

Macro-environment analysis of italy and 12 c frameworks

[Environment](#), [Ecology](#)



Executive summary

The assignment starts with an introduction and Macro-environment analysis of Italy and 12 C frameworks. Macro environment is based on economic factors, social cultural forces, political and technological things that affect the organisation inside. It is important for a company to identify the possible political risks in the country. Political risk is based on changes in the political environment that may have a direct impact on business.

The political factors have influence on the tax that the business has to paid, the currency of the country and the business procedures that need to be carried out in order to be able to open a business in Italy. The economic factors are indicative of the economic stability of the country and are based on the GDP, the global rank of doing business, the influence of tourism. The social environment includes the cultural differences between Italy and the US and is based on people behaviour, the capacity to pay and the employment recruitment process.

The report shows that people have changed their habits and life style to lower-cost activities as a result of the recession. The technology factors describe the advantages of using e -marketing. The clothes/apparel market is analysed. This is an important factor as it shows who the main leaders in the market are. Porter Five Forces Module helps to identify the competition based on potential entrants, buyers power, substitutes, suppliers and competitive rivalry. The second part describes the principal challenges that the Italian market presents to the company in selling its products.

The third part is about the possible entry module for Forever 21. The entry module is often selected according to the organisational development. The final part is about the marketing mix and the elements that Forever 21 needs to adapt to. The target customers are the teenagers and the young adults. The company is specialised in the retailing of clothes, footwear and accessories for women. Forever 21 is looking to open a store in Italy.

To be able to do this it needs to analyse the Italian market. The use of macro environment analysis and 12 C framework will help the business decide whether or not to open a store there. Geographical area Italy has an important geo-political location. It is situated in South-Central Europe. To the North it borders with France, Switzerland, Austria and Slovenia, which means easy access in terms of doing business with these countries. It is a member of Europe Union (BBC article country profile 2011). Forever 21 can use ship vessels or air transportation to transfer their products to Italy. Political factors The Prime Minister of the country is Silvio Berlusconi.

The current government of Silvio Berlusconi has a majority in Parliament, which makes it possible for him to carry out a number of reform measures and make the main decisions for the country (Data Monitor 2011). Developing close ties with the US The Italian government has been co-operating with the US in the formulation of defense, security and peace-keeping policies. This shows that these two countries enjoy good relations. This is an advantage for Forever 21 because this company originally came from the US , so that it shouldn't be a problem for an US Company to open a store in Italy. Currency The currency that is used in Italy is the Euro.

This mean as that it wouldn't be difficult for the company to exchange US dollars into Euros because Forever 21 has already had experience in this aspect in Dublin. There are various policies that need to be followed in order to sell apparel in Italy. The foreign investment laws of Italy are similar to those of other EU countries (Datamonitor 2011). So it shouldn't be a problem for a foreign company from any of the EU member countries to operate a business there. Taxes VAT is another important factor that any business has to face. VAT is indirect taxation which is collected for the government by the seller who is able to add percentage to the basic price of the product.

Italian value-added tax (VAT) is at a standard rate of 20% which is applied on the sales value of all goods (Economic Watch 2011). VAT is payable by all manufacturers, wholesalers, retailers and most service and transport businesses. Contractual obligation These are the procedures that need to be observed in order to start a business in Italy. The normal commission that needs to be paid is a deposit of 25% of the amounts contributed in cash with a bank. The other thing is to pay a government grant tax to the post Office which costs 310 euro and finally register online with the Register of Enterprises. Appendix 1 shows that Italy is ranked on 68-th place in starting a business.

Appendix 2 shows the business procedures, times and days that have to be observed. Economic factors Since 2008, the country has been under the influence of the global recession. The economic record shows a negative growth rate of -1%. The recession has had a negative impact on the country

by declining exports and reducing consumer spending. In 2010, the economy showed some signs of recovery based on the GDP growing at a rate of 0.6 compared to -1% in 2008. In 2011, the economy expects to rise by 1% (Datamonitor 2011). Appendix 3 shows that Italy is ranked on 8-th place with relation to GDP. "The Economy Set to Go from Worse to Bad". This means the economy doing well, it has managed to recover after the recession.

