ISCTE Business School
Instituto Universitário de Lisboa

BUSINESS PLAN FOR THE INTERNATIONALIZATION OF A PORTUGUESE FOOTWEAR COMPANY TO CHINA: JOSEFINAS

Luciana Martins Ribeiro

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Supervisor:
António Vieira da Silva, Invited Associate Professor - ISCTE Business School

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1. Summary

In the last years, Portuguese footwear presents a growth tendency due to the reinvigoration of the sector that permitted to improve not only the footwear quality but also the investment in stylish models. These changes allowed Portuguese footwear to be more than ever a success across borders.

Josefinas, a Portuguese footwear company, has the desire to internationalize its business and to share with the world, and specifically with the Chinese market, the art of the Portuguese footwear artisans.

This internationalization project has the main objective to create a business plan that will enable Josefinas to internationalize to China. After opening a physical store in New York, USA, and gained visibility in the American market, the company wants now to gain market share in China. There, the company is looking for cosmopolitan and fashion-conscious women with the desire of unique footwear.

This business plan will allow to understand the existing market opportunities for Josefinas in China, and the proposed approach in the development and implementation strategy. In the implementation plan, the emphasis in on the marketing mix, and in the necessary changes in the company's processes and operations that will allow this internationalization to happen. All the necessary changes will be evaluated in the company financials analysis.

Keywords: Business Plan, Internationalization, China, Footwear

2. Sumário

Nos últimos anos, o calçado Português tem apresentado uma tendência de crescimento que se deveu, em parte, ao rejuvenescimento do setor, permitindo melhorar não só a qualidade do calçado produzido, mas também o investimento em modelos mais apelativos. Estas alterações fazem do calçado português um sucesso além-fronteiras, sem precedentes.

Josefinas, uma empresa de calçado português, tem o desejo de internacionalizar o seu negócio e de partilhar com o mundo, e em especial com o mercado chinês, a arte dos artesãos portugueses de calçado.

Este projeto de internacionalização tem como principal objetivo criar um plano de negócio que permita à empresa internacionalizar-se para a China. Depois da abertura de uma loja física em Nova Iorque, nos EUA, e de ganhar visibilidade no mercado americano, a companhia quer agora aumentar a sua quota de mercado na China. Neste mercado, as Josefinas têm como target mulheres cosmopolitas, fashion e que procuram calçado único e personalizado.

Este plano de negócio vai permitir perceber as oportunidades de mercado existentes para as Josefinas e explorar a estratégia de implementação e desenvolvimento. A estratégia de implementação está focada no marketing mix da empresa e nas alterações necessárias aos seus processos e operações para permitir que a internacionalização seja possível. Todas as alterações necessárias foram avaliadas na análise financeira da companhia.

Palavras-Chave: Plano de Negócio, Internacionalização, China, Calçado

3. Executive Summary

Josefinas, a Portuguese footwear company, has the desire to internationalize its business and to share its footwear and its values with the Chinese market. This project has the goal to create a business plan that will allow Josefinas to internationalize to China.

In order to assess the feasibility of the project was necessary to do a reference framework to highlight the main problematics encountered in the literature review. The main focus was understanding the internationalization strategies and the company's main motivations to do it. Also, to acquire a better comprehension of the footwear business at a global pace; to have a better comprehension of the Chinese market and to assess the success factors and possible risks when working in this market; finishing, to outline the scope of the project, was necessary to establish the methodology of the project and to define what questions must be answered in the business plan.

In order to increase the knowledge about the country and to have an overview of the footwear industry in China, was necessary to do a PESTEL and a Porter Five Forces analysis. China is a developing country with a growing tendency and has one of the strongest economies of the world. Also, is the biggest exporter, producer and consumer of footwear worldwide. The footwear industry is very competitive but with a lot of unexploited opportunities.

It was also important to analyze the footwear market to obtain an overview of the main threats and opportunities. This analysis focused on the main trends of the market, most significant sales channels and, of course, the main players of the market.

After the external analysis, was fundamental to increase the knowledge about the company. An internal analysis allowed to know Josefinas deeply and to understand its history and values, and the motivations behind the foundation of the company. With this exploration and the analysis of the current marketing mix strategies of the company, it was possible to identify its competitive advantages and key capabilities.

The competitive analysis assessed opportunities for Josefinas in the Chinese market accordingly with its strengths and also had in consideration its weaknesses and the market threats. According to the desired customer target, was defined specific criteria that permited to select the portfolio of products to be export.

After the definition of the business plan's objectives was necessary to define the development strategy: how to enter in China, and the marketing strategy (segmentation, targeting, and positioning). We believe that Josefinas should enter the market through two different ways: an e-commerce platform and a multi-brand store.

The implementation plan focused on the marketing mix (product and price definition, distribution and promotion), in the necessary changes to implement in the technology and organization of the company. Also, was crucial to define the necessary adjustments in the operations of the company: increase of costs, increase of the production and necessary adjustments in the production team, warehouse and inventory restrictions, and the definition of the distribution strategy: how to send Josefinas products to China.

To conclude the business plan was necessary to do the financial evaluation of the project, with the profits and loss forecast, the balanced sheet analysis, and the cash flow description.

4. Description of the promoting entity and the proposal for innovation

Footwear produced in Portugal is more than ever a sign of quality. The increasing number of pairs of shoes exported year after year is the best proof of the success of the products "made in Portugal". Josefinas is a Portuguese footwear brand founded in 2013, that produces its footwear in Portugal and has the mission to contribute to a better world for women.

Josefinas wants to give to their customers a unique product, with the best quality and a differentiated design. The company values the quality of the product but also the style. The main distinguishing characteristic is the fact that it sells only footwear without heels, reflecting the brand's value of women empowerment.

The brand doesn't has a physical store and sells online through their own website at a worldwide level. Josefinas always looked for international markets, even opened a physical store in New York, and it's working to increase its international presence.

The interest of the company in Asian markets is high, but the huge cultural gap and the communication's difficulties with these markets became the penetration of the market a difficult task. Therefore, the market choice has in consideration this interest of the company. Josefinas is positioned in the luxury segment and wants to keep this positioning. Also, the firm wants to target in their audience independent women, tech-savvy, cosmopolitan and fashion conscious. According to these specifications, the country selected was China.

China is a country with a growing tendency, one of the world's largest economy, and the biggest consumer of footwear. It's the biggest luxury market in expansion and is a market where nowadays consumers are looking for differentiated products.

The proposal that is going to be presented it's an internationalization plan of the brand Josefinas to China.

In this context, Josefinas will enter the market by direct export and will sell its product through two different channels: an e-commerce platform and a multi-brand luxury store. Since China is the country with more internet users, it's fundamental to have an online presence, and since it sells a luxury product it is also important to have a physical presence in the biggest cities of the country: Beijing and Shanghai. The goal of the company is to target cosmopolitan woman, fashion lovers, with a significant income.

The production of the footwear will continue to be in Portugal, the company will ship directly to its partners the necessary number of pairs of shoes. The company will sell only some models of their portfolio. This choice was made according to the market trends and the target audience. The communication and promotion of Josefinas' footwear through the main influencers of the market and in the best fashion magazines will allow the brand to create a desire among the consumers for its products.

5. Literature Review

To be able to build a business plan that will allow Josefinas to internationalize their products it's necessary to understand a bit more about three main areas: internationalization, footwear, and internationalization to China. Internationalize their business is the goal of the company and that is the key to know what, how and why companies are doing it. Footwear is the product that the company commercializes and for that reason is important to know what the new market trends are, and what is the current state of the footwear industry worldwide. Also, since the objective of the business plan is the internationalization to China, is vital to understand what the Chinese market main trends are, what are the possible difficulties and risks in the internationalization process and what are the key factors to succeed.

5.1. Internationalization

5.1.1. Introduction

Internationalization is a thematic studied for the last decades that excites most of the companies who have the desire to cross borders and to have a presence in another country. After all, "exporting firms are more likely to survive than non-exporters with similar characteristics (Coucke and Sleuwaegen, 2008)" and there is a consistency in several findings about international firms where "firms involved in international activities are fewer in number, but bigger and more productive than other firms (J. Onkelinx and Leo Sleuwaegen 2010)".

5.1.2. Definition of Internationalization

It is important to clarify the internationalization concept. "According to Calof and Beamish (1995), is the process of adapting business operations (strategy, structure, resources, etc.) to international environments", "Welch and Luostarien (1988) agree that is a term that needs clarification. Is used to describe the outward movement in an individual firm's or larger grouping's international operations" and they define it as "the process of increasing involvement in international operations". "To Hollensen (1998), internationalization occurs when the firm expands its R&D, production, selling and other business activities into international markets."

5.1.3. Motivations of Internationalization (why?)

What drives companies to internationalize their business? There are different reasons, but according to "Czinkota (2012) in most business activities, one factor alone rarely accounts for any given action. Usually, a mixture of factors results in firms taking steps in a given direction“. An internationalization decision is not easily taken. “According to Buckley, (1989) businessman not only shy away from uncertainty; they also are not willing to take more than a certain degree of risk.”. This risk is even more a key aspect when an organization or their manager are not familiar with investments in foreign countries since they involve a considerable level of uncertainty that not all businessman want to assume. “Ckinzota and Roikainen, (2012) divide companies' internationalization motivations stimulus between proactive and reactive”. Proactive motivations are the ones influenced by the company willingness to internationalize their business. While reactive motivations are the ones that respond to changes in the business environment, forcing the firm to change.

5.1.3.1. Proactive motivations

The potential higher profit and margins coming from international sales are the strongest reasons why companies decided to internationalize their business. Likewise, when the company has a unique product or a special technology that is still not available in international markets or own an exclusive information, “knowledge about foreign customers, marketplaces, or market situations that is not widely shared by other firms (Ckinzota and Roikainen, 2007)” is more likely to enter foreign markets by holding an advantageous position over her competitors. It is also important to add other major motivation: scale economies and lower production costs.

5.1.3.2. Reactive motivations

The decline of a company's domestic sales due to the loss of market share to competitors may result in a reactive motivation as a way to overcome the situation and add another source of profit. This can lead to an unreasonable decision and bring more risk to the company. A saturated domestic market is also a motivation since the company can use markets abroad to extend the life cycle of their products. Another common motivation is overproduction. Foreign markets are the perfect way to discard high inventories, although this decision is usually seen by the host market as temporary and with lack of commitment.

The authors agree that “overall, the more successful international firms are motivated by proactive—that is, firm-internal—factors (Ckinzota and Roikainen, 2007)”.

5.1.4. How? Internationalization strategies

Entering a new market is an important decision for any company. If the firm has a strong motivation and already decided to do it, the following step is to consider the way of enter thoroughly. Not only where to go but also and more important, how to do it with the appropriate time and scope. Upon this subject several models were developed, and the best know is the "Uppsala model (Johanson and Wiedersheim-Paul, 1975, 1977, 2009)" but other approaches challenged this model, as the "theory of international new venture (Oviatt and McDougall, 1994)".

5.1.4.1. Uppsala Model

Johanson and Wiedersheim-Paul, 1975 and Johanson and Vahlne, 1977, a group of Swedish researchers developed an internationalization model, the "Uppsala model", based on their observations in four Swedish firms with "more than two-thirds of their turnover abroad and production facilities in more than one foreign country". The model distinguishes four different stages in an internationalization process, where each stage represents a higher degree of international commitment and information from the market:

1. no regular export activities
2. export via independent representatives (agent)
3. sales subsidiary and
4. production/manufacturing

According to the authors, companies start their expansion in countries with lower "physic distance", correlated with geographical distance but also with factors related with differences in culture, language and political systems. There is a connection between the market knowledge and the commitment decisions of the firm, the increase of the market knowledge will lead to an increase of the market commitment and vice versa. This knowledge is only possible when having operations abroad, and for that reason, the authors agree that is important to increase the commitment of the firm in a specific country and to establish new operations in other countries. In 2009, the authors reviewed the model and add two new concepts: liability of foreignness and liability of outsidership. According to them, a lot has changed since their first publication of the "Uppsala model". In this new paper, they assume the greater importance of networks and relationships in an internationalization process. According to them, if a firm doesn't has a relevant network, "will suffer from the liability of outsidership and foreignness and will be harder to become an insider".

5.1.4.2. Theory of International New Ventures

The theory of international new ventures arises from an incoherent phenomenon with the traditional models of internationalization. According to Oviatt and Mcdougall (1994), since the late 1980s the market witnesses the growing of "the establishment of new ventures that are international from inception [Brokaw 1990; The Economist 1992, 1993b; Gupta 1989; Mamis 1989]".

"We define an international new venture as a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries (Oviatt and Mcdougall, 1994)". In this definition, it is not important the size of the firms when they become international, but their age.

This type of firms countered the stage theory of internationalization. According to "Johanson and Vahlne (1990**)** firms with large resources are expected to take large steps toward internationalization. Second, when foreign market conditions are stable and homogeneous, learning about them is easier. Third, when firms have considerable experience with markets that are similar to a newly targeted foreign market, previous experience maybe generalizable to the new arena". New ventures contradict the three hypotheses since they have limited resources due to their young age and small size, their markets are very volatile, and usually, new ventures have little or no experience in any market.

5.1.4.3. Sprinkler and Waterfall strategy

Firms can also choose a sprinkler or waterfall strategy when entering new international markets. In other words, can choose between enter multiple countries at the same time or slowly enter one at a time. A sprinkler strategy is an option in which the firm has resources available and can benefit from scale' economies in R&D and manufacturing, being the "first mover" and maximizing sales and market share. "According to Kalish, Mahajan, and Muller, (1995), these are the market conditions that favor waterfall strategies: very long-life cycle of the product; small foreign markets; slow growth in the foreign markets; low innovativeness in the foreign market; high fixed cost of entry into the foreign market; weak or no competitors in the foreign markets and co-operative behavior among competitors". Sleuwaegen and Onkelinx (2010), state that by using a waterfall strategy firms can limit the investments and even reduce the company risk with new products launch. The choice between a waterfall or a sprinkler strategy is strongly influenced by the company management and their focus on sales or risk, since sprinkler strategy enhances sales' maximization with a highest risk while waterfall strategy "limits the risk of failure" but also decreases the potential of sales.

5.1.5. Market Entry Strategies

When a company decides to internationalize its business, is crucial to, first, decide which market to enter and second, the mode of entry. According to Helsen and Kotabe

(2014), they also need to decide the target product/market, the corporate objectives for this market, the time of entry, a marketing mix plan and a control system to monitor the performance. The choice of the market must be based on an assessment of the countries' potential of profit. According to Root (1994), a market entry mode is "an institutional arrangement that makes possible the entry of a company's products, technology, human skills, management or other resources into a foreign country". Firms need to analyze which one or which combination of entry modes is more suitable to their international strategy.

5.1.5.1. Exporting

It's by definition the entry mode chosen by the firms to enter new foreign markets for the first time. There are three types of exporting: indirect, cooperative and direct exporting (Helsen and Kotabe, 2014). Indirect exporting happens when the company uses a middleman to manage the exporting. In the cooperative exporting the company partner with another firm and use the partner's distribution network. When the company itself sets up its own export organization and do an agreement with a local distributor its direct exporting. Exporting has low entry costs and risk and allows to gain some international experience. On the other hand, the reduced level of control and the increase in the distribution costs due to transportation and rates are the main disadvantages.

