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The world looks different from here.



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Note from the Editor

At the University of Victoria, one of the goals of the Peter B. Gustavson School of Business is to provide our Bachelor of Commerce (BCom) students with the essential skills and knowledge they need to be successful business leaders in the global economy. This includes being able to formulate appropriate questions to address different problems, search and gather relevant information, critically analyze the information for insights, and to generate useful results from the analyses. In short, successful business leaders need to have a spirit of curiosity and inquiry and a matching rigour and sophistication of scholarship to make sense of the complex world we live in and to identify suitable courses of action. Doing so in the context of cross-cultural issues not only adds to the challenge but also yields rich gains in terms of learning and growth, and Com 470 is a perfect vehicle for this endeavour.

Our international exchange program is the largest in Canada with 85 active partner universities in over 40 countries, and we continue to expand steadily into new regions. Every year, more than 70% of our BCom students participate in the international exchange program and spend a semester studying at one of these partner universities. This experience allows the students to be on the ground in these different countries and engage with the local issues, society and economy, and develop their own international management perspectives and notions. During their semester abroad, many students enrol in COM 470 – the International Business Research course – which allows them to fully explore a business topic of their choosing that relates to the country they are in. This assignment not only significantly enhances their knowledge of the country, but it also augments their research and writing skills.

The top papers produced each year in the Com 470 course have been showcased (since 2008) in a published collection titled Best Business Research Papers. The topics cover a very wide range – for example, Chinese language strategies, Germany’s manufacturing advantages, global tourism and venture capitalism, consumer purchasing behaviour and international human resource strategies. These best-in-class papers demonstrate our students’ capabilities for doing significant and thoughtful research in many facets of global business.

The UVic Gustavson School of Business is proud to present these best research papers from our 2014 COM 470 students. I would also like to thank the team of people behind the scenes that make this comprehensive international exchange opportunity such a success: the International Programs team of Dr. A.R. Elangovan, Director; Brian Leacock, Associate Director; Jane Collins, Manager, International Exchange; Elsa Yan, Outgoing Exchange Student Advisor; Allen Sun, International Recruitment Officer and China Specialist; Christina Hernandez, International Student Advisor; Jennifer Oakes, Academic Advisor; Donna Davis, International Programs Clerk; and to Shannon Perdigao, Academic Projects Officer, for coordinating and compiling Volume 7 of the *BCOM Best Business Research Papers*.



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Selling Energy: An Analysis of Red Bull's Marketing Strategies

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ABSTRACT

This paper's objective is to provide the reasons for Red Bull Gmhb's marketing success in the global energy drink market. It focuses on the company's marketing strategies and product positioning for their flagship product, Red Bull Energy Drink. It discusses the company's history and the emergence of the new product category "functional energy". Congruently, it considers how this gave Red Bull first-mover advantage. Investigation into Red Bull's marketing mix provides insight into the company's product, price, place, and promotion, also known as the four Ps. Product is analyzed by looking into taste, ingredients, and packaging. Price is analyzed by the effects of internal and external market forces. Different geographic locations and environmental factors are used to analyze Red Bull's effectiveness of place. Lastly, the various promotional tactics that Red Bull implements are identified and analyzed. The primary evidence was gathered by interviewing Professor Albert Dolecek, Senior Lecturer of Marketing at Vienna University of Economics and Business, who is also a private Strategic Marketing Consultant. Also, information was gained from speaking with a Red Bull sales associate, who will remain anonymous.

INTRODUCTION

Since the beginning of mankind, human beings have used an array of food and drink to meet their specific dietary needs and wants. Some drinks have stood the test of time and have been a favorite among societies for generations. Specifically, I am referring to coffee and tea, both of which have high caffeine content and have provided people with a brief boost of energy for centuries. Both drinks still remain incredibly popular and are arguably among the top five most consumed beverages in the world. Moreover, many people have become reliant on these caffeine packed drinks and would even claim that they would "not be able to function" without their morning coffee or post lunch tea. Thus, there is no doubt that a market exists for a beverage that is specifically engineered, and scientifically proven, to increase physical endurance and mental alertness. A drink that would effectively provide users with the energy to finish a long day of work, perform in a sporting event, continue studying, or aid in any other day-to-day activities.

Austrian entrepreneur, Dietrich Mateschitz, saw the market potential for this type of beverage in Europe and founded Red Bull Gmhb in Austria in 1985. The product itself is also named Red Bull and is an energy drink that "Vitalizes Body and Mind®" (Red Bull, 2013) using scientifically proven ingredients to induce the product's desired effect. Red Bull Gmhb was a pioneer in the energy drink market and was the first company to introduce this new product category into Europe and North America. Today, the energy drink industry has gone worldwide with a global consumption of 4.8 billion litres and a \$37 billion market worth in 2011 (Zenith International, 2012). Red Bull was able to evolve itself from a small Austrian start-up company with a product that had never been seen by the global market, outside of Asia, into a multinational company. Moreover, the company has held the position as the market share leader in this industry since its inception over twenty years ago. It can be seen as a marketing wonder, given that the product itself has remained quite static throughout its history. Subsequently, a major factor and huge component of Red Bull's success can be attributed to their unique marketing strategy and effective branding. Red Bull has been able to portray itself as more than just a product, but as a lifestyle. This

paper analyzes how Red Bull's marketing mix, composed of promotion, price, place, and product, has led to their product's global success.

BACKGROUND

Birth of the Energy Drink

Before establishing Red Bull GmbH, Dietrich Mateschitz had obtained a marketing degree from the University of Commerce in Vienna and was the International Marketing Director for Blendax, a Procter & Gamble company. Due to his occupation, Mr. Mateschitz spent much of his time travelling internationally on business trips. On a particular trip to Thailand, he tried a popular Thai beverage called Krating Daeng, which is considered to be the original energy drink and is very similar to present day Red Bull. Dietrich was pleased to find that the drink had cured his jet lag and provided him with a boost of energy (Solomon, 2012). He quickly became fascinated by Krating Daeng and realized the market for such a beverage in his home country of Austria. Dietrich quit his job in 1984 and created Red Bull GmbH with his partner Chaleo Yoovidhya, who was the creator of Krating Daeng and owner of TC Pharmaceuticals. The Thai beverage manufacturer, TC Pharmaceuticals, owned the rights for the energy drink recipe and in exchange for a 51 percent stake in Red Bull, he sold the foreign licensing rights to Mateschitz (Aaker, 2011), thus giving Dietrich Mateschitz 49 percent ownership of the company. The partners agreed that Dietrich would run the company and act as its CEO. Dietrich established Red Bull GmbH in his home country of Austria in 1985 and launched the Red Bull energy drink in 1987.

Business to Consumer (B2C) Market

As Red Bull is a consumer good, the energy drink was marketed as Business to Consumer. "Business-to-Consumer marketing refers to the tactics and best practices used to promote products and services among consumers" (Brafton, 2013). Consumer marketing is more personal compared to Business to Business (B2B) marketing and requires that Red Bull not just focus on the product's function or features, but also appeal to the customer's wants in order to evoke an emotional response. In consumer's minds, the product can be more than just a drink, but also a symbol of a lifestyle or persona that they want to convey to others by consuming the beverage (Boag, 2013). Red Bull has focused on building a brand and reputation for their drink that would offer more than just nutritional value but also powerful social value.

Positioning and Target Market

Red Bull executed an open approach to the positioning of their product in the market. Generally, it is recommended for companies to define a specific target market as marketing to the general population is an exceedingly expensive and difficult endeavour, especially for a start-up company with a small amount of resources (Porta, 2010). Furthermore, the broad reach of such an approach can cause the customer to become confused. Due to the vague definition of the product characteristics, it becomes difficult to decipher exactly what utility will be gained from the product. However, Red Bull was able to overcome the obstacles of an open position and communicate their products' attributes to a broad target market through carefully crafted messages, based on customer needs and wants.

Effective product positioning ensures that marketing messages resonate with target consumers and compel them to take action (Richards, 2013). Mateschitz devised the brand positioning statement "revitalizes body and mind" as Red Bull's message to the consumers. The statement focuses on the function of the drink and the tangible benefit that it delivers to the consumer, in a simple, yet intriguing manner. Contrary to traditional market segmentation, Red Bull's target market was not demographic or a psychographic, but instead was anyone in need of energy, regardless of age, sex, income or any other defining characteristics. Red Bull's Group Marketing and Sales Director, Norbert Kraihamer, stated that "we only have two dimensions: people who are mentally fatigued

and people who are physically fatigued or both” (Aaker, 2011). Furthermore, Red Bull neglected to specify any specific consumption occasions as the company wanted consumers to drink their product whenever they needed a boost, regardless of time or place. By not identifying a narrow target market or limiting itself to certain occasions or activities, Red Bull was able to penetrate many market segments and leave space for the company to grow. Such a tactic made Red Bull very flexible in the course of time as the energy drink industry matured, consequently allowing the company to adapt with changing trends and the entrance of competitors, a strong contribution to Red Bull’s ability to remain the market leader.

ANALYSIS

The Product

Red Bull Energy Drink is a consumer convenience good, which means that the buyer generally puts little thought into the decision-making process. Since this category of goods is “widely-available, purchased frequently and with minimal effort” (Investopedia, 2013), the consumers often are price sensitive and habit oriented. Red Bull, however, was introducing a brand new product category to the market, “functional energy”, named thus because the beverages were meant to be consumed for energy, not enjoyment purposes (Aaker, 2011). In view of that, Red Bull was able to benefit from first-mover advantage and market their product as a preference good. A preference good establishes a brand preference and loyalty from consumers, thus creating customers that habitually choose that product (Boag, 2013). Red Bull encouraged the consumers’ view of their product as a preference good with a strong marketing campaign that created brand prestige.

Red Bull entered the market with only one product, the Red Bull Energy Drink, and since then has only slightly expanded their product line. Their product mix is very limited and essentially has no width or length, only depth in their flagship drink, which now comes in sugar free, zero calorie, cola, and editions which are fruit flavored. Having a small product mix can be advantageous for a business as it keeps the company from over extending itself and spreading its resources too thin (Gordon, 2004). Also, a large product mix runs the risk of cannibalizing its own products, meaning that, the company launches too many products into the market and starts losing sales from an old product to a new one. However, there are also disadvantages for Red Bull having a small product mix. By having a small product mix, it is more difficult for the company to diversify risk, attract buyers with different preferences, and increase profitability from multiple market segments (Gordon, 2004). Yet Red Bull’s original energy drink’s popularity and market leading sales has substantially offset most of these disadvantages, with the help of their open brand positioning and non-segmented target market.

The Taste and Ingredients

Different cultures often have different diets and, thus, prefer certain tastes that they are familiar with. Krating Daeng was tailored towards the Asian market and was very popular among the Asian population. Accordingly, Red Bull could have simply kept the same formula and optimistically entered the product into the European market without making any changes; however, Mateschitz opted to “westernize” the product. In order to be more fitting for European taste, the drink was altered by adding carbonation, lowering the caffeine content, diluting it and adding/removing some minor ingredients (Aaker, 2011). Although this was a necessary step, Kraihamer stated that “we [Red Bull] never cared about the taste a lot because we are more concerned about the function of the product” (Aaker, 2011). This attitude would be considered highly abnormal as most beverage products focus on and advertise the taste of their product. Justly, most consumers favor and purchase certain drinks according to their taste. However, with Red Bull’s new beverage category of functional energy, taste was not the most important aspect, but instead it was the elements that provided the energy function.

The drink is moderately sweet but has a somewhat of a medicine taste to it. The company does not try to mask the “medicine” taste, but instead embraces it as a way to assure the consumer that what they are drinking is

more than just a soft drink. The main ingredients in Red Bull and the ones in which provide energy are caffeine, B-vitamins, sucrose, glucose and taurine. Contrary to popular belief, one 250 ml can of Red Bull has only 80 mg of caffeine, compared to a small cup of Tim Horton's coffee which has 100 mg of caffeine (Tim Hortons, 2012). Given that the focus of Red Bull's marketing is on the function of the product, it is important for the company to ensure that their ingredients are of high quality, to assure the consumer that the drink is safe and effective. Accordingly, Red Bull proudly presents on their website that the "water in Red Bull is alpine water of highest quality, which comes from the Austrian and Swiss Alps" and "the sugar is produced from sugar beet", while the enhancing "ingredients such as taurine, caffeine and vitamins are synthetically produced to ensure high and consistent quality" and "all ingredients comply with food regulatory requirements". It is important for Red Bull to publicly post their ingredients and how they are derived in order to create credibility of the product's effectiveness, as their marketing is based on its energy-providing benefits. Red Bull's product generates the following functional properties:

- Improves physical endurance
- Stimulates metabolism and helps eliminate waste substances
- Improves overall feeling of well-being
- Improves reaction speed and concentration
- Increases mental alertness

Packaging

It is essential that the packaging of a product represents the rest of the marketing mix as it is visible at the most important part of the buying process, the point of sale (Bizcommunity.com, 2012). Red Bull Energy Drink's can is attention grabbing and features two red bulls aggressively lunging at each other in front of a yellow sun, portraying the power and speed that the drink provides its users. The blue and silver background of the can is more calming and plays to the intellect and sophistication that can come of the mental alertness. Thus, portraying a multi-sensory appeal to the consumer, which "attracts greater attention, intensifies perception and stimulates interest in buying" (Bizcommunity.com, 2012). This is important in differentiating Red Bull from its competitors and conveying its branding image to the consumer. The text, energy drink, is clearly displayed under the logo as to assure the consumer that they are buying a functional product. The Red Bull can is smaller than a typical 355-ml soft drink – at 250 ml, it is slim and tall. The reason for a smaller can is related to its function and the arguably poor taste. Having larger cans increases materials costs and is unnecessary if the desired effect of the product can be induced from a smaller amount of fluid.

Price

The price of a product has a large impact on buyer choice and behaviour, as "from a customer's point of view, price, is an indicator of perceived value" (Boag, 2013). When an organization is price planning, they must look at both the internal and external factors that are affecting their pricing decisions.

Internal

Internally, it is important that the price is congruent with their marketing objectives. As for Red Bull, they are focusing on the function of their product and its benefits for the consumer. Thus, a low price-high volume strategy would not be fitting for the company as buyers would perceive their product as cheap and ineffective. Red Bull wants their drink to be considered superior to the current beverage market of soft drinks and sports drinks, pricing it lower or at the same price would contradict this positioning. In addition, Red Bull's ingredients and high standard of quality make it relatively more expensive to produce. In order to cover fixed and variable costs of production, a higher price must be demanded in order to make a profit. The strategy most fitting for Red Bull would be one of product quality/innovation leadership which means setting prices high to symbolize

exceptional value (Boag, 2013). The company wants consumers to have the impression that Red Bull is unique and superior so they set the price at a premium to separate it from soft drinks and sports drinks (Aaker, 2011). Furthermore, by setting a premium price, Red Bull increased its product profit margins. Larger margins allow the company to support its outside sales representatives, which increases its participation in event sponsorships and sampling efforts.

External

As Red Bull was introducing a brand new product category into the European market, they had a lot of control over how they wanted to price their energy drink in context with the external market. Congruently, they had no direct competition within their product category when the drink was first launched, which is typically a major factor in an organization's ability to choose a price. The primary competition at the time of the product launch was cola beverages and Red Bull, as mentioned above, purposely set their prices above to differentiate their product. The market is now mature and occupied by many competitors that impose an influence on Red Bull's price setting abilities. However, Red Bull has always maintained their premium product attitude and in every market would set a price "at least 10 percent greater than the most expensive competitor in order to maintain 'best of class' positioning" (Aaker, 2011). In doing so, they were consistent in influencing the consumer's overall perception of the product's quality: higher prices equal higher quality. This is known as a prestige pricing strategy, which is the practice of "setting a high price for a product, throughout its entire life cycle for the purpose of giving the impression of higher quality or of adding prestige value to the brand" (Boag, 2013). The reason Red Bull was able to exercise such a favorable strategy is due to many aspects. Firstly, they had first-mover advantage and introduced the product at a premium price. Furthermore, they have remained consistent with their premium pricing in spite of competition entering the market, thus, showing the confidence and superiority of their product. Secondly, Red Bull has always focused on the function of its beverage and its high level of quality. Through successful and consistent marketing focused on Red Bull's superior energy providing qualities, they were able to convince consumers that their product offered the best "energy", hence, increasing the consumers' perceived value they expect to receive from the product and the price customers are willing to pay is a result of this perceived value (Small Biz Viewpoints, 2012).

Placement

Currently, Red Bull is distributed and sold in 165 countries worldwide (Red Bull, 2013). The distribution channels of such a large operation are immense; however, the company began small by selling solely in its home country of Austria in 1987 and expanded from there.

Europe

Austria did not become a part of the European Union (EU) until 1995, so exporting its products into neighbouring countries was very difficult due to barriers of entry. Taurine, a key component of Red Bull's product, was not on the list of approved ingredients in any of the EU member states, except for Scotland. However, according to the EU's policy for approved food products, if a product was approved in one EU country then it could be sold in all EU countries (Aaker, 2011). So Red Bull expanded into England and from there into the rest of Europe. Although, this obstacle stalled expansion, it actually added to the hype of the beverage. The fact that the drink contained restricted ingredients, namely taurine, supported Red Bull's claims of its energy providing effects in the eyes of the consumers. Thus, Red Bull had already been promoted in Europe without having to do any marketing.

America

In 1997, Red Bull entered the US market by using a “cell approach”. This approach once again embraced the pull strategy culture of Red Bull, and built off the brand image. The intensity of distribution was intentionally very low. Using the cell approach, Red Bull started off by selling its product in one city, Santa Cruz, CA, and only at specific stores that were considered “cool” (Aaker, 2011). They were purposely avoiding supermarkets and large chain stores to maintain the drink’s identity as a premium and unique product. As it became more popular, the drink spread to additional stores and cities across the US until it was available through most intermediaries. However, by starting small and at specific retailers, the product’s value and brand image were built in the minds of the consumers. Consequently, as they increased distribution across the US they were able to maintain its premium product category.

International

Red Bull can now be found in supermarkets, convenience stores, restaurants, and an array of other retailers worldwide. In parallel, Red Bull has become exceedingly efficient in its manufacturing, storing, and delivery of its product to both reduce costs and ease its impact on the environment. Global distribution uses a lot of energy and energy is both a cost to the company and the environment. Red Bull has been innovative in keeping up with the growing societal demands of lowering emissions and reducing the environmental impact of large companies. This strategy is congruent with Red Bull’s ideology of being a premium product and a market leader. Thus, they have been able to retain and gain customers by being socially and environmentally responsible and a leader in lowering emissions. Red Bull uses one production hub in Central Europe to serve all 165 countries that the product is distributed to (Red Bull, 2013). The company uses wall-to-wall production, which means that the approximately two billion cans per year are manufactured and filled at the same site. The company claims this saves “the equivalent emissions of more than 10,000 truck journeys of 700 kilometers each” (Red Bull, 2013). In addition, 80 percent of the energy used in production comes from renewable resources. The can itself is one hundred percent recyclable and weighs sixty percent less than it did a decade ago (Red Bull, 2013). Furthermore, it is smaller than average cans and more compact than glass or plastic bottles, thus, allowing for more products to be shipped in less space. Also, where possible the company looks to ship everything by boat or train to reduce emissions from trucks. These procedures and techniques offer tremendous benefits to the company. They have greatly been able to reduce shipping costs by using a small compact can and eliminating transport between can manufacturing and filling. Also, by having all production done at one facility, Red Bull guarantees that the same premium product quality is enjoyed around the world. Lastly, it conveys to the customer that Red Bull has high corporate social responsibility and is contemporary, similar to the brand image that they have marketed for their products.

Promotion

Through the use of highly effective promotion and marketing strategies, Red Bull has been able to quickly penetrate markets and maintain its image as “the energy drink”. Professor Alfred Dolecek, Senior Marketing Lecturer at Vienna University of Economics and Business and private strategic marketing consultant, explained in November 2013 that the key to Red Bull’s marketing success was their introduction of the new product category, energy drinks, and their heavy promotion on its energy giving benefits. By being the pioneer in the energy drink market, Red Bull had the immense opportunity to create the image of the energy drink industry and sculpt consumers’ perceptions of the product category. Their promotion goal was to make Red Bull the face of the energy drink market. The company’s promotions concentrated on the benefits the drink provided its users and the associated outgoing, energetic lifestyle.

Pull Strategy

Two promotion strategies that are commonly used are the push strategy and pull strategy. In the push strategy, “the firms centre their activities on their existing products and services and look for ways to encourage, or even persuade, customers to buy” (Boag, 2013). Essentially, the push strategy attempts to create consumer demand for the product by bringing the product to the customer. Generally, the sales tactics have a heavy reliance on retailers to stock their product and market from within the store. The pull strategy is the opposite and attempts to bring the customers to you by promoting the benefits or value of the products to attract customers. Generally this is done through mass media promotions and word-of-mouth referrals. Dietrich Mateschitz was a firm believer in the pull strategy and stated that “We [Red Bull] don't bring the product to the people, we bring people to the product.” (The Economist, 9 May 2002). Throughout Red Bull's history, the company has implemented many innovative promotion media to pull in its customers.

Early Stages

As the company was brand new, the initial small marketing budget forced Mateschitz to devise affordable yet effective ways to inform Austria of this brand new product. He wanted Red Bull to have high affective power and be seen as unique and original in order to attract opinion leaders and reference groups. Opinion leaders are individuals who have social influence over others and “advice from opinion leaders has been shown to be more effective in influencing behavior than paid media such as television, newspaper or other mass media” (Boag, 2013). Relating to the pull strategy, Red Bull sought to build an image that people wanted to be associated with. To build initial curiosity, “Mateschitz launched the brand by persuading students to drive around in Minis and Beetles with a Red Bull can strapped on top” (The Economist, 9 May 2002). This tactic was used to catch the attention of a broad range of potential customers and present the new company and product to the public. In addition, Red Bull would organize “parties around weird and wonderful themes” (The Economist, 9 May 2002). By having eccentric parties, Red Bull was differentiating itself and promoting the energetic brand image. Furthermore, the sponsoring of the parties was a clever way to develop word-of-mouth marketing among the party goers and their peers. Apart from being inexpensive, word-of-mouth marketing has many other benefits. University of North Carolina's Center for Integrated Marketing and Sales conducted research on this marketing technique and has suggested that it builds long-term value as “customers who purchase products or services based on a referral are more likely to buy more than people who find your company through traditional marketing methods” (Wagner, 2013). Most importantly, however, it builds the brand. A brand, from a consumer's perspective, provides information regarding the quality, value, social stigma and risk that is tied to the product (Boag, 2013). Thus, by sponsoring these parties, Red Bull Energy Drink was conveying to the public that their product is both fun and effective. This was supported by the use of Red Bull at the parties by the guests, where it provided them with the tangible energy benefits. It was a method of sampling promotion, where Red Bull would offer its product for free to engage with the customers. Then, “If the item meets their need, or they develop a taste or preference for the product or service, they'll be likely to buy again even after the free time frame is over” (Gossel, 2009).

Advertising

As the company grew, their marketing budget and capacity to reach new customers increased. Red Bull began to mass market by airing television commercials. Also known as undifferentiated marketing, it is a “sales-growth strategy that ignores market segment differences and attempts to appeal to all prospective customers with a single, basic product line through mass advertising and distribution” (BusinessDictionary.com, 2013). The commercials are cartoons that are simple, lighthearted and feature an array of characters. Generally, a commercial consists of a “character, event or subject, to which a broad audience can relate, is found in a ‘larger than life’ story with an unexpected twist” (Red Bull). For example, in one commercial a zebra has just finished drinking a Red Bull when it is attacked by an alligator; however, the zebra is able to escape and turn the alligator

into a purse. Advertising messages typically focus on product features and benefits, stressing the brand personality, or focus on positioning the product (Boag, 2013). The Red Bull commercials convey the benefits of the product, but in a highly exaggerated and comedic fashion, using the tagline “Red Bull gives you wings”. These commercials are congruent with the marketing mix of open positioning, as they do not target a specific market but, instead, anyone who has a sense of humor. The products’ benefits and features are presented in an outrageous manner as to not focus on one use of the product, thus, maintaining the product’s versatility in occasions of use and showing the brand’s thrilling personality. In addition, Red Bull’s commercials are very versatile and can be used to advertise globally. The characters do not pertain to any specific geographic area and can be understood by all cultures. Furthermore, since the commercials are cartoons, they can be dubbed over in any language necessary and aired in different markets.

Events and Athlete Sponsorships

Red Bull has been able to become synonymous with the action sports world. They sponsor an array of events and athletes all over the world, with the Red Bull logo and products proudly on display. Red Bull’s first sponsored event was in 1988, called the Dolomitenmann. It is an extreme sport relay combining running, paragliding, kayaking, and mountain biking. Such an event is the persona of what Red Bull wants consumers to associate with its brand. From there Red Bull has become “involved in a wide mix of sports such as wakeboarding and motorcycle racing, dozens of Red Bull music events, sponsoring athletes, teams and much more” (Aaker, 2013). Most of Red Bull’s sponsorships revolve around extreme sports for two reasons. One, these athletes and events have fewer sponsors and endorsements. Two, Red Bull wants its product to be viewed as an extreme energy drink with proven benefits. Choosing to sponsor smaller, lesser known events is much cheaper than nationally recognized events. However, the impact is much greater on the individuals that are a part of that specific event’s scene. Red Bull is giving the events and athletes the opportunity that they might not have had, thus building strong brand loyalty among certain groups, who then spread the message among other reference groups. Referring to the second point, Red Bull used extreme sports events and athletes to enhance its credibility as an energy providing beverage. Professor Dolecek (2013) stated that “Red Bull has always stuck to fun and outgoing. Every image always connected to energy”. By remaining consistent with their image and sponsoring extreme events or athletes, Red Bull establishes trust and rapport with their customers and prospects (Willman, 2010). Red Bull’s intense concentration on advertising and event and athlete sponsorship has been developed further through content marketing and their creation of Red Bull Media House.

Content Marketing and Red Bull Media House

As consumers have begun to close off from traditional marketing, due to its saturation and changing demographic, a new marketing technique has emerged, called content marketing.

Content marketing’s purpose is to attract and retain customers by consistently creating and curating relevant and valuable content with the intention of changing or enhancing consumer behavior. It is an ongoing process that is best integrated into your overall marketing strategy, and it focuses on owning media, not renting it (Content Marketing Institute, 2013).

Red Bull has been following the same marketing ideology since Dietrich Mateschitz started the company, and in 2007 they founded Red Bull Media House (RBMH). As Red Bull had been heavily involved with creating or sponsoring events, action sports videos, and advertising, they decided to “not just sponsor, but instead own it” (Red Bull Employee). RBMH “is a multi-platform media company with a focus on sports, culture, and lifestyle” (RBMH). The content created through Red Bull Media House is featured on the Red Bull company homepage. The product itself is seldom talked about, but instead the focus is on the content itself. The idea is to give something valuable to the consumer that they perceive as good, and in theory they will give you something back, loyalty to the brand (O’Brien, 2012). This step has taken Red Bull’s marketing capability to the next level. On one hand, it

provides the company with the tools, professionals, and medium to produce professional quality advertisements on their own. On the other, and the more important, every piece of media that comes out of RBMH shares their brand with the world. Red Bull's credibility as "the energy drink", increases with every new and stimulating media output that the company provides its viewers.

CONCLUSION

Red Bull's introduction of the energy drink has changed the beverage market indefinitely. Not only did the company introduce a new brand category, but also a lifestyle that is attached to the product. Since 1985, when Dietrich Mateschitz established Red Bull GmbH, the company has had complete confidence in their product and believed that consumers desired its energy benefits. "Red Bull has consistently pushed the idea of energy", stated Dolecek (2013), "they introduced the brand category of functional energy and everything they did said energy, they owned the category". Through effective product positioning and strategic marketing tactics, Red Bull has been able to remain the market leader in the energy drink market for over twenty five years. By employing open positioning and not targeting a specific market segment, Red Bull has been able to successfully adapt to the changing market conditions and competition. Furthermore, the company's rich history of applying the pull strategy has attracted loyal customers that want to be associated with the Red Bull brand image, an image that is supported by Red Bull's vast involvement in event and athlete sponsorships and the introduction of Red Bull Media. Overall, Red Bull's consistent marketing mix and strong focus on its product's energy component has provided the company with a premium product that has stood the test of time.

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Smartwatches:

How They Could Impact the Largest Swiss Watch Company, Swatch Group

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ABSTRACT

Swatch Group is the largest watch producer in Switzerland and one of the largest in the world. The group was formed during the Quartz crisis when the Swiss watch industry nearly collapsed in the face of a market flooded with cheap Japanese Quartz watches. Nick Hayek was hired to save ASUAG and SSIH, the two largest watch groups at the time. He combined both companies and saved them by introducing the brand Swatch, a low-end watch line that produced a product that was emotional, high quality and had a great brand. He designed a watch that could be produced as cheaply in Switzerland as in China and this is what led to their success. Today the company is called Swatch Group and owns 18 brands including Omega and Tissot, and is highly vertically integrated, being able to produce and sell its watches independently. Ever since the introduction of the Swatch, the company has been innovative having introduced a smartwatch in 1999 and in 2004. Today, new technologies like Bluetooth, Wi-Fi and smartphones have given rise to new smartwatches from giant-tech companies like Samsung and smaller start-ups like the Pebble. Many Swiss watch makers deny that the smartwatch is a threat but with changing consumer behavior among the younger generation this could lead to another crisis. Swatch Group is in the best position to turn this threat into an opportunity having expertise in producing watches and brands.

INTRODUCTION

Facing near death during the Quartz crisis in the 1970s, Swatch Group has become one of largest watch manufacturer and distributor on the planet (Marketline, 2013). Swatch Group's diverse portfolio covering basic to prestige, strong brands from Swatch to Omega, as well as quality and innovation have all made the company successful. This paper will analyze Swatch Group as a watch producer and will look at how it became so successful in a highly competitive industry. In addition, I will be debating the resiliency of the Swatch Group in the face of new fierce competition, the Smartwatch. To complete this analysis I will be using Porter's Five Forces model, and examining the major Smartwatch competitors. Furthermore, I will be identifying the company's strengths, weaknesses, opportunities and threats by performing a SWOT analysis. Finally, I will be discussing how Swatch Group can take on this emerging threat using their competitive advantages and how it will be able to succeed in the future.

SWISS WATCH INDUSTRY

The Swiss Watch Industry produces only 2.5% of the total global watch production which is equivalent to 29.3 million units. China produced twenty-three times more watches at 678.5 million. The surprising difference is that Switzerland generated USD 22.9 billion in total sales whereas China sold USD 5.1 billion. Switzerland dominates the luxury segment of the industry and on average a Swiss watch is sold for USD 737 versus USD 3 for a Chinese watch. Three major Swiss watch producers account for 45% of global watch sales, and 94% of Swiss watch export sales. The three companies are Swatch Group, Richemont, and Rolex (Credit Suisse, 2013).

Swatch Group

In response to the threat of new watches emerging with small batteries, the Swiss Watch industry formed a research group Centre Electronique Horloger (CEH) in 1962. Its purpose was to invent the next generation of wrist watches. In 1967, CEH created the first Quartz wrist watch in Neuchatel Switzerland called the Beta 1. Similarly the Japanese watch giant Seiko also had its eyes set on producing a Quartz watch. It created the first commercially available Quartz watch in 1969 called the Astron. Soon after in 1970 sixteen Swiss watch producers launched a Quartz watch based on the newest Beta 21 model from CEH. The watch was discontinued after only selling 6000 units and Seiko gained momentum from there (Frei, Armin 2009). For the Swiss Watch industry, the Quartz Crisis had begun.

In the 1970s and early 1980s the Swiss watch industry was in trouble. It had lost 35% of its worldwide market share, decreasing from 50% to 15%, and the Swiss industry workforce decreased from 90,000 to 25,000 employees. The Japanese watch manufacturers had successfully created a Quartz electronic watch that was much more accurate than the traditional mechanical watches, the specialty of the Swiss. Asian Quartz watches were mass produced and sold for a cheaper price and as a result overtook the mass market putting many Swiss and American watch companies out of business (Swatch Group).

A government appointed group of Swiss Banks hired Nicolas G. Hayek as an advisor to save the Swiss Watch industry in the early 1980s. Hayek, who owned his own successful consulting company, merged the two of the largest Watch Groups in Switzerland, ASUAG and SSIH, to form the Société Suisse de Microélectronique et d'Horlogerie (SMH) in 1983. He later bought a majority stake in SMH and became CEO (Taylor, 1993).

Hayek was a visionary and believed firmly that Switzerland needed to produce its watches in Switzerland, which was an unconventional management strategy. Most companies were sourcing their manufacturing to China but Hayek thought differently. He was going to drive innovation by only allowing his engineers to design watches that cost less than 10% in direct labour to manufacture, cutting current cost from 30%. This forced SMH to innovate its manufacturing process to produce watches as cheaply as China. This decision proved to be crucial as the company was able brand the watches as "Swiss Made" giving them a more luxurious appeal. Hayek also doubled the price of his premium brands which had lost their exclusivity and reduced the watch product line from 2000 to 130 to cut costs (Taylor, 2010).

Next Hayek realized that the Swiss Watch industry was being dominated in the lower-end segment with a 0% cut in what was now a 450 million unit industry. Switzerland dominated the high-end producing 97% of the 8 million watches sold but were allowing their competitor to slowly attack them from below. Hayek then suggested that they produce a low-cost, high-tech, artistic and emotional watch. The current competitors were producing very cheap watches that weren't reliable and he saw an opportunity (Taylor, 1993). In 1983, he introduced a new entry level brand "Swatch" (Swatch Group). Swatch created a Quartz watch that had 51 parts, a hundred fewer than their Japanese rivals. This new design enabled Swatch to save on manufacturing costs. As a result, Swatch was able to sell the watches at a low cost (Clerizo, 2010). They produced many variations and refreshed the models semi-annually to keep the brand new and exciting. These were watches that people could afford and many consumers bought 2 or 3 at a time. The watches were designed to be non-repairable so that they would get turnover (Stephens, 2000).

Hayek leveraged Swiss branding, quality and the emotional aspect of jewelry in his favor which his competitors had failed to do. In 1983 Swatch had sold 1.1 million units and a few years later in 1986 12 million were sold. Swatch changed the way people think about watches; the artistic designs of the swatch, the variety and their affordable price made them addictive. After the success of the Swatch, SMH was renamed Swatch Group in 1998 (Clerizo, 2010).

Hayek didn't stop at just making his company better; he wanted to improve the health of the Swiss watch industry. In 2002 he sent a letter to customers of his unassembled movements from his company ETA, stating he would no longer be supplying them. All of the Swiss Watch companies were buying his parts to make their watches and he felt that in order to protect the Swiss watch market, he would force them to innovate and supply their own parts (Clerizo, 2010). The competition bureau didn't like this at first but compromised that they could stop selling after 2020 (Thompson, 2013). This forced companies to become more vertically integrated and develop more expertise in watch making while preventing new entrants from entering the market.

Swatch also diversified its company and started producing cars with the formation of Swatchmobile. This produced what is today the Smart Car manufactured by Mercedes. The company continues to invest in developing new energy sources through the new venture "Belenise Clean Power" which is working on bringing hydrogen fuelled cars to market (Clerizo, 2010).

Today Swatch Group is the world's largest manufacturer of finished watches in terms of dollar sales with a 44% share in the Swiss market (Euromonitor Switzerland, 2012). The company employs 31,000 employees in 37 countries (Swatch Group). In 2012, gross sales of the Swatch Group were CHF 8.14 billion, up 14% from 2011. The company is highly profitable, earning a net profit of CHF 1.6 billion in 2012 with 20.6% profit margin. Today, the Swiss Watch industry is the 3rd highest exporter for Switzerland at CHF 21.4 Billion (Credit Suisse)

Swatch Group major products and services

Swatch Group is a highly diversified company, owning 18 watch brands from the low-end to the high segments. It is also vertically integrated owning 14 watch and watch part manufacturing brands (Appendix 1 for brands). In addition it also owns 5 electronic systems companies that help them produce micro-batteries and accurate timing systems for sports events among others. The company produces everything in its 156 production plants. Swatch Group owns their value chain from the watch parts production to the final assembly of the watches (Swatch Group).

