CASO PRÁCTICO

The Internationalization of ADOLFO DOMÍNGUEZ, S.A.

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Revisión: Octubre 2004

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1. ADOLFO DOMINGUEZ (A), 1986.

One February morning in 1986, the Spanish fashion designer, Adolfo Domínguez[1], found his mind wandering as he watched over the feverish activity taking place in his clothing factory in San Ciprián de Viñas in Orense, Galicia. He was recollecting the day during the summer of 1985 when he had received the first indication that Mr Toshio Yasuda, Sales Manager of the Japanese company TAKA Q[2], was interested in selling the ADOLFO DOMÍNGUEZ designs and brand in Japan[3]. It had been a tremendous surprise. Although the Spanish company planned eventually to open the largest possible number of shops so that ADOLFO DOMÍNGUEZ designs could be purchased worldwide, at that time the company´s international activities were only just starting up. The first two ADOLFO DOMÍNGUEZ shops outside Spain were opened in 1985, one under direct ownership in Paris and one as a franchise in Hong Kong, and plans were under way to open another directly-owned shop in London in October 1986. The exports resulting from sales through these shops together with those made through representatives in several European countries had amounted to approximately US$ 2.26 million (1985)[4]. Japan was not yet part of his plans but there was no reason why it could not be maybe the ideal place to further his presence on the international scene. After all, Japan had a market of over 120 million people with a high average income *per capita*. Besides, Domínguez had always been especially fond of Japan and Japanese things. He had never been to Japan but he knew of, and was a keen admirer of, the Japanese work ethic, professionalism and sense of responsibility, not to mention Japanese aesthetics.

As soon as Domínguez knew the proposal many questions crossed his mind. Japan was a very distant country and its consumers were very different to those in the west so

[1] To facilitate reading, from here on Adolfo Domínguez (lower case) will refer to the designer himself, and ADOLFO DOMÍNGUEZ (upper case) to the company.

[2] TAKA Q is a Japanese import and wholesale company specialized in fashion.

[3] This first contact was reported in issue no.11 (November 1986) of the fashion magazine "Textil Express" as follows: *"So Haruko Takaku* (who was Vice-President of TAKA Q at the time) *called her lawyers and instructed them to contact the lawyers of Adolfo Domínguez to mention the possibility of both parties to begin to consider the possibility of maybe sometime in the future drawing up an agreement"*.

[4] Of this total, 1.2 million US$ were sold by the ADOLFO DOMÍNGUEZ shops in Paris, London and Hong Kong and the rest were from sales to third parties through representatives.

would it really be the most suitable market for ADOLFO DOMÍNGUEZ? At the time the company was still consolidating its entry into the European Community so would this be the right time to enter the Japanese market? ADOLFO DOMÍNGUEZ had never gone into partnership with any company and knew very little of TAKA Q's so was TAKA Q the best possible partner for an eventual Japanese venture? and. was the suggested license agreement the best possible alternative. Moreover, three aspects were currently exerting a real influence on the Spanish fashion sector. Firstly, Spain's imminent membership of the EEC was expected to promote trade among Spain, its European partners and other countries. Secondly, the developing countries were becoming increasingly competitive and their share of the worldwide fashion market was growing. And, thirdly, the Uruguay Round of the GATT might lead to complete deregulation of the worldwide textile market.

Soon after Mr Yasuda's call, the first meeting was held. Adolfo Domínguez's open-minded attitude and his belief that there was nothing to lose made him welcome a visit from TAKA Q. Present at the meeting were Mr Takaku, Mr Yasuda and two other managers of the Japanese company. On the Spanish side were Mr Domínguez, his brother and sales manager of the company, Jesús Domínguez, and his wife and colleague, Elena Quiroga. The first meeting resulted in the TAKA Q management expressing their intention to propose a licensing agreement by which the ADOLFO DOMÍNGUEZ collection would be produced and sold in Japan.

Further meetings and contacts took place over the following months. Clearly, all Domínguez's competitors in Europe were beginning to open up to foreign markets and all the main ones had already entered or were on the way to entering Japan. Was Adolfo Domínguez in a position to reject the opportunity being offered by TAKA Q?

2. THE CLOTHING AND FASHION SECTOR.

Clothing is an essential consumer article. When income levels are low, consumption is dominated by the relative prices of articles. As incomes rise above subsistence levels however, consumer expenditure shifts towards in-style and brand name products. This can be seen in two facts: firstly, the richer the country, the greater its expenditure on clothing and, secondly, expenditure on clothing shrinks or is postponed during economic recessions, and increases during boom periods.

The clothing industry is very labor-intensive and very dependent on fluctuations in the price of raw materials[5]. It is mainly made up of small and medium-sized companies, is very much influenced by fashion and taste, and undergoes serious seasonal fluctuations. Frequent changes in fashion mean that the life cycle of a garment is often very short so that, more than in other sectors, sales depend on perfect accommodation of supply with demand and therefore close contact must be maintained at all times between the producer and the end consumer.

The clothing market offers a wide range of situations depending on the desired price/quality ratio. At one end is the low-cost market offering garments produced in massive series and at the other end is the high-quality market offering short series. The main difference between the two markets is that the former is relatively price-dependent, whereas the demand for garments in the quality sector is determined mainly by aspects such as quality and design.

The fact that fashion designs are impossible to protect and can easily be imitated at very low cost led in the sixties to competition from the developing countries in the mass production segment, taking advantage of their plentiful cheap labor. The consequences for the market in the developed countries were loss of jobs and internal market share and a greater concentration on the quality segment in order to maintain its competitiveness.

[5] The cost of raw materials generally accounts for one third of the total cost of the garment. This indicates the pressure that can potentially be exerted by the textiles sector.

This trend was consolidated in the eighties when worldwide trade in the clothing sector rose sharply. The developed countries lost and the developing countries gained market share. For the latter, the textiles and clothing sector came to be of vital importance because it represented an important source of foreign currency Table 1.

TABLE 1

BREAKDOWN OF WORLD TRADE IN CLOTHING BY GEOGRAPHICAL AREA

1970, 1980 AND 1985

	IMPORT FROM							
	Developed Countries (billion US$)	**%**	**Developing Countries (billion US$)**	**%**	**Centrally Planned Economies (billion US$)**	**%**	**World Total (billion US$)**	**%**
Exports 1970 from:								
Developed Countries	3.5	73.1	0.38	62.3	0.17	20.7	4.08	65.3
Developing Countries	1.12	23.4	0.17	27.9	0.03	3.7	1.33	21.3
Centrally Planned Economies	0.16	3.3	0.04	6.6	0.62	75.6	0.82	13.1
World Total	4.79	76.6	0.61	9.8	0.82	13.1	6.25	100.00
Exports 1980 from:								
Developed Countries	3.5	55.2	2.1	38.9	0.7	21.9	20.15	50.00
Developing Countries	11.95	38.2	2.3	42.6	0.2	6.3	14.7	34.6
Centrally Planned Economies	1.95	6.2	0.7	13.00	2.3	71.9	5.00	12.4
World Total	31.25	77.4	5.4	13.4	3.2	7.9	40.35	100.00
Exports 1985 from:								
Developed Countries	18.5	46.6	1.85	35.9	0.85	22.4	21.2	43.6
Developing Countries	18.45	46.5	2.1	40.8	0.5	13.2	21.05	43.3
Centrally Planned Economies	2.75	6.9	1.2	23.3	2.45	64.5	6.4	13.2
World Total	39.7	81.6	5.15	10.6	3.8	7.8	48.65	100.00

Note: Centrally Planned Economies include Eastern Europe, Soviet Union, Chinese People's Republic and other centralized economies.

Source "International Trade", several years, GATT

Two areas led the sector. In 1985, the EEC and south-east Asia (Hong Kong, South Korea, Taiwan and China), with very similar export figures, accounted together for 67% of worldwide exports, world trade reaching a value of 48.66 billion dollars. With each area applying its competitive edge over the other, they shared out the two segments of production. The Asian countries practically took over the low-cost segment while the EEC focused on the high segment in which its leadership was unchallenged. However, they shared the same markets -those of the most developed economies[6]- but with one essential difference. The Asian markets had positive balances of trade with the rest of the world while the EEC had a permanently negative balance of trade, Tables 2 and 3.

[6] Two of these markets - those with the highest consumption per capita - showed very different behavior. Consumption in the US, the main importer country, depended to a great extent on the price factor whereas Japan, the seventh importer, was a market for brands and quality.

