



**Master's Program**

**Relations with Eastern Countries**

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**BUSINESS PLAN**

# **WALKING TO CANTON**

**Distribution project of a small Italian shoe company  
in the Guangdong Province (China)**

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Annex 1

# 1

## Abstract

"Walking to Canton" directly involves a small Italian shoe company from the Marche region, *Calzaturificio Marcos Srl*. It regards the research of a distribution channel in the Guangdong province of the People's Republic of China and aims to represent a sort of guideline for many other SMEs of the same sector who share similar strategic purposes.

*Calzaturificio Marcos Srl* is a ladies shoe factory operating in Italy, in the city of Civitanova Marche since 1955. For decades, the company has been present in many foreign markets, but until today no approach has been made towards the Chinese market.

Footwear companies represent 1,8% of all Italian enterprises, but contribute to more than 5% of the country's total trade surplus. When compared to other Italian sectors of productivity, the Italian footwear industry, despite its limited size in terms of employees and active number of companies, holds very significant value because, as we can see on table 1, each employee contributes to a greater and more efficient positive trade balance when paralleled to other sectors of the same area of productivity.

Year 2009	Footwear	Textile & clothing	Mechanics	Furniture	Food & Beverage	Total
No. companies	6.028	71.502	172.980	27.526	59.832	337.868
No. employees	82.907	443.334	1.445.755	189.590	438.315	2.599.901
Total Turnover	6.468	60.480	280.393	25.811	103.120	476.272
Exports (mln. Euro)	5.815	21.785	96.623	7.285	20.013	151.521
Imports (mln. Euro)	3.184	15.576	57.610	1.543	20.489	98.402
Trade surplus (mln. Euro)	2.631	6.209	39.013	5.743	-477	53.119

Table 1: The footwear industry and the other main *Made in Italy* sectors.

Source: ANCI Shoe Report 2011

We can conclude that these numbers highlight the efficiency of the shoe sector and the importance of its institutional preservation from foreign competitors.

The importance of supporting the Italian footwear industry with structured plans of action is not only a fact of protecting one of Italy's fashion heritages, but a fact of recognizing how much this sector is significant in the Italian economy. Despite the recent international crisis, Italy continues to supply great part of the high-end shoes in China, proving that the Chinese market represents a field of opportunities to be, at least, explored.

## 2

### Business context and company description

#### 2.1 Brief historical overview

Italy detains a well known tradition of shoe artisanship from the medieval age and is assumed to be one of the historical epicenters of shoe design.

Ancient civilizations from Egyptians to Persians used different types of footwear, mainly sandals, to walk, run, cover and protect themselves from cold and harsh weather conditions.

In Italy, France and England aristocrats wore decorative shoes and Monarchs such as Louis XIV and Henry VII introduced fashionable ones to hide their physical deformities and enhance their wealthy status, denoting that this product would have forever been part of a fashion sense and individuality.

In the year 1533, a pair of high heeled shoes was designed to lengthen Catherine de Medici's legs for her wedding at age 14. Shoemakers and cobblers evolved the concept of this product for no more than a simple commodity, and became a potential development of human creativity.



Over the centuries, Italian craftsmanship continued to develop, but it was only after the first half of 20<sup>th</sup> century that the first prototypes of industrialized manufactures were produced, mainly in north and central Italy.

## 2.2 Shoes' best economic environment

The Marche region represented nothing more than an agricultural and fishing area until the 50's, industrializing itself through the creation of hundreds of small workshops, often located in the house of the entrepreneur.

A wide and complex decentralization of the production chain, involving a significant part of the local population and the division of competences and functions, granted a systematic economic conversion.



The creation of thousands of small shoe plants strongly contributed to the economic development of towns such as Civitanova Marche, Montegranaro, Porto S'Elpidio and Monteurano. The high density of entrepreneurs fostered a widespread wealth and many successful cases such as Tod's, Paciotti's and Fabi's encouraged other business ventures.

The diffusion of this activity in the local economic environment inspired suppliers such as tanneries, heel, sole, shape and accessory manufacturers to create and develop their own ventures, generating a fair and competitive market.

The shoe district of the Marche region (mainly concentrated in the provinces of Macerata and Fermo) is one of the most important in Italy, along with the districts in Veneto and Tuscany (see Table 2).

Area	No. companies	% of italian companies	No. employees	% of italian employees
<b>Marche</b>	1.993	33	23.048	27,8
<b>Tuscany</b>	1.348	22,4	16.065	19,4
<b>Veneto</b>	979	16,2	16.332	19,7
<b>ITALY</b>	6.028	100	82.907	100

**Table 2 : main footwears producers in Italy (year 2009).**

Source: ANCI Shoe Report 2011.

On an industrial context, the recent global crisis has heavily affected local Italian enterprises, but the shoe industry stands strong and continues to occupy 1/4 of the regional GDP proving to be one of the main sectors of activity and source of employment.

Considering that Italy still represents the main EU "footwear factory" with more than 1/3 of the European production (see Table 3), it is correct to say that the Marche's shoe district is one of the most important production areas in Europe and conserves one of the strongest craftsmanship heritages in the world.

Country		2006	2007	2008	2009	Var. % '08/'09	Inc. % UE 27
<b>Italy</b>	Employees (thousands)	94,1	88,7	85,9	82,9	-3,5	29,2
	Production (mln. pairs)	244	241,9	225,2	198	-12,1	36,1
<b>Spain</b>	Employees (thousands)	33,5	30,7	29,1	27,3	-5,9	9,6
	Production (mln. pairs)	118,3	108,4	105,9	100	-5,5	18,2
<b>Portugal</b>	Employees (thousands)	36,2	36,4	35,4	34,9	-1,3	12,3
	Production (mln. pairs)	71,6	75,1	69,1	63,6	-7,9	11,6

**Table 3 : main footwear producers in EU 27 (years '06-'09).**

Source: ANCI Shoe Report 2011.

