

PRODUCT/COUNTRY IMAGE EFFECTS AND ENTRY STRATEGIES IN FOREIGN MARKETS

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Abstract

In developing countries, distant not only geographically but also culturally from developed ones, Made in Italy can allow Italian companies to easier build customer relationship and educate customers to the use of products not included in their buying habits and lifestyle. By this way, they can penetrate new markets faster and at lower cost of entry, rather than investing heavily in branding and advertising campaigns, or by submitting to the blackmail and "powers" of intermediaries who are often unreliable.

Studies on Country-of-Origin effect (COO) largely showed that product and country image (PCI) is relevant in the field of perceptions and of unfamiliar products quality evaluations (halo and summary effect, Han 1989). Niss (1996) suggests that promoting products or services abroad through national image is more frequent and helps the exporter to penetrate the market faster than by investing in brand awareness. Roth and Romeo (1992) emphasize that country image is product specific. They identify a framework that matches the importance of the product category dimensions with the perceived image of the COO. This framework helps managers to better understand when promoting COO is beneficial and when it is not, as well as identify the dimensions along which country images should be improved.

The objective of the paper is to analyze PCI effects on new markets penetration strategies of Italian medium-sized firms and the interactions with their brand.

Methodologically, we apply the case study method which is under-utilized in comparison to the quantitative techniques. At this end we assume firm's perspective rather than customer's one in order to highlight the most appropriate modes to exploit country and product image and the effects on entry and international marketing strategies.

Thus the empirical research includes a comparative study between two medium-sized firms belonging to two different Made in Italy industries selected on the basis of their growth performances. The framework of Roth and Romeo (1992), illustrated in the literature review stage, is applied and then enriched and refined through the empirical research.

Expected results suggest that two different situations of product-country match, such as those analyzed, produce different effects in the choices of international marketing and entry strategies.

The paper is the first step of a broader research project which aims to expand the number of cases studied of Italian firms operating in several contexts in addition to cases of foreign firms entering the Italian market.

Introduction

The explosive growth in globalization over past decades has become one of the most pervasive influences in business today. As consumers normally come into contact with product offerings from other countries, and as domestic firms increasingly expand their markets overseas, issues of national product image become ever more salient.

As consequence, Country Of Origin (COO) or the place related images with which buyers may associate a product, and their effects on buyers behaviour, have attracted significant research attention over the past 40 years and this interest has recently increased as a result of the dramatic growth of Foreign Direct Investments (FDIs).

The results of these studies seem to agree in highlighting that country image represents an "extrinsic cue" that, like the price and qualitative characteristics of the product, is able to influence the choice behaviour of consumers.

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This paper is the result of the joined effort of the three authors. Nevertheless introduction and conclusion were written by Riccardo Resciniti, section 1, 3, 4.3 and 4.4 by Michela Matarazzo and section 2, 4.1 and 4.2 by Antonio Iavarone.

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The objective of the paper is to analyze the Product and Country Image (PCI) effects on new markets penetration strategies of Italian medium-sized firms with particular regard to the interactions with their brand. Thus we consider a particular situation of product-country match, in order to analyze the related effects in the choices of international marketing and entry strategies. Methodologically, we apply the case study method which is under-utilized in comparison to the quantitative techniques. At this end we assume firm's perspective rather than customer's one in order to highlight the most appropriate modes to exploit PCI and the effects on entry and international marketing strategies.

1. An overview of studies on Product and Country Image

Literature contributions on COO by several scholars (Bilkey and Nes 1982; Tan and Farley 1987; Peterson and Jolibert 1995) in recent years have increased significantly in terms of the variety of approaches they use, their analytical depth, and their overall number. All this is a good indication of the importance of country images in international marketing strategies.

Roth and Diamantopoulos (2009) highlight the complexity and multidimensionality of the COO construct defining three distinct dimensions to be considered in analyzing the effects on purchase intention:

- *Country Image (CI)*: which focuses on the definition of factors that contribute to create the country image, such as cognitive beliefs and affective components;
- *Product-Country Image (PCI)*: which considers the effect of country image on products manufactured in a certain country;
- *Product Image (PI)*: which emphasises the image of quality of specific products marketed by firms associated with different countries.

Phau and Prendergast (2000) identify three main phases in the chronological development of COO research (see figure 1). The first phase covers from 1965-1973, beginning with Schooler's study of COO effects in the Central America market (Schooler, 1965) that established that a COO effect does exist, but did not investigate strength and direction of such country-of-origin effects.

The second phase, 1982-1990, beginning with Bilkey and Nes' seminal review (1982), including research on the COO phenomenon up to 1980, witnessed a further increase in the volume of COO research. Baughn and Yaprak (1993) considered Bilkey and Nes' widely cited article as the starting point for a better understanding of the role PCI play in the formulation of global marketing strategies.

