

## Giordano: Positioning for International Expansion

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As it looks to the future, a successful Asian retailer of casual apparel must decide whether to maintain its existing positioning strategy. Management wonders what factors will be critical to success and whether the firm's competitive strengths in merchandise selection and service are readily transferable to new international markets.

To make people “feel good” and “look great.”

Giordano's Corporate Mission

In mid-2009, Giordano, a Hong Kong-based retailer of casual clothes targeted at men, women, and children through its five company brands—Giordano, Giordano Concepts, Giordano Ladies, Giordano Junior, and Blue Star Exchange—was operating more than 1,800 retail stores and counters in some 30 markets worldwide. Its main markets were Mainland China, Hong Kong, Japan, Korea, Singapore, and Taiwan. Other regions in which it had a presence were Australia, Indonesia, Malaysia, Middle East, and North America. In September 2008, there were 1,757 Giordano and Giordano Junior stores, 46 Giordano Ladies stores, 29 Giordano Concept stores, and 111 Blue Star Exchange stores. Sales had grown to HK\$4,950 million (US\$561 million) by 2007 (see Exhibit 1). Giordano stores were located in retail shopping districts with good foot traffic. Views of a typical storefront and store interior are shown in Exhibit 2. In most geographic markets serviced by Giordano, the retail clothing business was deemed to be extremely competitive.

The board and top management team were eager to maintain Giordano's success in existing markets and to enter new markets, especially in mainland China. Several issues were under discussion. First, in what ways, if at all, should Giordano change its current positioning in the marketplace? Second, would the factors that had contributed to Giordano's success in the past remain equally critical over the coming years or were new key success factors emerging? Finally, as

Giordano sought to enter new markets around the world, were its competitive strengths readily transferable to other markets?

### COMPANY BACKGROUND

Giordano was founded in Hong Kong by Jimmy Lai in 1980. In 1981, it opened its first retail store in Hong Kong and also began to expand its market by distributing Giordano merchandise in Taiwan through a joint venture. In 1985, it opened its first retail outlet in Singapore.

Responding to slow sales, Giordano changed its positioning strategy in 1987. Until 1987, it had sold exclusively men's casual apparel. When Lai and his colleagues realized that an increasing number of female customers were attracted to their stores, he repositioned the chain as a retailer of value-for-money merchandise, selling discounted casual unisex apparel, with the goal of maximizing unit sales instead of margins. This shift in strategy was successful, leading to a substantial increase in turnover. In 1994, Peter Lau Kwok Kuen succeeded Lai and became chairman of the company.

### Management Values and Human Resource Policies

A willingness to try new and unconventional ways of doing business and to learn from past errors was part of Lai's management philosophy and soon became an integral part of Giordano's culture. Lai saw the occasional failure as a current limitation that indirectly pointed management to the right decision in the future. To demonstrate his commitment to this philosophy, Lai took the lead by being a role model for his employees, adding:

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**Exhibit 1:** Giordano's financial highlights (1998–2008).

	2008 (6 Months ended 30 June)	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Turnover (million HK\$)	2,342	4,950	4,372	4,413	4,003	3,389	3,588	3,479	3,431	3,092	2,609
Turnover increase (percent)	11.6	13.2	(0.01)	0.10	18.1	(5.5)	3.1	1.4	11.0	18.5	(13.4)
Profit after tax and minority interests (million HK\$)	206	304	218	431	393	266	328	377	416	360	76
Profit after tax and minority interests increase over previous year (percent)	32.9	39.4	(49.4)	9.6	47.7	(18.9)	(13.0)	(9.4)	15.3	373.7	11.8
Shareholders' fund (million HK\$)	1928	1927	1,987	2,122	1,954	1,799	1,794	1,695	1,558	1,449	1,135
Working capital (million HK\$)	716	736	862	1,029	1,004	961	861	798	1,014	960	725
Total debt to equity ratio	0.45	0.47	0.45	0.36	0.35	0.4	0.3	0.4	0.3	0.3	0.3
Inventory turnover on sales (days)	28	33	35	31	30	24	26	30	32	28	44
Return on total assets (percent)	7	10.3	7.3	15.2	14.9	10.7	13.7	16.8	20.7	21.5	5.3
Return on average equity (percent)	10.8	15.1	10.0	19.9	20.9	14.8	18.8	23.2	27.7	27.9	6.9
Return on sales (percent)	8	6	4.7	9.2	9.8	7.8	9.1	10.8	12.1	11.6	2.9
Earning per share (cents)	13.9	19.8	13.8	27.5	27.20	18.50	22.80	26.30	29.30	25.65	5.40
Cash dividend per share (cents)	6.5	21.5	26.5	26.5	23.00	21.00	19.00	14.00	15.25	17.25	2.25

