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The Replication of Strategic Format as Internationalization Method

Calzedonia Case

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ABSTRACT

Business organizations may expand internationally by replicating part of their value chain, such as products, prices, marketing and communication tools, organizational structures and stores design through the creation of a format. However, it is difficult for replicators to find the right format, to adjust it in order to adapt to local environments and to transfer knowledge abroad. To discover these issues, I studied the organizational structure of Calzedonia, the firm leader of underwear apparel, involving interested offices with long interviews. I find that Calzedonia, after a period of exploration, proceeded in terms of replicating a format in a flexible manner, supporting an ongoing learning process aimed to adapt what is flexible to the market. The format, in fact, presents two fundamental characteristics: fixed features used everywhere without modifications and flexible ones able to adapt locally. Another finding is how Calzedonia uses the format in its internationalization strategy, through franchising network. I conclude the thesis with an overview of the future challenges just approached by the firm: US and China markets.
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INTRODUCTION

Business organizations could expand internationally through different strategies. One of these strategies is by replication. The aim of the businesses is to replicate their value and their success in those foreign countries. I can report different examples of such organizations that expand internationally by replicating a format, such as Hennes & Mauritz, Starbucks, IKEA, McDonald’s. Replicating a well-known format has different benefits, includes economies of scale and brand recognition. The existence of a formula has to confront with the necessity of local adaptation.

What I want to study is the secret formula used in the internationalization process and practices by Calzedonia, the leader of underwear apparel. I want to show that over the last 30 years, Calzedonia, after a period of exploration, proceeded in terms of replicating a format. However, it is not a replication of a fixed format as suggesting by the ‘’replication as strategy’’ literature. Rather, Calzedonia want to use the advantages of replicating a format with the adaptation to local need. This raises the issues of how and in what extent Calzedonia combines replication and adaptation and how it implements the strategy.

In the first chapter, I report the theory behind my study ‘’Replication as Strategy’’ of Winter and Szulanski, together with the international management literature, in order to adapt a static theory to a larger international context, finding what is worth and what part of the theory need to be adapted to my analysis.

In the second chapter, I examine in depth the franchising form of business organizations, used by Calzedonia to replicate the format in foreign countries. Franchising is also defined as ‘’a marketing system and method of distribution’’ in the growth strategy of many companies. It is a way to exploit an established reputation from quality and value of the product involved, using the brand as sign of recognisability everywhere. Franchising allows Calzedonia to replicate the ‘’entire package of standardized components’’ (Conservation Company, 1994).

In the third chapter, I analyse and evaluate the Calzedonia group: the growth in numbers, the brands owned, the organizational structure and the internationalization process. Furthermore, I report the production process, the timing and costs to produce, the distribution system and the
informatics instruments supporting the business organization. Finally, I evaluate the threats and opportunities of the firm through the SWOT analysis, the competitor's analysis and the BCG matrix.

The last chapter is the most important, where I implement the analysis developed thanks to the theories, information about the firm, and the interviews collected. I interviewed the master franchising head manager, the production office, the boss of foreign training office, the sales department office, store staff, store designer and franchising office about the international expansion of Calzedonia in the last 30 years, about how this expansion was supported by knowledge sharing, how Calzedonia replicates allowing local adaptation, how physically shops need to change their format in different countries, how effective the knowledge sharing is and finally about the replication strategy used.

I collected numerous interviews inside Calzedonia headquarters, looking always outside the boundaries of the firm. Finally, I take as an example two new markets for the company: North America and China. These markets represent for Calzedonia new challenges, they are culturally and physically distant and they represent different levels of development, China is an emerging market while America has a structured apparel market. Thus, I analysed what means they use to explore new markets, new ideas and how learning experience is important to the organization.
CHAPTER 1

1. Replication as Strategy

1.1 The theory

In this chapter, I report the research I want to principally use in my thesis that takes replicators as the unit of analysis: the “Replication as Strategy” literature developed by Winter and Szulanski (2001). Replication is fundamentally a way to grow rapidly and strategically. Replication is a phenomenon also called “McDonald’s Approach”, which “entails the creation and operation of a large number of similar outlets that deliver a product or perform a service. Like McDonald’s, many replicators have sustained remarkable growth and profitability, comparable to those achieved through any other model of rapid business growth” (Winter and Szulanski, 2001).

The growth of a business replicator is known as the “repeated application of a simple formula” (Winter and Szulanski, 2001). The formula has to be perfectly developed and replicated each time you want to use it. Furthermore, the replication strategy has to be easy to replicate and maintain. In this way, the replicator earns profit only subtracting the costs of product, services and renting an outlet. This view is superficial and not real. It misses “the exploration aspect of replication, and sees it as rigid form of exploitation that itself is narrow relative to the understanding of that term in the organizations literature” (Winter and Szulanski, 2001).

Successful replicators create value by discovering and refining business models continuously, in fact it is important to choose which components are necessary to replicate the model in different geographical locations, to develop specific capabilities to transfer knowledge, and to maintain the model in operations once it is replicated. “The formula or business model, is typically a complex set of interdependent routines that is discovered, adjusted, and fine-tuned by doing” (Winter and Szulanski, 2001).

The difficulties of creating a “formula” are the capability to recreate something that is complex, imperfect and partially tacit knowledge in selected and specific sites, with different human resources, culture, autonomous agents. For these reasons, finding the right formula to replicate is largely out of an easy process and it takes time. Its value could be eroded by delay because of
time requires investment and because rivals could arrive before. “Urgency is a hallmark of a replication strategy” (Winter and Szulanski, 2001). Therefore, one of the most important prerequisite for using this strategy is to be sure to have a stable business model that does not require additional efforts to refine. In that case, the value of replicating such business model is “speculative and remains so until the model is stabilized and the scope of demand emerges clearly” (Winter and Szulanski, 2001).

1.2 The process

Empirically, evidence suggests that replication strategy is a process that involves two phases:

- Exploration: the research of the business model to replicate.
- Exploitation: the replication of the business model in the market.

The transition from the first phase and the second one is a critical period in which the task is to create and refine the capabilities to replicate activities. It is fundamental to find the balance between exploration and exploitation for long-term survival, without giving up on exploration. Another important factor, as said before, is the speed of replication. The replicator cannot afford to delay the transition to the second phase. It has to use better as possible the limited experience to understand what is both replicable and worth replicating. Winter uses the term “’Arrow Core’’ to refer to “’the knowledge of which attributes are replicable and worth replicating, together with the knowledge of how these attributes are created’’ (Winter and Szulanski, 2001). “’It must be acquired through learning’’ (Winter and Szulanski, 2001). Such learning is held by an organization that has the capabilities to transfer the Arrow Core to new outlets.

1.3 Learning and Replicating

Two characteristics distinguished this theory: the broad scope of knowledge transfer and the dynamic capabilities of the center.

“’The breadth of knowledge transfer is defined by the portion of the total knowledge endowment of recipient organizations that is transferred during replication’’ (Winter and Szulanski, 2001).
A transfer of knowledge can be of a broad scope or narrow scope. It is defined as *broad scope* when “it creates or greatly modifies the organizational context of the outlet or target organization, defining or redefining its identity” (Winter and Szulanski, 2001). It is of narrow scope “if the organizational context of the outlets or target organization remains relatively stable” (Winter and Szulanski, 2001). In a transfer of knowledge of narrow scope, the focus on adaptation is intensive: the replicator modifies internally the knowledge to transfer, in order to adapt the business model to the organizational environment and make minor changes to the local site. It requires more effort. In a broad scope transfer, “adaptation efforts seek to align the target organization to the characteristics of external environment” (Winter and Szulanski, 2001).

“Knowledge transfer of broad scope characterizes replication strategy because such a strategy relies on the creation of outlets that are themselves capable of locally producing their product or service” (Winter and Szulanski, 2001).

The other characteristics of replication strategy is the *dynamic capabilities of the center*. “A central replication capability allows large-scale and rapid leveraging of the business model. This capability evolves with each replication” (Winter and Szulanski, 2001).

The dynamic capabilities of the center are those capabilities that replicator has, such as the deep knowledge of the business model traits that must be reproduced in each outlet, the actions necessary to reproduce those traits, and the right environment in which such business model can have success. So, the principle things in which the replicator has to focus on are: the valued features to transfer, the procedures involved and the procurement methods to carry out those procedures to personnel, sites and buildings, specialized equipment and raw material.

The pace of replication depends on the capacity of the replicators to implement those traits successfully in new outlets and to identify and secure propitious sites for new outlets. This includes the capability to find the site characteristics as the site-specific supply and demand information, competitors offerings, demographics, income and preferred information of locals.

Summarizing, implementing a replication strategy means being in possession of the knowledge of the business models valuable traits to replicate, the methods by which such traits are transferred and the kind of environments where outlets successfully operate. These type of procedures are interrelated. “Good sites are ones where the values attached to features are high, and where costs, both costs from the replication process and from production, are low” (Winter
and Szulanski, 2001).

### 1.4 Template and Arrow Core

The term Arrow core ‘’refers to ideal informational endowment for a replicator of a particular business model. The Arrow core includes all the outlet-local information that accounts for the value-creating potential of the business model when it is leveraged by replication. It specifies which traits are replicable, how these attributes are created, and the characteristics of environments in which they are worth replicating’’ (Winter and Szulanski, 2001).

Prerequisite to this definition is the notion that information is ‘’nonrivalrous in use’’. The fact that information can be used several times and in different places without lose availability. Unlike other economics goods that once used lose their value, information suffers no such diminution. ‘’Information/knowledge is not merely undiminished by intensive use; it is actually improved by it’’ (Winter and Szulanski, 2001).

‘’The economic benefits of a replication strategy accrue to its Arrow core and the dynamic capabilities that implement its replication’’ (Winter and Szulanski, 2001). It is difficult to determine in advance the precise content of the Arrow core. The Arrow core is the hidden truth about replication that it has to be displayed. A successful replication strategy is a hypothesis about the Arrow core, a complex judgment about what is profitable to replicate.

The Arrow core cannot be available at the outset, ‘’must instead be acquired through experiential learning’’ (Winter and Szulanski, 2001). The experiential learning derived from the sophisticated working examples and from a central organization that has the dynamic capabilities needed to support large-scale replication.

Initially, the learning component of the replication strategy is not simply the exploitation of a good idea. It is fundamental to explore which is the better business model. Before defining the Arrow core, a lot of hypothesis about it are developed. ‘’Such hypotheses are developed and refined, and then enacted and tested as additional outlets are being created’’ (Winter and Szulanski, 2001).
A Template is a relatively successful outlet that represents the guiding example of what is desired in a new one. This outlet responds to the question of how a new outlet should look. The historical template is the original outlets that through replication has obtained success.

The template would have different characteristics from the Arrow core. In fact, the template includes both damaging or irrelevant elements to its success and desirable elements that are impossible to replicate, such as the particular personality of a manager. In addition, some features may be tacit. The experience permits replicator to improve the strategy of replication, but it has to face the problem of codify the “how-to” manual. Furthermore, there are competing ideas that have to be tested, analyzed and then included in the strategy.

“Thus, although the Arrow core is “inside” the complex and causally ambiguous template, its content cannot be “read off” simply by close scrutiny. Rather, it is learned from early experience with actual outlets” (Winter and Szulanski, 2001).

An efficient way to understand which is the Arrow Core is to examine a successful local business with the aim to find the replicability but without any preconceptions about the basis of success. In fact, the causes of local success are various and the promise of successful replication does not inhere all of them. For example, an important human resource could be used giving him additional locations, but this is not a true replication because such leveraging spreads the idiosyncratic resources across locations. “The resource leveraged by true replication strategy is an informational resource, and information is not ‘spread thin’ by being used at multiple locations” (Winter and Szulanski, 2001).

“There is iteration between the “facts” represented by successive templates, and the “theory” represented by developing ideas about the Arrow core. The learning process may begin from an idea of how something works; this idea is then used to create a template. Conversely, the process may begin with an attempt to replicate an existing template. The capability to replicate develops over time as repetition and experience reveal the effects of the attribute mix on the success, cost, and robustness of the replication process.” (Winter and Szulanski, 2001)
1.5 Replicating successfully

Replication strategy, as stated before, has two basic phases: exploration to discover the Arrow core and the template and exploitation by implementing the replication. ‘‘Empirical evidence suggests that exploration is more salient early on while exploitation becomes more salient later’’ (Winter and Szulanski, 2001). “Most of the costs incurred by the chain to create and refine a business format occur early in the life of the chain. Later in a chain’s life cycle, the chain operator clones’ units.” (Winter and Szulanski, 2001)

1.5.1 Successful Exploration

Exploration is less effective when the hypothesis developed from the Arrow core is never tried. This may happen if the features of the Arrow core are not clear or cannot be reproduce. Another error that would occur is the extreme adherence to a dogmatic initial effort that create the Arrow core. It is important to arrive at firm ideas about Arrow core but most important to remain flexible in the application.

‘‘HYPOTHESIS 1. A principled but flexible conception of the Arrow core will be associated with successful exploration. ’’ (Winter and Szulanski, 2001)
1.5.2 Successful Exploitation

The exploitation could be *guided by a template* or *replicating the template precisely*. To find the key to success in a replication it is necessary to involve many simultaneous rollouts of tested business model. The cost of mistake and the risk of failure are high in this process. “In the early stages of a replication strategy, the historical template is often considered to be the pilot implementation. At later stages, other outlets may become test sites for additions and extensions to the original template, which are then consolidated in a new template” (Winter and Szulanski, 2001).

If the template is taken as an example of a way of working and many outlets have already been created, not every replication effort is guided by a template. In many cases, more outlets could give different contributions to a new one. The result in an explicit mix of different outlets. Replicators may rely exclusively on the expertise of a replication team that has the experience derived from a catalogue of existing outlets. To say that a new store will succeed because it combines different features in a new format, means that the impact of the interdependencies is positive. Interdependencies can be positive and bring to a successful new outlet or can be negative and be the source of several problems.

“HYPOTHESIS 2. *The exploitation of a business model by replication is more successful, i.e., less prone to cost overruns, to schedule slippage and ultimately to commercial failure, when it is guided by a template.*” (Winter and Szulanski, 2001)

*Replicating the template precisely* at an early stage is impossible, because initially the replicators do not know the exact characteristics of the Arrow core, he has to experiment different templates to find the real Arrow core. After the period of experimentation is necessary to “freeze the design” and at that point, precision in replication becomes a key issue. An idea to precisely implement the Arrow core is to duplicate exactly every feature, every single detail of the template.

The problem of this approach is that it includes the costs of replicating elements that may turn out to be irrelevant or even deleterious features. More importantly, this obstacle slows down the pace of incremental improvements and blocks the learning and innovation of growth. Another
The problem that could emerge in replicating precisely the Arrow core is to stop the process of discovering it. In fact, an error that can occur is to freeze the template in an early stage and miss fundamental learning experience later. Furthermore, replicating the same template elsewhere does not mean that the template well adapted to the characteristics of its new environment.

The alternative to use this type of template is to allow the new outlet to adapt some characteristics at the new environment. Unfortunately, when the template is complex, a more flexible approach makes the replication effort costlier and slower. Adaptation may create new problems that have to be solved in loco with a process of trials which slows down profitable growth.

Thus, “the replicator faces a dilemma akin to the general exploration-exploitation dilemma which we call the replication dilemma” (Winter and Szulanski, 2001). The dilemma engaged the precision replication, the learning experience and the adaptation process. Evidence suggests that when the template is successful, it may be preferable to opt for strict precision. For example, most local franchise operators prefer to follow an established procedure because it is created with an interlocking set of actives that discourage improvisation and mostly because if the formula is a winning one there is no reason to change it. An advantage to having a precise procedure to follow is that it embodies the knowledge gained from past mistakes. An additional benefit is the availability of knowledgeable people and usable equipment in other outlets of the network.

When profitability is the main goal, Winter and Szulanski develop the third hypothesis:

“HYPOTHESIS 3. When guided by a template, the exploitation of a business model by replication is more effective and profitable when replication tactics rely on an initial effort to copy the template precisely”. (Winter and Szulanski, 2001)

1.6 Replication in International Context

The international business literature has not dealt systematically with international replicators, even if there is an element of replication to all MNCs, because the Replication as strategy research was developed with reference to national firms. Theoretically we have little information about what features are best to replicate across country, how many local variations are allowed, how to modify and adapt traits, how to develop the learning process and so on. The replication
as strategy theory is a fundamental starting point for research about these issues.

Winter and Szulanski in their research did not find the exact point at which the explorative phase has to stop, and the template has to be ‘frozen’ in order to proceed with the exploitative phase of replication. Furthermore, the explorative process is costly because the format is continuously revised in order to find the perfect template to replicate, but results in an inefficient procedure. In fact, Winter e Szulanski seem to conclude that once the format is decided, any revision is inefficient, so the format has to be fixed. This could be a problem for international expansion, because of the heterogeneous environment that the format has to face during the process of internationalization, and the learning process that sustains it.

In the Uppsala model, internationalization is explained as a process of incremental resource commitment, driving by experiential knowledge: the process starts from domestic markets, moving on to culturally and/or geographically close countries, and subsequently moves to culturally and geographically more distant countries. In the process, foreign operations typically move from exports to using more demanding operation modes (sales subsidiaries, etc.).

Experiential knowledge is vital in the internationalization process, because it reduces risks involved in going abroad and allows the firm to acquire knowledge about external and internal resources in order to understand the best way to use them and combine them. In addition, it is important to share the knowledge acquired with the rest of the globally expanding firm.

In order to understand how the internationalization process uses the replication strategy, it is important to know how knowledge and information flows within the company and how the administrative team influences such flows in desired directions and at desired levels. The knowledge transfer between headquarters and subsidiaries is consistent with replication as strategy theory and the role of the center in replicating format. However, it is also important to collect the experiential knowledge acquired by subsidiaries, in order to remain competitive in an increasingly global environment.

As Anna Jonsson and Nicolai J Foss claim in their research “this view of flexibility and ongoing organizational learning in the process of international expansion is in rather stark contrast to the view of firm expansion in the replication as strategy view” (Jonsson and Foss, 2011).

We do not forget how important it is for MNCs to use some patterns to offset the liabilities of foreignness, the ownership advantages and use a knowledge that is fungible ‘specific to the firm
but less specific to uses or locations’’ (Jonsson and Foss, 2011). A useful format for replication has to be created by the center but also fungible in a way that the replication can maximize the advantage of proprietary such as strong brand name.

1.7 Financial Performance Implications

Starting from the research of Aspara (2010) in the Journal of strategic management, I want to focus the attention on the relationship between a firm’s financial performance and the firm’s strategic choice in the business model orientation: when innovating and when replicating. The research is based on survey data including top managers’ reports from approximately 500 firms.

What this research wants to cover is the gap created in the previous studies in recognizing one important aspect of strategy: the emphasis on replication of its own successful business model. ‘‘Indeed, a firm’s approach to replication can be considered to be a highly important strategic decision related to that of business model innovation. Specifically, once having discovered and refined a new business model, replicators may create further value by choosing the necessary components to replicate that model in suitable geographical locations’’ (Aspara, Hietanen, Henrikki, 2010)

The contribution of this study is the analysis of the financial performance implications of innovation strategies, paying particular attention to differences between firms that emphasizes the replication of the innovative business model and those that do not. Furthermore, Aspara takes into considerations the differences between small and large firms in choosing the most profitable strategy.

Considering large firms, they found that ‘‘firms which have a high strategic emphasis on business model innovation but low on replication have lower average financial performance in terms of profitable growth than firms which have low strategic emphasis on business model innovation (and replication)’’ (Aspara, Hietanen, Henrikki, 2010). These findings are very different from certain studies, which argue that business model innovation alone would lead to superior performance outcomes, such as ‘‘Strategy Innovation’’ or ‘‘Blue Ocean Strategy’’.

On the other hand, the research finds that ‘‘those large firms that combine a high strategic
emphasis on business model innovation with a high strategic emphasis on replication has superior average performance – both compared to firms that have high strategic emphasis on business model innovation but low on replication and compared to firms that do not put particular emphasis on either” (Aspara, Hietanen, Henrikki, 2010). So, I can link this study with the one reported previously of Winter and Szulanski: profitable growth may be generated not only by the initial innovations but by the capacity to replicate in an efficient way those innovations. In fact, Aspara concludes its research claims that for large firms, mere business model innovation without replication results in lower average financial performance.

For small firms, the results suggest the contrary. “Specifically, those small firms that have high emphasis on business model innovation but low on replication were found to have higher average growth than small firms that have low emphasis on business model innovation (and low on replication)” (Aspara, Hietanen, Henrikki, 2010). The difference is easy to understand, large firms have already found the valuable and well-functioning aspects of their business model, so for those firms it is more profitable to replicate that kind of business model. While, small firms do not have much to replicate yet. It is always important for large firms to put conscious strategic emphasis on replication so that innovation is not overshadowed by the inertia of existing organizational structure. Small companies, may be flexible in their replication strategy in order to shift if necessary.

“Moreover, we found that among small firms especially, the average profitable growth of firms that had high strategic emphases on both business model innovation and replication did not significantly differ from the average profitable growth of firms that had a high emphasis on business model innovation but low emphasis on replication” (Aspara, Hietanen, Henrikki, 2010). This is because small firms have difficulties in combining competing strategies or because, above all in the early stages, innovation and replication activities overlap in small firms.

Managers have to pay particular attention to which business model is better to implement, because not all firms will have better performance through an innovation business model, traditional means of competing and doing business could bring the same result for many firms. In fact, the results indicate that a strategy that put higher emphasis on business model innovation and no emphasis on replication is associated with lower average financial performance than a strategy that do not consider innovations at all.
Instead, small firms do not have to put high emphasis on replication, the business model innovation strategy seems to generate similar profitable growth outcomes, independently from the initial replication strategy. ‘‘In any case, it might well be wise to cherish the notion that a small firm is in a good position to develop novel business models particularly to create new market niches’’ (Aspara, Hietanen, Henrikki, 2010).

There are some limitations about the present study to take into consideration. First of all, the limitation of consider only the performance of the past year, so it is not possible to know how long and how consistently the firm had put emphasis on the strategy, consequently is not possible to measure the perseverance of one strategy on the financial outcomes. Another limitation is that the study is build on a single country, Finland. So, the results might not be generalizable to developed countries because Finland has a small domestic market and rely highly on export.

In sum, I can underline these five point:

1. The replicator has a wide access to the template, that represents a working example of the successful business model.
2. The replicator learns from the template experience and want to invest to facilitate replication. When replication occur, the challenge is not only to copy the template but also to have the capacity to understand the environment.
3. The replicator has to have the capability to transfer knowledge, to select the right site, to make advantageous acquisitions.
4. The replicator has the advantage of being a social entity committed to and experienced in the replication task.
5. A successful replicator has the knowledge-based advantage and the source of advantage.

There are different activities to replicate that have to fit.

