

STRATEGIC MANAGEMENT

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Question 1

Introduction

Intertwining the lives of people with digital world has reshaped the use of social media platforms for changing the retail experience of customers. In case of fashion industry, the constant changes in retail shopping experience allowed the hyperconnected consumers to seek easy and fast access to diversified products with help of new exciting technologies. Moreover, in this 'insta-age', consumers thrive to follow the use of social media instigating instant access to fashion clothing and apparel products for addressing the diversified needs of customers. This assignment question is destined to examine the strategic options available for the given case of Italy-based international fashion house, Armani, selling ultra-luxury products including fashion accessories, clothes, perfumes, cosmetics and eyewear for catering to consumer interests.

Now, considering the rapid changes in consumers' perspectives, the technological convergence and use of social media platforms in promoting fashion products orchestrated changes in consumer perspectives. In the views of Liang *et al.* (2020), the attempt of designer brands to embrace the latest technologies including *artificial intelligence (AI)*, *3D printing* along with *VR (virtual reality)* and *AR (augmented reality)* influenced the growth of fashion industry, which is further controlled by the trend of mobile commerce (M-Commerce). For instance, a forecasted growth of mobile commerce up to **45%** in 2024 valuing **US\$488 billion** from **28%** in 2019 with a value of **US\$157 billion** indicates towards the growth of this sector supporting development of online fashion retail (Meola, 2019). *[Refer to Appendix 1]*

The fashion apparel industry allowing global enterprises to do business by making and selling clothes is one of the most profitable businesses across the world. However, the continual changes in styles of clothing and accessories make this industry vulnerable to be exposed to deal with change characterisation (Sudha and Sheena, 2017). Here, following the trend change with combination of consumer electronics, utilisation of AI technology by fashion brands to improve shopping experiences of customers is one of the crucial aspects influencing buying preferences of consumers. Arribas and Alfaro (2018) mentioned that collecting consumer data on *past shopping history*, *search preferences* and *visited websites* contributed to the increased

sales performance of global fashion brands to improve inventory related guidance while identifying appropriate forecasting trends.

Apart from this, fashion industry valuing **3 trillion dollars**, as of 2018, has concentrated on exploring AI technology for transforming the experience of customers (Schmelzer, 2019). Here, famous luxury fashion brands including **Louis Vuitton, Tommy Hilfiger, Burberry, Dior, Levis** and Estée Lauder adopted advanced technologies to design chatbots for adding human touch and catering to the customers' needs (DeAcetis, 2020). On the other hand, designing the conversational assistants including **Apple Siri, Microsoft Cortana, Amazon Alexa** and **Google Home**, global fashion industry has transformed the fashion design and manufacturing context (Schmelzer, 2019). Besides, use of VR and AR technologies to deliver customised products through combining consumer electronics with fashion industry resulted in improving the customers' perspectives of fashion product consumption.

Current and Strategic Challenges

1. Strategic Challenges Encountered by Armani

As indicated in the attached case study, the **Italy-based fashion house, Armani**, is dependent on the loyal male consumers that is shrinking while the women supporting this brand are getting older. This indicates towards the strategic challenge for the business related to target customer segmentation. Moreover, shrinking markets of **Japan** and **US** also presented challenges for the business while increasing unemployment rate in these main markets and economic downturn posed challenges for this business to sustain in the competitive market. Besides, attempt of this fashion luxury brand to integrate consumer electronics through designing **Armani- Samsung phone** also failed to meet the expected business targets.

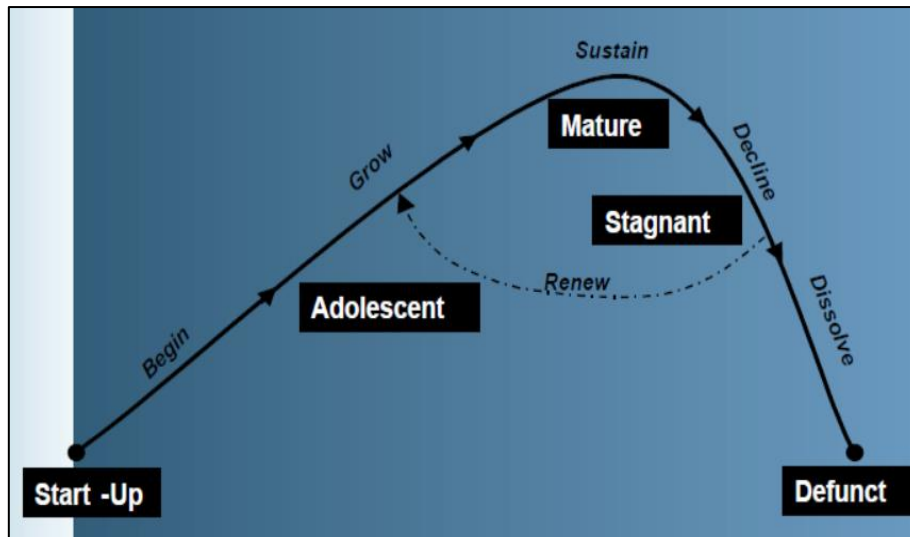


Figure 1: Organisational Life Cycle

(Source: Developed from Andriani *et al.* 2019)

