**Copenhagen Business School**

Cand. Merc. M. Sc. IBS - International Business

*Department of International economics and management*, *15 June 2012*

# *Strategic Analysis of the Geox Group*

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N. of pages: 79.7

Total n. of characters: 181,415

N. of characters (without figures): 165,415   N. of figures: 20

## Executive Summary

The purpose of this thesis is evaluating the sources of the extraordinary success of the Italian company Geox S.p.A. in order to assess whether its triumph is sustainable or not in the future.

Geox S.p.A. is an Italian company based in Montebelluna (Treviso, Italy). It produces high quality and innovative shoes and apparels, and it is considered one of the most successful Italian firms. The company was born thanks to an innovative idea of its founder, Mr. Mario Moretti Polegato, and its fast growth has been due not only to the knowledge of the district, but also to its strong management and its strategies. All these factors have contributed to Geox's fast growth in a market that was already mature.

Notwithstanding Geox's leadership position in Italy, the company is not immune from the negative effects of the economic and financial crisis and of globalization. The main challenges that the company is facing are mainly constituted by increasing and labour and raw material costs. The crisis, which has been particularly strong in Italy, has made people poorer. Thus, consumers have became more price sensitive, and some of them have chosen to shift from high quality to cheaper goods usually made in developing countries.

With the aim of assessing the sustainability of Geox's success and of recommending strategies to increase profit, it has been developed a business strategy analysis based on applied theoretical frameworks. The analysis is divided in two main subgroups: internal analysis and external analysis.

The main finding of the external analysis is that the competition within the industry is strong, and this is coherent with the maturity of the market. Moreover, it allowed us to find the key success factors required to succeed within the industry.

The internal analysis suggests that Geox has still considerable sources of sustainable competitive advantage, which are coherent with the key success factors of the industry.

In conclusion, the strategies that Geox is following are coherent with the suggestions that have been found in the last part of the thesis, and they are mainly based on addressing new markets, especially in the developing world.

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# 1) Introduction

## *1.1 Preface*

The shoe sector in Italy, as well as in the whole of Europe, has reached the maturity phase. The companies that are working within this industry are trying to capture fragmented profits through low cost and differentiation strategies[1]. Consequently, the threat of decreasing margins is a possibility. Additionally, globalization and the financial crisis have worsened the situation creating uncertainties and fears among producers.

Globalization has decreased trade barriers and increased competition. In particular, Article 28 and 29 of the European Union Treaty (1993) supports free movement of goods and prohibits import and export restrictions within the Member States. Moreover, in May 2011, the anti-dumping laws applied to leather shoes coming from Vietnam and China has terminated.

One of the typical phenomena of mature markets, the shakeout, has been strong and the number of firms within the footwear sector has decreased. *Appendix 1.1.A* shows that the birth rate of European manufacturing firms is inferior to the death rate, and the spread is higher than in other sectors. Many firms left the market not only because of its saturation, but also because they have not been able to match the cost advantage of international competitors.

The economic and financial crisis has been particularly strong in Italy, which is experiencing a recession[2]. The new Prime Minister Mario Monti has started a series of strict policies in order to decrease the debt and increase internal competition. However, the new policies, which have been based on taxes and liberalizations, have increased poverty in the short run.

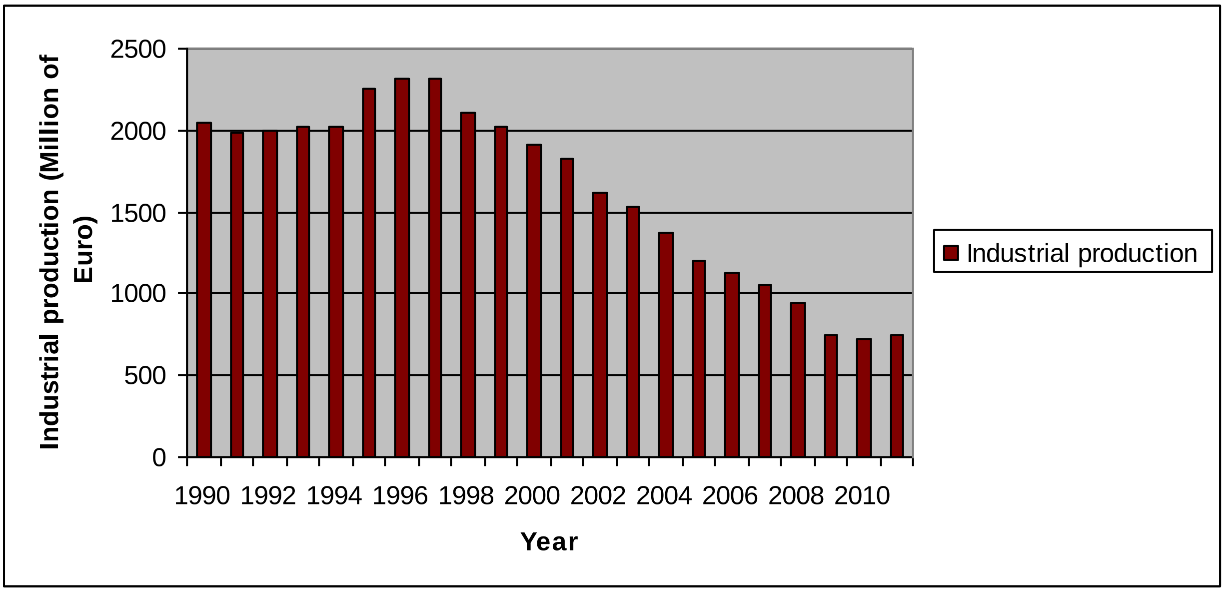
As you can see in *Appendix 1.1B*, the Italian unemployment rate in March 2012 has reached the highest level of the last seven year. The unemployed people in March 2012 were 2,506 thousand (9.8%), they have grown by 2.7% from February of the same year. In particular, the unemployment rate of young people (15-24 years old) has significantly increased during the last two years, and it reached the level of 35.9% in March 2012.

This is relevant because poorer customers with uncertainty about their job are more price sensitive and switch toward cheaper products more easily than rich people.

[1] S. Sciascia. “Caso Geox”. Available at: http://idisk.mac.com/falberti-Public/CASO-GEOX.pdf.
[2] A recession occurs when there are at least two successive quarter of negative growth as measured by GDP.

The table below shows that the Italian industrial production[3] of shoes experienced a pick during 1996-1997. Then, from 1998, it started to decrease. Finally, in 2011 it has slightly increased. Note that industrial production is procyclical – it moves together with the busyness cycle - and the figure suggests that it has reached the minimum slump in 2010.

**Figure 1**: **Industrial production of shoes in Italy**




*Source:* Own creation and elaboration of data found on ISTAT database updated on March 15th, 2012

From 2010 to 2011, the shoes sector has shown satisfactory results notwithstanding the worsening macroeconomic picture of the country. Raw materials have become more expensive, and some companies have started to have liquidity problems due to delayed payments and difficulties in getting bank loans. Notwithstanding this, firms have managed to maintain both production and efficiency relatively high. Even if the internal demand has been recently stagnant, 80% of Italian shoes are exported abroad.

During 2011, abroad sales have significantly increased compared to 2010 by 2.3%, and they accounted for 207.4 million pairs in the same year (5 million more than in 2010). In value terms, the national production of shoes has increase by 4.8% during the same period. Sales to everywhere except for Eastern Europe and North America have exceeded the pre-crisis levels. On the other hand, 20% of the Italian footwear companies affirmed that in 2011 they had not yet recovered from the crisis. The overall sense of pessimism is widespread and many are uncertain about the future[4].

[3] The quantity of output of shoes in terms of production units relative to a base year. (R. Yamarone, 2004)
[4] *Preconsuntivo 2011 Settore Calzaturiero*. Rep. Osservatorio Congiunturale A.N.C.I

Notwithstanding this unfavourable environment, Geox has been able not only to survive, but also to remain the leader in Italy within the "classic and casual" shoe sector, and the third brand in "lifestyle casual" shoes internationally. Thanks to its high managerial skills, Geox has been able to benefit from globalization through outsourcing its production in cheaper countries. However, issues on whether the sources of Geox's success are sustainable in the long-run can be raised. In the fast moving and highly competitive environment of nowadays, a company is never safe. The fact of reaching high levels of performance and profit during a period does not mean for Geox that its position is secured.

### *1.2 Problem Statement*

The subject of this thesis is the Italian company Geox S.p.A., which will be analyzed from a business strategy point of view. The analysis will be concentrated only on the shoe sector of the Italian market because the company was launched to produce shoes, which continue to be the most profitable product produced by the Group.

Within these bounds, the research questions will be:

1) Analysing the sources of the extraordinary success of Geox;

2) Assessing whether these sources are sustainable or not in the future;

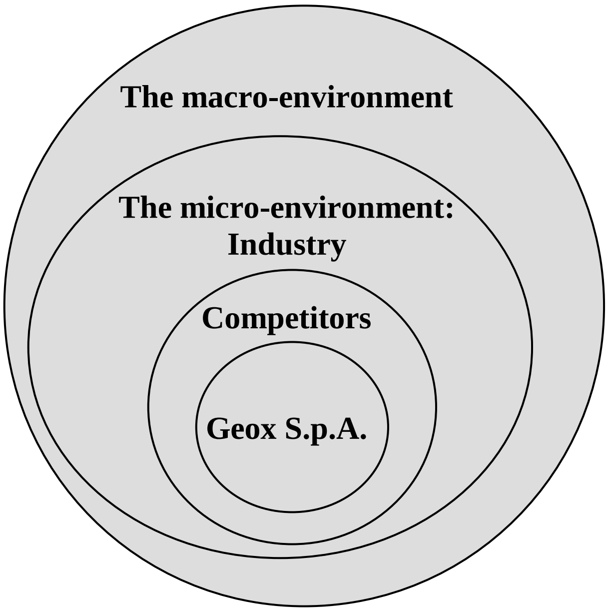
3) Giving recommendations not only for remaining in the market, but also for finding new sources of superior profit.

### *1.3 Methodology and Applied Theory*

Business strategy and corporate strategy are related. However, the limited number of pages available has forced us to choose between one of the two. This thesis will focus only on the business strategy because the establishment of competitive advantage is a critical requirement for the success of a firm, and concerns about business strategy come before concerns about corporate strategy.

The figure below gives us an immediate idea about how the business environment is structured. The analysis will start with a macro-environment analysis, it will go deeper and deeper through the industry analysis, and it will eventually look at the company from an internal point of view while comparing the results with the main competitors.

**Figure 2:** **The Business Environment**




*Source:* Own creation based on Johnson et al., 2008

There are two main sources of superior performance: industry attractiveness and competitive advantage. The former is related to the external analysis, which will be performed in *Session 3.2* through a PEST analysis for what regards the macro environment, and through the application of the Porter's Five Forces for analyzing the micro environment. The latter, will be analyzed in *Session 3.3* by applying the resource-based view, the Porter's Value Chain, and Barney's VRIO model. Finally, *Session 4*, which contains strategic suggestions, will be performed with the help of the Ansoff's Model.

### *1.4 Data*

Both qualitative and quantitative data have been used for performing the analysis.

Moreover, the type of data used are secondary, mainly coming from internet (databases footwear journals, websites...etc.). Unfortunately, this thesis lacks primary and confidential data since we did not have the opportunity to interview Geox's workers. The main problems with secondary data are uncertainties related to their validity. On the other hand, they can be gathered easily and cheaply.

### *1.5 Criticisms and Delimitations*

Since the subject of this analysis is Geox, the found recommendations are firm-specific and cannot be applied to other firms in the same sector and market.

Moreover, the focus is only on the shoes sector in Italy, therefore the conclusions may be different for the other sector (apparel) and markets where Geox operates.

Due to the limited time and number of pages available, the company will be mainly analyzed from a business strategy (or competitive strategy) point of view, which is concerned about the way companies compete within a particular industry and market – in this case the shoe sector in the Italian market. Corporate strategy, which defines the scope of the company in terms of markets and industry, will not be analyzed. Since corporate and business strategies are related, this thesis may lack in accuracy because it will not consider important factors that can come out only after a deep corporate strategy analysis.

Every framework that has been applied has its own limitations and criticisms since a model is only a simplification of the reality. Therefore, all the limitations of the frameworks that have been used will also be limitation of the overall strategic analysis.

In addition, due to lacking data common sense has often been applied. This may cause errors, and the reader must take the conclusions just as probable outcomes rather than as absolute certainty. Many of Geox's competitors are not listed and do not have public information available. This has made the internal analysis particularly complicated.

Finally, the limitations coming from the use of secondary data have been already mentioned in the former passage.

It is now time to start with the presentation of the Geox Group. Then, a business strategy analysis (external and internal) will follow, and some final suggestions on how to increase profits and exploit future opportunities in the future.

## 2) Presentation of the Geox Group

The following sub-chapters aim to give a basic overview of the Geox Group.

### *2.1 The History of Geox S.p.A.*

The idea of creating "shoes that breathe" came to Mr. Mario Moretti Polegato by chance when he was promoting his family's wine business through a trade fair in Reno, Nevada. It was very warm, and his rubber-soled shoes where annoying him because they were making his feet overheat and sweat. Thus, he ingeniously made holes into the soles and discovered a smart way to let excess heat out of his shoes. Thanks to Mr. Polegato good sense of business, he developed his rubber-sole technology in his family owned small footwear company. This is how he created and eventually patented the first pair of “shoes that breathe”.

Notwithstanding the fact that Mario Moretti Polegato tried to pitch his invention to already established footwear manufacturers without any success, his transpiring shoes passed the market-testing phase for the children footwear line in 1995. Lastly, he created his start-up under the Geox brand and he began a large-scale production of shoes. The brand name Geox comes from the word “geo”, which in Greek means earth and from the concept of technology, which is included in the final “x”. This choice has been made because the company aims to connect nature with technology. Indeed, humans naturally walk on the earth and the Geox shoes add a technological element to the walking experience. In the same year, Mr. Polegato created the men and women’s footwear lines, and this was followed by an extension of the patent.

Innovation has always been a priority for Geox. Consequently, the huge R&D investments made it possible for the Montebelluna-based group to experience a fast growth. In 1999, the constant investments in R&D gave birth to the clothing line, which consists of garments with a different application of the same transpiring technology as the shoes. Thanks to this product differentiation, the era of the total fresh look has begun.

After the huge success that Geox has experienced in the Italian market, the Montebelluna-based company decided to internationalize in 2000. Margins have always been huge both at home and abroad. Many capitals of developed countries have at least one Geox shop on their main high street. This is why Geox is among the most successful examples of the Italian firms.

In 2001, Geox product range expanded again thanks to the huge investments in R&D of the company, which created and patented a new technology for healthier feet in new waterproof leather soles.

Geox went public on December 1, 2004, when it started to be listed on the Milan Stock Exchange. The company has continued to experience great success and a remarkable growth. Sales have increased by more that 30% per year, the number of manufactured and sold shoes have increase by quantities that exceed a million, and profitability ratios have been improving.

Geox's expansion abroad has been continuing, and on November 16, 2005, the company inaugurated a 600 square-meters futuristic styled shop in Madison Avenue in New York City.

In 2008, R&D played a major role again for the company, which expanded its product line to fitness shoes, made to maximize transpiracy thanks to the so-called NET System. This system, based on a "net sole", was able to release the sweat produced by feet during sport activities. A very important fact that helped Geox to conquer the sport market and compete with Nike and Adidas was its acquisition of Diadora in 2009. Thanks to Geox's economic stability and strong intangibles, the company has not been affected too much by the economic crisis. Indeed, it was able to buy Diadora, which lost more than 10 million euro in 2007 and had Euro 74 million in debt with only 133 million sales. Thanks to its asset of market knowledge, technology, distribution, strong territorial presence, and global openness, Geox has been able to fix the Diadora brand[5].

On February 25, 2010, the Group opened its largest outlet in Via Torino, one of the most famous streets for the Milanese Shopping. The new outlet has been called "The Breathing Building", and it perfectly expresses the company's values through its innovative features composed by iridescent chequerboard, moving tones and scenic effects that give to the customers a invigorating experience[6].

## *2.2 The Ownership Structure*

Geox S.p.A. is a joint-stock company listed on the Milan Stock Exchange since December 1, 2004. According to the Annual Report of 2011, the share capital of the company accounts for EUR 25,920,733.10 and it consists of 259,207,331 ordinary shares. Each ordinary share assigns one right to vote, and has a par value of EUR 0.10. Moreover, shares are indivisible, registered, and freely transferable. Their issue price, which is determined by the Board of Directors, must be equal to the arithmetic average by the official prices registered by Geox stock on the "Mercato Telematico Azionario" (the Electronic Stock Market).

### *2.2.1 Shareholders*

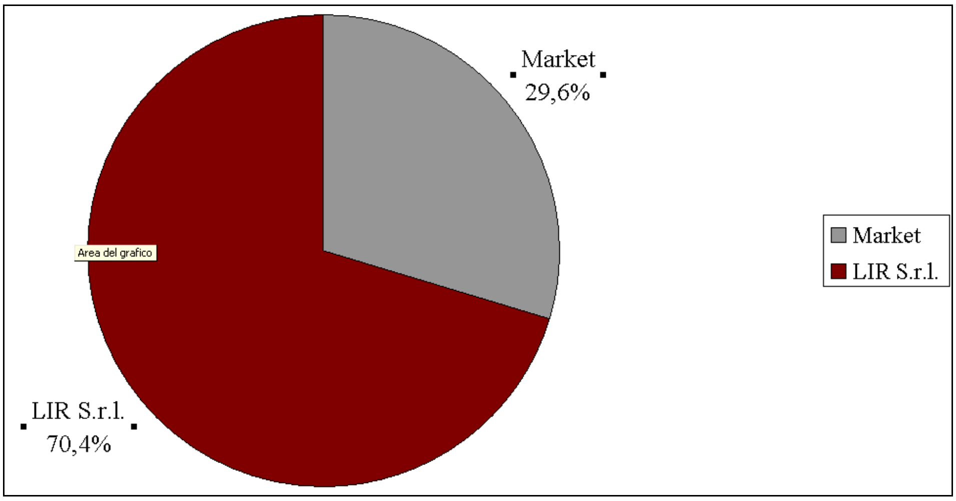
The holding Geox S.p.A. directly and fully controls the Geox Group. As shown in the figure below, Mario Moretti Polegato and his son Enrico Moretti Polegato, together hold 71.10% of

[5] http://softeconomy.wordpress.com/2009/06/18/geox-acquista-il-brand-diadora-sfideremo-nike-e-adidas/
[6] http://www.geox.biz/english/chi_storia.asp

the shared capital of Geox S.p.A through their complete ownership of LIR S.r.l., which is an investment holding company based in Montebelluna (Italy).

Mario Moretti Polegato and Enrico Moretti Polegato hold respectively 85% and 15% of the LIR's shared capital. Only the remaining 29.6% of the shared capital of Geox S.p.A. is owned by the market. Therefore, coherently with the governance model that typifies the majority of the Continental European companies, the Geox Group is completely controlled by an inside blockholder[7] which is constituted by the Polegato family.

**Figure 3:** **Ownership of the Shared Capital of Geox S.p.A.**




*Source:* Own creation based on the company's data available on their website updated on March 2nd, 2012

### *2.3 The Management*

It is important to analyze the management of a company in order to deeply understand the dynamics behind its strategies. A brief description of Geox's management follows below.

#### *2.3.1 The Board structure*

The governance system of Geox S.p.A. is coherent with that of the traditional Italian system. It is composed of a Board of Directors in charge of executive duties and a Board of Auditors responsible for supervisory duties. Supervision is not only the responsibility of the Board of Auditors, but also of an independent auditor, which is Erns & Young.

[7] Barclay, Michael J., and Clifford G. Holderness (1989)

According to the Italian Civil Code[8], a Board of Directors composed of nine members[9], manages the company. They can be re-elected and do not necessarily need to be Shareholders. As shown in *Appendix 2.3.1* the Board is composed of five independent auditors, two executives, a chairman and a vice-chairman who are respectively Mario Moretti Polegato and Enrico Moretti Polegato.

The members of the Board are all male, Italian, and they all have more or less the same age and educational background (degree in law or economics) with the exception of Umberto Paolucci, who has a degree in engineering. Therefore, we can conclude that the Board of Directors of Geox is not diversified. On the one hand, this improves efficiency in decision making because it avoids problems in communication and coordination. On the other hand, it can provoke group thinking and it can fail to create new ideas.

The shareholders' meeting can be ordinary or extraordinary. The former case must be held at least once a year, and the Chairman Mario Moretti Polegato chairs it. During the shareholders' meeting, strategic decisions and guidelines about short and long-term strategies are taken, as well as budget decisions about investment plans[10].

### *2.3.2 Remuneration*

The remuneration of the Board Members is in accordance with the Code of Best Practice and the Board itself during the Shareholders Meeting determines it.

As you can see in *Appendix 2.3.2*, the remuneration of both executives and non-executive directors is fixed and mostly monetary, except those of Diego Bolzonello, which also includes non-monetary benefits. Officially, this is because the Board of Directors believes that a fixed monetary salary is the most appropriate method for remunerating the high quality of the work of its members. Conflict of interest is clearly present here.

Only two executive directors, Diego Bolzonello and Lodovico Mazzolari, receive share-based incentive plans. The remuneration of non-executive directors is based on their commitment[11].

## *2.4 The Organization*

[8] Italian civil code, paragraph 2, section VI bis, Title V
[9] This number can vary five to nine
[10] Interim Report First Half of 2011
[11] Corporate Governance Report 2010

Geox S.p.A. was launched thanks to a revolutionary idea of its founder and CEO, Mario Moretti Polegato. The company attained the leadership in Italy, and according to the magazine Shoe Intelligence, it is the world third largest casual life-style sector operator. The Montebelluna-based company operates both in the footwear and in clothing sector, which are both extremely competitive.

Geox is different from its competitors because it combines shoes and clothes with technology, especially those to ensure that the product is transpiring and waterproof. Continuous innovation is the key factor that permitted to Geox not only to enter in the mature shoe market but also to grow in a competitive and globalized world. The company is synonymous of comfort, technology, well being, and health. Geox's main strengths are:

- A profound focus on the product through technological and innovative solutions protected by patents and matched with Italian style and quality;
- Cross positioning into men, women, and kids line within the middle/middle high price range;
- Strong and recognized brand image that has been built through a good communication strategy and the identification of the brand with the concept of transpiring in the consumer's mind;
- Application of the same know-how on complementary products;
- Strong international presence;
- Distribution policy aimed to optimize the penetration in different markets while being coherent with the brand. It is done through both multi and mono-brand shops.
- Flexible business model and delocalization of the production in cheap countries while keeping the "core" business (R&D, marketing, supply of quality raw materials…etc.) at home;

The mission of the group is *"to offer well being to people from their head to their toes, by continuously developing new technologies and by complying with corporate ethics"*. This mission originates from the application of the company's values shown in the table below.

