OWN BRANDS AND PRIVATE LABEL IN THE PORTUGUESE FASHION INDUSTRY

António Dinis Marques[1], **Graça Guedes**[1]
[1] *University of Minho, School of Engineering, Department of Textile Engineering, Campus of Azurém, Guimarães, Portugal*

ABSTRACT

There are many similarities between the footwear industry and the textile/apparel industries (ITV) in Portugal. Both industries are traditional, "low-tech" and with an important performance in the Portuguese economy. They export more than other Portuguese labour intensive industries and contribute to a very positive trade balance. The Portuguese footwear industry shows an excellent performance in several indicators in the last five years. In two decades, the footwear companies in Portugal made a strategic change in the business model and they started do develop own products and own brands. This performance wasn't achieved yet by the textile and clothing industry in Portugal. Innovation and cooperation are very important factors in these achievements by the footwear sector and the evolution from private label to own brand has also importance to these results.

Keywords: *Own brand, private label, fashion industry and strategy*

1. INTRODUCTION

The textile, clothing and footwear industry belong to the "fashion industries". Indeed, there are many similarities between the footwear industry and the textile/apparel industries (ITV) in Portugal. They are traditional, "low-tech" and labor intensive, with a strong position in the Portuguese economy and represent thousands of jobs. They export more than other Portuguese labor-intensive industries, mainly to Europe, and contribute to a positive trade balance (Table 1). The Portuguese footwear industry shows an excellent performance in several indicators in the last five years. In two decades, the footwear companies in Portugal made a strategic change in the business model and they started do develop own products and own brands, supported by a large and successful international marketing campaign to new foreign markets. This performance wasn't achieved yet by the textile and clothing industry in Portugal. Innovation and cooperation are very important factors in these achievements by the footwear sector.

The competitive strategies [1],[2] followed by the footwear companies are similar with the strategies adopted by the Portuguese apparel and textile industry some years before [3]. Indeed, Monitor's report in 1994 [4], coordinated by Michael Porter, highlight the importance of the traditional industries in the Portuguese economy, focused in create value added in the textile and footwear products. Textile and apparel industries (ITV) have a higher production than footwear, but footwear is increasing his production year by year very quickly [5].

The three generic strategies suggested by Porter [1], i) cost leadership, ii) differentiation and iii) focus (in differentiation or in cost) is easily assumed by the Portuguese innovative footwear companies.

David Aaker [6] considers the three strategies identified by Porter and adds two more: synergy and quick-response. But the increase of global competitiveness requires from the companies the conditions to reach competitive advantages and conquer new markets and opportunities. Own products, own collections and own brands are differentiation strategies that the companies follow step by step in order to change the strategy from private label to own brand production regime.

Table 1. World Top 15 Exporters in 2014 (Value)

Rank	Country	Value (millions USD $)	World Share (%)	Average Price ($) – (Rank)	Export Markets (Top 3)
1	CHINA	53 837	40,5	4,44 (15º)	USA/Japan/Russia
2	VIETNAM	12 200	9,2	16,09 (12º)	USA/France/Gwermany
3	ITÁLY	11 138	8,4	50,92 (1º)	France/Germany/USA
4	BÉLGIUM	5 566	4,2	24,50 (4º)	France/Netherlands/UK
5	GERMANY	5 166	3,9	22,62 (6º)	France/Netherlands/Poland
6	INDONÉSIA	4 761	3,6	20,88 (8º)	USA/Belgium/Germany
7	HONG KONG	4 014	3,0	16,65 (11º)	USA/China/Japan
8	SPAIN	3 540	2,7	22,07 (7º)	France/Italy/Germany
9	NETHERLANDS	3 295	2,5	19,99 (9º)	Germany/France/UK
10	FRANCE	3 095	2,3	31,74 (3º)	Italy/Germany/Spain
11	ÍNDIA	2 610	2,0	13,08 (13º)	UK/USA/Germany
<u>12</u>	<u>PORTUGAL</u>	<u>2 452</u>	<u>1,8</u>	<u>31,88 (2º)</u>	<u>France/Germany/Netherl.</u>
13	U K	2 079	1,6	12,83 (14º)	Germany/Ireland/Netherl.
14	ROMANIA	1 374	1,0	24,01 (5º)	Italy/Áustria/Germany
15	SLOVAKIA	1 226	0,9	17,20 (10º)	Germany/Áustria/Poland