In case of discussing the implications of the identified strategic challenges, application of *Organisational Life Cycle* can be effective to evaluate the different stages of the strategic challenges. As explained by Andriani *et al.* (2019), understanding lifecycle of an organisation helps to go through varied stages starting from creation of business to termination of operations, as shown above. In addition, as revealed in the case study, declining consumer market in the aforementioned two countries (*US* and *Japan*) presented strategic challenges for the businesses to meet the profitability targets. Thus, in case of Armani, the business is in the *decline state* with a stagnant mode thriving to renew the business strategy for growing further.

2. Conducting SWOT Analysis of Armani for Handling the Challenges

In order to develop a strategic direction for the given fashion brand Armani, conducting a SWOT analysis can be effective to locate prevalent strengths and weaknesses of business while identifying potential threats and opportunities can be beneficial-

<p style="text-align: center;">Strengths (S)</p> <ul style="list-style-type: none"> • Strong brand value and sustainable business approach for operating in the global market (Armani.com, 2021) • Celebrity involvement as an effective and innovative marketing tactic • Positive brand experience and support of loyal customers • Quality designs of luxury products leading some Hollywood celebrities preferring clothes and accessories from this brand 	<p style="text-align: center;">Weaknesses (W)</p> <ul style="list-style-type: none"> • Declining consumer market reflecting through declining revenue from 2,334.7 million euros in 2017 to 2,108.8 million euros in 2018 (Sabanoglu, 2021) [<i>Refer to Appendix 2</i>] • High price of products and targeting high-end customer group
<p style="text-align: center;">Opportunities (O)</p> <ul style="list-style-type: none"> • Global business expansion using strong distribution networks (Armani.com, 2021) • Concentration on market expansion and strategic tie-ups • Diversifying product range and adopting innovation product strategies 	<p style="text-align: center;">Threats (T)</p> <ul style="list-style-type: none"> • Shrinking loyal customer base and aging women supporting the brand • Economic decline and high unemployment rate in major markets of US and Japan

Table 1: SWOT Analysis

(Source: Developed from Case Study)

Now, as demonstrated in above table, Armani is struggling to cope with the strategic challenge of declining customer market affecting the revenue from sales. Therefore, exploring the strategic insight through applying appropriate strategy is crucial for this business to meet the profitability targets while applying appropriate market expansion strategies boosting sales performance (Pedersen *et al.* 2018).

3. Relating SWOT to TOWS

Depending on the SWOT analysis of Armani conducted above, the strategic position for this fashion brand can be explored through relating the TOWS matrix with SWOT to sustain growth.

	<p>Strengths (S) (Internal, positive)</p>	<p>Weaknesses (W) (Internal, negative)</p>
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Opportunities (O) (External, positive)	<i>Maxi-Maxi Strategy (SO)</i> Maximising brand value to concentrate on global business expansion	<i>Maxi-Mini Strategy (WO)</i> Applying effective market expansion strategy to minimise the threat of declining consumer market
Threats (T) (External, negative)	<i>Mini-Maxi Strategy (ST)</i> Adopting innovative marketing strategy for involving celebrities to minimise the threat of decline in loyal consumer base	<i>Mini-Mini Strategy (WT)</i> Not applicable

Table 2: TOWS Matrix

(Source: Developed from Case Study, Armani.com, 2021)

Thus, following the above matrix, *Maxi-Mini Strategy* for adopting market expansion strategy to minimise threat of declining consumer market can be effective for this business to sustain in competitive market.

Strategic Transformation

4. Selecting Strategy and Justification for Strategic Transformation

The use of strategic tools such as SWOT and TOWS, based on given case, revealed that focus on *market expansion strategy* can be beneficial for the Italian fashion house Armani to meet the business targets. This will also be effective to expand the consumer market for combating threats of declining customer market in US and Japan. Now, identifying a suitable strategy to expand business in competitive market of *China* with a **30%** per annum growth in luxury market, as shown in the case study, will be supportive for the business to meet the future goals. Moreover, extending the luxury business line can be beneficial for the business to sustain the growth and design luxury hotel services for meeting the *brand exclusivity* of the brand. Here, applying *Ansoff's Growth matrix* can be effective to devise an effective strategy for acquiring the expected market share (Gurcaylilar-Yenidogan and Aksoy, 2018).