## 2.3 Calzaturificio Marcos: a general outlook

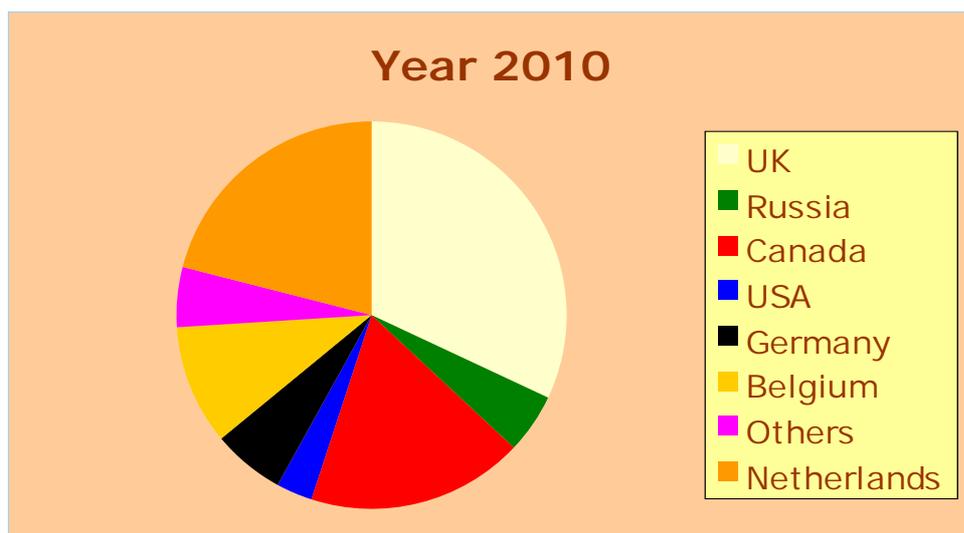
[www.calzaturificiomarcos.it](http://www.calzaturificiomarcos.it)

*Calzaturificio Marcos Srl* represents an example of this heritage, operating since 1955 in the city of Civitanova Marche through three generations.

# marcos<sup>®</sup>

*Marcos* is a prototype of the local entrepreneurial environment, for it is an enterprise capable of operating in many foreign markets regardless of its size or limited financial and managerial resources.

Supplying the foreign market has never been a temporary decision, but a strategic one. In 2010, supplying the foreign market almost in its total, Marcos achieved a 98% of total turnover: about 7 mln € (see Table 4).



**Table 4: Main countries of destination of Marcos' sales (years 2010)**

Source: Marcos Srl

***\*Others: countries located in Eastern Europe, Middle East and Oceania which have also contributed to successful sale experiences.***

Consumer trends in Italy show a volatility of purchase power when it comes to high-level fashion goods, but ironically Italian consumers appreciate less the “*Made in Italy*” added value than foreign customers.

Statistics on footwear products purchased by Italian families’ give an insight on how the Italian Market, despite its expertise and high fashionable taste, is low-price oriented (see Table 5).

Price category	% of products sold
Below 20 euro	42
20 euro - 50 euro	29,9
50 euro - 80 euro	14,6
80 euro - 100 euro	5,5
100 euro - 125 euro	3,6
Above 125 euro	4,3

**Table 5: Italian families' purchases for price categories (years 2009).**  
 Source: ANCI Shoe Report 2011.

## 2.4 Current marketing strategies: promotion

*Marcos'* approach consists of two main alternatives:

1 – The proposal of its own international brand – *Nalini* – for some markets such as Netherlands and Belgium, which are served by specific agents;



2 – Selling of the shoes to large retail shops in countries such as Canada, UK and USA, putting aside the brand recognition but maintaining the “*Made in Italy*” mark.

The first promotion strategy enables the company to limit its investments because in markets where the brand is directly present, advertising, sponsorship and public relations are handled by exclusive foreign agents who present and promote the company's collection in show rooms open to local buyers. As for the second promotion, *Marcos'* involvement is practically absent.

In both cases, the company provides certain customer care services such as the repair of a single pair of shoes (with demonstrated manufacturing faults).

The main investments on a promotion are dealt with the participation of the company in three international exhibitions, each one twice a year: in Milan (MICAM, the most important shoe fair in the world), in Belgium and in the Netherlands.



During these exhibitions the company presents its new collections (autumn/winter, spring/summer) to current and potential. Sometimes this phase is enough to gain clients' orders, or otherwise subsequent appointments are arranged and also held directly in the factory.

## **2.5 Current marketing strategies: product**

If investments on promotion manage to remain low, capital expenditures for the product's research and development are high and overriding.

R&D investments for a fashion firm deals with particular elements and tools such as the creation of new models and shapes, the optimization of the supply chain and the selection of materials and components which guarantee high performances and coherence with the initial design concept.



Although a globalization process is beginning to develop in this sector, fashion tastes still differ in each country.

Western and Eastern European customers, for example, generally appreciate different models and styles due to a distinct cultural process. After the collapse of the soviet bloc, Eastern populations quickly recovered their sense of individuality, overemphasizing their footwear with gleaming accessories and high heeled boots. Western customers have experienced many fashion transitions during the last 6 decades, causing them to appreciate an even bigger range of fashion products.

In order to strengthen the relationship with loyal and important customers, *Marcos* develops customized collections taking into consideration the relevant expectations and requests from different markets.



## 2.6 Current marketing strategies: price

Despite the mechanization process, shoes are still considered a labor intensive good, and labor is what determines the price composition. In Italy, about 60% of the *ex-work* price of a pair of shoes is represented by workforce expenses.

The "*Made in Italy*" added value guarantees remarkable standards of quality but faces high or sometimes prohibitive costs for skilled and unskilled workers. For this reason many medium and large sized shoe companies have either chosen to outsource some steps of the production chain or delocalize the whole working process, leaving in Italy only the commercial and design departments.



*Marcos* does not follow these business strategies, persisting and producing its entire collections in Italy, in its own plant in Civitanova Marche and in partner factories nearby when orders achieve a surplus. The average price remains high but the quality of design, materials and assemblage are well recognized by the final customers.

In the adopted promotion strategies, the agent's commission can raise the price from 5% to 12%, besides the cost of the participation in some specific exhibitions or any further promotion expenses, all comprised in the *ex-works* price.

## 2.7 Current marketing strategies: place (distribution)

As mentioned, the strategic choice of the company is focused on the foreign market, which implies that the European market, as well as Australia and China, must be supplied on schedule and in accordance to their different seasonal demands. Ensuring the delivery of the goods on time represents a strong success point for *Marcos*, since retailers need to have a relevant stock for each season.



### 3

#### The business idea: the distribution choice

➤ *Why choosing a distributor to enter the Chinese market?*

The traditional Chinese distribution system is an extended system characterized by multiple layers. Distributors handle products from suppliers across the entire country diffusing them to provinces and cities, and then on to local retailers.

Chinese based distributors have a lot of information regarding specific features of the shoe market in their country. They can help save time, and give correct orientations regarding the direct development and selling of the goods, securing profits and consolidating the brand in the Chinese market expanding the number of customers with low risk of capital loss.

Foreign exporters are identifying more opportunities to establish direct contacts with buyers and sellers in the country, which should also increase throughout the following years, But determining which Chinese enterprises or institutions should be dealt with is sometimes difficult, which gives preference to more time-tested distribution systems.

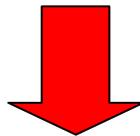
Thanks to the distributor's knowledge of the local retail system and in order to enter the Chinese market without taking too many risks and delegate a commitment, the initial choice is to deal with distributors.

