PORTER'S COMPETITIVE STRATEGIES IN FASHION INDUSTRY: CASE STUDY

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1. Introduction

The Portuguese footwear industry had an excellent economic performance in the last seven years. Innovation, own collections, own brands, entry in new markets and new products development are common approaches to the most competitive companies, some of them leaders in the European sector, mainly in leather footwear. This industry is traditional, mature, labour intensive and "low-tech", with two main clusters in Portugal (both clusters are located in the north of Portugal).

In 2016, Portugal exported more than 81 million pairs of shoes, an amount of more than 1 923 million euros, a growth of 3.2% over 2015. Leather footwear are the main category of Portuguese footwear exports, that gives the 10th position in the international context (value of 1 840 million of USD in 2015 and a World Share of 3,4% – Table 1). As a result of a significant investment in international markets, Portugal now exports more than 95% of its production to 152 countries on five continents [1].

Table 1. Top 10 Exporters of Leather Footwear 2015

Rank	Country	USD Million	World Share	Pairs Millions	World Share	Average Price $
1	China	10 922	20.5%	725	33.1%	15.05
2	Italy	7 695	14.4%	125	5.7%	61.50
3	Vietnam	5 965	11.2%	293	13.4%	20.37
4	Hong Kong	2 455	4.6%	90	4.1%	27.34
5	Germany	2 392	4.5%	69	3.1%	34.74
6	Indonesia	2 233	4.2%	95	4.3%	23.48
7	Spain	2 132	4.0%	57	2.6%	37.46
8	Belgium	1 968	3.7%	71	3.2%	27.86
9	India	1 923	3.6%	115	5.3%	16.72
10	Portugal	1 840	3.4%	59	2.7%	31.00

Source: Footwear Yearbook 2016, APICCAPS

The paper will analyse the competitive strategies [2] followed by seven footwear companies and will show the areas and components that the companies focus theirs resources and strategies to be more competitive and sustainable [3] in the international context. As states Michael Porter [2], there are three main generic strategies: cost leadership, differentiation and focus strategy, but "*the generic strategies make it clear that there is no one type of strategy that is appropriate for every industry. Indeed, different strategies can coexist successfully in many industries*" (p. 39).

In the last decade, Portugal has improved its position in the European and World ranking of innovation and is considered as belonging to the group of" moderately innovative". Data for the year 2015 contained in the report *The Global Competitiveness Report 2016-2017* [4] show that Portugal is positioned in the 46th place out of 138 countries assessed, with a score of 4.5 on a scale up to 7.

Portugal is placed on "Innovation Driven" group of countries, although it has underperformed in several dimensions when compares with others advanced economies (Figure 1). In the 12th pillar "Innovation", Portugal is positioned in the 34th position, better than in the global index (46th).