Figure 2: Ansoff's Growth Matrix

(Source: Gurcaylilar-Yenidogan and Aksoy, 2018)

As indicated in the above figure, adoption of *diversification* and *market development* strategies can allow a business to enter new market as it helps to target a new consumer market. In addition, diversifying services and products can be supportive for a business to attract the attention of customer for capturing a significant market share (Mohammadbeygi *et al.* 2020). Now, based on attached case study, Armani has encountered issues due to the declining consumer market and aging women customers, therefore, *market development strategy* can help to acquire an expected market share. This strategy will be supportive for the business to explore new customer segment while acquiring competitive advantage to ensure long term sustenance (Pal and Gander, 2018).

5. Description of Strategic Transformation

Since the shrinking markets of US and Japan presented challenges for Armani to sustain the growth, adoption of market development strategy can be effective for this business to support strategic transformation. Here, in case of applying market development strategy, focus on *market segmentation* while conducting a *well-integrated market research* can facilitate opportunity to identify prevalent threats and opportunities. Following fashion industry in China, the recent outbreak of Covid-19 has affected the apparel manufacturing industry as the

total revenue of this sector in China is expected to decline by **15.6%** making it valued at **\$319.8 billion** (Ibisworld.com, 2020).

Apart from that, the fashion and apparel industry in China is likely to encounter challenges due to preference of over **75% consumers** to reduce spending or postpone purchase with **45% decrease** in total spending during first quarter of 2020 (Abdulla, 2020). This indicates towards the declining market condition amid Covid-19 outbreak posing strategic challenges for the chosen business. However, **54%** of customers in China belonging from high income group are likely to spend for high quality products, while **64%** customers prefer to spend online driving the success and demand for exclusive online line products and new technologies (Abdulla, 2020).

In addition, this target market with huge population can boost the use of consumer electronics supporting the growth of online stores through reducing footprint of offline stores and introducing advanced technologies catering to consumer requirements. Besides, designing the **marketing mix** can be advantageous for this fashion brand to support market development approach and utilise **human, technological** and **financial** resources for acquiring the expected market share (Sudha and Sheena, 2017). Here, designing **sales promotion** and **organising advertising and promotional approaches** using social media platforms can be beneficial for the business to acquire expected market share. This can also enhance chances to design **integrated marketing campaigns (IMC)** through utilising **information communication technology (ICT)** and social media platforms including **Twitter, YouTube** and **Instagram** to meet the business requirements (Guercini *et al.* 2018).

6. Measuring the Success

In case of addressing the business goals, business success can be measured through the increase in market share of Armani in global market. Moreover, strategic planning contributing to expansion of customer segment, **growing brand value** along with **increase in number of loyal customers** can be effective performance indicators to measure the business success (Yang *et al.* 2017). In addition, tracking **earned media value** can help to integrate customer electronics for supporting the growth of fashion industry and meet the business targets. Besides, measuring **profitability** can also be helpful for the business to meet the performance metrics for sustaining growth. Furthermore, using balanced scorecard can expand chances to meet financial, innovation, internal and consumer perspectives (Gama, 2017).

Conclusion

7. Concluding Findings and Recommendations

Intention to operate in the international market and acquire the expected market share can lead a business to improve strategic direction catering to consumers' requirements. This question concentrates on exploring strategic options for the given business of Italian fashion and luxury brand Armani. Here, the shrinking major markets of Japan and US affecting the business performance of this brand demanded focus on adopting a strategic transformation for sustaining its growth. Therefore, depending on strategic analysis using relevant tools and techniques such as *SWOT* and *TOWS*, it has been revealed that applying *Maxi-Mini Strategy* to concentrate on market expansion strategy can help the business to minimise threat of declining consumer market.

Following this, application of *Ansoff's Growth matrix* has helped to identify market development strategy as the strategic transformation for entering China market with 30% annual growth in luxury market. Moreover, conducting market analysis and segmenting the target market while developing marketing mix can be beneficial for this business. Thus, adoption of digital marketing strategy using social media platforms such as *Twitter*, *YouTube* and *Instagram* can be supportive to meet the profit targets. Besides, *influencer marketing* and *e-marketing* can help to utilise the e-commerce business for selling the fashion luxury products. In addition, emphasis on *diversifying the product and service range* while adopting *digital marketing mix* can be advantageous given business, Armani, to capture a significant market share in China while catering to the consumers' requirements for long term sustenance.

