

PARFOIS

The consolidation of a brand



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ABSTRACT

Title: The consolidation of a brand

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Parfois is a Portuguese multinational company in the fashion accessories industry counting with twenty years of history. The brand is present in 50 countries and exhibits in 2014 more than 500 stores all over the world, in both developed and emerging markets. Parfois has revolutionized the fashion accessories market in Portugal by providing trendy and fashion accessories affordable to everyone. It presents a wide portfolio of product segments and has been focusing in the fast fashion concept to better and quicker respond to customer's needs. The company is faced with a saturation of the Portuguese market, where it considers, at this time, there is limited room to grow. As so, it is interested in reinforcing its position in other key markets where it is already present. The company is particularly interested in strengthening its presence and consolidating its brand in the Spanish market.

The case study develops an overview of the company, the fashion accessories retail industry and consumer trends, as well as a summary of Parfois' internationalization process. This master thesis aims to study the conditions of the industry and to what extent there are opportunities to grow and consolidate the brand position in Spain.

Key words: fashion accessories, international expansion, brand consolidation, growth, Parfois

Resumo

Título: A consolidação de uma marca

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A Parfois é uma empresa multinacional Portuguesa com 20 anos de experiência no sector dos acessórios de moda. A marca está presente em 50 países e apresenta, em 2014, mais de 500 lojas espalhadas por todo o mundo, tanto em mercados maduros como em emergentes. A Parfois revolucionou o mercado dos acessórios de moda em Portugal, oferecendo produtos *fashion* e *trendy*, economicamente acessíveis. A marca apresenta um vasto portefólio de produtos e tem-se focado no conceito de *fast fashion*, conseguindo responder às necessidades dos consumidores de uma forma acessível e rápida. A empresa enfrenta neste momento uma estagnação de crescimento no mercado Português, pois acredita que não há mais oportunidades para crescer. Deste modo, está interessada em reforçar a sua presença em mercados onde já se encontra presente. Em particular, pretende reforçar a sua presença e consolidar a marca no mercado Espanhol.

Este caso apresenta um *overview* da empresa, da indústria dos acessórios de moda, tendências de consumo, assim como um resumo de todo o seu processo de internacionalização. Esta tese de mestrado tem como objetivo estudar as condições da indústria e quais as oportunidades para que a empresa consiga crescer e consolidar a sua presença em Espanha.

Palavras-chave: acessórios de moda, expansão, consolidação, crescimento, Parfois

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(A) CASE STUDY

1. Introduction

It was the year of 2014 and Manuela Medeiros, the Chairman of Parfois was heading back to Oporto after a two-week vacation in Algarve. During the 4-hour drive, she was imagining her meeting with the Executive Director of Parfois to discuss the strategy for the upcoming year - international expansion and innovation, which was scheduled for the next day.

With 20 years of existence, Parfois has been able to establish itself as the top selling accessories brand in the Portuguese market, developing high quality products and also expanding its position internationally. In fact, over the last 10 years the brand has exhibited a steady annual average growth rate of sales over of 30%.

Considering its exponential growth in sales, rapid international expansion and the Portuguese market saturation, Parfois' top management had several plans to strengthen its position, through the reinforcement of international strategies as well as with the expansion of the textiles accessories segment (clothing line) segment. According to Sérgio Marques, Executive Director at Parfois, the main priority of expansion will be Europe, namely Spain:

"The Spanish market is much bigger than the Portuguese. There is still a lot of room to grow" (1)

A market where they already have implemented a management team that supports the local business and it is a market that exhibits potential to grow. Europe is the only case where the company has owned stores – Portugal, Spain, France, Italy, Germany and Poland. Besides these, the company is present in the other continents through several franchise agreements in markets such as Saudi Arabia, Ukraine, Russia, Venezuela, Brazil, etc.

However, for Parfois, it is still unclear the path to take to achieve brand consolidation and maintain a sustainable growth path into the future. Should it invest in more company owned stores or franchise? Focus on other countries beside Spain? What kind of strategies

(1) Sérgio Marques interview to ETV "Grandes Negócios"

should be made to enhance customer brand awareness? Are some questions that should be thought of.

2. Consumer profile and trends

Parfois typical consumers are women who are modern, urban and hardworking, aware of its personal taste and style. Age between 15 – 39 years old. Early adopters and people who follow fashion trends. Their typical motives to buy are for impulse, planned or just a simple routine buy, to check what new products are in store.

As globalization increases, the consumer habits are changing, and so is the consumer purchasing experience. The digital era is changing purchasing patterns and new channels are being created, such as the e-commerce and omnichannel journeys. Consumers now want to have the possibility to buy products in store or online.

A study made by Tradedoubler insight unit, revealed how traditional fashion purchase journey have changed by combination of digital media and shopping budgets. ⁽²⁾ It also shows that online is gaining force against street shopping, since 39% state that are now more willing to buy online than one year ago.

Parfois introduced its online store in 2012, available through Europe: 30 countries (See Exhibit 1). They not only invested in the online store but as well as in the social media area. The online sales, have been in a slow pace rising, representing only 1% of the total sales. Whereas, the Facebook page has 650k followers and Instagram 226k, comparing to some of its competitors: Claire's with 1 Million followers on Facebook and 136k on Instagram or Zara 24 Million followers on Facebook and 12,3 Million on Instagram. This interaction with the consumers will make them feel more involved with the brand and develop new shopping preferences, on which Parfois would like to follow its competitor's steps. Despite this fact, consumers are engaging retailers in multiple ways, with multiple touch points.

Another trend that is emerging is sustainability, since consumers are becoming more environmentally conscious about the products they are buying - Where were they manufactured, in what conditions, etc. Different European companies have different strategies and priorities, for Parfois, the products are produced in China and India, where they will pass through a quality check team. They should ensure the items on several fronts, such

⁽²⁾ Fashion & trends in online retailing: a new catwalk for fashion brands

as manufacturing defects or packaging. After these control checks, 90% of the merchandise passes through the distribution centre in the north of Portugal, before they go to their selected stores.

3. Competitive environment

Parfois operates in the fashion accessories retail market. Usually, fashion accessories are a sub sector of apparel, which includes products that are a supplement to clothing, meaning accessories are purchased to match clothing and to be aesthetical and functional. ⁽³⁾

In 2014 the fashion accessories segment was considered the third largest within apparel. ⁽⁴⁾ Furthermore, 22% of European apparel imports (2014) was of fashion accessories, and the main leading developing country suppliers were China and India. ⁽⁵⁾

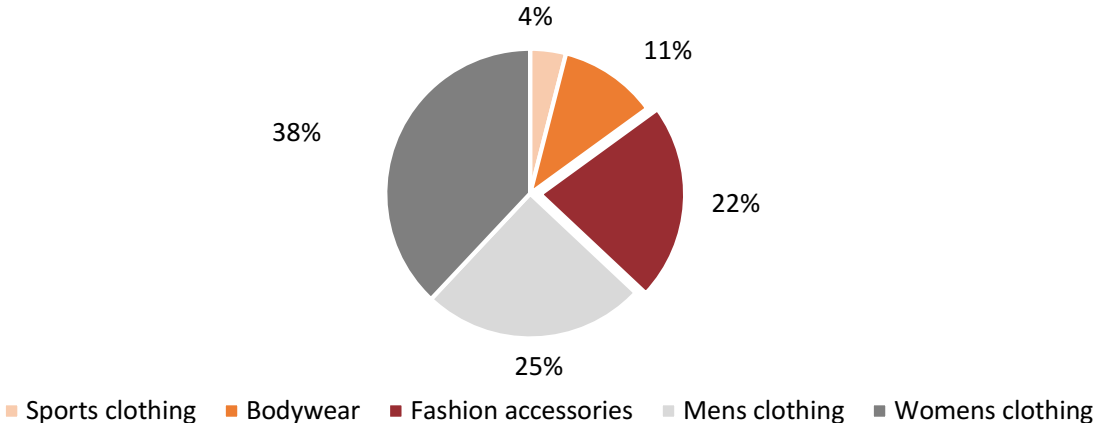


FIGURE 1: Share of European apparel imports by product category in 2014

The majority of players belong to multinational companies, who have more brands, expertise and capital. According to a study made by Deloitte ⁽⁶⁾, 85% of top 250 apparel and accessories retailers operate internationally and on average generate one-third of their revenues on foreign markets.

