



# The Past, Present and Future of



A Strategic Analysis Report

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## **Table of Contents**

<b>Section:</b>	<b>Page:</b>
<b>1. Disclaimer of Personal Involvement</b>	<b>2</b>
<b>2. Executive Summary</b>	<b>3</b>
<b>3. Company History and Background</b>	<b>4 – 8</b>
<b>4. Situation Analysis</b>	<b>9 – 11</b>
<b>5. SWOT Analysis</b>	<b>12 – 15</b>
<b>6. TOWS Analysis</b>	<b>16 – 17</b>
<b>7. Recommendations</b>	<b>18 – 23</b>
<b>8. Conclusion</b>	<b>24</b>
<b>9. Exhibit A: Selected Financial Statements</b>	<b>25 – 26</b>
<b>10. Exhibit B: Organizational Charts</b>	<b>27 – 28</b>
<b>11. Exhibit C: Map of Bulgaria and Store Locations</b>	<b>29</b>
<b>12. Exhibit D: Examples of the Four Product Lines</b>	<b>30</b>
<b>13. Exhibit E: Preliminary Survey Design</b>	<b>31</b>
<b>14. Exhibit F: Proposed Timeline of Strategic Recommendations</b>	<b>32</b>

**DISCLAIMER OF PERSONAL INVOLVEMENT**

The following strategic analysis report concerns Riva Fashion Ltd. – an actual business operating in Bulgaria since 1994. Its two founders and owners – the sisters Reni and Pepa Filipova, are my aunt and mother respectively. Over the last year, I have become immersed in the business in preparation for my future direct involvement in its operations. The proposed strategic direction and timeline reflect the actual initiatives which I plan to implement after my graduation and upon my entry into the firm. Exhibit B at the end of this report, and the Management part of the Recommendations section describe a proposed new position which I will assume – it is referred to as “Sales and Marketing Manager.” The remainder of the report beyond this disclaimer features no other mention of my personal involvement in order to maintain a professional style.

All factual information, claims, and financial and organizational information given in this report are based on extensive interviews conducted with the two owners. All related recommendations and propositions are based on the application of business theory and my personal experience from four years of studying at American University’s Kogod School of Business.

## **EXECUTIVE SUMMARY**

Riva Fashion started out in 1994 as a small women's fashion wholesale business in Bulgaria. Since then, the Riva brand of clothing has earned national recognition, enabling the business to move away from wholesaling and to open its own private label retail outlets in three of the largest Bulgarian cities. Now, after 15 years of steady growth and expansion, Riva Fashion has to develop a new strategic direction – one that is better tailored to the size of the company, the increasingly competitive nature of the business, and the ever-changing needs of its demanding customers. Based on an extensive analysis of internal and external factors critical to the business, a strategy called “3M” consisting of Marketing, Management and Movement recommendations, and a timeline for the execution of the strategy have been proposed:

- First and foremost, in order to maintain its profitability and growth rate, and at the same time tackle demand fluctuations, Riva Fashion has to adopt a long-term “push” marketing strategy. Based on a marketing research project that will identify clearly defined customer segments, this part of the strategy will be focus on efficient direct marketing efforts and on improving the brand's value-added proposition.
- Secondly, the company needs to restructure its current organizational chart in order to bridge a deepening gap between executive level positions and middle management. In addition to this, several new positions need to be established to accommodate the needs of the proposed strategic direction.
- Thirdly, Riva Fashion should direct its expansion efforts to the Bulgarian seaside, primarily to the city of Varna, where it can benefit from a fast-growing market with predictable seasonal demands. Compared to previous expansions, this initiative will potentially be the most challenging one and therefore should be undertaken in strict adherence to the proposed timeline and only when the first two parts of the “3M” strategy have been completed.

The structure of this report follows the pattern of analyzing the history and specifics of the Riva Fashion business, identifying the problems which have led to the proposed strategic direction, and describing each part of the strategy in detail and with reference to the proposed timeline.



## **COMPANY HISTORY AND BACKGROUND**

Riva Fashion Ltd. is a women's fashion firm, established in 1994 in Plovdiv, the second largest city in Bulgaria. The business started out as a small wholesaler to department stores and multi-brand fashion outlets. As the brand developed awareness throughout the country, Riva Fashion adopted a strategy of gradual disintermediation, opening up its own private brand outlets and decreasing wholesale activities. Currently, the firm operates four outlets in three major Bulgarian cities, including two in the capital city Sofia, and has already reduced its reliance on intermediaries to between 20 and 30% of all revenues. It now faces the challenges of finding the next location for expansion, acquiring executive talent to alleviate the pressure of growth from the current management team, and developing a long term marketing strategy to promote and improve the Riva brand image across the country.

Riva Fashion is the brainchild of Reni Filipova – a Master in Microbiology turned entrepreneur. Dissatisfied with the prospect of devoting her life to low-paid academia in early post-communist Bulgaria, she set out to do the unthinkable – start her own fashion firm with no external capital, no professional vocation in fashion or design and no business experience. In 1994, with only two seamstresses, two sewing machines, an assistant, and a 450 square foot room rented as a warehouse at her disposal, Filipova started going around retailers in Plovdiv trying to interest them in her innovative ideas for women's business wear. Thanks to a very aggressive salesman attitude and remarkable designs, she gradually developed a network of distributors throughout the city and slowly started to expand her production.

In 1996, Reni was joined by her sister, Pepa Filipova – a Master of Management and Accounting, in an attempt to start growing Riva Fashion into a national brand. Pepa left her job as an executive director at a large industrial manufacturer when she saw the tremendous opportunity in combining her business skills with her sister's growing prowess in fashion design. Through skillful business planning, acquisitions of capital and a streamlining of the production process, the firm doubled its workforce and its revenue-generating assets and broadened its distribution reach to most major cities in Bulgaria in less than 3 years. During that period, Riva Fashion products were sold primarily at department stores and retailers that carried multiple low-recognition brands made in Bulgaria and the other Balkan countries. Nevertheless, customers began to take notice of the Riva brand and were soon looking for it specifically when entering these stores.

At the high point of their expansion endeavors, the Filipova sisters entered the Riva brand in the International Trade Fair in Plovdiv in 1999. Their prized collection, entitled “Candle in the Wind” and designed in memory of the late Princess Diana, won the gold medal for fashion collection of the year and earned the brand national recognition.