Source: *Annual Reports 1998 through 2008*, Giordano International.

... Like in a meeting, I say, look, I have made this mistake. I'm sorry for that. I hope everybody learns from this. If I can make mistakes, who ... do you think you are that you can't make mistakes?

He also believed strongly that empowerment would minimize mistakes—that if everyone was allowed to contribute and participate, mistakes could be minimized.

Another factor that contributed to the firm's success was its dedicated, ever-smiling sales staff of over 11,000. Giordano considered frontline workers to be its customer service heroes. Charles Fung, executive director and general manager (Taiwan), remarked:

**Exhibit 2:** The typical Giordano storefront.

Even the most sophisticated training program won't guarantee the best customer service. People are the key. They make exceptional service possible. Training is merely a skeleton of a customer service program. It's the people who deliver that give it form and meaning.

Giordano had stringent selection procedures to make sure that the candidates selected matched the desired employee profile. Selection continued into its training workshops, which tested the service orientation and character of a new employee.

Giordano's philosophy of quality service could be observed not only in Hong Kong but also in its overseas outlets. The company had been honored by numerous service awards

over the years (see Exhibit 3). Fung described its obsession with providing excellent customer service in the following terms:

The only way to keep abreast with stiff competition in the retail market is to know the customers' needs and serve them well. Customers pay our pay checks; they are our bosses ... Giordano considers service to be a very important element [in trying to draw customers] ... service is in the blood of every member of our staff.

Giordano believed and invested heavily in employee training and has been recognized for its commitment to training and developing its staff by such awards as the Hong Kong Management Association Certificate of Merit

**Exhibit 3:** Selected awards Giordano received

Award	Awarding Organization	Category	Year(s)
Mystery Shoppers Award	Singapore Retailers Association (SRA)	—	2006
Top Service Award	Next Magazine Taiwan	Chain Stores of Fashion & Accessories	2006
Service and Courtesy— Supervisory Level	Hong Kong Retail Management	Fashion & Accessories	2006
Best Service Performance Brand; Best Service Performance	Department of Economic Development of Dubai	Large Business; Service Performance	2006
The Wall Street Journal Asia 2007 Survey	The Wall Street Journal Asia	Most admired publicly traded companies in Asia	2007
Dubai Service Excellence Performance Award	Dubai Department of Economic Development	Customer Service	2007
4th Premier Asian Licensing Award	Hong Kong Trade Development Council and the International Licensing Industry Merchandiser's Association	Best Licensee	2007
Top Service Award 2008	Next Magazine	Chain Store of Fashion & Accessories	2008
Hong Kong Brands Awards 2008	American Chamber of Commerce Hong Kong	Fashion and Apparel	2008
2008 Service and Courtesy Award	Hong Kong Retail Management Association (HKRMA)	Junior Frontline Level and the Supervisor Level	2008
Caring Company 2008/2009	Hong Kong Council of Society Service (HKCSS)	Corporate Social Responsibility	2009

for Excellence in Training and the People Developer Award from Singapore, among others. Fung explained:

Training is important. However, what is more important is the transfer of learning to the store. When there is a transfer of learning, each dollar invested in training yields a high return. We try to encourage this [transfer of learning] by cultivating a culture and by providing positive reinforcement, rewarding those who practice what they learned.

