

# **LANIDOR: National Success, International Challenge.**

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## **ABSTRACT**

Dissertation Title: Lanidor: National Success, International Challenge.

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This case study analyses the success and the internationalization barriers faced by the Lanidor Group, a leading Portuguese ready-to-wear brand and retailer.

Lanidor initiated its activity in 1966 as a knitwear brand with a core business of thread commercialization, and has evolved since to a “Life Style” concept, which extends beyond apparel.

Lanidor is now the largest chain of feminine ready-to-wear stores in Portugal and is transforming itself into a brand with a strong international presence, with two hundred and thirty-seven stores in twelve countries: two-hundred and seven of which in Portugal, and thirty stores in Spain, Switzerland, Cyprus, Saudi Arabia, Kuwait, Jordan, Angola, Lebanon, Qatar, Ecuador and Mozambique.

In 1999, when Lanidor reached a high level of national market coverage and found that the saturated national market conditioned further expansion of the Lanidor Woman brand, the Spanish market became a priority for them. At the time, Spain seemed to be the natural path for growth, however, the LA Woman brand has been struggling to survive in the competitive neighbouring market.

The Lanidor Group is now considering entry in Poland, but there are diverging views within the management on whether to enter with franchises or with wholly-owned stores.

On the one hand, the view that the best strategy would be through franchising, because it would minimize the investment and risk involved in setting up the international operations and would facilitate a rapid international expansion of the Lanidor Woman brand.

On the other hand, the view that the best strategy would be through wholly owned stores, because franchising in different countries, far apart, could not be effectively controlled and would limit the detection of poor service and management quality, which would ultimately harm the brand’s image. Expansion through wholly owned stores would be slower, but sounder and Lanidor’s stores would become the brand image, thus reducing marketing and advertising costs.

This case study illustrates the success story of a national brand and the challenges faced to expand to international markets.

## RESUMO

Título da Dissertação: Lanidor: Sucesso Nacional, Desafio Internacional.

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Este estudo de caso analisa o sucesso e as barreiras à internacionalização enfrentadas pelo do Grupo Lanidor, uma marca e retalhista líder de pronto a vestir.

A Lanidor iniciou a sua actividade em 1966 como uma marca de malhas, com um *core business* de comercialização de fios, e tem evoluído para um conceito de “Estilo de Vida” que estende-se para além de roupa.

A Lanidor é agora a maior cadeia de lojas de pronto a vestir feminino em Portugal e está a transformar-se numa marca com uma forte presença internacional, com 237 lojas em 12 países: 207 das quais em Portugal, e 30 lojas em Espanha, Suíça, Chipre, Arábia Saudita, Kuwait, Jordânia, Angola, Líbano, Qatar, Ecuador e Moçambique.

Em 1999, quando a Lanidor atingiu um alto nível de cobertura de mercado e viu que a saturação do mercado nacional condicionava a expansão da marca Lanidor Woman, o mercado Espanhol tornou-se uma prioridade para a empresa. Nessa altura, a Espanha parecia ser o trajecto natural para o crescimento da marca, contudo, a marca LA Woman tem lutado para sobreviver no mercado vizinho competitivo.

A Lanidor está a considerar a entrada no mercado Polaco, mas existem opiniões divergentes na administração quanto ao modo de entrada, se com franchisados ou com lojas próprias.

Por um lado, a melhor estratégia seria com franchising, porque iria minimizar o investimento e o risco associado ao desenvolvimento de operações internacionais, e facilitar uma expansão mais rápida da marca Lanidor Woman.

Por outro lado, a melhor estratégia seria com lojas próprias, porque o franchising em países diferentes e longínquos não pode ser controlado de forma eficaz e iria limitar a detecção da qualidade de gestão e de prestação de serviços, que fundamentalmente poderia causar danos à imagem da marca. A expansão internacional com lojas próprias iria ser mais lenta, mas estável e as lojas da Lanidor se tornariam na imagem da marca, o que iria reduzir os custos de marketing e de publicidade.

Este estudo de caso ilustra a história de sucesso de uma marca nacional e os desafios enfrentados na expansão para mercados internacionais.

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## 1. CASE STUDY

### 1.1 Introduction

The Lanidor Group started as a small family business and in the last 12 years, the founder's son and President, João Pedro Xavier, transformed this small business into a leading Portuguese ready-to-wear brand and retailer headquartered in Valongo do Vouga with 237 stores, a diversified brand portfolio and a total business volume of 49.909.514€ at the end of 2009 (See Exhibit 1). At the time, Lanidor's international markets represented 5% of its total business volume and the company's objective was to increase this percentage to 20%-30%.

There were diverging views within the management, on the best strategy to achieve this objective.

On the one hand, the view that the best strategy would be through franchising, because it would minimize the investment and risk involved in setting up the international operations and would facilitate a rapid international expansion of the Lanidor Woman brand.

On the other hand, the view that the best strategy would be through wholly owned stores, because franchising in different countries, far apart, could not be effectively controlled and would limit the detection of poor service and management quality, which would ultimately harm the brand's image. Expansion through wholly owned stores would be slower, but sounder and Lanidor's stores would become the brand image, thus reducing marketing and advertising costs.

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This Case Study was prepared as a part of a Master Dissertation with information from public sources and from the Lanidor Group itself. This Case Study does not try to portray good or bad management practices and was written to provide students with a basis for class discussions. To guarantee confidentiality of information from the company, some of the data is disguised. The information contained in this Case Study should not be used as a source of data.

### **1.1.2 The Global Apparel Landscape**

The global apparel industry is characterized as buyer-driven, where the value chains' main players are retailers, marketers and branded manufacturers operating mostly from decentralized production units in developing countries. Buyer-driven global chains are typically found in labour-intensive, consumer goods industries such as clothing and footwear and more specifically in brands and retailers that do not manufacture their products and where profitability is increased through research and development and marketing and sales. Players in the industry that develop, market and commercialize branded products have control over the manufacturing process in terms of timing, location and specifications, while marketers and merchandising have the main influence in buyer-driven value chains at the design and retail phase. Elements such as branding and store image, together with extensive advertising and campaign budgets can result in high revenues for apparel retailers and consequently, barriers to entry can be reinforced. Information technology also plays a crucial role in enabling management to monitor demand and control inventory in order to maximize profits. The apparel value chain consists of five main areas: raw material supply (natural and synthetic fibers), provision of components (yarns and fabrics manufactured by textile companies), production network composed of garment factories, including their domestic and overseas subcontractors, export channels and marketing networks at the retail level.

The global apparel retailing industry is dominated by large organizations that are shifting toward greater product specialization, meaning that each of them commercialize specific products, such as clothes or shoes, and price, implying high quantities of products and discount chains. Moreover, retailers are increasingly developing strong relationships with suppliers on a global level, usually in low-wage countries. Buyer-driven value chains are able to influence demand by developing strong, consolidated brands.

## **1.2 International Competition**

Lanidor competes with local retailers in both national and international Markets, as well as with large hypermarkets and shopping malls. However, its strongest competitor is Inditex's Massimo Dutti. Zara and Hennes and Mauritz are also considered to be direct competitors, while all of these brands are positioned differently to the Lanidor Group.

### **1.2.1 Inditex (Massimo Dutti and Zara)**

#### ***Massimo Dutti***

Massimo Dutti is the brand with the most similar positioning to Lanidor, and therefore is the company's primary competitor. The brand's clothing selection ranges from sporty to sophisticated, and its primary target are men and women between the ages of 25 and 45. Massimo Dutti reached a sales volume of 790 million Euros in 2009 and represented 7,1% of Inditex's total sales (See Exhibit 2), with a total number of 497 stores in 44 countries (See Exhibit 3).

The Massimo Dutti brand was founded in 1985 and later acquired by Inditex in 1991. Prior to 1992, the brand consisted primarily of Men's fashion, however, due to Massimo Dutti's rapid expansion in Spain and in international markets (See Exhibit 3), Women's collections were launched and ranged from urban to casual clothing lines. In 2003, the brand launched a clothing line for children named Massimo Dutti Boys & Girls, which is placed in Massimo Dutti stores. Massimo Dutti's Clothing Lines consist of: Massimo Dutti Woman (Womenswear, Accessories, Soft and Fragrances), Massimo Dutti Men (Menswear, Accessories, Soft, Personal Tailoring and Fragrances), Massimo Dutti Boys & Girls and Massimo Dutti Baby.

#### ***Zara***

Zara represented 63,5% of Inditex's total sales and remained the largest of the global retailer's chains. The chain began its international expansion in 1990 to Portugal, nine years prior to Lanidor's entry in Spain. The brand expanded at a rapid pace and at the end of 2009 was present in 74 countries, with sales of 7.077 million Euros and a total of 1.608 stores, including 213 Zara Kids stores (See Exhibit 4).

Zara's core target is similar to that of Lanidor and is characterized as women between the ages of 18 and 34, with a medium to medium-high income. Its competitive strategy consists of delivering the latest fashion trends with medium quality and at affordable prices. Although its positioning differs from that of Lanidor, Zara remains a strong competitor, because of its affordability and ability to design, manufacture and deliver new pieces of clothing and accessories within a four to five week period for new designs and within a two-week period for modifications, compared to industry standards of nine months. The brand's vertical integration of design, just-in-time manufacturing, delivery and sales, flexible structure, low inventory rule and quick response policy together with advanced mechanisms in information technology, have made it possible for the brand to respond to customers' changing demands in the shortest time possible.

In terms of communication, Zara relies on locations of high visibility and prestige such as the Champs Elysées in Paris and Fifth Avenue in New York City as opposed to traditional advertising, which represents a mere 0,3% of the brand's turnover.

In Spain, all of the Zara stores are wholly-owned and managed, and this entry mode was opted for when the brand expanded to low-risk markets with high investment and growth opportunities. Zara opted for franchises in markets that were small and risky, or if there were cultural or administrative barriers that could pose a threat to expansion, such as Cyprus, Poland and Middle Eastern countries. Joint Ventures were opted for in markets of a larger nature, such as Germany and Japan.

### **1.2.2 Hennes and Mauritz**

Hennes and Mauritz (H&M) was founded in Sweden in 1947. While H&M is considered as a competitive threat to the Lanidor Group, being Europe's largest discount fashion retailer, there are key differences between the two retailers. H&M outsources all of its production, although half is manufactured within Europe, which results in shorter lead times than that of Lanidor, and higher lead times than the Spanish brand Zara. H&M's internationalization was one of extremely fast growth and more than 50% of the discount retailer's sales were generated from international markets in 1990, nine years before Lanidor began its internationalization to Spain. H&M focuses on entering a market one at a

time, an internationalization strategy similar to that of the Lanidor Group. However, H&M establishes a distribution center in each of the countries it enters, while Lanidor remains with a centralized distribution system in Portugal. Similarly to Lanidor, H&M markets its clothes under different labels and concepts in order to cater to the needs of different segments, while Inditex uses multiple chains in order to satisfy a diversified market demand. At the end of 2009, H&M recorded sales of 188,7 billion Swedish Krona, with 16,4 billion SEK in profit after taxes. The company had 1.988 stores, employed 76.000 people and operated in 35 countries (See Exhibit 5)

### **1.3 Lanidor**

At the end of 2009, the Lanidor Group operated 237 stores around the world, with an estimated selling area of 31.995 square meters. The 207 stores in Portugal generated 95% of the group's total business volume of 49.909.514 Euros (See Exhibit 1) and at the time the company employed close to 850 people.

#### **1.3.1 Brand's History**

Lanidor initiated its activity in 1966 as a knitwear brand, and has evolved since to a "Life Style" concept, which extends beyond apparel. This would not have been possible without a consolidated brand as a strong base.

Prior to 1966 Lanidor was integrated in a large industrial textile group and became an important chain of national stores with a core business of thread commercialization. Due to market fluctuations at the end of 1987, namely the decrease in sales of tricot thread, Lanidor transformed its business and became a knitwear brand in the ready-to-wear industry.

