Case Study

"Redefining the consumer target to meet strategic goals? The case of PAEZ Portugal"

Note: Mariana Roquette Vaz da Silva prepared this case under the supervision of Professor Pedro Celeste, in partial fulfillment of the Dissertation requirements for the degree of Master of Science in Business Administration, at Católica-Lisbon School of Business & Economics in May 2015, as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.

ABSTRACT

Case Study Title: "Redefining the consumer target to meet strategic goals? The case of PAEZ Portugal"

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The present case study provides an overview of important marketing-related topics such as brand positioning, targeting and market segmentation by analysing the case study of PAEZ Portugal, a casual footwear brand born in Argentina in 2007 and introduced in the Portuguese market two years later.

The case study presents the brand, its implementation in our country and its growth over the years, both in terms of sales and in terms of product portfolio. The entire case revolves around the challenge faced by the company today: should PAEZ Portugal change its strategy by shifting its focus from the current target (men and women between the ages of 18-24) to an older, more taste-refined and wealthier age group (around 30-40 years old)?

This dilemma – which market research attempted to solve – has originated from a change in brand positioning in several markets where PAEZ operates, and where rising costs of products due to quality improvements have led local representatives to attempt reaching older market segments. Results of the analysis of the Portuguese market are presented, and the implications of the findings on PAEZ Portugal's strategy are discussed.

This case study is followed by a Teaching Note, where the case is summarized and instructions on how to utilize it in a classroom setting are provided.

Keywords: positioning, market segmentation, retargeting strategies, branding, brand involvement, PAEZ Portugal, footwear industry.

1. CASE-STUDY

1.1. Brief Overview of the Footwear Industry

This first section of the case study presents an overview of the footwear industry by analysing both the international panorama and the specificities of the Portuguese market. It is concluded with different perspectives on how to segment this particular industry.

1.1.1. A Global Perspective

The global footwear business is a multi-million dollar industry, attracting players from many countries across six continents. In 2014, worldwide footwear production reached an all-time high of 2.2 billion pairs of shoes. China remains as the individual world leader in shoe production, being responsible for two of every three pairs made each year. In fact, China is the most relevant competitor in the footwear industry, being the number one exporter to nearly every country[3]. India, Vietnam, Indonesia, Pakistan and Bangladesh are also important producers that contribute to Asia's leadership in shoe manufacturing (87% of the world's production), a position that the continent conquered in 2010.

Besides being key actors in shoe production, Asian countries are also the world's main exporters: together, the aforementioned countries export about 86% of what they produce. Individually, China again takes the lead, being responsible for three of every four pairs sold worldwide or, more specifically, 73% of all Asian exports. Europe comes second, albeit with a much smaller share: 11%.

Regarding imports, the panorama is not quite as stable. In general terms, however, countries are reducing the amount of shoes imported, with Asia (+2% in 2014) and Africa (+3% in the same period) being the exceptions that confirm the rule. The U.S.A. are the largest shoe importer, accounting for nearly 21% of all shoe purchases from other countries, followed by Japan, with a share of 5,3% which makes it the most relevant Asian importer[4].

As far as the European Union is concerned, the footwear industry is a very relevant part of its manufacturing industry, "playing a crucial role on the economy and social well-being in numerous regions within the EU27"[5]. In 2012, this industry generated more than €25 billion in turnover, with the majority of the production coming from Italy, Spain and Portugal. In

Europe, as in Portugal, most companies locate relatively close to each other and are organised in clusters, facilitating the exchange of information and know-how and giving way to lucrative partnerships and synergies.

Today, the E.U. footwear market is the single largest market in the world in terms of value, and one of the largest in terms of volume. In 2013, 51% of expenditure on footwear in the EU was on women's shoes, followed by men (32%) and children (17%)[6]. Sports, sports-inspired and sports performance footwear were the categories with the highest growth[7].

1.1.2. The Portuguese Reality

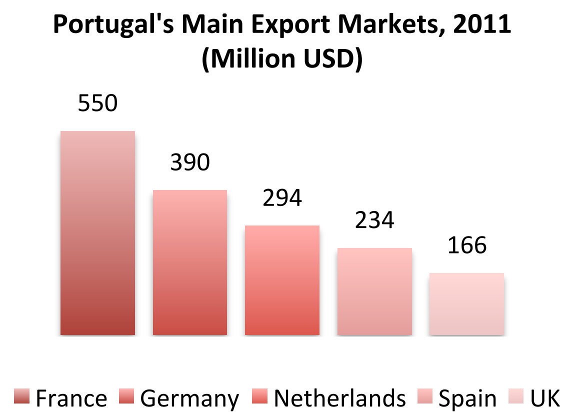
The shoe industry in Portugal is highly focused on exports, with more than 95% of the total production of shoes being sold beyond national borders[8] to more than 150 countries[9]. As manufacturing becomes more efficient and innovative through the use of skilled labour, and products become more modern and carefully designed, Portugal increases its notoriety in the international footwear market, contributing to the improvement of the domestic economy by creating jobs and boosting GDP[10]. Slowly but steadily, the reputation of Portugal's shoe cluster, located in the north of the country, is becoming stronger overseas, and demand for made-in-Portugal footwear has risen in recent years.