## 4

### Company's brand and trademark in China

Companies deciding to enter the Chinese market should consider the country's linguistic barriers and institutional frameworks.

A great part of the Chinese population does not speak or read English, nor any other western language, therefore it is recommended to create a parallel brand name written in local characters.



The company's Chinese brand symbolizes a feminine and harmonious concept and is very easy to pronounce and remember. It is also important to point out the preservation of the *Made in Italy* mark in order to specify the origin of the product and increase its value.

The protection of the brand on a legal level is extremely important. Not only does it involve intellectual property issues (see chapter 6), but it helps maximize the brand's recognition in the local market.

## 5

### Team Management

The project's team management is composed of four complementary figures covering all business aspects of the company.

The General Manager, **Rafaela Marcondes**, is the coordinator of a team of local assistants and the main interlocutor with the company's owners. She is also responsible for goal achievements regarding the project and, thanks to a solid economic background from previous experiences in trade enterprises, manages the logistics (export of the shoes) as well as all financial and administrative functions.

The Product Manager, **Riccardo Achilli**, is responsible for all aspects concerning the shoe collections designed for the Chinese market, receiving and elaborating all feedbacks from Chinese sales and refining the fashion choices of the company's products.

The area manager, **Sandy Wang**, represents a crucial connection between Italy and the Canton Province, her place of birth. Her function is particularly important due to her high knowledge of the local market, international trade matters and Chinese customer perceptions.

The marketing manager, **Ekaterina Yuryeva**, is responsible for the promotion of the company and its products, directly supporting the job of the Area Manager providing detailed market surveys and competitor analysis.

# 6

## Intellectual Property Issues

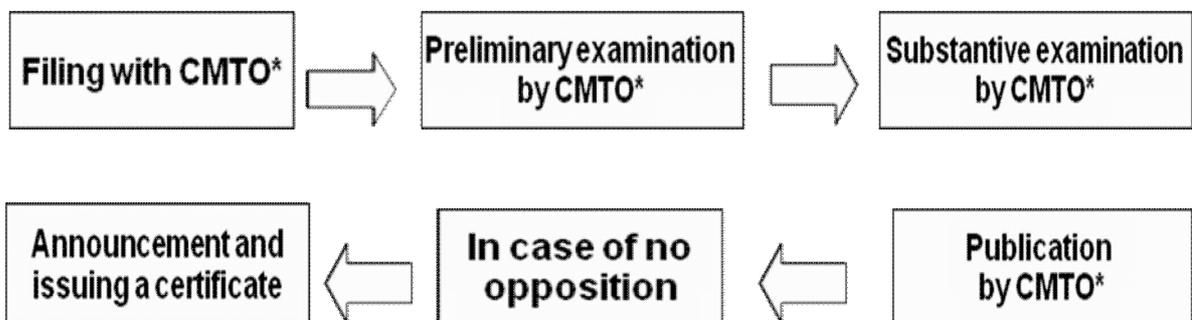
The legal framework for protecting intellectual property in China is built upon three national laws approved by the National People's Congress: the Patent Law, the Trademark law (approved in 1982) and the Copyright law.

According to the registration rule, only registered trademarks are protected in China, being valid for ten years starting from the Date of Registration and can be renewed indefinitely, each time lasting for ten years.

According to the First-to-File doctrine, the first applicant to file an application for the registration of a trademark will pre-empt all later applicants and has legal rights to forbid others from using the same or similar unregistered trademarks in China. The time range from the filing till its approval is approximately 15 to 18 calendar months in China.

Foreign companies, when registering a trademark in China are advised to use services of intermediary agents or organizations.

### 6.1 Trademark Registration Procedure



\* China Trademark Office ("CTMO")

# 7

## Market opportunities

### ➤ *Why China?*

China has been one of the world's economic success stories since 1978, when the reforms began. It is the most populated country in the world, averaging 1.3 billion people and represents one of the fastest growing markets today. Its economy grows at twice the rate of the world average and is set to be one of the largest markets for many imported products in the near future.

In terms of purchasing power parity (PPP), China is the world's second largest economy surpassing Japan and staying behind USA. With a GDP of \$9.872 trillion dollars (2010 est.), figures show that their GDP has grown an average 9% a year over the past 25 years.

China's entry into the World Trade Organization in December 2001 helped increase its integration in the world's economy. The WTO agreement consigned substantial reductions in tariffs, removal of non-tariff barriers and opened up sectors such as finance and services to foreign competition which created new investment opportunities and facilitated Chinese exports to major markets in the US, EU and Japan.

In order to promote a better sustainable growth, China has started to adjust its economic policies. A growing share of China's economic growth has been generated in the private sector as the government has opened up industries to domestic and foreign competition, though the role of the state in ownership and planning remains extensive. The current growth model and policies underlying it are concentrated towards exports and investment, with little emphasis on private consumption.

## 7.1 Guangdong province as a specific target

Guangdong is a province bounded by the South China Sea and is the southern gateway of China. It is one of China's most important industrial regions with one of the fastest growing economies and where people have a higher level of income compared to other regions.

Guangdong has topped the total GDP rankings compared to other provincial-level divisions of the country achieving the third highest GDP per capita among all mainland provinces after Jiangsu and Zhejiang.

The province contributes approximately 12% of China's national economic output and is home to production facilities, textile industries and offices of a wide-range of multinational and Chinese corporations.



Guangzhou, also popularly known as Canton, is located in south-central Guangdong Province, north of the Pearl River Delta. It is the largest city in South China and is considered to be the political, economic, cultural and travel center of the province, not to mention its transportation systems which are known for their efficiency.

It is the most important center of foreign commerce and is considered an "open" economic city and is the heart of the province, with a great range of manufactures. The capital contains a massive number of malls (TeeMall Plaza, China Plaza) and retail stores. Trade fairs in the

Guangzhou International Building provide easy access to top-notch products from all over the world. Guangzhou has hosted the China Import and Export Fair (Canton Fair) since 1957, twice a year.

The tables below give us an overview of the GDP of a few Chinese provinces.