5.1.5.2. Licensing

In a licensing agreement, the licensor grants the licensee permission to use a patent, trademark or other intangible property, receiving in return a royalty fee. It's a way to overcome import barriers and the internationalization risks are absorbed by the licensee. The partner should be selected carefully, and the contract must cover parameters like technology package, conditions of use, compensation and provisions for the settlement of disputes (Helsen and Kotabe, 2014). Additionally, the company should seek patent or trademark protection, to protect itself from the risk of opportunism by the licensee, which is the main inconvenient of this entry mode.

5.1.5.3. Franchising

In a franchising agreement, the franchisor sells the trademark of his business to the franchisee, who agrees to run the business according to strict rules and also to pay royalties according to its revenues. With franchising, firms can expand overseas and create a global presence quickly with minimum investment and risk. Also, with this entry mode, the franchisor can capitalize the franchisee's local knowledge. However, the franchisee's income is only a portion of what it could be and in some markets the concept is not well understood. For companies with little or no market recognition could be difficult to find interested partners.

5.1.5.4. Joint Ventures

In a joint venture, the firm agrees with a foreign company to share equity and other resources in order to establish a new entity in the host market. With joint ventures, the return potential is higher compared to other entry modes, the firm has a bigger control of operations, and the risk is shared. Besides, the firm benefits from the local knowledge of the host country. In some markets, where full acquisitions are not allowed, joint ventures could be the only viable option. The main disadvantage of joint ventures is the risk to lose control over the partner and becoming a competitor. Also, the shared ownership can lead to conflicts in matters such as strategies, objectives, resources allocation, pricing and ownership. According to Helsen and Kotabe (2014), to be successful with this mode of entry is important to choose a partner similar in size and resources with complementary skills that may lead to synergies and to establish clear objectives since the beginning.

5.1.5.5. Wholly Owned subsidiaries

In a wholly owned subsidiary, the company has 100 percent ownership. This full ownership can be done in two different ways: the firm either can set a greenfield venture, setting a new operation from scratch in the foreign country; or by acquiring an established firm in the foreign market. The main advantage of a wholly owned subsidiary is the full control of the operations. This benefit is even more important for companies with competitive advantages based on technological competences. Also, it sends a strong signal of commitment to the local market. This entry mode is usually the most expensive and risky, as firms need to do a high investment in a country with a different culture and with little or no knowledge of the foreign market.

5.2. Footwear

5.2.1. New Worldwide Market Trends

Over the last years footwear became a fast fashion item. Choosing footwear is not only a question of comfort and health but a mixture of quality and style. The main market trends that prompt the alterations lived in the sector will be analyzed in detail.

5.2.1.1. Lifestyle Changes

Footwear market is being motivated by the consumers demand for fashionable shoes. Lifestyle changes are influencing consumers' choices and they are now demanding stylish footwear. Consumers are influenced by what they see in influencers and want what they wear as soon as possible. The company Bata, one of the biggest global footwear retailer, is now focused in the fashion industry while trying to increase its market share. According to the company "fashion has the power to influence customers" (Shoe maker Bata banks on fashion trends for growth :: Kenya - The Standard 2018). The increasing number of working professionals with a formal dress code also has a positive impact on the demand for comfortable but fashion footwear, businesswoman and men that need to use formal outfits in their day-to-day also want to have an appropriate but fashionable option.

5.2.1.2. Increasing of the Disposable Income

The 2008 financial crisis and the global recession had a tremendous impact on all the economies around the world. Since 2017 the world is presenting strengthening signals, with a 3 percent global economic growth. "In 2017, global economic growth is estimated to have reached 3.0 per cent, a significant acceleration compared to growth of just 2.4 per cent in 2016, and the highest rate of global growth recorded since 2011. Labour market indicators continue to improve in a broad spectrum of countries, and roughly two-thirds of countries worldwide experienced stronger growth in 2017 than in the previous year. (United Nations 2018)". This increase in the GDP and the growth of the individuals' disposable income, with a special attention in emerging countries, positively affected the private consumption and the global footwear market.

5.2.1.3. Changes in the Feminist Scope

Women's choice of footwear is changing, women are still looking for fashionable footwear but are giving more attention to their comfort and are now looking for functional and fashionable shoes. High heels have always been a symbol of feminine power and are usually associated with women sexuality. Despite these associations and symbols, new female consumers are claiming that heels shouldn't represent women, a direct manifestation of an emerging feminist movement and a higher concern with the women role in society. They should wear what they want to and feel more comfortable about it, with or without heels. Florie Hutchinson, a public relations specialist, claims to Unicode Consortium for an emoji of a royal-blue ballet flat, since three of the four emojis options related with women's shoes have high heels. This trend has been followed by fashion designers, according to The NPD Group, "the top growing women's silhouettes in the U.S. year-to-date through September include more comfortable options such as sneakers, slides, mules, and casual strappy sandals with low and mid heels ("Is the Ballet Flat the Best Choice for Next Shoe Emoji?," 2017)"

5.2.1.4. Demand for High Quality Footwear

The main raw material used in footwear production is leather. This choice is justified by the high quality of the raw material. It is no coincidence that the best footwear is made of leather. Its characteristics make it especially appropriate for footwear production, leather is breathable, strong, stretchable, it can be cut and shaped, insulates the heat and helps to regulate the temperature, and gives an elegant and stylish appearance. Footwear made of leather is usually more comfortable and durable and is therefore the favorite material of footwear consumers.

5.2.2. Footwear Sector Overview

It's important to have an overview of the footwear market in order to understand the industry behavior and the main players worldwide. Also, since this business plan is focused in a Portuguese company, is key to know the Portuguese overview too.

5.2.2.1. Worldwide

The footwear industry experienced big changes in global manufacturing and production over the last 20 years. The standardization and mechanization of production, the low barriers to entry and the improvements in transportation and communication, among other factors, resulted in an opportunity for developing countries to enter this industry. To maintain their competitiveness in the market, developed countries as Italy, Spain and Germany choose to focus in the production of high-end shoes and outsourced low-end production to developing countries, especially China and Vietnam.

According to APICCAPS (2017), worldwide production of footwear stagnated at 23 billion pairs in 2016, after an increase of 15% between 2010 and 2014. Asia is responsible for 86,7% (2016) of the world production. China remains the biggest footwear producer with 57% of the world production but with a slight decreased comparing with previous years. This reduction is caused by the increase in the production capacity of other Asian countries. India, Vietnam, Indonesia, Brazil, Turkey, Pakistan and Bangladesh reinforced their own share and continue to be the most significant markets in the footwear production.

Exports of footwear decreased by 6% in volume and 8% in value in 2016, after a positive trend in the last decade. China is the country with the highest exports rate 67.3% in 2016, although it continues to lose market (in 2012, accomplished 73.7%). Europe represents, in 2017, 13.5% of the world exports. Regarding imports, Europe is the leader, with more than a third of the world imports (36,9%). Asia is responsible for 25,6%, followed by North America with 23,9%, in 2016. The United States of America is the number one country in footwear imports.

Concerning footwear consumption, Asia achieved a new record with 54% of consumption share in 2016. China remains the number one country with a 18% share, followed by India, Indonesia and Japan.

5.2.2.2. Portugal

According to APPICAPS, in 2016 Portugal produced the highest number of shoes for the last ten years, 82 million pairs, which represents an increase of 4% versus the previous year and an increase of 32% versus 2010. The Portuguese footwear cluster is geographically concentrated in the north of Portugal, mainly in Felgueiras, Guimarães, Santa Maria da Feira, São João da Madeira, and Oliveira de Azeméis. The companies have mostly less than 50 employees. The footwear industry in 2016 exported 1.9 billion euros, setting a new record. Footwear exports have increased 56% in the last seven years. Three-quarters of the Portuguese exports are absorbed by European countries such as France, Germany, Spain, The Netherlands and The United Kingdom. Over the last few years, Portugal footwear sector tried to diversify the exports and decrease the dependency on Europe. The process has been slow but in 2016 the European continent absorbed 90% of the exports, a decrease of 5% since 2006. This exports' tendency is due to the fact that Portugal produces mostly middle and "top-of-the-range" leather footwear with a business model based on a quick response to costumers. Hence, Portuguese companies find competitive advantages in the closest countries that. In distant markets, this advantage is lost in terms of logistics and transport costs.

5.3. Internationalization to China

This chapter will focus on the internationalization to China. In order to increase the possibility of be successful in the Chinese market, companies need to be aware of the main market trends and how to leverage them. The focus on the luxury market is crucial since it will be the segment addressed in the business plan. It's also important to know what the key factors of market success are and to be aware of the main difficulties/risks.

5.3.1. Chinese Market Trends

5.3.1.1. Importance of E-Commerce and O2O channels

In recent years, China was witnessed a huge development of e-commerce and is the largest and most innovative e-commerce market in the world. This trend caused the perish of some traditional retailers in the sector. In fact, e-commerce enables international retailers to enter the Chinese market easily through online business. Being China the biggest social media market in the world and the Chinese "mobile-first" consumers, it is expected that mobile increases its importance. PWC's Total Retail 2017 survey reveals that "52% of Chinese consumers shop using their mobile/smartphone on a weekly or daily basis, as compared to 14% of consumers globally".

The most recent trend in e-commerce, according to (Cheng 2017) is the merge between online and offline channels (O2O channels). Many retailers used the growth of digital platforms as a way to motivate consumers into physical (offline) stores. According to PWC's Total Retail 2017 survey, 52% of Chinese consumers shop online versus 46% that shop in-store on a weekly or daily basis. One of the strategies used is to allow consumers to buy the products online but to collect them in one of the brand stores, creating opportunities of upselling and cross-selling.

5.3.1.2. Luxury Market

According to Bain & Company in their "2017 China Luxury Market Study", the country sales of luxury goods grew 20% in 2017 (Company 2017). Boston Consulting Group estimates that Chinese consumption of luxury goods will drive 70 percent of the growth of the luxury sector. The importance of China in the luxury market is tremendous. In 2016, according to McKinsey & Company, Chinese spent $7.4 billion in luxury goods nearly "a third of the global luxury market". The agency predicted that in 2025, Chinese consumers will account for 44 percent of the total market. The number of Chinese millionaires is estimated to be the highest in the world by 2018. The market growth has been granted by new consumers: Millennials[1]. In the Bain & Company report, the agency states "they start purchasing luxury at an earlier age and buy more frequently. Millennials are digital savvy and very knowledgeable about luxury (Company 2017)".

In order to target millennials, luxury companies are now looking for new strategies. "According to Nancy Liu, CEO of Forevermark Asia Pacific, "many millennial consumers in China are looking for a fresh, exciting and seamless retail experience, so the biggest challenge is to offer them with a unique consumer retail experience" ("De Beers Diamonds Mines a Younger Clientele in China | Jing Daily," 2018)". This new group of shoppers is deeply influenced by social media and prefers to buy their products through digital channels, declining the personalized in-store experience, traditional in this sector. To be aligned with this new trend, some luxury brands are now communicating with their customers through social media "WeChat", working with celebrities and

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[1] Millennials were defined as 20-34 years old, born between 1983 and 1997

influencers to promote their products, and investing in new distribution channels. JD.com and Alibaba, the two biggest online retailers in China, recently created online platforms focused on luxury buyers. With "Toplife" by JD.com, the company promises same day or next day delivery by a courier wearing white gloves. At the same time, Alibaba created in Tmall the "Luxury Pavilion" club, where it gives access to exclusive events with celebrities and unique promotions.

5.3.1.3. Demand for quality and stylish products

The Chinese are now demanding products with higher quality and are willing to spend more money on them. According to Nielsen Retail Sales data study, "60% of respondents say they are very willing to pay for premium products that have high quality and safety standards ("Nielsen: Premium Products Are Boosting in China," 2017)". With the increase in the purchasing power, the Chinese middle class are now demanding products that express their individual taste and style. In a country where status assumes an extreme importance, more than 50% of respondents say that buying premium products shows to others that they have good taste and success. Chinese are more "western" than ever. Chinese consumers perceive western products as having higher quality and as a sign of elegance and prestige in society.

5.3.2. Key Successful Factors

5.3.2.1. Understand the Chinese market

China is a diverse country with major differences from western countries, but the biggest challenge is the differences in the market itself. Each region has its own characteristics, with more than 56 different ethnicities and a mixture of tradition and modernity. In addition, cities are divided into tiers. Tier one includes Beijing and Shanghai; tier two cities as Chengdu, Hefei, and Hangzhou; and in tier three, several smaller cities. The country should not be seen as a whole, companies need to consider the target customer and adapt their strategy to the consumer behavior, e.g. minimum wage differs a lot in cities from tier one to tier three.

5.3.2.2. Find a local Partner

There are several entry barriers in China, that's why finding a reliable local partner is advised. A partner will have the connections, access to a business network, will have a better understanding of cultural and local regulations, and will help to avoid common difficulties and to adapt to the market faster. It is important to define the terms of partnership and to protect the intellectual property in order to avoid future misunderstandings and issues with the partner.

5.3.2.3. Adapt the product and the communication

When internationalizing to China, many companies believe that the only adaptation they need to do in the product is the language. But most of the times it's not enough. Firms shall examine whether the brand name is appropriate for the market or if a translation is needed. It is also essential, to adapt the marketing channels and the brand communication, in order to follow the country norms and regulations and meet consumer needs.

Adjusting the channel to the target is key to have a strong presence in social media. Facebook is blocked in China, and to be able to reach local Chinese, companies must use the local platform WeChat. Instead of Youtube should be used Youku. In China Google is blocked too, so companies need to build a presence in Baidu.

5.3.2.4. Use local platforms

If the company wants to sell their product online and already have their home country platform, is not recommended to bring it to China, since most probably it will be necessary to change it. In the Chinese market, there are some of the largest e-commerce platforms in the world as Taobao, Tmall or JD that are specialists in setting up and prepare all the infrastructure needed for a company to sell online, with the advantage that locals are already familiar with the system.

5.3.3. Difficulties/Risks in the Internationalization to China

5.3.3.1. Internationalization process

China continues to be seen by general companies as a market with high potential and a lot of opportunities, especially with the growth of middle class. However, it is not an easy country to enter and before doing it is necessary to understand that succeeding in China will involve a lot of time, research and investment. According to The World Bank, China ranks 78th out of 190 countries in the easiness of opening and running a business obeying with local regulations. About the ease of starting a business, The World Bank ranked China in the 127th. Despite the Chinese government effort to reduce the bureaucracy, is still necessary 11 procedures and an average of 30 days to open a business in Shanghai or Beijing.

When entering the market, the choice of location is a fundamental step and there are several factors that may affect the decision-making process. In China, there are different geographic areas with different levels of economic development: the Eastern coastal region is more developed than Western and Central regions. The North of the country is also known for its heavy industry, while the South is famous for the newer, dynamic and light industrial economy. It is also relevant to know that apart from these distinctions, there are special zones, where companies can benefit from several advantages: be part of a regional cluster with high-tech infrastructures and talent, tax and fiscal incentives, less bureaucracy and credit facilities.