Giordano offered what Fung claimed was “an attractive package in an industry where employee turnover is high.” Giordano motivated its people through a base salary that probably was below market average, but added attractive performance-related bonuses. These initiatives and Giordano’s emphasis on training had resulted in a lower staff turnover rate.

Giordano was only too aware that managing its human resources (HR) became a major challenge when it decided to expand into global markets. To replicate its high-service quality positioning, Giordano knew it needed to consider the HR issues involved in setting up retail outlets in unfamiliar territory. For example, the recruitment, selection, and training of local employees required modifications to its formula for success in its current markets, owing to differences in the culture, education, and technology of the new countries. Labor regulations also affected HR policies such as compensation and welfare benefits.

## Focusing Giordano’s Organizational Structure on Simplicity and Speed

Giordano maintained a flat organizational structure. The company’s decentralized management style empowered line managers and, at the same time, encouraged fast and close communication and coordination. For example, top management and staff had desks located next to each other, separated only by shoulder panels. This closeness allowed easy communication, efficient project management, and speedy decision making, which were all seen as critical ingredients to success amid fast-changing consumer tastes and fashion trends. This kept Giordano’s product

development cycle short. The firm made similar demands on its suppliers.

In addition, the company kept its operations lean to focus on what it considered its competitive advantage: service. One of their main strategic objectives was to disengage from manufacturing to focus on retailing. This was implemented by reducing its interest in their joint ventures with key manufacturers. This allowed the group to channel its resources from the Garment Trading & Manufacturing Division to the more profitable Retail & Distribution Division.<sup>1</sup>

## Service

Giordano’s commitment to service began with its major Customer Service Campaign in 1989. In that campaign, yellow badges bearing the words “Giordano Means Service” was worn by every Giordano employee, and its service philosophy had three tenets: “We welcome unlimited try-ons; we exchange—no questions asked; and we serve with a smile.” As a result, the firm started receiving its numerous service-related awards over the years. It had also been ranked number one for eight consecutive years by the *Far Eastern Economic Review* for being innovative in responding to customers’ needs. Furthermore, proving its expansion success in the Middle East, in 2006, Giordano received double awards for exceptional service and customer-centricity from the Government of Dubai.

Giordano’s management had launched several creative, customer-focused campaigns and promotions to extend its service orientation. For instance, in Singapore, Giordano asked its customers what they thought would be the fairest price to charge for a pair of jeans and charged each customer the price that they were willing to pay. This one-month campaign was immensely successful, with some 3,000 pairs of jeans sold every day during the promotion. In another service-related campaign, over 10,000 free T-shirts were given to customers for giving feedback and criticizing Giordano’s services.

To ensure customer service excellence, performance evaluations were conducted frequently at the store level, as well as for individual employees. Internal competitions were designed to motivate employees and store teams to do their best in serving customers. Every month, Giordano awarded the “Service Star” to individual employees, based on nominations provided by shoppers. In addition, every Giordano store was evaluated every month by

<sup>1</sup> Management Discussion and Analysis, p. 30, *Interim Financial Report 2008*, Giordano International.

Giordano to dispose of their interest in garment manufacturing subsidiary (accessed via [http://www.giordano.com.hk/web/HK/investors/news/2008-06-30\\_Placita%20Disposal\\_E.pdf](http://www.giordano.com.hk/web/HK/investors/news/2008-06-30_Placita%20Disposal_E.pdf), on March 9, 2009).

mystery shoppers. Based on the combined results of these evaluations, the “Best Service Shop” award was given to the top store. Customer feedback cards were available at all stores and were collected and posted at the office for further action. Increasingly, customers were providing feedback via the firm’s corporate website.

In late 2006, Giordano opened Giordano University, located at Dongguan in China. At its initial stage, the University trained staff located in Hong Kong and Mainland China. There are plans to offer training to its other markets and even franchisees and authorized dealers. Giordano’s efforts on staff training and development reaped results as was shown by the many service awards it clinched.

