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Paez Portugal: Efficient Decision Making in Location Strategies

A case on location strategies and entrepreneurial decision making

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Abstract

Paez is an Argentine brand of espadrilles, created by three friends who wanted to give a twist to the traditional Argentine espadrille. The brand was taken to Portugal by two Portuguese students who learned about it during their exchange program in Argentina.

Paez was well accepted by the consumers and soon began to spread around the country. When *Paez* opened their second store in Lisbon, they decided to open it in a newly revitalized commercial area called Príncipe Real. They soon realized that Príncipe Real wasn't being as successful as they expected, because the area wasn't being as advantageous as they thought it would be.

With this, Carlos Coutinho, *Paez's* CEO, had to make a decision. Either they would open a new store in Chiado and leave Príncipe Real's store open, or they would move the store from Príncipe Real to Chiado.

The decision required a full analysis of both options. Coutinho had to evaluate the profitability of each option by analysing two main possible causal factors: the consumer behavior in both a broad and a location related perspective, in order to conclude if having both stores open would be inefficient due to proximity and similarity of market segments reached; and the total balance of both options to conclude whether the investment needed to keep both stores open would be worth it and compensated by the profit coming from Príncipe Real.

Students are presented with *Paez's* and consumers' facts and figures in order to make them able to develop a quantitative and qualitative analysis of the situation.

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Case Study

In September 2014, Carlos Coutinho, *Paez* partner and CEO, was at home preparing his speech for the other two partners. He was anxious about the decision he had to make, pacing back and forth in the room. The numbers would take a great part on his decision, he had to analyze them thoroughly in order to know exactly which way to go.

Paez had opened a store in Príncipe Real in November 2013 and it wasn't being as successful as they expected. They had to open a store elsewhere in order to follow their growth, and Chiado was the right place.

The huge doubt was if they were going to open a third store and drop the project which he had tirelessly worked on - opening the store in Príncipe Real. Or if they were going to Chiado and keep Príncipe Real's store open as it could still be fruitful, since it had only been open for less than a year.

Would they have to invest in a new store? Or could they simply move from Príncipe Real to Chiado? Would it be worth it to make a much greater investment to keep Príncipe Real's store open? Would Príncipe Real's store profit be worth the investment?

Coutinho had to put his emotions apart in order to make the right decision as his position as CEO could depend upon it.

Paez Argentina

Company's origin

The espadrilles – or alpargatas – are believed to descend from the Egyptian sandals.¹ They were taken to Argentina by Basque immigrants and then became an icon of the people from rural areas all over Argentine as they were comfortable, simple and had a resistant sole, ideal for farming and other country jobs (see **Exhibit 1**).

¹ www.paezusa.com. 2010. The History of the Alpargata. [ONLINE]. Available at: <http://www.paezusa.com/history.html>. [Accessed 12 May 15].

The espadrille quickly spread around the country and it “became the everyday shoe for Argentina. For people who valued a breathable and glove-like shoe, the alpargata was the perfect fit.”²

In 2006, three Argentine friends decided to give a twist to this simple and comfortable shoe and embraced the challenge of making it become a fashion icon. Their rapid growth was encouraging and motivating and they started investing in expansion through deals with representatives in different countries.

In 2011 they opened their own plant in Argentina employing over 25 workers and all of them were Argentine. But by 2012, *Paez* started producing in China as well, as it seemed the best way to get the product distributed around the world, being able to attain much lower costs. And as Asia leads the market prices in production, it was a clever move. In China the average export price of one pair of shoes is less than \$4,00 USD (see **Exhibit 2**), which is abnormally cheap when compared to America or Europe (see **Exhibit 3**).

With an initial investment of \$5.000 USD, *Paez* spread to 30 countries and has over 12 own stores and 200 selling points all over the world (see **Exhibits 4 and 5**)

Paez Portugal

Company’s background

It was late November 2008 and Ricardo Ortigão Ramos and Francisco Penim, two Portuguese students, were living the experience of an exchange semester in Buenos Aires, Argentina. It was mid spring and the sun was already taking control of the *Porteños*³ mood, filling them with joy and providing them long days at the beach.

One day, during a business course class, Ramos and Penim heard of an Argentine brand called *Paez* that had somehow reinvented the famous Argentine espadrille, very common among the Argentine gauchos⁴. By that time, *Paez*’s espadrilles could already be seen on a lot

² www.paezusa.com. 2010. The History of the Alpargata. [Online]. Available at: <http://www.paezusa.com/history.html>. [Accessed 12 May 15].

³ *Porteño* is the name given to inhabitants of Buenos Aires.

⁴ *Gauchos* are the Argentine equivalent of the North American cowboys. Through their journeys across Patagonia and the Andes, they disseminated the shoe.

of people's feet in Buenos Aires' beaches and that aroused interest in these two students. They decided to learn more about the company, and by entering their website they found an "exportation contacts" link.

Ramos and Penim were both studying business, therefore they had the tools and mindset needed to put some ideas together on paper and decide whether the product would be suitable for Portugal or not. After a brainstorming along with some discussion, they started writing an e-mail and preparing a short presentation to send to the company. Their aim was to demonstrate that the product was adequate for Portugal and that, consequently, they were interested in exporting it.

They arranged a first meeting, and that meeting led to fortnightly meetings to set every detail on how they would implement the company in Portugal, and it ended up in an agreement.

Having finished their exchange period, Ramos and Penim were now entrepreneurs by definition, they weren't regular students anymore, they were going back home with a purpose – to help "build the most beloved brand in the world"⁵.

With a small investment, mainly from their parents, they bought the first thousand pairs of espadrilles. They started selling door-to-door with their car's trunk as the showroom; selling to everybody that would call them or e-mail them asking to see, to try or to buy a pair. They soon began to make themselves present at music festivals and any kind of event that would mildly relate to the concept and involve their target audience.

Soon after, they realized that studying and developing a company at the same time would be a tough job. And that was where Carlos Coutinho came on the scene. And he did not only appear at the right time, he was also the most indicated person to join the company.

Ramos met Coutinho during one of Ramos' door-to-door sales to a common friend. Coutinho demonstrated a huge interest in the brand and immediately put himself available to help with anything they needed.

Coutinho had worked at Nike as a sales representative for two years⁶, thus he did not only have experience in the footwear industry, he also had the contacts needed to boost a

⁵ Paez's vision statement

⁶ Fabulous Letters From a Lisboner. 2011. *Paez Portugal: What You need to Know*. [Online] Available at:<https://fabulouslettersfromlisbon.wordpress.com/2011/12/19/Paezportugalwhatyouneedtoknow/>. [Accessed 02 April 15].

business like this and start making room for it on some store shelves. He was working at an agricultural family business at that moment and saw an opportunity to be part of something big. Ramos and Penim, before long, invited Coutinho to join the company as a third partner.

Marketing and Brand Awareness

In the beginning, as a start-up on a low budget, *Paez* could not invest in big expensive marketing campaigns. However, they still had to make their way to the consumers' minds, they had to attain visibility and brand awareness. On a low budget, there's not much of a choice to be made regarding these issues. They had to be as cost effective as possible disseminating their message and they had to do it mostly by themselves.

Word of mouth was the key. It was costless and efficient as the product was good enough, innovative enough and it was becoming trendy. Ramos said: "It was mainly word of mouth, but we definitely benefitted from the fact that the espadrilles became a fashion icon, especially among women."⁷

They decided to travel along the Portuguese coast during the summer selling espadrilles and spreading the word, searching for brand awareness. To do so, they painted corkboards with *Paez* logo, they made expositors out of corkboards, and invested in some merchandising items such as flags and t-shirts.

In order to make advertisements without having to pay the enormous amounts of money that the media channels usually charge, they tried to reach out to newspapers and negotiate an exchange for espadrilles. They had a one page ad in the newspaper Destak, by agreeing on exchanging it for a certain amount of *Paez*'s espadrilles.

Another form of attaining brand awareness that they used and proved itself to be effective was to associate themselves to athletes and other celebrities by offering them pairs of espadrilles. The public figures would then post pictures on the social media platforms – Facebook and Instagram, mainly - using *Paez*'s product, so the celebrities' fans and followers would get to know the brand.

⁷ Coutinho, Carlos, and Ricardo Ortigão Ramos. "Empresa Com Os Pés Coloridos Mas Bem Assentes Na Terra." Interview by Emídio Marques, J, 2013. Diário De Notícias, [Online]. Available at: http://www.dn.pt/inicio/economia/interior.aspx?content_id=3607920 [Accessed 03 April 2015].

In 2010, Ramos, Penim and Coutinho decided to buy a van for the summer sales around the coast and to take to any event where it was possible to use the vehicle as a store. This worked almost as a marketing activation campaign, as the customers felt related to the environment and mood lived by the owners of the company – they were young, relaxed and adventurous, exactly as their target audience (see **Exhibit 6**).

Evolution and decision making

In 2014, *Paez* already had two own stores in Lisbon. The company's fast growth was taking them to new levels every year and they were trying to respond effectively to the consumer demand. They already counted on a management team of five members (see **Exhibit 7**).

The second store, in Príncipe Real, opened in November 2013 and it was a big move for *Paez*. They needed another store and chose Príncipe Real because a new shopping gallery – Embaixada - had opened there, and it seemed an appropriate place to open a new store.