Encouraged by their success so far, Pepa and Reni began consider their options in reducing the firm’s total reliance on intermediaries and other businesses’ outlets. They felt they had little to no control over their brand once it was shipped to those stores and at the same time their production forecasts were always subject to fluctuating orders from wholesale buyers. In early 2003, the Filipova sisters took the bold decision to enter the Plovdiv retail market with their first Riva Fashion outlet. They spent the first half of 2003 slowly reducing their wholesale activities in Plovdiv and withholding inventory from retail partners in the city. By August 2003, there was not a single item of Riva Fashion clothing left in stores in Plovdiv, which came at a great surprise to the firm’s ex-partners, as the Fall-Winter season had always been the most lucrative time of the year for the brand. Then, in October 2003, the first Riva Fashion outlet opened doors in the very heart of the city’s central shopping district. Despite the high levels of competition from nearby retailers who used to carry the Riva line, the exorbitant rent for such a prime location, and the intense two weeks of on-the-spot training for the salespeople during the busiest season of the year, the store turned out a profit in its very first month of operation. As of 2009, there has not been a single month in which this particular outlet has failed to cover its own fixed costs. Moreover, sales from this outlet have contributed more revenue to Riva Fashion than any of the firm’s other activities.

Encouraged by the astounding success of their first store, Reni and Pepa decided to enter the most lucrative and the most difficult to satisfy market in the country – the capital city of Sofia. Despite being able to charge premium prices in a city where incomes are higher than the national average, retail businesses in Sofia generally suffer from fluctuating brand loyalty and demand. In addition, the astronomical cost of operating at the city’s most prominent locations often causes stores to close down even if they are only going through a temporary setback. The Filipova sisters were well aware of these circumstances and hesitated to make a move until they could find a competitively priced rental space close to the main stream of shoppers in the center of the city. After two years of patient searching and negotiations, in 2006 they won a contract with very favorable terms for an outlet at the intersection of two of Sofia’s busiest shopping streets.

It quickly became evident, however, that the same strategy used in Plovdiv was not feasible in a market as saturated and as finicky as the one in Sofia. The variety of models featured in the new Riva Fashion outlet, while satisfactory by Plovdiv standards, was relatively low compared to other fashion outlets in Sofia. This resulted in insufficient levels of customer traffic to raise enough awareness and threatened the store's existence from a very early stage. In response to this threat, the management team undertook another bold initiative – they eliminated half of Riva Fashion's wholesaling activities and thus reducing their revenue contribution from 70% to less than 50%. A large portion of the firm's productive and creative resources were thus freed up and allocated entirely to the two retail stores. For the first time in the history of the firm, a season's collection of over 40 unique models was introduced, compared to the historical average of about 25 per season. The product line expanded from general business wear and split up into its four present components: business fashionable, stylish evening wear, prom dresses, and fall-winter coats (see Exhibit D).

Not every single endeavor of the firm was marked with the success of the first two outlets. With the expansion of the product line and the rapid introduction of new models, in early 2007 Riva Fashion sought to take greater share of the hometown Plovdiv market by opening a second retail store on the opposite end of the shopping district. The reasoning behind this was that the two stores would synergize in increasing consumer awareness by making sure that people passed at least one Riva outlet during their shopping spree. However, due to their heightened attention over improving the Sofia store, Reni and Pepa could not afford to spend as much time looking for a prime location in Plovdiv and settled on renting a space inside a new mall that had just opened doors just shy of the main shopping street. This hasty choice proved very unsuccessful as the shopping center itself never managed to attract a lot of customers due to its suboptimal location and poor variety of participating retailers. After one year of barely covering its rent, the second Plovdiv outlet closed doors in late 2007.

This served as a lesson to Reni and Pepa who began to reevaluate the next targets for their rapid expansion strategy and for a while focused primarily on further improving existing stores and the brand's image. In response to those efforts, the informational website [www.rivafashionbg.com](http://www.rivafashionbg.com) was established in the summer of 2008, marking the firm's first encounter with modern information technology. The initial idea for the website came about in response to increasing

demand from customers to be able to see current models and new collections online, as opposed to relying only on the relatively infrequent catalogue-like booklets that Riva Fashion printed and distributed three times a year. In addition, the website was greatly encouraged by a Bulgarian entrepreneur living in Switzerland who, after coming into contact with the brand in Plovdiv, wished to handpick a few of the best models to try selling them from her own retail store abroad. This venture was never realized due to lack of follow-through at both parties' ends, but the prospect of eventually entering the European market became a cautious topic for the long term strategy of the firm.

In 2008 and early 2009 two new retail stores were opened, one in Stara Zagora and one again in Sofia. In addition, the firm completed its first major investment into real estate by purchasing its own warehouse and production facility, eliminating a huge portion of its rent expenses. Reliance on intermediaries and wholesaling has been steadily dropping – the four Riva Fashion stores now contribute between 70 and 80% of revenues, which have been increasing at a steady rate (see Exhibit A). Management, however, has been growing more and more strained and preoccupied, as the Filipova sisters start to struggle with managing both the business and the day to day operations of the four outlets. This became especially evident in late 2008, when Reni had to step down temporarily due to health reasons. The existing managerial structure (see Exhibit B) had created a talent gap and her executive responsibilities and duties could not be delegated to any employee below her. Thus, Pepa was forced to assume full control of the business during a very strenuous time, and had to perform critical design and production planning tasks which she had never done on her own.

In addition to the managerial problems, the first serious signs of the worldwide financial crisis have started to materialize in Eastern Europe. Consumer confidence has been shattered and as discretionary spending falls, so does demand for fashion. In April 2009, for the first time in the firm's 15 year history, Riva Fashion employees had to be laid off due to the drop in demand and the resulting decreases in production. The need for a long term marketing strategy and better customer relationship management are becoming prominent as the current situation shows that the business has little to no control over demand. Finally, Riva Fashion is facing the dilemma of choosing its next target for expansion – it has already established a presence in the three major



cities of southwest Bulgaria, but the expected travel and human resources costs of heading north or east have so far been deemed prohibitive.