By the end of 2013, Portugal's exports of shoes reached a value slightly over €1,600M[11]. In fact, and despite the difficult economic times of recent years, the country increased its orders and production levels in 2014, which led more than one third of APICCAPS' members to hire more personnel[12] – the Portuguese footwear industry employed over 35,000 people in 2013[13]. On the other hand, exports are expected to correspond to about 45% of Portugal's GDP in 2016[14], and the shoe industry plays a major role in this aspect.

In 2011[15], Portugal was ranked 11th in the world share of shoe exports in terms of value, and 21st in terms of volume, being responsible for 2% of total exports worldwide at an average export price of $32 USD, which is approximately €30[16]. In this aspect, the country fell behind only to China, Italy, Hong Kong, Vietnam, Germany, Belgium, Indonesia, Netherlands, Spain and France. In 2013, Portugal accounted for 6% of all shoe exports in the European Union[17].

As far as imports are concerned, Portugal reached the 29th position in terms of value, and 35th in terms of volume[18]. In fact, Portugal is exporting significantly more shoes than the amount it is importing, both in terms of volume and value and, despite the fact that its main markets are European, the growth of the Portuguese shoe industry is mainly due to non-

European countries with high development potential, such as China, the US, Russia or Colombia[19]. The graphs below show Portugal's most relevant destination markets in 2011:



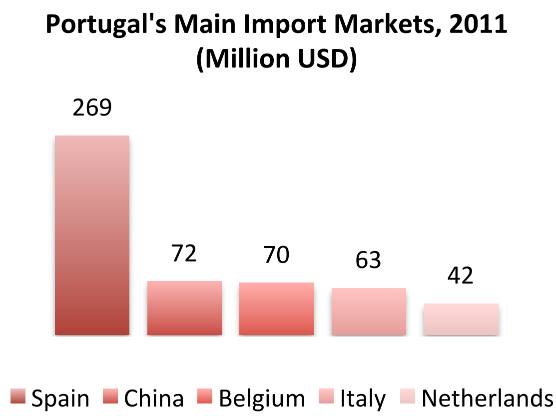


***Figure 1. Source: APICCAPS' 2012 World Footwear Yearbook**.*

These numbers go in line with the fact that Portugal is among the top 10 footwear exporters for every shoe category, except for rubber/plastic shoes and textile footwear. In fact, Portugal is the only country in Europe, and one of the few outside Asia, that produces more shoes than the amount it consumes. The main problems highlighted by Portuguese manufacturers are access to and the rising cost of raw materials required to produce shoes, which however have not stopped companies from growing and exporting more each year[20].

1.1.3. Different Ways to Segment the Industry

The global footwear industry is varied in the types of shoes it produces, materials it uses, designs it creates and segments it serves. Most research on this industry divides shoe and brand classification into three distinct groups: based on user, based on materials and based on type[21]. In this sense, footwear can be divided into women's, men's and children's shoes; leather, plastic/rubber, textile and other footwear (such as waterproof or shoe parts); or formal, sports, evening and casual footwear.

Throughout this case study, PAEZ will be analysed as a company operating in the casual footwear industry in Portugal, thus competing with other brands that provide consumers with different types of casual footwear.

1.2. Buenos Aires, ‘Buena Onda’: The Birth of PAEZ

As a brand, PAEZ was officially established in 2007 in Argentina, starting with a single, small store in Buenos Aires owned by Tomas Pando, Francisco Piasentini and Francisco Murray, with an initial product range of only 20 models of espadrilles[22]. Their mission was simple: to reinvent and modernize the traditional Argentinean shoe and create a brand that could reach a global scale, representing the culture of Argentina in all corners of the world. In a way, PAEZ’s goal was to do for espadrilles what Havaianas did for flip-flops and Brazil[23].

The company was built around the values of simplicity, comfort and innovation and, heavily associated with Buenos Aires’ *‘buena onda’*, PAEZ operated under the premise of Fair Trade, which remains the company’s philosophy today. Its owners aimed at creating a sustainable business both financially and environmentally, generating jobs in Argentina and making active efforts to ensure that everyone involved in the shoes’ value chain was receiving the fair and proper credit.

‘Simple with a twist’ became the brand’s motto, aiming to appeal to a relaxed, young group of consumers that were trendy, but not necessarily following mainstream fashion. The key challenge was to reel these consumers in, convincing them that PAEZ’s products were not the common espadrille – worn by a large part of society’s lower classes – but instead a fashion statement, a quality product whose design and materials made it a desirable shoe.

Initially, PAEZ’s customers were mostly tourists visiting the city, drawn by the shoes’ comfort, colours and patterns. Following this trend, and realizing that acquiring Argentinean consumers was not as simple as they had envisioned, the owners began looking for business opportunities beyond national borders. They created an online catalogue of their products, uploaded it to several business and strategy websites and, a short month and a half after being in business, PAEZ exported its shoes to the first country to show interest: South Africa.