Region / Year	2006	2007	2008	2009	2010
Guangdong	2596.9	3067.3	3569.6	3908.2	4547.3
Jiangsu	2154.8	2556.0	3100.0	3406.1	4090.3
Shandong	2170.0	2588.8	3107.2	3380.5	3941.6
Zhejiang	1564.9	1863.8	2148.7	2283.2	2710.0
Henan	435.6	1522.0	1820.0	1936.7	2200.0

**Table 6: Chinese province's top 5 GDP in the last 5 years.**

Source: China Economic Net

City / Year	2006	2007	2008	2009	2010
Guangzhou	606.8	705.0	821.5	910.0	911.9
Shenzhen	568.4	673.8	789.6	812.0	824.5
Foshan	302.5	358.8	433.3	490.0	565.1
Dongguan	262.5	315.1	379.3	420.0	424.6
Zhongshan	103.4	121.5	140.8	160.0	182.6

**Table 7: Top 5 cities with the highest GDP in the Guangdong province in the last 5 years.**

Source: China Economic Net

## 7.2 Chinese Consumerism

The current structure of China's consumer population is relatively top-heavy, with about 850 million rural peasants, and approximately 450 million urban residents. Urban populations are mainly divided into three consumer groups:

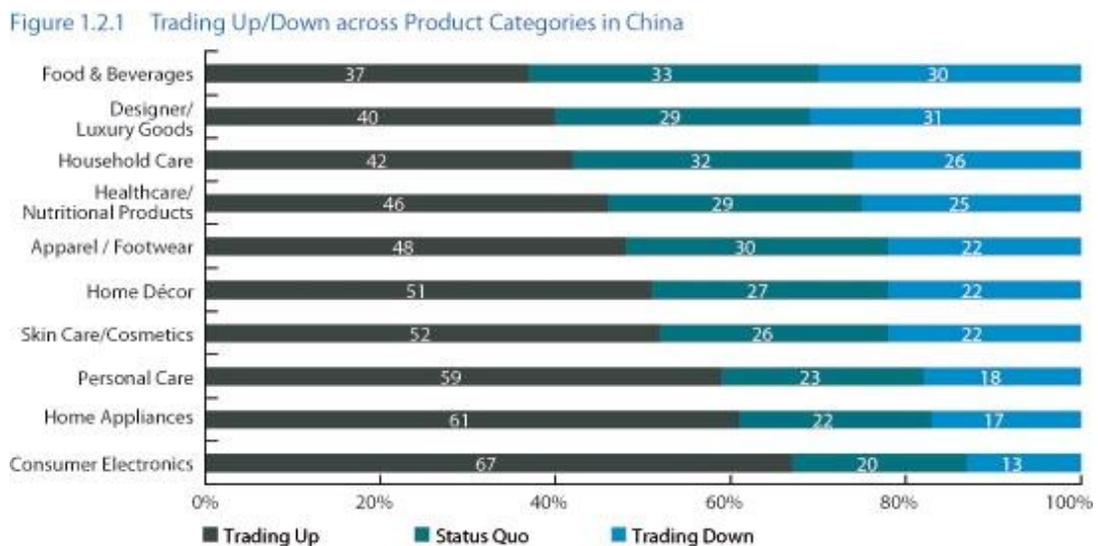
- 20 million – 30 million: business owners or decision makers ;
- 60 million – 120 million: white-collar workers;
- Around 330 million: salaried class.

As a result of China's rapid economic development, its demographic changes have increased a generation below 30 years of age and less prudent regarding consumption, compared to their ancestors who were taught to embrace the virtues of saving under the influences of the Cultural Revolution. Due to the country's one-child policy this new generation of Chinese consumers usually spend a larger margin and are constantly exploring the market for global trends under the influence of the internet and foreign media, tending to associate varying attributes to products that originate from different countries, for example, automobiles.

If taken into consideration, China is a country of extremes, and for this reason the generalization of the Chinese consumer is an intimidating and almost impossible task, due to an uneven distribution of income within the country. While most Chinese are living a poor lifestyle in the rural regions, across the country lies a growing group of wealthy Chinese.

### 7.2.1 Chinese Consumer's Behavior

The chart below represents a large scale survey across 13 Chinese cities, created by *The Boston Consulting Group's (BCG) Center for consumer insight in Asia* in the year 2007.



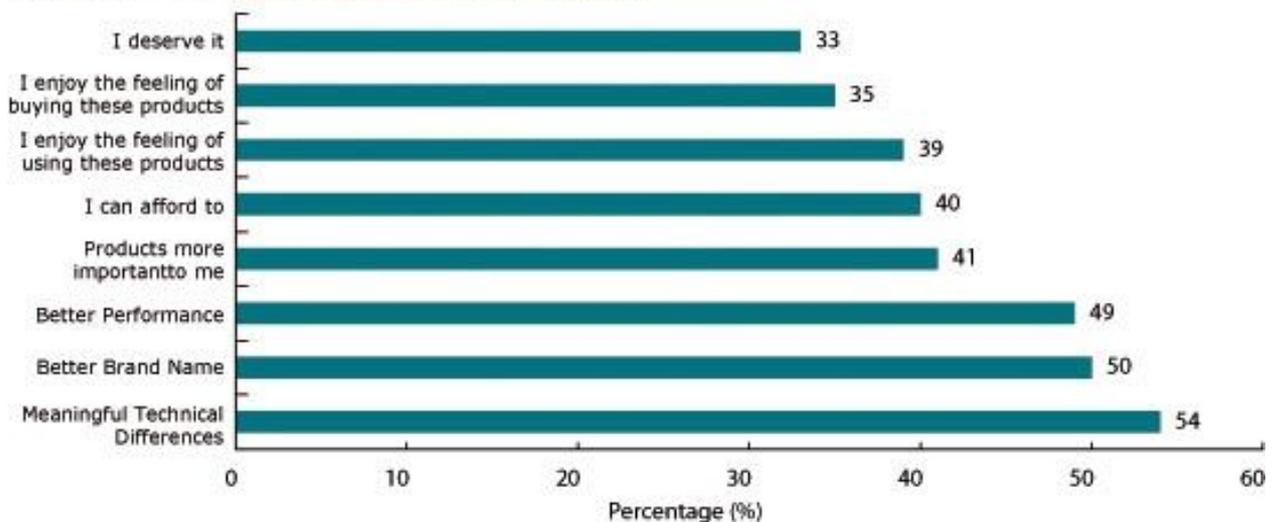
Source: BCG China Consumer Behavior Quantitative Research

This chart reveals some characteristics of the Chinese consumers, show that most Chinese consumers trade up, with the exception of those in Western China, due to the quantity of hypermarkets that offer value products at lower prices.

Consumers from 18 to 29 years of age demonstrated the strongest tendency to trade up, not due to a rising purchasing power, but to the willingness and desire of improving their living standards. The survey also concluded that most Chinese consumer's trade up for practical purposes and not for exclusivity or superficial emotional satisfaction.

The chart below illustrates the main reasons why Chinese consumers trade up.

Figure 1.2.2 Reasons Consumers in China Trade Up



Source: BCG China Consumer Behavior Quantitative Research

### 7.3 Marketing Analysis

Selling Italian shoes to represent high quality standards is a start, but as mentioned, the most important point to a successful export strategy is building a long-term relationship with new customers, a new market and a new country considering each different and specific detail of the Chinese market.