**Table 4**: **Geox's Values**

| | |
|---|---|
| Technology | Focus on the product through technological and innovative solutions |
| Focus on the customers | Recognized importance of the direct relationship with customers through a widespread retail network all over the world. Geox is a “family brand” because its customers are all the members of a typical family: men, women, and children |
| Brand recognition | Brand recognition is very high thanks to an excellent communication strategy and to the identification of the brand with the “breathable” and technological concept |
| Internationalization | Geox is internationalizing more and more thanks to the replicability of the business model used in Italy |
| Values for employees and employers | Workers are considered as assets and they absorb Geox’s values of:<br>• Enthusiasm<br>• Innovation<br>• Flexibility and common sense<br>• Honesty<br>• Temperance<br>• Responsibility toward employees, customers, partners and shareholders<br>• Recognition of the importance of training<br>• Respect for the code of ethics<br>• Care of the environment<br>• Trust in the management<br><br>The respect for those values reinforces the corporate culture, improve trust, and create a positive attitude toward the future of the company. |

*Source:* Own creation based on the Corporate Governance Report 2010

Finally, the Group's main goals for the future are:

- Keeping high qualitative standards;
- Improving flexibility;
- Continuing innovation;
- Consolidation of the leadership reached in Italy;
- International expansion;
- Improving productivity and decrease costs;
- Creating an emotional relationship between the customers and the brand; communicating the feeling of transpiring in an emotional way.

### *2.4.1 The Structure of the Group*

As the *Appendix 2.4.1* shows, Geox S.p.A. controls the group and acts as an operating holding company. The group is composed of three macro-groups:

- *Non-EU trading companies*. They monitor and develop the business in different markets though either a distribution or licensing agreement with the parent company.
- *EU trading companies.* They lead Geox's shops in the various EU countries.
- *Technical production companies.* Notech KFT manages the production activities in Europe[12].

## *2.5 Markets*

During the last decades, globalization has augmented the interdependence and connectivity of the world's markets. This phenomenon has considerably intensified competition through the intensification of trade between countries and the decrease of import tax and quotas. Therefore, it has become increasingly difficult to survive the aggressive business jungle. This is particularly true for small firms because they face high average costs due to their low level of economy of scale.

[12] Interim Report First Half of 2011

Internationalization is a strategy that allows firms to increase sales from abroad and to have diversified and cheap inputs, making it possible for them to survive and take advantage of globalization.

A study of the markets where Geox S.p.A. has a strong presence follows below.

### 2.5.1 Geography

Geox has grown rapidly also thanks to its successful internationalization strategy. It now does business in 103 countries. Foreign sales are about 60% of total sales, and they mostly come from Germany, France, and Spain.

**Figure 5**: **Geography**


*Source:* http://www.geox.biz/english/mondo_geox.asp updated on March 6th, 2012

The above exhibit suggests that the Geox has offices and showrooms in Europe, North and South America, and Asia. The map does not take into account countries where the firm acquires inputs and where some operations take place, such as in Timisoara (Romania), where Geox employs 1,750 workers, and in Slovakia, where the company provides jobs to 400 employees[13].

[13] http://isoladeidelocalizzati.wordpress.com/2010/05/27/geox-limperativo-e-delocalizzare/

The company produces through partner firms in Brazil, Morocco, China, Vietnam, and Indonesia.[14] The quality of the products is assured through the attention in the choice of the partner firms, which are required to comply with qualitative standards that are further checked by Geox's distribution centres.

### *2.5.2 The Internationalization Strategy*

Geox S.p.A. is increasingly and successfully present in international markets since the year 2000. The relocation of the company's business process from Italy to other countries, generally called offshoring, is not a disadvantage inflicted by globalization, but a sacred commandment for Mr. Moretti Polegato. During an interview to a famous national newspaper in 2004, the CEO declared the following words:

*"Delocalization is not a necessary evil imposed by the market. The business of the future will be an intelligent one: here, in Italy, creativity, production organization, and marketing; abroad, where the labour is cheaper, production"*[15].

Through delocalization, Geox has not only managed to survive from the high competition and saturation of the market, but it has also grown. This was due to offshoring and outsourcing the production in countries where the labour is cheaper than in Italy, while keeping the "brain" of the company within the national borders.

#### *2.5.2.1 The Replicability of the Business Model*

Geox's internationalization strategy is based upon the repeatability of its effective business model used in the Italian market. As analyzed in *Appendix 2.5.2.1*, the business model that Geox S.p.A. replicates abroad is based on four main phases that differ in timing and in strategies.

During the first phase, Geox enters a foreign market through the multi-brand channel, and it starts building its brand image via intense advertisement campaigns, a strategy that is constantly present in all the four phases. In the second phase, Geox improves its products and it gradually shifts toward the mono-brand "Geox Shops" while it still uses the multi-brand distribution.

[14] http://www.tc-re.com/files/files/Etude-de-cas/tcre-geox-it.pdf

After the brand has became strong in the mind of foreign customers, the company tries to reach high volumes of sales and it puts a lot of efforts into promoting the Geox Shops (phase three).

Finally, in the last phase, the company consolidates its leadership through the extension of the Geox Shops together with aggressive advertisements[15].

The table below shows the international expansion of Geox S.p.A. in 2010.

**Table 6:** **The International Expansion of Geox**

| 1st phase: Entering in the new market | 2ns phase: Building the Brand | 3rd phase: Pushing the volumes | 4th phase: Consolidation of the leadership |
|---|---|---|---|
| Latin America, Oceania, India , South Africa | USA, UK, Japan, China, Greece | Canada, Eastern Europe, Russia/Ukraine, Hong Kong, Scandinavia, Middle East, Asia | Italy, Germany, Iberian Peninsula, France, Benelux, Austria, Switzerland |

*Source:* Own creation based on a publication made by Direzione Generale di Geox S.p.A. Available at: http://www.mbres.it/sites/default/files/resources/download_it/geox.pdf

### *2.5.2.2 The Importance of Distribution*

A very important factor that has permitted Geox to achieve the best possible market penetration in foreign markets is constituted by its careful distribution strategy, which takes places in a network of 1,077 Geox Shops (mono-brand), which prevail in the world's main cities and have been adapted to the local distributing structure, and 10,000 multi-brand points of sales. Among these Geox Shops, those operating in franchising are 815, while those operating directly are 262.

As shown in *Appendix 2.5.2.2,* Geox Shops are mostly located in the European continent. These numbers were updated in June 2011[16]. The two types of Geox's distribution are

[15] http://www.mbres.it/sites/default/files/resources/download_it/geox.pdf
[16] Interim Report First Half of 2011

complementary and promote the brand in a very good and coherent way. Moreover, in order to handle distribution abroad, Geox sets up some organization consisting of agents. Thanks to the amazing success of the Group, Geox S.p.A. won an official recognition for being one of the most successful companies in the Italian industry.

### *2.6 Products*

Geox S.p.A. produces and commercializes both footwear, which on September 30, 2011 accounted for 85.3% of net sales, and clothing, which contributed to the remaining 14.7% of total net sales. They belong to the sector of consumer goods, and both of them are positioned in the medium and medium/high price range (From Euro 75 to 105).

The company's business is based on patent contracts both in Italy and abroad. Technological innovation is fundamental for the development of the products, and it is continuously fed by ceaseless investments in R&D.

The Geox brand can be considered as a family brand, because its products are positioned "across-market" in terms of age and sex. Indeed, Geox addresses all the members of a family through three different types of product line: children, men, and women. All these three types are divided into classic, casual, and fashion products. The former group elegantly recalls traditional models. Causal shoes are less elegant and more adaptable compared to the traditional shoes, and fashion footwear has the same features of the latest fashion trends.

Based on the great success coming from footwear, Geox decided to extend its product line to clothing (especially jackets and sport clothes), which have been created thanks to an application of the transpiring technology originally made for footwear.

### *2.7 The Competitive Arena*

Geox's most important competitors regarding the shoe sector in the Italian market are:

- Men Line: Bata, Lumberjack, Stonefly, Timberland, Valleverde;
- Women Line: Bata, Melluso, Pollini, Stonefly, Valleverde;
- Kids Line: Balducci, Chicco, Fornarina, Naturino, Primigi.

Among all these companies, only the Swiss Bata is not Italian and listed on a stock exchange. This is why it has been hard to find data of the other competitors.

Since Geox entered the athletic footwear market, it started to compete also in this highly competitive sector. Geox's main competitors within this market are Nike (the leader), Adidas, Puma, New Balance, Reebok, Asics, and Fila.

### *2.8 Market Turnover and Performance*

Geox has been ranked as the 1st footwear brand in Italy and the 2nd footwear life-style casual worldwide brand by the magazine Shoes Intelligence. On September 30 of 2011, over 60% of the company's net sales were coming from foreign markets[17].

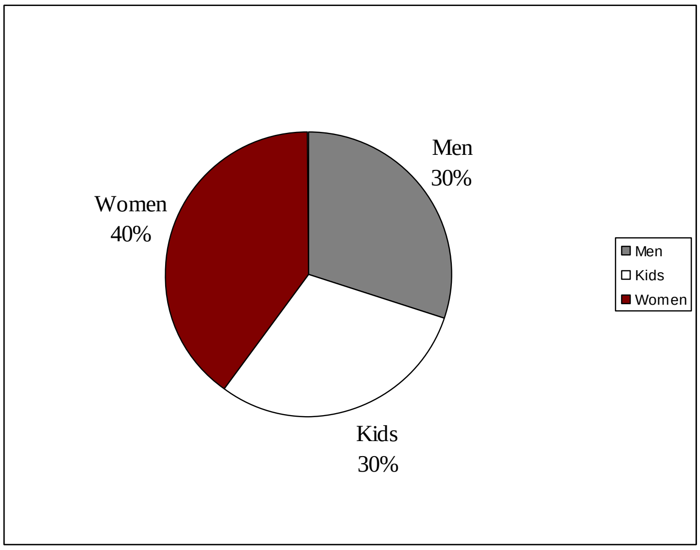
- ***Share Price***

As shown from the *Appendix 2.8A*, the evolution of Geox's share price in the Milan Stock Exchange has decreased from 2007 to 2012. In particular, it has mostly deteriorated during 2008. Then, it has been quite stable from 2009 to the end of 2010. From 2011, it has continued to decrease. The fact that the Polegato family owns 70.4% of the shares of Geox, is a positive guarantee for investors and Geox shares seem to be undervalued by the experts.

- ***Market Turnover from family members***

*Figure 7* displays that both the men and the kids lines account for 30% of the total market turnover, and that the women line contributes for 40% of it. Coherently with the concept of family brand, Geox sales are equally distributed among its three main customer segments.

**Figure 7**: *Market turnover of 2008*




[17] Press Map – Uptated on September 30th, 2011

*Source:* Own creation based on Geox S.p.A. Direzione Generale. Available at: http://www.mbres.it/sites/default/files/resources/download_it/geox.pdf

➢ ***Analysis of Sales***

The growth rate in sales, which is shown in *Appendix 2.8B,* was +26% in 2007. It has then decreased during 2008 and 2009, when it became negative. Afterward, it has increased and, in 2011, it became +4% again. This percentage is very high since *Appendix 2.8C* indicates that the European leather and footwear sectors annual production growth rate (working day adjusted) has been almost -6% from 1997 to 2007. One may argue that the data are not comparable since they have been measured in different years. However, even if the European average would have turned positive after 2007, it is not probable that it had reached the level of Geox.

We will now focus on the sources of the growth rate over the last two years. As *Appendix 2.8D* reveals, sales in Europe have increased by 2% from the first half of 2010 to the first half of 2011, when they accounted for 192.2 million Euro. In North America sales have increased by the same amount, which is 5% if we consider constant exchange rate, and they accounted for 26.5 million Euro in the first half of 2011. Finally, sales in other countries have increased by 9% (or 11% at constant exchange rate).

*Appendix 2.8E* shows the percentage increase in sales from the different distribution channels. The Geox Shops, which include both franchising and Directly Operated Stores (DOS), represented 43% of sales in the first half of 2011. This percentage has increased by 17.7% from the previous year, where it was 38%. Specifically, franchising has contributed to an increase in sales of 21% while the DOS, of 11.7%. On the other hand, the multi-brand shops are still the main distribution channel, even if their contribution to sales has decreased from 62% to 57%. This is in accordance with the particular business model of Geox, and it confirms the fact that the company is moving toward the phase 4 of the model (consolidation of the leadership) in many countries.

➢ ***Cost of Goods Sold and Gross Profit***

From the first half of 2010 to the first half of 2011, COGS, as a percentage of sales. has increased from 49.3% to 54.1%. As a result, the Gross Margin has decreased from 50.7% to 45.9%. This means that in 2011, each Euro of input cost of Geox covered both overhead and operational costs[18] by a smaller amount than in 2010. The increase in the GM was due to unfavourable currencies and to an increase in the costs of both row materials and labour[19].

- ***Operating Expenses and EBIT***

Distribution and selling expenses as percentage of sales have slightly increased from 5.1% in 2010 to 5.3% in 2011. In addition, during the same period, administrative and general expenses have increased from 113.8 million to 116 million Euro due to costs of opening new DOS shops. From 2010 to 2011, advertising expenses as a percentage of sales have decreased from 5.8% to 5.4%. Finally, the Group Earning Before Interest and Tax (EBIT) has decreased from 2010 to 2011 from 13.5% (Euro 59 million) to 9.3% (Euro 41.6 million) of sales.

*Appendix 2.8F* exhibits that EBIT has decreased everywhere except in North America, where it is however negative. The area where EBIT has decreased by a bigger amount is Europe, where it was 12.3% of sales in the first half of 2010 and 6.2% in the first half of 2011. Besides, it has decreased by a smaller amount in the "Other countries" since it was 12.3% in 2010 and 11.2% in 2011. This result suggests that "Other countries" are performing relatively well, and they could hide future opportunities to be exploited.

- ***Profitability Indexes***

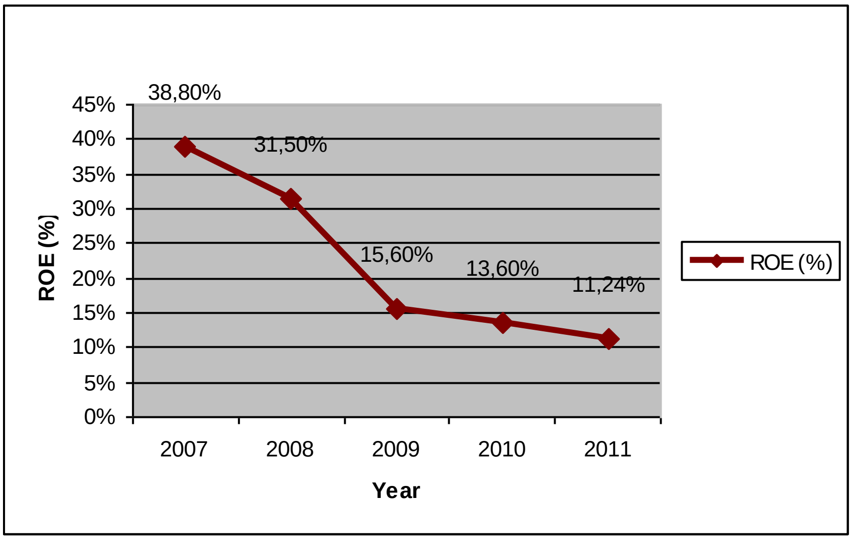
Profitability is very important because a company is supposed to produce profit to remunerate employees and to maximize shareholders' equity.

First, the ROE (*Figure 8*) is a measure of profitability from the point of view of the owners of a company. The ROE from 2007 to 2010 have been taken from the website of the Italian Stock Exchange, while the ROE of 2011 has been calculated based on the data found on the Interim Report of the first nine months of 2011.

As we can see, in 2007 the ROE was 38.8%. This is a very high percentage if we compare it with the average of the Italian footwear firms, which was 6.8% in 2007, and 2.7% in 2008[20]. Then, it decreased from 38.8% in 2007 to 11.24% in 2011. Note that ROE has literally fallen during 2008, and this was probably due to the financial crisis. Although it has fallen, the ROE of Geox in 2011 was higher that the pre-crisis ROE of the sector both in 2007 and 2008.

[18] Berman K. (2006)
[19] Interim Report First Half of 2011
[20] Own calculation based on http://www.mps.it/NR/rdonlyres/F629D477-4DE1-4A88-8284-B2ED869CEFEB/0/IDISTRETTICALZATURIERIINITALIA.pdf

**Figure 8**: **ROE (%)**

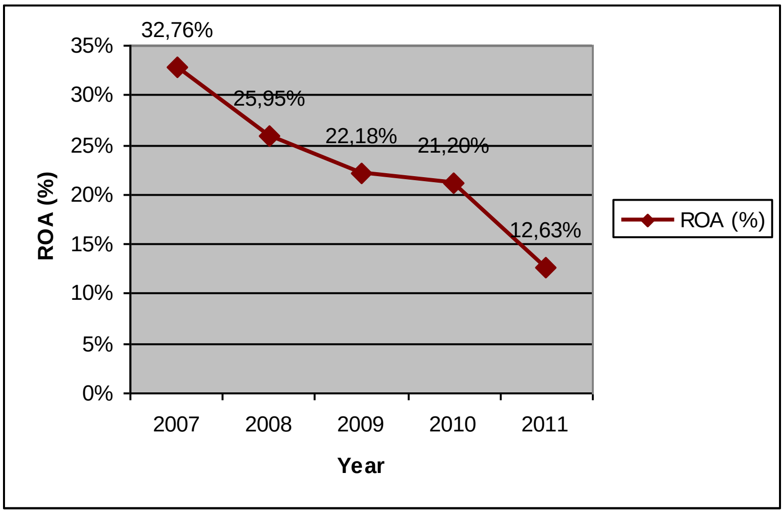



*Source:* Own creation based on the data found on the Geox S.p.A. Board of Directors Approved 2011 Financial Results and on the Borsa Italiana website available at:

http://www.borsaitaliana.it/bitApp/viewpdf.bit?location=/media/star/db/pdf/94212.pdf and

Secondly, the ROA measures the ability of the company to produce profits. As shown in *Figure 10*, coherently to the ROE, it has decreased from 2007 to 2011. Both indicators suggest that the profitability of Geox S.p.A. has decreased from 2007 to 2011. However, also in this case we can say that it is higher than the average of the sector in Italy, that was 5.38% and 4.69% respectively in 2007 and in 2008[20].

**Figure 9**: **ROA (%)**



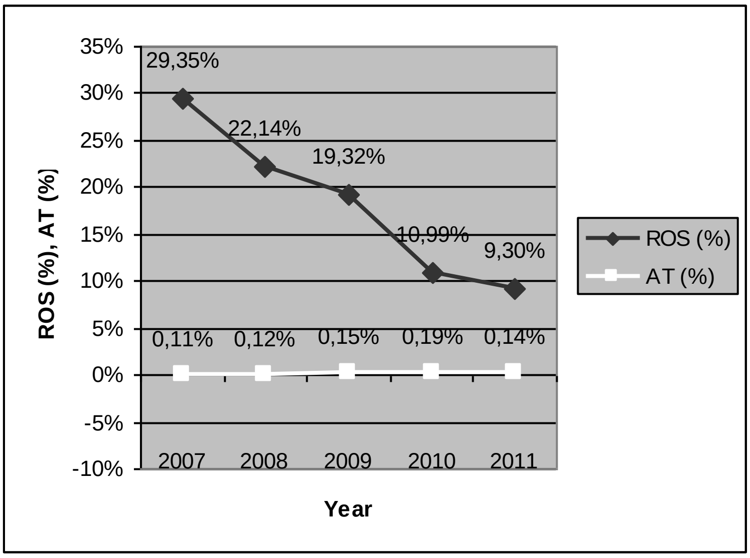
*Source:* Own creation based on the data found on the Annual Reports (2007-2011)

By braking up the ROA according to the Du Pont model we have:

$$\text{ROA} = (\text{EBIT}) / (\text{Total assets}) = \underbrace{(\text{EBIT}) / (\text{Sales})}_{\text{Return on sales}} * \underbrace{(\text{Sales}) / (\text{Total assets})}_{\text{Asset turnover}}$$

Return on sales (ROS) indicates how profitable sales are. We can see from the above figure that it has decreased quite a lot from 2007 to 2011. On the other hand, the asset turnover (AT), which indicates how much sales the company can produce with its assets, has improved a little bit from 2007 to 2011. This means that Geox is slightly more efficient in using its assets.

**Figure 10**: **Decomposition of ROA – Du Pont model**




*Source:* Own creation based on the data found on the Annual Reports (2007-2011)

- ***Liquidity and Solvency***

Liquidity indicates the firm's ability to meet its short-term liabilities. The company produces two collections per year: the Spring/Summer and the Fall/Winter. Therefore, the sector in which Geox operates is strongly seasonal and liquidity changes periodically: financial resources decrease in April and October, whereas they increase in January and July. Thus, liquidity risk is possibile, especially during April and October. However, Geox's high level of liquidity coming from its high profitability and low leverage eliminates the liquidity risk.

Financial liabilities are limited, and the company focuses a lot of its attention on the components of the working capital in order to maintain it at a good level[21].

As *Appendix 2.8G* and *2.8H* show, working capital has decreased by 44% from 2008 to 2009. This is coherent with the evolution of Geox's share price and with the financial crisis of 2008. Then, it has recovered by 22% and it reached the level of Euro 217,678 in 2011. This high level indicates that Geox is liquid and able to meet all its short-term liabilities. This is due to Geox's prudent strategy aimed to keep its assets stable and secure. Indeed, the company has always avoided complicated and speculative financial instruments. However, one may argue that the pitfall of this low-risk strategy is the possible presence of opportunity costs in terms of investment opportunities.

Solvency is the ability of the company to pay long-term debts. The debt ratio is the most used ratio for measuring solvency and as *Appendix 2.7I* exhibits, it has always been less than one 0.36. Therefore, we can say that coherently with Geox's risk aversion, assets are greater than debts.

- ***Sub-conclusion***

During the last five years, the company has experienced deterioration in its economic performance. Both sales and profitability has decreased, and this was probably due to the financial crisis. The economy has become more static, people have spent less money for shoes, and they have gradually shifted toward cheaper brands. Additionally, the price of labour and raw materials has increased.

Notwithstanding this bad macroeconomic situation, the company shows good measures of performance and is financially stable. Indeed, it has a small amount of debts and a relatively high portion of equity compared to total assets (*Appendix 2.8L*). Overall, it seems that the company is in the process of recovering. This is probably due to the good management and strategic choices right of the Group, and to slightly improvements in the macroeconomic conditions.

## 3) Business Strategic Analysis

It is time to start the strategic analysis. As mentioned earlier, this thesis will focus on business strategy rather than on corporate strategy. Both types of strategy aim to achieve survival and

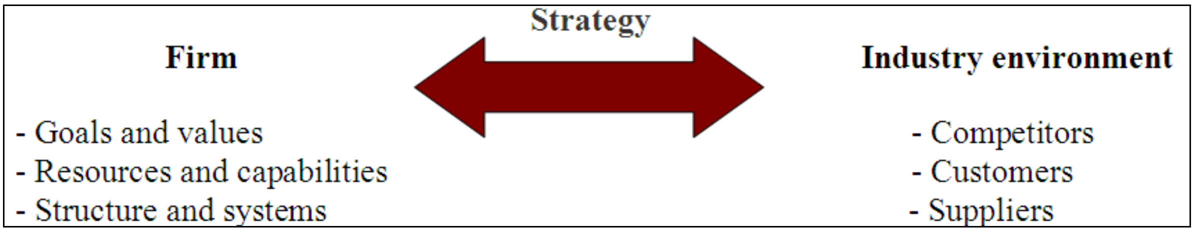
[21] Geox Annual Report 2011

prosperity of the firm, which in other words means making positive profit. In particular, business strategy aims to achieve this goal by earning an excess return compared to the industry average[22]. Therefore, business strategy requires a comparison of the subject firm with its competitors within a certain industry. The strategic analysis will start with the description of a basic framework that will be further developed in the successive passages.