From a local and unstructured business model typical of a start-up, PAEZ grew and reinvented itself into an international brand, by establishing contracts with companies in several countries. They are responsible for designing, producing and shipping the products, while their partners abroad have licenses to import, distribute and sell the shoes in their own countries, thus taking the espadrille to all different corners of the world. Today, PAEZ’s shoes are sold in Argentina, South Africa, Brazil, Chile, Colombia, Bolivia, Venezuela, Panama, Mexico, Dubai, Hong-Kong, Japan, Malaysia, Singapore, Philippines, Australia, Belgium, Denmark, Germany, France, Italy, Norway, Ukraine, Netherlands, Spain and Portugal, a total of 26 countries across five continents. From twenty models of espadrilles, the company evolved to more than two hundred varieties, currently selling espadrilles for babies, sneakers and boots for both summer and wintertime.

1.3. PAEZ in the Portuguese Market

> *Francisco was bored. It was a particularly sunny afternoon in Buenos Aires, and all his flatmates were at the beach. They had skipped class – after all, they were living abroad for just this semester, and everyone knows you are not* really *supposed to study in Erasmus. However, he had to attend this Marketing lesson. 'Next Tuesday', the professor had said, 'I will be assigning you a subject for your final report. So be sure to come!'. Well, his body was there, but his thoughts had already wandered to that evening's* fiesta *at their place. Suddenly, a voice called him back to reality: 'Francisco? You will be doing a case study on PAEZ'. He smiled politely, completely unaware of what that meant. Before he could ask, the professor elaborated: 'It is a local start-up that three young students started a couple of years ago. They sell* alparcatas*, I'm sure you know what that is. Your job is to tell your colleagues how they managed to grow a simple concept into a company that promotes Argentina around the world'. Entrepreneur at heart, Francisco was growing fond of the idea. Studying how three relaxed guys like himself made money while having fun? It didn't sound so bad. When he arrived at the beach, the assignment was still on his mind. 'Ricardo', he said to his roommate, as he scrolled pictures of the products on his smartphone. 'I have to do this project for Marketing class. It's about an Argentinean company that sells shoes, and they're pretty cool, look!'. 'Nice', said Ricardo, 'those would be great to wear at the beach in Lisbon! Where can we buy a pair?'. His friend's – rather rare – enthusiasm made Francisco even more thoughtful. Of all people,* Ricardo *liked the shoes? Were they really a good option for Portugal's sunny weather? Could this be the business idea he had been looking for, ever since he started business school? His brain was restless, his mind was racing. As the sun slowly set in the sea, he smiled. It felt right.*

Francisco and Ricardo reached out to PAEZ's owners in order to learn more about the business, and what had begun as a single interview for a college assignment eventually led to a series of other meetings, where the two friends discussed with the owners the possibility of exporting the business concept to Portugal. Finally, an agreement was reached.

In order to test the market, and mainly because they did not have enough capital to place the initial order – which required a minimum amount of 1,000 pairs of shoes – Ricardo and Francisco returned to Portugal with a suitcase filled with espadrilles they had handpicked and purchased with their personal funds. At first, they sold PAEZ to family, friends and acquaintances, and they interpreted the quick sell-out as the proof of concept they needed.

Through one of those sales, Francisco and Ricardo met Carlos Coutinho, who later became the third and final partner of the business[24]. On May 2009, just in time for summer sales, the three owners of PAEZ in Portugal officially established their business, creating a company named Giratenta which, with a starting capital of €40,000, was legally named as the sole importer, distributor and reseller of PAEZ shoes in Portugal.

1.3.1. Logistics and Operations

The contract established between the Portuguese and the Argentinean teams has remained virtually unchanged since its inception in 2009. In all countries where it is present, PAEZ concedes their partners an exclusive right to use the brand for commercial purposes, establishing most major guidelines yet allowing local teams some leeway to adapt marketing and communication strategies to their own markets.

As a partner of PAEZ Argentina, PAEZ Portugal has the exclusive right to sell all the brand's products in Portugal. However, the local company has little participation in the design and manufacturing of the products and, in that sense, it acts mostly as a distributor of the brand's merchandise. This means that, each season, PAEZ Portugal receives a product catalogue from Argentina, from which it selects the models and shoe quantities it wishes to import and resell in our country. After the order is placed, the Argentinean team prepares the fabrics, soles and insoles – all 100% made in Argentina – and ships the goods to China, where the shoes are manufactured at a significantly more competitive cost than the one the company had initially, when production was done in Buenos Aires in a logic of vertical integration. Once finished, the goods are then shipped to Lisbon, and PAEZ Portugal makes the final payment to Argentina. From that point forward, the Portuguese team takes control, and is the sole receiver of profits from sales – as it would be accountable for any financial losses from leftover inventory. Figure 2 synthesizes the process:

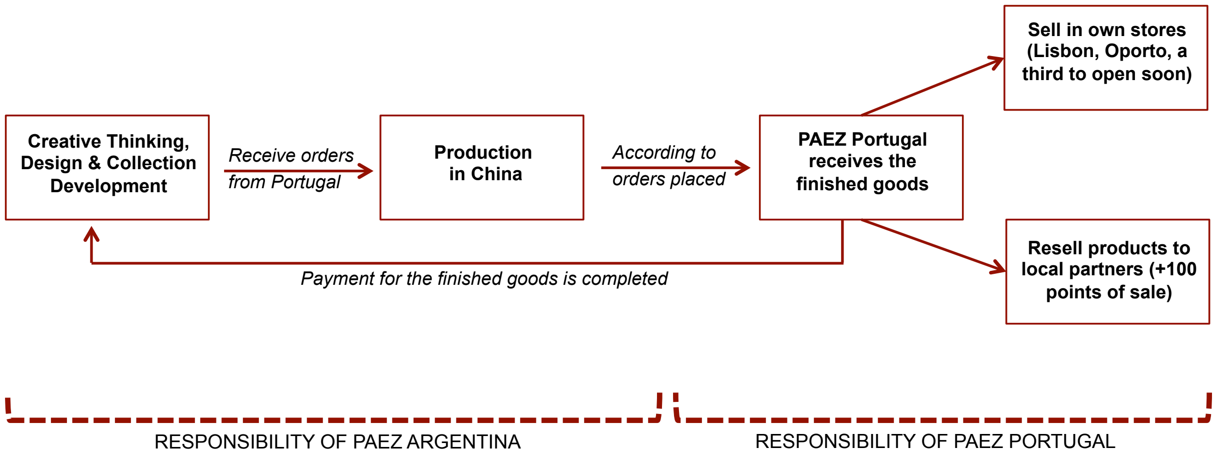


Figure 2: PAEZ's Value Chain

Even though PAEZ Portugal is in close and constant contact with Argentina regarding sourcing of the shoes, the company operates autonomously in our country. The local team decides which products to feature, which price points to establish, which stores to open where and when, which communication efforts to launch, which promotions to offer its costumers, and all other decisions related with daily operations.

1.3.2. Main Competitors in Portugal

As mentioned in section 3.1.3., PAEZ competes with other brands operating in the casual footwear industry in Portugal. In this sense, the company must create additional value to consumers not only compared with other espadrilles providers, but also with brands that sell different types of casual footwear – substitute products, in a sense – such as sneakers, flip-flops or clogs. Even though PAEZ enjoyed first-mover advantages in Portugal (the brand was a pioneer in selling espadrilles and started its business while this type of shoe was becoming a fashion trend), competition has increased in recent years, from both national and multinational labels. PAEZ's CEO, Carlos Coutinho, describes this tension:

> *"Since 2010, when we really started, competition has gotten tougher and more serious. Back then, we were the only ones on the market – or at least one of the very few – and we were apprehensive as to whether or not people would like this type of shoes. As the brand grew, espadrilles became fashionable and we were lucky to conquer as many loyal customers as we did. Today, however, there are more players out there. Stores like Jumbo, Zara, H&M, La Redoute or Calçado Guimarães all sold espadrilles in their collections at some point. Consumers now have a wide variety to choose from, but those are not even our main competitors. We believe that people who actively look for espadrilles come across our brand at some point. What we*

compete against, in terms of sales, is with substitute products from brands like Havaianas (since many people see PAEZ as an option for beach footwear), Crocs, and even Vans and Converse All-Star, because they sell shoes that are also fashionable and comfortable, but are more versatile than espadrilles in terms of usage occasions. People wear sneakers all year round for all types of situations, whereas espadrilles are more limited in that sense. So, more than other brands that sell espadrilles, I'd say that these have been our main adversaries in terms of sales."

The following paragraphs briefly portray four of PAEZ's main competitors in Portugal, previously identified by the brand's management team.

Havaianas is a Brazilian brand with worldwide presence, mainly known for its flip-flops, even though its product portfolio also includes rain boots and espadrilles. While the price of an average pair of flip-flops is around €25, a pair of espadrilles costs approximately €30. Havaianas' target is widely heterogeneous, in terms of gender, age, race and social status. In Portugal, the brand has two official stores in Chiado and Portimão, an online store and is sold in a great numbers of retailers across the country.

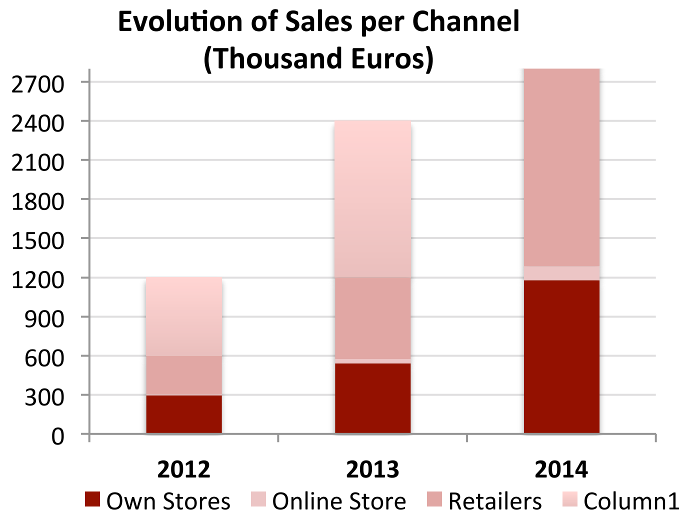
Crocs is a younger brand compared to Havaianas, but also very present in Portugal. Its shoes, like PAEZ's, are known for being comfortable, and the brand offers clogs, sandals, flip flops, boots, sneakers, loafers and high-heeled shoes. Crocs has both own stores and resellers in our country, as well as an online platform, and its products cost €35 on average, depending on the type of shoe. Like Havaianas, Crocs appeal to several different market segments, and this heterogeneity has increased as the brand offers more product varieties.