## Value for Money

Lai explained the rationale for Giordano’s value-for-money policy:

Consumers are learning a lot better about what value is. So we always ask ourselves how can we sell it cheaper, make it more convenient for the consumer to buy and deliver faster today than [we did] yesterday. That is all value, because convenience is value for the consumer. Time is value for the customer.

Giordano was able to sell value-for-money merchandise consistently through careful selection of suppliers, strict cost control, and by resisting the temptation to increase retail prices unnecessarily. For instance, in 2003, to provide greater shopping convenience to customers, Giordano started to open kiosks in subway and train stations aimed at providing their customers with a “grab and go” service.

## Inventory Control

In order to maximize use of store space for sales opportunities, a central distribution center replaced the function of a back storeroom in its outlets. Information technology (IT) was used to facilitate inventory management and demand forecasting. When an item was sold, the barcode information—identifying size, color, style, and price—was recorded by the point-of-sale cash register and transmitted to the company’s main computer. At the end of each day, the information was compiled at the store level and sent to the sales department and distribution center. The compiled sales information became the store’s order for the following day. Orders were filled during the night and were ready for delivery by early morning, ensuring that new inventory was

already on the shelves before a Giordano store opened for business.

Another advantage of its IT system was that information was disseminated to production facilities in real time. Such information allowed customers’ purchase patterns to be studied, and this provided valuable input to its manufacturing operations, resulting in fewer problems and costs related to slow-moving inventory. The use of IT also allowed more efficient inventory holding. Giordano’s inventory turnover on sales was reduced from 58 days in 1996 to merely 28 days in 2008. Its excellent inventory management reduced costs and allowed reasonable margins, while still allowing Giordano to reinforce its value-for-money philosophy. All in all, despite the relatively lower margins than those of its peers, Giordano was still able to post healthy profits. Such efficiency became a crucial factor when periodic price wars occurred.

## PRODUCT POSITIONING

Fung recognized the importance of limiting the firm’s expansion and focusing on one specific area. Simplicity and focus were reflected in the way Giordano merchandised its goods. Its stores featured no more than 100 variants of 17 core items, whereas competing retailers might feature 200–300 items. He believed that merchandising a wide range of products made it difficult to react quickly to market changes.

Giordano was also willing to experiment with new ideas and its perseverance despite past failures. It ventured into mid-priced women’s fashion by introducing new product lines, such as the label “Giordano Ladies.” This featured a line of smart blouses, dress pants, and skirts targeted at executive women. Reflecting retailer practices for such clothing, Giordano enjoyed higher margins on upscale women’s clothing—typically 50–60% of selling price compared to 40% for casual wear.

Here, however, Giordano ran into some difficulties, as it found itself competing with more than a dozen seasoned players in the retail clothing business, including Esprit. Initially, the firm failed to differentiate its new Giordano Ladies line from its mainstream product line and even sold both through the same outlets. In 1999, however, Giordano took advantage of the boom that followed the Asian currency crisis in many parts of Asia, to aggressively relaunch its “Giordano Ladies” line, which subsequently met with great success.



As of September 2008, the reinforced “Giordano Ladies” focused on a select segment—the “office ladies, but dresser” market, with 46 “Giordano Ladies” shops in Hong Kong, Taiwan, Singapore, Malaysia, Indonesia, and China, offering personalized and exceptional service as one of its core offerings. Among other things, the employees were trained to memorize names of regular customers and recall their past purchases.