Not only is Swatch Group vertically integrated backwards, it is becoming even more frontward vertically integrated with the continual addition of Swatch Group retail locations. Most of its watches are sold at 15,000 retail stores worldwide, but Swatch is increasing its mono-brand store presence. Swatch Group has over 900 Swatch boutiques, over 1,000 shop-in-shops and around 140 kiosks (Yahoo Finance, 2013). Swatch recently increased its stake in a retail partner Rivoli from 40% to 58% giving it control of the 360 stores in the Middle East. The increase in Swatch Group controlled stores allows the company to have control over the customer buying experience and gain knowledge of regional consumer tastes (Koltrowitz November, 2013).

PORTER'S FIVE FORCES MODEL

In order to analyse the watch industry, Michael Porter's Five Forces Model (1979) will be used as a framework. The five forces are: Bargaining Power of Buyers, Bargaining Power of Suppliers, Threat of New Entrants, Threat of Substitutes, and Intensity of Competitive Rivalry.

Bargaining power of buyers

The bargaining power of buyers is quite high in the watch industry. High-end watches are sold through specialized watch stores, department stores and mono-brand stores. In Switzerland 88% of luxury watches were sold at jewellery and speciality shops (Credit Suisse). When consuming durable goods that are very expensive, customers are risk-averse and feel more comfortable buying directly from the seller. In China this is especially true where counterfeit watches are plentiful (Passport China). In addition, these high-end stores offer better customer service and knowledge of the product.

On the other hand, low-end watches are sold everywhere from the internet to a general retail shop. Watches are sold through retailers and the internet but most high-end watches are sold by specialty shops. For this reason, jewellers have some bargaining power with suppliers but big brand names can mitigate that. For an established brand like Omega, the supplier has power due to the consumer demand for its product. Similarly, a large watch producer like Swatch Group can threaten to pull away their high selling products if the jeweller decides to distribute a new entrant's product. They also have the advantage of having multiple brands giving them even more leverage. In addition, the industry's big watch groups like Swatch are increasing their mono-brand stores. 47% are likely to open a new mono-brand store in the next 12 months (Deloitte, 2013). This move will further reduce the buying power of retailers.

A new entrant will be more vulnerable to the consumer buying power due to the intense rivalry between established firms. End consumers have a very high bargaining power as they can choose different venues to gain information on products, check prices and ultimately purchase the product. For low-end watches the internet is a competitor to traditional distribution channels but for high-end watches jewellers remain the dominant source for sales in order to mitigate the risk of buying counterfeit goods (Passport China).

Bargaining power of suppliers

In the watch industry the bargaining power of suppliers is medium. Swatch Group is among a select few watch producers that are able to independently produce their product across the value chain. Swatch Group in particular is a very important supplier of mechanical watch parts. In fact, they own ETA which produces 70% of the Swiss watch brand's movements (The Economist, 2013). To give you a better idea, Andrea Ornelas from swissinfo.ch points out that: "In 2012 Swatch will produce some 5.5 billion of the eight billion internal watch components required by the watch industry for its annual output."

In addition, Swatch has a monopoly on producing balance springs. Their subsidiary Nivarox-FAR produces 90% of the balance springs sold in Switzerland (The Economist, 2013). In the luxury segment in particular, the bargaining power of suppliers is quite high for this reason.

In Switzerland, a major factor that affects the bargaining power of suppliers is the "Swissness" legislation. This legislation only allows Swiss watch producers to put "Swiss Made" on their watches if 60% of the cost of manufacturing is incurred in Switzerland (Credit Suisse, 2013). According to a survey of Swiss watch executives by Deloitte, 92% support even higher "Swiss Made" regulations.

By 2020 Swatch group will no longer be obligated to sell its parts to its competitors therefore increasing the likelihood of vertical integration within the industry. In the last three years, 40 watch component manufacturers have been acquired (Revill, 2013). Seventy-nine percent of watch executives interviewed by Deloitte believe that brands acquiring suppliers is most likely to continue (Deloitte, 2013). Once companies have become more vertically integrated this will reduce the bargaining power of suppliers.

The production of watch parts also requires a large investment in the training of watchmakers. The decrease in supply from Swatch Group has put pressure on competitors to manufacture their own parts. The most highly perceived risk among executives interviewed by Deloitte was the scarcity of qualified labour (Deloitte, 2013). The problem is that there are not a lot of skilled workers as they all work for a few companies, namely Swatch. As a result, they are forced to acquire other companies with those skilled workers or train new people. Smaller companies are especially vulnerable, as they do not have the resources to attract top talent (Deloitte, 2013).

Threat of new entrant

The threat of new entrants in the watch industry is low because of high capital costs, the importance of brand recognition, and the difficulty in obtaining distribution. In order to compete with established brands, a new entrant must have significant capital. Sixty brands in 2012 spent over 1 million dollars in advertising their product. In 2012, nearly 400 million dollars was spent by the watch industry on advertisements in the U.S. alone (Thompson, 2013). Brand recognition is essential in the watch industry. People pay a premium on watches because of their social value. A new entrant has to spend a lot of resources to increase their brand awareness. Even in the lower-end generic no-name watch segment, a new entrant will have to face Chinese competitors who have huge economies of scale.

The value of a brand is built over a significant period of time. Swatch Group has been very successful in building up its brand equity throughout its history. One of Swatch Group's most well-known brands, Omega, has been producing watches since 1848. The Omega Speedmaster was the first watch on the moon and since then has been nicknamed "the Moonwatch". Omega has also utilized product placement in the latest James Bond movie Skyfall, giving the watch even more emotional appeal (Omega). Furthermore, Omega is the official timekeeper for the Olympics until 2020 (Marketline, 2013). To build a strong brand identity like Omega takes significant time, capital and know-how.

A brand that is well known is more easily sold to distributors. Relationships between buyer and sellers are strong in the high-end segment of the watch industry. It is crucial for stores to create the right atmosphere to sell watches. Buyers want a great experience and want to be assured that the watch is not a counterfeit. It is also important for watch brands to maintain control over how their brand is sold to its customer. So much so that some brands opt to have some mono-brand stores to build strong brand relationships and to have total control over the end-to-end sale. Another factor pushing watch companies to open mono-brand stores is that some partner stores discount their products. If a seller discounts their watches too frequently and by too much it diminishes the luxury brands exclusivity (Credit Suisse, 2013).

Threat of substitute

The threat of substitutes is low at the moment but could increase in the future. The three most prominent substitutes are counterfeit watches, other luxury goods, and smartwatches. Every year, 40 million counterfeit watches are produced. In comparison, there are close to 30 million Swiss watches made each year. This illegal sale of the substitute watches costs the industry 1 billion francs annually. Fake watches also negatively affect consumer trust in purchasing luxury and brand-name watches (Jaberg, 2012).

An expensive watch is normally not bought for its utilitarian purposes but rather as a jewellery item. Jewellery is as much of a substitute to Rolex as other luxury items. The consumer has a choice of how to allocate their money within the luxury segment. A high-end watch as gift can be substituted for a high-end Louis Vuitton bag for example. Luxury items are statements of social status and therefore each luxury segment is competing for a share of the luxury market.

In the lower end segment, smartwatches are new substitutes to watches. A Pebble smartwatch performs all of the functions of a watch with the downside being that it looks unfashionable and that the battery needs recharging. The companies like Samsung that are producing these smartwatches have considerable financial resources to push such a product. The younger generation is increasingly used to digital displays and immediate responses, a smartwatch fits those needs. The biggest threat is large technology companies who have the resources to change consumer behaviour and cut into sales of the wrist watch industry.

Intensity of competitive rivalry

In the watch industry there is an increasing degree of competitive rivalry. Firms primarily distinguish themselves through differentiation, requiring a lot of advertising. The competition is fierce in advertising spending. In 2012 Swatch brand increased its spending from half a million in 2011 to nearly 5 million in 2012, a 1,000 percent increase. Six brands spent over 20 million dollars on ad spending in the US alone. Overall in the U.S., advertising spending has increased for three consecutive years with a 9.3% increase in 2012 (Thompson, 2013).

The watch industry is a very crowded market with 584 companies in Switzerland alone. Despite there being numerous competitors, not all are equally matched with Swatch group, Rolex and Richemont accounting for 45% of global watch dollar sales, and 94% of Swiss watch export sales (Credit Suisse). This factor decreases the intensity of rivalry.

In the future, vertical integration will increase as ETA will cut off its supply of movements. Already it increased acquisitions of manufacturing firms and leading to fewer firms in the market (Revill, 2013). Increased fixed costs from manufacturing plants will increase barriers to exit. Small high-end watch manufacturers are likely to go out of business as they won't be able to produce those parts at the same cost. Large luxury-watch manufacturers will become more powerful as a result.




Overall, the intensity of rivalry in the watch industry is medium to high. Big jewellery companies who have financial capital can easily enter the high-end market. There continues to be growth in the highly profitable industry, making it even more attractive. Swatch's protectionist measures of cutting off its part supplies in the high-end segment will make it costlier to enter the high market though. Rivalry is most intense in the low-end segment where there are much more competitors. Watches are not very difficult to produce, and parts can be easily acquired in the low-end segment. It is however very difficult to be a prominent brand in the industry with very high advertising costs.

OVERVIEW OF THE MARKET AND ITS COMPETITORS

Companies repeatedly tried to popularize smartwatches since the 1980s. One of the first smartwatches was the Pulsar NL C01 produced by Seiko which could store 24 digits of information and cost nearly \$4000 (Marshall, 2013). In 1999, Swatch Group introduced a smartwatch to market called "Swatch Talk" that could be used as a phone (Argusdesmontres, 2013). The product failed, but Swatch tried again in 2004 when it partnered with Microsoft to launch another iteration of the smartwatch, the Paparazzi. The watch used FM broadcasts to receive data like stock market numbers, weather and MSN (Microsoft 2004). It was ahead of its time, and without the prominence of smartphones, Wifi and Bluetooth technology, it was unsuccessful and was discontinued in 2008 (Tofel, 2013). Countless versions of smartwatch have failed to garner any success over the past 30 years. Most of the watches then catered to a small crowd of geeky tech lovers. Today with the advancement of Wifi, smartphones and Bluetooth technology companies have a better chance than ever to make smartwatches a mainstream item.

In 2012, Pebble smartwatch launched a kick-starter campaign asking for \$100,000 to produce its smartwatch. The demand was overwhelming and they raised \$10 million dollars shattering the previous kickstarter campaign record of \$3.3 million (Chang, 2012). The media caught track of this and the smartwatch became highly publicised for the first time. Since then, there has been a significant increase in kickstarter watch launches like Cookoo. Established electronic firms like Sony and Samsung have also launched new smartwatches.

Overview of smartwatch competitor products**Table 1: Smartwatch Pictures**

<p>1) Cookoo</p> 	<p>2) Citizen Eco-Drive Proximity</p> 
<p>3) Samsung Galaxy Gear</p> 	<p>4) Pebble</p> 

Picture Sources: Cookoo: www.connecteddevices.com Citizen: www.gq-magazine.co.uk
 Samsung: www.techradar.com Pebble: www.kickstarter.com

1) Cookoo

Price: \$130 Battery Life: 274 days

Good: The Cookoo is closest thing between a smartwatch and a normal wrist watch. It doesn't compromise on battery life with 247 days of life and has unique features like location-tagging that enables you to tell others where you are. Another great feature of the watch is that the battery is replaceable unlike most competitors. Overall, the Cookoo enables you to receive all of the important notifications from your phone without taking it out, and still retains the functionality of a normal wristwatch.

Bad: With the Cookoo smartwatch you are unable to respond to messages or view messages. In addition, Cookoo has no touchscreen capability (Find The Best).

2) Citizen Eco-Drive Proximity

Price: \$400 Battery life: 1095 days

Good: The best thing about the Citizen Eco-Drive Proximity is that it looks fashionable and wouldn't be considered a smartwatch at first glance. In addition, the watch has amazing battery life, utilizing solar power to recharge it.

Bad: There is no display to view messages, or send messages on this watch. The Citizen watch simply notifies you that you've received an email or text (Find The Best).

3) Samsung Galaxy Gear

Price: \$299 Battery life: 24 hours

Good: The Samsung Galaxy Gear has the most features out of all of the smartwatches. It can receive and send notifications as well as tell you the weather, make or answer calls, allow voice commands through S voice and be used as a pedometer. It is also compatible with some Android applications for more functionality. There is 512mb of storage space and there is a camera on the watch for capturing videos or photos.

Bad: The Gear is not very fashionable, and people will know immediately that it's a smartwatch. The Gear has the worst battery life out of all smartwatches. It is overpriced and has no social network integration (Find The Best).

4) Pebble

Price: \$150 Battery life: 7 days

Good: Most appropriately priced watch for its features. You can view notifications and control music. It has the best application eco-system. You are able to reject calls from your wrist and it is easy to read in direct sunlight.

Bad: The watch has limited functionality with no ability to send messages and no touchscreen capability. Overall, it's an upgraded digital watch with very limited battery life (Find The Best).

Out of all of the available smartwatches, there is no complete smartwatch. The Cookoo and Citizen Eco-Drive Proximity are nice looking watches and offer very long battery life but lack features. In comparison, the Pebble and Galaxy Gear offer better app selection but have short battery lives. The Pebble is not very discrete in its styling and would not appeal to a large audience. The Samsung Galaxy Gear is too expensive and needs more stand-alone functionality to justify its price. All in all, each smartwatch is dependent on a smartphone for most of its added functionalities to work. The current smartwatch selection either offers too little functionality or too many small tools that aren't really useful. A smartwatch needs to be smart, and currently it's just a notification center. All of the watches don't really know what the consumer wants out of a watch and fail to deliver any real value.

The future of the smartwatch

Sales figures for the Pebble smartwatch are 275,000 to date (Etherington, 2013) and the Samsung Galaxy Gear watch has sold 800,000 units (Kim, 2013). Despite the promising sales figures, the smartwatch still remains a niche product that hasn't made it past the early adopters on the product life cycle. If the smartwatch is to pass the chasm and reach the early adopters it will need to have a better price, battery life, functionality, and style.

A typical smartwatch is priced between \$130 to \$400 dollars. Smartphones are decreasing in price and to expect someone to pay \$300 dollars for a smartwatch that has less functionality than a smartphone is a stretch. The battery power is an issue as well with most smartwatches, most only lasting a few days. A typical wrist watch's battery lasts over 2 years. The function of a watch is to tell the time, and if both your smartphone and smartwatch run out of power, you are out of luck. The smartwatch is also highly dependent on the smartphone for its "smart" functionalities and will need to offer more stand-alone functionality to attract buyers. A watch is a very personal and emotional product as it is something that is highly visible and worn on the body. In a survey I conducted, 77.5% of respondents aged 18 to 30 said that the main reason for purchasing a watch was because it was a fashion accessory (Appendix 2). The current styling of smartwatches is unappealing and makes consumers look geeky.

In China, smartphones are affecting low-end watch sales as young people currently use them as watches (Euromonitor 2013 China). My survey confirms this finding. Seventy-five percent of respondents aged 18-30 used their smartphones most often when outside their homes to tell the time. In addition, 70% of respondents said that "most often" they only brought a smartphone when leaving home whereas only 27.5% brought both a watch and smartphone (Appendix 2). The New York Times suggests that wristwatch sales have increased among older consumers but have decreased among 18 to 24 year olds by 29% from 2008 to 2010 (Smart Advantage 2011). This data points to a change in consumer taste among the younger generation. A smartwatch could be a serious opportunity to reconnect with a generation who is accustomed to using smartphones. In fact, the market research company Harris Interactive interviewed 2,577 adults in the U.S. and found that among those aged 18-35, 63% were at least a little interested in owning a smartwatch (2013). In comparison, Baby Boomers were less likely, with only 37% of respondents a little interested in buying a smartwatch. Coincidentally, 63% of respondents in my survey were at least a little interested in purchasing a smartwatch (Appendix 2).

Tech-giants like Google, Microsoft and Apple are very likely to enter the smartwatch segment. Google acquired a smartwatch company called WIMM in 2012 (Lomas, 2013) and is very likely to launch this product. Microsoft is likely to launch another smartwatch to complement its newly acquired Nokia phone division (Tofel, 2013). Furthermore, there have been rumors that Apple will launch a smartwatch having trademarked the iWatch name in Japan (Amano & Fujimura, 2013) and having consulted Swatch on the subject. With the entrance of these multi-national corporations, the smartwatch has a good chance of being adopted by the market with increased advertising and features. Many market research firms predict strong growth in the sale of smartwatches. Juniper Research predicts sales of 1 million in 2013 and 36 million by 2018 (Koltrowitz, September 2013). In the first year of the launch of an iWatch, Bernstein Research forecasts revenue between \$2.3 billion to \$5.7 billion (Cruz, October 2013).

SWOT ANALYSIS

The following Strengths, Weaknesses, Opportunities and Threats analysis of the Swatch Group was based on interpretations of this research and study.

Strengths

- Operational control and efficiency through vertical integration (lower transaction costs)
- Strong branding through high advertising spending and “Swiss Made” legislation
- Produces high quality, reliable and aesthetically pleasing watches
- Expertise in manufacturing watch parts and R&D
- Highly profitable, even during the financial crisis in 2008
- Diversified brand portfolio and diversified market portfolio

Weaknesses

- Higher than average manufacturing costs in watch industry due to the supplying of parts to the industry
- Less money to spend on advertising do to manufacturing R&D expenses

Opportunities

- Emerging smartwatch segment
- Entering emerging markets

Threats

- Counterfeit watches
- Entrance of tech-giants in smartwatch segment
- Increasing cost of production due to the increasing value of the Swiss Franc
- Changing consumer tastes and behaviour
- Increasing raw material prices, especially gold
- Possible economic downturn

RECOMMENDATIONS

The smartwatch will only be a threat to the Swiss Watch Industry if it fails to recognize the opportunity that it presents to grow the watch market. The smartwatch is a new segment forming within the entry-level priced watches. Since the smartwatch price is similar to a Swatch or Tissot watch, Swatch Group in particularly needs to be vigilant. Nick Hayek Jr. the CEO of Swatch Group, has dismissed the threat of smartwatches when he said to Bloomberg “Personally, I don’t believe it’s the next revolution”. He then says that the smartwatch can’t replace a smartphone since the display isn’t large enough (Clover, 2013). This is true. A smartwatch is not going to replace a smartphone anytime soon. But, just like a modern day watch is an accessory to an outfit, a smartwatch can be an

accessory to complement your smartphone. Therein lies the potential to get young people buying watches again and using them again. If the majority of young people own smartphones, why not sell them a watch that will complement that product? The majority of smartwatches on the market today fails to understand what a watch is, a portable device that tells the time. Swatch Group is in the best position to make a major move into the smartwatch arena since it understands the industry having saved the Swiss Watch industry during the Quartz crisis. In the face of the threat of the smartwatch, Swatch Group has four choices it can make:

- 1) It can develop its own smartwatch
- 2) Acquire a smartwatch start-up
- 3) Partner with a giant-tech company or
- 4) Not do anything and take its chances.

1) Swatch Group has the expertise to make a smartwatch having already done so in both 1999 and 2004. Since 1999 Swatch has had touch-screen technology and even today offers an entry-level touchscreen watch called the “Swatch Touch” (Swatch Group). Producing a smartwatch would also fit within the company’s brand as well; Nick Hayek Jr. even acknowledges this saying that “Technology has always been an intrinsic part of Swatch Group’s lower-priced brands”. For this reason, Swatch is perfectly positioned to launch a smartwatch both in terms of culture and expertise. Financially, Swatch Group is highly profitable and decreasing manufacturing costs associated with not supplying parts to the whole industry will further increase profits. The company also has the advantage of being vertically integrated and being able to produce its own parts as well as distribute it to the market.

On the other hand, competitors in the smartwatch industry already have the expertise in producing touchscreen products like Swatch Group; however they fail to understand the most important function of a watch is to tell the time. A watch can’t tell the time if the battery runs out within 24 hours like the Samsung Galaxy Gear smartwatch. The smartwatch has to move forward and not backwards. It is mandatory for the smartwatch to have a good battery life and Swatch Group knows this.

Current smartwatches look unappealing and don’t get people emotional attached. A watch is a very personal item as it is visible to everyone. The general population doesn’t want to appear geeky while wearing a smartwatch. Swatch is aware of this, and has exploited that weakness before when facing the Japanese in the Quartz crisis. Former CEO Nick Hayek sold emotion through creating a watch that exuded personality, practicality and quality.

In addition, Swatch Group has proven to be able to create strong brands like Omega or Swatch. The company will have more capital to invest in advertising as it starts to reduce its manufacturing costs associated with supplying watch parts for the industry. Most importantly, Swatch Group has the advantage of putting “Swiss Made” on their watches which portrays elegance unlike “Made in China”.

- 2) Swatch Group has sufficient capital to acquire a start-up smartwatch brand. The smartwatch Cookoo would make sense to acquire since the watch takes into account the importance of long battery life and style. Cookoo would provide knowledge to the company on the software side and Swatch Group would be able to perfect it on the design side.
- 3) Swatch Group has partnered with a tech-giant before, namely Microsoft and it would make sense to do it again. Swatch Group is an expert in selling watches and not software. Apple would be a great company for Swatch Group to partner with as they both understand the importance of design and marketing. Apple also has the largest selection of apps and has a large product eco-system that the smartwatch could utilize. Nick Hayek Jr. has already advised Apple on some of the troubles they are having with their smartwatch pointing to a possible partnership in the future.

- 4) The last option would be to do nothing and see if the smartwatch disappears like the calculator watch did. This is however very unlikely since companies have been trying to produce a commercial smartwatch for over 30 years. The cost of not doing anything is too high for Swatch Group. If a company is successful, it could disrupt its low-end business.

CONCLUSION

All in all, of these four options, the first and the third are the most viable. Swatch group could create a watch on its own that has smartwatch features like notifications and the core characteristics that people desire in a normal watch, namely long battery life and an appealing design. It could also partner with an established tech giant. The most favorable option for Swatch Group is to collaborate with Apple because of its expertise in software and because of its common strength in design and marketing. This partnership will ultimately ensure that Swatch Group remains a market leader in the wristwatch industry.

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APPENDICES

Appendix 1

Watches & Jewelry

Basic Range

- Swatch (1983)
- Flik Flak (1987)

Middle Range

- Tissot (1853)
- Balmain (1945)
- Certina (1888)
- Mido (1918)
- Hamilton (1919)
- ck watch & jewelry (1997)

High Range

- Longines (1832)
- Rado (1957)
- Union Glashutte (1893)

Prestige and Luxury Range

- Breguet (1775)
- Blancpain (1735)
- Glashutte Original (1845)
- Jaquet Droz (1721)
- Leon Hatot (1883)
- Omega (1848)
- Harry Winston (1932)

Private label

- Endura (1966)

Jewelry

- Dress Your Body (2000)

Production

- ETA (1793) – Watch and movement manufacturer
- Meco (1921) – Watch crown manufacturer
- François Golay (1855) – A watch wheel manufacturer
- Novarox-FAR (1984) – Oscillating and escapement part manufacturer
- Comadur – Innovates the transformation of material for watches
- Rubattel & Weyermann (1890) – Watch dial manufacturer
- Mom Le Prélet (1895) – Watch dial manufacturer
- Universo (1909) – Watch hand manufacturer
- Ruedin (1926) – Watch case manufacturer
- Lascor – Watch case, bracelet, and metal composite manufacturer
- Simon Et Membrez (1975) – High-end watch case manufacturer
- Novi (1987) – Movement assembly and watch finishing
- Swatch Group Assembly (2006) – Watch Assembly
- Dress Your Body (2000) – Design and gem-setting among others

Electronic Systems

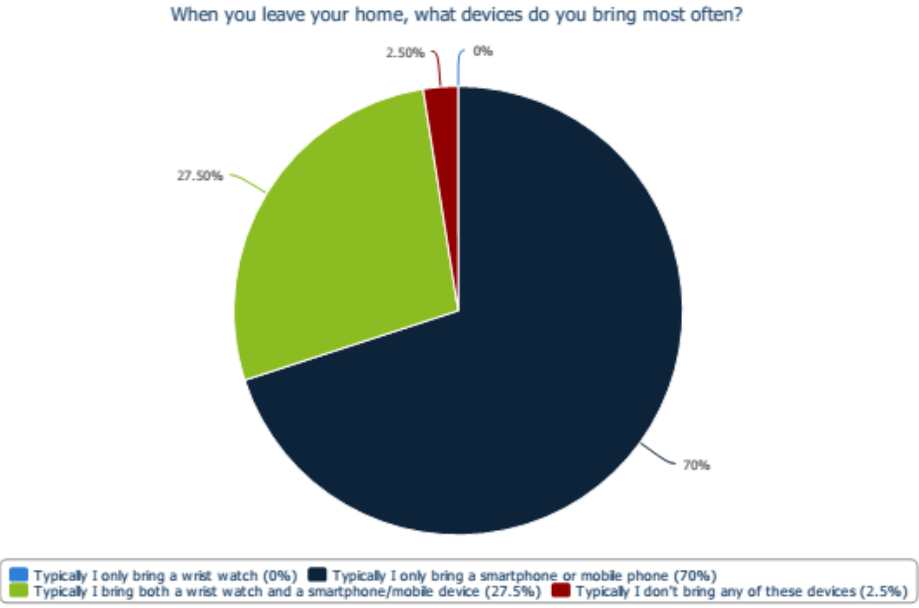
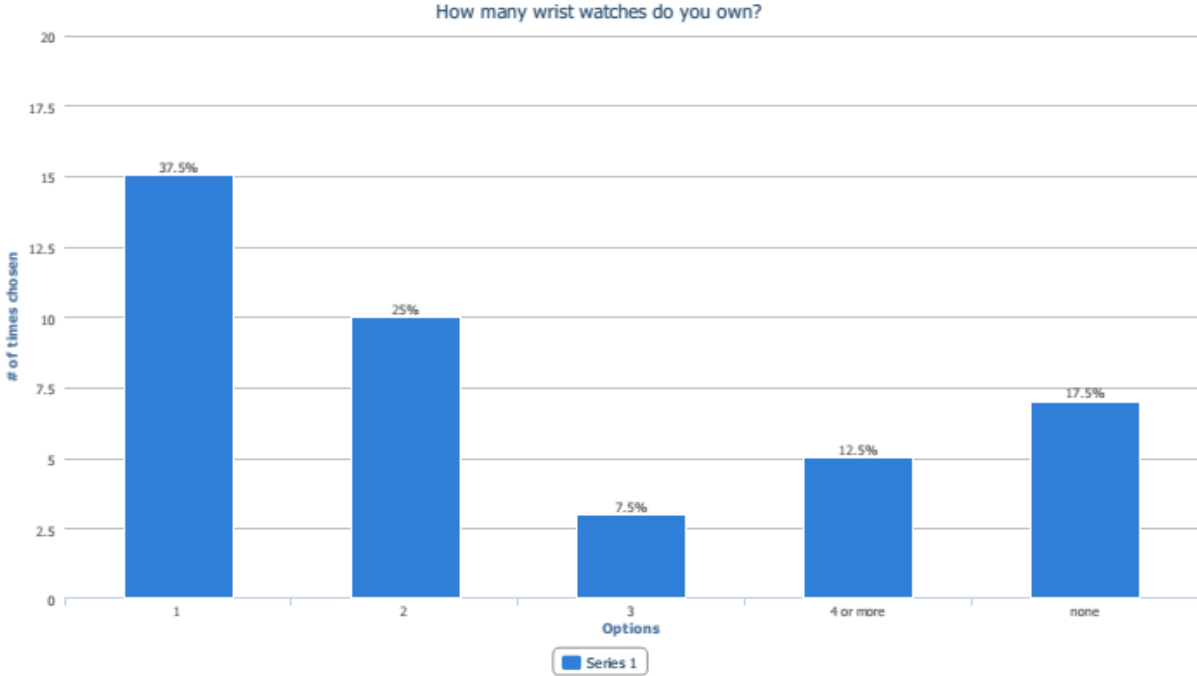
- EM Microelectronic (1975) – Watch microchip and electronic circuits manufacturer
- Renata (1952) – Micro-battery manufacturer
- Micro Crystal (1978) – Quartz crystal and oscillator manufacturer
- Oscilloquartz (1949) – Expert in time and frequency field
- Swiss Timing – Timing systems for sports events

(Source: swatchgroup.com)

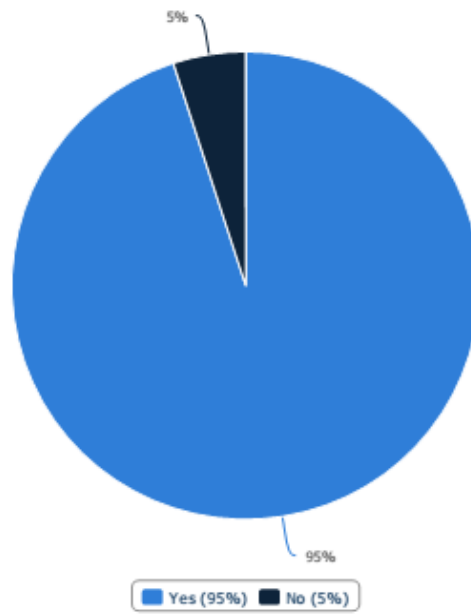
Appendix 2

Sample Size is 40, conducted through an online survey

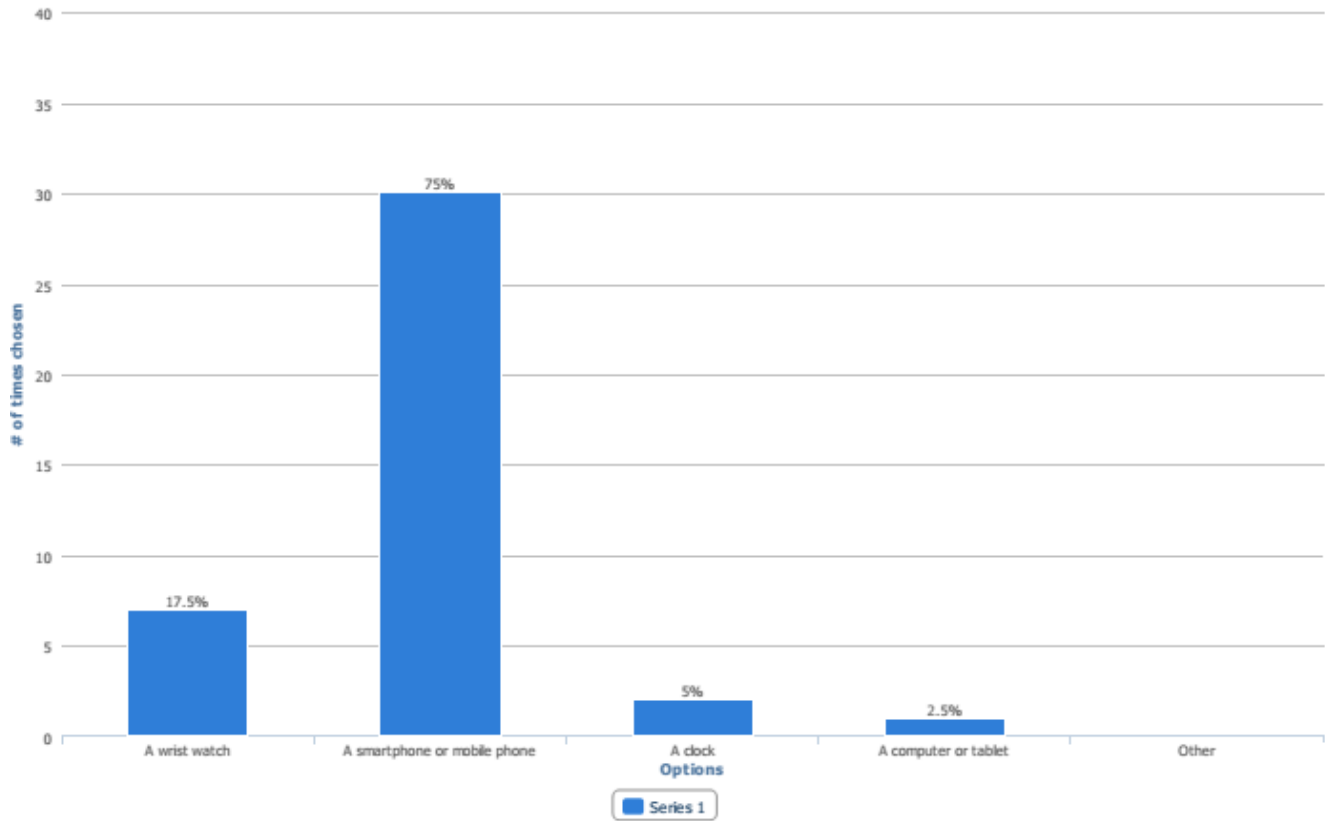
Smartwatch Survey: Questions and Results



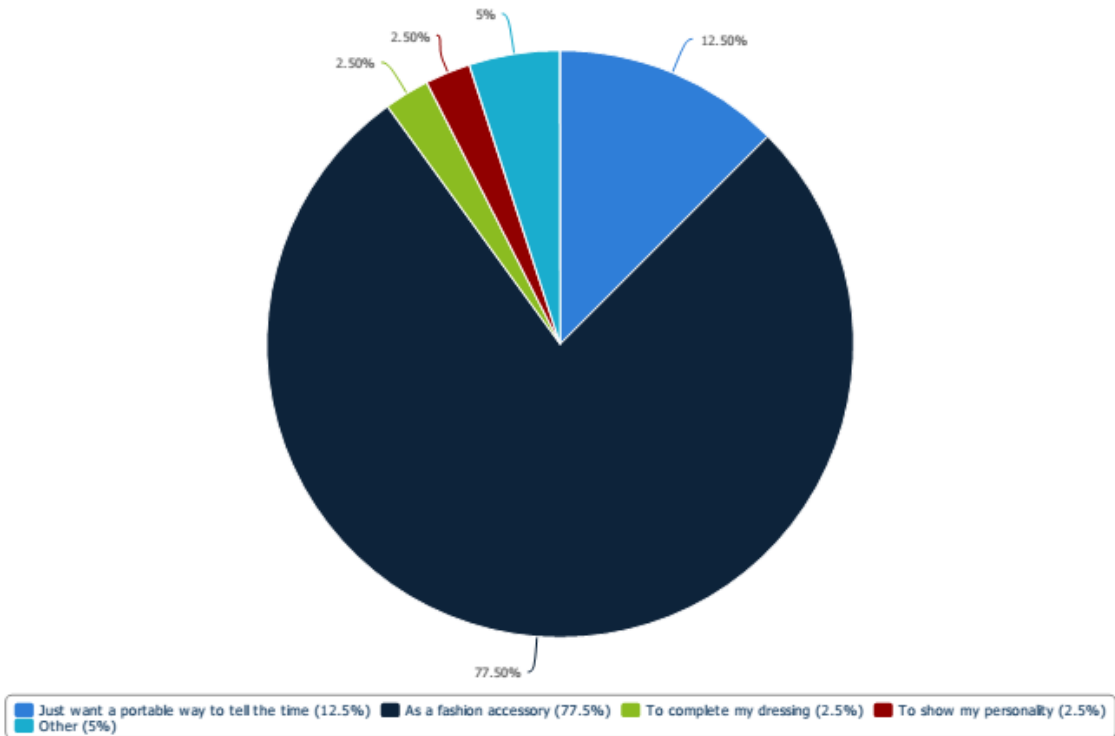
Do you own a smartphone or mobile phone?