In terms of competition in the fashion accessories sector, Parfois main competitors are global companies such as Accessorize, Biju Brigitte, Claire’s, I AM and SIX but also retail companies who offer accessories to complement its clothing lines, like Zara and H&M.

⁽³⁾ CBI product factsheet: Fashion Accessories in Europe
⁽⁴⁾ CBI trade statistics: Apparel
⁽⁵⁾ CBI product factsheet: Fashion accessories in Europe
⁽⁶⁾ Global Powers of Retailing 2016: Navigating the new digital drive

The majority presents expertise required in the fast fashion world, which materializes in good relations with strategic partners along the value chain, so that quicker responses are made. Parfois main competitors are described in the following table ⁽¹⁰⁾:

SEGMENT	COMPANY	ORIGIN	# STORES	# COUNTRIES PRESENT	TYPE OF STORE	PRODUCT RANGE
ACCESSORIES	Monsoon (Accessorize)	UK	1 000	60	Company owned ⁽⁷⁾ and franchise ⁽⁸⁾	Necklaces, rings, earrings, bracelets, watches, hair accessories, bags, purses, shoes, swimwear, clothes, sunglasses
	Biju Brigitte	Germany	1 100	24	Company owned and concession stores ⁽⁹⁾	Necklaces, rings, earrings, bracelets, watches, hair accessories, sunglasses
	Claire's	USA	3 000	47	Company owned, concession store-in-stores and franchise	Necklaces, rings, earrings, bracelets, watches, hair accessories, bags, purses, cosmetics, sunglasses
	Beeline group (I AM SIX)	Germany	18 000	58	Company owned, concession store-in-stores and franchise	Necklaces, rings, earrings, bracelets, sunglasses, tattoos, men accessories
	Parfois	Portugal	570	50	Company owned and franchise	Necklaces, rings, earrings, bracelets, watches, hair accessories, bags, purses, shoes, clothes, sunglasses
ACCESSORIES AND CLOTHING	Inditex (Zara Pull and Bear Massimo Dutti Bershka Stradivarius Uterque)	Spain	7 000	91	Company owned and franchise	Necklaces, rings, earrings, bracelets, watches, hair accessories, bags, purses, shoes, swimwear, clothes, hats, sport, home, sunglasses
	H&M	Sweden	4 000	62	Company owned and franchise	Necklaces, rings, earrings, bracelets, watches, hair accessories, bags, purses, shoes, swimwear, clothes, hats, underwear, sport, home, sunglasses

Table 1: Competitors in the fashion accessories market

⁽⁷⁾ Stores of which a company has full control and all of its profits revert solely to itself

⁽⁸⁾ Stores where there is a contract between a franchiser and franchisee, granting the rights to use its brand according to certain specifications and a specific payment

⁽⁹⁾ Stores located in department stores (in-store) operated by other retailers of which a fee converts to the brand owner

⁽¹⁰⁾ This master thesis will be mainly focused on the Portuguese and Spanish markets, so the table only presents players operating in these countries

- **Accessorize** belongs to the Moonson group, founded in 1973 in the United Kingdom, where in 1980, a new concept to sell accessories arises and Accessorize was born. Sells a product range similar to Parfois and differs by also selling swimwear. Accessorize presents an in-house design team as well and its targets are similar to Parfois;
- **Biju Brigitte** is a German brand who has been in the market since 1963. Similarly, implements its stores exclusively in top locations. It has two main jewellery collection – Spring/Summer and Autumn/Winter but also provides exclusive pieces on special occasions such as Christmas, Valentine’s day or Easter. Besides these, it also presents collections specific for men, mainly watches and bracelet, among others;
- **Claire’s** is an American based company who specializes in retailing of jewellery and accessories for young women, teens and kids. It exhibits the same offerings as Parfois, by only differing in cosmetics products. The majority of stores is located in North America and Europe;
- **Beeline group** was founded in 1990, in Germany, as a regular wholesale company. In 1998, the SIX brand was born and put on the market through concession partners and owned retail stores. By the year 2006, another independent brand is created – I AM. Both brands have similar product range and SIX also offers men’s accessories to complement its portfolio;
- **Inditex** competes indirectly, with Parfois due to its brands product variety. Its product range goes from clothing to accessories, presenting several options for when a customer is inside the store. Zara is one of the group’s brands who provides this kind of offerings and also to a similar target as Parfois, plus children and men;
- **H&M** is a Swedish group who, similarly as Inditex, competes indirectly with Parfois by also presenting jewellery and other accessories to its customers – women, children and men – in its product portfolio.

3.1 Portuguese market

The Portuguese population has, through the years of the economic crisis, become less willing to buy. In fact, despite the signs of economic return in 2014, with growth of GDP and decrease of the unemployment rate, consumers remain highly price sensitive. They are looking for the best deals and will only purchase during promotional seasons. ⁽¹¹⁾

The Portuguese fashion accessories market sales estimates for 2014 were of 173 million euros.

In Portugal, Parfois presents itself as a fashion accessories market leader growing over the last 5 years to an estimated 30% market share in 2014. As mentioned by the company's Executive Director, Portugal is now at a point where there is no more room to grow, except if one or another opportunity appears.

Taking into account some of its direct competitors, Biju Brigitte has an estimated 7% market share in Portugal and Accessorize has only 4%. The remaining 60% of the market are represented by the other player's within the retail industry, for example big chains such as Inditex Group, H&M, Primark or other small players within accessories like Claire's or Primadona.

3.2 Spanish market

According to Euromonitor ⁽¹²⁾, the economic crisis in Spain changed consumers' attitudes, where they are now more price-seeking, informed about different offers, critical and more demanding, specially looking for an equilibrium between price and quality. Taking into account these changes manufacturers are responding with lower prices, basic apparel lines, online sales and innovative and attractive marketing campaigns.

In fact, in 2009 Spain registered a drop of small independent retailers in the market and big chains have conquered the main shopping streets in Spain, growing by 7% its presence on large and medium-size cities. Franchising and owned stores are the formulas to penetrate in Spain, combined with fashion products, average quality and low price. These are factors on which small independent retailers have to rely in.

⁽¹¹⁾ Euromonitor – Apparel accessories in Portugal (February 2016)

⁽¹²⁾ Euromonitor international passport – Apparel in Spain (June 2013)

In terms of the fashion accessories sales estimates in 2014, the values are higher compared to the Portuguese market with an estimate of sales of approximately 1 billion euros. Considering Parfois market share in Spain, it is still trying to establish its position with an estimated value of 4% in 2014.

Regarding the players in the market, the retail network in Spain is dominated by players of chains such as Inditex, H&M and Mango who beside clothing lines also sell fashion accessories products. ⁽¹³⁾ Smaller specialized fashion accessories retailers, such as Biju Brigitte, similarly as Parfois, only account for 2% of market share.

4. Inside Parfois

Founded in 1994 by Manuela Medeiros, a Portuguese business woman who was inspired by the British fashion chain - Top Shop - which sold a wide range and variety of accessories to women at affordable prices. Driven by an entrepreneurial vision, she wanted to bring to Portuguese women trendy accessories. Establishing the company's mission as *"being the best fashion accessories brand, wherever it decides to operate"* ⁽¹⁴⁾ Parfois opened its first store in Santa Catarina, Oporto.

At that time, it was the first kind of shop specialized in fashion accessories in Portugal. Despite the fact that Santa Catarina was located in one of the best located shopping streets, Manuela also opened a store in a shopping centre in Gaia (Porto), in 1998.

Taking steps towards nationwide expansion soon dedicated designer's teams were created, to produce exclusive and fashionable products, through a wide portfolio – bags, earrings, rings, bracelets and necklaces. The company has design teams located in Oporto and Barcelona and ensures new styles and creations in store every week, which encourages clients to visit its stores once a week searching for new products.

Over the last four years, the company has grown an annual average of 30% and has extended its presence to 50 countries with more than 500 stores worldwide, from Europe, Middle East, Asia, South America and Africa. They are focused on two types of selling points - own stores and franchising stores – both being provided by factories worldwide. In 2014, the

⁽¹³⁾ Euromonitor international passport – Apparel in Spain (June 2013)

⁽¹⁴⁾ Parfois mission statement

brand transferred 20 million units of accessories worldwide, of which 47% were jewellery accessories.

4.1 Performance overview

Achieving revenues of 131 million euros in 2014 and employing approximately 2.300 people in Portugal and abroad, Parfois has been developing its leadership position in the fashion accessories industry over the last years.

