of this operation, for example regarding legal environment. To diminish these problems NEXX is working with a law company used to deal with Portuguese and American companies. The agreement also comprises a clause mentioning an obligation from the previous board management team of NEXX-U.S.A. to help NEXX during the switch-over period. Depending on this is the payment of a part of the purchase total value.

Despite the problems leading to acquisition – for example the debt to NEXX likely unplayable – Helder Loureiro recognizes some of the work done by the previous managers, mostly regarding NEXX’s brand perception as a premium brand.

Another useful work that is already done is the points of sale network. When NEXX took over, NEXX-U.S.A. covered eighteen different regions: Arizona, California, Colorado, Connecticut, Florida, Georgia, Hawaii, New Jersey, New York, Nevada, North Carolina, Oregon, Pennsylvania, South Carolina, Tennessee, Texas, Washington, Wisconsin.

NEXX should keep in mind the possible differences between their current markets, mostly Europeans, and North American. In the end of 2012 the number of registered motorcycles, according the Department of Motor Vehicles, was around nine million. This number is expected to keep rising each year (as an example in the period of 1997 to 2007 the number of registrations increased 75%) despite the lower number of motorbikes sold per year when compared with the values registered from 2000 to 2008 (exhibit 12).

Also raising is the number of female motorbikes ownership, even if during 2009, 92% of motorcycles owners are male<sup>17</sup>.

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<sup>17</sup> Morris, C. C. (2009). *Motorcycle Trends in the United States*. RITA Bureau of Transportation Statistics - Special Report

Another phenomenon linked to the population is the aging and the demographic trends that may produce an impact on the motorbike industry, and on the helmets used as a consequence.

The North American market also has some characteristics. A significant one is the difference between laws at different states (see exhibit 13) – the use of helmets is mandatory for all the motorcycle riders in just nineteen states<sup>18</sup>. Regarding the states where NEXX U.S.A is present, eleven have laws for mandatory use of helmets for all riders.

Finally, however, it is important to consider the stress on the production that the possible increasing demand may have as a consequence of the economic growth expected (exhibit 14) – assuming motorbikes and helmets as normal goods, the economic growth should lead to a higher market than the actual (comparing the potential market with the number of helmets produced by NEXX).

### **Main markets magnitude**

Helder Loureiro highlighted the importance of two main regions as markets: Europe and U.S.A (accounting respectively for 50% and 30% of world's demand) for NEXX helmets industry and products.

As an example, in 2014, the European and American (north, center and south) markets combined are accountable for almost 94% of NEXX's sales and revenues.

Moreover, this is also true for NEXX's the dependence of few markets. During 2014, notwithstanding of being present in more than fifty countries, the most important ten markets represent 80% of units sold and 79% of revenues. The most important five are accountable for 63% of units sold/revenues.

Despite of that, the CEO is aware of the risks of being dependent of few customers/distributors.

For instance, if in 2014 the revenue from the largest customer represents almost 30%, it is NEXX's aim to reduce it to a maximum of 20% during 2015.

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<sup>18</sup> According to the Insurance Institute of Highway Safety, Motorcycle helmet use – February 2015. Available at: <http://www.iihs.org/iihs/topics/laws/helmetuse/mapmotorcyclehelmets>

## 2020 Goal

Define a best of brands with highest revenues within this industry (exhibit 15), (constrained to the brands perceived as competitors - producing quality and world known helmets) has been done by Helder Loureiro, based on information collected from distributors attending at the trade shows. At the end of 2014 NEXX assess to be around eight or nine places if compared with other industry players.

With this information, a mid/long term goal is defined: to be between the top five until 2020.

Helder Loureiro is conscious about what this goal implies. The latest top five was composed by: Arai, Shoei, Nolan, Schubert and Shark.

Not only NEXX is a lot more recent than all the other brands (the youngest one would be Shark founded in 1986), losing not only the potential heritage and tradition, but also requiring an extra effort to make motorcycle riders switch from the other brands as this would mean compete against companies with a different scope, but also fight again the actual customer's brand loyalty. Some examples may include: Shark has more than six hundred employees and five thousand points of sale worldwide selling three hundred and fifty thousand helmets per year<sup>19</sup>, Schubert has their own wind and acoustic tunnels for tests and research<sup>20</sup> or Shoei with increasing sales since 2012 and revenues around one hundred million euros in 2014<sup>21</sup> with each helmet being sold for almost two times the price of a NEXX one.

## Outlook

NEXX managed to perform within the biggest ten manufactures of the industry in less than fourteen years.

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<sup>19</sup> Shark Helmets . (2015). *Shark Group*. Obtained January 25, 2015, at <http://www.shark-helmets.com/company.php>

<sup>20</sup> Schubert Head Protection Technology. (2014). *About us* . Obtained January 25, 2015, at <http://www.schuberth.com/en/company/about-us.html>

<sup>21</sup> MarketWatch. (26 de January de 2015). *Shoei Co. Ltd. (7839)*. Obtained January 25, 2015, at <http://www.marketwatch.com/investing/stock/7839/financials>

Recent efforts have been made to adapt and prepare for the future growth and to go a step forward. Nevertheless, the answers are not yet assured.

The questions NEXX will face during the next years are several: will NEXX be able to manage distribution in a so far away and different market as the U.S.A? Will NEXX be able to produce more than what they can sell with the new factory? Would the investment made in human resources payback? Would a SME based and producing from Portugal able to compete worldwide and take the leadership?

## Exhibits

**Exhibit 1: Number of motorbikes and quads registered in 2011 in Portugal by brand**

ASIA	168 956	23 038	191 994	EUROPA	26 388	5 761	32 149
Yamaha	59 333	4 647	63 980	B M W	6 744	0	6 744
Honda	54 313	2 643	56 956	Piaggio	6 076	0	6 076
Suzuki	26 093	4 949	31 042	K T M / Husaberg	4 481	135	4 616
Kawasaki	10 876	1 304	12 180	Aixam / Mega	137	2 330	2 467
SYM / Sanyang	4 326	618	4 944	Aprilia	1 565	0	1 565
Keeway	3 370	111	3 481	Microcar	5	1 376	1 381
Kymco / Kwang Yang	2 013	1 368	3 381	Ducati	1 271	0	1 271
Daelim	2 442	16	2 458	Husqvarna	1 020	0	1 020
Shineray	110	963	1 073	Triumph	871	0	871
I-Moto	1 015	43	1 058	Peugeot	800	0	800
Eagle Motorsports	0	1 037	1 037	Ligier	48	678	726
Aeon / Motor	115	897	1 012	JDM	0	618	618
Hyosung	935	30	965	AJP	616	0	616
Jonway	874	0	874	Cagiva	539	0	539
Kinroad	459	399	858	Gas-Gas	509	9	518
Bashan	49	559	608	Gilera	256	0	256
Standard Mot Corp	275	211	486	Chatenet	0	227	227
P G O	126	292	418	Bellier	0	213	213
Pioneer	96	281	377	Derbi	166	38	204
Znen	368	0	368	MV Agusta	195	0	195
Dinli	71	293	364	Moto Guzzi	192	0	192
Shenke	142	219	361	Anfesa	176	0	176
LML	317	0	317	Jawa	172	0	172
Masai	0	310	310	Husaberg	169	0	169
Kangchao	0	296	296	Beta	141	0	141
Skyteam	249	0	249	Grecav	0	137	137
C P I	47	199	246	MZ / MUZ	122	0	122
Adly Moto / Her Chee	23	196	219	Ural	117	0	117
Linhai	27	185	212				
Xinling	0	204	204	<b>AMERICA</b>	<b>7 802</b>	<b>4 463</b>	<b>12 265</b>
Mega	9	191	200	Polaris / IPS	4 714	2887	7 601
Locin	193	0	193	Harley-Davidson	2 408	0	2 408
Kreidler	176	0	176	Bombardier	523	908	1 431
Access	0	174	174	Arctic Cat	94	668	762
Hsun	17	155	172	Buell	63	0	63
Jianshe	157	0	157				
Jocksports	0	144	144	<b>Other Brands</b>	<b>2 854</b>	<b>2 238</b>	<b>5 092</b>
Wangye	119	0	119				
Fosti	114	0	114				
Lifan	107	0	107				
Gsmoon	0	104	104	<b>TOTAL</b>	<b>206 000</b>	<b>35 500</b>	<b>241 500</b>