Príncipe Real had been evolving as a commercial kernel. *Eastbanc Portugal* - an investment, promotion and property management company - bought nearly 20 buildings in the area to revitalize it from a commercial standpoint (see **Exhibit 8**).

Catarina Lopes from Eastbanc stated:

*"Príncipe Real is cosmopolitan and simultaneously an area where you can breathe a neighborhood environment. [It is] fully transversal in urban cultures, age groups and socio-economic levels. These characteristics are reflected and originated in the shopping street where you can find authentically Portuguese innovation and the "trendy-chic" spurred by a new generation of national entrepreneurs."*⁸

They didn't know if they should go to an established commercial area, or take the risk and go to a newly revitalized area. They thought of opening the store in Chiado, but as the rents were way higher and they had the chance of being associated to this new

⁸ Lancaster, Pedro, Araújo, P and Empis, M, 2014. Lisbon Street Shopping – A Afirmação Do Comércio De Rua Em Lisboa. Rep. JLL - Jones Lang Lasalle. Available at: http://www.jll.pt/portugal/pt-pt/Research/JLL_Portugal_%20Lisbon%20Street%20Shopping_PORT.pdf?8019896d-3777-43f9-a59a-ed8320cf422b [Accessed 01 May 2015]

entrepreneurial commercial area – Príncipe Real – they decided to take the risk and opt for the one that could provide them differentiation and association to something new.

Paez, supposedly, was on the right track. But that was not how things played out. The store ended up not being enough to follow their growth and it hadn't been as successful as they thought it would be.

Therefore they needed to open a new store. And this time, they decided to open it in Chiado as it was an established centre of fashion brand stores in Lisbon and a traditional shopping place. They wouldn't take the risk again, they wanted to be placed where it was safer for them.

*“Chiado combines the Portuguese history and tradition with the new trends and concepts, being considered a trendy, fashion and vibrant zone [of Lisbon]. Chiado is the trendiest fashion and cosmopolitan area of the capital, where tradition and modernity, national and international brands, the premium stores and mass-market, tourists and weekenders all live together. Demand has exceeded by far the offer and who wants to have a store here will have to pay the highest rent in the market.”*⁹

In Chiado they would have a slightly larger store, they would pay 3.000€ a month in rent instead of the more comfortable 950€ they were paying in Príncipe Real and they would have to have more employees working there (see **Exhibit 9**).

The Consumer

Paez's customers have changed a lot since the company opened in Portugal. These changes took place due to several reasons. One of the main reasons was the way they entered the market. *Paez* entered in Portugal with two young boys selling canvas shoes from their car's trunk. It was quite obvious that their image would probably not entirely match the one they

⁹ Lancastre, Pedro, Araújo, P and Empis, M, 2014. Lisbon Street Shopping – A Afirmação Do Comércio De Rua Em Lisboa. Rep. JLL - Jones Lang Lasalle. Available at: http://www.jll.pt/portugal/pt-pt/Research/JLL_Portugal_%20Lisbon%20Street%20Shopping_PORT.pdf?8019896d-3777-43f9-a59a-ed8320cf422b [Accessed 01 May 2015]

would want to achieve in the long run. But this happened because Ramos and Penim brought *Paez* to Portugal with a low investment. And regardless all this, they thrived.

When they were selling door-to-door, they would almost only sell to friends, and friends would tell friends and the average consumer would become the same age as they were, with a similar lifestyle and would probably be of the same social class.

This was necessary, as word of mouth was their communication channel, but it was also risky, as people could get the wrong perception of the product. That could possibly lead them to a point of no return in which they wouldn't be able to reach all their potential customers. Consequently, they had to slowly start reaching other consumers and change their perception within the consumers' minds.

Age

Paez has a huge segment of clients between 46 and 55 years old, they represent around 45% of *Paez* consumers. Although there might be consumers between these ages that are not buying for themselves - but as gifts to younger people - it is still a huge sector. And the segment from 18 to 30 years old represents roughly 35% of their clients. The consumers are already perceiving the espadrilles as a general product and not as a youth trendy product (see **Exhibit 10**).

Gender

Paez owes 70% of their sales to the feminine customers (see **Exhibit 11**). It is curious that a unisex shoe becomes trendier to one of the genders without an apparent reason. But Coutinho thinks this has to do with their communication approach through the social networks and the evolution of the collections – patterns, colors – being more adapted to women.

Annual Income

Paez is also having a shift regarding the social and economic situation of its average consumer. *Paez* are no longer associated to an upper middle class of the Portuguese society, the consumers are equitably dispersed along all levels of income with the highest number of people

being inserted in a lower level of income – between 10.001€ and 20.000€ per year - than the average salary in Portugal¹⁰ (see **Exhibit 12**).

Loyalty

Paez's consumers are loyal to the brand, probably due to its image and relationship with the customer. Diogo Borges, the Marketing Director, said: “We care about the consumer a lot. We try to address any issue as fast as we can, as we think bonding with the consumers is a way to reach our vision, building customer loyalty throughout the path.”

Around 91% of the consumers are happy with their purchase and would buy *Paez* again. It is also important to denote that more than half of *Paez* consumers have already bought two or more pairs. This shows that the customers are happy with, and loyal to the brand (see **Exhibit 13 and 14**).

The Portuguese Market

Portuguese footwear industry overview

The footwear industry in Portugal surpassed major barriers when Portugal joined the EEC¹¹ in 1986.

*“Few believed that an obsolete industry, situated in semi-rural areas and run by entrepreneurs, with [an education as low as] the fourth grade, would be able to survive the ‘test of modernization’. Today the Portuguese footwear is at the forefront of technique, being able to produce cutting-edge fashion, disputing with Italy the lead in world prices and exporting 71 million pairs of shoes per year”*¹²

¹⁰ The average monthly income in Portugal is 911,5€ - <http://www.pordata.pt/Portugal/Sal%C3%A1rio+m%C3%A9dio+mensal+dos+trabalhadores+por+conta+de+outrem+remunera%C3%A7%C3%A3o+base+e+ganho-857>

¹¹ European Economic Community - was an economic union created by the Treaty of Rome of 1957. It is currently named EU (European Community).

Source: http://en.wikipedia.org/wiki/European_Economic_Community [Accessed 30 April 2015].

¹² Carvalho, M, 2013. A história de uma indústria condenada que se tornou um modelo para Portugal. Público, [Online]. Available at: <http://www.publico.pt/temas/jornal/a-historia-de-uma-industria-condenada-que-se-tornou-um-modelo-para-portugal-27262596> [Accessed 28 April 2015].

Portugal is one of the top exporters worldwide (see **Exhibit 3**) and in 2013 produced footwear equivalent to nearly 1,9 billion euros. This industry in Portugal is composed of 1350 companies that employ around 35 thousand people (see **Exhibit 15**).

Beach footwear segment and competitors

It is important to refer that when *Paez* entered the market, the espadrilles were perceived as beach footwear. Ramos stated: “When we entered the market, I believe people thought *Paez*’s espadrilles were too comfortable to be used on a daily basis”. But they are now less and less being considered as so.

The beach footwear segment doesn’t have much variety, it only includes flip flops and espadrilles as main products, since these are the ones people buy the most to use specifically as beachwear.

As *Paez* can still be considered to be, at least, partially inserted in the beach footwear market segment, there are 5 main competitors to be considered, being one of them the representation of the mass production fashion brands that sell espadrilles.

The four main brands that compete with *Paez* are: *Toms*, *Moza Swazi*, *Maz* and *Havaianas*. The fifth is composed of brands such as: *H&M*, *Zara*, *Seaside*, *Springfield* and *Primark*. All these brands sell espadrilles but all of them have different price ranges, different qualities, different materials and some have different target audiences (**Exhibit 16 and 17**). It is important to note that Borges, the company’s Marketing Director stated: “We can’t keep track of the size of the market because it grows every day and there are already lots of brands out there that we haven’t yet heard of. But I can tell we have around 70% market share”.

As aforementioned, *Paez* had a lucky entrance in the market as the espadrille was already being recognized as a fashion icon, but with success comes competition, and that’s exactly what happened.

Toms are *Paez*’s most direct and biggest competitor on a worldwide level; they sell really similar espadrilles, they value innovation, they bet on comfort and they associate themselves to social causes – for each pair of Tom’s sold, they offer another pair to a child in need. In Portugal they are not a major threat, since they are only sold in a few reseller stores.

Moza Swazi and *Maz* are new to the market, thus not being a huge threat for *Paez* as well. But still, they sell the same product, so they are considered possible future threats. *Maz* is a Brazilian brand and *Moza Swazi* is Portuguese. *Moza Swazi* is trying to find its place on the market by focusing its differentiation on the design; they associate themselves to Africa, and use African patterns on the espadrilles (Moza stands for Mozambique and Swazi for Swaziland).

As indirect competitors to the espadrille, the ones that stand out are flip flops. And the main brand selling flip-flops is *Havaianas*. When *Paez*'s was only associated and referred to as a beach shoe, *Havaianas* were a huge threat. When *Paez* entered the Portuguese market, the flip-flops were already well established and *Havaianas* was controlling the market.

Havaianas has a vast range of products in the beach footwear segment and although they also sell espadrilles, their flip flops' category is the most threatening for *Paez*. When a person decides which kind of footwear to use to go the beach, they make a choice between espadrilles and flip flop's, which in a colloquial language would sound more like: *Paez* or *Havaianas*.