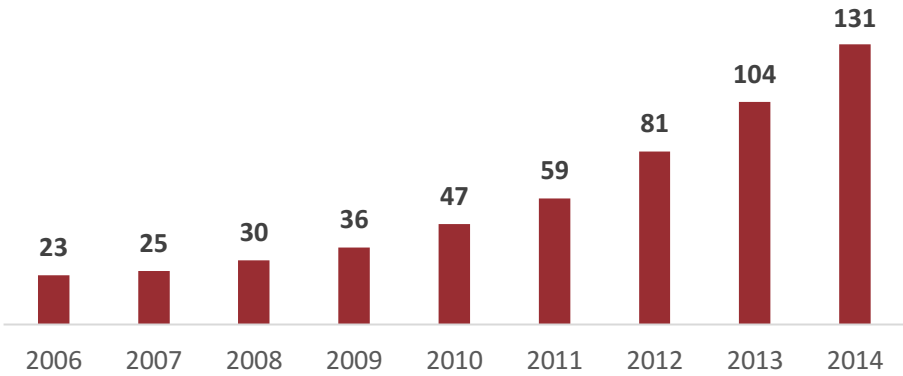


FIGURE 2: Evolution of Parfois sales for the last 9 years (Million €)

Despite the economic crisis in 2009-2010, the company showed resilience and maintained its growth reaching sales of 59 million in 2011, more 26% than the previous year.

To reduce its dependence from the internal market which showed signs of stagnation - the weight of the Portuguese sales represented 74% in 2009 and only 29% in 2014 (mainly due to less stores opening every year) - the company tried to reinforce its attention to the international market. From 2012 on, the sales from foreign markets evolved from 59% in 2012 to 71% in 2014.

	2012	2013	2014
PORTUGUESE MARKET	41%	34%	29%
OTHER MARKETS	59%	66%	71%

TABLE 2: Parfois Portuguese market sales weight vs. Other markets

Parfois has also been able to maintain its profitability throughout the last years with EBITDA margins ⁽¹⁵⁾ of around 5-15%. When compared with other companies from the retail apparel industry their EBITDA margins are around 8-16%. Parfois seems in line with those players. The decline between 2013-14 can be explained by the investments made in owned stores and the correspondent cost structure in 2014, while in 2013 the investments made where in franchised stores.

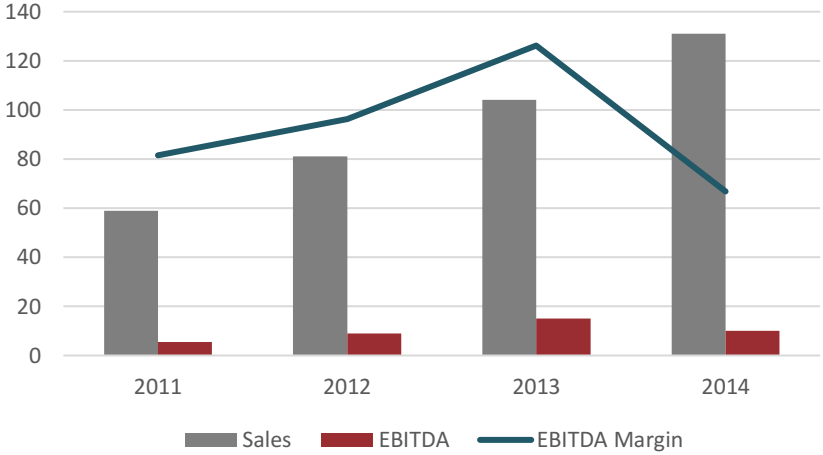


FIGURE 3: Parfois sales, EBITDA and EBITDA Margin for the last 4 years (Million €)

4.2 Value chain

According to Sergio Marques, the company’s Executive Director, the focus of the value chain of Parfois is in activities where they can add value and be more efficient. The company focuses on the brand, design, distribution and stock management ⁽¹⁶⁾

As previously mentioned, it has two teams located in Porto and Barcelona who are responsible for the design of the products, taking into account the recent trends. The design is the first phase of the production process, which is consequently sent to their suppliers in China, that will make the sourcing of all materials and make a 1st sample to test and be approved for production. The transportation process is made by business partners through air or sea.

⁽¹⁵⁾ Financial information retrieved from Amadeus database. The company has requested for these numbers to be disguised. In line, the EBITDA numbers exhibited in the graph are hidden

⁽¹⁶⁾ AICEP Parfois Presentation February 2nd, 2012

The distribution process and logistics is decided by a team in the company's headquarters, which decides where to, and how many products go to each store, by taking into account several aspects, such as the stores capacity, stock replacement times (e.g. transit days), stores sales and storage capacity.

4.3 Business model

The company's core business is mainly focused on owned and franchise stores. It is mostly in Europe - Portugal, Spain, France, Italy, Germany and Poland, as previously mentioned, that the company directly invests in own stores. It has a specific expansion department which is responsible for the management and expansion of new stores. Outside the European countries, the company establishes contracts with franchisees, where they are able to sell on that territory. Examples of these contracts are the stores in the Middle East and Brazil.

When Parfois expands to other foreign markets, it relies on strategic partners with fashion retail experience and with other brands already in the market. Taking into account the franchising model, the stores follow the same business model as its owned stores regarding product, where the same collections are sold in every store, depending on some cultural adaptations; stores location are in big to medium sized cities and in premium locations; interior design, through the establishment of visual merchandising concept; logistics by air and sea, depending on the country due to longer deliveries; and human resources, 4 persons per store – 1 store manager, 1 full time employee and 2 part-time employees. The franchisees are responsible for the human resources recruitment and are obliged to only sell products supplied by the company. Parfois on the other hand, has an investment cost of around 100.000€, depending on the country and depending on the agreement and transport requirements, provides the franchisees with its merchandising.

When in a franchise store opening, Parfois establishes an agreement with its franchisee where a minimum sales value should have to be delivered – around 300.000€ per store. The stores profitability is then analyzed according to its P&L and the compensation paid is established through a fixed monthly fee plus a variable fee based on EBITDA, stocks volume, number of open stores, etc. In fact, the percentage of sales from franchising

agreements has evolved through the last 4 years, from 34% to 46% in 2014, mirroring the company’s rapid expansion growth.

	2010	2011	2012	2013	2014
Franchising	34%	39%	44%	45%	46%
Owned	66%	61%	56%	54%	54%
Online	0%	0,02%	0,45%	0,51%	0,48%

TABLE 3: Parfois sales weight by store type

4.4. Product portfolio and adaptation

Parfois uses product differentiation strategies to differentiate itself from other market players. A successful differentiation strategy permits the creation of a competitive advantage since customers view the product as unique or better than other similar in the market.

In terms of pricing, its products take into account the costs of raw material, production and transportation when establishing its price. It usually aims at a price that is below other brands such as Accessorize, varying mostly in special edition collections with semi-precious stones, who are a bit more expensive than normal. Ultimately, exhibiting a high quality product at an affordable price.

As previously mentioned, regarding product manufacturing, they all suffer a rigorous quality control check at the production factories and distribution centres. 90% of Parfois products are produced in countries such as China or India, but efforts are being made to have some national production. During the year of 2014, only 1% of the jewellery and hair accessories were originated from national suppliers. National sourcing has its advantages in terms of lead time, since there is no need to transport it by air or sea and also in terms of quality. On the other hand, several Portuguese companies are dependent from international sourcing of raw materials, which also affects the lead time of the product delivery, taking more time. Despite this fact, the company wants to continue on having some national production, translated in partnering with 2 national companies, where its guaranteed an annual volume of orders.

Concerning the product design, Parfois makes its own designs, through dedicated teams in Oporto and Barcelona. They design and develop 3, 500 SKUs ⁽¹⁷⁾ per season allowing new styles in stores every week. In Portugal and Spain, the stores can receive products up to 6 times a week for restocking or new items, according to its sales. For other locations such as the Middle East and Philippines, the distribution centre in Hong Kong sends products straight, normally it's the 1st shipment of new season and then the restocking is only according to the sales.

Parfois uses visual merchandising techniques which are used to stimulate more purchases. For instance, the store concept and products display are placed with different lights, shelves and hangers to capture the customer attention. As the Executive Director stated, the differentiation factor comes from the store concept and display, on how the customers are addressed inside the stores, the purchasing experience and the product itself. ⁽¹⁸⁾

To be innovative and a vanguard from others, the design teams travel through the world to assess and identify latest trends and consumer preferences. Analysis of magazines, internet, competitors' products and catwalks are some influencing factors. It also develops its collections twice a year, from December-May the Spring-Summer collection and from June-November the Fall-Winter one.