TABLE 2

CLOTHING SECTOR. EXPORT AND IMPORT VOLUMES OF SELECTED COUNTRIES 1985

	EXPORTS			IMPORTS		
	Billions US$	**Percentage of World Total**	**Average % Rate of Change 1980-85**	**Billions US$**	**Percentage of World Total**	**Average % Rate of Change 1980-85**
Total E.E.C.	15.92	32.72		17.73	36.44	
Italy	6.72	13.81	6.5	1.68	3.45	20.00
Hong Kong	5.37	11.04	3.0		0.00	-1
South Korea	4.47	9.19	8.5			
Taiwan	3.46	7.11	7.5			
Germany, Fed. Rep.	2.89	5.94	0.00	7.03	14.45	-3.5
P.R. of China	2.11	4.34	4.5			
France	2.01	4.13	-3	2.76	5.67	0.5
United Kingdom	1.52	3.12	-4	2.69	5.53	-1
Portugal	1.04	2.14	10.00			
Turkey	1.00	2.06	55.00			
U.S.A.				16.19	33.27	18.5
U.S.S.R				3.1	6.37	4.5
Netherlands				2.07	4.25	-6.5
Japan				2.03	4.17	5.5
Switzerland				1.48	3.04	0.5
Belgium-Luxembourg				1.31	2.69	-6
Rest	18.07	37.14		8.32	19.79	
WORLD TOTAL	48.66	100.00	4.00	48.66	100.00	4.00

Source “International Trade. 1986-87”. GATT

TABLE 3

CLOTHING SECTOR. EXPORT AND IMPORT QUOTAS (%) BETWEEN SELECTED REGIONS 1980-1985

	EXPORTS			IMPORTS		
	1980	**1984**	**1985**	**1980**	**1984**	**1985**
North America						
Percentage						
Domestic Trade	10	23	27	2	2	2
Latin America	38	44	48	9	6	7
Western Europe	37	14	12	7	9	11
Eastern Europe and USSR	__	1	__	1	1	1
Africa	2	1	1	__	__	1
Middle East	3	5	4	0	0	0
Asia	9	8	8	80	81	78
Total	99	96	100	99	99	100
Total (billions US$)	1.4	1.1	1.0	7.7	15.9	17.5
Western Europe						
Percentage						
Domestic Trade	84	79	79	64	65	67
North America	3	8	9	3	1	1
Latin America	1	__	1	1	1	_
Eastern Europe and USSR	4	4	4	4	4	4
Africa	3	2	1	3	3	4
Middle East	3	3	3	1	1	1
Asia	2	3	3	24	25	23
Total	100	99	100	100	100	100
Total (billions US$)	18.2	17.8	15.8	25.2	21.2	22.3
China, Hong Kong, South Korea and Taiwan						
Percentage						
Domestic Trade	2	3	3	47	63	59
North America	38	54	56	5	2	2
Latin America	3	1	1	__	__	__
Western Europe	33	21	20	25	16	18
Eastern Europe and USSR	2	1	2	__	__	__
Africa	3	2	1	__	__	__
Middle East	5	4	4	__	__	__
Rest of Asia	13	14	12	23	19	20
Total	97	97	96	100	100	100
Total (billions US$)	11.7	16.8	15.8	0.4	0.7	0.7

Source “International Trade. 1986-87”. GATT

3. THE FASHION INDUSTRY IN THE EUROPEAN COMMUNITY.

The clothing industry accounted for 2% of the industrial production of the European Community in the eighties. It was one of the ten largest industrial employers and its main characteristics were high labor costs (about one third of the total cost of garments) and a high level of know-how in areas such as product quality, marketing, industrial organization and design. The sector was dominated by large companies but the great majority were small companies that often had less than 20 employees, many of whom were part-time or home workers. Germany, Italy, France and the United Kingdom, the most developed of the Community countries, accounted for about 80% of Community production and for the products with the greatest added value.

In the early eighties, the drop in employment and in the number of companies in the sector pointed to the serious drop in competitiveness for the Community because of (1) increasing pressure from the countries of south-east Asia, and (2) increasing concentration and internationalization of distribution.

The result of competition from south-east Asia was the negative balance of payments for the Community with the rest of the world (Table 5), which could be broken down as follows for the mid-eighties.

Exports outside the Community, which were mostly of high-quality products, went mainly to countries with high levels of income and more recently to newly-industrialized countries. Due to its competitive edge[7], the Community maintained, at least with the developed countries, a positive balance of trade.

[7] The dominating companies in this sector in the Community were the world leaders in ‘haute couture’ which at that time were unrivalled.

TABLE 4

CLOTHING SECTOR EEC. YEARLY INDICATORS AT CURRENT PRICES 1980-1985

(millions ECUs)

	1980	1981	1982	1983	1984	1985
Apparent Consumption	33,473	34,659	36,788	36,919	41,717	43,909
Production	31,306	32,368	34,351	34,769	39,203	41,844
Extra-EEC Exports	2,072	2,599	2,847	3,223	3,969	4,736
Extra-EEC Imports	4,590	5,098	5,622	5,874	7,171	7,648
Balance of Trade	-2,167	-2,291	-2,437	-2,150	-2,514	-2,065
Export-Import Ratio	0.45	0.51	0.51	0.55	0.55	0.62
Intra-EEC Trade	3,874	4,229	4,718	4,974	5,706	6,308
Extra-EEC Imports/Total Imports (%)	54.23	54.66	54.37	54.15	55.69	54.80
Employment (thousands)	1,275	1,200	1,165	1,144	1,105	1,095

Source: AEIH, Eurostat, Statistics Office of the United Nations Secretary (Comtrade)

TABLE 5

TRENDS IN EUROPEAN COMMUNITY TRADE FOR THE CLOTHING SECTOR BY GEOGRAPHICAL AREA 1980-1985 (billions US$)

	EXPORTS				IMPORTS			
	1980	**1983**	**1984**	**1985**	**1980**	**1983**	**1984**	**1985**
Developed Countries								
EEC Internal Trade	9.88	8.79	8.87	9.61	10.21	8.6	8.67	9.38
U.S.A.	0.41	0.62	1.08	1.42	0.43	0.18	0.14	0.12
Canada	0.07	0.1	0.15	0.2	0.06	0.02	0.01	0.01
Japan	0.26	0.25	0.24	0.27	0.11	0.06	0.06	0.07
EFTA	2.37	2.41	2.59	2.96	1.32	0.71	0.66	0.7
Other Countries of Western Europe	3.00	0.13	5.00	0.14	0.00	1.00	0.00	1.34
Other Developed Countries	0.05	0.06	0.07	0.07	0.04	0.02	0.03	0.03
Total	13.26	12.36	13.13	14.67	13.17	10.59	10.78	11.65
Developing Countries	1.14	1.12	1.03	1.02	5.83	4.81	5.01	4.84
Eastern Europe, USSR, China and other centrally-planned economies	0.17	0.16	0.19	0.23	1.28	1.07	1.12	1.19
Total	14.58	13.65	14.35	15.92	20.32	16.52	16.98	17.73

Source "International Trade, several years". GATT

Community clothing imports were mainly low-priced garments, mostly from the developing countries. The main sources of Community imports during this period were China and Hong Kong, followed by Yugoslavia and Turkey. Imports were increasing from countries with state-controlled trade, from the United States and from other developed countries except Japan.

Regarding distribution, its pressure led to increased concentration and collaboration amongst independent retailers and weakened the negotiating position of the clothing industry because: (1) the negotiating power of the main customers increased (so that they were able to exert their influence over product design, price, supply conditions, etc.); (2) the share of purchases by distributors from low-cost countries increased and were often based on their own designs; (3) distributors and retailers took on some of the functions that had traditionally been carried out by producers, which led to the figure of the retailing producer, and (4) international trade for these distributors increased through franchises, licenses and partly-owned companies.

In addition, the concentration of distribution pointed to two advantages for Community producers. The first was the importance of competition based more on speed in adapting to demand than on cost. And the second was the preference of distributors for making their purchases in places that were as close as possible to their main base, thus avoiding the risks involved in distance - mainly delays - which could lead to considerable increases in costs. This meant that sources in distant countries were mainly used for products that were not too fashion-sensitive and that allowed for long delivery periods.

In view of the above circumstances[8] and of the structure of the sector, the success of the Community clothing industry started to depend on greater speed and improved service, on the degree to which technology could be applied to labor-intensive operations and on the result of the GATT talks. As a result, the sector underwent considerable structural changes: the Community producers started to devise strategies to differentiate their products (and related services) and to maintain their competitive edge in terms of product design and quality. Large investments were made in brand policies, quality management strategies and greater concentration on products with a high added value[9].

[8] There was also the possibility that producers from the Far East might enter the top-range market.

[9] Competition within the Community also led to greater emphasis on delivery periods, greater collaboration with retailers (leading to greater links between production and distribution) and the application of a large number of measures aiming to reduce cost disadvantages (such as increased outsourcing, rationalization of production and distribution processes and increased use of technology.).