### *3.1 The Basic Framework*

Robert Grant has developed the framework below, which will be the base for performing Geox's strategic analysis.

**Figure 11:** **The Basic Framework**




*Source: Robert M. Grant (2010) "Contemporary Strategy Analysis", 7th edition.*

This framework suggests that strategy is the link between the firm and its industry environment. The left part of the figure shows that the firm level elements of a successful are goals, values, resources, capabilities, structure, and systems. First, a firm should have simple, consistent, and long-term goals and values. Second, it must have resources that have been objectively appraised. Third, structure and systems stand for the effective implementation of these components.

The right part of the figure shows the industry environment. A deep understanding of competitors, customers, and suppliers, is very important because the firm is continuously interacting with them. In particular, the type of relationship that the company has built with its stakeholders can be strategically relevant.

Finally, a strategy is considered to be successful if it is consistent with both the firm's internal and external environment. The attribute of consistency is called strategic fit. This framework allows us to better define the scope of the business strategy, which aims to determine how the firm musters its resources and capabilities to achieve its long-term goals in its environment.

[22] Grant R. M. (2010)

Note that this framework is similar to the SWOT analysis (Strength, weaknesses, opportunities, and threats). However, according to Robert Grant, this framework is superior to the SWOT because it is simpler and it better analyzes the factors without falling into the superficial categorization that is typical of the SWOT[18].

### *3.2 External Analysis*

Firms are not isolated from their external environment, which influences their performance. The external environment is outside the firm, which cannot control it.

The external analysis of Geox S.p.A. will be developed through two main steps. First, the macro-environment of Geox will be analyzed. Then, it will follow an industry analysis, which is shown in the right part of the basic framework present in *Figure 3.1*.

#### *3.2.1 The Macro-environment*

The macro-environment of a firm is composed of broad patterns and trends of the world of Geox. In other words, it consists of the external factors that affect a company's performance and strategies. The analysis of the macro-environment is usually performed at national level, but you are free to choose either broader or narrower regions according to the type of research needed and to the business of the firm. This analysis will be carried out at the Italian national level because it is where the company was started, where it is the leader, and where most of its sales come from.

##### *3.2.1.1 The PEST Analysis*

The PEST is the tool that will be used in order to find the external factors influencing Geox's performance. The acronym PEST stands for political, economic, social, and technological factors that characterizes a certain geographical area and that are able to affect the company's performance. The PEST analysis is just a guideline, and it is flexible in the sense that other factors can be added to it if the researcher finds it necessary. It is important to stress the fact that the PEST analysis must be specifically customized for the firm of interest in order to make it in line with the scope of the research. A PEST analysis of Italy and specificly for Geox, will be developed below with the inclusion of legal factors (PESTL).

***a) Political factors***

The current strengths of Italian politics are mainly due to the new Prime Minister Mr. Mario Monti, who is reforming the country in order to make it more competitive and internationally credible. His predecessor, Mr. Silvio Berlusconi, decided to resign because, after many scandals, he lost credibility as well as the support of the parliament. He left the country in a bad situation: public debt was enormous, the spread of the Italian government bonds with the German ones was increasing, and the country was loosing competitiveness and investors attractiveness.

The citizens have not elected Mr. Mario Monti. It was the President of the Republic, Giorgio Napolitano, who has conferred him the temporary position of Prime Minister in order to reform the country and create the basis for a recovery. Indeed, Mr. Mario Monti is not a politician, but a technician. Moreover, he has the support of many other European leaders because by saving Italy he is also helping Europe. This means that the country where Geox is based and where it sells most of its products is making efforts to improve its macroeconomic situation to become competitive again. However, it is impossible to know whether this will happen and when.

Another strength of the Italian politic is constituted by increasingly close relationships with the US and China. Geox will benefit from this because, as we have seen in *Session 2.5.2.1*, the company is at the second phase of its international expansion (e.g. building the brand) in these countries. Besides, thanks to Mr. Mario Monti, Italy is becoming once again one of the major and important countries of the EU. This will benefit the country and its firms.

Three are the main challenges of Italian politics: corruption, the need of the electoral law to be reformed, and uncertainties about the future president. First, corruption in Italy is high since the country is ranked 69 over 183 countries in the Corruption Perception Index of 2011[23]. Indeed, it has the same index as Ghana and Macedonia. This is bad for a developed country if we consider that Ireland is 19th, France is 25th, Spain is 31st, and Portugal is 32nd. Many scandals related to corrupt politicians confirm the fact that this phenomenon has contaminated Italian politics. As a result, the effective democracy of Italy is negatively affected by corruption, and the process of implementing some reforms can be slow and obstructed.

Secondly, the electoral law needs to be reformed because since small parties have relatively high power, the political system is subject to becoming unstable. However, local newspapers

[23] Trasparency International (2011)

are spreading around the message that politicians will soon do a new electoral law, and this will be a positive factor in the future.

Finally, there are uncertainties related to what will happen after the presidency of Mr. Mario Monti. In 2013, Italian citizens will vote for a new president, and it is not sure that the next leader will continue the reforms that have been started by Mr. Mario Monti. Indeed, Mario Monti's reforms, even if made to be fair and avoid an increase in inequality, have increased unemployment, and the poor and middle social classes have been affected negatively in the short run. Therefore, there is the possibility that a new leader will take advantage of the desperation of the people and promise reforms that will nullify those of Mr. Mario Monti.

***b) Economic factors***

The two main economic strengths of Italy are a well-developed economy and a strong service sector. The country belongs to the founding members of the EU, and it has had a meaningful role in the world economy. The International Monetary Federation classifies Italy as the $10^{th}$ largest economy of the world in terms of purchasing power parity. The sectors where Italian firms are particularly strong are processing, manufacturing, precision machineries, motor vehicles, chemicals, fashion and clothing (within which Geox operates) and electrical goods.

The strong service sector contributes to around 74% of the Italian GDP, and it is regulated more than in other countries. This is particularly good for the financial sector because banks can issue less risky securities. As a result, the Italian financial sector is very stable and it has not been affected too much by the subprime financial crisis of 2008.

The main economic challenges are the high budget deficit, and the related high taxes. *Appendix 3.2.1.1* shows the budget deficit, which reached 5.4% of GDP in 2010. Then, it improved a little bit, reaching 4% of the GDP in 2011. However, it is still high and Mr Mario Monti is trying to decrease it through reforms that increase taxes and diminish public spending. These reforms will negatively affect Geox in the short run.

First of all, the decrease in public spending (through fighting people, increasing the cost of education and sanity...etc.) makes people poorer and less willing to spend on shoes. However, Geox's sales abroad are substantial, and its long-term strategy aims to increase more and more worldwide presence. Secondly, the increase in taxes, together with the increase in the price of fuel and raw materials will probably decrease the net profit of Geox.

Furthermore, the risk of default due to the high debt is decreasing and the economic situation is probably going to improve in the long-run thanks to the package of Monti's austere reforms. Moreover, trade with non-EU country is predicted to increase.

### *c) Social factors*

The main Italian social strengths are a strong social security system and high human development indicators. Italian Human Development Index is considered to be very high, and in 2011 Italy was in the 24th position over 187 countries[24]. Indeed, thanks to its socialist traditions, Italy provides for social security and for extensive welfare system. Both the healthcare and the schooling system are among the best in the world, and they are free for everybody. However, due to Mr. Monti's cut in public spending, the sustainability of the Italian welfare state is in doubt.

The current challenge is mainly the growing disparities in income (tendency that even if characterizes many other OECD countries, has been particularly strong in Italy)[25]. The imbalance between the industrialized North and the poor South of Italy are substantial. Italian Gini Coefficient[26]was 36 in 2000, and Italy was in the 24th position over 187 countries, just after Spain and before Luxemburg[27].

Northern Italy, where Geox is located, is among the most industrialized and rich areas of Europe, and this will create positive spillovers for Geox. On the other hand, the South has remained very poor compared to the North and this hamper the formulation of the right policies for the whole country.

Disparity between rich and poor people is increasing and even if Mr. Mario Monti's reforms intend to be fair, some Italians argue the fact that in reality they are not because rich people should pay more. Finally, the population is becoming older, and this is not good for the society.

Finally, unemployment is rising more and more and in order to make the job market more flexible, Mr. Mario Monti has recently modified a law called Art.18, which was protecting employees from being fire. However, this modification of Art.18 has not been immediately matched by a system to quickly find a new position, and the job market will take some time in

[24] UNDP available at: http://hdrstats.undp.org/en/indicators/103106.html
[25] http://amato.blogautore.repubblica.it/2012/01/27/perche-la-disuguaglianza-aumenta/
[26] Gini Coefficienti is a measure of inequality. It ranks from 0 (equal society) to 100 (unequal society).
[27] UNDP available at: http://hdrstats.undp.org/en/indicators/67106.html

order to really become flexible. As a result, unemployment has increased (*Appendix 1.1B*), and it will probably continue to do so in the short-run. This it will decrease internal demand and increase desperation.

### *d) Technological factors*

Italy has a very advanced communication equipment system, and this is good for every company as well as for Geox. Moreover, the government has committed itself to improve R&D expenditures and innovation. In reality, the government spending aimed to finance innovation is decreasing, and the country lies behind many other European countries for what concerns R&D and innovation.

In 2005, public and private investments in R&D were 0.56% of GDP in Italy, when the European average was 0.65%. Moreover, investment in innovation from universities has decreased by 5.8% from 2004 to 2005. Italian private investments, which in 2005 accounted for 0.55% of GDP, are inferior to the European average, which in the same year was 1.17%[28].

The Italian government should support innovation and new ventures not only in theory. This will indirectly benefit Geox as well as other Italian companies. Besides, the group has made R&D investment one of its main strengths and uniqueness, and no other Italian competitors can really innovate as Geox does.

### *e) Legal factors*

The legal strengths of Italy are mainly constituted by the alignment of the investment regulations with the European Union. This obliges Italy to adopt the national treatment to foreign direct investments from the other member states. However, this does not really affect Geox. Besides, Italy shows poor performance on legal indicators (labour freedom, property rights, and freedom of corruption) and the enforcement of the intellectual property law is weak[29]. This is particularly bad for Geox, whose technology is the base of its success. Fortunately, the systems of licenses that Geox has, together with a great brand image, seem to effectively protect the company against the threat of being copied.

### *3.2.2 The Industry Environment*

[28] Ministero dell'Istruzione, dell'Unità, e della Ricerca (2011-2013)
[29] Datamonitor (2011)

Firm performance and strategy vary not only according to the macro-environment around them, but also according to the industry they are in. Therefore, a good definition of the industry of the target company is a fundamental condition in order to make a good industry analysis.

An industry can be defined as the production of close substitute products or services within an economy[30]. Substitute products/services can be defined as products/services that are used for the same purpose such that the consumers can easily switch between them. More broadly, the industry environment of a firm includes the relationship that the firm has with its suppliers, competitors, and customers.

According to Robert Grant, finding what determines the profit level of an industry is fundamental in order to start an industry analysis. In order for a firm to make profit, the creation of value for the customers is necessary but not sufficient. Value creation occurs when the price that customers are willing to pay for a product or service is higher than the costs incurred by the company.

However, the creation of value cannot be directly translated into firm's profit and important variables need to be considered. These variables are the level of competition of the industry and the distribution of value between the firm, its customers, and its suppliers. The size of the slice of profits that a firm will earn depends on how much the customers value its good/service, on the intensity of competition, and on the bargaining power of the firm relative to suppliers and buyers[31].

The industry environment analysis of Geox will be developed through the Porter's Five Forces model (1980). The application of this framework will result in the performance of the overall industry where Geox operates. It will include the industry's opportunities, threats, and key success factors. The latter are the link between the external analysis and the subsequent internal analysis.

Before starting the analysis, it is necessary to define Geox's industry, and this will follow below.

#### *3.2.2.1 Definition of the industry*

[30] DictionaryReference.com
[31] Grant R. M. (2010)

Drawing the industry boundaries of Geox is the first step in order to develop its industry analysis. Industries are related to markets, and according to economists, they are a group of companies that supply a certain market. The main difference between industries and markets are that the former are broader than the latter, which usually involves a specific product. Moreover, industry analysis tries to find the overall industry profitability through analyzing the competition in both the product and input markets. The same logic applies to geographical boundaries.

According to R. M. Grant, the definition of an industry starts with the definition of both market and geographical boundaries. In order to do so it is required to apply the principle of substitutability and answer to the question: "Which are the firms that supply the same products of Geox?". It is needed to analyze two types of substitutability: in demand (e.g. are customers willing to substitute a pair of Geox shoes with another pair of shoes just because the latter is cheaper?) and in supply (e.g. do manufacturers find it easy to switch from the casual shoes to other products?).

It is understandable that the process of industry and market definition is quite arbitrary and it depends on both the context and the purpose of the analysis. Fortunately, industry definition is not critical for applying the Porter Five Forces because after defining the central box of the analysis (e.g. industry rivalry), factors outside this box will be included anyway in other boxes.

It is time to define the boundaries of Geox's market and geography. First, it is quite hard to analyze the demand and supply substitutability of Geox's shoes because of lacking data. Therefore, common sense will be applied. Second, by applying the criterion of substitutability it will be assumed that, at least within the EU, customers are able to substitute shoes between different countries thanks to the European free movement of goods. However, theory is always less complicated than reality, and we do not know if customers are willing to substitute.

For simplicity and common sense, this analysis will focus on the footwear sector positioned in the medium/medium high price range of the Italian market. It disregards the clothing sector because a huge percentage of Geox's net sales come from the footwear sector (85.3% in 2011).

The choice to analyze the medium/medium high price range comes from the fact that Geox competes directly with firms that produce its same type of offering - quality shoes offered for a medium/medium high price. Blow price and luxury shoes have not been included because Geox'x customers are not probably willing to substitute Geox's shoes with both low price-low quality and luxury shoes.

The geographical boundaries of this research are limited to Italy because Geox is the first footwear brand there. Moreover, Italy is the country that accounts for Geox's highest sales. Finally, in order to avoid mistakes, it is good to make things simple. According to the language and knowledge skills possessed by the author of the thesis, this seems the simplest market to be analyzed. Finally yet importantly, this is coherent with the research question of this thesis.

Note that the definition of the industry that has been already given is not necessarily the right one. Business is not an exact science and the results of a business analysis cannot be taken as absolute truths.

A different and more customers focused approach has been found by Mathur and Kenyon. They support the idea that since customers choose an offering rather than a product or a company, competition should be analyzed by focusing on customers' choices rather than by applying the Porter's five forces[32].

The best approach really depends on the scope of the analysis. On the one hand, Marthur and Kenyon's approach is particularly good for decisions related to strategy and marketing. On the other hands, the five forces analysis is good if the aim of the research is understanding and predicting profit trends in the medium run. According to the research question of this thesis, it has been decided to apply Porter's five forces of competition framework because it seems the most appropriate framework.

#### *3.2.2.2 Porter's Five Forces of Competition framework*

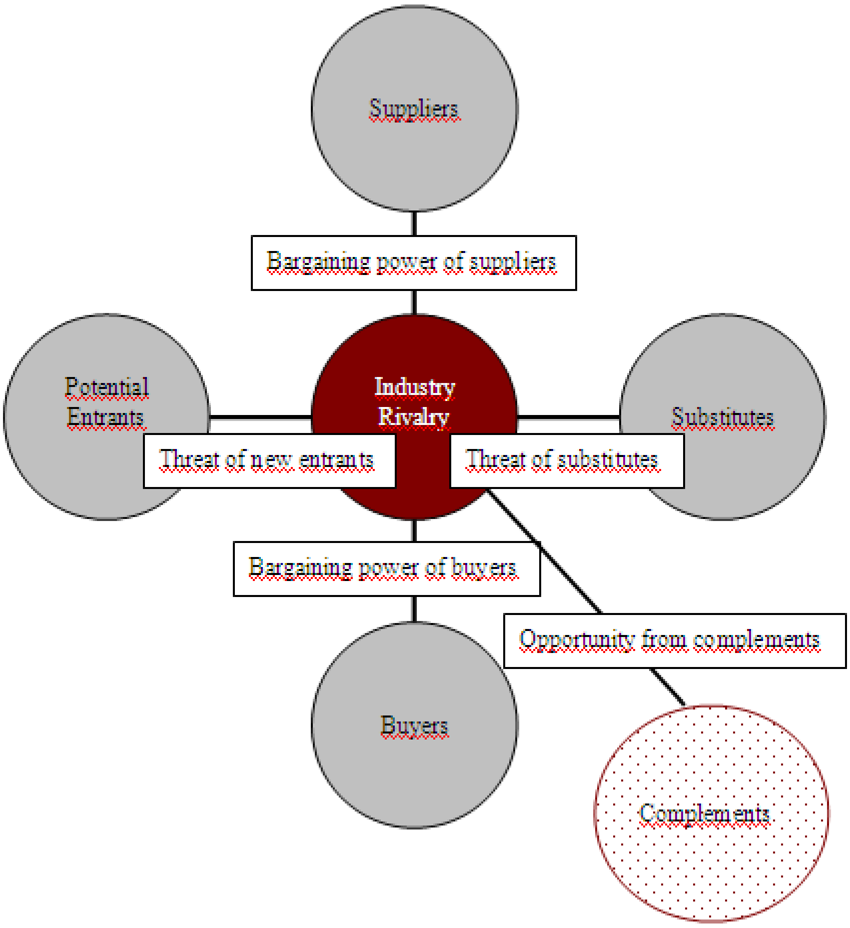
Michael Porter developed this framework in 1979. It aims to find the industry profitability and its related attractiveness by analyzing five forces that determine the competitive intensity of the industry. The five forces include three horizontal competitive forces and two vertical competitive forces. The former are industry rivalry, threat of entry, and threat of substitutes. The latter are suppliers and buyers power. The main assumption of this framework is the zero-

[32] Mathur S. S. and Kenyon A. (2008)

sum game in the short and medium term. This means that as the power of the various forces increases, the returns of the firms within the industry will decrease.

The diagram below illustrates a personal modification of the five forces framework, where it has been added a sixth force called "complements" because it is also capable to affect the returns of the firms within an industry. As complement's power increase, the power of the firms within the industry increase as well. Indeed, complements move in the opposite direction of bargaining power of suppliers and buyers, and of threat of potential entrants and substitutes.

**Figure 12:** **Porter's Five Forces and Complements**




*Source:* Own modification of Porter's five forces as described in the book of R.M. Grant, 2010

It is now time to apply the six forces framework to the Geox Group within the industry defined before.

## Industry rivalry

In the real world, perfect competition does not hold and profits are not necessarily zero. Moreover, firms are not passive price takers and they try to get advantage over rivals. Industry rivalry represents the intensity of competition within an industry, and it varies according to different industries. It is in the middle of the framework, and the other forces have the power of affecting it. In order to analyze this force, its determinants have been described and analyzed below.

- ***Concentration***

Concentration is the number and the size of the firms that compete within a certain market. It is relevant for this research because indicators of industry concentration are measures of industry rivalry.

The concentration ratio is one of the most used measurements of concentration and it represents the market shares held by the four largest firms. A high concentration ratio suggests that the industry is highly concentrated, whereas a low concentration ratio indicates that many rivals with a small market share are competing in the market.

Market shares are the firm’s sales over total market sales and they are a good indicator of a firm performance relative to its competitors.

On the other hand, sales may not be an appropriate indicator for measuring concentration because they also reflect changes in economic conditions and market size.

Even if the concentration ratio is not the only measurement of industry concentration, it is enough for the means of this thesis.

*Appendix 3.2.2.2A* shows the market shares of all the footwear companies in Italy from 2006 to 2010. Note that this is a simplification because the table does not discriminate among medium/medium high price companies, but it includes also low price and luxury firms. However, the top performers (except Tod’s, that is a luxury firm) and almost all the other firms belong to this segment. Thus, we can proceed with the analysis.

As you can see, the number of firms producing shoes is quite high, and “others” own the highest percentage of the market share, which was 59.4% in 2010. This is the first evidence that suggests that this industry is fragmented and that small (and family) firms, which characterize the Italian market, own together the highest market share.

Tod's owned 4.6% of the market shares in 2010. Then we have Geox, Nike, and Bata respectively owning 4.5%, 4.3%, and 3.6% of the market shares in the same year. Notice that Geox owned only 0.1% less than Tod's in 2010. Since Tod's belongs to the high price segment, Geox is the firm within the middle and middle/high price range that owns the highest market share.

By summing up the shares held by the biggest four firms, it can be concluded that the four bigger firms (Tod's included) together owned only 17% of the market shares in 2010. By not including Tod's, this number is even inferior.

The percentage of the market shares owned by "others" has decrease from 65% in 2006 to 59.4% in 2010, whereas the share of the market owned by Tod's, Geox, and Bata has increased. Therefore, the industry has tended to become concentrated. However, it is still highly fragmented, and this tends to push internal rivalry up because the number of customers and resources approximately fixed while the number of firms to divide the pie is high.

- ***Diversity of competitors***

If the competitors within an industry are diverse in terms of histories, origins, strategy, culture, and costs, it is going to be hard for firms to judge the moves of others, to communicate, and to collude. Therefore, in this case industry rivalry will tend to increase.

In the Italian footwear sector, domestic brands are predominant. The main firms are Italian, with the exception of the American Nike and the Swiss Bata. The "made in Italy" continues to be synonymous of quality and style for Italian customers[33], and international players except Bata, have entered the market only in the sport segment, where the US is the leader due to high innovation and technology investments.

By analyzing in detail the top five performers within the market, we found that Bata is the most direct competitor of Geox. Both of them compete on comfortable but trendy shoes and on innovation. Additionally, both of them address the whole family, and have a sport line. Offering, market shares, pricing, and strategies are similar.

Consider that the demand for comfortable but trendy shoe is probably going to grow because the Italian population is becoming older and older, and Italians do not want to give up fashion and good-looking shoes.

[33] Datamonitor International

Even if Tod's does not directly compete with Geox its products are quite similar to those of the Group, and the threat of Bata's differentiation towards the medium price segment cannot be excluded. Tod's is the holding company of Dellavalle and it relies on even stronger brand recognition than Geox, and this is matched by a higher average shoes price.

Tod's, Bata, and Geox compete on quality and have both multi and mono-brand shops. Tod's is a family brand from Northern Eastern Italy as Geox, but it is based in a different region (Emilia Romagna). Innovation is fundamental for Tod's too, and one of its competitive advantages comes from its high investments in R&D.

Nike and Foot Locker are the only American competitors belonging to the top performance footwear companies in Italy. Foot Locker is the leading retailer of athletic shoes and apparels and it does not produce shoes. Therefore, it is not a direct competitor of Geox. Nike leads the sport footwear in Italy thanks to its brand name, innovation, and the use of complementary products. For instance, it has recently invented Nike Plus, which is a running performance indicator that works on an I-pod/I-phone, and that can be connected with social media.