Source: AUTO INFORMA

**Exhibit 2: X60 Vintage**



NEXX X60 Vintage helmet

Source: NEXX Helmets

**Exhibit 3: X60 Demin**



NEXX X60 Denim helmet

Source: NEXX Helmets

**Exhibit 4: Coolkids**



NEXX Coolkids helmet

Source: NEXX Helmets



Exhibit 5: Core & Groovy





NEXX Core helmet



NEXX Groovy helmet

Source: NEXX Helmets

Exhibit 6: Motorrad test

	Fit/Wearing Comfort	Aerodynamics	Acoustics	Ventilation	Handling	Equipment/Processing	Weight	Safety	Sum	MOTORRAD Performance*	Price in Euros**
Maximum Score	20	10	10	10	10	10	10	20	100		
<b>Nexx XR1.R</b>	20	10	8	8	8	8	10	20	92	very good	249,00
HJC IS-17	19	8	9	9	9	10	7	20	91	very good	199,90
Shark S 900C	19	7	8	9	9	9	6	16	83	good	229,95
Caberg Ego	17	8	7	8	7	9	7	18	81	good	199,90
Nolan N86	17	7	6	8	6	9	7	18	78	good	199,95
Held Brave	16	7	5	6	8	8	7	18	75	good	149,95
Nexo Fiber Confort Air	18	8	4	6	5	8	8	15	72	good	205,90
LS2 FF 396	18	8	4	6	5	7	7	14	69	satisfactory	199,90
IXS HX 510	18	6	4	5	7	7	5	16	68	satisfactory	149,90
Probiker RSX5	9	4	4	5	6	7	8	18	61	satisfactory	149,95
Givi 40.2 GT	10	5	4	5	5	6	6	18	59	satisfactory	179,00
Rocc 520	10	5	4	5	5	7	7	16	59	satisfactory	149,95

\*100 to 85 points = very good; 84 to 70 points = good; 69 to 55 points = satisfactory; 54 to 40 points = unsatisfactory; 39 to 0 points = bad;  
 \*\*Base Model in plain color or current price

Source: Nexx Helmets , 2014

### Exhibit 7: MCN Review



**Broad visor provides an excellent field of vision**

**NEXX XR1R CARBON HELMET, £299.99**

 **Tester:** Dan Aspel  
**Miles covered/ time:** 1000/two months

**What's good:** This is the best road helmet I've worn. The visor is very tall and broad, giving a fantastic field of vision. Unlike any other lid I've worn, the vents actually work and deliver a good flow of cool air to your brow. It's extremely light (1300g), making it a joy to wear on longer trips. Adjustable and removable linings give a good fit, and sound levels are low even at

motorway speeds. And it's one of the best looking helmets around – Nexx deserve an award for it.


**What's not:** The visor hasn't a quick-release system but uses coin-size aluminium screws. Nexx include Pinlock posts in all their visors, making fitting an anti-fog insert a 60-second job. The non-carbon XR1R costs £100 less, which is worth considering if you're budget conscious.

**Contact:** [www.nexx-helmets.com](http://www.nexx-helmets.com)

**Rating:** ★★★★★

Source: Nexx Helmets , 2014

### Exhibit 8: Hugo Boss and NEXX





**HUGO BOSS**

HUGO BOSS and NexxPro are two companies that are known for their high design standards and global experience.

We share the passion for modern designs, for the use of high quality material and most of all for satisfying the demand for masculine lifestyle.

"Style meets Technology" was the motto when we created this highly aesthetic helmet.

BOSS Black Menswear

Source: Nexx Helmets , 2014

**Exhibit 9: 5'S**



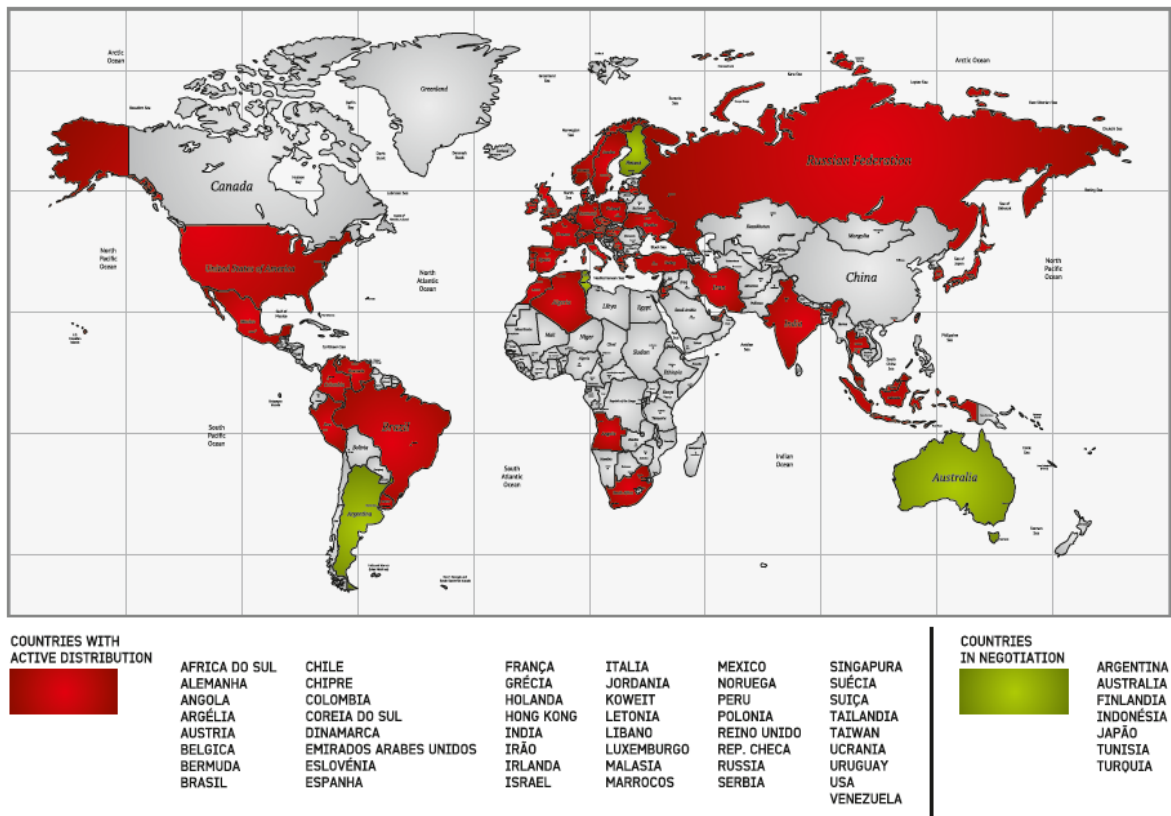
Source: Adapted from EPA United States Environmental Protection Agency, 2011