2. RESEARCH METHODOLOGY

The paper analyses seven cases of the Portuguese footwear industry: Felmini, Savana, Centenário, Procalçado, Kyaia, Soze/Dkode and Aco. The research methodology followed was qualitative and the strategy for data collection was the case study (multiple case studies), as suggested by Yin [7]. A number of cases between four and ten works normally well [8]. CEOs and other important directors were interviewed several times during the field research. The qualitative data was analysed with the MAXQDA software. Other sources of data were used in order to help the research [8] and gather critical knowledge to develop the present paper. The sectorial organizations (APICCAPS, CTCP and CITEVE) were also interviewed during the research and gave important advices and suggestions to the researcher.
To select these seven companies, mainly SMEs, were used the purposeful or intentional sampling [9]. The logic and the power of purposeful or intentional sampling is based on the selection of cases that are rich in information for in-depth study of a particular phenomenon, and on which can be drawn from relevant information and central to the purpose of the investigation [8]. There are several strategies to select the footwear companies using the intentional sampling. The maximum variation strategy and the sampling with criteria are the

most appropriate to the present investigation [10]. The good collaboration between the researcher and the footwear companies CEOs was critical to the results achieved.

3. RESULTS

The process of development of new products, new collections and new brands is complex and requires skills and significant resources. Time, experience and know-how are critical to complete the tasks and necessary steps to accomplish the processes. A minimum of ten years working in private label regime is very common before start the development of own brands. To start own products and own collections is necessary less time. Usually the companies develop own products and new approaches to produce “a shoe” in a particular method, according the know-how and technology that exists in the company.
There is a link between the economic performance of the companies and the production regime adopted: own brand versus private label. The figure 1 shows a “planetary model” where is clear the relations between private label, own brands and “ratio turnover/number of workers”.