The increased sourcing of production by multinational firms and their use of standardized advertising for their products (Han and Terpstra 1988; Jaffe and Nebenzahl, 1991), and the burgeoning rate of international joint ventures and other cross-national cooperative linkages (Auster 1987) has led to the prevalence of such "hybrid" products and to consequent investigations of the relationships between images of the country of manufacture and those of the country of national origin (Baughn and Yaprak 1993). Han (1989) was the first scholar who posited that PCI phenomenon might be explained through the halo and summary constructs.

Papadopoulos and Heslops (1993) reconceptualise COO in terms of PCI to account for the multidimensional character of products/brands and also the multiple places potentially involved in a global production system¹. The term PCI has become current in the literature and has itself been subject to adaptation and refinement, for example in Askegaard and Ger's (1998) proposal of the

¹ Papadopoulos *et al.* (1988) were among the first to incorporate distinct country image measures in PCI research (in addition to measures of products simply designated as "made in X"), and the first to attempt to model the relationship between country beliefs, product beliefs, familiarity, and product evaluation and willingness to buy, using LISREL.

more specific term, contextualized product-place image (CPPI). Unlike many COO studies, their conceptualization of CPPI takes into account cultural context, and also is innovative in its use of qualitative rather than quantitative methodology.

2. Implications for firms: Product-Country Matches and Mismatches

While previous literature review mainly emphasized evidence regarding the effect of COO on consumer behaviour, this paragraph focuses on how the COO cue may have benefited firms associated with countries possessing positive product-country image.

Managers are reminded by the above mentioned research that country image plays an important role in consumers' market behavior. Marketers can benefit from emphasizing and promoting PCI information when their country enjoys positive stereotypes, or minimizing their reference to such information if their country suffers negative biases. However, the promotional use of the COO is the most evident application, but in a strategic sense the least interesting one, because it involves middle management decision level rather than top management one. The FDI case is actually the more fundamental and important one.

Roth and Romeo (1992) emphasize that country image is product specific. They suggest a framework that matches the importance of the product category dimensions with the perceived image of the COO. For example, many prestige and status products (Swiss watches, French perfumes, Swedish crystal) owe their brand image to a strong country image for these product categories. This framework helps managers better understand when promoting a product's COO is beneficial and when it is not, as well as identify the dimensions along which country images should be improved.

Figure 1 shows that a product-country match should occur when important dimensions for a product category are also associated with a country's image. When there is no such linkage, a mismatch between a product category and country should exist. For example, design and prestige may be important features when consumers consider shoes purchases (favorable match, cell 1), but relatively unimportant for the purchase of beer (favorable mismatch, cell 3). An unfavorable match occurs when the important product dimensions are not perceived strengths of the country (cell 2). Finally, an unfavorable mismatch (cell 4) occurs when an image dimension is both an unimportant product feature and not a perceived strength of the country.

Fig.1-Product-Country Matches and Mismatches: Examples and Strategic Implications

		COUNTRY IMAGE DIMENSIONS	
		Positive	Negative
DIMENSIONS AS PRODUCT FEATURES	Important	I Favorable Match Examples: • Japanese auto • German watch Strategic Implications: • Brand name reflects COO • Packaging includes COO information • Promote brand's COO • Attractive potential manufacturing site	II Unfavorable Match Examples: • Hungarian auto • Mexican watch Strategic Implications: • Emphasize benefits other than COO • Non-country branding • Joint-venture with favorable match partner • Communication campaign to enhance country image
	Not important	III Favorable Mismatch Examples: • Japanese beer Strategic Implications: • Alter importance of product category image dimensions • Promote COO as secondary benefit if compensatory choice process	IV Unfavorable Mismatch Examples: • Hungarian beer Strategic Implications: • Ignore COO – such information not beneficial

Source: Roth and Romeo, (1992), p. 495

3. Methodology

Methodologically the nature of the questions suggests the use of the case study method, because it suited to research questions such as “how” and “why”, although less suitable for such issues as “how often” and “how much” (Eisenhardt, Graebner, 2007). The case study, in addition, as research strategy that focuses on understanding the dynamics of single scenarios or contexts (Eisenhardt, 1989), is useful to compare the strategic choices of a medium sized firm in different markets (such as Western and emerging ones) .

The company studied is Gessi Spa, chosen for the following reasons:

- a) it is a medium sized firm with high performance and a growing trend,
- b) it has a rising degree of internationalization,
- c) it is present in different markets, developed, UE (France, Germany, Spain, Switzerland, Netherland), USA, Australia and emerging ones, Russia, India, China.
- d) it operates in one of the Made in Italy excellence, the home furnishing sector.