Dilemma

Coutinho had to make a decision considering both the financial and the location analysis of Chiado and Príncipe Real. He had to make sure his decision was only based upon facts.

He had two options:

- Opening a third store in Chiado
- Moving Príncipe Real's store to Chiado

The new store in Chiado would need renovations that would cost them quite a slice of the whole investment, but Coutinho was aware of the fact that keeping both stores open would have an increment on the fixed costs – namely employees and the rent -, and that could be determinant in choosing which way to go.

Opening a third store in Chiado

By opening a third store (leaving Príncipe Real's store open), they would have to make a larger investment, but they would have three stores, which means more exposure - it works

as publicity and may be perceived as sustainable growth - and would provide more revenue. Even though Príncipe Real's store wasn't going as expected, it was still profitable, and opening a new store would add more revenues, hence more profit to *Paez*'s total balance.

But he then started questioning himself if the fact that Príncipe Real and Chiado were so close to each other (see **Exhibit 18**) and Chiado was much more seen as a commercial area¹³, could implicate something in this equation – maybe the people that went to Príncipe Real also frequented Chiado. And he had to analyze if the difference in investment would be worth it (see **Exhibit 20**).

Moving Príncipe Real's store to Chiado

Moving Príncipe Real's store to Chiado could, as opposed to the other option, show the consumers that the store in Príncipe Real wasn't being that successful and that could be translated in *Paez* being going through a not-so-good moment. And there was a risk of, in case Príncipe Real and Chiado had totally different consumers, they'd be losing a slice of the market.

By moving the store they wouldn't have to invest in new furniture and exhibitors, they would only have to pay the transportation costs to move it to Chiado (see **Exhibit 21**). But they would also be losing the profit from Príncipe Real.

Conclusion

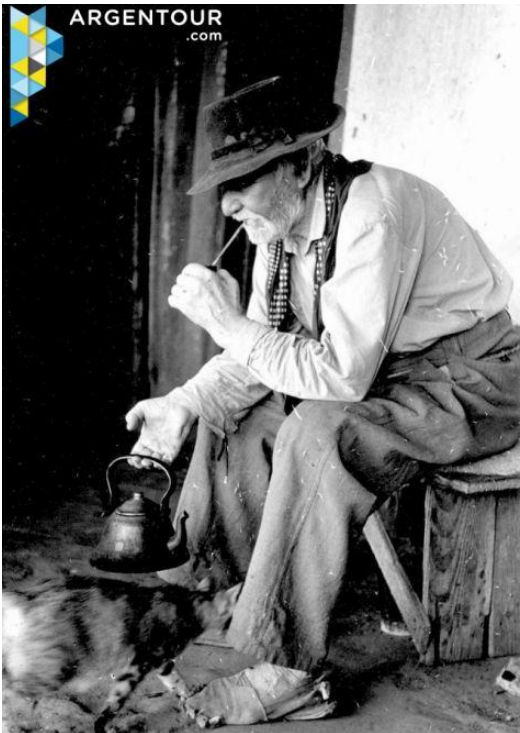
Coutinho had his hands tied, he had to make a decision and couldn't risk making the wrong one. Ramos and Penim were expecting a detailed analysis and a complete one, so *Paez* wouldn't be losing money neither on the short, nor the long-run.

He had gathered all the needed information and had one day to make the decision and prepare the speech. If this went wrong, he would be responsible for it.

¹³ As it is way older as a commercial site than Príncipe Real and has an area of stores five times greater than Príncipe Real. Source: JLL's report - Lisbon's Street Shopping - http://www.jll.pt/portugal/pt-Research/JLL_Portugal_%20Lisbon%20Street%20Shopping_PORT.pdf?8019896d-3777-43f9-a59a-ed8320cf422b (see **Exhibit 19**)

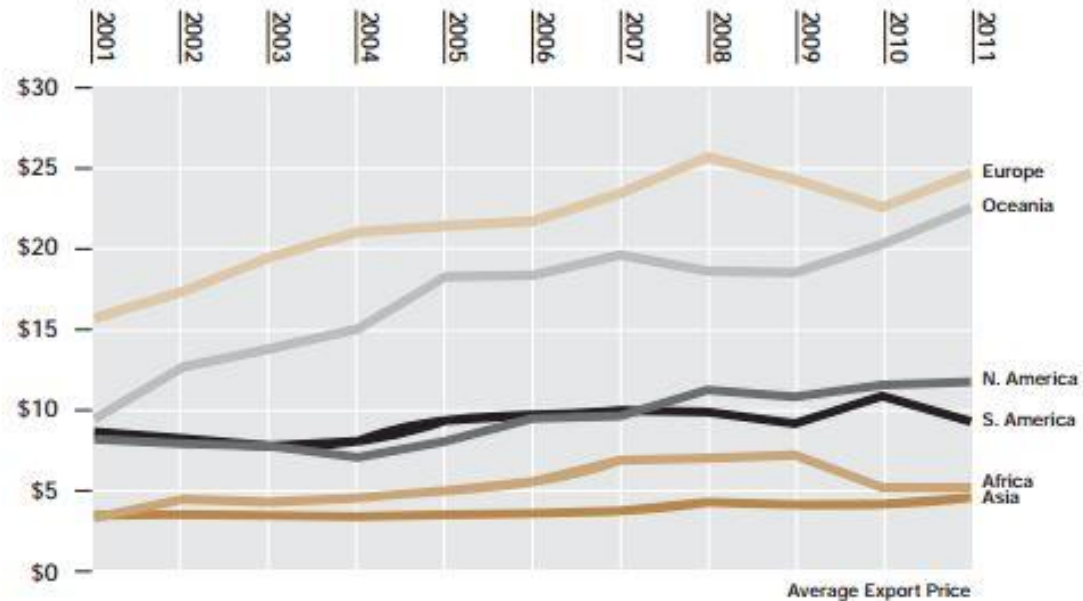
Exhibits

Exhibit 1 – A gaucho wearing the old type of espadrille



Source: <http://www.argentour.com>

Exhibit 2 - Average Export Price by Continent



Source: 2012 World Footwear Yearbook - http://www.apiccaps.pt/c/document_library/get_file?uuid=7d10300e-b8e0-40ae-b9be-246e4327714c&groupId=10136

Exhibit 3 – World Top 15 Footwear Exporters (in value) -2011

Rank	Country	USD (millions)	World Share	Average Price
1	China	39 374	38.3%	\$3.87
2	Italy	10 376	10.1%	\$45.32
3	Hong Kong	5 317	5.2%	\$14.70
4	Vietnam	5 123	5.0%	\$16.20
5	Germany	4 392	4.3%	\$22.66
6	Belgium	4 172	4.1%	\$20.16
7	Indonesia	3 227	3.1%	\$15.65
8	Netherlands	2 933	2.9%	\$20.55
9	Spain	2 870	2.8%	\$22.04
10	France	2 409	2.3%	\$30.18
11	Portugal	2 091	2.0%	\$32.00
12	India	1 421	1.4%	\$12.61
13	United Kingdom	1 400	1.4%	\$15.90
14	Romania	1 391	1.4%	\$24.35
15	Brazil	1 296	1.3%	\$11.47

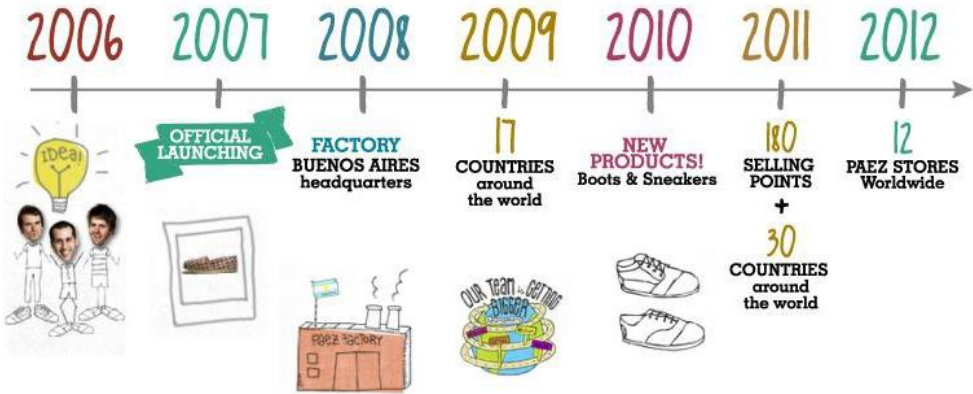
Source: 2012 World Footwear Yearbook - http://www.apiccaps.pt/c/document_library/get_file?uuid=7d10300e-b8e0-40ae-b9be-246e4327714c&groupId=10136

Exhibit 4 – Paez presence around the World



Source: Paez Brand Presentation Europe 2014

Exhibit 5 – Paez evolution throughout the years (2006 – 2012)



Source: Paez Brand Presentation Europe 2014

Exhibit 6 – Carlos Coutinho and Paez ambulant selling point



Source: <http://www.tvi24.iol.pt/economia/negocios/alpercatas-recorde-de-vendas-a-nivel-mundial-e-portugues>

Exhibit 7 – Paez Management Team

The Management Team

Ricardo Ortigão Ramos – Ramos lives in London and works for Santander Global Banking and Markets in the Corporate and Investment Banking sector. For that reason, he can't be as present in the brand as he used to, but besides being an equity partner, he is still head of the financial department, being in charge of the accounting and the financial reports.