**Exhibit 10: NEXX image from 2006 to 2011**



Source: Nexx Helmets , 2014

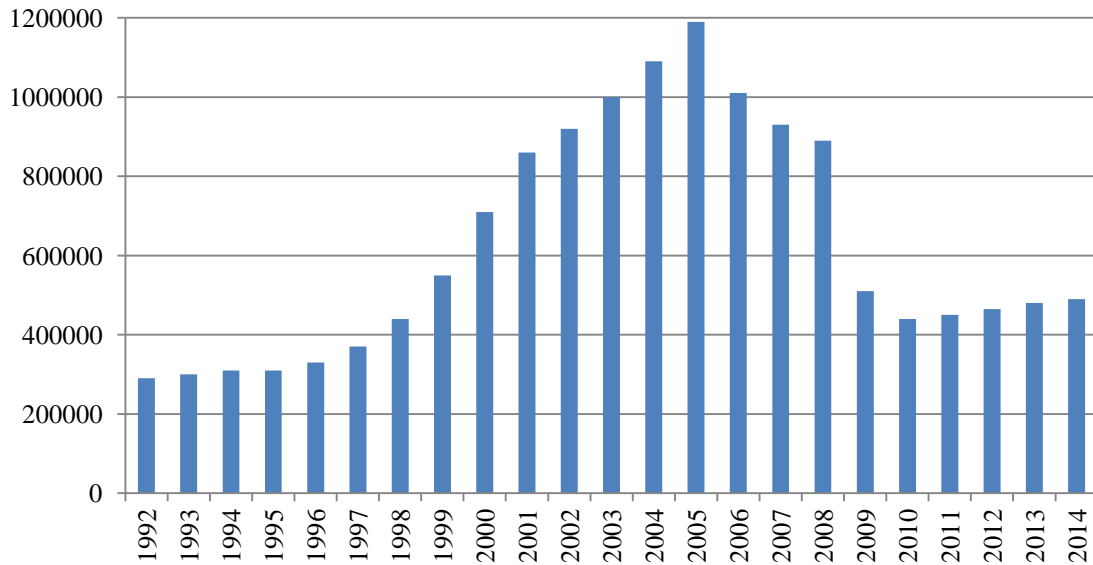
**Exhibit 11: Distribution**



Source: Nexx Helmets , 2014

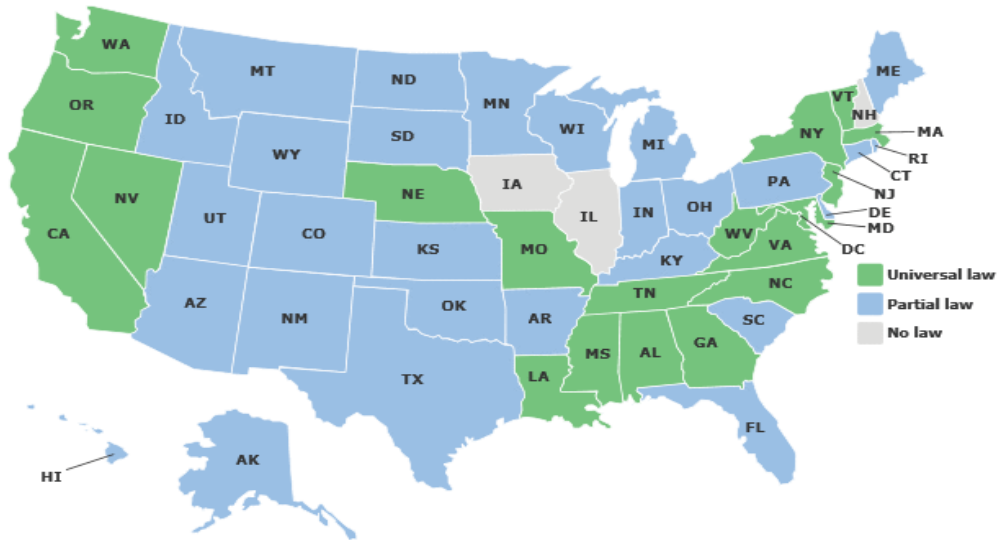
**Exhibit 12: U.S. Motorcycles sales by year 1992-2014**

**U.S. Motorcycles sales by year 1992-2014**  
Includes: Dual Sport, Off Road, Street, Scooter



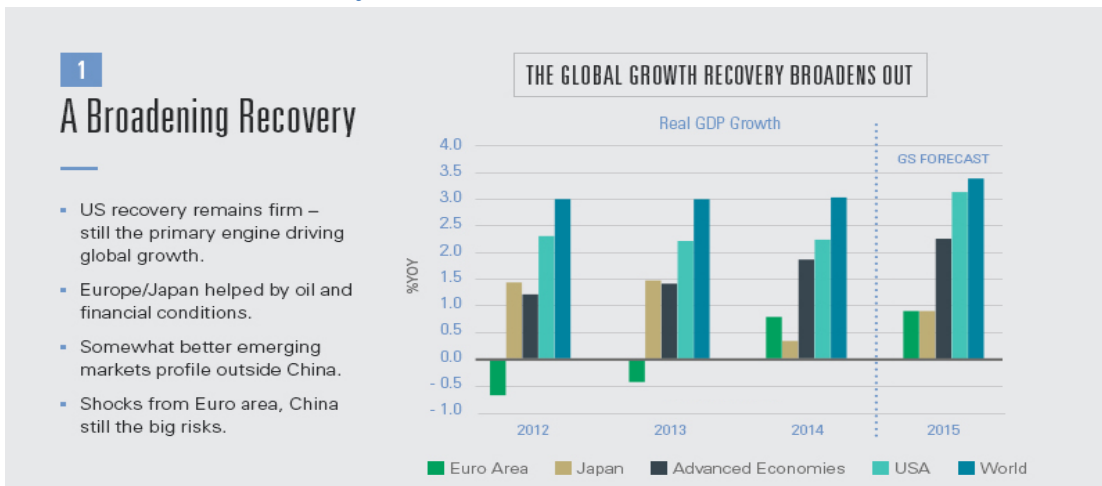
Source: WebBikeWorld - 2014 U.S. Motorcycle Sales Totals

**Exhibit 13: Motorcycle helmet laws at the U.S.A**



Source: the Insurance Institute of Highway Safety

**Exhibit 14: Growth Recovery**



Source: Haver Analytics, Goldman Sachs Global Investment Research

**Exhibit 15: Best selling brands by revenues**

Best selling brands
Arai
Shoei
Nolan
Schuberth
Shark
AGV
HJC
NEXX
Cabberg
(...)

Source: Helder Loureiro

## Literature review

### Introduction

The aim of this chapter is to review some of the tools that can be applied to the analysis of NEXX's development, as well as to help understand some of the decisions made by the management team. Other tools could also be applied to analyze different topics.

These can be divided into two main chapters, one related with the business strategy, company and environment analysis, and another reflecting on some of the questions related with internationalization.

### Strategy

Strategy is the conception of a valuable and unique position, based on a specific set of features (Porter, 1996). To analyze them the tools described in the next section could be useful.

### Strategic thinking

Strategic thinking is a concept without a clear definition established between authors. There is however an agreement in respect of some of the features this concept must contain, being commonly mentioned features such as: creativity, intuition, synthesis ability, creative dialogue within the company, the involvement of all the human resources available, or even innovation.

There is also an agreement about the common ends of strategic thinking. It is possible to see frequently mentioned goals as: new opportunities identification or development, development of new ways to compete within the industry, or, ultimately, creative ways to increase customer value.

The concept, including features and goals, has been summed up by Harrison as: the creative and intuitive process that generates new ideas and creative solutions (Harrison, 2003).

Another self explanatory definition, available on the literature, could be useful to define the process. Creative thinking is an intuitive ability to perceived the world (Gorzynski, 2000)

### The strategy clock

According to Porter (Porter, 1980) it is possible to define three main competitive strategies based on combinations of two variables: competitive scope and source of competitive advantage.

Competitive advantage is the ability the company has to develop a greater economic value than its competitors (the difference between the perceived value and actual cost).

This difference could be maximized with two different sources of advantages: by decreasing the cost or increasing the value perceived – differentiate. Porter viewed that these sources of competitiveness would drive the company into profitability above the industry average.

The other variable, competitive scope, refers to the decision if this value proposed should be guided to the majority of the market (broad target) or to a smaller segment (narrow target).