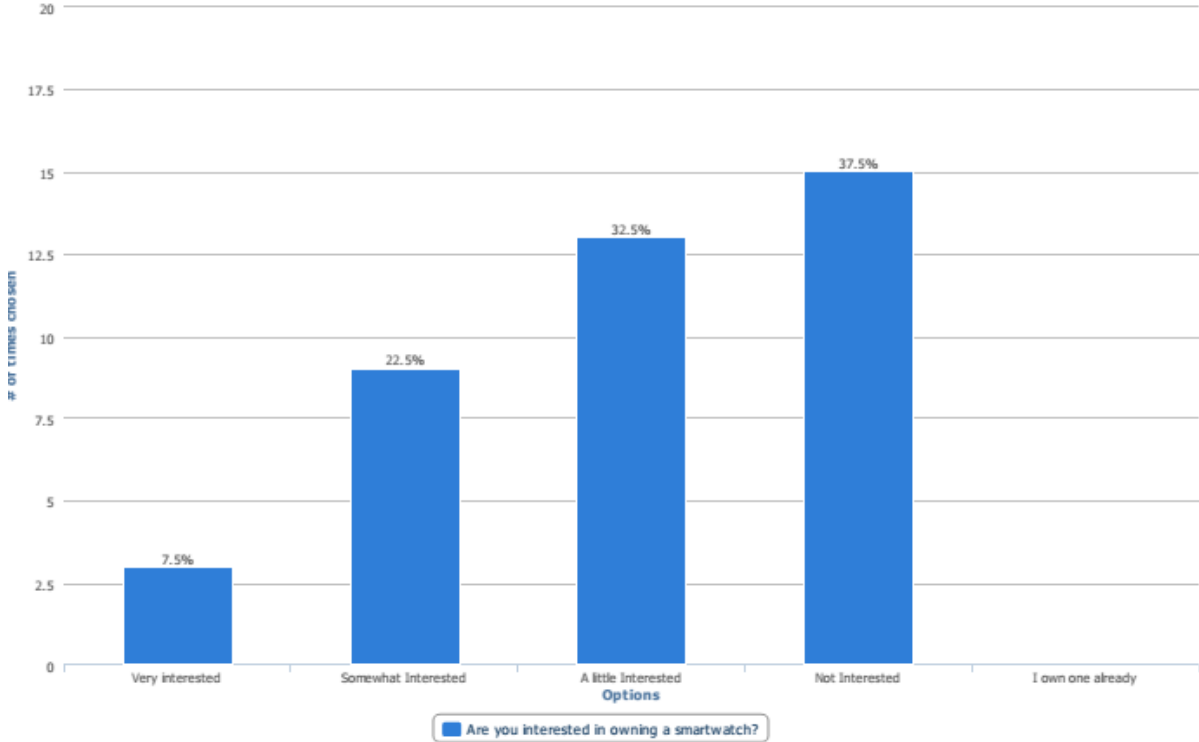
Which device do you use most often to tell the time outside of your home?

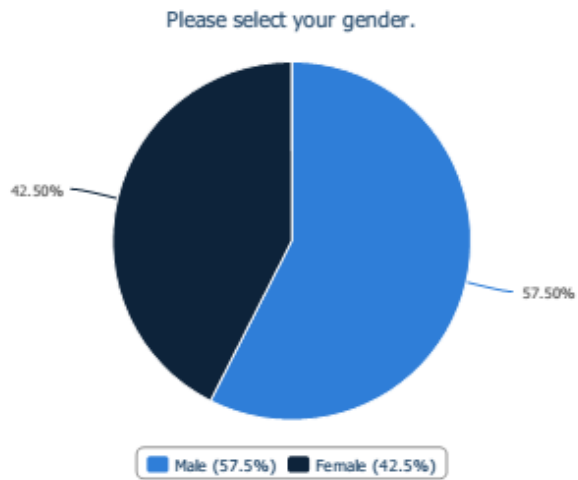
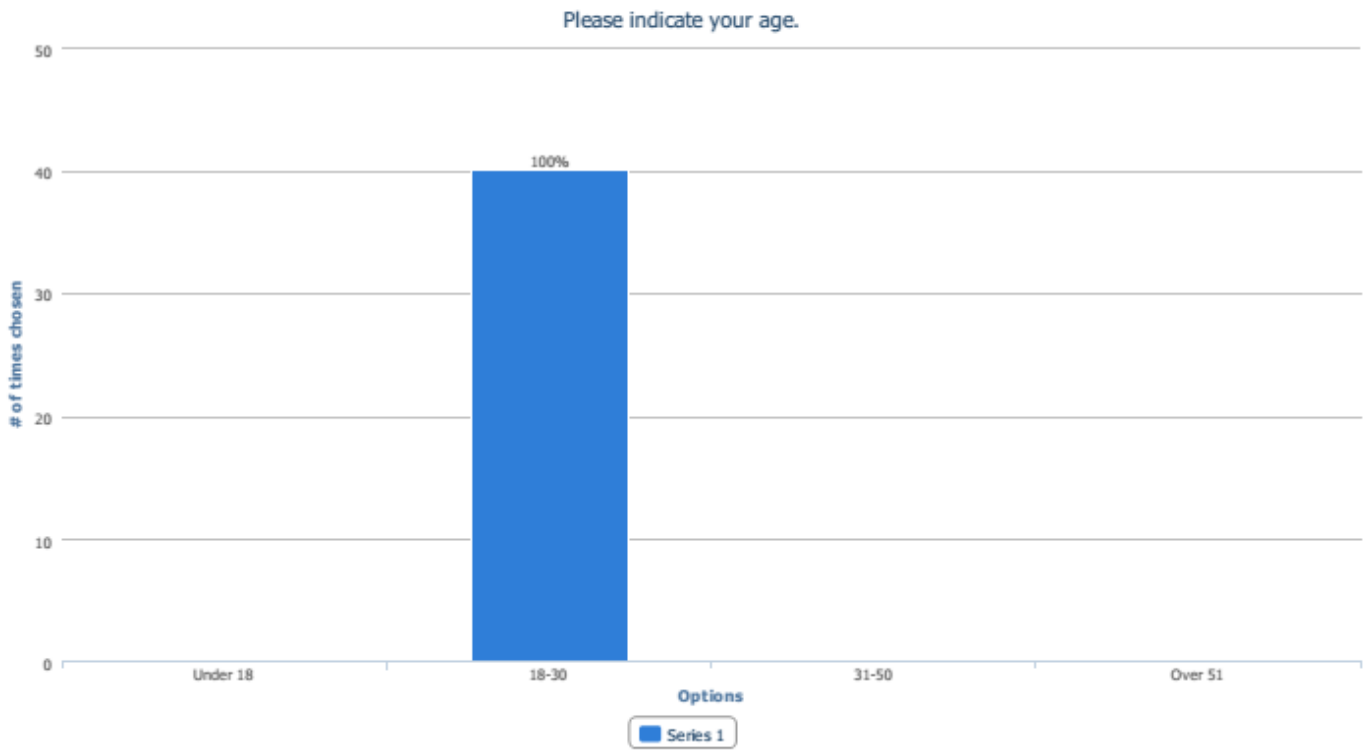


What is the main objective for buying a wrist watch? Please select one.



Are you interested in owning a smartwatch?





The Business of Bicycles: The Adoption of the Bicycle in Madrid, Spain

Erin Hallahan
Fall 2013

ABSTRACT

The use of bicycles around Europe has long since been a trend and a tradition. However, some cities have become more bicycle-friendly than others. Madrid, Spain has, in the past, been known to have almost no existence of bicycles, and essentially been a city in which vehicles dominate the roads. The recent economic crisis has seen a boom in the bicycle industry in Spain and in Madrid specifically, and the use of bicycles for transportation is on the rise. A market analysis has shown that the opportunities and strengths of a potential bicycle business outweigh the weaknesses and threats. There is market space and a target group for bicycle businesses in Madrid and the industry is only growing. Madrid, Spain is now in the process of adopting the bicycle for use of transportation and bicycle shops will soon be in abundance if those who are capable of it take advantage of the new and growing market.

INTRODUCTION

The recent effects of the economic crisis around Europe and specifically in Spain have been negatively felt by many companies, industries and sectors. However, the bicycle industry in Spain has felt the impact in a more positive light. Recent increasing trends in the use of bicycles in Madrid, Spain have led to new market opportunities and target groups. Madrid is now learning and taking after more bicycle friendly European cities and slowly adopting the bicycle as a form of transportation. This paper will analyze the bicycle industry in Europe, and the current and future trends in bicycle use, infrastructure and advocacy in Madrid, Spain. A market analysis will show the need and attractiveness of the business for bicycles in the city of Madrid and present information on the potential and likely adoption of the bicycle business and use of bicycles.

BICYCLES IN EUROPE

Bicycle Use

Bicycles have long been an efficient, cheap, and sustainable form of transportation. Humans have utilized the bicycle as far back as 1817 when Baron von Drais invented a “walking machine” to help him get around the Royal Gardens quicker (Pedaling History Bicycle Museum, 2013). The evolution of the bicycle has come a long way and blossomed into a major market and way of life for some people and cities.

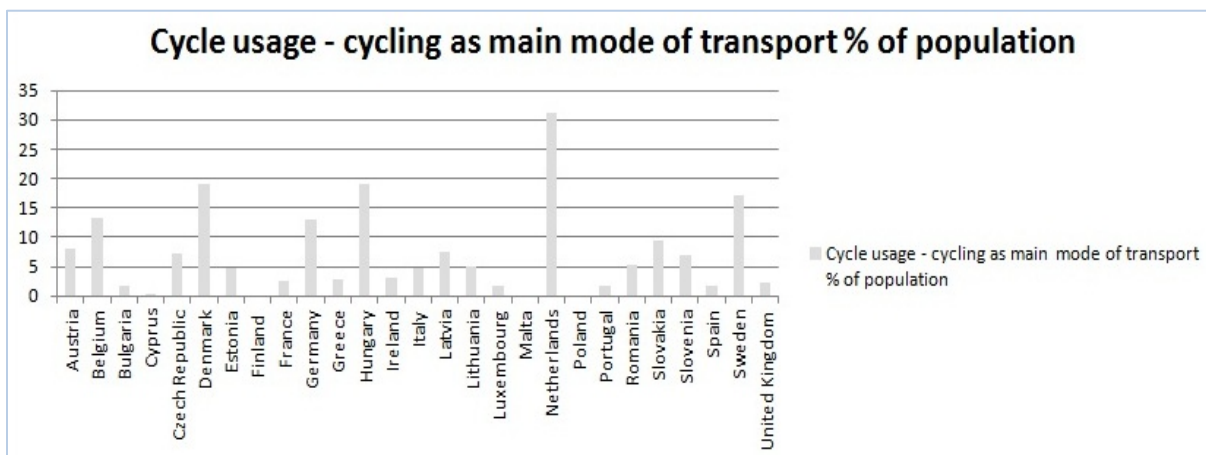
From a North American perspective, Europe is generally known to be home to many bicycles and bicycle riders. There are indeed specific cities where the riding of bicycles is more prominent than others, such as Amsterdam in The Netherlands or Copenhagen in Denmark, but generally we associate bicycles with Europe as a whole. Many European cities consider bicycles a way of life, and in general, a part of their culture. And those cities where bicycling for transportation is less prominent, are learning from their neighbors and slowly adopting more of the cycling culture. In 2000, in 15 European countries, there were 200 million bikes and only 160 million cars for 374 million inhabitants (EESC, 2013). There has also been a recent trend in “unfriendly bicycling cities” moving

towards a friendlier infrastructure for the use of bicycles. The European Economic and Social Committee found that improving cycling infrastructure could increase cycling levels in a very short amount of time (2013). This can be seen in North American cities as well, who are learning from Europe and beginning to see a rising trend in improved cycling infrastructure and the amount of bicycles ridden in their cities as well. Where did Fig 2 go to?

In most countries around Europe, a very high proportion of people own bicycles. For instance, in Norway 70% of adults own a bicycle, and in Switzerland 69% of households own a bicycle. The biggest difference between the uses of bicycles in different European cities is how the bicycle is used, whether it is for transportation or for leisurely occasional use. The average trip length for those on a bicycle is about three kilometers in most European cities (European Commission, 2013). Europeans are putting large importance on the use of the bicycle and 83% agree that bicycles and public transportation should receive preferential treatment over private cars (European Commission, 1999).

The prominence of bicycles in Europe varies greatly among cities. Infrastructure, perception of safety, social acceptance, politics, advocacy and bike culture are a few of the main reasons that bikes may or may not be of presence in any one European city. Business Insider ranked cities around the world on how bike-friendly they are based on those criteria. 16 out of 20 of the most bike-friendly cities in the world are within the European Union. Amsterdam, Netherlands ranked first overall for the most bike-friendly city, followed closely by Copenhagen, Denmark, Utrecht, Netherlands, and Seville, Spain (Business Insider, 2013). Although closely ranked on the ease of which bicycles can be used in these particular cities, how much these bikes are used exactly can vary greatly. So although Amsterdam and Utrecht, both in the Netherlands are ranked first and third, and Seville in Spain is ranked fourth, the average Dutch person bikes 2.3 kilometers a day in comparison to only 0.1 kilometers a day by Spaniards (EESC, 2013). This can be easily seen in Figure 1.

**Figure 1. Cycle usage as main mode of transport
(European Cyclists Federation, 2013)**



Bicycle Share Programs

A bicycle share program is a “self-service, one-way-capable, bike rental offer in a public place” (European Cyclist’s Federation, 2013). Bike share is a worldwide rising trend that started with only a few in 2001, and by 2012, there were 400 running bike-share programs around the world. The main trigger for this was the very successful Velib in Paris and Bicing in Barcelona (European Cyclist’s Federation, 2013). Having been in both of these cities myself, I can speak to the ease and convenience of these bike-shares as directly attributed to their success. One can walk up to any bike station, enter in a credit card and unlock a bike to rent and ride where they wish, all

within minutes. In Barcelona, there are 6,000 bicycles at 420 bike stations and 120,000 long-term subscribers. In comparison, Paris has over 20,000 bicycles at 1,800 bike stations with 150 million rentals since July 2007. The success of bicycle shares around Europe, and the world, can be attributed to their 24/7 availability, that they are tailored to each individual city, that it is a sustainable form of transportation and it is inexpensive, at only €1.70 for a 24 hour ticket.

Again, the evolution of the use of the bicycle has become easier, which is a key factor in the rising trend of bicycles in European cities. Bike shares have created a way to make already the most convenient form of efficient transportation, that much more convenient. As seen by Figure 2, there are numerous programs already in place around Europe (seen by the green bicycle symbol) and many more are in planning or have construction underway (seen by the blue question mark symbol). The popularity of bicycle share programs are spreading and only increasing each year. Although some already exists, there is now pressure on public transportation systems to provide ways in which customers can take their bicycles onto buses, trains and trams with them. The many advantages to the growing number of bikes will be discussed further on.

Figure 2. The bike-sharing world map (European Section) (The Bike Sharing World Map, 2013)



Bicycle Expenditure and Production

A useful way to visualize the growing trend in the use of bicycles is to note the production and expenditure trends. Figure 3 shows the upward and increasing amount of production of bicycles in the World between 1950 and 2000. Bicycle production grew from about 10 million to roughly 100 million in 50 years, in comparison to car production, which only grew from about 8 million to 40 million in 50 years.

Figure 4 shows graphically the European bicycle sales from the year 2000 to the year 2011. It shows a generally increasing trend until the year 2008 and 2009. This could be explained by the financial crisis that hit the United States, and ultimately affected many parts of the world during those years. After 2009 however, bicycle sales in Europe saw yet another increase. Today, in some countries, bicycle sales are surpassing car sales by a vast amount.

Figure 3. World bicycle and automobile production, 1950-2000 (Coliped, 2012)

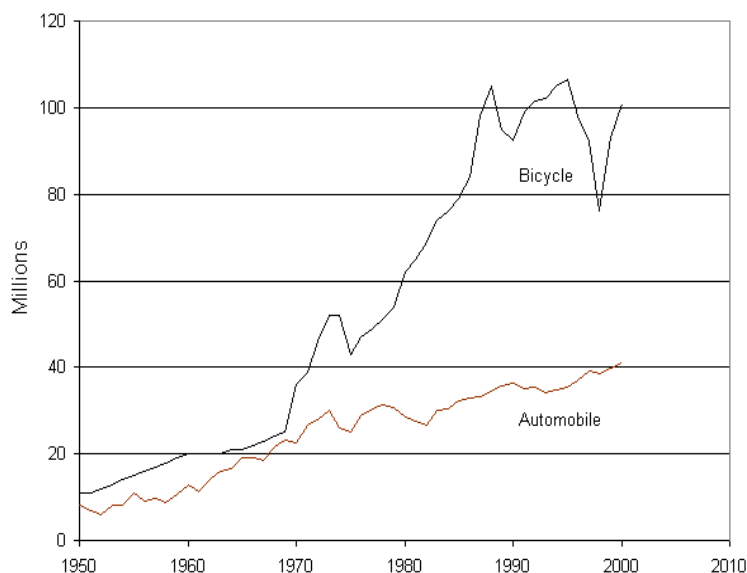


Figure 5 shows the percentage of bicycle sales in 2011 in Europe, by percentage of each individual country. The largest of sales happened in Germany, Great Britain and France, with 20%, 18% and 16% respectively. One could argue that this is a very good indication that the culture of the bicycle and its use for transportation is becoming more widespread across Europe, and catching on in countries that weren't always considered to be the most bicycle-friendly. Denmark, The Netherlands and Finland, some of the top countries for use of bicycles, only accounted for 3%, 6% and 2%, respectively, of bicycle sales in the year 2011. In those countries, a very high percentage of inhabitants already own a bike. Advocates, such as the European Cycling Federation, would be pleased to see the trend of bicycle sales moving towards those countries that don't necessarily have an established bicycle culture yet.

Figure 4. European bicycle sales 2000-2011 (1,000 units) (Coliped, 2012)

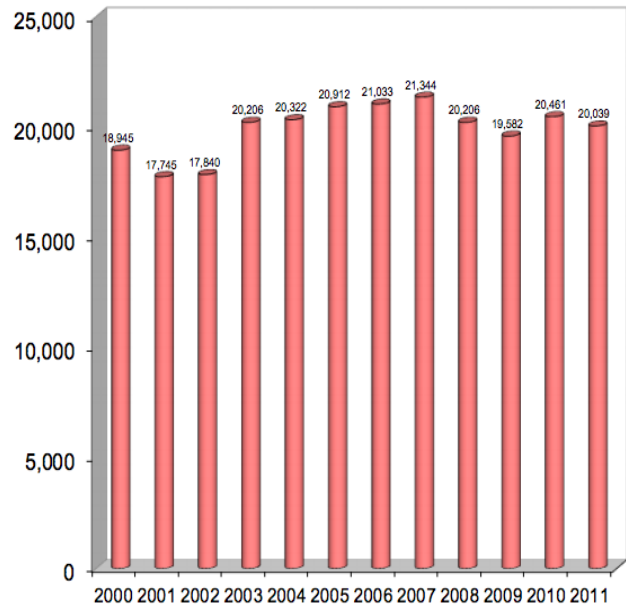
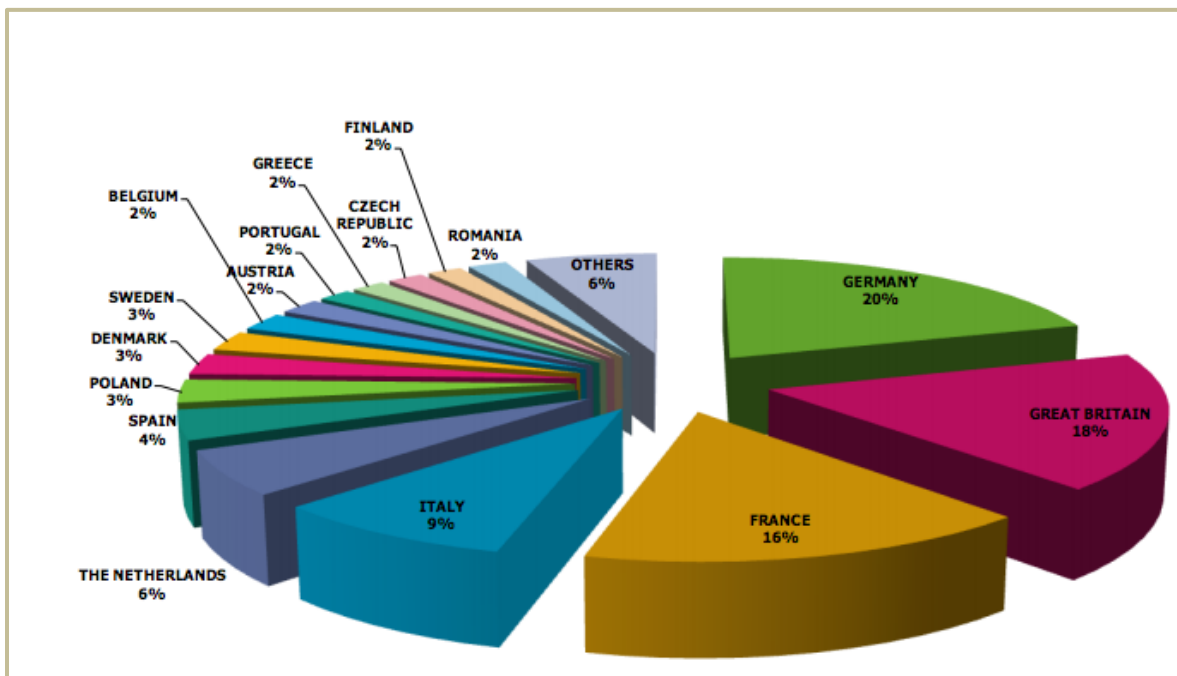


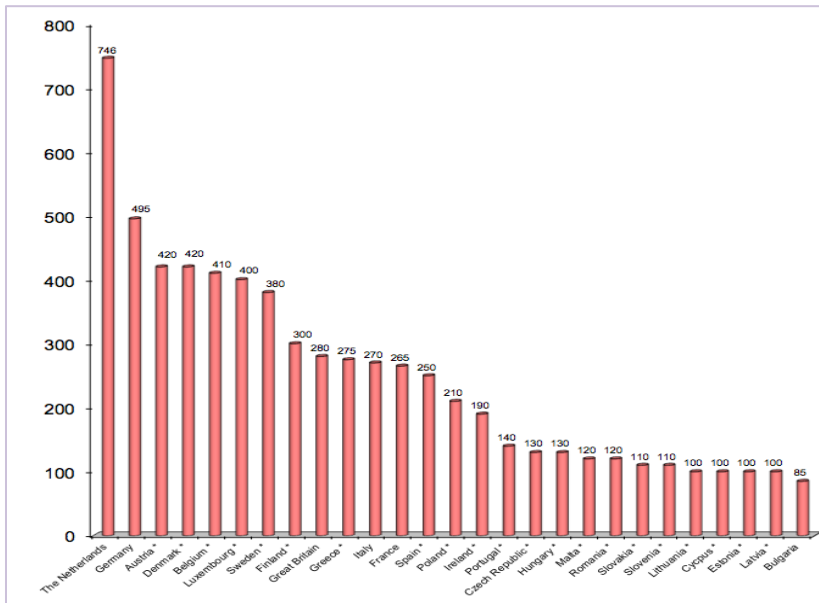
Figure 5. 2011 European bicycle sales by country (1,000 units) (Coliped, 2012)



Finally, Figure 6 shows the average price of purchasing a bicycle in each country. The highest price, by almost €200, is The Netherlands at €746. Followed by Germany, Austria and Denmark, with the average price of a bicycle being about €445. During a personal interview with a fellow exchange colleague originally from Tilburg and studying in Maastricht, Netherlands, when asked if she would ever pay that steep price for a bicycle, she stated that, “as a student, I would not pay that price for a bike. The most I would pay would be €200 for a second-hand bike.” (Christine Klijs, Erasmus Student, 2013). Brady Hamper, a Canadian exchange student studying in Utrecht, Netherlands, stated: “I bought my bicycle for €70, second-hand. You don’t want to pay much more for it, because the chances of it getting stolen are very high. I will sell it when I leave, but even if I don’t sell my bike, with the amount I ride it every day, I will have gotten my €70 worth anyway.”

The source for Figure 6 does not take into account the second-hand bicycle market. That being said, the average price of purchasing a new bicycle in each country can be seen from the graph.

Figure 6. 2011 European bicycle sales average price/country (€) (Coliped, 2012)



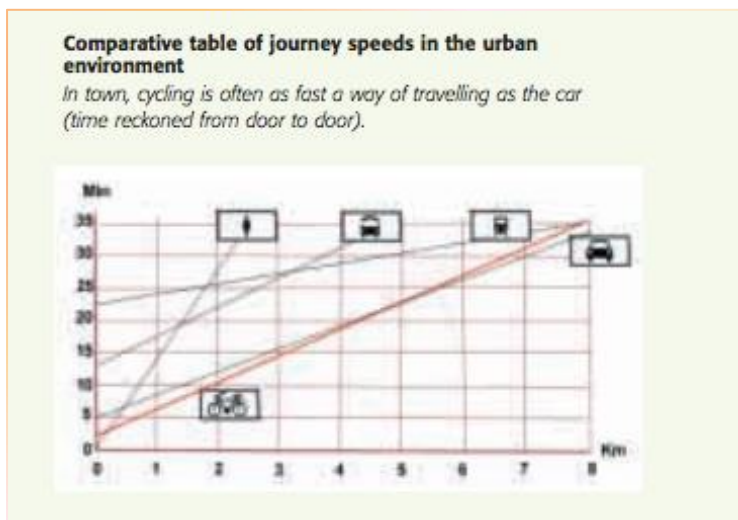
ADVANTAGES TO BICYCLING

Economic and Energy Efficiency

The use of a bicycle for transportation has proved to be more economically sound than using a car for transportation. Although it was shown earlier that the price for a bicycle can be steep, the average price for a new bicycle is €579, which is 30 times less than the average price of a new vehicle. Also, on average, a European will spend up to €10,000 on fuel consumption during the lifetime of their vehicle. The majority of this money leaves the European Union to pay for costly fossil fuel imports (EESC, 2013).

In terms of efficiency, bicycles have been proven to be a faster and generally more efficient mode of transportation. In relation to the amount of kilometers driven in a car, plus the time working to pay for the car and the running costs, the average speed of the car is only 8 kilometers per hour. It is faster to get somewhere on a bicycle (EESC, 2013). A comparison of transport speeds can be seen in Figure 7. Per kilometer per minute, bicycles are able to travel almost as quickly as a vehicle.

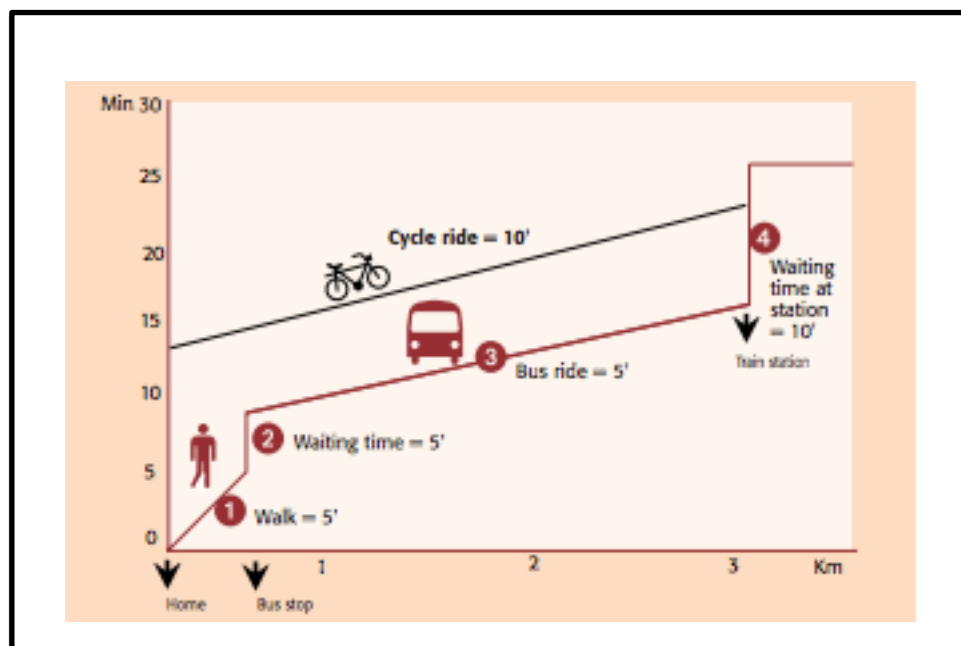
Figure 7. Comparative table of journey speeds in the urban environment (European Commission, 2013)13



Bicycling is an activity that takes place on a “human scale”. That is, cyclists move at a speed that allows them to take in their surroundings and interact with their environment. Cyclists are easily able to stop-and-go, which studies have found have led to greater spending within a community (Marin County Bicycle Coalition, 2013). A study done in Munster, Germany found that cyclists and pedestrians are better customers because they buy in smaller quantities, and shop more regularly. The reduction of motorists has led to financial benefits of small grocery stores, boutiques, and coffee houses. The inconvenience of parking spots and congestion of traffic makes motorists a less attractive customer than those on a bicycle (European Commission, 1999).

The efficiency of bicycles also leads to the increased use and efficiency of public transport. The European Commission has found that those who travel the first part of their journey by bicycle increase their catchment areas for public transport, by 15-fold. That is, those who are using a bicycle are more easily able to get to certain areas to catch a bus or train, as opposed to walking or using a vehicle. The appeal of public transport increases also because those who have a bicycle are able to change transport systems more efficiently and are more likely to use those services due to the increased ease of use. For example, those whose journey might include a 10-minute bus ride can cut a quarter of an hour off of their journey, by cutting out waiting and riding times for a connection via bus (1999). Figure 8 demonstrates this.

Figure 8. Appeal for public transport (European Commission, 1999)



Health and Safety

The health advantages to using bicycles for transportation are many. Studies show that an adult who cycles regularly has a fitness level equivalent to someone 10 years younger, and a life expectancy 2 years above the average. Cycling also has a very positive effect on the emotional health of humans. It improves levels of well-being, self-confidence and tolerance to stress and can reduce medical symptoms, difficulties with sleeping and tiredness (EESC, 2013). Those who also cycle to work have been found to have greater productivity in the work place, hence the increasing rise in companies encouraging the use of cycling to work and providing storage for those with a bicycle (European Commission, 1999).

Bicycle safety has been known to increase with increased numbers of bicycles on roadways. With a greater number of bicycles comes a greater awareness of their presence and attention from motorists, who are their greatest threat. Table 1 shows that the risk for motorists between the age of 18 and 49 is greater than the risk for those in the same age group who ride bicycles. Only after 49 years of age does the risk of cyclists become greater than for motorists.

Another study has shown that wearing a helmet does not protect one’s safety as much as adequate bicycle infrastructure does. 0.1% of cyclists in the Netherlands wear a helmet and there are fewer than 20 fatal accidents per 1 billion kilometers cycled. In comparison, 20% of cyclists in Finland wear helmets, and there are 50 fatal accidents per 1 billion kilometers. The Netherlands is known to have the best bicycle infrastructure and have the majority of their cities be completely bicycle-friendly (EESC, 2013).

Environmental

The environmental impact of a decrease in motor vehicles on roadways and an increase in bicycle traffic is very significant. The European Economic and Social Council states that if only 30% of vehicle trips under 6 kilometers were replaced by bicycle transportation, carbon monoxide emissions could be reduced by 4% from motor traffic. Motorists are also exposed to more toxic fumes than cyclists. The air inside a car has twice as much carbon monoxide than the air

outside and 50% more nitrogen oxides, both very damaging pollutants to the human body. Table 2 shows a comparison of the amount of pollutants that cyclists and motorists are exposed to and breathe in one hour of the same journey.

Overall, bicycling emits considerably less pollutants into the air than any other form of transportation, besides walking. With the current rise in global warming and immense amount of greenhouse gases in our atmosphere, adopting the bicycle as a form of transportation could be a crucial fix to this large-scale problem. Table 3 presents this information.







Table 1. Risk of accidents per million kilometres (European Commission, 1999)

Age group	Motorists (drivers)	Cyclists
12 - 14	-	16.8
15 - 17	-	18.2
18 - 24	33.5	7.7
25 - 29	17.0	8.2
30 - 39	9.7	7.0
40 - 49	9.7	9.2
50 - 59	5.9	17.2
60 - 64	10.4	32.1
> 64	39.9	79.1
Total	20.8	21.0

Table 2. Comparison of pollutant exposure in motorists and cyclists (European Commission, 1999)

	Cyclists (µg/m ³)	Motorists (µg/m ³)
Carbon monoxide (CO)	2 670	6 730
Nitrogen dioxide (NO ₂)	156	277
Benzene	23	138
Toluene	72	373
Xylene	46	193

Table 3. Comparison of various transport modes (European Commission, 1999)

						
Space consumption	100	100	10	8	1	6
Primary energy consumption	100	100	30	0	405	34
CO ₂	100	100	29	0	420	30
Nitrogen oxides	100	15	9	0	290	4
Hydrocarbons	100	15	8	0	140	2
CO	100	15	2	0	93	1
Total atmospheric pollution	100	15	9	0	250	3
Risk of accidents	100	100	9	2	12	3

BICYCLING IN MADRID

Madrid Today

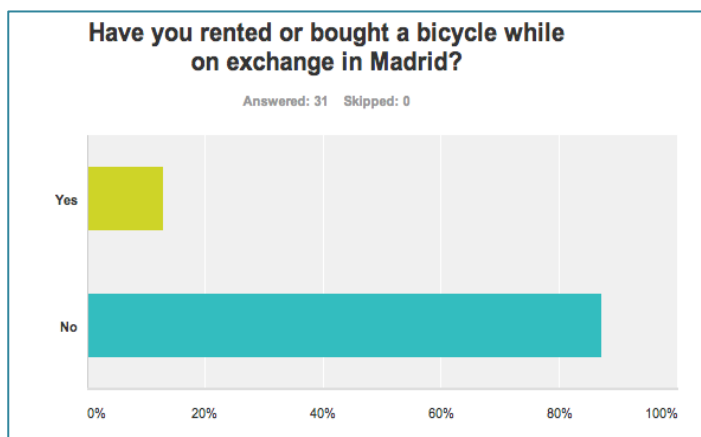
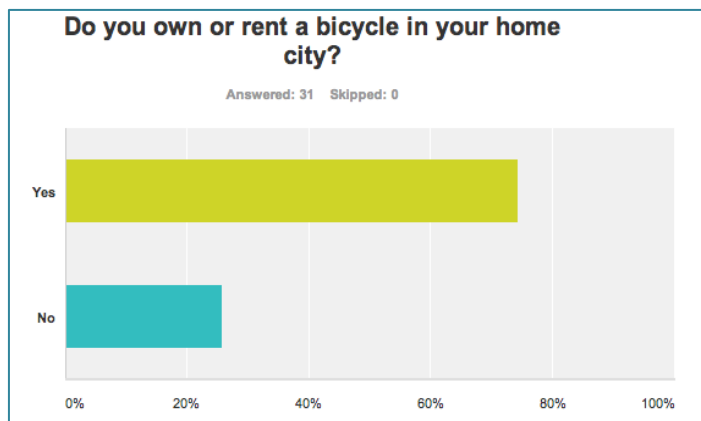
Seville, ranked 4th, and Barcelona, ranked 13th, are on the list of top 20 most bike-friendly cities in the world. Both of these cities are in Spain. However, this trend is not widespread and does not encompass Spain as a whole. It is very obvious that Madrid has yet to fully adopt the trend of bicycle use for transportation. Living in Madrid, the lack of bicycles on the road is very noticeable. Bicycle lanes on roadways are scarce and compared to other European cities, the cycling trend is almost non-existent here. Those that do cycle, often use the large pedestrian streets on their journey. This poses not only a threat for the pedestrians but also for the cyclists. The pedestrian streets are most often extremely busy and difficult to even walk through, let alone bike through.