4. THE FASHION INDUSTRY IN SPAIN IN THE EIGHTIES.

Until Spain's entry into the EEC, its clothing industry had been characterized by a high degree of protectionism[10] which made it very difficult for foreign competitors to enter the Spanish market through imports. This also meant that exporting was a marginal activity, that the determining factor in exports was price and that, as a result of licensing for brands and contracts for technical assistance, Spanish consumers had become accustomed to foreign brands and designs although the products had actually been produced in Spain. This isolation had destroyed any incentive to develop international trade and had promoted development of the internal market and imports of technology, design and brand names. The quality segment was being supplied by foreign designers. This market was inaccessible to Spanish creators and their brands.

In 1985 production by the Spanish clothing industry amounted to US$ 4,500 million (with imports valued at US$ 100 million and exports at US$ 223 million). It was concentrated in three main geographical areas - Catalonia, Madrid and Valencia. Most of the companies were small or medium-sized, their levels of technology and productivity were much lower than the average for Europe and the majority worked in the middle to high or middle to low ranges. Table 6.

[10] The Spanish protectionism system was based on high customs duties plus quotas for some products and countries. The weighted average duty on imports from the Community countries was about 20%, and about 30% on imports from non-preferential countries. Extra protection was added through some non-tariff barriers.

TABLE 6

TRENDS IN THE CLOTHING SECTOR IN SPAIN 1980-1985 (billions pesetas)

	1980	1981	1982	1983	1984	1985
Apparent Consumption	515	554	633	707	723	753
Imports	11	12	13	14	13	17
Exports	20	27	26	31	39	38
Balance of Trade	9	15	13	17	26	21
Production	524	569	646	724	749	774
Employment (thousands)	245	235	239	226	212	206
Number of Companies	5,500	5,400	5,400	5,200	5,100	4,950

Source: CITYC

Meanwhile, the international scene showed, on the one hand, the greater capacity of the industrialized countries to implement the latest technological advances and to create fashion and, on the other, the advantages in terms of wage costs of the non-industrialized countries and their capacity for eventually taking on higher levels of technology.

Spain's entry into the EEC in 1986 would bring about immediate changes. Firstly, the barriers to entry with the EEC countries[11] were reduced and subsequently lifted altogether. This would weaken the system for licensing, brands and technical assistance agreements and would facilitate imports of products with sophisticated design under internationally renowned brand names. Secondly, greater liberalization of imports into Spain from the rest of the world through the adoption of the Common Customs Tariffs and the lifting of quotas would lead to increasing imports of non-differentiated mass consumer products from countries where labor was very cheap. This meant that Spanish companies could no longer compete through price. And, thirdly, the behavior and structure of the sector would start to become more similar to those of the other Community countries and Spain would be soon to share their risks and opportunities.

[11] Spain's entry into the EEC led to the removal of quotas at the end of 1988 and the gradual dismantling of customs tariffs up to December 1992.

The Administration had already taken into account the above aspects in the early eighties. After thorough market research, it concluded that the only efficient industrial policy for the Spanish textile sector was to promote design, quality and fashion, exploiting Spain's human capital and its fame as an artistically creative country[12]. Spanish designers and their brands were to be promoted in order to preserve a part of the domestic market while deregulating Spanish foreign trade to achieve a larger share of the international textiles market in which Spain could only compete with differentiated products with a high added value. The Ministry of Industry drew up its Plan for the Promotion of Design and Fashion: Intangibles in Textiles and put it into effect in 1985. The aim was to promote (a) investment in intangible assets in the fields of design, fashion, image, training and research, and (b) activities by companies individually or as groups and by institutions to increase competitiveness.

So, in the mid-eighties when the tariff and quota barriers were about to become a thing of the past, the clothing sector was still characterized by small companies, total dependence on a largely inefficient distribution system, rigid production methods, limited capacity for innovation and non-existent international projection. All of which was to place the sector at a complete competitive disadvantage.

Several quality designers were working in Spain at the time although only for the local market and with very limited, practically artisan production. The only Spanish designers who had achieved any degree of consolidation were those who, like Adolfo Domínguez or Roberto Verino13, had family links in the sector so had the necessary background and a minimum industrial and commercial infrastructure to achieve success.

[12] The Administration argued that the reputation of the great Spanish artists (Gaudí, Picasso, Dalí and other more recent creators) and designers (Balenciaga) should serve as a reference for the Spanish fashion industry.

[13] The real name of Roberto Verino is Manuel Roberto Mariño. The use of the *Roberto Verino* brand name was in line with a very common trend at the time whereby designers, large department stores and retailers adopted Italian names for their brands because of the success on the Spanish market at the time of Italian design. Trade names such as *Primizia, Massimo Dutti, Milano, Emidio Tucci*, etc. all in fact represented Spanish companies and designers.

5. ADOLFO DOMÍNGUEZ.

"I consider myself an industrial designer because I not only design, I also produce and sell. And although I feel that fashion is essentially a matter of aesthetics, basically it is just another consumer product that I hope people will like and want to buy."

ADOLFO DOMÍNGUEZ

"The pioneer", "one of Spain's top exporters", "an essential element of the image Spain wants to project in fashion". These were some of the compliments paid in the eighties to the Spanish designer, Adolfo Domínguez, although he himself preferred to be called an "industrial designer". In 1985 his company, ADOLFO DOMÍNGUEZ, had a turnover of US$ 20.28 million, a staff of 130 and exports of US$ 2.26 million. Adolfo Domínguez was becoming the main representative of Spanish prèt-à-porter. The following table (7) includes the company's financial statements[14].

[14] The financial statements of table 7 are for case discussion purposes only, and do not reflect the exact figures of the company. Notwithstanding, they provide a reasonable and realistic view of the company at that time. See financial statements in US Dollars in Appendix II.

TABLE 7

[million pesetas]

BALANCESHEET	YEAR				
	1981	**1982**	**1983**	**1984**	**1985**
Current Asset					
Cash	28	38	53	90	97
Marketable Securites	0	0	0	0	0
Receivable, net	33	43	101	128	239
Inventories	116	164	260	406	745
Prepaid Expenses and other current assets	1	2	3	5	12
Total Current Assets	178	249	417	628	1.091
Property, Plant and Equipment					
Land	24	32	42	89	152
Buildings and Improvements	36	48	64	133	228
Machinery and Equipment	130	158	233	387	673
	190	238	339	609	1.052
Less Accumulated Depreciation	70	91	120	172	262
Net Property,Plan and Equipment	120	147	219	436	790
Other Assets	5	13	15	40	61
Total Assets	303	409	651	1.104	1.942
Current Liabilities					
Notes Payable	0	0	5	25	50
Current Maturities of Long Term Debt and Capital Lease Obligations	0	3	3	16	41
Accounts payable	36	46	84	151	298
Accrued expenses	0	4	25	42	74
Income Taxes	16	22	39	63	128
Total Current Liabilites	52	75	156	297	590
Long Term Debt, less current maturities	3	5	10	42	89
Obligations under capital leases, less current maturities	0	0	10	50	50
Other Long Term liabilities	0	0	0	6	30
Total Long Term Liabilities	3	5	20	98	169
Shareholder's Equity:					
Preferred Stocks	0	0	0	0	0
Common Stocks	150	150	150	150	150
Capital Surplus	0	0	0	0	0
Retained earnings	98	179	325	559	1.033
Total Shareholder's Equity	248	329	475	709	1.183
Total Liabilities and Net Worth	303	409	651	1.104	1.942

[million pesetas]

INCOME STATEMENT			*YEAR*		
	1981	**1982**	**1983**	**1984**	**1985**
Revenues:					
Net Sales	463	609	1.060	1.844	3.450
Increased in finished products and products in proccess	5	7	12	20	40
Other Operating revenues	0	0	0	0	0
	467	616	1.072	1.864	3.490
Cost of Revenues:					
Purchases	217	283	488	846	1.553
Other operating expenses	83	107	184	320	580
Personnel expenses	56	76	134	234	440
Selling and Marketing	2	4	10	40	80
	358	470	816	1.441	2.652
EBITDA	**110**	**146**	**256**	**424**	**837**
Depreciation and Amortization	17	21	30	52	90
EBIT	**93**	**125**	**226**	**372**	**747**
Other Interest and similar revenues	0	0	0	0	0
Interest Expenses	0	1	3	14	24
EBT	93	124	223	358	724
Income tax	32	44	78	125	253
NET INCOME	**60**	**81**	**145**	**233**	**470**

	1981	**1982**	**1983**	**1984**	**1985**
Total Revenues	463	609	1.060	1.844	3.450
Export Volume	0	37	148	195	384
% Export	0,0%	6,1%	13,9%	10,6%	11,1%
Exchange rate Pesetas/US$	92,38	110,03	143,37	160,72	170,14

After starting out as a tailor producing high-quality classic suits for men, Adolfo Domínguez set up his company in 1974 with the aim of developing the almost non-existent concept of men's fashion based on his concepts of design and creativity. At the time, there was a marked distinction between casual wear - jeans and T-shirts - and smart wear. Adolfo Domínguez determined to break down these barriers by applying the comfort, imagination and easy-going style of American sports clothing to formal dress. He changed the focus from meticulous tailoring to highly-creative and original design, the use of quality materials (linen, wool, mohair, etc.) and daring use of fabric and line (fuller fit, more comfortable, more wearable, more flexible).