1.8 Creating, Retaining and Transferring Knowledge

The globalization, the changes in technology, the new way of organizing work, the increased competition put the attention on issues of organizational learning and knowledge management
Knowledge is a vital resource for a business organization, it is crucial to obtain a competitive advantage. Nonaka (1994) distinguishes between ‘’explicit knowledge’’ and ‘’tacit knowledge’’ the first one can be transmitted into formal, systematic language. The second one, it is based on action, commitment and involvement in specific context so it is not transmittable through a formal language.

Another distinction, made by Argyris and Shon (1978), is the knowledge as learning and knowledge as memory. The first one is the process of creating and accumulating new knowledge. The second one, the memory, is the capacity to retain information for future use. ‘’The learning of new knowledge is related significantly to the pre-existing knowledge held by the individual or the organizations’’ (Argote, McEvily, Reagans, Baum, 2003) point out that learning tends to be better if based on sound initial choices, as opposed to trying to innovate. Cohen and Levinthal (1990) relate the ability of the firm to evaluate and utilize new knowledge to the evolving knowledge base already accumulated by the firm.

The organizational knowledge is influenced by the interactions between individuals in the organization. In fact, the way in which individuals cooperate within an organization affect the knowledge they apply to business activity. ‘’We thus define knowledge flow structure as the routines and practices that allow these interactions and the accumulation of new knowledge into the organization’s repository’’ (Brock, Yaniv, 2007). The knowledge flow structure reflects the organizational tacit knowledge, that is not possible to formalize but it creates new knowledge.

The strategic decisions, which are complex and uncertain, tend to be made by a group rather than by an individual, because the cognitive capacity of a single individual is overwhelmed by the capacity of a group. ‘’However, the complexity and multidimensionality of both micro- and macro-organizational problems impose cognitive barriers, which limit the organization’s ability to process all the relevant knowledge needed for decision making’’ (Brock, Yaniv, 2007).

One of the theories that supports the statement above is Bounded Rationality (Simon 1955). The bounded rationality ‘’ is the inability of firms to maximize over the set of all conceived
alternatives when dealing with real-life decision problems that are often too complex to comprehend” (Brock, Yaniv, 2007). To solve this problem, Nelson and Winter focus their studies on the evolution of simple, stable routines useful to guide action. It is the impossibility of the firm to know all possible alternatives that drives the development of routines. Routines are part of a pattern that influences the decisions of a firm that includes a large amount of alternatives. In this sense, it is important to overcome bounded rationality through organizational attention.

“Attention can be defined as an ability to focus on and maintain interest in a given task or idea, including managing distractions” (Brock, Yaniv, 2007). Garg (2003) show that the extent to which CEOs pay attention to the environment was a significant predictor of performance. Organizations have the ability to focus on and maintain interest in tasks, ideas, inputs, and stimuli. The attention of the organizational members is important because it influences the focus of the organization and the pattern they will use. Because of bounded rationality, organizational attention allows firms to choose the right inputs in a myriad of inputs. “The attention capacity is the span of attention that the organization can use in order to deal with inputs from its environment. The greater is the organization attention capacity, the greater is the firm’s ability to deal with different issues and sources of knowledge” (Brock, Yaniv, 2007).

It was created a bridge between the two theories: organizational attention and replication as strategy. When the value-chain of a firm depends heavily on the massive transfer of knowledge, for example opening a shop in franchising that requires the transfer of knowledge regarding production, customer service, sales, sourcing, product, operational routines, it is fundamental to have a mechanism that enables the transfer. This mechanism for replicating a strategy could be the organizational attention.

The model proposed by David M. Brock & Eyal Yaniv describes the complex processes of attention selection of the chain and the influence of different sources of knowledge (the template, competitors, customers, and other outlets) on its replication” (Brock, Yaniv, 2007). In other words, they develop a model that reveals the influence of organizational attention on the development of the Arrow core and the template.

In sum, the theory claims “The firm has access to various sources of knowledge and to different
kinds of knowledge, but due to its limited attention capacity, it can not deal with all this variety. Theoretically the firm owns all this knowledge, but practically it can exploit only a portion of it. The exploited portion is determined by organizational attention. The exploited knowledge will be transferred and will become part of the firm’s knowledge repository that can contribute to its competitive advantage’’ (Brock, Yaniv, 2007).

Organizational attention is fundamental to acquire new knowledge both from internal and external sources. Organizational attention is influenced by the knowledge already present in the firm, and the position of individuals and units within the organization.

The model, reported in the figure above, ‘‘describes a cyclic process of knowledge transfer, where its control mechanism is organizational attention’’ (Brock, Yaniv, 2007). Organizations select knowledge from different sources, according to their attention capacity, which depends on the organizational decision structure. The selection of new knowledge is influenced by the attention capacity and the existing knowledge. The selection of knowledge is reflected in the actions of organizations and in the final outcome. It is a cyclic process because the outcomes become part of the existing knowledge, which will influence the successive process.
Thus, new knowledge derived from outside the firm and inside the firm. What makes the new knowledge of value is the way it is transferred within the organization. The model has two levels of analysis: “the outlet and the firm (the chain). The accumulated knowledge, based on the experience of the outlet’s staff, can be of great value for the firm’s knowledge – but only if it comes to the attention of the firm’s decision makers. On the other hand, the outlet actions can be built upon the template provided by the firm and on other knowledge sources (e.g. customers, employees, competitors, fellow outlets)” (Brock, Yaniv, 2007).

In the selection process reported above, the firm’s knowledge derived from the analysis of the template (customers, employees, competitors, etc.). The outlet resulting from this selection is the successful replication of that outlet. The actual replication becomes part of the existing knowledge as tacit knowledge that it is not possible to codify but it will be transfer to new outlets. It is important to recognize the great value of new knowledge, in order to use it in the future for business models and templates.

So, organizational attention derives from the attention capacity and selection. Attention capacity is a function of organizational context and the selection depends on attention capacity and existing knowledge.
Attention capacity is the result of various organizational factors. Attention capacity is defined also as the number of subjects that can be evaluated at the same time. Organizations can handle more knowledge in respect to humans, if it is processed. In fact, organizational attention capacity is the result of the knowledge, processed by the outlets. Attention capacity of the center is greater when the level of knowledge processing in the outlet is higher. Finally, the attention capacity derives from the organizational decision structure; it is higher when the empowerment given to the outlets to process knowledge and making decisions is greater.

1.9 Knowledge Selection

The available sources of knowledge can be divided in internal sources (employees, knowledge, documents, experience, etc.) and external sources (competitors, customers, literature, etc.). As said before, the selection of the sources depends on the attention capacity and existing knowledge.

The selection of sources to accumulate new knowledge is influenced by the existing one. Cohen and Levinthal (1990) say that ‘’the ability of the firm to evaluate and utilize new knowledge to the evolving knowledge base already accumulated by the firm’’ (Brock, Yaniv, 2007).

In fact, the organizational attention will filter that information coming from sources that rejected existing knowledge or are considered too costly to acquire. Existing knowledge will always affect the selection of knowledge sources and the knowledge that is consistent with the existing one will always have priority.

1.10 Replication Outcomes

There are three important characteristics of replication strategy: uniformity, accuracy and distinctiveness. Each one creates competitive advantage. Uniformity is a purpose of the replication, which means being similar to the other outlets in the chain. Uniformity depends on the level of knowledge retention, if knowledge is dispersed it is more difficult to have a uniform replication. ‘’The chain’s attention directed to management rather than to staff knowledge enhances the level of the outlets’ uniformity’’ (Brock, Yaniv, 2007).
Accuracy is the level of similarity between the template and the actual outcomes. Accuracy depends on the understanding of the employees about the template. If the template is simple enough to replicate, it is more likely to become accurate. So, it is important that chain’s management pays attention to the input provided during the replication. The accuracy of each outlet might be different, at chain level the degree of accuracy is an average of the previous one.

“...The chain’s attention directed to the outlets enhances the average accuracy level of replication. Attributing higher priority to the knowledge provided by the outlets will enhance the replication accuracy of the chain” (Brock, Yaniv, 2007).

The last feature of the outcomes is distinctiveness. The replication strategy is successful if it has the ability to develop inter-chain differentiation and within-chain uniformity, in order to adapt some characteristics to different environments. Distinctiveness is a source of competitive advantage. “...To achieve this, the firm needs to pay attention to the competitors, and develop a unique competitive business model to differentiate itself from other chains”. Firm’s attention, focus on competitors, enhances the level of distinctiveness.

1.11 Evolution of Arrow Core

“...The selection of certain knowledge sources rather than others affects the process of knowledge accumulation by the firm” (Brock, Yaniv, 2007). As reported earlier, the firm accumulates knowledge thanks to the selected sources, so the selection process made by the organizational knowledge is one of the most important strategic assets of the firm. This is a cycle process, where organizational knowledge is a dominant factor but the existing knowledge is another dominant factor.

“...The process of discovering the Arrow core’s elements by the replicator (i.e. the chain’s owner and/or top management who are responsible for replicating the successful business model) is evolutionary in its nature” (Brock, Yaniv, 2007). The existing knowledge is always strengthened by new information. Winter and Szulanski state that the main objective of exploration activity is to uncover the Arrow core and find its successful traits. The Arrow core has explicit and tacit knowledge. The replicator knows the last one but he cannot codify it, he could transfer it unintentionally (through other people) or he could have translated tacit knowledge in explicit
one by other observers, like staff, customers. For example, replicators could promote the service style through hiring and training decisions. Polanyi (1996) says ‘‘we can know more than we can tell’’.

The fundamental preposition: ‘‘Due to limited attention the replicator will focus on limited sources of knowledge (internal and external) when deciding upon the relevant items to be included in the template. The development of the template will be affected by part of the available sources. Firm’s management will specify fewer items in the template than will outlet’s staff, customers and competitors. The replicator replicates, unintentionally, some features, that will be recognized by other observers but not necessarily specified by the replicator. Because some unformulated tacit knowledge may still be brought into the process, in some cases other observers will recognize features that were replicated unintentionally by the replicator” (Brock, Yaniv, 2007).

1.12 Retail Strategy Choices

As stressed before, the choice of the right strategy is crucial to obtaining competitive advantage. Looking at the fashion sector, the retail strategy choices take into account the economic costs for the firm but above all the product coherence and brand identity.

Retail strategy analyses first of all the market features of product placement to reach an economic-strategic balance and then the right format to implement internationally. In the fashion system, the distribution channels are fundamentally two: retail (direct) and wholesale (indirect). A firm can decide to implement one of the two strategies or maintain both, in order to distribute the risk between different intermediaries.

During the ’70 and ’80, fashion firms preferred to rely on wholesale, in the following years companies start to invest in supply chain systems that does not rely anymore on intermediaries, because they want to have a direct communication with the customer.

This evolution is the result of a changing in the costumers need. Clients began to demand products reflecting the last trends, in other words products able to recognize immediately the market signals. So, companies have to change their strategy to more rapidly meet customer’s
The direct channels reveal greater challenges for the firm, but also higher competitive advantage. With the constitution of a direct channel, firms reduce to zero the number of intermediaries, growing with the sales through proprietary shops or externally through the creation of franchising networks. This strategy allows companies to obtain information faster (ex. sell-out data) and of greater quality. Thanks to the proximity to the client, managers can adopt product policy of offers and distribution that satisfy the sizes and models demand. Nevertheless, these distribution strategies require heavy investment and an optimum function regime.

In that case, considering the one brand nature of fashion firms that adopt this form of distribution strategy, it is important to choose the right format between all the available.
CHAPTER 2

2. Franchising

2.1 Introduction

In the first chapter I analysed the theory of replication strategy in internationalization process. I reported how replication will occur when a business program has proved to be successful and worthy of expansion to additional sites and how the knowledge influence the process. Now I will report which business model firms use in order to replicate successfully.

Franchising is “a commercial formula in which the firm mother (franchisor), through a franchising contract, grant to the shop owner, distributor or sealer (franchisee), the right to commercialize its products or services, using the brand and the commercial technic previously tested by the franchisor, in exchange of the payment of entrance right (franchising fee) and periodic fee’s (royalties)”. (Bonani, 2008)

The franchise approach to replication involves a “program prototypes whose primary components are clearly drawn and largely inevitable” (Conservation Company, 1994). In fact, the common features are applied in all settings where the business operate and they are no dependent on local context. These fixed characteristics “are usually propagated through the use of appropriate technical assistance, training, marketing and other services provide from some central source” (Conservation Company, 1994).

Franchising is a “top-down approach in its implementation” (Conservation Company, 1994). The central entity defines the format program and the goals of expansion, provides supportive services and manages the resulting network of franchisee. Franchising, wherever feasible, “is the easiest form to manage and evaluate, given the invariability of many of its components” (Conservation Company, 1994).

Franchising is also called “a marketing system and method of distribution” in the growth strategy of many companies. It is a way to exploit an established reputation from quality and value of the product involved, using the brand as sign of recognisability everywhere.
The business format of franchising is mostly used also in social policy, for example granting a local operator the right to use the brand name and distribute a given product or services but assuming that operators are conform to the “‘entire package of standardized components’” (Conservation Company, 1994). Several financial institutions specialized in providing capital to franchises, “‘with many franchisor setting up start-up funds’” (Conservation Company, 1994).

In this chapter, I will explain how the franchising works: different contractual forms, the importance of brand awareness and technology, the advantages and disadvantages for the parties and the risks involved. In addition, the franchising will be contextualizing in the socio-economic world, with a forecasting studied about 2017, starting from three variables: establishment, employment and outlook.

2.2 The franchising and the Socio-Economic Context

In 2006, Price Waterhouse Coopers, the International Franchise Association and subsequently in 2008 the European Franchise Association declared that franchising was increasing its importance in US and Europe economy. These declarations reflect the data registered before the great recession.

The deep and long lasting economic crises has been the occasion to rethink consume models. In fact, in this period consumer’s behaviour changed, becoming always more directed to the research of better quality/price relationship.

After the crises, the franchising importance, has been further increased. In fact, entrepreneurs preferred the franchising solution rather than trust on internal managers, both for the ease of capital access and for the possibility to share risks between the actors engaged in the business.

So, in this socio-economic context the franchising has set itself as the guarantor of products and services quality for the consumer: the brand network and the price homogeneity everywhere has reassured the consumer, who has developed loyalty towards franchising networks.

Thanks to the stability of franchising networks, today this commercial formula is the distribution
model more adapt to deal with the market, always more selective and competitive. Furthermore, the flexible and innovative structure allows the franchising to be able to withstand market pressures. The European Franchise Federation in 2011 defined the franchising as “a vector to create economic and benefit activities”. Analysing the data, the result was that franchising has promoted the birth of small enterprise and jobs, it has increased the market competition, raising the qualitative standard and the export ease of firm business model.

The franchising system, after a declined in 2009 together with the world economy, has been used as rebirth instrument. For example, in USA, which is the second country for franchising number (first is China), it has been registered positive growth indexes since 2010, regarding: franchising employees number, output level, PIL and franchise creations. The majority of the empirical work on franchising over the last two decades has relied on US data. Most country’s national agencies, in fact, collect data by sector of activity, but that analysis contain no information on franchising or franchised chains.

The research I will report below “presents a forecast of the franchise sector of the US economy in 2017 prepared by IHS Markit Economics for the International Franchise Association’s Franchise Education and Research Foundation (FERF)” (IHS Markit Economics, 2017). I took the franchise sector of US economy because of the availability of data and because it is representative of global franchise economy, being the second country for franchising number.

“‘The franchise sector grew faster than overall GDP in 2016 and will continue to outpace overall economic growth in 2017, although by a smaller margin. We estimate that the number of franchise establishments grew 1.7% in 2016 and will increase 1.6% in 2017. Franchise employment was up 3.5% in 2016 and it is forecast to grow 3.3% in 2017. Franchise output grew 5.8% in 2016 and will grow 5.3% in 2017.’” (IHS Markit Economics, 2017)
The analysis I will report is based on a division of franchisee business into ten groups. This division makes the analysis more precise because the growth outlook differs among the groups with a range from 0.9% (Commercial & Residential Services) to 6.8% (Table/Full Service Restaurants), as it is possible to see below.
The higher expectations for 2017 are clearly the sector of Quick Service Restaurant and Table/Full service Restaurants, they rank 1st and 2nd in employment growth forecast (4% and 3.9%) and output growth percentage (respectively 6.7% and 6.8%), maintaining the 2nd place for establishments rate forecast (1.9% both). The retail of products & services will see output growth of 5.5% in 2017 (rating fourth), with an increasing of 1.7% in establishment rate and 3.2% of employment increasing percentage.

### 2.2.1 Franchise Business Index

The estimates, reported above, of output, employment, establishment in the franchise industry can give an idea of the size and growth of the world franchise industry. The data inputs used to make these estimates are published on annual basis, so they loose a more timely reading of the business environment.

The Franchise Business Index (FBI) is a monthly index of franchise activity that was developed by IHS. The FBI “combines indicators of the growth or decline of industries where franchise activity has historically been concentrated with measures of the demand for franchise business services and the general business environment” (IHS Markit Economics, 2017). The components of this index are:

- Employment in Franchise Businesses (ADP)
• Number of Self Employed (BLS)
• Unemployment Rate (BLS)
• Retail Sales of Franchise-Intensive Industries (Census Bureau)
• Small Business Optimism Index (NFIB)
• Small Business Credit Conditions Index (NFIB)

![Table showing Franchise Business Index](image)

As it is possible to see above, the FBI increased on average 0.3% per month in 2016. Focus on November month the index was up 2.7% compared to November 2015. All components of the index made positive contributions to the Franchise Business Index.

### 2.2.2 Outlook Summary

There are many factors that have been creating a decline on real GDP growth: ‘‘weak exports, flat government spending and an inventory correction, are of less direct relevance for the health of franchise sector of the economy’’ (IHS Markit Economics, 2017).

IHS forecasts that there will be an increase in the pace of US recovery, from 1.6% to 2.3% in 2017, both for an easing in recent inventory correction and the investment in energy-sector. The franchise sector will not be influenced by their easing. It will see an important growth in 2017, but near those 2016.

As the research reports, the consumer spending will grow and the business investments will accelerate. ‘‘The franchise sector is still expected to grow faster than the economy as a whole in most of its business lines’’ (IHS Markit Economics, 2017):

- The number of franchise establishments will grow at 1.6% in 2017 (1.7% in 2016)
- The franchise employment will grow at 3.3% in 2017 (3.5% in 2016)
• The output growth of franchise business slows a little from 5.8% in 2016 to 5.3% in 2017.
• The gross domestic product (GDP) of franchise sector will increase by 5.2% in 2017. The franchise sector contributed approximately 3% of US private GDP in nominal dollars.

<table>
<thead>
<tr>
<th>Franchise Business Economic Outlook: January 2017</th>
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<tr>
<td></td>
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<tr>
<td>Establishments</td>
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<tr>
<td>Percent change</td>
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<tr>
<td>Employment (‘000)</td>
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<tr>
<td>Percent change</td>
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<tr>
<td>Output ($Billions)</td>
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<tr>
<td>Percent change</td>
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<tr>
<td>GDP ($Billions)</td>
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<td>Percent change</td>
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The following graph shows the franchise business growth in the last three years with the forecast about 2017, considering different factors. Growth rates and GDP are in nominal dollars.

When policy changes under new administration could have both positive and negative impacts on the franchise business outlook. Changes in regulatory environment could affect franchise index, such as labour issue that could affect franchise business operations, immigration policy that could be a threat to employment growth. "With the aging of the Baby Boom generation, the
US economy will be increasingly dependent on immigration for labour force growth” (IHS Markit Economics, 2017). The recent Trump immigration policy could result in negative net international migration, which means a slow down of US employment growth.

Several sectors where franchising is present have an above average employment of foreign-born workers. ‘’About 38% of workers in the lodging industry and 24% of restaurant workers are foreign born’’ (IHS Markit Economics, 2017).

‘’We estimate that total franchise employment grew 3.5% in 2016, and we expect a similar pace of employment growth in 2017 (3.3%). The table/full service and quick service restaurant lines will continue to be the growth leaders, with quick service restaurants increasing their employment by 4.0% in 2017 versus 3.9% for full service restaurants. Our forecast shows personal services moving up a spot to number three, pushing retail products & services to number four in employment growth in 2017, followed by the retail food business line to round out the top five’’ (IHS Markit Economics, 2017).

2.2.3 Establishments by Business Line

The estimation of IHS research, reported in the figures below, forecasts that ‘’the number of franchise establishments increased on average 1.7% across all 10 business-format lines in 2016, and growth will be about the same in 2017 at 1.6%’’ (IHS Markit Economics, 2017). The personal services line will take the lead with 2.3% growth, followed closely by the quick service and table/full service restaurant lines at 1.9% growth.
Here the estimation of total franchise employment is by 3.3% growth in 2017, registering a slight decline compare to 2016 (3.5%). The leaders of employment remain the table/full service and
quick service restaurants increasing respectively by 4% and 3.9%.

![Franchise Employment by Business Line, 2013-2017: January 2017](image)

(IHS Markit Economics, 2017)

![Franchise Business Employment Growth: January 2017 Forecast](image)

**FIGURE 10**: Franchise Business Employment Growth: January 2017 Forecast
(IHS Markit Economics, 2017)
2.2.5 Output by Business Line

“We estimate that total output across all franchise business lines grew 5.8% in 2016 – up from 5.6% growth recorded in 2015. We expect the pace of growth in 2017 to tick down to 5.3%” (IHS Markit Economics, 2017). The restaurant business lines (full service and quick service) remain the leader in the franchise sector, with growth of 6.8% and 6.7% respectively.

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>($Billions)</td>
<td>2013</td>
</tr>
<tr>
<td>Automotive</td>
<td>34.57</td>
</tr>
<tr>
<td>Percent change</td>
<td>4.6%</td>
</tr>
<tr>
<td>Business Services</td>
<td>79.09</td>
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<tr>
<td>Percent change</td>
<td>5.9%</td>
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<tr>
<td>Commercial &amp; Residential Service</td>
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<tr>
<td>Percent change</td>
<td>4.4%</td>
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<tr>
<td>Lodging</td>
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<tr>
<td>Percent change</td>
<td>6.6%</td>
</tr>
<tr>
<td>Personal Services</td>
<td>28.27</td>
</tr>
<tr>
<td>Percent change</td>
<td>4.9%</td>
</tr>
<tr>
<td>Quick Service Restaurants</td>
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<tr>
<td>Percent change</td>
<td>5.8%</td>
</tr>
<tr>
<td>Real Estate</td>
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<tr>
<td>Percent change</td>
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<tr>
<td>Retail Food</td>
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<tr>
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</tr>
<tr>
<td>Retail Products &amp; Services</td>
<td>24.12</td>
</tr>
<tr>
<td>Percent change</td>
<td>6.3%</td>
</tr>
<tr>
<td>Table/Full Service Restaurants</td>
<td>52.24</td>
</tr>
<tr>
<td>Percent change</td>
<td>6.1%</td>
</tr>
<tr>
<td>Total</td>
<td>571</td>
</tr>
</tbody>
</table>


Franchise Business Output Growth: January 2017 Forecast

2.2.6 Franchise Businesses' Contribution to GDP

After the analysis of the components in each group where franchise business is concentrated and after the calculation of the relationship between sales (gross output) and the value added in these industries, IHS developed an estimate of the contribution to US GDP by the franchise sector as a whole.