Italy has been playing a significant role in the world economy and is one of the founding members of the EU community. It is the seventh largest economy in the world and the fourth in Europe in terms of GDP, which stood at \$1.11 trillion in 2009 (Datamonitor 2011). This can serve as evidence that the country has a good economic stability. The World Economic Forum (WEF) and the Global Competitiveness Report for 2010/2011 ranked Italy 48th out of 139 countries. As a world seventh largest economy, located within the European Union, there is a strong competition for a market share in all Italian industries and service sectors. This means it could be difficult for Forever 21 to deal with the high competition.

The World Bank's Doing Business Report 2011 ranked Italy 80th out of 183 countries. This shows that there are good conditions for doing business there. The high ranking includes the legal environment for businesses and the easy way that a business may be formed and operated in the country. Tourism The country's main economic sectors are tourism, fashion, motor vehicles and food. Tourism is one of the fastest growing and profitable sectors of the country: with 43.7 million international tourist arrivals and

total receipts estimated at \$42. 7 billion, Italy is the fourth highest tourism earner and the fifth most visited country in the world (BBC country report 2011). This makes tourism a big contributor to Italy's economy.

This intensive tourism is an advantage for Forever21 because tourists could be some of their customers, taking into consideration that lower-price items are offered by the company. If the company attracts tourists as buyers, this will facilitate its popularity because more people may hear about this brand and thus make it easily recognised around the world. The Italian economy is separated into a developed industrial North, dominated by private companies and a less developed South. Italy's northern region is the richest and one of the most expensive in Europe, while the southern region is known as the " Mezzogiorno", where there is high unemployment. This means it may benefit the company if it opens a store in the southern parts.

This will create job opportunities for unemployed people and the costs of operating the business should be less expensive in this area (World Fact Book 2011). It is very important for a business to carefully choose the location because on it will depend how profitable and successful this business can be in future. Comparatively high tax The tax rates in Italy are very high. The local tax rate is 3. 9%, this making the effective tax rate 31. 4% which is higher than the other EU countries where the average is 25. 04% (Datamonitor 2011). This means that when the company opens a store in Italy it will have to pay higher taxes than in other EU countries. Social and environment factors Culture

Culture has an important impact on how effectively the organisation operates and has an important implication as to employee motivation. Culture can differ from business to business. Failures can increase significantly when dealing with people whose values, beliefs, customs and first language are different from your own (Hoecklin 1995). However, if a company can manage amidst different cultural environments, this could lead to innovative business practices faster and provide tangible benefits which can be used competitively. It is important for Forever 21 to identify the cultural differences between the US and Italy in order to be successful with the business. Hofstede 1995 module helps to analyse the differences based on

Power Distance, Long Term Orientation, Individualism, Masculinity and Uncertainty Avoidance. In Appendix 4, it is shown that the US have high rank on Individualism, which means that in a business perspective an organisation is not expected to look after its employees - rather the employees are expected to defend their own interests. Italy has a high rank on Uncertainty avoidance, which means that Italians are less risk-taking people. These are some aspects that are specific for the Italian culture. The official language that is spoken there is Italian. It will be difficult to start a business in Italy if you don't know the Italian language (Hofstede 1984).

According to Lewis analysis, the saying "Time is money" is not a popular phrase in Italy. They do not make business decisions quickly, they do take their time. All foreign businesses should be aware of the fact that it could take longer time before they come to a decision. Italy has developed a

reputation for producing high quality luxury goods. Fashion and fashion designs are trademarks of Italy. Therefore, in the business world, good clothes are a signature of success (Hofstede1984). This is based on consumer behavior analysis. That brandloyaltyexists is a fact. This shows that Forever21 clothes may not be very successful in the Italian market.