Although the Guangdong province is the industrial heart of China

and the presence of Chinese brand shoes are abundant, it shouldn't be too difficult to find customers that are capable of buying high quality products of a wide range and acceptable prices, if the products proves to be worth the catch.

In China, word of mouth recommendation has been observed to carry more weight than advertising mediums, with degrees of influence that differ between the regions. Seeing as how Italian shoes are known worldwide for their high quality standards in design and materials, especially for the leather, Calzaturificio Marcos has an advantage in the Chinese market granting the company good chances for consolidating and increasing its position in the market.

China imports large quantities of high-end shoes every year, and this figure grows continuously. Over the past few years, China has seen a steady growth in imported Italian shoes and today, Italy is its largest supplier of leather shoes (most active supplier from 2008-2010).

While holding the position as the largest shoe producer and exporter in the world, China is also one of the largest shoe consumers, consuming more than 2.3 billion pairs of shoes per year, standing at a domestic 22% of global consumption (annually), just behind the United States on the world's major shoe consumption list.

Recently, the annual average shoe consumption in China is less than two pairs per capita. Based on a recent estimate, the annual average shoe consumption per capita in China is expected to exceed 2.5 pairs. With this increase the average shoe consumption will surpass 3 billion pairs, witnessing an increase of over 30% compared to the current basis of 2.3 billion pairs. A quick analysis of these numbers makes it clear that the market has a huge growth potential.

## 7.4 Market Entry Mode

The Chinese market is complex and different therefore, it should not be viewed as a homogeneous unit. Each province should be considered as a separate market.

China's shoe industry has transferred from an era of comprehensive wholesale into an era of brand management, now focusing on higher quality, brand building, and upper-tier consumer levels.

With the fast growth of demand for mid-to-high-end shoes, foreign producers are eager to get a share of the largest shoe market in the world.

When deciding **how** to enter the Chinese market, foreign producers and distributors have quite a lot of options:

- Export Strategies
- Joint venture (JV)
- WOFE or local representative office;

Export strategies take two forms: Italian-based sales persons and Chinese based distributors, each method has its advantages and disadvantages.

Calzaturificio Marcos will enter the Chinese market through export strategies, which are often used by companies that seek a low risk method in order to do business in foreign countries.

The strategy chosen proposes an advantage to the company because it assumes low risks. Marcos will not make any capital investment in China, which allows the company to haul out at any point without losing a great amount of capital. Full control over the company's products, brands and technology is also an advantage. Another important reason for using an export strategy and choosing a competent distributor is that, due to cultural differences, Italians may not know how to socialize and build

relationships with Chinese customers.

As far as the disadvantages go, speculations are brought up that local Chinese distribution and sales partners may feel that the Italian company is not committed to the Chinese market, because the company can come and go at any point.

## 8

### Analysis of competitors

*Marcos'* first concrete purpose was mainly to develop good sales volume and ensure remarkable margins, but the hypothesis of a small company approaching such a huge and competitive market concerns the impossibility to make realistic forecasts on its initial impact on the market.

A realistic comparison with prospective competitors should be pointed out only after realizing the company's own potentialities. In general, competition in the Chinese shoe market falls into three levels:

- **First:** imported brands – mainly from western countries such as Italy and Spain, boast superior quality and brand image.
- **Second:** near-shore joint ventures – mainly from Hong Kong and Taiwan which take up significant portions of the middle market due to their financial and technological advantages.
- **Third:** local manufacturers – who work with relatively low-level technology and management structures, and battle on a price basis for mid-low level market presence.

Lower level market spaces are dominated by local manufacturers. Higher level niches are now being threatened as partnerships with leading international brands integrate better technology and management skills, creating local players.

As for the international marketplace, cheap shoes from south-east Asia, particularly from Vietnam, have had a large impact on Chinese shoe sales overseas, but the traditional price advantage of Chinese shoes is weakening, intimidating to reduce the export markets.

This market trend combined with a weaker demand due to poor global economic conditions, as well as policy oriented changes such as the

EU's decision to levy anti-dumping duties on Chinese shoes, have drastically altered local production and marketing strategies.

Strategically, as competition intensifies and profit is squeezed, large local brands will focus on first tier cities to occupy the height of the market, improve the brand image and expand profit margins. A massive construction and motivation process accelerated by the financial crisis have increased domestic outlet terminal resources, and significantly lowered the overall cost of opening shops. Competitive companies are now rushing to grab this opportunity in locations ranging from outlet terminals, to flagship shops, to start-up shops and shopping malls, without forgetting the virtual networks and on-line sales presence.

The tables below give us an overview on the main direct and indirect competitors.

Company Name	Belle	Daphne	Foshan Saturday	Kangnai	OTHERS
Founding Year	1992	1987	2002	1980	-
Ownership	Holding Co.,Ltd	Company Limited	Holding Co.,Ltd	Company Limited	-
Sales income	RMB 17.86 billion (Y2008)	RMB 4.7 billion (Y2008)	RMB 50 million (Y2008)	RMB 2.5 billion (Y2008)	-
Products Sold	Belle is the best seller of women shoes in China for 12 consecutive years	Ranks first nationwide in terms of sales volume in like products market for 12 years in a row.	-	Average sales price for Kangnai shoes in overseas market is EURO 70, the company produces over 9 million pairs of middle and high class.	-
Main Brands	Self-owned brands: Belle, Teenmix, TaTa, Staccato, BASTO, MILLIE'S, Joy&Peace	Self-owned brands:Daphne, Shoebox	Self-owned brands: ST&SAT, FBL, SAFIYA, MOOFFY, RIZZO	Red Dragonfly	-
Sales Areas	Mainland China	Mainland China, HK, Taiwan, Europe	Mainland China, HK, Taiwan, Europe, Asia	Mainland China, Taiwan	-
Market Share	19%	8,7%	0,87%	4,3%	67%

**Table 8: Main direct competitors**

Source: *China Shoe Market*. Market research report. ICE, July 2009.

Company Name	Li Ning	Anta	Hongxing Erke	361 Degree	OTHERS
Founding Year	1990	1994	2000	1994	-
Ownership	Company Limited	Company Limited	Company Limited	Company Limited	-
Sales income	RMB 669 million(Y2008)	RMB 4.63 billion(Y2008)	RMB 0.5 billion (Y2008)	RMB 1.31 billion(Y2008)	-
Products Sold	Sports wear, sports shoes	Anta brand sports shoes, clothes and accessories	Sports shoes, clothes and accessories	Sports shoes, clothes and accessories	-
Main Brands	Li Ning, AIGLE, ZDO	Anta	Hongxing Erke	361°	-
Sales Areas	Mainland China, HK, Asia, Europe	Mainland China, HK, Asia, Europe	Mainland China	Mainland China, Asia	-
Market Share	5,3%	19%	7,8%	12%	56%

**Table 9: Main indirect competitors**

Source: *China Shoe Market*. Market research report. ICE, July 2009.