“We estimate that franchise businesses accounted for approximately 3% of US private GDP or a total of $405 billion in 2016. Based on our employment and output forecasts for franchising in 2017, we project that nominal GDP of the franchise sector will increase by 5.2% to $426 billion in 2017. This will exceed the growth of total US GDP in nominal dollars, which – with moderately low inflation – is projected at only 4.7% in 2017” (IHS Markit Economics, 2017).

2.2.7 Distribution by Sector

The research explained before focuses on different industry sectors in terms of the number of establishments, employment and output based on the last three years, forecasting 2017 trend. Looking at the figures below, the establishment, employment and output distribution by sector forecast in 2017 it can be explained as follow:

- The quick service restaurant is the category that occupy the largest part of franchise establishment with 26%, the employment will account the 46% of the total. This business line forecast contributes of 33% of total output in 2017.
- The second business line in terms of franchisee establishment in 2017 is the personal services line with the 15%. In spite of that it will represent a small business with 6% of franchise employment and 5% of output.
The table/full service restaurants group accounts the 13% of the total, occupying the second place of employment distribution sector. While it has a low share of establishment of 4%, counting of the outlet ratio of 10%, rating the third place.

The business services account higher ratio of establishment and employment distribution, respectively 14% and 8% and the second highest rate of franchise output value with the 14% of the total.
- The retail products & services, which is the sector of our interest, accounts a low level of establishments, employment and output for 2017 forecast. '‘In 2016, department stores are suffering badly, and have not recorded an increase in sales since April. Retail sales are likely to slow down slightly in 2017 (up 3.8% vs. 4.0% in 2016), before accelerating to a 4.8% growth rate in 2018’’. This franchise business line, though, continues to perform in the top half of the 10 business lines. In 2017 in fact, beside on the low percentages it ranks fifth in employment, establishment and output growth with expected growth rates of 4%, 8% and 4% respectively.

2.3 Franchising

In the last 20 years, the fashion world demonstrated a greater interest in developing retail channels, because they understand the importance to be constantly in contact with the customer. This trend allowed the development of franchising network.

Through the franchising contract, franchisor and franchisee are strictly related because the success of one part means the success of the other and vice versa. After the contract is stipulated, the franchisor is committing to offer additional assistance services with the scope to reach the
higher level of coherence between commercial strategies put in place from the two entities. On the other hand, the franchisee is committing to understand the commercial policies and to respect the contractual commitment.

The franchising system presents three different categories based on the promoter:

- distribution franchising: in this case the franchisee is the distributor, in the national or international market, of products realized by the franchisor;
- service franchising: in this case, the franchisee offers services and performances as created by the franchisor, with different initial investments based on the proposed service;
- industrial franchising: this system is based on the relationship between two industrial firms, where the franchisor gives the license, patent, brand, technology and assistance to franchisee for the manufacturing of products. After the production, the franchisee also takes up the commercialization.

2.4 Master Franchising and Other Forms of Affiliation

After having analysed the different categories of franchising agreement, it is important to explain the possible forms of affiliation that could be developed in effective way.

The easiest form is the form in which franchisor creates a Single-unit franchisee system, proposing a commercial collaboration contract with its brand to an independent operator. When the operator asks to manage more units in the same area/territory, the formula is called Multi-unit franchise. Obviously, the franchisor has to evaluate the effective entrepreneur capacity. This formula is often used to international expansion, in order to avoid problems with competitors and to grant an efficient distribution of orders.

The Master Franchising is a contractual form, where the franchisor grants to franchisee, the possibility, in a specific area, to do actions that normally are reserved to the franchisor, such as the research of others franchisee and the contract stipulation.
Another formula, adopted principally in fashion companies is the *Franchise corner* for the good relationship between visibility and financial request investment. Franchise corner is a dedicated space, inside a small-medium store, to sell products of the same matrix, such as Intimissimi inside Victoria’s Secret store in US. It is important for the functioning of this formula to have the complementary/similarity of franchisor and franchisee products.

The *Co-branding* is another formula of franchising that exploit the commercial synergy of different brand, it considers the possibility to divide a space with another brand. In this case, the space is equally divided by the two franchisee, who conduct no concurrent activities but anyway compatible.

Finally, as last possible formula, it exists the *Plurifranchise*, where the commercial operator draws up different agreement with different franchisor in order to have more franchising shops no concurrent. This is possible if the franchisors do not impose the exclusive right.
2.5 Advantages and Disadvantages for the Franchisor and Franchisee

For the franchisor, the franchising system is above all worthwhile in term of financial savings: the initial investment for the opening and shop management is mostly in charge of the franchisee who corresponds periodic fees to the franchisor, for brand using, know-how and other services. In addition, franchising is an important instrument to expand in new market. In this way, the firm can focus on other important activities, such as the network improvement, production, product development and so on.

It is important to have a good functioning franchising network, in order to avoid in a second moment high supervision costs, to do so there are heavily initial investments to face. In fact, the relationship with the franchisee is not always easy, often is difficult to remain aligned. Firms need to spend time in the selection of the right franchisee, since the sell out depends on the result of all franchisee shops.

For the franchisee, the first advantage is to avoid commercial risk. In fact, he builds an activity for him but not alone. Adhering to a franchising network, the franchisee uses a tested know-how, sure of the success of the brand. Furthermore, there is a pilot format where the assumptions of the franchisor are verified in order to grant the promise profitability to the franchisee. The sign, brand awareness, the product advertising allow franchisee to take advantage of network effect, such as obtaining greater revenues without additional investment. It will benefit of the evolution and development of the system, in term of training and assistance. The franchisor grants to franchisee the management independence and the competitor’s protection from shops of the same brand in the same area. The franchisee has additional benefits deriving from the lesser initial capital invested, better acquiring conditions, activities optimization and operations standardization, that together increases the return on investment.

On the other hand, the franchisee has to correspond periodic fees to use the franchisor services; he has to accept the rigid control of the management during the first years, that could be perceived as no independence. In addition, the real profitability of the shops it cannot be grant, because the franchisor decides the product, the distribution method and he could be wrong about managerial strategy and policies.
It is fundamental to create a strong relationship between franchisor and franchisee, that allows the firm to grow rapidly and to go beyond difficult moments, working together for the same scope.

2.6 The Right Balance between Franchising and Company-Owned Stores

When the franchising form of management is decided, it is important to find the right balance between directly owned shops and franchising shops. This is because a firm that decides to develop a franchising network, do not transfer all the shops to franchisee but retain some of them under its control. Therefore, it is important to understand which shop to keep and which give in affiliation.

The franchising organization is more efficient in respect to company-owned stores, but every growth opportunity must be analysed carefully, it is important to understand the right mix of company-owned stores and franchising stores. That mix could have some variations: as demonstrated by the research developed by the Franchise Relationship Institute (FRI) in Australia, some shops that had negative performance could return to being profitable with a firm direct management.

Different publications affirm that analysing the revenues, income statements, cash flow, breakeven point of company-owned shops and franchising shops, the preference is for the second. In fact, from a profitability point of view, franchising is more profitable for the franchisor because of lower costs and higher cash flow, with the addition of royalties to the normal revenues. Looking at the breakeven point, it goes down when we compare franchising with company-owned shops because with franchising the general system costs are lower, keeping the general costs of the firm at the same level.

There are others economic valuations that could be done. The first is to consider the ROI and ROE index in 5-10 years (in order to allow company to reach an equilibrium). The second, is to find the indifference point for the firm to manage an owned shop or a franchising shop, calculating the sale level above which it is advantageous to own a shop and below which the franchising became the optimal solutions. The Pi (indifference point) is the result of the equation Rd=Rf, where the first one represents the revenues result of a direct management and the second
one of that franchising.

Following the Resource-based view theory, a distribution system focuses on direct management could have high returns only if it has high-level resources and human capabilities. On the other side, a management system based on franchising allows the development of local characteristics, innovation capacity and external adaptation, at the point to build a strong competitive advantage.

Another theory to take into consideration is the Barthèlèmy thesis (2008): it is important to evaluate the brand value and business awareness. A business organization with a prevalence of company-owned shops has a positive impact on performance when the brand has a high value and the business practices are tacit. On the contrary, when a company has a prevalence of franchising shop, it has a positive impact only if the brand has no great value.

As anticipated before, the network mix is not fixed. During the life cycle of a firm, the company could decide to make a re-franchising program, which is the sale of own-based shops to new-motivated franchisee.

Previously we have discussed the initial investments of the different forms of shops propriety, now we take into considerations other dimensions:

- Profit sources: in the case of direct stores, the profit is the result of sales when the initial investment is covered. In the case of franchising stores, the profit is immediate for the franchisor, thanks to the entry fee and royalties that franchisee paid.

- Management role: in the franchise shops, the franchisee has the owner role while the franchisor gives the support during the training of human resources pre-post opening. Therefore, the franchisor has no costs of hiring managers and staff and less responsibility.

- Geographic limits: a firm has more control on near shops, while franchising shops have no limits because a new international or national shop could exploit local expert and the sense of belonging of the franchisee.

- Growth limits: growth limits go in one direction. The opening of a new direct store depends on financial capacity, which it depends on shops already opened. While the franchising network could be expanding only through franchisees interested in opening shops adding financial and human capital. Therefore, if the firm has no
I can summarize the fundamental points below:

<table>
<thead>
<tr>
<th></th>
<th>Company-owned stores</th>
<th>Franchising Stores</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investment</strong></td>
<td>The same costs of franchisee without initial fee</td>
<td>Initial costs of franchisor start up</td>
</tr>
<tr>
<td><strong>Profit Source</strong></td>
<td>Profit result after the recovering of initial investment</td>
<td>Franchise fee, royalties, sale and discount of own products</td>
</tr>
<tr>
<td><strong>Management Role</strong></td>
<td>Training and assumption of manager and staff, location responsibility</td>
<td>Franchisee training about how the business operate, before opening and constant support</td>
</tr>
<tr>
<td><strong>Geographic Limits</strong></td>
<td>Local opening are more under control</td>
<td>International and national opportunities</td>
</tr>
<tr>
<td><strong>Growth Limits</strong></td>
<td>The stores already opened finance new opening</td>
<td>Absence of franchisee willing to generate financial and human resource and time</td>
</tr>
</tbody>
</table>

As highlighted, the variables to take into consideration are not only economic but also organizational-managerial.
2.7 The Importance of Brand Valuation in Fashion System

Firms that are successful in franchising system are those who have a strong brand and know how to enhance it. According to Aaker (1996) only those firms can obtain substantial elements of differentiation that allow them to achieve important financial results. The brand equity must be seen as a critical instrument to improve sales and profitability performance.

Obviously, the retail system strength develops itself through brand awareness but it cannot be considering a stand alone solution. It is important to make efforts also on products improvements, in order to create elements of differentiation and elements of brand recognisability. Only through products personalization, the franchising firm succeed to be competitive and to confront with the great distribution system, that together with technology diffusion and market globalization has reduced the margin profit of the companies.

Firms that are active in the market through a franchising network has to optimize the processes but overall reassess the products assortment policies, in order to obtain advantages in respect of the competitors. They have to launch continuously new products in the market and increase the brand value in consumer’s mind. Only if the client recognizes the distinctive features of the products, the firm could raise prices and reduce business risk, above all where the growth method is shared with franchisee.

So, franchisor has an important role in brand equity increase: he has to train its franchisee and offer the right asset to exploit brand potentiality.

2.8 The Importance of Technological Innovation

“Technological change has been a major factor behind the US retail sector’s increased productivity in the last two decades, an increase in productivity that has been recognized as a major source of the overall economic growth that characterized the US economy until the recent great recession” (Lafontaine, 2014).

The new technologies, such as scanners, inventory management, logistics, e-commerce capabilities, and so on have demonstrated to be particularly useful to franchising chain. However,
franchising organizational form presents some challenges when the technology has to be adopted or diffused. The difference in benefit and costs arising from the use of new technologies can lead to conflict. In fact, the objectives of the two parts are diverse: the franchisee want to maximize its establishment profits, while the franchisor considers the overall profitability of the franchised system.

"The franchisees may thus object to the adoption of proposed technologies, or they may prefer different technological solutions than the one the chain wants to adopt. Resolving those conflicts is costly. So, in the last years, franchisors have come to include clauses in their franchise contracts requiring the purchase and use of specific in-store technologies and software solutions. These clauses also stipulate that the franchisee must pay for future updates of these technologies" (Lafontaine, 2014).

The competition is giving birth to strong transformations in management methods in fashion-retail sector. It is crucial for firms to invest in products innovation and communication strategies able to increase brand awareness in the market. The global society suffered different changes on socio-cultural expectations and clients became always more disloyal to the brand searching for products personalization. Firms have already undertaken strategies to place near the customer through the opening of direct network.

This is not enough. It is necessary to be reactive on the market, to grab the changes in consumers need and to provide personalized flash collections. This imply the need to have informatics systems able to coordinate delocalization choices with production through the timely collection of information’s from the market. The technology plays an important role in time to market reduction, increasing efficiency and flexibility inside the system. The bond between fashion and technology it is not only possible but necessary.

Historically, in Italy technology has been used to improve the relationship between franchisor and franchisee in term of store operations, promoting different model assortment for colour and sizes that reflect the specific store needs.

Today and above all in the future, the winners will be those who will invest in product development and operations optimization because it implies costs reduction and margin increasing, together with technologies updating.
Naturally, the technological investment has to be weighted and support by a creative leadership in order to filter the information collect from the market. In fact, once the client needs are understood, it will be necessary to have personnel with soft skills able to translate that information in practical solutions, which are winning products ideas and visual retail.
In conclusion, focus on the technological contribution of apparel franchising in Italy I can underline how it is a critical element of costs reduction and profit increasing, allowing the franchisor to be closer to franchisee and final customer. Nevertheless, it is important to remember that every technological choice has to be compared with authenticity and tradition typical of Italian style: always ready to innovate but affectionate to the tradition.

2.9 Risk Management and Franchising

Another important factor to take into consideration in the establishment of franchising network is the risk management. The correct risk management is fundamental to grant the continuance of every firms, regardless of belonging sector. The Enterprise Risk Management (ERM) can be defined as ‘’the methods and processes used by organizations to manage risks and seize opportunities related to the achievement of their objectives’’.

After the ’90, when the economic climate increases the uncertainty and competition attention, risk management became always more important for financial factors and others in order to increase the express value of the firm for all the stakeholders. In fact, the link between profitability and risk management is essential. The equilibrium between those components depends on the entrepreneur propensity over risk, even if every opportunity for the firm concerning risks have to be evaluated in term of trade-off. Risk management way of action is an entrepreneur choice that allow both to reach strategic objectives, that increase firm value, and to eliminate those risks that destroy the value.

Risks are a typical component of every firm reality, thus the firm has to identify them and create a systems able to manage them in the most appropriate way. Entrepreneur has to know existing risks typology.

Starting from strategic risk, defined as ‘’an event or set of unexpected conditions that reduce the
manager capacity to implement the deliberate business strategy’, Simons define four categories of risks that affect firm reality:

- **Operational risk**: it derived from the intrinsic problematic of typical business activity, which are production, operation and elaboration activities.

- **Activities loss of value risk**: it occurs when the probability to generate the past cash flows is diminishing, involving a reduction of the current value of active shares. Typical examples are: the financial depreciation connects with credit risk (if credit is not payable); sovereignty risk (when the state will not reimburse its debts); intangible resources fall in value; the loss of value due to material causes such as fireworks, flooding, natural disasters.

- **Competition risk**: it occurs when the market changes the competitive scenario, causing a reduction of the firm capacity to generate a value for consumers, differentiate from the others. This may be due to competitor’s campaign put in place in order to enhance the quality-price relationship; a furniture price increase; or due to legislation changing from the authority;

- **Reputation risk**: it occurs when there is a high level of one of the three risks reported above. It is an important risk that strongly damage the firm profitability, because firm loses all tangible benefit (client’s fidelity, premium price, lower labour costs) and intangible one linked with an optimal reputation.

The uncertain events are considering as firm risks if they cause negative economic and strategic result. In the following paragraphs, I will focus on the variables that influence firm exposition to risk.

## 2.10 Firm Exposition to Risk

The operational risk management concern the instruments and processes predisposition to lower the whole business risk. The technics used to manage operational risk vary across firms and they depend on the capacity to control and monitor the processes, to obtain relevant information and to the manager risk propensity. Simons identifies three internal factors that expose firm to risks, that are the *growth, firm culture and information management*.

First of all, the *growth* increases the business exposition risk because it is linked to firm’s result,
that define employees and manager’s bonus. So, managers and employees could lead operational activities that are advantageous for them but damaging for long term firm performance. Second, it may occur that the business growth depends on a high level of operational expansion (such as production capacity intensification) rather than the improvement of business efficiency and effectiveness. This involves an increasing in business risk, because the structure and human resource are not ready to develop as faster as the production capacity.

Regarding the firm culture, formed during past years following the entrepreneur direction, can increase the employee tendency to assume risks in order to obtain bonus linked to market opportunities. Furthermore, if managers are risk adverse, when problems occur they will be hide by employees in order to avoid managers rebuke. The final result will be an imperfect information sharing inside he firm.

Finally, the information management can increase the operational risk, whether they conduct to elaboration errors. In particular, if technology, that is used to collect dates and to elaborate them, is not updated after the capacity increasing it raises the probability to make errors, especially if activities are complex.

It is important to decentralize the decision process to increase the employee sense of responsibility and to prepare monitoring systems to control risk level of business opportunities.

2.11 Risk control Instruments

The instruments used by manager to face business risks can be: ex-ante (operations are active before risks display) and ex-post (operations take place after risks display). I will report this two instruments typology in the following.

The ex-ante management activities are:

- **Not assuming**: firm decides to give up on specific action or policy in order to avoid that risk;
- **Prevention**: firm acts in order to vary the probability linked to positive and negative scenarios, increasing the first and reducing the second;
- **Protection**: they are studied action plans to reduce losses in negative scenarios;
• **Diversification**: it is a property of the risk; it occurs when no correlated events balance out themselves in term of the whole value.

• **Coverage**: based on risk typology (pure or financial) and based on coverage objective, there are three instruments used: derived contract, insurance contract or market negotiation;

• **Ex-ante monitoring**: it consists on the observation over time of the changing of business profile risk;

• **Retention**: firm decides to assume risks without any management form of protection. The retention capacity of the firm depends on firm’s assets that allow the overcoming of crises linked to negative scenarios.

The *ex-post* management activities are:

• **Ex-post monitoring**: the different business risk trends are registered and analysed;

• **Containment measures of damage**: they are actions direct to increment positive effect and to reduce negative ones, when an event is associated to risk.

• **Financing plan of financial flows**: the objective of the plan is to avoid firm crises due to unexpected liquidity requirement;

• **Financing plan of economic flows**: the objective of the plan is to avoid firm crises due to economic losses. So, they are studied way of facing each loss level in which the firm may incur.

### 2.12 Risk Monitoring in Franchising Systems

Risk monitoring in franchising system takes two forms: organizational and entrepreneurial monitoring. The first one because objectives are fixed a priori in the contract, and investments and jobs have to follow those objectives. The second one is linked with attitudes and capacity of franchisee, in term of risk propulsion and long term vision to increase their revenues.

The franchising system is a controversial vertical structure, which presents different trade-off between franchisor and franchisee.

On one hand, it can be find a franchisee opportunistic behaviour due to entrepreneur autonomy. On the other hand, firms that want to grow faster, opening a great number of shops in locations
far apart through franchising, are able to transfer shops with difficulties to franchisee, keeping profitable shops for them.

In the first stage of franchising life, the firm evaluates the endogenous factor (risk vocation, desire to rapidly reach the success, scarcity of financial resource and insufficient knowledge of local market), and exogenous factors that varies between different sectors (as technology and growth dynamic market). This phase is characterized by elevate uncertainty. The later stage is of full development, where uncertainties are reduced, thanks to greater demand stability that allows to reach the financial and economic objectives and to stabilize on higher quotas no more growing. The stage of franchising life that is riskiest is the subsequent, the maturity phase, where there is a decreasing propensity to find the right agreement between franchisor and franchisee. In that case, the franchisor can decide to actualize a re-franchising strategy in order to reacquire the franchise units and reduce the interests conflict.

In fact, the relationship between the two parts is intended to become conflicting for profit motives. In fact, the franchisor has the interest in the profit increasing of franchisee stores. While for the franchisee is the opposite, because the income increasing is related to structure costs raising that he has to sustain. For the franchisee the resources, employees and spaces have decreasing output. In addition, in the maturity stage, objectives change because franchisor want to increase shop quality that is easier to reach with a company-owned stores.

2.13 Monitoring Instruments for Franchising Network

The controls to do inside the franchising network are complex. It is possible to classify the monitoring management typology that franchising has to implement.

First, it is essential to carry out an _executive control_ or a verification, in operative term, of the effective replication of franchising formula, as ideated by the firm.

Second, there is a _strategic-competitive control_ to do, which is the control of how the formula replicated by franchisee affect positively or negatively the brand image, and the competitive profile of the affiliate (in its commercial area).
Third, this control is linked to the second and it is the social control that consider the definition of the criteria to use for franchisee selection and instrument activation (such as training courses, team building activities) that have the objective to uniform the competence and create a common culture, encouraging personal motivation and reducing the probability of opportunistic behaviour from franchisee.

Finally, the most common economic control that evaluate the convenience both for franchisor and franchisee.

The monitoring instruments that should be adopted in order to make the controls reported above are: forward income statement, statements of financial analysis and combined forecasting balance sheet, that have the objective to forecast the potential profitability and the development of each units and the whole network; balance sheet analysis of franchisor pre and post franchising with the objective to determine which was the contribute, in economic term, of each part; plan and budget, which are fundamental elements for the management, that consider the negotiation of remuneration conditions, that give responsibility to both parts, defining the annual objectives for a single franchisee and for the whole brand; monitoring, this form of control develops after the budget choice, in order to control constantly the market development, the economic-financial results, cash flow, operation management costs and return on investment; finally the transferring price, remuneration system and sale price are instruments that must be used in order to have a fair distribution of common results.

Several times these instruments of management control are not used. The franchisee perceives the control activity as an excessive intrusion of the franchisor inside its entrepreneur autonomy. The franchisor, often, stipulates contract that concern high level of managerial freedom and elastic condition to grow rapidly.

As Mirco Comparini affirms ‘’a franchising network cannot be managed successfully if franchisor do not undertake numerous control mechanism: these instruments must be introduced in order to protect the strategic cohesion and delegates processes of franchisee integration that can be seriously affect by their not controlled behaviour’’.