Parfois' strategy has been to diversify and anticipate the consumer needs. Since its early stages, tried to diversify its portfolio by betting on market trends and in an attempt to surprise its consumers. Their portfolio can be divided in 10 categories: bags, watches, shoes, earrings, sunglasses, scarves, rings, bracelets, necklaces and hats.

In fact, some failed attempts were made in the past for other categories, such as nail polish, where soon it was understood that the products weren't getting as much of attention from its customers and sales were not satisfactory.

⁽¹⁷⁾ SKU – Stock keeping unit. According to Investopedia, it is a store's or catalogue's product and service identification code, often portrayed as a machine-readable bar code that helps the item to be tracked for inventory

⁽¹⁸⁾ in- person interview on December 8th 2015

The focus of the brand are fashion accessories, although due to competition and consumer expectations, footwear and clothing lines were introduced.

The clothing line, introduced on Fall-Winter collection 2013, is considered as an extension of the textile accessories category such as scarfs or gloves and were the company is using its visual merchandising techniques to provide a different shopping experience. With the new store concept, it highlights the clothes and the accessories displayed together.

Another factor to consider is with the international expansion process, arose the necessity to address different market needs. Establishing a brand on markets such as the Middle East or Eastern Europe was a process which needed to be dealt with. Parfois primary strategy was to modify the existing products to be more suitable for different markets, since there were differences in culture, tastes and religion that should be addressed.

Adaptation of products depended on several factors, but the brand was focused on three key ones – Culture, Market development and Competition. Through the adaption process, it was understood that the higher the adaption level, the higher the costs of manufacturing, packaging and distribution were going to be. The strategy which was followed was the standardization of production, taking into account certain market aspects that couldn't be equal to every market. To achieve products standardization, the company looked at two fronts: On one hand, a market's performance revision was done, identifying how the customers were reacting to the products, how was their competition doing and what were the key religious and cultural differences. On the other hand, an interview of some of its partners, to better understand the legal requirements and adaptation that should be made.

Nowadays, Parfois produces the majority of the collections equally for every country taking into account some specificities. For example, no crosses are sold in the Muslim countries, due to religious constraints, so all of the products collection with this symbol were taken out of the market and only sold on non-Muslim countries. Another adaptation was made on the scarfs collection, for Middle East countries, they have become bigger, so that it can be used to cover more. Or even in Russia, on the catalogues covers, it's not permitted to have a woman, even if it is considered the best picture to represent the brand. In a nutshell, Parfois established product adaptation techniques in two main regions Eastern Europe market and Middle East market.

5. Global footprint

According to a study carried out by the Reputation Institute (represented by On Strategy in Portugal), Parfois is one of the 23 Portuguese companies with the higher levels of reputation internationally.

Since the start of the franchising concept, the company looked to expand to other markets and experienced a boost. It was able to establish itself in markets throughout Europe, Middle East, Asia, South America and Africa. The current markets can be seen in the following map, where it is highlighted the owned stores (only in Europe) the rest are the franchise stores:



Figure 4: Parfois current markets – owned (black) and franchise stores (grey)

5.1. European markets

5.1.1 Portugal

In the 90's, the shopping centre business was thriving, especially at the hands of Belmiro de Azevedo, who owned the Sonae Group. The first Parfois shop at a shopping centre was in 1998 opening at Gaia Shopping Centre. Due to its success, the company decided to accompany the malls boom, opening new stores in each new shopping centres of the Sonae Group.

Within its first seven years of existence, Parfois was present across the country with approximately 20 stores. Portugal had a strong phase since it was the beginning of shopping malls and franchising concepts and there were not so many brands of this kind in the market.

Beside the value for fashion money Parfois represented, the use of the fast fashion concept was another factor for the brand acceptance. The concept based on a quick response of the consumers' needs and preferences, providing design products fast and with a relative low price, used by other brands in the market such as Zara and H&M, was a proven concept

of success. Parfois accompanied this phase trend and its customers were getting used to finding new items in store every week. In fact, a study identified that 70% of Parfois customers came once a month to the store and 36% come every week. The respondents also stated they visit the stores because of the constant news (37%), products offering (33%) and product quality (29%).

Between the years of 2007-2010, the brand had another jump in the Portuguese market, related to the perception of a store concept change. This concept was established to be aligned with the company's differentiation strategy. It renewed 60-80% of the stores, presenting spaces from 40 to 90-100 square meters so that the customers could have a better vision of the products. Some stores were closed to be placed with bigger ones, at different locations. Beside the space enhancement, the company would also like to update its products displays, refreshing its visual merchandising concept. ⁽¹⁹⁾

Over the past 4 years, from 2010-2014, the company has opened in Portugal approximately 18 franchise stores and 37 company owned, having a total of 143 stores at the end of 2014. Although the company had this network expansion, the Portuguese market is now becoming too condensed and its sales have been decreasing from the past years. Comparing to the sales generated from other stores, in other markets where the company is present in, Portugal represented in 2012 41% of Parfois sales and 29% in 2014 (See Exhibit 2).

In 2014, the total stores network is composed by 96 owned shops which accounted, for 67% of its revenues and 47 franchising stores in shopping malls and street stores which accounted for the 33% remaining in revenues.

5.1.2 Spain

The first international move was made in mid-2002 to Spain, which move was considered the most natural choice of market. It was a familiar country, with similarities in

⁽¹⁹⁾ The visual merchandising concept is based on the products displays in store, to attract the attention of potential customers and motivate the actual ones to purchase more and newer products, where the main differentiation factor will be the product – its design, quality, price, variety and exposure

tastes, climate and legal frameworks, culture connection and geographic proximity, as Sérgio Marques explains:

“Spain was a natural choice, because it was the neighbour country. At that time, it was the principle that prevailed. And the best market research we can make is open a new store. With that we can understand if the product will be well received by the consumers” ⁽²⁰⁾

The expansion process used, was similar to the strategy used in Portugal, through the establishment of own stores in shopping malls. Associated to its strategic partner Sonae within the shopping mall business moved to Spain and opened the first store abroad. Within 2 years, in 2004, a total of 10 stores of Parfois were in operation. Unlike the Portuguese experience, the low knowledge of the Spanish market and the strategy of establishing stores in shopping malls, similarly to Portugal, did not contribute to the brand awareness and consequently drove to low sales volume.

Establishing a brand in a new market through a strategic partnership has always risks, but what Parfois’ management underestimated was that Spain had a matured and advanced fashion retail market. The market was approximately 4-6 times bigger and despite of the similarities of tastes and culture, the shopping centres business takes some years to be mature and the Spanish consumers prefer street shopping. Some stores had to be closed and new strategic decisions needed to be made, to incorporate the Spanish lifestyle into the business.

A second attempt was made to penetrate into the Spanish market, but this time several factors were taken into account.

Parfois revisited the market as many times needed and looked at the market in a different way as it has done in Portugal. Base strategy was to look and study what were the Spanish fashion retail giants such as the Inditex group doing. Where were located their top selling stores, how was the management level organized, stores opening hours, street vs shopping centre sales and how do Spanish consumers react to fashion accessories.

Another success factor was the incorporation of a full time team in Madrid, who was able to incorporate the Spanish consumer’s preferences and tastes. The team was composed

⁽²⁰⁾ in- person interview on December 8th 2015

by Spanish fashion retailer specialists who, already knew the market and where able to leverage the market know how. Similarly, a design team was also established in Barcelona. These factors were the turning and crucial point for the expansion strategy.

From 2009 onwards there was an acceleration period of store opening through Spain and with a good response to the brand and its products. Spanish store sales almost overcame the Portuguese in 2014, representing a weight on total revenue of 27% of total sales vs. 29% of for the Portuguese. (See Exhibit 2).

Similarly, to Portugal, the most sellable products in Spain are the Handbags and Jewellery which account for more than 50% of sales.

In 2014, the brand has 89 stores, placed on the most important streets of the country. They can be classified as owned or franchised. In Spain Parfois also sells in the so called corner stores, through a partnership with the well-recognized retailer El Corte Inglés. In Portugal, this partnership was also made.