At the end of the 1980's, the invasion of Asian products at low prices represented significant difficulties for the national textile industry and following the entry of Portugal in the European Union, the national market was further threatened by the entry of European brands. As a result, Lanidor transformed its strategy by placing an emphasis on implementing a strong and innovative marketing strategy.

In 1995, Lanidor undertook thorough market researches, which revealed that the company had a good product, but that its communication was lacking in effectiveness and therefore the company decided to remodel its institutional image.

They began by changing their logotype from the colour green to the colour blue and beige in order to facilitate the verbalization of the brand name and to attenuate the direct connection to wool (in Portuguese, pronounced “Lã”) that the brand name suggests (See Exhibit 6).

Then, the communication strategy was consolidated and, together with a strong emphasis on the image of their points of sale, an innovative renovation was undertaken in order to accompany market trends on a continuous basis.

Lanidor as it is presently known began in 1998, when João Pedro Xavier assumed control of the company. At the time, franchising was their national strategy and Lanidor became the Portuguese company with the largest number of franchises, reaching sixty contracts. However, in the last four years the balance between wholly owned stores and franchisees “changed radically”, states the administrator. Firstly, because by owning points of sale, the company could closely manage business margins, which proved to be necessary, especially in moments of market retraction. Secondly, because the dimension of stores has changed, which increased rental costs. Years ago, Lanidor stores were about 30 square meters and today their stores are between 120 and 150 square meters, on average. “We were fearful that the financial crisis would lead to franchisees closing their stores and that Lanidor would be left without a network, therefore we felt the necessity to invert the policy we were following and to begin owning our network of stores”, states João Pedro Xavier. Today, Lanidor Woman has 59 wholly owned stores and 36 franchises in Portugal and the objective is to keep the high-revenue franchises, such as those located in shopping malls, with a high and profitable business volume, and those located in small cities, which are protected with lower rental costs.

Lanidor is now the largest chain of feminine ready-to-wear stores in Portugal and is transforming itself into a brand with a strong international presence.

The Lanidor Group has two hundred and thirty-seven stores in twelve countries: two-hundred and seven of which in Portugal, and thirty stores in Spain, Switzerland, Cyprus, Saudi Arabia, Kuwait, Jordan, Angola, Lebanon, Qatar, Ecuador and Mozambique (See Exhibits 7, 8 and 9). The brand's primary international market is Spain, where the company has thirteen points of sale, eight of which are wholly-owned stores and five of which are franchises.

### **1.3.2 Lanidor's Business Model**

Lanidor is a ready-to-wear and accessories brand and retailer, and recognized the need of differentiating itself from larger hypermarket chains and department stores, such as El Corte Inglés. The company focuses on product differentiation, with a higher level of quality and does not compete on prices. Moreover, the Lanidor Group focuses on offering a higher level of customer service, in order to further differentiate themselves from large retail chains. Lanidor's competitive strategy is based on differentiating and diversifying its business activities with the brand's LA Lifestyle Concept, which consists of LA Woman, LA Kids and Junior, LA Accessories, LA Eyewear and Perfume, LA Factory and LA Loft, LA Caffé, LA SPA, LA Shop Online, LA MAG, Globe, Casa Batalha and Companhia do Campo (See Exhibits 10-14) The Group's main critical success factors are outsourcing production, communication, distribution and logistics.

### **1.4 Lanidor Life Style Concept**

The idea of LA Life Style is based on the brand's vision: "Making People Happier".

Lanidor observed international trends and understood that brands of international reference, such as Armani, were extending their business activities so that their values could be extended to other areas of consumption. Lanidor began its diversification strategy with the opening of a restaurant, the LA Caffé in 2001. The company wanted its values to be present in the restaurant's decoration and menu, and in this vision of a lifestyle. Subsequently, the company opened the LA Spa in its Flagship Store in Lisbon, and is intending to inaugurate a hotel later this year. The idea behind this diversification is to transform the company into much more than an apparel brand: into a lifestyle. It transmits Lanidor's passion for lifestyle and decoration, and it extends the brand's values to these

different areas. According to Lanidor's Communication and Image Director, Margarida Mangerão, with the inauguration of the LA Hotel, "we will close the triangle of Avenida da Liberdade: a consumer can begin the day with a shopping spree in the flagship store, followed by a snack in LA Caffé, a trip LA Spa, dinner in the LA Caffé and finally, sleep in the LA Hotel". Closing this triangle represents an achievement for the brand in terms of providing overall happiness and well being to its consumers by providing them with small pleasures in their daily life, which represent the core values of the Lanidor brand. The company targets the same medium/ high segment with these diversified offers, and therefore prices are affordable and coherent with that of the brand's products.

#### **1.4.1 Lanidor Life Style Universes: Product Assortment**

Lanidor is becoming more than an apparel brand by shifting its strategy and communication towards a "life style" concept by creating LA Life Style, with a permanent vision in mind of "making people happier". The company extended its business activities to cater to the needs of new market segments and now has ten innovative Lanidor concepts, and three concepts that are not under the Lanidor brand umbrella, Globe and Casa Batalha, and Companhia do Campo, all related to the world of fashion and design.

#### **1.4.2 Lanidor Umbrella Branding**

##### ***LA Woman***

LA Woman is today the largest network of stores in the national market. Sales in 2010 were 53,7 million Euros, an increase of 600.000 Euros from 2009 (See Exhibit 15). Average sales per square meter were equal to 4.187 Euros and the contribution margin is 25%. The LA Woman brand is now present in twelve countries and has 125 stores, 95 of which are in Portugal with 59 wholly owned and 36 franchise stores (See Exhibits 7 and 9). LA Woman's success inspired the Lanidor Group to create and launch new concepts and brands and the LA Woman brand, which represented 93,8% of the total business volume in 2002, represented 71,4% in 2009.

LA Woman started expanding internationally in 1999 and in 2010, was the Lanidor Group's only international brand with total sales of 6,9 million Euros in 2010 (See Exhibit 15), with average international sales of 1.704 Euros per square meter.

### ***LA Kids and Junior***

This clothing brand was created in 2002 for children from the ages of two to twelve. This segment represented an opportunity for the Lanidor Group to offer mothers shopping at Lanidor Woman clothing for their children and additional discounts to existing LA Woman customers and cardholders. In 2009, 7 LA Kids and Junior stores were inaugurated, and the average number of references in each collection totalled 852, an increase of 72,8% from the previous year.

Two more segments emerged within this brand in 2009, New Born and Baby. New Born, for babies between the ages of one and twelve months, and Baby, for babies between eighteen and twenty-four months. In 2010, LA Kids and Junior operated 42 wholly owned stores in Portugal (See Exhibit 7) and the brand represented 11,2% of the Group's total business volume. Sales reached a total of 8,5 million Euros, up 27% from 2009 (See Exhibit 15).

### ***LA Accessories***

LA Accessories was added to the Lanidor Group's product assortment to provide Lanidor customers with a comprehensive collection of accessories: metal necklaces, rings, bracelets, earrings, watches, shoes, wallets and handbags (leather and non-leather), hats, headbands, belts and scarves, sold in LA Woman stores in order to complement their clothing offers.

### ***LA Eyewear and Perfume***

LA Eyewear and Perfume does not represent a significant amount in terms of the company's revenues, but consists of products that help increase Lanidor's brand awareness. LA Eyewear resulted from a partnership between Lanidor and Proóptica, a Portuguese based company dedicated to the creation, manufacturing and commercialization of optical frames and lenses. Proóptica commercializes Lanidor sunglasses under licence and subject

to the payment of a royalty. On the other hand, LA Perfume is commercialized by Lanidor in the brand's points of sale, and the perfumes are developed by a Portuguese company, K-bis Perfumes.

### ***LA Outlet and LA Loft***

LA Outlet was launched in 2001, to sell LA Woman and LA Kids and Junior products from the previous season collection at discount prices, in outlet shopping malls.

The LA Loft concept was created in 2007, and consists of street stores and stores in shopping malls, with minimalist decoration, for the sale of outdated products at factory prices. The success of LA Loft was enhanced by the economic crisis and between 2008 and 2009, sales increased by 60%, to 7 million Euros (See Exhibit 15) and the brand represented 11% of the Group's global business volume.

In 2010, this network of discounts and reduced prices had 18 LA Loft points of sale and 2 LA Outlet stores (See Exhibit 7).

### ***LA Shop Online***

In order to complement the physical points of sale, Lanidor Online was launched in 2007, and between 2008 and 2009, online sales increased from 191.708 to 648.289 Euros. In 2010, LA Shop Online had a sales volume of over one million Euros (See Exhibit 16), of which 14% was mainly from Spain, Germany, the United Kingdom, France and Luxembourg, which are the LA Shop Online's most important international markets.

### ***LA Caffé***

The LA Caffé's followed the international trend of associating fashion with restaurants, design and attitude, such as Armani Caffé. The concept of *design restaurants* reflects seasonal fashion trends, decoration and gastronomy. In 2009, there were three units in Lisbon, all located in Lanidor "megastores", and at the time, their combined total sales were 650.000€, which increased by 15,4% in 2010 (See Exhibit 15).

In 2001, LA Caffé was inaugurated in Avenida da Liberdade, a joint venture with Darwin's Café. The ambience strives to transmit a romantic, cozy and yet cosmopolitan

atmosphere to its customers with warm deep red walls, glass stairs and large windows overseeing Lisbon's main avenue.

The LA Caffé in Entrecampos, Lisbon, was decorated in bright colors with purple, orange and white in 2009. However, colors change seasonally according to fashion trends, as do the menus.

The LA Tea Room, third of the LA Caffé concepts, was inaugurated in Lanidor's Flagship Store in Avenida da Liberdade in 2007. It is a Tea Room and Restaurant open from 10h to 19h, and allows customers to enjoy a moment of peace and relaxation in the midst of one of Lisbon's most emblematic locations with an ambience of English charm combined with French elegance. The LA Tea Room serves breakfasts, lunches and afternoon snacks. Initially, the lunches consisted of light, gourmet dishes. However, a high increase in lunchtime demand of tourists, managers and entrepreneurs led to a reinforcement of the menu, and meals are now priced at an average of 20 Euros. From 15h onwards, scones, macaroons and traditional pastries are prepared for an afternoon snack. On Thursdays, Fridays and Saturdays, the Tearoom Buffet is served at a price of 11,50€ (excluding beverages).

LA Caffé provided the Lanidor brand with the opportunity of launching a concept that has achieved a trendy status and that exposes the brand's values and seasonal trends in the restaurant's menu and decoration, while providing new experiences and encouraging further interaction with its existing customers and with new customers, including business men during lunch hours.

### ***LA SPA***

Situated in the Flagship store, in Avenida da Liberdade, the LA SPA Shiseido has a pool, Turkish bath and diversified Spa facial and body treatments. LA SPA used to be a concept dedicated entirely to women, however, in response to demand, initiated an innovative "Men's Day" on Fridays.

### ***Magazine LA MAG***

LA MAG was launched in 2006 with the objective of exposing innovative experiences, communicating new ideas and of strengthening the relationship of trust and involvement with the Lanidor brand. It is a magazine dedicated to “fashion and glamour”, as defined by the brand’s Marketing Director, Maria do Carmo Sousa and represented an investment of over 750 thousand Euros since its first publication. The magazine is published four times a year and costs 2,5€ for customers who do not have the Lanidor loyalty card, while those who have adhered to the loyalty card receive it at no cost. LA MAG targets women and men of various ages with its versatile content, such as fashion trends, travel destinations, gastronomy, architecture and design, art and decoration. All of the magazine’s content is linked to the brand’s Lifestyle DNA of extending its core values across different ideas and concepts.

### **1.4.3 Lanidor Brands**

#### ***Globe***

This apparel brand was acquired in 2006 for 2,75 million Euros. In 2009, Globe registered sales of 6,5 million Euros, and in 2010 sales increased by 28% (See Exhibit 15). Globe’s values are: comfort, elegance and exclusivity, and the Globe brand is positioned above brands such as Lanidor Woman and Massimo Dutti and below brands such as Carolina Herrera and Purificación García. With 105 employees and a total of twenty-seven stores in Portugal, including four outlet stores with collections of previous seasons (See Exhibit 7), this brand of Spanish origin targets a market segment above that of Lanidor, with higher prices, a higher emphasis on the quality of its materials and production based in Europe.