For further analysis we used three basic tools: documents, interviews and observation. Documents were mainly delivered by the company analyzed, including quantitative data. The interviews were qualitative and open, to reduce the risk of bias and to take advantage of different perspectives and increase the wealth of information, were administered to different company’s managers. The case is built on the basis of a logical iterative path, so the research hypotheses derived from the literature were crossed with the findings that emerged from the analysis, in order to try and continually deepening the theoretical issues. The purpose is twofold: to test the theory emerged in the literature and help generate new theoretical advances through the representation of a particular path of success (Eisenhardt, 1989, Siggelkov, 2007), insofar as the case describes the existence of the phenomenon, discusses the main research questions and proposes a methodology of analysis to be replicated in subsequent case studies.

4. Product-country matches: A case study

4.1 Gessi Spa

Gessi is an Italian Company operating in the taps industry. It was founded in the 1992 by Umberto Gessi. In the 1993 the Company moved to Serravalle Sesia in order to enlarge its production plant, in consistency with its vertical integration strategy. Since its birth, indeed, the Company started internalizing all the production activities necessary to manufacture its products, thus deciding to get rid of its suppliers.

In 2004 the Company decided to broaden dramatically its production plant, creating an area of over 58.000 square meters. Finally, over the last years, Gessi has started a process aimed at doubling its production area.

This ongoing enlargement process is consistent with the purpose of integrating more and more activities in the value chain. This process has been going on until now, with only two activities not yet internalized: plastic materials and cartridges production.

The Company has a well structured organization, composed of many functions characterized by a high level of specialization. Regarding the organization chart, at the top of the hierarchy there is the general manager and owner of the Company: Gianluca Gessi. He is the very founder's son. Gianluca Gessi is the only superior of the two CEOs of Gessi: Eusebio Gualino and Paolo Girolodi. Eusebio Gualino is the top manager and responsible for the Italian area. He is also the founder of Gessi Academy, the strategic division of the Company. Paolo Girolodi is responsible for the international business runned by the Company. He is also the Sales Manager for the European area. With regards to the Italian area, instead, the Sales Manager is Marco Torta. The Sales Manager who is responsible for the Countries outside Europe is Luca Poletto. The top management structure reflects three macro-areas in order to focus on the major markets: Italy, Europe and Rest of the world.

At a subsequent level of the commercial and organizational hierarchy of the Company, there are the Area Managers, who are the direct subordinates of the Sales Managers. Italy is the only national market which has two Area Managers. All the other geographical areas, indeed, have just one Area Manager.

Starting from the top level of the hierarchy, the business and commercial activities are always runned separately in order to put a maximum level of attention on the market needs and peculiarities.

The product portfolio of Gessi is composed of three different categories: the taps, the Private wellness and the Home collection.

Gessi has chosen to commercialize its products through three different distribution channels:

- sales network composed of independent wholesalers and retailers;
- BtoB channel consisting of independent producers of complementary products such as kitchens;
- contract (or project), which is the most charming and potentially important way that Gessi uses to promote its products throughout the world. This channel comprises luxurious hotels in the most important cities in the world.

Since its birth, the Company has marketed its products by appealing to the first channel: the sales network. Thus the Company does not have a direct contact to the final market, but it operates through intermediaries (both wholesalers and retailers). Naturally, the bathroom furnishing showrooms are the most important commercial client of the Company.

The business model of the Company is completely focused on the values of originality, creativity (clearly incorporated in the products), aesthetics innovativeness, social value and relations. The relations are a crucial part of Gessi's strategy. In particular, the relations with the commercial intermediaries (that Gessi names as "partners") are the most important way through which Gessi aims to reach its business goals. That is the reason why the Company strives to effectively convey the Company's values to its retailers.

This strategic approach is confirmed by its product attributes, its marketing communication strategy and even the personality of its CEO responsible for the Italian area: Eusebio Gualino. Gessi has invented a completely new way to operate within the taps industry. Eusebio Gualino prefers talking about wellness experience more than product itself. This is consistent with the business model that Gessi has always had. The Company's products and its business model are the natural consequences of Gessi's distinctive competencies, which are: innovativeness, originality, creativity, technological capabilities, design planning. In light of the Company's products and competencies, it is possible to say that Gessi's competitive strategy is the focalization on a niche market.

4.2 The "Made in Italy" image in the taps industry

In light of the previous analysis, it is possible to say that Gessi has concentrated most of its activities in Italy. Given that the Company is highly internationalized, it becomes interesting analyzing how the Country of origin of the Company can affect its success abroad. Before analyzing the image of the Country of origin, it is useful analyzing the most important attributes that the market takes into consideration with regards to these product categories.