Also noticeable is the lack of accessibility for bicycles on the public transportation systems. There are various sets of stairs and/or escalators in most metro stations, as well as the Renfe stations (high-speed, above-ground trains). Trains are small and often crowded with many people, leaving no room for anyone to bring a bike onto the train. The combination of poor bicycle infrastructure and limited accessibility for cyclists leads to the lack of bicycle culture in Madrid.

A recent survey I created uncovered some interesting information regarding cycling in Madrid today. Using SurveyMonkey, 31 students aged 18-26 from Universidad Carlos III were asked to anonymously provide their hometown and country, and answer nine multiple-choice questions regarding their bicycle use in their home city and in Madrid. When asked if they rode bicycles in their home cities, 74.19% of respondents replied "Yes." Those same respondents were then asked if they had rented or bought a bike while here on exchange or living in

Madrid. 87.10% responded that they have never done so here in Madrid (Figures 9 and 10).

Figures 9. & 10. Survey Results (2013)



The survey results were then analyzed for the results of the 7 (31 total) respondents that answered they live full-time in Madrid. The findings were surprising considering the current state of the bicycling culture in Madrid and the general answers presented above. Of the 7 Spaniards that responded to the survey, 4 of them own bicycles and ride them 1-2 times a week. 4 of the same 7 respondents surveyed replied that their city does not have bicycle lanes on the roadways. The respondents that said they own a bike were not necessarily the respondents that said their city did or did not have bicycle lanes. The possible difference in answers could be attributed to the sheer size of the city of Madrid. Depending on the suburb that the Spaniard respondents are from, their answers could vary on whether or not they have bicycle lanes on the roadways. For example, Leganes, a suburb 15 km. south from the center of Madrid is known to be a more bicycle-friendly area of the city, with more bike lanes on the roadways than found in the center of the city.

Five out of 31 respondents on the survey originate from The Netherlands. All of these 5 respondents responded the same on the survey. That is, they all own a bike in their home cities, they all ride 6 or more days a week on their bicycle, and none of them have rented or bought/used a bike while on exchange in Madrid. During the same interview with Madrid Erasmus student studying from The Netherlands, also a respondent of the survey, when asked if she misses not having a bicycle for transportation in Madrid, her reply was, “yes, so much quicker and easier to get around with a bike.” And when asked if she would be hesitant or scared to ride a bicycle in Madrid, her reply was “yes, since there are no real bike lanes here and how many hills there are” (Klijs, 2013).

The population of cyclists is very low in Madrid, in comparison to other European cities. Besides there being a lack of infrastructure and non-ideal physical characteristics of the city, there is lack of advocacy and safety in and around the city for the transportation of bicycles. Those who come to Madrid, who are well versed in using bicycles, are even hesitant to use them here due to the dangers and minimal amount of bicycles on the road.

The Current Rise of Bicycling

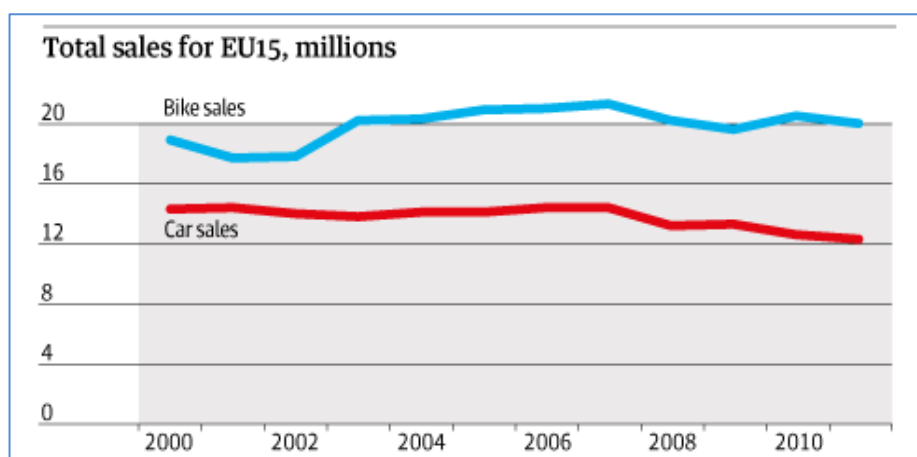
Despite the obvious and proven facts that cycling in Madrid, Spain is not common, there has been a recent trend in the rise of bicycles for transportation. Since the beginning of the economic crisis that has been affecting Europe, and Spain especially, within the last 4 years the bicycle production, the amount of bicycles on the roads and bicycle advocacy has risen. The number of cyclists in Madrid is doubling every 2.5 years (Parallels, 2013).

The crisis, that typically has been driving sales down in most industries and causing businesses to suffer, is actually leading to trends in the opposite direction in the bicycle industry Spain. In January 2012, bicycle manufacturing was 49.86% higher than in January of 2011 (Bike Europe, 2013).

Last year, bike sales exceeded car sales with 780,000 bikes sold in comparison to only 700,000 car sales. This is 4% rise for bike sales, and a 30% drop for car sales (The Guardian, 2013), shown in Figure 11. Citizens are opting for the more economically sound two-wheel ride, despite Madrid having the highest road fatality rates in Europe (Smart Planet, 2013).

The Bici Critica is a bike rally that takes place in Madrid once every month. It began in 2004 with only four members trying to gain awareness for bicycles on the road in Madrid. The rally now brings together thousands of cycling enthusiasts together to ride through the busy streets of Madrid during rush hour and physically demonstrate the presence of cyclists on the roads. Bici Critica not only attempts to raise awareness for bicycles, but also for lower fatality rates on roads by all transportation modes (Parallels, 2013).

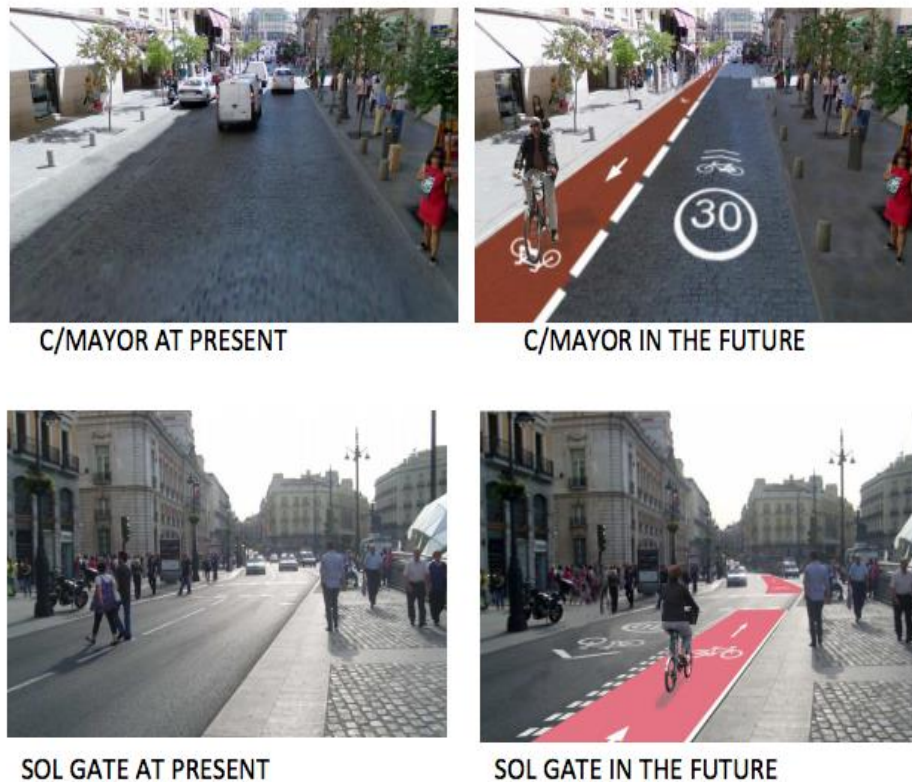
Figure 11. Recession sale of cars and bicycles in Spain (Coliped, 2012)



THE FUTURE OF BICYCLING IN MADRID

With the recent rise in bicycle use and bicycle sales in Madrid, the city of Madrid has begun to hear their people. Madrid has recently established and began implementing a plan to create a more bicycle-friendly city. The Plan for Cycling Mobility Management (PDMC in Spanish) began in May 2008 and has successfully completed various projects since then, with many more underway. The objective of the PDMC was to establish a municipal bicycle policy, give the bicycle a role in everyday mobility, normalize the use of the bicycle, promote healthy habits, and reform public spaces to accommodate bicycles. PDMC also encompasses awareness, road safety education, legislation and management. On just the 64 kilometers of road changes, the city will be investing 35 million Euros into this project (Madrid City, 2008). Figure 12 demonstrates a few of the future improvements Madrid outlined in the PDMC. Both areas are major roads within the very center of the city that is home to a very large volume of pedestrian and vehicle traffic. Currently, Sol Gate has been completed successfully.

Figure 12. Future infrastructure improvements in Madrid
(Madrid City, 2008)



This plan and new awareness of bicycles within the city of Madrid has opened up a whole new market of buyers for the bicycle. Infrastructure improvements will only lead to higher numbers of bicycles on the roads. There is now a large potential market space for those looking to enter the bicycle business. Also with the economic crisis still bearing heavily on the economy, the opportunity for new business and creation of jobs is coming at no better time.

Although there does exist some bicycle shops in and around the city of Madrid, they are few and far between. The following SWOT analysis and evaluation of Porter's Five Forces provide a brief market analysis of the potential place in the market for a bicycle business. They show the competitiveness and attractiveness of the market and are useful for the analysis of potential and already existing bicycle businesses.

SWOT ANALYSIS

Table 4. SWOT analysis of potential bicycle business

Strengths	Weaknesses
<ul style="list-style-type: none"> - Rise in bicycle sales due to economic crisis - Growing target market 	<ul style="list-style-type: none"> - Lack of start-up capital - Price-sensitive buyers - Lack of space and storage
Opportunities	Threats
<ul style="list-style-type: none"> - Lack of bicycle shops around Madrid - New bicycling infrastructure in the city - Increased awareness and advocacy of bicycles for transportation - Government support and encouragement 	<ul style="list-style-type: none"> - Existing bicycle shops/price competitors - Future economic upturn causing bicycle use to possibly decline - Low barriers to entry - Public transportation - Bike-share systems

Strengths

Madrid has seen a very recent and increasing trend in the sale and production of bicycles. Due to the recent economic crisis impacting the economy and workforce in Spain, citizens are recently opting for bicycles as a form of transportation. This provides a potential business with a large target market to base their sales from. Bicycles are becoming more attractive than cars to many demographics of society in Madrid and in Spain as a whole. A potential bicycle business could see strength in their new venture come from high sales and returns and the ability to market to all ages.

Weaknesses

Also due in part to the economic crisis in Spain, a weakness that these potential businesses can face is the lack of start-up capital. With the recent loss of many jobs and even more pay cuts in all sectors and industries, the availability of capital to start a company of this sort could be difficult to attain. The banking crisis among Spain would also give start-up companies a difficulty with obtaining high-risk loans from banks.

For the same reason, companies could have a difficult time making large profits and returns due to very price-sensitive buyers in Spain. Those opting for a cheaper form of transportation are typically those who have been affected monetarily by the crisis and are becoming more aware and conscious of their spending habits.

The infrastructure around Madrid also presents a weakness for these potential companies. There is a lack of bicycle storage and areas to leave bicycles around the city. Also, the majority of Madrid citizens live in multi-floor apartments and flats, which pose another problem for their own bicycle storage.

Opportunities

As already previously presented, Madrid has a lot of opportunity of bicycle businesses. This opportunity arises from a few prominent factors. First, the lack of bicycle culture in Madrid in the past has led to a lack of bicycle sale shops and bicycle rental shops. The need for bicycle shops in Madrid is becoming more apparent. There is an abundance of open market space for a start-up bicycle shop. Rafael Quereda, who lost his job at a graphic design company after 25 years, opened a bicycle shop in Madrid 18 months ago and has been reaping the benefits of the

bicycle boom ever since. He saw that people were using bicycles and that there was a market for it (The Guardian, 2013).

Second, the city and government of Madrid has also begun to support and encourage the use of bicycles. They encourage and contribute to the awareness of advocacy of this form of transportation and have even put in place a plan to make the city more bicycle-friendly. This has provided better infrastructure for the bicycle users, making this form of transportation even more attractive. With more safety from infrastructure and awareness, more people are willing to purchase and use bicycles in Madrid.

Threats

The threats to potential bicycle businesses in Madrid are few, but prominent and important. New businesses face the threat of those already existing and established bicycle businesses with an already made, and possibly loyal, customer base. The difficulty arises when trying to appeal to those who have already purchased in the market place and tend to have bias towards those certain businesses. A new bicycle business will have to market to the new customers of bicycles and attain strategies that are able to attract those already existing customers in the bicycle market place.

The possibility of a future economic upturn could also pose a threat to the bicycle business. If the economic crisis in Spain begins to cease, customers could potentially turn back towards the use of vehicles and begin to use their bicycles less, causing sales in bicycle shops to decrease.

The most important threat to a new bicycle shop however would be public transportation and bicycle share programs. The public transportation in Madrid is very efficient and for the most part, affordable. There is a possibility that people will opt more for public transport than investing in a bicycle. Bicycle share programs, which provide rental bicycles around the city, pose quite a threat to a business attempting to sell quality bicycles to own. Those who do not wish to purchase a bicycle of their own have the easy option to conveniently rent bicycles around the city.

PORTER'S FIVE FORCES

Threat of New Entrants

For those already existing bicycle shops around Madrid, the threat of new entrants into the bicycle market is very prominent. The opportunities for new entrants are great and have the potential to lead to greater competition for both new and already existing companies. This also creates a threat to customer loyalty and brand equity. For those entering the bicycle industry, the barriers to entry are currently quite low. For new companies this makes the market more attractive, but for those already in operation and with a good customer base, this forms a great threat to their business. Bicycle businesses will have to begin differentiating their products, become price leaders and learn to engage in healthy competition.

Threat of Substitute Products or Services

As the amount of bicycle companies grows, the opportunity for new products and brands to enter the market becomes greater. Buyers begin to have increased propensity to substitute products and price shop. Product differentiation and quality become very important, as well as company and brand loyalty and businesses will have to begin creating strategies to retain customers. For the customer, they will now have to factor in switching costs when considering other brands and companies.

Bargaining Power of Customers

Like in any industry, buyers of bicycles have the power to put pressure on companies and drive prices where they see suitable. Those with prices too high will show lower returns. Bicycle companies will have to evaluate their firm's fixed costs and provide adequate buyer information in order to maintain their prices at a competitive level. Companies that implement strategies, such as loyalty programs, are able to reduce buyer power.

Bargaining Power of Suppliers

Suppliers of bike and bike parts are a source of power of the business when there are few substitutes. Businesses have to ensure their distribution channels are economically sound and consider switching costs if they do decide to switch distribution channels. The strength and presence of substitutions are valuable when attempting to lower supplier bargaining power for the firm.

Competitive Rivalry

Bicycle shops and businesses, new or existing, in Madrid are now subject to competition with the recent rise in bicycle use. Competition is healthy and works in favor of buyers. Businesses will have to maintain a powerful competitive strategy, including marketing and advertising expenses, and retain a degree of transparency with distributors, suppliers and customers. Because of the magnitude and sheer size of a city like Madrid, competition effects may not be felt as much by bicycle companies themselves.

CONCLUSION

Madrid, Spain has very clearly felt the effects of the economic crisis around Europe. The use of bicycles for transportation is on the rise and the industry for bicycles is booming. Infrastructure around Madrid is slowly improving, and advocacy from government and bicycle supporters is ongoing. In the future, Madrid will become more bicycle-friendly and likely be home to many more bicycles in and around the city. The analysis of the market for bicycles around Madrid is logical and presents positive aspects of the adoption of the bicycle. In the future, Madrid will likely not be known anymore as the city where no cycling exists.

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A Study on Airline Strategy: Comparing Ryanair and Lufthansa to determine the best strategy in the industry

Rachel Mack
Spring 2013

ABSTRACT

While Porter's generic strategies provide a look at five of the main business models that companies typically follow, two in particular stand out in the European passenger airline market: low cost leadership and product differentiation. Ryanair dominates the European market of price-sensitive consumers, while Lufthansa has long been regarded as one of the best quality airlines in the industry. While the question of which strategy is "better" is difficult to determine, what this paper aims to discover is how both companies have found such incredible success in the competitive industry of passenger airlines with their differing strategies and how these strategies have been the main contributors of said success. To fully examine the companies from all aspects, this paper will use McKinsey's "7-S" Model to develop a better understanding of the two companies to understand their commitment in all areas to their respective strategies. Also included is a survey that I conducted to get a sense of which airline's strategy "wins" in the eyes of customers. In the end, the results from the survey, as well as from all secondary research, show that despite Lufthansa's current lead over Ryanair for largest passenger airline company, there is no clear winner between the two strategies. Rather, the "winning strategy" is a company's complete commitment to *one strategy* as opposed to low cost leadership versus product differentiation.

INTRODUCTION

In the extremely competitive and capital-intensive airline industry, two companies stand out in the international market: Ryanair Ltd. and Deutsche Lufthansa AG. They are the top two largest airlines in Europe (based on numbers of passengers carried) (Ryanair, 2013; Lufthansa, 2013) yet they follow completely different strategies.

These two companies could not be more opposite in the delivery of their product and service. While Ryanair provides the bare minimum (for the bare minimum price), Lufthansa goes the extra mile in taking care of its customers (but not without a premium). The question is which is the best strategy for airlines to follow in order to achieve success in such a saturated market.

Beginning with a brief description of Porter's low cost leadership and product differentiation strategies, this paper will then highlight the history of Ryanair using McKinsey's "7-S" Model to fully examine its strategy and all of the components involved. The same will be done for Lufthansa afterward.

Following this in-depth look at both company's strategies, we will review the results from my survey ("Airline Strategies") to hear what consumers think – and see what impact an airline's strategy has on their decision of with whom to fly.

Finally, this paper will examine all of the primary and secondary research involved and try to determine which airline strategy is better: low cost leadership or product differentiation, if either.

THE STRATEGIES

According to “Porter’s generic strategies,” from Michael E. Porter’s book “Competitive Strategy: Techniques for analyzing industries and competitors” (1980), these two companies follow a Cost Leadership strategy (Ryanair) and a Product Differentiation strategy (Lufthansa). These are two out of Porter’s three simplified generic strategies, and are popular in almost all industries.

A cost leadership strategy involves a firm winning market share by appealing to price-sensitive customers through having the lowest prices in the market. In order to have the lowest prices while still achieving profitability, however, the cost leader firm must also operate at a lower cost than its competition. This can be done in three ways: achieving high asset turnover, achieving low direct and indirect operating costs, and controlling the supply chain to ensure low costs. Ryanair has found its success as a low cost leader by following the above list, which this paper will elaborate on.

A differentiation strategy involves a firm differentiating its product(s) in order to compete successfully. This strategy is appropriate where the target customer segment is not price-sensitive, the market is competitive, and customers have unique or specific needs, which are possibly under-served. Another important aspect for a company to be successful using this strategy is through brand management – having people associate your name or logo with a quality, or differentiated product. Lufthansa has achieved this recognition, in part from its long history (originally founded in 1926) but primarily because of its excellent reputation for quality and service.

HISTORY: Ryanair

Founded by Christopher Ryan, Liam Lonergan, and Tony Ryan in 1985, Ryanair did not begin as a low-fare airline. It originated with the primary purpose of breaking the duopoly held by British Airways and Aer Lingus on the Dublin – London route (IBS Center for Management Research, 2003). The following five years saw intense competition between the three companies now operating on this route. Ryanair, with its smaller planes, charged fares that were half of what British Airways and Aer Lingus were charging. In its beginning years, while still run by Tony Ryan, Ryanair offered services such as a business class and a frequent flyer program. Ryan saw that his airline was not profitable, so he sent Michael O’Leary, who at the time was working as an accountant and manager, to investigate and analyze the situation. In its early years, it was not uncommon for Ryanair to provide lounges with free food and alcoholic drinks for customers. O’Leary saw that Ryanair was losing money on all of these extra amenities that it was giving away to passengers and saw the need to change strategies before losses grew too large.

In the meantime, Southwest Airlines in the United States had been enjoying the perks of airline deregulations since the 1970s, which provided it with the ability to implement the first low-cost airline business model. O’Leary was sent by Ryan to study this low-cost leadership strategy utilized by the American airline to see if it was plausible for Ryanair. O’Leary returned confident that Ryanair could use this strategy and become the low-cost and low-fare carrier in Europe, and so in 1991, the company changed its strategy. O’Leary was appointed chief executive officer of the company in 1994.

Ryanair has had continuous growth since its newfound strategy in 1994, and, after dominating the London-Dublin market, took off into the rest of Europe (Ryanair, 2013). Ryanair sought secondary airports to fly to, as it was cheaper for the company, and it engaged in advertisements meant to draw attention – whether positive or negative.

With this newfound airline strategy taking off in Europe, competitors began to pop up. Most notably is EasyJet, Ryanair’s main low-fare competition. Others were wiped out after a short period of time, such as British Airway’s budget line Go, as they were not able to compete on the same scale that Ryanair already was.

Now, according to its 2012 Annual Report (Ryanair, 2013), Ryanair saw profits of €560 million, flew over 75 million passengers, and had 8,500 employees worldwide.

STRATEGY: Ryanair

To get a better understanding of Ryanair, we can use McKinsey's "7-S" model from Robert Waterman and Tom Peter's book *In Search of Success* (1982) to analyze each aspect of the organization and see how they have to align to be successful. We will begin by looking at the "Hard S's" – Strategy, Structure, and Systems – followed by the "Soft S's" – Shared Values, Style, Staff, and Skills.

Strategy

The strategy of Ryanair is its defining factor, and what this paper is primarily interested in. Ryanair follows a low-cost leadership strategy, and by doing so, offers its customers low prices. Ryanair's objective is to offer the lowest airfares in the industry (currently just in the European market), and it achieves this in several ways. The two most apparent tactics Ryanair uses to reach its objectives are: hidden fees and the limited customer service. These tactics are not what entice customers to fly with Ryanair, but are how the company is able to realize profits. Customers must book their own tickets using Ryanair's busy and crowded website, which becomes a difficult task when it requires you to opt-out of choices that come with an additional price. These extra options include priority boarding, travel insurance, checking luggage, and so on. Customers are then required to check in to their flight online and print off their own boarding pass. If either one of these things is forgotten, Ryanair charges up to £40 to do it for you. If a customer misspells his or her name, or it differs from what is in his or her passport, more fees are charged. Another huge fee is charged to customers whose carry-on luggage is too big or too heavy (or if there is more than one piece of carry-on luggage). Customers must line up well before boarding time to find their own seats, which can be a stressful experience. Once onboard, flight attendants perform their tasks in a satisfactory level, typically not going above and beyond because it simply isn't expected of them. Food and drinks are offered, but only if you are prepared to pay a hefty price. O'Leary summarized this tactic in an interview for the BBC documentary "Flights and Fights: Inside the Low Cost Airlines" (Miller, 2013) as "turning a cost into a profit."

Furthermore, Ryanair does not invest heavily in marketing. Rather, young people, often students, are hired to create its advertisements, which normally are only published in a few newspapers for a few days, as these ads are often offensive or provocative. Though most ads are often removed shortly after being published, they remain in the media long after, as angry or offended citizens continue to talk about it. O'Leary believes that any publicity is good publicity. He will often say misleading or outrageous things in interviews to get people's attention and bring focus to the company (whether it is true or false). One example of this is when O'Leary said that he would like to remove two out of the three lavatory facilities onboard aircrafts to make room for more seats (Warnicka, 2011). Ryanair deals with competitive pressure by "fighting dirty." It is not uncommon for Ryanair to create advertisements directly denouncing its competition and comparing fares to show Ryanair is the cheapest.

Ryanair deals with customer demands in a way that benefits the company. For example, instead of investing in improving customer service standards (although minor changes have been made, according to the press releases on its website), Ryanair focuses on aspects that will save the company money. Ryanair places a lot of focus on punctuality, and finished 2012 with 91% of its flights on time (Ryanair, 2013). The faster the arrival, the faster the turnaround, the more costs are reduced. According to the Chairman's Report in their 2012 Annual Report, David Bonderman states that the company has further improved on its "industry leading passenger services" including fewer lost bags and less cancellations. Part of the reason why Ryanair has such a great record for fewer lost bags is because it has fewer bags to lose – most passengers avoid the costs of checking luggage and plan to bring only a carry-on suitcase or bag. Still, the company's commitment to keeping better track of checked luggage ensures that funds are not spent trying to reconcile the situation of lost luggage, not necessarily to ensure better service to the passenger (Tretheway, 2003).

Structure

The hierarchy of Ryanair reflects O'Leary's true involvement in operations. He remains on the board, but also has explicit lines of communication with the Chief Pilot, Deputy COO, Deputy CFO and Director of Customer Service. Of these managers, explicit lines of communication exist between Human Resources and In-Flight Services, Legal and Regulatory Services, Engineering, and Flight and Ground Operations (respective to the order of the previous list). It is also made clear on the organizational structure that O'Leary is directly involved with these third tier departments (Ryanair, 2013).

The decision making approach at Ryanair plays a large role in maintaining and following the company's strategy. The management team aims to follow a rational decision making process that is ongoing and dynamic. According to Kroon (1995), this approach helps to identify underlying problems and to find relevant solutions. Ryanair has typically focused on short-term objectives as opposed to long-term goals. Fleet planning, airline fare and fleet scheduling are among Ryanair's primary concerns with regards to the company's centralized decision making process.

Systems

Aviation law is considered a matter of international law due to the nature of air travel, however in Europe, aviation law is regulated at federal or state-level. The European Aviation Safety Agency (EASA) is one authority created by the European Union to keep air transport safe and sustainable, allowing for growth and improved safety. Ireland, and therefore Ryanair, is responsible for adhering to EASA's rules and legislations (European Aviation Safety Agency, 2013).

Ryanair also must adhere to the Irish Aviation Authority (IAA). The IAA regulates all aspects of aviation in Ireland, from safety reporting (in addition to EASA) to ground operations, to cabin crew, to aircraft registration and leasing, and so on (IAA, 2013). In addition, Ryanair also must follow the laws of the Irish Department of Transportation, Tourism and Sport (Aviation, 2013). While these laws and regulations set forth by these authorities are fair and done with safety and ethical behaviour in mind, Ryanair often comes into conflict with them as the low-cost airline is constantly trying to push the boundaries of what is acceptable and what is not in their attempt to cut costs.

Shared Values

The corporate culture within Ryanair is consistent with its strategy. Ryanair is able to offer customers the lowest fares because of operating efficiencies. This goes right to its offices, where staff work in an outdated space and fight for resources. For example, in "Flights and Fights," employees spoke of how difficult it would be to get new office supplies, such as staples, from the company. O'Leary himself has stated in an interview that he steals pens from hotels every chance he gets.

Despite its close following of Southwest Airlines' example, Ryanair did not replicate the successful low-cost American company's culture. Southwest CEO and founder Herb Kelleher believes in making the customer feel welcome and does so by encouraging a positive working environment (Gillen, 2006).

Style

The leadership style at Ryanair is participative. O'Leary is involved in day-to-day operations and his office is not fancy but instead is just a small room on the same floor as most of his employees. This shows little power distance between employees and management (Hofstede, Hofstede, & Minkov, 2010). It is also a reflection of how low Ryanair keeps its costs low, as this office has remained the same since it was built in 1996. Only just this

year did Ryanair announce that they would be moving into a new headquarters (Ryanair, 2013). O’Leary is also a very public figure and is often associated with people’s thoughts of Ryanair (whereas Christoph Franz, CEO of Lufthansa is less synonymous with the company).

O’Leary’s leadership is effective. As harsh as he can be at times, his team of managers have stated how much they have grown as managers under his guidance. O’Leary knows his vision for the company and makes it clear to his employees, who follow suit (Miller, 2013).

While Ryanair is not exactly transparent on their website regarding employee relations, O’Leary has publicly stated that there are competitions between cabin crew (who also serve as the check-in staff and boarding staff) that for every overweight or oversized carry-on bag they catch prior to boarding, a small bonus will be rewarded to them (Miller, 2013). Whether this is O’Leary trying to gain media attention or if it is actually true is unclear, because the company has recently been pursuing efforts to increase customer satisfaction by allowing a second carry-on bag (Ryanair, 2013).

Staff

Because of Ryanair’s commitment to maintaining low operating costs, the company has approximately only 8,500 employees worldwide (at the end of December 2012). In most cases, these employees perform several jobs. For example, Ryanair is known for its punctuality and fast turnaround time. This is because its cabin crew also double as its clean-up crew after passengers disembark, often joined by the pilots as well. This same cabin crew is also responsible for all the work at the terminal as well: checking guests in and boarding them at the gate. However efficient and cost-effective this is for the company, this comes with a steady stream of reports from ex-staff claiming that they were “exploited” by Ryanair. One ex-flight attendant claimed that cabin crew members are only paid for their time in the air, meaning that boarding and turnaround time (when they are required to perform extra duties not typically included in an attendant’s job description) are unpaid (Smith, 2013).

Ryanair’s board of directors is composed of ten members (as of July 2013) and their senior management team is headed by five functional directors, the Chief Pilot, Chief Operating Officer, Chief Financial Officer, and of course the Chief Executive Officer. Its headquarters is located in Dublin, at the Dublin Airport, which also serves as the airline’s main hub.

Skills

While the Ryanair company is not known for its great customer service, the tasks performed by frontline staff, as discussed above, are extensive and varied, and are a huge part of Ryanair’s cost savings. Cabin crew personnel are required to do much more than greet guests, and instead of waiting on flight passengers with free beverages and snacks, the crew is trained to prevent incidents of lost luggage, to board and unload planes as efficiently as possible, and maintain fast turnaround times.

Furthermore, O’Leary, as much as people may loathe him, is a visionary and an exceptional leader as its CEO. O’Leary, for all of his ridiculous ideas, has had an equal amount of brilliant ones that have made the company extremely profitable.

HISTORY: Lufthansa

Lufthansa traces back to 1926 when it was known as Deutsche Luft Hansa A.G. and served as Germany’s flag carrier until the end of the Second World War in 1945. Like the rest of Germany, Lufthansa went through a dark time between 1933 and 1945 when Hitler used the company to train men who would go on to become Luftwaffe pilots. In 1953, a company called Aktiengesellschaft für Luftverkehrsbedarf ('We Call on Luftag', 1954) was

founded in Cologne, Germany, with a large number of staff who had once worked for Lufthansa before the war. Because of this, it was easy enough to start up the new post-war Lufthansa, which had just discovered the time- and cost-saving advantages of jets instead of propellers, especially on transatlantic flights.

Lufthansa has always been a company of innovation and improvements, and the 1970s saw an exciting decade of development for the company: the era of Boeing 747s. With wider bodies and two aisles, service and communication was made much easier on longer flights. The Boeing 747, also called the “Jumbo”, has been Lufthansa’s proud flagship since April 26, 1970. Lufthansa dealt with several ups and downs over the 1980s and 1990s. The reunion of Germany and Berlin was promising to Lufthansa, but in the early 1990s, several major crises hindered all airline success. The Gulf crisis and economic recession caused a loss of billions of dollars to the airline industry as well as the first drop in passenger numbers in a decade (Stanford University, 2000). It was after these crises that Lufthansa sought alliances and cooperations with other airlines, eventually forming “Star Alliance” with Scandinavian Airlines, Thai Airways, Air Canada and United Airlines. This alliance rapidly became the industry leader and the largest global air alliance (Tagliabue, 1997).

In 2001, Lufthansa began its placement for 15 Airbus A380 aircrafts to kick off the new millennium. This was a bold move for the company, as each of these huge new aircrafts costs \$375 million, but Lufthansa was confident, as even in times of crisis, it has remained on the ascent (Lufthansa, 2013).

Lufthansa received its first Airbus A380 in 2010, which began a “new era of flight” for passengers (Lufthansa, 2013), as this new aircraft features two passenger levels, a new First Class and improved Business and Economy Class. Lufthansa and its subsidiaries were among the leaders in the industry for moving toward activity on social networks, such as mobile boarding passes during this time.

The German carrier operates the fourth largest fleet of passenger planes in the world, and according to its 2012 Annual Report, Lufthansa saw profits of €990 million, flew over 103 million passengers, and had approximately 117,000 employees worldwide (Lufthansa, 2013).

STRATEGY: Lufthansa

Once again, we will use McKinsey’s 7-S model (Waterman & Peters, 1982) to get an integrative view of Lufthansa’s strategy and organization. This will show how greatly the company differs from Ryanair, and how it uses a completely different strategy to be successful.

Strategy

Lufthansa’s strategy, as defined by Porter’s generic strategies (1980), falls under the product differentiation quadrant. As discussed in the introduction, this means that, due to a heavily saturated market, it has separated itself on the basis of quality – both service and product.

According to its website, the Lufthansa Group strategy relies on four pillars: increase company value, continually improve customer satisfaction, run an economically and ecologically sustainable business, and expand leading market position by actively shaping the airline industry. This well-rounded strategy allows Lufthansa to focus on a model similar to a “triple bottom line,” which is a guide for companies to meet economic, social, and environmental standards or goals. Lufthansa elaborates on these pillars, adding the following points:

- Focus on increasing future viability and company value
- Market leadership to be extended
- Greater customer satisfaction a priority
- The Lufthansa Group sets its sights on profitability

Based on these goals, it is easy to see the differences from Ryanair. Lufthansa is committed to quality, from its products to its processes to its people.

While Lufthansa's prices can be higher than its competitors', the level and quality of service provided is also on a level higher than its competitors'. Its slogan, "Nonstop you," is a true testament to its commitment to the customer. In my survey, 46% of the respondents said they had flown Lufthansa before, and of these, 63% commented specifically on the excellent customer service. It is apparent from its website that Lufthansa tries to make flying easier for their customers. The whole layout of its website is easy to navigate and not too busy, with a clear layout for where to book flights and where to find general information.

Lufthansa, in stark contrast to Ryanair, offers not only First- and Business-Class seats, but they provide several deluxe First Class lounges and even a First Class terminal at its Frankfurt hub. These lounges feature relaxation lounges, a full bar, a cigar lounge, full service à la carte dining, and bath facilities. When passengers are ready for boarding, they are taken to their flight privately in a luxury vehicle. Approximately 200 staff care for 300 passengers per day in the first class terminal (Lufthansa, 2013). Furthermore, Lufthansa offers "Miles & More," Europe's leading frequent flyer program. This program allows passengers to collect reward points and status points.

Additionally, Lufthansa further differentiates itself on the basis of quality *product*. Lufthansa has recently shifted its strategy to include a new fleet of aircrafts: the Airbus A380. This behemoth plane is fast, fuel efficient, and can seat 500 passengers comfortably, making it the largest passenger aircraft in the world. The Airbus A380 is therefore being utilized by Lufthansa to address its desire for growth, which is currently hindered by already too congested airports and limited availability of take-off and landing slots. With its steep price tag (the most expensive passenger plane ever made) and quality design, it is obvious that Lufthansa is providing the best to their customers. But Lufthansa's superb service and quality products do not come without a premium. Passengers expect more from Lufthansa because they pay more for it (Mighty Planes: Airbus A380, 2013).

Structure

Lufthansa is a part of one of five business segments in The Lufthansa Group, an aviation group with global operations and over 400 subsidiaries. The five business segments, which cover the areas of passenger transportation, airfreight and airline services include: Passenger Airline Group, Logistics, MRO, Catering, and IT Services. The airlines constitute the core business segment of the Lufthansa Group. The top three, which enjoy outstanding reputations of quality airlines, are Lufthansa, SWISS, and Austrian Airlines.