In conclusion, with the exception of the American sport brands, the firms that are competing within the industry and that are big are also quite similar. This tends to push down the internal rivalry of the industry. However, notice that all the "other" firms which account for more than half of the total market share, are mostly small and family owned, thus, they cannot make considerable investments in R&D.

- ***Product differentiation***

Since customers are more willing to switch between similar than between different offerings, the lower the level of product differentiation, the higher the level of internal rivalry. Even if shoes may all seem the same, and even if the main competitors of Geox are quite similar, shoes are not commodities[34] thanks to the high brand image and to the values associated with their brands. Moreover, Italian customers seem to be very sensitive to brands, which are not only synonymous of quality, but also a way for self-expression.

In particular, through high investments in communication and marketing, Geox made its offering unique and the brand is the only one associated to breathability.

[34] Commodities are undistinguishable goods.

In conclusion, product differentiation is quite high, and this pushes down internal rivalry and price competition. It can be concluded that price competition between Geox and its competitors tends to be weak. Moreover, all the small family businesses that belong to the "other", do not really compete with Geox because they probably serve niche markets and they lack brand image. They are small, and their impossibility of benefiting from economy of scale and scope will make it impossible for them to push prices down and start a price war with the big brands.

- ***Excess capacity and exit barriers***

Both excess capacity and high exit barriers tend to increase price competition. Excess capacity occurs when actual production is less than achievable optimal level of production because the demand is lower than what the firm can produce[35]. Firms that have high fixed costs try to sell near capacity in order to get the lowest unit cost. A firm can potentially loose a lot if it has excess capacity, if it can benefit from high economies of scale, and if it is not able to meet fixed costs.

Shoes are seasonal products and firms producing shoes must have special attention to avoid the fall in price and profit levels due to an excess of production compared to the level of the demand. Contrarily to clothes, shoes are durable goods since consumers are still reducing their purchase of shoes[25]. Moreover, fixed costs of shoes production are high because of the required specialized machinery, and to (Geox's and its other main biggest competitors) high investments to differentiate the brand.

Exit barriers are particularly high in countries where resources are durable and specialized, and where job protection is high. This is our case since Italy has high level of workers protections and it is almost impossible to fight workers. However, the new premier Mr. Mario Monti is modifying this in order to create a flexible labour market. This will in turn decrease exit barriers. In addition, the high investments necessary to compete in the sector (specialized workers, machinery, etc…) are not convertible to produce anything else. Therefore, they constitute high exit barriers.

In conclusion, internal rivalry tends to go up due to high exit barriers and to the possibility of incurring excess capacity.

[35] Investopedia.com

- ***Sub-conclusion***

The internal rivalry for price competition is affected by various factors in both directions. In particular, a low level of concentration, high excess capacity, and high exit barriers tend to increase internal rivalry.

On the other hand, diversity of the offered products and companies similarity tend to decrease internal rivalry and create a quality rather than a price competition.

On the other hand, the industry is very fragmented and the market is mature. Therefore, it cannot be concluded that competition is intense and companies require a smart strategic thinking in order to survive and make profit.

In this difficult environment, firms tend to compete on product positioning and cost efficiency.

**Threat of entry**

Incumbent competitors are not the only factor that constitutes a threat to industry profitability. Theoretically, every firm should be free to enter and exit an industry. In practice, this is not the case because some factors established by incumbent firms and called entry barriers can hamper the entrance of new competitors to the industry. This will therefore make it possible for incumbents to maintain their profit levels.

The main entry barriers that are relevant for Geox's industry can be found below.

- ***Capital requirement and economy of scale***

Both high capital requirement and economy of scale constitute entry barriers. The former is the cost of becoming established within a certain industry, and it can be high enough to discourage new entrants. The latter, is the increase in efficiency achieved through an increase in production.

In the footwear industry of middle/middle high price segment, specialized machinery is the main capital requirement barrier, and their cost can be consistent. Note that another discouraging factor is that they are asset specific since they cannot be used to produce other goods.

Moreover, the costs related to the purchase and maintenance of the machinery must be added to huge investment in advertisement campaigns and in some cases, in R&D and human resources. Additionally, Geox's patents and proprietary knowledge constitute another strong entry barrier.

Regarding economy of scale, it is necessary to say that increasing production allows the spreading of fixed costs over a higher number of production units, thus, it diminishes average cost per unit[36]. The number of unit points where a company can reach the most cost efficient point is called minimum efficient scale (MES) and it constitutes a powerful entry barrier if the difference between the MES and entry unit cost is high.

In Geox's industry, scale economy is quite high both at the firm level (given the high fixed costs) and at the district level, where companies share structures. This constitutes a relevant entry barrier.

- ***Absolute cost advantage***

It often happens that established firms have an absolute cost advantage over potential entrants due to the acquisition of key resources and to economy of learning. This is another important entry barrier of this industry.

In this case, incumbent firms do have absolute cost advantage over potential entrants because they have attracted professional figures that are fundamental to their business such as pattern makers, stylists, and scientists. Moreover, due to the high investments in R&D, economy of learning seems to be substantial.

- ***Product differentiation***

When products are differentiated through customer loyalty, brand recognition, and reputation, new entries face entry barriers because they need to invest and build their own brand. This process can be very expensive, and it is exactly the case in this industry.

- ***Access to distribution, suppliers, and promotion channels***

Difficult access to distribution, suppliers, and promotion channels may be one of the most powerful entry barriers faced by new entrants.

[36] http://www.investopedia.com/terms/e/economiesofscale.asp#axzz1sBu6OxJY

In Geox's industry, this difficulty is particularly strong because it directly depends on reputation and brand image.

In particular, access to the right suppliers is important not only because it is a guaranty of quality, but also because footwear companies need raw material deliveries of the right quantity on time.

In order to have a good distribution network, personal relationships are fundamental because agreements are usually verbal and informal, and personal relationships are the main guarantee of security. Moreover, since the retailer has the final contact with clients, his or her good propensity toward the shoes he or she is selling is fundamental.

However, thanks to the increasing use of online websites that sell shoes (such as Zalando.com), this obstacle is decreasing more and more. Besides, consider that the shopping experience of purchasing in a store is better than that of purchasing on internet, thus, shops will continue to exist in the short and medium run.

About promotion, we need to distinguish between the activities of distribution agencies that can be easily reached by new entries, and the promotions coming from events like fairs, celebrities that involuntary buy the shoes and advertise a brand, and newspapers that talk about a company for free. New entries cannot do these types of indirect promotion because they are related to brand history and recognition.

Overall, this industry has significant entry barriers related to the access to distribution, suppliers, and promotion.

- ***Government and legal barriers***

The Italian government has not created any particular barrier to enter the footwear industry. Besides, Geox has created many patents that constitute a good legal barrier for those firms that may want to enter the market by using Geox's technology.

- ***Sub-conclusion***

Entry barriers in this industry are very high, and this is due to brand reputation and capital requirement.

However, it is important to consider the possibility that firms producing transpiring textiles might vertically integrate and become direct competitors of Geox. In particular, the American

W. L. Gore & Associates produces the so called Gore-tech, that is a very impermeable and transpiring textile used for making clothes and shoes for extreme sports. The Gore-tech can be potentially used also for casual shoes and W. L. Gore & Associates could become a Geox's competitor.

Finally, luxury brands such as Tod's could differentiate toward the medium and medium/high price segment. However, it will be risky for them because the level of competition of this segment is very high and because they could involuntarily steal customers from their prior segment. Moreover, luxury sectors are not usually affected by economic crisis because rich people will always exist and because crises tend to affect the middle and low classes more than the upper class.

### Competition from substitutes

Substitute products are products belonging to other industries. When the demand for a product is affected by price differences in other products, substitutes constitute a threat. The existence of close substitute products may prevent price increases within the industry because customers may be tempted to switch toward substitute products if significantly cheaper or significantly better in attributes.

Given the uncertainties caused by the economic crisis and the high unemployment rate, the switching cost of buying from the middle/middle high price segment to the low price segment may have decreased, and the buyers' propensity to substitute may have increased. This can be a serious threat for Geox as many foreign companies are entering the low price and low quality segment of the footwear industry.

Besides, luxury shoes could potentially be Geox's substitutes too, but in this particular economic situation it is improbable that customers would shift from Geox's shoes to a luxury pair of shoes.

However, the uniqueness of the Geox's offering composed by breathable shoes that are comfortable and fashionable at the same time is still strong and the relative prices and performance of low cost and low quality footwear firms is still not really comparable to Geox's brand image and quality.

### Opportunity from complements

This force has been added to the Porter's five forces because, in opposition to substitutes, complements can increase the value of a product and can exercise bargaining power. An example of this is the Nike Plus, an invention from Nike that became a complement product and linked the Nike shoes to I-pod, I-phones, and social media.

The main complements of the sector except clothes can be accessories, insoles, medicines for making the feet sweat less, and soaps for cleaning shoes. However, they do not probably increase the value of Geox shoes by a substantial amount, and they cannot really exercise their bargaining power over the shoes.

Given the maturity of the market, new strategies to keep market shares must be formulated and Geox do not have to exclude the possibility of creating and exploiting complementary goods.

**Buyer power**

Firms sell their output to customers that can be consumers, other manufacturers, or distributors. The transaction between the firm and customers create value and the appropriation of this value is shared between them according to their relative economic power. The strength of buyers' power depends on the factors that are analyzed below.

- ***Buyer's price sensitivity***

Buyer's price sensitivity refers to how much customers care about the price. Buyers of Geox are both retailers and customers. They should not be very price sensitive because Geox shoes are quality shoes differentiated in terms of technology and brand image so that customers are willing to pay a premium.

- ***Relative bargaining power***

Bargaining power is the capacity of one party to dominate the other party[37] and it depends on many factors. In this specific case, customers bargaining power is relatively small because the number of buyers is very large, their size is quite small, and they cannot vertically integrate. Indeed, in 2003 the biggest ten clients of Geox accounted for only 10.4% of Geox's turnover. Eclisse is the biggest mono-brand Geox shop, and it contributed to 3.2% of Geox's profit[38]in 2003.

[37] http://www.businessdictionary.com/definition/bargaining-power.html
[38] http://www.soldionline.it/notizie/azioni-italia/geox-la-forza-nel-marchio-e-nel-prodotto

- ***Sub-conclusion***

Both a low buyer's price sensitivity and relative bargaining power suggest that Geox does not significantly depend on its buyers.

**Suppliers power**

Firms within an industry have to deal with other firms to buy raw materials, components, labour and financial services. The suppliers' power is equivalent to buyer's power.

In order to reduce the risks of an excessive bargaining power of suppliers, Geox diversifies its suppliers of raw materials semi-processed, and processed goods. However, Geox buys transpiring and waterproof textile (that is the main component of the soles) from only two suppliers. One of them supplied 80% of the textile in 2006, and Geox did not have an exclusive contract with it. The other 20% has been bought from a new supplier that started to have relations with Geox in 2003.

It can be therefore concluded that suppliers can influence Geox because they have a relatively high bargaining power.

### *3.2.2.3 Main conclusions*

The analysis of the five forces with the addiction of complements suggests that internal rivalry is high. The industry is mature, and it is showing a slow performance. According to Euromonitor International, industry growth has been 0% in current value terms during 2010. Moreover, many rivals are competing within the industry, which is characterized by exit barriers and excess capacity.

It is important to stress the fact that rivalry could potentially be higher than how it actually is and generate price wars because it is moderated by differentiation of the offerings through brand image. Therefore, competition is based more on quality than on price.

Entry barriers are strong, and the threat of entry is small. The only relevant entry threat comes from the American W. L. Gore & Associates that could use its textiles to make casual shoes.

Threat of a substitute is mainly due to the impoverishment of Italy because even if this segment of the market is characterized by high quality and brand recognition, people are becoming poorer and therefore may decide to switch to cheaper, low quality, and no branded shoes.

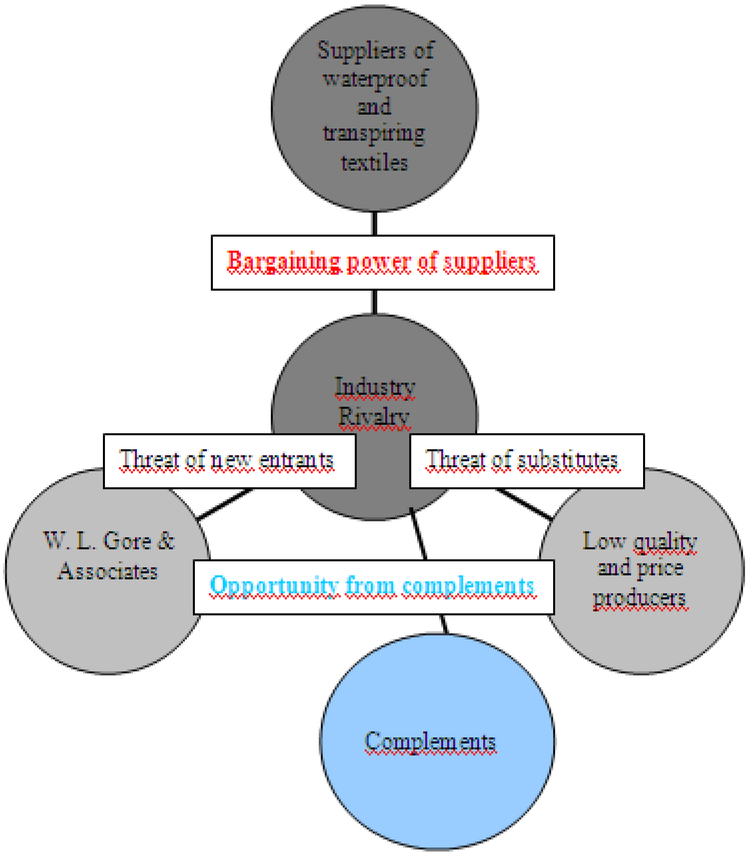
Besides, given that Italians are quite sensitive to brands and shoes are durable, people may decide to continue buying branded shoes, but less often. This must be predicted in advance in order to avoid excess capacity and cause a decrease in the levels of price and profit.

Complements have been added to the framework because they can increase the value of a product and exercise bargaining power. Within the footwear sector, they have not really been used except for Nike, and companies may consider the creation and exploitation of some complementary products in order to increase profits in this complicated and mature environment.

As opposed to buyer power, which is very low, supplier power of the two sellers of transpiring and waterproof textiles is strong, and Geox should consider solving this weakness in its future strategies.

The figure below reassumes these findings with the use of colours.

**Figure 13:** **Results from the application of the Porter's Five Forces**




*Source:* Own creation

#### *3.2.2.4 Evaluation of the Five Forces framework*

The main criticisms to this framework are the lack of theoretical foundations and the presence of empirical weaknesses[39]. Moreover, the industry environment is only a small determiner of the profitability of a single firm.

The framework ignores innovation and entrepreneurship, and it assumes stable boundaries over time. It also does not consider complementary products, this is why they have been added to this analysis.

Finally, it assumes that all business relationships are competitive and it highlights the need to disaggregate the industry into segments and strategic groups. For instance, sport footwear has been analysed together with casual and normal footwear, and no distinction has been made between men, women, and children footwear.

On the other hand, this framework is simple and useful for understanding competition, predicting future profitability, and guiding strategies.

#### *3.2.2.5 From Present to Future trends*

Current profitability is not a good indicator for future profitability, but it is the starting point in order to predict what will happen in the near future (end of 2012-2015).

The footwear sector has performed negatively during 2010 mainly because of the bad economic situation. Unemployment and uncertainties related to the future have caused a decrease in the demand of shoes, and the fact that footwear is durable has even augmented this tendency.

Moreover, the industry is mature, and high entry barriers hamper the future possible entry of new competitors.

The slow growth due to the recession together with a slow consolidation of the main players is probably leading to a process of shakeout, and some firms (mainly the smallest and the new entries) are leaving the market.

According to Euromonitor International, the Italian footwear sector will continue to decline in the short-medium term due to the credit crunch and to a bad economic performance.

[39] Lynch R. L. (2006)

Notwithstanding aggressive selling strategies and innovations of the leader companies, unemployment and uncertainty about the future will prevent the Italian footwear sector to grow again. However, even if slowing, the economy is expected to start recovering and move as one with the business cycle in the end of 2012-2013, but economists are still uncertain about the exact date.

In value terms, women's non-sport footwear has performed better then any other segment mainly because shoes are usually made of leather and they reflect the "Made in Italy", which is encompassed by high quality and specialization. Indeed, it has risen by 1% in current value terms from 2009 to 2010.

The worse performance categories in value terms have been men's non-sport and children's footwear. Their value has decreased by 3% from 2009 to 2010. Specifically, children's footwear has performed poorly because they have probably been incorrectly priced. This has raised suspicion about quality, and parents buy these items only if strictly necessary.

In volume terms, women and children's footwear have performed positively thanks to the right promotion. This was particularly true for the sport segment. On the other hand, men's non-sport footwear has performed very badly. Indeed, it has dropped from 2009 to 2010 by 3% both in volume and in value terms because men started to buy long-lasting footwear only when really needed.

Footwear for sport activities has become one of the most profitable industries in Italy because sport is encouraged by companies in order to make employees less stressed and healthier after many hours of work. Additionally, appearance is becoming increasingly important and more and more consumers play sports to stay fit. Therefore, sport footwear offers many opportunities, and Geox has probably made the right choice when it decided to buy Diadora.

Casual footwear is increasingly popular because comfort and wellbeing of feet is becoming increasingly important for Italians. In particular, high heels may seriously damage the feet and the back, and women are becoming sensitive to this issue. The demand for high heel shoes will probably decrease in favour of casual shoes, but it is highly improbably that it will tend to zero because high heels have always been synonymous of femininity, and because fashion plays an important role in Italy.

Children's footwear is also mostly casual and comfortable because children spend most of their time playing and running, and because parents tend to care more about the wellbeing of their children than theirs. This is why the demand for children’s footwear should be more inelastic than the demand for adults’ footwear, and parents tend to be more willing to spend their disposable income for their children than for themselves. Moreover, children’s feet grow fast and they need to change shoes more often than adults. Indeed, this sector is predicted to grow fast over 2012-2015.

Men’s footwear, which has experiences a reduction, will probably grow. Whereas the demand for women’s non-sport shoes will take longer to improve since it is harder to make women’s shoes appealing. Besides, women naturally tend to have more shoes than men do, and since shoes are durable, they will tent to buy quality shoes in less quantity during hard times.

The Italian population is becoming older as many young people cannot start their own family and produce children because they feel uncertain about the future. Therefore, the demand for comfortable and quality shoes will increase in the future.

The structure of distribution has changed and the number of hypermarkets selling footwear has increased because they offer cheaper shoes. However, Italian customers really appreciate the service of the small shops, and the shopping experience is sometimes more important for Italians then the purchased item. Thus, a nice and welcoming environment with a patient and kind shop assistant is much appreciated.

Finally, street markets are in decline. Shops and retailers are the most popular form of distribution, and their value accounted for 65% in 2010.

Companies are expected to outsource production especially through joint venture with cheaper foreign manufacturers. Therefore, Geox is in an advantageous position because it has already done it and it does not need to spend more resources on the process of outsourcing. Moreover, companies are predicted to open new mono-brand shops and to invest in innovation and styling more and more in order to create new types of products.

The companies that are competing within this industry have high fixed costs and since the footwear sector is seasonal, the decrease in demand can cause problems of excess capacity. This, together with the impoverishment of the Italians, will tempt companies to decrease the price in order to sell more. As a result, profits could decrease. Moreover, even if the firms within the industry compete on quality and brand image, the excess capacity of only one of these players could create a chain effect and cause a price war.

Unit price has increased by 6% from 2005 to 2010, and this suggests that no price war has started. Moreover, the price level is predicted to increase even more in the forecasted period because raw materials and energy prices will probably increase. As a result, customers' actions will consist in purchasing in the sales and waiting for special deals and discounts.

Companies will therefore try to be more efficient and reduce prices through innovations and new product development. This will be possible because the companies that will probably survive are big enough to innovate, sell top-quality, recognized brands, trendy, and lower price shoes.[40]

#### *3.2.2.6 Key Success Factors*

The five forces framework helps us to understand profit potentials of an industry. The next step is understanding the dynamics that guide the sharing of the potential profit among rivals. In order to do so, it is necessary to identify the industry key success factors, which are the factors that allow a firm to compete within that market[41].

In order to find the key success factors of our industry, we need to answer two simple questions:

- What do customers want?
- What do firms have to do to survive the high level of competition of this industry?[42]

First, these two questions will be answered, and then the key success factors of the industry will be found.

In order to understand what customers want, it is necessary to know who the customers of the footwear industry of the medium and medium/high price segment are. By applying common sense and by reading online blogs, it can be concluded that the average customers are Italian families composed by parents, grandparents, and children of all ages.

Notice that Geox's average customers are men and women of an age range between 36 and 60, they are usually married (70%) and have children (60%). On average, they are dynamic, sociable, nature lovers, and functionality searchers. Finally, they tend to have a high level of education and they belong to the medium / medium high social class.

[40] Euromonitor International
[41] Hofer, Charles W., and Dan Schendel. (1978)
[42] Grant R. M. (2010)

The key success factors must be found for the whole industry. The needs of many diverse people should be different, but it can be assumed that there are basic needs of comfort, health, warm and dry feet, and nice and good-looking shoes. Moreover, we can also consider the need of self-expression through the brand, particularly important for teenagers, and the need for quality, which is signalled by the brand.

Choosing between competing offerings is a complicated and sometime irrational process guided by the desire of needs satisfaction. The brand image plays an important role for Italian customers since brand is synonymous of quality, and it communicates to the potential (final) customers that a particular branded pair of shoes matches their needs. This is why investing in communication is very important.

Additionally, Geox has a two years warrantee on their shoes, and this is a tool to deliver credible signals to customers.

Given the importance of the shopping experience, customers may chose to buy a certain brand just because they enjoy the shopping experience behind it. Therefore, the ambience of the shop, the kindness of the shop assistants, and the type of distribution channel as well as its location are especially relevant.

This is probably why footwear companies are opening new mono-brand shops, where they can serve and amaze their customers in imaginative ways. An idea could be putting a space to entertain kids and adults that are not particularly interested on the products of the shop.

A good strategy in order to avoid a price war but still attract customers could be offering special deals not related to price decreases. For instance, a pair of shoes could be offered together with a complementary item, or with the possibility of winning a trip, etc. Moreover, companies should try to decrease their costs by investing in R&D and by finding innovative and cheaper ways for doing their operations.

Overall, competition within the industry is high, even if it is not only based on price. Quality is very important, and differentiation can yield a price premium. The market is mature and the recession is not helping in making the environment easy to be penetrated. Entry and exit barriers are high, and even if brand image and differentiation drive competition, the threat of substitution from shoes belonging to the low price segment cannot be excluded. Finally, the bargaining power of suppliers is relatively high, and the same is not true for the bargaining power of customers.

The key success factors that companies must have in order to succeed in the industry are summarized in *Figure 14*.