The taps industry can be perceived as very related to the furnishing sector. Indeed, the attributes that are highly taken into account by the customers in this market are very similar, and they can be divided into two categories:

- the rational attributes, that are the physical characteristics of the products, and they are related to the functionalities and effectiveness to the users' consumption purpose,
- the emotional attributes, that are the irrational characteristics of the products. They are not related to the physical characteristics but they comprise the experiential, symbolic, psychological and social values that the customer can gain by consuming the product.

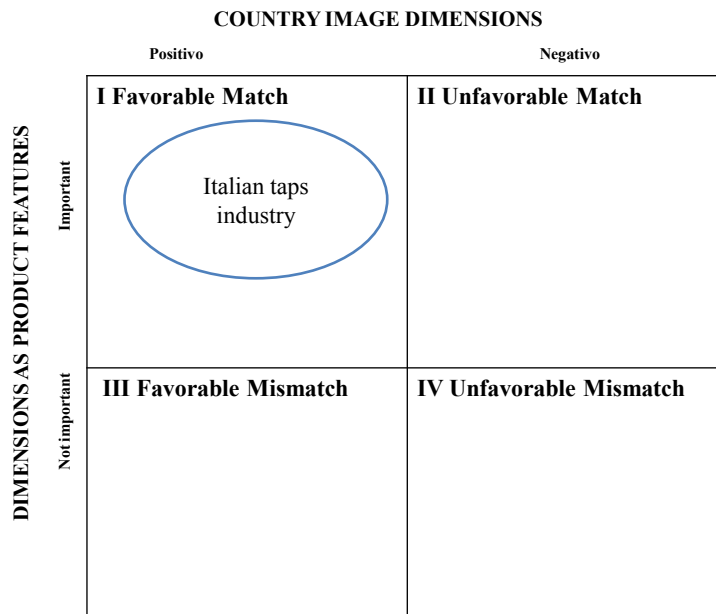
The second type of attributes are the emerging characteristics of the furnishing and taps industry. The Companies which operate in this industry strive to differentiate their respective offer and their image in the market by focusing on the emotions of the customers. Thus, attributes like design, style, fashion are no longer a "plus", but they are becoming a "must".

The analysis of the recent development of the furnishing industry has been necessary to analyze how the "Made in Italy" is perceived by the market for these products. The "Made in Italy" is well related to qualities referred to the aesthetical aspect of life. In particular, the Italian image recalls values such as: aesthetics, design, craftsmanship, beauty, fashion, style, luxury.

However the choice of Gessi distanced itself from the recommendations of the analytical model considered, regardless of the generic brand Made in Italy, just in order to claim its difference.

Gessi, in fact, has developed the necessary skills to offer an effective "emotional bundle" to the market, acting as leader, as we shall see in the next paragraphs.

Fig. 2 – The positioning of Italian taps industry



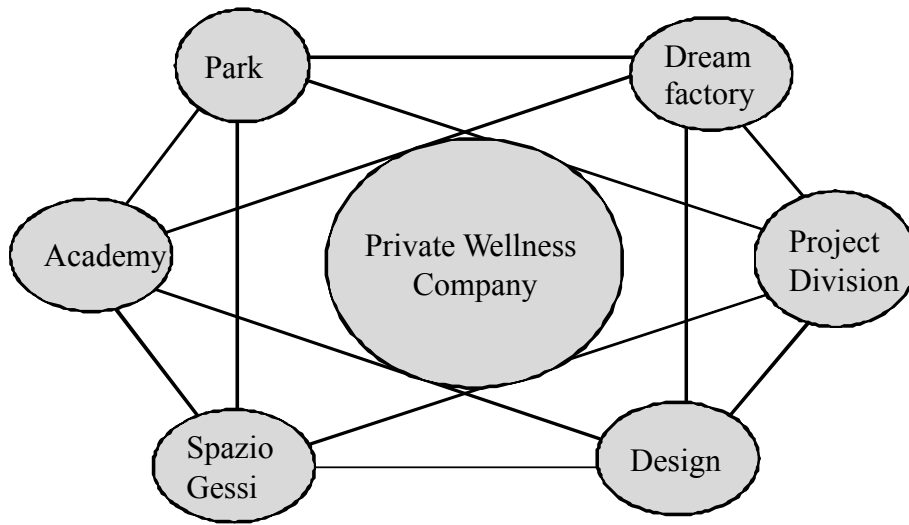
Source: Adapted from Roth and Romeo, 1992, p. 495