#### ***Casa Batalha***

In 2008, Lanidor, together with Portuguese brand Quebramar, acquired the Casa Batalha brand for 400.000 Euros. The new partnership, where Lanidor detains 48%, started with 3 stores. Casa Batalha reinforced the presence that Lanidor had already established in

the accessories business and benefitted from the structure and existing know-how in terms of design, logistics and stock and operations management of the Lanidor Group's stores.

This brand consists of accessories, which include metal rings, earrings, necklaces, bracelets, belts and evening clutches and shoes and is positioned above LA Accessories with higher prices (See Exhibit 14). In 2010, sales totalled 1,3 million Euros (See Exhibit 15) and there were a total of thirteen stores, one of which an outlet store (See Exhibit 7).

#### **1.4.4 Companhia do Campo**

In 2010, the Lanidor Group acquired 51% of Companhia do Campo, a Portuguese based company in the decoration business, and sales for the year amounted to 1,4 million Euros (See Exhibit 15). Companhia do Campo inaugurated its first store in Lisbon in 1994, with the objective of satisfying a decoration market niche of vacation homes in the country or at the beach. The variety of products of diverse origins created different and vivid multicultural ambiences. The relaxing and naturally comfortable lifestyle transmitted by Companhia do Campo seduced the Lanidor Group and today, the brand offers a diversified product assortment to its customers, including furniture, illumination, textiles and decorative objects that, together with personalized decoration services in the brand's points of sale, allow customers to personalize their lifestyles with the creation of unique environments.

Decoration items include clocks, frames, trays, plates, mirrors, paintings, ashtrays, jugs, boxes, hangers, artificial flowers and baskets, and prices range from €1,50 to €258. Illumination includes candles, lamps and lanterns and items are priced between €1,60 and €210. The dishes and other utilities category includes plates, pots, cutlery, teapots and mugs, and prices range from €2,90 to €98,00. Furniture items are priced between €80,00 and €1.050,00 and include chairs, tables, cupboards, sofas, beds and desks. Textile products consist of pillows and quilts, with prices ranging from €10,00 to €140,00.

## **1.5 Design, Production and Distribution**

The Lanidor Group does not have its own production facilities. Its value chain consists primarily of design activities, marketing, distribution and commercialization. The company purchases raw materials from the markets that have high levels of quality at the most competitive prices and this allows them to provide the consumer with high quality products at lower prices. Up to 1998, apparel was outsourced in Portugal, but now, sixty percent of apparel production is outsourced primarily in China and in India, while most accessories are produced in Italy and in Brazil. If the company would be dependent on manufacturing its own products, the relation between quality and price would be compromised. The remaining forty percent of the brand's collection is produced in Portugal under the name of "Black Label". The "Black Label" pieces are of higher quality and price than the rest of Lanidor's collection. However, Portuguese consumers value these national pieces and are willing to pay a higher price for them and this also allows the company to maintain a strong commitment with Portuguese suppliers, and with the factories that work exclusively for the brand in Portugal.

### ***Production Process***

#### **i. Creation**

The production process of each Lanidor collection begins in Alenquer, Portugal, in the company's design centre. Six stylists, five women and one man, prepare the different collections for each season. The brand's collections are inspired primarily by international trends, seeing that consumers are increasingly informed and up to date on these trends.

#### **ii. Selection**

The collections are presented by the designers in Alenquer and are analysed by the President of the company, João Pedro Xavier and the Product Manager Catarina Sequeira Ribeiro. In the words of Lanidor's President: "Lanidor has two hundred and fifty thousand loyal customers that adhered to the brand's loyalty card and these customers provide the company with eighty per cent of its sales volume. This allows me to know in a precise manner who buys eighty per cent of the clothes that I sell in Portugal". When doubts emerge in these meetings, the discussion extends to other critical company employees, such

as the Communication and Image Director, Margarida Mangerão and the Director of the Points of Sale.

iii. Purchases

Once the pieces for the collection are selected, Lanidor purchases the thread and the primary materials required to produce the clothes. About 52% of the purchases are made in China, India and Brazil, about 8% in Italy, Spain and Turkey and the remaining 40% in Portugal. In Portugal, the Lanidor Group has several small factories working exclusively for the brand's "Black Label" clothing line.

iv. Production

The production of Lanidor's LA Woman brand, other than "Black Label", is outsourced in China and India. Lanidor sends the clothing molds to the production facilities in China and India, where they cut the pieces and send size sets (one piece per size) to Lanidor, so that they can be analysed and approved for production.

The quality of the materials and of the production processes are inspected, verified, analysed and certified by the SGS Group (Société Generale de Surveillance) in China and India.

v. Testing

After being produced, the pieces are sent to Lanidor's warehouse in Valongo do Vouga, Portugal, situated in the company's Headquarters. They are certified upon arrival by Lanidor's quality control department and are subject to further quality testing such as washing at high temperatures.

vi. Distribution

Lanidor's efficient Distribution system makes it possible for the company to rapidly respond to stock replacements and reinforcements and to have an optimized product turnover.

Distribution is undergone in Valongo da Vouga, where the Product Management Department analyses and distributes the finished goods. For the external markets, orders are dispatched to 13 stores Lanidor has in Spain and to the 17 that the company has in Cyprus,

Angola, Ireland, Saudi Arabia, Switzerland, Ecuador, Kuwait, Qatar, Jordan and Mozambique, and have to be for a minimum fifty pieces. National orders are dispatched to the 207 Lanidor Group stores twice a week, as they focus on lower quantities and higher diversity of clothing. The Summer 2010 collection, for example, totalled 1697 references, without including the multiplication by different colours and sizes.

## **1.6 Promotion**

Lanidor's brand awareness is the highest it has ever been, and this is mainly due to a consolidated communication strategy. The company's priority is direct marketing in order to reach the customers with the brand's loyalty card, who represent 80% of the company's revenues and to continually reinforce customers' relationship with the brand. Lanidor cardholders are rewarded for their purchases with points, which are converted into €10 vouchers each time purchases amount to €240. On the customers' birthdays, Lanidor sends them a text message and they get double points for any purchases they make on that day. Text messages are also sent to cardholders to notify them of ongoing campaigns and discounts and of events surrounding the brand, such as Lisbon Fashion Week. Furthermore, the LA Card cardholders have a 5% discount in Globe, Casa Batalha and Companhia do Campo and a 10% discount in LA SPA treatments, as well as in meals in LA Caffé (for a minimum expenditure of €25).

Lanidor's Magazine, LA MAG, has also reinforced the brand's communication strategy by providing customers with diversified concepts surrounding the Lanidor Group's core values. This editorial project has become an important communication tool in divulging and updating its customers with international trends and concepts related to the LA Lifestyle.

Moreover, Lanidor advertises in fashion magazines such as Elle, Vogue and Maxima in order to stimulate positive associations with the brand, and in Moopies, which provide the brand with a higher level of national exposure.

Lanidor also uses television as a vehicle for product exposure, by dressing journalists (Rita Ferro Rodrigues), television presenters (Fátima Lopes) and actors (Fernanda Serrano in the soap opera 'Dei-te Quase Tudo'). This strategy allows the company to expose the

Lanidor brand by associating its products with high-profile national celebrities, with positive brand associations.

In 2007, Lanidor joined “Fashion Targets Breast Cancer”, an international initiative that sold 250.000 t-shirts in 14 countries in order to raise awareness for this cause: “a brand of Lanidor’s dimension could not remain indifferent to this fight. We immediately accepted this challenge with a lot of pride and with an enormous sense of responsibility”, stated Margarida Mangerão. Portugal raised 250.000 Euros, from 16.000 t-shirts sold. Lanidor contributed with 7.500 t-shirts, which amounted to 76.000 Euros. As a result of this initiative, Lanidor increased brand awareness amongst other key players in the fashion industry.

In 2010, Lanidor won the Prize in the Category for Best National Brand, attributed in the Fashion Awards Portugal 2010 Gala, organized by Fashion TV.

In 2010, Lanidor also won first place in the Brands’ Magnetic Fields study in the Womenswear category and was therefore identified as the clothing brand that most attracts Portuguese people. Brands’ Magnetic Fields is an annual study conducted by Brandia Central, a consultant in Brand’s Creation and Management. It evaluates the degree of attraction or Magnetism of brands, as well as the degree of confidence that a brand inspires, operating in the national market without any brand being suggested to the population. With a database of more than 500 thousand consumers distributed in 12 Product categories

## **1.7 Targeting and Positioning**

### ***Targeting***

Lanidor’s core target are women between the ages of thirty and forty-five, married, with at least one child, who have a First-Cycle Degree and are actively working. They are independent, well informed in terms of trends, conscious of their purchase decisions and are not fashion victims, meaning that they do not limit themselves to following seasonal trends.

However, the clients who most bought Lanidor products in 2010 were women between the ages of 30-39 years, entrepreneurs or managers, located in Lisbon, without children

(See Exhibit 17). This did not correspond with the characterization of Lanidor's core target, no doubt due to the economic recession.

### ***Positioning***

Lanidor positions itself as a brand that "sells fashion", and that provides design and quality at affordable prices, to a medium/ high segment.

## **1.8 Retailing and Organizational Changes in Portugal**

Facing new challenges and surviving the adversities of different markets in the light of the global economic retraction required new measures, and the average price of the Fall/Winter collection was lowered by more than nine Euros, from €58,53 in 2007 to €49,30 in 2008 and 2009. In the Spring/Summer collection, average prices fell from €44,19 in 2008 to €40,07 in 2009 and were expected to fall to €35,8 in 2010.

In terms of internal organization, more profound changes were necessary. Purchases needed to be rationalized: "Before, we used to purchase the entire collection and the order arrived all at once at the warehouse. Now, since January 2009, we almost work with a just-in-time system and place orders for 15 day production at a time, meaning that we have a 15-day inventory at all times in the warehouse", stated the President of the company. As a result, the production process was divided into phases, according to different distribution needs.

## **1.9 Lanidor's Internationalization**

Lanidor Woman is the only international brand within the Lanidor Group, and in 2009, operated 30 stores outside Portugal. At the time, international sales amounted to 6,6 million Euros, 11% of Lanidor Woman's total sales (See Exhibit 15). Overall, international operations accounted for 13% of the Lanidor Group's total stores and 5% of its total business volume.

International selling area is estimated to be 4.050 square meters, seeing that the retail surface area of each shop is on average 135 square meters and forecasted sales in external markets in 2011 equal 8,4 million Euros.

While Lanidor intends to expand national operations not only in dimension, but in terms of recognition and profitability, its international strategy remains the focus. The Group's international expansion strategy consists of a strategic turnaround in terms of market entry, as its priority is to open 4 wholly owned stores in Poland and 4 more stores in Spain.

### **1.9.1 Entry in the Spanish Market**

When Lanidor reached a high level of national market coverage (Exhibit 18) and found that the saturated national market conditioned further expansion of the Lanidor Woman brand, the Spanish market became a priority for them. In order to increase in dimension and exposure, they needed to expand into a larger market and Spain, because of its cultural and geographic proximity (See Exhibit 19), seemed to be the natural path for growth.

Lanidor began the internationalization of the LA Woman brand to Spain in 1999 (See Exhibit 7). Their main entry mode was wholly owned stores in order to closely manage and control the brand's subsidiaries; however, they also began developing franchises in order to expand at a rapid pace and to guarantee the brand's presence in the market with local partners.

In June 2006, the Lanidor Group acquired the Spanish brand Globe for 2,75 million Euros, 1 million for the store network in Spain, 1 million for the store network in Portugal and 750.000 Euros for the rights to utilize the brand name. At the time, the Spanish brand had 6 stores and 3 outlet stores in Portugal.