Francisco Penim – Penim doesn't live in Portugal as well. He is now living in Copenhagen as he is working for GE Oil & Gas as a Pressure Control Manager. He is still one of the partners of the company and works as a COO, being in charge of the logistics of the company, controlling the orders and the efficiency of the value chain.

Carlos Coutinho – In charge of the business development sector, Coutinho is now the face of the brand for Paez's partners. He is the one in charge of the events and communication and since Ricardo and Francisco are not living in Portugal, he works as the CEO of the company.

Marta Gramacho – Gramacho joined later - in 2012 – and works in finance and logistics. She is in charge of controlling the stock, managing the employees and keeping track of the stores' sales.

Diogo Borges – Borges was the last member to join the team. He is in charge of the sales department and the marketing department, hence controlling the marketing and communication strategies and campaigns.

Source: Data provided by the company

Exhibit 8 – Príncipe Real's main stores opening per year (1986 – 2014)



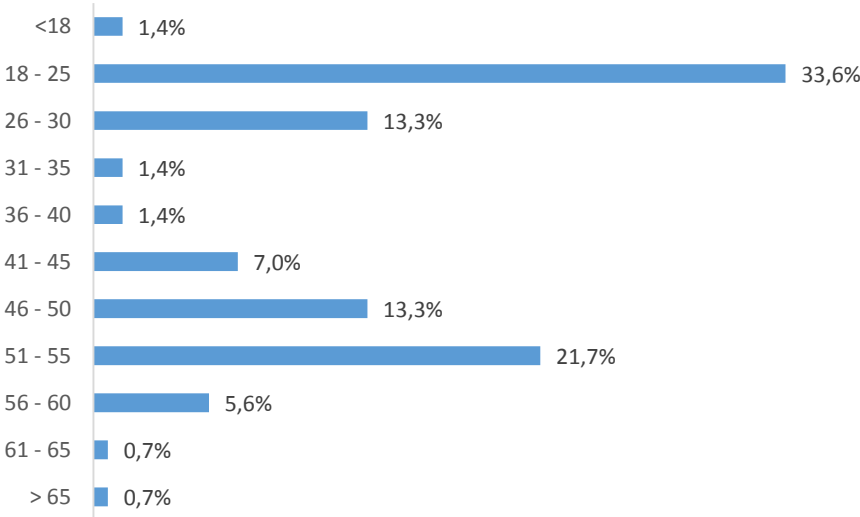
Source: Lisbon Street Shopping – A Afirmação Do Comércio De Rua Em Lisboa. - http://www.jll.pt/portugal/pt-pt/Research/JLL_Portugal_%20Lisbon%20Street%20Shopping_PORT.pdf?8019896d-3777-43f9-a59a-ed8320cf422b

Exhibit 9 – General Data about the company

General Data			
	Espadrilles		Total wages Chiado
<i>Price</i>	35,0 €		<i>Hourly Salary</i> 5,00 €
<i>COGS*</i>	12,0 €		<i>Working hours/employee</i> 8
Contribution Margin	23,0 €		<i>Days/month</i> 22
<i>*Cost of Goods Sold</i>			<i>Number of employees</i> 5
			Total wages 4.400,00 €
	Average sales/month (quantity)		Total wages Príncipe Real
<i>Príncipe Real</i>	400		<i>Hourly Salary</i> 5,00 €
<i>Chiado</i>	1300		<i>Working hours/employee</i> 8
			<i>Days/month</i> 22
Rent			<i>Number of employees</i> 2,5
<i>Chiado</i>	3.000 €		Total wages 2.200,00 €
<i>Príncipe Real</i>	950 €		

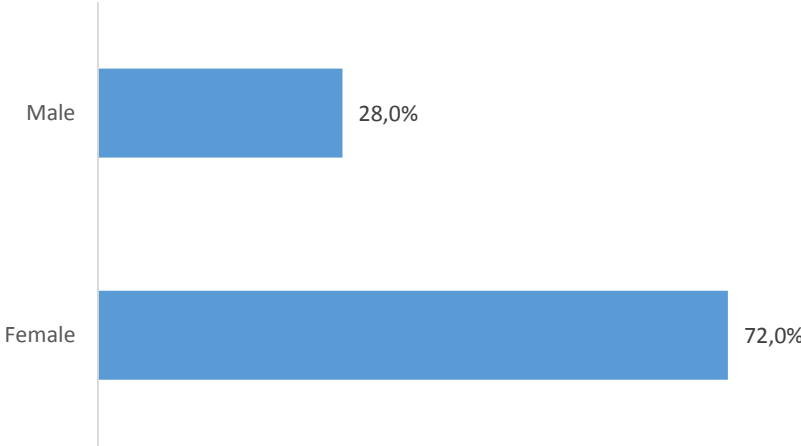
Source: Analysis developed by the case author with data provided by Paez

Exhibit 10 – Age distribution from Paez buyers



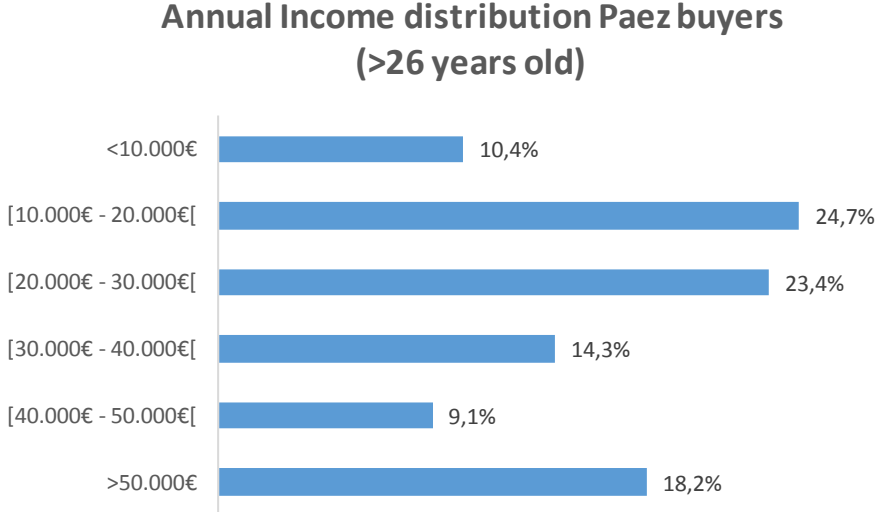
Source: Survey conducted by the Case Author

Exhibit 11 – Gender distribution from *Paez* buyers



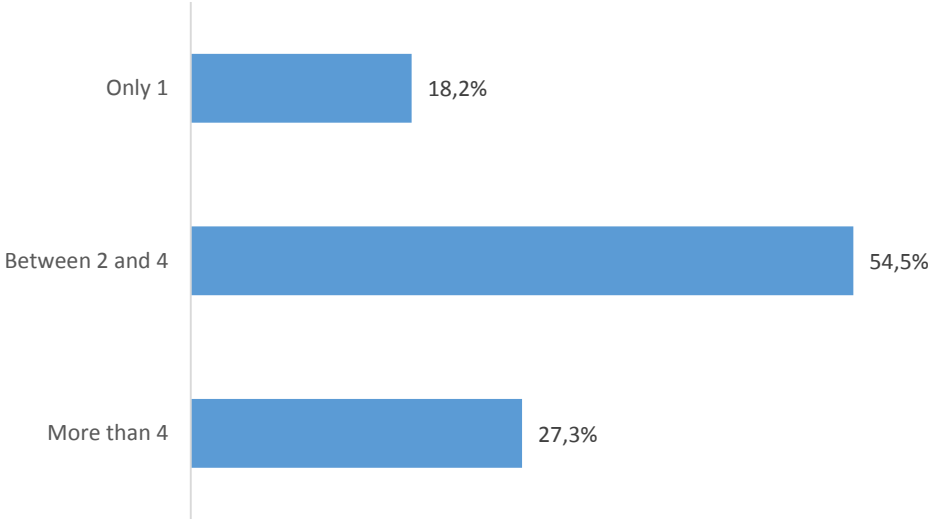
Source: Survey conducted by the case author

Exhibit 12 – Annual income distribution from *Paez* buyers over 26 years old



Only people with a stable income were considered, hence the age limit.
Source: Survey conducted by the case author

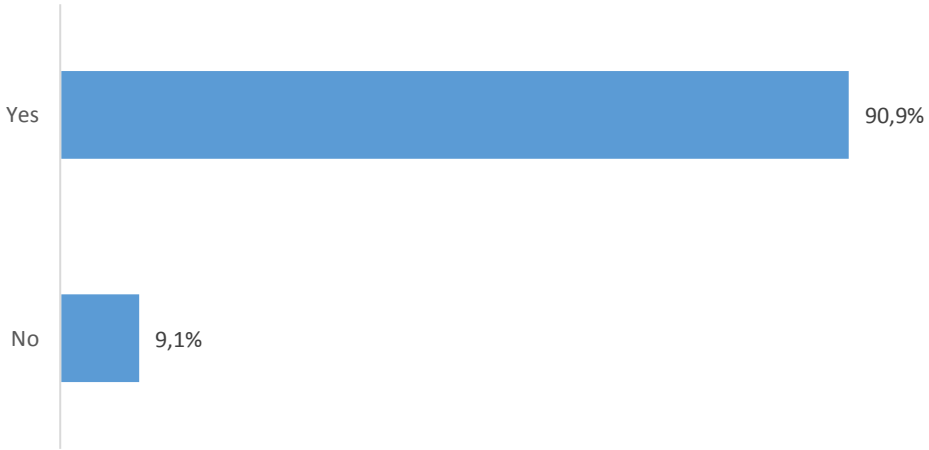
Exhibit 13- How many pairs of Paez espadrilles have you bought?