## 9

### Customer value proposition

Upper class, high income females, admirers of Western and Italian style shoes between 25 and 55 years of age, willing to spend a considerable sum for fashion purchases are the company's main target.

The products offered are characterized by certified and sophisticated materials perfectly assembled together, with an elegant and fashionable design that is renewed every season.



# 10

## Marketing strategy: participation in Chinese exhibition

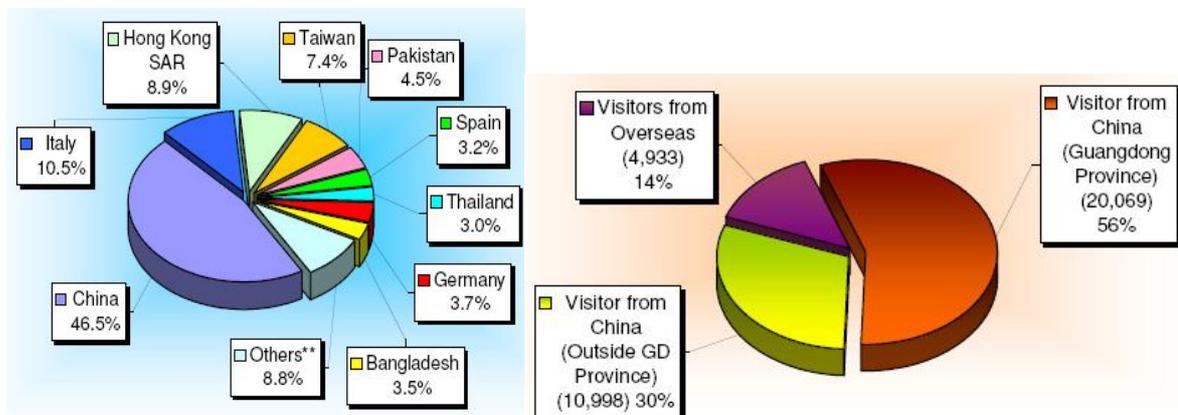
Participation in international exhibitions is a traditional marketing approach already used by *Marcos* in other countries – Germany, Belgium and Netherlands.

The most interesting shoe fair organized in the Guangdong province is IFLE, International Footwear & Leather Products Exhibition. In its last edition 875 exhibitors and 36.000 visitors joined the event.

The next edition will be held in 2012 from May 30th to June 1st in Guangzhou (China Import and Export Fair Pazhou Complex).



The participation in this exhibition could directly test the appreciation of the collections by the local buyers and could create a useful network for business strategies.



# 11

## S.W.O.T. Analysis

In general terms, *Calzaturificio Marcos* represents all the pros and cons of a small sized company aiming to approach a new foreign market.

However, in the case of China, further implications must be taken into account because in a big, competitive market risks could be more than opportunities and the expected goals could be unlikely achieved.

### 11.1 Strengths of the company

- 1 *Marcos* has showed **solid assets** and balance sheets in the last financial years. This situation allows the company to engage itself in a new project that does not require a huge amount of money but, at the same time, does not guarantee a secure and prompt return on investments, considering that the Chinese distributor's efficiency is not well predictable.
- 2 Supplying the foreign market means a **high experience in dealing with foreign customers** operating in different cultural and fashion contexts.



- 3 **Flexible collections:** *Marcos'* productions range from classic to sporty models, being able to catch a big share of the female footwear market. Considering that the Chinese context is already overcrowded by low and medium quality footwear, the company's purpose is to place itself on a high level of recognition.
- 4 The **high quality** of the product, the design, materials and assemblage represent a base for customer's satisfaction and the increasing awareness in China of the Italian fashion is an important driver to be exploited.

## 11.2 Weaknesses of the company

- 1 The **lack of managerial resources** capable of focusing their efforts on this project is one of the main obstacles for the final success of the project. Nowadays the company is wholly production-oriented, trying to develop its client network but doing it without structured plans of action.
- 2 Nowadays *Marcos'* daily production can ensure about 350 pairs of shoes. Counting all the other factory partners, about 600 pairs a day can be manufactured. These numbers highlight **limited supply potentiality** of the company in the short run. In case of an increasing demand *Marcos* could not reply proportionally.
- 3 It is well known how complex dealing with Asian partners can be due to **different cultural approaches**. Sharing any decision often requires a series of meetings which adds up to a waste of time.

- 4 The Chinese shoe market needs **customized products**: Asian feet have different physical formations, therefore new shapes should be designed and produced with all the relevant **additional costs**.
- 5 *Marcos' brand, Nalini*, is totally **unknown** in China, for this reason the promotion phase can be difficult in the beginning.

### 11.3 Opportunities of the market

- 1 **Rising income of local consumers**: the demand for high-end products is growing thanks to the rising income of Chinese consumers who are concerned with their quality of life, personal image and international styles of living.
- 2 **Growth of fashion awareness in China**: Chinese upper-middle classes have recently developed a western fashion taste, possible due to the fact that Chinese people are now working with a larger number of western colleagues in the multinational companies.
- 3 **Strong image and reputation of Italian brands**: this is confirmed by data showing that Italy supplies 50% of the high-end shoes, clothing and bags in China.



## 11.4 Threats of the markets

- 1 **Copyright protection** is the main issue. The so called *fake markets* operate without obstacles and, once a brand's fame is acquired and it's products are copied, these illegal markets cause considerable profit losses (even if they procure free promotion at the same time).
- 2 **Intense competition** with fast-growing manufacturers from south-east Asia (Vietnam, Indonesia and Thailand), this generates a concern for domestic producers altering the demand and pressuring the price.
- 3 **Long time for trademark acceptance** (15-18 months).

# 12

## Funding plan and return on investments

The alternative is to finance the project with private capitals of the company without any bank or institutional loans. All the expected expenses will be covered directly by the company or by the distributor in accordance to the distribution agreement (see Annex 1).