Question 2

Introduction

Integration of global businesses facilitated chances for multinational business entities for devising effective strategies to sustain in the competitive market. Regarding this, examining the market growth potential can be beneficial for entering a foreign market and exploit the market opportunities. Depending on the attached case details, this essay concentrates on assessing the attractiveness and growth potential of coffee markets in *India* and *China* for allowing a Malaysian company to enter these markets. In case of India, the growing market size of tea and coffee industry in India valuing up to **INR418 billion** in 2017 from **INR251.66 billion** in 2013 refers to the global production of coffee while pointing towards the heavy investment opportunities in this market (Keelery, 2020). *[Refer to Appendix 3]*

In case of understanding the growth perspectives of coffee business in India, the developing market of this country is driven by the increasing number of double income households and higher disposable income. This, as a result, can boost the market growth of coffee café market with an expected growth at CAGR of more than **12%** during 2019-2024 (Globenewswire.com, 2020). Moreover, *global exposure, rapid urbanisation* and changing concept of coffee as ‘cool’ brew along with global lifestyle, *corporate culture* and *media penetration* can instigate the growth of India coffee market. Here, considering the contemporary scenario, the recent pandemic of Covid-19 has boosted the coffee consumption in India as Karnataka’s SLN coffee brand, *Levista*, has observed a top-line growth of more than **50%** during April to December in 2020 (Hariharan, 2021).

On the other hand, coffee market of China encountering constant growth with a revenue of **US\$8214 million** in 2019 is expected to grow annually at CAGR of **11.3%** during 2019-2023 (Dccchina.org, 2019). Besides, as per the statistical data of International Coffee Organization, coffee consumption in China expanded by average annual rate of **16%** over past 10 years with an expected market growth of **\$42.3 billion** (300 billion yuan) by 2020 (Xinhua, 2020). Furthermore, increasing investment in innovation practices and development of a global corporate culture orchestrated the growth of coffee business in this country. In this regard, the restriction on out-of-home coffee market resulted in growth of fresh coffee market led by traditional coffee drinkers by only **7%** whereas the market for instant coffee grew at **13%** rate recording a growth of **INR 3,899 crore** in India (Hariharan, 2021).

In case of China, the emerging middle class population expected to reach **780 million** by 2025 has been the main driving force to support the booming coffee industry in this country (Dccchina.org, 2019). However, the market growth of coffee shop industry in China ranging between **5%-9%** with a volume of **US\$7,468 million** in 2019 highlights the growth potential of this market (Dccchina.org, 2019). Therefore, based on the market growth prospects, entering the **Chinese market** will be supportive for the Malaysian coffee chain to explore the market opportunities.

External Evaluations

In case of discussing the market growth opportunities, the strategic tool of PESTEL and Porter's Five Forces have been used below to identify strengths and limitations of chosen market segment (Mighty, 2017).

PESTEL Analysis

<i>Factors</i>	<i>Aspects</i>	<i>Opportunity/ Threat</i>
Political	<ul style="list-style-type: none"> Bi-lateral political relation between China and India to encourage commercial and trade activities (Eoibeijing.gov.in, 2020) 	Opportunity
	<ul style="list-style-type: none"> Deteriorating political relations with US affecting global business activities (Cfr.org, 2021) 	Threat
Economic	<ul style="list-style-type: none"> Growing GDP of China by 2.3% amid Covid-19 outbreak valuing US\$14.7 trillion in 2020 (Cheng and Lee, 2021) [Refer to Appendix 4] 	Opportunity
	<ul style="list-style-type: none"> Increase in disposable income up to 5.8% in 2019 with per capita disposable income of 30,733 yuan (Xinhua, 2020) 	Opportunity
Social	<ul style="list-style-type: none"> Growing health consciousness of people reducing caffeine intake and demand for decaffeinated products (Zhang and Ma, 2020) 	Threat
	<ul style="list-style-type: none"> Emphasis on fair trade to support the international movement for catering to needs of farmers 	Opportunity

Technological	<ul style="list-style-type: none"> Application of innovation techniques in brewing and coffee production while genetic engineering expanded opportunity for increased production 	Opportunity
	<ul style="list-style-type: none"> Increasing use of advanced technology for designing coffee delivery applications and tendency of population to use food delivery applications as the famous coffee chain Starbucks designed mobile apps for serving more than 240,000 active users (Dccchina.org, 2019) 	Opportunity
Environmental	<ul style="list-style-type: none"> Emphasis on sustainable farming 	Opportunity
	<ul style="list-style-type: none"> Restricted use of fertilisers and other industrial products while issues related to water consumption affecting production process (He <i>et al.</i> 2019) 	Threat
Legal	<ul style="list-style-type: none"> Addressing the food standards through complying with Food Safety Law (Sgs.com, 2019) 	Opportunity

Table 1: PESTEL Analysis

(Source: Self-developed)