Source: Survey conducted by the case author

Exhibit 14 – Would you buy Paez espadrilles again?

Would you buy Paez espadrilles again?



Source: Survey conducted by the case author

Exhibit 15 – Portuguese Footwear Industry Trend (2006 – 2013)

Portuguese Footwear Industry Trend
Evolução da Indústria Portuguesa de Calçado

Industry Indústria	2006	2008	2010	2011	2012	2013**
Companies Empresas						
number número	1.448	1.407	1.245	1.324	1.322	1.337
Employment Emprego						
number número	36.221	35.398	32.132	34.509	34.624	35.044
Production Produção*						
thousand Pairs milhares de Pares	71.643	69.101	62.012	69.491	74.156	75.524
Gross Production Value Valor bruto de produção*						
thousand Euros milhares de Euros	1.338.555	1.397.617	1.283.475	1.511.085	1.797.030	1.848.010

* APICCAPS Estimates | Estimativas APICCAPS

** APICCAPS Forecasts | Previsões APICCAPS

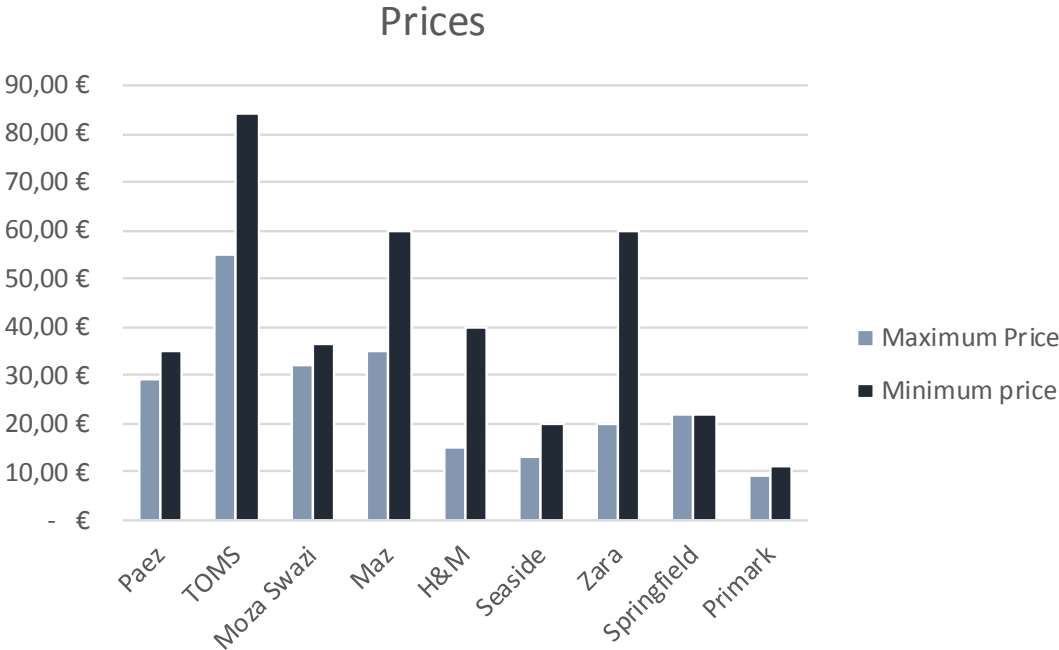
Source: 2012 World Footwear Yearbook -
http://www.apiccaps.pt/c/document_library/get_file?uuid=7d10300e-b8e0-40ae-b9be-246e4327714c&groupId=10136

Exhibit 16 – Competitors products



Source: Analysis by the case author with data available on each company's website

Exhibit 17 - Range of espadrilles' prices from the main players within the industry in Portugal



Source: Analysis by the case author with data available on each company's website

Exhibit 18 – Distance between Príncipe Real and Chiado



Source: <http://eastbanc.pt/content/principe-real-project>

Exhibit 19 – Occupied Area and type of store distribution in Chiado and Príncipe Real



Source: Lisbon Street Shopping – A Afirmação Do Comércio De Rua Em Lisboa. - http://www.jll.pt/portugal/pt-pt/Research/JLL_Portugal_%20Lisbon%20Street%20Shopping_PORT.pdf?8019896d-3777-43f9-a59a-ed8320cf422b

Exhibit 20 – Incurred costs with opening a 3rd store (keeping Príncipe Real’s store open)

Opening 3rd Store	
Fixed Costs	
Renovations	50.000 €
Furniture	20.000 €
Exhibitors	5.000 €
Chiado's Rent	3.000 €
Employees Chiado (monthly)	4.400 €

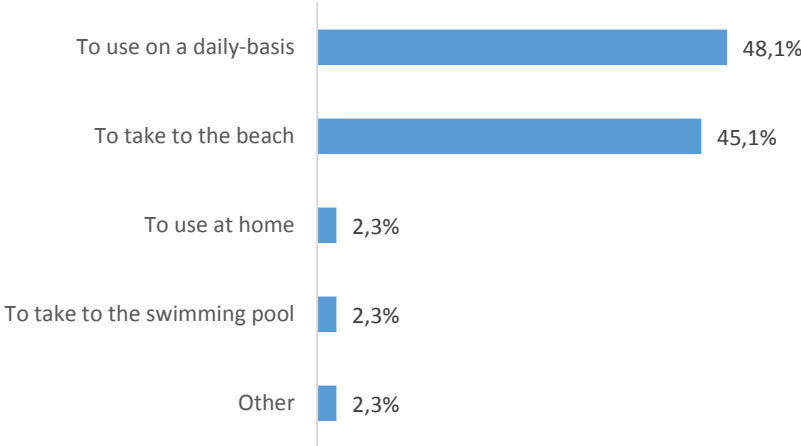
Source: Analysis developed by the case author with data provided by Paez

Exhibit 21 – Incurred costs with moving the store from Príncipe Real to Chiado

Moving Store	
Fixed Costs	
<i>Renovations</i>	50.000 €
<i>Transportation</i>	1.000 €
<i>Chiado's rent (monthly)</i>	3.000 €
<i>- P. Real's Rent (monthly)</i>	950 €
<i>Employees Chiado (monthly)</i>	4.400 €
<i>- Employees Príncipe Real (monthly)</i>	2.200 €

Source: Analysis developed by the case author with data provided by Paez

Exhibit 22 – Purposes for which people buy Paez’s espadrilles



Source: Survey conducted by the case author

Exhibit 23 – Rank question (1 being most valuable and 5 least valuable) regarding beach footwear characteristics

Characteristics when buying beach footwear	1	2	3	4
<i>Comfort</i>	58%	30%	11%	1%
<i>Price</i>	14%	31%	32%	23%
<i>Quality/Durability</i>	7%	14%	42%	37%
<i>Ease of putting on/taking off</i>	21%	24%	15%	39%

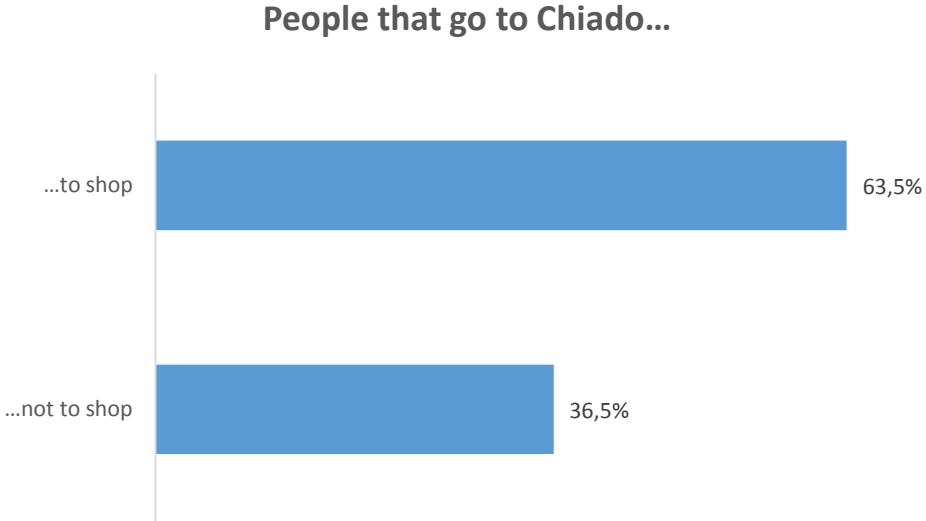
Source: Survey conducted by the case author

Exhibit 24 – Rank question (1 being most valuable and 5 least valuable) regarding espadrilles’ characteristics