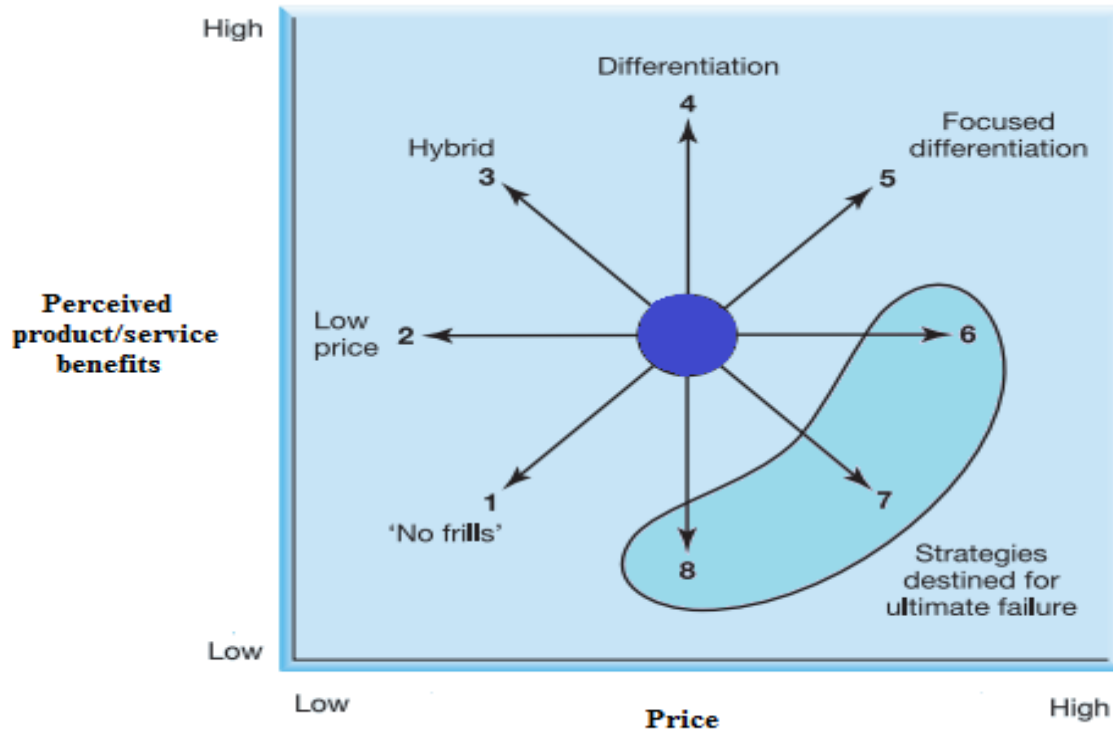
This way the three different strategies could be: cost leadership; differentiation or focus. The focus strategy stated the company as the one which the focus is the smaller segments (notwithstanding focus strategies aim at cost focus or differentiation focus in narrow niches).

This model developed by Porter implies a discreet scope; being the companies obliged to choose one of the strategies. The result of trying to choose more than one strategy should be a “*stuck in the middle*” situation (differentiate should be costly and cost leadership should constrain the aim for differentiation being this inconsistent). Apart from this, some authors have pointed critics to this discreet methodology arguing with empirical findings. This discreet methodology is converted to a continuous path with the price-benefit perceived zone (Cardeal, 2014). In this framework the alternatives are endless by combining two variables: the benefit perceived by customers and the price charged by companies.

In the framework, eight main routes are possible. Number one is defined by the authors as being likely to be segment specific and based on cost leadership; strategy number

two claims the need of a cost leader advantage to support the risk of price war and the low margins.

Then, three main strategies towards differentiation in different ways: strategy number three low cost base with reinvestment in low price and differentiation; strategy number



Adapted from: Johnson & Scholes, 2006

four may be divided in two new groups: with price premium (perceive added value sufficient to bear price premium) or without; the fifth and last of the group, focused differentiation with higher value to a particular segment and warranting price premium. As stated by the authors, the remaining three possible strategies are most likely to lead to failure; being the sixth based on increased price and standard value, the seventh in increased price and low value and finally the eight in low value and standard price.

## PEST

The context surrounding any company may withhold several different variables. Some of these factors could be perceived through the PEST analysis. These broad macro environmental factors can affect the company and for this reason should be taken into account when a strategy is defined (Johnson, Scholes, & Whittington, 2007). The acronyms stands for the categories described below.

Political comprehends all the aspects involving political decisions; affecting several industries, this factor may include different laws as well as specific regulation.



Economics comprise a broad range of indicators such as income levels, unemployment, interests and inflation rate.

Socio-cultural includes aspects as values, ideologies and customs of each society.

Technological, as all the others, include diverse aspects such as rate of technological change, R&D measurements, innovation etc.

Environment and legal aspects are the last two mentioned in the PESTEL model that could be comprised into the shortest one as it will be done in the analysis performed in the following chapter.

### Porter's 5 Forces

Porter's 5 forces is a model developed that could be used to assay a specific industry attractiveness.

The diagram presented identifies the five forces used to measure the attractiveness based on expected profitability.

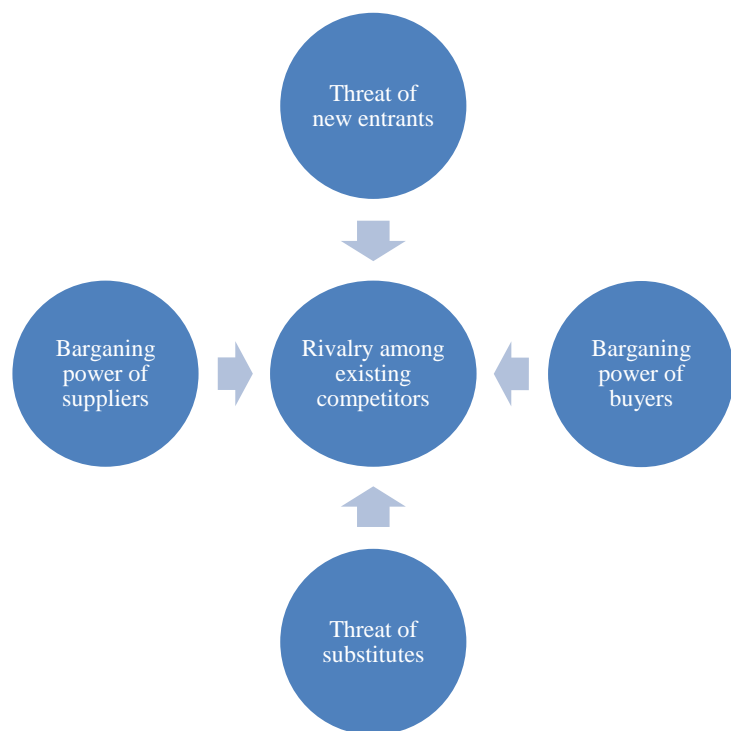
The forces that operate within each industry have an impact over all competitors, even if the

company's positioning Adapted from: Porter, 1979

may change the way the market perceived it.

Notice that, according to the model, profitability rises from competitiveness magnitude.

Moreover, this framework could also be used to assess if a specific company would be able to bias or exploit specific features of the industry in which it plays (Freire, 1997).



## Porter's Diamond Model

National environment and context may influence industry competitiveness settling innovation and progress. According to Porter, the main four factors shaping an industry, and which could be analyzed through the *national diamond model* (Porter, 1990), are: demand condition, endowments (factor conditions), related and supporting industries as well as strategy, rivalry and structure within the industry.

When national demand is more challenging it creates a higher pressure over the company, forcing it to be more competitive as well as more innovative. In this way, these companies are more suitable to compete internationally.

Factor condition is about the inputs required to produce (such as human resources, knowledge, capital or infrastructures). Prices and availability of resources are fundamental to establish a company.