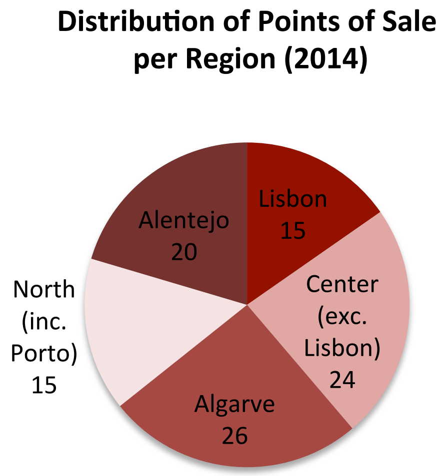
Converse All-Stars is a timeless, multinational brand that is well fitted into the Portuguese market. Its Chuck Taylor sneakers are familiar to most people and, averaging a price of €60, are available in a number of shoes and clothing stores across the country. While the brand's communication and marketing efforts are usually directed towards younger consumers, Converse shoes are worn by a multitude of customer segments.

Vans is a brand that targets young, urban, sporty consumers and is inspired by the skateboarding industry. Its sneakers are popular among teenagers, and can be found in many footwear, surf and skate shops around Portugal. Besides its traditional sneakers, Vans also sells slip-ons, loafers, espadrilles and flip-flops. Prices vary a great deal between shoe models, with its traditional collection costing on average €55 a pair.

1.3.3. Establishment and Growth in the Market

From one small store in Lisbon, in 2011, where only a handful of models were sold, PAEZ Portugal has grown and significantly expanded its geographic coverage. In 2012, the brand moved to a bigger store in Lisbon and launched the online store. The following year, a store was inaugurated in Oporto, and in 2014 PAEZ opened a smaller third store in Lisbon, inside the commercial space 'Embaixada', which was subsequently closed in order to be replaced by a 400 m^2 store, expected to start selling by the end of May 2015. Also, PAEZ opens additional points of sale in the summer, to cope with the increase in demand during the months of May through August. The brand's three seasonal shops are located in Lisbon, Cascais and Oporto – shopping centres Colombo, CascaiShopping and NorteShopping, respectively – and operate from May until September of each year.





Figures 3 and 4. Distribution of Sales per Retail Channel and per Region of the Country

Besides selling its products directly to consumers through its own channels, PAEZ also resells its products to existing stores across the country. In fact, B2B is a significant part of the company's business model, having grown year on year and currently being responsible for a larger percentage of sales than the brand's own distribution channels (Figure 3). Today, PAEZ is present in nearly 100 stores nationwide, including 'El Corte Inglés', Ericeira Surf Shop, 69 Slam and other smaller surf shops, specialty, design and concept stores. PAEZ's presence in these points of sale has not only helped increase brand awareness in regions where it does not own stores, but it has also been key to boost sales overall (Figure 4). On average, 50% of the total sales occur in Lisbon, 40% in Algarve and 10% in Oporto.

The column chart above shows that PAEZ's revenues have increased an average of 100% each year (€600,000 in 2012; €1,200,000 in 2013 and €2,800,000 in 2014). This growth is due not only to the company's increase in size – number of employees, new own stores and more partnerships with points of sale – but also to its growing variety of product offerings. In fact, the brand offered 50 options of shoes in 2013, 90 options in 2014 and, for this year, the portfolio has increased to more than 250 looks. From selling espadrilles with one or few colours and entirely made of fabric, PAEZ expanded its catalogue to a wide variety of designs, patterns and materials, which it applies to espadrilles for babies, sneakers, boots, boat shoes and even ballet flats[25]. As the quality of the shoes increases (an active effort made by the company to reduce the number of customer complaints regarding the short durability of the products) and the materials used become more refined – therefore also increasing production costs, which are currently about €12[26] per pair – the price of PAEZ's shoes has been increasing. Figure 5, presented in the following page, shows the evolution of prices charged to final consumers.