Alongside other designers, he thus met the requirements of the new consumer segment - serious but non-conventional men with a high level of purchasing power who did not feel right in classic suits. They wanted smart clothing but with a touch of informality and were searching for their own identity on the design of their clothes. ADOLFO DOMÍNGUEZ offered clothing with sufficient design to be considered fashion while keeping as closely as possible in touch with the preferences of these consumers. This led to the company's first winner - the ADOLFO DOMÍNGUEZ jacket that had just the right degree of structure to still be considered smart.

Four years later, in 1978, the general public heard of the existence of ADOLFO DOMINGUEZ. In February the company made its first appearance in Madrid displaying its products in the First Ibermoda Salon for Men, alongside Antonio Miró, Jesús del Pozo and Pepe Reblet[15].

From then on, continuous investments in communication in the form of advertising, public relations and image campaigns had a lot to do with the company's success. Adolfo Domínguez wanted to create the best image for his product in order to sell the ADOLFO DOMINGUEZ product and image together. In 1982 he launched a slogan that was to have an enormous impact on the Spanish market - "*la arruga es bella*" ("creases are beautiful"). The investment achieved its objective. Adolfo Domínguez had made a name for himself and his clothing was reaching consumers. That was the year he entered the women's fashion market, with an unusual, androgynous style that stood well alongside his men's fashions.

In 1984, the company's objectives were to consolidate its position in the national market, enter the main foreign markets and reaffirm its image through: (1) improvements in the design and production processes; (2) staff training; (3) computerization of administration and management control, and (4) creation of new products for the overall image.

[15] Very creative designers, but for minority markets and with no industrial backing of their own.

Adolfo Domínguez was keen to transmit his international vocation to the company and, having consolidated the brand and sales within Spain, in 1984 the company focused all its promotional efforts on entering foreign markets. The budget was spent on (1) participation in the specialist salons in Florence (Salon Pitti Uomo)[16] and Paris (Défilés des Créateurs)[17]; (2) individual fashion shows every six months; (3) systematic work on communication with the media; (4) advertising in the specialist fashion magazine "*L'Uomo Vogue*"[18]; (5) opening of new product lines of jewelry and accessories (ADOLFO DOMINGUEZ DIFUSION, 1985), and (6) opening of new shops in Madrid and Barcelona in key locations to sell the image as well as the products. In just one year, exports almost doubled.

In 1985, seven years after the first fashion show, ADOLFO DOMINGUEZ[19] had its own shops in Madrid (3), Barcelona (2), Orense (1), Paris (1) and London (1)[20], representatives in Spain, Italy, France, Benelux, Great Britain and Germany (for a total of 350 shops), its own offices in New York[21], a chain of 4 franchises within Spain and one franchise in Hong Kong.

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[16] Considered the top men fashion fair in the World.

[17] All top international fashion designers and companies participate in this women fashion show twice a year, which probably set the trends for the World.

[18] ADOLFO DOMINGUEZ had started advertising in this publication, considered the most influential en the World, in 1983 with the campaign "*la arruga es bella*" (creases are beautiful) in English. In 1985, the company placed a total of 72 pages of advertising, a similar amount to companies such as Gianfranco Ferré, Gianna Versace or Armani.

[19] By that time, ADOLFO DOMINGUEZ was the umbrella name for a group of companies comprising: *Adolfo Domínguez e Hijos, S.L.* (1974), for the production and sale of clothing, excluding knitwear; *Adolfo Domínguez Difusión, S.A.* for the design and sale of other articles (knitwear, shirts and accessories) bearing the ADOLFO DOMINGUEZ brand name, and *Adolfo Domínguez S.A.* which covered the network of retail shops selling the ADOLFO DOMINGUEZ products.

[20] The shops in Paris and London were opened in the belief that these locations would help ADOLFO DOMINGUEZ connect with potential customers in Europe, the United States and the Far East.

[21] The New York shop failed soon afterwards because of a dispute with an American brand of clothing called ADOLFO, which forced the ADOLFO DOMINGUEZ representative in the United States to give up the project.

6. THE ADOLFO DOMÍNGUEZ DISTRIBUTION STRATEGY.

Both the national and international strategy of ADOLFO DOMÍNGUEZ determined that the company should possess its own shops, these being the best showcase for projecting the overall company image while keeping it under tight control. On an international level, the Paris and London shops clearly fulfilled this objective because losses from direct sales were more than made up for by their success as creators of the ADOLFO DOMÍNGUEZ image and brand outside Spain and as multipliers of sales to retailers. The strategic importance of the company-owned shops did not, however, prevent the opening of several franchises nor sales to retailers through representatives in places considered less strategically relevant. But the company-owned shops were always located in very visible locations in cities that were an essential part of the fashion world, with a wide area of influence and large number of consumers.

The franchises were very carefully selected and also sold exclusively ADOLFO DOMÍNGUEZ clothing. Their window displays, internal layout and prices were the same as those of the company-owned shops. They kept 30% of the revenue and, in exchange, were treated in exactly the same way as the company-owned shops with which they shared stock management, window-dressers, and individual attention from the parent company.

The representatives showed the collection to their customers, most of which were very select shops with a top-class image[22], and received commissions depending on the orders placed by the latter with the company. The retailers set their own selling prices, which included a large profit margin[23]. This meant that both the company-owned shops and the ADOLFO DOMÍNGUEZ franchises had to sell at the retailers' prices, as otherwise the company would lose them as customers. In addition, in the case of sales to third parties, ADOLFO DOMÍNGUEZ took on the risk of returns.

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[22] Most of these shops, in addition to ADOLFO DOMINGUEZ, had exclusive rights to the sale of designs by *Giorgio Armani, Yamamoto, Comme des Garçons or Jean Paul Gaultier*.

[23] The sales strategy of the retailers was based on profit from the mark-up on each garment, not from sales volume.

All the ADOLFO DOMÍNGUEZ shops, whether company-owned or franchises, sold both mens' and womens' wear and offered a select, carefully-tended image which aimed to tie in with the company's philosophy. The decoration was rational, austere, geometrical. Grey was the only color used. Layout and shop-window display was the same for all the shops. The aim was that ADOLFO DOMÍNGUEZ products should stand out for their design and fashion.

7. THE JAPANESE FASHION MARKET.

In the mid-eighties, Japan had a population of approximately 120 million, the seventh largest in the world. The high purchasing power of the Japanese (Japan was in the third position for per capita income, after Switzerland and the U.S.A.) was on the increase, as were their wages, thanks to their country's economic development. The fact that Japan was made up of islands, together with the high average density of population (323 inhabitants/km^2, with 600 inhabitants/km^2 in Tokyo) made Japanese land amongst the most expensive in the world. 77% of Japanese people lived in urban areas and, of these, 43% were in the three main metropolitan areas of Tokyo, Osaka and Nagoya. Unemployment in 1985 was 2.6% and the tertiary sector employed 58.5% of the working population.

Japan had recorded outstanding economic growth over the past twenty-five years[24], mainly as a result of the quality and productivity of its labour force which made up for the scarcity of natural resources. Japan was therefore a very promising market but one of the most difficult in the world. Anyone planning to operate in it needed thorough knowledge of its characteristics and requirements. However, if the difficulties could be overcome and the lengthy negotiations resolved, the local companies worked hard and favored very long-lasting relationships with their partners.

One of the most outstanding features of Japanese industry for a potential exporter was the complex structure of its distribution channels which, together with the high import tariffs, meant that the final price of an imported product might be from three to five times that of the export price. Tables 8a and 8b.

[24] In 1985 alone the economy had grown at a rate of 4.5%.