In conclusion, there are three elements that must be present and defined in the moment of franchising network preparation:
• Contractual clauses ad hoc: they have to define the limits of control activities and grant the relationship continuance. In addition, they underline the impossibility, for franchisee, to not accept some clauses. Finally, they have to define precisely which guarantees the franchisee has to present.

• Forecast income statement: it is a unique income statement scheme, through which it is possible to collect the same data typology in order to elaborate balance sheet indexes that allow an easier and immediate control.

• Annual calculation of break-even point: this a service offers by the franchisor, useful for both parties because it allows franchisee to define its objectives to reach satisfying profit level; while for the franchisor it is an optimum instrument for a general control of the franchising network, evaluating which stores have the potentiality to grow and which one is intended to maintain a negative trend.

2.14 Analysis Instrument to Franchising Network Monitoring

The success of franchising network depends on franchisor management capacity, franchisee behaviour and its strategic choices.

So it is important to develop form of direct control through indirect instruments, such as system of data flow management between franchisor and franchisee that allow the control of the contribute of each partner; assigning managerial roles to franchisee in order to make him more responsible on the whole performance of the network and not only of single shop.

Before this analysis, there are several evaluations that firm have to do before opening a franchising network. The first consideration concerns the convenience between the opening of franchising network and the direct management of shops. In order to do this valuation, there are different analysis that could be done:

• Break-even analysis: the break-even point, where firm revenues are equal to sustained costs, that is reached before from the franchising. In fact, the direct management have higher fixed costs, linked to initial investment, because fixed costs for franchisee are lower due to different way of payment (franchisee can sustain initial investment through royalties’ payment). The franchising system is more convenient also looking at variable costs, because franchisor can find efficient ways in respect of direct management, exploiting economies of scale for example on transportation costs.
- **ROI**: the evaluation of the return on investment, which is the relationship between operational income and investment capital, results in a better result for franchising network because it succeeds in recovering faster the investment capital, through royalties and variable costs that are reduced thanks to a greater contractual power of franchisor.

- **Assessment profitability**: another index to take into consideration is the ROS (Return on Sale), which is the result of the relationship between operational income and sales income. This index together with the speed of investment rotation allows to calculate the ROI, that result higher for franchising system.

Looking at these instruments, it is clear that the franchising network is the best choice to expand the territorial presence. Anyway, taking into consideration all the business risks, it is better to evaluate a mixed organization to benefit greater profit.
CHAPTER 3

3. **Calzedonia Group**

3.1 **The Growth in Numbers**

The Calzedonia Group has more than 32,000 employees worldwide, and consolidated sales of over two billion euro (€2,018 million), an increase of 9.3% compared to 2014. It operates in 42 countries with exports representing approximately 50% of sales, confirming its keen sensitivity to the developments on the market for underwear and hosiery and its ability to interpret consumer demand. To all effects one of the international leaders in the sector, the Calzedonia Group introduces an original formula with respect to the market standard. Its history, almost thirty years long, is the result of targeted choices and a success that was never accidental. It touches every aspect of the company and can be read in the DNA of every product, always recognizable in its variety.

Every passage, from the idea to the product and distribution, belongs to the Calzedonia world. The store, the last stage of the process – a vast network that includes more than 4,000 stores, with over 2,400 abroad – is always and only a single brand store, where the only difference is in the management: direct, via franchise, or through outside distributors.

Growth on the markets of Europe is the Group’s priority. Already, the turnover earned abroad has exceeded the Group’s Italian turnover, and the trend will become even more accentuated in the coming years. The focus on expansion is now almost entirely on the foreign markets, where there is still ample room for growth. After achieving positions of absolute leadership in the countries of southern and eastern Europe (Spain, Portugal, Greece, Poland, Hungary), the main objectives now are the markets of central Europe – Germany and France first of all – where the group seeks consolidation and the attainment of satisfactory profitability. This focus on Europe does not exclude attention for other potentially interesting markets, however. Hong Kong is one of these, where the number of stores continues to increase, and it is an important test for the markets of the far east. During 2016 the opening of the first points of sales in the United States is planned.
3.2 The Brands

Calzedonia: it is the first brand of the Group, since 1986 it has succeeded in each collection to represent the latest trends in hosiery and swimwear, for women, men and children, with the ability to guarantee quality at an accessible price. It now has more than 1,960 stores in over 35 countries, including 600 in Italy alone.

Intimissimi: ten years later, in 1996, it was time to indulge the dream of breaking away from everyday underwear with the lingerie of Intimissimi, the brand of underwear for women and men that expresses simple styling in a refined language, without excess or exaggeration, but with perfect balance. The next challenge will be to open new stores devoted to men. Here are some more important numbers: active in over 35 countries, more than 1,360 stores, over 500 in Italy.

Tezenis: a child of the new Millennium, a born trendsetter, with a cool spirit and keen attention to what’s happening on the social networks and on the web; the best way to intercept the rapid changes of the present time, with collections that appear every two months, bringing the latest trends in underwear and home wear for women, men and children. The rate of growth is intense, also with regard to the expansion of the distribution network: over 520 stores in 18 countries, including Italy.

Falconeri: acquired in 2009, the brand has been the focus of a major overhaul, and is now entirely made in Italy. Characterized by natural and highly refined yarns, and by sophisticated styling for contemporary women and men, the brand is synonymous with fine knitwear and cashmere, with a reputation for traditional craftsmanship. Attention to details is typical of the entire design process for all the apparel which, however, maintains accessible prices. In Italy the brand now has about sixty stores. Plans are to expand in Europe, starting in Germany, followed by growth of the chain in Russia.

Signorvino: this project was intended to valorise the excellence of local wines. It was prompted by Sandro Veronesi’s belief in the importance of transmitting the cultural value that this sector represents to the world. The 11 Signorvino stores opened until now have been well received by
the public. They are friendly places where wine-tasting is not an experience only for the “initiated”.

Atelier Emé: this was the news for 2015. The Italian brand recently acquired by the Group designs, creates and produces wedding gowns. It is an example of sartorial elegance expressed in sophisticated fabrics, delicate lace, sumptuous elements to create unique, precious dresses, real works of art, products of skilled craftsmanship and refined elegance; the gowns are the unforgettable promise of the most important day in a woman’s life.

3.3 Corporate Success Story Entirely Told by Women

92% of the Group’s employees are women. Another important factor is age: 68% of the employees are under 30; these are strong signs of the identity of the Calzedonia universe. This gives the Group a young, feminine, cosmopolitan spirit, combined with a good quality/price ratio, a knowledgeable eye for style and design, and advanced materials. These are the secrets of Calzedonia’s success.

Nothing is left to chance and the contact that develops between the product and the client in the stores – the last stage in the marketing process - is essential for effective market research. The watchful eyes of the personnel inform the style office of the customers' needs so that supply always matches demand, at a time of great change in the world, where the consumers are more informed and able to communicate their needs.

The distribution strategy plays a fundamental role: it is the same for all the brands, consisting of an agile, advanced franchise network based on extreme attention to the store’s image, located in a carefully selected zone in every city. The company’s attention to what goes out outside matches its attention to what goes on inside, and the people who work in the store. There are many services created to satisfy the different needs of the work group: child care, a fitness center with spa, courses in Pilates, yoga and acquagym, for a regenerating lunch break. These are opportunities that improve the atmosphere of the work environment ensuring more relaxed, happier employees who are able to produce more.
Also in its advertising, the Group aims high, exploring new forms of communication, like the “Intimissimi on Ice” event, as well as innovative media campaigns: TV commercials, outdoor and print campaigns, with a team made up of the top photographers and directors at work with the most famous faces. Names like Julia Roberts, Gisele Bündchen, Clara Alonso, Emily DiDonato, Adriana Lima have been featured for Calzedonia; Blanca Suarez, Irina Shayk, Ana Beatriz Barros, Alyssa Miller for Intimissimi; Rita Ora for Tezenis.

So many famous names that have contributed to the value of a company that, over the years, has managed to make the offering of high quality underwear and beachwear more accessible and attractive. This constant striving for improvement, every day in every way, has developed into a successful way of life for the company.

3.4 Environmental Attention

Calzedonia has proven its attention towards the environment, with two campaigns regarding Calzedonia and Intimissimi respectively with the slogan “we recycle and overvalue your second-hand goods” and “Recycle is convenient”.

Both campaigns are made in collaboration with I:CO, an international firm specialized in the reuse of fibre difficult to work off, such as the synthetic fibres and in the re-evaluation of texture to produce a new one without environmental impact. The objective is to sensitise the consumers to operate for the protection of the ecosystem. In each shop of the two brand it is possible, in determined periods, to bring old clothes and obtain vouchers to spend for new collection. The value recognized for these old clothes is 5€, 3€, 2€ in the case of women swimsuit, men and kids or 3€, 2€ and 1€ for bras, knitwear, suits and slip.
With this initiative, the group demonstrates to pay particular attention on the environmental impact of materials it uses, making the consumers conscious of the possibility to reuse synthetic fibres to create new clothes, or to redirect them to industrial use, rather than throwing them in landfills.

### 3.5 Internationalization Process

Since 2000, Calzedonia experienced a period of great expansion, gaining more and more importance on the international market. Over time, indeed, it has increased the standardization of products and processes, decreasing prices thanks to the development of scale economies (increasing sales and consequently decreasing costs of production) and has enforced its competitive position in Italy and abroad.
The brand is not uniformly spread in every country of the world, but it has a great concentration of shops, mostly in Europe: this is probably due largely because the European market is similar to the Italian one. It is no coincidence that the company has started its expansionary strategy in the nineties in the Mediterranean area such as Spain, Greece and Turkey, markets considered closed to the Italian one and with a great number of sales. The table above shows the revenues
classified for geographical area, Spain holds the 8.9% of the sales and a large part of the remaining sales derived from the European sector. This characteristic recalls the “theory of incremental evolution” of the Scandinavian school, which states how a company firstly launches its foreign business in neighbouring countries investing few money, while in a second phase it enforces its position expanding in further countries (Russian example for Calzedonia).

An interesting case was the choice of expanding in Brazil, a country culturally far away from the European context and with an inverted seasonality compared to ours: when in the European shops we can find fall-winter campaign, in Brazil we will find spring-summer collection. “The opening of a branch in Brazil was a very hard choice, second only to Russia. It was difficult to find the right organizational strategic planning. Investing in Brazil was very expensive mostly for customs duties. When we decided to open in Brazil, we caught the latest train possible. Once we understood the preferences, set the commercial organization, passed the bureaucratic difficulties, this brought to very important results. It was crucial to understand how to promote the brand, for example using the telenovelas channel. In order to offset the inverted seasonality problem, we have set up a local warehouse and a distribution center” how Rossella Turato says, responsible of the foreign bureau.

Another motivation for Calzedonia for being so interested in foreign economies is the saturation of the domestic market, where the group has developed a great retail network. We are talking about 595 Calzedonia shops e 500 of the other remaining brands. This brought the company to strengthen the internalization: to the present day, there are 1,300 shops of Calzedonia abroad, 800 Intimissimi shops and 280 shops of the other brands. If in 2007 the 75% of the revenues were originated from the Italian market, now the group reached a percentage of 50% of the revenues originated abroad.

Within the sector where the group operates, the competition is very high and it is crucial to use local operators who deeply know the area, under the strict control of the headquarter. The strategic matrix used by the group to enter in new markets is the following: “we always start opening a new, first shop of Calzedonia, such as a pilot shop. Why Calzedonia? Because it is a unique formula, there are no other franchise that are specialized in hosiery selling, pantyhose, leggings and swimsuits and being the first brand, we are confident it can succeed. Once tested the Calzedonia shop, the group evaluates the opening of shops with the other brands Intimissimi
and Tezenis” how states Rossella Turato.

3.6 A Global Organizational Model

Calzedonia reacts to the international market’s requests in three ways: through the Planned Collection which is created one year before divided in Spring-Summer and Fall-Winter seasons, the Basic Line and the Flash launches. The fashionable products of planned collection will be distributed to the shops throughout all the seasons in tranche: every week the shop receives new products to sell to the final customer, following what it is called a scheduled plan. Complementary to the fashionable products, there are flash products, which are set in order to respond quickly to the market requests and the basic clothes, year-round.

The flash products, during the collection, are produced in different colours because they have the possibility to be dyed thanks to their particular textile and they have to be in the shops with a very short delivery time, in order to quickly satisfy the clients’ needs. Usually the period from when the new flash colour is decided on certain clothes to the moment the cloth is available on shops’ shelves, lasts 3 to 4 weeks. Eastern Europe factories are used to produce in short production and delivery time. Longer time are calculated for the corsetry, compared to the knitting and hosiery. The example of the colour perfectly explains the situation: one new fashionable colour cannot arrive in the shop delayed, risking that it is not fashionable anymore and that it has to stay as inventory in the warehouse at the end of the season. It is necessary to be
ready to restock in the minor possible time, becoming saleable again in the moment it is actually requested by the market. From this it can be explained the crucial strategically role of the suppliers’ chain.

Calzedonia mostly operates in the retail network and it is developed in Italy and abroad, especially following three different models: it owns property shops on which it has a direct control, it takes advantages from a franchise store chain that it controls indirectly. The third option is the creation of direct branches and master franchisor.

“Which are the principal differences? In the direct branches Calzedonia ensures the financial support for the shops, while for the master franchisor, the group creates an operational model similar to Dossobuono (the headquarter in Verona), with offices, help desks, technical and organizational support partially autonomous. The master is in contact with the headquarter through the foreign bureau, since the company policies always come from the Italian headquarter” (Turato Rossella, Foreign Bureau).

At the beginning, the production chain of this company was very centralized in the neighbourhood of the headquarter and the organization expected that all the raw materials sent by the suppliers were subject to control by the headquarter before to be sent in the different manufacturing plant. The variety of the products and the extent of the area where the products are sold do not permit anymore such a close control.

When the group started to expand abroad, there was also the wish to identify area were to relocate part of the production, keeping into consideration key success factors such as cheap labour and wide culture of textile. These motivations brought Calzedonia to be interested, in 2002, in countries like Sri Lanka, Bulgaria, Romania and Croatia.

The choice of installing part of the production chain in this island (Sri Lanka) was partly due to some analysis conducted on local population. They revealed low level of conflict, great ability to learn, tax and customs concessions and high flexibility lead by the absence of trade unions.

“Currently, 5 factories are running in Sri Lanka, three of them produce corsetry and two knitting, men underwear and easywear. In eastern Europe we can find five factories, three are producing everything but corsetry and hosiery, one produces corsetry and one swimsuit. If in Sri Lanka is produced the planned collection, in Eastern Europe they manufacture flash product. The idea on
which all the production is based is to create smaller planned collection in terms of pieces but
with further continuous restocking and flash integration”, how explains Arianna Marcomini,
Production Office.

To the creation factories, Calzedonia imposed the task of recycling the old unsold pieces, sent
later to the outlets, but also the production of swimwear, managed also by local contractors.
“We are setting now a new factory in Ethiopia where the production lines are structured and the
wish is to create a new strategic production site. The factories created by the group are organized
in two different ways: assembly line like the one cited above and the two factories of not corsetry
in Croatia; or batch production where the same girl is standing and makes more tasks thanks to
these batches set as horseshoe. This methodology is used in all the remaining factories”
(Marcomini Arianna, Production Office).

In the supply chain, tasks are delegated to special people who lead the branches around the world,
or to European producers who have opened offices in more remote locations and that undertakes
the task of autonomously manage the delivery to Italy. Those people will be responsible of the
procurement of raw materials at a local level and to spread them into production sites, ensuring
that the realization phase is done at best. No too much freedom is left to suppliers, they have to
operate following the directory of the headquarter; all the finished goods have to be consequently
sent to Italy and Croatia, where three distribution center are located: 35,000 square meters in
Vallese di Oppeano, 55,000 square meters in Menà di Castignaro and one in Croatia.

From two of these warehouses, completely automatized from the arrival of the products to the
delivery moment, the goods can be sent in the different shops also in 1, 2 or 3 days in the
countries closest to Italy.

**3.7 Production Process**

The production process is articulated in three distinctive phases:

- Collection planning
- Direct production
- Distribution.
Everything starts from the choice of clothes in the committee. This committee is composed of the management, area manager, stylists and trade agents. Mr. Veronesi directly decides which clothes will be part of the new collection, keeping into consideration the information that the directors send to the headquarter about the new trends and the preferences of the clients. In this phase, the different areas are expected to collaborate. Here we can find the creativity area, quality control office, production, pattern shop and packaging.

Once the clothes are chosen, the procurement bill of materials is defined. This will describe how much textile will be used for a single good, multiplied by the number of units to be produced. After having sent the textile volumes and the delivery date, according to spaces, specialization, availability, delivery time and technicalities, the production factory is decided. The order of the clothes comes from the planning office, while the purchasing office bargains with the suppliers.

All this is possible because the company has set a very efficient and effective informatics system, which maintains a closed contact with the headquarter with all its national and international partners (suppliers and franchisee) and permits to rapidly intervene in case of problems and it is easier to verify that each phase of the process is performed in the correct way.

The sales shops are constantly monitored from the trade office, which can consult the sales statistics in real time, verifying the availability of products stored in the warehouses, understanding the expected delivery time and can promptly communicate with the area consultant by email messages. In this way the sales shop can be restock in a reasonable and quickly way, deleting the activities with a low added value and optimizing the productivity, increasing also the possibility of integer the solution with the ERP system.

Basically, the group has opted for a high vertical integration, with which it controls the entire production line, from the ideation (always in Italy), to the production (abroad), to the distribution to flagship stores, in a way it can expand locally and internationally in other markets, quickly and capillary. On the top of the organization hierarchy, we can find Calzedonia Holding Spa, which detains all the responsibility for the coordination of the activities of the group located in Italy. Another company, Calzedonia Finanziaria, is responsible for the activities performed in the firms abroad.
3.8 Costs, Time and Strategic Choices

“In order to calculate the cost of clothes, we count the minutes spent to produce it: for example, if the textile used for producing one single good costs 0,09€, it has to be multiplied for the minutes needed to create the finished product that could be around 12 minutes. Each operation is simplified by the technical department at the beginning. Intimissimi needs more expert factories comparing to the other brands. Tezenis uses different textiles and machines. The product final costs come from the textile price and the production and packaging lead time. The margin on which the group works in order to reduce costs, comes from the bargains of raw materials bought in Italy, Spain, Turkey, China, Serbia and India” (Marcomini Arianna, Production Office).

Regarding the needed lead time: eight weeks are necessary to produce the fashionable goods, taking into consideration the 45 days of raw materials delivery, 56 production days, 28 delivery days from Sri Lanka to Castagnaro (by ship). Therefore, if the collection is approved at the beginning of June, it will be available in the warehouses at the middle of October.

When it is decided to produce in Eastern Europe, 56 days of production are counted, 7 of raw material delivery and 7 days of truck for the delivery. Producing in Eastern Europe means lower lead-time, of course, but major labour costs. The textile is bought from third contractors, usually Chinese or Sri Lankan and then dyed in Italy or Serbia. Sometime the group decides to transport the finished goods by plane for lower delivery days, but much more expensive.

The choice where to produce implies higher or lower margin, determining the final price.
multiplier. When the launch of a new flash product is decided, for example, the group chooses closer factories, with lower delivery time.

3.9 Franchising Management

The choice of managing the activities with franchising store offers the chance to quickly penetrate the market, adapt to the demand, internationally spread the brand and to apply the same behavioural and distribution strategies in different countries (i.e. the marketing standardization and direct control on the activity), which permits to increase the production volumes without increasing costs.

Through the franchising stores (around the 60% of revenues), the group has the possibility to expand also in low known and more difficult geographical markets. Mr. Veronesi states that “the major foreign stores are directly managed: new markets are delicate and riskier, so it is right and strategically to directly assume all these risks”. Although the large use of trade affiliation contract, Calzedonia’s pattern is to centralize power in its own subsidiaries network, with a more strictly direct control on them.

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>%</th>
<th>2014</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vendita diretta</td>
<td>163.845.970</td>
<td>9.79</td>
<td>165.363.842</td>
<td>10.24</td>
</tr>
<tr>
<td>Clienti affiliati/master</td>
<td>1.347.816.061</td>
<td>80.51</td>
<td>1.254.854.987</td>
<td>77.68</td>
</tr>
<tr>
<td>Commercio elettronico</td>
<td>9.878.907</td>
<td>0.59</td>
<td>6.968.816</td>
<td>0.43</td>
</tr>
<tr>
<td>Altre vendite</td>
<td>152.603.244</td>
<td>9.11</td>
<td>188.168.709</td>
<td>11.65</td>
</tr>
<tr>
<td>Totale</td>
<td>1.674.144.182</td>
<td>100%</td>
<td>1.615.356.354</td>
<td>100%</td>
</tr>
</tbody>
</table>

FIGURE 5: Balance Sheet, 2015 (AIDA, 2016)

The members instructed to manage the stores, are always former employees of the group who, according to Mr. Veronesi, “they are people with the wish of becoming entrepreneur, but at the meantime they believe in Calzedonia’s projects, which they know deeply.”

In order to best prepare the future franchisees, at least once a year the group organizes updating meetings within the different members in something like an “academy” in the Verona headquarter and there, they are trained and prepared to the opening of a store. The company helps
the future franchisee to choose the best area where to open the shop (very central and, possibly, pedestrian) and they guarantee the support of Area Manager and District Manager during all the life cycle.

The group does not ask the members to pay royalties, but an initial investment that usually costs between 50 and 70 thousand. In addition, Calzedonia requires 30,000 € of bank guarantees for the opening of the store. The initial expenses are pretty significant, but it has to be take into consideration that, on average, Calzedonia stores reach on average 500,000€ of revenue per year, which widely compensate the initial investment. Furthermore, the member is prepared to face this new challenge through a training period both theoretical, taking care directly of the launch of the store, both practical, working in a store where it comes taught about the particularities of each product and the organization of the sales system.

Lastly, the headquarter provides the good to refurbish the shop of all the support material such as catalogues, glass decorations, posters and guarantees. A partial reimbursement to the franchisee is done at the end of the collection. Every unsold goods of the past collection, together with defective products are sent in a collection point in Croatia and from here, they will be sorted and distributed again into the company outlets, after six months.

Calzedonia’s mission is to grow through franchising. The ability to create successful products is a crucial condition in order to be competitive on the market (in line with trends and consumers’ needs, with a wide choice and good price-quality performance reflected into the revenue) and the franchisee is considered by the company like the right way to expand.

The franchising system, as reported in the second chapter, has different advantages for the Franchisor: lower structured costs, lower management costs which are in charge of the franchisee, the potentiality of local people who work at best for the company and knows deeply the market demand in its country and the capacity of the franchisee that operate like an entrepreneur, handling better the shop because he is always there and deeply know the staff, better than who works in the headquarter.