4.3 Beyond the Made in Italy: Made in Gessi

The Private Wellness Company

Gessi has included in its communication slogan, the slogan: “The private wellness Company”. This sentence is perfectly in line with the final goal that pushes Gessi to develop special products to offer to the market. The market promise of Gessi, indeed, is to create a special experience to the customers, by involving them in a wellness world. Design, ethics, nature are the simple values which have built the products image in the mind of the customers. The focus, thus, is not on the simple functionalities of the shower systems or taps, but is mainly on the pleasant sensations that the products “Made in Gessi” are able to provide to the users. The extreme attention to details of the products and the wellness of the customers has led Gessi to develop a special function in order to provide tailored products to every single customer. Therefore, the aim is to satisfy perfectly every need and want the customers may express. In light of these aspects of the Company’s offer, it is clear how innovative has been the business model of Gessi. The market positioning is not only built on the basis of the extreme quality of the products, but mainly on “intangible attributes”. Gessi wants itself to be perceived as a “provider of a dream”. The simple need to own a reliable tap is being replaced by the dream to have an object which is able to provide wellness through colours, nebulization, unique design, personalized shape and size. The uniqueness of the offer is linked to the possibility to receive a special wellness experience at home. Moreover, purchasing a Gessi product is also a way to contribute to the respect of the environment and ethics. After having considered the special functions and values of the “Made in Gessi” products, there is another category of attributes that is worthwhile mentioning: the social value of the consumption. Owning this kind of product becomes also an occasion to own something luxurious. The aesthetic value and the special materials which compose the products make the Company’s offer a special status symbol. In conclusion, it seems that the Gessi’s success is due not only to the qualitative aspects of the products but also, and mainly, to the emotional satisfaction it is able to provide to the customers. After having mentioned the importance of the market positioning built on the concept of “private wellness company”, it is now useful analyzing the elements which contribute to shape this concept (figure 3).

Fig. 3 - The “Dream” Made in Gessi



Source: our elaboration

The Dream Factory

Gessi has always invested heavily on the manufacturing phase of its business. The high focus on the creation and realization of special products has allowed the Company to develop a production concept based on values of ethics, environment, technology, craftsmanship, cleanliness. The whole factory is, in fact, completely structured in consistency with the Gessi choice to appear to its guests. The cleanliness and the high technology of the production area are very emphasized in the visits. There is also a strong care of details such as design, forms and style within the Company infrastructure. All these aspects are taken into account by the Company strategically in order to maximize the experiential values given to the guests. At the end of each visit to the Parco Gessi, Eusebio Gualino organizes a meeting with its customers in order to convey to them the Company’s international ambition and values. The Company’s factory is, as mentioned above, one of the elements of the customer relationship management performed by the Company. In particular, there is always a great focus on the way the products are realized inside the factory. The factory is composed by a series of high tech machines which are able to turn the raw materials into components in few seconds. The high technology is also an important element for the warehouse management of the Company. Indeed, the activity of warehousing of components and final products is performed through a totally computerized system which doesn’t require the human presence at all. The high combination of industrial processes and craft activities is another critic success factor of Gessi’s products. The efficiency of the machines is complementary to the precision and effectiveness of the hands. By analyzing the manufacturing process, it will be possible to understand how these two aspects can be successfully combined.

The manufacturing process starts with the transformation of raw materials (mainly plastic materials and brass bars) into components. These parts are then manufactured to be polished. The ulterior phase (not for all products) is the brushing. This last step is completely manual with the support of some tools. Then, when the components have been realized, they are subjected to the chromium plating or painting process. After this phase, there is the assembly, that is completely manual.. The last steps are: testing, final cleaning and packaging.

The Park

The most important way of Gessi to attract its commercial stakeholders is the invitation to its Italian headquarters: the “Gessi Park”. This is not only a production area where it is located the set of activities necessary to run a business. Gessi Park is the best way to convey the Gessi’s philosophy. Indeed, the structure, design and every detail in this area has been carefully planned to involve the guests in a special experience. The aim is to capture the attention of the target in order to share with them all the values, objectives and culture that characterize the Company. This area is divided into two buildings: the first one is the very headquarter of the Company, where are located both the general direction and the main offices. The second building is the factory described above. The whole area is completely surrounded by nature and vegetation. In the first building of the Gessi Park there is one of the most attractive sections: the showroom. This is a huge area characterized by a guided path in order to communicate to the visitors all the elements which constitute the product portfolio of the Company. During the stay in the Park, special events are always organized in order to maximize the level of pleasantness of the guests. Cocktails, lunches, special meetings with important guests are all organized to entertain the target. Even the design and the objects used to decorate the area give the impression to have been chosen very carefully and in consistency with the image Gessi wants to communicate. The idea of luxury, excellence and design at the forefront are very effectively conveyed to the visitors through the furnishing of the area and the buildings. This success is also due to the fact that most of the furnishing objects are present in the product portfolio of the Company. The visit to Parco Gessi is an opportunity for the Company to build a strong relationship with the intermediaries, in line with the marketing one-to-one. That is the reason why values such as trust, team spirit, loyalty and fairness are always emphasized during the meetings. The common factor that characterizes all the meetings is the emotionality. The Company strives to involve the guests by appealing to sounds, images, particular objects, food and drinks and even suggestive scents. Therefore, the target is very stimulated to get involved in the Gessi world and in this kind of human-business relation.