TABLE 8A

PRICING OF GARMENTS IMPORTED BY JAPAN

REASON FOR INCREASE	MINIMUM VALUE*	MAXIMUM VALUE*	PERCENTAGE
FOB Price	100	100	
Insurance and Freight	4.7	13.2	4.7%-13.2% of FOB Price
Customs Duties	6.7	19,0	6.4%-16.8% of CIF Price
Importer's Commission	20.0	30.0	5.7%-6.05% of Final Price
Wholesaler's Commission	40.0	70.0	11.41%-14.12% of Final Price
Retailer's Mark-Up	170.0	248.0	48.51%-50.22% of Final Price
Consumer Tax	10.5	14.8	3% of Final Price
TOTAL	351.9	495.8	

Source: "Japón, el mercado de la moda". Madrid Chamber of Commerce. 1989
* Approximate data, survey results.

TABLE 8B

SELLING PRICES IN JAPAN OF SELECTED GARMENTS (YEN)

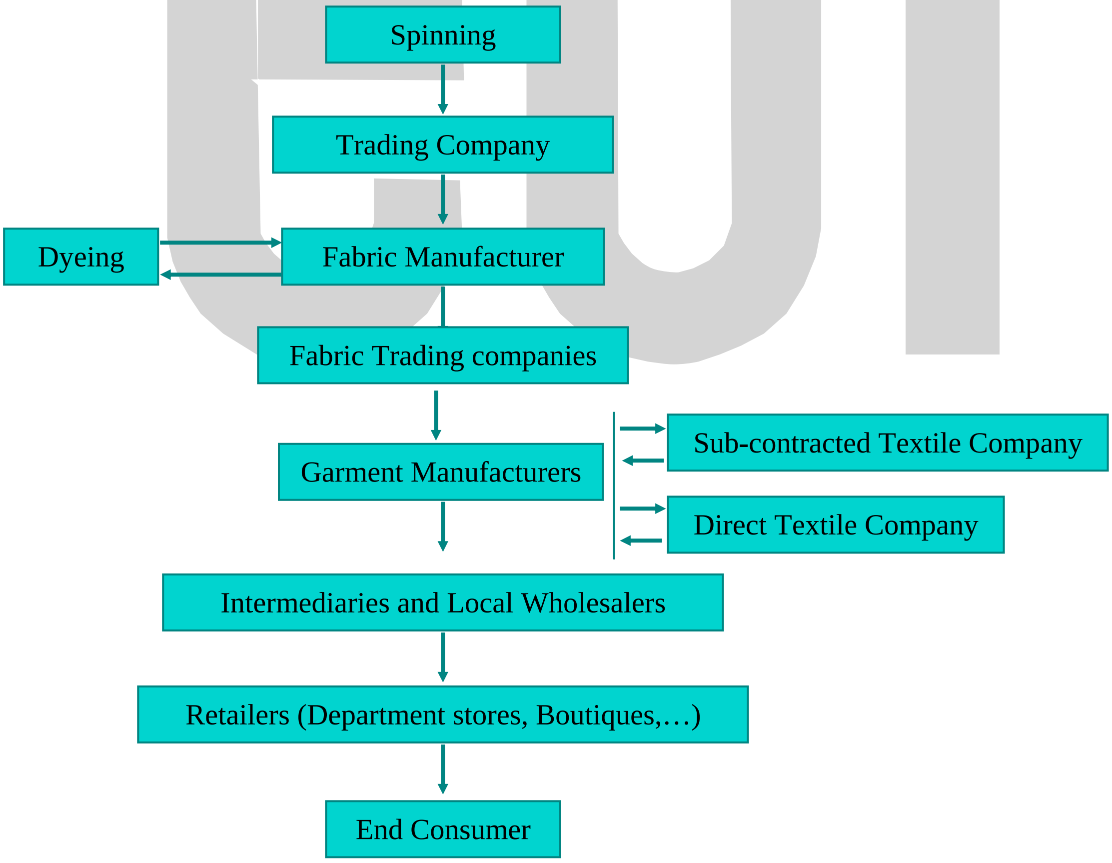
GARMENT	MOST FREQUENT AVERAGE SELLING PRICES	PRICES OF GARMENTS PRODUCED UNDER LICENSE	PRICES OF DIRECT IMPORTED GARMENTS*
Suits	37,500	70,000 - 111,500	165,000 - 455,000
Dresses	24,100	51,450 - 80000	135,000 - 240,000
Blazers and other Jackets	25,000	41,000 - 62,000	101,000 - 235,000
Skirts	12,000	30,000 - 50,000	40,500 - 135,000
Blouses	10,500	20,000 - 40,000	41,000 - 100,000
Jumpers	12,500	25,000 - 52,000	41,000 - 135,000
Coats	61,000	82,000 - 151,000	195,000 - 460,000

Source: "Japón, el mercado de la moda". Madrid Chamber of Commerce. 1989
Official Average Exchange Rate yen/peseta in 1985: 100 yen = 71.54 pesetas.
* Top Brands

Particularly the Japanese distribution system for clothing and textiles was very unusual. There were no direct sales between the various links of the production chain (that is, the producers of threads and fibers such as Toray and Teijin, the weavers such as Toyobo and Kanebo, and the clothing manufacturers). This allowed the importers (particularly the *sogo shosha* or the intermediary/distribution companies), the wholesalers and the retailers to be in charge of coordinating and controlling the various activities of the many small weaving and manufacturing businesses (which dominated the sector). And, of these, it was the wholesalers who played the most important role, buying the fabrics, deciding on designs, placing orders for production and then selling the garments to intermediaries or retailers. Tables 9a and 9b.

TABLE 9A

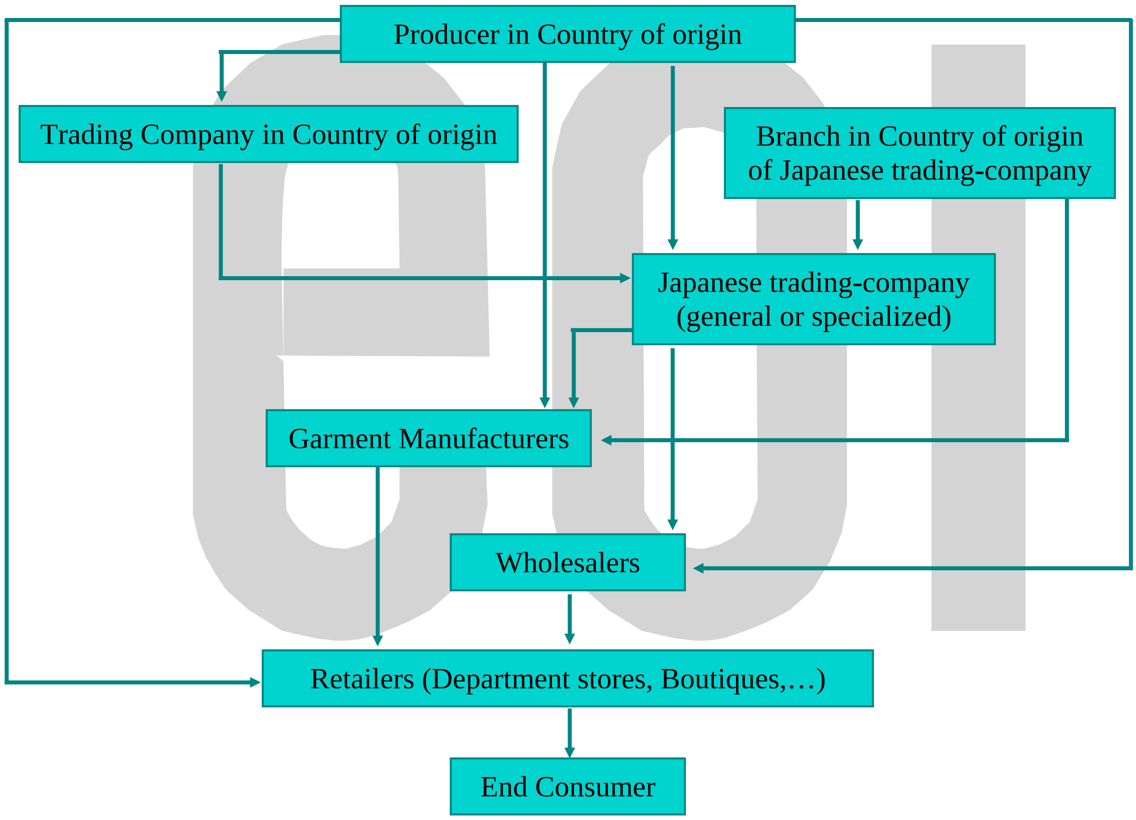
JAPAN. CLOTHING SECTOR. DISTRIBUTION CHANNELS FOR DOMESTIC PRODUCTS



Clothing was not subject to any sort of import quota as trade was completely deregulated. However, there were some “ad valorem” duties (GATT tax, Temporary Tax and General Tax) at rates between 6.4% and 16.8% of the CIF price for the product. But in fact the greatest barrier to imports was the complex structure of the distribution channels[25].