Porter's Five Forces Analysis

<i>Forces</i>	<i>Impact</i>	<i>Features</i>
Bargaining power of buyers	High	<ul style="list-style-type: none"> Huge number of customers or coffee drinkers, especially the middle class population in China with an expected rise up to 780 million by 2025 (Dccchina.org, 2019)
Bargaining power of suppliers	Moderate	<ul style="list-style-type: none"> Suppliers' power determining the price of coffee determines the competitive edge of a coffee brand (Grabs and Ponte, 2019) Limited market size of individual suppliers and large supply network
Threats of new entrants	Moderate	<ul style="list-style-type: none"> Moderate cost of operating business High cost of developing brand image in the competitive market of China (Ferreira and Ferreira, 2018)
Threats of substitutes	Strong	<ul style="list-style-type: none"> Availability of various substitutes including tea and other types of refreshment drinks

		<ul style="list-style-type: none"> • Low switching costs and high affordability of substitute products (Zhang <i>et al.</i> 2020)
Competitive rivalry	High	<ul style="list-style-type: none"> • Presence of strong competitors including Starbucks with 3,300 coffee shops across the country (Dccchina.org, 2019) • Strategy of Costa Coffee to launch ready-to-drink coffee products with low sugar and fat content (Xinhua, 2020)

Table 2: Porter's Five Force Analysis

(Source: Self-developed)

Now, based on the strategic evaluation of the external business environment, it is evident that the Malaysian coffee chain is likely to operate in a highlight competitive market of China due to the presence of strong competitors including *Starbucks*, *Luckin Coffee*, *McCafé* and *Costa Coffee* (Sca.coffee, 2020). Besides, although the per-capita consumption of coffee in China is low, the growing middle class population, expected to be **780 million** by 2025 highlights the high power of buyers (Dccchina.org, 2019). This is further reflected through the increase in average rate of coffee consumption at 16% (Xinhua, 2020). In addition, the growing market size of coffee shop industry in China from **25.1 billion yuan** in 2018 to an expected market size of **47.9 billion yuan** in 2023 can help the Malaysian coffee chain to exploit this market (Textor, 2020). [Refer to Appendix 5]

Strategy Development

Growing competition in international market boosted by the technological growth requires attention on adopting strategic development approaches. Here, following the instructions given in the case, *OLDTOWN White Coffee* has been selected as the Malaysian coffee chain to enter the international market of China and India. The global presence of this coffee brand in over **13 countries** allowed it to operate in more than **200 café outlets** across Asia (Oldtown.com.my, 2021). Therefore, identifying the suitable market entry strategy can be supportive for the business to operate in the foreign market and acquire competitive advantage.

Now, as highlighted in the case study, expected increases in coffee consumption in *United States* and *China* at the rates of **3%** and **15%** respectively indicate towards the potential growth opportunity of coffee industry across the world. Besides, the Indian coffee market with a growth rate of **25%** annually, as revealed in the case study, demands focus on exploring the market opportunities. Here, the Chinese market has been selected as the chosen market to

expand business, and thus, determining strategic decisions while identifying market entry modes can help to expand the business of chosen Malaysian coffee chain for operating in the international market (Verbeke *et al.* 2019).

As mentioned by Nippa and Reuer (2019), **joint venture** is considered to be the most flexible and applied foreign market entry strategy for two organisations to share ownership rights and make collective decisions for addressing a specific aim. In this context, application of this market entry strategy can be advantageous for the aforementioned business to acquire and implement new insights for ensuring business success. Moreover, joint ventures integrating two or more businesses are likely to get better access to available resources for enhancing the profitability performance. In addition, it is also contributes to conduct a flexible business with low costs and business risks as both the parties share the risks (Schellenberg *et al.* 2018). Although **ownership rights**, **cultural issues** and **inadequate communication** can be counted as main drawbacks of this entry mode, emphasis on setting clear goals and objectives can be supportive for a business to utilise the resources resulting in increased profitability.

On the other hand, **direct exporting** as an international market entry strategy allows a parent company to export the surplus production to a foreign country for branding new companies while reducing market risks (Lindsay *et al.* 2017). The main advantage of this entry strategy revolves around the success of sales or promotional programmes boosting the **distribution network**. It is also beneficial for businesses to identify appropriate distribution network for utilising own resources while enhancing profitability through **eliminating intermediaries** (Ahi *et al.* 2017). In contrary, demand for people power along with pressure in handling logistics network and resolving customer queries are other drawbacks restricting businesses to adopt this entry mode.