During the late 1990s, Giordano had begun to reposition its brand by emphasizing differentiated, functionally value-added products and broadening its appeal by improving on visual merchandising and apparel. In 1999, the firm launched Blue Star Exchange (BSE), a new line of casual clothing for the price-conscious customer. Giordano’s relatively mid-priced positioning worked well—inexpensive, yet contemporary-looking outfits appealed to Asia’s frugal customers, especially during a period of economic slowdown. However, over time, this positioning became inconsistent with the brand image that Giordano had tried hard to build over the years. As one senior executive remarked, “The feeling went from ‘this is nice and good value’ to ‘this is cheap.’” As such, Giordano started to focus on establishing clear brand images and creating distinct identities between its brands. In September 2006, Giordano announced that it would rebrand Bluestar Exchange. As explained by Peter Lau:

The apparel retail market is getting increasingly competitive, regardless of whether you are talking about the high end or the mass market. In order to succeed, you must achieve meaningful differentiation from your competitors or else you risk becoming lost in the crowd. We believe it is time to give Bluestar Exchange a makeover to sharpen its image, and decided to go outside the company to get a fresh perspective.<sup>2</sup>

The newly revamped brand, now known as Blue Star Exchange (BSX) (see Exhibit 4), was unveiled at the launch of its first flagship store in Hong Kong in April 2007. The shift saw BSX evolve from price to “fun sell,” targeting the key youth demographic.<sup>3</sup> Expansion plans to bring BSX to

other countries were made, following careful review and tweaking after its Hong Kong debut.

**Exhibit 4:** Giordano’s first BSX store in Hong Kong.<sup>8</sup>



Additionally, having achieved success in its value-for-money lines, Giordano now wanted to penetrate the “upper premium” segment. This was done via the introduction of Giordano Concepts and its existing Giordano Ladies range. The lines focused on quality lifestyle and targeted the fashion-conscious consumer in the affluent market segment. In contrast to its unisex Giordano stores that carried a majority of items for women, Giordano Concept stores carry 60% of items catering to males.

To create alignment between the new up-market positioning and brand image, Giordano Concepts and Giordano Ladies stores were distinctly different from its mainstream stores. This included revamping store interiors and staff image to exude exclusivity, induce curiosity, and, more importantly, appeal to an affluent target group. For instance, to enhance its white-themed summer collection of 2006, flagship Concept stores in Hong Kong and Taiwan were dressed in abstract wall patterns and modern images.

Giordano gradually remarketed its core brand in ways that sought to create the image of a trendier label. To continue connecting with customers, Giordano launched several promotions. Among its successes was the “World Without Strangers” slogan. First launched in South Asia as a means to raise funds for the 2004 Indian Ocean tsunami victims in Phuket, it gained popularity with its other markets and was launched across the region in 2005. The slogan extended to a range of T-shirts and rubber wristbands that promoted international friendship. The products came in a variety of colors and brought across the message through words like

<sup>2</sup> Giordano Re-brand Blue Star Exchange article (accessed via [http://www.giordano.com.hk/web/HK/investors/news/Blue Star%20Rebranding.html](http://www.giordano.com.hk/web/HK/investors/news/Blue%20Rebranding.html) in January 2008).

<sup>3</sup> Blue Star shifts from price to “fun” sell, James Murphy, Asia’s Media & Marketing Newspaper; November 3, 2006, p. 11.

“Strength, Explore, Listen, Believe, Imagine, and Accept.”<sup>4</sup> Ishwar Chugani, Executive Director for Giordano Middle East, explained:

The words are designed to be personal watchwords, such as “have strength in your convictions,” or “explore the world around you,” almost reminders to live outside the box and experience the variety of life .... The shirts are a sign of solidarity for fellow humans, spreading a message of peace, acceptance and open-mindedness, which is something we can all use from time to time.<sup>5</sup>

In light of international crises and fragile cross-border friendships, “World Without Strangers” served as a mediator and avenue through which customers could express themselves. The company has been able to act as a mouthpiece for society, championing various themes from environmentalism to community work, and even the economy. An example would be the “Cheer U Up” collection, produced in collaboration with Mr. Jim Chim Sui-man. This collection aimed to lift the spirits of the people in the financial turmoil during the 2009 global economic crisis. The firm’s skills in executing innovative and effective promotional strategies helped the retailer to gain public favor and approval.