Supporting and related industries may play an important role as a company's performance may depend on their suppliers and other related industries' competitiveness (the higher the competition, the lower the price should be).

Finally, strategy, rivalry, and structure within the industry may lead to similar effects to the demand factors influence (Cardeal, 2014).

## Industry Life Cycle

Product life cycle is a marketing concept (Levitt, 1965). Similar to this concept is the one of industry life cycle (Porter, 1980) which is composed by four stages: introduction, growth, maturity and decline. Each of these have specific features.

During the introduction, traditionally there are few companies competing in the market, being the same relatively small.

As the markets become larger, it initiates the growth stage with increasing sales for the companies. This market potential traditionally tends to bring more companies into the market.

The third stage embraces an increase in competition and rivalry between companies. As the market size tends to a limit, increasing market share for company A implies a reduction in its competitor's sales.

The last stage is featured by a decrease on the total market volume and size with companies leaving the market.

As industries tend to produce more than just one product it is usual that industries last longer than its product life cycle. The duration of each stage may also be highly different between industries and is not static or predefined being possible for an industry going from a declining stage into new growth.

## Ansoff Matrix

Ansoff (Ansoff, 1987) described four ways to play for growth regarding volume of sales - divided between new and existing products as well as new and exhibiting market.

Notice that the following strategies may be combined between them.

Market penetration is thought to increase the volume of sales trough pushing existing products into the actual segments.

Market development aims to export the current products in new markets (being, however, possible to adapt the product range to fit into new segments).

Product development wants to increase sales by creating specific products to current markets (levering the previous knowledge and connections).

And finally, diversification occurs when a company decides to achieve new markets with new products.

## SWOT

SWOT analysis could be used to parse several categories (from products to companies) and appears to be between the most commonly used strategic tools worldwide (Cardeal, 2014).

This framework is a structured method to analyze companies' internal (strengths and weaknesses) and external factors (opportunities and threats) (Andrews, 1971).

Strengths are features that are perceived as giving advantages when compared to the competitors, weaknesses are factors viewed as disadvantages.

Opportunities are aspects that can be exploited into company advantage and threats are issues that could cause troubles and problems.

Despite being commonly used SWOT may have some problems (such as weak theoretical basis or yields to banal or misleading results) which have been referred by several authors (Everett, 2010).

### New SWOt

Based on the tool previously described a new approach has been developed.

Assuming threats could be faced as opportunities the analysis is done by analyzing the ones created by the strengths and weakness trough time (Freire, 1997).

This analysis highlights the importance of managing and adapting the company's strategy to the time and context faced, helping to prevent some of the most frequent issues leading to the inefficient use of opportunities: company delay to react (once again highlighting the focus into time in this analysis); lack of proper resources (by identifying future opportunities it may be possible to adapt and prevent this destiny) and lack of strategic thinking by companies managers (in this case, if the opportunities are not taken into account, it means the problem was not properly identified).

### Porter's Value Chain

The analysis of a company's internal features, with the goal to find and indentify strengths and weaknesses, may be performed by subdividing the company in different pieces and then analyzing them independently. Porter's value chain is a framework developed by the same author (Porter, 1985) that could be used to perform this work, as it divides value creation in several distinct activities performed by the company.

These would belong to two main groups: primary and support activities.

Primary activities comprehend inbound logistics (managing suppliers as well as all the needs to storage and receive the inputs); operations (managing the process to transform inputs in outputs); outbound logistics (related with moving and storing the final products and related information); marketing and sales (activities to capture customers and their over time value) and service (all the customer support after product delivery).

One the other hand, support activities embrace: firm infrastructure (supporting activities bonding the whole company); human resource management (including all the activities related with personnel); technology (related with the soft and hardware as well as skill

required to process the inputs) and procurement (acquisition of resources from other suppliers).

Moreover, in some companies, like manufactures, this chain is more easily identifiable than in others, like service suppliers. More than just leveraging the value creation for customer value chain, it is also helpful towards identifying core activities. The activities outside this core group may be performed through outsourcing by more efficient companies.

### Contract Manufacturing

A contract manufacturer (CM) is a firm producing products for an original equipment manufacturer (OEM). This agreement may comprehend the assignment of a part of the production chain, up to all the production stage (Cheng, Cantor, Dresner, & Grimm, 2012).

Companies engage into contract manufacturing for several reasons, such as: flexibility (allowing improvements regarding managing demand fluctuations); saving money (regarding investments required to establish production lines that are no longer required) and leveraging the supplier capabilities (concerning knowledge or even technological requirements, ultimately this would have an impact regarding products costs, as a result of the supplier specialization).

There are however reasons that push companies away from this agreement: logistical problems and quality issues, there would also be issues concerning transfers of knowledge or industrial know-how that may result in security breach or leaks of information (Blanchette, 2004)

Finally notice CM only refers to manufacture activities.

### Internationalization

A firm may choose between remaining domestic or expanding into international markets depending on the trade of benefits and risks or costs (Porter, 1985).

Internationalization could be described as the increasing involvement in international operations across borders comprising changes perspectives and dimensions, in order to achieve this goal a sequence of stages may happen (Melin, 1992).

To understand how NEXX's internationalization occurs some tools may be useful, which are described until the end of this section.

## Entry Modes

There are two different main groups of internationalization: contract based (non-equity) or through direct foreign investment (equity). Between them we may find significant differences regarding the level of control, as well the amount of resources committed.



Adapted from: Bartlett & Beamish, 2011

Indirect export implies selling products through an agent or distributor, on the other hand, when the company is exporting it requires a sales delegate or a sales and logistics subsidiary, for example. Joint venture is a business agreement made to develop in a defined time a new entity with proper assets, not present in the case. The concept of owned subsidiary is described by the name itself.

The differences between licensing and franchising are more subtle. Franchising is a model that includes all the business model and brand, keeping the franchiser a considerable level of control over the franchisee (being able to define for example the template of the store or the uniforms). In the licensing model, a company sells licenses to other companies to use some features as intellectual property, design or brand without control the licensee's operation.

A fundamental question present during all the decisions regarding the internationalization process is the knowledge about the foreign market targeted.

## International strategies

The approach made by the company to the foreign markets, as the last topic covered, may vary- But also the way of managing the operations and the relation between the head quarter and the external market could be different.

In this case, two main variables should be considered: the level of global integration and the level of local fit. The combination of these variables (in a high vs. low level) creates a framework with four categories: international, global, transnational and multi-domestic (Cardeal, 2014).

When both variables are considered low – international organization – it is expected to find the key resources and abilities centralized on the country of origin. These resources could be exploited (even if with some local adjustments, regarding for instance, marketing or even the product size). In this case, with the analysis being performed about a manufacturing company is expected that the manufacturing process occurs in the country of origin, being the products exported at the end.

If both variables are considered high – transnational configuration – companies try to use the global efficiency, the global knowledge acquired and local requirements to increase customer value. This requires a set of specific, dispersed, and independent abilities.

With a high level of global integration and a low level of local fit – being a global configuration – the activities could be spread around the different countries where the company is present (R&D could be based in country *A* and production in country *B*). This configuration tends to require a higher level of coordination (than the international configuration) to be efficient (regarding for example economies of scale). The benefits could be more useful to industries where the cost is an important variable, being efficient and taking advantage of the differences in cost of material at the different countries is important to be cost efficient overall.

On the other hand, with a low level of global integration and a high level of local fit – the multi-domestic configuration – the head quarter perceived each subsidiary as being an independent company (being possible to have some operations as R&D could be based on the country of origin). Each subsidiary is in this way responsible for a set of specific countries, without taking into account the performance of the company on the other markets and with low coordination.

## COO Effect

More than just product quality there are other factors affecting customer perception. One of this is the “made in” label reflecting the country of origin effect. In this case, the perception is biased regarding the origin of the product. The country perception, which embraces different factors such as economic performance, traditions and representative products, is used as stereotype attached to the products (Roth & Romeo, 1992).