TABLE 9A

JAPAN. CLOTHING SECTOR. DISTRIBUTION CHANNELS FOR DOMESTIC PRODUCTS



[25] At that time, the yen has a relatively weak position in relation to the US dollar and the European currencies.

Japan had started to become a market for "fashion" and brand names in the seventies when consumerism developed. The jeans revolution, the success of knitwear and prêt à porter, and the subsequent domestic production under license of important foreign brands led to a change in the behavior of Japanese consumers who had previously been very conservative and conformist. Companies such as Issey Miyake, Kenzo, Comme des Garçons were set up to meet consumer demands for "mass fashion" and the desire for greater differentiation through dress. Grey or blue suits, with a classical cut, still predominated in male fashion as well as suits for women but the style was becoming increasingly informal. Sports clothing entered Japan as a result of success of sports such as tennis, golf and skiing.

A little later, the high degree of saturation in the fashion market caused by the newly-arisen search for individualism, the demand for very high quality, admiration of imported products and the wish for innovative and original design led the industry (which was very fragmented with 18,680 companies, most with a staff of less than 10 and a total of 350,000 workers) to restructure their sector to allow for greater diversification and improved quality. In 1985, consumption of clothing in Japan was valued at around 31 billion US$, with imports of 2 billion US$ and exports of 0.7 billion US$[26]. Table 10.

[26] Average official exchange rate in 1985: 100 yen = 71.54 pesetas and 1US$ = 170,14 pesetas.

TABLE 10

TRENDS IN JAPANESE TRADE FOR THE CLOTHING SECTOR BY GEOGRAPHICAL AREA 1980-1985 (billions US$)

	EXPORTS				IMPORTS			
	1980	**1983**	**1984**	**1985**	**1980**	**1983**	**1984**	**1985**
Developed Countries								
U.S.A.	0.21	0.37	0.5	0.45	0.09	0.05	0.05	0.04
Canada	0.01	0.02	0.03	0.03	0.01	0.01	0.01	—
E.E.C	0.07	0.05	0.06	0.07	0.31	0.27	0.27	0.29
EFTA	0.02	0.01	0.01	0.01	0.02	0.01	0.01	0.01
Other Countries of Western Europe	—	—	—	—	0.01	—	—	—
Other Developed Countries	0.01	0.03	0.01	0.01	—	—	—	0.01
Total	**0.32**	**0.48**	**0.61**	**0.57**	**0.43**	**0.34**	**0.34**	**0.35**
Developing Countries	0.15	0.17	0.16	0.14	0.85	0.88	1.24	1.18
Eastern Europe, USSR, China and other centrally-planned economies	0.03	0.02	0.01	0.02	0.24	0.28	0.37	0.46
Total	**0.5**	**0.66**	**0.78**	**0.73**	**1.53**	**1.5**	**1.95**	**2.00**

Source “International Trade, several years”. GATT

Analysis of the figures for domestic production, imports and exports showed two basic facts. Firstly, Japanese consumers increasingly preferred fashion imported from Europe or at least designed in Europe. Limitations on direct and indirect imports were almost completely responsible for the fact that most of the production of the Japanese companies in the sector and approximately 95% of imports (in quantity) from producers in south-east Asia were manufactured under license. In such cases, the design was European giving the garments a European appearance, the materials and labor were Japanese or from south-east Asia and the technical side of production was exclusively under Japanese control[27]. Subsequently, as the position of the yen strengthened, the trend gradually changed towards direct purchases of ready-made garments from Europe.

Secondly, Japanese consumers showed a marked preference for clothing with design, brand names and quality. This was the reason why Japanese demand for fashion never increased sharply because consumers were on the lookout for new trends but only bought garments meeting their quality requirements. So, although there were no marked variations in total sales figures, there was constant growth in the consumption of garments with brand names, quality and design to the detriment of those not having such characteristics.

[27] It was relatively easy for the Japanese technicians to control the manufacturing processes either because the countries of south-east Asia were close enough to be visited frequently or because they had their own factories there.

8. THE PREFERENCES OF JAPANESE CONSUMERS.

Japanese consumers had one of the highest levels of purchasing power in the world but at the same time were very demanding. This meant that companies had to offer products that were perfect because any defect in quality could lead to the garment being rejected, even if its design and brand were excellent. Both male and female Japanese consumers were very interested in fashion and placed greater value on quality and design than on price, because dress in Japan had become a marker of social level, distinction and individuality. Average expenditure on clothing was greater in Japan than in Europe or the United States and clothing kept in line with fashion trends.

Japanese consumers of fashion were eminently city-dwellers. The inhabitants of Tokyo and Osaka, who accounted for 30% of the total population, consumed 70% of production and the most widely-purchased garment was the business suit[28].

During the eighties, the natural inclination of the Japanese for imported garments from Europe (in spite of higher prices and the different physical build of the Japanese people) meant that producers under license in south-east Asia and in Japan had to improve their quality and raise their prices to keep in line with the desires of their Japanese customers.

By the mid-eighties, all of the world's most renowned fashion designers were present in Japan, including 120 European names (of a total of 200). French design was losing ground to Giorgio Armani and his Italian colleagues. Every possible entry formula was used although licensing agreements tended to predominate (Table 11) because, in spite of the danger of losing image, prestige and the high market segment, such arrangements were less expensive than franchises[29] or direct imports. There was an increasing trend

[28] While the suit was the most widely-purchased garment, a clear trend was beginning towards more flexible dress habits. Blazers were being increasingly used for work and more casual styles were gaining acceptance.

[29] Since Japan is a market for brand names, two factors - promotion and advertising, and location of the sales points - became essential for the brand image. The following points may be of interest: 1) It was very difficult to find well-located premises for rental; 2) The monthly rent of a shop premises measuring approximately 60 m2 could be 1.2 million yen (1 million pesetas). For example, the *Dunhill* shop in

towards simultaneous use of two of the formulae - licensing-franchising, licensing-direct imports, etc. This allowed consumer demands to be satisfied while optimizing profitability. For example, Giorgio Armani used licensing agreements and a franchise network for his operations in Japan, Jean Paul Gaultier and Claude Montana carried out 80% of their operations through licensing agreements and the remaining 20% were direct imports through representatives, Mila Schön only exported through representatives, and Dunhill only sold through its franchise network.

Ginza cost 200 million yen/year. 3) A shop manager received a salary of up to 5 million yen/year and a shop assistant up to 3 million yen/year.

TABLE 11
MAIN LICENSED BRANDS IN JAPAN

BRAND	COUNTRY	LICENSE/SUB-LICENSE
Aquascutum	G.B.	Mitsubishi Corp. / Ohga Co.
Andre Courreges	Fr.	Itokin Co.
Anne Klein	U.S.A.	Takihyo Co.
Angelo Tarlazzi	Fr.	C. Itoh Fashion System Co. / Piage Co.
H.L.	Fr.	Intermode Inc.
Yves Saint Laurent	Fr.	Sanyo Shokai Ltd.
Valentino Garavani	Fr.	Valentino Boutique Japan Ltd.
S.T. Dupont	Fr.	Kosugi Sangyo Co. / Panther Co.
Emanuel Ungaro	Fr.	Takashimaya Co. / Naigai Co.
Austin Reed	G.B.	Kosugi Sangyo Co.
Carven	Fr.	Nissho Iwai Corp.
Calvin Klein	U.S.A.	Isetan Co. / Kashimaya & Co.
Karl Lagerfeld	Fr.	Isetan Co. / Sanyo Shokai Ltd. / Tokyo Blouse Co.
Carlo Palazzi	It.	Marubeni Corp. / Mizuone Co.
Kasper	U.S.A.	Yagi Tsusho Ltd. / Kashimaya & Co.
Guy Laroche	Fr.	Yagi Tsusho Ltd.
Christian Dior	Fr.	Kanebo Ltd. Christian Dior Consolidated
Gres	Fr.	Yagi Tsusho Ltd.
Chloe	Fr.	Coronet Co.
Givenchy	Fr.	Daimaru Inc.
Chacok	Fr.	Intermode Inc.
John Weitz	U.S.A.	Kashiyama / Co.
Université De Paris Sorbonne	Fr.	Uni Incentive, Inc. / Itokin Co.
Jules-François Crahay	Fr.	Itokin Co.
Daks	G.B.	Sankyo Seiko Co. / echizenya Co. / Tsubame Coat
Daniel Hechter	Fr.	The Seibu Department Stores Ltd. / Kashimaya &
Chester Barrie	G.B.	C. Itoh & Co. / Ohga Co.
Trussardi	It.	C. Itoh & Co. / King Co.
Thierry Mugler	Fr.	Takashimaya Co. / Ichida & Co.
Nina Ricci	Fr.	Yoshimura Co.
Hargten	U.S.A.	Sankyo Seiko Co.
Burberrys	G.B.	Mitsui & Co. / Sanyo Shokai Ltd.
Pierre Cardin	Fr.	Takii & Co.
Bill Blass	U.S.A.	Mitsui & Co. / Sanyo Shokai Ltd.
Pisanti	Fr.	Kakiuchi Co.
Perry Ellis	U.S.A.	Yagi Tsusho Ltd. / Renown Inc.
Popy Moreni	Fr.	Renown Inc.
Michel Leger	Fr.	Uni Incentive, Inc.
Martine Douvier	Fr.	Fukusuke Corp.
Lancel	Fr.	Fukusuke Corp.
Lancetti	It.	Itokin Co.
Lanvin	Fr.	Kimbun Co.
Liberty of London	G.B.	Sanyo Shokai Ltd.
Louis Feraud	Fr.	The Seibu Department Stores Ltd. / An Co.
Renoma	Fr.	Alpha Cubic Co.
Leonard	Fr.	Sankyo Seiko Co.
Roberta di Camerino	It.	Micalady Inc.
Roberto Capucci	It.	Sumitomo Corp.
Roberto Fablice	Fr.	Sanki Shoji Co.
Blumarine	It.	Sanki Shoji Co.
Jean Paul Gaultier	Fr.	
Claude Montana	Fr.	
Gianni Versacce	It.	
Emporio Armani	It.	
Pierre Balmain	Fr.	
Moschino	It.	