## Giordano’s Competitors

To beat the intense competition prevalent in Asia—especially in Hong Kong—founder Jimmy Lai believed that Giordano had to develop a distinctive competitive advantage. So he benchmarked Giordano against best-practice organizations in four key areas: (1) computerization (from The Limited), (2) a tightly controlled menu (from McDonald’s), (3) frugality (from Wal-Mart), and (4) value pricing (as implemented at the British retail chain Marks & Spencer). The emphasis on service and the value-for-money concept had proven to be successful.

Giordano’s main competitors in the value-for-money segment had been Hang Ten, Bossini, Baleno, and, at the higher end, Esprit. Exhibit 5 shows the relative positioning of Giordano and its competitors: The Gap, Bossini, Hang Ten, Baleno, and Esprit.

**Exhibit 5:** Giordano’s first Concepts store in Hong Kong.<sup>9</sup>



Hang Ten and Bossini were generally positioned as low-price retailers offering reasonable quality and service. The clothes emphasized versatility and simplicity. But while Hang Ten and Baleno were more popular among teenagers and young adults, Bossini had broader appeal. Their distribution strategies were somewhat similar, but they focused on different markets. For instance, while Hang Ten was mainly strong in Taiwan, Baleno increasingly penetrated Mainland China and Taiwan. However, Bossini was very strong in Hong Kong and relatively strong in China. The company planned to make its business in China into the group’s largest turnover and profit contributor. The geographic areas in which Giordano, The Gap, Esprit, Bossini, Baleno, and Hang Ten operate are shown in Exhibit 6.

Esprit is an international fashion lifestyle brand. It promoted a “lifestyle” image, and its products are strategically positioned as good quality and value for money—a position that Giordano was occupying. By 2008, Esprit had a distribution network of over 12,000 stores and outlets in more than 40 countries in Europe, Asia, America, Middle East, and Australia. Its main markets were in Europe, which

<sup>4</sup> Al-Bawaba News\_Giordano world without strangers spreading goodwill October 11, 2005 (accessed via Factiva in December 2007).

<sup>5</sup> Al-Bawaba News\_Giordano world without strangers spreading goodwill October 11, 2005 (accessed via Factiva in December 2007).

**Exhibit 6:** Giordano Ladies.<sup>10</sup>

accounted for approximately 86.7% of sales. The Esprit brand products were principally sold via directly managed retail outlets, wholesale customers (including department stores, specialty stores and franchisees), and by licensees for products manufactured under license, principally through the licensees' own distribution networks.

Although each of these firms had slightly different positioning strategies, they competed in a number of areas. For example, all firms emphasized advertising and sales promotion heavily, selling fashionable clothes at attractive prices. Almost all stores were also located primarily in good ground-floor areas, drawing high-volume traffic, and facilitating shopping, browsing, and impulse buying. However, none had been able to match the great customer value offered by Giordano.

A threat from US-based The Gap was also looming, which had already entered the Japanese market. After 2005, when garment quotas had been largely abolished, imports into the region became more cost-effective for this US competitor. Through franchise partners such as FJ Benjamin Holdings Ltd. The Gap expanded its international presence with franchises in Bahrain, Greece, Indonesia, Korea, Kuwait, Oman, Qatar, Malaysia, Russia, Saudi Arabia, Philippines, Singapore, Turkey, and the United Arab Emirates. Financial data for Giordano, Esprit, The Gap, and Bossini are shown in Exhibit 7.

## Giordano's Growth Strategy

Early in its existence, Giordano's management had realized that regional expansion was required to achieve substantial growth and economies of scale. By 2007, Giordano had

**Exhibit 7:** Market positioning of Giordano and principal competitors.

Firms	Positioning	Target market
Giordano ( <a href="http://www.giordano.com.hk">www.giordano.com.hk</a> )	Value for money Mid-priced but trendy fashion	Unisex casual wear for all ages (under different brands)
The Gap ( <a href="http://www.gap.com">www.gap.com</a> )	Value for money Mid-priced but trendy fashion	Unisex casual wear for all ages (under different brands)
Esprit ( <a href="http://www.esprit-intl.com">www.esprit-intl.com</a> )	More up-market than Giordano Stylish, trendy	Ladies' casual, but also other specialized lines for children and men
Bossini ( <a href="http://www.bossini.com">www.bossini.com</a> )	Value for money (comparable to Giordano)	Unisex, casual wear, both young and old
Baleno ( <a href="http://www.baleno.com.hk">www.baleno.com.hk</a> )	Value for money Trendy, young-age casual wear	Unisex appeal, young adults
Hang Ten ( <a href="http://www.hangten.com">www.hangten.com</a> )	Value for money Sporty lifestyle	Casual wear and sports wear, teens and young adults