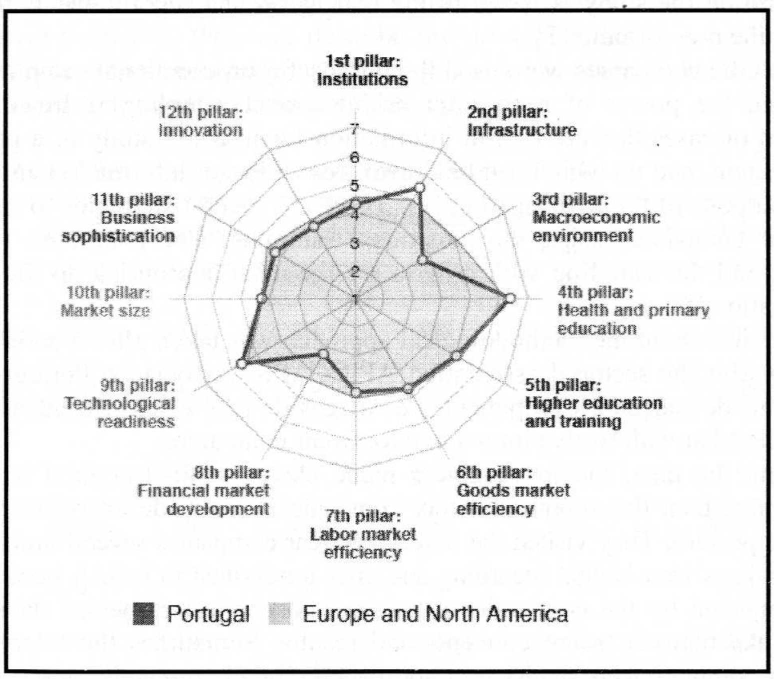

Fig. 1. Portugal in the *Global Competitiveness Index 2016*
Source: Global Competitiveness Report, World Economic Forum, 2016-2017

2. Research methodology

The methodological approach to the research was defined considering the specificities of the sector and the proposed research objectives. The research methodology can be quantitative or qualitative: the qualitative analysis is presented as the most recommended when the researcher wants to study a small sample of entities and the study is focused on a theme or sector. It is also recommended when the investigation aims obtaining detailed and in-depth information on situations, events, people, organizations, interactions and behaviors observed by the investigator during the field research [5]. When the industrial sector consists mainly of SMEs, the qualitative approach is recommended to reduce the distance between the administrator or owner and the investigator [6].

The research methodology was qualitative and the strategy for data collection was the multiple case studies. The case study uses different sources of evidence and is relevant to answer to the questions "Why", "How" and "What". It is also recommended when the researcher has little or no control over the behavior of the events, if the study is based in the real world and reports events that take place at the present time [7].

To select the companies were used the purposeful or intentional sampling. The logic and the power of purposeful or intentional sampling is based on the selection of cases that are rich in information for in-depth study of a particular phenomenon, and on which can be drawn from relevant information and central to the purpose of the investigation [8]. There are several strategies to select the footwear companies using the intentional sampling. The maximum variation strategy and the sampling with criteria are the most appropriate to the present investigation [5].

The decision about the methodological approach was taken after a collaborative meeting whit the sectorial association APICCAPS (Associação Portuguesa dos Industriais de Calçado, Componentes e Artigos de Pele e seus Sucedâneos) that give a short list with twelve innovative footwear companies.

To obtain the data, the investigators made eleven semi-structured interviews during more than five months (in four companies were made interviews to more than one person). They visited the seven footwear companies several times and all the interviews were digital recording and after transcribed to text. A questionnaire was completed by the companies to gather and connect dispersed data and to make links between some concepts and results. Sometimes the interviews at a cluster company were decisive in approaching other companies, some of them suppliers or partners in previous research projects and others are yet in common research projects.

3. Results: case studies

The seven footwear companies were selected from the two main footwear clusters in Portugal: Felmini; Savana; Centenário; Procalçado/Lemon Jelly; Kyaia/Fly London; Aco; Soze/Dkode.

Throughout the research, have been formulated several hypothesis and assumptions. The competitive strategies followed by companies are identified by their owners, CEOs and administrators, and lead to better results and a differentiated competitive positioning. This hypothesis was formulated in the beginning of the research and was clearly validated during the research. Figure 2 shows a "planetary model" that highlights this assumption. The generic competitive strategies, as proposed by Michael Porter in 1980 [9], are clearly identified in this research. Cost leadership, differentiation and focus strategy are the Porter's competitive generic strategies and the focus strategy can be divided in "focus on costs" or "focus on differentiation".

Conclusions about competitive strategies and competitiveness of the footwear companies were very simple to obtain and they are very clear. Even if the owners or administrators does not know the Porter´s definition to the competitive strategies, they can describe the principles that they are based on and recognize if their company is following one or the other. Table 2 shows the results obtained during the research (Table 2).