5.3.3.2. Cross Cultural risks

The decision of internationalizing a business has some risks associated. One of the risks arises from the cultural differences between the home and the host country. To understand the biggest cultural differences between Portugal and China and to anticipate possible cultural shocks, two tools will be used: "The Hofstede Dimensions" and "The Culture Map".

Hofstede Dimensions

In order to understand cultural differences, Geert Hofstede conducted one of the most comprehensive studies on national values using worldwide surveys to IBM employees in 1967-73 and as a result, he introduced the Hofstede's Dimensions study (2001). The study initially has five dimensions but a sixth one was added to the model. According to Hofstede, these are the results for each dimension for Portugal and China.

China is the country with the highest score in power distance (80), hierarchies are present in all the relations and there is no defense against power abuse by the superiors. Society is taught not to aspire beyond their rank. Portugal is also a county where power distance is accepted (63), most companies are very hierarchical, power is concentrated in the CEO and subordinates expect to be coordinated by their boss.

China has a collectivist culture (20) where the interests of the group are the most important. Personal relationships prevail over the company. Just like China, Portugal is a collectivist society as well (27), with loyalty being a very important value in the society.

China is a masculine society, with a score of 66. Chinese society is success-driven, many Chinese sacrifice family relationships and leisure to work. On the other side, Portugal scores 31 in this dimension and is a feminine society. The keyword is consensus and excessive competitiveness is not appreciated. In general, Portuguese people, work "in order to live" and leisure is very valued.

China has a low score in uncertainty avoidance (30). Chinese people are comfortable with ambiguity and believe in the truth. The Chinese language is a perfect example of that, full of vague meanings that are hardly perceived by western cultures. In contrast, Portugal is one of the counties with the highest score in this dimension (99), maintaining rigid codes of beliefs and behavior and valuing safety.

Chinese culture is very pragmatic, with a score of 87 in long-term orientation dimension. People believe that truth depends a lot on the situation, context and time. On the other hand, Portuguese prefer normative thinking, pragmatic thought, and the majority have a focus in achieving results quickly.

China is a restrained society (24), which tends to be cynical and pessimist. Leisure time is not important, and all desires are well controlled. According to Hofstede, Portugal also has a restrained culture, but with a highest score than China.

"The Culture MAP"

In "The Culture Map", Erin Meyer designed an eight-scale model, focused in eight managing areas and explained how different cultures behave in each of them. By applying the "Culture Map" to China, will be easier to better understand their culture and reduce the cultural shock.

In the communication area, China is a high-context culture, meaning that messages are "both spoken and read between the lines (Meyer 2014)". When communicating with Chinese it is important not only to listen to what its said but also to pay attention to their body language. Sometimes the answer "yes" actually means "no", since they don't feel comfortable to say "no" to a client or a boss. For that reason, is preferable to ask open questions or, in case of doubts, to ask for clarification. High-context cultures don't feel the need to put the conversations and agreements in writing. Verbal commitments have a strong tradition and are a sign of respect. Write everything can be seen as a sign of lack of trust and will not be well accepted. Regarding evaluation and negative feedback, China falls into the indirect feedback, through a soft and subtle way, and mixing positive with negative messages. Criticisms are shared only in private.

Chinese culture values relationships and is fundamental to create a personal connection in order to build a business relation. The best way to create trust in business is taking the time to build Guanxi[2]. Guanxi is a Chinese concept that focuses in the importance of building a relationship with the person: to go out, to enjoy a meal, to make a friend is more important than the business deal itself. This type of connections take a while to be built and are the main reason why negotiations with Chinese take time.

Confucian societies, as China, are shaped by the harmony value. Arising from this background, the Chinese value the importance of saving "face", also known as "mianzi".

[2] (in China) the system of social networks and influential relationships which facilitate business and other dealings. (guanxi | Definition of guanxi in English by Oxford Dictionaries n.d.)

This concept explains that our flaws and failures shouldn't be exposed to others. The Chinese avoid confronting others in public when having different ideas or opinions to protect others "face" and keep the group harmony.

Regarding schedules, the Chinese are flexible. Punctuality is important and should be respected. However, there's not much planning since the Chinese culture is more focused on the present and how to deal with a specific matter right now than to plan or think about the future.

6. Reference table

The objective of this reference table is to present the main problematic encountered in the literature review. With this comprehension will be possible to highlight the main questions that will be important to answer within the business plan. It will be determinant to define the way of entry in the country, the appropriate strategy in order to overcome possible risks and difficulties and taking advantage of successful strategies already used.

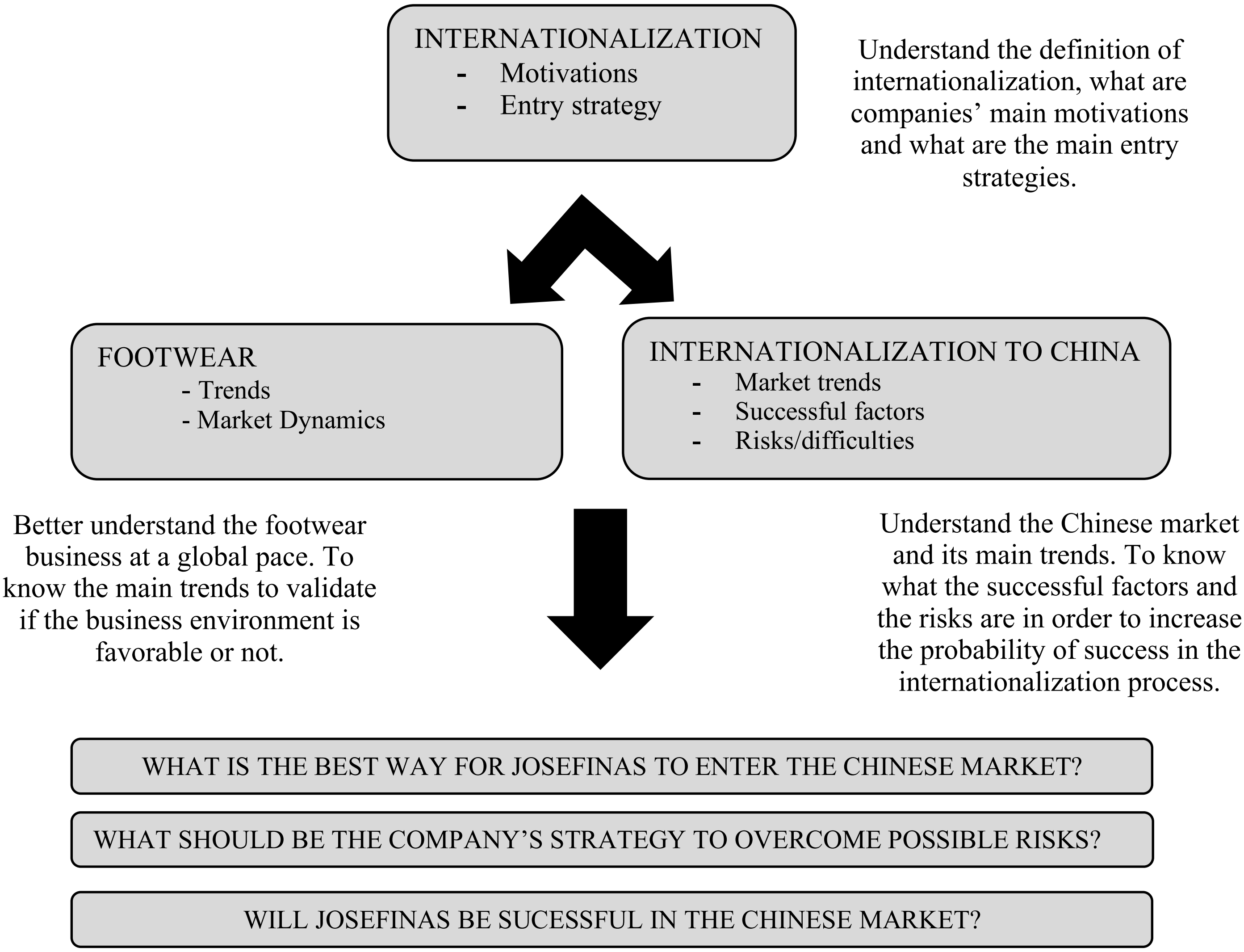

Figure 1 - Reference Framework (source: the author)

7. Methodology

In order to develop the business plan, there are several steps and activities that are necessary to do in order to know what it is the best strategy. All these activities will enable the answer to the business plan questions.

What are the questions that need to be answered with this business plan?

- What is the competitive advantage of Josefinas? Where does the brand differentiates from competitors?
- What can be the possible difficulties/constraints when entering the market and what can I do to succeed?
- Which strategy will be used to increase the possibility of being well received by consumers?
- Which resources do I need to have to implement my strategy?
- What are the main constraints to the implementation of the project?
- Can I expect to have turnover and profitability in the first year?

<u>Market Analysis</u>

It is fundamental to understand how the market environment is, and what the industry main characteristics are. Also, to know how the specific industry in the market is doing, what are the results in terms of value and volume, the main trends, the main sales channels, and the main players in the market (competitors).

<u>Identification of Josefinas competitive advantages</u>

It is necessary to know the company and understand the reasons behind the company's foundation. Moreover, to learn what are the brand main characteristics that differ it from the competitors. It is important to find the reasons why consumers will want to buy Josefinas products.

<u>Competitive analysis</u>

After understanding the main market opportunities and threats, and identify the company's core capabilities, it is necessary to understand if there are opportunities for the brand to be competitive in the market and to succeed among the desired target.

Definition of the proposal

Identification of the target and the brand's positioning in the market. It is essential to choose what are the products of the company that will strategically meet our target preferences. Also, to define how will the brand enter the market.

Implementation

In the implementation strategy there are several activities necessary to be accomplished, likewise:

- Build the product and price strategy;
- Define the promotion strategy and communicate the brand values with the customers;
- Understand and define how will be the value chain in the market and the distribution process of the products;
- To make all the changes needed in the actual strategy and organization of the company in order to implement the defined internationalization strategy;
- To make a financial plan in order to know if the investment will have profitability.

What will be the main research methods?

To be able to achieve the goals of the project and to tackle the research questions two main research methods will be used. The first one will be informal in-depth interviews with CEO of Josefinas, Maria Cunha. The alignment with the company is fundamental to have the maximum of accurate information. The second main source of secondary data will be information collection from already published relevant documents as books, scientific articles, thesis, journals, newspapers, magazines, publications, and websites.

8. China Market analysis

8.1. China PESTEL analysis

China (or People's Republic of China) is the world's most populous country located in Eastern Asia. With a rich culture and a past in which it was the leading civilization for centuries, China faced too many challenges in the 19^{th} and 20^{th} centuries due to civil wars, foreign occupations, and military defeats. After the World War II, the country lived in a rigid authoritarian socialism system lead by Mao Zedong. In order to recover China's sovereignty, his leader forced the Chinese to live in strict control which cost the lives of millions of them. After a long period of stagnation, Mao's successor, Deng Xiaoping and following leaders focused on the country's development.

Since the early 1990s that China has increased its participation in international organizations and its proximity to the most important countries of the world. The admission in the World Trade Organization (WTO) in 2001 was very important to the national economy but also to boost global economic growth. China is one of the biggest countries in the world and the most populous. Now, it is the leading exporter and one of the world's fastest growing country. Nevertheless, this important change in the economic field was not followed in the political sector. Chinese still live in a tight control under the Communist party, yet the living standards of the population have improved dramatically.

Official country name: People's Republic of China (PRC)
Capital: Beijing
Land area: 9.6 million sq. km (3.7 million sq. miles)
Population: 1,379,302,771 (July 2017 est.)
Population growth rate: 0.41% (2017 est.)
Main Religions: Buddhism, Christianity, Islam, Taoism
Main Language: Standard Chinese or Mandarin
Life expectancy: 75.7 years
Time difference: UTC+8
Climate: extremely diverse; tropical in south to subarctic in the north

Political

China lived under the Communist regime since 1949 under strict control by the head of the party, Mao Zedong. When he died in 1976, the party initiated a reform led by Deng Xiaoping and gradually removed itself from the private lives of the Chinese.

Nevertheless, still have a big control of their life, having influence in several aspects, such as what is taught at school, television schedule, internet restrictions and even the number of children by family (one/two child policy). The government influence in the country's economy is high as well, especially in sectors of greater importance to the country's economy, where state-owned enterprises are encouraged.

With a strong membership, the Communist party is one of the biggest political parties in the world with more than 80 million members. Since March 2013, President XI Jinping is the Chief of State, and the head of government is Premier Li Keqiang. Both president and vice president are elected by National People's Congress for a 5-year term (eligible for a second term).

The index of economic freedom[3] in China is 57.8 and the country risk rate is B (acceptable risk)[4].

Economic

Since the late 1970s that China moved from a closed economy to a market-oriented, with the implementation of several reforms and its participation in several international organizations. These changes result in efficiency gains and contribute to the increase of China's GDP over the years. China is the world's second largest economy by nominal GDP and the largest by purchasing power parity ($23.12 trillion, 2017 est), and in 2010 became the world's largest exporter. China GDP real growth rate was estimated for 2017 to be 6,8%. China is the country that holds the biggest amount of foreign exchanges reserves. For all the above reasons, China performs an important role in the economic and financial world scenario.

Despite this significant role, China still has some challenges. It remains with a GDP per capita (PPP) of $14,399 (2016) below to the world average GDP per capita (PPP) of $15,067 (2016). China is a developing country and its market reform is incomplete. In 2016, the percentage of population below poverty line (defined in 2011 at 2300 RMB, approximately US $400) was 3.3%, around 45 million people. They live mostly in rural areas.

China's official currency is the Renminbi (RMB), translated as "the people's currency". In 2005, China moved to an exchange rate system that had as reference a

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[3] Grades each country on a scale of 0 to 100, based on ten freedoms, with 100 representing the greatest amount of economic autonomy from government intervention. Heritage Foundation (2018)
[4] Political and economic uncertainties and an occasionally difficult business environment can affect corporate payment behavior. Corporate default probability is appreciable. Coface (2017)

basket of currencies, after keeping its currency linked to US dollars for some years.

Regarding international commercial relations, China is the biggest exporter of the world ($2.157 trillion in 2017) and the second importer, only behind United States of America ($1.731 trillion in 2017). Concerning exports, China main exported commodities are electrical and other machinery, including computers and telecommunications equipment, apparel, furniture, and textiles. The main export partners are US (18,2%), Hong Kong (13,8%), Japan (6,1%) and South Korea (4,5%) according to 2016 data. The most imported commodities are electrical and other machinery (including integrated circuits and other computer components), oil and mineral fuels, optical and medical equipment and soybeans. The most significant import partners are South Korea (10%), Japan (9,2%), US (8,5%), Germany (5,4%), and Australia (4,4%), according to 2016 data.