The Academy

Gessi Academy is the Company division in charge of the activities of communication and training of Gessi’s intermediate customers and architects. This is the most important way by which Gessi tries to strengthen its bond with its network. Constituted inside the Company by Eusebio Gualino, Gessi Academy is the center of a set of activities aimed at organizing hundreds of events and meetings. The purpose is to enable the Company’s partners to share and understand the real values around which the products are built. According to Eusebio Gualino, indeed, all the Company’s partners in the distribution channels, such as wholesalers, retailers, architects, producers of complementary products, can gain many benefits by understanding all the needs Gessi aims to satisfy. The focus, in these events, is on intangible aspects such as human relationship, experience, emotions and other. In order to provide a special experience to the guests, Gessi is currently enlarging the “Gessi Park ” area in order to build hotels, swimming pools and golf fields. All these projects witness the objective of creating a unique experience to Gessi’s customers. There are two reasons which push the Company to enhance the level of investment in communication activities towards the intermediaries. The first reason is that Gessi doesn’t operate through a direct channel to the market. Thus, it is necessary achieving a maximum level of consistency between the distribution policy and the communication strategy. The second reason is the importance of the intermediaries for the success of Gessi on the market. The creation of a special bond between the Company and its partners, indeed, can have an “amplifier effect” over the final market. The success of this marketing strategy is strongly linked to the possibility to enable the retailers to communicate to the final customers the Gessi’s philosophy beyond the simple product characteristics. Thus, Gessi puts many efforts in building trust and strong relations with intermediaries and architects. These subjects are so important to be regarded by Gessi as “influencers”. Not only the showrooms but also the architects

are the main target of Gessi Academy. These actors can perform a high level of promotion of the Company's products by recommending them to their customers. As a consequence, caring of the needs of these people is an essential part to get done to achieve the mission of Gessi Academy.

In light of the Company's communication purpose, it seems clear that Gessi Academy is the best way to pursue it. Gessi Academy represents, indeed, a tool to maximize the customer relationship. That is the reason why the Company has never chosen to promote its brand and products through traditional advertisement. The top-down communication would expand the level of brand awareness of the final market but would not strengthen the knowledge and awareness of the real values which build the Company. Moreover, the advertising would not be consistent with the distribution model followed by the Company. Since Gessi introduces its products into the indirect channel, it becomes essential the development of a customer relationship management (CRM) model to strengthen the relations with the commercial intermediaries and architects.

The Project Division

The "private wellness" concept could not be fully achieved if the customization competencies were not properly developed. Besides a specific function located in the factory and responsible for most of the customization activities regarding all the product lines, Gessi has developed a special team committed to the implementation of international projects. This is the Gessi project division. Composed of a number of experts in the "private wellness industry", this is an international team which gathers various types of competencies: technical, psychological, economic, design, style etc. Working together to develop new solutions for the customers, the members of this team have successfully found solutions for several kinds of customers such as: hotels, private, international intermediaries, providers of complementary products, specialists, architects etc. Naturally, the competencies owned by this strategic team cannot be exploited properly if Gessi didn't invest in customization activities at a manufacturing level.

The strong relations developed between the Project Division and the international customers has also a strategic value for Gessi. The success of the team can, indeed, open the doors for future investments and market opportunities abroad.

The Gessi Project Division is the expression of the strong attention put by Gessi on the provision of tailored products to the customers. The perfect satisfaction of the "dreams" (more than needs) expressed by the market is naturally the key of the success more than in other industries.

The Design

The success factors of the "Made in Gessi" offer have been already described. However, the design concept of the Company deserves an in-depth analysis since it is the set of attributes which contributes dramatically to the development and effective communication of the "private wellness" concept. One of the reasons why the design activities have to be analyzed adequately is the high investment Gessi has made in order to maximize the beauty, the innovativeness and the "in-fashion" image of its products. Firstly, Gessi has a function entirely dedicated to the interior design activities. The employees are chosen among the most talented Italian designer. Among these, Prospero Rasulo, is one of the most well-known interior designer at an international level.