Because of the vastness of such an organization, there are very explicit structures laid out for clear understanding of protocols and functions of each organization and how they all interact. Regarding Lufthansa's (passenger airline only) structure, it is bigger and more complex than that of Ryanair, as there are four main airline subsidiaries that the company is responsible for. The structure shows a supervisory board at the top of the chart, and directly below is Chairman of the Executive Board and CEO Christoph Franz. Interestingly though, there are no lines connecting Franz to the CEO of Lufthansa (German Airlines), the CEO of Group Airlines (Austrian Airlines, SWISS, and so on) and Logistics, nor to the CFO or CEO of Corporate Human Resources and Legal Affairs. This implies decentralized decision-making and shows a clear difference in the leadership styles employed by Franz versus that of O'Leary. Franz, while currently at the top of the company, places much of the decision-making control into the hands of his well-qualified top management team (Lufthansa, 2013).

Systems

After the crises of the early 1990s, Lufthansa developed better crisis management systems, which contributed to its ability to survive and remain strong after the horrific events of September 11, 2001. In Hättö and Hollmeier's article "Airline strategy in the 2001/2002 crisis – the Lufthansa example" (2003), Lufthansa is praised for its ability to adapt to bad circumstances. The authors go on to show how the company's strategy has been to realize growth in a cautious way. "Flexibilization" has been one of the company's most important instruments for reducing risk. This is essential for reconstituting balance when the economy tilts and economic forecasts for planning become obsolete. The majority of Lufthansa's success in crisis management is attributed to its communication systems – both public and internal. Furthermore, after the events of September 11, 2001, Lufthansa reduced capacity, while making sure not to abandon markets and but it also reduced personnel through optional unpaid leaves or part-time work contracts as opposed to lay-offs. The company also put a short-term freeze on investments and projects.

As discussed previously under Ryanair's systems, Lufthansa also adheres to the rules of the EASA. In addition, as is the case with Ryanair in Ireland, Lufthansa must follow the rules of its national authorities: Luftfahrt-Bundesamt or LBA (Federal Aviation Office) (Luftfahrt-Bundesamt, 2013) and the Bundesministerium für Verkehr, Bau und Stadtentwicklung or BMVBS (Federal Ministry of Transport, Building and Urban Development) (Transport and Mobility, 2013). Lufthansa must always be aware of its subsidiaries as well, and the specific jurisdictions pertaining to their country. For example, one of Lufthansa's big subsidiaries Austrian Airlines must adhere to the laws of its own Ministry of Transport, Innovation, and Technology (BMVIT) (Aviation, 2013).

Shared Values

The Lufthansa Group places a lot of emphasis on quality. This is how its product and service is differentiated from competitors – the fleet of Lufthansa aircrafts is modern and feature top-of-the-line amenities on board and at the terminal, and the level of customer service is some of the best in the industry.

The team culture at Lufthansa is positive. Employees enjoy their work and their positive attitude is reflected in their customer service. Lufthansa maintains a blog on its website from some current employees who share their experiences (which, seemingly, are mostly all positive) of working for Lufthansa and all of the opportunities such a company can provide (Lufthansa, 2013).

The fundamental values the company was built on have changed over the years. This is to be expected, however, from a company that has endured so much history. For example, the Second World War era of Lufthansa is not a time the company remembers for its values. Part of what makes Lufthansa such a successful company is its ability to keep growing and expanding. This and its commitment to quality are the fundamentals that the "new" Lufthansa (from 1953 on) was founded on.

Style

As discussed above in Lufthansa's organizational structure, it is clear that Franz's style of leadership is less participative than O'Leary's. Franz places more decision-making power in his management team.

This style of leadership has been extremely effective for Lufthansa, who enjoys its position as an industry leader, globally and in Europe. Franz has played a big role in the challenge of restructuring Lufthansa's disparate European operations, which had been acquired at a rapid rate by his predecessor Wolfgang Mayrhuber. Franz has had great success in his aggressive restructuring, notably turning around unprofitable Swiss International Airlines when he was their CEO prior to its integration into Lufthansa. The future of Lufthansa will soon be in the hands of a new leader however, as Franz moves to Swiss drug maker Roche Holding AG. Franz assures the public "not to

expect any major changes” and that the airline’s efficiency drive is “making good progress and it will be continued under a new leadership” (Lufthansa, 2013).

Staff

While Ryanair hires the absolute minimum number of staff required, Lufthansa staffs approximately 117,000 employees worldwide. Of course, the company is larger, especially when considering the whole Lufthansa Group, but Lufthansa passenger airlines provides far more services to its passengers than Ryanair. Additional jobs include the First Class terminal, as well as First- and Business- Class flight attendants, check-in staff at the larger airports (separate from the cabin crew), as well as a considerably larger number of flight attendants based on the longer-distance (and therefore larger aircraft) flights offered by Lufthansa. Lufthansa also has a large senior management team, considering all of the subsidiaries it is responsible for.

Skills

Lufthansa boasts a strong management team and strong frontline staff. The management team has kept Lufthansa one of Europe’s most successful airlines, while the front line staff aid in this through excellent customer service that is one of the reasons why customers are loyal to Lufthansa (Herrmann, Huber, & Braunstein, 2000)

Lufthansa has long been known for its excellent customer service. It starts from the inside: employees must enjoy their job in order to provide the best service to customers – at least, that is what Lufthansa believes. Employees undergo extensive training for their respective positions, and are truly made to feel a part of the Lufthansa team.

SURVEY RESULTS

To gather primary research on this subject, I conducted an online survey of 100 respondents comparing airline strategy, but through the eyes of the customer. In this concise survey, respondents were asked about the most important factors when it comes to flying in general, and then specifically a few questions about Ryanair and Lufthansa.

In the first question, survey respondents were asked to order the following factors in order of importance to them when it comes to flying:

- Price
- Company
- Customer Service
- Quality
- Schedule of Flights
- Direct or Non-direct
- Location of Airport
- Onboard Amenities (food, drinks, etc.)

Not surprisingly, as the majority of the survey respondents were students, Price was ranked as the most important factor for 61%, while Quality and Customer Service were more important to only 4% and 6%, respectively. The least important factors were Onboard Amenities (2%) and Location of Airport (3%). Based on these results alone, one could assume that Ryanair is the clear winner for “best strategy,” as its Price is the lowest, it does not provide onboard amenities, and the locations of its airports are often far from city centres. However, when asked if respondents would fly with Ryanair (again or for the first time), only 63% answered yes, while 32% did not know if they would, and 5% actually said that, based on their previous experiences, they would not fly again with Ryanair. Comparing this to Lufthansa, 73% of respondents would fly again with the company,

and only 27% did not know if they would, but no one said that they would not fly Lufthansa (again or for the first time).

Respondents were asked to comment on their experiences with both airlines, and the answers followed similar patterns for each company. Below is a summary of the key words or phrases from each, along with the percentage of how often they were used.

Ryanair:

Ryanair received almost all negative feedback. 51% of respondents have had a negative experience, while the remaining 49% have had either an “okay” or a good experience. Those who said they have had a good experience justified this answer with an explanation that, while service was lacking and the experience was “stressful” due to all the hidden fees, the flight was cheap and punctual. Not one respondent raved about their experience with Ryanair.

The most common comments from respondents about their experiences were: “stressful,” “horrible service,” “strict,” “on time,” and, the most popular, “cheap.” The general consensus from the respondents was “you get what you pay for” – a cheap flight to get you from A to B, on time, but with no frills.

Lufthansa:

Lufthansa, on the other hand, received almost all positive feedback in its comments. 90% of respondents have had a positive experience with Lufthansa, while 10% were left unsatisfied. However, most of the negative comments had a positive aspect to them (as opposed to Ryanair, where the positive comments would often still include a negative aspect). In the case of Lufthansa, one respondent complained of a flight being delayed by a day, but was pleased that Lufthansa paid for his or her hotel and meals to make up for it.

The top comments found in respondents’ experiences with Lufthansa were: “great onboard amenities,” “on time,” “high quality,” “comfortable,” and, by far the most popular response, “excellent service.” One respondent even commented that, despite never having flown Lufthansa, they had only heard excellent things about the company and would love to fly with it someday. Lufthansa, while not always able to meet the needs of price-sensitive customers, received overwhelmingly positive feedback regarding its service.

CONCLUSION – What is the Winning Airline Strategy?

While this paper has endeavoured to find the “best” airline strategy, it is apparent that there might be no such thing. In any market there will always be a range of different consumers. From price-sensitive consumers to premium quality consumers to niche consumers, no one strategy will be able to target them all, particularly in the airline industry. In order for Ryanair to offer such low fares to its price-sensitive passengers, it has to be cost effective in its operations, meaning that certain luxuries, such as onboard amenities, are impossible to offer for free. In order for Lufthansa to provide such high quality service to its passengers, it has to charge a premium.

Considering Lufthansa and Ryanair are the two largest passenger airlines in Europe, is it possible to pick one best strategy when both companies operate completely differently but have both found such success? After reviewing the results of my survey, and based on personal experience, I think that there is no “best strategy.” I have had great experiences flying on Lufthansa, and always look forward to flying with them, however, if I am booking a flight from Linz, Austria to London, England, and Ryanair has flights available for under €40, I would not say no because of bad customer service or no onboard amenities.

In conclusion, this paper determines that there is no best airline strategy, but rather that complete dedication to one strategy is the best option for an airline. In the extremely competitive industry of passenger airlines, every company must commit themselves to a strategy in order to become the best at it, and stand out in the market. This is exactly what Ryanair and Lufthansa have done. Ryanair is widely recognized as the ultimate low-cost carrier (in Europe especially, but is recognized worldwide as well), so passengers know what to expect. What Ryanair lacks in service and quality, it makes up for in low prices and punctual flights. Likewise, Lufthansa is recognized internationally as an industry leader in quality and service. Both airlines have achieved huge success from their dedication to one strategy. The next question now, is which of these airline strategies will be the most sustainable in the future; but that is a question for another paper.

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The Swiss Banking Industry: The Changing Banking Secrecy Laws and the Future of Swiss Banking

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ABSTRACT

Recent global events have triggered the start of Switzerland's government cooperating with international authorities that are working to stop tax evasion. The cooperation by the Swiss government is threatening the future of Swiss secret banking laws, which have been around since 1934. The importance of this topic is to understand the effect that these changes will have on Swiss banks, as the new laws and regulations begin to stop foreign tax evasion in Switzerland. The successes of Swiss banks have been in large part due Switzerland's tax laws attracting foreign wealth combined with strict secrecy laws protecting clients. Swiss banking is a very important part of the Swiss economy. Through analyzing research in scientific papers and business journals, it can be argued that changing the secrecy laws will have a negative financial impact on Swiss banks, and cause a restructuring in their operations.

INTRODUCTION

Switzerland has grown into a strong, competitive global economy despite being a small, landlocked country, with little to no natural resources. There are many reasons why Switzerland has become a successful economic nation, but much of Switzerland's success comes from its financial industry. Arguments state that Switzerland's financial success is from a long period of relaxed regulations and economic liberalism. The objectives of a liberalized state are to make the country attractive for business and foreign direct investments. The Swiss banking industry has flourished in Switzerland due to a system of carefully prepared tax laws, a strong financial sector, and a growing population (Nollert and Schief, 2011). However, Switzerland's efforts to create an attractive banking environment have led to negative consequences for the country involving international pressure calling on Switzerland to reform its financial sector.

From a political standpoint, the Swiss government has historically protected its financial sector. However, increasing international pressure has caused the Swiss government to cooperate more with international authorities. The Swiss government continues to stress the value of its neutral policies, which have been intact since the sixteenth century. Staying out of international conflict and organizations has been a major factor in the success of the Swiss financial sector. Switzerland's attractiveness for foreign investment and wealth is largely due to banks having the ability to operate under the protection of a sovereign state while practicing strict secret banking laws (Turku, 2013). Swiss banks have a major economic importance for the country, and changing the regulations and laws threaten the foundations of how Swiss banks successfully operate.

The purpose of this paper is to analyze the growth and success of the Swiss banking industry, while considering the future of the industry if regulatory reforms are made. This paper is to determine what will be the effects on the Swiss banking industry by changing the Swiss secret banking laws to eliminate tax evasion.

PART I: HISTORY

Prior to the First World War, tension was growing amongst the countries of Europe. During this time, European countries began to increase taxation on the wealthy. Switzerland, being a neutral state and staying out of the European conflict, saw an opportunity to attract foreign wealth by creating favorable tax laws. Swiss banks began a campaign advertising their lenient tax laws and foreign wealth soon began to pour into Swiss banks. The rich populations in Europe were not only attracted by the Swiss tax benefits but also Switzerland's stable economy and neutrality during this time of European tension. As more wealth entered Switzerland, countries such as France, Germany, and Austria demanded Switzerland release the information of their wealthy citizens evading taxes. This caused Swiss banks to be less aggressive in their attempts to attract wealthy European clients. Switzerland refused the requests of European countries for client information stating it violated both the secrecy of their clients and their sovereignty as a country, thus starting Switzerland's policy of secret banking (Turku, 2013).

It was not until 1934 that the Swiss banking industry established the Secret Banking Act under Article 47 in banking law (Turku, 2013). The Banking Secrecy Policy guarantees that clients will have all their personal information protected as bankers who break the secrecy law risk criminal prosecution (Ladd, 2012). The policy was made official to attract the Jewish community of Europe looking to protect their wealth during Nazi prosecution (Lansing and Vohra, 2012). Non-Jewish Germans also hid wealth from the Nazi party in Switzerland risking the death penalty if caught. This only caused Swiss banks to increase the security of their client's information (Ladd, 2012). Despite receiving pressure from the Nazis to release the names and information of their Jewish and German clients, Swiss banks refused to release any information, as it would violate the secret banking law. Swiss banks made a lot of money through Jewish wealth and from the victims of the Holocaust (Lansing and Vohra, 2012). Swiss banks also accepted illicit funds and protected Nazi bank accounts during the war. After the Second World War, many family members of the deceased approached Swiss banks to claim their wealth, but Swiss banks refused to release information or funds without a death certificate, which was obviously impossible because of the Holocaust (Lansing and Vohra, 2012).

Since the start of the secret banking act, Swiss banks have been growing financially from secret banking. Switzerland has received criticism of their actions and the ethical issues surrounding total secrecy and neutrality. Switzerland's banks responded to the criticism of their actions after the war by arguing their intentions were admirable with the intent of protecting those from a tyrannical dictatorship. Switzerland also commented on the risk it took defying Nazi demands, which at the time Nazi Germany controlled Europe. Also in an effort to honor the victims of the Holocaust, banks began compiling information of dormant accounts of those who most likely perished during the war and opening the funds to family members (Turku, 2013).

After the Second World War, Switzerland had successfully established itself as a tax haven attracting wealth from all over the world. The actions taken by Switzerland in creating a tax haven was a strategic way to compete against the major European financial centers, such as London, Paris, and Berlin (Turku, 2013). Relaxed tax laws and banking secrecy have continued to spark international tension, and countries continue to pressure Switzerland in helping them battle tax evasion. The next section of this paper analyzes current regulations in the banking industry, and the effects regulations have on the banking industry.

PART II: BANK REGULATIONS

Switzerland's banking industry has grown significantly, with UBS and Credit Suisse leading the way in terms of size and capital. In 2012, the finance sector accounted for 10.5% of Switzerland's GDP and the assets held by Swiss banks were worth five times the GDP of Switzerland (OECD Economic Survey, 2013). It is estimated that one third of the world's wealth offshore is stored in Switzerland (Turku, 2013). Due to this, banking is an important part of

the development and growth of the Swiss economy, which means it is important to understand how banks are regulated and the effects regulations can have on banks.

How Banks are Regulated

Following the 2008 financial crisis that affected the world's economy, regulating banks has become even more important. Since banks are such an important part of economic growth, it is important to understand how and why banks are regulated. The goal of bank regulations is to prevent externalities to the real economy of a country associated with the market failures of the banking sectors. The two main risks associated with the failure of banks are systemic risks and safety risks. Systemic risks include financial contagion, and credit crunches, while safety risks include deposit insurance, market inefficiencies, and "too big to fail" (Greenbaum and Thakor 2007, 446).

The main objectives of regulating banks are to "control market structure and competition, safety and soundness, consumer protection, credit allocation, and monetary control" (Greenbaum and Thakor 2007, 443). The main goal of regulating the market structure and competition is to prevent a bank becoming too big to fail. The risk of allowing a bank becoming too big to fail is these banks will take excessive risk with their operations, such as investing and lending. Too-big-to-fail banks know that the government cannot allow it to fail by going into bankruptcy because of the severe economic consequences. If a bank becomes too big to fail, there is the tendency for these banks to exploit the safety nets, such as deposit insurance, that protect banks from bankruptcy. Therefore, regulatory authorities work to create restrictions on banks, such as preventing market entry, implementing branching restrictions, preventing mergers, and preventing the joining of banking and commerce (Greenbaum and Thakor, 2007).

The two main commercial banks in Switzerland, UBS and Credit Suisse, have become too big to fail, with their wealth management sector being very large financial divisions within the bank. This is why it is important to understand how these banks are regulated because of the potential effects their actions or regulatory actions can have on the Swiss economy. There is potential for new regulations concerning the elimination of secret banking to negatively affect Swiss banks, which could lead to externalities affecting Switzerland's real economy.

Regulating for safety and soundness involves requirements for deposit insurance, establishing interest rate ceilings, capital reserve requirements, and portfolio restrictions. Banks are also regulated to limit how much they can lend to an individual borrower, and banks must practice market value accounting. The purpose of these regulations is to prevent excess risk taken by banks. Consumer protection is another regulatory objective that has the goal of creating fairness and opportunities for consumers. For example, cap rates on consumer loan interest rates are enforced as well as equal credit opportunity (Greenbaum and Thakor, 2007).

The final two bank regulation objectives are credit allocation and monetary control. Credit allocation involves regulating deposit interest rate ceilings and requiring banks to reinvest in the community they are located in. Monetary control sets the reserve requirements so banks must meet daily withdrawals and protect against the risk of bank runs. Monetary control also involves the discount rate banks are borrowing at. The rationale of regulating banks is to prevent anti-competitive behavior, mitigating risk from too-big-to-fail, financial contagion, and finally protecting consumers (Greenbaum and Thakor, 2007). With knowing how banks are regulated, it is important to understand the effects that regulations have on banking efficiency. The following section describes the impacts regulating banks have on efficiency.

Effects of Regulations on Banking Efficiency

Despite the arguments that banking regulation protects consumers, creates better market efficiency, and prevents banks from taking excessive risk, there are different views regarding the impacts regulations can have on efficiency. The research paper written by Barth, Lin, Ma, Seade, and Song (2012) "Do bank regulation, supervision

and monitoring enhance or impede bank efficiency?” uses two differing views to address how regulations impact efficiency. The first view is the “public interest view” which views bank regulations as government actions that are for the betterment of everyone and are crafted to create better market efficiency (Barth et al., 2012, 2879). The second view is the “private interest view” that argues regulations on banks only benefit a certain few, and not society as a whole, which decreases banking efficiency (Barth et al., 2012, 2880).

The study by Barth et al. (2012) found there is a negative association with efficiency with tighter restrictions of bank operations. However, there was a positive effect on efficiency with more stringent capital regulations, and a positive effect on efficiency by having an independent supervisory authority. There is criticism towards creating activity restrictions through regulations. Activity restrictions reduce efficiency by preventing economies of scale and scope in banking. Activity restrictions also make it more difficult to process and gather information about firms and provide more services to customers. Regulations can also reduce a bank’s ability to diversify income, which reduces efficiency. Finally, the study showed regulatory monitoring for a bank’s transparency led to an increase in efficiency. External audits and disclosing bank information showed positive results.

As shown above, increased regulations restricting operations have a negative result on banking efficiency. Swiss banks will have to begin abiding by the restrictions of preventing tax fraud in their operations as the secrecy laws disappear. This in turn will have a negative effect on the efficiency of Swiss banks. However, the study by Barth et al. (2012) stated that an increase in transparency increased efficiency, and Swiss banks will have to increase transparency in their operations as they work to stop foreign tax evasion. This in turn may increase efficiency. Given the importance that secret banking and tax evasion has had on the success of Swiss banks, the steps taken towards ending total banking secrecy and stopping tax evasion will most likely have negative consequences on the efficiency of Swiss banks. The following section discusses Switzerland as a tax haven and the events causing Switzerland to begin finally cooperating with international authorities.

PART III: SWITZERLAND’S TAX HAVEN

Switzerland’s Tax Laws

As mentioned earlier in this paper, Switzerland has established itself as a tax haven for the wealthy looking to evade taxes in their home country. The Organization of Economic Cooperation and Development (OECD) defines a tax haven as the following: “no or nominal tax on relevant income; lack of effective exchange information; lack of transparency and no substantial activities” (Turku, 2013, 819). After the First World War, all the Swiss business leaders of banks and other financial industries colluded in developing favorable tax standards to attract foreign investment. The Swiss Government also colluded with these business leaders by developing laws protecting the importation of wealth and placing government law and service professionals at the service of banks and the financial sector (Farquet, 2013).

Switzerland signed a bilateral double-taxation agreement, which instead of creating fiscal relationships between Switzerland and other countries, allowed the financial sector of Switzerland to refuse tax laws by being able to reassess taxation of exported assets out of parliamentary control (Farquet, 2013). Switzerland’s favorable tax laws also include not taxing income at home rates earned on capital foreign investment, not imposing a withholding tax, and often not reporting interest earned on investments (Turku, 2013). Countries losing tax revenue have protested Switzerland’s tax laws since they were first created. However, Swiss banks continued to resist cooperation with international authorities and profit from tax evasion because of the secrecy laws.

Swiss neutrality in international conflicts combined with secret banking created more ethical issues concerning the clientele of Swiss banks. Some Swiss accounts were linked to terrorist organizations and human rights violators. Following the September 11, 2001 terrorist attacks on the US, the US began an international war on terror pressuring all nations to contribute to the fight. Switzerland aided in the war on terror by freezing the bank

accounts linked to Al Qaeda and the Taliban. Swiss banks continued to freeze illegal accounts, the most notable being the assets of Muammar Gadhafi during the Libyan civil war (Turku, 2013). It can be debated whether these actions done by Switzerland was a step away from complete neutrality by choosing to fight criminal activities, or was it the start of Switzerland losing its sovereignty to appease international pressure. However, Swiss banking laws never addressed protection for those being prosecuted for criminal offenses that relate to banking so the Swiss Federal Council was able to easily address such issues (Ladd, 2012).

The Turning Point for the Swiss Banking Secrecy Laws

As stated by Turku (2013) the three events causing Switzerland to submit to international pressure and finally change its banking practices was the 9/11 terrorist attacks, the 2008 financial crisis, and a 2009 legal case against UBS in the US. The 9/11 terrorists attacks created a change in Swiss banking policy to aid in the US war on terror by freezing the accounts of clients who are engaging in criminal activities such as terrorism. Then the 2008 financial crisis created a campaign started by the American President Barrack Obama to stop tax evasion, given the large losses in unearned tax revenue. The campaign's goals were to take further action against countries harboring US wealth and are being noncompliant with US tax authorities (Turku, 2013).

The year 2008 marked a major turning point for the United States battle with Switzerland and tax evasion. In 2008, a former of employee of UBS, Brad Birkenfeld, testified against UBS providing documentation to US authorities proving that UBS has purposely been aiding wealthy US citizens to harbor their capital in Switzerland to evade taxes. In 2009, the US launched a successful legal case against the Swiss bank UBS, finally causing the Swiss government to re-evaluate secret banking. The US Internal Revenue Service (IRS) estimated that the US loses nearly 100 billion dollars of tax revenue from unreported offshore accounts (Lansing and Vohra, 2012). The US Department of Justice was now demanding that UBS release the names of US citizens evading taxes through UBS by threatening legal action against UBS's tax crimes. The legal battle between the US and UBS ended with UBS signing a Deferred Prosecution Agreement on February 18, 2009. The Swiss Financial Market Supervisory Authority ordered UBS to release the names of 4,450 US clients and pay a fine of 788,000,000 dollars to the US. Having handed over only 250 names, the US did threaten criminal prosecution against UBS; however, this dispute was settled between UBS and the Swiss government (Turku, 2013). The importance of this case launched by the US Department of Justice was it finally forced the Swiss government to cooperate with the US and break the secret banking laws.

The successful legal campaign by the United States that forced Switzerland to release the names of US citizens evading taxes created a domino effect. France, Italy, and Germany soon afterwards began demanding the names of their citizens who are storing unreported wealth in Switzerland. France estimated that up to three billion euros are being hidden in Swiss banks (Ladd, 2012). Switzerland is now struggling to resist compliance and continue practicing banking secrecy with the strong unification of countries attempting to stop tax evasion.

Recently, Switzerland introduced a bill that would allow banks to release the information of US citizens to US tax authorities. The release of names by UBS was in direct violation of Switzerland's banking secrecy laws, and Swiss banks are now struggling to practice banking secrecy without government support. The release of this new bill, whether it passes or not, implies that the future of Swiss secrecy laws is at risk and banks will have to restructure their operations. If the bill is passed, it will also pressure all financial banking centers in Switzerland to oblige by their promises of increasing transparency in their operations. In the past, Swiss banks have done little to increase transparency because the secrecy laws protected their operations. This bill was brought forward by the Swiss government, as part of negotiation with the United States Department of Justice who has continued its now five-year fight for the information of US clients evading taxes (Myles, 2013).

A fellow Canadian exchange student here in Switzerland I interviewed told me about the process of opening a bank account with UBS. During the application of his account he was asked if he was an American citizen and was

rigorously questioned after revealing his family owned a home in the US (Personal Interview 2013). UBS is now increasing their efforts to assure that, if they accept American clients, Americans have properly reported this account to their home tax authorities. In a recent press release by “World Radio Switzerland” an American businesswoman living in Switzerland and married to a Swiss man spoke of the difficulties she is having with banks in Switzerland. Dr. Manual Ammann, a Professor of Finance at the University of St. Gallen, commented that due to tensions with the US, Swiss banks are becoming risk-adverse with American clients in the chance they may not be compliant with the American tax authorities. Dr. Ammann also mentioned that Swiss banks are even evaluating whether it is economically worthwhile to go through the regulatory processes with American clients (Press Review, 2012). If a Swiss bank accepts an American account, client due diligence will now have to be confirmed from their home tax authority to assure the client is in total compliance with the authorities (Myles, 2013). The time of US citizens now wishing to store their capital in Switzerland to evade taxes is perhaps over, which will cause Swiss banks like UBS and Credit Suisse to re-evaluate the future of their Wealth Management Divisions.

The Swiss Government’s Continued Cooperation

The Swiss government has tended to continue to protect the sovereignty of Switzerland by not succumbing to international pressure, hence securing the financial industry’s actions under secret banking. Understanding the importance of the banking industry for the Swiss economy, the Government has exhausted its efforts in postponing its cooperation with international authorities. Switzerland has signed treaties with countries like the US to cooperate in international criminal matters, but for the purpose of this paper I will address only recent actions by Switzerland to stop tax evasion.

Switzerland has prided itself in being a sovereign neutral nation. Swiss neutrality has been described as, “a historical, geographical, political, military, and economic necessity for the nation” (Turku, 2013, 831). However, in this new era of globalization the ability of a nation to remain completely sovereign is proving to be difficult. In the case of Switzerland, globalization has spawned a surge of international wealth and investment. Along with this foreign wealth is increased pressure from international supervisory authorities and countries protesting tax evasion. Following the UBS scandal and the US Department of Justice’s continued effort to stop tax evasion, on March 13, 2009 the Swiss Federal Council announced that administrative assistance would be given to regulatory authorities under Article 27. Administrative assistance meant cooperation from the government in aiding foreign tax authorities. However, banks were only to give administrative assistance to these authorities if they had a justified case against an individual along with evidence to suggest a client was committing tax evasion (Turku, 2013). This seems to be a government effort to delay the US and other nations trying to discover unreported wealth, while continuing to protect banking secrecy laws.

The OECD placed Switzerland on the list of countries that have agreed to enact twelve bilateral tax agreements, but have not yet implemented the new tax agreements. To enforce these agreements, Switzerland will have to restructure the laws around its secret banking and taxation policies. For example, Switzerland has signed agreements to persecute people committing tax fraud; however, Switzerland will only persecute individuals in Switzerland that meet Switzerland’s definition of tax fraud, which often doesn’t equate with the laws of other nations. The protective legislative laws on tax and strict secret banking in their current legal system will have to change (Turku, 2013). Switzerland remains on the OECD list, and though the Swiss government has begun to cooperate more with international authorities they are a long way from implementing the twelve OECD bilateral tax agreements.

In 1951 Switzerland signed a Convention for the Avoidance of Double Taxation with the US. The purpose of this convention was to increase the flow of information between the two countries to avoid both countries claiming tax on the same income and preventing tax fraud. However, since this convention does not mention tax evasion and the laws defining tax fraud differed between Switzerland and the US, the Swiss government has protected

banks from refusing to release client information to the US tax authorities. In September of 2009, the convention was amended to include tax evasion meaning that Switzerland shall forward information to the US in cases of tax evasion. The changes to this convention entails that Swiss banks are no longer protected under the banking secrecy law, and the Swiss government can now force banks to forward client information to the US (Turku, 2013). Switzerland is starting to move away from its complete sovereign policies by honoring this amendment and cooperating with the US. Swiss banks will have to adapt its practices to abide by international standards, as the Swiss government continues to cooperate with international authorities.

As the Swiss Federal Council continues to cooperate with international authorities, Swiss banks will continue having to evaluate their current structure and services to ensure international compliance is being met. Banks will have to assess the future risk and potential losses of foreign wealth if clients who are evading taxes pull their wealth from the banks. Swiss banks will now have to develop new strategies to protect their current high net worth clients, as it is becoming increasingly difficult to take on new clients wanting to evade taxes. The changes happening within the Swiss banking sector is due to an arduous combined effort of international law, domestic law, along with international regulatory authorities (Turku, 2013).

PART IV: THE FUTURE OF THE SWISS BANKING SECTOR

Potential Effects and Options for Swiss Banks

It is too early to say what the exact implications of these changing laws and regulations will have on the Swiss banking sector. The paper by Lansing and Vohra (2012) argue that there are two possible scenarios that can be carried out by either the clients of Swiss banks or the banks themselves. People who are evading taxes through a Swiss bank can pull their money out given the new risks that their identity is no longer completely secure from their home tax authorities. Once their wealth is out they can either move it somewhere else, or return the money to their home country and face potential punishment. For example, punishment from the IRS can include jail time, fines, and heavy taxation to make up for the years of not reporting it to the IRS. Either way, Switzerland stands to lose a considerable amount of wealth as the current and future market for much of their account diminishes (Lansing and Vohra, 2012).

The other possibility is that the Swiss banks personally collect taxes from these individuals on behalf of their country's tax authorities. The benefit of this for Swiss banks is it would maintain their client's secrecy. Banking secrecy is a pillar of the Swiss the banking system, which is why maintaining this standard is important so as not to jeopardize future investments and clients. The potential problems to this are it does not recognize that Swiss banks were committing crimes by purposely helping clients evade taxes. Also, since no information about the client will be released there is no way to determine at which rate they will be taxed or if all the years of back taxes are indeed paid. The other option is that the native tax authorities allow their citizens who own an offshore bank account return the money home penalty free. The argument towards this is that it will incentivize Swiss account holders to return their money home, and not transfer it elsewhere to further evade taxes. The governments of these countries will gain on future tax revenue from having this capital returned home, but Swiss banks still risk losing billions of dollars (Lansing and Vohra, 2012).

There are many potential negative financial effects of changing the secrecy laws that eliminate tax evasion. However, since it is still early to determine the exact effects there are estimates to what may happen financially. Zurich, which is the world's fifth largest financial center, has the potential to lose between $\frac{1}{4}$ and $\frac{1}{3}$ of the funds held under financial management's divisions (Myles, 2013). In 2009, the US declared an amnesty period to allow those who had unreported wealth in offshore bank accounts to report it to the IRS. Within this amnesty period that ended in October 2009, 14,700 US taxpayers disclosed their undeclared offshore wealth, which spanned 70 countries (Ladd, 2012). Swiss banks will have to evaluate their future potential losses as the changing Swiss secret banking laws continue to cause more clients to remove their assets.

Other arguments to the effect of changing secret banking laws on Swiss banks are that it is Switzerland's stable economy and government, and continued growth that will continue to attract foreign investment and wealth. The government states that Switzerland still has very desirable tax laws that will continue to attract multinational corporations establishing offices (Turku, 2013). The OECD Economic Survey of Switzerland (2013) states that the economy of Switzerland is strong, and was among the few that actually grew during the financial crisis. This was in part due to a strong demand of the Swiss Franc, increasing immigration, and a high level of capital inflows. The OECD survey projected positive growth in macroeconomic indicators and projections in the short run (OECD Economic Surveys, 2013). However, given the weak global economic conditions, investment in Switzerland has slowed. Banks may face challenges in the long run especially as potential capital inflows decrease because of the new tax laws.

It seems unreasonable to believe that with a globally integrated economy and the continued development of international standards and regulatory authorities that tax havens will continue to exist as they once did. This means that the almost century old traditional model of Swiss banking built on secrecy will have to change. Switzerland is becoming less sovereign as globalization continues to establish international standards. If Switzerland reforms to total tax compliance under the standards of the OECD, then a domino effect will most likely occur as other tax havens are also forced to reform. This will leave those who are evading taxes with only one option, which is to return their money home. It is important to understand that even though Switzerland has released client information to US authorities by the ruling of the Swiss Federal Government, the Swiss secrecy banking law is still intact (Myles, 2013). It will be some time when Switzerland fully reforms, and its clients are taxed fully to their home country's standards.

CONCLUSION

Switzerland's government has reported that Switzerland will continue its efforts to increase transparency, cooperate with international authorities, and move towards becoming fully adapted to OECD tax standards (OECD Economic Survey, 2013). It is important to analyze how the Swiss banking sector will adapt to changing tax standards, as the Swiss banking industry established its international success through secret banking and tax evasion. The economic externalities involved with these changes could affect future investment and economic growth in Switzerland. The financial sector is important for the economic growth of Switzerland and the Swiss government will need to continue to protect Switzerland's interests by attracting foreign investment and capital inflows.

The purpose of this paper is to analyze potential effects that changing secret banking laws will have on the Swiss banking sector. Switzerland is still in the process of adapting to OECD regulatory tax standards; however, the losses of Swiss banks have started as clients have started pulling funds in light of the international fight on tax evasion. Tensions between Swiss banks and the US continue, as American citizens struggle in obtaining new accounts. As secret banking practices continue to dismantle, it is still early to state the full effects the new tax regulations will have on Swiss banks. There are only speculative estimates to the potential losses within the Swiss banking industry. Switzerland's economic growth and government stability has largely aided Switzerland's success, but the country will be tested in the future as the current frail global economy continues to decrease investment and international countries continue to pressure Switzerland's sovereignty.

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German Success in a Flawed European System

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ABSTRACT

This paper discusses the current flaws in the European Union as it exists today and addresses how Germany has succeeded within the flawed system. The purpose of this paper is to address the underlying fundamental issues with the European Union and explain how these issues have affected various European countries. It begins by discussing the foundation of the EU and the conditions upon which it was found. It goes on to discuss the reasons countries joined the EU and addresses why these conditions were ripe to create a crisis. The paper then discusses the asymmetries across Europe, how and why they occur, and the effect they have on Germany and the EU. The paper then focuses on how German society and German influences on the EU have enabled its continued economic success before concluding with an analysis and recommendation on how the EU should proceed from here. The paper finishes with a recommendation of further fiscal and political unification within the EU as the only means of success in the long run.