China is in the top 3 host economies for Foreign Direct Investment (FDI) inflows for several years, but in the recent years, China's outward FDI is becoming more and more significant too. In 2016, China was in third position with inflows of $134 billion, a slight decrease of 1% when compared to the prior year. Chinese outward FDI grows 44% to $183 billion and ranked the country in second position for the first time. In August 2017, the Chinese government introduced new guidelines for the types of outbound FDI that are encouraged, restricted or prohibited which may have consequences in the future outbound investments.

According to Coface, China holds a country risk assessment of BB. The country's risk refers to the impact that changes in the business environment in another country may have in the operations and business of the company. The Chinese growth will continue to be moderate in 2018 with a tight monetary policy by The People's Bank of China. Consumption (two-thirds of GDP) remained on target supported with a low inflation rate. The fiscal policy was very flexible in 2017. In 2018, authorities will alternate between accommodative policies and tightening to manage a gradual slowdown. At the beginning of 2017, Chinese financial account was in surplus for the first time in three years, due to strict capital control. Still, authorities will continue to work to avoid outflows and, at the same time, attracting more foreign investment. Chinese economy remains with a high debt. With more than 260% of GDP at the end of 2016, compared with 160% of GDP in 2008. Most part of this debt is owned by corporates, some of them state-owned.

China has a credit rating of A+ or A1, from all the main four credit agencies (Standard &Poor's, Moody's, Fitch and DBRS).

Social

In the late 1970's due to the unsustainable population growth rates, the Chinese government was obliged to introduce the one-child policy. A measure to reduce the country's birth rate and mitigate the population rate. This policy allowed each couple to have only one child, offering benefits to families that followed this rule. With this measure, China decreased its population growth to a minimum of 0.48% in 2010 and 2011, according to the World Bank. But it also had serious negative implications in the country's demography. Due to the traditional preference for boys, a high number of female babies ended up homeless, in orphanages or, in some situations, dead. Consequently, China's population is not balanced in terms of gender There are more men than women, causing the sex ratio in 2017 to be 106 males in 100 females in the total population. Moreover, the decreasing birth rate led to an increase in the relative number of elderly people and China is now one of the most rapidly aging countries in the world. In order to reverse this tendency, in January 2016 China's government changed the policy and allowed all married couples to have a second child two-child policy. Despite the increase of 1.3 million of births in 2016, numbers suggest that the reform failed its goal. In 2017, the number of births decreased compared to the previous year (17,23 million versus 17,86). The reduction of births will lead to rapid aging of the Chinese population and will also create a serious shortage of workers.

Technological

China is the country with the highest number of internet users in the world, with 772 million (2017). Of these, around 85 percent of users use mobile internet devices, mainly phones.

WeChat remains the most used app in 2017, with 85 percent of "netizens" frequenting the social network. The three biggest Chinese e-commerce companies are Alibaba Group Holding, JD.com and Tencent Holdings.

In the last year, China had a total of 527 million mobile payment users, an increase of 57.8 million versus 2016. The most used mobile wallet apps are WeChat Pay, Alipay and Apple Pay. According to China's State Council Information Office, in October 2017 the country's online payments transactions totaled 150 trillion yuan ($23.8 trillion), ranking first place in the world.

Despite the huge number of internet users, it is important to be aware that Chinese are restricted in the internet usage. A lot of worldwide websites, such as Google, Facebook, YouTube or The New York Times are blocked. Beijing is able to control internet content using an internet censorship system known as “Great Firewall of China”.

Environmental

The economic development of China in the past years had severe consequences for the natural environment. The demand for natural resources increased dramatically and the levels of water and air pollution grew considerable, making China the world’s leading contributor to global environmental problems.

The main contributors to China air pollution are manufacturing industries, cars, and coal-burning electrical plants. China is the world’s largest single emitter of carbon dioxide, due to the fossil fuels burning. According to China’s ministry of the environmental protection, in 2017 the quality of the air improved. The decrease of air particles, the favorable weather conditions, and the more aggressive enforcement of environmental rules promoted this improvement. Also, authorities had ordered polluting factories to leave Beijing and its surroundings and created “no-coal zones”.

According to the Institute of Public and Environmental Affairs, just 35% of the surface water had good quality, 32% is suitable for water supply, 20% is suitable for industrial or agricultural use, but not for human contact, and 13% is useless.

China has a history of intensive agriculture throughout the years. Due to this aggressive activity, a huge part of the country has been suffering from deforestation and loss of arable land.

Legal

China legal background is still a “work in progress” and remains challenging. The legal system of the People’s Republic of China is based on their Constitution and consists in a hierarchy of written law, regulations, and directives. According to the Constitution, political power is exercised by the people, through people’s congresses from the local, to the provincial and national level. The National People’s Congress (NPC) and its committee have the legislative function, in other words, the power to pass or decline laws on behalf of the state. The State Council has the executive/administrative function. It is responsible to issue orders, directives, and regulations and also submits legislative proposals to the NPC. The judicial function is assigned to the people’s courts at various levels, from the central Supreme People’s Court to local basic People’s courts.

When thinking about doing business in China, companies need to check if the intended activity is open to foreign investment or not. Foreign investment is approved by the Ministry of Commerce and the National Development and Reform Commission and the business registration is owned by The State Administration of Industry and Commerce. In China, all companies comprising foreign-invested enterprises received a business license to operate in a specific, and narrow area of business. For some sectors/activities it is required to have a Chinese partner (joint venture) and the maximum foreign shareholding in the business is also specified.

Since direct foreign investment is not allowed in the country, some activities are more encouraged by the government and have more favorable conditions than others. The foreign direct investments activities are cataloged in four different categories: encouraged, restricted, prohibited or permitted. Business activities not listed are considered to be permitted (no particular restriction). Restricted activities are the ones that are subject to higher levels of approval and analysis and may be denied by the approval authorities. Encouraged activities are presented to lower administrative levels and may benefit from lower taxes and other benefits.

To decrease the administrative work and promote a more liberal approach to foreign investment, China created Free Trade Zones (FTZ). In these zones, only activities in the negative list are approved. The others just need to be registered in the local government. There are four FTZ in China: Shanghai, Fujian, Guangdong, and Tianjin. Each free zone has its own characteristics and advantages, such as access to land and infrastructures, tax and fiscal incentives and proximity to talented people.

Import and Trade Regulations

Companies that choose to export to China have to fulfill its fiscal obligations. VAT on imported goods can have two rates, 17% for general commodities and the lower rate of 13% for groceries, grains, gas and other energy products for domestic use, books, newspapers and magazines, feeds, etc. Besides VAT, import luxury goods need to support other tax: consumption tax. This duty is applied to cigarettes and tobacco, alcoholic drinks, high-end cosmetics, skin and hair products, jewelry and precious stones, high-end watches, motorcycles, and motorcars, etc. Corporate income tax is 25% for both domestic and foreign-invested enterprises.

It is important to know that in China all the economic agents must be registered in customs authorities. Most products do not require an import license (except some categories), this license and the certificate of inspection, required for customs clearance, must be requested to the General Administration of Quality Supervision, Inspection and Quarantine of China (AQSIQ). Certificates of origin, requested by the importer, may be required.

The trade tariffs occurring in 2018 between China and the United States of America will have serious impacts in both countries and in the world economy. Since it is a recent situation, it is still not possible to anticipate the impact that will have in the world trade, but for now, it seems that Europe will not suffer a big impact.

8.2. Porter's Five Forces analysis

The Porter's Five Forces analysis provides an overall look of the Chinese footwear industry and allows a comprehensive understanding from a strategic perspective.

Threat of new entrants

The change in regulations made by the Chinese government in the industry allows new entrants and an increase in foreign investment. However, the legal environment of the country remains a challenge and the high levels of bureaucracy are still a barrier to new entrants. Also, the established big players in the market and the high entry costs reduce the threat of new entrants.

Bargaining power of suppliers

China is the biggest producer and exporter of footwear in the world, with the lowest production costs of the market and the biggest production facilities and expertise in the market. The high level of competition of the market aligns with an undifferentiated product, decreasing the bargaining power of suppliers. Undistinguished products are made by equal raw materials which allow buyers to easily change of supplier. The increase of buyers' power, by consequence, decrease the bargaining power of suppliers.

Threats of substitute products

In the Chinese market, low cost footwear is a high threat of substitute products. Also, domestic players are specialists to produce similar branded products (replicas) at a lower price. With low switching costs for the consumers, we can conclude that the threat of substitute products is high.

Bargaining power of buyers

The buyer power derivates from two main aspects: the buyer price sensibility and the existence of substitute products. In the Chinese footwear market, the product differentiation is low, the substitute products are many, and buyers are very sensitive to price changes. The use of promotions as a marketing tool has a great influence on the buyers' pattern of consumption. With lower switching costs, the bargaining power of buyers is high.

Rivalry among existing competitors

China is a huge market with a high level of competition due to the presence of several domestic and international players. The industry is facing growth during the last years and the competition between the big brands is increasing the competition. The high exit barriers due to the high investments intensify the rivalry. Therefore, we can conclude that the rivalry among existing competitors is high.

8.3. Footwear in China: Market Overview

China is the biggest producer, consumer and exporter of footwear in the world. According to Euromonitor, footwear sales in 2017 increased 5,5% year-on-year and accounted for RMB 381.9 billion on sales. Women's footwear was responsible for 48% of this result, while men's footwear reached 38% and children footwear was liable for 14%. This growth is a result of an increase in disposable income, along with the boost demand for higher quality footwear. The largest segments in volume and value are casual footwear and athletic footwear. The children's footwear segment is consistently growing since the introduction of the two-child policy, and in 2017 was the category with the highest growth.

Footwear market in China is divided in two big categories: non-athletic footwear and athletic footwear. In the first group are included leather shoes, leisure shoes, slippers and others. The leather category is more popular in eastern China due to the high number of office employees in the area that are now focused on style and design of the footwear. Since leisure is a concept that the Chinese value more than ever, the sales of stylish but comfortable footwear is increasing. The main consumers of these type of footwear are aged between 18 and 45 years old.

Athletic footwear comprises shoes conceived for the practice of specific sports as well as casual models. In the last years, this segment increased its sales because of the growing popularity of sports events and also due to the rising interest of people in their personal fitness lifestyle.

The demand for formal and stylish footwear is an opportunity to Josefinas since its footwear is comfortable, made of leather, suitable for formal apparel, and with several stylish options. Also, the company includes in their range of products several types of slippers, follow the new worldwide trends, very popular in the Chinese market too.

8.4. China: Value Chain

The Chinese market is very complex, with lots of different parties involved, such as manufacturers, distributors, sub-distributors, agents, wholesalers, and retailers. Many companies choose different models of supply chain or adopt a combination of them, to be able to distribute their product and reach the final consumer. Companies need to choose if they can support a directly-owned supply chain, ensuring a high control on the brand image and lower costs; or choose to work with third partners and take advantage of their networks already established. Until footwear reaches the final consumer, it needs to be produced, distributed and sold through retailers. In order to understand the main particularities of each phase of the supply chain in China, it is necessary to analyze each one in detail.

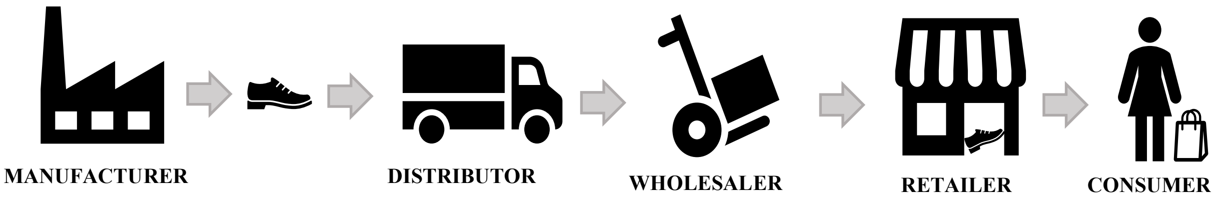


Figure 2 - Value Chain (source: the author)

8.4.1. China Footwear Manufacturers

In China, there are currently four major footwear industry clusters, located in the southeast coastal regions. The Guangdong region, which bases its production in medium to high-end shoes, Zhejiang (centered around Wenzhou and Taizhou) produces medium to low-end men's shoes, Chengdu and Chongqing are specialized in medium to low-end women's shoes and Fujian's industry focus on sporting shoes. Additionally, there are a vast number of domestic manufacturers who primarily serves lower-end market shoes. In recent years, many domestic producers started to develop their brand equity and in part, due to this development, the market share of domestic brands rose remarkably in 2016. Other causes of this growth were the mass-market pricing strategy and the expansion to less developed cities.

Most recently, a number of manufacturers started to sell their products directly to hypermarkets and outlets, as an alternative to single-brand stores, taking advantage of the small prices practiced there, and targeting middle-aged and younger consumers.

Despite the market opportunities, many manufacturers have serious concerns with the challenges coming from the Southeast Asia countries who have now better labor costs over China and also improved their resources, gaining some market over the last years.

8.4.2. China: Distributors and Wholesalers

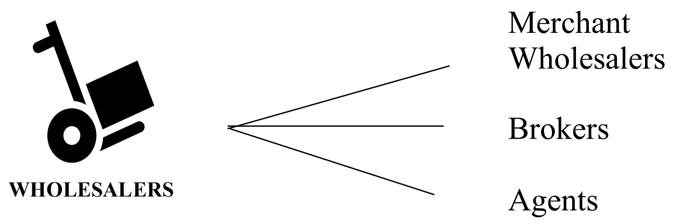


Figure 3 - China types of Wholesalers (source: the author)

Wholesalers are responsible to sell goods to retailers. There are three main types of wholesalers: merchants, brokers, and agents. Merchants are the main group of wholesalers. Brokers are responsible for the negotiations between buyer and seller, while agents represent the seller or the buyer. In some situations, they may need to acquire the products and to have an inventory, in others, they earn commissions according to their sales.

In China, wholesalers have an important role in the channeling of products from small manufacturers to rural and urban consumers. Many of the wholesalers have an online presence, while others use trade fairs to promote their products. The main websites in this segment are alibaba.com; hktdc.com; made-in-china.com. The main fairs take place in Guangzhou, Chengdu, Wenzhou, and Changchun.

8.4.3. China: Sales Channels

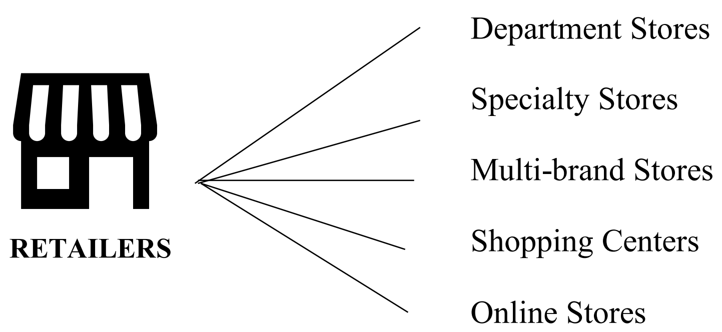


Figure 4 - China Sales Channels (source: the author)

In China, the most important retail channels are department stores, shopping centers, and specialty stores. Over recent years, the market experienced an increase of popularity in specialty and franchised stores due to their brand image, and to the quick and effective customer service. However, the growth of e-commerce platforms became more and more popular among consumers and made online sales the main retail channel for the footwear sector. This trend has caused the decline of some traditional shoe retailers. Belle company, one of the biggest women's footwear seller, started by having a decline in their profit in 2015 and 2016, due to its inability to have a successful presence online. Likewise, Daphne and Red Dragonfly Footwear felt this decline and both companies had to close several stores.