ACTIVITIES	EURO
<b>Creation of a collection for the Chinese market:</b>	
Design and production of no. 50 samples	21.000,00
Supply of shapes, leathers, components, accessories	4.000,00
<b>Procedures for trademark registration:</b>	
Pre-filing search	63,90
Trademark registration request	273,50
Registration certificate	42,60
<b>Participation in the Canton Exhibition:</b>	
Exhibitor stand fee (15 sqm)	3.550,00
Flights, accommodation, others expenses in Guangzhou (for 2)	2.230,00
<b>TOTAL EXPECTED COSTS</b>	<b>31.160,00</b>

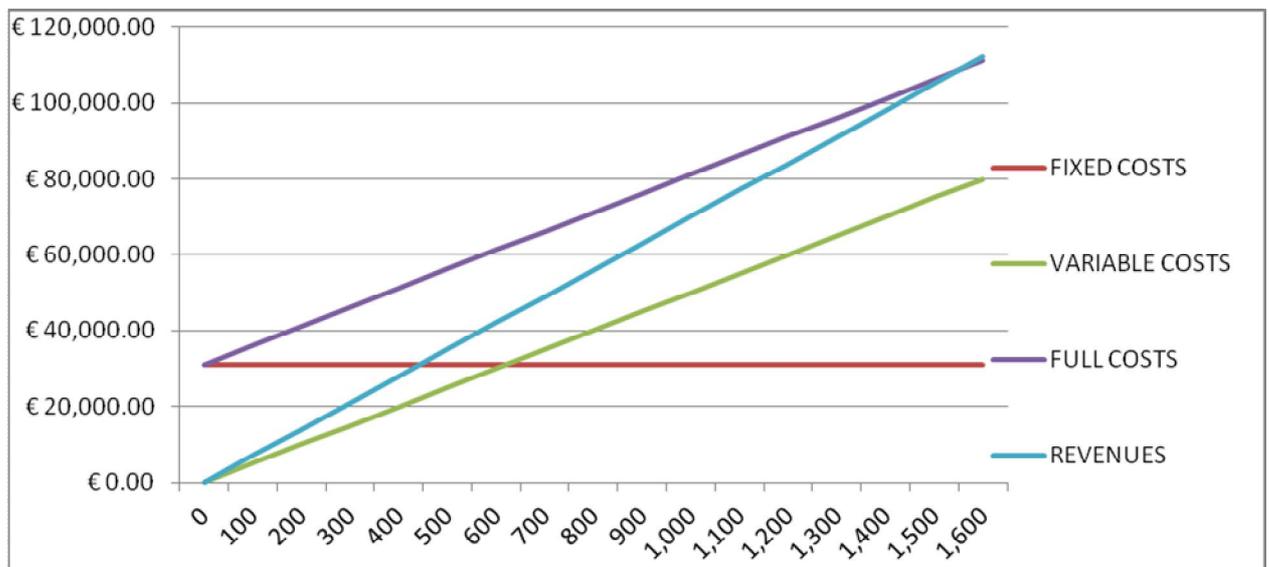
Table 9: Expected fixed costs in the period: july 2011- july 2012

Average boots price	86 €
Average shoes price	55 €

Average sneackers price	69 €
<b>Average foot-wear product price</b>	<b>70 €</b>

**Table 10: Approximate company's price list (ex-works):**

Planned actions from July 2011 to July 2012 and assuming € 31.160 as a fixed cost, € 70 as average unit product price and € 50 as average unit variable cost, the breakeven point would be reached selling a quantity of 1.558 pairs of footwear units (BEP revenues: € 109.060).



(unit price € 70 - unit variable cost € 50) = unit contribution € 20  
 (unit contribution € 20 : unit price € 70) x 100 = % contribution 28,57%  
 (fixed costs € 31.160 : contribution 0,2857) = BEP revenues € 109.060  
 (BEP revenues € 109.060 : unit price € 70) = BEP quantities 1558

## 13

### Work plan of the project

Activity		July 11	August 11	September 11	October 11	November 11	December 11	January 12	February 12	March 12	April 12	May 12	June 12	July 12
1	Business plan presentation and first brainstorming with the company'													
2	Evaluation of the business plan by the company													
3	Business plan approval by the company													
4	Evaluation and contact of the potential distributors in Guangdong													
5	Starting trademark registration procedures													
6	Identification of the best distributive solution													
7	Bilateral meeting with the distributor. If positive: sign of the contract													
8	Creation of the seasonal collection for the Chinese market in cooperation with the distributor													
9	First delivery of samples													
10	Promotion of the collection in Guangdong by the distributor													
11	If orders: start of the production (spring/summer collection)													
12	Participation in IFLE Exhibition													
13	Delivery of the goods													
14	Follow up with the distributor about sales and performances													

## 14 Summary

Every international project faces obscurities since it involves different actors and economic frameworks. For this reason forecast on the goal achievements are often difficult to be pointed out.

The success of the project would be strictly connected to the distributor's efforts, considering that its role is crucial in order to approach such a different and massive market.

Selling shoes in Guangdong, where one of the world's biggest shoe manufacturing base is located, seems unreasonable. But local consumptions have recently demonstrated higher incomes, demanding European and Italian brands.

The potential relationship between *Calzaturificio Marcos* and the Chinese distributor would prove, if successful, other investment possibilities in the local economic context in the medium run. A future project would be the opening of a shop in a top department store representing a primary sales channel in China's consumer culture, demonstrating an important commitment to the local market.

## **Annex 1**

### **International Exclusive Distribution Contract**

Between

***Calzaturificio Marcos Srl***

having its seat at Civitanova Marche (via del casone 10/A).

(hereinafter called "the Manufacturer")

and

.....

having its seat at ..., represented by ...

(hereinafter called "the Distributor")

IT IS AGREED AS FOLLOWS:

**1. Territory and Products**

1.1 The Manufacturer grants and the Distributor accepts the exclusive right to sell woman shoes, boots and sandals - made of leather uppers and leather or rubber soles - (hereinafter called "the Products") in the territory of Guangdong Province in the People's Republic of China (hereinafter called "the Territory").

**2. Distributor's functions**

2.1 The Distributor sells in his own name and for his own account, in the Territory, the Products supplied to him by the Manufacturer.

2.2 The Distributor has no authority to make contracts on behalf of, or in any way to bind the Manufacturer towards third parties.

2.3 The Distributor agrees to promote in the most effective way, and in

accordance to the general directions given by the Manufacturer, the sale of the Products within the whole Territory and to protect the Manufacturer's interests with the diligence of a responsible businessman. He shall especially set up and maintain an adequate organization for sales (and, where appropriate, after-sales service) with all means and personnel as are reasonably necessary in order to ensure the fulfillment of his obligations under this contract for all Products and throughout the Territory.

### **3. Undertaking not to compete**

3.1 Without the prior written authorization of the Manufacturer, the Distributor shall not, distribute, manufacture or represent any products which are in competition with the Products, for the entire term of this contract. In particular he shall not engage, within the Territory or elsewhere, directly or indirectly, acting as distributor, commission merchant, reseller, distributor, agent, or in any other way, for the benefit of third parties who manufacture or market products which are in competition with the Products.