Similarly, **licensing the business format** helps a business to enhance market share through increasing sales volume with help of a foreign intermediary to promote brand value. The prime advantage of this entry strategy is the ability of this method to generate passive income while exploring new business opportunities by reducing business risks (Blackburne and Buckley, 2019). In contrast, dependency on licensor and risk of damaging reputation are main drawbacks of this method. However, chances of creating self-employment opportunity and freedom of adopting unique marketing approach makes it one of the most applied entry strategies. For example, the famous coffee chains including **McCafé** and **Starbucks** have applied the licensing

business format and franchise strategy to operate in Chinese market for catering to the interests of target customers (Sca.coffee, 2020).

Hence, depending on the detailed assessment of the aforementioned market entry strategy, emphasis on applying the *licensing strategy* can be effective for the business to sign a contractual agreement through providing assets to foreign franchiser in exchange of royalty fee (Businesswire.com, 2018). This type of business venture cutting down the investment requirements helps to diminish the related business risks. Here, *OLDTOWN White Coffee* can apply this market entry strategy to engage in a contractual agreement with domestic coffee chain for licensing the business format and promoting the value to target audiences. Thus, emphasis on carrying out a well-integrated market research and evaluating the capability of domestic coffee brand willing to license the business format of aforementioned company will be further step for entering the foreign market of China (Blackburne and Buckley, 2019).

Furthermore, conducting competitor analysis and developing an appropriate marketing plan through designing *product or service development strategy* can be beneficial to operate in the international market (Franz, 2017). In addition, diversifying the product range and service patterns from existing competitors can be supportive for the aforementioned coffee chain in Malaysia to explore the coffee markets of China for devising sales and marketing strategies. Besides, designing the sales and promotional strategies for targeting the potential market of middleclass population in China will be further course of action for exploiting this market.

Conclusion

This essay is premised on discussing on the market entry strategies for the chosen coffee brand *OLDTOWN White Coffee* in Malaysia to enter foreign markets of China and India. Here, detailed assessment of business environment, especially external market environment using strategic tools of *PESTEL* and *Porter's Five Forces*, helped to identify pertaining market threats to utilise strengths for acquiring expected market share. Moreover, it highlights that Chinese market with a market size of *25.1 billion yuan* in 2018 can be the potential market for the company to expand business. Following this, exploring the *3 market entry strategies* including *joint venture*, *licensing* and *direct foreign investment* has been effective to explore market growth opportunities.

Now, depending on contemporary market condition, *licensing the business format* has been selected as the suitable strategy for entering this foreign market meeting profitability targets. Here, developing appropriate *product or service development strategy* while diversifying the

product range can help to cater to customers' requirements for exploring the international market opportunities through utilising available resources in China. Here, concentration on exploiting the strength of huge number of middleclass customers, expected to reach 780 million by 2025, can be beneficial for the selected Malaysian coffee chain to acquire expected market share in this country for exploring future growth opportunities.