The LA Woman brand was struggling to progress in Spain. However, the Lanidor Group pursued their expansion strategy and acquired Globe. They had an interest in developing the Globe brand, and the company wanted to add to their vast portfolio with a brand in a higher market segment, above the LA Woman brand, at a higher price level and that relied on European and Portuguese production, in order to target a niche market.

The company also had an interest in real estate in Spain, where Globe already had 22 stores, in order to significantly increase LA Woman points of sale. The Lanidor Group

converted the 22 Globe stores in Spain to LA Woman with an investment of 1 million Euros, but this did not go as expected.

Shortly after this acquisition, the economic situation in Spain took a downturn, which led to higher levels of unemployment and less consumption, and Lanidor had to close 6 points of sale. In 2009 the global economic crisis worsened, unemployment reached record figures of 18% and consumption levels dropped even further. Lanidor still had 15 points of sale in Spain. They had losses of 1,2 million Euros and the Group closed 2 more LA Woman stores until 2010, when the Lanidor Group was left with 13 points of sale, 5 of which located in El Corte Inglés department stores.

### **1.9.2 Spain: Demand Analysis**

Spain is the fifth-largest market in the European Union, with an estimated population of 45,8 million in 2009 (See Exhibit 20). Spain's average economic growth outpaced that of the rest of Europe until the beginning of 2008, when total retail sales began to decrease. Between 2002 and 2007, Spain's population increased by more than 10%, the labour market was striving and disposable income was rising. At the end of 2008, the severe economic recession resulted in a decrease of private consumption, credit availability and consumer confidence. Consequently, retailers were forced to discount to a larger degree than previous years.

The economic downturn in Europe had an extremely negative impact in Spain, levels of consumption decreased and, more than ever, Spanish consumers purchased products “Made in Spain”. They were certain that with their large national retailers, such as Inditex, they would find a similar product, at a more competitive price. This was strongly felt by Lanidor.

The intense competition in the apparel industry in Spain led to the closure of a considerable number of stores between 2000 and 2005, a crucial period during the first years of Lanidor’s internationalization process in Spain. The aggressive competitive environment caused smaller retailers to struggle seeing that they could not compete with the strong brand images, large economies of scale and competitive prices of their larger competitors.

The Spanish market is highly concentrated. Inditex, El Corte Inglés and Mango dominated the market with combined market share of sixty percent and could therefore influence the evolution of the apparel industry. The remaining forty percent of the market was shared by fifteen thousand brands, and Spanish consumers favoured national brands.

Lanidor was at a competitive disadvantage with large Spanish retailers such as Inditex's Massimo Dutti and Zara, the Portuguese-based brand's largest competitors. Large retailers such as Inditex benefit from high levels of brand exposure as a result of large-scaled marketing campaigns, which Lanidor could not compete with.

El Corte Inglés, with more than 1.400 points of sale, is Spain's largest retailer, and its wide array of formats include department stores and hypermarket chains. The Spanish-based retailer has continuously added to its range of apparel brands, and consumers were increasingly attracted to the concept of one-stop-shopping, the ability of satisfying all of their diverse retail needs in one location. In 2008, El Corte Inglés' department stores accounted for 50% of their total sales, while hypermarkets accounted for 20%. Because of decrease in buying power due to the economic recession, department stores such as El Corte Inglés faced significant threats from hypermarkets such as Carrefour, which added ranges of low priced clothing to their product assortment.

The increase of working women and their respective working hours in Spain, together with the decrease in the average household size, led to a growth of "after hours" purchases and to the extension of the opening hours of shopping centres, department stores and hypermarket chains.

Products sold in Spain and in Portugal were found to be similar. The greatest difficulty of expanding to Spain was increasing brand awareness amongst world-renowned players in the Spanish market. Lanidor's presence in Spain is very small in comparison to Portugal, and brand recognition had been difficult. The consumers who know the brand, value the design and the price-quality relation and they recognize that Lanidor represents international trends. Consumers who do not know the brand, perceive it as a Boutique.

### **1.9.3 Business Model in Spain: Standardization**

#### ***Pricing***

Lanidor's only adaptation in Spain is pricing. Prices used to be the same within all the European Union Countries, but because Zara's price levels in Spain are lower than in Portugal, Lanidor had to lower their prices in order to become more competitive in the Spanish market.

#### ***Product***

Products sold in Spain are standardized and Lanidor reinforces the stock of pieces according to consumer preferences. Quantity is what allows the brand to maintain its quality and price relationship, and therefore product adaptation is not part of the brand's strategy, given that consumer preferences are significantly transversal, and that sales were never significant enough to support product adaptation costs, although the Lanidor Group was initially predisposed to do so.

#### ***Promotion***

The level of the brand's communication is significantly lower in Spain than in Portugal, due to budget limitations and costs that are significantly higher in Spain (an advertisement in a Spanish fashion magazine costs on average five times more than in Portugal). The Spanish market is very large and this is a barrier to brand exposure that Lanidor has been struggling to overcome. The company relies on its website as an important communication tool for international markets. It is available in four different languages (English, Spanish, French and Portuguese) and there is a team dedicated to updating information on products and events surrounding the brand on a permanent basis. Website costs are lower in comparison to traditional outdoors and television, and it has been an effective communication vehicle for the brand in international markets (See Exhibit 16).

## ***Distribution***

Distribution remains the same for all international markets, including Spain. All of the brand's products are shipped from the company's distribution centre in Valongo do Vouga.

### **1.10 Entry in Other International Markets**

The Lanidor Group initiated its LA Woman brand expansion to other international markets with the opening of a franchised store in Switzerland in 2006 and, at the end of 2009, had 17 franchised stores in 10 other countries (See Exhibits 8 and 9). Lanidor opted for franchises in all international markets, excluding Spain.

Lanidor used franchising in these countries given the significant cultural differences and low sales forecast. The company opted for wholly owned stores when considering an aggressive internationalization strategy, such as in Spain, but given that they opted for a slow and gradual entry in each of these other international markets, franchising seemed to be the optimal entry mode in order to guarantee proximity in local markets with local partners, with a lower investment cost.

### **1.11 The Lanidor Franchising Model**

Lanidor's franchising model for the LA Woman concept provides franchisees with a system that covers all of the aspects related to product marketing and franchise management in order for the franchisee to focus on maximizing sales.

Lanidor ensures that franchisees are "always up to date with the latest trends", provides them with a "collection that is complete, extensive and varied", coordinates supply according to local market needs in order to avoid surplus and inventory costs, carries out the store's interior design project and provides initial and continual training for the sales and management team.

Lanidor estimates that a "minimum investment of 100.000 Euros is required" for a franchisee to open a Lanidor store. The franchise agreement has an initial duration of 6 years and is renewable for successive years.

Lanidor charges a franchise fee of 25.000 Euros at the beginning of the process. This is a one-time fee that covers the franchisee's right to use the Lanidor brand, as well as start-up support related to merchandising, window dressing, information technology, stock room organization and staff training, permanent access to the B2B website and continual supervisor assistance.

### ***Sale-or-Return System***

Lanidor's sale-or-return system means that franchisees pay a percentage on what has been sold and return the stock surplus at the end of the season. International stores are connected to the Lanidor headquarters in Valongo do Vouga via an information technology system, which allows Lanidor to obtain information on the sales and stock level of each store on a real time basis, and allows stock to be replenished on a just-in-time system in order to optimize stock rotation.

### ***Store Location***

International store location characteristics are specified by Lanidor, and these have to be located in an urban location with a population of at least 80.000 inhabitants, in a main street or shopping center and with a retail surface area between 120 and 150 square meters (on average 135 square meters), with an additional 25% stock area.

Territorial exclusivity granted to the franchisee can be "either city or country based", according to the expansion plan that Lanidor intends to carry out in an international market.

### ***Store Design***

Lanidor's subsidiary Definestore develops all of the projects related to the interior design and decoration of Lanidor store in Portugal and abroad. If required by the franchisee, Definestore sends a team of specialized staff to implement the interior design of the store, including the flooring, lighting system and furniture and decoration. The costs of the store design are supported by the franchisee, and are estimated to be 500 Euros per square meter.

## *Advertising*

Lanidor supports the costs of the advertising campaign related to the inauguration of an international store and the development of all the brand's graphic layouts are provided free of charge. Franchisees contribute with 50% of all seasonal advertising costs, charged as a percentage of monthly sales.

### **1.12 Analyzing Entry in Poland**

There were diverging views within the management, on the best entry mode in Poland:

"I don't think Lanidor should opt for franchising in all international markets, other than Spain. I believe the brand would go further if they would opt for entering Poland with wholly owned subsidiaries" stated Executive 1.

"Think of the investment it would require – real estate, staff, advertising! Not to mention the risks involved in setting up international operations", answered Executive 2.

"I know, but I believe the risk is worth taking - the problem with franchising is that geographic distance has inhibited Lanidor from detecting poor service and management quality in foreign markets. Take Zara, for example. They don't allocate resources to advertising: they consider stores to be their image, and who is to say that Lanidor in Poland will convey an appropriate image?"

"I still think that Franchises are best because they would allow Lanidor to expand rapidly in new markets. Furthermore, cultural barriers would be eliminated."

"That's the problem – the tradeoff between fast implementation and strategy effectiveness. If Lanidor was to enter Poland with wholly-owned stores, the brand would be in close control of operations and would understand local customer needs while guaranteeing optimal levels of service, which would result in a consolidated international brand image"

### **1.12.1 The Polish Apparel Retail Industry**

Between 2005 and 2009, the value of total retail sales in Poland increased by 48% to reach an estimated value of 198 billion US dollars. Disposable income per head in Poland averaged 7.325 US dollars in 2009, which was still significantly lower than in Western Europe.

Income levels were significantly higher in urban areas such as the capital, Warsaw, than in less developed areas located in the east of the country, and according to The Economist Intelligence Unit, this was not expected to change within the next five years.

Two thirds of Poland's population of 38,2 million in 2009 (See Exhibit 20) lived in urban areas and 30% of the population were 24 years old or younger, making Poland's consumer base the youngest in Europe (although it is expected that the population will age significantly over the next ten years).

The apparel retail industry in Poland performed above most industries in Europe between the years of 2002 and 2007 and despite the global economic recession, has continued to show strong growth, with a Compound Annual Growth Rate of 2,3% between 2005 and 2009 (See Exhibit 21). The Forecasted Compound Annual Growth Rate between 2009 and 2014 is 4,6% (See Exhibit 22), which makes this industry attractive to new and potential entrants.

In 2009, the Polish apparel retail industry was worth 4,9 billion Euros (See Exhibit 21), and the Womenswear segment dominated the market, representing 47,6% of this value (See Exhibit 23).

Due to the international trade liberalization and the fact that the apparel industry is extremely labour intensive, there has been increased competition from manufacturers in low-wage countries, such as China and India.

The Polish apparel retail industry is of great significance to the economy in terms of trade, employment, investment and revenue for the country. The industry is characterized as fragmented, given the large number of small and medium businesses. In 2007, traditional independent retailers accounted for about 40% of sales, while only about 15% of sales were

generated by supermarkets and hypermarkets (Source: Datamonitor). Despite the growth of hypermarkets and larger shopping malls, less than two thirds of the population did their shopping in modern retail outlets – the lowest proportion in central Europe.

However, there is an existing trend towards market concentration, and the retail industry in Poland is continuously evolving towards Western Patterns due to the growth of large hypermarkets and shopping malls in urban locations and their growing ranges of clothing at competitive prices, which have increased the domestic apparel retailing industry rivalry.

### **1.12.2 Franchising in Poland**

Franchising systems in Poland are among the most developed in Eastern European countries, and the number of franchises had been increasing at a fast pace. In 2008, the Polish franchise market grew by more than 4.000 franchise units and now there more than 300 franchise brands in Poland, and over 13.500 franchising outlets. Approximately 30% of the franchises are foreign, most of which from the United States, Germany and France.