## **SITUATION ANALYSIS**

### **Product Lines**

Riva Fashion's business is characterized by two types of demand fluctuations: the first type is caused by seasonality and results in predictable annual demand, while the second one is caused by economic effects on discretionary spending and results in generally unpredictable demand. Since the latter is part of the natural business cycle and cannot be accurately forecasted, Riva Fashion adjusts its production based on the former – seasonal demand fluctuations. Since Bulgarian climate ranges from continental temperate to Mediterranean-type, each season is unique. Therefore, the season dictates what particular product lines will be the dominant sellers.

Riva Fashion carries four major product lines, most of which are specifically suited for particular times of the year in response to the aforementioned seasonal-type demand. These product lines include: business fashionable for all year round, fall-winter coats, prom dresses for the spring season, and stylish evening wear for all months between April and October (see exhibit D). The number of unique designs and number of items produced in a given product line is adjusted monthly to match upcoming seasons. The business fashionable and the evening wear lines are in production throughout the year and contribute the biggest portion of revenue. Coats are designed and produced only for the fall-winter season, and prom dresses are sold from March up to mid May, after which their designs may be adapted to more formal evening dresses.

### **Seasonal Demand**

The most revenue is generated in the fall-winter season, which starts in late August as people return from their summer vacations. The summer heat-waves end and women start changing their wardrobes in expectation of colder weather. Sales in the months of September, October and November invariably reach record levels for the year, bolstered by the premium-priced coat line. As temperatures drop in December, so does demand, with only a brief spike around Christmas and New Year's. In January and February demand is heavily dependent on the day-to-day weather conditions, with snowstorm days often ending in no sales at all. Store traffic picks up again around March when teenagers start picking out prom dresses, and regular customers shop for formal clothes for work and for spring social events from weddings to cocktail parties. Summer, starting right after the May high-school graduation ceremonies, is by far considered a "dead season." From

June to mid-August the weather in southwest Bulgaria (including Plovdiv, Sofia and Stara Zagora) becomes very hot and people take every opportunity to get out of the big cities and go to the mountains or to the seaside. All models designed for the summer are made from very light and breathable fabrics and are usually sold at a steep discount or at sales that last three to four weeks, but these tactics still do little to stimulate demand. By contrast, seaside resorts and cities such as Varna experience an almost unmanageable surge of tourists and most of the businesses there earn enough revenue to sustain themselves until next year's summer.

### **Customer Segments**

Riva Fashion's customers are almost exclusively women, and sometimes men accompanied by women. The only segment among women that can be clearly identified is teenagers who shop for prom dresses. This distinction, however, is not very useful from a marketing perspective as these are one-time shoppers, who are unlikely to return to the store until after their third year of college when they start internships. Demographic factors like age, income and occupation vary greatly among the other consumers, with a few noticeable, but not yet quantified differences between shoppers of certain product lines. Business fashionable clothes, for example, are most often purchased by women who work in offices, banks, administration, legal firms and other similarly formal professional environments. Coats, on the other hand, are Riva Fashion's most expensive product line and as such attract consumers who are more affluent than average and who enjoy social visibility. Evening wear is usually purchased by a very wide variety of customers, but some of them can be classified as more socially involved than average, considering the purchase reasons they sometimes share with the salespeople. Finally, there is one segment of consumers who shop very frequently from several product lines and who are on a familiar basis with the salespeople of a particular store, and even sometimes with the firm's owners. These customers have permanent discount cards which entitle them to a 5% discount on any item as a reward for their brand loyalty.

## **Financial Crisis Impact**

Bulgarian women are a slightly smaller percentage (47%<sup>1</sup>) of the workforce than men and they usually shop for clothes from their own discretionary income. In general, almost all Bulgarian individuals (as opposed to businesses) spend money which they have already earned – they resort to credit only for business investments or for major purchases like cars and homes. Because of this, the credit crunch in 2008 had little ripple effect on consumer spending. However, the resulting financial crisis had a severe impact on consumer confidence, even though it did not directly affect many people's incomes. Fueled by unreasonable levels of media attention, the prospect of a deep recession scared businesses into making conservative forecasts, reducing production and on rare occasions laying off people. The overall effect of the crisis is that currently people are saving their money by reducing spending on discretionary goods, which in turn can have a severe impact on Riva Fashion's bottom line.

As for the impact of the crisis from the perspective of Riva Fashion as a business borrower, the company's solid financial performance and healthy 0.46 debt-to-equity ratio for a family-owned business (see Exhibit A) ensure its liquidity and give it a bargaining position for securing necessary financing. It should also be noted, however, that Riva Fashion had already secured a large loan for its aforementioned real estate investment before the credit crunch. Additional external financing of this magnitude is not expected to occur any time soon: even opening new outlets costs significantly less and has always been financed through retained earnings.

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<sup>1</sup> Bulgaria: Country Commercial Guide, p. 60  
[http://www.confcommercio.pistoia.it/commercio\\_estero/BG\\_CEEBIC\\_bulgaria.pdf](http://www.confcommercio.pistoia.it/commercio_estero/BG_CEEBIC_bulgaria.pdf)

## **SWOT ANALYSIS**

### **1. Strengths:**

- *Strong brand name and image* – this is a long term competitive advantage that cannot be replicated by competitors. The Riva brand is associated with high quality and style and is capable of fostering brand loyalty. It is the main reason that the firm managed to move away from intermediaries to private label outlets so successfully. It also allows the business to charge premium prices for a product made in Bulgaria, forcing rival brands and even foreign brands to compete on price which diminishes their image and decreases their margins.
- *Highly productive human capital* – this is especially true when it comes to Riva Fashion's two executive managers. There is a highly effective synergy between the managerial skills of Pepa and the creative skills of Reni, both of whom are devoted to the business as an integral part of their lives. At the same time, the other 35 employees and the 8 salespeople are paid salaries that are much higher than the national average. Coupled with a safe and pleasant working environment, this has led to exceptionally low turnover rates – less than 5% for employees (2 per year). Most of the current employees have in fact been with Riva Fashion for at least 5 years, which makes them integral, productive and loyal contributors to the business.
- *Solid supply chain relationships* – Riva Fashion operates primarily with fabrics imported from Italy. The quality of these materials is very high and often models are designed around a particularly fashionable fabric, contrary to the regular method of first making the design and then choosing the fabric. The ability to handpick the best fabrics is essential to the competitive advantage of Riva Fashion, which is why the company maintains very good relationships with its main supplier. Reni and Pepa receive personal calls prior to new shipments, allowing them to make purchases well ahead of their competitors. In return, Riva Fashion provides the supplier with a consistently profitable business partner, and sometimes, in the spirit of Balkan business traditions, gifts in the form of ready production.
- *Consistent financial performance* – although more an outcome than a strength, Riva Fashion's solid financial performance over the years (see Exhibit A) has given it leverage to negotiate with other businesses and individuals on contracts, lease terms, loans, etc., and

will provide a safety net in case the need for emergency financing arises in this financial crisis.