Online selling may have two different forms: companies setting up their own website and taking control of the entire operation and network; or companies may take advantage of the B2C e-commerce platforms.

In online channels, there are two companies that lead the market: Alibaba and JD.com. Alibaba group is a Chinese multinational company focused on e-commerce and online business and a provider of business to business, business to consumer and consumer to consumer marketplaces. Alibaba.com was the first business of the group and is the leading wholesale marketplace. For consumers looking to shop online branded products, Alibaba group launched Tmall, a third-party platform that allows Chinese brands and retailers to have an online store. Tmall was according to eMarketer, China' largest Business to Consumer marketplace (51,3% market share) in the second quarter of 2017. According to (Cheng 2017), 97% of Chinese online shoppers use this platform. It is important to notice, that consumers not only use the platform to shop but also as a search engine. Tmall's major competitor is JD.com, a Chinese e-commerce company with its headquarters in Beijing, JD.com differentiate itself from its major competitor and gain market share by managing his inventory and shipping directly to consumers. Besides Alibaba.com and Tmall, Alibaba group owns another e-commerce platform: TaoBao. TaoBao is a consumer to consumer marketplace that connects costumers, entrepreneurs, and small businesses. It's a place where merchants can sell their products by a fixed price or by auction but additionally provides a social element, consumers can communicate with each other's, make questions to vendors and also raise comments or concerns.

8.5. Footwear in China: Competitors

The level of competition in the Chinese market is high, as mentioned above in Porter's Five Force analysis. In order to analyze the market deeply, we will access who are the main players in the market.

In the segment of athletic footwear, the major market players are Nike, Adidas, Puma, Converse, Metersbonwe, Li-Ning, Anta, 361 degrees, Peak, CAN-TORP and XTep. The brands with the highest market share are Xtep, Adidas, 361 degrees international, Kappa, Nike, Anta Sports, and Li-Ning. Domestic brands as Xtep, 361 degrees, and Peak have been growing in reputation especially in second and third-tier cities.

In women footwear, the major market players are Belle, Teenmix, Tata, C-Banner, Staccato, ST&SAT, Harson, Basto and Le Saunda. When dividing the market according to the price segment, the major brands in women's footwear are the following: in the low-end price segment, the leading brand is Shoebox, from Daphne company; In the middle-end ST&SAT, Walker Shop and Daphne; in the middle-high segment the main brands are Ecco, Teenmix, Belle, Tata, Clarks and C.Banner; and in the luxury segment D&G, Ferragamo, Louis Vuitton, and Gucci.

These are the major companies in the footwear market, that are behind the key brands in the market:

Belle

Belle International is one of the largest retailers of women footwear in China, founded in 1991 in Guangdong. In 2017, accounted for a 12.6% of retail value share. The group business is divided into two main segments: footwear and sportswear & apparel.

In the footwear area, Belle applies a vertical model where is responsible for the research and development, procurement, manufacturing, distribution and retailing. The company owns the following brands: Belle, Staccato, Joy & Peace, Millie's, JipiJapa, Mirabell, Tata, Teenmix, Senda, Basto, SKAP, 15MINS, Map by Belle, and Fato. Besides the brands that the company owns, Belle Holdings still distribute several international brands under a brand licensing or a retail distribution: Bata, CAT, Clarks, Fitflop, Hush Puppies, and Mephisto.

In the segment of sportswear and apparel, the firm is a retail distributor of brands like Nike, Adidas, Puma, Converse, Mizuno, Moussy, and Sly.

Daphne

Daphne International Holdings is one of the largest women's footwear retailers in China, established in 1987 and listed on the Hong Kong stock exchange. Apart from its main brand "Daphne", a leader in ladies' footwear, the company distributes licensed brands on an original equipment manufacturer (OEM) basis as Shoebox, Arezzo, Sofft and Born.

Red Dragonfly

Zhejiang Red Dragonfly Footwear Co Ltd. is a China-based company manufacturer and distributor of shoes and apparels. Under their own brand Red Dragonfly. Its main products are women, men, and children footwear and leather goods as belts, wallets and handbags. The company main market is East China.

Yue Yuen

Yue Yuen Industrial Holdings is the world's largest manufacturer (original equipment manufacturer – OEM and original design manufacturer - ODM) of athletic and casual footwear for leading international brands such as Nike, Adidas, Reebok, ASICS, New Balance, Puma, Under Armour, Converse, Merrell, Salomon, and Timberland.

With its headquarters in Hong Kong and factories located in China, Indonesia, Vietnam, the United States, Mexico and other areas in Asia. It operates one of the largest retail networks of footwear in the China region through its subsidiary Pou Sheng International. The firm has more than 8000, directly and indirectly, operated retail outlets and franchised stores covering China, Hong Kong, and Taiwan. Also owns its own channel brand: YY-sports.

Anta

ANTA Sports Products Limited is the leader in sportswear market and designs, developing and manufacturing sports footwear and apparel. Anta was established in 1994, is listed on the on the Hong Kong Stock Exchange and has its headquarters in Jinjiang, Fujian. It has 600 Fila retail stores in China and 7000 ANTA shops. ANTA was the official supplier and sponsor of Chinese team for several years included Rio Olympics 2016. Recently, was been appointed as the official sports apparel partner for the 2022 Winter Olympic Games in Beijing.

Li-Ning

Li-Ning Company is one of the leading sports brand companies in China, founded in 1990 and with the headquarters in Beijing. Provides sports goods as footwear, apparel, equipment, and accessories. Under the brand LI- NING, the company is responsible for their marketing, research & development, design, manufacturing, distribution and retail. With the slogan "Anything is Possible", LI-NING has more than 6000 stores and is also present in sales corners in multi-brand stores. (LiNing n.d.).

9. Josefinas Internal Analysis

9.1. Company Fact Sheet

JOSEFINAS
PORTUGAL

LOCATION: Braga, Portugal

ESTABLISHED: 2013

COMPANY SIZE: less than 10 employees

Type of company: Society

Specializations: Luxury goods, women's shoes, ballet flats, sneakers, women empowerment e luxury

MISSION & VALUES

"To contribute to a better world for women"

Costumer Wow

Savoir Faire

Women Empowerment

CEO
Maria Cunha

KEY METRICS

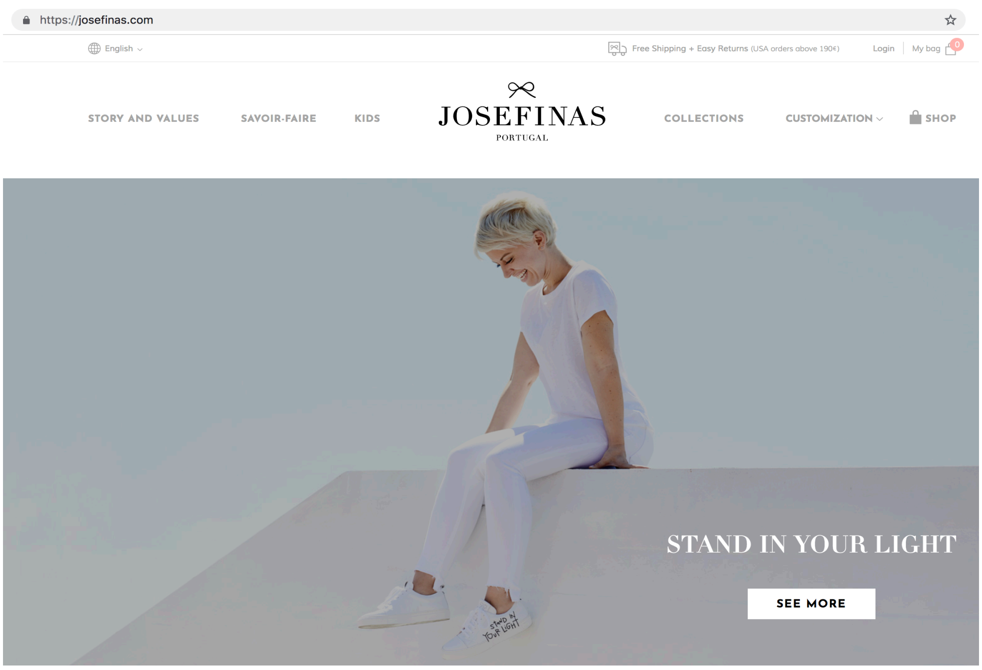
Company turnover: < 1M€

Sales: in 2017 decrease 20% vs PY, still +130% vs 2015

Markets: 40% Portugal, 60% international

BEST SELLERS

Site: http://www.josefinas.com



9.2. History

Josefinas was founded in 2013 by a former architect and ballerina, Filipa Júlio, and her business partner, Maria Cunha. In a country that was suffering an economic crisis, Filipa took advantage and joined both passions to create her own line of footwear. Filipa meat Maria at an event for entrepreneurs with new business ideas. Maria enjoyed Josefinas' business plan so much that became Filipa' partner.

Filipa's grandmother, Maria Josefina, was the one that usually took her to ballet classes, so when she started thinking about creating a shoe line of ballet flats, the name "Josefinas" made complete sense, honoring her grandmother. The Josefinas logo is a bow, representing the bow that is usually used in ballet flats and the feminine world.

9.3. Mission and Values

The company's mission is "To contribute to a better world for women" and is oriented by the following values: "Costumer Wow, Savoir Faire, Women Empowerment". The main emphasis is on the customer and his satisfaction and engagement with the brand, since Josefinas puts a lot of effort in fulfilling their needs. The quality of the product and the women empowerment are others concerns of the company. Since the beginning that Josefinas support "Women for Women International", an organization that helps women in countries affected by war and conflicts.

Josefinas only sell footwear without heels, as this choice reflects important brand' values: the gender equality and the women empowerment. With this decision, the brand intends to send a clear message.

Josefinas' founders value quality and always seek for the best. Filipa's grandfather was a shoemaker but unfortunately, she didn't had the opportunity to learn from him, but somehow that interest became part of her. For that reason, when she started the company, she searched for the most suitable partners. She founds two artisans that meat all the quality requirements. Two brothers working in São João da Madeira, a region in Portugal with history and experience in luxury shoemaking. Besides the shoemaking process itself, all the materials used in the shoe production are carefully chosen and all the production processes and packaging are handmade.

Josefinas puts a lot of attention and effort to the details, trying to provide the best experience to their customers. An example of that is the card that is sent with each pair of shoes sold, signed by all the team members and with the artisan's name. It is company's desire to give the best experience and quality to their customers and they want to keep this type of courtesies, no matter how much the brand grows. This care for detail is one of the characteristics that distinguishes them from the competitors and is one of the brands' success factors.

9.4. Marketing Mix

In order to understand the company's strategy, it is important to analyze in detail the current marketing mix tools practice in the Portuguese market.

9.4.1. Product

As mentioned before, all Josefinas' shoes don't have heels, a strategy connected with the brand values but also to tackle the market demand for stylish flat footwear. Each pair of shoes produced are handmade and an unique piece for their owner. The company prefers to produce fewer shoes, than to diminish the shoes' quality. The firm doesn't has seasonal collections but, instead, it's possible to find new collections every single month in their online store.

It all started with the famous ballet flats, but Josefinas' range of products became way bigger over the last years. Sneakers, boots, slippers, shoes and even bags are now part of the brand's product category. Patches, velvet, fur, animal hair and pearls are some features that characterized brands' footwear.

"Women Empowerment" is one of Josefinas' most important value and is reflected in several collections, created to honor important and distinguish women around the world. Audrey Hepburn, Rosa Parks, Cleopatra, Maria Antoinette, Jessica Alba, Sophia Amoruso, Gabrielle Channel and Misty Colepand's are some of the stars distinguished in Josefinas' collections: "Audrey", "Rose Bold", "Cleopatra", "Marie Antoinette", "B Yourself", "Gabrielle" and "Misty".

"Collection Nº1" was Josefinas' first collection of simple ballet flats, 100% leather shoes with a bow made with an adjustable cord, in more than 15 different colors. Currently, Josefinas' ballet flats collections include beautiful embroidered details ("Dragon Lady"), pearls ("Audrey") and feathers ("Show Girl"). Most recently and following the recent market trends related to veganism, Josefinas launched a new collection with two new ballet flats handmade without animal derivatives.

In the sneakers collection, the brand focuses on special details and offers fashion and differentiated sneakers. In "Rose Couture" collection, sneakers have embroidered flowers while in "Rose Bold" each shoe has handmade metal roses that took an entire day to be made. "Louise" sneakers are made of velvet and in "B Yourself" is possible to customize and add a name in the shoe.

Josefinas also launched some special collections to celebrate exclusive occasions as Mother's days or Wedding's day. In "Mother and Daughter" the customer can buy two pairs of equal ballet flats: one adult size and other kids' size. In the "Bridal Collection" brides can choose between white or pink ballet flats and sneakers.

The most recent collection of the brand "You Can Leave" is a special edition that wants to alert to the problem of domestic violence against women and children and contribute to its eradication. The collection is composed by three pairs of sneakers with common symbols and messages based on love, care and respect for others.

9.4.2. Price

Josefinas is a luxury brand that offers a handmade product with a superior quality and a high value. To be able to keep these important values the company follows a premium price strategy. The variation in price from each product results of the production process complexity and the type of materials used. The prices range of the brand starts at 149 euros, with the ballet flats from "Collection N1", and can achieve the four digits in some special collections. The special edition "Blue Persian Salt" from the "1001 Nights" collection launched in 2015 was considered "the most expensive ballet flats (The most expensive ballet flats in the world - 2015)" and cost 3369 euros.

9.4.3. Place

At the moment, consumers can buy Josefinas' footwear only through their website "https://josefinas.com/store". With an online presence, Josefinas' footwear is distributed to all countries in the world, without any restriction. The brand chooses to have a presence in some countries throughout retailers. as is the case of The United Arab Emirates and Japan. Nowadays, the brand doesn't has any flagship store.

The company uses a third party to do the distribution of the product, the multinational company DHL. For deliveries in Portugal, Josefinas offers free shipping, while for the remaining European Union countries the shipping is free only when the customer spends more than 190 euros. For the rest of the world, the shipping is free on orders over 190 euros, but taxes are due on delivery and paid to the carrier. Particularly to the USA market, on orders over 190 euros, the company offers free shipping and the import duties and taxes.

In July 2016, Josefinas opened their first physical store in New York, USA. The decision of opening a store in New York has in consideration the following objectives: the establishment of the brand in the American market; to increase the brand awareness among consumers; and to enhance the digital channel. One year after the opening, Josefinas decided to close it. This strategic decision was due to the fact that sales from digital channels continued to increase, while the store reached its maximum level. Despite this past situation, the company has the goal to come back to New York and to open a new store there. In December of 2017, Josefinas surprised their clients and fans and established a pop-up store in Lisbon, only for one weekend. Located in a four-star hotel, the company ensured a personalized service to their clients and the unique opportunity to touch and feel the brand's collections.