The design excellence of Gessi comes from to orders of inputs:

- the physical and technical inputs which are embedded in the competences owned by the interior designers (both employees and consultants),
- the psychological and socio-cultural inputs, provided by experts of psychology (Donatella Caprioglio) and sustainable economy (Professor Dipak R. Pant).

The high focus on the product design witnesses the importance of psychological and emotional aspects of design, over the mere aesthetic values. The purpose is to collect information and recommendation by experts in order to develop product which can provide an excellent bundle of benefits to the customer, both emotionally and psychologically.

Spazio Gessi

Over the last year, Gessi has decided to include the Italian fashion image in the marketing communication strategy. The purpose, in this case, is to enrich the brand image with the positive values associated the Country of origin in the fashion industry.

This choice is clearly stated and proven by the last strategic decision to open the first shop: the “Spazio Gessi”. This is a Company store located in the centre of Milan, in Via Manzoni, one of the most famous streets in Italy and a symbol of the Italian fashion. This shop (it will be officially opened in September 2012) will represent the first contact point with the final market, and, in particular, a way to advertise the Made in Gessi products and the image that the Company wants to communicate, with a clear linkage with the fashion world. The marketing strategy is consistent with the attributes that the Company’s products have and the market positioning of the brand. Thus, the link between the Gessi brand and the Italian fashion and luxury can produce important synergies in order to increase the brand value and its commercial success. Moreover, the opening of “Spazio Gessi” has also given the opportunity to apply the originality and creativity of the Company’s marketing communication strategy.

The Company has always been very interested in developing this kind of link with the fashion world. This is, firstly, very consistent with the image of Gessi and its products. Secondly, this is a way to include the Italian positive qualities in the marketing strategy. The intention to use the fashion industry for the communication of the Company can be taken by two different events: the international trade exhibition called “Salone del Mobile” in Milan and the “Cersaie” exhibition in Bologna. The last event is one of the most international fairs in the furnishing industry. In 2009 Gessi attended this exhibition in order to communicate its products and its brand. Differently from its competitors, which exposed their respective products according to the tradition, Gessi organized a fashion show during the event in order to inaugurate a new product category: the “Home Collection”. This unconventional way to communicate has a great success in terms of attention and orders. This confirms the original attitude of the Company and its differentiation strategy. The international “Salone del mobile” located in Milan this year, was an opportunity to pull the media attention towards the Gessi world and to demonstrate the linkage to the fashion world. In fact, whereas the competitors decided to attend the fair, Gessi decided, unexpectedly, not. In contrast, it organized an event outside the fair, and called “Fuori Salone” event. The event was the introduction to the public of “Spazio Gessi”, the first Company store.

Style, luxury and fashion are also very consistent with the intangible values of the products “Made in Gessi”. This is the reason why the future success of this strategy is very realistic.

4.4 Effects on entry strategies: Gessi international network

Gessi extended its sales activity across national borders since the very first day of its short life. Starting an internationalization activity, either in a tactical or strategic way, was an opportunity for the Company to test the real strength of its products and brand abroad. The trade fairs were, and are still today, the most important opportunity to meet potential partners willing and able to start a business cooperation in other Countries. Gessi operates internationally through different entry modes. The choice of entry modes by which penetrating the foreign Country depends on the importance of the foreign market, its complexity, the attractiveness and the level of cultural similarity. It is possible enumerating three different entry modes chosen by Gessi in its international strategies:

- wholly owned commercial subsidiaries,
- commercial joint venture with a local partner,
- direct export to local distributors which then provide them to the market.

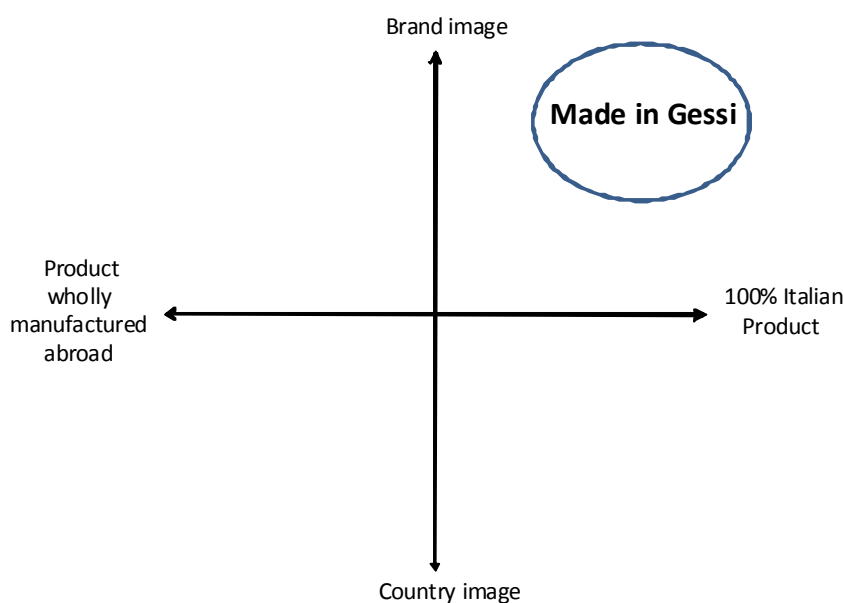
The most important geographical markets in terms of turnover are: France, Germany, Spain, Switzerland and USA. Indeed, on a total turnover of €85 million, this area represents more than the 33%. Italy accounts for the nearly the 30% of the global turnover. Other important areas in terms of