**Figure 14:** **Key success factors**

| What do customers want? | How do firms survive competition? | Key success factors |
|---|---|---|
| - Diversity of customers in terms of type, comfort, style, colour, particular attributes of the shoes (such as breathability)<br><br>- Quality and comfort are (usually) desirable, except for teen-agers<br><br>- Tendency to care about the brand<br><br>- Willingness to pay a premium for the brand, style, quality, and comfort<br><br>- Enjoying the shopping experience | - Competition mainly based on quality<br><br>- Differentiation can yield price premium, but not so high to surely avoid the threat of substitution from low price footwear<br><br>- Threat of imitation | - Differentiation of the offering combined with a moderate price<br><br>- Innovation<br><br>- Patents<br><br>- Strong brand image and quality<br><br>- Communication and marketing<br><br>- Closeness to customers<br><br>- The role of distribution and of the shopping experience |

*Source:* Own creation

Differentiating the product range at a moderate price is very important. First, differentiation requires focusing on the customers and being able to quickly respond to changing needs, fashions, reputation, quality, style, and positioning.

Second, even if customers are willing to pay a premium, this is not a luxury segment. Investments in innovation and R&D plays a very important role both for diversifying the offering and for decreasing costs, which in turn avoids price increases. Moreover, outsourcing in cheaper countries is a very effective way to decrease costs.

Patents are relevant in order to avoid imitation. However, this legal barrier works well in Italy and in other European and developed countries, but is not very effective in China and in other developing countries where IP rights are not well defended.

The brand image is not only a sign of quality, but it is also a leading factor for the differentiation of the product range. Therefore, building a strong brand and communicating it to customers and potential customers is very important. Investment in marketing and communication plays a relevant part in this.

Finally, the shopping experience, the location of the shops and type of distribution are fundamental because Italians love shopping. New openings of innovative mono-brand stores with services inside in strategic locations of the main cities is a powerful key success factor.

The external analysis of the Geox Group is concluded. Now it is time to look deeper and start the internal analysis of Geox.

### *3.3 Internal Analysis*

An internal analysis includes the left part of the basic framework (*Session 3.1*). Internal analysis is very important because it can explain performance differences among firms, which, indeed, seem to depend more on differences in resources and capabilities than on differences in activities[43].

The internal environment of a firm incorporates elements that are endogenous to it. These elements are endogenous because they are either affected or controlled by the firm. All together, they form the Porter's value chain, which, if well analyzed, can eventually tell us in which way they affect profitability.

Internal analysis tells us the company's main strengths and weaknesses in comparison with the firm's main competitors. It helps to determine the resources and capabilities that are

[43] Caescu S. C., Popescu A., and Ploesteanu M. G. (2011)

sources of competitive advantage for a firm and to find the strategies to exploit in the best way any source of competitive advantage.

Session 2.4 has already described Geox's goals and values; therefore, we will directly go to the next passage to find the company's resources and capabilities through the application of the resource-based view. The aim of the internal analysis that will follow is to provide a comparative look at Geox's capabilities in order to find the sources of the firm's competitive advantage. This is a necessary step in order to formulate the right strategy and to exploit the sources of competitive advantage in the best way.

### *3.3.1 The Resource-based view*

According to the resource-based view of the firm that has been formulated in the 1990s, the main sources of superior economic performance come from a company's internal resources and capabilities. This view assumes that resources and capabilities are the main drivers of competitive advantage of a firm over rivals.

Since industry environment is becoming more and more unstable, the main sources of superior performance seem to be due to competitive advantage over rivals rather than to the industry's attractiveness.

Even if the resource-based view differs from the neoclassical view, which focuses on the external environment (*Session 3.2*), it is good to perform both analyses in order to have more complete results. The resource-based view is particularly appropriate when the rate of change of the external environment of a firm is high such as technology-based and fast-moving industries.

Resources are the firm's productive assets, and they can be tangible, intangible, and human. In other words, they are what the firm possesses. Tangible resources can be both financial and physical. Intangible resources are harder to imitate compared to the tangible resources, and they are divided into three subgroups: technology, reputation, and culture. Finally, human resources can be skills/know-how, ability of collaboration and communication, and motivation[44].

Resources alone do not assure competitive advantage, but they need to be matched with organizational capabilities, which enable a company to use its resources in the best way.

[44] Grant R. M. (2010)

Capabilities are the capacity to muster resources in order to achieve a desired result. In other words, they are what the firm is able to do. Besides, a company can posses some capabilities that it does better than its competitors do. These special capabilities are called core competences and they are the key factors behind superior performance[45].

The resource-based view is based on two main assumptions. The first one is called resource heterogeneity (e.g. different firms can have different resources). The second one is the resource immobility (e.g. a firm can hardly acquire/develop resources)[46]. Since imitation of resources is too costly, possessing a resource that other firms do not have, is likely to create a sustained competitive advantage for the owner firm. Moreover, if a firm does not possess any heterogeneous resource, its managers can decide to bundle some resources in a unique heterogeneous way in order to gain competitive advantage.

### *3.3.2 Identification of Geox's Resources*

The table below shows Geox's tangible, intangible, and human resources.

**Table 15:** **Geox's resources**

| **Resources:** ***What does Geox have?*** | | |
|---|---|---|
| **Tangible** | **Intangible** | **Human** |
| Financial - liquidity, stability, low leverage | Technology and innovation | Skills/know how |
| Location – Montebelluna | Reputation and brand image | Corporate culture and commitment of employees and managers |
| Distribution – multi-brand together with mono-brand shops in strategic locations | Flexible supply chain | |
| Datamarket platform | Creativity | |

[45] C. K. Prahalad and G. Hamel (2003)
[46] J. Barney (1991)

| | | |
|---|---|---|
| and CRM systems | | |
| Machineries | | |

*Source: Own creation*

Tangible resources are the easiest to be identified. They are financial stability, location, datamarket platform and customer relationship management (CRS) systems to have timing information about actual and potential clients, distribution to optimize penetration and advertise the brand in a coherent way, and personalized machinery to test prototypes.

A little clarification about location needs to be made. Only the “intelligent” part of the company’s location is a resource. In other words, only Montebelluna, that is where the company’s R&D, purchasing, strategic marketing, organization, and administration take place, constitutes a resource.

The reason for this is that Montebelluna affects the company through positive spillovers coming from its shoe district. On the other hand, the operations[47] that have been located abroad for cost reasons do not constitutes a resource of location.

Intangible resources are more difficult to be found, but they are usually more valuable than tangible resources. They help in explaining differences between the book value, which comes from the balance sheet, and the stock market value of a firm. Geox’s intangible assets are technology and innovation, creativity, brand reputation and image, and supply chain flexibility. The latter allows for benefiting from outsourcing and offshoring. In addition, an efficient management of the productive and logistic systems is strengthened by the fact that the critical departments are located in Italy.

Finally, human resources of Geox are a very valuable resource. They are constituted by both the high skills and commitment of employees, and the good communication and coordination skills of the managers. First, employees come from technical schools, which are continuously interacting with Geox. Second, managers are perfectly able to work both in autonomy and in group. This creates a dynamic and flexible work environment. Note that human resources, like intangible resources, do not appear in the balance sheet and they are difficult to be assessed.

### *3.3.3 Identification of Geox’s Capabilities*

[47] Operations in the sense of the physical transformation of the product.

In order to find Geox’s capabilities, that are summarized in the table below, the question to be asked is: “What can Geox do well?”.

**Table 16:** **Geox’s capabilities**

| **Capabilities:** ***What can Geox do well?*** |
|---|
| R&D and product development |
| Marketing and communication |
| Focus on the customers and cross positioning |
| Outsourcing |
| Capacity of coordination of the complex and extensive network of purchasing-production-sales |
| Relationship with employees, schools and research institutes |
| Managing distribution |

*Source: Own creation*

Geox is very good in innovating to improve both products and processes. The company has always invested a considerable amount of resources in R&D, and it has patented its inventions and technologies in order to avoid being copied. *Appendix 3.3.3* shows Geox’s investments in R&D both in nominal terms and as a percentage of sales. The graph suggests that this amount has been increasing from 2007 to 2010, and it has increased from 2010 to 2011.

Unfortunately, it has been impossible to compare this data with competitors’ data. However, it can be said that Geox’s investments in R&D are consistent for being just a footwear firm. Many of its competitors are not big enough to invest in R&D, the footwear sector was started many years ago, and it is not technologically based.

The number of patents that Geox owns for its inventions exceed 40, and even if they are registered in Italy, they have been extended to other foreign countries. This number is extremely consistent compared to its main competitors.

During 2011, through the “Amphibiox” project, Geox developed new applicative solutions for making shoes completely waterproof and transpiring, and these new solutions will be used by Geox to address the Nordic market, which is considered to be particularly profitable. Moreover, the Group has been continuing the project to make shoes for Formula One (F1)[48].

Geox is very good in marketing and communication, and the company has always invested a significant amount of money on these activities in order to continue to build its brand image and to communicate to consumers the concept of breathability and comfort. For instance, Geox has recently added a section in the website that is completely dedicated to children in order to improve brand attachment, and to increase their desire to purchase Geox’s shoes.

In 2003, Geox has invested Euro 27 million in advertising and marketing (equal to 10.5% of revenue). However, this sum has shown a decreasing tendency, as it has diminished to 7.4% in 2008, 5.3% in 2009, 5.6% in 2010, and 5.2% in 2011[49]. Consider that Bata’s investment on advertising and marketing over revenue was only 0.49% in 2008 and 0.45% in 2009, while that of Nike was respectively 12.40% and 12.25% in the same years[50].

Therefore, there has been a tendency for companies to decrease the amount of money for advertising and communication purposes. Even if Nike’s advertising expenses exceed those of Geox, they are different companies and we can still say that Geox is investing a considerable amount of money on advertising and communication.

The main advertising tools that have been used by Geox have been press, television, and attachments. The result of this is that Geox enjoys high brand recognition.

The group has a flexible supply chain that allows the company to benefit from outsourcing and offshoring in countries where the level of salaries is lower than in Italy. In this way, Geox has been among the first Italian firms able to benefit from globalization, phenomenon that has been considered only as a threat by many Italian companies.

Geox’s capacity of coordination of the complex and extensive network of purchasing-production-sales has been very important in order to allow outsourcing and offshoring, and be very efficient.

[48] Bilancio consolidato 2011
[49] Bata Annual Report 2009
[50] Wikinvest.com

The company’s particular cross positioning in men, women, and children footwear (family brand) in the classical, casual, and sport lines comes from the ability to use the same technology and resources for different lines and products. Consequently, Geox is benefiting from an economy of scope. This is true also for Geox’s clothes. Cross positioning reduces costs and permits the company to focus on different customers and increase sales by reaching customers that are different in terms of age, sex, and lifestyles.

Note that also Bata, Nike, and Valleverde are family brands. Moreover, Bata has a sport line too; Nike only makes sport shoes, and Valleverde only classical and casual shoes.

Human resources are strategic for Geox, which attracts and form qualified employees through intense training and the invention of the Geox School that was opened in 2011. The latter aims to teach the young students practice things that are particularly relevant for the company.

The good relationship that the company has with research centres and schools (in particular University of Padova in Italy and University of Trondheim in Norway) has been very important not only to hire the best students, but also for the birth and growth of the firm. Indeed, the initial collaboration between Geox and some research centres has allowed Geox the adaptation of Teflon to footwear.

Finally, Geox manages well its distribution through multi and mono-brands stores, which are increasing in number. The latter are either directly operated stores, or franchising stores. Moreover, they are strategically located in the main squares of big cities, and they are important in order to attract customers and communicate the brand values.

### *3.3.4 Classification of Geox’s Capabilities*

A classification of Geox’s capability will now be performed in order to understand their role and importance within the organization better. In order to do so, the value-chain analysis developed by Michael Porter in 1985 will be applied.

This framework breaks down a company in all its value creating activities at the business unit level. The value-chain analysis separates primary activities from supporting activities. The final output passes, in order, through the activities of the chain, and each activity gives some additional value to the product in process.

Primary activities are inbound logistic, operations, outbound logistic, marketing and sales, and services (at the bottom of *Table 17*). Supporting activities are firm infrastructure, human resource management, technology development, and procurement (lines 1-4 of *Table 17*).

**Table 17:** **Porter's value chain**

| | | | | |
|---|---|---|---|---|
| Firm infrastructure | | | | |
| Human resource management | | | | |
| Technology development | | | | |
| Procurement | | | | |
| Inbound logistic | Operations | Outbound logistic | Marketing and sales | Service |

*Source: Own draft from Grant R. M. (2010) "Contemporary Strategy Analysis" 7th ed. of p. 133*

The classification will start by a description of the primary activities of Geox because some of them may be vital to develop competitive advantages[51].

- ***Inbound logistic***

It refers to the management of raw materials and semi-processed goods that the Group uses to make shoes. Through its logistic management, Geox aims to optimize efficiency in raw materials flow by matching it with a reliable delivery system of the final goods.

The timing of the raw material transportation is strictly important in order to do the inbound logistic work properly. The average delivery time of raw material from Europe transported by road to the centralized warehouse of Signoressa (Treviso, Italy) is about 2/3 working days. Whereas, the average delivery time by ship from Asia is about 30/32 working days. However, it happens that some cumbersome materials are directly sent to the productive plants in Romania and Slovakia without passing through the Italian warehouse.

Note that the production plant of Geox and of its new acquired brand Diadora are both in the Montebelluna district, and this gives the group the possibility to optimize the efficiency of the inbound logistic for both brands.

[51] http://www.quickmba.com/strategy/value-chain/

- ***Operations***

The Group boasts a productive business model capable of assuring efficiency and flexibility of the productive and logistic cycle. Indeed, production is made through a delocalized model mainly based on outsourcing and offshoring in cheap countries while keeping the critical productive and quality testing phases at home. This allows Geox to push down costs without decreasing quality.

The operations of the Geox Group follow two main processes. The first is offshoring, and it is mainly used to make casual and classic footwear. According to this process, the Group that keeps a strict control over all the production phases in its plants in Romania and Slovakia directly industrializes the footwear collections.

On the other hand, according to the second type of process, namely outsourcing, the collections are industrialized and produced from external firms in harmony with Geox's guidelines. Therefore, it belongs to the operation phase of the external firms. However, it still matters to Geox because it can substantially increase the value of its final outputs.

Even when Geox uses other external firms to produce its products, it strictly follows the product development, it gives these external firms the membranes to make the shoes, and it directly checks the quality of the shoes both during the process and through random samples and the final products.

- ***Outbound logistic***

Outbound logistic is about both the management of the final goods in the warehouses and the delivery to distribution networks. The Group directly performs it. In the case of outsourcing, it constitutes the link between the value-chain of the external producers and the one of Geox.

All the production coming from the different productive places (those owned by both Geox and other firms) go to the distribution centre in Cusignana (Treviso, Italy) only in the case that the final destination is Europe. If the final destination is USA, they go to the distribution centre in Edison (New Jersey). Besides, they go to Tokyo if the final destination is Japan, and in Hong Kong to serve the rest of Asia.

In this phase, it is good to distinguish between the outbound logistic of the mono-brand and the one of the multi-brand shops. In the former case, the shoes are stocked up once or twice a week, whereas in the latter case, they are stocked up only three times per season.

The logistic department combines the distribution dates and it coordinates production and distribution activities while giving to the production and commercial departments the priority on production and distribution.

- ***Marketing and sales***

Geox S.p.A. directly manages the commercialization of its footwear in Italy and in the rest of Europe. The foreign commercial companies such as Geox USA, Geox Canada, Geox Asia Pacific and Geox Japan are in charge of customer services and of the sale coordination.

However, a huge part of the distribution is outside the Group's value chain. In order to optimize the commercial penetration in the different geographical markets, Geox distributes its products to more than 10,000 multi-brand shops and more than 500 mono-brand Geox shops (mostly in franchising).

Through its good marketing strategy, the Group's aims to promote the superior attributes of its shoes and its distinctive brand image. In particular, the transpirational concept is communicated through the image of steam coming from the sole of the shoes.

In the mono-brand Geox Shops, the products have the maximum visibility through the so called "sail" display rack. This type of display makes the customers experience the usage of the product. It has a curved structure and articulated metal hooks to sustain the shoes in a way to display both the look of the shoes and the holes in the soles.

Finally, in the Geox Shops there is also the MagicGeox, which is a cartoon hero made with the aim of communicating to the younger clients. Moreover, in these shops there is an area completely made for children that is colourful, full of images, and has explanations about the technology behind the MagicGex.

- ***Service***

Service activities enhance and maintain the value of the final products. Geox has dedicated part of its website[52] to customer service. Moreover, Geox's shoes have a guarantee of two years. Finally, in the Geox shops, there is a part dedicated to children, and shop assistants are accurately chosen in order to be polite, friendly, and serve customers the in the best possible way.

[52] https://crm.geox.com/public/en/support.html

Supporting activities support the primary activities. A description of them will follow below.

- ***Firm infrastructure***

Infrastructural activities such as strategic and marketing planning, managerial accounting, administration, and management of the relationship with financial and non financial institutions are performed by Geox S.p.A. either directly or with the help of external consulting firms.

Specifically, Geox S.p.A. does strategic and marketing planning not only through formulating corporate and business strategies, but also through following the implementation of them in the different societies owned by the Group.

- ***Human resource management***

Investments in human resources are fundamental for the activity of the Group. In order to improve the skills of its human resources, the Group created the Geox schools which have been mentioned in the previous passage.

Every year the Montebelluna-based company hires between ten to fifteen new graduates that will attend the Geox School. They will have a tutor and a specific project to realize. In particular, the training for the commercial sector has involved external university professors and extrernal suppliers.

- ***Technology development***

Geox's success is mainly due to its technological development and to the protection of its inventions through more than 40 patents both in Italy and abroad. As mentioned before, investments in R&D have been huge since the company set up. The headquarter in Montebelluna hosts a unique R&D department where more than 15 engineers, chemists and physicists work.

The main studies concern mostly human warmness and transpiration. Through laboratory tests, Geox analyzes raw materials, checks the quality of the final shoes, and studies new technologies and prototypes.

The development of the collections starts with the product development, which in turn starts with the design of the soles, the shape of the shoes, the creation of the prototypes, the development of different versions of the model, and the presentation of prototypes to define the selection of shoes. The Geox Group is always in charge of the product development. Then, it follows the realization of the selection of products and their industrialization.

Product development of a footwear collection usually takes four to five months, while the realization of the selection of products takes two months. Product managers that perform researches of style and material make the creation and development of the collections. They also perform the technical analysis of the product. In order to maintain a balance between creativity and rationality, product managers are coordinated with the CEO, commercial, R&D, and commercial departments.

The Group finds, develops, and improves the techniques to make its products and it protects them through patents both in Italy and in many foreign countries (Germany, Switzerland, Austria, France, Spain, UK, Netherlands, and USA).

- ***Procurement***

The procurement of raw materials is a very important phase for the Group since quality is one of Geox's musts. Suppliers are accurately chosen and the Group before starting the negotiation and it checks the quality of the raw materials, the location of the supplier, the number of its workers, its positioning, its ability to quickly respond to technical requests and its quality control office.

Geox continuously checks the quality of the raw materials though the analysis of the whole supply of leather and through checking random samples of them. Normally, the technical and productive society called Wortec, is in charge of acquiring raw materials from suppliers both from Italy and abroad[53].

### *3.3.5 Sustained Competitive Advantage*

Resources and capabilities alone are not sufficient for success. They are only a necessary condition for building a competitive advantage over rivals, which is the key to create superior performance.

A competitive advantage is "*implementing a value creating strategy not simultaneously being implemented by any current or potential competitor*"[54]. However, a competitive advantage needs to be sustainable in order to continue to benefit the firm that owns it.

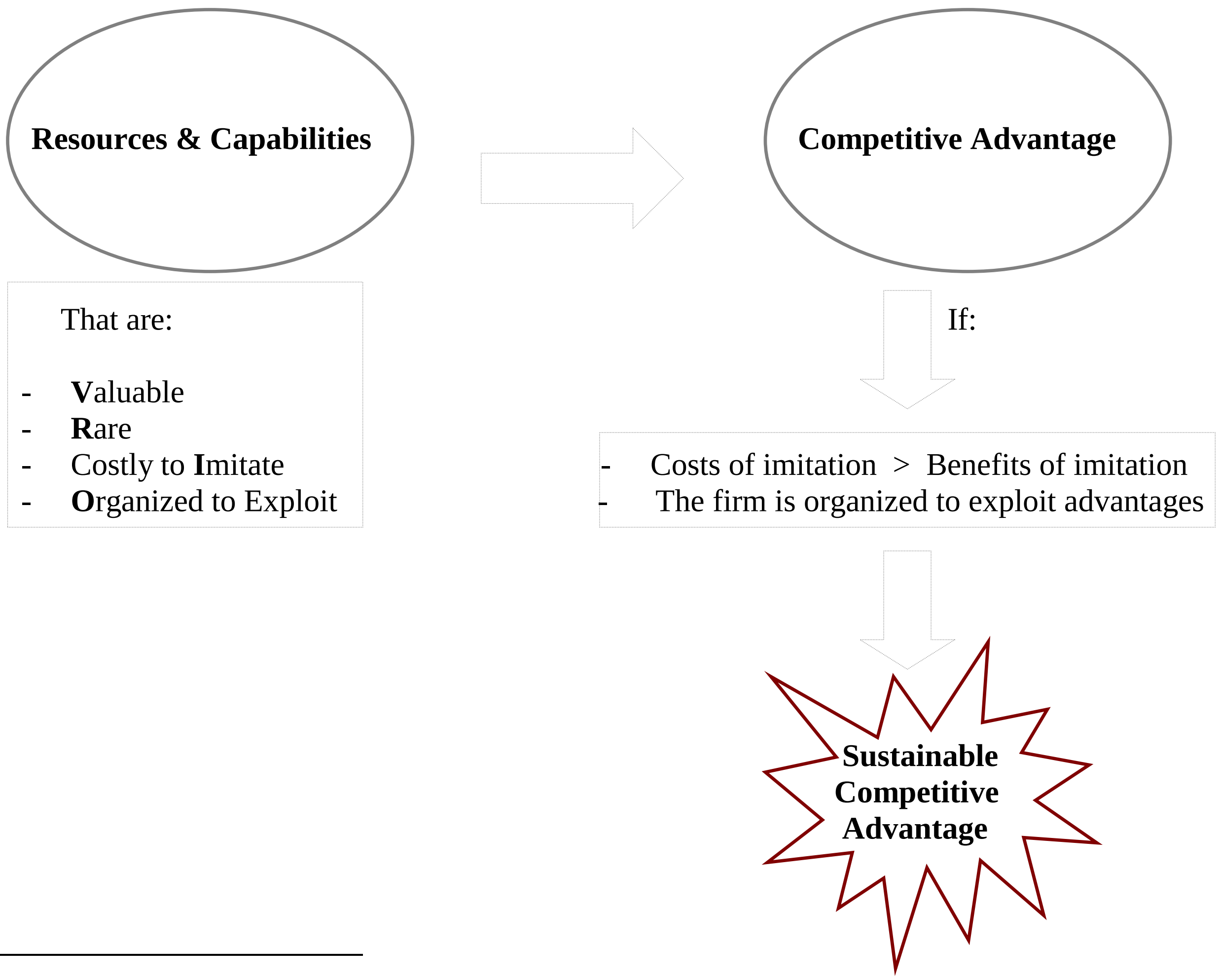
[53] Salvatore F., Beccari F., Mancini C., and Vitale F. (2007/2008)
[54] Barney J. (1991)

According to Barney, a competitive advantage is sustainable if "*current and future rivals have ceased their imitative efforts is versatile from the point of view of developing a theoretical framework, but is a disadvantage from a more practical point of view, as there is no explicit end-goal''*[44]. In other words, a firm possesses a sustained competitive advantage if actual and potential competitors are not able to replicate the firm's competitive advantage.