However, the recession has affected the consumer habits, as the Italian economy has been slow to recover and the unemployment rate continued to rise from 6. 2% in 2007 to 8. 4% in 2010. Appendix 3 shows that the country takes the 98-th place in terms of high unemployment and that there is 1. 4% inflation. Opening a store there would create job opportunities. Capacity to pay Italians have adapted their habits and lifestyles to lower-cost activities during the economic downturn, which benefited supermarkets or hypermarkets (The World Fact Book 20110). In 2010, consumers became more price sensitive, in both the grocery and non-grocery channels. This is an example of switching costs, it means consumers are able to transfer their customs to new players.

Employment recruitment process Hiring employees in Italy must be taken into account before starting a business. You must enter into a contract under the Italian Labor Law and employees enjoy extensive rights. If you buy an existing business, you may be required to take on existing staff who cannot be dismissed, otherwise high redundancy compensation have to be paid. It's very expensive to hire employees, because, in addition to salaries, you must pay an additional amount of around 50% in social security contributions, 13

and possibly 14 months' salary, five or six weeks paid annual holiday, plus pay for public holidays, sickness, maternity (Datamonitor 2011).

This shows that hiring employees in Italy will be more expensive than in the other EU countries in which Forever 21 has already opened stores. Technologies Internet retailing experienced the highest value growth of all retail channels in 2010. A significant proportion of sales shifted from store-based to Internet retailing. The main underlying reason for this was that the Internet is still considered as a low-price retail channel, based on fact that Internet retailing enjoys the lowest travel and transport cost, and allows price comparisons between many competitors (Euromonitor 2010). The benefit of using e-marketing in selling goods and services online allows you to enter the global market and is saving you money in terms of overhead charges (Gaudin 2002).

A well designed website with friendly pages may persuade users. Forever 21.com is an example of a well designed web-site. It is divided into various sections, according to the items that the company sells, such as shoes, dresses, featured items, sales, accessories, etc. This makes it easy and quick for customers to find what they are looking for (Forever21). Choices It is important for the company to analyse the clothes market for this will help the business identify how risky it may be to open a store there. The retail industry includes all menswear, women's wear and children wear such as: tops, underwear, coach, jeans, jackets, dresses and skirts for girls.

Graph1 shows that Italy holds 17.4% of the clothes market. This grants the country the second place in Europe in the retail industry, after Germany

which has 19.5%. The European apparel industry is an important economic factor, based on trade, employment, investment and revenue all over the world (Datamonitor 2010). Concentration - Market value Women's wear is the largest segment of the apparel retail industry in Italy, accounting for 54.9% of the market value in comparison with men's wear, which has 31.7% (Datamonitor 2010) - see Graph 2. This means women buy more clothes than men do. This is a good factor for Forever 21 because their products are not targeted at men.

The retail industries in Italy have declined in 2008 and are expected to recover over 2011 (Datamonitor 2010). This is a result from the recession - as consumers' incomes fall, they have less money to spend on clothes than before. There will be a growing demand for discount apparel retail stores that provide low-cost output fashion. Porter five forces module can help identify the degree of competition based on potential entrants, buyers power, substitutes, suppliers and competitive rivalry. This analysis will reduce the risk of high competition by identifying the competitors strategies for the future. Forever21 can apply some of these strategies and use them in their own business. Suppliers

Key suppliers in this industry are clothing manufacturers and wholesalers, with retailers able to source from both. There is a risk of choosing low chain supplier such as it may not be able to deal with changes in demand, industry, changing in fashion as well. Substitutes While there are no substitutes for women's wear, they are alternatives to retail. These include buying directly from manufacturers as opposed to the conventional

distribution chain, something which is facilitated by the growth of online sales. All major women's wear retailers now have their own online store so many people prefer to buy products online. This has increased the buyers power on the market (Dunning 2008).