The stores network counts 71 owned shops which accounted, in 2014, for 80% of its revenues and 18 franchising stores which accounted for the 20% remaining in revenues.

For the next year, the company is focusing on investing approximately 5 million euros to expand its presence in the Spanish market.

5.1.3 Rest of Europe

Although in Europe, the brand was very focused on the Spanish market, the international expansion was one of the company's strategic objectives and soon entered in the French (2005) and Polish (2009) markets, and more recently in Italy and Germany (2014).

In Italy, stores were open in the Milan Airport terminal and Rome at the Railway Terminal Station, as well in Via del Corso street. In Germany, the bet was on Berlin, the cosmopolitan and multicultural capital and in the city Dortmund.

The European market represented in 2014, 78% of Parfois sales but an overall sales increase of other markets were around 20-40% except Spain which exhibited an increase of 56%.

5.2. Middle East, Centre/South America and others

Parfois' entry mode in other new and emerging markets was established mainly through franchise agreements, where partners would approach the brand and show interest in taking it to the countries they represent. These franchising agreements allowed partners to invest on a winning and proved concept with minimum risk.

Parfois started its expansion to the Middle East in 2002. A franchising agreement was made with an important regional player ⁽²¹⁾, who wished to take the brand to Saudi Arabia, and made a proposal to Manuela. At that time, the administration team was not thinking on engaging in new emerging markets but as the opportunity presented itself it took the chance.

From Parfois perspective, the franchising presented itself as a suitable strategy to enter in new markets, with less investment and enhancing its revenues. These benefits proven to outweigh some downsides such as a lower control of managers and selling channel. Before entering in a franchising agreement, Parfois tries to analyse its franchisee, on what and where can he add value, what is its knowledge on fashion retailing and how can they leverage premium locations. Tries to negotiate with companies with a large fashion retail know how, well established in Parfois' non-preferential markets, to minimize its risk of investment.

In 2002 Parfois was entering a market with low saturation and an increasing demand, accompanied with low investment required. Nowadays, only in Saudi Arabia exist 27 stores, all established through the franchised agreement.

In 2004, new stores were opened in the Middle East, United Arab Emirates and in Kuwait.

Despite the crisis in 2008, between the years of 2007-2009, Parfois's expansion doubled. They opened stores in Angola, Jordan, Romania, Oman, Ukraine, France, Bahrain, Egypt, Croatia, and Poland. Most of them were through franchise agreements, but most importantly, Parfois was assuming the Middle East market, which experienced a poor development market of specialized retail, posing as an opportunity.

⁽²¹⁾ The company has requested for the partner's name to remain confidential

As the company was getting more mature with extensive know-how and experience, the period of 2010 – 2013 was also an exponential one, opening stores in several countries in new and emerging markets (See Exhibit 3).

Still in 2014, another emerging market was targeted. In South America, Parfois was able to open its first store in São Paulo in March and a new one in June in Rio de Janeiro. Both stores were opened on shopping centres, as the Brazilian consumer is similar to the Portuguese in these point.

6. Outlook

Parfois has indeed followed a successful path not only in the internal market but as well internationally. The Board believes that the company still has room to grow in Spain and the strategy defined for next year should be the focus in this market. For now, it is important to understand, considering the fierce competition it faces in this market, how can they consolidate the brand? What should be the focus of the company to reinforce and enhance its market share? It will be important to understand the industry dynamics, what type of store's business model to use, how to increase revenues and enhance customer's loyalty.

EXHIBITS

EXHIBIT 1– Countries with Parfois online store

COUNTRIES

Austria, Belgium, Denmark, Slovakia, Slovenia, Estonia, Croatia, Finland, France (Metropolitan and Corsica), Greece, Holland, Ireland, Italy, Luxembourg, Poland, Portugal, United Kingdom (except Channel Islands) Sweden, Lithuania, Hungary, Latvia, Czech Republic, Serbia, Kosovo, Montenegro, Andorra, Monaco and Romania

SOURCE: Parfois website

EXHIBIT 2– Parfois sales by geographic region (Million €)

REGION	2012	%	2013	%	2014	%
PORTUGAL	44 €	41%	46,7 €	34%	50 €	29%
SPAIN	16,7 €	16%	29,6 €	21%	46,2 €	27%
REST OF EUROPE	23,2 €	22%	32 €	23%	39,5 €	23%
MIDDLE EAST	16,2 €	16%	18,7 €	13%	22,1 €	13%
AMERICA	1,5 €	1%	7,2 €	5%	9,3 €	5%
OTHER	3,3 €	3%	4,6 €	3%	6,8 €	4%
TOTAL	104,2 €		139,1 €		174,1 €	

SOURCE: Parfois (2015)

EXHIBIT 3– Parfois stores opening per country and year

Countries	Year of 1st store opening	# Stores in 2014	# Owned stores	# Franchise stores
Portugal	1994	143	96	47
Spain	2002	89	71	18
Saudi Arabia		27	-	27
United Arab Emirates (UAE)	2004	11	-	11
Kuwait		4	-	4
Canarias	2005	11	-	11
France		18	18	-
Latvia	2007	3	-	3
Romania		5	-	5
Ukraine		10	-	10
Jordan		4	-	4
Oman		2	-	2
Angola		4	-	4
Mozambique	2008	1	-	1
Croatia	2009	3	-	3
Bahrain		1	-	1
Egypt		6	-	6
Poland		23	23	-
Russia	2010	8	-	8
Bulgaria		3	-	3
Philippines		11	-	11
Czech Republic		2	-	2
Georgia		13	-	13
Kosovo		2	-	2
Morocco		5	-	5
Albania		2	-	2
Cyprus	2011	4	-	4
Hungary		5	-	5
Malta		2	-	2
Serbia		5	-	5
Slovenia		3	-	3
Slovakia		1	-	1
Lebanon		4	-	4
Qatar		2	-	2
Netherlands	2012	15	-	15
Colombia		6	-	6
Dominican Republic		3	-	3
Panama		2	-	2
Venezuela		5	-	5
Macedonia		2	-	2
Austria	2013	2	-	2
Tunisia		3	-	3
Ireland		6	-	6
Guatemala		3	-	3
Armenia		3	-	3
Estonia		1	-	1
Libya		1	-	1
Germany		2014	3	3
Italy	3		3	-
Brazil	2		-	2
Total		497	214	283

SOURCE: Parfois

(B) TEACHING NOTES

1. Use of the case

This case was prepared to illustrate a real and particular internationalization dilemma a Portuguese based company was facing, mainly the desire to consolidate the brand on the Spanish market. It was developed for class discussion in both undergraduate or master programs. Particularly in strategy courses such as Strategy and Strategic Management, Marketing, as well as in Internationalization courses.

2. Teaching objectives

In this case students will have to analyze the data provided in order to define the company's decision on how to consolidate and reinforce its brand on the Spanish market. It is also possible to analyze the entry modes of a company in a new market and how the company should operate on those markets. When analyzing this case, students can use different theoretical approaches, linked to business strategy and/or international strategy subjects.

Moreover, the analysis presented in this teaching note is an example that can be used in class. Using the information given by the case, other paths can be chosen according to the teacher's instructions and specific class objectives.

This case was prepared with the following teaching objectives:

- Analyzing and interpretation of the internal and external environment of the Parfois company and fashion retail industry; being expected the use of strategic framework tools, such as SWOT, PEST analysis, and/or Porter five forces;
- Understanding the different entry modes in a foreign market;
- Understanding processes and strategies to analyze and develop new business opportunities and/or differentiation strategies to achieve sustainable growth.

3. Suggested assignment questions

The following questions are suggestions to be discussed in class:

1. Make an analysis of the industry where Parfois competes in and describe the company's strengths and weaknesses.
2. How would you describe the company's evolution, strategy and internationalization process?
3. Are the strategic alliances through franchise the best way to achieve a sustainable growth? Identify key benefits and risks
4. How has Parfois been able to differentiate in mature markets?
5. What are your recommendations for the company to consolidate its position in the Spanish market?

4. Literature review

4.1. Strategic frameworks and tools

According to Porter (2008) there are five forces that shape and define the structure of an industry, driving competition and profitability. These shaping forces are: threat of new entrants, bargaining power of buyers, threat of substitutes products or services, bargaining power of suppliers and rivalry among existing competitors. Differing by industry, it is important for a company to understand its industry structure, to achieve an effective strategic position in it. It is equally important to understand the environment of the company, normally through the PEST framework.