Loewe was the only Spanish fashion company present in Japan. It had been operating there for fourteen years through a sales agreement signed between Loewe Japan and the department store Mitsukosshi, allowing the latter to sell exclusively the whole Loewe range, from clothing to handbags, perfumes and accessories (except shoes because of the import quota). All the products were produced by Loewe S.A., distributed in Japan by Loewe International (based in Paris) and sold directly by Loewe Japan to the department store on consignment[30]. Loewe had a delegate in each area who was responsible for controlling the brand image and the final sale, as well as consumer complaints. The average selling price in Japan was 340% above the FOB price[31]. Loewe's annual expenditure on promotion and advertising was approximately 715,000 US$ of which 357,500 US$ went on magazine advertising, 294,500 US$ on catalogues and 63,000 US$ on each fashion show. In the mid-eighties, they were considering the possibility of opening their own shops with a view to adapting prices in Japan to those in their Spanish shops[32].

The general opinion of Japanese entrepreneurs in the clothing sector and other related sectors at the time was that Spanish fashion offered design and originality, sometimes in excess, but that the quality of the materials and production was not sufficiently high. They were, however, still interested in Spanish design for two reasons - Spain's good cultural image in Japan, and the start of saturation with the French and Italian fashion markets.

[30] On consignment" means that payment takes place when the goods are actually sold in the foreign country.

[31] The price was established as follows:

FOB price (=100) + other expenses (=35) + Loewe Japan (=135) + department stores (=70) = final price (= 340).

[32] Summary of the information given on Loewe in the report "Japan: The fashion market" published by the Madrid Chamber of Commerce and Industry in 1989.

9. TAKA-Q CO., Ltd.

TAKA Q was a family business. Its president and founder was Mr Taiken Takaku and his wife, Mrs Haruko Takaku was Vice-President. TAKA Q had from its foundation in 1950 specialized in imports and wholesale dealings in fashion. It had a staff of 3,000 and estimated turnover for 1986 of approximately 273.3 million US$. The company had opened its first shop in 1965 and, by 1985, had 301 (234 for menswear and 67 for womens' wear) all over Japan. In 1982 the company set up the subsidiary Mels Inc. to sell collections of women's fashion. It had a total of 20 licensing agreements with other companies, including Sharibari (with a shop in Yokohama) and agreements for collaboration with Wilkis Bashfold (mens' fashion), Moving (young fashion) and Nautica (nautical-style clothing).

TAKA Q usually imported goods and sold them directly from its shops, although sometimes it collaborated with 'trading companies'. In the mid-eighties, the breakdown of its imports was as follows: South Korea and Hong Kong provided 70% and the remaining 30% were from the USA, Italy, Great Britain and France. Most of the imports from countries in south-east Asia were produced under license from European designers.

TAKA Q had three main contributions to make to its partners in these licensing agreements, apart from payment of the licence: very extensive and up-to-date knowledge of the market and of Japanese consumers, a large number of well-located shops, and many advertising and promotion activities. These included two fashion shows a year, publication in catalogues of each of the brand names distributed, display in their magazine "Directio" of the garments sold by them, and advertising in newspapers (although practically none in fashion magazines and television which they considered expensive and unattractive).

Although they considered the quality of dressmaking in Spain not to be high, and only reasonable the design, they turned to Spanish fashion because of the country's strong, unique image in Japan, and especially because Japanese consumers had become tired of fashion from Asia and from European countries such as France and Italy. So, Spanish fashion was after all European but also unknown, two factors that added a novelty which seemed to bode well for its entry into the Japanese market.

Mr Yasuda, the Sales Manager of TAKA Q, was responsible for searching out new designers whose creations might be successful in Japan. His system was methodical and lengthy. First he made frequent visits to the main centers for world fashion during which he took note of the latest designs, trends and designers. He regularly visited Paris and its fashion shows. And in 1982 he discovered ADOLFO DOMÍNGUEZ and liked what he saw: garments that were sufficiently innovative but were close to Japanese tastes, with good design and reasonably well made. And the name of the brand was European without being either French or Italian.

The next step was to determine that what he had seen the first time was maintained during subsequent seasons. Once he had got to know the product thoroughly and had checked its design and quality during several visits to Paris and attended the two annual individual ADOLFO DOMÍNGUEZ fashion shows there, he started the most difficult task - to convince the TAKA Q management and especially Mr and Mrs Takaku that ADOLFO DOMÍNGUEZ could be of interest to them. Mr. Yasuda knew the Japanese market perfectly and knew how it quickly became saturated, requiring new designers every so often. He considered that the Spanish company met all the minimum requirements of TAKA Q and of the Japanese consumers. Mr and Mrs Takaku liked the garments he showed them but needed time to reach a decision.

At the same time and in complete ignorance of what was going on, in February 1985 Adolfo Domínguez inaugurated his first shop outside Spain, in Paris, close to the Place des Victoires. In the summer of that year the first contact took place between the two companies. Mr Yasuda took the step of contacting Adolfo Domínguez to suggest an agreement for production under license almost four years after his discovery.

10. ADOLFO DOMÍNGUEZ FACING JAPAN.

In February 1986, after several months of negotiations, the following were the main points of the proposal made by TAKA Q:

- Agreement for a licensing contract. The designer would assign, at the beginning of each season (January and July), a complete mens' collection, together with patterns and samples of fabrics and colors. TAKA Q would carry out production and distribution.
- TAKA Q would produce the garments in Japan, under the technical control of the Japanese company in order to ensure that the quality standards of Japanese consumers would be met and that the ADOLFO DOMÍNGUEZ designs were followed exactly.
- The garments would be exclusively distributed through the company's own shops. The ADOLFO DOMÍNGUEZ collection would share shop with the garments belonging to the other brands sold by TAKA Q.
- The contract would include the possibility of opening within a period of two years a shop with the ADOLFO DOMÍNGUEZ brand name, characteristics and design. This shop would sell only the designer's collections.
- The amount to be paid to the designer for the license would be the "usual" sum in this type of contract[33].
- The agreement would be signed for a period of five years, after which renewal would be subject to negotiation.

Three significant events had meant that the situation had changed since the first visit. Firstly, Adolfo Domínguez had found out about licensing agreements. Secondly, he had

[33] In general, licensing payments comprise two elements – (1) a fixed amount, in this case the price of the collection, and (2) a variable amount, established as a fixed percentage of sales. Adolfo Domínguez considered all the figures mentioned at this stage for the price of the collection to be too low.

visited Japan, and met Mr. And Mrs. Takaku, who showed the most warm Japanese hospitality towards him. And thirdly, he had received independent information about TAKA Q.

With respect to licensing agreements, Adolfo Domínguez had studied other agreements of this type. The risks were loss of the top market segment because the licensee's selling prices were lower than they should be, almost impossibility for the licenser of controlling image, neglect of the image by the licensee, ignorance on the part of the licenser of the technical quality of products, impossibility for the licenser of keeping abreast of exact sales, etc.