## 2. Weaknesses:

- *Lack of control over demand* – currently Riva Fashion uses a weak pull strategy which does not contribute to forecasting or to giving the business control over seasonal demand fluctuations. Products are designed ahead of each season and once they hit the stores customers have some “pull” in asking for more of a certain model. Although such sales help build stronger customer relationships, the production of extra quantities is completely dependent on the availability of the original raw material from the aforementioned supplier, which is often sold out early in the season.
- *Customer fragmentation* – the firm’s target market is working women in general, and without clearly defined segments, any particular marketing effort will most likely be too broad and cost inefficient. This prevents the company from implementing a conventional “push” strategy using mass-media advertising – the cost to reach potential customers will be prohibitive due to the spillover effect onto non-consumers. At the same time, customer fragmentation deprives the management team from being able to cater to the particular fashion tastes of certain groups, giving niche competitors an edge.
- *Gap between top-level executive positions and mid-level management* – the Filipova sisters have always been the only ones in charge of critical decision making, and no other employee has been adequately trained to handle major executive responsibilities (see Exhibit B), as it became evident when Reni had to step down temporarily in 2008. This is a serious obstacle to further expansions of the business as the executive workload permanently increases with each new store opened.

## 3. Opportunities:

- *Refine target markets and develop a “push” direct marketing strategy* – each outlet is an untapped source of valuable customer information, especially considering the tendency of Bulgarian shoppers, and especially female shoppers, to engage in conversation with the salespeople. Collecting basic demographic information and shopping preferences from its outlets’ most frequent customers would enable Riva Fashion to refine its target markets in greater detail. This will lay the groundwork for a various direct marketing campaigns which in turn would increase the value added by the brand.



- *Expand to the Bulgarian seaside* – the seaport city of Varna has been growing at a very rapid rate and has been estimated to surpass Plovdiv as the second largest city in the country in a few years. This market has great potential for Riva Fashion, especially since the peak in demand there occurs during the summer tourist season, while in Sofia and Plovdiv that is when demand reaches its trough. At the same time, the Riva brand sold very well through the Varna distributors before the disintermediation, which means that there will be little need to adjust to specific consumer tastes and alter the product line.
- *Introduce growth opportunities for employees* – the low turnover rate and the high average years of experience of workers and supervisors have helped create a large pool of untapped talent for managerial positions. A structured growth program that seeks to train workers to be supervisors and supervisors to be general managers would provide incentives for greater productivity. It would also help Reni and Pepa identify employees who would be eventually suitable for executive training as the business expands.
- *Begin considering international expansion* – although the aforementioned failed endeavor with the Swiss entrepreneur is purely anecdotal, Riva Fashion does have the potential to become a brand known outside Bulgaria. Apart from its high quality and fashionability, the Riva products also have the competitive advantage of low cost and highly efficient labor compared to Western European companies. At the same time, the open border status with Greece and Rumania as members of the EU reduces transportation costs and eliminates legal issues. Of course, any expansion outside Bulgarian borders would have to be done through intermediaries, as when the business started, before any serious investments in outlets can be even contemplated.

#### **4. Threats:**

- *Competitively priced foreign entrants* – as Bulgaria becomes more integrated into the European Union, foreign fashion firms will be able to enter the market by devoting only a small portion of their resources. At the same time, there is a lag between Western European fashion trends and Bulgarian trends, which means that foreign firms will be able to offer excess inventory at competitive prices and still position it as stylish by Bulgarian standards. This threat places pressure on Riva Fashion to further improve brand image, maintain a loyal customer base and be on the lookout for powerful competitors.

- *Managerial and financial limitations on expansion* – currently the executive and managerial human capital of the business is strained in trying to manage production and the day to day operations of the four outlets. The potential opening of a fifth outlet on the other side of the country (see Exhibit C) and its first months in operation would require the full attention of both Reni and Pepa, which in turn would reduce their ability to focus on internal operations. Furthermore, the firm's recently acquired building may have the potential of dramatically improving productivity and reducing costs, it still reduced available capital significantly. Depending on the duration of the current crisis, this might prove to be a very costly investment that limits the business' ability to raise resources internally to finance an expansion, forcing it to take out more debt and increase its otherwise favorable debt-to-equity ratio.

## **TOWS ANALYSIS**

### **1. Strengths + Opportunities = Leverage:**

- *Leverage brand loyal customer base in developing a marketing strategy* – the existence of a loyal customer base gives Riva Fashion the unique opportunity to learn more about its target markets without having to pay for outside research services. The salespeople in the outlets can leverage their strong relationships with customers to help the business conduct a marketing research project aimed at identifying specific consumer groups and their preferences. Once enough data is collected, new “push” initiatives can be developed and tailored to the needs of each segment so that the firm gains greater control over demand.
- *Leverage human capital in employee development program to gain increases in productivity and identify candidates for management positions* – a clear promotion path would give the already productive employees of Riva Fashion a fresh incentive to demonstrate their skills above and beyond the job description. Such a working environment would give those who have management potential a chance to shine.

### **2. Strengths + Threats = Vulnerabilities:**

- *Vulnerability in the timely detection of new entrants* – Riva Fashion has yet to face direct competition from one single brand in its existing markets. The firm’s historical profitability, success and strong brand image can lead to a state of complacency, during which management’s ability to detect a potential threat would be greatly diminished.
- *Vulnerability in losing talented employees after management training* – the history of the Bangladesh garment industry serves as a great example of how workers who receive sufficient training may see it fit to leave the company and start their own business. This is a vulnerability that Riva Fashion must take into account if it is to implement a successful employee growth program.

### **3. Weaknesses + Opportunities = Constraints:**

- *Constraint in the ability to expand due to lack of well-trained managers* – the timing of any expansion will not be directly dependant on the number of available managers at the firm, but this factor will be crucial to the success of the endeavor and the healthy functioning of the business in the mean time. Therefore, Riva Fashion will be constrained in its growth until the managerial challenge is met.