HISTORY OF THE EUROPEAN UNION

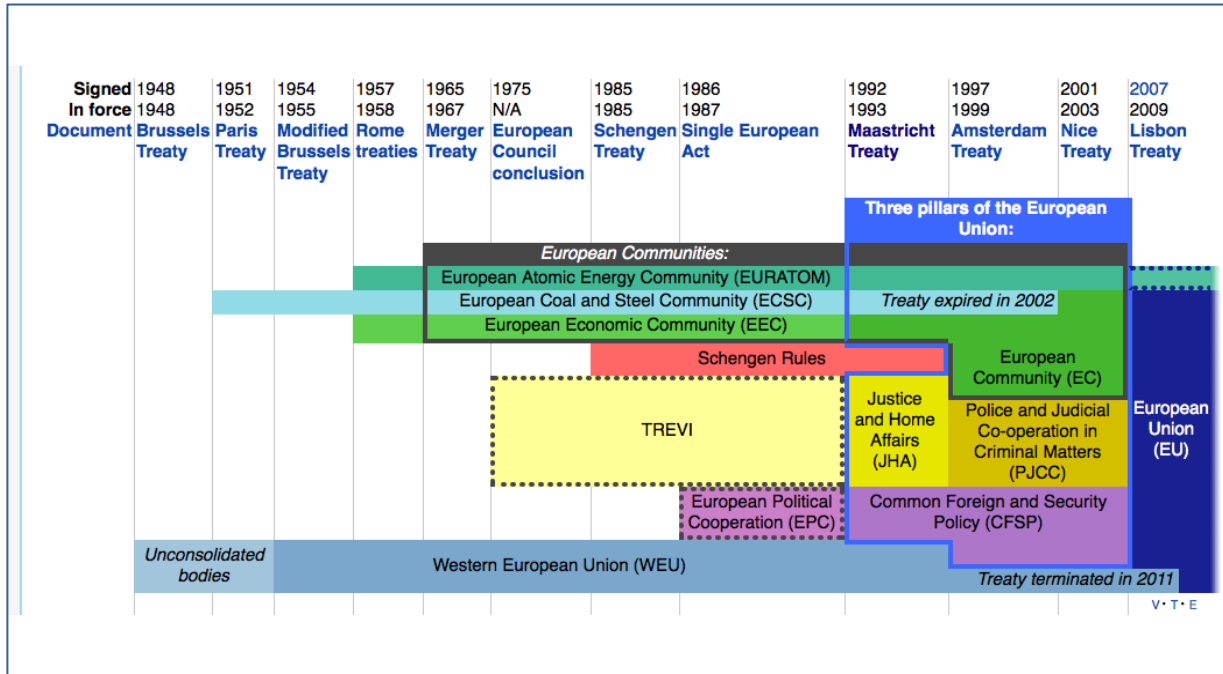
Limiting German Power in Europe

The foundation of what would ultimately become the European Union (EU) was based on a very interesting set of circumstances and occurred at a very unique point in history. At the end of World War II (WWII), political leaders across Europe were determined to establish a mechanism that would ensure the prevention of another large-scale European conflict. This effort was placed on the forefront by French President François Mitterrand who was determined to unite Europe through a monetary union (Bagnall, 2012). Despite not having a background in economics, Mitterrand recognized money and trade as the most important factors of success of a country. He believed that by beginning to establish a monetary union, Europe's economies would be too co-dependent for another European conflict to ever begin. Due to the historic tension between France and Germany, Mitterrand and the West German Chancellor Helmut Kohl knew that public opinion had to be changed if the union was to be successful. In an effort to begin changing public sentiment regarding the tensions between France and Germany, the political leaders came together to jointly mourn the victims of the world wars. This had a significant symbolic meaning as it began to display unification between historic rivals in an effort to move Europe forward together.

Following WWII, the western powers knew things had to be done differently when dealing with Germany and the treatment of Europe as a whole. The methods used to suppress German power and define international borders following WWI were obviously ineffective and are widely considered a major factor leading to the Second World War. The Allies in WWII determined that, rather than a divided Europe with clear borders and distinct territories, a focus on inclusion and unification must be sought to tie countries' individual success to one another, thereby ensuring no single country could gain significant individual power to start another armed European conflict. The political leaders chose to accomplish this task by creating strong economic ties between European countries through various treaties and agreements, the most notable being the European Coal and Steel Community that was established in 1951 in the Treaty of Paris (European Coal and Steel Community, 2013). This was the first step

in unifying European nations and the first founding treaty that ultimately was incorporated into the European Union agreement.

**Table 1: Founding treaties of the European Union
(Davis, 2013)**



Monetary Union

The first attempt to create a single European currency and monetary union was during a meeting of the European Council in December of 1969 at The Hague. The council tasked Pierre Werner, Prime Minister of Luxembourg, with finding a way to stabilize exchange rates among member nations (Bagnall, 2012). His report, published in October 1970, led to the formation of the European Monetary system which established the European currency unit, an accounting currency that was designed to stabilize exchange rates and limit inflation (Bagnall, 2012). This, in essence, was the foundation of a monetary union between the European countries that many of the early proponents believed would ultimately lead to a full-scale political union. The problem of establishing a monetary union before the establishment of a political union carried enormous risks that were for the most part disregarded:

“You cannot have a monetary union that works without a fiscal union. You cannot have a fiscal union without, in effect, a single finance minister which means you have to have a full political union. You can only have a full political union if people are prepared to go along with it, and the people quite clearly are not.” *Nigel Lawson* (Bagnall, 2012)

While Europeans may have allowed the EU as a monetary union to form without resistance, they were nowhere close to being ready to form a political union and redefine the political landscape of Europe. This underlying sentiment preventing a political or fiscal union is the ultimate fundamental flaw of the European Union that virtually ensured an event like the European Sovereign Debt crisis would happen.

Benefits for Europe

In addition to limiting Germany’s power within Europe, the establishment of a monetary union between European nations was thought to have the ability to bring wealth and prosperity to its member nations. The theory behind this supposed prosperity was underpinned by the strength of the collective European nations and the notion that as a group, the European Union would have the ability to compete with the world’s largest economies.

In theory, this size and relative strength was supposed to allow each member nation the ability to compete on a world-wide scale much easier than if they were left on their own. In addition, with the creation of a single currency between nations, member countries would realize significant foreign exchange savings in inter-European trade in the amount of approximately 30 billion (Salvatore, 2002) and reduce unnecessary volatility between member nations. On a world scale, the relative size and strength of the Euro would potentially establish it as an additional reserve currency to rival the US dollar, ultimately lowering interest rates to member nations and lowering their costs to borrow money on the world market.

Table 2. Largest economies in the world by GDP (European Union and Eurozone treated as countries) (International Monetary Fund, 2013)

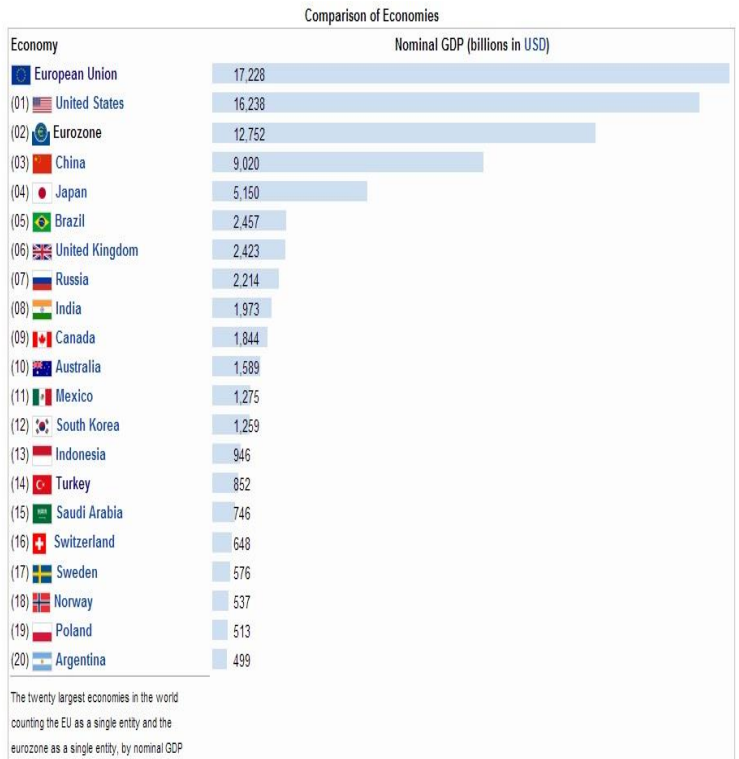
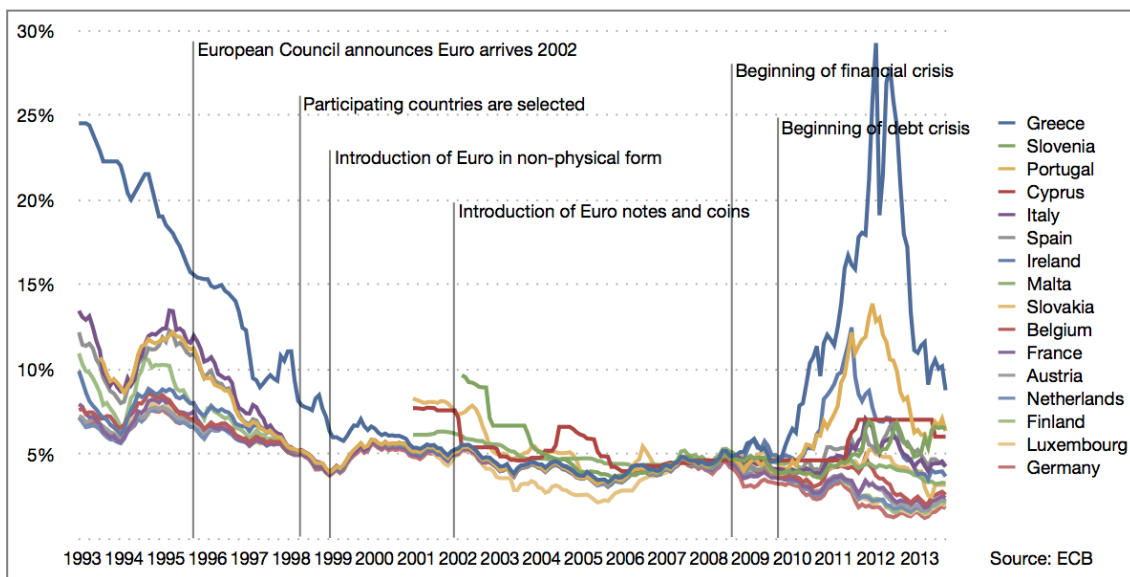


Table 3. Government 10 year bonds market interest rates (European Central Bank, 2013)



THE EURO: BOUND TO FAIL

Misguided Incentives

As discussed in a paper by Jeffrey Frieden (1998), the creation of the Euro was attractive to many European nations for a number of reasons. For countries that had historically suffered from extreme levels of inflation and exchange rate fluctuations, adopting a single currency would eliminate these fluctuations by essentially fixing their exchange rate at the date of implementation. In addition, they would adopt a stable, trusted monetary policy similar to that of Germany which had been known for its strict austerity measures and tight policies designed to limit inflation. To ensure long-term financial stability within Europe, one of the principal goals of the European Union was to slowly shift member nations' fiscal policies towards those of Germany's. When the first eleven countries joined the Euro area, the non-member countries saw strong potential for strength and stability within the EU and were afraid to miss out on their opportunity to join. They were worried they would be considered 'second-class countries' within the European Union if they too were not a member of the Euro zone and feared they would not reap the same benefits the other 'first-class countries' had (Frieden, 1998). Large corporations and political leaders across Europe loved the idea of a single currency as they understood the benefit that would be available due to the elimination of exchange rate fluctuations. With the creation of a single currency, international corporations and government entities would no longer have to worry about exchange rate risk associated with international trade within the currency area. With a large percentage of trade occurring within the new currency zone, significant currency savings could be realized upon implementation of the Euro. With the aggregate pooling of economic power among member countries, the idea was the Euro would have the opportunity to be established as a major world currency that could eventually compete with the US Dollar in strength and stability.

Optimum Currency Area

Despite the benefits that were anticipated to come as a result of the adoption of the Euro as a single currency, there were many well-known risks associated with fixing the exchange rates of such a diverse set of countries. The Optimum Currency Area (OCA) Theory put forth by Mundell (1961) and McKinnon (1963) states that it is economically beneficial to use one currency when the economies are highly integrated and have the capacity to adjust quickly to asymmetrical demand. Prior to the formation of a currency zone, in the event of asymmetrical demand shift across various areas in Europe, countries could use monetary and fiscal policies in their home nation to counteract this demand imbalance. If a country such as Spain began to operate a large trade deficit, their currency would naturally devalue through market mechanisms, making imported goods relatively more expensive, ultimately raising domestic GDP and reducing their trade deficit. This ability for the currency to adjust to the economic circumstances of a country acts as a natural stabilizer between nations. In addition, with control over domestic monetary policy, in the event of an economic crisis, Spain's government would have the ability to manipulate the money supply to spur economic activity and encourage growth. This control over the monetary system is one of the key levers a government has to manipulate the economy especially in times of crisis.

One Size Fits None

By establishing a central monetary union among Euro zone countries, governments essentially lose control over their economies and have a much harder time manipulating them in times of recession or crisis. This issue is compounded by the extensive differences between economies among member nations. Where countries such as Germany grow at an average of 2.6% a year, the southern periphery countries such as Greece struggle with high unemployment and recessionary economies (World Bank, 2013). These different economic states, coupled with a singular Monetary Union, led to a monetary policy that results in as a one-size-fits-none. In the EU's attempt to make every country happy, they ended up with policies that no country is truly happy with. The large asymmetries in the economies of Europe make the monetary policies enacted by the European Monetary Union

inherently flawed for at least one area as the EMU can only establish one policy for all member states. In addition to these issues facing the EMU, studies completed by the International Monetary Fund (IMF) in 1998 indicate that a rise in interest rates took twice as long to have a significant effect in Austria, Belgium, Finland, Germany, and the Netherlands than in Spain, Portugal, France, and Italy (Salvatore, 2002).

Asymmetric Demand Problem

A major way geographically dispersed economies handle demand asymmetry is through the free flowing movement of labour. In the United States, for example, when localized unemployment begins to rise due to demand asymmetry, workers are able to move to other areas within the country to find work. This helps to balance out the entire economy as labour flows to balance out supply and demand ensuring a flowing but relatively consistent economic area. Knowing this, the European Union took measures to ensure this would be possible within Europe through the establishment of the Schengen Agreement which led to the creation of the Schengen Area, allowing any person from within the area to travel and reside in any other member nation. In theory, this agreement suggests that individuals from member countries would have the ability to move away from regions with high unemployment towards areas in the Schengen Area that have higher labor demands just as is done in the United States. Unfortunately, this theory does not work as well as anticipated within Europe. Due to language barriers, cultural differences, and inflexible housing markets, the Organization for Economic Cooperation and Development and the European Commission found that labour mobility among EMU members is two to three times lower than among United States (Salvatore, 2002). These significant differences between citizens of member nations make the prospect of crossing international borders a significantly larger undertaking than simply crossing state boundaries in the United States. Add on national pride and historical differences among individual counties within the EU and it is easy to see why individuals are reluctant or all together unable to move when the asymmetrical demand problem occurs. This fundamental flaw in the system must be addressed before widespread prosperity can return to the Euro region.

Prior to the existence of the European Central Bank (ECB), the Deutsche Bundesbank was the most powerful force within the European System of Central Banks due to its size and influence. However, its aggressive pursuit of low to zero inflation slowed growth and increased unemployment throughout Europe. This is one of the main reasons something less extreme like the ECB gained popularity so quickly (Frieden, 1998). However, just straying away from rigidity did not mean economic issues were solved for the European Union nations. While the ECB has clearly stated its mandate to increase growth level while keeping inflation rates down, it is evident that those two actions cannot be carried out simultaneously. Furthermore, the ECB answers to a diverse set of interested parties and must choose policies that are agreeable among the majority. Being conscious of 'monetary hardliners,' the ECB is unable to inflate their way out of a recession as these parties are very conscious of inflation rate fluctuations. The ECB must walk the very fine line of appeasing the countries that are struggling financially while not disrupting the current strength in the Euro. If they do too much, they risk losing stability in the Euro and reducing its strength as a reserve currency but if they don't do anything, they risk economic turmoil and political unrest among struggling nations (Frieden, 1998).

GERMAN SUCCESS FACTORS

Given the foundation of the European Monetary Union and the conditions under which it was created, one can begin to address the factors that led to German success within the system. The location of the European Central Bank in Frankfurt, Germany is an easily identifiable factor that can be addressed as a potential reason for German success within the Euro zone. During the establishment of the European Union and the creation of the Euro, Germany was extremely determined to ensure what would become the European Central Bank would be located in Germany (Reisenbichler, Morgan 2013). With the old Deutsche Mark being the most solid and reliable currency prior to the creation of the Euro and many central banks modeling their central banking systems on the Bundesbank, this stipulation lacked a sufficient counter argument to fail. This stipulation, however, had a direct

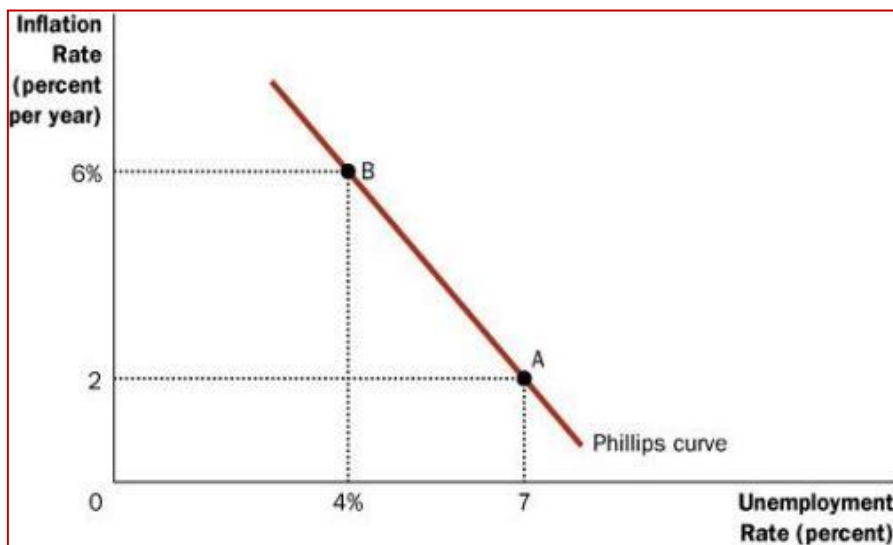
impact on the success of the German economy during the financial crisis and the failures of the European periphery. Although the European Central Bank is technically an international central bank that currently has a non-German president, it operates as a profoundly German banking institution. Being located in Germany and managed by individuals who have spent a majority of their working life in the banking system has had a dramatic impact on the way the ECB is operated. It has had a profound impact on the role the ECB currently plays within the EU and has dramatically impacted the success of the German economy (European Central Bank, 2013).

Operational Goals

An operational goal is a goal that is definable, measurable, and enactable. Operational goals are particularly useful to bureaucratic institutions that cannot measure their success with an income or profit. Where private firms are able to judge their level of success through profitability and income, public organizations need clearly defined goals in which to measure their success. In the case of the ECB, their goal is stated as: “To maintain price stability in the euro zone, to achieve a low-level of unemployment and to facilitate economic growth with low inflation” (Davis, 2013). Upon first glance, this goal seems to meet the criteria for an operational goal: it is definable, in that it can easily be written down and understood; it is measurable, in that price levels, unemployment, growth and inflation can be tracked; and each portion is enactable, in that the desired outcomes can be targeted using the ECB’s control over the monetary system. The ECB’s goal breaks down, however, upon closer inspection of the individual elements listed. Taken individually, each element is relatively easy to achieve

from a central bank’s standpoint. The problem comes in the way the elements are combined. According to the Phillips curve in basic macroeconomic theory, the government can influence the unemployment rate in the short term but only by accepting a higher rate of inflation (Davis, 2013).

Table 4. Standard Phillips Curve (Davis, 2013)



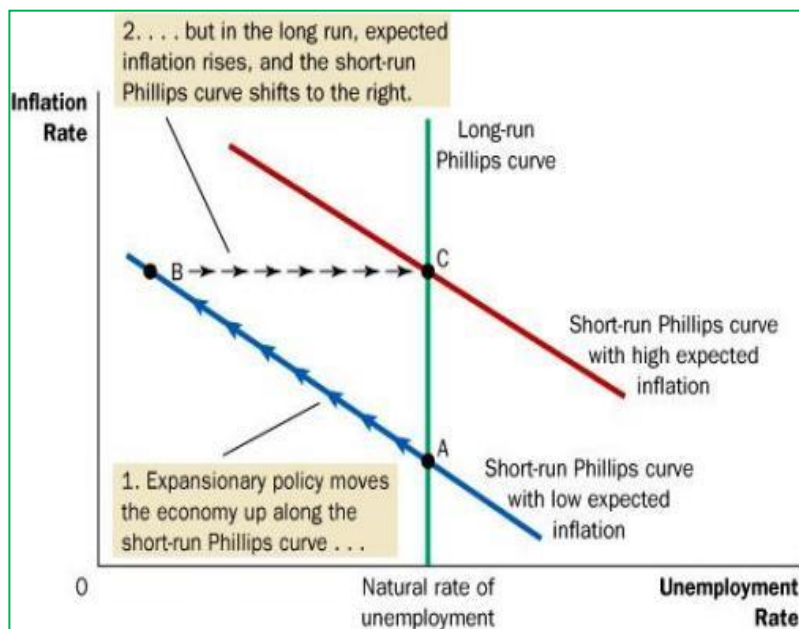
This fact makes the ECB’s goal, fundamentally unattainable as it attempts to maintain a low level of unemployment while keeping prices stable and inflation low. This inherent contradiction can lead to large disparity in what the ideal course of action should be, especially in times of crisis.

Economic Differences

With the Spanish youth unemployment rate over 50% (Eurostat, 2013), Spanish people would gladly welcome a higher inflation rate in return for increased economic growth and a reduction in their unemployment rate. Germany on the other hand, whose economy is doing much stronger, would not tolerate a high level of inflation even if it lowered their unemployment rate as over 91% of their youth have jobs (Eurostat, 2013). This is where the location and mindset of the ECB plays a large role in determining the policy that shapes the Euro zone. Mario Draghi, along with the other executive members of the ECB, has chosen to pursue a goal of low inflation and price stability that is in line with historic German principles and traditional German practices. This so happens to be very well-suited to the current German economy that is displaying growth and relatively low unemployment. To a certain extent, this pursuit makes economic sense in the long run as macroeconomic theory further suggests that

governments and central banks cannot affect the long run unemployment rate through monetary policy. As can be seen in the chart below, the long run Phillips curve is vertical and resides at a natural rate of unemployment. This natural rate is determined by other economic factors such as minimum wage laws and unions that are outside the control of the monetary policy. This means the use of monetary policy can only affect short term unemployment rates and both short and long term inflation rates. As can be seen in the graph below, the use of expansionary monetary policy can temporarily move an economy up the short run Philips curve, lowering unemployment and increasing inflation. In the long run, this theory suggests that with the new expected inflation, the economy will drift back towards the natural rate of unemployment at the new level of inflation.

Table 5. Long Run Phillips Curve (Davis, 2013)



With this economic theory in mind, the ECB is well justified to pursue a low level of inflation as it is the only economic factor it is able to control in the long run. By pursuing an expansionary monetary policy to spur growth in the periphery countries of Europe, the ECB could theoretically help to lower unemployment rates but at the cost of longer term higher inflation across the EU. As price stability and low inflation are two key objectives underpinning the ECB's existence, coupled with the distinct German influence, one can readily understand their choice to maintain policies to keep inflation low and sacrificing their ability to lower unemployment through growth.

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German Employment Policies

While the Euro crisis put countries such as Greece, Italy, Portugal and Spain into turmoil, Germany's unemployment rate has declined from 8.5 percent to 7.1%, and it was becoming the world's leader in exports, exceeding the United States and just falling second behind China (Rattner, 2011). Germany can attribute its success to several key factors including: their rigid fiscal policy; the benefit of the relentless efforts by the ECB to keep inflation rates low on a manufacturing intensive country like Germany; and policies and strategies utilized by corporations and local governments to ensure German companies had the ability to keep their highly skilled employees. As the chancellor of Germany from 1998 to 2005, Gerhard Schroder proposed Agenda 2010 which managed to hold down wages with government subsidies, discourage unemployment, and increase organizations' ability to keep their skilled employees. With a short work scheme, the total number of hours worked were reduced but the scheme prevented layoffs due to the help of government subsidies which covered part of the workers' lost salaries. By May 2009, there were over 1.5 million Germans enrolled in this program, and although it cost the government 4.6 billion Euros that year alone, it saved over 500,000 jobs for Germans while citizens of other countries lost their jobs during this economic recession (Rattner, 2011).

The second contributing factor to Germany's success is the number of small- and medium-sized manufacturing firms that produce highly specialized goods, which are known as the *Mittelstand*. As these companies were privately owned by families, the focus is shifted more towards long-term growth rather than short-term profits, bringing stability to these firms and reducing the overall risk they were taking. Moreover, these medium-sized firms put a large emphasis on employing Germans, rather than giving away business to multinational giants overseas (Rattner, 2011). With the rise of these *Mittelstand*, German workers did not have to worry about their

job security. In February 2011, Germany's exports were 21% higher than the year before. While other countries' cost of each unit of labour remained the same, Germany increased their competitiveness by 20% by increasing efficiency. It is important to keep in mind, however, that the success of the peripheral Euro countries are crucial to Germany's future success, as about 80% of Germany's trade surplus comes from its trade with the rest of the Euro area (Rattner, 2011). The combination of determined political leadership and the appropriate exploitation of Germany's comparative advantage allowed it to rise with outstanding performance amidst the Euro crisis. While Germany is currently stable and in a good financial health, it is beginning to change its focus towards encouraging new industries such as the alternative energy sector to grow. Recently, Germany has received 41 billion dollars in new investment for the green energy industry, whereas the United States has only received 31 billion dollars (Rattner, 2011).

Prior to the Euro crisis, with the help of government regulations, firms were able to develop policies and guidelines that accommodated fluctuations in working hours and pay according to economic conditions (Reisenbichler and Morgan, 2013). Ultimately these regulations and policies protected German skilled workers from losing their jobs and saved the firms large amounts of money and time on training new employees. The restraint on hours and wages for employees have become an "equivalent to currency devaluation," allowing Germany to continue to raise its gross exports and allowing the German economy to be more competitive in comparison to others of the Euro zone (Reisenbichler and Morgan, 2013).

German Household Strength

Just as German corporations maintain their productivity and profitability through efficiency, German households place a large emphasis on future planning and efficiency in the home. Germans prefer to live within their means rather than using debt to finance large purchases. Even with the historically low interest rates, when Germans purchase a car, 35% of them do so entirely in cash compared with 1% of Americans (KPMG, 2012). Many German households would even rather rent a house or apartment on a long-term basis rather than use bank debt to mortgage a house. This factor can be readily seen in the German economy by a small percentage of companies that accept credit card as a payment method. This is simply due to the fact that a large number of Germans simply don't believe in credit as a way to finance consumption. This is entirely foreign to a North American citizen where credit card transactions are a daily occurrence for both small and large scale purchases. Credit cards are a way of life to citizens in many debt-ridden countries as our different mindset views debt as a way to achieve our goals.

WHAT IS NEXT FOR THE EURO

The European Union is in a difficult situation and must face some challenging questions if they hope to survive in the long term. Being solely a monetary union was never meant as the final resting place for the EU, yet very little has been accomplished in moving closer to forming a fiscal or political union since its inception in 1993 as part of the Maastricht Treaty. As discussed in the opening section of this paper, a monetary union without fiscal or political integration cannot function indefinitely. There is a strong underlying need for increased fiscal and political integration among member nations that comes at high cost, each country's individual sovereignty. With a difficult problem and no clear solution ahead, the European Union and its member nations are at a standstill. When the issues facing the EU are examined, three potential solutions must be considered. Firstly, the EU could remain in its current stagnant position with the notion of bringing in a tighter, unified fiscal policy on the forefront, but no significant change occurring. The second option is to abolish the Euro as a single currency for EU nations and allow each nation to regain control of their monetary policy. This would involve a high level of risk and uncertainty as there are no established regulations for the disbandment of the Euro on a small or large scale. The third and most beneficial option is for the member nations of the EU to come together and establish a fiscal union with a single finance minister, while working to creating a stronger sense of unity among nations.

As stated by Angela Merkel, Germany is facing a difficult predicament as they decide on whether they should keep supporting the peripheral EU countries through the use of bailout money, or to discontinue absorbing their liabilities until there is stronger political union in place (Charlemagne, 2012). Similarly, France is reluctant to relinquish any of its sovereignty until there is a more rigid unity between the EU nations where fiscal reforms can be enacted where necessary. For both of these economically strong countries, it is easy to understand why losing sovereignty would be a difficult notion to accept. Instead of being in economic turmoil like the southern periphery, Germany and France are financing these governments' sovereign debt obligations in order to maintain the strength of the Euro and ensure the continuation of monetary union.

Do Nothing – Status Quo

The EU has effectively maintained the status quo since its inception, without any major progress towards the formation of a fiscal or political union. The EU has essentially taken the easy way out by not enacting any major changes to the structure of the system and has simply maintained the status quo. This is obviously the easiest path for the EU to pursue as nothing needs to happen and things can simply stay the way they currently are. No major reforms need to be agreed upon and tough decisions need not be made. While the EU has been talking about their attempt to implement reforms and change the way the system has been operating, they have essentially been maintaining the status quo as nothing concrete has been accomplished. If countries with a strong economic foundation keep prospering, however, inflation will eventually begin to surface and interest rates will have to be adjusted upward. Without drastic changes to the current economic systems in the southern periphery, rising interest rates would demolish any chance these countries have of rebuilding their economies and cause further tension within the EU.

Disbandment of the Euro Currency

The possibility of a partial or full disbandment of the Euro as a unified currency among EU nations is a scary concept. There would be enormous difficulties if any country were to attempt to leave the Euro zone and re-establish a currency of their own. It would have drastic repercussions on the individual country and the remaining Euro zone nations. Because there were no provisions or guidelines established for how a country would leave the Euro, there is a lot of uncertainty as to the effect it would have on the EU. It would be a huge undertaking to re-establish a currency and each step would have to be carefully planned to minimize any adverse effects. Problems arise when discussing the implementation of a new currency in a former Euro zone country as exchange rates would have to be arbitrarily established and a significant depreciation of the new currency would be expected upon implementation. This would create a large scale 'run on the bank' in the affected country as all their citizens would attempt to hold their Euro bank deposits in paper form until the new currency is fully established and relatively stable. This would cause excessive strain on both domestic and foreign banks as the demand for physical Euros would increase dramatically causing shortages across the EU. The economic turmoil caused by a single nation abolishing the Euro as their currency could also lead other struggling EU nations to follow suit causing even more economic uncertainty. Ultimately, any form of dissolution of the Euro as the single European currency would cause a lot of economic strain on all the European economies and all the benefits initially sought in the formation of the Euro would be lost. Governments and corporations would face increased transaction costs during international trade, ultimately lowering European growth and reducing economic stability. Finally, as the second largest reserve currency in the world, the disbandment of the Euro would bring about a worldwide shift in currency holdings and would significantly affect governmental interest rates in Europe and abroad. In both the long and short term, the disbandment of the Euro would have dramatically negative effects on Germany, Europe and the entire world.

Further Fiscal Integration

In coordination with the Presidents of the Commissions, ECB, and Eurogroup, a report was drafted by the President of the European Council Herman Van Rompuy (2012) to establish 'building blocks' for further euro zone integration. The report focused on developing a high level plan to outline stages of integrating fiscal policies among member nations. This report is a good starting point of action needed to spark fiscal integration among EU countries, but concrete measures must be enacted for any of the plans to be successful. This proves to be much more challenging than simply having political leaders come together and superficially agree on changes outlined in a report. The process of enacting change will not be easy. However, difficult as it may be, one thing is for sure – "monetary union by itself cannot work indefinitely" (Bagnall, 2012). To make the EU sustainable in the long term, they must complete the necessary steps to become an Optimal Currency Area or risk continued financial instability and economic disparity for the foreseeable future. More rigid fiscal integration is needed to progress towards becoming an OCA at the expense of the loss of fiscal sovereignty for the individual EU nations. Simply continuing to provide bailout money and demanding reforms in the European periphery cannot be a long term solution. Real, visible steps must be taken towards fiscal integration to ensure the longevity of the European Union and the Euro as its currency. Financial integration among the European Union, if done correctly, could establish Europe as the largest economic power in the world with a sturdy foundation and strong growth prospects. However, without steps towards real fiscal union and continued financial integration, the Euro is destined to fail, bringing about significantly negative impacts on the European nations involved and Europe as a whole. With no easy way out, the European Union must proactively take action to move towards their original goal of fiscal and political unification.

CONCLUSION

With the European Union at a standstill and Europe's economies drifting further apart, further fiscal integration is the natural course of action. Despite the relative economic success of Germany and the other larger economies of the EU, something substantial must begin to happen in the near future or the EU will face considerable economic issues. Further fiscal integration must begin to be established immediately for it to be effective in preventing another European crisis in the near future. Only a fully unified European Union will have the ability to rise above the current economic turmoil and maintain its strength and stability. The EU must ultimately take action to progress towards its designed resting place, as a fiscal and political union.

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The Time for Change is Now:

An Analysis of The Current State of Sustainable Initiatives in the EU and a Case Study of the Henkel Corporation's Sustainable Success

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Fall 2013

ABSTRACT

As the world recovers from the Global Recession, the search for a stable and resilient long-term growth strategy is the critical issue facing both governments and business leaders today. The purpose of this research paper is to analyze some of the current strategies being considered, specifically the policies and frameworks used by the European Union and the United Nations in the area of sustainability. This paper will discuss the basic principles of the Europe 2020 Strategy and the United Nations Global Compact in relation to their current goals and success in the area of sustainable growth. In addition, it will focus on the Henkel Corporation and analyze their strategies and the success they have achieved by integrating sustainable initiatives into their corporate values. This paper will also discuss the results of a brief student survey with the purpose of determining how the public views the sustainability efforts of the European Union and the level of optimism as to whether the EU will achieve future success in the area of sustainability. This paper reflects the current sustainability situation in Europe and offers an analysis regarding the future of sustainable growth and development in the European Union.

INTRODUCTION

In the past decade, the topic of sustainability has transformed from a basic theory into a well-defined and critical component of the strategies of many successful multinational corporations. Governments and agencies around the globe have fought for organizations and their leaders to recognize the urgency that sustainable development requires. This is particularly true in the European Union (EU), where the European Commission is working with techniques such as the Global Reporting Initiative (GRI) in the hopes of developing a clearly defined plan on which European and global corporations can build their own sustainable platforms. Although the path to sustainable growth and development is steep and will require significant investment of resources and passion, corporations are starting to catch on and “buy into” the theory that sustainable development can become a competitive advantage. Henkel, a multi-national corporation founded in Germany, and with a major office in Vienna, Austria is an example of an organization that has started down the path to a sustainable future. They have developed well-defined parameters in the hopes of emerging in 2030 as a sustainable competitor. This paper will discuss the European Commission's Europe 2020 Strategy, and the United Nations Global Compact documents known as the Global Reporting Initiative in relation to Henkel, a multinational corporation that has achieved success through alignment with these strategies. The paper will also comment on the public perception of the European Union, evaluating their progress and efforts in the area of sustainability.

HENKEL: A BRIEF HISTORY

Established in 1876 by Fritz Henkel, The Henkel Corporation has grown into a multi-national corporation with offices all over the globe. The pioneering success for Henkel came from the development of their flagship product “Persil” a detergent that was developed to take the “drudgery” out of doing laundry by hand (Henkel, 2013). The company has now grown into an industry leader in the detergents and adhesives market. Throughout the last

century, the company has prided itself on a community focus, which was the first inspiration for their present day core values that include commitment to their sustainable practices. As will be seen later, Henkel has relied on many well-established frameworks, such as the Vision 2050 framework to develop a long-term plan to ensure success in the area of Corporate Social Responsibility (CSR).