In fact, companies will also need to understand the micro environment of the industry they are settled in. On one hand, assess internal factors of the company - Strengths and Weaknesses – comparing to its competitors. And on the other hand, the external issues – Opportunities and Threats, assisting the company to achieve its objectives and desired results.

Furthermore, after understanding the environment and assessing strengths and needs, companies need to understand how to achieve a solid strategic position. According to Porter (1985) “positioning determines whether a firm's profitability is above or below industry average”. The fundamental basis will be the establishment of a sustainable competitive

advantage, where he defined three strategies – Differentiation, Cost leadership and Niche focus.

4.2 Fashion industry

According to Brun (2008), fashion is a cross sector concept that includes a wide range of industries such as apparel, footwear, jewelry, perfumes, etc. Nowadays, there is a small gap between these industries, since most of apparel companies are selling shoes, jewelry, etc. to expand their own brands.

The fashion market has been evolving for the past decades due to shifts in demand, distribution networks, manufacturing costs, new technologies development and international competition, Kilduff (2005). Bearing these changes in mind, according to Mazaira, González and Avendaño, (2003), fashion products are being consumed by any market segment with a lower average price, leading to an increase in the number of consumers in this market. The consumption of products is turning into mass market consumption. In fact, the consumer expectations have evolved and they are now looking for change and innovation on a frequent basis.

With the concept of fast fashion evolution, supplier selection and product decision making has to be extremely strategic and operational, Daly (2006). In fact, companies have to establish a balance between the delivery time, the costs involved and new lines to be introduced, since fast fashion accounts for 20% of the products range in store.

According to Jones (2006), the clothing market (where in this research includes accessories) is segmented with fashion-conscious and non-fashion-conscious consumers. For the fashion industry, implies that fashion conscious are more volatile, more demanding and difficult to predict. Fashion retailers have to be able to predict future trends using real time data to assess the consumer wants and needs. Along with this thought, Richardson (1996) suggests that competition is shifting from price and quality towards a focus on delivering designs more quickly. Fast fashion retailers need to be able to deliver the product as quickly as possible and still when the market is wanting it.

In a nutshell, even an article in the Economist (2005) states that consumers today are far more fashion savvy and demanding than in the past.

4.3 Internationalization of fashion retail companies

The internationalization of retail companies is one of the most critical points in their life cycle according to Mladenović and Ćuzović (2015). Different researches have studied the internationalization process, reaching several conclusions. From these studies, the Upsalla model has been one of the most used to explain a company's expansion process and for a variety of industries. Other studies have also used the resource based view model and network model.

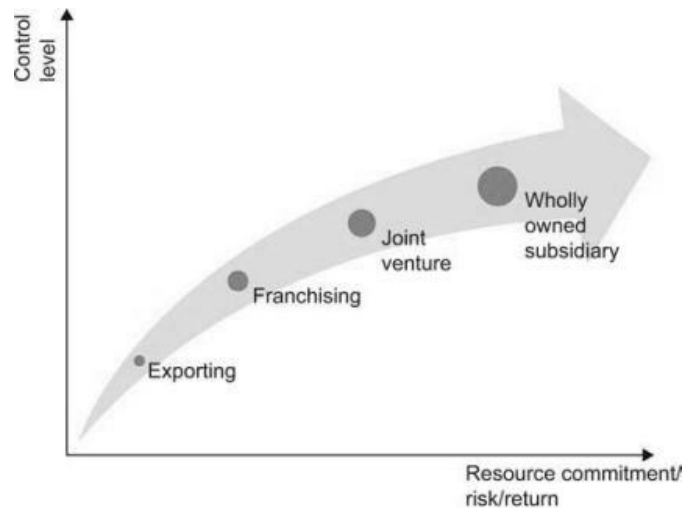
The Upsalla model states that a firm gradually increases its presence in foreign markets, as it increases its market knowledge. It defines that a company, in the beginning, normally enters neighbor markets with similar characteristics and as they increase their market knowledge, they increase their commitment with the international markets, where risk is reduced (Johanson and Vahlne, 1977).

Similarly, the decision to expand its operations is related with the companies' entry modes choices, since when they have little market knowledge, they will use less risky entry methods, such as licensing or franchising.

4.3.1 Entry modes

When companies want to expand their operations to foreign markets, they are faced with the decision of what is the most appropriate entry mode. In fact, for fashion retailers, it refers to how the company wants to enter, develop and distribute its brand on a foreign market. They can select from several entry strategy modes, such as export of products, franchising agreements, joint ventures, operational alliances, or wholly owned subsidiaries (Yao Lu Elena E. Karpova Ann Marie Fiore 2011)

The various entry modes vary on investment requirements, control, resources and financial commitment. As illustrated below, high control entry modes require a higher resources commitment and its operations get more exposed. On the contrary, for low level control modes, it requires less investment and commitment, but the fashion retailers will have less power over its operations.



Source: Adapted from Sternquist (2007)

Doherty (2007) states in her research that usually companies that considers franchising as an internationalization method are already implementing this strategy at their home markets. In line with these, they are willing to internationalize a formula that is already proven. She identifies key motives for franchising internationalization throughout her literature review – Fortuitous franchisee interest/ Contact from third parties, exploit potential markets, increase sales and profits, market expansion domestic market saturation, desired to be known as an international firm, etc. And concludes that a combination of organizational (e.g. international retail experience, financial resources), environmental factors (e.g. availability of potential partners, domestic pressures) and manager's attitudes (e.g. the desire for growth; exploit potential markets) are fundamental factors in determining the choice of franchising as a model of internationalization.

4.3.2 The importance of networks

According to Gabriel Baffour, Awuah Desalegn and Abraha Gebrekidan (2008), it is not the task of an individual firm that can develop and maintain a competitive advantage over its competitors, leading to high value customer and satisfaction. It defends that there has to be a shift from the concept of competitive advantage to the network level. In other words, if a firm is able to establish a significant relationship with other actors in the market, it will be able to develop its competitive advantage. Firms should build a strong relationship with partners in a network through the interaction, learning and adaptation, complementing its own capabilities. Where the knowledge acquired through social ties (personal networks) is more valuable and accurate than through market studies/ searches (Ellis 2000).

4.4 Growth strategies

Due to the recent recession, many industries have taken a hard time to continue expanding. Specially, the retail sector has experienced a decrease in profits. According to Uta Werner, John McDermott and Greg Rotz, (2004), companies want to outsmart its competitors. They defend that companies need to develop its capabilities to manage product and customer profitability, by establishing three retail management strategies as follow:

<i>Phase 1. Pursuing geographic expansion</i>	<i>Phase 2. Improving product selection</i>	<i>Phase 3. Increasing customer value</i>
<ul style="list-style-type: none">■ Acquiring real estate■ Developing the supply chain■ Recruiting and training store personnel■ Building the brand	<ul style="list-style-type: none">■ Understanding category profitability■ Eliminating unprofitable products■ Managing the product offering	<ul style="list-style-type: none">■ Understanding customer profitability■ Targeting desired customers■ Managing customer value

In a first phase, companies should grow through geographic expansion strategy by developing a successful store format, understand the profitability of its products, market know-how and which customer's customer segment are more profitable and stable.

Secondly, firms should establish what are the products that make more sense in selling through the understanding of category profitability, eliminate unprofitable products and manage its products offering to current trends and customer demands.

Lastly, increase customer value is a phase were companies should be able to understand customer profitability, target the desired customers and be able to manage the customer by understanding how to target them with better prices/offers.

According to Greiner in 1972, companies pass through five stages during its organization development. These five phases are characterized by growth through creativity, direction, delegation, co-ordination and collaboration. But they are categorized by crisis, of leadership, autonomy and control. In other words, these stages are associated with generic management and organizational problems.

4.4.1 Ansoff Matrix

Ansoff (1965) has focused its research in strategies growth related to four different quadrants: Market penetration, Market development, Product development and Diversification, as exhibited bellow.

	Current Products	New
Current Markets	Market Penetration	Product Development
New Markets	Market Development	Diversification

Source: Igor Ansoff. "Corporate Strategy", McGraw-Hill. 1987

- Market penetration, companies wish to grow with existing products in current markets, mainly aiming to increase its market share;
- Product development, achieve growth through the development of new products in existing markets;
- Market development, companies wish to grow by targeting new markets with its existing products;
- Diversification, is where companies wish to diversify its business not only to new markets but also with the development of new products.