#### 4. Weaknesses + Threats = Problems:

- *Problems with failing to take advantage of any of the three main opportunities* – the marketing strategy, the expansion and the employee growth program are all opportunities which Riva Fashion cannot afford to miss out on. Failing to address any one of them will surely result in problems with the other ones and eventually with the entire business itself. Avoiding these failures, therefore, needs to be the main focus of all strategic decisions, which is why the following recommendations directly address the details for successful implementation of all three opportunities.

#### Final Strategic Observation

It is important to note that ever since the first outlet was opened, Riva Fashion has been participating in two distinct businesses – manufacture and retail. The typical strategic recommendation in this case is to focus primarily on the business in which the firm has a relative competitive advantage (similar to the macroeconomic theory about nations' economies). However, this recommendation does not apply to Riva Fashion at this current stage for several very important reasons. First of all, although the firm clearly has a competitive advantage in manufacture above all, it has yet to find a distributor capable of selling its production better than its own outlets. This circumstance, coupled with the fact that selling directly to the consumer results in higher margins, makes the single business theory not only inapplicable, but also detrimental in this situation. Secondly, even if Riva Fashion continues to open up outlets that outperform the competition and eventually develops competitive advantage in retailing, it would lack the resources to maintain outlets stocked with multiple brands that can be sold at the same prices as the current Riva products. Carrying its own brand gives Riva Fashion an advantage over most retailers – its inventory carrying costs are reduced because it produces its own inventory and has no accounts payable for that. In conclusion to its observation, the current state of the business provides a unique synergy between its manufacturing and retailing operations that should not be underestimated. As for the future, time will tell where the true competitive advantage of the business is.

## **RECOMMENDATIONS**

Based on the opportunities identified in the SWOT analysis, and taking into account potential leverages, vulnerabilities, constraints and problems identified in the TOWS analysis, the following strategy has been proposed to Riva Fashion:

### **The “3M” Strategy – Marketing, Management and Movement**

#### **1. Marketing:**

- a) *Conduct exploratory marketing research with the objective of refining the firm’s target markets:* this is the first step in introducing the new strategic direction to Riva Fashion. The reason behind this is simple – the more the business knows about its consumers, the better it can both serve their needs and improve the image of the brand from a value-added perspective. Being such a cornerstone initiative and at the same time requiring so little preparation beyond the planning effort, the marketing research project should be started as soon as possible. It gives start to the recommendations timeline (see Exhibit F) along with the establishment of the managerial position responsible for conducting it (discussed in the Management part of Recommendations).

There will be two simultaneous data collection methods used to achieve the objectives of the marketing research project. The first one will be through surveys distributed in the stores to buying customers. Exhibit E features a preliminary version of the survey. Once a customer has made a purchase, the salesperson will hand them the survey explaining that upon completion and return of the survey, the customer will receive a 5% discount on their next purchase. The customer will be encouraged, but not pressured, to hand in the completed survey on the spot or within a short time frame to ensure that the opportunity is not lost. At the same time, the discount coupon will provide an incentive for a second visit to the store. The word “coupon” here is merely used for illustrative purposes – in reality the stores will probably use stylish one-time discount cards that do not dilute the brand image with the coupon connotation. The purpose of this method is to obtain a statistically significant sample of customers that can be broken down into more manageable groups with common characteristics, especially when it comes to purchasing power and product line preferences.

While the survey method will be mainly used to collect demographic and behavioral information for the purposes of market segmentation, the second method will focus much more on Riva Fashion's most frequent customers and their specific purchase patterns. This method will consist of replacing the current permanent discount cards owned by the frequent shoppers with discount cards that carry a unique customer ID. The replacement process will occur in the stores whenever a shopper presents their old discount card. This will involve the salesperson writing down the name and preferred contact information (cell phone or email) of the customer and then giving them their new discount card. From that point on, each purchase made with a discount card will be recorded with a mention of the customer ID. Eventually, this will result in a database of Riva Fashion's most profitable clients, capable of identifying specific preferences and purchase patterns.

- b)** *Use the conclusions from the marketing research to implement a direct marketing “push” strategy:* After the data collection process is complete, the surveys will be used to divide customers into groups with common characteristics, enabling the management team to make better informed decisions and forecasts. At the same time, the design and pricing of new models can be adjusted to suit a specific group, in effect giving the business some control over demand. The discount card data, on the other hand, will allow for effective direct marketing and personal selling efforts. Customer shopping preferences will be used to determine who is most likely to buy certain new models, and those clients will receive notifications by emails or text messages. In order to enhance the value-added benefit of this marketing method, clients will be informed of the product launch several times prior to the actual release date. The sharing of proprietary information will communicate to customers their importance to the business and hopefully increase their brand loyalty.

## **2. Management:**

*Implement management training and growth programs and create appropriate positions in accordance to the new strategic direction.* Exhibit B shows the current and proposed organizational charts for Riva Fashion. The first main change is the introduction of a *Sales and Marketing Manager* directly below the two executive positions. This event signals the start of the new strategic direction (see Exhibit F) as the first duty of the Sales and



Marketing Manager will be to initiate the marketing research project. In addition to conducting and coordinating the marketing research project, this manager will be responsible for compiling and analyzing the data, and giving recommendations to the executive team on the best way to utilize the data. This manager will also execute the direct marketing campaigns aimed at the frequent customers, and make demand forecasts for new product lines based on their respective target audiences. In terms of qualifications for this position, the ideal candidate will probably come from outside the business, have a business education with a focus on marketing, and also possess highly analytical skills.

The second high level position that needs to be introduced is *Assistant Creative Designer*. The person in this position will work directly with the Executive Manager of Production and Design (Reni Filipova) and assist her with the development of new designs and the formal execution of new product ideas. In contrast to the Marketing Manager, the Assistant Creative Designer should be an internal employee, familiar with Reni's style and with much experience in the production process, especially in the area of converting designs to actual products. Upon the announcement of the opening up of this position, employees on the "right" side of the organization chart will compete for the spot by demonstrating both their productive efforts and their creativity in pitching ideas for new designs or design improvements.