This is a good factor because Forever 21 has their own website where people can shop online. Retail The retailer strategy is based on price by providing low-cost products during the recession period. This is their strategy, to recognise the price sensitivity of their target customers and compete on price selling clothes as cheap as possible and as other suppliers. Buyers All buyers are individual consumers who have different styles and preferences. Buyer behaviour plays an important role for customer choice based on different factors such as: home-made clothing, different colours, brand loyalty, price , designer label, quality, supply reliability, fashion, culture, believes, friends andfamilyinfluence.

Competitors These are some of the main players in the retail industries in Italy that will have a direct influence to Forever21 in terms of price, similar target audience and products. These companies also have their own websites where customers are able to shop online. These are famous brands companies that sell quality clothes for the young audience. H&M Strengths H&M is a retailer which is targeting its products at women, men, teenagers and children. The company offers national brands and private label merchandise in many categories, including cosmetics, accessories and footwear. H&M operated 1, 738 stores in 33 countries in November 2008.

H&M adopted the concept of regional grouping with purchases and distributes the merchandise to a region. Their strategies involved transferring the central design, buying, logistics and stock-keeping functions to the new company. The company also has its own web-site where customers are able to shop online, to see what's new in a store, compare prices, etc. Weaknesses: There is a high competition as companies such as TopShop, Bershka and Terranova are famous brands that sell similar products on the Italian market and are based on fashion, quality price and the same target audience.

The weaknesses for Forever 21 will be the same. Strengths: Industria S. A. s created from various different companies, including Zara, Bershka, Pull and Bear, Massimo Dutti, Stradivarius. All of these companies have a similar culture. All of them are in the clothes industry. However, these companies don't have a direct competition between each other because their product style is differs from one another. Breshka clothes are cheap and their audience is the 16-to-25-year age group. Zara is more specialised in the young professionals group. Zara is present in 73 countries, with a network of 1, 341 stores located in major cities. Bershka sales format has 626 stores in 41 countries. Bershka stores are large and spacious. All of these companies produce quality clothes and follow the latest trends in fashion (Mintel 2011).

Task 2

The analysis of the retail clothes industry on Italy shows that it will be advantageous for the company to open a store there. The key elements of the research are the strong economic stability of the country, the high

tourism, the technologies factors and the place that the Italian market for clothes occupies in Europe. The country has managed to recover from the big recession since 2008. This is an advantage for any foreign business that would like to invest in Italy. There are good conditions of doing business there. The market value shows that the women dominate in the clothes market. The women retail market has 61.3% of the total market by selling clothes and accessories (Datamonitor 2010). There is a monopolistic competition within the clothes retailers.

This means many firms sell products that are similar but not identical based on brand, quality, designer... The environment factors show that consumers have adapted their lifestyle to discount retailers. It will be an advantage for the country to have a retailer of non-designer women's wear, especially for customers with lower disposable incomes. The good relations between the US and Italy also plays an important role for opening a business in Italy. The Italian government has played an important role in the industry by attracting foreign investments to the country through low-barriers entry. It is said in the report that the government uses similar restrictions as are used in Europe.

The Italian government welcomes foreign investments in most industries especially when they create jobs. All factors show that it will be challenging for the company to open a store in Italy and adapt to the Italian culture. But then, isn't doing a business a challenge in itself! Task 3 - Module entry International Franchising is the possible module entry to Italy that is appropriate for the company based on all factors described in the report. The Franchising method will be easy to transfer to foreign locations. The licensing

agreement and franchising agreement are put on formal contract with typical terms. " Franchising is a method of distributing goods and services by licensing a business idea or concept to another. ' (Amerilawyer 2011)

International Franchising is a faster form of international business. A firm sells limited rights to the use of its brand name to a foreign firm in return for a sum payment and share of 50% of the profits. There are a lot of advantages of using the franchise. The Franchise can establish a well know product and operating system, good reputation, support services and it can expand internationally. The Franchise will reduce the risk and cost of module entry and easier time securing financing because the Franchisor typically has an established trademark and good marketplace experience. These are the reasons why Forever 21 should take it into consideration.