In 1991, Barney J. developed a framework called the VRIO framework, in order to find the sources of sustainable competitive advantage that a firm has over its rivals. The model assumes that firms' resources are heterogeneous and immobile.

*Figure 18* visually explains the framework. Resources and capability that are valuable, rare, costly to imitate, and organized to exploit resources and capabilities are sources of competitive advantage for a company. Sources of competitive advantage are sustainable if the cost of imitation is higher than the benefits, and if the firm is organized to exploit advantages.

**Figure 18:** **The VRIO framework**



*Source: Own creation based on Barney J. B. and W. S. Hesterkey (2010)*

In particular, resources and capabilities are valuable (V) when they enable the firm either to exploit an opportunity or to neutralize a threat. Both opportunities and threats are external to the firm. In practice, this means that valuable resources and capabilities increase revenue and/or decrease costs. If a firm's resources/capabilities are not valuable, the firm can expect a competitive disadvantage – a factor that leads to the risk of loosing customers[55].

A resource or capability that is rare (R) hampers perfect competition[56]. A rare resource/capability does not need to be held by only one firm, but the number of firms that hold it must be so little to cause scarcity of the resource. If a firm's resources/capabilities are valuable but not rare, we have a situation of competitive parity with competitors. On the other hand, if they are valuable and rare we can expect a competitive advantage that is at least temporary.

The (at least) temporary competitive advantage of a valuable and rare resource/capability is sustainable only if the cost to imitate it (I) is higher than the benefits. The competitive advantage will last until a substitute or duplicate will emerge, and the sustainable attribute of the competitive advantage is really an issue because whenever a firm experiences a competitive advantage, other firms will try to imitate it, making it less rare and therefore less powerful.

Intangible resources are more difficult to imitate than tangible resources. Besides, many factors affect imitation. First, the fact of being the first mover and the presence of path dependency can decrease imitation threats because the first mover can gain control of some resources that followers cannot[57]. Second, some sources of competitive advantage are unknown, and therefore, hard to imitate. Third, the real world is so complex that it can be difficult to analyze and imitate the competitive advantages of rivals.

Finally yet importantly, patents on the one hand offer a protection against imitation for a limited time period, on the other hand they can be bypassed if they require disclosures and if

[55] http://www.businessdictionary.com/definition/competitive-disadvantage.html
[56] Perfect competition does not hold in reality, so we should reformulate this sentence and say that it hampers an almost perfect competition to hold.
[57] Grant, R. M., and Kent E. Neupert. (1999)

the country where they have been registered (and expanded) do not have a proper IP protection.

On the one hand, if a firm's resource/capability is valuable, rare, but not costly to imitate, the firm should expect only a temporary competitive advantage. On the other hand, if it is valuable, rare, and costly to imitate, the firm can expect sustained competitive advantage.

Finally, a valuable, rare, and costly to imitate resource or capability needs to be properly organized within the organization in order to constitute a sustained competitive advantage for the firm that owns it. Specifically, this resource and capability needs to be complemented with structure and control mechanisms (such as reporting structures, management control, relationship, and compensation) that give to the employees the incentive and the ability to exploit this valuable, rare, and costly to imitate resource/capability.

### *3.3.6 Application of the VRIO framework*

We will now apply the VRIO criteria to the resources of Geox. Since capabilities are strictly related to resources, and since, in this case there is a capability related to almost each resource, it is enough that we apply this framework just once and include the VRIO for capabilities in those for the resources.

In order to do so, the resources found in *Session 3.2.2* will be taken and the four questions (of value, rarity, imitability, and organization) will be applied to them in order to find the competitive implications which in turn will suggest which resources are capable of being sources of sustainable competitive advantage for Geox.

It is now time to start with the application of the VRIO framework, which is summarized in *Figure 19.*

- ***Financial resources***

Financial resources (liquidity, stability, low leverage) are valuable because they can neutralize the threat of not being able to meet financial obligations, which can be particularly strong during recessions. Moreover, they permit the company to be relatively independent from financial institution and to avoid the shortage of cash that characterizes some particular periods of the firms producing seasonable goods.

To answer to the question of rarity (R), a comparison of Geox with its main competitors is required. Since only a few of Geox's competitors are listed on a stock exchange, we lack financial data. Thus, we are forced to consider only the closer listed competitors, which are Bata, and Nike, and we will include Tod's in order to have more data. Moreover, perfect competition does not really hold in the real world, and the question of rarity has been answered by using both competitor's data, whenever available, and common sense.

It has been decided to measure financial resources through current ratio and debt ratio since the companies under analysis have their balance sheet and income statement in different currencies. As you can see in *Appendix 3.3.5,* financial resources do not seem to be rare since current and debt ratios of these four Geox competitors are similar to those of the Group. In particular, the current ratio of Nike is even better than the one of Geox. A similar conclusion can be made for the debt ratio of Bata.

We can conclude that this is a situation of competitive equality with competitors. However, we must be careful in generalizing this conclusion, and since the industry is not concentrated, many are the firms that should be analyzed in order to deduct sure conclusions. Unfortunately, it is impossible to foresee anything different due to lacking data.

- ***Location***

Being located in the district of Montebelluna has been a valuable resource because, especially immediately after the start-up, it benefited Geox through positive spillovers. Thus, it created potential to increase profits. However, this resource is not rare because almost all the Italian competitors are located in some shoes district. The most important Italian districts are in: Verona, Riviera del Benta, San Mauro Pascoli, Valdarno Superiore, Valdinievole, Lucca, Fermo, Macerata, Aversa, Casarano, and Barletta. We can conclude that this is a situation of competitive parity with respect to location resource.

- ***Distribution***

The particular type of Geox's distribution that is composed by both multi and mono-brand shops is valuable because it can reach more customers. Moreover, the mono-brand shops allow the company to have more control over the shop, serve the customers better, and communicate its brand values and footwear characteristics.

However, this resource is not rare because all Geox's main big competitors use the same type of distribution and issue franchise contracts for their mono-brand shops. Notice that this is true for all Geox's biggest (in terms of market shares) competitors. Obviously, the small local shoes producers that have maybe just one shop and reach niche markets do not have this type of distribution. We can conclude that also distribution implicates competitive parity, at least with bigger competitors.

- ***Datamarket platforms and CRM systems***

These systems are valuable because they allow to reaching customers and quickly respond to change in tastes. Therefore, they increase Geox's potential profits. Due to lack of information, we cannot say whether this resource is rare or not, but we can imagine that probably (only) the biggest Geox's competitors have the same systems. Since the market is very mature, probably competitors had the chance to acquire those systems.

Therefore, we know that these resources are not extremely costly to imitate, and so they are not sources of sustainable competitive advantage. The only cost is the monetary cost of the software and to train / employ somebody able to wok with those systems.

It can be concluded that datamarket platforms and CRM systems constitute either a competitive parity or a temporary competitive advantage.

- ***Machinery***

Geox's customized and unique machinery is a valuable and rare resource because they can increase profits and the fact that they have been made for Geox is a sign of their uniqueness. However, imitation is an issue and technology is continuously progressing. Therefore, competitors could build their own machinery that could be even better and more technologically advanced than those of Geox[58].

Therefore, machinery has the power to give Geox a temporary competitive advantage.

- ***Technology and innovation***

This is the first intangible resource that we are going to analyze. They are valuable because they allow differentiation of the product range and better quality of the products. Moreover, the intensity of Geox's technology is rare. Only the Group's closest and bigger competitors

[58] This is an example of second mover advantage.

can afford investments in R&D. Except for Bata and Nike, the other competitors are quite small.

During 2011, Geox's investments in R&D were 1.9% of sales (Euro 16,923 thousand), while they were (Euro 19,690 thousand) 2.3% of sales in 2010[59].

In previous passage, the amount of R&D investments of Nike and Bata has been already mentioned. Those of Nike were superior to those of Geox, but the two firms are different and Nike is the top for innovation.

Besides, Bata was not investing a lot in R&D, and by applying common sense, we can say that the other competitors, that are even smaller than Bata, would not probably invest in R&D by a considerable amount. Unfortunately, it is impossible to test this empirically since we lack data.

Finally, patents protect Geox's innovations, and this assures their rarity and impossibility to be imitated, at least legally.

These resources are exploited by the organization and will continue to be exploited in the future. As stated in the Annual Report 2011, the company knows the importance of innovation for the maintenance of its competitive advantage, and it has planned to continue researching and patenting new technologies and materials.

This is enforced by the close relationship that the company has with Universities and research centres. During 2011 the "Amphibiox" project led to the development of a material that is 100% waterproof and highly transpiring. Moreover, the company is continuously researching for creating innovative Formula One shoes[60].

In conclusion, technology and innovation are strong sources of sustainable competitive advantage for the Group.

- ***Brand image and reputation***

This intangible resource is definitely valuable because it allows the companies that own it to differentiate among competitors and charge higher prices compared to companies that have less brand reputation.

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[59] Own calculation based on the data found on the Annual Report 2011

[60] Annual Report, 2011

Even if also the other main Geox's competitors have a brand recognition, those of Geox are particularly strong and it is unique because it is the only brand linked to the concept of "breathability". Therefore, we can say that Geox's brand image positively answers the question on rarity.

Intangible resources are naturally harder to imitate than tangible resources. In particular, since the concept of transpiring shoes attached to the Geox brand comes from patented innovation, it is straightforward to reach the conclusion that brand image and reputation are costly to imitate.

Finally, they are exploited by Geox through the huge communication campaign. In 2011, the costs of the communication campaign were 5.2% of the revenue, and in 2010, this percentage was 5.6%.

We can conclude that these resources lead to sustainable competitive advantage.

- ***Flexible supply chain***

As we have seen before, Geox's flexible supply chain has allowed the company to benefit from cheaper labour costs in countries different from Italy while maintaining the "head" of the company in Italy. Therefore, this is a valuable resource. The question of rarity however is becoming weaker since globalization and higher costs (raw materials, fuel, tax, etc.) have led to an increasing tendency to delocalize. For issuance, Bata produces in India.

Besides, small and family companies that characterize the footwear sector are less probable to delocalize compared to big companies.

Since this tendency is increasing and in some cases, it is required in order to survive, we can say that Geox's flexible supply chain tends more to competitive parity rather than to sustainable competitive advantage.

It is important to clarify that notwithstanding a flexible supply chain, delocalization is still risky. Since the company has less control on its foreign operations, it has to spend many resources in dealing with delays, quality issues, rules, and anti-dumping. However, if advantages of delocalization are higher than the costs, the firm should go for it while still, being careful, avoid the natural risks of this strategy.

- ***Creativity and knowledge of employees***

They are definitely valuable since they allow innovative models and efficiency. On the one hand, creativity is not a rare resource since it is usually an innate characteristic of individuals. Obviously, a company can decide to give more or less space to employees' creativity, and this will determine its rarity. However, it is not probably going to be hard to imitate this choice.

On the other hand, the knowledge of employees is rare because Geox's competitors do not have anything like the Geox School and do not seem to attract the best students as Geox does. However, this resource is not probably hard to imitate because it does not seem complicated to start a relationship with schools and research centres, as well as to train good students.

Therefore, creativity leads either to competitive parity or to temporary competitive advantage. Whereas the skills of the employees constitute a resource of competitive parity since workers can easily change company.

- ***Corporate culture***

Corporate culture is fundamental for the success of an organization, and this is the reason why many business students study human resource management at university. It has been defined by Ravasi and Shultz (2006) as shared mental assumptions guiding actions and interpretations by defining an appropriate behaviour for different situations.

In other words, it is constituted by collective assumptions and behaviour that are also taught directly or indirectly to new workers. It is formed by norms, values, vision, symbols and systems, and it affects how workers interact with each other and with the other stakeholders.

Geox's corporate culture is valuable because it leads to efficiency and creativity. It is also rare, especially in Italy, where usually organizations are static and hierarchy between workers is very strong. This can decrease workers' motivation and collaboration. Besides, Geox's culture, as stated in the company website, enhances group work and confrontation between employers of different hierarchic levels. This is very important in order to create a better working environment, motivate employees, and boost innovation and creativity.

Moreover, continuous training and the possibility of being promoted is a strong motivator for workers. As opposed to many Italian competitors, team-work and efficiency is incentivised, and according to Geox it is one of its main distinctive characteristics.

Corporate culture is usually difficult to imitate because it requires time to build and it is sometimes not easy to be observed. Finally, Geox's management exploits corporate culture by taking advantage of motivated workers and of an environment which looks for results.

Finally, corporate culture constitutes a source of sustainable competitive advantage for Geox.

The main findings of the VRIO framework are schematized below.

**Figure 19:** **VRIO framework of Geox's resources**

| ***Resource*** | **Valuable?** | **Rare?** | **Costly to imitate?** | **Exploited by organization?** | **Competitive implications** |
|---|---|---|---|---|---|
| Financial - liquidity, stability, low leverage | Yes | No | - | - | Competitive parity |
| Location – Montebelluna | Yes | No | - | - | Competitive parity |
| Distribution – multi-brand together with mono-brand shops in strategic locations | Yes | No | - | - | Competitive parity |
| Datamarket platform and CRM systems | Yes | Maybe | No | - | Competitive parity OR Temporary competitive advantage |
| Machineries | Yes | Yes | No | - | Temporary competitive advantage |
| **Technology and innovation** | Yes | Yes | Yes | Yes | Sustainable competitive advantage |
| **Brand image and reputation** | Yes | Yes | Yes | Yes | Sustainable competitive advantage |
| Flexible | Yes | No | - | - | Competitive |

| | | | | | |
|---|---|---|---|---|---|
| supply chain | | | | | parity |
| Creativity | Yes | Maybe | No | - | Competitive parity OR Temporary competitive advantage |
| Skills/know how | Yes | Yes | No | | Temporary competitive advantage |
| **Corporate culture** | Yes | Yes | Yes | Yes | Sustainable competitive advantage |

*Source:* Own creation based on Barney J. B. and W. S. Hesterkey (2010)

- ***Sub-conclusion***

By taking for granted many assumptions and generalizations which cannot be really tested, it can be concluded that corporate culture together with innovation and brand reputation are the main sources of Geox’s sustainable competitive advantage. Notice that these three resources are intangible and human.

Moreover, the resources and capabilities of Geox comply with all the key success factors required to succeed in the industry and are found at the end of the external analysis.

The main criticisms that can be made to this application of the VRIO framework come from all the assumptions that have been made. In particular, they regard financial resources, culture, creativity, flexibility of the supply chain, technology and innovation, and datamarket platforms.

However, consider that business is not an exact science, and in situations like this, where there are many data lacking, it is hard to take a position. This is why it is necessary to apply common sense and to avoid being too strict on the positions taken since they are not 100% sure.

### *3.3.7 Criticisms of the Resource Based view*

Even if the resource-based view is gaining more and more importance, it does not lack criticisms. First, no model, since it is a simplification of reality, is reality itself. Indeed, every model is based on some assumptions that are not real.

In particular, the resource-based view has four main critics according to Priem and Butler (2011).

- The first criticism is that it is tautological because Barney defined a competitive advantage as a strategy that creates value for a firm thanks to the use of valuable resources. As you may have noticed, this is a self-verifying definition.
- Second, the same value generation can be caused by configuration of different resources. Therefore, these resources would not create a competitive advantage.
- Third, product market is underdeveloped.
- Finally, the implications of this view are limited.

Moreover, other criticisms can be:

- It can be difficult to find some resources that satisfy the VRIO criteria.
- It is hard to find the right measurement to judge whether the resources satisfy the VRIO criteria. This is why we need to use common sense very often, and this approach leads to results that lack in scientific precision.
- This view does not consider external factors and external possible changes, and this is why we need to do both an internal and external analysis.
- The question of rarity seems to be unnecessary because, according to Hoopes, Madsen, and Walker in 2003, if a resource is valuable, inimitable, and exploted by the organization, it is also rare[61].
- Barney did not give a precise definition of the concept of sustainability. Therefore, the results of this analysis are difficult to be scientifically tested.

### *3.3.8 Conclusion*

The internal analysis of Geox has been terminated, and Geox's resources and capabilities have been found, as well as which resources constitutes source of sustainable competitive advantage. It is important to note that they are coherent with  the key success factors that are found at the end of the external analysis (*Figure 14*).

[61] Hoopes, D. G., Tammy L. M., and Gordon W., ( 2003).

These findings together with those coming from the external analysis, will be the base for the subsequent reasoning in order to find suggestions for future actions that will allow Geox to maintain its leadership and increase profit.

Note that the strategic analysis has been based on many assumptions and simplifications due to lacking data and this is especially true for the internal analysis. In particular, the VRIO framework has been mainly based upon common sense, as a result Geox's sources of sustainable competitive advantage lack in empiricism.

## 4) Future Possible Strategic Moves

### 4.1 Strategy Choices

Geox's strategy choices will be analyzed using the Ansoff's Matrix. The aim of the model is to find profit potentials of alternative strategies.

The model gives special importance to growth since it assumes that companies continuously need to develop their position in their market if they want to remain there[62]. Thus, whether Geox will continue to exist and to be the market leader in the future depends on its strategic choices.

The Ansoff's matrix is shown in the figure below.

**Figure 20:** **Ansoff's Matrix**

| Markets: / Products: | **Present** | **New** |
|---|---|---|
| **New** | Product Development | Diversification |
| **Present** | Market Penetration | Market Development |

*Source:* Ansoff (1957)

- ***Market penetration***

[62] Ansoff (1957)

According to Ansoff, a strategy of market penetration aims to gain market shares in the present markets with the current products. This can be achieved either by selling higher volumes or by reaching more customers.

The Italian market is very mature, and even if a process of consolidation seems to be taking place, this type of strategy will be very costly both in terms of marketing and in terms of possible price wars, that could occur. Indeed, it could cause an increase in competition, which will bring more disadvantages than benefits.

On the other hand, instead of taking offensive and competitive positions, Geox could try to increase entry barriers in order to make its competitive advantage more sustainable.

However, Geox is already the leader in Italy, and the Italian macroeconomic situation is not desirable.

It can be concluded that this strategy is not the best for Geox because the costs would be much higher that the benefits.

- ***Product development***

According to Ansoff, product development is a strategy that can cause growth by developing new products, and selling them in the current market.

The company is currently following this strategy since it is successfully and increasingly selling clothes that have the same technology as its shoes, and thus, it is achieving economy of scope. Since the beginning of this horizontal differentiation, Geox has been increasingly gaining from it. In 2011, sales from clothes accounted for 14% of the total revenue.

Geox’s R&D investments aim to discover better products; and new inventions are immediately patented. For instance, it is currently developing shoes for formula one.

On the other hand, Geox is not exploiting the possibility of making complementary products (except from clothes), and it could potentially increase its profit from a smarter use of them.

In conclusion, except for complementary products that could be more exploited, Geox is correctly implementing this strategy in the present. However, in the end, imitation could incur and Geox should look for other opportunities.

- ***Market development***

Market development is a strategy that aims to increase profit by selling current products, which can be slightly modified, in new markets[57].

It can be achieved through going to different countries, addressing new customer groups, or changing distribution channels.

Geox's four-step internationalization strategy seems to be a very good way to pursue the market development strategy since it gradually penetrates new countries that can differ a lot from Italy in terms of tastes, regulation, politics, and social factors. This strategy is costly in terms of market analysis and advertisement campaigns to build the brand abroad, but its advantages can be numerous.

It has been seen that the Group is a family brand since it addresses men, women, and children. However, teenagers are not specifically addressed. Consider that teen-agers care about fashion and brand image rather than quality and the ability to transpire. In this sense, Geox could develop a different brand for teenager's shoes, and advertise them in a different way. However, this will increase costs.

Additionally, another strategy to reach a different segment of people could be producing lower priced shoes with another brand in order not to negatively affect the Geox brand. This strategy could be good if we consider the impoverishment of the Italians, but the high entry barriers and competition coming from abroad is so high that it will probably hamper the success of the Group.

About distribution channels, Geox's strategy of using both mono-brand and multi-brand shops seems to be very good. A suggestion could be to improve the mono-brand shops and give a shopping experience that is extremely enjoyable.

Moreover, the Group should probably improve the usage of internet, which is also a very cheap channel. Even if online marketing is not common in Italy, it is abroad, and Geox could potentially gain a lot by improving its online shops platform. Internet could be used also to reach teenagers through social networks and games. Finally, Italians will probably use the internet more in the future, and Geox cannot miss this opportunity.

- ***Diversification***

Diversification is, on average, the most risky strategy since it implies addressing new markets with new products/services.

Besides, a way to implement diversification could be acquiring other companies, and Geox's liquidity is good in this sense. For instance, the Group could try to acquire W. L. Gore & Associates and Geox's two main suppliers because they have a high bargaining power over Geox.

- ***Sub-conclusion***

Market penetration has been excluded and the remaining possible strategies are market development, product development, and diversification. Obviously, Geox can combine them.

In order to assess the possible success of these strategies we need to see if they match with Geox's objectives, and if their probability of success is relatively high.

It has been seen before that Geox has successfully made market and product development. Therefore, their probability of success can be considered high. Moreover, Geox's good financial situation permits it to make smart investments to support its strategies.

One of Geox's objectives is increasing penetration abroad. Since diplomatic relationships between Italy and US, and Italy and China, are both improving, Geox penetration will be easier. Note that while pursuing this strategy, the company should consider that the costs of building its brand abroad could be high. Moreover, Geox should keep in mind that managing success in the West could be highly different from doing it in other cultures[63], and that IP laws are not enforced properly in some developing countries.

The company should probably consider addressing teenagers in a better way (maybe through another brand) and to exploit the internet platform more, which is mostly used for advertisement. The latter is cheap, it can reach teen-agers, and it is very common abroad. Moreover, if well used, it can create a different and innovative shopping experience and it can improve Geox's brand image.

The product development and R&D investments prove the fact that the Group is interested in the strategy of product development, which is not very risky because it has been already done

[63] http://www.ey.com/GL/en/Issues/Business-environment/Winning-in-a-polycentric-world--globalization-and-the-changing-world-of-business---4--Diverse-leadership-teams

and the company seems to know how to deal with it. Moreover, the company should consider a better use (and maybe the invention) of some complementary products.

Finally, diversification is in general a risky strategy. The company has never considered acquiring its main suppliers and W.L. Gore & Associates, but it probably should do it because these acquisitions would eliminate the threat of a new entrant in the Italian (and not only) market, as well as the high bargaining power of its suppliers.

### 4.2 Other Suggestions

Other strategic suggestions that can help the improvement of the Group can be found below.

Since both employees and some suppliers are so critical for the Group, Geox should improve its relationship with both of them (if it decides not to acquire its suppliers)[64].

For instance, Geox could implement more non-monetary rewards for its employees (such as stock options), and try to create closer ties with them. Specific training that cannot be used anywhere else is a way for companies to maintain its skilled employees and avoid that they leave and go to work somewhere else spreading Geox's knowledge around. The Geox School is making the company move in this direction.

The same logic applies to suppliers, and Geox should try to improve its bargaining power over them.

The Group should not completely forget about market penetration in the sense that it should continue to increase entry barriers and to compete with its competitors both on quality and on brand image. This implies investments in advertisement, R&D, and the creation of entry barriers.