Generally, the flagship stores are directly managed by the group for a better protection of the company image and the choice of the location, for reason of costs, too higher for a single member. In addition, those stores are fundamental for testing a new place of area of a city.
This is the reason that bring the group to enter in many countries through direct control: in order to guarantee to potential members in that country the expected revenues and for professional honesty. In this way, Calzedonia enter the markets through property shops, in order to test the different market. Then, once the position is consolidated, the company starts to spread more rapidly through franchising, considered the best channel. For example, in Spain, Calzedonia has a 50/50 structure, shared between direct and indirect stores while in Italy almost the 100% of stores are in franchising. Flagship stores are normally performing better with higher returns (the company has amortized the investment) and for this reason they are kept by the group, it would also cost too much for them to be sold (very high entry fees).

The company sometime takes different ways for entry the market like in Greece, Sweden or Mexico, where it chose the master franchising. This permits to build a bridge, an intermediate who treats the entrance in a country or takes care of the franchisee. However, in the moment the market will start to be great for Calzedonia, the speed for the growth and the ability of opening, will never be good as a direct management through a franchising.

3.10 Risk Management

A franchising network, or retail network, cannot be successful if there are no tools or well-defined policies at the base, in order to control the risk.

First of all, the company has to focus on the management of the credit risk, which identifies, in our case, the exposition of the society to any potential loss coming from the non-compliance with the obligations assumed with counterparties; master franchisee or simple members, indeed, for what regards the direct stores, they present no risks at all. Calzedonia, throughout years, has started a series of actions to contain risks:

- Choice of stable partners with who entertain work relationships for long period;
- Good guarantees in the bargaining phase: the company only accept bank guarantees, released by primary financial institutions, first request and no preventive liquidation.
- Continuous monitoring of credit situation, finalized to be anticipated and preventing possible insolvencies: in the moment the company feels some insolvencies problems, it starts slowing down the deliveries of the goods. The contracts state that the good can be delivered according to the guarantees and within the limits of the financial position of the
bank guarantees. At that moment, the group fixes a meeting with the counterpart in order to understand what is going bad, looking at the financial statements. Particularly, this process is guaranteed by the great number of staff working on the commercial network. Indeed, Calzedonia’s structure provides, one out of 10 stores, a consultant area, called district manager, which represent the company in a determined area. This figure has the task to assist the members and the direct shops in the management of the store, guaranteeing that in its area, there is homogeneity regarding prices, communication of promotions and behavior of the sales assistants. Above this person, in order to have a more effective control, we can find the area manager and brand manager.

This structure, thought and improved in Italy, has been replied in each country, together with the growth of the number of stores, becoming necessary a more strictly control. Being the communication with the franchisee the most important feature for having a good franchising network for Calzedonia, the company identifies some potential conflict situations, in order to best face the outstanding debts which tends to occur mostly in February and October. First of all, the staff conduct an analysis of the causes and, analysing the profit and loss statement, the 90% of cases which reaches profits, does not have outstanding debts. For each potential situation, there are some motivation, which has to be discovered immediately and promptly, developing some action plans.

Those members who have not understood the functioning of this formula and who confuse the profit with the revenues, are submitted to strong measures in order to make them understand the nature of their commercial relationship. Different is the case where a moment of tension is registered in a specific area, for example an historical central store which suffers the opening of a commercial center nearby, and generates financial problems. In this case the company can study together with the franchisee some deferral plan.

Whenever the negative results and the outstanding debts continue, the company can verify if it is a bad management problem or mistake of the staff in selling strategies and, in case, it can opt for a “bring back”, i.e. a re-franchising operation.

The last case of outstanding debt could be due to a trade partner which became a member of more than one company (i.e. Plurifranchising) who tries to compensate the revenue of the more
profitable store with the less one. Here again, the communication and the specific knowhow of
the member are the winning tools which permits to reach a satisfying solution for everyone.
In this context, it is possible that the company arrives to close stores for various reasons: failure
to achieve the budget (huge difference between provisions and actuals); high structure costs (for
example: rents, according to the corporate policy, cannot affect the store revenue for more than
8/10 %). However, at the end of the year, the difference between the opening and the closing is
always positive, since the company is strong in selling its products and with its franchising
system, to the point it is always able to find new location or new members willing to open.

The bank guarantee can, without doubt, help the control but, according to the low level of
outstanding debt (around 8-10 store out of 1,500 in Italy), the company is not worried. Of course,
if the percentage of the stores, which present outstanding debt, would increase until the 30-40%
of the total, Calzedonia would revise its policies regarding the communication about the
guarantees.

The other significant risks are the one that affect most the final year financial results. In addition,
in this case, Calzedonia is well organized in order to best face them. Indeed, regarding the
liquidity risks and the cash flow risks, the presence of huge financing sources “on request” and
the role of the cash flow coordinator of the group, make these risks insignificant.
As every multinational company, Calzedonia suffers market risks, country risks e currency risks.
However, the group succeeds in recent years in facing the financial crisis, protecting with
derivatives against the currency volatility. Nowadays, the only aspect that can worry the group
is the one tied to the possibility of losing the key figures of the organization that Calzedonia was
able to attract in the last years in order to reach success and going-concern.

3.11 SWOT Analysis

Calzedonia’s group brands are becoming famous and known by everyone. This gives a chance
for the group to still grow internationally. Calzedonia’s strategy is based on the time, proposing
to the customers an alternative on the market, which responds to every need of fashion market,
becoming a substitutive product for a lot of customers, both for low price and for the fashionable
side. On the other hand, the group is always under pressure for maintaining the reached
competitive position, seeking for a continuous good turnover in order to guarantee new and
competitive products, in line with the requests. Nowadays, the combination of couture clothes with the pret-a-porter (or sport wear) is allowed. Consequently, the big fashion maison of the superior segment feel the competitive pressure of more dynamic and innovative firms, which operates in the inferior segment market, and Calzedonia fits perfectly in this context, exploiting it at all.

<table>
<thead>
<tr>
<th>STRENGTHS:</th>
<th>WEAKNESSES</th>
</tr>
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<tbody>
<tr>
<td>• GREAT EXPANSION POWER</td>
<td>• PRESSION TO STYLIST FOR RAPID TURNOVER PRODUCT</td>
</tr>
<tr>
<td>• DIFFERENTIATION AND DIVERSIFICATION STRATEGY</td>
<td>• DIVERSIFICATION COSTS</td>
</tr>
<tr>
<td>• HIGH FLEXIBILITY</td>
<td>• NO DEVELOPED CUSTOMER RELATIONSHIP MANAGEMENT</td>
</tr>
<tr>
<td>• REVENUES CONTINUOUSLY GROWING</td>
<td></td>
</tr>
<tr>
<td>• BRAND AWARENESS</td>
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<tr>
<td>• COMUNICATION POWER</td>
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<table>
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<tr>
<th>OPPORTUNITIES:</th>
<th>THREATS:</th>
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<tr>
<td>• EXPANSION WORLDWIDE</td>
<td>• INSTABLE MARKET</td>
</tr>
<tr>
<td>• NEW BRAND ACQUISITION</td>
<td>• NEW COMPETITORS ENTER THE MARKET</td>
</tr>
<tr>
<td>• INNOVATION TECHNOLOGY</td>
<td>• COMPETITORS CHANGING STRATEGY</td>
</tr>
<tr>
<td>• DIFFERENT DISTRIBUTION METHODS</td>
<td>• CUSTOMER CHANGING NEED</td>
</tr>
</tbody>
</table>

FIGURE 6: Personal Elaboration

One of its strengthens is the wide collection for women, men and children, together with the flexibility which permits to adapt to a market changing day by day. The group has many direct competitors in the market in which it operates, Yamamay, Oysho, Golden Lady in Italy and Victoria Secret, Triumph, Hanesbrand, H&M, Zara and others abroad. It is not easy to identify the differential advantages that the group has comparing to its competitors; the production process permits to know each phase directly, bringing the group to gain a discrete margin on main competitors, since no many competitors benefit of the same system. Furthermore, giants like Zara and H&M do not have a focus on hosiery and lingerie, even if the first enter the market
with the brand Oysho that is reaching good margins. The group, then, can of course count on a good price-quality performance, on the reputation of the brand, spread in the most industrialized countries in the world, on collections which always meet consumers’ tastes and that never let them down, matching their needs. In summary, we can say that the products of the brand present the right good at the right price, right quality and with an adequate feedback.

Another important strength point is the flexibility of the production process which permit to adapt the collection to consumers’ needs very quickly and to intervene whenever the market asks to, whenever a collection is performing badly, not matching the clients’ preferences or for becoming “old”. Of course, if Calzedonia would decide not to integrate the structure, it would have less strong margins and a structure slower to react. This is due to the fact the group would have need to bargain with third contractors and suppliers, adapting to their timeline, very different from the lead-time the group is able to reach itself.

A great importance is given to marketing and TV communication. The group invests lot of money on its own brand, aware that the clients can find what they are looking for in each corner of the street. The product is a mix regarding both the communication both the location of the stores. The brands are registered in every market the company operate, things that permit the company to launch them and support them.

Many beautiful girls were testimonials for the brand such as Alyssa Miller, Irina Sajchlislamova, the Italian Bianca Balti, Melissa Satta, Giselle Bundchen, Clara Alonso, Emily DiDonato, Adriana Lima, Rita Ora, and Julia Roberts. The activities of communication are totally realized internally or among free-lance agency choose each time considering the needs of the group. Another way of advertisement done Calzedonia are the billboard or television spot. The buying experience that the girls make in the stores are often lonely or with a friend.

The disadvantages of the company are:

- the absence of a customer relationship management, just few months ago Intimissimi sponsored its Fidelity Card,
- strong pressure of the stylists and producers to always have a new product in the right moment;
- the diversification of price between brands with the plundered of sales.

Calzedonia has a lot of opportunities considering that it is a 30 years old group, young, dynamic
and continuous growing: internationalization chance in the countries where it hasn’t yet reached strong market share, the improvement of informatics and productive system with innovative software and machines; acquisitions of new brand like it did with Atelier Emè and Falconeri. Eventually, the diversification of distribution channel.

The threats which the group can face thinking about a continuous growth and expansion are the instable market, some new competitors, improvements of competitors’ strategies already known on the market and the change of clients’ tastes, fashion and trends not followed by Calzedonia answer.

Tezenis it is the more dynamic brand of the group and had a great growth within the market. It reached a great market share and increased the consensus and spending power from the young clients; The sign stays focus on young clients who identify this brand as fashionable products with low prices which permits to Tezenis to overestimate sales in Hypermarket were the only low price is not sufficient anymore. The expansion of the brand is due also thanking great consensus among men.

Calzedonia has the advantage, relative to its competitors, to understand that in order to produce a goods it is fundamental to start from the client wish, thing that guaranteed to the group to reach such competitive advantage among year.

Intimissimi has focused on lingerie, bringing it at the top like something not naughty which the women can show also under a business suit, enhancing it with colours and patterns, defending it from taboos.

Even if the ideas of the group seem to be a lot imitable, the group is trying day by day to innovate and careful to new clients’ need. The group has also the advantage for being the first to introduce this kind of business on the market, permitting the group to increase the loyalty of the consumers and maintaining its competitive advantage.

3.12 **Main Competitors of Calzedonia Group**

Nowadays, Calzedonia gains the 50% of Italian revenues and 50% from abroad. Looking deeply
into the group’s competitors, we can identify some major rivals: Yamamay, Golden Lady, Victoria Secret’s, Hanesbrand, and Triumph International.

In Europe and in the US there is one brand group which control the lingerie market. The American L Brands is owner of brands such like Victoria Secret’s, founded in 1977 from Roy Raymond and it became a luxury lingerie company with Leslie Wexner. Always in the US, it is very active Hanes, which produce the brand Playtex, and Wonderbra. In Europe, Calzedonia has to face with the German Triumph International, Yamamay, Golden Lady and Oysho.

The luxury market has a key role in the lingerie business. Between them Agent Provocateur which produces and distributes its own creations, Stella McCartney and Heidi Klum Intimates produce offering the license for clothing and accessories.

The arrival of low cost companies is changing the market with the introduction in stores of lingerie collection less expensive for women, men and children. Between them H&M, Topshop and Forever 21 push them production. Their customer base is different from the one who wants a designer bra. The client base wants a rapid change of collections and many companies are speeding up their process in order to adapt to the clients’ needs.

The new trend is identified in the increasing of the demand from the men towards the lingerie. Crucial role is the one of the testimonial. Victoria Secret’s has defined its models “angels”, using girls who became fashion icon.

Calvin Klein, after having invested on the singer Justin Bieber for its men underwear, has launched a social network campaign in which it invited famous people and common person to take picture of themselves with its lingerie on. H&M cooperate with David Beckham and signed a collection with his name.

3.12.1 Yamamay

Yamamay is born in 2001 from the idea of an Italian entrepreneur living in Naples Gianluigi Cimmino. The holding is called Inticom S.p.A. and it is conducted by Luciano Cimmino, Gianluigi’s father already player of the Original Marines’s success. Also the daughter Barbara works with them, she created the Yamacademy, company corporate school and her husband Francesco Pinto, already manager in Procter&Gamble and today president of Inticom S.p.A.

Exactly after 10 years, Yamamay lives a second moment of great development and growth,
thanks to the entrance of Carlino’s family, founder of Carpisa and the creation of Pianoforte Holding, in which the two brand converged: Yamamay and Carpisa. “More unit stronger” is the slogan the group that reached in few years 1,000 stores with more than 1,200 employees. “Enter in the lingerie of every woman” is the company mission. In order to reach this goal, they turn every shop in an emotional and compelling environment, a parallel world in which the client can feel every moment the great price quality performance. Comfort, technology and functionality together with design and materials innovation make the new headquarter the perfect framework of Yamamay brand.

The 2015 closes with 395,286 thousand euros of revenue. The sales trend reached its pick in 2011, remaining constant the following years, arriving in 2015 to 142,390,451 thousand euros. Below I reported the evolution of profit margin % of the company in the last 10 years.


3.12.2 Golden Lady

In 1966 Golden Lady S.a.s. is born in Castiglione delle Stiviere (MN) founded by the brothers Arnaldo and Nerino Grassi, which leave the family milling company for becoming entrepreneurs of women hosiery, opening doors also to German market with the branch in Dusseldorf. In the seventies, very important investment in research and development have been made, competitive price and quality continue to conquer European market. The group goes ahead in the eighties and nineties dedicating great attention to media and communication, with very important Italian and foreign testimonial like the singer Anna Oxa, the dancer Lorella Cuccarini. The path reached its pick in the nineties with the arrival of the actress Kim Basinger. Golden Lady Company
strengthens its leadership in the big distribution and growth in the retail market thanks to the acquisition of SiSi.

The group wants to reach the middle high segment with the acquisition in the early nineties of the Italian Osma, while together with Kaiser-Roth Corporation, leader of American market with the brand NoNonsense and Hue, enter in the America segment of men and women hosiery. In order to create a direct relationship with the clients, in 2001 the group bid on Golden Point project, a store network in the most important cities with now has 650 shops. With the acquisition of Filodoro S.p.A. (2003), the group embed both the brands Filodoro, NY legs and the top of the line Philippe Matignon, become the main global producer of fashionable and seasonal socks.

It closes the 2015 with a net profit of 2,385,158 thousand euros, register a big decrease in sales starting from 2012 that today are around 279,085,823 thousand euros.

Below I reported the evolution of the profit margin % of the company in the last ten years.

Evolution of a key variable: Profit margin (%) (2007 - 2015)

![Figure 8: Personal Elaboration (AIDA)](image)

3.12.3 Oysho

Oysho was born in 2001, part of Inditex Group, following the same management and fashion style. The collections are renewed at the same pace of trends, in order to offer to the clients a quality product and a design product. The headquarter is located in Tordera (Barcelona), where
the team is composed by individuals coming from different countries, each of them is specialized in its own product segment and works for the development of new women and girl collection every season.

In an Oysho store, we can find funny lingerie, sexy and girly, casual clothes, cosy and informal home-wear and original accessories. Furthermore, proposals fit the creative and spontaneous personality of clients, willing to transfer their style on each cloth. At the end of 2015, Oysho registered 320,865,799 USD of revenue with a net profit of 223,173,062 USD.

Evolution of a key variable: Profit margin (%) (2007 - 2015)

![Chart](image)

**FIGURE 9: Personal Elaboration (AIDA)**

3.12.4 **Victoria Secret’s**

Victoria Secret’s is an American brand of women clothing and beauty products, mostly known for its lingerie. The name of the company is a reference to the Queen Victoria and was founded in 1977 by an entrepreneur called Roy Raymond. Victoria Secret’s is part of the American Group L Brands, owner of other brands like Pink, Bath & Body Works, La Senza and Henri Bendel. It closed the financial year on January 30th with revenues for 12,15 billion dollars (around 10,85 billion euros), with a growth rate of 6%. In the fourth quarter the company revenues registered a growth of 6% to 4,39 billion dollars (around 3,92 billion euros).
Victoria Secret’s has been the driven brand, whose revenue in the last 12 months accounted for 7.67 billion dollars, increased by 6.4% thanks mostly to the retail segment, +7.2% (6.11 billion dollars), while in the last quarter it reached +8.7% (2.61 billion dollars).

In the last year the group driven by Les Wexner, inaugurated 72 new shops, both flagship stores Victoria Secret’s and Bath&Body Works, bringing its retail network to 3,000 shops.

![Evolution of a key variable: Profit margin (%) (2007 - 2015)](image)

3.12.5 Hanesbrands

Hanesbrands is a manufacturing and distribution company of lingerie. The company operated mostly in North America. Its headquarter is located in Winston-Salem, North Carolina and has 65,300 employees as of January 2016.

The company accounted revenues for 5,731.6 million dollars for the fiscal year ended in 2015, with a growth rate of 7.6% compared to 2014. In 2015 the operating margin has decreased compared to the year before, 10.4% (10.6% in 2014). In 2015 Hanesbrand registered a net margin of 7.5%, compared to the 7.6% of 2014.
Evolution of a key variable: Profit margin (%) (2007 - 2015)

![Graph showing the evolution of profit margin from 2007 to 2015.]

FIGURE 11: Personal Elaboration (AIDA)

3.12.6 Triumph International

Triumph is a consolidated brand, both in Europe and globally, synonym of quality and prestige, for clients coming from a demanding economic and social range. This success, which has deep and solid roots, is established on high standards, which drive the activities of the company in each segment. Internationalization is the code word in the social policy of Triumph International: it is no coincidence that, since 1950, the word “international” has been added to the company logo. It is not only about exportation, but it is also about working and cooperating with foreign partners, operating on the spot, following the rule “think global, act local”.

It was founded in 1886 by the businessman Michal Braun and corsets producer Johann Gottfried Spiesshofer in Heubach, Germany. Triumph became during years’ leader at a global level for lingerie manufacturing and today it counts of more than 30,000 employees. Triumph has 46 branches in the world and it is currently market leader in 17 countries. It registered revenue for 53 million euros in Italy in 2015 with more than 6,8 million products sold. Triumph has 4,743 store only in Italy. It closed the 2015 financial year with 258,779,524 USD of revenue and a net profit of 109,644,279 €.
Evolution of a key variable: Profit margin (%) (2007 - 2015)

Looking at the revenue of the main lingerie companies, Calzedonia covers 10.7% of the global market share, proving how, especially abroad, it has the chance of expand and growth.

Triumph international and Hanesbrand holds the higher profit margin, followed by L Brands that form 2010 stabilized its percentage. Calzedonia compared to its main competitors, register lower
profit margin, but growing from 2014.

% Margin of the companies compared YoY from 2007 to 2015.

FIGURE 13: Personal Elaboration (AIDA)

3.13 BCG Matrix

Sales of the brands of the group are in constant growth with revenue for 2,060,219 million euros in 2015 and 1,872,038 million euros in 2014. Revenue are divided within the brands as follow:

<table>
<thead>
<tr>
<th>Brand</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Calzedonia</td>
<td>32.1%</td>
<td>31.9%</td>
</tr>
<tr>
<td>Intimissimi</td>
<td>31.1%</td>
<td>33.0%</td>
</tr>
<tr>
<td>Tezenis</td>
<td>30.1%</td>
<td>30.2%</td>
</tr>
<tr>
<td>Falconeri</td>
<td>3.3%</td>
<td>2.6%</td>
</tr>
<tr>
<td>Altro</td>
<td>3.4%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

FIGURA 14: Balance Sheet 2015 (AIDA, 2016)

Calzedonia, Intimissimi and Tezenis hold 93% of the revenue. Other brands hold around 7% of the remaining revenue. From these percentages it is possible to calculate the absolute value of revenues in the last two years and the relative growth rate:
<table>
<thead>
<tr>
<th></th>
<th>REVENUES 2014</th>
<th>REVENUES 2015</th>
<th>GROWTH %</th>
</tr>
</thead>
<tbody>
<tr>
<td>CALZEDONIA</td>
<td>597.180</td>
<td>661.330</td>
<td>9,7%</td>
</tr>
<tr>
<td>INTIMISSIMI</td>
<td>617.772</td>
<td>640.728</td>
<td>3,5%</td>
</tr>
<tr>
<td>TEZENIS</td>
<td>565.355</td>
<td>620.125</td>
<td>8,8%</td>
</tr>
<tr>
<td>FALCONERI</td>
<td>48.672</td>
<td>67.987</td>
<td>28,4%</td>
</tr>
<tr>
<td>ALTRO</td>
<td>43.056</td>
<td>70.047</td>
<td>38,53%</td>
</tr>
</tbody>
</table>

FIGURE 15: Personal Elaboration

Falconeri, together with Signor Vino and Atelier Emè are the younger brands, with the greater growth rate, even if their revenues are below, if considered in absolute value.

As we noticed in the previous paragraph, Calzedonia holds around the 10% of market share, proving great growth potential. At the same time, it has a very high growth rate in the market, in terms of profit margin.

Thanks to the matrix reported above, we can notice how the main group of product consist in star products. These goods benefit from a great market share and a great relative growth rate: lingerie, hosiery and swimwear are the most popular products known in the market. Although they are star products, they still have good room for growth in terms of margin and reputation,
mainly abroad.

The Intimissimi, Tezenis and Falconeri knitting has completely different demand and a very large price range (a Tezenis t-shirt costs about 15€, Intimissimi 30€ and Falconeri 120€). They are products that suffer high competition in the market, they have a difficult but potential growth. Today, they hold low market share and we identify them as question mark products. It is hard to compete in the knitting segment with companies like Zara, H&M and the other fast fashion brands, ma focusing on niche products (Falconeri and Intimissimi strategy) and low price fashionable products, the group is confident they can keep growing both on revenues and on market share.

One product that has a great market share, but no growth opportunity it is the continuous line, which permits to the different brands to have even higher profits than necessary. These goods help the other seasonal products to increase the market share and the growth rate. Those are defined Cash Cow.

From the table we can easily notice how more recent brands have major boost. At the base of the great performance of Falconeri and Atelier Emè there are the innovative, trendy, luxury product, manufactured with fancy materials and total made in Italy which make these products more precious. Furthermore, considering the young arrival of the other brands, they show good strength with wedding dress and Signor Vino that are entering in uncovered market segment, promising huge growth margin.