Characteristics when buying espadrilles	1	2	3	4	5
<i>Comfort</i>	61%	33%	4%	2%	0%
<i>Price</i>	22%	24%	26%	20%	8%
<i>Quality/Durability</i>	8%	23%	44%	22%	3%
<i>Ease of putting on/taking off</i>	6%	20%	19%	42%	12%
<i>Store location</i>	3%	0%	7%	13%	77%

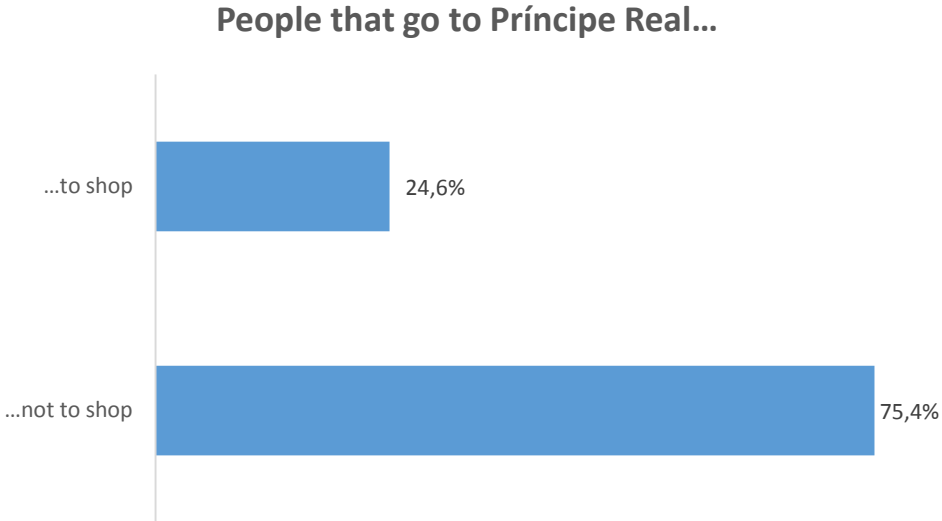
Source: Survey conducted by the case author

Exhibit 25 –Distribution of people that go to Chiado to shop and not to shop



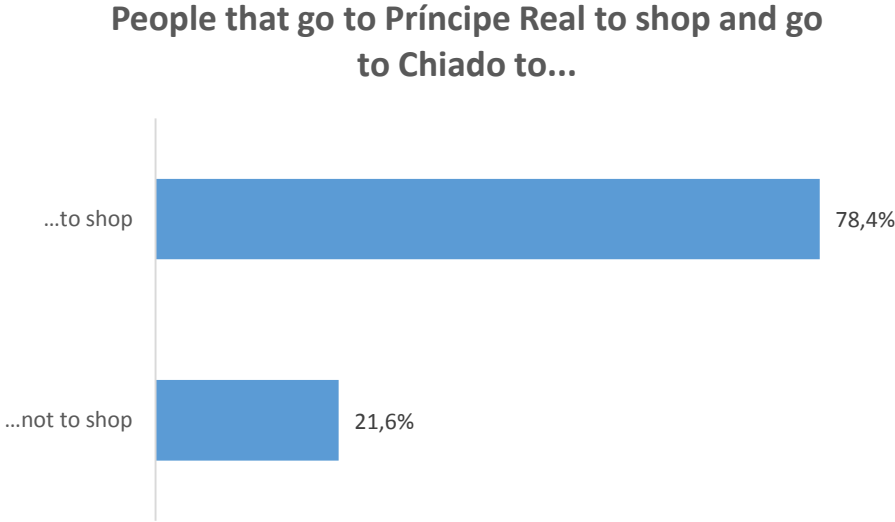
Source: Survey conducted by the case author

Exhibit 26 – Distribution of people that go to Príncipe Real to shop and not to shop



Source: Survey conducted by the case author

Exhibit 27 – Distribution of people that go to Príncipe Real to shop and go to Chiado to shop and not to shop



Source: Survey conducted by the case author

Exhibit 28 – Monthly sales for each situation

Opening 3rd Store		Moving Store	
Average sales/month (quantity)		Average sales/month (quantity)	
<i>Loss in Sales from Príncipe Rea</i>	200	<i>Loss in Sales from Príncipe Real</i>	400
<i>Chiado</i>	1100	<i>Chiado</i>	1300
Monthly Sales Príncipe Real		Monthly Sales Príncipe Real	
<i>Monthly Sales</i>	7.000,0 €	<i>Monthly Sales</i>	14.000,0 €
- COGS	- 2.400,0 €	- COGS	- 4.800,0 €
<i>Profit from Sales (monthly)</i>	4.600,0 €	<i>Profit from Sales (monthly)</i>	9.200,0 €
Monthly Sales Chiado		Monthly Sales Chiado	
<i>Monthly Sales</i>	38.500,0 €	<i>Monthly Sales</i>	45.500,0 €
- COGS	- 13.200,0 €	- COGS	- 15.600,0 €
<i>Profit from Sales (monthly)</i>	25.300,0 €	<i>Profit from Sales (monthly)</i>	29.900,0 €

Source: Analysis developed by the case author with data provided by Paez

Teaching Note

The present case study was developed by Bernardo Clode under the supervision of Professor Paulo Marcos. It is intended to be used as basis for class discussion and not as an endorsement, a source of primary data, or an illustration of effective or ineffective management. This case is based on real situations and experiences.

Synopsis

Paez is an Argentine brand that sells espadrilles. It was brought to Portugal by two friends who discovered the brand during an exchange program in Argentina. *Paez* in Portugal had a massive adherence by the consumers even though their main communication channel was word of mouth.

Carlos Coutinho, current CEO of *Paez*, joined the company with the purpose of helping *Paez* spread by being represented in several selling points around the country with which he had already established contact while working as a sales representative at Nike.

Coutinho in November 2013 opened *Paez*'s second own store in Lisbon. Although he was in doubt about opening the second store in Príncipe Real or in Chiado, he ended up going for Príncipe Real - a newly revitalized area that aimed to be a new business cluster in inner Lisbon and an entrepreneurial, trendy-chic one.

Less than a year after, by September 2014, he was forced to make a decision. The store in Príncipe Real was slowing down their pace as it wasn't being able to follow their growth. The store wasn't selling enough and it was clear that it was a matter of location, as their sales around the country were increasing at a considerable rhythm. Therefore, they had to go to Chiado, the place they had considered as an option before, but hadn't gone through, because they opted for Príncipe Real. Going to Chiado wasn't arguable, but Coutinho had to decide whether they were going to open a new store in Chiado and keep Príncipe Real's open or move Príncipe Real's store to Chiado. The main concern was if the greater amount of investment on keeping both stores open was worth it. And the main danger was if the opening of Chiado's store would steal customers from Príncipe Real.

He would have to analyze two main things in order to choose the best strategy, the first: the consumer behavior, and the consumers' perceptions in order to know if the consumers from

Príncipe Real would be transferrable to Chiado; and the second: if the investment would be worth it, by forecasting sales and determining which one would provide more profit for at least the next three years.

Literature Review

The decision of opening a new store or the one of moving a store to another place is in fact a determinant factor in a brand's success. The location of a store can be crucial to reach success and the decision making process has to be a balanced one in order not to fail. Start-ups incur in riskier decisions because they want to reach success the faster as possible and want to differentiate from the other brands. If these decisions lead to success, it's great, but if they don't, conclusions are taken upon the propensity to risk of the entrepreneurs and their reckless and negligent way of approaching risky situations.

Regarding *Paetz*, we can say they chose the right location in terms of characteristics, but they didn't reflect on the fact that if one place is good it doesn't mean that an even better one doesn't exist.

Entrepreneurial Decision making

A dominant theme in entrepreneurship literature is the risk propensity of entrepreneurs and the decision making based on that risk prone typical profile of an entrepreneur.

Corporate managers make weighted decisions, based on all kind of evidence they can acquire in order to evaluate the options they have. But entrepreneurs in start-ups tend to not even be aware of the risks they face. Entrepreneurs are less likely to recognize risk, and more likely to jump into an option without considering the jeopardy it may put them through (Cooper, Dunkelberg and Woo 1988). Entrepreneurs have the idea that because they control their recent founded companies, they are able to control the uncertainty process, hence not realizing they are engaging in risky decisions (Bird 1989).

Entrepreneurs face risk differently from corporate managers because they don't perceive risk the same way, and that's the reason why so many entrepreneurs make wrong decisions. Not only because they don't approach risk with due care, but also because they don't face it as

risk as they can't see through to be aware of the consequences that may arise (Low and MacMillan 1988).

So, in order to understand entrepreneurs and analyze their decision making process and conclusions, one must not evaluate the entrepreneurs regarding how prone to risk they are, but instead, how they perceive the decisions they make within the business opportunities they engage with (Busenitz, 1999).

Store location – business clusters

When researching the subject of store location, there are lots of studies that prove that this is a relevant factor on a company's success. But most of these studies approach the subject on a broader perspective, comparing cities, or comparing rural areas with urban areas. For this case study, it is important to approach the subject from a different standpoint, one that is more difficult to analyze: comparing a recent commercial area with an established one.

It is important to note that these commercial areas, are commercial areas for a reason. These clusters develop themselves in certain locations of a city for historical reasons or because of their location. But these reasons become less explanatory through time, because as the cluster develops, it becomes powerful and self-sustainable (Porter 1995).