4.5 Customer relationship

Throughout the years, several retail brands have expanded through franchising or company owned stores to several countries. Although, it is sometimes difficult to keep connecting with the customer (Balakrishna Grandhi, Jyothsna Singh, Nitin Patwa, 2012).

During these times, it has been understood that considering the customers wants and needs has become crucial for retailers to survive (Lisa Donnell, Karise Hutchinson, Andrea Reid, 2012). When applying a CRM strategy, it is important for companies to understand that, it is not only about loyalty programs but as well as, commitment of management.

5. Analysis and discussion

1. *Make an analysis of the industry where Parfois competes in and describe the company's strengths and weaknesses.*

To answer this question some frameworks should be used. We will focus on frameworks such as PEST to look at the company's environment, Porter's 5 forces to understand the industry's attractiveness and SWOT analysis to understand and organize the company's strengths and weaknesses.

PEST framework

Political factors

The company is established throughout several countries where they exhibit different cultures and laws. Although the company's owned store operations are based in European countries, which are considered as developed economies and there are no trade restrictions. In fact, as all of them belong to the EU, people and products are able to travel to all without requesting any visa. These countries are also considered as stable and exhibit higher levels of education, income and services than others.

Economic factors

Parfois' business is developed worldwide, although its own stores operations are centralized in Europe, which has passed through a recession recently, reflecting on each of the countries' economies. This crisis had an impact on credit, banking rates, employment rates affecting directly investments and purchasing power of citizens. As mentioned in the case, the Spanish economic crisis changed the consumer's attitudes, making them more price sensitive and registering a decrease of small fashion retailers in the market, surpassed by bigger fashion chains.

Social factors

As previously mentioned, the economic crisis altered the consumers' attitudes towards buying patterns. Consumers have also become more informed and demanding. In line with these, fashion trends and product portfolio have to be constantly changing,

demanding for more innovative and products. Companies should thrive to accompany these changes to continue capturing the consumer's attention.

Technological factors

Spain has one of the biggest fashion retail brands, Inditex Group - Zara, who offers the latest fashion, with medium quality at an affordable price. Supply chain effectiveness or lead time reduction are important technological factors that affect this industry. Companies need to be able to become more effective in the products delivery to attract its consumers.

Porter's 5 forces framework

Threat of new entrants

The power of a company can be affected by the force of new entrants within its industry. According to the case, there are several players within the apparel industry, including the fashion accessories segment, translating into a developed stage industry. It also possible to assume that there are no legal restriction or entry barriers for new companies to enter in the Spanish market, concluding that the threat of new entrants is high.

Bargaining power of buyers

As the fashion accessories Spanish market is very developed, it presents more options for consumers to choose from. Big fashion chains such as Inditex and H&M provide both clothing and accessories, exhibiting a wider range of products. Consumers may choose to buy in any of the other brands, being led more by the price than the by the brand itself. Since there are equivalent product segments offerings, the bargain power of buyers is considered high.

Threat of substitutes products or services

The threat of substitute products or services may be considered as low, since there are no substitutes for accessories. Almost every player within this industry presents similar products that satisfies the consumer's needs, only varying on price and the products material. One might state that fine jewelry may be a substitute, but in the end it serves

the same purpose of non-fine jewelry accessories, to match clothing and be aesthetical and functional.

Bargaining power of suppliers

There is a variety of suppliers and in this sector, countries such as China or India, with lower production costs are preferred. Parfois uses external suppliers for the majority of its production, where it produces 90% of its products in China and India, having quality control teams that examine the products and make sure these products are in store on the right time. Of course, most of suppliers are subcontracted, leading to the possibility of other companies using them too, so the substitutability of suppliers might be seen as easy and inexpensive. For this reasons, the bargain power of suppliers can be considered as low.

Rivalry among existing competitors

The case reveals that there is a high competitive rivalry in the Spanish market as it is a very developed market where big international brands are established, exhibiting good financial capability, market knowledge and brand awareness.

SWOT framework

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> - The company's brand recognition and customer loyalty - Efficient time delivery processes in Europe - Innovative store concepts - Visual merchandising concept - Experience and knowledge from home and foreign markets - Global reach 	<ul style="list-style-type: none"> - Products quality might be perceived as low due to its price and manufacturing locations; - Company's dimension, considering its main competitors; - Dependence on European markets and domestic market

OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> - Growing online market - Customers growing interest for fashion - Omnichannel experience - Targeted offers (e.g. per country; specific to a client whose purchasing pattern is known) - Clothing segment visibility 	<ul style="list-style-type: none"> - Increased competition: product similarities and imitation; and/or product innovation - Consumers changing behaviour

2. *How would you describe the company's evolution, strategy and internationalization process?*

In this question, we will try to have an overall view of the company's strategy and evolution throughout the last years. We will analyze the company's business model, strategy followed and regarding the internationalization process, its main motivations, market selection and entry options.

Parfois business model is based on ownership and franchising contracts. The company has its own stores, where it buys/ leases establishments to operate under its brand. Within these establishments they are responsible for the decorations, visual merchandising concept, the employees, stock management, etc., assuming all of the business risks. Within the model of franchising, the company establishes partnerships with key players in the retail market that exhibit a heavy know-how of the industry. With this option, the company requires less investment and allows to its partners to operate under its brand and establishing monthly fee payments for it. An example of this type of contracts is the case in the Middle East, where Parfois established a franchising agreement with a regional player to sell its products.

Taking into account the company's strategy, it was particularly based in the brand expansion throughout the globe. It can be explained through the Uppsala Model, a theory related to the gradually internationalization process.

The basic mechanism of internationalization indicates that companies gradually increase their international involvement as they gain market information. With this knowledge and activities, the commitment level will consequently increase.

Regarding Parfois internationalization process, it started in Spain in 2002 and by now, it has expanded through the world (See Figure 4 and Exhibit 3) and foreign sales represent already 72% of the total sales (See Table 2).

Parfois main motivations to expand where based in spontaneous interest of partners to establish the brand in their home countries, like the case of the Saudi Arabia regional player, that approach Manuela Medeiros. Another reason was due to the company's success in the home market, the Spanish, similar neighbor market, appeared to be a good betting option. The homogenization of consumption patterns across countries enabled the brand's expansion.

Considering the company's market selection and entry options, it seemed to take a gradual expansion process. Johnson and Vahlne, 1997, mentioned that companies should first acquire knowledge and experience before starting to expand to other countries. It also stated that initially, the internationalization process should begin with entering countries characterized by "physical distance" – similarities in language, culture, among others, as a way to minimize costs. After this phase and knowledge acquisition, it should go to longer distance markets.

For Parfois, its first expansion move with owned stores was to Spain, the closer country to Portugal in 2002. In fact, the company's move was considered as a natural choice, since Spain was the neighbor country, with homogeneity of tastes, climate and laws similarities, culture connection and geographic proximity. As they used the same strategy as in Portugal, through the implementation of shopping malls it did not contribute to brand awareness and sales volume. On the contrary, half of the stores had to be closed in 2004. As the Uppsala model shows, after this setback, the company understood it had to first acquire more knowledge and experience about the Spanish market, so that it could implement a solid strategy.

After a successful come back to the Spanish market, as it gained experience and the market knowledge, the company would start to expand to greater distances, with owned stores: France, Poland, Germany, and Italy.

Nonetheless, Parfois expansion to further distances was made through franchising agreements. In fact, despite having owned stores throughout Europe, Parfois used several alliances with partners to establish itself on foreign longer distance markets. As these kind of contracts require less investment and place the brand on new and emergent markets such as Saudi Arabia or Brazil.

Additionally, looking at Parfois international competitors, it is visible that they all have a wide international reach. Similarly, as Parfois, they have established through owned and franchised stores. As they came from bigger home markets, had more capabilities and resources to allocate into the different foreign markets. (See Table 1)

3. *Are the strategic alliances through franchise the best way to achieve a sustainable growth? Identify key benefits and risks*

Relating again to the Upsalla model, as it is characterized by a gradual internationalization process, companies will choose less risky entry methods if they have little market knowledge. As franchise operations are a low level entry mode which require less investment and commitment, companies will get less power over its operations. This strategy is normally used for high-risk and long distance countries with different culture characteristics.