The third new position is *Retail Manager*. This refers to the person in charge of monitoring the performances of all the retail stores and of working closely with the Placement Coordinator to allocate production between stores and distributors. Additionally, the Retail Manager will be in charge of scheduling deliveries to the stores and communicating that information with the Logistics and Transportation people. This position will become critical for expansion efforts, as new stores will be temporarily handled by the two top executives until they see fit to transfer responsibilities for those stores to the Retail Manager. The ideal person for this job would be one of the more experienced salespeople from the outlets, or the current Placement Coordinator, depending on these candidates' organizational and managerial skills.

Finally, workers in the four production line positions in the "lower right" side of the organization chart will be given the opportunity to advance upward to one of the supervisor positions, eventually allowing the split between *Production Supervisors* and *Quality*

*Control Supervisors.* Depending on the growth path of such employees, some may be considered as additional Assistant Creative Designers as well. Movement along this path will be based on productivity, quality of work and willingness to go above and beyond current duties to improve any part of the business.

When the growth program is successfully underway and at least the three middle management positions are filled, then the final step of the strategic direction can take place.

### **3. Movement:**

- a) *Begin planning for opening a retail store on the seaside, starting with the largest city Varna.* Refer to exhibit C for the location of cities mentioned in this section. The expansion to the seaside city of Varna, as mentioned before, is highly dependent on the success of the first two parts of the strategy. Nevertheless, it is an imperative initiative, as it has the potential to provide a much needed source of revenue during the summer. In addition to that, the failed second store in Plovdiv in 2007 showed that the market for a city of that size (the population is about 350,000) is not big enough to warrant more outlets, unlike the market in Sofia (population over 1,000,000). Varna is by far the closest to Plovdiv in terms of population and potential market compared to any other Bulgarian city. Last but not least, the city is a prominent tourist destination, offering the Riva brand an unparalleled opportunity to gain further national and maybe even international awareness.

The main reason that the seaside has been thus far avoided by Riva Fashion's executive team as a target for expansion is its distance from the business headquarters in Plovdiv. The average drive from Plovdiv to Varna can take between 4 and 6 hours and the gasoline prices in Bulgaria make frequent trips between the two cities prohibitive. At the same time, the opening of a store and the first month of operation usually requires almost daily visits by the Filipova sisters. The business also uses its own vehicles to deliver inventory from headquarters to the stores twice or three times per week, the cost of which is passed on to consumers in other cities as markup. Finally, Riva Fashion offers its customers free alteration services on most items of clothing, but that is contingent upon retrieving the item from the store and then returning it again after it has been altered, making distance a disadvantage once more.

Nevertheless, the obstacles to expanding to Varna are not insurmountable. For example, the problem with overseeing the opening and initial operation of a store can be

solved by sending experienced salespeople from existing stores on paid vacations to Varna in the beginning of the summer. These employees generally vacation at the seaside, so instead of their regular fifteen work days paid vacation, they would be offered a ten-work-days paid vacation and a one-week (five work days plus one weekend) all-expenses paid work trip to Varna. There they would train the new salespeople and supervise store operations for half a day, enjoying the other half as part of their vacation. Four existing salespeople from Plovdiv and Sofia would cycle for the four weeks of necessary supervision and coordinate with the executive team, eliminating the need for daily trips between Plovdiv and Varna. In order to avoid employee backlash for what might be construed as encroachment on their vacation time, salespeople that participate will be given five additional paid vacation days to be used throughout the year.

As for the delivery of inventory, Riva Fashion would revert back to the old method by which it shipped clothes to its ex-distributors in Varna – via courier service or rail, and apply it to the new store. Since summer will be the busiest season in Varna, the extra costs for the frequent shipments could be recovered by applying modest markups which are standard business practices for seaside businesses during the summer. During the rest of the year, once-a-week bulk shipments would be sufficient and the delivery cost would be spread out over many items.

The alteration service, however, would remain a problem. The only solution would be for the store to partner with local seamstresses or tailors who can perform the service for a fixed fee. Finding trusted partners will invariably take time and will be a hit-and-miss endeavor, which is why it should be performed during the off-season, when mistakes would be less critical. It is a reasonable assumption that alteration requests during the summer seasons will be few, considering that a majority of the customers will be tourists whose schedules might prevent them from being able to wait for alterations.

- b) *Consider international expansion destinations.*** Although not part of the current strategic direction, or of a reasonable five-year plan, the consideration of international expansion should not be shelved at any point, due to the enormous benefit for the business associated with the success of such an initiative.

Three international destinations are suitable for Riva Fashion in the foreseeable future: Greece, Rumania and Austria. The first two are obvious – as member countries of

the EU, they are entirely open to trade. Furthermore, as neighboring Balkan countries (Rumania is not part of the Balkan Peninsula but is socially and economically very similar to Bulgaria), they mitigate the culture shock that the brand would experience and would have to adjust to once it leaves the Bulgarian borders. In terms of accessibility and priority, Greece would come first for two reasons: first of all, it is closer geographically, and secondly, the Filipova sisters maintain friendly relations with several Greek-Bulgarian families in the retail business from business-unrelated events. Entering the Greek market would follow the initial Riva Fashion strategy – first through intermediaries and distributors, and once the brand takes hold, through foreign operated Riva Fashion outlets. Rumania would eventually follow the same pattern, although the language barrier and finding retail partners will be tremendous challenges to overcome.

The third option, Austria, is a very interesting possible choice. One single circumstance makes it even applicable for consideration – Reni's only daughter is studying fashion design at Vienna's Webster University, and is being groomed for an executive position with production and design in the firm. At Webster, she will have the unique opportunity to learn firsthand about the Austrian fashion market, as well as have access to valuable research on business conduct there. Austria is also a very appropriate market for business fashion entrants, because it is not nearly as saturated as France and Italy (218 Austrian companies for women's wear, compared to 930 French<sup>2</sup>). Finally, observations by Reni and her daughter during their numerous visits to Austria have given them the impression that, as a Germanic people, Austrians are more conservative in their business wear than French people and Italians, and are less affected by their high fashion trends. Given that Reni's daughter will be spending four years in Vienna, even the possibility for a few trial shipments to a retailer there are not out of the question.