Porter (1995) also states that established business clusters in the heart of the cities, as Chiado is, benefit from the presence of tourist centers, logistical infrastructures and entertainment centers. This because the surroundings of these areas are developed upon the existence of an area that attracts people, hence the long run self-sustainability of these clusters.

But though established business clusters are more attractive, in *Paez's* situation, it is important to note that a possible relocation of the store is on the table. But it is of utter importance to denote that with relocations a lot of, not only tangible, but also intangible costs arise. Being these costs the relocation itself – physical costs, such as transportation from one site to another – and the possible loss of regular customers from that store, affecting the image of the company and being possibly translated in loss of goodwill. (Ghosh, 1983).

Relevant Theory

- SWOT Analysis
- Marketing STP
- Consumer behavior and brand's perception
- Influence of store location in the success of a brand
- Entrepreneurial decision making and approach to risk

For a more thorough study and resolution of the case a few additional readings are recommended:

Cooper, A. C., Dunkelberg, W. C., & Woo, C.Y. (1988). Entrepreneurs' perceived chances for success. *Journal of Business Venturing*, 3, 97-108.

Bird, B. J. (1989). Entrepreneurial behavior. Glenview, IL: Scott, Foresman.

Busenitz L., (1999). Entrepreneurial risk and strategic decision making: It's a matter of perspective. *Journal of Applied Behavioral Science*, 35, 325–340.

Low, M. B., & MacMillan, I. C. (1988). Entrepreneurship: Past research and future challenges. *Journal of Management*, 14(2), 139-161.

Porter, ME (1995). The Competitive Advantage of the Inner City, *Harvard Business Review*, 73, 3, 55-71.

Ghosh, A., & Craig, C. (1983), Formulating Retail Location Strategy in a Changing Environment, *Journal Of Marketing*, 47, 3, 56.

Teaching objectives

These case study objectives are intended to be reached by studying and solving the case. The objectives are:

- To help students comprehend the inherent risk of decision making and to make them aware of the possible future consequences that come along with it.
- To have students understand the importance of analysing consumer behavior and profile in order to better serve their target audience.
- To highlight the importance of store location strategies and business clusters as a means to attain maximum visibility and accessibility.

- To have students understand the relevance of thorough analysis when engaging in a decision making process.
- To have students develop the computations with the data provided and reach themselves a conclusion on which option to choose.

Analysis and Discussion

Class Discussion Plan

The following questions are designed for the students' better understanding of the case and to trigger in-class discussion. The timings designated to each question assume a 90 minute class period.

1. Identify the industries' main opportunities and threats and *Paez's* main strengths and weaknesses within this industry. **(15 minutes)**
2. How do you define *Paez's* positioning? Do you notice a difference between when *Paez* entered the market and when the dilemma took place? Tip: see **Exhibit 22, 23 and 24 (15 minutes)**
3. How would the consumers react to a new store in Chiado? Would *Príncipe Real* lose customers? Would the store in Chiado cannibalize the store in *Príncipe Real*? Tip: see **Exhibit 25, 26 and 27 (15 minutes)**
4. Which option was the best in terms of investment? Which one would be more profitable for the next 3 years? Compare each option to the original situation. **(25 minutes)**

Tip: Compute the NPV (see **Exhibit 28**) for each situation considering the following:

- For the option of maintaining *Príncipe Real's* store open, *Príncipe Real* would reduce sales by 10% on Year 2 and Year 3
- For the option of moving the store from *Príncipe Real* to Chiado, the loss in sales from *Príncipe Real* is considered constant (the same amount they were earning earlier)
- Sales in Chiado would increase 10% annually
- 14 monthly salaries are paid yearly and are kept constant throughout the years
- Discount rate = 10%

5. How do you evaluate the decision of having opened their second store in Príncipe Real in 2013? Was the risk taken worth it? Would it have been better to go to Chiado in the first place? Discuss whether recent brands/companies have to take such risks or not. Is it essential to take riskier decisions in order to make a difference? **(20 minutes)**

Analysis

- 1. Identify the industries' main opportunities and threats and *Paez*'s main strengths and weaknesses within this industry.**

When elaborating an external analysis of the industry where *Paez* is inserted, it is important to be aware of the difference between the beach footwear segment and the rest of the industry.

Opportunities

The footwear industry from a general perspective has a wide variety of products available, but despite the existence of several types of products, there are still not fully explored areas, being beach footwear one of those.

The beach footwear segment and the espadrilles' industry specifically face huge growth and this is one of the main reasons why *Paez* is still growing so much every year.

The industry is not only growing on a fast pace, it is also being innovative in bringing new types of shoes and new types of espadrilles. Portugal, being one of the main producers of footwear, invests a lot in innovation and has conditions to embrace footwear companies.

Threats

The fact that the industry is growing brings lots of different solutions to the market, hence fiercer competition.

The massification of the products can lead to lack of positioning, thus the target becomes blurry and this leads to banalization and loses impact on the consumers' minds. This might happen due to the excessively fast growth that can lead to the "need" of massification – because companies need to produce more to follow the evolution of the market.

Strengths

Paez has a brand image and brand values that captivate the consumers, the fact that the brand is associated to a relaxed yet simple environment and image (see **Exhibit 6**) makes the consumers loyal to the brand (see **Exhibit 14**).

The price practiced by *Paez* is also, in comparison to other brands, relatively low, if we take quality into consideration (see **Exhibit 17**).

Paez also benefits from a first-mover advantage, having grown enough in the first few years to be already well established when competitors appeared.

Weaknesses

Although *Paez* is being quite successful, it may still be considered as a weakness the fact that the founders have little or no previous experience as managers, and this can be translated into naivety and amateurism.

The seasonality of the product is also frightening. *Paez* doesn't have many solutions for the cold seasons and the fact that the espadrilles aren't used during these seasons is not related to perception, but to the characteristics of the espadrille itself.

Paez relies on its image and values to be the market leader, but as the industry is growing, this could much be torn apart if new brands come with different approaches and innovations.

2. How do you define *Paez*'s positioning? Do you notice a difference between when *Paez* entered the market and when the dilemma took place?

Tip: see Exhibit 22, 23 and 24

The consumers' perception of *Paez*'s espadrille has had a positive breakthrough. When *Paez* introduced its espadrille in Portugal, it was perceived as an item to take to the beach as it was easy to put on and take off and it was comfortable. As mentioned in the case, Ramos stated: "When we entered the market, I believe people thought *Paez* were too comfortable to be used on a daily basis".

The consumers are now perceiving *Paez* differently as 48% of them buy *Paez* to use on a daily basis. Although 45.1% are still buying *Paez*'s espadrilles to take to the beach, there's

already an even larger segment of consumers that are seeing them as a day-to-day shoe (see **Exhibit 22**).

And by comparing the characteristics people value the most when buying beach footwear with the characteristics people value the most when buying espadrilles, it is perceived that the ease of putting on/taking off loses a lot of weight. Regarding beach footwear, 45% of the people ranked “ease of putting on/taking off” first or second in this rank question. And when buying espadrilles, only 26% of the people care that much about this characteristic (see **Exhibits 23 and 24**).

This proves that the espadrilles are losing this association to beach footwear, hence reinforcing the idea that *Paez* espadrilles are being perceived as day-to-day shoes.

3. How would the consumers react to a new store in Chiado? Would Príncipe Real lose customers? Would the store in Chiado cannibalize the store in Príncipe Real?

Tip: see exhibits 25, 26 and 27

As referred in the case, Príncipe Real is a recent commercial area as it has been recently revitalized to serve such purposes. As opposed to Chiado, an old, well established commercial site.

When deciding whether to open a third store or to move Príncipe Real’s store to Chiado, it is important to evaluate and analyze the possibility of Chiado’s store cannibalizing the sales of Príncipe Real’s. This is relevant because the option of opening a third store might be disregarded if the profit isn’t only incremental, meaning, it might be disregarded if the decision doesn’t only go through computing and comparing the initial investment, but also the long-term return on having both stores open.

Through the survey conducted by the case author, it is possible to analyze the preferences of the consumers regarding the store location, specifically between Príncipe Real and Chiado.

In the survey people had two answer how frequently they go to Príncipe Real and - in case they didn’t answer “never” - they had to rank the reasons that motivate their trips. They had to rank the following: for a walk, lunch/dinner/have a drink, shopping and work. The same format was applied to the subsequent couple of questions, this time, regarding Chiado and not Príncipe Real.

Through the surveyed people's answers, it was possible to reach a conclusion regarding the cannibalization that keeping both stores open would cause.

By cross referencing questions, it was possible to acknowledge that 63,5% of the people that go to Chiado, go there primarily to shop (see **Exhibit 25**). This shows us that Chiado is perceived as a commercial site, and the majority of the people that go to Chiado, go there to shop.

In opposition, if we analyze Príncipe Real in terms of the general consumers' perception, we reach the conclusion that it hasn't, at least yet, reached its desired awareness as a commercial area. Only 24,6% of the people that go to Príncipe Real, go there to shop (see **Exhibit 26**)

The comparison of these two charts – **Exhibit 25** and **26** - tells us that Chiado is way more established as a commercial area, and lets us undertake that with Príncipe Real's store, *Paez's* would reach much less clients than with a store in Chiado.

But in order to draw conclusions about the cannibalization to which maintaining both stores open could lead, it is important to analyze if people that usually go to Príncipe Real to shop would go to Chiado instead. In order to know the percentage of people that would make this change – from Príncipe Real to Chiado.