For Parfois, a previously mentioned, the first franchising model was established through a partnership with an important regional player from the Middle East, which appeared as fortuitous franchisee interest, one of the internationalization motives Doherty (2007) referred in the literature review section. As a distant geography and culture it was the best option, since the company had little or no market knowledge of the Middle East. Within 20 years, the company achieved a rapid expansion of its business, where 57% of its stores are franchised (See Exhibit 3) and from which the sales weight represents 46% of the total (See Table 3).

KEY BENEFITS

- Rapid expansion, since the company was able to grow the number of locations within several continents (See Figure 4) and without spending a large amount of capital. The franchisees are responsible for most of the initial investment and Parfois gives the rights on merchandising use and sell on that specific market;
- Minimized growth risk, where taking into account the company's business model, it earns a specific compensation based on a fixed monthly fee plus a variable fee based on the stores sales. In fact, when Parfois enters in a franchising agreement, it establishes a minimum sales value to be achieved and doesn't need to have a high initial investment cost. Although this point can be viewed as a benefit and risk (profit sharing);
- Market knowledge and networks, since Parfois relies on strategic partners within the fashion retail industry who exhibit relevant experience in the sector and that already collaborate with other brand in the market;
- Brand image, as according to the company, all stores should have a homogeneous image and should present the same products, be in prime location and exhibit a similar interior design.

KEY RISKS

- Less control over its operations, where Parfois has no absolute control over its stores, since franchisees are the independent business owners. They will have to follow the procedures established on the contract signed by both parties and Parfois has a role compared to a supervisor and collector;
- Profit sharing, since the company will not fully own the store, it will only receive a monthly fee plus variable commission instead of keeping all of the profits to itself;

- Legal requirements may exhibit a risk for franchising because countries may have different franchising regulation requirements. It is difficult to have a standard operations legal framework.

In conclusion, franchising agreements, as any market entry strategy has its benefits and risks. However, throughout the rapid expansion, it is more likely to increase the brand name recognition, since more stores are established in more locations and enhance the company's competitive advantage over its competition. Franchisees are also strongly motivated to have profitable businesses and will motivate its employees to excel. Taking into account Parfois' case, this strategy has enabled a small company to extend its operations and become a global player, where the selection of the right partners was a success decision factor, although it has also the biggest down side of having less control over its operations worldwide and to share its profits with others.

4. *How has Parfois been able to differentiate in mature markets?*

To develop a competitive advantage position, the company has to understand what other players are offering and how to develop new products to address the different customer needs. Parfois researches market trends and presents products that will take into account these exact trends.

According to Porter, achieving a competitive advantage requires a firm to make a decision on how it wants to attain this competitive advantage. Parfois differentiation strategy is based on the products quality and price. Its competitive advantage emerges from being able to sell quality products at an affordable price everywhere through its distribution channels.

As previously mentioned, the company is established in a mature market with key players that have more market knowledge and expertise. The questions to address is what makes Parfois different than them, where we can summarize 4 core differentiation factors:

- i. Products design, quality and price, by taking into account the latest trends and its competitors offerings, the design teams are able to deliver fashion and good quality products at an affordable price to everyone
- ii. Fast fashion image brand and frequency of new products in store, where customers know that every week will be a new product in displayed. As mentioned in the case, 37% visit because of the constant news
- iii. Campaigns, by establishing seasonal campaigns like Mother's Day or Valentine's day with new specific products
- iv. Innovative store concept, which is focused on the visual merchandising concept that highlights the new product segments and how accessories can be displayed together

5. *What are your recommendations for the company to consolidate its position in the Spanish market?*

The Spanish market is characterized by several competitors with high visibility and reputation, as well as market knowledge and expertise. For Parfois to consolidate its position within this market, it should first establish if it should open more stores, how to improve its market share and profits and ultimately how to enhance customer's loyalty. It is important to first establish what are the company's main objectives:

- Increase value of the company through sustainable growth;
- Maximize revenues and client value;
- Improve competitive advantage in countries with owned stores, specially Spain;
- To be recognized internationally as the best fashion accessories brand.

Market penetration - The Ansoff Matrix is a framework used to understand the strategy the company is using and where it wants to be with the reinforcement of its presence in the Spanish market.

	Current Products	New
Current Markets	Market Penetration	Product Development
New Markets	Market Development	Diversification

Source: Igor Ansoff. "Corporate Strategy", McGraw-Hill. 1987

The company' growth, has been, in my opinion, a market development strategy, where Parfois sells its current products (products sold in its home market) into new markets through its international expansion process. However, this case presents the company's desire to deliver a different strategy over the upcoming year. This new objective means a market penetration strategy to ensure the brand consolidation into this market. This strategy is based on selling the existing products into existing markets to gain a higher market share. It is considered as less risky, since it requires detailed market knowledge and competitor's performance awareness that the company already has, for the existing products and customer segments. The best way for a company to achieve market penetration is to enhance its market share and increase customer value.

For the first strategy, to enhance market share it needs to secure the company's growth on that same market. On one hand, the company can open new stores. Taking into account the companies business model and growth for the last years, the most appropriate option taking into account the Spanish market would be to invest in more owned stores. It sums, in 2014, a total of 89 stores, of which only 18 are franchised and account for 20% of sales. By being a market very similar to the Portuguese, they can establish a direct control through its local management team who already has the market knowledge and expertise. At this point, Spain is the brand's second largest market representing 27% of sales (Exhibit 2). For this reason, the investment in own stores makes more sense than to establish franchising deals.

Of course that the investment in these stores is higher than from franchised, although through this type of business model, the company does not have to split its revenues with any partner and not be dependent on variable commissions (depending on the

franchisees sales performance). Another factor to consider is that franchising agreements are established through a certain period, that might be renewed or not. With own stores option, the company will be able to have a better view and full control of its stores operations.

Opening new stores should also take into account the stores location. The expansion department should be able to read the market and realize what are the premium locations, what are the other competitors doing and where. As stated in the case, the company focuses on big to medium sized cities (assuming more than 500.000 people per city), locations to be studied might be cities like Sevilha, Madrid, Barcelona or Valencia.

According to the case, the company will also invest during the year of 2015 on the clothing segment and establish the new store concept. Through this new store concept, products will become more visible for customers when entering the store. The company may also establish different pricing strategies to make the market less attractive for other competitors. And on the other hand, market share increase may also be established through the acquisition of competitive retailers or by recruiting them to the company.

For the second strategy, increase customer value, the company should take into account that in a mature market, there will be a lower margin for differentiation and that there are not different target segments to exploit. Consumers are now more demanding and connected so its purchasing experience is getting more refined.

The company should, expand its distribution channels or develop more convenient and accessible ones, such as the online or mobile that will enhance the customer experience. As mentioned in the case, 39% of customers are more willing to buy online than one year ago, appearing as a growth opportunity to increase customer's usage and enhance loyalty. The implementation of loyalty schemes or customer data bases will allow for the company to extract more information about customers wants and needs. New online and offline technologies enable the company to track the preferred items, target information and buying patterns that will allow to improve products designs and innovations. This might also enable the brand to direct the offerings to each customer, becoming more personalized and direct.

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3. Appendix

Data estimates

Taking into account that the fashion accessories industry is a very specific and fragmented industry, there isn't very explicit information regarding industry numbers. There are some numbers about the apparel and clothing sector that include the fashion accessories segment, although it is hard to separate the weight of each segment.

However, throughout the analysis of the U.S market, there is a census report specific about the accessories segment. According to this report the total U.S sales of accessories estimates in 2014 where of \$34,1 billion. By taking into account the target population in the U.S (women from 15-64 years old), it could be estimated the sales per target - around 287€.

To estimate the total sales for the Portuguese and Spanish markets some inputs had to be calculated, mainly the adjusted income, the sales per person and targeted population:

- Income adjustment ⁽²²⁾: considering the personal disposable income per person in Portugal of 15.311€ and 40.504€ in the U.S, it would give an adjustment income of 38%. For the Spanish market, the income adjustment was of 45% (18.166€)
- Sales per target: was considered around 108€/ person in Portugal and 129€/ person in Spain
- Target population ⁽²³⁾: for the Portuguese population, the data with the number of women from 15-39 years old was available (1.597.402) whereas for Spain, the available targeted population numbers was from 15-64 years old and so an adjustment was made so that it would mirror the same target as the Portuguese from 15-39 years old (7.852.704)

Finally, for the estimate of Parfois market share, it was taken into account the accessories sales estimates previously calculated and the yearly Parfois sales.

⁽²²⁾ Source: Economist

⁽²³⁾ Sources: Worldbank and Pordata