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<sup>2</sup> <http://www.eu-moda.com/>

**CONCLUSION**

The future success of Riva Fashion is contingent on the firm taking advantage of current opportunities and addressing problems and limitations. Adherence to the “3M” strategic direction and the respective timeline is the most structured and beneficial path of doing so. At the same time, management must realize that planning alone cannot ensure success, but must be accompanied by disciplined execution and adaptation. Hopefully, the entrepreneurial spirit of Reni Filipova and the business acumen of Pepa Filipova will continue to guide Riva Fashion forward into prosperity.

## **Exhibit A: Selected Financial Statements**

### **Income Statements for 2004, 2005, 2007 and 2008\***

	<b>2008</b>	<b>2007</b>	<b>2005</b>	<b>2004</b>
<b>Net Sales Revenue</b>	<b>868**</b>	<b>581</b>	<b>454</b>	<b>358</b>
<b>Cost of Goods Sold</b>	<b>288</b>	<b>185</b>	<b>168</b>	<b>134</b>
<b>Gross Profit</b>	<b>580</b>	<b>396</b>	<b>286</b>	<b>224</b>
<b>Depreciation Expenses</b>	<b>12</b>	<b>12</b>	<b>8</b>	<b>8</b>
<b>SGA Expenses</b>	<b>322</b>	<b>226</b>	<b>180</b>	<b>162</b>
<b>External Service Expenses</b>	<b>32</b>	<b>16</b>	<b>10</b>	<b>8</b>
<b>Interest Expense</b>	<b>10</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net Income Before Tax</b>	<b>204</b>	<b>142</b>	<b>88</b>	<b>46</b>
<b>Income Tax Expense</b>	<b>20</b>	<b>14</b>	<b>9</b>	<b>5</b>
<b>Net Income</b>	<b>184</b>	<b>128</b>	<b>79</b>	<b>41</b>

\*The years have been chosen to illustrate the impact of two events: the opening of the first retail store and its initial contribution to revenues (2004 – 2005), and opening of the second retail store in 2008 along with the disintermediation effort.

\*\*All figures are in thousands of leva, the Bulgarian currency. The fixed exchange rate is  
1.00 lv. = € 0.50