There is something to say also about Geox's offshoring. Indeed, Romania and the Czech Republic may not be the best places to produce anymore because these EU members are probably becoming more expensive. Geox should maybe consider moving somewhere cheaper. However, it will be very expensive and risky, especially if Geox decides to locate outside the European Union.

Geox shoes are not considered by consumers to be extremely good looking, and the company could try to make them nicer and change the idea that customers have of Geox's shoes. This

[64] Phillips, R. (2003)

process is called re-positioning, and it is very common in mature markets. In this way, Geox will also reach those people that really care about fashion and their look, but still want to stay comfortable. Even if the Italian population is becoming older and older, this does not mean that they do not have the need to wear good-looking shoes.

Finally, Geox should continue to launch quality signals, to make the shopping experience increasingly nice and different from its competitors, and to invest in marketing and R&D since they constitute sources of its sustainable competitive advantage. In this way, it will continue to build its brand both in Italy and abroad. In particular, innovation allows to create new opportunities in a mature market, and to fight against imitation.

## 5) Final Conclusions

This thesis has been made in order to analyse Geox S.p.A. sources of success of in Italy, as well as to assess if they are sustainable and to give recommendations for the future.

In order to do so, an external and internal analysis have been performed.

The main finding of the external analysis, which has been carried out thanks to the PEST analysis and the Porter's Five Forces, is that the competition within the industry is quite strong, and this is coherent with the maturity of the market.

The most relevant result of the internal analysis, which, has been performed through the Porter's Value Chain Analysis, the Resource Based View, and the VRIO framework, is that Geox still owns some sources of sustainable competitive advantage, which can potentially last longer through the improvement of entry barriers.

In particular, the main drawbacks come from the excessive use of common sense and assumptions while applying the resource based view and the VRIO framework to analyze the resources and capabilities of the Group. As a result, Geox's sources of sustainable competitive advantage are a probable outcome rather than an empirical one.

It can be concluded that Geox's probable sources of competitive advantage and in general, its resources and capabilities are coherent with the key success factors of the industry.

In conclusion, the Ansoff's Matrix has been applied to find the strategies that Geox should use, and it can be concluded that they are mostly in line with what Geox is doing. In particular, the most relevant one is addressing developing countries and exploiting their potential.

## 6) Outlook

According to Mr. Mario Moretti Polegato, 2012 will be approached prudently by the Group both in Italy and in the rest of Europe.

Since the macroeconomic context is instable, Geox's strategies aim to push down risks even if it will result in a slight decrease in sales.

The company intends to follow a market development strategy and heavily invest outside Europe. It also intends to open new Geox Shops and to improve its penetration in Easter Europe, Russia, and Asia. Indeed, Geox predicts to open 10 new shops in China and another 10 in Russia. These new openings will augment the possibility of benefiting in the future from the potentials of developing countries.

This year has been positive because mono-brand shops have sold 5% more in the first trimester of 2012 compared to the first trimester of the former year. This is maybe due to the business cycle, but it is also proof that the company, through the right strategies, is performing well[65].

[65] http://www.geox.biz/comunicati/cs_9_5_2012_46_I.pdf

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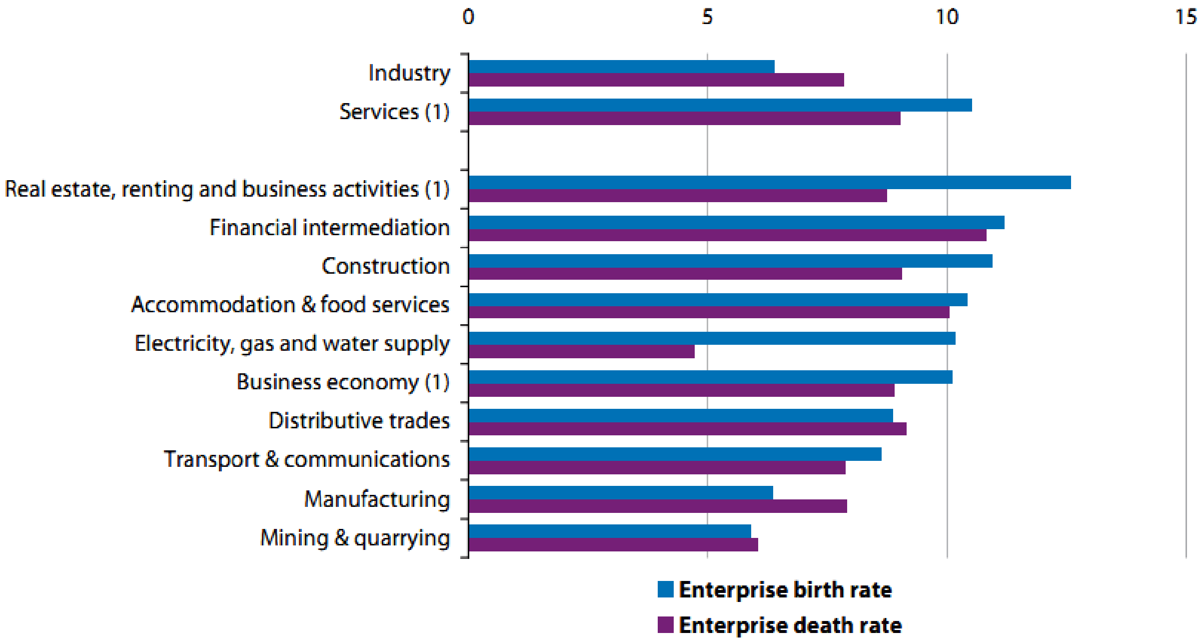
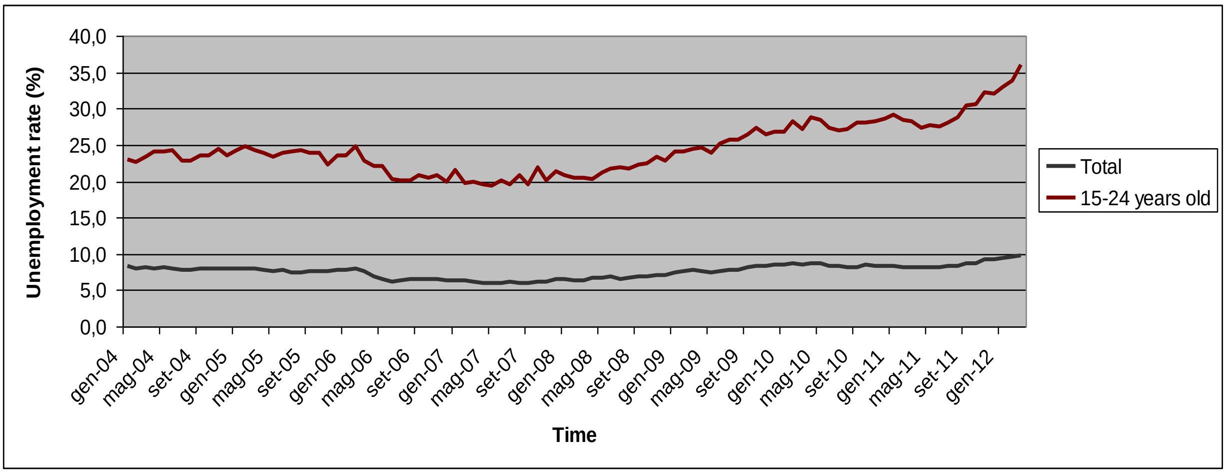
## Appendix

### Enterprise birth and death rates (EU member states) *Appendix 1.1B*




*Source:* Eurostat Statistical Books (2009)

### Italian unemployment rate *Appendix 1.1B*




*Source:* Own creation based on the Istat Database on May 2012

### Company Officers *Appendix 2.3.1*

| Executive | Not executive | Independent | Directors | Position |
|---|---|---|---|---|
| | X | | Mario Moretti Polegato | Chairman and Executive Director |
| | X | | Enrico Moretti Polegato | Vice Chairman and Executive Director |
| X | | | Diego Bolzonello | Director and CEO |
| X | | | Lodovico Mazzolari | Executive Director |
| | | X | Umberto Paolucci | Independent Director |
| | | X | Francesco Gianni | Independent Director |
| | | X | Alessandro Antonio Giusti | Independent Director |
| | | X | Bruno Barel | Independent Director |
| | | X | Renato Alberini | Independent Director |

*Source:* Own creation based on the Interim Report First Half of 2011

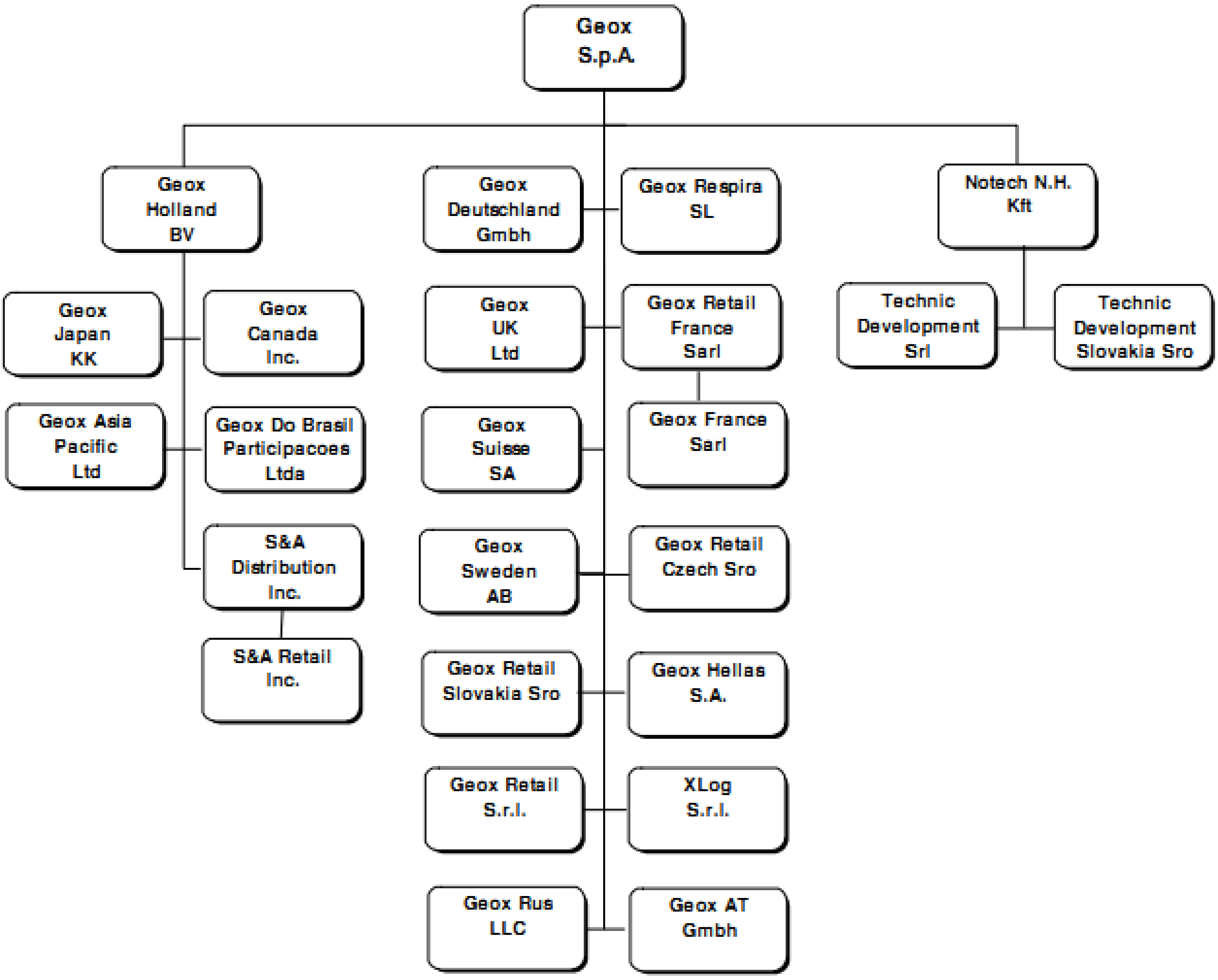
**Remuneration of the Board of Directors** *Appendix 2.3.2*

| Name | Monetary fixed salary (Euro) | Non-monetary benefits | Bonuses and other incentives | Other remuneration | Total |
|---|---|---|---|---|---|
| Mario Moretti Polegato | 1,800,000 | | | | 1,800,000 |
| Diego | 400,000 | 8,322 | | 247,126 | 655,44 |

| | | | | | |
|---|---|---|---|---|---|
| Bolzonello | | | | | 8 |
| Enrico Moretti Polegato | 150,000 | | | | 150,000 |
| Francesco Gianni | 35,000 | | | | 35,000 |
| Bruno Barel | 45,000 | | | | 45,000 |
| Alessandro Antonio Giusti | 65,000 | | | | 65,000 |
| Lodovico Mazzolari | 17,465 | | | 400,000 | 417,465 |
| Renato Alberini | 35,000 | | | | 35,000 |
| Umberto Paolucci | 35,000 | | | | 35,000 |

*Source:* Own creation based on the Corporate Governance Report 2010

**Geox's Organizational Structure** *Appendix 2.4.1*




*Source:* Interim Report First Half of 2011

Graph updated to June 30, 2011

**Internationally Replicable Business Model** *Appendix 2.5.2.1*

| 1st phase: Entering in the new market | 2ns phase: Building the Brand | 3rd phase: Pushing the volumes | 4th phase: Consolidation of the leadership |
|---|---|---|---|
| - Entrance through the multi-brand brand shops<br>- Building the selling net<br>- Advertisement campaign | - Increasing the offer<br>- Increasing the number of multi-brand clients<br>- Opening | - Higher penetration of present multi-brand clients<br>- More emphasis on the | - Enlarging the mono-brand “Geox Shops”<br>- More penetration of the multi-brand channel<br>- Advertisement |

| | | | |
|---|---|---|---|
| | mono-brand stores<br>- Strong advertisement campaign | mono-brand shops<br>- Keeping the advertisement on a high level<br>- Balanced budget of the EBIT | - Expected EBIT: more than 30% |
| Length: two collections | Length: 4 collections | Length: Until Geox will reache the leadership | Length: continuous |

*Source:* Own creation based on a publication made by Direzione Generale di Geox S.p.A. Available at: http://www.mbres.it/sites/default/files/resources/download_it/geox.pdf

**Geox Shops around the world** *Appendix 2.5.2.2*

| *Country* | *N. of shops* |
|---|---|
| Italy | 367 |
| Austria, Benelux, France, Germany, UK, Iberia, Scandinavia, Switzerland | 304 |
| North America | 47 |
| Other countries | 187 |
| Countries with licensing agreements | 172 |
| **Total** | **1,077** |

*Source:* Own creation based on the Interim Report First Half of 2011

**Main formulas** *Appendix 2.8*

- *Growth rate in sales* = (change in sales) / (sales in the prior period)
- *Gross Margin* (GM) = (revenue – COGS) / revenue[66]), which indicates the contribution to the business after having paid direct costs (both fixed and variable)
- *Return on Equity* (ROE) = (net income after tax) / (shareholders equity)

[66] http://www.investopedia.com/terms/g/grossmargin.asp

- *Return on Assets* (ROA) = (EBIT) / (total assets)

- *Working Capital* (WC) = Current Assets – Current Liabilities

- *Debt Ratio* (DR) = (Total Liabilities) / (Total Assets)

  If DR > 1 → debts > assets

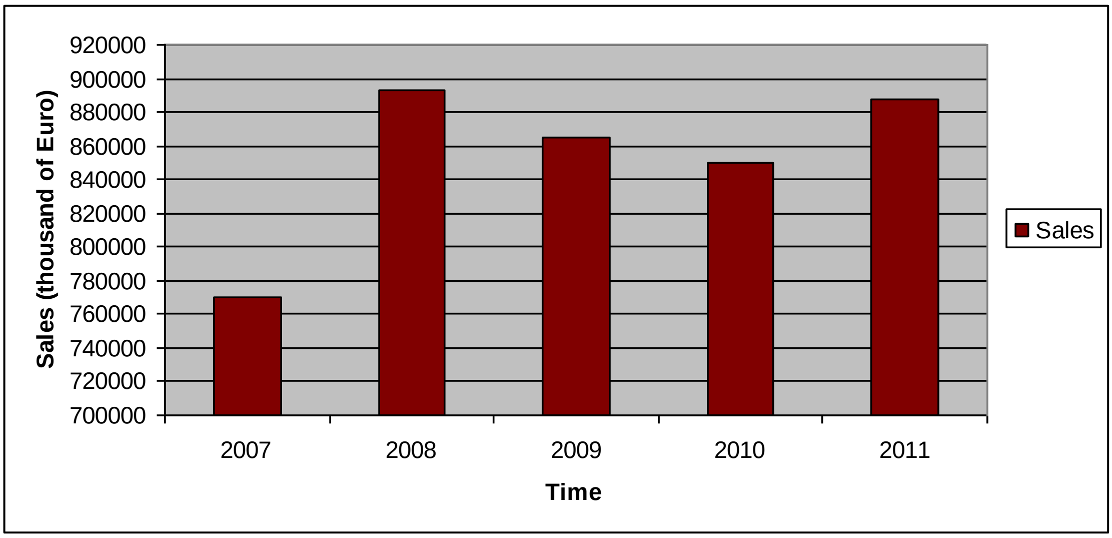
  If DR < 1 → assets > debts

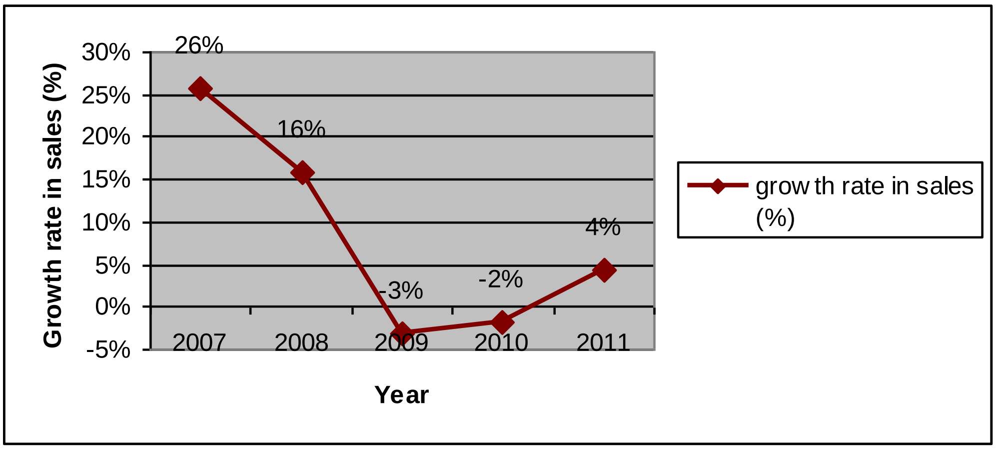
*Source: Investopedia.com*

**Evolution of the share price** *Appendix 2.8A*


*Source: Yahoo! Finance*. Web. 10 Mar. 2012. <http://finance.yahoo.com/>.

**Sales and growth rate in sales** *Appendix 2.8B*

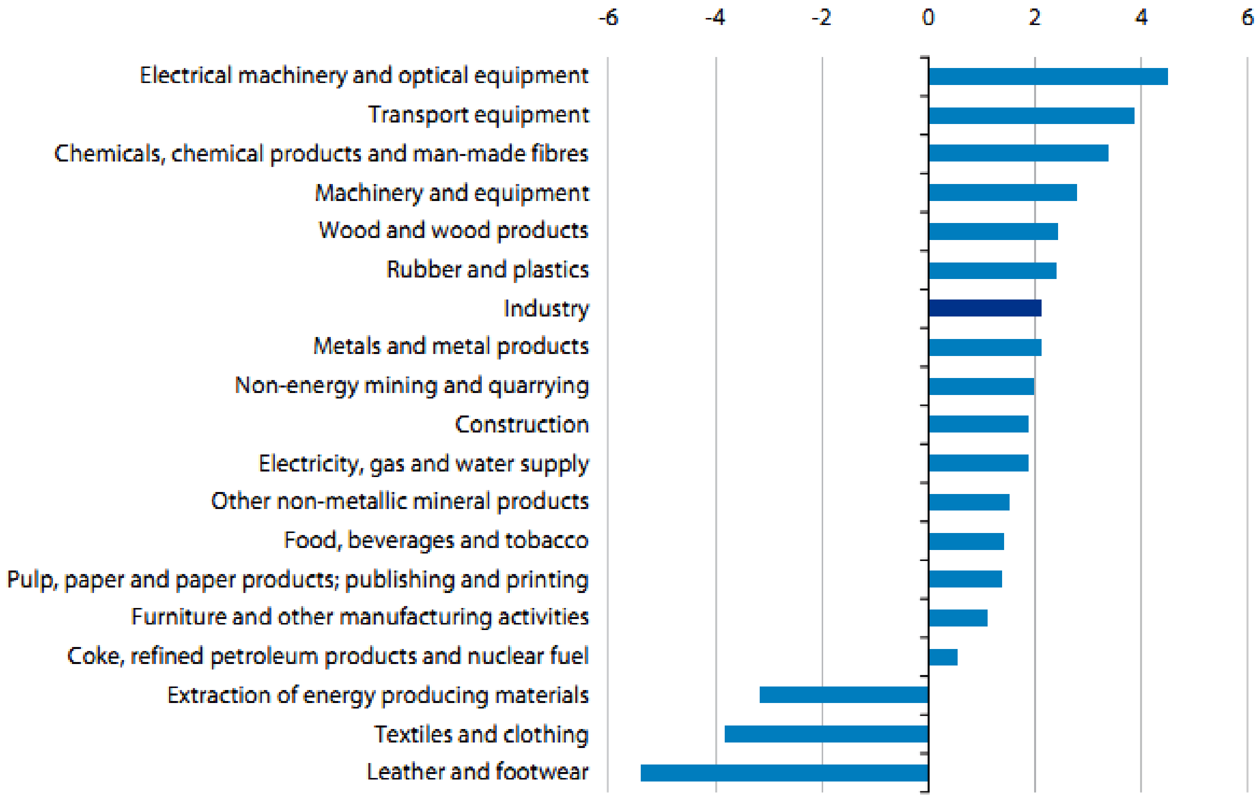



*Source:* Own creation based on the Annual Reports (2007-2011)

*Appendix 2.8C*

**EU 27 Average annual growth rates, index of production for industrial activities 1997-2007**




*Source:* Eurostat Statistical Books (2009)

### Sales according to geography

*Appendix 2.8D*

| (Thousands of Euro) | I half 2011 | % | I half 2010 | % | Ch. % |
|---|---|---|---|---|---|
| Italy | 170,168 | 38.0% | 165,898 | 38.1% | 2.6% |
| Europe (*) | 192,237 | 42.9% | 189,000 | 43.4% | 1.7% |
| North America | 26,457 | 5.9% | 25,852 | 5.9% | 2.3% |
| Other countries | 59,474 | 13.2% | 54,735 | 12.6% | 8.7% |
| **Net sales** | **448,336** | **100.0%** | **435,485** | **100.0%** | **3.0%** |

(*) Europe includes: Austria, Benelux, France, Germany, UK, Iberia, Scandinavia, Switzerland.