In Poland, initial franchise fees for single unit franchises range from 1PLN for new franchises entering the market up to 130.000PLN for well established, reputable franchises, such as McDonald's. In 2007, as much as 45% of franchisors did not charge an initial franchise fee. Royalty fees are on average 5% of a franchisee's net income, and these were not charged by 44% of franchisors in Poland in 2007.

Additionally, the franchisee pays an average advertising fee of 1% of gross sales to the franchisor. In 2008, the average cost of TV advertising ranged from 900PLN to 38.000PLN for 30 seconds of airtime, depending on the TV channel and on the time of its broadcast. Advertising in the Polish press cost ranged from 300PLN to 2.700PLN per one space module (10PLN to 60PLN per 1 square cm), and these costs depended on the space occupied on the page, what page was opted for, and if it was to be printed in color or not.

It is frequent for franchisors to incorporate both the franchise fee and the royalty fees in the price of the merchandise delivered to the franchisees, and this allows franchisees to minimize their initial investment.

The Polish Law does not regulate the terms of the franchise agreement, the initial and royalty fees charged by the franchisor, territorial rights and control standards stipulated by the franchisor. Furthermore, unlike in other Eastern European countries, there are no obligations regarding disclosure and franchise registration in Poland.

### **1.13 Looking Ahead**

Lanidor is at a crossroads in its internationalization strategy, and important questions remain unanswered: How do we expand to reach our objective of international markets representing 20%-30% of the group's total business volume? Do we grow via acquisitions in Spain? Do we expand to Poland? How would we enter Poland, with wholly owned subsidiaries or franchises?

One thing is certain: the Lanidor Group will continue to fight as an "International Brand of Portuguese Origin".

**Exhibit 1** Lanidor Business Volume Total, National and International Variation, in Euros (€), 2004-2009

<b>Lanidor Business Volume Total, National and International Markets Variation, in Euros (€) 2004-2009</b>												
	2004		2005		2006		2007		2008		2009	
	Total	Variation %	Total	Variation %	Total	Variation %	Total	Variation %	Total	Variation %	Total	Variation %
<b>Business Volume</b>	27.307.334	21,1%	33.282.582	21.9%	37.017.159	11.2%	43.361.091	17.1%	46.646.312	7,6%	49.909.514	7,0%
National Market	25.939.434	22,1%	31.634.142	22.0%	34.588.389	9.3%	40.926.058	18.3%	43.731.128	6,9%	47.237.135	8,0%
International Markets	1.367.900	5,7%	1.648.440	20.5%	2.428.770	47.3%	2.435.033	0.3%	2.915.185	19,7%	2.672.379	-8,3%

Source: Lanidor Company documents.

**Exhibit 2** Massimo Dutti Sales Volume in Millions of Euros (€), % Contribution,

<b>Massimo Dutti Sales Volume in Millions of Euros (€), % Contribution, Number Stores, Countries 2004-2009</b>						
Year	2004	2005	2006	2007	2008	2009
<b>Sales Volume</b>	458	534	614	696	722	790
<b>Contribution Inditex Total Sales</b>	8,2%	7,9%	7,5%	7,4%	6,9%	7,1%
<b>Total Number of Stores</b>	326	369	399	426	470	497
<b>Countries</b>	25	27	29	32	38	44

Number Stores, Countries 2004-2009

Source: Inditex Company Documents.

**Exhibit 3** Massimo Dutti Stores Total in Europe, Asia and Africa and America, 2009

Massimo Dutti Stores Total in Europe, Asia and Africa and America, 2009					
Europe		Asia and Africa		America	
Germany	8	Saudi Arabia	9	Colombia	2
Andorra	1	Bahrain	2	Costa Rica	1
Belgium	20	China	6	Guatemala	1
Cyprus	2	Egypt	1	Mexico	28
Croatia	1	United Arab Emirates	8	<b>Total</b>	<b>32</b>
Slovenia	1	Philippines	2		
Spain	246	Indonesia	3		
France	16	Israel	1		
Greece	12	Jordan	2		
Ireland	1	Kuwait	2		
Italy	7	Lebanon	4		
Luxemburg	1	Malaysia	4		
Norway	2	Morocco	1		
Poland	6	Qatar	2		
Portugal	41	Singapore	4		
United Kingdom	11	Syria	1		
Czech Republic	1	<b>Total</b>	<b>54</b>		
Romania	2				
Russia	10				
Serbia	2				
Sweden	3				
Switzerland	5				
Turkey	12				
<b>Total</b>	<b>411</b>				

Source: Inditex Company Documents.

**Exhibit 4** Zara Sales Volume in Millions of Euros (€), % Contribution, Number Stores, Countries 2004-2009

Zara Sales Volume in Millions of Euros (€), % Contribution, Number Stores, Countries 2004-2009						
Year	2004	2005	2006	2007	2008	2009
<b>Sales Volume</b>	3.820	4.441	5.352	6.264	6.824	7.077
<b>Contribution Inditex Total Sales</b>	67,4%	65,9%	65,3%	66,4%	65,6%	63,5%
<b>Total Number of Stores</b>	723	852	990	1.361	1.520	1.608
<b>Countries</b>	54	59	63	68	72	74

Source: Inditex Company Documents.

**Exhibit 5** Hennes and Mauritz (H&M) Sales and Profit in billions of Swedish Krona (SEK), Number of Stores, Number Employees, Countries 2004-2009

<b>Hennes and Mauritz (H&amp;M) Sales and Profit in billions of Swedish Krona (SEK), Number of Stores, Number Employees, Countries 2004-2009</b>						
<b>Year</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Sales (Including VAT)	63	71,9	80,1	92,1	104	188,7
Profit After Tax	7,3	9,2	10,8	13,6	15,3	16,4
Total Number of Stores	1.068	1.193	1.345	1.522	1.738	1.988
Total Number Employees	31.701	34.614	40.368	47.029	53.430	76.000
Countries	20	22	24	28	33	35

Source: Hennes and Mauritz Company Documents.

**Exhibit 6** Lanidor Logo Evolution 1966-2001



Source: Lanidor Company Documents.

**Exhibit 7** Lanidor Number of Stores in Portugal, 2010

<b>Number of Stores in Portugal, 2010</b>		
Lanidor Woman	59 Wholly Owned Stores	Total of 95 Stores
	36 Franchises	
Lanidor Kids and Junior	42 Wholly Owned Stores	Total of 42 Stores
Lanidor Outlet and Lanidor Loft	20 Wholly Owned Stores	Total of 20 Stores
Globe	23 Wholly Owned Stores	Total of 27 Stores
Globe Outlet	4 Wholly Owned Stores	
Casa Batalha	12 Wholly Owned Stores	Total of 13 Stores
Casa Batalha Outlet	1 Wholly Owned Store	
Companhia do Campo	6 Wholly Owned Stores	Total of 6 Stores
Lanidor Caffé	2 Wholly Owned Stores	Total of 3 Stores
	1 Joint Venture Store	
Lanidor SPA	1 Wholly Owned Store	Total of 1 Store
<b>Total</b>		<b>207 Stores</b>

Source: Lanidor.

**Exhibit 8** Lanidor Internationalization Timeline 1999-2010

<b>Lanidor Internationalization Timeline 1999-2010</b>	
1999	Lanidor Began International Expansion to Spain
2006	Opened One Store in Switzerland (Franchise)
	Opened One Store in Cyprus (Franchise)
	Opened One Store in Saudi Arabia (Franchise)
	Opened One Store in Kuwait (Franchise)
2007	Opened One Store in Jordan (Franchise)
	Opened One Store in Angola (Franchise)
	Opened a Second and Third Store in Saudi Arabia (Franchise)
2008	Opened One Store in Lebanon (Franchise)
	Opened One Store in Qatar (Franchise)
	Opened One Store in Ecuador (Franchise)
	Opened a Second Store in Cyprus (Franchise)
	Opened a Second Store in Kuwait (Franchise)
2009	Opened One Store in Mozambique (Franchise)
	Opened a Third Store in Cyprus (Franchise)
	Opened a Second Store in Ecuador (Franchise)
2010	Opened a Second Store in Lebanon (Franchise)

Source: Lanidor.

**Exhibit 9** Total Stores in International Markets and Distance from Portugal (km), 2010

<b>Total Stores in International Markets and Distance From Portugal (km), 2010</b>		
Spain	Thirteen Stores	503 km
Switzerland	One Store	1722 km
Cyprus	Three Stores	3736 km
Saudi Arabia	Three Stores	5251 km
Kuwait	Two Stores	5248 km
Jordan	One Store	4160 km
Angola	One Store	6372 km
Lebanon	Two Stores	4024 km
Qatar	One Store	5765 km
Ecuador	Two Stores	8289 km
Mozambique	One Store	7819 km
<b>Total</b>	<b>Thirty Stores</b>	

Sources: Lanidor and [www.mapcrow.info](http://www.mapcrow.info)

**Exhibit 10** Lanidor Woman PVP Price Ranges

<b>Lanidor Woman</b>	<b>PVP Price Range</b>
Shirts and Blouses (Long and Short-Sleeved)	€29,90-€49,90
Jackets (Leather, Denim and Blazers)	€59,90-€209,90
Raincoats	€69,90-€79,90
Knitwear (T-Shirts, Tops, Dresses, Jumpsuits, Sweaters)	€14,90-€79,90
Beachwear	
Tops	€29,90-€49,90
Tunics	€34,90-€59,90
Dresses	€29,90-€159,90
Rings	€5,90-€24,90
Earrings	€5,90-€9,90
Necklaces	€7,90-€49,90
Bracelets	€5,90-€29,90
Footwear	€29,90-€99,90
Leather Handbags	€79,90-€139,90
Synthetic Leather Handbags	€24,90-€59,90
Fabric Handbags	€39,90-€79,90
Wallets	€14,90-€22,90
Clutches	€29,90-€64,90
Bags	€24,90-€69,90
Hats	€19,90-€24,90
Hair Accessories	€5,90-14,90
Belts	€19,90-€49,90
Scarves	€9,90-€34,90
Sunglasses	€98,00-€107,00

Source: [www.2bstyle.net](http://www.2bstyle.net)

**Exhibit 11** Lanidor Kids and Junior PVP Price Ranges, Boys and Girls

<b>Lanidor Kids and Junior Price Ranges, Boys and Girls</b>				
<b>Item</b>	<b>New Born</b>	<b>Baby</b>	<b>Kids</b>	<b>Junior</b>
Accessories (Knitted Shoes and Hats)	€5,90-€24,90	-----	-----	-----
Blouses and Shirts (Shirts for Boys, Both for Girls)	€16,90-€28,90	€17,90-€23,90	€18,90-€29,90	€20,90-€32,90
Jackets (Boys and Girls)	-----	€26,90	€27,90-€47,90	€29,90-€49,90
Knitwear (Boys and Girls)	€9,90-€39,90	€10,90-€33,90	€11,90-€37,90	€14,90-€39,90
Beachwear (Boys and Girls)	€17,90-€26,90	€22,90-€24,90	€9,90-€27,90	€25,90-€29,90
Tops and Tunics (Girls)	€17,90-€20,90	€17,90-€24,90	€19,90-€25,90	€21,90-€30,90
Trousers (Boys and Girls)	€17,90-€34,90	€15,90-€35,90	€16,90-€39,90	€18,90-€42,90
Skirts (Girls)	-----	€23,90-€35,90	€17,90-€37,90	€19,90-€36,90
Dresses (Girls)	€19,90-€49,90	€20,90-€66,90	€21,90-€67,90	€23,90-€42,90
Footwear (Boys and Girls)	-----	-----	€21,90-€32,90	€23,90-€34,90

Source: [www.2bstyle.net](http://www.2bstyle.net)

**Exhibit 12** Lanidor Kids and Junior Accessories PVP Price Ranges, Boys and Girls

<b>LA Kids and Junlor Accessories</b>	<b>PVP Price Range</b>
Necklaces (Girls)	€2,90-€14,90
Cotton Handbags (Girls)	€15,90-€24,90
Hats and Hair Accessories (Girls)	€2,90-€6,90
Belts (Boys and Girls)	€13,90-€21,90

Source: [www.2bstyle.net](http://www.2bstyle.net)

**Exhibit 13** Globe PVP Price Ranges

<b>Globe</b>	<b>PVP Price Range</b>
Shirts and Blouses (Long and Short-Sleeved)	€65-€135
Jackets (Leather and Blazers)	€160-€350
Knitwear (T-Shirts, Tops, Dresses, Jumpsuits, Cardigans)	€40-€90
Tops and Tunics	€45-€125
Skirts	€80-€150
Dresses	€65-€180
Rings	€30
Necklaces	€20-€70
Bracelets	€15-€50
Broaches	€70
Footwear	€95-€130
Handbags	€60-€200
Belts	€40-€65
Scarves	€30-€50

Source: [www.2bstyle.net](http://www.2bstyle.net).