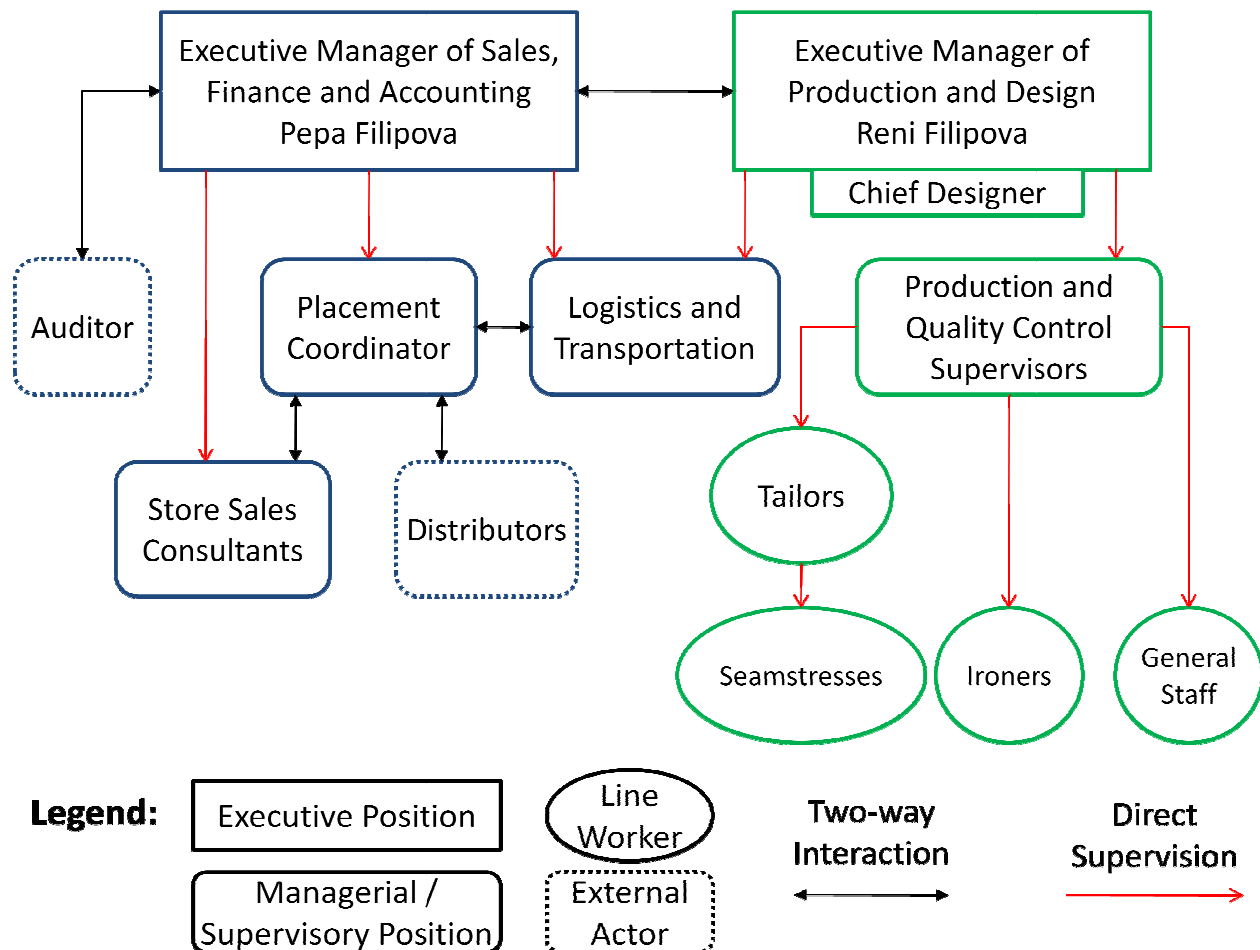


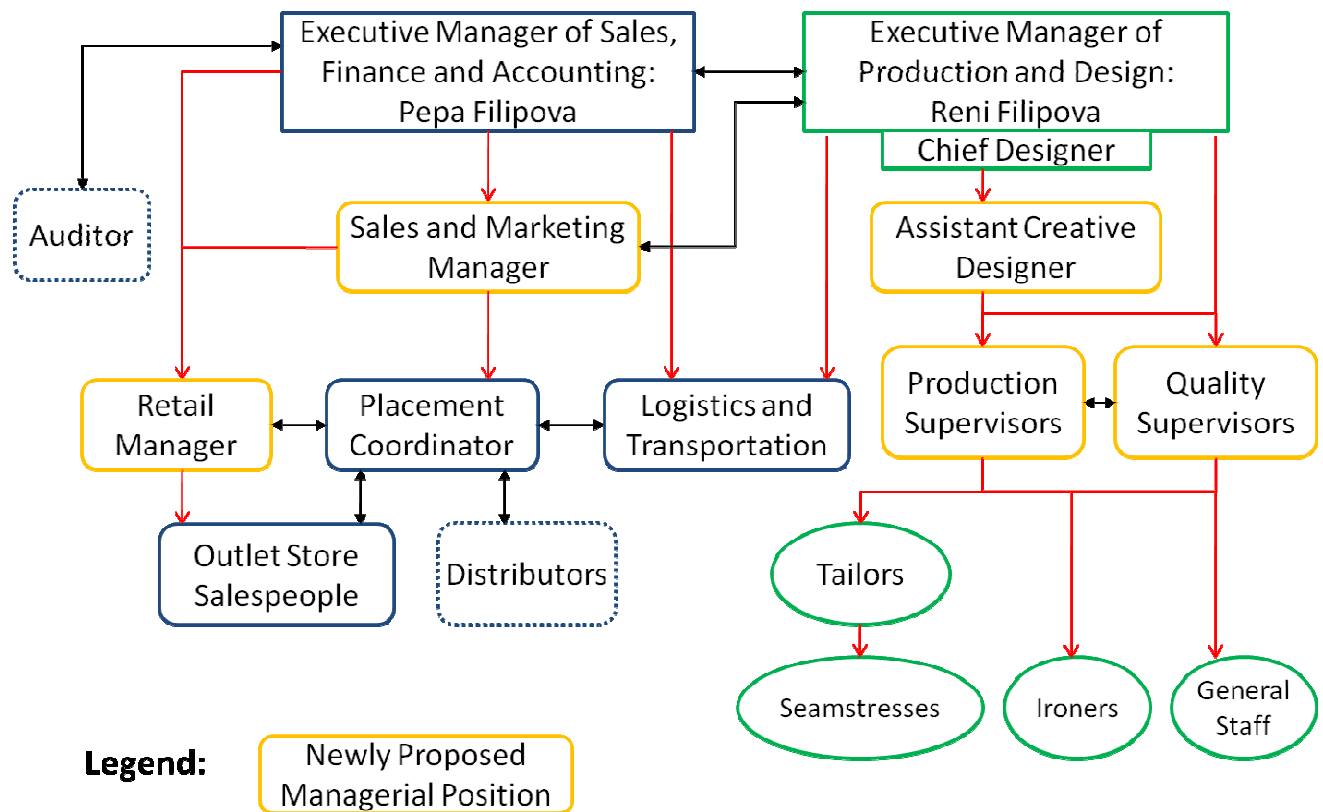
**Exhibit A Cont.****Balance Sheet for 2007 and 2008**

<b>Assets</b>	<b>2008</b>	<b>2007</b>
<b>Current Assets:</b>		
Cash	25	19
Accounts Receivable	-	46
Merchandise Inventories	-	24
Finished Goods Inventory	78	96
Raw Materials	10	18
Other Current Assets	-	24
<b>Total Current Assets</b>	<b>113</b>	<b>203</b>
Buildings	550	200
Plant Property and Equipment	178	178
<b>Total Assets</b>	<b>841</b>	<b>581</b>
<b>Liabilities and Equity</b>		
<b>Current Liabilities:</b>		
Accounts Payable	16	8
Accrued Compensation	38	14
Accrued Expenses on Insurance	12	6
<b>Total Current Liabilities</b>	<b>66</b>	<b>28</b>
Long-term Liabilities	200	34
<b>Total Liabilities</b>	<b>266</b>	<b>62</b>
<b>Equity:</b>		
Contributed Capital	44	44
Additional Paid-in Capital	183	183
Retained Earnings	348	292
<b>Total Equity</b>	<b>575</b>	<b>519</b>
<b>Total Liabilities and Equity</b>	<b>841</b>	<b>581</b>

## Exhibit B: Riva Fashion Organizational Charts

### Current Organizational Chart



**Exhibit B Cont.****Proposed Organizational Chart**

**Exhibit C: Map of Bulgaria with Existing and Proposed Outlet Locations**



**Legend:**



Existing Outlet Location



Proposed Outlet Location

## **Exhibit D: Examples of the Four Product Lines**

### **Business Fashionable**



### **Fall-Winter Coats**



### **Stylish Evening Wear**



### **Prom Dresses**



## **Exhibit E: Preliminary Survey Design**

**Question 1:** How often do you go shopping for clothes?

☐ Once in 2 months    ☐ Once a month    ☐ Once every two weeks    ☐ Once a week or more

**Question 2:** How often do you shop at a Riva Fashion outlet?

☐ Once in 2 months    ☐ Once a month    ☐ Once every two weeks    ☐ Once a week or more

**Question 3:** How much on average do you spend on clothes each month?

☐ Less than 300 lv.    ☐ 300 – 500 lv.    ☐ 500 – 700 lv.    ☐ More than 700 lv.

**Question 4:** How much on average do you spend at a Riva Fashion outlet each month?

☐ Less than 200 lv.    ☐ 200 – 400 lv.    ☐ 400 – 600 lv.    ☐ More than 600 lv.

**Question 5:** What product lines do you purchase from most often (select all that apply)?

☐ Business Fashionable    ☐ Stylish Evening Wear    ☐ Coats    ☐ Dresses

**Question 6:** How often do you take advantage of seasonal discounts and promotions in retail stores?

☐ Never    ☐ Once every few months    ☐ Once a month    ☐ Almost always

**Question 7:** What is your general field of occupation? (Open-ended question)

**Question 8:** How old are you?

☐ 18 – 24    ☐ 25 – 34    ☐ 35 – 44    ☐ 45 – 54    ☐ 55 – 64

**Question 9:** Do you live in (insert city of retail outlet here)?

**Question 10:** Would you be interested in receiving notifications about promotions and new product launches? If so, write down your prefer choice of contact (email or cell phone via text messaging) and your contact information.

Exhibit F: Proposed Timeline of Strategic Recommendations