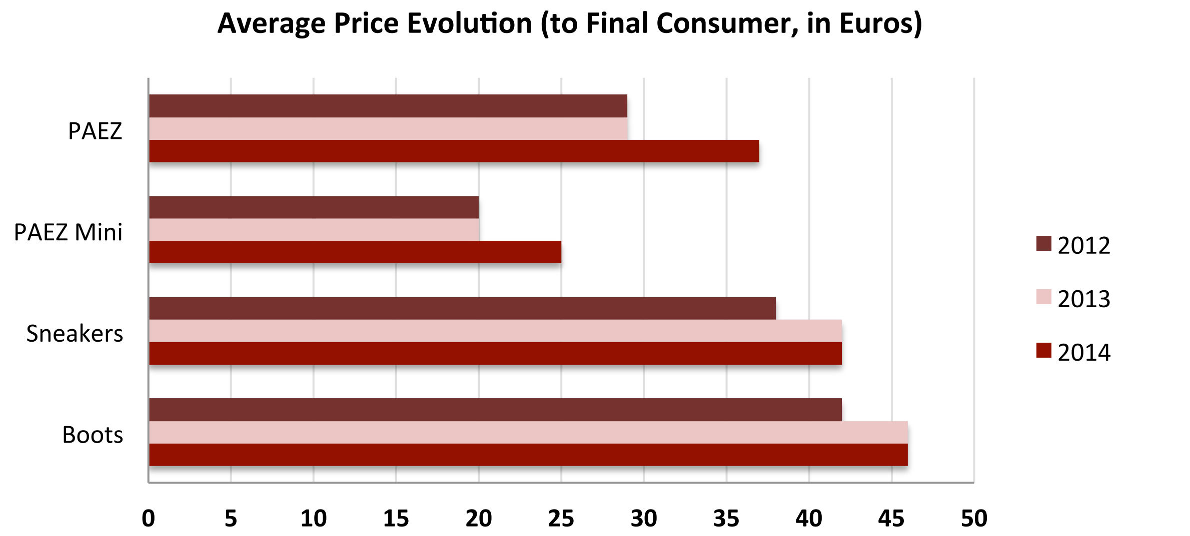


Figure 5. Price evolution of PAEZ's main product categories in the Portuguese market

Even though PAEZ's profit margins vary depending on whether the shoes are sold through their own stores or through resellers (the brand currently maintains an average profit margin of 23%), the price charged to end consumers is always the same, regardless of where the products are purchased. This coherence is part of PAEZ's strategy to incentivize the consumer to acquire the brand's products, irrespectively of where they shop, particularly considering those consumers who are geographically distant from the official stores.

1.3.4. Target Audience and Communication Efforts

At the early stages of PAEZ's entrance in Portugal, the company did not have specific consumer targets or concrete business goals. As a start-up company founded by business students who 'accidentally' discovered the brand, and as a firm that mainly sold shoes that were uncommon in the local market, PAEZ Portugal's initial goal was simply to sell the amount of shoes ordered to any consumer that was willing to buy them. In that sense, PAEZ Portugal grew organically at first, relying mostly on positive word-of-mouth from friends of friends who came in contact with the brand and its products. Sales were simply segmented into men's footwear, women's footwear and children's footwear, with no particular distinction between demographic or psychographic indicators.

As brand awareness increased and the customer base became larger, PAEZ Portugal created a Facebook page through which it could communicate with its fans. This social network became – and continues to be today – a platform for displaying the different shoe models available and for informing consumers on where and when the products could be purchased. Gradually, the number of followers on the page increased, and PAEZ developed a website where all relevant information was organized and easily accessible to everyone.

It was only when the first official store opened in Lisbon in 2011 that the brand began actively pursuing a group of consumers. Even though PAEZ considers itself a brand for all ages, offering shoes for everyone from babies to grandparents, its core consumer target became men and women between the ages of 18 to 24, which is to say, college students. This target made sense, not only because it was close to the owners' age at the time (between 22-26 years old), but also because these were the first customers of the brand, driven by the positive word-of-mouth and by what the brand represented.

The brand continued to grow, heavily relying on social media – an Instagram account was later created – to reach its target audience. PAEZ attended college events such as open days, entrepreneurial events and business competitions, and was present in other public social occasions such as music festivals, sports events or beach parties. In 2012, the brand was first featured on traditional media – surf magazines, online TV channels, sports newspapers – and it established a one-week partnership with Time Out Lisboa magazine, which allowed consumers to purchase two pairs of shoes for the price of one. This promotion became a milestone in PAEZ Portugal's growth, representing a significant boost in both sales and brand awareness. From that point forward, other media features followed, and the brand was mentioned on TV shows, radio stations, daily newspapers and shopping guides, most of which were spontaneous, unpaid references. In 2014, as a strategy to simultaneously boost online sales and sell leftover inventory, PAEZ launched a series of Facebook and Google advertisements, allowing customers to download a QR code into their phones, which would provide them with a price discount on shoes.

Today, PAEZ Portugal spends about 2% of its annual revenue in marketing and communication efforts, a relatively low amount for such a young brand. The company still relies on word-of-mouth and on loyal consumers to keep the business growing, and leverages social media platforms as a way to obtain a high degree of exposure at zero cost. Facebook and Instagram help the brand remain close to its consumers, stay at their top-of-mind and foster company-client interaction. From its launch until today, PAEZ's sales distribution in terms of the three segments has remained quite stable, with women representing the vast majority of the customer base, as Figure 6 shows.

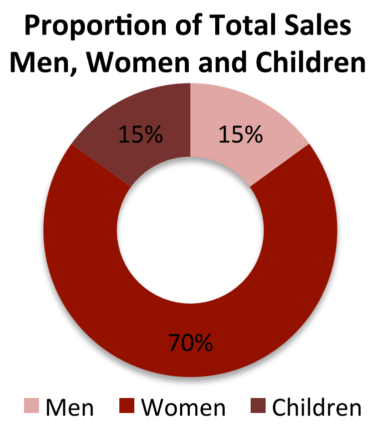


Figure 6. Total sales distributed by genre

1.4. The Dilemma: Should PAEZ Portugal Redefine its Consumer Target?

Throughout this case study, I have addressed PAEZ Portugal's business, from its inception until the end of 2014. The company's continued growth was analysed, and the initial target audience was discussed. It became clear that, in recent years, the success of PAEZ's business has relied significantly on young consumers, aged 18-24, particularly female college students. It was also mentioned that this was, in some ways, a natural target for the brand, as it encompassed the ages of the Portuguese owners, who initially 'sold' their friends on the brand and the products, and word continued to spread, thus attracting a large group of consumers that was relatively homogeneous.