## CAGE Framework

	Cultural Distance	Administrative Distance	Geographic Distance	Economic Distance
External Distance (between countries)	<ul style="list-style-type: none"> <li>• Language</li> <li>• Ethnicities</li> <li>• Religions</li> <li>• Lack of trust</li> <li>• Values and norms</li> </ul>	<ul style="list-style-type: none"> <li>• Colonial ties</li> <li>• Shared regional</li> <li>• Common currency</li> <li>• Political hostility</li> </ul>	<ul style="list-style-type: none"> <li>• Physical distance</li> <li>• Lack of borders</li> <li>• Differences in time zones</li> <li>• Differences in climates and environments</li> </ul>	<ul style="list-style-type: none"> <li>• Differences in cost of resources, infrastructure, information or knowledge</li> </ul>
Internal Distance (attributes of each country)	<ul style="list-style-type: none"> <li>• Insularity</li> <li>• Traditionalism</li> <li>• Spiritualism</li> </ul>	<ul style="list-style-type: none"> <li>• Closed economy</li> <li>• Corruption</li> </ul>	<ul style="list-style-type: none"> <li>• Geographic size</li> <li>• Geographic remoteness</li> <li>• Weak transportation or communication networks</li> </ul>	<ul style="list-style-type: none"> <li>• Economic size</li> <li>• Low <i>per capita</i> income</li> </ul>

Adapted from: Ghemawat, 2001

This framework includes the four dimensions that are useful to access the differences of the foreign market, according to Ghemawat, that are more than just physical distance. Furthermore, the framework also comprises unilateral differences – variables analyzed by the company – and bilateral differences – variables requiring deeper analysis. The presented dimensions are composed by factors with different influence over the decision taker, shaping an entrance strategy that fits the new market needs and the company’s features.



## Teaching Notes

### Introduction

The following section aims to be a “user guide”, with some suggestions and recommendations for the case-study use.

The case-study was written in order to allow the use of the tools described in the literature review on the following suggested questions, which should be made available for students and used for class discussion. The analysis provides some guidelines on how the class discussion should be conducted but does not want to restrain other interpretations or even conclusions.

The case was written in a certain time frame, the reality may change and more information and analysis tools may be available in the future.

### Case synopsis

NEXX is a Portuguese based company created in 2001. The initial intent was to fulfill a gap in the international market identified by the owners with a clear vision of quality, well designed, and well-priced helmets.

To achieve a positioning and brand awareness at a worldwide level, an increased effort has been made – NEXX had to lead the national helmets industry regarding, for example, certification and process or material applied during the manufacturing phase.

Two constant vectors for the brand have been: differentiation and searching for other markets – geographic expansion mostly by direct and indirect export, being present at the end of 2014 in more than fifty countries.

More than just distribution, the distributors’ network is one of the most useful resources. More than the market knowledge, these players have leveraged the product diversification to other motorbike accessories.

The initial goal maybe seen as achieved when NEXX was, by the end of 2014, among the top ten players in the industry and enjoys international reputation and perception as a premium brand.

The growth, however, has been constrained by different factors. From the physical limit of production to the financial stress due to the lack of funding and bank support which

has caused NEXX to not be able to fulfill demand since the beginning of its operations. The use of contract manufacturing was a way to handle production in order to produce more units avoiding unnecessary risks of investments.

At the end of 2014 a significant investment abroad was made through the acquisition of NEXX-U.S.A. setting the path for higher level of control on a faraway market.

The challenges were present since the beginning, additionally, was present the long term goal of being between industry leaders. As time went by, some challenges were surpassed and NEXX achieved a well-established and recognizable position among their competitors. When this goal was achieved, a new goal emerged, more than just being among the best, the company wanted to be among the of top five industry leaders before the year 2020. How sustainable growth should be managed and strategy should be suited to achieve the desired position are some of the most significant challenges for the future.

### **Suggested assignment questions**

The following questions are suggestions to guide the student through the case, these should be assigned with the case before the discussion in order to be prepared:

1. Why have the contract manufacturing agreements made so far so important for NEXX?
2. Increasing output? Yes or no? How? What are the main risks arising?
3. Analysis of U.S.A case.
4. How could NEXX's internationalization be described? What has been the importance of distributors?
5. What are NEXX's main advantages and resources? Has NEXX created and taken opportunities in the market?
6. How could NEXX be compared to their identified competitors? What are the main differences and concerns?
7. In the long run, could NEXX compete with the established competitors?

### **Teaching objectives and use of the case**

This case pretends to analyze a real life company in the middle of a specific industry. This way the information cannot be as complete as it looks in the text books or as it would be in some others high regulated industries. The information about the industry,

as well the information made available for managers is limited. Once again, the role performed by distributors is essential, being between the majority of the companies and consumers, they are some of the players with higher levels of information. For the majority of competitors and also for NEXX there is also information that should not be disclosed. This is a situation the student and teachers must understand.

Mostly for this reason, to perform the company analysis, students must do an effort to apply the strategic thinking mentioned on the literature review.

More than the creativity required, it is also necessary general knowledge of the markets and economic tools which are useful to understand and perform the analysis of NEXX. In this way, the suggested analysis may include some conclusions that are not exclusive for NEXX, despite also being true in the particular case.

The main objective would be:

1. Understand the challenges and limitations on the decision-making process and surpass them;
2. Understand a possible path for the internationalization of a SME;
3. Exemplify a way to enter in a foreign market postponing equity investment;
4. Provide an example for the use of contract manufacturing;
5. Use of tools previously taught in the classroom to the specific situation within the limitations;
6. Allow students to set possible recommendations for NEXX's future;

The case could be used on courses related with strategy and/or internationalization such as strategic and advanced strategic management or international industry analysis to illustrate the internationalization of a Portuguese based company.

## Analysis

### Why have the contract manufacturing agreements made so far so important for NEXX?

One of NEXX's main problems, and the main topic of the case, is related with the effort to keep up with the demand faced.

In the literature review several different costs and benefits of contract manufacturing have been addressed, in the specific case it is important to highlight one benefit: **flexibility**. In this case this is related with the ability to increase the total output

produced holding the ability to decrease this quantity with lower costs for the company if some externality occurs in the market.

Contract manufacturing has also made it possible to **postpone investments** related with producing facilities' expansion. This allowed to drive profits and cash flows to other areas (such as marketing and product development and also to establish methods to increase production line efficiency) creating an established brand and a responsive company focused on the specific features and aspects perceived as sources of value for the final customers.

Moreover, and keeping in mind NEXX as a SME with limited bargaining power and high demand expectations, the maintenance of these agreements are useful to establish successful **partnerships**. The costs of switching from contracted manufacture in the middle of the agreement could be higher, not only in terms of legal issues and refunds, but also in terms of frustrating market expectations. With future consequences: more than just lose one sale, it may end the customer life time value (one of the industry specificities is customer's brand loyalty).

Some of the costs of this process are explicit in the case, such as the referred logistics difficulties or the possible quality issues, but another one was not pointed out so far. The main ambition of NEXX is to be an efficient helmet manufacturer. To allocate a share of this production implies, somehow, to deal with less efficient partners. This inefficiency results in a **higher cost** of contract manufacture *vis-à-vis* producing in house.

An important issue that may arise in this type of contract and which is not present in this specific industry is **knowledge disclosure**. Useful information about production techniques might be applied by contract manufactures companies, not only to bargain the price but also to get other helmets brands as clients in the future. However, in NEXX's case, the majority of these techniques are already used by competitors, not being a sensitive asset.

### **Increasing output? Yes or no? How? What are the main risks arising?**

The output increase has been seen as useful and important as there are signs of unfulfilled demand. The first risk important to highlight is the uncertainty about the likelihood of this possible demand shift from the competitors to NEXX and become

real. So far, NEXX was in a position of being able to sell the entire production but the increased output may end this situation.

