



Image. Freepik, 2023.

Where Should We Expand?

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This problem situation was written by Anil Yasin Ar (anil.y.ar@tec.mx), with the purpose of serving as discussion material in the classroom; it does not intend to illustrate good or bad administrative practices. The story on this document is based on different people's experiences; some data has been modified at the request of the people and institutions involved.

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The Company

Albatross is a large-size (6,720 million MXN Retail Value as of last quarter in 2023, 2% market share, ranked 4th largest in Mexico) Mexican “Luxury Goods” corporation producing high-quality vegan leather-based fashion items: women handbags, backpacks, wallets, accessories for both men and women, and hats. The firm segments its products based on four price points: entry-level (cheapest), seasonal line (relatively expensive, however, affordable by middle-income consumers), fashion line (usually more expensive than generic brands, however, still affordable by high-mid-income consumers), and luxury line (mid-income to high-income consumers). It has a good brand following and a solid reputation both in North America and Latin America. The company has multiple sales locations as well as production facilities in Toronto (Canada), Atlantic City (USA), Bogota (Colombia), and Buenos Aires (Argentina). Yet, c-level managers believe it is time to expand into the European market, relying on strong home country sales and a frugal production process. Additionally, favorable exchange rates offer a great chance for the firm to generate profit and remain competitive in the European market.

The corporation’s current business strategy can be broadly classified as global integration. It does not alter its product line based on the location or country that it serves. The main idea behind this approach is to achieve cost efficiency through economies of scale. However, there are some exceptions. The firm shifts its production processes to adapt to changes dictated by regulatory rules or cultural norms (mostly on colors or phrases used on designs). Other than these two exceptions, the product lines usually stay the same. Additionally, the firm only chooses to expand into a country with foreign direct investment if there is an established fashion cluster that has robust distribution channels.

Nevertheless, it should not be inferred that every product is available in every country. Even though Albatross' product line does not change, it does provide certain types of products in a given country. For instance, the firm only produces and sells women's handbags in Bogota, whereas, in Toronto, the full line of products (see **Table 1**) is available through exporting and sales points. The main determining points for the product range and entry modes are the operational, financial, and country risk factors as well as the consumers’ overall income level.

Table 1. Price list of merchandise.

Price in Mexican Pesos (in Mexico) / Segment	Hat (Men & Women)	Accessories (Men & Women)	Backpacks	Wallet	Handbags (Women)
Cheapest (entry line)	650 MXN	800 MXN	1500 MXN	300 MXN	1800 MXN
The seasonal line	850 MXN	890 MXN	1800 MXN	500 MXN	3200 MXN
Fashion	1400 MXN	1500 MXN	2200 MXN	950 MXN	4300 MXN
Luxury	2000 MXN	2500 MXN	3500 MXN	1700 MXN	5500 MXN

Source. Elaborated by the author, 2023.