**Exhibit 14** Casa Batalha PVP Price Ranges

<b>Casa Batalha</b>	<b>PVP Price Range</b>
Rings	€15,00-€40,00
Earrings	€10,00-€80,00
Necklaces	€15,00-€140,00
Bracelets	€10,00-€85,00
Broaches	€35,00-€65,00
Hair Bands	€12,50
Sandals	€90
Wallets and Clutches (Eveningwear)	€30,00-€125,00
Belts	€35,00
Scarves and Echarpes	€20,00-€60,00

Source: [www.2bstyle.net](http://www.2bstyle.net).

**Exhibit 15** The Lanidor Group Total Sales Volume: € Million, 2009-2011

<b>The Lanidor Group Total Sales Volume: € million, 2009-2011</b>					
	<b>2009</b>	<b>2010</b>	<b>Variation %</b>	<b>Forecast 2011</b>	<b>Variation %</b>
Lanidor Woman National Market	53,1	53,7	1,1%	54	0,5%
Lanidor Woman External Markets	6,6	6,9	4,5%	8,4	21,7%
Lanidor Kids and Junior	6,7	8,5	27%	10,7	26%
Lanidor Lofts and Outlets	7	7,4	6%	10,5	41,9%
Globe	6,5	8,3	28%	9,4	13,2%
Casa Batalha	0,9	1,3	44%	2,5	92,3%
	<b>74,2</b>	<b>79,2</b>	<b>6,7%</b>	<b>87,1</b>	<b>10%</b>
Companhia do Campo	1,25	1,4	12%	2,5	78,5%
Restaurants LA Caffé's	0,65	0,75	15,4%	1	33,3%
	<b>1,9</b>	<b>2,15</b>	<b>13%</b>	<b>3,5</b>	<b>39,5%</b>
<b>Total</b>	<b>76,1</b>	<b>81,35</b>	<b>6,9%</b>	<b>90,6</b>	<b>11,4%</b>
Shop Online	0,64	1,3	116,6%	2	53,8%

Source: Lanidor Company Documents.

**Exhibit 16** Shop Online Sales Volume Total, Percentage National and International Markets, in Euros (€) 2007-2010

<b>Shop Online Sales Volume Total, Percentage National and International Markets, in Euros (€) 2007-2010</b>								
	<b>2007</b>		<b>2008</b>		<b>2009</b>		<b>2010</b>	
	<b>Total</b>	<b>%</b>	<b>Total</b>	<b>%</b>	<b>Total</b>	<b>%</b>	<b>Total</b>	<b>%</b>
<b>Sales Volume</b>	<b>15.469</b>	<b>100%</b>	<b>191.708</b>	<b>100%</b>	<b>648.289</b>	<b>100%</b>	<b>1.282.977</b>	<b>100%</b>
National Market	12.412	80%	159.048	83%	546.261	84%	1.097.969	86%
International Markets	3.057	20%	32.660	17%	102.028	16%	185.008	14%

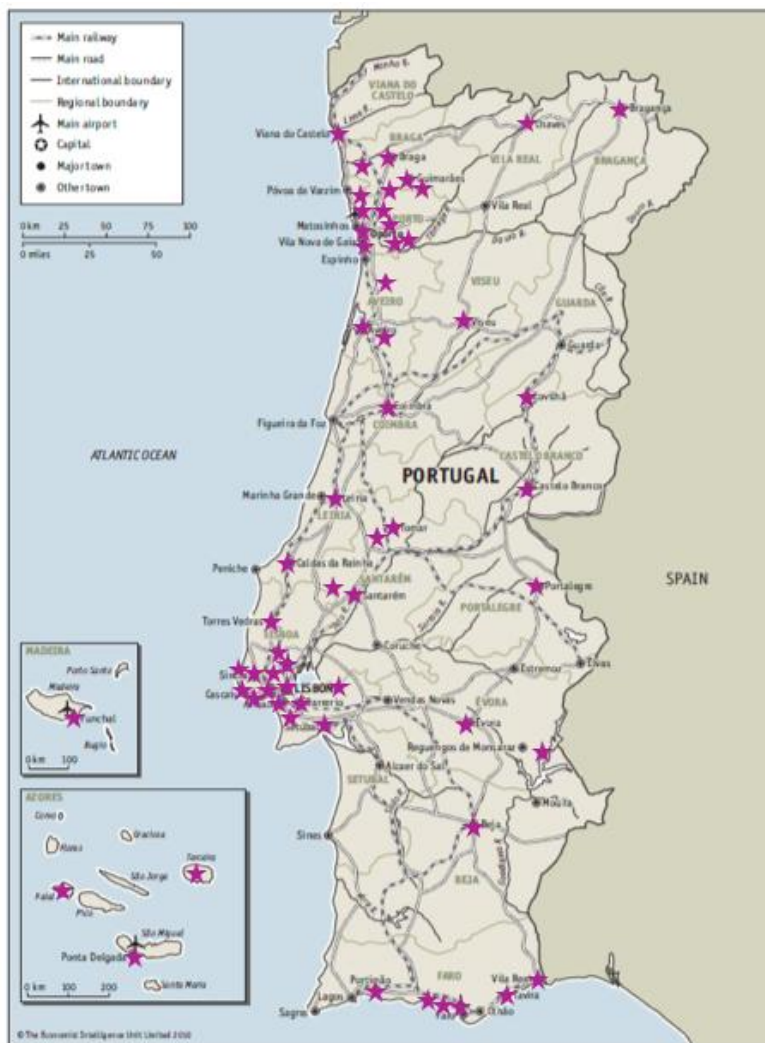
Source: Lanidor Company Documents.

**Exhibit 17** Characterization of Customers who Purchase the Most in Lanidor, 2010

<b>Characterization of Customers who Purchase the Most in Lanidor, 2010</b>				
	<b>Age Group</b>	<b>Profession</b>	<b>Location</b>	<b>Children</b>
<b>First</b>	30-39 years	Entrepreneur/ Manager	Lisbon	0
<b>Second</b>	40-49 years	Lawyer	Porto/ Funchal	1
<b>Third</b>	50-59 years	Teacher	Guimarães	2

Source: Lanidor Company Documents.

**Exhibit 18** Map of Portugal, Lanidor Locations 2010



Source: Adapted from The Economist Intelligence Unit Limited 2010.

**Exhibit 19** Map of Spain, Lanidor Locations 2010



Source: Adapted from <http://geology.com/world/spain-satellite-image.shtml>.

**Exhibit 20** Income, Demographics and Market Demand Portugal, Spain, Poland 2009

Income, Demographics and Market Demand 2009			
	Portugal	Spain	Poland
Nominal GDP (US\$ billion)	219,6	1.404	433,5
Population (million)	10,7	45,8	38,2
GDP per head (US\$ at PPP)	21.410	29.927	17.915
Private consumption per head (US\$)	13.654	17.705	6.830
Number of households ('000)	3.997	15.860	13.825
Number of households with annual earnings above US\$5.000 ('000)	3.997	15.860	13.825
Number of households with annual earnings above US\$10.000 ('000)	3.701	15.860	11.573
Number of households with annual earnings above US\$50.000 ('000)	933	8.331	402
Number of households with net wealth over US\$1 million ('000)	8	37	0
Clothing Market Demand (US\$1 million)	8.273	14.216	5.070
Footwear Market Demand (US\$1 million)	4.664	4.064	1.484

Source: Adapted from The Economist Intelligence Unit.

**Exhibit 21** Polish Apparel Retail Industry Value: PLN and € Billion, 2005-2009

<b>Poland Apparel Retail Industry Value: PLN and € Billion, 2005-2009</b>			
<b>Year</b>	<b>Billion, in Polish Zlotys (PLN)</b>	<b>Billion, in Euros (€)</b>	<b>Percentage Growth (%)</b>
2005	19,5	4,5	
2006	20,7	4,8	6,4%
2007	21,6	5,0	4,4%
2008	20,6	4,7	-5,1%
2009	21,4	4,9	4,0%
<b>Compound Annual Growth Rate (CAGR) 2005-2009 = 2,3%</b>			

Source: Datamonitor.

**Exhibit 22** Polish Apparel Retail Industry Value Forecast: PLN and € Billion, 2009-2014

<b>Poland Apparel Retail Industry Value Forecast: PLN and € Billion, 2009-2014</b>			
<b>Year</b>	<b>Billion, in Polish Zlotys (PLN)</b>	<b>Billion, in Euros (€)</b>	<b>Percentage Growth (%)</b>
2009	21,4	4,9	4,0%
2010	22,5	5,2	5,1%
2011	23,7	5,5	5,7%
2012	25,0	5,8	5,4%
2013	26,1	6,0	4,2%
2014	26,7	6,2	2,5%
<b>Compound Annual Growth Rate (CAGR) 2009-2014 = 4,6%</b>			

Source: Datamonitor.

**Exhibit 23** Polish Apparel Retail Industry Segmentation: % Share, by Value 2006-2009

<b>Poland Apparel Retail Industry Segmentation: % Share, by Value 2006-2009</b>				
<b>Category</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Womenswear	50,60%	59,40%	49,60%	47,60%
Menswear	35,60%	38,40%	35,00%	37,50%
Childrenswear	13,70%	2,20%	15,40%	14,90%
<b>Total</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>

Source: Datamonitor.

**Exhibit 24** Lanidor Business Volume Total, Percentage National and International Markets, in Euros (€), 2004-2009

<b>Lanidor Business Volume Total, Percentage National and International Markets, in Euros (€) 2004-2006</b>												
	<b>2004</b>		<b>2005</b>		<b>2006</b>		<b>2007</b>		<b>2008</b>		<b>2009</b>	
	<b>Total</b>	<b>%</b>	<b>Total</b>	<b>%</b>	<b>Total</b>	<b>%</b>	<b>Total</b>	<b>%</b>	<b>Total</b>	<b>%</b>	<b>Total</b>	<b>%</b>
<b>Business Volume</b>	27.307.334	100%	33.282.582	100%	37.017.159	100%	43.361.091	100%	46.646.312	100%	49.909.514	100%
National Market	25.939.434	95%	31.634.142	95%	34.588.389	93%	40.926.058	94%	43.731.128	94%	47.237.135	95%
International Markets	1.367.900	5%	1.648.440	5%	2.428.770	7%	2.435.033	6%	2.915.185	6%	2.672.379	5%

Source: Lanidor Company documents.

**Exhibit 25** Lanidor National Liquid Sales and Service, in Euros (€), 2004-2009

<b>National Market Liquid Sales and Service, in Euros (€) 2004-2009</b>						
<b>Category</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
<b>Knitwear</b>	13.794.393	16.140.132	17.499.805	20.754.180	15.870.158	23.814.824
<b>Confection</b>	7.187.016	8.141.291	9.111.245	10.805.630	17.671.240	5.844.757
<b>Cottons</b>	2.659.221	3.353.754	3.883.592	4.605.810	2.463.055	9.845.828
<b>Accessories</b>	1.782.136	3.332.238	3.275.726	3.884.900	6.980.806	7.455.516
<b>Service Provision</b>	516.668	666.727	818.021	875.537	745.869	655.866
<b>Total</b>	<b>25.939.434</b>	<b>31.634.142</b>	<b>34.588.389</b>	<b>40.926.057</b>	<b>43.731.128</b>	<b>47.616.791</b>

Source: Lanidor Company documents.