9.4.4. Promotion

In order to promote their product, Josefinas uses as a main tool: the online communication. On their website, "josefinas.com", it is possible to know the company, the story and values, and all the collections. It functions as their online store, too. Besides their website, there's also a blog where articles related with the brand are publish. For clients and brand lovers, Josefinas provides the possibility to subscribe a newsletter and receive news about the brand on a weekly basis.

The company chooses to do promotions only on special occasions and not on a regular basis. In July 2018, in order to celebrate the 5th anniversary of the company it was launched a 5 days promotion offering 20% discount on all their products.

Josefinas is present in the most important social media channels and these were the brand's main communication channels. Since the beginning that Josefinas puts a lot of effort in the collaboration with influencers. In 2013, it started with the Portuguese blogger Maria Guedes from "Stylista", but in 2015 Josefinas' ballet flats became international and were used by one of the most important influencer and blogger, "The Blonde Salad" Chiara Ferragni. After Chiara, more influencers and celebrities promoted Josefinas' shoes, such as Leandra Medine, the founder of "The Man Repeller", Olivia Palermo and Meghan Markle. Most recently, the brand collaborated with two Portuguese models, Sara Sampaio and Ana Sofia Martins and was in the most important Fashion weeks around the world. After all the online buzz around Josefinas, the brand reached the attention of the most important fashion magazines in the world: Vogue, W, Elle, Grazia, Cosmopolitan, and others.

10. Competitive analysis

10.1. SWOT analysis

In order to explore and audit the Josefinas' internationalization, it's essential to analyze the company situation and assess the market conditions. To do that, it is going to be used the SWOT analysis, which evaluates strengths, weaknesses, opportunities, and threats.

STRENGTHS	WEAKNESSES
- Brand with strong values; - Product with an unique design; - Handmaid product with quality "Made in Portugal"; - Low fixed costs (no physical store); - Experience in online selling and e-commerce platforms; - Focus on social media communication (good management and network); - International oriented.	- High service level; - No distribution channel (high costs); - Low experience in international markets; - Lack of partners/network in China.
OPPORTUNITIES	**THREATS**
- Increasing importance of e-commerce in China; - China is the biggest social media in the world; - Growth of luxury market due to Millennial generation; - China is the biggest producer and consumer of footwear; - Market trends: demand for quality and stylish products.	- China is a very competitive market; - High level of bureaucracy to enter China; - Consumption and other additional taxes; - Cultural shock; - Dependence on raw materials.

Table 1 - SWOT Analysis (source: the author)

Strengths

Josefinas is a brand with strong values that are used as a background for their campaigns and special collections. Therefore, the brand has the ability to create a meaningful story around the creation of each collection and promote engagement with the customers. Josefinas' footwear is handmaid which allows the brand to have a unique design and to keep high standards in terms of quality. The brand "Made in Portugal" is becoming strong over the last years and is already a sign of quality. Since the company chose to have only an online presence, they don't have to support high fixed costs. Given that fact that Josefinas sells online since the beginning, it has a lot of experience in e-commerce platforms and online selling, which is a very important skill in markets that value online. Also, the focus on social media as the main communication channel allowed the company to build a good network among celebrities and influencers and will enable the company to grow and increase their popularity among consumers.

Weaknesses

Since Josefinas' footwear is handmade, their service levels are dependent on inventory levels. If the company has an inventory of a product, the shipment occurs in only three days, but in some special editions, the shipment can take up to 15 to 30 days. When internationalizing, the production levels may not fulfil the increase in expected demand and can cause stock-outs or increase the service levels. Also, since the company uses a third party to distribute their products and don't has an internal distribution channel, an internationalization can lead to increased costs with distribution and customs taxes.

Despite having an international predisposition, the company doesn't have enough knowledge about international markets, specifically the Chinese market. In China, the brand doesn't have either a network or a partner, which in this specific market is key to success.

Opportunities

As stated before, Josefinas has experience in online shopping and social media communication. Since China is the biggest social media in the world and Chinese are huge fans of online shopping, this represents itself as a big opportunity. Also, China is the biggest producer and consumer of footwear, and Chinese are now looking more than ever for stylish footwear with higher quality. The growth of the luxury market due to a new generation of consumers is also a good opportunity to be exploited by the company.

Threats

China is a big and very competitive market, and Josefinas will compete with companies that have a big knowledge of the market and the consumer. The company may also face some difficulties in entering the market since its a very bureaucratic country and it's necessary to comply with several requirements to be authorized to have a presence there. Also, the company may need to rethink the price strategy since they will have to handle additional taxes (consumption, VAT, and others). The company's footwear is made of leather and other raw materials. Therefore, they depend on raw materials to satisfy footwear production and the lack of them is a threat. Concluding, Josefinas may not be able to overcome the cultural shock due to cultural differences and difficulties in communicating and negotiating with the Chinese.

10.2. Selection of footwear portfolio

Josefinas has a big portfolio of products, with different types of footwear and collections. In order to choose which are the products that will enter the Chinese market, it's necessary to assess the actual range of products and understand which are the ones that will comply with the needs of the Chinese costumers. For this assessment will only be considered the products' model, and not all the colours of each one. To classify each product, four criteria were used: quality, design, style, and exclusivity.

Quality is an important criterion since it's fundamental for Chinese consumers to have a product that is comfortable to use and made with the best products. However, the design is fundamental too, since they appreciate comfortable footwear but with a differentiated design. It's also key to have a stylish product, a shoe that is fashionable, elegant, sophisticated, and aligned with the new trends. Exclusivity is also an important consideration in the luxury sector. In this segment, consumers want to have an unique product, made with the best materials and possible to customize. Price was not chosen as a criterion, due to the positioning of the company. Josefinas operates in the luxury sector, where the price is not a key factor in the consumers' choice.

According to our criteria, the models that will be selected to enter the Chinese market are the following: Nº1, Cleopatra, XX, B Yourself, and Dream Big. Each of these models have more than one color and for that reason, the final selection will be done in the marketing mix definition.

Legend: + low, ++ medium, +++ high

Model	Image	Quality	Design	Style	Exclusivity	Classification	Portfolio
Nº1		++	+	++	+	++	YES
252		++	+	+	+	+	NO
Gabrielle		+	+	++	+	+	NO
Cleopatra		+++	++	++	++	++	YES
Marie Antoinette		+	++	+	+	+	NO
Carmen		+	+	+	+	+	NO
XX		++	+	++	+	++	YES
Suffragette		+	+	+	+	+	NO
The Dancing Shoes		+	+	+	+	+	NO

B Yourself		++	++	+++	+++	++	YES
B Side		+	+	+	++	+	NO
Rose Bold		+	+	+	++	+	NO
Dream Big		+	++	+++	+++	++	YES

Table 2 - Selection of footwear portfolio (source: the author)

11. Objectives of the Plan

Before entering into details about the business plan itself, it is recommended to define the main objectives of the plan. With this definition, the strategy and implementation of the business plan will be delimited and should focus on the achievement of the plan objectives.

These are the main objectives of the plan:

- To have a physical presence in a retail store in at least one city of Tier 1 (Beijing, Shanghai, Guangzhou, or Shenzhen);

It is important for the company to have a presence in one of the most important cities in the country, and to sell its footwear in a physical store. This requirement is based on the target that Josefinas wants to reach. Since the main cities of the country belong to Tier 1, Josefinas wants to sell its footwear in a physical store in at least one of these cities.

- To build a partnership with an e-commerce platform focused in the Chinese market, in order to sell the Josefinas' products online;

Since the Chinese market is very technological, and the Chinese value the online shopping, it is crucial to have an online store available in this market. The partnership with a Chinese e-commerce is also important since is a key success factor in the market, due to the partner knowledge and experience in the market.

- To sell 500 pairs of shoes in the first three months, and 2500 pairs of shoes in the first year;

It is expected to sell at least 500 pairs of shoes in the first three months and to have a small increase in sales in the following months that will allow to reach the 2500 pairs of shoes in the first year in the market.

- To achieve 500k euros in sales, with a positive Net Profit in the first year.

12. Development Strategy

12.1. Why China?

The company has the desire to increase its international presence and believes that China is a market with high potential. According to Maria Cunha, Josefinas' CEO, China is an interesting market since it's the biggest luxury market in expansion and is a market where nowadays consumers are looking for differentiated products, not only looking for brands and labels.

The intentions of the company are well substantiated since China is the world largest economy by PPP and the second largest by nominal GDP. Also the Chinese GDP is growing over the last years and it's expected to continue this trend at least in the next five years (2022). China is the biggest consumer of footwear in the world and the market is demanding for stylish with quality footwear. The luxury sector is growing in the country, and not only the number of Chinese millionaires is the highest in the world as they spend almost a third of the world luxury market.

12.2. How to enter the market?

One of the competitive advantages of the company is the product itself, the unique design and the high quality that is only possible due to its manufacturing process. For that reason, the production of the product, including the packaging, will continue to be in Portugal and the objective is to internationalize the product only. Also, Josefinas is a company with only five years of existence, with a small dimension and a small experience in internationalization. Due to these reasons, the most suitable entry market strategy is by **exporting**. Josefinas will export their product through two different channels:

- E-commerce platform
- Multi-brand luxury store

12.2.1. E-commerce platform

As already mentioned before, e-commerce assumes a significant presence in the Chinese life, thus it is fundamental to have an online presence in this market. The company can do it in two different ways: to build or adapt its website to the Chinese language, Mandarim; or to use a Chinese e-commerce platform. E-commerce platforms in China are large and are well stablished in the market, and companies' own website can be easily overcome by the giants of the market. As mentioned before, the e-commerce

B2C market is dominated by **Tmall and JD.com**. These big players of the market have high requirements for international brands and required a high initial investment, hence may be advised to focuses in small e-commerce platforms as Secoo, Mei.com, or Farfetch.

Farfetch is a global luxury digital marketplace available to 190 countries, where it is possible to find a lot of different brands and boutiques, such as Gucci, Jimmy Choo, and Balenciaga. Since Farfetch is a Portuguese company already stablished in the Chinese market, this could be the right approach due to the cultural link between the two companies.

12.2.2. Multi-brand luxury store

In order to have a physical presence in the market, Josefinas can partnership with **Pedder Group**. Pedder Group it is a specialist in footwear and accessories in China and Southeast Asia. The company ranks in the top10 global shoe and accessories retailers and have more than 50 point of sales across Hong Kong, Shangai, Beijing, Shenyang, Chengdu, Chongqing, Singapore and Jakarta. The group works with brands as Christian Louboutin, Stuart Weitzman, Ash, Pedder Red, and On Pedder. The partnership will be with the brand **On Pedder**, a multi-brand store that sell products from luxury brands and international designers.

The experience of the group in the market, specially in the footwear sector, and the location of On Pedder stores in Beijing and Shanghai in two luxury shopping malls (China World Mall and Plaza 66, respectively) are important for the success of the brand.

12.3. Marketing Strategy

12.3.1. Marketing Segmentation and Targeting

To be appealing to Chinese market, the company needs to segment the market and to focus in a specific group of consumers. For this internationalization, Josefinas will segment geographically by approaching a specific country: China. Since Josefinas produce footwear for women, the company will do a demographic segmentation by approaching feminine gender and an age segmentation, focused in women with more than 18 years old and less than 50 years old. In addition, the company will segment by income, as Josefinas' footwear is considered a luxury product.

The company wants to target independent women, cosmopolitan and fashion, with a high knowledge of modern technology and a significant income. Additionally, women that look for a differentiated high-end product and not “ordinary” brands.

12.3.2. Positioning

It is crucial to understand what the positioning of the brand will be and how the company will differentiate itself from the competitors in the chosen segment when entering a new market. “According to Kotler & Armstrong, a product’s position is the complex set of perceptions, impressions, and feelings that consumers have for the product compared with competing products. (Kotler and Armstrong 2010)”.

Josefinas is a luxury brand that wants to deliver a fashion product to their customers with high quality and a fair price: an exclusive product. A unique product with singular characteristics and personalized to each customer. This characteristic is even more important in a market as China, where super rich consumers prefer unique brands. According to Business Insider “(...) brands that become too accessible are less appealing to superrich buyers (Pyramid of luxury brands - Business Insider 2015)”.

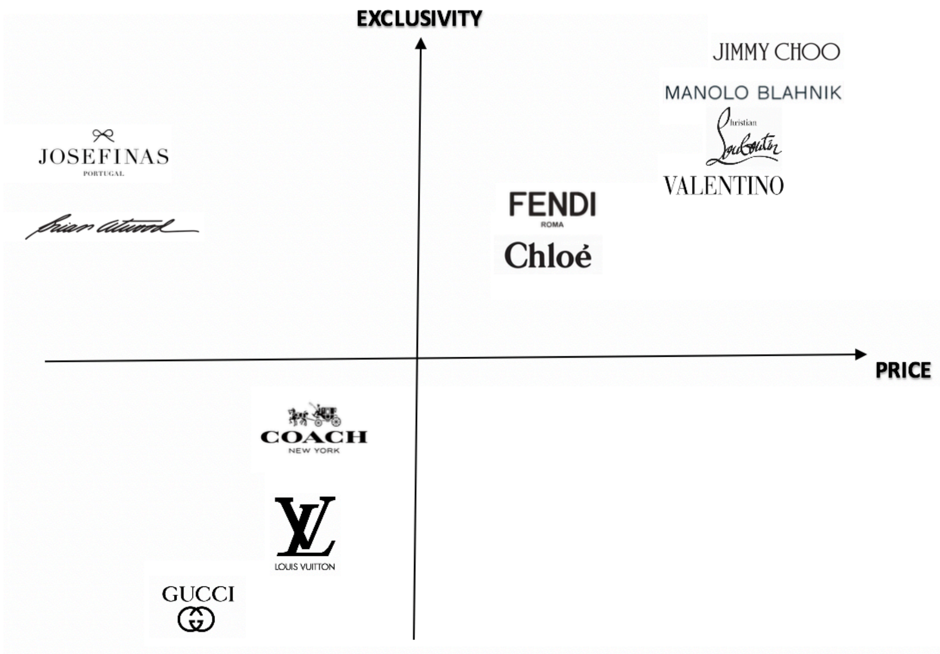


Figure 5 - Positioning of Josefinas in the Chinese Market (source: the author)

13. Definition of implementation policies & requirements

13.1. Marketing Mix

13.1.1. Product

In internationalization, the company needs to opt for a product strategy, and need to decide if it's going to adapt the product to the local market or opt by a standardization and sell the exact same product in all the markets. In Josefinas' case the strategy will be to enter the market with the actual range of products without any adaptation. The company will follow a "straight product extension (Kotler and Armstrong 2010)".

In this initial phase, as mentioned in the portfolio selection, the company will commercialize ballet flats, sneakers, and slippers. The selection had in consideration the criteria defined in the strategic analysis but also others important factors. First, ballet flats are at the origin of the company and his importance is obvious. Second, sneakers are bestsellers of the company and follow the market trends of comfortable and fashion footwear. Finally, slippers are a new trend on the Chinese market, and they are seen as a fashion item and not as an item to be used at home.