3.14 Comment to the Balance Sheet

For the first time, Calzedonia Spa has achieved and exceeded the 2-billion-euro revenue threshold in 2015, 10% more than the previous year. Looking at our historical figures, we notice a growth rate of 13,2% of the revenues from 2007, testifying the constant and positive group’s growth rate. Calzedonia succeeded in having growing revenues also within the two Italian recessions in 2009 and in 2012-2013 were it outperforms the economic cycle, proving the good corporate strategy.
How it succeeded? Calzedonia group has always focused on the price-quality performance of its products and the clients always remained faithful. In fact, they have not noticed an increasing in the collection prices, even if the price of raw materials has increased. During the crisis, the costs of some textile went up also by 40%, but the group decided not to reverse this growth to the final consumers. This strategy had consequences on the EBITDA margin, which passed from 25% in 2009 to 13,8% in 2014, until 2015 when it started increasing again (17,4%).
The decrease of the margins continued until 2014 and they were not only consequences of the increasing of raw materials price, but also due to the commercial choice of expansion. Indeed, in order to enter new markets and to be competitive, Mr. Veronesi aimed to a good price-quality performance. In this way, he permitted to the new countries to know the brand and to gain greater market share. Another decision taken by Mr. Veronesi that brought to a decrease of EBITDA is linked to taxes. It decided not to reverse on franchisee the impact of an increase in value added tax imposed by the government. We have to remember that in the group portfolio, we have huge range of products, able to cover any kind of age and need. This permits to play on expanding corporate strategies. Reaching greater market share and increase the clients’ loyalty will permit the group to think about an increase in price in the following years, aimed to better cover costs and to increase profit margin.

In 2015, EBIT, main indicator of good management of companies operating in the Calzedonia group, accounted for 229,237 thousand euros, with and EBIT margin around 11%. In this case, it is important to highlight how this profit measure is grown by 71% compared to the previous year and 6 time the revenues. Especially, after eight years where EBIT showed a slightly negative trend, reporting growth of -1% between 2007 and 2015, the effect of the operational leverage was noticed on the group’s number. In this sense, the investments made in the previous financial years, aimed to expanding production capacity, permitted the company to benefit more than proportionally in revenues (10% compared to 2014).
Looking at the balance sheet below, capex passed from 251,750 thousand in 2011 to 191,079 in 2015, decreasing of 60,671 million. In 2011 and 2012, capex was higher than recent years. The company has invested a lot, while nowadays, this indicator is decreasing, signalling the entrance of the group in a new economic phase. In 2015, capex on sales reached the historical minimum of 9.3%.

Although sales are increased by 13.1% in the years 2007-2015, considering the aggressive commercial expansion, management knew how to contain working capital evolution lower that 27.8% of the revenues.

Balance sheet

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Intangible assets</strong></td>
<td>63,450</td>
<td>115,565</td>
<td>113,003</td>
<td>113,705</td>
<td>112,460</td>
<td>114,731</td>
<td>119,639</td>
<td>117,459</td>
<td>130,293</td>
</tr>
<tr>
<td><strong>Tangible assets</strong></td>
<td>359,606</td>
<td>403,848</td>
<td>437,538</td>
<td>497,321</td>
<td>602,789</td>
<td>709,631</td>
<td>826,603</td>
<td>886,803</td>
<td>940,720</td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td>423,056</td>
<td>519,413</td>
<td>550,568</td>
<td>511,026</td>
<td>612,749</td>
<td>731,362</td>
<td>846,234</td>
<td>914,252</td>
<td>1,058,262</td>
</tr>
<tr>
<td><strong>Inventories</strong></td>
<td>194,124</td>
<td>231,681</td>
<td>244,700</td>
<td>249,655</td>
<td>370,129</td>
<td>319,787</td>
<td>392,472</td>
<td>421,238</td>
<td>467,360</td>
</tr>
<tr>
<td><strong>Trade receivables</strong></td>
<td>132,853</td>
<td>154,858</td>
<td>170,348</td>
<td>183,829</td>
<td>218,076</td>
<td>237,993</td>
<td>219,737</td>
<td>239,172</td>
<td>314,691</td>
</tr>
<tr>
<td><strong>Net operating working capital</strong></td>
<td>210,335</td>
<td>269,597</td>
<td>293,723</td>
<td>295,592</td>
<td>316,358</td>
<td>402,152</td>
<td>341,661</td>
<td>446,367</td>
<td>572,470</td>
</tr>
<tr>
<td><strong>Other receivables / (payables)</strong></td>
<td>24,713</td>
<td>16,025</td>
<td>22,473</td>
<td>(6,234)</td>
<td>53,809</td>
<td>20,592</td>
<td>16,146</td>
<td>17,366</td>
<td>17,370</td>
</tr>
<tr>
<td><strong>Other tax receivables / (payables)</strong></td>
<td>27,651</td>
<td>9,259</td>
<td>(1,262)</td>
<td>(9,880)</td>
<td>(10,199)</td>
<td>(8,123)</td>
<td>(21,315)</td>
<td>(26,018)</td>
<td>(84,758)</td>
</tr>
<tr>
<td><strong>Personnel provisions</strong></td>
<td>(6,387)</td>
<td>(6,209)</td>
<td>(6,785)</td>
<td>(5,499)</td>
<td>(5,585)</td>
<td>(6,061)</td>
<td>(6,921)</td>
<td>(6,805)</td>
<td>(6,521)</td>
</tr>
<tr>
<td><strong>Provisions for risks and losses</strong></td>
<td>(21,243)</td>
<td>(24,797)</td>
<td>(24,318)</td>
<td>(31,393)</td>
<td>(48,578)</td>
<td>(58,169)</td>
<td>(60,302)</td>
<td>(69,237)</td>
<td>(60,474)</td>
</tr>
<tr>
<td><strong>Net invested capital</strong></td>
<td>661,854</td>
<td>781,133</td>
<td>841,278</td>
<td>810,233</td>
<td>1,138,464</td>
<td>1,206,470</td>
<td>1,249,725</td>
<td>1,421,839</td>
<td>1,555,903</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents</strong></td>
<td>(25,283)</td>
<td>(13,691)</td>
<td>(17,046)</td>
<td>(26,566)</td>
<td>(16,217)</td>
<td>(27,947)</td>
<td>(24,174)</td>
<td>(44,606)</td>
<td>(58,871)</td>
</tr>
<tr>
<td><strong>Short-term debt</strong></td>
<td>113,291</td>
<td>111,839</td>
<td>90,786</td>
<td>1,566</td>
<td>99,393</td>
<td>134,950</td>
<td>51,708</td>
<td>159,266</td>
<td>174,941</td>
</tr>
<tr>
<td><strong>Long-term debt</strong></td>
<td>121,034</td>
<td>144,422</td>
<td>83,144</td>
<td>72,273</td>
<td>160,004</td>
<td>126,010</td>
<td>92,699</td>
<td>146,314</td>
<td>234,134</td>
</tr>
<tr>
<td><strong>Other financial assets / (debt)</strong></td>
<td>(11,079)</td>
<td>(10,500)</td>
<td>(13,752)</td>
<td>(25,332)</td>
<td>(31,005)</td>
<td>(37,832)</td>
<td>(43,097)</td>
<td>(73,012)</td>
<td>(69,193)</td>
</tr>
<tr>
<td><strong>Net Financial Position</strong></td>
<td>197,368</td>
<td>232,068</td>
<td>250,132</td>
<td>21,941</td>
<td>248,155</td>
<td>195,184</td>
<td>77,146</td>
<td>178,962</td>
<td>198,803</td>
</tr>
<tr>
<td><strong>Share capital</strong></td>
<td>5,000</td>
<td>5,000</td>
<td>5,000</td>
<td>5,000</td>
<td>5,000</td>
<td>5,000</td>
<td>5,000</td>
<td>5,000</td>
<td>5,000</td>
</tr>
<tr>
<td><strong>Revenues</strong></td>
<td>158,859</td>
<td>439,947</td>
<td>541,787</td>
<td>676,860</td>
<td>813,665</td>
<td>929,108</td>
<td>1,031,170</td>
<td>1,154,561</td>
<td>1,237,287</td>
</tr>
<tr>
<td><strong>Yearly profit / (losses)</strong></td>
<td>108,630</td>
<td>108,638</td>
<td>144,360</td>
<td>146,422</td>
<td>133,644</td>
<td>136,918</td>
<td>112,409</td>
<td>81,319</td>
<td>113,509</td>
</tr>
<tr>
<td><strong>Group shareholders’ Equity</strong></td>
<td>164,488</td>
<td>549,085</td>
<td>691,146</td>
<td>828,272</td>
<td>950,309</td>
<td>1,071,288</td>
<td>1,168,579</td>
<td>1,242,871</td>
<td>1,395,896</td>
</tr>
</tbody>
</table>
This is a great result for a company that wants to growth and invest not only in equipment, but also in commercial policies. Particularly, although the working capital passed from 210,115 million to 572, 470 million euros, considered has a percentage, it remained stable regarding the revenues, slightly decreasing from 2007. The chart below will show this phenomenon:
Although the company improved its working capital management, it seems there is still room for a more efficient and effective management of group commercial policies.

The inventory days remained stable throughout the years, around 242 days necessary to empty the warehouse. Calzedonia spend 2/3 year to conclude its inventory turnover.

If the inventory days would decrease, the profit would increase rapidly because fewer resources would be used with the same results. With lower receivables, minor inventories and higher payables, it would be possible a reduction of the net operating working capital.

Total current assets on net investment capital have increased, equal to 60% and this is the measure for the intensity of business capital. Calzedonia invests 60% in fixed activities for its business.
The company leverage, calculated as net financial position on group shareholder equity, is equal to 14.6%, a very low percentage that leave the company room for debt. This can be exploited for financing a possible strategy of internationalization of the group, without compromising the financial position of the group. Calculating the group shareholders’ equity x0.5 – net financial position, we can derive the borrowing capacity of the company that do not affect its financial position, equal to 480 million euros. NFP/EBITDA is 0.6x, meaning that Calzedonia is able to repay its debts in less than one year.
CHAPTER 4

4. The Analysis

4.1 Introduction

During these 30 years of history, Calzedonia has grown from an idea of shops into a global retailer with more than 4000 shops in over 50 countries. The company employs more than 33,000 people. It reached over 2 million euros in 2016, with a positive trend in all past years.

Calzedonia, in the last few years, has embarked on a massive international expansion effort, supported by a firm-specific knowledge-based on previous experience in Italy, notably reputational capital, a distinct market offering, and a well-developed mechanism to identify, develop, transfer knowledge within Calzedonia subsidiaries in different countries.

Successively, I detail the process of internationalization of the firm in terms of the theory reported in the first chapter, identifying the different stages of development: an initial explorative stage, characterized by trial and error activities, a stage of exploitation by replication a strategy and the current stage of what I can call flexible replication.

4.2 Data Collection and Analysis

The data of this thesis was collected from different sources: the theory, information about the firm, interviews with different Calzedonia offices and observations through my work. These sources are interrelated to create the analysis.

I proceed with semi-structured interviews: I wrote a track with the most important questions that I needed to develop. Then I previously sent the questions to the interested subjects, in order to prepared the interviewed about the topic. During the interviews, there was freedom on the sequence and the way of formulating questions. In fact, I developed further questions cause by the free conversation that has arisen. The interviews were done with the master franchising head
manager, the production office, the boss of foreign training office, the sales department office, store staff, store designer and franchising office.

The first things reported in this chapter are the explorative and exploitative phases experienced by Calzedonia. I then developed the analysis of the replication mode of Calzedonia, focusing on what is fixed and flexible in the format used internationally, the way the knowledge involved is transferred and how employees are trained.

**FIGURE 1: Personal Elaboration**

<table>
<thead>
<tr>
<th>1° Exploration Stage</th>
<th>2° Exploitation Stage</th>
<th>3° Knowledge Sharing</th>
<th>4° Training Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Find the FORMAT</td>
<td>Replicate the FORMAT</td>
<td>Share the FORMAT</td>
<td>Train the FORMAT</td>
</tr>
</tbody>
</table>

4.3 *Explorative internationalization stage*

The internationalization process has begun in the 90’s when it entered in the neighbour Spanish market as a direct consequence of the saturation of the Italian one. Based on a belief that larger volumes could enable the firm to exploit economies of scale and learning that would support price-based competitiveness. In 1992, Calzedonia build the Spanish franchising society Espana SA and at the same time, it opened four new shops. The group had the intention of replicating, in Spanish and French markets, the same format used in Italy because it believed that both markets have similar characteristics to the Italian one. Calzedonia decided to enter later in German markets in 1994 building the Calzedonia Deutschland Gmbh society. The first international explorations were consistent with the Uppsala Model that emphasizes the incremental entry into a foreign market.
A somewhat systematic approach of explorative strategy was the opening of ‘‘test stores’’ in important city centre’s to test whether there was an interest in Calzedonia products. The initial process of entering new markets is defined as a highly explorative phase of trials based on observations and intuitions, and learning from the errors.

In 1995 the management decided to outsource the production in other European countries where there was a series of favourable elements to business development, such as competitive working cost, the existence of a culture about textile industries that allowed an easier integration. In the following years, Calzedonia understood that French and German markets did not register the expected results and the societies have been closed. While the Portuguese, Spanish, Greek and Turkish markets had better prospects and nowadays still contribute to reinforce the groups prestige.

In 1996 Intimissimi was created, which in the first years became the lingerie leader in its sector. The attention here was posed in the shop quality, in the strategic locations of those shops, and the quality of the product offered at lower costs that strongly contributed to the group’s brand image.

In 1998, Calzedonia built the first society in Sri Lanka to produce bra’s and panties, knitwear and beachwear. Calzedonia started to export its products in different countries, using the same product for all. At the same time, Spanish revenues doubled and the firm decided to replicate the strategy also in Portugal, building the distributor franchise Calzedonia Portugal Lda. The foreign market continued to have a positive trend with encouraging results.

The explorative phase in which Calzedonia decided to produce for its self was a successful trial, so strong that it decided to produce almost the totality of the products. It opened other societies in 2002: Ceylonese society that produces underwear; a Romanian society that produces women’s knitwear; a Bulgarian society that produces socks and underwear for men. In 2003, the firm opened another two societies: one of them with the scope to reutilize advanced raw materials to create new products to sell in the outlets.

In 2003, Tezenis was created. It proposed a competitive pricing strategy to cope with the needs of younger consumers, more focused on the quality-price relation. Here Calzedonia started a new
challenge, after it’s strong success with the other two brands and the instruments that had already tested.

In 2004, the company opened it’s first shops in Russia and they were established commercial societies as an aviation department in order to allow managers and personnel to freely move between different commercial and productive sites.

During this phase of international exploration, Calzedonia decided to cross the American threshold in the USA, selling its products in Victoria’s Secret shop. It obtained a commercial agreement with the American firm, which permits the sale of Intimissimi products inside well-established lingerie shops in America. This trial turned out to be a failure, so in the years later Intimissimi retired its goods from Victoria’s Secret shops and understand the importance to go abroad only with it’s single brand shops.

In 2005, outlets became a central focus thanks to the acquisition of two polish companies. Asides from the production site in Sri Lanka, Calzedonia created a new productive site in Serbia, in order to have the knitwear production and the dyeing-plant closer. Meanwhile in London the first Tezenis shop was created, in a popular area that contributed to the growth of brand awareness abroad. This was a successful idea.

In 2008, they acquired two commercial distributors, one in Austria and one in the United Kingdom and in 2009 the group acquired 100% of Alba srl, which is the production company for tights, and the 80% of Falconeri. Calzedonia, after years of exploration, it is sure of its products and it is sure of its potentiality, so it decides to continuously explore new markets and to become an always more unique producer, the past years confirmed this to be part of a winning formula to replicate.

The year 2011 is for Calzedonia the beginning of massive expansion, it opened in several markets and it tried to reinforce its position in those markets where previously there were no optimal results. Therefore, it decides to ignore some failures in the explorative expansion and to use more strongly the winning formula tested in others country, reinforcing the business through an increase in the number of stores that led to the rise of brand awareness.

This explorative phase lead. Spelled the same in the past and present the firm to change the internal organizational structure: the group understood the importance of having different offices
collaborating for the same scope, which is the international expansion. Thus, they created two different offices: a foreign office and the specific brand sales office (one for each brand) which collaborate daily to develop the principal business ideas of the group, which is to seek the best solutions to maintain the same format but at the same time adapt locally.

In 2012, after a period of learning experience in Brazil, Calzedonia resolved the start-up problems of the countries, regarding in particular the logistics, the custom, organizational structure and information technology. The end of 2012 characterized the real discovery of the Brazilian market potentiality. The country was a strong effort for the company in terms of knowledge acquisition and transfer but resulted in a profitable investment. The climate of crises during all 2013 and 2014 caused a drop in consumption in various sectors, including Calzedonia.

In 2013, the group was active in 26 countries and subject to different environmental situations. The Italian market remained the principal one for the firm but it was affected by the intensification of the crises. Consequently, Calzedonia decided to decelerate the exploitation phase returning to the exploration stage to improve the format.

So, the group focused on the management and results improvement of the franchising with important investments in spot campaigns and promotional events in the shops. For example, for the first time it organized the “Calzedonia Summer Show” in Rimini that allowed the firm to present the new collection with a fresh and funny show. Thanks to this investment, Calzedonia, Intimissimi and Tezenis reached historical revenues, while Falconeri reported encouraging revenues.

In the Iberian Peninsula, Spain, and Portugal the revenues were positive, confirming that the formula exported was the right one. In Russia, the second area of interest for the firm, the exercise was under expectations. In Hungary, Poland, Czech Republic, Slovak Republic and Croatia, the firm consolidated its position with revenues growing for all brands. In France, Belgium, Switzerland and Germany (new markets) they opened 191 shops. Brazil reached 22 Intimissimi shops. Another important event in this year was the opening of the first Hong Kong store.

Despite the good intentions, 2014 was another year of lower than expected profits for the group.
Therefore it decided to pursue the same strategy of 2013, enforcing its position with franchises and with important spot campaigns. In 2014 Calzedonia started the Intimissimi on Ice show, a communication strategy addressed to affirm brand awareness. During this year, it continued to expand in the markets where it was already present. Also it focused on production process optimization, plant and logistic centre requalification, working towards technologically advanced investments with low environmental impact exploiting renewable energy sources. In 2015, it started building the production site in Ethiopia that it would be devote to the produces articles for Calzedonia brands.

Finally, 2015 was the year of the recovery. The company registered revenues marginality and income growth. The balance sheet, as reported before, concluded with 46.206.689 of net income compared to 20.991.517 of 2014, recording a revenues increase of 3,6%.

1986  

2011  

Explorative Internationalization Stage

4.4 Exploitative Internationalization Stage

The second phase of the internationalization process, starting from 2011, had a much more exploitative character. Once the relevant knowledge and the skills required had been acquired, the replication was focused on the improvement of the template in the daily operations, decision-making process and in the selection and refinement towards efficiency maximization. The knowledge gained by actions created a cumulative advantage of competence regarding the body of knowledge and skill set.

As reported in the first chapter the exploitative stage could be: guided by a template or replicating the template precisely, I will explain how Calzedonia incorporated this into the follow.
In the early stage, when entering a new market, replication followed the historical template (used in Italy) that was considered as the pilot format. At a later stage, when the market became more mature, other templates became the original template, which are used to replicate the strategy. Finally, the successful template was replicated in the same way in different market. Therefore, Calzedonia in this phase is guided by constantly replicated template.

In many cases, when a new template is conceived, more than one outlet may provide some part of the desired image of the new one. This often results in an explicit mix and match of outlets for replication, such as Kazakhstan is associated with the Russian market so it does not receive products made in Turkey but it has the same store design as Italy. Interdependencies are also created.

In the case of flagship stores or specific-site stores, the designer ignores the template and creates a new one without a plan. Here, the scope is to attract as many consumers as possible in an important site, like Paris, London, Madrid or in specific locations to search for more local adaptation like in Mexico or Formentera.

The other way to replicate is replicating the template precisely. Initially the template is replicated precisely, because the market is untested and needs to be discovered but the exact replication prompts some problems going forward.

The first problem of this initial approach is that it entails costly replication in what may turn to be irrelevant or deleterious, for example an irrelevant article is the bra fifth size in Japan, a deleterious item is the made in Turkey which are blocked on the Russian borders. This results in slowing down the pace of replication but allows the company to learn from the errors and to proceed in the right direction. In the follow, I reported the main idea and the deep strategy of Calzedonia’s mode of replication.
4.5 Replication Mode of Calzedonia

Replication for Calzedonia is the core of its strategy. Replicating the same format in Italy and abroad has proved to be a successful process. After numerous interviews within Calzedonia’s group, I understand how the current replication mode functioned. Before starting, I have to underline the distinction between Arrow core, the idea conceptualization, and the Template that puts the concept in practice. This distinction reflects how the company thinks of replication as a hierarchical process, in which some features must stay fixed while others are allowed to be flexible. Flexibility is important to adapt the format to a local market and to make improvements under the impact of new learning.

The Calzedonia Arrow Core contains the guiding principle, vision, strategy and culture that management used to address the company’s operations, development and international expansion. The idea concept can be defined as the unique asset that differentiates the firm from the competitors and what drives all the choices.

The Arrow Core is a set of overall guiding principles that offer general instructions on store design, product distribution, human resource management. The guiding principles remain fixed and the headquarter decides them, but flexibility and the continuous exploration are at the core of the Calzedonia strategy. Every variation to the guiding principle, every innovation and every proposal has to be approved by Veronesi, the firm has in fact a rigid vertical structure where all the decisions are made by the president.

The concept in practice, that is the current embodiment of the idea in terms of product offerings, store design and location, pricing policy and so on, is frequently modified by managers in order to follow the trend of the moment, the sales force needs, the functionality and the strategy in different countries. The modifications must be approved and tested before becoming real.

The concept in practice stresses its process and learning aspects. Still, the concepts in practice are ordered in a hierarchical manner, depending on how much they are allowed to change and vary. The products format is mostly fixed, with some exceptions for Japan and China where the market has specific requests, what change is the distribution of the same products. Store design and marketing strategy are mostly fixed. The prices change country to country, due to different products positioning, or different costs or different strategies looking at the competitors.
In the following, I will report all the aspects of the template that are fixed and those which are flexible and need to be continuously analysed and adapted.