Nonetheless, the risks of this measure are several. NEXX is perceived as a quality manufacturer, assuring quality even with an increase of quantity produced would be important not to damage the brand. Moreover, the increase of production *per se* is not the intended, more than just to produce it is important to assure the logistical work related with the shipment to distributors.

To assure the efficiency of the production line, other investments would be required, in automation and equipment or concerning human resources. These investments could induce financial stress if not well analyzed.

Finally, it is important to be aware of one risk, which was a concern before the expansion: would the increasing output be sold in a way that would increase the dependence of a few customers?

Besides, it is important to recognize the possible impact of switching the focus on the value chain decreasing the value perceived by buyers. Output growth would increase the pressure particularly over inbound and outbound logistics as well as over operations. Other primary activities such as marketing/sales and customer service, as well as other support activities (which had suffered significant investments during years, and have been presented in the case as important vectors for NEXX) such as technology or human resource may suffer with this decision, decreasing the overall value created.

Assuming the main goal of a for-profit organization as being value creation for the shareholders (which could be measured as profits), this could be one of the possible desired outputs of increasing production (others, as occupy the market space and decreasing the market share of the actual competitors might be possible). Other solutions might also produce the same output. Indeed the increasing of output may contribute to this in two main different ways, on one hand by increasing the volume sold, and, on the other, by decreasing the average cost of product sold (possible consequence of economies of scale, learning etc). However, theoretically, it could be useful to see the possible effects of demand and supply curves. Increasing the output could lead to lower price but another solution to increase profitability may exist. Being in a model where the supply is short once compared with the product's demand, the consequences of a price increase (defining the equilibrium where the quantity demanded is equal to the current maximum number of units produced) should produce an increase in revenues, the maintenance of the average cost, and, as a consequence, the increase

measured in terms of profits. This would also avoid some of the risks of increasing production. In this case, the main risk is the deviation of reality when compared to the theory.

### **Analysis of U.S.A. case**

To perform this analysis several different tools might be used. Among the ones described during the literature review, four are particularly useful to access different aspects. PEST analysis aims to describe the main environmental factors shaping the industry; industry life cycle will be useful to understand the stage in which the industry is; Porter's five forces will access the overall industry attractiveness in this country; and the CAGE framework will balance the attractiveness comparing the distance between the markets where NEXX is and U.S.A.

Political and legal environment is more instable than the one faced in Europe. Not only due to the risk of terrorist attacks but also due to the lack of agreements between republicans and democrats. Furthermore, due to the political organization, some states may have different laws regarding the use of helmets – as example, Illinois and Iowa have no laws regarding the use of helmets but in nineteen other states the use of helmets is mandatory.

Political decisions also produce impact over the economical environment. In this case, the economical measures after the crisis of 2008 had an impact over the economic power of buyers, decreasing it. Also the measures related with taxation and requirements for imported products decreased the competitiveness of these when compared with the ones produced locally. Nevertheless, it is important to keep in mind that the U.S.A remains the largest economy in the world, facing a decrease in the unemployment rate since 2010 and with a level, at the end of 2014, almost equal to half of the registered in the euro zone.

Cultural aspects also have an impact on the use of motorbike helmets. For instance, it is frequent to see in different movies and television shows bikers riding without helmets in the North American territory. Moreover, considering the aging of the population and the trends in the region, it is important to be aware of the impact this can produce over the motorcycle and accessories industry.

United States is one of the countries that registered higher expenditures in research, development, and innovation. However, notice that none of the main competitors

identified in the case are based in the U.S.A. For this reason the role played by this technological environment industry is less important.

In this way, and overall, the vast majority of the pros and cons of being part of the U.S.A market are common to the vast majority of the industries. Some of the factors that could generate higher impact are “rules” previously established (importation barriers, taxes or laws in different states). The specific industry even allows to surpass some of the barriers (for example none of the competitors being based in the U.S.A). The business model configuration (a multinational company producing in Portugal and exporting to the foreign market) allows to use the factory efficiency to produce in a more efficient way.

Knowing the rules is mandatory for NEXX to be able to be part of the market in an efficient way being profitable for the shareholders.

Identifying the life time cycle this industry is facing is not easy due to the lack of information. Yet, it may be possible to do it based on the more broad motorbike industry.

The case pointed the recovery in sales during the last years, but, comprehending the period from 1992-2014, it is possible to visualize that the sales registered in the last identified year are less than half of the registered in 2005. Additionally, some brands leaving, not only this market but closing all operations, may imply that the industry can be *reviving* from a maturity stage.

Despite of some competitors leaving, it is also true that threats of new entrants could be considered high. The issue may not be related with the U.S.A. market but with this particular industry. Financial resources and knowhow are useful to establish a brand, as NEXX case states, but if a new player sees the market as attractive, and as being able to pay off the investment, the legal barriers to entry are low.

Threat of substitute products, however, is not as worrying. As matter of fact, there are some states in which the use of helmets is not mandatory, but even in those states there are no substitutes for helmets. In NEXX specific case, talking about some particular segments of the market (concerning design, materials, quality and price) what could happen is substitute one kind of helmet for another (for example, a full face helmet for an open one or a carbon fiber helmet being substituted by one made of thermoplastic).

In the majority of industries we may identify different kinds of suppliers, from equipment to material or even services’ suppliers as consulting or legal support. However, the strategy for internationalization of NEXX does not imply a broad range of

suppliers in the U.S.A. Being a distributor, the product will be supplied by the factory back in Portugal. This way, the other suppliers will tend to provide mostly services, the bargaining power will be limited for the knowledge NEXX has of the market and its network. To limit this, there is the support of the previous management group of NEXX-U.S.A.

There are some markets where NEXX have large individual buyers; this tends to happen in less developed countries like in Latin America or Africa. In the most developed markets the bargaining power of buyers is much more limited, what exists is the bargaining power of large retailers. So far this has not been a concern, this power emerges when a manufacture has a product that cannot sell; for this reason it becomes more dependent of the large retailers. It is also true that this may be a risk, with less knowledge and less presence of the market being present in large retailers might be an easier way of sell the product.

This all leads to the rivalry among existing competitors in this *new* market. The case highlighted the U.S.A. market as the second most important region for NEXX and competitors, this way it is expected to face more demanding rivalry leverage by some barriers NEXX may face during the first period.

Finally, as previously stated, the CAGE framework is useful to understand the attractiveness of the U.S.A. market despite the physical difference.

Cultural differences have been accessed in the PEST analysis, the most significant difference that would be useful to add is the possible language barrier. In this case, and as NEXX is already present in markets such as the United Kingdom, this should be a minor problem.

Administrative differences are more meaningful; United States does belong to the OCDE, but is not a member of the European Union and has a different currency. Every state may have differences in laws and regulations – a legal system significantly different from the Portuguese.

Currency may also produce an impact in terms of economics differences, more than the protectionist laws and economic differences between regions, NEXX may face fluctuation regarding currency rates.

Finally, the geographical difference is the clearest one, embracing aspects as time zone and climacteric conditions (even this depending on the state). The last one may produce differences in the features demanded in a helmet (as example, regarding material used and vents).



### **How could NEXX's internationalization be described? What has been the importance of distributors?**

According to Bartlett and Beamish there could be different motivations leading to internationalization: emerging and traditional.

Emerging motivations covers the seeking for scale economies, increasing R&D investments, shortening product life-cycles or scanning opportunities. The more traditional motivations are related with three main needs: need to secure key supplies, market-seeking behavior or looking for access to low-cost factors. Identifying the most important factors in the specific case is not obvious once the consequences could be the result of different triggers. However, we may identify the market-seeking behavior and the scanning for opportunities as well as the use of scale economies in more recent situations.