Table 2. Cases from Portuguese footwear industry (2013)

	Felmini	Savana	Centenário	Procalçado/ Lemon Jelly	Kyaia/Fly London	Soze/Dkode	ACO
Turnover (million €)	13.4	8.9	9.2	21	56	10	33.5
Nº workers	183	142	74	296	620	160	741
Ratio Turnvr/Wrk (€/Worker)	73 460	63 050	124 150	70 950	90 320	62 500	45 200
Exportation Value (million €)	13	7.9	9.1	10.5	50	9	28.7
Own Brand	100%	10%	0%	60%	90%	60%	10%
Porters' Competitive Strategy	B	A	C	B	B	B	A
Innovation (Oslo Manual)	Product Marketing	Process Organiz.	Product	Product Marketing	Product Organization Marketing	Product Marketing	Process
Cooperation with Cluster (1 to 5)	4	2	3	5	5	3	2

Notes: A – Cost leadership
B – Differentiation
C – Focus strategy

According Porter´s definition, cost leadership is followed by two companies: ACO and Savana. ACO is the biggest company analysed with 740 workers and with a turnover of 33.5 million euros in 2013. Both work mainly in private label regime, with a low percentage of own brand products, even if they have own brands. These two companies have others factories that belongs to the same main company, working in some process operations: cutting, sewing and assembling. ACO has one factory in Cabo Verde (Africa) with 260 workers and other one in Ponte de Lima (Portugal) with 100 workers. Quality control is done in the main factory to all the products, before to be sent to the final customers or clients (private label regime). Savana has a small company in Baião (Portugal) with 30 workers. These smaller companies belongs to the same owners and are located in the same region (footwear cluster in the north of Portugal).

Differentiation strategy is followed by four footwear companies: Felmini, Procalçado/Lemon Jelly, Kyaia/Fly London and Sozé/Dkode. They have own brands, with own products and footwear collections. The percentage of own brand products is higher than 60% in all the cases, remaining a percentage of production to the private label.

Being close to the retail and the final consumer is a common feature of the differentiation strategy option and "to move consumers' involvement from low to high" [10] with brands' linkage.

Focus strategy is clearly followed by Centenário. The production process in this factory is very peculiar and with a high value added (Goodyear production system) with a complex system that requires skills and competences not easily available in other companies and countries. The shoes are produced with special leathers and skins of exotic animals (alligator, skin snake, Brazilian fishes, etc.), in private label regime mainly to The Netherlands and Finland. The company is preparing a new product line to the American market: golf footwear in high quality leather and exotic skins. The company has own brand, prepares own products without a collection, but it represents a small share. It is important to keep the quality level of the company and to test some techniques and production improvements.

4. Discussion of results

The economic results of the footwear companies studied highlight the differences between all of them and these differences are related with the competitive strategy adopted, even if they are combined with other strategic approaches: quick response and synergy. Quick Response strategy is followed and identified by three companies, which joins the differentiation strategy already indicated above. The synergy strategy proposed by Aaker [11] is assumed only by one company: Kyaia. Aaker's synergy definition corresponds to the capacity that two or more entities or companies have to jointly generate more value, which is greater than that achieved separately by each one. Kyaia participates frequently in research projects, being mostly of the times project leader and dissemination coordinator.

It is clear that the ratio "Turnover/worker" of the footwear companies is related with the strategy followed. Centenario has the highest ratio "Turnover/Worker" with a value of 124,150 euros/worker and the strategy followed is "Focus Strategy". On the other hand, ACO follows a "Cost Leadership"strategy and has the lowest ratio "Turnover/Worker" with a value of 45,200 euros/worker (Figure 2).