<table>
<thead>
<tr>
<th>Price Replication</th>
<th>Marketing Replication</th>
<th>Product Replication</th>
<th>Franchising Replication</th>
<th>Store Design Replication</th>
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**FIGURE 4: Personal Elaboration**

### 4.6 Product and Price Replication Mode

Veronesi’s purpose was to create items with strong fashion content but accessible prices. The company, nowadays, distributes the following products:

- **Calzedonia**: socks for women, men and kids, tights, leggings, hold ups and overall during the summer swimwear and beachwear.
- **Intimissimi**: bras and panties for women, slip and boxer for men, knitwear and easywear.
- **Tezenis**: it combines all the categories of the two previous brands, at a lower price for young customers (15-25 years).
- **Falconeri**: it realized knitwear products in natural and prized yarn for men and women at higher prices because of the higher quality of the items.
- **Signorvino**: wine bar and wine shop specializing in online sales of 100% Italian quality and tasting. They are presented in different stores where you can eat and taste the Italian wine in a typical local.
- **Atelier Emè**: it is the high fashion home specialized in wedding dresses. High quality and design, in order to have exclusive dresses for a special party or for a special day.
The number of products and the number of brands has increased from 1986, together with international expansion, causing different situations to emerge.

‘‘Till five years ago, the firm’s philosophy was to replicate the Italian model all around the world. The product management was the same for all countries. The products were the same for all shops and the distribution of those products were studied in the same way’’.

All the products selected by the committee become part of the planning distribution collection. This planning determines which product every shop will receive at the beginning of every week for the whole season. In the Calzedonia brand, for example, we have three collections: Fall/Winter, Spring/Summer and Mare collection. The quantity of items that will be distributed to the shops is calculated on the basis of sales of previous collections and other valuations towards the store (new country, location, implementation, and so on). Once the sale percentage is defined, the sales department builds the implant. The implant is a proposal quantity of items, divided for every category (men long socks, women tights, children short socks) into levels: level A, B, C and so on. Each level contains a defined quantity of each product that shop will receive as a first shipment once a week. Every shop receives the implant level proposal before the season begins, and they have to decide if they keep it or change levels. All the produced goods for one season are distributed as follows: 40% is allocated to the first implant shipment and 60% is allocated for the new assortment, which is the quantity that every shop can order and receive during the entire season.

‘‘At the beginning, the implants were built identical for all the shops; there were no specialization’s or personalization’s. Calzedonia’s will was to have the same product in the same moment in every country and every shop. The blocks management were also the same’’ (Lazzarotto Isabella, Sales Department).

Blocks are a system of monitoring the distribution of goods for the sales department and an instrument for the shops to define the product quantity it wants to have always in stock. For example, the shop in Verona can decide to have a set up quantity of the black sock with the bow, ten pairs, when it sells one of these, automatically the block orders one pair of socks in order to always have ten pairs in the shop. Blocks are useful also to group products that are finished and the shop cannot order more, or to define the minimum quantity that the shop has to have and the maximum quantity it can plan to have in store.

All of this process of better product allocation and planned distribution were the same
In 2011, as said before, began the massive international expansion of the firm. Veronesi decide that the focus was no longer the Italian market but the international one. So the group began to make heavy investments to increase the number of shops in the country already tested and to expand in new countries.

‘‘At this point, they understood that it was necessary to look for a personalization of the processes, not only for new markets, but also for close countries that needed more attention’’ (Lazzarotto Isabella, Sales Department). So all the members of the group started to move in that direction. ‘‘They started to create dedicated products, to give the possibility to shops to decide which categories sell (Women, Men, Kids and so on), to think mini collection of those shops that have particular requests, such as the mare collection for Asian countries’’ (Lazzarotto Isabella, Sales Department). This strategy wants to adapt where possible the format. For example, it was created a mini Asia collection capsule, because Asian consumers appreciate white skin do not use swimwear to sunbathe, instead they use swimwear as clothes so they want particular forms and creative model; moreover, they buy only padded customs because they are very skinny for the majority.

Overall, Calzedonia emphasizes cost leadership. The firm positions itself as a vendor of high quality products at lower price. Finding the right price level in new markets is important to attract the target consumers. In fact, ‘‘prices conform based on the market and product positioning. In Russia, for example, the prices are higher because the consumer buys only expensive products’’ (Lazzarotto Isabella, Sales Department). This is an example of local adaptation. In addition, when market has high import duties, Calzedonia search to produce locally, because it is difficult to change the consumer’s view of acceptable prices, so to lower the costs it is necessary to produce near to the market.

Who makes decisions about products and prices? They are brand managers, country managers, and retail specialists. They represent different groups of countries; different brands, and they are specialized in understanding consumer needs. They studied the markets demand and they identified which products of the collection can be send to the nations, in which quantities, at which time, and they are responsible for the sales.
In addition to these, the manager of master franchisor, that occasionally come to HQ center, decide which product and which series or collection to bring to the nation. They lived in that nation so they understand deeply the necessities of the country.

These working figures are young; they were created in 2011 with the massive expansion of the firm. In fact, expansion abroad means for the firm an internal reorganization. The necessity was to find people willing to go abroad and qualified people abroad. The office roles were changed: the foreign offices have the task to collect country requests, create and maintain the price list for each, to organize and promote events following the specific festivities or interests and custom problems. For example, not all nations decided to support mother’s day, father’s day or Easter because of different cultures and festivities. While the sales department (one for each brand) has the task to create orders, building blocks, sales force support, and allocate goods.

In conclusion, I summarize what is fixed and what is flexible in the product word and which is a part of the replication strategy. When entering a new market, a based format is used, what Winter and Szulanski call Template. ‘’A Template is a relatively successful outlet that could be considered as the guiding example of what is desired in a new one. This outlet responds to the question of how a new outlet should look’’ (Winter and Szulanski, 2001). Therefore, Calzedonia’s product template used in new markets consists of:

- The delivery of full collections in new market in order to evaluate what they like and what does not reflect consumer taste. The full collection is composed by basic items and fashion items for each category. There are basic products that all the shops must have and women’s categories for fashion items which is mandatory, because it is the core business of the company.
- The collection planning is the same all around the world and the distribution of fashion products is divided in weeks for each shop, what Calzedonia call Tranches.
- The implants and blocks are divided into national groups and remain the same for those groups.

Next to the fixed elements of the template, just reported, there are several variable elements that make the template flexible:

- To adapt locally, product range is personalized. Every group of nations can decide what products they want to receive or which categories they want to select. There are prohibited articles that some countries cannot receive, such as products made in Turkey.
for Russia or as mentioned before special articles designed for a specific and culturally distant country, such as Japan.

- The nation can decide to receive the tranches week before what is planned. So, starting from the original planning they could ask for advances. In that case, the sales department begins to send the collection early for specific nations and if the product is available at the warehouse, it will arrive before in respect to other countries. The different climates, festivities, and cultures justify these requests. For example, it is not strange if Greece asks to receive the sea collection one month before in respect to Poland.

- Implants and blocks are ideated before collection started. What is flexible here is the possibility to create new blocks during the season. It could happen if there is a particular event that necessitates the higher quantity of a product. For example, if in Germany there is a fishnet tights event, the sales department can create a block with all fishnet items in order to be more functional and free to order for the shop.

The attention to the product is high. What Calzedonia wants to do is find the right product for the right market. In fact, ‘’if initially the group used the template to replicate the strategy abroad, when the market is mature they started to produce specific products that offer a service. For example, in Italy or Spain you can find identical tights with control top or push-up or reinforced toe’’ (Lazzarotto Isabella, Sales Department).

WHEN IS SUMMER IN BRASIL                   THERE IS WINTER IN RUSSIA

FIGURE 5: Google Images
4.7 Store Design Replication Mode

To sell product, it is necessary to develop the communication strategy, in order to make the brand recognizable, to do so Calzedonia decided to invest in concept stores.

‘‘Concept stores (or flagship) have a key role in propagating the firm philosophy. They have to transmit an always new and charming image and to do it better they are located in crucial points in the city center or in a commercial center’’ (Cappello Paolo, Store Design Office), for example, the flagship store of Tezenis located in Oxford Circus in London.

The stores are proposing the same products of the Italian or Spanish or Russian markets, adopting this homogenisation strategy that differs only for the brand.

‘‘The Intimissimi stores seem to be little boutiques in a French style, refined with a bright monochromatic background that gives emphasis to the exposed products. The Falconeri shop has a formal design: refined material are used, such as the wood to remember the natural yarn and to create an image of a high fashion store. Different is Tezenis where all the products are exposed on the shelf, so the client can choose the product without the saleswoman. Tezenis shops are characterized by a cosmopolitan environment with lounge music in the background, pronounced brickwork and American loft furniture’’ (Cappello Paolo, Store Design Office).

In every shop there is a director, who is responsible for the structure. Furthermore, there are district managers every 10 shops (more or less) that go around and they keep up to date the HQ about working organization, shop windows, logistic, informatics, communication, marketing.

‘‘Every 5 years, more or less, the format of the shop is completely revised, because it is necessary to rejuvenate the brands’ perception. There are other motives to redesigning the store, such as the design could be changed to improve functional features, such as Tezenis was changed in order to have a more practical shop. In the case of Intimissimi, in 2012, the format of the shop was completely changed because the HQ wanted to change the perception of the brand, applying
a trade up to it. So, it was necessary to change the shop design, seeking for something more romantic and Italian style with a strategic exposition of the products. Another example is Falconeri, in the beginning what the shop wanted to inspire was the Italian mood and the pureness of the material used, so the shop was characterized by pure wood furniture. Now the product wants to be a luxury product, so the design of the store has changed in order to follow what the product want to communicate. When the format changes, the brand has to remain recognizable’’ (Cappello Paolo, Store Design Office).

The stores designer has to follow the guiding lines dictated from the HQ, such as the shops have to be young, bright, functional, and strategic in the exposition of the items, practice and simple as the brand image. It is important to exploit, in the best way, the little spaces of the network shops. Looking at this guiding principle and collaborating with visual and sales force a new look for the shop is designed, not forgetting to follow the trends of the moment. Once the project is finished, it is presented to Veronesi who decides to implement it or not.

If new solutions are approved, they are tested in specific shops in order to understand if they are
effectively functional, if the new design attracted more clients inside the shops, and if they bring a real improvement. In Calzedonia there are 5-6 test shops for each brand, which are used to test these new configurations. Therefore, visual with salespersons started to use the new format and give feedback about the functionality and convenience. ‘’An example of a solution that was successful was the idea to put drawers in the middle of the shop. Stores needed more spaces to positioning goods and the perimeter drawers were not enough. The guiding lines are rigid and it is difficult to change it, but it is important to obtain always the maximum functionality for salespersons and clients’’ (Cappello Paolo, Store Design Office).

To understand if the new format is performing and attracting more clients, the design office analyses the sell-out before and after. To analyse only the effect in sale of store design variables ‘’it the sell-out is examined for the test shop after the makeover and it is compared with a shop in the same period, with the same product range and same historical revenues. If the sales increase, it is thanks to the new design’’ (Cappello Paolo, Store Design Office).

An example of failure in design change was in a Tezenis shop test, during the test the designer found that customers entrance decreased while the conversation rate (how many of the people who enter in the shop buy something) remain the same. ‘’The explanation was that the new shop window was too large and people could see all the products exposed without entering in the shop. This results in a reduction of sales, so the new configuration was not implemented’’ (Cappello Paolo, Store Design Office).

Now, I want to clarify what in the design of stores are variable elements of the template and which ones are flexible features:

- The guiding line are fixed; the designer has to follow it carefully because brand awareness must not change. Once the format of the shop is defined it is replicated in all shops without distinctions. This format is part of the template that makes replication as strategy successful.
- The most important shops in the word, those with a greater impact on customers, benefit of more flexibility. In Paris, Madrid or London the design solutions could be different, the based furniture that makes brand recognizable is decorated differently. These shops are designed in a unique way from a specialized team that adds value in a format coherent with the location.
For example, Tezenis in London was thinking of following the trend of the moment, the design team decided to put paintings of famous local artists, to innovate and capture the attention of local clients.

An example of learning experience is Intimissimi in Spain, where they decided to enlarge the shop window in order to attract more customers. The solution was so winning that they choose to use the same format in Italy.

In rare cases, a singular shop is designed in a different way but it happens. This is the case of the shop in Mexico. Here the demand was created by the different product range sold, in fact they sell above all swimwear so designers rethought the format taking inspiration from the sea. Therefore the furniture was in rough wood and the material in blue.
Also in Formentera, designers had the possibility to give freedom to their creativity, because of particular customers and locations. The difference is that in Mexico it is not important to be recognizable while in Formentera it remains an important factor. In Russia, Intimissimi shop was adapt to the market, seeking for a luxury design in order to seem an expensive brand.

In China and the US, the format chosen is the template. In fact, as Calzedonia’s strategy wants, when entering in a market a well functioning and well-tested format is replicated. The only adaptation that designers had to make was finding a solution to have the majority of the products exposed in a very little shop. The company does not want to adapt locally before having tested the market.
Also in the design of shops, the decisions are vertical and centralized. This gives the possibility to maintain the control of the brands and to create cost efficiency.

4.8 Marketing Replication Strategy Mode

Marketing strategy is the same in all countries where Calzedonia is present. They started with billboards around the city, then they used the print advertising campaign and when the brand is popular enough, the group used television spots.
The Italian brand has invested a lot in communication. If before the company used shops and catalogues, now it is investing in television spots with important names like Julia Roberts, Irina Shayk and in show events, such as the ‘’Intimissimi on Ice’’ in Arena.

![Image](https://via.placeholder.com/150)

**FIGURE 8: Google Images**

**4.9 Franchising Replication Strategy**

The choice to manage the activities through franchising offers different advantages: fast market penetration, demand adaptation, international brand expansion, the possibility to replicate the same strategy and distribution systems abroad, the replication of marketing, store design and products and the direct control of activity, that allows production volume to grow without great
cost increase.

As reported in the first chapter, franchising is ‘’a commercial formula in which the firm mother (franchisor), through a franchising contract, grant to the shop owner, distributor or sealer (franchisee), the right to commercialize its products or services, using the brand and the commercial technic previously tested by the franchisor, in exchange of the payment of entrance right (franchising fee) and periodic fee’s (royalties)’’ (Bertolas Elisa, Leone Francesca, Franchising Office).

The master franchising is a commercial formula where the franchisor grants to the franchisee, the possibility to carry out, in a determined area, actions that normally are reserved to the franchisor, such as the research of franchisee and the contract stipulation. The franchising belongs to the group, it is a subsidiaries owned and wholly controlled by Calzedonia. While the master franchising has the prerogative on a specific area and they can develop they owned market.

‘’The master franchising is used in the smallest markets, such as North Africa or Bulgaria, because they are unknown and because there is no remarkable possibility to expand, so the group prefers to rely on third subjects, who can understand deeply their country and they can take the risk’’ (Bertolas Elisa, Leone Francesca, Franchising Office).

‘’The franchising is used for the greatest and strategic markets, where they have the possibility to expand a lot and where the costs are higher, so the group prefers to explore the market and take the risks’’ (Bertolas Elisa, Leone Francesca, Franchising Office).
During the exploration stage, Calzedonia strategy was to open master franchising in new market and then transform it in franchising contract. When the group became more consistent and the focus radically changed from Italy to foreign markets the strategy changed too. In fact, now the franchising office does a lot of previous evaluations to choose the right contract to draw up, such as the country dimension, the opening costs, the maximum number of shops that could be open, the franchisee demand, the franchisee profile.

Usually, when the market is promising Calzedonia starts with a franchising, as it did in France and Spain for example. During the first two or three years it studied the franchising feasibility, then it begins to give shops in affiliation in order to split the costs. In fact, franchisee’s, as said in the previous chapters represents the 60% of Calzedonia revenues.

As Veronesi declared “abroad the majority of shops are directly managed: new markets are delicate and risky, so it is right and strategic to assume directly those risks” (Bertolas Elisa, Leone Francesca, Franchising Office).

“Furthermore, the strategy consists first on the opening of Calzedonia store in new markets. This choice is related to the minor costs needed to open a Calzedonia stores (about 200.000€) and for the uniqueness of brand formula. The only markets that represent an exception are: US, China and Japan because here the choice was to open both Calzedonia and Intimissimi, in some cases to use a single shop for two brands splitting the costs” (Bertolas Elisa, Leone Francesca,
First step, during the three years of exploration, the group analyses the franchising feasibility, which is the economic analysis of the shops. It consists on the breakeven point achievement, brand awareness achieved in the country, shops revenues, costs restraint and finally it is drawn up an income statement for the evaluation. At the end the results have to be positive, there has to be a profit for the franchisee. On average a Calzedonia shop registers 500.000€ of annual revenues.

Second step, when the market is ready, the franchising office with the expansion manager have the task to trace the right franchisee. The franchisee has to be a retail expert, he has to know the real estate market and the city to find the best location to open, he has to know how to deal with the personnel and have a business consultant. To find a franchisee there are different ways: specialized magazine, flayers in shopping centers, a format to complete and send to Calzedonia, or searching inside the firm.

Third step, once the franchisee has been found the franchising office has to ensure that the franchisee willing correspond to the one of the franchisor. For example, the choice of the location is fundamental, if the franchisee has a different idea from the franchisor the contract cannot be stipulated. The choice of the location is for Calzedonia very important: the store has to be in a large flow area in the city center or shopping center, it has to be distant from the principle competitors and the rent has to be sustainable.

Fourth step, when the agreement is done, the brand manager together with country manager decide a Budget for the shop, that is a revenues level divided per months that the store has to achieve. The group does not ask for royalties’ payment from franchisee’s but franchisee has to sustain the initial investment and relative costs, that are divide as follow:

- Entrance right: it depends on the country where that right is requested, such as in France, while in Germany it is not requested.
- Location rents: it strongly depends on the city and position of the shop, but it is levelled in order to not have a high impact on the final income statement.
- Furniture: 1000€ per square meter for Tezenis, 1.500€ for Calzedonia and Intimissimi. Usually, furniture’s in new markets are grant to franchisee at cost price or even for free.
• Bank guaranty: Calzedonia asks franchisee to have a bank guaranty, that is 31000€ for Calzedonia, 52000€ for Intimissimi and 100000 for Tezenis.
• Informatics system: franchisee pay a rent on informatics systems about 200€ per months.
• Goods preparation: about 30000€ that is the initial implant of goods that are sent to the store.
• Personnel costs: it strongly depends on the country, for example in Russia the costs for personnel is very low (affect the 8% of total costs), while in Switzerland the salesperson has a high salary (affect the 20% of total costs).
• Other utilities: such as the bills and others.

‘’The basic franchising contract is the same for every franchisee with some adaptations due to different legislations abroad. In Europe, the stipulation of franchising contract is easier because it has been adapted to European regulations, while in Brazil or America the contract is more difficult to complete. In Brazil, after a period of exploration, they find that franchising formula is diffused in the country so they start to open shop in franchising. In this case, the costs to open in Brazil are not aggravate by the distance, because Calzedonia sustain the transportation costs” (Bertolas Elisa, Leone Francesca, Franchising Office).

There is a third form of franchising contract that I have not mentioned before: rent business unit. In fact, many franchisees are often employees or ex employees of the group, which ‘’are people who want to become entrepreneurs but at the same time they show to have faith in Calzedonia projects, because they know it from inside” (Veronesi Sandro). Usually, they get a shop created before by the group, that changed from company-owned structure to rent business unit. The franchisee rent business unit does not pay the initial investment, he pays the rent and the needed equipment. The rents are calculated on the basis of missing depreciation costs. This contractual form exists in Italy and in other few countries. The general strategy is to use the franchising contract abroad because the franchisee knows better its market.

During the whole franchising contract, the headquarter provides the shop with support marketing materials as catalogues, window shop decorations, posters and it grants international visibility, thanks to the brand awareness and advertising. In addition, the firm gives them an informatics system that allows a product turn over in short times (2-3 days). They provide district and area manager that support franchisee in the shop control, such as for the sale, warehouse management, the right choice of implant and blocks, personnel, contact with the firm.
Local franchise operators have often followed established procedures because the franchisor created an interlocking set of activities that discourage improvisation. In fact, franchise owners prefer to use the same policies and practices of the franchisor because it works, so it is not necessary to change it.

In conclusion, the franchising formula used by Calzedonia is fixed all around the world with small adaptation in particular case.

4.10 Knowledge Sharing Mode

A franchising organization is defined as a replication strategy that involves knowledge transfer of a broad scope, because it modifies the organizational context of the outlet or target organization, defining or redefining its identity. In fact, franchising organizations collect the fees, send out materials and instructions to franchisees and overall support the internal operation of the outlet, establishing and monitoring local routines.

Another characteristic of Calzedonia the franchising organization is the dynamic capabilities of the center. This is the capability to create a large-scale and rapid replication of the business model. Calzedonia, after 30 years of experience, has become an expert in selecting sites, building outlets faster and operating them more efficiently. At the end of 2015 there were 4025 shops, at the end of 2016 there were 4217 stores marking an increase of 192 stores. Calzedonia dynamic capabilities of the center are measured in terms of the knowledge of business model traits that must be reproduced, traits that can be reproduce and traits that cannot be reproduced. In addition, Calzedonia has to know the actions needed to reproduce those traits, and where such traits could be valuable.

The pace of replication depends on Calzedonia’s capacity to implement those traits successfully in new outlets. The company has the capacity to design and construct new outlets, to manage those outlets, and to transfer firm-specific skills to the personnel in order to make them able to carry out procedures to commercialize the product or service. Furthermore, Calzedonia is rapid in replicating the strategy because of the ability to identify and secure favourable sites for new outlets. This is the ability to recognize potential locations considering site-specific supply and demand information, which determines the profitability of
the stores, and considering the competitors, demographics, income and preference of the client and their wage rates.

So, the principle things in which the replicator has to focus on to share knowledge are: the valued features to transfer, the procedures involved and the procurement methods to carry out those procedures to personnel, sites and buildings, specialized equipment and raw materials.

4.11 Human Resource Strategy

When the firm operates abroad, it collaborates with people from other countries and it has to do the same activity in different environments. It is important to feel at home and to avoid incomprehension. Therefore, first of all to work in different cultural context with the same efficiency it is fundamental to understand the cultural differences.

Cultural awareness not only means personal relationships, it means also the style and conception of company processes, in the way meetings are organized and the right time to participate during discussions. The way in which web pages are created, the product packaging, symbols and name of the products, and item launch dates could be cultural dependent factors.

A distinctive characteristic of successful companies is that the cultural differences are not considered as problematic, but as sources of enrichment and incentive. Understanding negotiation culture and different attitudes is a fundamental condition in international trade.
Calzedonia group is actively occupied in employees training: it provides internal courses on sale behaviour and product features to the sales force, it gives support to all the active members of the company that have the knowledge sharing tasks, it provides learning experience in the office and organize language courses, human resource courses and others specifically for each person. For example, a sales department employee has the possibility to work in a shop for one week in order to understand the sale dynamic.

Calzedonia training is a strategic and long term view, because it is an important company asset. Franchisee are selected people, that have to show how much they believe in the Calzedonia project and how much they want to become entrepreneurs. Once Veronesi gives the approval to a franchisee and the contract is signed there are different procedures of training activities to better
form the franchisee knowledge.