THE EUROPEAN COMMISSION: THE EUROPE 2020 STRATEGY

In 2010, the EU recognized their weakened economic state due to the Global Financial Crisis. In response, they developed a long-term collaborative strategy to ensure the recovery and future growth of the economic environment in Europe (European Commission, 2010). This strategy was developed around three key pillars: Smart Growth, Sustainable Growth, and Inclusive Growth. Each pillar, or key priority, was meant to reinforce the others and allow the EU to emerge with a stronger, more resilient economy in 2020 (European Commission, 2010).

Smart Growth

When the Europe 2020 Strategy refers to smart growth, they refer to the development of the research, knowledge, and innovation aspects of the future economy. The hope is to produce a more educated society and to not only increase the quantity of research being done, but also the effectiveness of it (European Commission, 2010). In comparison to the U.S. and Japan, the EU spends less on research, sitting at 2.0% compared to 2.6% and 3.4%, respectively; the EU claims that part of this gap is due to the lack of support for the development of private sector innovation that is so prevalent in the U.S. (European Commission, 2010). Sustainability is a relatively new field, and break-through developments are going to be essential if governments and society in general want to preserve the current standard of living and allow future generations to meet their needs. As defined by the Brundtland report of 1987, "Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (United Nations, 1987). In order for this concept to become a reality, innovation is critical, and it must happen in the private sector, as fiscally constrained governments lack the ability to guide innovation effectively.

Sustainable Growth

The concept of sustainable growth is simple: market leaders must learn how to grow the economy and continuously develop while using fewer resources that are also less harmful to the ecological environment (European Commission, 2010). This theory supports the need for more investment in innovation and research. In the past, the EU was a leader in green technologies. However, China and North America have become major players in recent years. If the EU can work cohesively and become a first mover in the development of "green solutions," this will not only ease the burden on the environment, but also give their economy a competitive advantage that can increase wealth and growth, while also stabilizing the economic environment. Ultimately, to ensure that sustainable growth does not limit recovery, both corporations and governments alike must work to not only be more efficient, but more importantly, to be more effective when carrying out primary business functions. This theory is pivotal to the acceptance and implementation of the European Commission's strategies and proposals.

If corporations such as Henkel continue to "buy into" the theory that sustainable business means better business, then growth and success will essentially become linked to sustainable initiatives. However, this exact point is the biggest barrier for the EU and member state governments to communicate. With the current fragile state of the economy, many corporations are reluctant to fully invest themselves into the development of sustainable action plans when so much uncertainty still exists as to whether or not investment today will have the desired benefits in the future.

Inclusive Growth

Inclusive growth refers to the social aspect of sustainability. Inclusive growth:

Means empowering people through high levels of employment, investing in skills, fighting poverty and modernizing labor markets, training and social protection systems so as to help people anticipate and manage change, and build a cohesive society (European Commission, 2010, p.17).

One of the most significant weaknesses that emerged globally during the recession was the gap in education and preparedness of the workforce. When citizens found themselves out of work, the true limits of their education and training became visible. The Europe 2020 strategy is designed with the expectation that by improving education and training standards, a stronger, more competent workforce can reinforce the other two priorities and create a more resilient economy. This can be recognized as a bottom-up initiative that will lead to 360-degree improvements if the proper educational programs are implemented and citizens are able to develop transferable skills.

Criticisms of the Europe 2020 Strategy

Although the basic theory behind the Europe 2020 strategy is sound, it has been heavily criticized for its broad scope and lack of consideration for the diversity of the 28 EU member states. As one critic states:

The belief that one central strategy can fit the entire European Union, with 27 [now 28] disparate economies of different profiles and reform requirements, borders on a central-planning mentality that can only damage economic growth (Erixon, 2010, p.31).

Although the EU sees the development of the single market as a strategy for success, they are failing to take into account the practical steps to ensure that this unity occurs. Other criticism has related to the vagueness of certain aspects of the strategy: “the 2020 strategy does not approach reforms in areas where common European policies exist and the European institutions have a strong influence over the design and execution of policy” (Erixon, 2010, p. 35).

Another major criticism that has been exposed is the complete disregard for the relative failure of the Lisbon Treaty, which was the preceding document to the Europe 2020 Strategy that came into force in 2009 and laid out the economic plan and overarching strategy for the EU. No discussions were formally held, or reflection made as to why the Lisbon Treaty has been considered by many to be a failure, as it has not achieved its major goals or objectives in regards to the economy (Pochet, 2010). These criticisms have the potential to act as significant barriers to the enforcement of the Europe 2020 strategy. In theory, the strategy will work if governments and companies such as Henkel voluntarily adopt the policies and principles outlined, but for those who remain skeptical, the lack of solid footing may make the strategy irrelevant. As will now be discussed, certain policies and strategies have been developed, aimed specifically at corporations in the hopes of developing a sustainable economy without the necessity of government regulation.

THE UNITED NATIONS GLOBAL COMPACT

In 2000, the United Nations Global Compact (UNGC) was initiated as a platform on which organizations could develop CSR initiatives. Today, it is the largest corporate initiative with over 12,000 member organizations (United Nations Global Compact, 2013). The UNGC encourages sustainable progress of corporations globally, and offers guidance for improvement. There are ten overarching principles that members of the UNGC must adhere to.

**Figure 1. The 10 Principles of the UNGC
(United Nations Global Compact, 2013, p.3)**

HUMAN RIGHTS	
PRINCIPLE 1	Businesses should support and respect the protection of internationally proclaimed human rights; and
PRINCIPLE 2	make sure that they are not complicit in human rights abuses.
LABOUR	
PRINCIPLE 3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
PRINCIPLE 4	the elimination of all forms of forced and compulsory labour;
PRINCIPLE 5	the effective abolition of child labour; and
PRINCIPLE 6	the elimination of discrimination in respect of employment and occupation.
ENVIRONMENT	
PRINCIPLE 7	Businesses should support a precautionary approach to environmental challenges;
PRINCIPLE 8	undertake initiatives to promote greater environmental responsibility; and
PRINCIPLE 9	encourage the development and diffusion of environmentally friendly technologies.
ANTI-CORRUPTION	
PRINCIPLE 10	Businesses should work against corruption in all its forms, including extortion and bribery.

These principles focus on four main categories: Human rights, Labor, Environment, and Anti-corruption. When joining the UNGC, businesses must agree to sign on to this principles-based theory of management and incorporate it into their corporate strategy (United Nations Global Compact, 2013). The UNGC has been formulated as a principles-based initiative. “Principles-based initiatives reflect broadly defined norms for corporate behavior without any monitoring” (Rasche et al., 2013, p.9). It should be noted that principles one to six are already ingrained in EU law; it is principles seven to nine that extend past the current legal statute with the objective of further developing the regulatory principles regarding the environment.

The 2013 UNGC Sustainability Report

The most recent survey from the UNGC was published in 2013. It outlines the progress and achievements made by the involved organizations. The report outlines four key findings which are relevant to the future progress and success of the member organizations. The four key findings are as follows (United Nations Global Compact, 2013, p.7):

1. Companies are moving from good intentions to significant actions.
2. Large companies are still leading the way.
3. Supply chains are a roadblock to improved performance.
4. Companies are seeing the big sustainability picture

These findings will guide organizations in the future as they try to successfully integrate the ten principles into their strategy.

Companies are Moving from Intentions to Significant Actions

The 2013 UNGC survey showed that although there has been improvement in the area of acting on intentions, there are still gaps between creating plans and strategies and actually implementing them throughout an entire company. For example, only 35% of UNGC members are actively training managers throughout the organization to integrate sustainability at the various levels. A suggested cause of this is that implementation comes with a much higher cost than planning (United Nations Global Compact, 2013). It is figures like this that question whether or not the UNGC members are truly committed to sustainable improvement or have joined the organization simply for the accreditation.

Large Companies are Still Leading the Way

There has been an increasing trend for Small and Medium sized enterprises (SME) to become more involved with sustainable initiatives. However, "SMEs cite lack of financial resources and lack of knowledge as top barriers" (United Nations Global Compact, 2013, p.7) to implementation and success in regards to sustainable initiatives. These companies may be making the effort to join the league of the largest corporations, but they are still struggling to find the appropriate resources to assist them. This suggests that more engagement must happen between the UNGC and SMEs to ensure that they can succeed in following the ten outlined principles. Henkel, a large multi-national corporation, does not face the same barriers as the SMEs, which may be why they have had the ability to act on their commitments to the UNGC. Henkel's ability to overcome these challenges will be discussed in more detail later.

Supply Chains are a Roadblock to Improved Performance

In today's business environment, most corporations are linked integrally to suppliers throughout their value chain and rely on these partners for success. This can mean that, in order for a company to succeed in developing a successful sustainability strategy, they must partner with their suppliers. This has been recognized as one of the pivotal barriers to the complete integration of sustainability across the entire value chain. In fact, this issue has been ranked as the top barrier for large corporations in their progress towards success (United Nations Global Compact, 2013). This is where the point of control shifts to another section of the value chain and can move beyond the control of the company in question, thus preventing success. The issue of supplier management may be the area where most investment is needed by organizations if the global economy plans to emerge into a new era of development. As will be discussed, Henkel has had success in resolving this barrier with an attempt to create a more comprehensive sustainability action plan.

Companies are Seeing the Big Sustainability Picture

In past years, many corporations have taken a “tunnel-vision” approach to sustainability. They have not looked beyond the scope of their own actions, or impacts. However, increasingly more organizations are recognizing the global impacts of sustainability issues and are developing strategies that look beyond their own internal challenges and rewards (United Nations Global Compact, 2013). This mentality is crucial if the UNGC and corporations around the world are to be successful in alleviating the main sustainability issues currently facing society.

Criticism of the United Nations Global Compact

Like the Europe 2020 strategy, the UNGC and their actions have been both praised and criticized. It is clear that if companies adhere to the UNGC principles, significant progress towards a sustainable future will be made. However, “critics argue that the initiative promotes vague principles, and hence misses accountability, leading to a situation where corporations can profit from the credibility and reputation of the United Nations” (Rasche & Gilbert, 2012, p.100). Again, it appears that the main point of criticism is not the principles or goals of the initiative, but the fluidity of the current economic environment and the lack of enforceable regulations. The UNGC can guide companies, but there is no jurisdiction to actively enforce regulations and punish non-compliance. Currently, the power remains with the corporations who ultimately decide how far to take their sustainable commitments. Some organizations like Henkel have chosen to take action, but many other members of the UNGC continue to tread water and not make any substantial progress. The next section will discuss how Henkel has been inspired by the UNGC and Europe 2020 strategy to develop their own sustainability path and have taken great strides towards implementation.

HENKEL: THEIR SUSTAINABILITY STRATEGY

Henkel is an organization that has a substantial ecological footprint as a result of their main business operations – the production of detergents and adhesives for both industrial and private use. Manufacturing companies often have significant impacts on the world’s natural environment due to the vast scale of their processes and their reliance on non-renewable inputs. In recent years, Henkel has identified these realities and created a well-defined sustainability strategy. They have built their plan around one simple value: “We are committed to leadership in sustainability” (Henkel Sustainability Report, 2012, p.1). Supporting this broad and rather vague statement is the company’s chosen definition of both sustainability and leadership itself:

Sustainability: In 2050, about 9 billion people live well and within the resource limits of the planet.
Leadership: We pioneer new solutions to sustainability challenges while continuing to shape our business responsibly and increase our economic success on the basis of a long-term goal, clear targets for the years 2011 to 2015, and strategic principles (Henkel Sustainability Report, 2012).

This definition is the basis for their long-term development goals. As will be outlined, the company has developed both a long-term qualitative strategy for where the company expects to be in 2030 and a short-term quantitative strategy to help them begin to achieve those goals. The main strategy is the idea that the company can “Do more with less” (Henkel Sustainability Report, 2012). More specifically, the company plans to create more value for their stakeholders without increasing their ecological or social footprint.

Henkel and the World Business Council for Sustainable Development: Vision 2050

Further analysis of the Henkel strategy shows that their definition of sustainability is the definition created by the World Business Council for Sustainable Development (WBCSD). The Vision 2050 Project was developed:

By 29 global companies representing 14 industries... They developed a vision, based on dialogues in 20 countries with several hundred companies as well as experts, of a world on-track toward sustainability by 2050 (Vision 2050, 2010, p.2).

The project outlines “a world in which the global population is not just living on the planet, but living well and within the limits of the planet” (Vision 2050, 2010, p.2). This project paints an image of how the world needs to be in 2050 in order to continue to thrive but does not offer any definitive guidance as to how to get there. It simply describes the potential benefits for business and society if organizations recognize the competitive advantages to be created through a strategy focused on sustainability.

Henkel has recognized Vision 2050 as the basis for their sustainability strategy. Their aim is to create more value while simultaneously reducing their impact and footprint. The more specific details and techniques have been derived from this theory through the use of Backcasting, a theory where you decide what you want the future to look like and then work from there to develop a strategy that will allow you to successfully reach that vision (Roorda, 2001). Backcasting has been heavily implemented in the development of sustainability strategies as it reflects the reality of the current situation and the distance that must be travelled to reach specific goals. It has proven effective at reflecting just how far the current state of living is from meeting the goals of the future. It shows the dire situation we will be in if we do not change our present actions and redesign the modern business platform. By using the Vision 2050 project as inspiration, Henkel has been able to develop a plan for both short- and long-term development.

Henkel’s Factor 3 Initiative

The leaders of Henkel have developed a simple goal that they believe must be achieved: Become three times more efficient by 2030. More specifically, this means: “tripling the value... created through... business activities in relation to the ecological footprint made by... products and services.” (Henkel Sustainability Report, 2012, p.2).

The foundation for their “Factor 3” strategy was inspired by Vision 2050. Henkel strives to be three times more efficient by 2030, on their way to meeting the goals outlined in the Vision 2050 strategy. The company has recognized that they have two options for achieving this goal: They can either achieve three times growth without increasing their impact. Or, they can reduce their impact by three times while keeping production and growth the same. Henkel acknowledges that in order to achieve this goal, they must reduce their impact by five to six percent annually (Henkel Sustainability Report, 2012). This goal may seem large or unattainable, but as will be discussed, Henkel has been quite successful at staying on their defined path.

Henkel’s Short Term Goals and Actions

In the short term, Henkel has recognized that abstract goals are not enough to ensure that they achieve their target by 2030. Therefore, they have developed clear-cut figures and strategies outlining improvements that must be made by 2015 in order to keep the company on pace to meet their long-term goals.

Figure 2. Henkel’s “Factor 3” Theory (Henkel Sustainability Report, 2012, p.2)



Figure 3: Henkel’s 5-year target and main areas of focus
(Henkel Sustainability Report, 2012)



In order to achieve these goals, Henkel understands that they need both top-down leadership and bottom-up organizational support for their new strategies. To ensure that their vision has spread throughout the entire company, they hosted Action Plan meetings where each specialized work team met to discuss the goals and brainstorm potential strategies for improvement. Each specialized area was able to participate in developing their specific sustainable Action Plan (Henkel Sustainability Report, 2012):

The workshops served a two-fold purpose: to communicate the fundamental principles behind our sustainability strategy and to systematically record the contribution that each team would be making to achieve... sustainability targets (Henkel Sustainability Report, 2012, p.4).

In 2012, Henkel succeeded in creating company-wide involvement and engagement in the area of sustainability. 670 Action Plan meetings were held and as a result, 6,000 potential measurements were proposed to senior management from the various divisions within the company. These figures reflect Henkel’s success at overcoming the barrier recognized by the UNGC regarding the difficulty companies have with creating management involvement. The amount of time that was invested in these Action Plan meetings reflects the fact that Henkel has moved from intention to clear action in the area of sustainability. It also supports the theory that larger companies do have an advantage in regards to company-wide implementation, as SMEs may have struggled to find the time and resources to implement these meetings on such a vast scale.

In addition to aligning with the goals of the UNGC, Henkel’s Action Plan meetings also align with the Europe 2020 principle of “Smart Growth.” Undoubtedly, many innovative ideas and concepts came out of the meetings, affirming the value the company puts on the ability of their workforce to innovate internally. Ultimately, the Action Plan meetings exemplify the success a company can have at gaining a competitive advantage through internal innovation, employee empowerment, and company-wide commitment to sustainability.

Retail Partnerships

A multi-national producer such as Henkel has multiple partners integrated both up and down their value chain. This can pose various challenges when the company is attempting to improve both their economic and ecological footprint simultaneously. In an effort to mitigate some of these challenges, Henkel has developed partnerships with their retailers to help spread value. Most notably are their partnerships with Walmart and the German drugstore chain DM. In 2012, Henkel partnered with Walmart in Central America to host a sustainability week where innovation and achievements in the area of sustainability were shared (Henkel Sustainability Report, 2012). Henkel also partnered with DM to educate young employees on the proper use of sustainable products. This soon transformed into consumer education, as these young employees held in-store demonstrations on the proper use of green products and how to conserve energy (Henkel Sustainability Report, 2012). All of these efforts culminated in positive impacts and rippled throughout the value chain, not only assisting Henkel in their sustainability initiatives, but also supporting the marketing aspects of the company.

Supplier Partnerships

Henkel has made it clear that they expect their supplier network to adhere to certain standards, or have their relationships with the company terminated. Henkel follows the German Association of Materials Management, Purchasing and Logistics (BME) Supplier Code. This code aligns itself with the UNGC principles, making it a logical fit with Henkel's core values. It also supports the global scope of the company (Henkel Sustainability Report, 2012). Henkel requires all suppliers to either support the principles of the BME or develop their own comparable code of conduct. The company is willing to work with their suppliers to ensure that this is achieved (Henkel Sustainability Report, 2012). To ensure that the company is successful at developing strong and ethical supplier relationships, they have developed their own five-step supply chain process where each step acts as both a tool for development and as a form of risk mitigation.

Figure 4. Henkel's approach to supply chain management (Henkel Sustainability Report, 2012, p. 10)



Step 1: Risk Assessment helps protect the company from supplier issues and vulnerability, as well as acts as a warning signal if some of their current suppliers are not adhering to their agreement. The assessment focuses on human rights, corruption, and the legal environment.

Step 2: Self-assessment focuses on the specific assessments the company does to determine if there are any issues that would affect the company individually, but may not have an impact on the overall industry, so would therefore not be acknowledged in external reviews.

Step 3: Analysis allows the company to interpret their assessments and determine if any supplier relationships must be terminated. They rate their suppliers on a "traffic light" scale, allowing them to determine partners that are red and in violation, meaning they should be terminated, those that are yellow and need assistance improving, and those that are green and adhering exactly to their predetermined agreements.

Step 4: Audits focus on both past audit results and transparency, as well as the development of future audit relationships. The goal is to enhance the flow of information between the company and their suppliers.








Step 5: Further development is the final step in the process, which the company uses to extend the success of their current supplier relationships. Henkel hopes to continue to improve the success of each supplier and is constantly looking to improve on existing standards. This can mean assisting suppliers in developing their own supplier assessment system, or working with suppliers to improve the individual industry in which they operate.

This theory of supplier management is prevalent in both the Europe 2020 Strategy and the UNGC frameworks, and is seen as crucial to the solidification of a sustainable competitive advantage. Henkel has been taking clear action in this area. Should they succeed in continuing this strategy, they will further support the theory that the management of supplier relationships is a legitimate and proven path to success.

Current Performance

The above discussion has made it clear that Henkel is taking firm action in the area of sustainability. However, the real question at hand is how well the company is actually doing in meeting their pre-determined goals and if they are on target to meet the required levels by 2030. Their 2012 sustainability report provided a summary of their own evaluation of their current performance:

Figure 5. Henkel’s summary of their current performance (Henkel Sustainability Report, 2012, p.5)

Focal area	Targets	Status
	Performance <ul style="list-style-type: none"> At least 10 percent more sales per production unit by 2015 (base year 2010). 	●
	Social Progress <ul style="list-style-type: none"> Continuous training and professional development of all employees as appropriate to their tasks. Annual increase of one to two percentage points in the proportion of female managers (see Pages 35 and 36). 	● ●
	Health and Safety <ul style="list-style-type: none"> A 20 percent reduction in the worldwide accident rate by 2015 (base year 2010). 50 percent reduction in solvents used in consumer adhesives by 2020 (base year 2010). 	● ●
	Energy and Climate <ul style="list-style-type: none"> A 15 percent reduction in energy consumption – and the associated CO₂ emissions – per production unit by 2015 (base year 2010). Regular checks of our production sites to determine whether the use of renewable energy sources is ecologically and economically worthwhile. 	● ●
	Water and Wastewater <ul style="list-style-type: none"> 15 percent less water used per production unit by 2015 (base year 2010). Increase in the proportion of readily biodegradable ingredients in soaps, shower gels and shampoos to 90 percent by 2012. 	● ●
	Materials and Waste <ul style="list-style-type: none"> A 15 percent reduction in the waste footprint per production unit by 2015 (base year 2010). Ensuring that the entire volume of palm oil and palm kernel oil used in the form of raw materials in our products is covered by certificates from the Roundtable on Sustainable Palm Oil (RSPO) by 2015. 	● ●
	Overarching goals for all our focal areas <ul style="list-style-type: none"> All new products contribute to sustainable development in at least one focal area. Establishing a recognized measuring system in order to assess the contributions our products make along the value chain and to quantify the progress achieved in our product categories. 	● ●

● Achieved / Progressing as planned ● Stronger focus needed ● Not achieved

The above table summarizes their performance in the major focus areas. They are supported by the Key Performance Indicators used in the company's yearly sustainability audit, and those developed through the Action Plan meetings. This summary indicates that the company is succeeding in meeting their pre-determined objectives. Of course the success reflected in these results does not guarantee that the long-term objectives will be fulfilled, but it does indicate that the company is actively pursuing improvement and has turned planning into firm action.

While Henkel found that nearly all focus areas were achieved or proceeding as planned, the company identified one critical area for improvement that is essential to success. When an organization can confidently determine the complete impact their products have, from one end of the value chain to the other, then they will be able to develop the appropriate method for mitigating negative impacts in all three areas of importance: People, Planet, and Profit. Henkel has identified their own three areas that matter most to their core values: Products, Partners, and People. In the future, if the company can continue to create value without negatively impacting these three factors, Products, Partners, and People, Henkel will have successfully achieved their overarching goals and secured a competitive advantage in the area of sustainability. As it stands, Henkel is an organization that is achieving success through alignment of their corporate values with the principles of both the UNGC and the Europe 2020 Strategy. The company is proving that commitment to these policies can lead to corporate success.

Next, there will be a discussion regarding the opinions the public holds regarding these policies, their effectiveness as a whole, and whether they believe the EU will have future success in the area of sustainability.

THE OPINIONS OF THE PUBLIC: CAMPUS SURVEY

In order to determine how the general population in the EU is reacting to the Europe 2020 Strategy and the overall actions of the EU, a survey of twenty students using convenience sampling at the Vienna University of Economics and Business in Austria was completed. This demographic was selected because the actions and decisions of the EU today will have the greatest impact on the future generation and their role in society. Therefore, it is the opinions of the younger generation that matter most in the development of future sustainability initiatives.

The Survey Structure and Goals

The chosen survey questions were selected with the goal of focusing on broad questions that would capture the general feelings and tensions of the public, which was the goal when collecting this form of primary data. Specific questions about Henkel or particular Europe 2020 policy changes were not asked to avoid disparity in specialized knowledge from creating inaccuracies in the results. The objective was to understand whether or not the European population was optimistic or skeptical of the changes the EU was attempting to implement.

The Results

The first question asked in the survey was whether or not the surveyed individuals had heard of the Europe 2020 Strategy. Of the twenty people solicited, only 15% were aware of the strategy. In addition, only 35% of those surveyed had recognized any efforts by the EU to make strides in the area of sustainability. These results suggest that the EU is not properly communicating their efforts or goals to the public. This could potentially cause the Europe 2020 Strategy to fail before it is even implemented. It is crucial to have the support of the general public if the EU is to be successful in making changes.

It is clear that the surveyed population believes that sustainability is an important issue, as 95% believe that both the Austrian government and the EU should invest in sustainable initiatives. However, when asked about their personal consumption habits and if sustainability was a decision factor, only 50% responded "yes, it was," and

another 30% responded with “sometimes.” This suggests that consumers are starting to think more consciously about sustainability, but that other factors such as convenience and price may continue to be more important factors, especially in the student demographic. This could further suggest that a communication gap exists between the governing bodies and the population, as sustainability is still not a top priority in the minds of consumers.

These results suggest that there is even more onus on corporations to make the right choices for their consumers when designing products, and to continue to communicate the benefits of sustainable choices. If the majority of consumers are still not committed to actively seeking sustainable options, then organizations should make the choice for them and ensure that all products have a minimal impact on the environment. Therefore, when the time comes that consumers become more ecologically aware, they do not have to drastically alter their consumption of certain products in order to lessen their individual footprint. In the case of Henkel, their Persil laundry detergent is a top brand across Europe. Henkel is committed to reducing their products’ environmental impact, which is ultimately passed on to the end consumer who is purchasing an eco-friendly product, without using sustainability as a key decision factor.

The final question asked was whether or not the respondents believed that the EU would be successful in the next five years at achieving substantial success in the area of sustainability. The results indicate that the population is skeptical, as only 50% responded “yes” and 10% responded “maybe.” These results confirm the assumption that, although the EU is trying to take firm action, and that some companies are supporting their cause, the general public is still not acknowledging these efforts or seeing them as potentially successful. This gap between theoretical solutions and the confidence of the public is a critical issue that must be addressed by the EU if they hope to succeed in implementing their strategy and building the foundation for a more sustainable future.

CONCLUSION

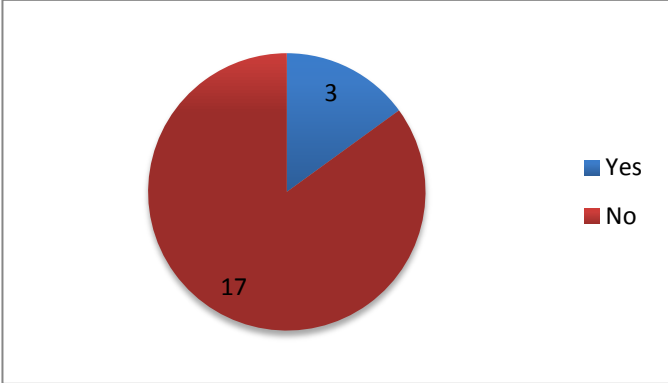
No time is more promising than now for governments and corporations to make a firm commitment to CSR initiatives. The world is recovering from the Global Recession and every party is looking for a way to insulate the economy from future vulnerability. It is clear that the EU and the UN have recognized sustainable growth and development as critical to ensuring the development of a stable and robust economy. The real obstacle today is not deciding how to protect and develop the economy, as the majority of stakeholders have already acknowledged CSR as the path to the future. The real issue lies in convincing businesses to voluntarily make the long-term investment required and align their culture and corporate strategies with the values being proposed in such propositions as the United Nations Global Compact or the Europe 2020 Strategy. In addition, firm regulations must be developed from these abstract concepts. As Henkel has proven, committing today can lead to positive results tomorrow. If more corporations can “buy into” the theories and principles posed by the EU through the Europe 2020 Strategy, and by the UN through the Global Compact, then the opinions of the public are likely to change. Governments, private businesses, and individual consumers must work together to ensure society can emerge more resilient and efficient in the future, guaranteeing that the future generations will not suffer the consequences of our inaction today.

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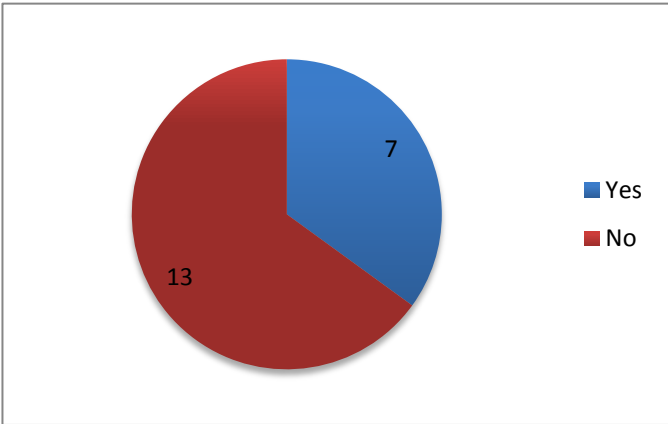
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APPENDIX 1: SURVEY QUESTIONS AND RESULTS

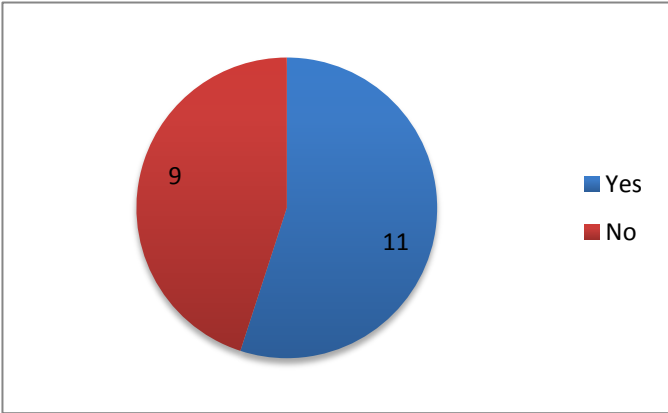
1. Have you ever heard of the European Union’s Europe 2020 Strategy for Economic Development?



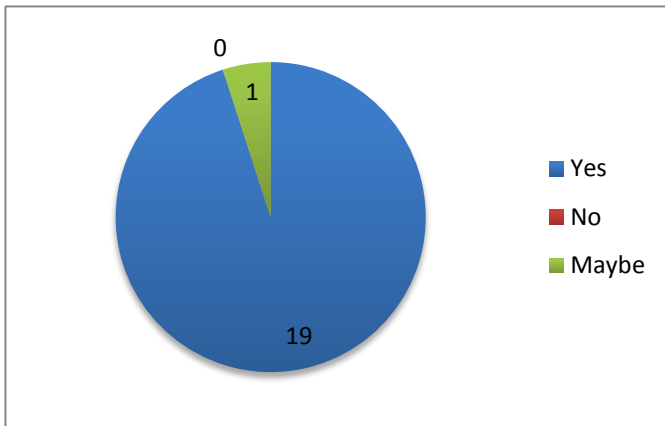
2. In the last 3 years have you noticed any significant actions by the European Union in the area of sustainability?



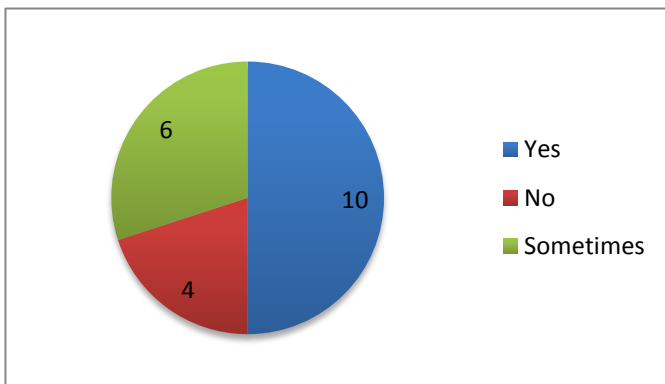
3. In the last three years have you noticed any significant actions by the Austrian government in the area of sustainability?



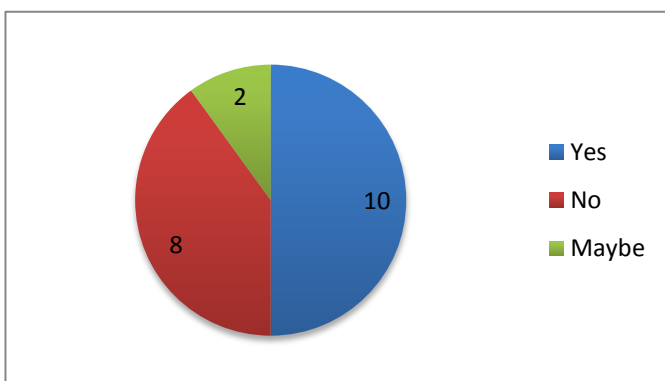
4. Do you see sustainability as an important issue that the European Union and the Austrian government should be investing in?



5. Do you personally consider sustainability in your daily actions and product choices?



6. What do you think is the likelihood that the European Union will succeed in taking significant or concrete actions in the area of sustainability in the next five years?



Swarovski: Analysis and Recommendations

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ABSTRACT

The objective of this paper is to determine how Swarovski has grown to become a global luxury jewelry market leader and to develop recommendations for their expansion strategy. This will be accomplished by conducting a Strengths, Weaknesses, Opportunities, and Threats (SWOT) analysis, followed by an analysis of the Swarovski positioning strategy and marketing mix. This analysis will help to determine Swarovski's market position and will assist in creating recommendations for their future.

INTRODUCTION

In 1895, Daniel Swarovski had a vision to create a crystal so perfect it would attract both the eye and the heart. He was able to revolutionize crystal cutting and founded the company Swarovski in Wattens, Austria where their headquarters remain to this day. The company maintained their guiding principle of innovation, or 'to constantly improve what is good' throughout the years as they created companies such as Tyrolit for grinding tools, Swareflex for glass reflectors, Swarovski Optik for precision optical instruments, among other ventures to create their global multi-brand business. Swarovski has become the global leader of precision cut crystal for the industries of fashion, design, architecture, and lighting design. Surprisingly, Swarovski Group has remained not only a private company, but is currently being run by fifth generation family members. In 2012 Swarovski Group had 3.08 billion euro in turnover while the Swarovski Crystal Business had a turnover of 2.38 billion euro. At the end of 2012, the Crystal Business employed 25,135 people with 1250 own-operated Swarovski boutiques and 1100 partner-operated boutiques (Swarovski Website).

Though Swarovski is a company with numerous products, such as cutting tools, crystal chandeliers, and fine jewelry, the above turnovers indicate that their Crystal Business makes up the majority of their company. The global luxury jewelry industry is very competitive; some of the top luxury jeweler brands include Tiffany & Co., Bulgari, Cartier, and Harry Winston. Swarovski is said to be right in the top ranks of the competition, "the brand currently operates 2,300 stores globally, 1,300 of which are owned and operated. It is said to be number one in the global fashion jewellery sector and number three in the global branded jewellery market" (Bishop, 2013).

This paper will focus on the Swarovski Elements and Crystals brands that were initially launched in 1977 with Swarovski's first jewelry collection. These brands have now expanded to sell almost 30 million pieces per year in nearly 170 different countries (Swarovski Website). Swarovski is currently looking to implement their 'Vision 2020', a strategy to become the global jewelry market leader by 2020 while maintaining its luxury status in current markets. Their strategy will develop around three pillars: organic growth, development of in-house brands, and acquisitions. According to Robert Buchbauer, CEO of the Swarovski Consumer Goods Business, "Swarovski will consider brands of various types but any potential acquisition will have to satisfy strong criteria, for example being a quality brand with a significant hold in the market place. The acquisitions are plotted for the next five to six years, ahead of the year 2020" (Bishop, 2013). The main target for their expansion is to penetrate emerging markets such as Asia, Latin America, Eastern Europe, and eventually Africa by anticipating the needs of

each region. The increasing demand for fine jewelry will make this global strategy possible. This paper will use a Strengths, Weaknesses, Opportunities, and Threats (SWOT) analysis and Marketing Mix evaluation to make recommendations for further ventures and market expansions (Carr, 2013).

SWOT ANALYSIS

The SWOT analysis matrix (Table 1) is given below. The points on this analysis were derived from primary and secondary research. Each segment will be discussed below with references for each topic.