The franchise also involves some local market customs and culture from the host country (Griffin and Pustay 2010). However, there are some disadvantages of the franchising agreement such as the profit needs to be shared, there is dependence on the licensee as to how to sell the products including policies, potential loss of control of manufacturing and marketing. The Franchisor controls any advertising conducted by the Franchisee. Task 4 - Marketing Mix The Marketing Mix includes Product, Price, Promotion and Place. In order to achieve their marketing objectives, Forever 21 needs to have a strategy that includes different elements - the various parts of the marketing mix. Product

Clothes normally have short life cycle based on seasonal factors and fashion. The brand is very successful and well known in the US. However, it will be

new for the Italian market. It may take a long time for the company to create a strong brand name there. According to Lynch 1994, it will take it at least five years to establish a brand and short-term reimbursement should not be expected. The brand is an important part of any business because this is the thing that makes the products different from the competitors' and are easy to be recognised as a design and a way to an established product position in the market. This makes it easy to buy or sell products.

A strong brand speaks about the function and charter of the product and helps consumers decide whether this is their kind of product, specially when new and untried products are considered. Creating brand loyalty and creating something special to consumers mind makes it difficult for the competitors to " touch it" (Brassington and Pettitt 2007). The Italian culture shows that quality plays an important part in the consumer behavior in Italy. It will be an advantage for the company to improve the quality of its products in the first stage and, on the next stage it may increase the price so that it may compete on the Italian market with other companies. Using sales advisor will be another advantage which could make more people prefer to go shopping in the Forever 21 stores. Pricing

Pricing is an important part of the Marketing Mix because it is a balance between serving to customer's needs and wants and serving the needs of the organisation to cover its costs of manufacturing, marketing and making a profit. The company is famous with the fact that it produces clothes that are not expensive and many people can afford them. The environment factors show that consumers in Italy are prepared to pay more but to wear quality

clothes. The company has to come with pricing strategies to increase the price of the products and create better quality or to keep the same as it is now. The choice of a launch price should take into account the future plans for the pricing and positioning of the product. Penetration pricing is one of the possible price strategies that Forever 21 may use.

Penetration pricing is used when entering a big market for a short period of time and then the organisation may price aggressively below the existing competition. However, this method could be a risky strategy because it could establish a poor quality brand image. The latter may lead to a situation where it will be difficult to raise the price (Brassington and Petitt 2007). The company may consider using 20% discounts for students because their target audience is based on young people. This will surely attract more customers. Promotion The power of the media has a big influence on building a brand. Brand advertising may increase the buyer power.

These are some of the leading media groups in Italy: Mediaset is one of the leading commercial television operators with 32. % of the Italian media; Gruppo Editoriale L'Espresso has 14. 0%. These companies are concentrated on publishing, radio, advertising, internet businesses and national television, newspapers and magazines (Datamonitor 2011). Appendix 5 shows that people in Italy are more influenced by the TV adverts and newspapers. This means it will be a good idea if Forever 21 uses TV commercials to advertise the opening of the new store in Italy. However, this is the most expensive method and will cost a lot of money to the business. Using online advertising will help the company attract the right audience by using Facebook, Yahoo!

and MSN because these web-pages are part of everyday life of the young people. Place

The company has to decide in which part of Italy it would be feasible to locate the store, in the North or the South. Most businesses are located in the northern region. However the company has to find a big place with an average area of 5, 000 sq. m. This will be very expensive in the North and could be difficult for the company to afford it. For this reason, the company may open an out- of- town store, which would be cheaper than the town centre location and also could offer a big parking facility for the customers. A product sold out- of- town is likely to be cheaper than in a store located in the town centre.

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