*Source:* Interim Report First Half of 2011

### Sales by distribution channels

*Appendix 2.8E*

| (Thousands of Euro) | I half 2011 | % | I half 2010 | % | Ch. % |
|---|---|---|---|---|---|
| **Multibrand** | **255,454** | **57.0%** | **268,836** | **61.7%** | **(5.0%)** |
| Franchising | 87,895 | 19.6% | 72,629 | 16.7% | 21.0% |
| DOS* | 104,987 | 23.4% | 94,020 | 21.6% | 11.7% |
| **Geox Shops** | **192,882** | **43.0%** | **166,649** | **38.3%** | **15.7%** |
| **Net sales** | **448,336** | **100.0%** | **435,485** | **100.0%** | **3.0%** |

**Directly Operated Stores.*

*Source:* Interim Report First Half of 2011

## Net Sales and EBIT for geographical areas

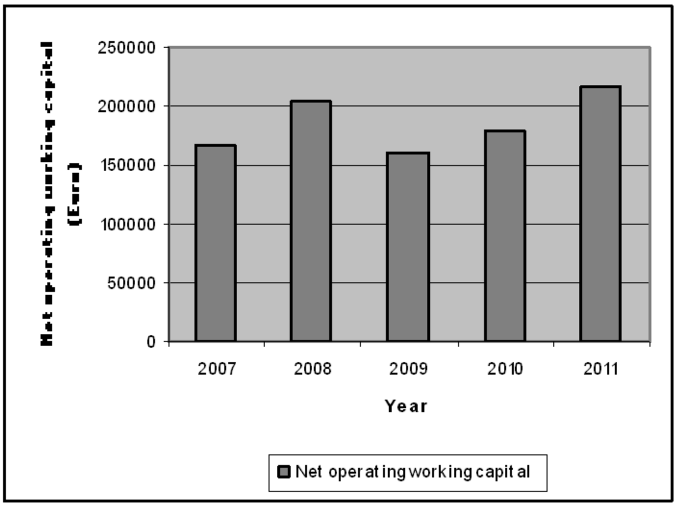
*Appendix 2.8F*

| (Thousands of Euro) | | I half 2011 | % | I half 2010 | % |
|---|---|---|---|---|---|
| Italy | Net sales | 170,168 | | 165,898 | |
| | EBIT | 28,908 | 17.0% | 37,046 | 22.3% |
| Europe | Net sales | 192,237 | | 189,000 | |
| | EBIT | 11,908 | 6.2% | 23,321 | 12.3% |
| North America | Net sales | 26,457 | | 25,852 | |
| | EBIT | (5,821) | (22.0%) | (8,118) | (31.4%) |
| Other countries | Net sales | 59,474 | | 54,735 | |
| | EBIT | 6,636 | 11.2% | 6,716 | 12.3% |
| **Total** | **Net sales** | **448,336** | | **435,485** | |
| | **EBIT** | **41,631** | **9.3%** | **58,965** | **13.5%** |

*Source:* Interim Report First Half of 2011

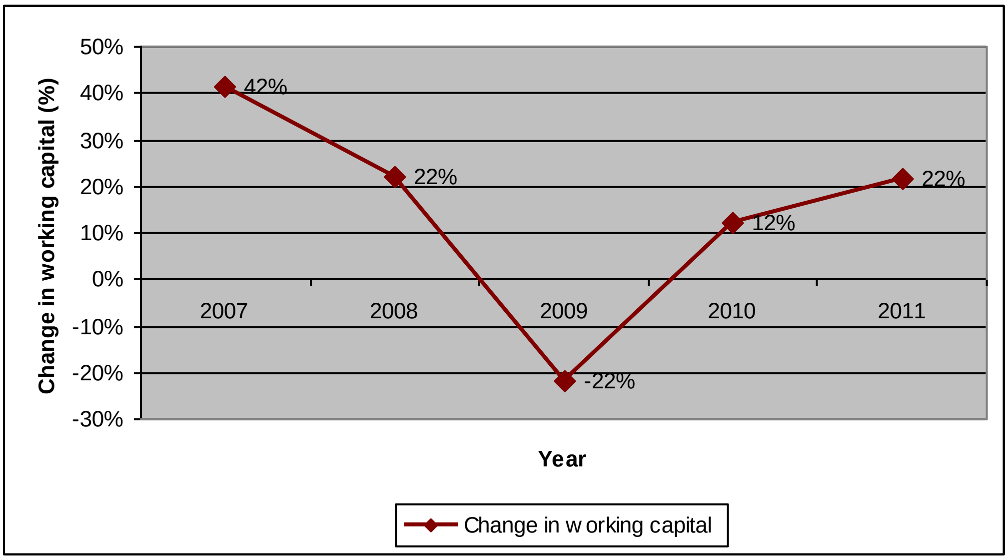
## Working capital

*Appendix 2.8G*



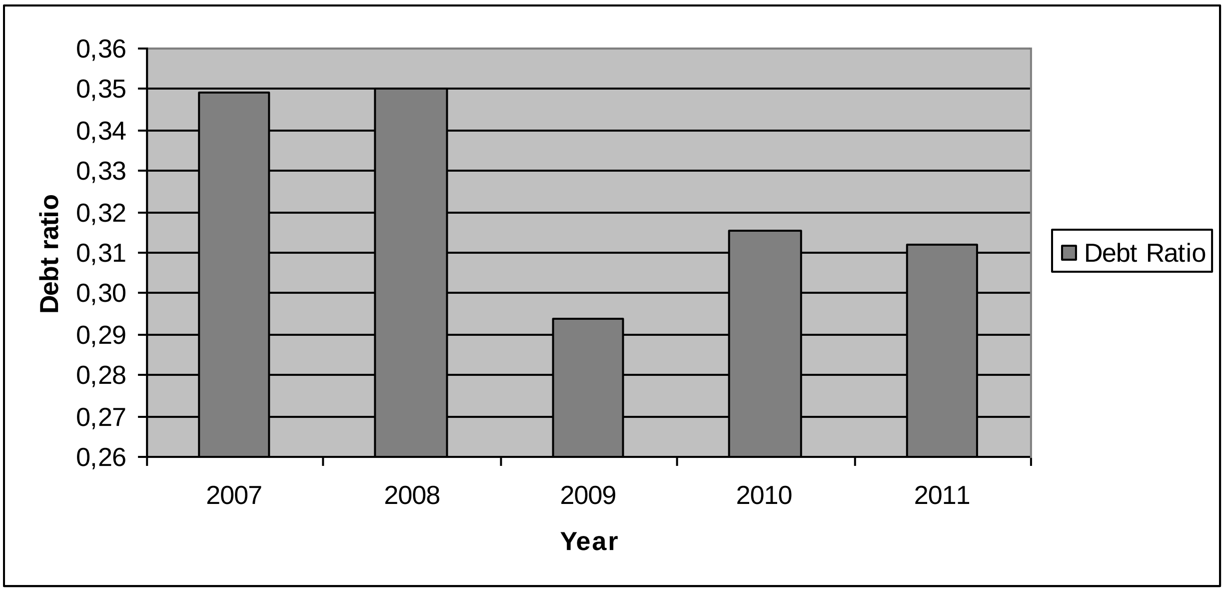
*Source:* Own creation based on the data found on the Annual Reports (2007-2011)

**Percentage change in working capital** *Appendix 2.8H*




*Source:* Own creation based on the data found on the Annual Reports (2007-2011)

**Debt ratio** *Appendix 2.8I*




*Source:* Own creation based on the data found on the Annual Reports (2007-2011)

## Accounting numbers for 2010-2011

*Appendix 2.8L*

### Consolidated balance sheet

| (Thousands of Euro) | Dec. 31, 2011 | Dec. 31, 2010 |
|---|---|---|
| Intangible assets | 67,222 | 68,621 |
| Property, plant and equipment | 63,658 | 67,306 |
| Other non-current assets - net | 40,599 | 42,802 |
| **Total non-current assets** | **171,479** | **178,729** |
| **Net operating working capital** | **217,768** | **178,788** |
| **Other current assets (liabilities), net** | **(23,331)** | **(12,887)** |
| **Net invested capital** | **365,916** | **344,630** |
| Equity | 446,428 | 426,301 |
| Provisions for severance indemnities, liabilities and charges | 10,180 | 10,463 |
| Net financial position | (90,692) | (92,134) |
| **Net invested capital** | **365,916** | **344,630** |

### Net operating working capital and other current assets

| (Thousands of Euro) | Dec. 31, 2011 | Dec. 31, 2010 |
|---|---|---|
| Inventories | 196,610 | 172,085 |
| Accounts receivable | 154,171 | 124,525 |
| Accounts payable | (133,013) | (117,822) |
| **Net operating working capital** | **217,768** | **178,788** |
| ***% of sales for the last 12 months*** | ***24.5%*** | ***21.0%*** |
| Taxes payable | (11,818) | (9,814) |
| Other non-financial current assets | 21,801 | 25,818 |
| Other non-financial current liabilities | (33,314) | (28,891) |
| **Other current assets (liabilities), net** | **(23,331)** | **(12,887)** |

### Cash Flow

| (Thousands of Euro) | Dec. 31, 2011 | Dec. 31, 2010 |
|---|---|---|
| Cash and cash equivalents | 84,794 | 114,200 |
| Current financial assets - excluding derivatives | 64 | 137 |
| Bank borrowings and current portion of long-term loans | (7,573) | (6,489) |
| Current financial liabilities - excluding derivatives | - | (5) |
| **Net financial position - current portion** | **77,285** | **107,843** |
| Non-current financial assets | 1,287 | 1,215 |
| Long-term loans | (358) | (554) |
| **Net financial position - non-current portion** | **929** | **661** |
| **Net financial position - prior to fair value adjustment of derivatives** | **78,214** | **108,504** |
| Fair value adjustment of derivatives | 12,478 | (16,370) |
| **Net financial position** | **90,692** | **92,134** |

## Income statement

| (Thousands of Euro) | 2011 | % | 2010 | % |
|---|---|---|---|---|
| **Net sales** | **887,272** | **100.0%** | **850,076** | **100.0%** |
| Cost of sales | (478,140) | (53.9%) | (435,146) | (51.2%) |
| **Gross profit** | **409,132** | **46.1%** | **414,930** | **48.8%** |
| Selling and distribution costs | (45,581) | (5.1%) | (44,730) | (5.3%) |
| General and administrative expenses | (234,521) | (26.4%) | (228,977) | (26.9%) |
| Advertising and promotion | (45,935) | (5.2%) | (47,420) | (5.6%) |
| **Operating result** | **83,095** | **9.4%** | **93,803** | **11.0%** |
| Special items | (582) | (0.1%) | (396) | (0.0%) |
| **EBIT** | **82,513** | **9.3%** | **93,407** | **11.0%** |
| Net interest | (4,386) | (0.5%) | (3,168) | (0.4%) |
| **PBT** | **78,127** | **8.8%** | **90,239** | **10.6%** |
| Income tax | (27,959) | (3.2%) | (32,236) | (3.8%) |
| *Tax rate* | *36%* | | *36%* | |
| **Net Income** | **50,168** | **5.7%** | **58,003** | **6.8%** |
| **EPS (Earnings per shares)** | **0.19** | | **0.22** | |
| **EBITDA** | **121,514** | **13.7%** | **132,313** | **15.6%** |
| Special items | (582) | | (396) | |
| **EBITDA adjusted** | **122,096** | **13.8%** | **132,709** | **15.6%** |

*Source:* Annual Reports 2011

## Italian Budget Deficit *Appendix 3.2.1.1*

| 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| 3.4% | 1.5% | 2.7% | 5.4% | 4.6% |

*Source:* Own creation based on http://www.tradingeconomics.com/italy/government-budget updated on April 5th, 2012

**Market Shares 2006-2010** *Appendix 3.2.2.2.A*

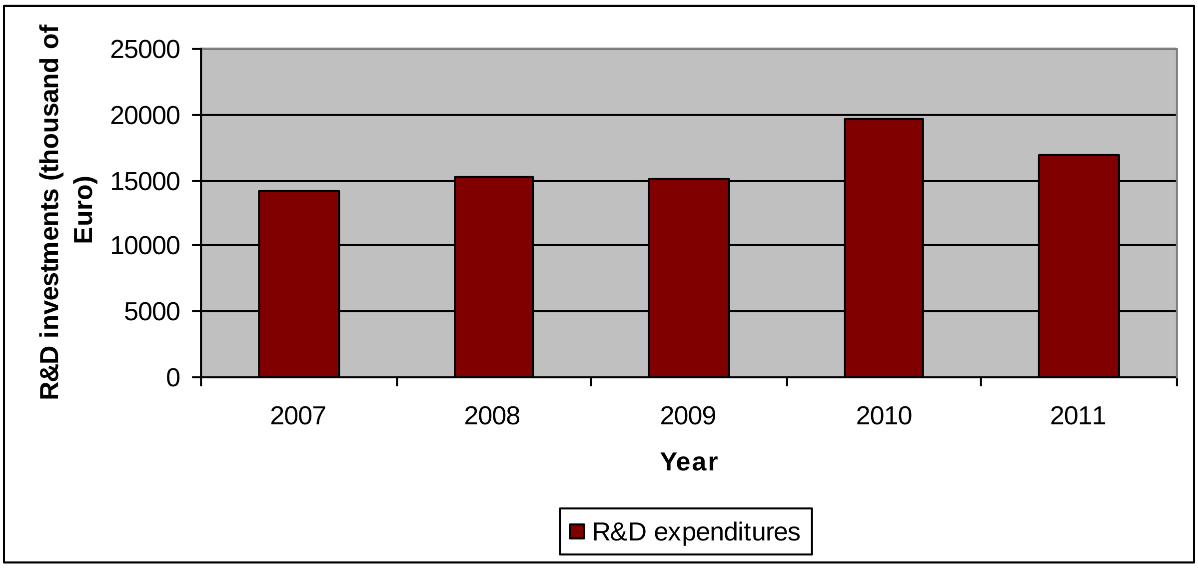
(In percentage of the retail value)

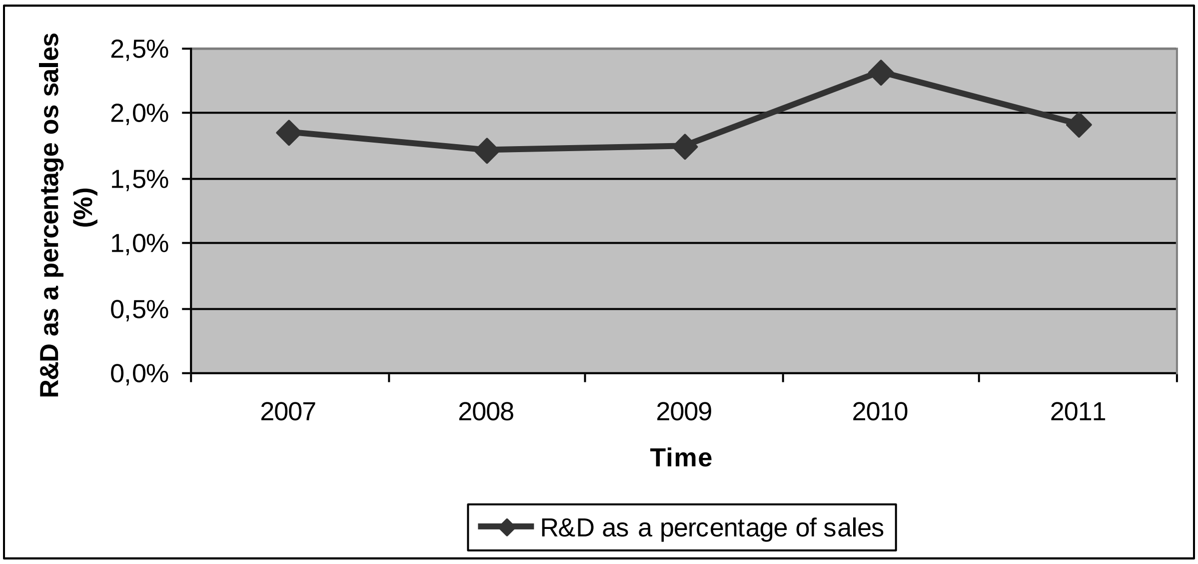
| **Company** | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| Tod's SpA | 3.6 | 3.9 | 4.1 | 4.4 | 4.6 |
| Geox SpA | 3.8 | 4.0 | 4.2 | 4.4 | 4.5 |
| Nike SpA | 4.4 | 4.3 | 4.3 | 4.3 | 4.3 |
| Bata SpA | 3.2 | 3.3 | 3.5 | 3.5 | 3.6 |
| Foot Locker Inc | 3.2 | 2.7 | 3.2 | 3.5 | 3.5 |
| Bag Spa | 0.8 | 1.0 | 1.5 | 1.8 | 2.0 |
| Adidas Italy SpA | 1.1 | 1.1 | 1.3 | 1.3 | 1.3 |
| Salvatore Ferragamo SpA | 1.1 | 1.1 | 1.2 | 1.3 | 1.3 |
| Lotto Sport Italia Spa | 1.1 | 1.2 | 1.2 | 1.3 | 1.3 |
| Zeis Excelsa Spa | 0.8 | 0.8 | 1.0 | 1.1 | 1.2 |
| VF Corp | 0.9 | 0.9 | 0.8 | 0.8 | 1.0 |
| Cofra Srl | 0.8 | 0.9 | 0.9 | 0.9 | 1.0 |
| Imac Spa | 0.8 | 0.8 | 0.9 | 0.9 | 0.9 |
| Filanto Spa | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 |
| Guccio Gucci SpA | 0.8 | 0.8 | 0.8 | 0.9 | 0.9 |
| Paciotti Spa | 0.7 | 0.8 | 0.8 | 0.9 | 0.9 |
| Valleverde SpA | 1.0 | 1.0 | 0.9 | 0.9 | 0.8 |
| Prada SpA | 0.6 | 0.6 | 0.7 | 0.7 | 0.8 |
| Puma AG | 0.9 | 0.9 | 0.8 | 0.8 | 0.7 |
| Bata Ltd | 0.6 | 0.6 | 0.6 | 0.7 | 0.7 |
| Baldinini Srl | 0.6 | 0.6 | 0.6 | 0.6 | 0.7 |
| Artsana SpA | 0.5 | 0.6 | 0.6 | 0.6 | 0.7 |
| Fornari SpA | 0.6 | 0.6 | 0.6 | 0.6 | 0.5 |
| De Fonseca Spa | 0.6 | 0.6 | 0.6 | 0.5 | 0.5 |
| Brummel | 0.4 | 0.4 | 0.4 | 0.5 | 0.5 |

| | | | | | |
|---|---|---|---|---|---|
| SpA | | | | | |
| Tecnica Spa | 0.3 | 0.3 | 0.4 | 0.3 | 0.4 |
| Effegi Style Spa | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| Moncler Spa | 0.2 | 0.2 | 0.3 | 0.3 | 0.3 |
| Hugo Boss Shoes Italia Spa | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 |
| 3A Antonini SpA | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 |
| Others | 65.0 | 64.3 | 62.2 | 60.7 | 59.4 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

*Source: Euromonitor International*. Web. 13 Apr. 2012.

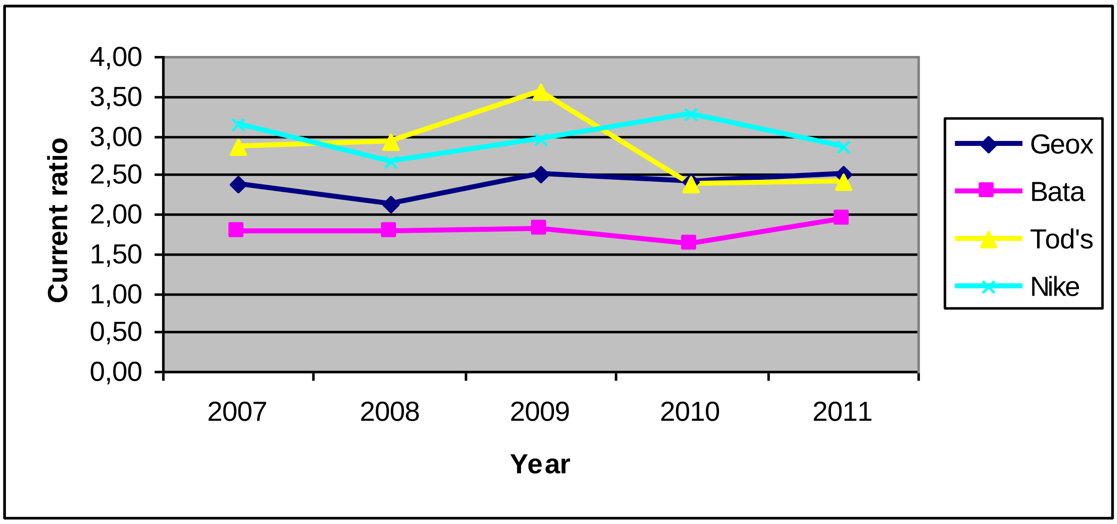
**Geox's investments in R&D** *Appendix 3.3.3*

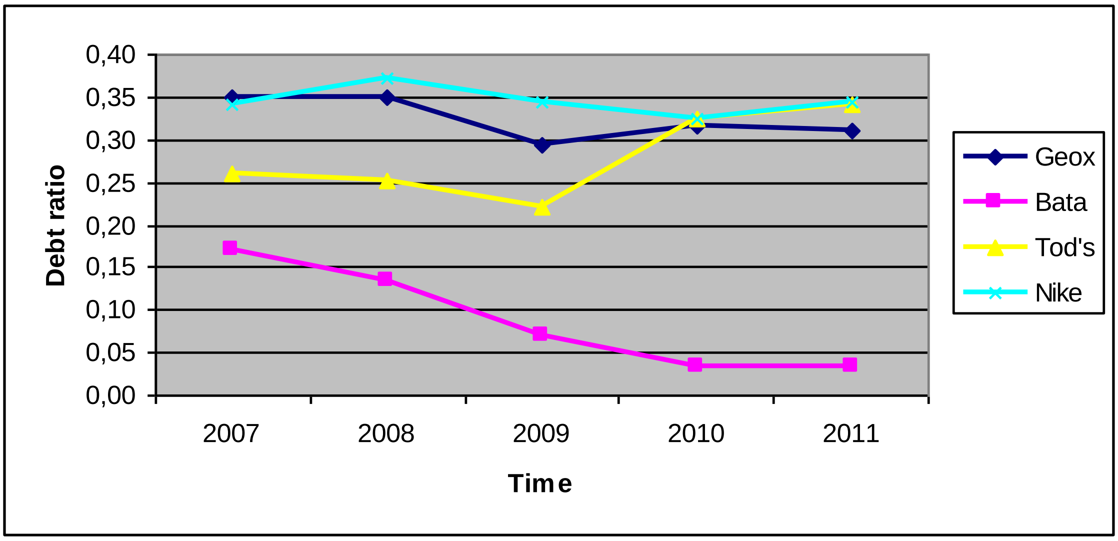


*Source:* Own creation based on data found on the Annual Reports of 2011, 2009, and 2007

**Comparative measures of financial resources** *Appendix 3.3.5*




*Source:* Geox Annual Reports 2007-2011 available on the company's website,

http://economictimes.indiatimes.com/bata-india ltd/balancesheet/companyid-13974.cms,
http://www.todsgroup.com/it/financial-data/statements/,

http://www.marketwatch.com/investing/stock/nke/financials/balance-sheet