It also was made clear that, in many aspects, PAEZ Portugal depends on the Argentinean team's decisions, as it is, in its essence, a simple importer and distributer of the brand's shoes in our country. Despite a high degree of flexibility to make local decisions, coordination between the two teams is constant, in order to maintain the coherence of the brand in all 26 markets where it is present.

Today, PAEZ Portugal is facing with an important question that this paper aims to answer. The company is considering retargeting its brand to an older consumer segment (aged 30-40) for three main reasons. First, as it was previously mentioned, PAEZ has faced, throughout the years, some issues concerning the quality of its products, having received consumer complaints regarding the low durability of the espadrilles. To cope with this issue, PAEZ has made active efforts to improve the quality of its components – textiles, soles and insoles –, which has caused production costs to rise and, consequently, increased the price of the shoes. Secondly – and recalling the degree of 'familiarity' of the business – both the Portuguese partners and the Argentinean owners have grown older, and their aesthetic tastes have evolved, which naturally caused changes in the creative process, with PAEZ now offering shoe models that are more fitting to an older target. Thirdly, and as a consequence of the previous argument, PAEZ has gradually been changing its target on a global scale, appealing to more mature and financially stable consumer segment in several countries.

The three aforementioned reasons have led PAEZ Portugal to face a dilemma with several relevant ramifications. Should the company indeed change its target audience to a wealthier, more taste-refined group of consumers, and thus become aligned with PAEZ Argentina's strategy? Is it wise for PAEZ Portugal to assume that this new segment can match or surpass the growth rate that the current target segment has been providing? Will this older segment of consumers be as receptive to existing and upcoming products as the current target has demonstrated to be? Also, could the increase in product prices, due to quality improvements, make the current target less interested in the brand and, therefore, make retargeting a necessity? Should PAEZ Portugal stick to the status quo and capitalize on the brand equity it already enjoys with young consumers, or should the company face this as a turning point and take a risk that could potentially bring additional revenue?

[Note: In an attempt to answer these questions, market research was conducted, through an online survey, in a section that is separate from the case study].

LIST OF FOOTNOTES

[3] Data provided in APICCAPS' *2012 World Footwear Yearbook.*

[4] Data referenced in *Jornal da Associação Portuguesa dos Industriais de Calçado, Componentes e Artigos de Pele e Seus Sucedâneos*, nº 213, September 2014, provided in APICCAPS' *2014 World Footwear Yearbook.*

[5] Source: European Union Report 2012: *In-Depth Assessment of the Situation of the European Footwear Sector and Prospects for its Future Development – Textiles and Leather.*

[6] Data from CBI *Trade Statistics – Footwear Sector 2013.*

[7] Data from Euromonitor International 2014.

[8] Data provided in APICCAPS' *2012 World Footwear Yearbook*.

[9] Data from APICCAPS' *Footure 2020: Plano Estratégico – Cluster do Calçado.*

[10] Data retrieved from an interview with Rui Machete, Minister of Foreign Affairs, published in *Jornal da APICCAPS* nº 213, September 2014.

[11] Data retrieved from APICCAPS' *Footgrafia 2014 nº 3.*

[12] Source: APICCAPS' *Análise Trimestral de Conjuntura à Indústria do Calçado: 2º Trimestre 2014.*

[13] Source: APICCAPS' *2014 Statistical Study: Footwear, Components and Leather Goods.*

[14] Source: Bank of Portugal's *Projeções para a Economia Portuguesa: 2014-2016, Boletim Económico, Junho 2014*, cited in APICCAPS' *Análise Trimestral de Conjuntura à Indústria de Calçado, 2014.*

[15] The following paragraphs are based on data from 2011, since more recent data is only available on a pay-per-view basis associated with a high cost.

[16] Data provided in APICCAPS' *2012 World Footwear Yearbook*.

[17] Source: Eurostat 2014, referenced in CBI *Trade Statistics – Footwear Sector 2013.*

[18] Data retrieved from *Jornal da APICCAPS* nº 213, September 2014.

[19] Data retrieved from APICCAPS' *Footgrafia 2014 nº 3.*

[20] From APICCAPS' *Análise Trimestral de Conjuntura à Indústria do Calçado,* 2º Trimestre 2014.

[21] Source: *CBI Market Survey – The Footwear Market in the EU,* May 2010.

[22] Espadrilles (or "alpercatas" in Portuguese) are flat, comfortable shoes made of colourful fabrics. Appendix 2 contains examples of PAEZ's original shoe models.

[23] Data from an interview with Francisco Murray, available at YouTube (see "Other References").

[24] Appendix 3 shows a current organogram of PAEZ Portugal.