During his visit to Japan, he had seen the TAKA Q shops. They were in perfect locations but they sold none of the top worldwide brands and their appearance and aesthetics were not what was expected of a fashion shop. They were merely functional.

Mr. Yasuda sent his company audited financial statements[34] for the last five years to ADOLFO DOMINGUEZ. The Financial Director of latter reviewed the statements and reported his assessments to Mr. Dominguez.

The next day Mr. Yasuda was to arrive together with several managers of the Japanese company for another meeting. There were certainly matters that still had to be resolved. Should Adolfo Domínguez go ahead, or not?

[34] The financial statements of Appendix I are for case discussion purposes only, and do not reflect the exact figures of the company. Notwithstanding, they provide a reasonable and realistic view of the company at that time.

11. ADOLFO DOMÍNGUEZ CASE (A), 1986: QUESTIONS.

- What changes were taking place generally and in the fashion sector in the eighties? Was ADOLFO DOMÍNGUEZ's strategy well adapted to the changing environment?

- From the point of view of ADOLFO DOMÍNGUEZ, analyze the company's possible strategies in the Japanese market.

- Make a comparative analysis of the different formulae for distribution used by ADOLFO DOMÍNGUEZ. What were the differences between the strategy proposed for Japan and previous ones? (Paris and London, and Hong Kong).

- Assess the proposal made by TAKA Q. Should Adolfo Domínguez go ahead? What recommendations would you make to the management of ADOLFO DOMÍNGUEZ regarding this decision?

- In your opinion, what are the main points in TAKA Q's business strategy?

APPENDIX I

Report of Independent Auditors

The Board of Directors and the Shareholders,

Taka Q, Inc.

We have audited the accompanying consolidated balance sheets of Taka Q Stores, Inc. as of December 31, 1985 and 1984, and the related consolidated statements of income, shareholders' equity and cash flows for each of the five years in the period ended December 31, 1985. These financial statements are the responsibility of the Company's management, our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Taka Q Stores, Inc. at December 31, 1985 and 1984, and the consolidated results of its operations and its cash flows for each of the five years in the period ended December 31, 1985, in conformity with accounting principles generally accepted in the Japan.

Satoru Kanamori

Tokio, Japan

March 22, 1986

TAKA Q

[million $]

BALANCESHEET	YEAR				
	1981	**1982**	**1983**	**1984**	**1985**
Current Asset					
Cash	10	12	14	16	19
Marketable Securites	0	0	0	0	0
Receivable, net	63	71	75	77	81
Inventories	41	43	46	49	50
Prepaid Expenses and other current assets	3	3	3	3	3
Total Current Assets	116	129	137	144	152
Property, Plan and Equipment					
Land	22	24	25	25	27
Buildings and Improvements	34	36	37	38	40
Machinery and Equipment	5	5	6	8	11
	61	66	67	72	78
Less Acumulated Depreciation	5	8	11	14	15
Net Property,Plan and Equipment	56	58	57	58	62
*Other Assets**	5	8	17	18	23
Total Assets	178	195	211	220	237
Current Liabilities					
Notes Payable	17	18	19	19	19
Current Maturities of Long Term Debt and Capital Lease Obligations	1	2	3	5	8
Accounts payable	19	19	18	18	18
Accrued expenses	4	4	4	4	4
Income Taxes	3	3	3	3	2
Total Current Liabilites	43	46	47	49	52
Long Term Debt, less current maturities	70	65	59	50	48
Obligations under capital leases, less current maturities	3	3	9	9	12
Other Long Term liabilities	0	0	0	0	0
Total Long Term Liabilities	73	68	68	59	60
Shareholder's Equity:					
Preferred Stocks	0	0	0	0	0
Common Stocks	30	30	30	30	30
Capital Surplus	0	0	0	0	0
Retained earnings	32	51	66	82	96
Total Shareholder's Equity	62	81	96	112	126
Total Liabilities and Net Worth	178	195	211	220	237

* License agreements have been included in Other Assets

[million $]

INCOME STATEMENT			*YEAR*		
	1981	**1982**	**1983**	**1984**	**1985**
Revenues:					
Net Sales	255	257	258	259	261
Increased in finished products and products in proccess	5	6	7	9	10
Other Operating revenues	0	0	0	0	0
	260	263	265	268	271
Cost of Revenues:					
Purchases	124	126	131	132	138
Other operating expenses*	41	41	42	43	43
Personnel expenses	45	45	45	46	47
Selling and Marketing	3	3	5	5	5
	212	215	223	226	233
EBITDA	**48**	**48**	**42**	**42**	**38**
Depreciation and Amortization	3	3	3	3	2
EBIT	45	45	39	39	36
Other Interest and similar revenues	0	0	0	0	0
Financial Expenses	12	11	12	11	11
EBT	**33**	**34**	**28**	**28**	**25**
Income tax	12	12	10	10	9
NET INCOME	22	22	18	18	16

* License expenses are included in other operating expenses

APPENDIX II

ADOLFO DOMINGUEZ

['000s US$]

BALANCESHEET	YEAR				
	1981	**1982**	**1983**	**1984**	**1985**
Current Asset					
Cash	301	349	370	559	568
Marketable Securites	0	0	0	0	0
Receivable, net	359	394	706	795	1403
Inventories	1,252	1,495	1,811	2,524	4,376
Prepaid Expenses and other current assets	14	22	20	30	68
Total Current Assets	1,926	2,260	2,907	3,908	6,414
	0	0	0	0	0
Property, Plan and Equipment	0	0	0	0	0
Land	261	288	296	551	892
Buildings and Improvements	391	432	444	826	1,338
Machinery and Equipment	1,403	1,440	1,627	2,409	3,954
	2,054	2,159	2,366	3,786	6,185
Less Acumulated Depreciation	758	823	839	1,072	1,542
Net Property,Plan and Equipment	1,296	1,336	1,527	2,714	4,643
	0	0	0	0	0
Other Assets	54	118	105	249	359
Total Assets	3,276	3,714	4,538	6,871	11,415
	0	0	0	0	0
Current Liabilities	0	0	0	0	0
Notes Payable	0	0	35	156	294
Current Maturities of Long Term Debt and	0	0	0	0	0
Capital Lease Obligations	0	27	21	100	241
Accounts payable	386	422	589	938	1,750
Accrued expenses	0	37	172	261	434
Income Taxes	176	198	273	393	750
Total Current Liabilites	562	685	1,090	1,847	3,469
	0	0	0	0	0
Long Term Debt, less current maturities	32	42	72	264	525
Obligations under capital leases, less current	0	0	0	0	0
maturities	0	0	70	311	294
Other Long Term liabilities	0	0	0	39	176
Total Long Term Liabilities	32	42	142	614	995
	0	0	0	0	0
Shareholder's Equity:	0	0	0	0	0
Preferred Stocks	0	0	0	0	0
Common Stocks	1,624	1,363	1,046	933	882
Capital Surplus	0	0	0	0	0
Retained earnings	1,058	1,624	2,260	3,476	6,070
Total Shareholder's Equity	2,682	2,987	3,306	4,410	6,952
Total Liabilities and Net Worth	3,276	3,714	4,538	6,871	11,415

['000s US$]

INCOME STATEMENT			*YEAR*		
	1981	**1982**	**1983**	**1984**	**1985**
Revenues:					
Net Sales	5,010	5,537	7,393	11,473	20,277
Increased in finished products and products in	0	0	0	0	0
proccess	50	61	81	127	233
Other Operating revenues	0	0	0	0	0
	5,060	5,598	7,475	11,600	20,511
Cost of Revenues:	0	0	0	0	0
Purchases	2,350	2,569	3,404	5,266	9,125
Other operating expenses	902	974	1,286	1,991	3,407
Personnel expenses	601	692	932	1,457	2,587
Selling and Marketing	22	36	70	249	470
	3,874	4,272	5,692	8,963	15,589
EBITDA	**1,186**	**1,326**	**1,783**	**2,637**	**4,922**
Depreciation and Amortization	179	187	207	324	529
EBIT	**1,006**	**1,139**	**1,576**	**2,314**	**4,392**
Other Interest and similar revenues	0	0	0	0	0
Interest Expenses	3	7	16	67	106
EBT	1,003	1,132	1,560	2,246	4,286
Income tax	351	396	546	786	1,500
NET INCOME	**652**	**736**	**1,014**	**1,460**	**2,786**

	1981	**1982**	**1983**	**1984**	**1985**
Total Revenues	5,010	5,537	7,393	11,473	20,277
Export Volume	0	388	1,183	1,514	3,386
% Export	0.0%	7.0%	16.0%	13.2%	16.7%
Exchange rate Pesetas/US$	92.38	110.03	143.37	160.72	170.14