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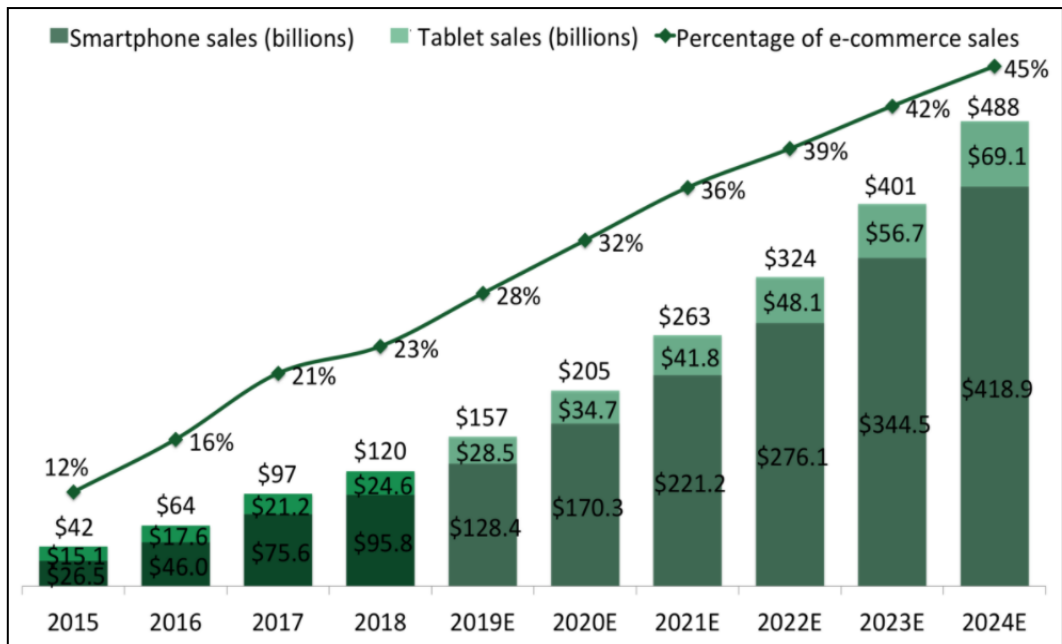
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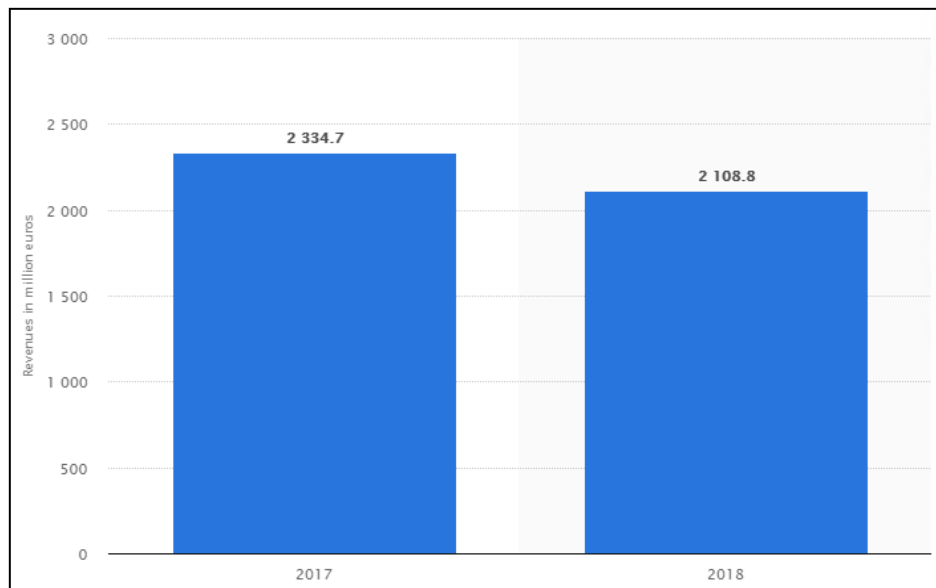
Appendices

Appendix 1: Forecasted Value of Mobile Commerce



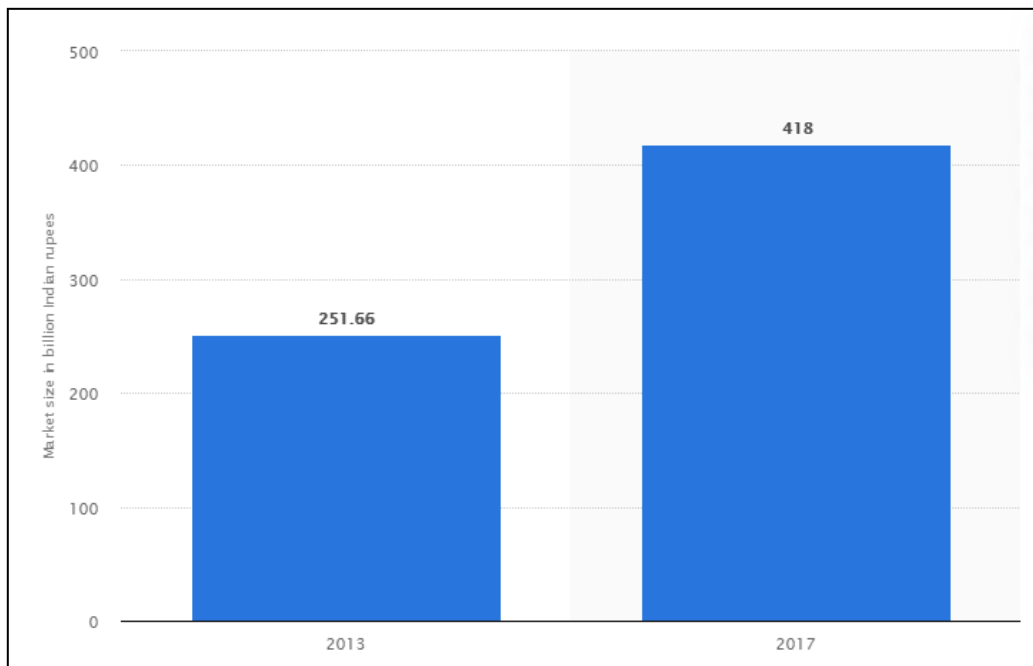
(Source: Meola, 2019)