[25] Appendix 4 shows a sample of PAEZ's different models.

[26] This amount includes all expenses related with import fees and taxes. In other words, €12 is the average price that PAEZ Portugal pays to the owners in Argentina for every pair of shoes.

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APPENDIX

Appendix 1: Script for interviews with PAEZ Portugal's management team

Introductory questions

1. Can you explain how PAEZ Portugal was born?
2. How do the production and import processes work?
3. Are all products sold in Portugal manufactured in China?
4. How are you organized in Portugal? How many people work in the permanent staff and how many are hired each summer for the temporary stores?
5. How did the number of own stores evolve? How many stores are there currently, when did they open and why?
6. How do you currently segment your customer base?
7. What are the reasons that have led you to consider a retargeting strategy?

Products & Services

8. How many products do you have in your current portfolio, and how did this number evolve since 2012?
9. Do you offer product customization? If yes, at what cost? What is your margin on that? And what is the % of products that are customized each year, since 2012?
10. How many visitors do you have on your website, per month? What % of these visits translate into actual sales? How have these numbers evolved since 2012?

Price, Sales and Geographic Coverage

11. What is the price of each type of product? How have prices evolved since 2012? Is the price to final consumers the same regardless of where shoes are acquired?
12. What have been your revenues since 2012 until 2014? On that, what was the profit?

13. How many points of sale does PAEZ have, overall? Which are your most profitable partners? What is, today, the geographic coverage of the brand? How has this evolved since 2012?

14. When do you sell the most products, throughout the year? And which months generated the least sales? Has this pattern changed since 2012?

15. What is the distribution of sales per gender/segment? Is this proportion stable?

16. What is the distribution of sales per channel (online, stores, resellers, events…)

17. What is the distribution of sales per region? Has this changed since 2012?

18. What is the distribution of sales per product type (espadrilles, boots, sneakers…)?

19. How have your monthly sales evolved, since January 2012 until December of last year?

20. Which are your best-selling products? Can you provide a Top 10?

21. What is your leftover inventory each year? What do you do to sell these products on the market? Do you do any kind of promotions?

<u>Costs & Financial Data</u>

22. What is the current financial situation of the brand?

23. How much does it cost you to buy each pair of shoes (PAEZ, PAEZ mini, sneakers, boots, ballet flats, etc.)? How was this cost evolved since 2012?

24. How much do you pay in taxes and import fees?

25. What are your gross margins on each product? How do margins vary depending on whether the shoes are bought in your own stores or in one of your resellers? Has this margin increased or decreased since 2012?

26. At what price do you sell the shoes to your resellers?

<u>Marketing & Communication</u>

1. How much do you spend on marketing and advertising each year? Is this number stable or have you varied the amount invested in the past three years?

2. Who manages your Facebook and Instagram accounts? Is there some level of coordination with Argentina in this aspect? What kind of advertising and communication do you do through social networks? Are these important tools for your business?

3. Do you do promote specific initiatives targeted at each segment?

4. What have you done, since 2012, with traditional media? What about online media such as blogs, for example?

5. Can you say that investment in marketing and advertising has helped the business grow significantly? If so, can you provide data?

6. Do you go to specific events to promote the product? If yes, have they been valuable in terms of sales increase? Can you provide concrete data?

Final Questions

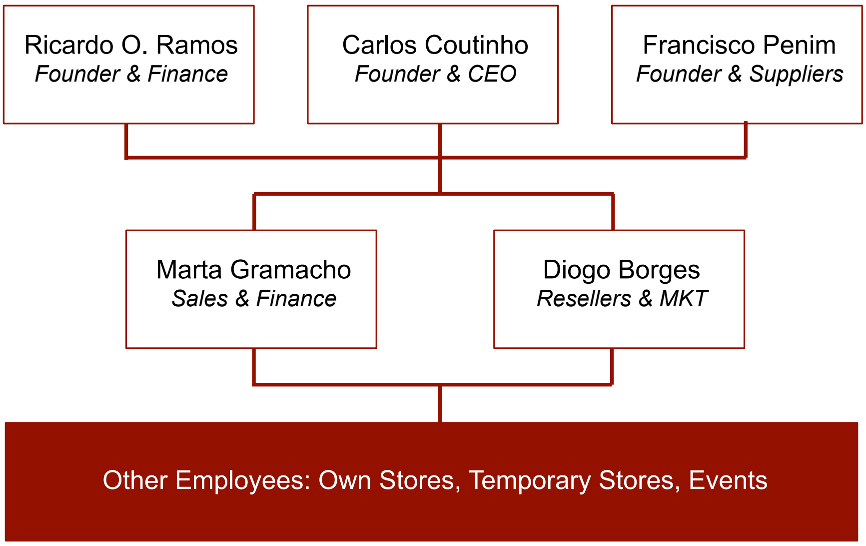
7. What do you think are PAEZ's biggest strengths?

8. What should be changed in the business?

9. Where do you see the business in Portugal five years from now?

Appendix 2: Examples of PAEZ's original shoes, sold in Argentina

Appendix 3: Organogram of PAEZ Portugal



Appendix 4: Examples PAEZ's Current Product Portfolio