Each model has a different range of colors, and it's necessary to choose which colors will be sold in the Chinese market. The color choice takes into account the symbolism that the Chinese attribute to colors, giving preference to vivid colors like red, yellow, pink, violet, green and orange.

The average size of the Chinese foot is 36 EUR (3.5 USA), smaller than in Europe and United States of America. Chinese are usually smaller and for that reason, the company will commercialize footwear from size 34 to 39.

The final selection is the following:

NAME	CHARACTERISTICS	SIZES	PICTURE
Collection Nº1 "Josefinas Red Lisbon"	Red leather patent, interior lining in leather, leather sole, adjustable cord and handmade in Portugal	34 35 36 37 38 39	

Collection Nº1 "Josefinas Luanda"	Animal print leather, interior lining in leather, leather sole, adjustable cord and handmade in Portugal	34 35 36 37 38 39	
Collection Nº1 "Josefinas Passionate Red"	Red leather, interior lining in leather, leather sole, adjustable cord and handmade in Portugal	34 35 36 37 38 39	
Collection Nº1 "Josefinas Aurora Yellow"	Yellow leather, interior lining in leather, leather sole, adjustable cord and handmade in Portugal	34 35 36 37 38 39	
Collection Nº1 "Josefinas Delicate Rose"	Pink leather, interior lining in leather, leather sole, adjustable cord and handmade in Portugal	34 35 36 37 38 39	
Collection Nº1 "Josefinas Serenity Green"	Green leather, interior lining in leather, leather sole, adjustable cord and handmade in Portugal	34 35 36 37 38 39	
Dream Big "Louise Pink Dream"	Pink genuine leather, interior lining in genuine leather and rubber sole	34 35 36 37 38 39	

Dream Big "Josefinas Red Velvet"	Red Velvet, interior lining in genuine leather and rubber sole	34 35 36 37 38 39	
B Yourself "Josefinas Whitney"	Pink genuine leather, asymmetrical pink leather bow, interior lining in genuine leather and rubber sole	34 35 36 37 38 39	
B Yourself "Josefinas Emily"	Pink genuine leather, asymmetrical pink leather bow, interior lining in genuine leather, rubber sole and handmade in Portugal	34 35 36 37 38 39	
Cleopatra "Josefinas Velvet Fire"	Red velvet, interior lining in genuine leather, leather sole and handmade in Portugal	34 35 36 37 38 39	
Cleopatra "Josefinas CrocBlack"	Black crocodile leather, interior lining in genuine leather, leather sole and handmade in Portugal	34 35 36 37 38 39	
"Josefinas XX Pink"	Genuine leather and velvet, interior lining in leather, leather sole, and handmade in Portugal	34 35 36 37 38 39	

"Josefinas XX Orange"	Suede, interior lining in leather, leather sole and handmade in Portugal	34 35 36 37 38 39	

Table 3 - Product selection (source: the author)

13.1.2. Price

Price is the marketing mix element with the highest importance. From the customer's point of view, it may determine the buying decision, while in the company side it affects company's revenue. In their current pricing strategy, Josefinas follows a customer value-based pricing, focus on the quality and features of the product to create the best product possible and give their clients the perception that the price of the product is due to its value.

Josefinas already sell their footwear worldwide through their online store. The prices practiced already take into consideration the distribution costs and a profit margin. Therefore, these will be the prices practiced in China in both sales channels.

However, it's necessary to confirm if the prices are in conformity with the desired positioning of the company in China. For this purpose, the prices of the main competitors in china will be analyzed. This analysis will be made in Renminbi with the correspondent conversion to euros, for the three footwear models that the brand will have available in the market.

Competitors	Ballet Flats RMB	Sneakers RMB	Slippers RMB
Gucci	6500	5000	5000
LV	5500	7000	6500
Coach	2000	3000	2500
Competitors	Ballet Flats EUR	Sneakers EUR	Slippers EUR
Gucci	800€	620€	620€
LV	680€	850€	800€
Coach	250€	372€	310€

Table 4 - Comparison of prices between Josefinas and competitors

Since the actual prices are in line with the brand's positioning in China, these will be the prices practices in the Chinese market:

Name	Price in EUR	Price in RMB
Collection Nº1 "Josefinas Red Lisbon"	180	1400
Collection Nº1 "Josefinas Luanda"	185	1450
Collection Nº1 "Josefinas Passionate Red"	149	1200
Collection Nº1 "Josefinas Aurora Yellow"	149	1200
Collection Nº1 "Josefinas Delicate Rose"	149	1200
Collection Nº1 "Josefinas Serenity Green"	149	1200
Dream Big "Louise Pink Dream"	385	3050
Dream Big "Josefinas Red Velvet"	385	3050
B Yourself "Josefinas Whitney"	385	3050
B Yourself "Josefinas Emily"	385	3050
Cleopatra "Josefinas Velvet Fire"	390	3085
Cleopatra "Josefinas CrocBlack"	1260	10000
"Josefinas XX Pink"	235	1900
"Josefinas XX Orange"	235	1900

Table 5 - Price of Josefina's products in euros and renminbi

13.1.3. Distribution

The distribution of the product makes it available to customers and has a significant impact on their satisfaction levels. For the company side, it may have a negative impact in their financials if not managed correctly.

In Josefinas' case, and since they are going to internationalize their business to China, it's important to allocate the distribution to one or more third parties. "China is a very decentralized market," notes a China trade expert. "[It's] made up of two dozen distinct markets sprawling across 2,000 cities. Each has its own culture...". "It's like operating in an asteroid belt (Kotler and Armstrong 2010)". The company will need to find an international distributor to ship their footwear from Portugal to China. According to the strategy defined, the company will ship from Portugal directly to the houses of e-commerce customers. Besides, will have to work with an international distributor to send Josefinas' products to their partner in China: Pedder Group. The retailer will be responsible to distribute the goods between the two locations of the On-Pedder stores: Beijing and Shanghai and to sell the product to the final consumer.

13.1.4. Promotion

To promote their products, companies used a set of communications "promotion mix" to engage and create a relationship with customers. There are several tools available for firms to use: advertising, sales promotion, personal selling, public relations and direct marketing.

In Josefinas' case, and following the strategy used nowadays, the company should continue to focus the brand advertising through online channels. Their website and social media channels (Instagram, Facebook, Twitter, Pinterest, Whatsapp) will continue to be the main tool to communicate with costumers. Moreover, the partnership with local influencers and fashion magazines will continue to be also part of the promotion tools of the brand. However, the company must also adapt its communication to the local market: China. Here are some of my recommendations of promotion activities that the company could take advantage of.

<u>WeChat' presence</u>

This social network is one of the most popular apps in China. In March 2018 reached one billion of active users and is very popular among the millennial generation. It is more than a chat app, it's a way to be in contact with customers and to understand their preferences and has been used by companies as a marketing channel.

Non-Chinese business should register their account at "apply.wechat.com" and choose between a service account or a subscription account. In this social media, the brand should promote special deals for followers, allow the customization of the products in special occasions, and permit followers to do reservations of the product through the social media.

<u>Main fashion magazines and websites</u>

To collaborate and be part of the most famous fashion magazines in the country is a way to increasing the brand awareness among Josefinas' target. The magazines and websites with more impact in the market are Vogue China, Elle, Yoka.com (fashion website for luxury segment) and Ray Li (the twenties and thirties are the target group).

Partnership with Chinese influencers

In the past, this strategy worked very well for Josefinas and the company knows how to leverage this tool. Therefore, in China the company should choose some Chinese influencers to act as ambassadors of the brand and promote it on social media. These are the top influencers of the country:

- Angelababy (4M Instagram followers): one of the most popular celebrities in China, worked with Dior, Gucci, and Givenchy.
- Fan Bingbing (3.8M Instagram followers): Chinese actress that participated in some television series and films. Worked with Louis Vuitton, L'Oreal, Chopard, Cartier, Mercedes-Benz, and Moët & Chandon. In 2014, was in first place on Forbes' Top 100 Most Influential Chinese Stars and in 2016 was the only Chinese actress to be on the Forbes' World's Highest-Paid Actresses.
- Yang Mi: well known Chinese actress, with a big base of millennial fans. Is the brand ambassador for Estée Lauder and also worked with Gucci, Louis Vuitton, and Miu Miu.
- Liu Wen: former Victoria's Secret model, worked with Phillip Lim, Louis Vuitton, Coach, Tory Burch, Tiffany & Co., and Estee Lauder. Very popular on Instagram: 4M followers.
- Others: Ming XI; Li Yuchun; Ni Ni; Tang Wei; Yang Zi; Jiang Xin; Tang Yan.

Special events for customers

After entering the market, the brand may be interested in creating a special event exclusively for the best customers to increase their connection to the brand and take advantage of the word of mouth.

13.2. Technology

Regarding the commercialization of the products, Josefinas will need to do some changes. The current Josefinas' website has the option to choose between four languages: Portuguese, English, Spanish, and Japanese. Will be necessary to do some adjustments on the site in order to add the Chinese language. Also, and following the communication strategy, the company will need to subscribe an account in WeChat.

In the production scope, won't be necessary to invest in new technologies. Since the production is handmade, there's no place to invest in new machinery.

These alterations will have a cost of 500€.

13.3. Organization

Josefinas is a small company with less than 10 employees. Nowadays, they do not have anyone responsible for internationalization markets and exportation process. In order to ensure the success of this operation, it will be necessary to hire a new employee with the aim to focus on the international markets. The goal is to focus first on the internationalization to China, and in the future to other internationalization processes. The new employee will have as main responsibilities to handle with all the internationalization process, to find partners in Chinese market, to negotiate partnerships, and to ensure that the implementation policies are followed.

This new employee will cost the company18.000€ annually.

13.4. Operations

13.4.1. Production

Josefinas will export three models of footwear: ballet flats, sneakers, and slippers. To be able to fulfill the Chinese market, the company will need to increase the production of the three models. Footwear production is outsourced to a Portuguese company specialized in footwear production.

The current productive capacity is 40 pairs per day, and there are seven people dedicated to producing Josefinas' footwear.

The amount of time that each model needs to be produced is the following:

- Ballet flats: 2,3 hours
- Sneakers: 4 hours
- Slippers: 1,5 hours

Since the goal is to sell around 500 pairs of shoes in the first three months and to keep an average sale of 200 pairs by month, the production should increase by 200 units per month. The current monthly production capacity is 800 pairs, which means that the production should increase by 25% to around 1000 pairs of shoes.

To be able to increase the monthly production it's crucial to increase the production capacity. Since production is handmade, it will be necessary to hire two more employees.

The supply of the raw materials essential to achieve this increase in production will be possible without any constraint. The company works with several local producers that will be capable to quickly ensure the raw materials needed for produce.

The estimate production costs by unit of each model are the following:

- Ballet flats average: 30 €
- Sneakers avg: 77 €
- Slippers: 47 €

Since the production is outsourced, the increase of production will not have a direct relation with the unit cost of the product.

The footwear's producer needs 30 days to deliver the finished product. That means the company should maintain an inventory able to fulfill right away the needs of the orders coming from the e-commerce platform. The inventory must have products to fulfill the sales' needs for one month.

13.4.2. Warehouse and Inventory

After production and packaging process, Josefinas' partner, responsible for the footwear production, is also liable to storage the products. It will be sent to Josefinas' office only the desired quantities by the company. The company uses optimized stocks and is in the company's office that the packaging is finalized, and the product is kept until is distributed.

Due to this arrangement, an increase in the production and consequently an increase in the inventory level will not be an additional cost for the company.

13.4.3. Distribution

The distribution process will have in consideration the strategy defined to enter the Chinese market. The goal of the company is to sell an average of 500 pairs of shoes in the first three months, through the two channels. The estimate is to sell 75% through the e-commerce channel, and 25% in the multi-brand store.

First, Josefinas will need to ship their products to On-Pedder multi-brand store. In order to do that, the company will work with DHL. DHL is a German logistics company that provides international courier, parcel, and express services. It is the industry leader and is the world largest logistics company with operations worldwide. Josefinas already works with DHL to ship their orders worldwide, therefore it's advice to keep doing it. In order to know what the estimate costs of the shipment to China are, it's necessary to ask to DHL a quotation. To international delivers, I suggest using DHL service "DHL Air Connect", a faster choice with shipment by air. A shipment from Josefinas office in Braga to Beijing, China (door to door shipment option) of a pallet with 100 kilos will have a total cost of 793,16€ (with a transit time of five days). This cost includes the export and import customs clearance. The price detail is the following:

Quotation Charges

	Quote Charges
Origin Charges	134.79 EUR
Export Customs Clearance	70.00 EUR
Main Carriage Charges (Freight)	443.05 EUR
Destination Charges	101.57 EUR
Import Customs Clearance	43.75 EUR
Cargo Insurance	N/A
Total Charges	**793.16 EUR**

Figure 6 - DHL quotation charges (source: dhl,com)

All the details and conditions of this quotation can be found in the appendices. To ask for an air freight quote please visit the website: https://freightquote.dhl.com/afr

This shipment is estimated to fulfill the inventory needs for this channel in the first three months.

This shipment will be made to the store in Beijing, and the company will be responsible to send half of the goods to the other company's store in Shanghai. This cost will be included in the monthly fee paid to the company: 15% commissions.

If the company chooses to work with Farfetch as advised, will have to pay a 25% commissions fee. Farfetch will be responsible to connect the brand with consumers, will provide product information, and customer service. It will be also responsible for the shipment of the products from the Josefinas' warehouse directly to consumers. Farfetch partners with DHL and UPS to ship the products.

13.5. Internationalization Activities and Schedule

In order to be able to implement the defined strategy, a strategy was developed as to the main activities that need to be accomplished and the respective amount of time necessary. To illustrate the project schedule, a Gantt chart will be used.

The implementation of the project will start in January 2019 and is estimated to finish in the second week of July 2019. There are the main activities:

- Recruitment of new internationalization manager (two months);
- Negotiation process with Pedder Group (four months);
- Negotiation process with Farfetch (3 months);
- Josefinas increase production in order to fulfill the Chinese market (one month);
- Adaptation of Josefinas' website (two weeks);
- Creation of the WeChat account and beginning of promotion through this channel;
- Shipment of Josefinas' production to Beijing (one weak)
- Sales start in On-Pedder stores
- All the necessary activities to add Josefinas to Farfetch website (2 weeks)
- Entry of Josefinas in farfetch.com

This is the schedule for the three first months of the project. The complete Gantt chart is included in the appendices.