over 1,800 stores in more than 30 markets. Exhibit 8 shows the growth achieved across a number of dimensions from 1998 to 2007. Despite a drop in profits in 2006 due to the unforeseen warm winter as well as the astounding rise in rental expenses in Hong Kong, Giordano showed relatively consistent growth over the years as profits rebounded in 2007 with a 39.4% increase.

Driven in part by its desire for growth and in part by the need to reduce its dependence on Asia in the wake of the 1998 economic meltdown, Giordano set its sights on markets outside Asia. Australia was an early target, and the number of retail outlets increased from four outlets in 1999 to 56 outlets in 2008. Although the Asian financial crisis had caused Giordano to rethink its regional strategy, the company was still determined to enter and further penetrate new Asian markets. This determination led to its successful



**Exhibit 8:** Geographic presence of Giordano and its principal competitors.

Country	Giordano	The Gap	Esprit	Bossini	Baleno	Hang Ten
<i>Asia</i>						
Hong Kong/Macau	X	—	X	X	X	X
Singapore	X	X	X	X	X	X
South Korea	X	X	X	X	—	X
Taiwan	X	—	X	X	X	X
China	X	X	X	X	X	X
Malaysia	X	X	X	X	X	X
Indonesia	X	X	X	X	X	—
Philippines	X	—	X	X	—	X
Thailand	X	—	X	X	X	—
Japan	X	X	—	—	—	X
Middle East	X	X	X	X	X	X
<i>World</i>						
USA and Canada	X	X	X	X	—	X
Europe	—	X	X	X	—	—
Australia	X	—	X	—	—	—
<b>Total</b>	<b>1,585</b>	<b>3,117</b>	<b>9,751</b>	<b>827</b>	<b>1,160</b>	<b>NA</b>

Note: "X" indicates presence in the country/ region; "—" indicates no presence.

Sources: *Giordano International Limited*, retrieved March 9, 2009 from <http://www.giordano.com.hk/web/HK/ourCompany.html>; *Annual Report 2007, Gap Inc.*, retrieved March 9, 2009 from [http://media.corporate-ir.net/media\\_files/IROL/11/111302/AR07.pdf](http://media.corporate-ir.net/media_files/IROL/11/111302/AR07.pdf); *Esprit*, Retrieved March 9, 2009 from [http://www.esprit.com/index.php?command=Display&navi\\_id=104](http://www.esprit.com/index.php?command=Display&navi_id=104); *Bossini International Holdings Limited*, retrieved March 9, 2009 from <http://www.bossini.com/bossini/html/eng/common/global.jsp>; *Baleno*, retrieved March 9, 2009 from [http://www.baleno.com.hk/EN/stores\\_list\\_map.asp](http://www.baleno.com.hk/EN/stores_list_map.asp); *Hang Ten*, retrieved March 9, 2009, 2005 from <http://www.hangten.com.hk/countryLink.do>.

expansion in Mainland China (see Exhibit 9), where the number of retail outlets grew from 253 in 1999 to 881 in 2008. Giordano's management foresaw both challenges and opportunities arising from the People's Republic of China's accession to the World Trade Organization.

<sup>6</sup> Giordano opens three new stores in India, November 20, 2008 (<http://www.giordano.com.hk/web/HK/investors/IR2008/2008-11-20%20Pune%20+%20Mumbai.pdf>); accessed March 9, 2009.