3.2 However, the Distributor may market or manufacture non-competitive products (provided not for the benefit of competing manufacturers) on condition that he informs the Manufacturer in writing in advance (stating in detail the types and characteristics of such products), and that the exercise of such activity does not prejudice the punctual fulfillment of his obligations under this agreement.

### **4. Minimum purchase**

4.1 The Distributor undertakes to purchase, during each year, Products amounting to at least the minimum yearly turnover of Euro 150.000. Unless otherwise agreed, such turnover will be automatically increased by

10% every successive year.

4.2 If the Distributor fails to attain within the end of any year the minimum purchase in force for such year, the Manufacturer shall be entitled, by notice given in writing by means of communication ensuring evidence and date of receipt (e.g. registered mail with return receipt, special courier, telex), at his choice, to terminate this Agreement, to cancel the Distributor's exclusivity or to reduce the extent of the Territory.

## **5. Advertising and fairs**

5.1 The Distributor shall be responsible for all advertising necessary to promote the Products within the Territory. Such advertising must be in accordance with the indications given by the Manufacturer, in order to warrant that it conforms to the Manufacturer's image and marketing policies. Unless otherwise agreed, the costs of advertising are to be covered by the Distributor.

5.3 The Distributor shall take part, at his own expense, in the most important fairs and exhibitions in the Territory.

## **6. Conditions of supply - Prices**

6.1 All sales of the Products to the Distributor shall be governed by the Manufacturer's general conditions of sale, if attached to this contract. In case of contradiction between such general conditions and this contract, the latter shall prevail.

6.2 The prices payable by the Distributor shall be those set forth in the Manufacturer's pricelists as in force at the time the order is received by the Manufacturer with the discount indicated in Annex 4 (if completed). Such prices are subject to change at any time, subject to a one month's

notice.

6.3 Payment will be made, unless otherwise agreed, (i) by means of an irrevocable letter of credit confirmed by a leading Italian bank at least thirty days before the agreed term of delivery and cashable against shipping documents, or (ii) by delayed payment, provided adequate bank guarantees, covering the entire debt of the Distributor, are made available in advance.

6.4 The Distributor agrees to comply, with the utmost care, with the terms of payment agreed upon between the parties.

6.5 It is agreed that, the Products delivered remain the Manufacturer's property until complete payment is received by the Manufacturer.

## **7. Resale of contractual Products**

7.1 The Distributor agrees not to actively promote sales (e.g. through advertising, establishing branches or distribution depots) into the territories reserved by the Manufacturer exclusively for himself or to other distributors or buyers.

7.2 The Distributor is free to determine the resale prices of the Products, with the only exception of maximum sales prices that the Manufacturer may impose.

## **8. Manufacturer's trademarks**

8.1 The Distributor shall make use of the Manufacturer's trademarks, trade names or any other symbols, but for the only purpose of identifying and advertising the Products, within the scope of his activity as distributor

of the Manufacturer and in the Manufacturer's sole interest.

8.2 The Distributor hereby agrees neither to register nor to have registered, any trademarks, trade names or symbols of the Manufacturer (nor any trademarks, trade names or symbols of the Manufacturer that may be confused with the Manufacturer's ones), in the Territory or elsewhere. He furthermore agrees not to include the above trademarks, trade names or symbols of the Manufacturer in his own trade or company name.

8.3 The right to use the Manufacturer's trademarks, trade names or symbols, as provided for under the first paragraph of this article, shall cease immediately for the Distributor, on expiration or termination, for any reason, of the present contract.

## **9. Exclusivity**

9.1 Except as set out hereafter, the Manufacturer will sell, in the Territory, only to the Distributor. He agrees furthermore not to appoint in the Territory any distributors, agents or intermediaries, for the purpose of distributing the Products. He will however be free to send his personnel to the Territory in order to harmonize the Distributor's activities with his own commercial policy and to contact directly the customers of the Territory.

9.2 The Manufacturer reserves the right to make direct sales to the customers or categories of customers indicated in following agreements. On such sales the Distributor shall not be entitled to any remuneration.

## **10. Term and termination of the contract**

10.1 This contract enters into force on the date on which it is signed and will last for a maximum period of five years. Should it not be terminated before its expiry date, the parties will meet three months in advance in

order to discuss the possibility of concluding a new contract.

10.2 This contract may be terminated by either party by a written notice of one month within the first year of duration of the contract, two months during the second year, three months during the third year, four months during the fourth year and five months during the fifth year. The termination notice shall be notified to the other party in writing by means of communication ensuring evidence and date of receipt (e.g. registered mail with return receipt, special courier, telex).

## **11. Earlier contract termination**

11.1 Each party may terminate this contract with immediate effect, without respecting a period of notice, by notice given in writing by means of communication ensuring evidence and date of receipt (e.g. registered mail with return receipt, special courier, telex), in case of a breach of its contractual obligations by the other party, amounting to a justifiable reason for immediate contract termination (according to article 11.2) or in case of occurrence of exceptional circumstances which justify the earlier termination (as set out in article 11.3).

11.2 Any failure by a party to carry out his contractual obligations which is of such importance as to prevent the contractual relationship to continue, even temporarily, on a reciprocal confidence basis, shall be considered as a justifiable reason for the immediate contract termination for the purpose of article 11.1. The parties furthermore jointly agree that the breach of the provisions under articles 2.2, 3, 4.1, 6.4, 8 and 9 of this contract is to be considered in any case, whatever the importance of the violation, as a justifiable reason for immediate contract termination. Also the breach of any other contractual obligation which is not remedied by the breaching party within a reasonable term after having been invited in writing to do so by the other party, shall be considered as a justifiable reason for the

immediate contract termination.

11.3 Shall be considered as exceptional circumstances justifying the immediate contract termination: bankruptcy, any kind of composition between the bankrupt and the creditors, death or incapacity of the Distributor, civil or criminal sentences as well as any circumstances which may affect his reputation or hamper the punctual carrying out of his activities; moreover, if the Distributor is a company, any important change in the juridical structure or in the management of the Distributor Company.

## **12. Applicable law - Jurisdiction**

12.1 The present contract is governed by the laws of Italy.

12.2 The competent law courts of the place where the Manufacturer has his registered office shall have exclusive jurisdiction in any action arising out of or in connection with this contract. However, as an exception to the principle hereabove, the Manufacturer is in any case entitled to bring his action before the competent court of the place where the Distributor has his registered office.

.....  
(The manufacturer)

.....  
(The distributor)

The Distributor declares that he approves specifically, with reference to article 1341 of the civil code, the following clauses of this contract:

Art. 3 - Undertaking not to compete

Art. 4 - Minimum purchase

Art. 10 - Term and termination of the contract

Art. 11 - Earlier contract termination

Art. 12 - Applicable law - Jurisdiction

.....

(The Distributor)