Appendix 2: Revenue of Giorgio Armani in 2017 and 2018



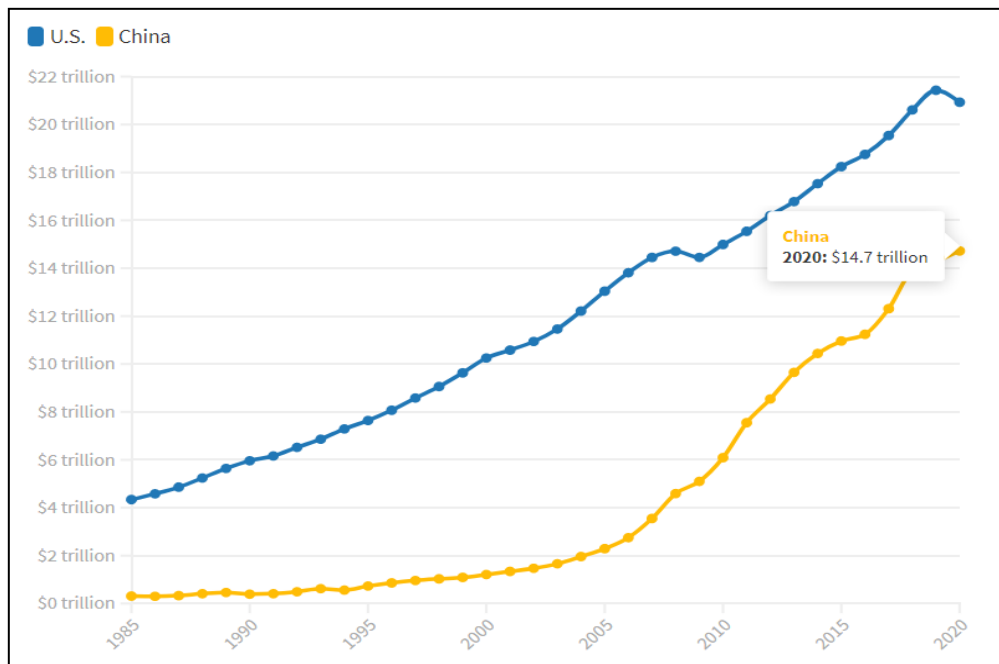
(Source: Sabanoglu, 2021)

Appendix 3: Market Size of Tea and Coffee Industry in India in 2013 and 2017



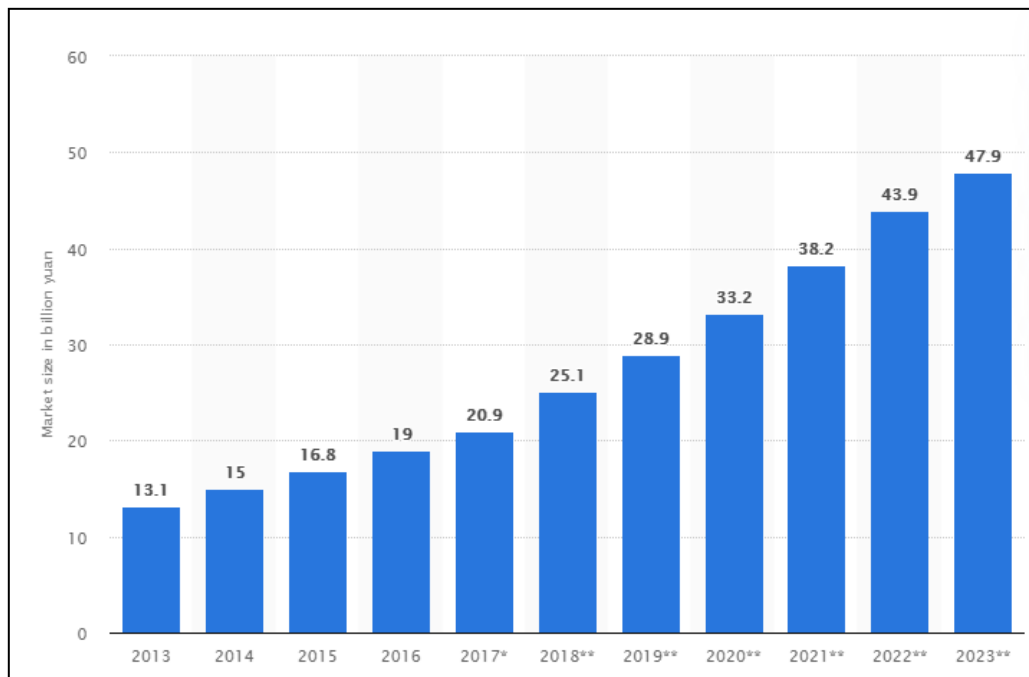
(Source: Keelery, 2020)

Appendix 4: Economic Growth Comparison between US and China



(Source: Cheng and Lee, 2021)

Appendix 5: Market Size of Coffee Shop Industry in China



(Source: Textor, 2020)