Internationalization is, directly and indirectly, one of the most described topics in the case-study. It referred the way how the approach to the foreign market entry has been done – taking into account the high amount of resources committed to foreign markets and the moderate/low level of control over foreign activities – through a distributor, pointing to export configuration but also to the importance of the role distributors had.

Then some markets (as Spain) were assumed directly by NEXX. This was the structure adopted during the thirteen years. During this time, occurs a licensing agreement with NEXX-U.S.A. that ends with the acquisition in 2014 creating the first subsidiary of the brand in the foreign market, taking into account the poor management/low share/high potential of sales indentified by the NEXX.

In the NEXX case, the effort to implement and improve efficiency in the manufacturing line helps but the assessment of the foreign markets is done by the distributors.

This way, and so far, distributors have been informal strategic allies. Once again, the NEXX-U.S.A. case is an agreement similar to a licensee, covering distribution, which ended as a buyback situation.

Overall, and at least until 2014, NEXX could be described as an international manufacturing company exporting the vast majority of the total production, regarding the internationalization strategy. The way how NEXX will conduct the business in the U.S. market will reveal the strategy adopted.

### **What are NEXX's main advantages and resources? Have NEXX created and taken opportunities in the market?**

To answer this question there have been described two main tools. To the first part we may perform a SWOT analysis; to the second one the new SWOT framework will be helpful to show some of the opportunities already taken, the current market opportunities, as well as some others.

During the case some strengths has been identified: the distribution network, the production line flexibility; the helmets' design (that may be a consequence of a proper design team) as well as the overall innovation (for example, concerning the use of specific material to produce helmets targeted to specific markets). Moreover, also the label "made in Europe" could be seen as a source of power. In the specific market niche NEXX is competing for we may find mostly Italian, North European and some Japanese brands. In this market producing in Europe instead of producing in countries such as India or China could be valuable.

The two most important weaknesses which have also been identified: the lack of funding to support expansion and growth as well as the concentration of sales in few customers.

The opportunities clearly identified are related with the leverage of the distribution network in order to include other brands as well as the acquisition of NEXX-U.S.A.

On the other hand, the main threats are arising from the one specific weakness. The lack of funding had caused delays on the conclusion of the factory expansion, some of these difficulties of funding are external to NEXX, being the consequence of the issues BES (the second largest bank in Portugal) faced during 2014.

The opportunities previously stated are occurring in the present, we may also think of others: taking partnerships with worldwide known brands to leverage the brand, the opportunity of fulfilling some segments of the markets with first mover advantage as happened with the maxijets or with the fashion/urban segment.

In the future we may see another opportunity resulting from the increment in the production possibilities frontier – produce other kind of helmets that could be perceived as desired in the previously established markets, for example: winter and water sports, skate or bike riding.

### **How could NEXX be compared to their identified competitors? What are the main differences and concerns?**

The case revealed the attempt of NEXX to differentiate, not only by charging a lower price than some competitors, as well as trying to deliver a product with improved features to certain segments. By applying the strategy clock, this would point to a strategy that could go from hybrid to focused differentiation depending on the kind of helmet. If on the premium segment, of fiber helmets, NEXX has a lower price than their competitors, this may not be completely true on the thermoplastic market where NEXX helmets are differentiated (concerning design for example).

Performing the analysis of an industry where companies are not required to present results is not as easy or accurate as it looks at the college. This way, the knowledge about the market as well as some feelings about the industry is the way how managers can perform.

In the case some information is provided about the competition, in broad terms. First of all, the technology used to produce this type of helmets is identical between brands, and as some magazines review may have pointed out, price and quality are not directly correlated. In this extend it is possible to assume that: if Shark had six times more employees it could produce around six times more than NEXX (total around half a million helmets against the three hundred thousand actually sold). As Shark is selling less than what could be expected we may see two possible paths: or the quantity sold is below the quantity produce (and market share may be decreasing for example) or Shark is not as efficient as NEXX regarding product manufacture management (evidence of NEXX's possible strengths).

Schubert may own wind and acoustic tunnels for tests and research but product development, once again, according to the industry magazines, is not at the highest level.

Finally, on the top three of the industry, Shoei is able to charge a higher price for its helmets. If this price could go up to the double, NEXX would need to sell two times the number of helmets to have the same revenue. Even in this case, and assuming the same technology and cost of material (what is arguable once the industry could have at higher bargaining power), Shoei's profit would be higher.

The conclusions about differences and concerns could be: NEXX as being more efficient than its competitors; competitors with "deeper pockets" than NEXX to finance

marketing or even to support lost in the futures; competitors with higher power concerning bargaining with distributors; competitors with higher perceived value for buyers and others.

Finally, there are other important aspects to consider related with the production from Portugal. First, the country of origin effect: if the “made in Europe” is better than the “made in China” label it might not be the same as “made in Italy” or “made in Japan” for the buyers. Second, considering the Porter’s diamond model may provide other useful information. Regarding factors conditions land/space and capital have been main issues, labor was a particular case, the specific region may have qualified labor but which was assigned to other factories producing thermoplastic helmets. Demand conditions in Portugal for NEXX are relatively poor, an evidence of that is the share of the national market compared to the total. Moreover, NEXX has been innovative in different techniques leading the helmet national industry.

Related and supporting industries may be seen as reasonable, there are some manufactures in the region so suppliers are present and NEXX is established in the market with its own network. Once again, the strategy, structure, and rivalry faced by NEXX are much more international than national since the beginning.

### **On the long run, could NEXX compete with the established competitors?**

John Keynes stated that the long run is delusive to guide the present when said “in the long run we are all dead”.

This way, determining if NEXX is able to compete in the market depends on the strategy adopted by the management team.

Concerning the framework price-benefit we may classify NEXX strategy as a hybrid, combining a lower price and a differentiation attempt trough the perceived benefits. In this case, the greatest challenge remains in the profitability to maintain and reinvest on differentiation since market knowledge is crucial to understand what is important to buyers.

Also concerning growth alternatives, (according to Ansoff) NEXX is trying different approaches. In the case these are mostly identifiable: product development (selling other motorbikes accessories in the current markets); market penetration (the U.S. case), and market development (being identified the markets NEXX is trying to reach).

From automotive to chemical including education, in the majority of the industries there is space for competition, providing space for the existence of more than one brand established and being profitable. In the specific case of the helmets industry, by being a piece of the motorbike accessories industry we may assume the same conditions. This way, it is not possible to determine, so far, signs of NEXX being unable to compete in the international market – which has been occurring since the presence at the first trade show back into 2001.

## Conclusion

### General

Developing this master thesis allowed me to improve my knowledge about NEXX as well as about the helmets industry, but also about the Portuguese's SME exporting worldwide.

Through data collection and interviews as possible to perform a case-study based on NEXX, the major Portuguese brand among international players.

As expected, NEXX has being successful in internationalization through exportation. Perhaps due to the lower risk or investments required but also due to the role played by its distributors.

The company is recent but has already faced some challenges; the difficulties of handling production with a constant growth are the most described in the case.

To provide guidance to the instructor a chapter was prepared – teaching notes – this should be used for classroom discussion by applying theoretical knowledge in a real business scenario. Also, as support, a literature review over the theoretical frameworks is provided.

### Limitations

After choosing the topic and the company that would be covered in this master thesis, numerous challenges aroused. The helmets industry is highly dynamic and there is little information disclosed or available being the main markets and players abroad.

The case is highly based on the interviews performed with the company CEO and, international public information.

Other topics could be covered within the teaching notes with high value for students. However the presented analysis and literature review were planned to be used in a specific teaching time. For this reason the following is focused on the main topic of the case-study.

### **Reflection over the research process**

The methodological approach was based on qualitative information's, which were essential for the development of this master thesis.

The contacts and meetings at NEXX were not only crucial and very positive for the research process but also useful to better understand the helmets industry, which is in continuously evolving.

Indeed this dissertation is focused in the internationalization of NEXX. However, there are other aspects that may be explored in the future.

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