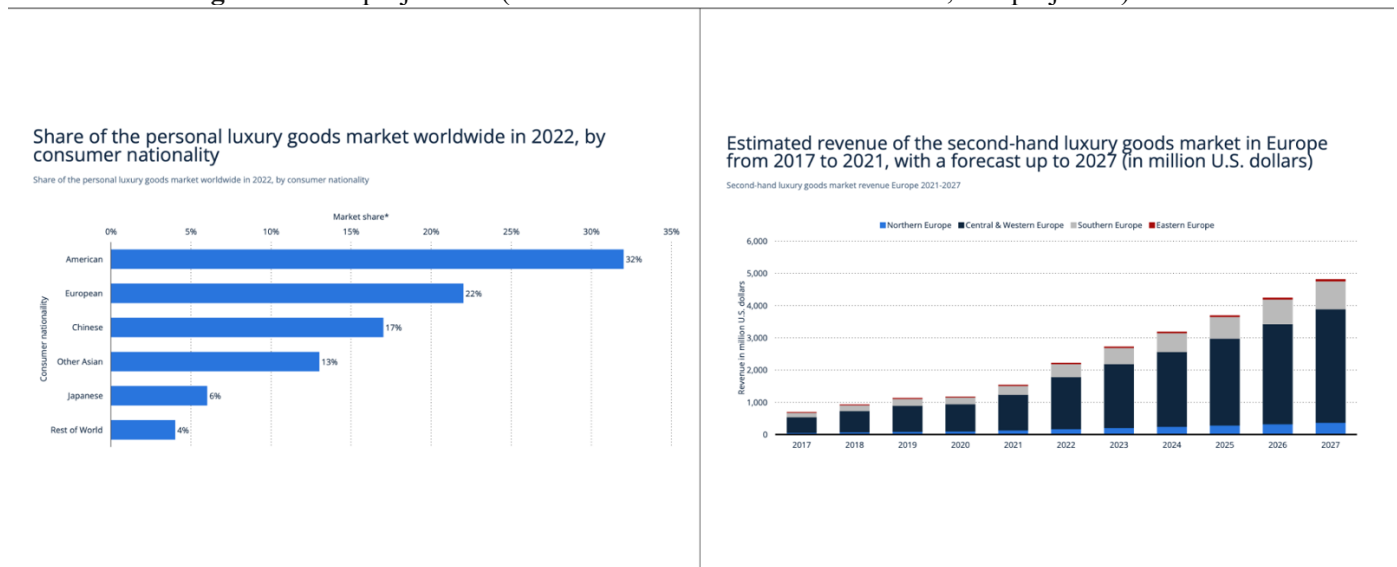
Trends

Besides the previously mentioned factors, consumer trends are critical in location choice and the product line. There is a surge in sales for “sustainable textiles” in the fashion industry, especially in Europe.

According to the report by © Euromonitor (2021), “rising consumer environmental concerns and expanding middle class” are the main drivers of the soaring numbers. However, recent events suggest that the observed increases may not be sustainable. For instance, vegan leather was banned in Portugal not so long ago. In one way, this eliminated some strong competitors' presence in the European market. On the other hand, it introduces an entirely different set of risks. For instance, many European countries have started to debate whether vegan leather solves the problems at hand: sustainability and animal cruelty. Therefore, it is imperative to understand the legal standpoints of the countries, consumer trends in the potential markets, and NGOs’ (non-governmental organizations) current stances on the debate.

The good news is that sales numbers are still climbing. According to Statista (2023a) projections, the industry’s global revenue is expected to exceed \$350 billion USD by the end of 2023. Despite the conflict in the surrounding region, the report also shows that Europe is emerging as the second-largest consumer base for luxury items, just behind the United States of America.

Image. Revenue projections (data is current until 2022. After 2022, it is projected).



Source. © Statista, 2023 (a on the left and b on the right).

Alternative International Entry Modes

The firm proposes one of the four strategies to enter the international market. It will establish sale points in one of the European Union countries, start digital sales, or establish a production facility (FDI: Green or Brown field) in a non-EU member country that borders with a member state to conduct direct export. Each entry mode introduces different sets of risks. For instance, a recent McKinsey Report reveals that the longer the shipping and delivery time, the more likely shoppers will switch their consumption preference from online shopping to in-person shopping (McKinsey & Company, 2023). Hence, a logistics problem between Mexico and the EU might lead to a major failure. Additionally, depending on the choice of entry, the final price of the product may change since the higher capital investment requires different pricing policies (under some circumstances, the price of the host country’s raw material is lower and makes a positive change). **Table 2** shows a projection of what these changes look like for each mode of entry.

Table 1. Estimated changes in the price of a specific item at a chosen entry mode.

Expected Price Change / Item	Hat	Accessories (Men & Women)	Backpacks	Wallet	Bags
FDI - Greenfield	5% ↑	5% ↑	10% ↑	2% ↓	10% ↑
FDI - Brownfield	3% ↑	3% ↑	6% ↑	4% ↓	6% ↑
Digital Sales (price change due to logistics and operations)	2% ↑	2% ↑	4% ↑	2% ↑	4% ↑
Sales Points	2.5% ↑	2.5% ↑	5% ↑	2.5% ↑	5% ↑

Source. Elaborated by the author, 2023.

According to initial calculations of the financial department of the firm, if everything (raw materials, demand conditions, competitors' product diversity as well as prices, legal framework, etc.) remains at today's price, the firm can choose one of the six potential countries: England, Germany, Italy, Greece, Hungary, or Turkey. However, it is known to the executive board that this is not a realistic assumption: prices may go up or down, there will be fluctuations in exchange rates, and potential new entrants could disrupt the market. In other words, other than change itself, nothing will stay constant.

Board Meeting

Albatross must decide the country, entry mode, and set of merchandise to enter the potential market. There seems to be no consensus about the best location to invest and the line of merchandise that will be provided in the chosen country. During the last board meeting, some board members took the absence of consensus as an indication not to pursue internationalization further. In contrast, others strongly believed in the opportunity that internationalization may provide. As a result, the board invited an expert outside the company to make an informed decision. They seek an expert opinion that can reveal and demonstrate the best subsequent actions for the corporation.



Image. Which way to go?

Source. Freepik, 2023.

Additional Information [SEE HERE](#)

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