**Exhibit 26** External Markets Liquid Sales and Service, in Euros (€), 2004-2009

External Market Liquid Sales and Service, in Euros (€) 2004-2009						
Category	2004	2005	2006	2007	2008	2009
Knitwear	731.270	923.716	1.319.540	1.321.311	1.114.906	1.228.023
Confection	380.999	434.413	676.282	677.190	1.226.800	334.542
Cottons	140.971	148.918	220.402	220.698	188.205	486.672
Accessories	94.475	116.764	176.848	177.085	346.524	441.026
Service Provision	20.185	24.629	35.698	38.749	38.749	0,00
<b>Total</b>	<b>1.367.900</b>	<b>1.648.440</b>	<b>2.428.770</b>	<b>2.435.033</b>	<b>2.915.184</b>	<b>2.490.263</b>

Source: Lanidor Company documents.

**Exhibit 27** Total National and External Markets Liquid Sales and Service, in Euros (€), 2004-2009

Total National Market and External Market Liquid Sales and Service, in Euros (€) 2004-2009												
	2004	%	2005	%	2006	%	2007	%	2008	%	2009	%
Internal Market	25.939.434	95%	31.634.142	95%	34.588.389	93%	40.926.057	94%	43.731.128	94%	47.616.791	95%
External Market	1.367.900	5%	1.648.440	5%	2.428.770	7%	2.435.033	6%	2.915.184	6%	2.490.263	5%
<b>Total</b>	<b>27.307.334</b>	<b>100%</b>	<b>33.282.582</b>	<b>100%</b>	<b>37.017.159</b>	<b>100%</b>	<b>43.361.090</b>	<b>100%</b>	<b>46.646.312</b>	<b>100%</b>	<b>50.107.054</b>	<b>100%</b>

Source: Lanidor Company documents.

**Exhibit 28** Evolution of Number of Stores in National Market, 2004-2009

Evolution of Number of Stores in National Market, 2004-2009												
	2004		2005		2006		2007		2008		2009	
<b>Total</b>	<b>98</b>		<b>102</b>		<b>124</b>		<b>137</b>		<b>139</b>		<b>140</b>	
Wholly Owned	34	34.7%	32	31.4%	44	35.5%	60	43.8%	81	58.3%	94	67.1%
Franchisees	64	65.3%	70	68.6%	80	64.5%	77	56.2%	58	41.7%	46	32.9%

Source: Lanidor Company documents.

**Exhibit 29** Evolution of Number of Stores in International Markets, 2004-2009

Evolution of Number of Stores in International Markets, 2004-2009												
	2004		2005		2006		2007		2008		2009	
<b>Total</b>	<b>12</b>		<b>16</b>		<b>27</b>		<b>34</b>		<b>38</b>		<b>34</b>	
Wholly Owned	4	33.3%	8	50%	19	70.4%	21	61.8%	18	47.4%	15	44.1%
Franchisees	8	66.7%	8	50%	8	29.6%	13	38.2%	20	52.6%	19	55.9%

Source: Lanidor Company documents.

**Exhibit 30** Evolution of the Total Number of Stores, 2004-2009

<b>Evolution of the Total Number of Stores, 2004-2009</b>												
	2004		2005		2006		2007		2008		2009	
<b>Total</b>	<b>110</b>		<b>118</b>		<b>151</b>		<b>171</b>		<b>177</b>		<b>174</b>	
Wholly Owned	38	34.5%	40	33.9%	63	41.7%	81	47.4%	99	55.9%	109	62.6%
Franchisees	72	65.5%	78	66.1%	88	58.3%	90	52.6%	78	44.1%	65	37.4%

Source: Lanidor Company documents.

**Exhibit 31** Spain Apparel Retail Industry Value: € Billion 2005-2009

<b>Spain Apparel Retail Industry Value: € Billion, 2005-2009</b>		
<b>Year</b>	<b>Billion, in Euros (€)</b>	<b>Percentage Growth (%)</b>
2005	20,1	
2006	20,5	2,1%
2007	20,1	-2,2%
2008	18,1	-10,0%
2009	17,0	-5,6%
<b>Compound Annual Growth Rate (CAGR) 2005-2009 = - 4%</b>		

Source: Datamonitor.

**Exhibit 32** Spain Apparel Retail Industry Value: € Billion 2005-2009

<b>Spain Apparel Retail Industry Value: € Billion, 2005-2009</b>		
<b>Year</b>	<b>Billion, in Euros (€)</b>	<b>Percentage Growth (%)</b>
2005	20,1	
2006	20,5	2,1%
2007	20,1	-2,2%
2008	18,1	-10,0%
2009	17,0	-5,6%
<b>Compound Annual Growth Rate (CAGR) 2005-2009 = - 4%</b>		

Source: Datamonitor.

**Exhibit 33** Spain Apparel Retail Industry Segmentation: % Share, by Value 2005-2009

Spain Apparel Retail Industry Segmentation: % Share, by Value 2005-2009					
Category	2005	2006	2007	2008	2009
Womenswear	49,40%	49,40%	60,40%	52,8%	53,70%
Menswear	33,10%	33,10%	37,50%	32,70%	31,70%
Childrenswear	17,50%	17,50%	2,10%	14,50%	14,60%
<b>Total</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>

Source: Datamonitor.

**Exhibit 34** Map of Poland and Largest Cities



Source: Adapted from [www.infoplease.com/atlas/country/poland.html](http://www.infoplease.com/atlas/country/poland.html).

**Exhibit 35** Real Estate Average Rental and Sale Prices, Warsaw, Kraków, Łódz and Wrocław, per Square Meter in Polish Zloty, 2011

<b>Retail Real Estate Average Rental and Sale Prices, Warsaw, Kraków, Łódz and Wrocław, per Square Meter in Polish Zloty, 2011</b>		
	Rent	Buy
Warsaw	93PLN/Square Meter	14.915PLN/Square Meter
Kraków	49PLN/Square Meter	11.100PLN/Square Meter
Łódz	43PLN/Square Meter	9.740PLN/Square Meter
Wrocław	89PLN/Square Meter	9.538PLN/Square Meter
Note. Exchange rate considered: 1PLN = 0,248€ 1€ = 4,025PLN		

Source: Arkadia.com.

**Exhibit 36** Affordability Rank Portugal, Spain and Poland 2009

<b>Affordability Rank Portugal, Spain and Poland, 2009</b>			
Dress, Ready to Wear, Daytime (Chain Store)	Price (US\$)	% of Monthly Personal Disposable Income	Affordability Rank
Portugal	152	10,75	14 out of 58
Spain	623	31,96	33 out of 58
Poland	541	63,41	38 out of 58
“Note. Affordability Rank: for each country the price of an item as a percentage of monthly personal disposable income is calculated. Countries are ranked according to these percentages. The most affordable country will have the lowest percentage and be ranked first.”			

Source: Consumer Goods and Retail Report, The Economist Intelligence Unit Limited 2009

## 2. TEACHING NOTE

The purpose of this chapter is to provide a teaching guideline of the Case Study.

### 2.1 Introduction

The discussion between Director 1 and Director 2 on the best entry mode in Poland (page 25 of the case study) is fictional, and does not intend to reflect a real management situation.

### 2.2 Synopsis

The Lanidor Group, a key player in the apparel retail industry in Portugal, is experiencing barriers to its internationalization strategy, which began in Spain in 1999.

The Lanidor Group started as a small family business and in the last 12 years, the founder's son and President, João Pedro Xavier, transformed this small business into a leading Portuguese ready-to-wear brand and retailer headquartered in Valongo do Vouga with a diversified brand portfolio and a total of 237 stores. In 2009 the company had a total business volume of 49.909.514€, 95% of which from its national market, where the brand had experienced positive growth since 2004. At the time, its international markets represented 5% of its total business volume and there had been a decline of 8,3% between 2008 and 2009.

The company's objective is to increase its international business to 20-30% of total business volume and to achieve this, management is now prioritizing international expansion of the LA Woman brand to Poland and considering consolidation of the brand in Spain. There is an ongoing debate as to whether the expansion in Poland should be with franchises or wholly owned stores.

Lanidor began the internationalization of the LA Woman brand to Spain in 1999. What was thought to be the natural path for growth was not as successful as had been anticipated. LA Woman closed a significant number of stores until 2010 and currently has 13 points of sale, 5 of which are located in El Corte Inglés department stores.

The Lanidor Group now has 237 stores in twelve countries: 207 of which in Portugal, and 30 in Spain, Switzerland, Cyprus, Saudi Arabia, Kuwait, Jordan, Angola, Lebanon, Qatar, Ecuador and Mozambique.

International selling area is estimated to be 4.050 square meters, seeing that the retail surface area of each shop is on average 135 square meters and forecasted sales in external markets in 2011 equal 8,4 million Euros.

### **2.3 Learning Objectives**

The Lanidor Group provides students with an interesting example of the difficulties for a successful national Womenswear brand to expand internationally and of the strategic options for the brand to successfully enter international markets.

This Case Study:

- Introduces the global apparel landscape and Lanidor's largest international competitors.
- Illustrates the Lanidor Group's Business Model in Portugal: Marketing Mix, Targeting and Positioning.
- Examines the LA Woman brand's internationalization to Spain and includes a characterization of demand in the Spanish apparel retail industry.
- Allows a student to analyze the barriers faced by Lanidor Woman in the Spanish market and then to analyze the two options that the Lanidor Group is considering: consolidating presence in Spain and entry in Poland.

### **2.4 Use of the Case**

This case has been elaborated in order to help students understand that what seems to be the natural path for a brand's international expansion in terms of cultural and geographic proximity is still subject to market and demand adversities. It illustrates Lanidor Woman's internationalization process, respective business model and entry modes in Spain, as well as the decision as to whether Lanidor should enter Poland with wholly owned or with franchise stores.

This case can also be used to understand patterns in the global apparel industry, for additional reading, the paper on “International Trade and Industrial Upgrading in the Apparel Commodity Chain” by Gary Gereffi (1999) in the *Journal of International Economics*, is advised.

For additional reading on motives for franchising internationally, the paper on “The internationalization of retailing: factors influencing the choice of franchising as a market entry strategy” by Anne Marie Doherty (2007) in the *International Journal of Service Industry Management*, is advised.

If students are interested in understanding the Lanidor Group’s pricing strategy, interesting sites include:

<http://eshop.lanidor.com/>

<http://cartao.lanidor.com/>

<http://www.lanidor.com/la-spa/>

<http://www.lanidor.com/la-spa/>

## **2.5 Assignment Questions**

### **2.5.1 Individual Assignment Questions**

- 1) Analyze Lanidor’s Business Model in Portugal
- 2) How does the Lanidor Group differentiate itself from its main competitors in Portugal?
- 3) Why did Lanidor begin its Internationalization Strategy in Spain in 1999?
- 4) In your opinion, should Lanidor Woman maintain a standardized business model in all foreign markets? What are the (dis)advantages of this strategy?
- 5) What are the advantages and disadvantages of Lanidor Woman’s entry in Poland, with franchises instead of wholly owned stores? In your opinion, is this entry mode optimal? Why?

## **2.5.2 Group Assignment Questions**

### ***Group Assignment 1***

The class can be divided into two groups. One group is asked to identify the advantages of a standardized business model in foreign markets, and the other group is asked to identify the disadvantages of such strategy, and the advantages of adapting the company's business model in international markets.

Both groups should be given approximately 15 minutes.

### ***Group Assignment 2***

In order to promote further interaction between class members and colleagues, Assignment 2 is a role-play discussion.

The class can be divided into two groups. One group representing the part of Lanidor's management that thinks that the LA Woman brand should continue to use franchises to enter the Polish market, and the other group, the part that is opposed to this strategy and in favour of using wholly-owned stores.