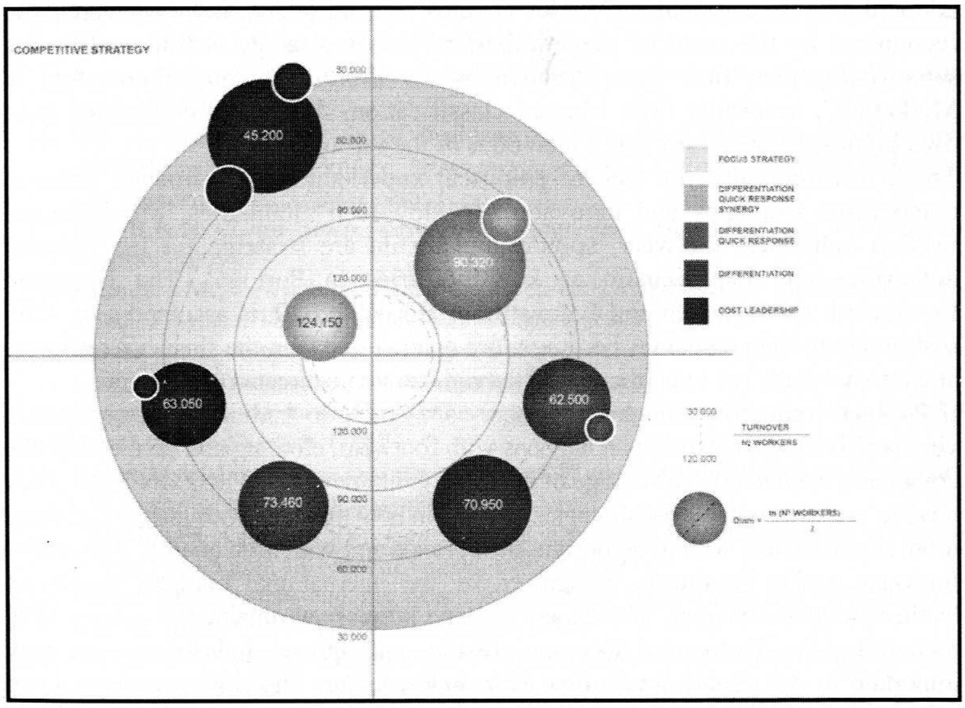

Fig. 2. Competitive strategies in innovative footwear companies

The cooperation with the cluster occours in different levels and is very strong in many common projects, coordinated by the main sectorial organizations (CTCP and APICCAPS). Some companies, usually more innovatives and with "Innovation in Products" and "Innovation in Marketing", and with strong brands, have a very good cooperation in the cluster. They are frequent partners in innovation projects, involving also equipments producers and software houses. High Speed Shoe Factory (HSSF) was a project leaded by Kyaia that had involved several sectorial partners, including machinery producers, software house, footwear companies and technological centers.

This analysis fits in previous studies already done in the Portuguese industry [12]. Traditional industries are important if they have the right competive strategy and if they can compete against the main international players.

The clusters plays also a very important role, mainly if they can collaborate in innovation processes and creating competitiveness inside the cluster [13].

5. Conclusions

There are a link between the category of innovation followed by the innovative firms (according Oslo Manual – OECD) [14] and the competitive strategy adopted in these companies [2]. This conclusion is very clear in this research and recognized by the sectorial players. Differentiation strategy is followed by the same companies that have "Innovation in Products" and "Innovation in Marketing", according Oslo Manual classification. And these companies have own brands that represent more than 60% of the turnover.

These research fulfil the lack of empirical knowledge in the linkage between competitive strategies and innovation in "low-tech" industries. Moreover, as fashion industries, footwear, apparel and textile are strategic for the national authorities and they remain as key industries in Portugal. The European Framework for Research and Innovation – Horizon 2020, is assumed as a main instrument to the companies became more competitive. But the financial resources and internal skills has to be focused in the right strategic direction.

If Portugal wants to continue to be more competitive in traditional sectors, with a very positive trade balance as it happens with footwear, clothing and textile, then the companies need to take advantage of the this EC Framework HORIZON 2020. They have to prepare competitive strategies to entry in new markets, with fashion products more sophisticated, with good design, own brands and with high quality. Portuguese footwear quality is already recognized by the international markets, mainly in leather products category. The experience and know-how obtained in private label regime by the Portuguese footwear, textile and apparel industries were very important to the quality levels that these industries are showing nowadays. Own products, own collections, own brands and innovation are elements that contribute for these results, even if these companies are mainly SME's [15] as it happens in the Portuguese fashion industry, and the three Porter´s generic strategies can coexist in footwear industry.

Acknowledgments

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