		JANUARY				FEBRUARY				MARCH			
ACTIVITY	RESPONSIBLE	WEEK 1	WEEK 2	WEEK 3	WEEK 4	WEEK 1	WEEK 2	WEEK 3	WEEK 4	WEEK 1	WEEK 2	WEEK 3	WEEK 4
Recruitment of the new internationalization manager	GM												
Negotiation process with Pedder Group	IM & GM												
Negotiation process with Farfetch	IM & GM												
Josefinas increase of production	Producers												
Adaptation of Josefinas website	IT Company												
Creation of the WeChat account	IM & GM												
Beginning of promotion through WeChat	PR & Com.												
Shipment of Josefinas production to Beijing	DHL												
Sales start in On-Pedder stores	Pedder Group												
Necessary activities to add Josefinas to Farfetch website	Farfetch												
Entry of Joefinas in farfetch.com	Farfetch												

Figure 7 - Gantt Chart (source: the author)

14. Financial evaluation

14.1. Model Inputs

FORECASTED UNITS SOLD ANNUALY BY CHANNEL		
	E-COMMERCE	RETAIL
Product 1: Ballet Flats	900	300
Product 2: Sneakers	525	175
Product 3: Slippers	450	150

FORECASTED REVENUE			
	Units sold annually	Average price per unit	Annual revenue per product
Product 1	1200	160,00	192 000,00
Product 2	700	385,00	269 500,00
Product 3	600	300,00	180 000,00
TOTAL OF FORECASTED REVENUE			641 500,00

COST OF GOODS SOLD		
	Expected gross margin	Annual cost of goods sold
Product 1	81%	36 000,00
Product 2	80%	53 900,00
Product 3	84%	28 200,00
TOTAL COST OF GOODS SOLD		118 100,00

ANNUAL MAINTENANCE, REPAIR AND OVERHAUL	
Factor (%) on capital equipment	10%

ASSET DEPRECIATION	
Number of Years	5

TAX	
Annual Tax Rate	21%

INFLATION	
Annual Inflation Rate	2%

PRODUCT SALES INCREASE	
Annual sales Increase	3%

In the model inputs were defined the main indicators that will be used in the 5 years financial plan: revenue, cost of sold goods, % of annual inflation rate, and % of sales increase. In the forecasted revenue was important to specify the number of units sold by channel: e-commerce will be responsible for 75% of the total sales, while retail channel will account 25% total of sales.

14.2. Profit and Loss Projection

PROFIT AND LOSS ASSUMPTION					
	Year 1	Year 2	Year 3	Year 4	Year 5
Annual cumulative sales (revenue) increase	0,00%	3,00%	6,00%	9,00%	12,00%
Annual cumulative inflation (expense) increase	0,00%	2,00%	4,00%	6,00%	8,00%

INCOME					
	Year 1	Year 2	Year 3	Year 4	Year 5
Revenue					
Product 1	192 000,00	197 760,00	209 625,60	228 491,90	255 910,93
Product 2	269 500,00	277 585,00	294 240,10	320 721,71	359 208,31
Product 3	180 000,00	185 400,00	196 524,00	214 211,16	239 916,50
Total revenue	641 500,00	660 745,00	700 389,70	763 424,77	855 035,75
Cost of Sales					
Product 1	36 000,00	36 720,00	38 188,80	40 480,13	43 718,54
Product 2	53 900,00	54 978,00	57 177,12	60 607,75	65 456,37
Product 3	28 200,00	28 764,00	29 914,56	31 709,43	34 246,19
Cost of goods sold	118 100,00	120 462,00	125 280,48	132 797,31	143 421,09
Gross Profit	523 400,00	540 283,00	575 109,22	630 627,46	711 614,65
Toatal Non-Operation Income	-	-	-	-	-
TOTAL INCOME	523 400,00	540 283,00	575 109,22	630 627,46	711 614,65

EXPENSES					
Operating expenses					
Sales and marketing	256 600,00	261 732,00	266 864,00	271 996,00	277 128,00
Depreciation	16 000,00	1 326,00	1 352,00	1 378,00	1 404,00
Insurance	5 000,00	5 100,00	5 304,00	5 622,24	6 072,02
Payroll and Payroll Tax	18 000,00	18 360,00	18 720,00	19 080,00	19 440,00
Maintenance, repair, and overhaul	7 500,00	7 650,00	7 800,00	7 950,00	8 100,00
Utilities	3 000,00	3 060,00	3 182,40	3 373,34	3 643,21
Administrative fees	1 000,00	1 020,00	1 060,80	1 124,45	1 214,40
Distribution expenses	3 200,00	4 000,00	4 800,00	4 800,00	5 600,00
Other	1 000,00	1 020,00	1 060,80	1 124,45	1 214,40
Total operating expenses	311 300,00	303 268,00	310 144,00	316 448,48	323 816,04
Total Non-Recurring Expenses	-	-	-	-	-
TOTAL EXPENSES	311 300,00	303 268,00	310 144,00	316 448,48	323 816,04
TAXES					
Income Tax	44 541,00	49 773,15	55 642,70	65 977,59	81 437,71
TOTAL TAXES	44 541,00	49 773,15	55 642,70	65 977,59	81 437,71
NET PROFIT	167 559,00	187 241,85	209 322,52	248 201,40	306 360,90

In the operations expenses was considered all the expenses related with the internationalization process: in the sales and marketing category were included the expenses with the payment of the commissions fee to Farfetch and Pedder Group; in the Payroll category the additional payment with the new employee of the company; in other category, the costs to adapt the company's technology; in the distribution expenses were included the costs with the shipment of the products to China.

14.3. Balance Sheet Projection

ASSETS						
Current Assets	Initial balance	Year 1	Year 2	Year 3	Year 4	Year 5
Cash and short-term investments	90 000,00	258 796,50	446 066,48	655 404,19	903 606,67	1 209 953,35
Accounts receivable	130 000,00	130 000,00	130 000,00	130 000,00	130 000,00	130 000,00
Total inventory	27 000,00	34 381,25	35 412,69	36 475,07	37 569,32	38 696,40
Prepaid expenses	-	-	-	-	-	-
Other current assets	5 000,00	5 000,00	5 000,00	5 000,00	5 000,00	5 000,00
Total current assets	252 000,00	428 177,75	616 479,16	826 879,26	1 076 175,99	1 383 649,75
Property and Equipment	Initial balance	Year 1	Year 2	Year 3	Year 4	Year 5
Buildings	5 000,00	5 000,00	5 000,00	5 000,00	5 000,00	5 000,00
Land	1 500,00	1 500,00	1 500,00	1 500,00	1 500,00	1 500,00
Capital improvements	-	-	-	-	-	-
Machinery and equipment	75 000,00	75 000,00	75 000,00	75 000,00	75 000,00	75 000,00
Less Accumulated depreciation expense		16 000,00	17 326,00	18 678,00	20 056,00	21 460,00
Total Property and Equipment	81 500,00	65 500,00	64 174,00	62 822,00	61 444,00	60 040,00
Other Assets	Initial balance	Year 1	Year 2	Year 3	Year 4	Year 5
Goodwill	150 000,00	150 000,00	150 000,00	150 000,00	150 000,00	150 000,00
Total Other Assets	150 000,00	150 000,00	150 000,00	150 000,00	150 000,00	150 000,00
TOTAL ASSETS	483 500,00	643 677,75	830 653,16	1 039 701,26	1 287 619,99	1 593 689,75

LIABILITIES						
Current Liabilities	Initial balance	Year 1	Year 2	Year 3	Year 4	Year 5
Accounts payable	1 500,00	8 881,25	9 147,69	9 422,12	9 704,78	9 995,93
Notes payable/short-term debt	15 000,00	15 000,00	15 000,00	15 000,00	15 000,00	15 000,00
Other current liabilities	50 000,00	50 000,00	50 000,00	50 000,00	50 000,00	50 000,00
Total Current Liabilities	66 500,00	73 881,25	74 147,69	74 422,12	74 704,78	74 995,93
Total Debt	66 500,00	73 881,25	74 147,69	74 422,12	74 704,78	74 995,93
Total Other Liabilities	-	-	-	-	-	-
TOTAL LIABILITIES	66 500,00	73 881,25	74 147,69	74 422,12	74 704,78	74 995,93

EQUITY						
	Initial balance	Year 1	Year 2	Year 3	Year 4	Year 5
Owner's equity (common)	230 000,00	230 000,00	230 000,00	230 000,00	230 000,00	230 000,00
Paid-in capital	240 000,00	240 000,00	240 000,00	240 000,00	240 000,00	240 000,00
Retained earnings	-	167 559,00	354 800,85	564 123,37	812 324,77	1 118 685,68
TOTAL EQUITY	470 000,00	637 559,00	824 800,85	1 034 123,37	1 282 324,77	1 588 685,68
TOTAL LIABILITIES AND EQUITY	536 500,00	711 440,25	898 948,54	1 108 545,49	1 357 029,55	1 663 681,60

In the total inventory category was considered an increase in the working capital, due to the need to produce one month in advance in order to guarantee that the product is available for the final consumer as soon as it asked. The same assumption was used in the accounts payable category.

14.4. Cash Flow Projection

Operating activities	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Net income	167 559,00	187 241,85	209 322,52	248 201,40	306 360,90	1 118 685,68
Depreciation	16 000,00	1 326,00	1 352,00	1 378,00	1 404,00	21 460,00
Accounts receivable	-	-	-	-	-	-
Inventories	- 7 381,25	- 1 031,44	- 1 062,38	- 1 094,25	- 1 127,08	- 11 696,40
Accounts payable	- 7 381,25	- 266,44	- 274,43	- 282,66	- 291,14	- 8 495,93
Total operating activities	168 796,50	187 269,98	209 337,71	248 202,48	306 346,68	1 119 953,35
Total investing activities	-	-	-	-	-	-
Total financing activities	-	-	-	-	-	-
Cumulative cash flow	168 796,50	187 269,98	209 337,71	248 202,48	306 346,68	1 119 953,35
Beginning cash balance	90 000,00	258 796,50	446 066,48	655 404,19	903 606,67	
Ending cash balance	258 796,50	446 066,48	655 404,19	903 606,67	1 209 953,35	

14.5. Risk Analysis

In a business plan and in a financial analysis it is important to assess the variables that may put the business in risk. Every business has vulnerabilities and its vital to understand what the main risks are, how is the likelihood of occurrence of each risk and what will be the consequences for the company. There are several types of risks, the ones related to the company itself, the ones related to the industry and all the other general business risks. In this analysis was identified the main risks of the internationalization to China and attributed a criterion for the risk of occurrence. Also, was evaluate the impact of each risk to the business.

Identification of the risks in the internationalization to China and probability of occurrence:

Lack of own distribution channel and dependency of a 3rd party to distribute their products to China – stockouts' risk	MEDIUM
Outsourced production: increase the risk of stockouts due to issues with production	LOW
Dependence of raw materials: production risk	LOW
Lack of knowledge of the market: risk of cultural shock	HIGH
Change of market conditions: risk of decrease of sales	LOW

The increase of the Chinese government control: political risk	MEDIUM
Competitors imitate the design of Josefinas footwear: risk of decrease of sales	MEDIUM
Chinese economy growth lower than expected: economy risk	LOW

Impacts of the risks in the company finance:

Lack of own distribution channel and dependency of a 3rd party to distribute their products to China – stockouts' risk	MEDIUM
Outsourced production: increase the risk of stockouts due to issues with production	HIGH
Dependence of raw materials: production risk	HIGH
Lack of knowledge of the market: risk of cultural shock	MEDIUM
Change of market conditions: risk of decrease of sales	MEDIUM
The increase of the Chinese government control: political risk	LOW
Competitors imitate the design of Josefinas footwear: risk of decrease of sales	LOW
Chinese economy growth lower than expected: economy risk	LOW

In order to evaluate the viability of the project, it is important also to calculate the Net Present Value and the Internal Rate of Return of the project. The NPV of the project is **€ 46.730,** considering a required return for the investor of 10%. The IRR is **715%**, with a Payback Period of 94 days.

14.6. Conclusion

The forecasted total sales of 2500 units in the first year of the project will allow to have a revenue of more than 600k euros. The e-commerce channel will be the most important channel for the revenue of the company, being responsible for 75% of total sales. With gross margins of more than 80%, the company will achieve a gross profit of more than 500k euros in the first year.

Despite the considerable operating expenses with the payment of commissions fees to its partners in China, the additional expenses with the new staff member, and the distribution of the products to China, the company will achieve a positive net profit in the first year of operations.

The risk analysis allows to conclude that this project has a positive profitability, since the NPV is superior to zero for the required return, and the IRR is superior to the minimum acceptable rate of return.

According to the analysis realized in the financial plan, and having also in consideration the risk analysis, it is possible to conclude that the internationalization to China it's an interesting opportunity for the company.

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16. Appendices

DHL Quote

DHL Global Forwarding

Your AirFreight Quotation

Braga (4700) PORTUGAL To Beijing (100005) CHINA

Quotation ID:	DGF-AFR-PTCN-63367691	Contact Name:	Luciana
Quotation Date:	13 October, 2018	Contact Country/Region:	PORTUGAL
Validity Date:	27 October, 2018	Telephone Number:	+351 21 000 0000
Transit time:	5 Day / Days	Contact Email:	luciana.rib92@gmail.com
		Company Name:	Josefinas

Shipment Details

This quotation is not valid for DHL Express, it covers the selected DHL Global Forwarding service, subject to terms & conditions.

Product	DHL AIR CONNECT
Shipping Terms	Door-to-Door
Gross Weight	100.00 kg
Volume	1.44 cbm
Chargeable Weight	240.48 kg
Goods Description/HS Code	Footwear
Package Type	Pallets/Skids (Fumigated)

Quotation Charges

	Quote Charges
Origin Charges	134.79 EUR
Export Customs Clearance	70.00 EUR
Main Carriage Charges (Freight)	443.05 EUR
Destination Charges	101.57 EUR
Import Customs Clearance	43.75 EUR
Cargo Insurance	N/A
Total Charges	**793.16 EUR**

DHL Global Forwarding Commercial Terms & Conditions

(valid as of March 1st, 2018)

General Conditions

- DHL Global Forwarding, the freight forwarding business unit of DP DHL Group and all its subsidiaries and affiliates, may choose to fulfill any contractual obligation, using any carrier or subcontractor and routing at its sole discretion, unless otherwise agreed in writing.

Gantt Project

		JANUARY				FEBRUARY				MARCH				APRIL				MAY				JUNE				JULY			
ACTIVITY	RESPONSIBLE	WEEK 1	WEEK 2	WEEK 3	WEEK 4	WEEK 1	WEEK 2	WEEK 3	WEEK 4	WEEK 1	WEEK 2	WEEK 3	WEEK 4	WEEK 1	WEEK 2	WEEK 3	WEEK 4	WEEK 1	WEEK 2	WEEK 3	WEEK 4	WEEK 1	WEEK 2	WEEK 3	WEEK 4	WEEK 1	WEEK 2	WEEK 3	WEEK 4
Recruitment of the new internationalization manager	GM																												
Negotiation process with Pedder Group	IM & GM																												
Negotiation process with Farfetch	IM & GM																												
Josefinas increase of production	Producers																												
Adaptation of Josefinas website	IT Company																												
Creation of the WeChat account	IM & GM																												
Beginning of promotion through WeChat	PR & Com.																												
Shipment of Josefinas production to Beijing	DHL																												
Sales start in On-Pedder stores	Pedder Group																												
Necessary activities to add Josefinas to Farfetch website	Farfetch																												
Entry of Joefinas in farfetch.com	Farfetch																												