The foreign subsidiaries, where it was found a master franchising, are followed from the headquarters in the same way as the other franchisee’s and inside them the procedures do not change. Inside the subsidiaries in fact, we can find the same offices of HQ, with people trained to perform independently. As in Italy, personnel are divided in two big categories: office employees and sales force, who are the consultants that manage the stores.

For example, in the French subsidiary there is an active administrative office, a commercial department, a human resource office, and a franchising office that are all fundamental parts of the firm to the creation of franchise in locations While the marketing office, communications office, and shop design office remain exclusively at the HQ because they control all the shops around the word replicating the strategy.

Calzedonia organizes, once a year, update meetings with all franchisees inside a sort of academy at the Headquarters of the company in Verona. In addition, the group assists them before and after the stores opening, supporting the franchisee with district and area managers that provide them with suggestions on shop management.

The personnel chosen for new subsidiaries are both Italian and locals, because qualified Italian employees have the task to coach and support them. Taking the French subsidiary as an example, the director is Italian, he already collaborates with the group, he knows the language and he was available to transfer to another country. For expatriates, before leaving, it is necessary that they learn the language through courses organized by the firm, for locals it is not important to know Italian, they can all communicate in English. Expatriates play an important role in ensuring that standard operating procedures actually function in new stores.

It is important to understand the firm’s culture and Calzedonia’s core concept in order to implement and apply standard operating procedures. Store managers are selected in order to share his experience.

In the following, I will explain how personnel are trained, an important characteristic of organizational knowledge.
A relevant interview that I collected during my research is from an Intimissimi saleswoman about the knowledge sharing between the headquarter and the shop and the fixed and variable procedures that salespersons have to follow.

In the store ‘‘the sale routines do not exist. Every day you have to change and adapt to the customer you are assisting and you have to test always new approaches in order to bring the results you want at the end of the day’’ (Lanza Giorgia, Saleswoman). In fact, the shop has to reach daily the historic revenue, which is the revenue in the same day the year before. This is a store policy that all shops have to comply with, and salesperson are the instrument to achieve the objective. So, at the end of the day each employee writes down in the store book its result, in term of receipt number and receipt total value.

Instead, there are other routines that employees have to adhere, such as working time respect, organizational modes give, the opening and closure procedures. In addition, there are some guidelines transfer by the firm which have to be respect in a flexible way. ‘‘For example, Visual send to all shop a brochure on how the shop window and the inside shop has to be prepared, but shop need to adapt this instruction due to the dimension of the shop and other particular needs. The result has to be as closer as possible to the guidelines, but if the store realize that the configuration does not attract the client attention, it has one day to decide to change it and prepare the shop on the basis of best sellers’ products’’ (Lanza Giorgia, Saleswoman).

Regarding the training experience, it is principally developed in the store through the direct experience. ‘‘The training process is support by an expert salesperson inside the shop. First of all, the training considers the study of the products in every details and characteristics. Secondly, saleswoman test directly all the products, in order to understand on her skin which are the characteristics explained in the first stage. Experience is the best training education’’ (Lanza Giorgia, Saleswoman). After the first year of working experience, there are three days of formation in the headquarter where employees learn all the technical features of the products they sell and the behaviour they have to keep during the work. ‘‘The education process changes from shop to shop, but it is generally based on the knowledge sharing between colleagues, experience in the field and the courses in the firm’’ (Lanza Giorgia, Saleswoman).

The information arrives to the shop in different way: communications send by mail, the
continuous support of district and area manager that are always in contact with the headquarter offices, the visual indications and others. “Most important, information and knowledge sharing efficiency are the result of the professionalism of the store responsible” (Lanza Giorgia, Saleswoman).

4.13 Training Organization Strategy

A fundamental facilitator of the internationalisation process is the corporate-wide knowledge transfer. The organizational mechanism that is deployed in the Calzedonia knowledge sharing are: dedicated organizational units; standard operating procedures for gathering, codifying and disseminating experiential knowledge; documents (manuals, journal, communications); values sharing; and the use of expatriates.

“At the beginning, there was a unique training office in charge of Italy and foreign countries. Two years ago, there was the reorganization of the firm: they created new figures, such as the coordinators who are cross brand responsible for a group of nations, brand managers, retail specialists. While the coordinators, retail specialist and brand managers were each responsible for all brands in different nations, the training office was divided for each brand. This happened because the group understood the importance of sharing knowledge across countries and the way this knowledge is transferred, so it decided to create a specialized organization. If countries, in the beginning, have a unique reference point, now they have different and specialized reference points for each brand” (Pontini Chiara, Foreign Training Office).

So the organization structure saw the division of the offices, now we have a training office for Calzedonia, Intimissimi, Tezenis, Falconeri, Signorvino and Atelier Emè.

“Foreign countries have different events, different perceptions of the same products, different clients and behaviours so it is important to have a dedicated person for the training of human resources” (Pontini Chiara, Foreign Training Office).

In Italy the training path is easier because the brand is well known, but if we think to the personnel of New York it is more difficult to transmit the firm value.

“The training has a well-structured path, that is standardized and replicated in all countries. All the selected people have a standardized time to assimilate information through manuals, courses, colleagues support, continuously updated through iPad” (Pontini Chiara, Foreign Training
Office). Manuals are given to all new resources to learn how the products are produced, which are the specific characteristics of the products, which are the technical advantages. The base courses are organized in Italy in the HQ where people have the possibility to learn more about products, behaviours, and attitudes to have during the sale. Leave out this two instruments, persons are always support by expert colleagues so they can learn directly in the field, in fact the greater part of the formation is inside the shop. Once a salesperson or district manager became independent, they always have the possibility to remain updated through courses organized by the firm and Focus that are sent to district managers to learn something about new products.

The salesperson training is the fastest, it consists of two weeks in which they learn about products, sale’s behaviour, cash register operation, and informatics system (Shoppy) above all in the shop with the trainee.

“District managers have ten weeks of learning activities: the first four weeks are in the shop supported by Store Managers, then there are four weeks of formation with an expert District Manager and finally one week with visual and one week with the human resources department” (Pontini Chiara, Foreign Training Office). The last week is with the HR department because a district manager has to learn how to cope with employees, such as days off, contract type, how to read a CV, which documents are needed to assume, holydays, sickness. In Italy DM has all the support through the human resource office, abroad it does not exist so they have to make do in order to understand country bureaucracy.

“The training of District Managers abroad is more difficult and costly because not all countries have a training office. Therefore the group has to organize the formation process in other countries looking at the specific personalities of people, customizing the procedure. The first step is to comprehend who the person is, which characteristics they have to develop and which are the strengths and weaknesses. The second step is to organize the training path that could be used in other countries, for example a Belgian girl could be sent two weeks in France and two weeks in Spain, the first country to realize which are the procedures to use and the second one to develop a critical view, because Spain culture is different from the French one. Foreigners are not brought to Italy, because Italy is a mature market, for the majority of franchisee stores, there is a different reality in respect to other countries” (Pontini Chiara, Foreign Training Office).

Store managers have a training path of three-four weeks in which they learn how to format new employees. This figure only exists abroad, because the majority of Italian shops are in franchising
and the others are long time so they are expert and they could teach new employees. The training office gives to store managers a checklist to be followed strictly during the learning process with fixed points. Every week has a name and specific knowledge to acquire, at the end of every week store managers write feedback to evaluate the candidate in order to understand if the person is conforming for the future work. These procedures are standardizing worldwide.

‘’Area Managers have five weeks of training if they are in Italy and four weeks if they are abroad, both are supported by an expert Area Manager during the learning process. During the first two weeks they learn how to work from Area Managers from the same brand, the other two follow Area Manager’s of different brands’’ (Pontini Chiara, Foreign Training Office). During the last week, only in Italy, they are with the franchising office, because in Italy they have to know how to interact with franchisee, that could be complex, and how to cope with new openings, closures, makeovers, and remakes of stores.

I have to specify that franchisee is in charge of selecting, training and hiring people, so the company takes on only the direct employees of Calzedonia Spa.

The developed countries, with a great number of stores, have their training office, which is formed by our training office. Therefore, the task of the Italian training office is to organize the training procedures of all the employees and the formation of training offices abroad, that have to replicate what is done in Italy exactly. The group has trainees in Spain, Germany, Austria, Poland, Czeck Republic, and Hungary. Turkey and Russia are not considered because of permissions needed. Some adaptations are necessary in order to face the different cultures and behaviours but use local trainees to decide how to adapt.

‘’Two times a year Calzedonia organizes meetings with the entire training office abroad in order to update the human resources and to discuss problems and finding solutions. The last topics faced were: What it means to be a trainee? It is a cost for the firm that has to pay for hotels, flights, transportation to come to Italy, but it is a fundamental investment to have an organization learning, knowledge sharing and the right training process’’ (Pontini Chiara, Foreign Training Office).

Summarizing, the procedures are the same worldwide and they are strictly standardized and replicated with some differentiations from brand to brand and particular nations, like Italy which is easier and more mature.
4.14  Two New Challenges: US and China

The biggest new challenges that the firm will face during 2017 is the opening in two important markets: the US and China, that present vastly different characteristics. Both are very big markets with great potential, but seated at two different levels of development and acquaintance.

The US is a mature market, characterized by great opportunities and higher competition, sophisticated demand, and knowledgeable consumers.

‘’The United States accounts for 11.3% of the global apparel & non-apparel manufacturing market. Asia-Pacific accounts for a further 57.5% of the global market’’ (Market Line, 2015).

![Figure 10: MarketLine, 2015](image1)

![Figure 11: MarketLine, 2015](image2)
“Apparel is the largest segment of the apparel & non-apparel manufacturing market in the United States, accounting for 60.5% of the market's total value. The Non-apparel products segment accounts for the remaining 39.5% of the market” (Market Line, 2015).

“Unlocking the United States apparel & non-apparel manufacturing market is forecast to have a value of $122,082.4 million, an increase of 29% since 2014. The compound annual growth rate of the market in the period 2014–19 is predicted to be 5.2%” (Market Line, 2015).

<table>
<thead>
<tr>
<th>Year</th>
<th>$ million</th>
<th>€ million</th>
<th>% Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>94,667.7</td>
<td>71,232.3</td>
<td>4.1%</td>
</tr>
<tr>
<td>2015</td>
<td>98,626.5</td>
<td>74,211.0</td>
<td>4.2%</td>
</tr>
<tr>
<td>2016</td>
<td>104,309.0</td>
<td>78,486.9</td>
<td>5.8%</td>
</tr>
<tr>
<td>2017</td>
<td>110,372.4</td>
<td>83,049.2</td>
<td>5.8%</td>
</tr>
<tr>
<td>2018</td>
<td>116,332.6</td>
<td>87,533.9</td>
<td>5.4%</td>
</tr>
<tr>
<td>2019</td>
<td>122,082.4</td>
<td>91,860.3</td>
<td>4.9%</td>
</tr>
</tbody>
</table>

CAGR: 2014–19

Table 4: United States apparel & non-apparel manufacturing market value forecast: $ million, 2014–19

SOURCE: MarketLine
Profit chances can be captured, but Calzedonia has to fight for it. In fact, a mature and open market as the US means lower margins and stronger competitive pressure.

China has a more recently developed past, but it is a promising developing country. China has a very fast rate of development, it doubled the growth rates almost every year since 1990 and increased also the consumer purchasing power and consumption figures.

‘‘The Chinese apparel & non-apparel manufacturing market grew by 4.3% in 2014 to reach a value of $303,961.4 million. The compound annual growth rate of the market in the period 2010–14 was 8%’’ (Market Line, 2015).

Apparel is the largest segment of the apparel & non-apparel manufacturing market in China, accounting for 50.6% of the market's total value. The Non-apparel products segment accounts for the remaining 49.4% of the market.
China accounts for 63.2% of the Asia-Pacific apparel & non-apparel manufacturing market value. India accounts for a further 10.9% of the Asia-Pacific market.

China accounts for 63.2% of the Asia-Pacific apparel & non-apparel manufacturing market value. India accounts for a further 10.9% of the Asia-Pacific market.

In 2019, the Chinese apparel & non-apparel manufacturing market is forecast to have a value of $434,332.5 million, an increase of 42.9% since 2014.
The compound annual growth rate of the market in the period 2014–19 is predicted to be 7.4%.

Chinese consumers range from very poor to very rich people. Competition is increasing in the last years, but referring to a growing market there is a wide field of improvement. The greater difference between the US and Chinese market’s is culture. While the US resembles European culture, China is characterized by a different vision of life, business, relations and consuming. Chinese consumers’ behaviour makes the potential for success of
foreigners very difficult, despite market opportunities. Furthermore, governmental issues play an important role because they impose restrictions on FDI and local operations, in order to promote local firms.

The high physical and cultural distance perceived from the Chinese market, leads companies to adopt a more focused approach to entering the market, finding the right way to commercialize the products and employ local human resources. Calzedonia, instead, decided to enter the market replicating its strategy both in the Chinese and US markets.

For the US market, it decides to open a shop in a central area with the same format used in Italy. The strategy is to create, aesthetically, the same store in order to make it recognizable and send to it the entire product range in order to study the consumers taste. The designer had to think of a different format for the shop, because it is very little and they have to expose a lot of items. Therefore, designers have to adapt locally to increase the functionality and visibility.

For the Chinese market, the strategy chosen was the same but with little adaptation. First, the shop is very small so they have to adapt a different format to expose the products (as in the US). Second, they have to select and adapt previously the articles because Chinese consumers are skinny so they send only small sizes and not all the sea product range because they use it in a different way.

The idea for these new markets is to replicate the winning strategy and subsequently make adjustments. The physical and cultural distance implies the possibility of failure in replicating the same strategy or the possibility to not adapting properly, decreasing the expected performance. Expatriates are fundamental to transferring corporate values and competences to be combined with local contingencies for developing a more effective local strategy.

The base decision-making activities remain centralized and will be continuously supported by market research and training program for expatriates, for locals and for the firm itself. The format was strictly replicated but in the coming years I bet it will become flexible, to adapt to the variables of the format to these two important markets: China and the US.

“We have open the first shop in the US in 2016 and during 2017 we would like to open about 10 stores. We will also open in China. The US and China are the largest fashion markets in the
world, and if we are true to our results without these two markets (where other firms registered the higher results), on the other hand they will be the greatest and determinant challenges of this year’’ (Veronesi Sandro). In fact, as Carletto suggested ‘’there are very few companies in the world that do what we have done, not counting the numbers of the US and Chinese market’’.

High cultural distance from China means possible difficulty in transferring knowledge and capabilities as the mix of procedures composing the business format, but it could become a factor of competitive advantage if the company exploits its assets combining them with locally developed knowledge and capabilities, building idiosyncratic advantages.

In the case of the US, it is important to not undervalue the cultural distance, also if lower, providing the firm with information gathering and market analysis. Also in the US, it is fundamental to understand which of the variable traits of the format are needed for adaptation, in order to learn from the errors, and improve thanks to the learning experience.
Concluding remarks

This thesis represents the effort to understand the origins of Calzedonia success, over 30 years of continuous growing. The success is strictly related to the ability of the center to cope with the fast-changing market condition, building, reconfiguring and adapting its strengths. An important factor to perform successfully was the dynamic capability of learning activity that creates and collects past and current information and experiences in order to build future strengths and create competitive advantage to the firm.

The accumulation of information during the explorative stage, was for Calzedonia a long learning period that enables the firm to use the knowledge in the better way, during the exploitative phase. The template created is a powerful means driving the firm to continuously expand in new markets, secure of it strength and aware of its weakness. Fixed elements are replicated elsewhere without distinction, while flexible elements are modelled over the specific area in order to find the perfect fit between the company and the new context.

The organizational instrument that Calzedonia uses to expand internationally, to share the risk and to exploit the local knowledge is the franchising. The franchising system was a strategic and winning choice for the firm that allows Calzedonia to have a fast-growing and less-risky replication, maintaining a high control. There are principally two forms of franchising used by the firm: pure franchising, used for important markets and master franchising, used for unknown markets.

Control over resources and flexibility capacity, together with the constant supervision over the subsidiaries and investment’s in learning activities, are for Calzedonia keys of success. In general, higher control over operations tend to experience more success than other forms of contracts like licensing; the selection and control over resources and capabilities can provide more advantages and have less risks linked for example to intellectual propriety protection.

Replication is a clearly strategy of international expansion. However, it is important to understand how firms build the format for replication; how they trade-off the benefits of replicating a format with the need to adapt locally; how they modify the format after the impact of experiences gained through internationalization process; how they organize the replication process; and finally which are the proportion of fixed and flexible features to replicate.
So, starting from the Replication as Strategy theory of Winter and Szulanski (2001), I studied the intrinsic strategically organization of Calzedonia and the strategic expansion method that lead to its success. What I firstly understood was that the theory of replication was too rigid for the complex world of internationalization. The Winter and Szulanski two-stage model is broadly descriptive and it does not take into consideration the adaptation need.

Calzedonia flexible approach, not only respond to the integration request, but also facilitates the organizational learning. In fact, local learning experiences allow a direct approach and a system of through back experience to the rest of the network. Flexible replication is an international expansion strategy well attuned to heterogeneous markets. However, this strategy requires management attention, dedicated units and a strong corporate value. In fact, it is important to highlight the bond between what is fixed and what is flexible because replicating the same format everywhere is the key to success.
Critical issues

In the last part of my thesis, I briefly reported two new challenges that Calzedonia will face in the following years: US and China markets. Two different markets both with high potentiality that could lead Calzedonia to an exponential expansion or to a great failure. The power of Calzedonia was to reach optimal results without the largest apparel markets, US and China. Now the challenge is to understand if the format works and the market is respondent.

Calzedonia decides to open these important markets simultaneously. Supposing that, both markets will report great results and the consumers ask for more shops, the resources available will be not enough. Calzedonia is not ready for a rapid success in those markets. The production capacity is almost at the maximum and sometimes is not able to cover the actual requests; human resources are not educated about Chinese and American peculiarities; the internal organization has not specific human resources to cope with them.

Calzedonia decides to expand in US and China using the same formula, but without a solid base to react rapidly. From my analysis and my working experience inside the firm, I will expect a slowing down of international expansion in order to reorganize and educate the firm to these new challenges. A decline means not only a loss in financial term but also a loss of potentiality in the socio-economic context, where competitors could erode the market share obtained previously.

Another critic, that I want to report, is the familiar and vertical organizational structure. Calzedonia was created by Veronesi exactly 30 years ago in Italy as a familiar company without great presumption, but it become during the years a powerful international firm. In spite of that changing, the company wants to remain familiar with a vertical decision structure. Each important decision has to be approved by the president, Veronesi want to have the control over all the activities develop inside the firm. This fact could be positive because the intrinsic value is not dispersed, but it is also damaging for the potential expansion of the firm. The entrepreneur capacity and its long term view has to be that one of finding the right people to delegate power.

The franchising organizational structure proved to be successful during the past years, but it is also a risky strategy for the firm. The relationship between franchisor and franchisees is not
always easy and it is intended to become conflictual. Franchisor want to innovate, to keep a fresh brand image and he wants to have those features in all shops. The continuous innovation means for franchisee higher costs. In fact, if the franchisor wants to maximize the profit increasing the incomes of the shops, the franchisee has to cope with higher structure costs that diminishing their net income, creating a discordance vision. In addition, we do not forget that franchisee is a free entrepreneur that could decide to not follow the headquarter directions, destroying the brand image.

Finally, I want to underline another critic factor to keep into consideration: the uncertainty of the market. The apparel market is characterized by a faster changing demand and higher competition. Calzedonia brand in most markets has no real competitors, because of the uniqueness of its formula. Intimissimi and Tezenis have more competitors but in the actual configuration of the demand they cover a part of the market that is unique. So, in the future other competitors could try to erode Calzedonia market share.
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Interviews

Foreign Office – Rossella Turato-

1. Could you please retrace the internationalization process that Calzedonia faces during this 30 years? (Incremental entry? Uppsala model?)
2. How the expansion of the firm was supported by knowledge sharing across units in Calzedonia network?
3. How Calzedonia replicated its strategy allowing local adaptation? How it modifies its format?
4. Could you please provide an example of adaptation to a new market?
5. Which format Calzedonia uses in international replication? Which are the features of the format that Calzedonia applies in its expansion process?
6. How Calzedonia is replicating the format in the new markets: China and America? (different culture, different level of development)
7. Which challenges Calzedonia faces when enter in new market for replication?
8. Could you provide me an example of internationalization failure? What Calzedonia learn from this experience?
9. Which was during the story of Calzedonia the main failure that bring the firm to success? (Learning experience)
10. Which is the balance used between exploration and exploitation effort?
11. Which was the moment in the story where Calzedonia understood to have find the right formula to use internationally? How it was implemented? Is the result of cost efficiency strategy?
12. When Calzedonia started to replicate the format, how changed the organizational structure?
13. How the format is precisely replicate? Is it right to replicate the same format everywhere?
14. Are the decisions strategy shared at corporate level?
15. How new procedures are implemented elsewhere?
16. Replication: which are the financial implications?

Training Office – Chiara Pontini-

17. Which are the knowledge sharing behaviours within Calzedonia and the stores?
18. How knowledge is transferred between units?
19. Which was the mechanism of knowledge sharing within the firm? How it is changed?
20. Which challenges Calzedonia faces when enter in new market for knowledge transfer?
21. Which failure allow Calzedonia to learn new approaches?
22. Which was the moment in the story where Calzedonia understood to have find the right formula to share knowledge? How it was implemented? Was the result efficient?
23. How is the knowledge codifying? Which part is explicit and which part is a tacit form?
24. Do exist any moment of sharing knowledge between country managers, affiliate, brand management, different firm’s units?
25. How is it important the understanding of firm culture to the continues success?
26. How new procedures are implemented elsewhere?
Sales Office –Isabella Lazzarotto–

27. Is the price level of the product adapting locally or it is standardizing?
28. How the product range is adapting to different market?
29. How a new product is thinking and how is developed?
30. How Calzedonia explore new working methods, new product? (Daily in the shop? Thank to customers?)
31. Do exist any moment of sharing knowledge between country managers, affiliate, brand management, different firm’s units?

Design Store Office –Paolo Cappello–

32. Which is the format of the stores? Which are the guiding line in designing a store? What make a store recognizable?
33. Are there fixed routines and solutions that must be implemented in the stores?
34. Which are the standardize procedures and which the flexible one?

Franchising Office –Elisa Bertolas, Francesca Leone–

1. Which is the format use? (Arrow Core)
2. Which is the template to follow?
3. Which is the process of knowledge sharing?
4. How affiliates are educated?
5. Which are the strict rule to follow to became a franchisee?
6. How the strategy is replicated? How is replicated abroad?
7. Where the format could be modifying in order to meet the affiliates request?
8. Which are the financial implications to use this format?

Store Staff –Giorgia Lanza–

1. Which are the routines that you have to follow daily?
2. How was the training process?
3. How the instruction of new employees works?
4. How knowledge is transferred from Calzedonia HQ?
5. Are there some difficulties in knowledge sharing?
6. Which are the strict rule you have to follow? Where you can be original?