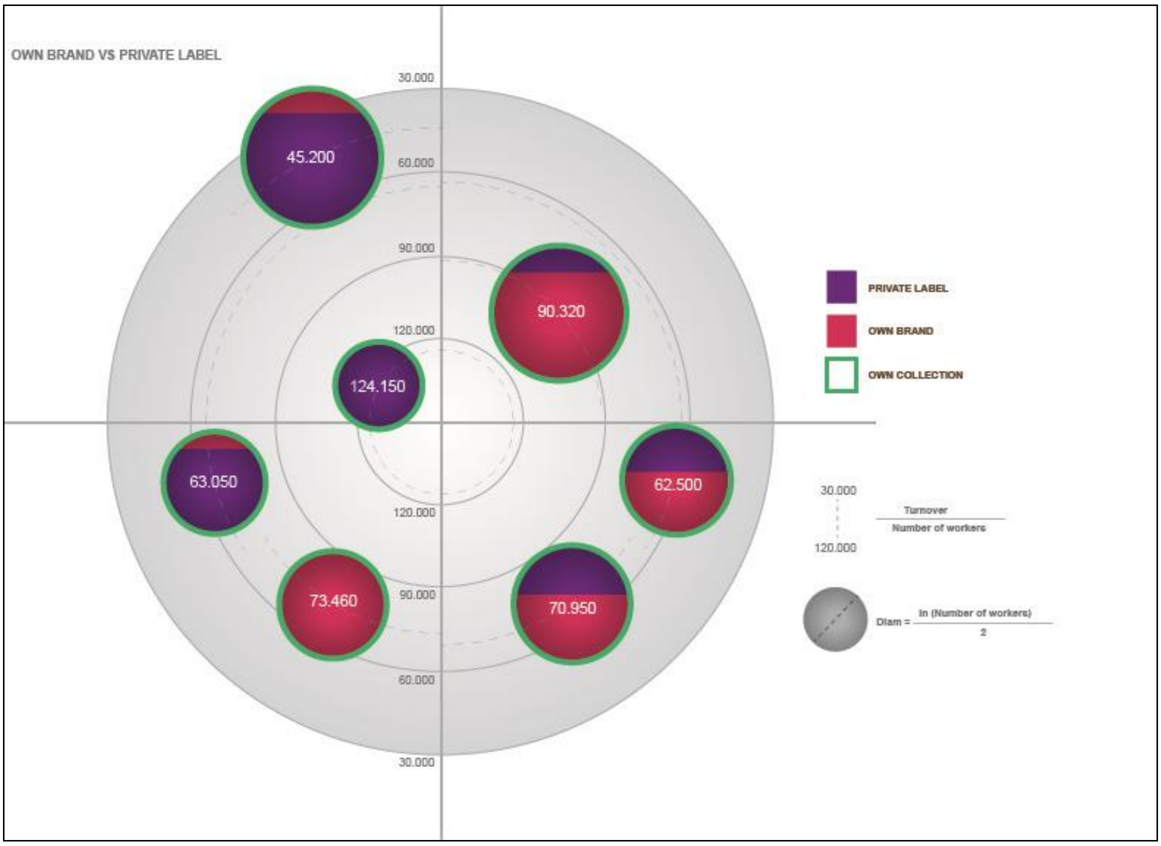

Figure 1: “Planetary Model” own brands versus private label

The green circle around the sphere shows that all the companies have own collections, whatever the production regime adopted.
There are only one company that works exclusively to private label (Centenário), but this company produces high quality shoes with special leathers and skins (alligator, snake, Brazilian fishes, etc.). Also uses a complex process to produce their shoes (Goodyear system) that differentiates the company from other competitors. It works almost exclusively

to a customer in Netherlands. This company shows the best "ratio turnover/number of workers" of the sample.
Other two companies (Aco and Savana) that works mainly to private label show the lower "ratio turnover/number of workers". This fact is recognized by their administrators and is pressing them to make efforts to increase the percentage of own products in the turnover of these companies.
There are only one footwear company in the sample that works exclusively own brand products: Felmini. It sells Felmini shoes mainly to Italy and competes with Italian brands in this sophisticated market. The "ratio turnover/number of workers" is 73.460 euros and the brand is fourteen years old. Over almost thirty years Felmini worked in private label regime (since 1973 till 2001), but after hiring a design team to produce the collections, the sales of Felmini shoes (own brand) are increasing year by year.
Table 2 shows the general data of the footwear companies analysed during the research. There are some differences between all of them, but the ratio "turnover/Nº workers" is quite different between companies as it was explained before.
Despite this be known, only few footwear companies are going to this stage of their business model. Similar position is followed by the textile/apparel companies.

Table 2. General data of the seven footwear companies analysed

YEAR 2013	FELMINI	SAVANA	CENTENÁRIO	PROCALÇADO	KYAIA	SOZE	ACO
Foundation Year	1973	1988	1941	1973	1984	1976	1975
Turnover (Million €)	13,443	8,954	9,187	21,0	56,0	10,0	33,49
Nº workers	183	142	74	296	620	160	741
Ratio "Turnover/Wrk." (€/Worker)	73.460	63.050	124.150	70.950	90.320	62.500	45.200
Number Pairs/Year	300.169	440.437	174.841	5.500.000 (soles)	1.000.000	-	1.491.050
Exportation Value (Million €)	13,028	7,880	9,064	10,5	50	9	28,658
Year of creation of own brand	2001 (Felmini)	2007 (Telyoh)	-	1990 (For Ever) 2006 (WOCK) 2013 (Lemon Jelly)	1994 (Fly London) 2010 (Softinos)	2002 (DKode)	1975 (Aco)
% Own Brand	100%	10%	0%	60%	90%	60%	10%
% Outsourcing	1%	50%	4,3%	24%	25%	-	30%

4. DISCUSSION

Footwear industry and textile/apparel industries have many similarities. They are traditional, "low-tech", with low barriers to entry and with a strong competition in the global context, and they also have a long tradition in the Portuguese economy. They are in clusters well defined in the north of Portugal, with a strong commercial relation with the Inditex Group [12]. They work in private label regime and sometimes in exclusivity to this group or his brands (Zara, Massimo Dutti, Stradivarius, Pull & Bear, etc.). But is this a good and sustainable situation for the future of the Portuguese companies?