Students should be given between 30 and 45 minutes in order to prepare for this in-class assignment.

### ***Group Assignment 3***

Divide the class into two groups. One group will be in favour of expanding the LA Woman brand to Poland, and the remaining group will argue that Lanidor should continue its expansion and consolidate its presence in Spain.

Students should be given between 45 and 60 minutes in order to prepare for this assignment.

## 2.6 Analysis and Discussion

### 1) Analyze Lanidor's Business Model in Portugal.

**Who:** Lanidor's core target are women between the ages of thirty and forty-five, married, with at least one child, who have a First-Cycle Degree and are actively working. They are independent, well informed in terms of trends, conscious of their purchase decisions and are not fashion victims, meaning that they do not limit themselves to following seasonal trends.

However, the clients who most bought Lanidor products in 2010 were women between the ages of 30-39 years, entrepreneurs or managers, located in Lisbon, without children (See Exhibit 20). This did not correspond with the characterization of Lanidor's core target, no doubt due to the economic recession.

**What:** The brand "sells fashion", and delivers design and quality at affordable prices.

**How:** Lanidor's value chain consists primarily of design activities, marketing, distribution and commercialization and this provides the company with a strong competitive advantage. The brand focuses on an efficient distribution system in order to rapidly respond to stock replacements and reinforcements that result from fluctuations in demand. Lanidor differentiates itself from large department stores and hypermarkets with a strong emphasis on Direct Marketing in order to encourage continuous interaction with its existing customers who have adhered to the brand's loyalty card, and further strengthens their relationship with the services provided in the brand's stores.

Furthermore, seeing that Lanidor is not an industrial company and that raw materials are purchased in markets that have high levels of quality at the most competitive prices, this allows the company to provide the consumer with high quality products at lower prices. Sixty percent of apparel production takes place primarily in China and in India, while most accessories are produced in Italy and in Brazil. If the company would be dependent on fabricating its products, the relation between quality and price would be compromised. The remaining forty percent of the brand's collection is called "Black Label", and these pieces are fabricated in Portugal. This allows the company to maintain a strong commitment with

Portuguese suppliers, and with the factories that work exclusively for the brand in Portugal. “Black Label” pieces are higher in price than the rest of Lanidor’s collection; however, Portuguese consumers value these national pieces and are willing to pay a higher price for them.

## **2) How does the Lanidor Group differentiate itself from its main competitors in Portugal?**

The Lanidor Group extended its business activities to cater to the needs of new market segments and now has ten innovative Lanidor concepts (LA Woman, LA Kids and Junior, LA Accessories, LA Eyewear and Perfume, LA Outlet and LA Loft, LA Shop Online, LA Caffé, LA SPA and Magazine LA MAG), and three concepts that are not under the Lanidor brand umbrella, Globe and Casa Batalha and Companhia do Campo, all related to the world of fashion and design.

The Lanidor Group differentiates itself from its main competitors in Portugal with the idea of LA Life Style, which is based on the brand’s vision of “Making People Happier”.

Lanidor observed international trends and understood that brands of international reference, such as Armani, were extending their business activities so that their values could be extended to other areas of consumption. Lanidor began its diversification strategy with the opening of a restaurant, the LA Caffé in 2001. The company wanted its values to be present in the restaurant’s decoration and menu, and in this vision of a lifestyle. Subsequently, the company opened the LA Spa in its Flagship Store in Lisbon, and is intending to inaugurate a hotel later this year. The idea behind this diversification is to transform the company into much more than an apparel brand: into a lifestyle. It transmits Lanidor’s passion for lifestyle and decoration, and it extends the brand’s values to these different areas. According to Lanidor’s Communication and Image Director, Margarida Mangerão, with the inauguration of the LA Hotel, “we will close the triangle of Avenida da Liberdade: a consumer can begin the day with a shopping spree in the flagship store, followed by a snack in LA Caffé, a trip LA Spa, dinner in the LA Caffé and finally, sleep in the LA Hotel”. Closing this triangle represents an achievement for the brand in terms of

providing overall happiness and well being to its consumers by providing them with small pleasures in their daily life, which represent the core values of the Lanidor brand. The company targets the same medium/ high segment with these diversified offers, and therefore prices are affordable and coherent with that of the brand's products, which ultimately enhances brand equity by expanding the brand meaning to other, related business units.

### **3) Why did Lanidor begin its Internationalization Strategy in Spain in 1999?**

When Lanidor reached a high level of national market coverage and found that the saturated national market conditioned further expansion of the Lanidor Woman brand, the Spanish market became a priority for them. In order to increase in dimension and exposure, they needed to expand into a larger market and Spain, because of its cultural and geographic proximity seemed to be the natural path for growth.

Lanidor began the internationalization of the LA Woman brand to Spain in 1999. Their main entry mode was wholly owned stores in order to closely manage and control the brand's subsidiaries; however, they also began developing franchises in order to expand at a rapid pace and to guarantee the brand's presence in the market with local partners.

### **4) In your opinion, should Lanidor Woman maintain a standardized business model in all foreign markets? What are the (dis)advantages of this strategy?**

The main advantage of maintaining a standardized business model in all foreign markets is that Lanidor does not incur any adaptation costs. However, there are many barriers to standardization, such as:

- Consumer profiles, tastes in clothing, attitudes towards foreign products, income, cultures, purchasing patterns and decision processes differ from country to country.
- Marketing infrastructures are different in foreign markets, as is the efficiency of different types of media.

- Transportation and communication affect marketing strategies, such as the viability of home delivery.
- Distribution systems differ in number, localization and ease of access.

Adaptation is necessary in certain foreign countries, mainly those that are culturally and geographically distant, given international market needs, cultures and economic conditions.

**5) What are the advantages and disadvantages of Lanidor Woman's entry in Poland, with franchises instead of wholly owned stores? In your opinion, is this entry mode optimal? Why?**

- The forecasted 2011 sales in external markets is 8.400.000 Euros.
- There are currently 30 international stores in foreign markets, each with an average of 135 square meters.
- 30 stores x 135 square meters = total estimated international retail surface area of 4.050 square meters.
- $(8.400.000\text{€}/4.050\text{m}^2) = 2.074\text{€}$  per square meter
- Lanidor plans to open 4 stores in Poland, each with an average of 135 square meters therefore the total retail surface area will be approximately  $4 \times 135\text{m}^2 = 540$  square meters in Poland.
- Therefore, the annual sales forecast in Poland is equal to  $2.074\text{€} \times 540\text{m}^2 = 1.119.960$  Euros.
- Average monthly sales are  $1.119.960\text{€}/12 = 93.330$  Euros
- The monthly contribution margin is 25% and therefore  $0,25 \times 93.330\text{€} = 23.333$  Euros

If Lanidor would use franchising to enter the Polish market, the company would receive an initial franchise fee of 25.000 Euros at the beginning of the franchise process, and a monthly royalty fee of 5% of sales, which equals  $0,05 \times 93.330\text{€}$ , for a total of 4.667 Euros, on average. Additionally, the franchisor would receive 1% of sales as a monthly advertising fee, which totals in  $0,01 \times 93.330\text{€}$ , or 933,3 Euros, on average.

If Lanidor would opt for wholly owned stores, they would incur in costs related to:

**Real Estate:**

<b>Retail Real Estate Average Rental and Sale Prices, Warsaw, Kraków, Łódź and Wrocław, for a Retail Surface Area of 135 Square Meters, in Polish Zloty and in Euros, 2011</b>		
	Rent	Buy
Warsaw	12.555PLN = 3.114€	2.013.525PLN = 499.354€
Kraków	6.615PLN = 1.641€	1.498.500PLN = 371.628€
Łódź	5.805PLN = 1.440€	1.314.900PLN = 326.095€
Wrocław	12.015PLN = 2.980€	1.287.630PLN = 319.332€
Note. Exchange rate considered: 1PLN = 0,248€ 1€ = 4,032PLN		

- Calculations from data in Exhibit 38
- If Lanidor would open all four of its stores in Poland’s capital and largest city, Warsaw, this would represent an average annual rental cost of (3.114€ x 12 months) x 4 stores = 149.472 Euros, and an initial investment of (4 stores x 499.354€) = 5.992.248 Euros if the company would acquire the retail space.
- If Lanidor would choose to locate one store in each of Poland’s largest cities:
  - Average annual rental costs would be (3.114€ x 12 months) + (1.641€ x 12 months) + (1.440€ x 12 months) + (2.980€ x 12 months) = 110.100 Euros.
  - Initial investment for acquisition of retail spaces would be equal to 499.354€ + 371.628€ + 326.095€ + 319.332€ = 1.516.409 Euros.

**Store Interior Design and Layout**

If Lanidor enters the Polish market with wholly owned stores, the company will incur in costs related to the stores’ interior design and layout, which are estimated to be 500 Euros per square meter. The initial investment for four stores will amount to 4 x (500€ x 135m<sup>2</sup>), or 270.000 Euros.

<b>Poland</b>		
	<b>Franchising</b>	<b>Wholly Owned Stores</b>
<b>Retail surface Area</b>	540 square meters	
<b>Sales</b>	Estimated Annual Sales Forecast 1.119.960 Euros Average monthly sales are estimated to be 93.330 Euros	
<b>Contribution Margin</b>	The monthly contribution margin is 25% and estimated at 23.333 Euros	
	Lanidor would receive a franchise fee of 25.000 Euros  Royalties Fees 5% of sales which are estimated at 4.667 Euros per month  Advertising fees charged to the franchisee estimated to be 933,3 Euros per month	Lanidor would support costs related to real estate, which, if the company would acquire a retail property in each of the four largest cities in Poland, would amount to 1.516.409 Euros.  Store design and layout would cost Lanidor 270.000 Euros.
<b>Lanidor Profit</b>	The 25.000 franchise fee is not considered as profit, seeing as it is a one-time payment and covers the tangible and intangible support provided by the franchisor. If Lanidor would grant country-based territorial rights for the franchisee to open 4 stores in Poland, its estimated average annual profit from its franchising model would be:  (4.667 x 12 months) + (933,3 x 12 months) = 67.203,6 Euros	The investment in real estate and the store design and layout costs are both fixed costs, however, throughout the first year of business, profits are expected to be negative unless Lanidor considered renting the retail properties, in which case the estimated average annual profit would be:  1.119.960€ - 110.100€ - 270.000€ = 739.860 Euros (does not include the costs related to staff recruitment and training in a foreign country).

With wholly owned stores, Lanidor would be in close control of operations and of customer needs and desires. Furthermore, Lanidor could minimize advertising costs by ensuring that the brand image remains intact in foreign markets.

However, strong cultural and language differences could pose a threat to success in Poland, and therefore franchising would lower the risk levels associated with setting up international operations and ensure faster expansion in Poland.

Altinay (2004) argues that international franchising provides retail sector industries with an opportunity for rapid market expansion and Peterson and Welch (2000) argue that it is beneficial for enterprises to test their franchise model domestically prior to opting for franchising as an entry mode in international markets. The knowledge from experimenting, modifying and learning how to effectively manage and operate a franchise model in the company's national market can then be transferred to international markets at a lower cost.

Moreover, franchising would allow Lanidor to reduce the significant investment in real estate and in interior decoration, as well as in staff recruitment.

Oxenfeldt and Kelly (1969) argue that most successful franchise models will end up as wholly-owned stores and that franchising can be advantageous during the beginning of the expansion process. Initially, the franchisor may lack the funds to invest in wholly owned subsidiaries and opt for franchises as a market entry mode, which will result in rapid market penetration. However, motivation for market development, higher profits and greater control will drive enterprises to seek ownership of their most lucrative franchise opportunities. The knowledge obtained by the franchisor of local demand and conditions together with the crucial importance of brand and quality perception will be further motivation for ownership. Franchisees may not entirely comply with the franchisor's conditions and programs, and the need of controlling quality and service is another motivating factor for ownership.

## **2.7 What has Happened**

It is not yet known if and how Lanidor chose to enter Poland, given that it is a decision being made in the present.

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