If we take a look at **Exhibit 27**, we conclude that 78,4% of the people that go to Príncipe Real with a shopping purpose go to Chiado with the same purpose. This means that the current shoppers in Príncipe Real are used to shopping in Chiado, therefore we can say they are transferrable from one place to the other.

From all this we deduce that, of the 25% of people that go to Príncipe Real to shop, around 78% would be able to be transferred to Chiado, thus cannibalization is likely to occur. We can, then, conclude that the majority of the consumers, if presented with the two options – a store in Príncipe Real and a store in Chiado –, will choose Chiado.

4. Which option was the best in terms of investment? Which one would be more profitable for the next 3 years? Compare each option to the their original situation

Tip: Compute the NPV for each situation considering the following:

- *For the option of maintaining Príncipe Real’s store open, Príncipe Real would reduce sales by 50% on Year 1 and by 10% on Year 2 and Year 3*
- *For the option of moving the store from Príncipe Real to Chiado, the loss in sales from Príncipe Real is considered constant (the same amount they were earning earlier)*
- *Sales in Chiado would increase 10% annually*
- *14 monthly salaries are paid yearly and are kept constant throughout the years*
- *Discount rate = 10%*

To develop this financial analysis it is important to gather the right information, in order to be able to build the cash flows table for each situation and consequently compute the NPV’s. This information is given throughout the case and is also present in the exhibits.

In order to compute the cash flows, we need to first calculate the costs and profits. To make things less complicated, as we have the necessary data, we can separate the fixed costs from the variable costs by computing the fixed costs and then directly computing the profit from sales. And by subtracting the fixed costs to the profit from sales, we’ll have the cash flows.

So, firstly the fixed costs must be calculated for each situation. For that, the students need to look at the fixed costs for each situation (**Exhibit 20** and **21**) and compute them for the next three years, considering that only the rents and the employees’ salaries are paid in year 1, 2 and 3. Because the other elements are considered initial investment (year 0).

They then have to multiply the monthly rents by 12 to calculate the value per year and the monthly salaries by 14 for the same reason (see **Table 1** and **Table 2**).

Opening 3rd store				
Incurred costs	Values	Year 0	Year 1	Following
<i>Renovations</i>	50.000 €	50.000 €	- €	- €
<i>Furniture</i>	20.000 €	20.000 €	- €	- €
<i>Exhibitors</i>	5.000 €	5.000 €	- €	- €
<i>Chiado's Rent (monthly)</i>	3.000 €	- €	36.000 €	36.000 €
<i>Employees Chiado (monthly)</i>	4.400 €	- €	61.600 €	61.600 €
Total		75.000 €	97.600 €	97.600 €

Table 1

Moving store				
Incurring costs	Values	Year 0	Year 1	Following
Renovations	50.000 €	50.000 €	- €	- €
Transportation	1.000 €	1.000 €	- €	- €
+ Chiado's rent (monthly)	3.000 €	- €	36.000 €	36.000 €
- P. Real's Rent (monthly)	- 950 €	- €	11.400 €	11.400 €
Employees Chiado (monthly)	4.400 €	- €	61.600 €	61.600 €
- Employees Príncipe Real (monthly)	- 2.200 €	- €	30.800 €	30.800 €
Total		51.000 €	139.800 €	139.800 €

Table 2

The fixed costs are already calculated for each situation. The students, then, have to calculate the profit from sales for year 1, 2 and 3. For that they need the current monthly sales for each store (**Exhibit 28**). By applying the yearly 10% increase in Chiado's sales and the increase loss of 10% for Príncipe Real for the option of "Opening a 3rd store", we reach the total profit from sales for each year. And in the option of "Moving Store" they need to subtract the profit from sales of Príncipe Real that keeps constant, as Paez would lose the total profit from this store by having it closed (see **Table 3** and **Table 4**).

Opening 3rd store				
Profit from sales (monthly)	Year 0	Year 1	Year 2	Year 3
Sales Chiado	- €	25.300 €	27.830 €	30.613 €
- Reduction in sales Príncipe Real	- €	- 4.600 €	- 5.060 €	- 5.566 €
Total	- €	20.700 €	22.770 €	25.047 €

Table 3

Moving store				
Profit from sales (monthly)	Year 0	Year 1	Year 2	Year 3
Chiado	- €	29.900 €	32.890 €	36.179 €
- Príncipe Real	- €	- 9.200 €	- 9.200 €	- 9.200 €
Total	- €	20.700 €	23.690 €	26.979 €

Table 4

After this, we're ready to calculate the yearly cash flows for each situation, by subtracting the costs to the profits from sales (see **Table 5** and **Table 6**).

Opening 3rd store				
	Year 0	Year 1	Year 2	Year 3
Profit From Sales	- €	248.400 €	273.240 €	300.564 €
- Fixed Costs	- 75.000 €	- 97.600 €	- 97.600 €	- 97.600 €
Profit	- 75.000 €	150.800 €	175.640 €	202.964 €

Table 5

Moving store				
	Year 0	Year 1	Year 2	Year 3
Sales - Variable Costs	- €	248.400 €	284.280 €	323.748 €
- Fixed Costs	- 51.000 €	- 139.800 €	- 139.800 €	- 139.800 €
Profit	- 51.000 €	108.600 €	144.480 €	183.948 €

Table 6

With the cash flows we can calculate an NPV to determine which of the options would bring more value to *Paez*, hence which of the options would be more worthy of investment. To compute the NPV, each cash flow has to be discounted to the present date with a discount rate of 10% (see **Table 7** and **Table 8**).

Opening 3rd store	
NPV	359.738 €

Table 7

Moving store	
NPV	515.225 €

Table 8

By this, we can conclude that the most appropriate option would be that of moving the store from Príncipe Real to Chiado as it would add more value to the company, thus being the one in which investing would be more intelligent.

- 5. How do you evaluate the decision of having opened their second store in Príncipe Real in 2013? Was the risk taken worth it? Would it have been better to go to Chiado in the first place? Discuss whether recent brands/companies have to take such risks or not. Is it essential to take riskier decisions in order to make a difference? Should a more restrained approach have been taken?**

In 2013 *Paez* decided to open a new store. They wanted to make themselves present at a centre of commerce, a place where there was a high influx of people shopping and passing by. They wanted to benefit from not only the visibility, but also of the benefits that come with being at one of these business clusters (Porter 1995).

The main commercial area in inner Lisbon is Chiado. It is the place where there are more concentrated stores having 43500 m² of occupied area for street commerce (see **Exhibit 19**).

When deciding where to open the new store in 2013, *Paez*'s partners considered going either to Chiado or to Príncipe Real. Príncipe Real was considered because it was an area that was being revitalized from a commercial standpoint. Efforts had been made to transform Príncipe Real into a new business cluster, a new area like Chiado; East Bank bought around 20 buildings in Príncipe Real in order to revitalize the area. But they had several differentiation factors from the already established commercial areas, such as Chiado; they had differentiated themselves by focusing on developing an entrepreneurial, trendy-chic area filled with Portuguese innovation. This was appealing for *Paez* because they fitted the profile and they wanted to gain advantage towards competitors by being associated to this new concept and to this new area.

When evaluating both options back in 2013, they addressed the situation as the following: either they differentiated by being involved in something new, something that was growing (see **Exhibit 7**), or they would go to a more certain option by installing their new store in Chiado, an already developed and well known commercial area.

Cooper, Dunkelberg and Woo (1988) stated that entrepreneurs often decide without considering the jeopardy their option may put them through. Even though they considered both options when deciding, they only perceived their risk as losing from not choosing the other option. They should have thought in advance about the decisions they would have to make if, in fact, Príncipe Real ended up not providing them the advantage they felt they were going to attain by opening their new store there.

This decision of engaging in this endeavour trying to attain differentiation by going to Príncipe Real, as seen, led them to a position where they were forced to open a store in Chiado after all. *Paez*'s partners didn't have the sensitivity to realize that the risk they were putting themselves through could have later consequences, they didn't approach the risk with the needed care because they faced it only as an option and not as risk (Low and MacMillan 1988).

After the situation occurred and taking into consideration that the experience with the store in Príncipe Real didn't roll out as expected, it is pretty clear that the best option was to go to Chiado. But although entrepreneurs have this uneducated approach to risk, it is important to denote that there were some barriers for *Paez* to go to Chiado in the first place. Going to Chiado was, in fact, the best option, but not only the rents were higher, which can be translated in a greater amount of cost on the long run, but also the fact that they were still a somewhat small company could harm them amidst such companies and brands that are represented there.

In the end it is important to evaluate the whole situation with a holistic approach and from an external standpoint. The problem in this decision making process by *Paez*'s partners wasn't exactly the fact that they made a bad decision and that now things went bad for them. The problem resides on the approach to risk that these decision makers took, it resides on the fact that they didn't consider all the opportunity costs and actual costs they would have to incur in, by choosing either option.

Entrepreneurs in general have to engage in risky endeavours. It is necessary to do so in order to thrive and to be able to attain the results they want. Busenitz (1999) says that to understand entrepreneurs' actions and decisions, one must not evaluate their risk propensity, but instead the lack of efficiency in their analysis, or ultimately the lack of analysis of the situations they're faced with.