The Portuguese ITV industry shows in 2014 a very positive situation. All the economic and social indicators are improving (table 3) and the forecasts to 2015 are also very positive. But Spain remains the more important supplier and customer of the Portuguese ITV industry.

Table 3. General data of ITV (Portugal)

	2010	2011	2012	2013	2014
Production (millions €)	**5.640**	**5.770**	**5.647**	**6.028**	**6.407**
Turnover (millions €)	**5.815**	**5.983**	**5.838**	**6.296**	**6.654**
Exports (millions €)	**3.844**	**4.167**	**4.127**	**4.288**	**4.620**
Imports (millions €)	**3.419**	**3.467**	**3.116**	**3.343**	**3.608**
Employment	**137.264**	**132.133**	**124.329**	**124.147**	**127.901**

The footwear industry starts to say "no" to this strategic dependence of the Spanish market. The table 1 shows that France, Germany and Netherlands are in the top 3 of Portuguese footwear importers and there isn't a commercial dependence of one or two major customers in these countries. There is a different road to go in order to increase the economic sustainability and competitiveness of the fashion industry and the footwear industry is making its way.

Table 4. General data of footwear industry (Portugal)

	2010	2011	2012	2013	2014
Production (millions €)	**1.283**	**1.511**	**1.824**	**1.797**	**1.884**
Number of companies	**1.245**	**1.324**	**1.322**	**1.399**	**1.430**
Exports (millions €)	**1.297**	**1.541**	**1.600**	**1.735**	**1.846**
Imports (millions €)	**425**	**467**	**403**	**422**	**449**
Employment	**32.132**	**34.509**	**34.624**	**36.889**	**37.781**

5. CONCLUSIONS

The fashion industry in Portugal is going to a new approach and a new direction. Private label regime has an enormous importance in the Portuguese industry. But some companies are changing their business models to produce own products, own collections and own brands. Needs time but is critical to keep the competitiveness of the Portuguese fashion industry. The difference in the economic results is very clear and requires from the

companies a strategic option to prepare these organizations to design, produce, promote and sell own products with Portuguese brands.
The sectorial organizations are working with the companies to create and promote a new image to the fashion industry. In the last three years APICCAPS launched a campaign called "Portuguese Shoes: The Sexiest Industry in Europe" to promote the international image of the footwear industry and to entry in new markets. MICAM is the most famous international footwear Fair where the Portuguese industry shows why the "Portuguese Shoe" is competing side by side with the "Italian Shoe". Design, there are; Quality, there are; Know-how, there are; Brands and marketing, it is not enough. Own brands, design and marketing are necessary to add more value to the fashion products and to compete in the most important world markets. Let´s do it.

ACKNOWLEDGEMENTS

"This work is financed by FEDER funds through the Competitivity Factors Operational Programme - COMPETE and by national funds through FCT – Foundation for Science and Technology within the scope of the project POCI-01-0145-FEDER-007136"

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Corresponding author:

Antonio MARQUES
2C2T,Textile Department, University of Minho
Campus Azurém
4800-019 Guimarães Portugal
Phone: 00351253510283 Mobile: 00351918204280 E-mail: adinis@det.uminho.pt

Co-author(s):
Graça GUEDES
2C2T,Textile Department, University of Minho
Campus Azurém
4800-019 Guimarães Portugal
Phone: 00351253510299 Mobile: 00351933269026 E-mail: mgg@det.uminho.pt

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