**Exhibit 9:** Competitive financial data for Giordano, The Gap, Esprit, and Bossini.

	Giordano	The Gap	Esprit	Bossini
Turnover (US\$ million)	639	15,736	4,403	298
Profit after tax and minority interests (US\$ million)	39.2	833	832	8.2
Return on total assets (percentage)	7.0	10.6	33.1	6.97
Return on average equity (percentage)	10.8	19.5	46.0	9.71
Return on sales (percentage)	8.0	5.3	20.7	
Number of employees	11,000 12,100	154,000	10,541	4,300
Sales per employee (US\$ '000)	52.81	102.18	457.43	69.02

Note: The Gap reports its earnings in US\$. All reported figures have been converted into US\$ at the following exchange rate (as of March 2009): US\$1 = HK\$7.75.

Sources: *Annual Report 2007*, Giordano International; *Annual Report 2007*, The Gap; *2007 Annual Report*, Esprit International; *Financial Report 2007/8*, Bossini International Holdings Limited; *Annual Report 2007/08*.

Giordano opened more stores in Indonesia, bringing its total in that country to 100 stores. In Malaysia, Giordano planned to refurbish its outlets and intensify its local promotional campaigns to consolidate its leadership position in the Malaysian market. To improve store profitability, Giordano had already converted some of its franchised Malaysian stores into company-owned stores.

Having gained a foothold in the Far East, Giordano began expansion into India in 2006, and into North American and the Middle East in 2007. In June 2007, Giordano unveiled its first franchised store in Cairo, Egypt. Since the launch of its first store in Chennai, Giordano has increased its presence in India to nine stores in five cities.<sup>6</sup>

The senior management team knew that Giordano's future success in such markets would depend on a detailed

understanding of consumer tastes and preferences for fabrics, colors, and advertising. In the past, the firm had relied on maintaining a consistent strategy across different countries, including such elements as positioning, service levels, information systems, logistics, and HR policies. However, implementation of such tactical elements as promotional campaigns was usually left mostly to local managers. A country's overall performance in terms of sales, contribution, service levels, and customer feedback was monitored by regional headquarters (for instance, Singapore for Southeast Asia) and the head office in Hong Kong. Weekly performance reports were distributed to all managers.

As the organization expanded beyond Asia, it was becoming clear that different strategies had to be developed for different regions or countries. For instance, to enhance profitability in Mainland China, the company recognized that better sourcing was needed to enhance price competitiveness. Turning around the Taiwan operation required refocusing on basic designs, streamlining product portfolio, and implementing their micromarketing strategy more aggressively. In Europe, Giordano was investigating a variety of market entry opportunities.

## Decisions Facing the Senior Management Team

Although Giordano had been extremely successful, it faced a number of challenges. A key issue was how the Giordano brand should be positioned against the competition in both new and existing markets. Was repositioning required in existing markets, and would it be necessary to follow different positioning strategies for different markets (e.g., Hong Kong versus Southeast Asia)?

A second issue was the sustainability of Giordano's key success factors. Giordano had to carefully explore how its core competencies and the pillars of its success were likely to develop over the coming years. Which of its competitive advantages were likely to be sustainable and which ones were likely to be eroded?

A third issue was Giordano's growth strategy in Asia as well as across continents. Would Giordano's competitive strengths be readily transferable to other markets? Would strategic adaptations to its strategy and marketing mix be required, or would tactical moves suffice?

## STUDY QUESTIONS

1. Describe and evaluate Giordano's product, business, and corporate strategies.
2. Describe and evaluate Giordano's current positioning strategy. Should Giordano reposition itself against its competitors in its current and new markets? Should it have different positioning strategies for different geographic markets?
3. What are Giordano's key success factors and sources of competitive advantage? Are its competitive advantages sustainable, and how would they develop in the future?
4. Could Giordano transfer its key success factors to new markets as it expanded both in Asia and the other parts of the world?
5. How do you think Giordano adapted/would have adapted its marketing and operations strategies and tactics when entering and penetrating your country?
6. What general lessons can be learned from Giordano for other major clothing retailers in your country?