turnover are: Russia (5% of global turnover), Netherlands (7,4%), India (2,6%), Australia (2,6%), Cina (1,5%)².

In these Countries Gessi operates through a wholly owned commercial subsidiary.

Gessi prefers appealing to the joint venture rather than “stand alone” entries in those foreign Countries that present significant cultural differences. The most important example is the Asian market. In particular, Gessi operates through this kind of agreements in India and UAE. Moreover, in the pipeline there is a joint venture with a Chinese distributor, just as in Australia. This choice is due to the high level of risk that would stem from a foreign direct investment. The higher risk is mainly due to the size of the Company, which is a medium enterprise (on the basis of its turnover and number of employees). Conversely, the agreement is an entry mode which allows the Company to limit the market and financial risks by sharing it with a local partner. Moreover, the local partners are often Companies with a long experience in their respective markets, and this characteristic represents a key factor for the choice of the local partner of Gessi. In conclusion, reliability, financial solidity reputation and experience in the local market are the critical factors that Gessi takes into account when evaluates the potential partner in the international context. In light of the entry modes analysis, the commercial activities are the only step of the value chain that has been internationalized by Gessi. All the other activities, mainly the production, are still performed in the domestic country. The choice to maintain the manufacturing process in Italy is due to various motivations: economic (economies of scale), strategic (the agglomeration enables easier innovativeness through the combinations of the various steps in the same place), marketing (the Italian image is still very positive). Thus, the entry modes by which Gessi penetrates the foreign countries is characterized by wholly owned subsidiaries, arrangements and exporting activities. Gessi through its commercial subsidiaries and the commercial network (composed of both wholesalers and retailers) offers its wellness experience, to those people who assign great value to the luxury, wellness experience, status, social value of the products, design, beauty. In light of the same characteristics showed by the target markets of Gessi, it is possible to say that the Company’s target is a transnational market. Figure 4 illustrate Gessi global positioning.

Fig. 4 - Gessi global positioning



Source: Our elaboration

² Gessi S.p.A. Finance and Controlling (FY 2011).

Conclusion

Gessi goes beyond the “Made in Italy”. Rather than communicating the Italian origin, the firm chooses to enhance the value of its own brand by creating the concept of “Made in Gessi”. Acting this way, the Company wants to distance itself from those firms that while use the brand Made in Italy actually achieve only a small part of the production in Italy with a negative impact on the quality of final products.

In fact, today it can be very easy, for the firms, to obtain the right to put the “Made in Italy” label on their products. Even if the delocalization is, by then, one of the most chosen ways to enlarge the market or to increase the market share, the firms can still benefit the “Made in Italy” label on their products. This phenomenon is creating a “comodization trap” due to the fact that, today, it is sufficient manufacturing a small share of the products within the Country (the shares can change on the basis of the product category) to gain the label right, even though the same product has been subjected to a series of production steps abroad. Ikea which is commercializing its products on the Italian market by communicating the “Made in Italy” cue, regardless of the country of manufacture, is a case in point. As consequence, the brand Made in Italy is becoming a sign of commodization rather than of distinction. Consistent with its originality and creativity, Gessi has decided not to put the Made in Italy label on its products, in order to give space and shine to the firm brand: ”Made in Gessi”.

Gessi, on the basis of its competitive strategy and extreme originality, believes that it cannot gain favorable product positioning using a generic COO image, such as Made in Italy, which would close it in a comodization trap. On the contrary it decides to exploit the brand image as guarantee of a real Made in Italy that is 100% manufactured in Gessi Park, thus with a production chain under the whole control of the company. This is clearly showed by the marketing communication which is not based on generic COO information, but on the intellectual capital, that is human capital (employees competencies), relational capital, especially trusting relationships with the customers that are important collaborative partners in the domestic as well as in the international context, and the structural capital (internal structure) that is the knowledge embedded in the organizational structures and processes.

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