Table 1: Swarovski SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> - Has a reputation for providing a quality, luxury product - Has a market advantage due to brand awareness - Holds a strong presence in numerous market segments - Has an established loyal customer base 	<ul style="list-style-type: none"> - Is vulnerable to brand confusion as a result of multiple products
Opportunities	Threats
<ul style="list-style-type: none"> - A growing market to allow for expansion to become the global jewelry market leader - An overlooked opportunity to create a greater awareness of social responsibility tactics - An overlooked opportunity to create an awareness of innovative qualities 	<ul style="list-style-type: none"> - A growing trend of cheaper crystal being manufactured in China - Uncertainty in the economy, with a market heavily impacted by inflation

Strengths

In a survey conducted at Johannes Kepler University to assist with my research, respondents were asked if they knew of the company Swarovski, and which characteristics they associated with the company. Out of the 53 respondents, 94% were aware of the company Swarovski, and the majority of them associated it with luxury, quality, premium pricing, women's jewelry, and crystal figurines (Please refer to Appendix 1 to see survey questions and results). This visibility as a luxury jeweler explains why Swarovski is stated to be the third largest jewelry brand and leader in fashion jewelry globally. This claim is consistent with my own research which showed that the demand for Swarovski products followed closely behind Tiffany & Co, and Cartier. Swarovski maintains its luxury status through delivering a quality product while maintaining a direct and personal relationship with their customers. The success of luxury branding is an asset to the company as it has a high potential to maintain their growing sales.

Though Swarovski is mainly known for their jewelry line and crystal figurines, they have an approach to business that ensures their presence in multiple market segments. One method of achieving this is through their creative partnerships. The beginning of their partnerships was with Christian Dior in 1956: together the company and the designer developed a coating for the crystal called 'Aurora Borealis' to enhance the sparkle of cut crystal. Other

partnerships in the fashion industry include Chanel, Armani, Tord Boontje, and Elsa Schiaparelli. Swarovski Elements maintains a list of up and coming fashion designers to be aware of potential opportunities, partnerships, and clients (Swarovski Website).

Swarovski has had a successful strategy of penetrating market niches through targeting particular buyers groups such as collectors through the Swarovski Crystal Society, or teenagers through their Lola & Grace campaign. They provide a special service or experience such as the Crystal Worlds attraction, and they offer unique products such as innovative crystals on a variety of products. Their innovative approach to marketing has created value and awareness of the brand. For example, Swarovski has not only been a producer of tourist products, but they have also created a tourist experience with Swarovski Crystal Worlds in Tyrol, Austria. This permanent show of crystals and works of art has attracted over 6 million visitors and is only one example of their innovative marketing strategies. Innovative strategies such as tourist attractions are effective in creating strong market awareness. More of Swarovski's market segments will be discussed in section 2.1 relative to their positioning strategy (Weiermair & Kronenberg, 2010).

In a luxury company, customer loyalty is essential to maintain sales from a particular market segment. Swarovski has maintained relationships with their customers, thus increasing their chances of repeat customers. "Brands should have a clear strategy and strong governance. This is especially true for luxury brands because there is such a large community of pace-makers, and harnessing them and inviting them in as part of your brand strategy is really key" (Zelesny, 2011). One example of their strength at fostering these relationships is the Swarovski Crystal Society, a community of collectors who value the beautifully cut Swarovski crystal figurines. What started as a crystal mouse made for the Innsbruck Olympics in 1976 has now turned into the world's largest collector society with over 325,000 members. Along with offering a variety of figurine collections and special edition figurines, Swarovski maintains collectors' interest in their products through organizing tours and events to allow members to meet others with a shared interest in crystal. This crystal society is part of what makes the Swarovski brand, as the survey conducted at Johannes Kepler University showed when the majority of respondents associated the brand with crystal figurines (Swarovski Website).

Weaknesses

Though Swarovski's strength of being branded as a luxury product, and their presence in multiple market segments is typically cast as a strength, this can also be interpreted as a weakness of theirs. As the research conducted at Johannes Kepler University has shown, 100% of respondents think of the company as a jewelry brand for women. This strong brand connotation is great for their sales in the women's luxury jewelry market segment, however this can be a weakness when the company tries to implement campaigns in other segments. For example, Swarovski has recently launched a men's jewelry campaign, the success of which has not yet been released. When a sample of men was surveyed about whether or not they would buy men's products from Swarovski, 94% answered no.

Opportunities

In early 2013, Swarovski's consumer good chief executive, Robert Buchbauer, announced their '2020 Vision' brand development program which aims to make Swarovski the global jewelry market leader. They plan to achieve the number one position over the next few years through organic growth, acquisition, and the creation of new internal brands. This is largely a result of cheaper competitors; rather than competing with these cheaper crystals that are of lesser quality, Swarovski has targeted the premium end of the market and hopes to surpass Cartier and Tiffany & Co as the market leaders in fine jewelry (In Trend *Inside Swarovski* Sep 2012). As the company implements their strategy for organic growth they will be updating existing stores as well as creating new ones with their Crystal Forest store design which allows for a more upscale shopping experience. The design allows for a luxury shopping experience and showcases crystal elements. Swarovski will also use this growth as an

opportunity to implement a brick-and-mortar approach to e-commerce in order to ensure their customers' needs are being met all hours of the day, from around the world. In order to maintain a high level of quality, acquisitions will need to meet a specific set of criteria such as a quality brand with good market share. Acquiring brands with a high market share will be crucial for them to reach their 2020 goal to become the global jewelry market leader.

Their third approach to growth, creation of internal brands, has already begun with their Lola & Grace collection targeted at a younger market. This new collection has already begun to implement brick-and-mortar stores with its first stores opened in London along with a dedicated e-commerce site. Increasing their multichannel approach with e-commerce provides Swarovski with an opportunity to reach more customers (Baker, 2012).

When Daniel Swarovski created the company in 1895, he ensured that the business was humanitarian and cared for the local community. Since then, each of the generations running the company has paid tribute to Daniel's ideologies through various charitable acts, eventually resulting in the generous Swarovski Foundation. The focus of the foundation is to foster culture and creativity, promote well-being and human rights, and to conserve natural resources. Their vast involvement in numerous charitable programs is not known to many of their customers, as shown in a survey where less than 5% of respondents associate Swarovski with corporate social responsibility. This provides the company with an opportunity to increase awareness about their charitable campaigns, and as a result could increase sales. Customers would be more likely to choose Swarovski while shopping for products if they feel some of the proceeds of the sale will go to a good cause (Swarovski Website).

Yet another aspect of the company that is not known to customers is their innovative edge. Their crystals are cut and coated using patented techniques to maintain their innovative advantage over competition. According to the survey conducted at Johannes Kepler University, only one respondent associated the brand with innovation. This competitive advantage should be showcased to consumers so they are aware of the value and benefits when they purchase a Swarovski crystal. Focusing their marketing efforts on creating awareness of their unique product could increase sales in consumers who seek exclusivity.

Threats

During times of economic recession consumers typically limit non-essential purchases and decrease their spending habits. Luxury brands typically focus on delivering quality and a customer experience while decreasing non-core collections or projects in order to survive recessions. Other strategies include limiting large investments such as store openings, and evaluating distribution channels and production methods (Reyeke, 2011). This proposes a threat to Swarovski during years of economic downturn, as the 2008 economic crisis displayed. Though financial statements are not available for Swarovski, the impact of the recession was evident in their 1,100 employee cuts at their headquarters in Wattens as a result of fewer orders. These cuts were also based on the decision to outsource production from Wattens to cheaper plants in China and the Czech Republic (Austrian Times, 26 Mar 2009). The financial statements of Swarovski's competitor, Tiffany & Co., also demonstrate the impact of this recession on fine jewelry markets. Tiffany & Co. experienced a sales decrease of 9% and 8% for 2008 and 2009, respectively, without seeing a sales recovery until 2010 (Tiffany Website, 2013). As the economic cycle constantly experiences booms and busts, there will always be a threat of recession.

Another threat to the company is the presence of cheaper crystals, especially in the Czech Republic, Egypt and China, used by companies such as Preciosa who compete with Swarovski. Though this brand has little recognition, as shown in my survey, consumers who are aware of a cheaper product may not hesitate to use them as a substitute. Swarovski has addressed this threat by opening a plant in Qingdao, China in an attempt to lower their own product costs. As this plant has not yet met Swarovski's quality expectations, crystals are sold under their low-end 'Hilda' brand, thus displaying their competitive strategy and commitment to quality despite the usage of cheaper crystals by their competitors (In Trend *Inside Swarovski* Sep 2012).

POSITIONING STRATEGY

Scope

Swarovski Group has a broad scope of products based around their commitment to delivering a quality, unique crystal. Their scope includes tourist experiences such as Swarovski Perspectives, the largest crystal lens ever made in the Basilica di San Giorgio Maggiore in Venice, which provides visitors with a new perspective of the basilica as the crystal allows them to see many angles and views of its surroundings. Another tourist experience is Swarovski Crystal Worlds in Tyrol, Austria which acts as an art exhibit and crystal museum, showcasing the many talents and creative qualities of the Swarovski brand. Adding more breadth to their product line in 2007, Swarovski launched Atelier Swarovski, their couture jewelry line which collaborates with accomplished designers to create haute fashion pieces that are runway worthy. Also in the Hollywood industry is Swarovski Entertainment, a division that finances feature films while showcasing their products as they are incorporated into costume designs. Other divisions include Swarovski Foundation, Fashion, Elements, Gems, Optik, and Lighting, each under the main Swarovski brand (Swarovski Website).

Differentiation

Swarovski has been using the latest patented crystal cutting techniques since their start up in 1895 in order to ensure a quality cut crystal that shines brighter than its competition. They are innovative and come up with new techniques such as crystal coatings to ensure they deliver a unique product to their customers. Their differentiation strategy has been so successful that they are able to specify Swarovski crystals have been used, rather than just cubic zirconia which most brands would be advertising.

Defense

Swarovski has a high brand awareness which keeps it competitive in many industries: when people are considering a jewelry purchase, Swarovski may be one of the first brands that come to mind. This visibility, along with their presence in so many market segments establishes a strong positioning defense strategy. Their presence in numerous segments ensures that if they lose market share in one segment, this will not necessarily impact the company as they may have accomplished an increased market share in another segment. Their focus on both large target segments, as well as niche markets such as the film industry, keeps their brand strong and constantly expanding as new market segments are established.

Brand Personality

Swarovski's brand personality is revolved around the quality of the crystal they deliver to their customers. Along with this basis, they have worked to make innovation a core value of their company and have incorporated it in many ways: into their crystal with innovative coatings; their marketing campaigns with creative ways to engage their customer; and through their creative partnerships with fashion designers. Along with the product, Swarovski also commits to corporate social responsibility and gives back to the community in as many ways as they can. Their brand personality also incorporates a luxury aspect to it, thanks to their quality product and exceptional customer service (Swarovski Website).

MARKETING MIX

Product

Swarovski has a broad product mix of various merchandise incorporating crystal elements. Their extensive product line width includes women's jewelry, crystal figurines, watches, men's products such as cuff links, and

crystal elements sold to businesses for numerous uses. Focusing on women's jewelry to analyze Swarovski's product line length, many types of jewelry are offered such as necklaces, earrings, rings, bracelets, charms, and accessories. The depth of their product line includes couture, everyday jewelry, special occasion jewelry, and various collections throughout the year. Product line consistency is shown through incorporating their quality crystals into each of their products.

Each of Swarovski's products revolves around their crystals cut by patented state of the art technologies to ensure precision and quality. Different cuts and coatings for the crystals have been patented to ensure the company maintains their innovative advantage over competitors. Swarovski's augmented product is varied for their business and consumer clients. Business-to-business sales offer additional services such as design services to incorporate their crystals, application services to set them, global services which provide personal assistance on a local level, as well as offering design editions for business exclusivity. Business-to-consumer transactions offer an included lifetime warranty with their purchase which signifies their belief in the quality of their product (Swarovski Website).

Pricing

Swarovski's strategic role for their pricing is to achieve status quo objectives through non-price competition. Rather than competing on price, Swarovski is competitive in the industry, thanks to their innovative products, successful marketing campaigns, and their knowledgeable sales staff. Since Swarovski's offered products are committed to quality, and one of their segments is fine jewelry, they are able to implement value pricing and base their prices on what the buyers are willing to pay for. In the research conducted at Johannes Kepler University, 60% of respondents associated the brand with expensive pricing and 14% viewed it as affordable pricing. Despite such a high percent viewing their product as expensive, 60% of the surveyed sample still claimed that they would be interested in Swarovski for their next jewelry purchase. This signifies that consumers place a high value on the product, thus allowing Swarovski to implement prestige pricing. One notable aspect of prestige pricing is that it is based on the quality of the product and therefore does not change throughout the product life cycle. Even towards the end of a collections' life cycle, full pricing would be in effect. Lastly, Swarovski implements complementary pricing for jewelry sets (for example, earrings, a necklace, and a bracelet that all match). Though the jewelry sets do not offer a significant price advantage, they give Swarovski an opportunity to upsell more items for a consumer looking at a piece from a set.

Placement/Distribution

Swarovski uses a variety of channels to distribute their products both to businesses and consumers. This includes Swarovski boutiques, Swarovski Crystal Society member stores, certified Swarovski retailers, and companies who sell products with Swarovski crystal elements. Swarovski figurines, watches, jewelry collections, and other products are also available for purchase through their online store. As part of their 2020 expansion strategy, Swarovski hopes to further integrate their e-commerce with their retail outlets to provide improved service for their customers. This will increase efficiency and reduce cost of their shipping for online orders, while improving service for customers seeking specific products. Swarovski's business-to-business commerce, specifically Swarovski Crystal Elements, is advantageous as it raises brand awareness through reaching many segments in numerous distribution networks. For example, some of the products incorporating these crystal elements include interior design, lighting, fashion, and accessories. Taking interior design for example, Swarovski is able to reach a market of interior designers who may prefer fixtures using Swarovski crystals, without having to directly target them. Swarovski also achieves mass marketing through the use of their elements as it is often difficult to walk through a shopping district without seeing items 'made with Swarovski Elements'. For example, walking through a Christmas market in Linz, Austria, I was able to see a Swarovski Boutique, along with many items made with Swarovski Elements such as Christmas cards, Christmas ornaments, and snow globes. With their brand name distributed in so many markets and stores it would be difficult to be unaware of the Swarovski brand.

Promotion

Swarovski has invested heavily in promotional tactics and has been innovative in their advertising approaches. One way they have achieved this was through including their customers in their innovation process. In 2008 a crowdsourcing site was created which gave participants the opportunity to develop and display their own creative jewelry designs. Participants were able to comment and vote on designs, create avatars, and were offered nonmonetary prizes such as being noted as a trendsetter in a book about watch design. This campaign was successful in engaging over 1700 participants with more than 3000 designs uploaded. Another creative campaign was their '22 Ways to Say Black' event which commissioned 22 designers to design a unique little black dress incorporating Swarovski Elements. Dresses were shown in a traveling exhibit then auctioned off with 100% of proceeds going to charity. This promotional tactic displayed the potential of creative partnerships while generating social media attention to attract a consumer audience. The campaign was successful in touching many market segments and allowing maximum interaction. "Included in the initiative was not only the event and exhibit itself, but a dedicated web presence and social media coverage that allowed buzz to be generated internationally and offered participation for those not actually able to attend the auction" (Canon, 2010). It was also able to integrate Swarovski's social media presence by using Facebook, Twitter, and the company website to reach a variety of customers. Swarovski's twitter account which had 3000 followers in 2010 has now grown to nearly 98,000 followers.

Swarovski also uses celebrity influences to market their products. For example, the current face of their jewelry line is model Miranda Kerr who is currently an icon in the fashion industry. This appeals to consumers who wish to be on top of the latest luxury fashions and lures them to demand the same products their fashion inspiration, Miranda Kerr, wears or endorses. Swarovski Elements, on the other hand, whose focus is business-to-business sales uses couture designer Yiqing Yin as the face of their advertising campaign. By using this up-and-coming designer as a face for their brand Swarovski Elements is able to enhance their brand personality of being an inspiration to designers. This particular campaign wishes to enhance the use of Swarovski Elements to make timeless pieces that are both traditional while innovative and edgy (Swarovski Website).

Sponsorship is another form of promotion Swarovski uses. One example of this is the sponsorship of the Aiyou Foundation Gala Dinner which was attended by acclaimed designers as well as Chinese film stars. This reaches both Swarovski's business and consumer market segments and raises their awareness of Swarovski's social responsibility since proceeds from the foundation go towards providing medical assistance for orphans in China. Swarovski is also involved in the film industry, providing elements for costumes as well as jewelry pieces for Hollywood films such as *Moulin Rouge*, *The Great Gatsby*, and *Romeo & Juliet*. By financing these films Swarovski obtains a portion of the profits and also increases brand awareness through advertising their collections on the films (Swarovski Website).

RECOMMENDATIONS

As Swarovski implements their 'Vision 2020' strategy it is recommended that they mind their brand image as they expand into different market segments and acquire other companies. In this regard, there are two separate options for Swarovski to preserve their brand personality. The first option is to slightly rebrand themselves so consumers do not only associate the brand with fine women's jewelry. The best option for their rebranding would be to focus on the crystal itself and Swarovski's innovative tactics to ensure the precision of the cut delivers the best quality. If their branding focus is placed on the quality and innovative aspect of their crystals, consumers will no longer view the company as a women's jeweller and be more open to shopping their other segments that use these quality crystals such as their men's line.

The second option is to maintain their strong brand image as a luxury women's jeweler and to implement new brand names for their product lines that target other market segments. For example, when Swarovski launched

their line of jewellery targeted at a younger crowd, they named the brand 'Lola & Grace'. This allowed them to reap the benefits of the brand being associated with Swarovski Group, yet it did not diminish the luxury status of their women's jewelry lines. By creating these new brands the company would be able to promote the use of their crystals without confusing consumers about their core brand. This tactic could have been implemented for their men's line of jewelry and accessories.

It is recommended that Swarovski increase the general consumer awareness of their dedication to corporate social responsibility. Though their business segments (such as fashion designers) are made aware of their charitable work through events like the Aiyou Foundation Gala Dinner and the charity auction for their '22 Ways to Say Black' campaign, their consumer segment does not associate their brand with social responsibility. This has been displayed in a survey where none of the respondents viewed the brand as charitable or socially responsible. By increasing awareness they will be able to capture a larger portion of the market that is concerned about giving back to their community. This can be accomplished through placing more emphasis on their Swarovski Foundation through their website or on their social media accounts.

"Luxury brands, more so than any other category, have built their businesses on core brand promises around service and quality. The aspiration and status of acquiring the products and the promise of service are the brand." This quote, by industry expert Marko Z. Muellner, outlines the purpose behind the next recommendation for implementing a larger global strategy. While expanding on a global level it is important to both be efficient globally, as well as specialized locally. There needs to be a balance found between standardized global procedures and specific focuses on locally communities who each have different cultures and needs. In a luxury industry the importance of customer touch points needs to be emphasized and each local boutique must find a way to make their customers feel special and valued. Though Swarovski is a private company and their organizational structure is not available for comparison, an effective way to implement both a global and local presence is through using a matrix structure within the organization. This structure allows area managers to focus on providing a local, special experience for customers while department managers, such as production managers, are able to focus on the business at a global scale. As restructuring an organization is a large uprooting task, Swarovski should consider a variation of the matrix structure that incorporates parts of their current structure. This would allow a smooth process change and potentially alleviate some matrix structure conflicts such as dual reporting. Unfortunately, without Swarovski's current organizational structure available, an in depth analysis of its success is impossible. In order to ensure their customers feel they are part of a luxury experience, measures should be taken to guarantee exceptional customer service on both a global and local level.

CONCLUSIONS

Swarovski is a well-established luxury crystal brand with customers who remain loyal due to the brand's commitment to quality and exceptional customer service. In a competitive market, it is quite ambitious for Swarovski to aim to be the global jewelry market leader by 2020 when their competition includes strong brands such as Tiffany & Co. If Swarovski implements their strategy for organic growth, development of in-house brands, and acquisitions, while keeping in mind the above recommendations it is very likely they will be able to reach their targets by 2020. As the company grows organically into emerging markets, such as Latin America and Eastern Europe, it is essential to maintain a local touch despite the company's wide global reach. A special shopping experience is the essence of luxury goods, and must be maintained on a local level. While developing in-house brands Swarovski must be cautious to avoid brand confusion with their many different product lines. This will ensure their strong brand personality is kept intact. Finally, Swarovski should increase awareness of their commitment to corporate social responsibility. In a world increasingly looking to preserve our future, sales are likely to increase if consumers feel part of their purchase will go to making world improvements.

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APPENDIX 1

1. Have you ever heard of the crystal company Swarovski?
Yes: 94%
No: 6%
2. When you think of the brand Swarovski, what do you associate it with?
Luxury: 73%
Quality: 64%
Innovation: 0.02%
Cheap: 0%
Affordable: 14%
Expensive: 60%
Exclusive: 50%
Women's jewelry: 94%
Crystal figurines: 85%
Social responsibility: 3%
3. Have you ever heard of the tourist destination 'Swarovski Crystal Worlds' in Tyrol, Austria?
Yes: 26%
No: 74%
4. When you buy jewelry which of the below qualities are most important on a scale of 1-5?
Quality: 4.32
Brand: 2.42
Price: 3.84
Shopping experience: 2.26
Brand: 2.42
Extras (i.e. warranty): 2.16
5. If you were to buy jewelry which brand(s) would you prefer?
Tiffany & Co: 70%
Swarovski: 52%
Pandora: 33%
Cartier: 61%
Harry Winston: 13%
Bulgari: 30%
Other: 20%
6. If you are a male, would you buy a Swarovski product from their men's line?
Yes: 6%
No: 94%

An Analysis of the Growth and Success of H&M

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ABSTRACT

This paper provides the historical as well as present overview of the clothing retailer, Hennes & Mauritz. The purpose of this research paper is to understand the global success of H&M, what strategies were used to help them become successful and how they have faced major global changes, such as the focus on sustainability. To understand the company's success, I will analyze H&M's business operations, including their marketing and sustainability strategies. I conclude the paper by discussing the results of my survey and recommendations for the company.

After designing a survey that used a random sample of 17 exchange students at the University of Gothenburg, I was able to conclude several things. Firstly, that the majority of the applicants notice H&M's marketing campaigns, and they are fairly effective in persuading the applicant to visit the stores. Secondly, they believe H&M does offer fair prices compared to the various other retailers in the market. Lastly, that H&M's sustainability initiatives need to be better displayed to the public. The majority of those surveyed are unaware of the strategies that H&M undertakes to inspire its employees, help various communities, and better the environment.

H&M's marketing campaigns undertaken with various celebrities are extremely successful, and their sustainability initiatives are helping to better the planet. Nevertheless, much of the general public is unaware of their initiatives, which is why they should focus on combining a marketing and sustainability campaign in order to educate their customers. Overall, H&M is doing extremely well and will continue with their plans to expand worldwide.

INTRODUCTION

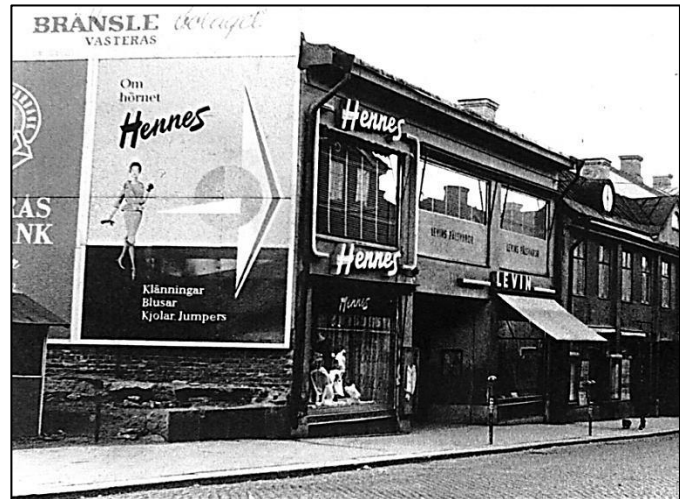
Fashion has become an extremely large market in Europe, especially in Sweden, as it has become very important within their culture. In recent years, Swedish fashion has been recognized for its functionality, high quality and fair prices (VisitSweden, 2010). Yvan Rodic, a fashion blogger and photographer from London, has indicated, *"Sweden is the only country that has created a unique fashion aesthetic that's recognizable around the world"* (2012). H&M happens to be one of Sweden's affordable brands that has greatly contributed to the country's growing export sales. A 2012 survey has shown that Swedish fashion companies see exports as the main growth segment for their business (Embassy of Sweden, 2013).

H&M, a multinational chain with approximately 2,900 outlets and 100,000 employees, is the second largest clothing retailer in the world. The company alone has a turnover of approximately 13 billion euros, which is more than half of the entire Swedish fashion industry (Embassy of Sweden, 2013). With the variety of products that they offer and their successful expansion into global markets, H&M has been able to remain a front-runner in the fashion industry.

HISTORY OF H&M AND SWEDISH FASHION

H&M, or Hennes & Mauritz, initially started off as Hennes, a store selling only women's clothing. Hennes, meaning "hers" in Swedish, first opened in Västerås 65 in 1947 by Erling Persson (Västerås & Co., n.d.). Shortly after the end of World War II, the consumer society was created and due to this, short-lived trends became popular and clothes were often thrown out before they became worn out. Consumers were suddenly attracted to a youthful image, instead of a more mature image (Giertz-Martenson, 2012). Persson was able to detect that this trend was occurring, and jumped at the chance to provide affordable fashion to females in Sweden. Persson was inspired by a gentleman named F.W. Woolworth, who had developed one of America's first chain stores in the beginning of the 1870s (Giertz-Martenson, 2012).

Figure 1: The first Hennes store in Västerås (Västerås & Co., n.d.).



In 1968, Erling Persson purchased a hunting and fishing equipment store called Mauritz Widforss, and began to sell men's and children's clothing (H&M, 2013). This in turn created the company Hennes & Mauritz, now simply recognized as H&M. Less than 10 years later in 1977, they began to sell cosmetics as well, making them a one-stop spot for any fashion needs. H&M began to grow at a recognizable pace, spreading throughout markets in Europe, and soon throughout the world.

In 1998, they began to sell their products over the Internet; however, only inside of Europe. In 2000, H&M was able to open its first store outside of Europe, in Manhattan, New York (H&M, 2013). This was only the beginning of the penetration of H&M into markets around the world. However, only recently have they opened up their online market in the United States. Many customers seemed to be shocked that they took so long to do so. Within the past decade, a concept has been created called 'fast-fashion', which means that new fashion trends can be found within stores in a very short period of time (Giertz-Martenson, 2012). Although they have been slower to react with their online markets, they are greatly improving at stocking their stores with new or updated trends.

H&M TODAY

Today, their product portfolio has expanded even more to include a more extensive variety of children's clothes, cosmetics, footwear, and accessories throughout their 2,900 stores. The H&M Group is comprised of six independent brands: H&M, COS, Monki, Weekday, Cheap Monday, and the newest addition, & Other Stories (H&M, 2013). These independent brands all have a different theme, attracting customers from each market segment. For instance, the COS brand appeals to the high-end consumer, while Monki focuses on a more playful or creative individual.

Many famous Swedish designers have worked for H&M at some point during their careers, and there has also

Figure 2: The interior of an H&M store today (H&M, 2013)



been extensive collaboration with world-famous pop stars and designers. For instance, in 2011, H&M worked with the renowned high fashion company Jimmy Choo, in order to create a line that made consumers feel as though they were purchasing high fashion items at affordable prices. More recently, H&M has worked with famous soccer star, David Beckham, to promote a men's underwear line. This past summer, they also collaborated with Beyoncé to come out with a bathing suit line. Working with famous celebrities and fashion icons is definitely a major part of H&M's marketing strategy, and so far, it has been very successful.

H&M has been very focused on the expansion of their company. In 2012, the H&M Group increased their expansion rate and opened 304 brand new stores, instead of the 275 that they had planned. This year, they have planned to open approximately 350 new stores, with a majority of the growth occurring in China and the United States (H&M, 2013). Although 2012 was not the best year for the fashion industry, H&M refuses to make cuts in their company and will continue to grow for the foreseeable future. With their success, they have been able to finance their expansion entirely by their own resources (H&M, 2013). This goal was first initiated by the founder, Erling Persson, as he believed that self-financing is critical to the success of a company (Giertz-Martenson, 2012).

As the company has thousands of employees, it is very difficult to make each individual feel as though they are valued. This seems to be one of the reasons why H&M created an incentive program, as well as to continuously encourage employee commitment and involvement in the company. The longer the employee has been with the company, the more significant the rewards. Another way that they encourage employees is through internal recruitment, as they will often search internally before widening the search to outside of the company. They focus on inspiring their employees to be individualistic and creative; this, in turn, helps the company come up with new and improved ideas.

ANALYSIS OF H&M's CURRENT BUSINESS OPERATIONS

Porter's Five Forces Model

In order to gain a larger perspective on H&M's success versus its competitors, I will use Porter's Five Forces Models. The topics I will discuss are the threat of new entrants, the threat of substitute products, bargaining power of customers, bargaining power of suppliers, and the competitive rivalry within the industry.

Threat of new entrants

In the clothing retail industry, there is moderate risk of a new company entering the market. The suppliers are quite easily accessible, as much of clothing production is outsourced. However, it takes quite a while for a company to build the same consumer base that H&M has been able to maintain for years now. In order to remain above their competitors, H&M adopted a marketing strategy to differentiate themselves and draw in a larger target audience: a cost leadership strategy.

Threat of substitute products

There are numerous companies that strive to be as profitable as H&M. Many clothing companies nowadays sell very similar products, which is why H&M focuses on quality as well as low prices in order to attract consumers. H&M's largest competitor Zara has similar high quality products; however, their prices continue to be more expensive than H&M's. Some consumers will purchase the more expensive Zara clothing because of its perceived higher quality, while others will purchase H&M clothing for the more affordable prices. As well, H&M focuses on being a shop for all consumers, providing casual as well as formal wear, while Zara focuses on more mature and sophisticated apparel.

Bargaining power of customers

These days, customers want to buy products that are affordable and durable. In today's economy, the majority of the population wants to spend as little as possible in order to look as fashionable as possible. Brand loyalty is often ignored if a consumer can find a similar product for a lower cost at another company, especially since the amount of available retailers is very high. This is why the bargaining power of customers is very high. Fashion companies try to determine the new trends before they happen in order to win over their customers; however, if they predict the wrong trends, this could end up in a loss of profits for them.

Bargaining power of suppliers

Instead of owning their own factories, H&M buys products from independent suppliers that have a pre-existing relationship with the company (H&M, 2013). Being an extremely large company that provides a lot of business for suppliers, it would be very hard for the suppliers to turn down a business opportunity with H&M. H&M would certainly not have much difficulty finding new suppliers that would abide by their Code of Conduct that all suppliers must sign. As well, H&M has been focusing on positive changes within countries such as Bangladesh in order to better their communities and reduce poverty.

Competitive rivalry within the industry

Competitive rivalry is quite high within the retail industry, as customers can move freely between retailers. H&M's largest competitor is the Spanish multinational clothing company Inditex, which is parent company of various clothing lines, such as Zara. Zara makes its clothes in-house, creating shorter lead times, and updates its designs regularly. H&M only makes certain clothes in-house, while the majority is produced abroad, creating lower costs for consumers. As well, H&M focuses on only two large collections each year, one in the spring and one in the fall (Greg Petro, 2012). Again, Zara's prices are higher than H&M's, which seems to level out the competition as many consumers are looking for lower prices.

Marketing Strategies

Cost Leadership Marketing Strategy

As mentioned in the analysis of Porter's Five Forces above, H&M takes on a cost leadership strategy in order to differentiate themselves from competitors. Low-cost leaders seek to achieve operational efficiencies in all areas of marketing; for instance, H&M cuts out the middleman and has large purchasing volumes in order to ensure the best price for their consumers (H&M, 2013). Instead of owning factories, they buy products from independent suppliers that they have been long-term partners with. They work to achieve economies of scale by producing a large amount of product to lower their average costs. The economy of scale marketing strategy creates an entry barrier for other competitors trying to enter the market (Boag, 2012). Although H&M faces a threat of substitute products, not many companies can provide the same affordable pricing guarantee. As well, since their advertising campaigns are largely similar in all of their markets, their costs are reduced. They do not need to focus on creating a completely different campaign for each market they are located in, but instead adapt the strategy to local conditions.

H&M is able to make this strategy successful because their customers are not concerned with paying more money for extra attributes, such as a pricey brand name. Instead, H&M takes ideas from high-fashion names and incorporates those ideas into their designs. Customers are able to find a jacket, for example, at H&M that looks just as fashionable as one that would be double the price at an expensive name brand store. H&M has been successful in fulfilling their business concept: "*Fashion and quality at the best price*" (H&M, 2013).

SWOT Analysis

A SWOT analysis has the ability to show how well a company is doing internally as well as externally. By comparing their pros and cons using previous research, it is much easier to draw conclusions and make recommendations for the company. I use a simple SWOT matrix to draw upon the company’s strengths, weakness, opportunities and threats.

Figure 3: Simple SWOT Analysis of H&M

Strengths	Weaknesses
<ul style="list-style-type: none"> • Excellent IT infrastructure • Financed by own resources • Commitment to sustainability • Reputation for good quality at affordable prices 	<ul style="list-style-type: none"> • Dependent upon outside suppliers • Distribution centers only located in Europe • Slow to create online markets
Opportunities	Threats
<ul style="list-style-type: none"> • Online shopping more prevalent in retail industry • Goal to expand in numerous countries • Chance to educate consumers on sustainability initiatives 	<ul style="list-style-type: none"> • Major environmental challenges (i.e. water consumption) • Low brand loyalty from consumers • Largest competitor, Zara, makes all products in-house

Strengths

H&M has many internal strengths that have aided in its success. For instance, H&M possesses an outstanding IT infrastructure that connects all of the stores to the central warehouse. The IT systems are also able to connect the design and production teams, which creates visibility of the entire process. These connections lead to more effective management throughout all of the channels (Petro, 2012). There are approximately 20 to 30 production offices, which are all placed close to suppliers. This in turn creates better communication between the company and its suppliers, in order to know what is taking place within the factories. All items with short lead times are manufactured in Europe, while items with longer lead times are manufactured abroad, such as in Bangladesh (Petro, 2012).

Erling Persson’s initial goal has been met, as all of the expansion of H&M has been financed by its own resources. They are able to cut costs where necessary, and save the extra finances for expanding in other countries. For instance, many of the executives do not have their own secretary (Larenaudie, 2004). As well, the fact that H&M does not own factories and instead purchases large quantities from its suppliers creates economies of scale and, in turn, lowers costs. Today they are present in approximately 50 countries (Västerås & Co, n.d.). Their reputation for good quality and lower costs is supported by the fact that they spend less within the company to keep their costs low for customers.

Their commitment to sustainability enhances brand image and ensures that resources are used efficiently. As well, their advertising campaigns with celebrities, such as David Beckham and Beyoncé more recently, have caught the attention of many consumers. Their collaboration with numerous famous designers has made their customers feel as though they are purchasing high fashion goods that they normally could not afford. Lastly, H&M has an excellent corporate culture that encourages flexibility and adaptation. They have created an incentive program, which is aimed to encourage long-term commitment and involvement by employees in order to make

them feel as though they are all truly a part of the H&M team (H&M, 2013).

Weaknesses

A potential weakness of H&M is that the company depends completely on outside suppliers to manufacture their products, leading to limited control over the factories that they use. Although they have a Code of Conduct that the suppliers must cooperate with, they do not have 24-hour observation over the factories, thus many things could go unnoticed. Since H&M does not own the factories, many critics may perceive that as being irresponsible or negligent as it may allow poor labor circumstances.

Another weakness is that the product distribution centers are located only in Europe, making it difficult to create an online market outside of Europe. The company has only recently opened up online sales in the United States, which many of its customers were surprised about as the United States provides a large consumer fashion market. They have now lost out on numerous years of potential profits from their online customer base. Additionally, having the distribution centers only in Europe creates longer delivery time to their various other markets.

Opportunities

Throughout the past decade, online shopping has become more and more popular. Instead of going out shopping, many consumers are going online to order clothing that they may normally not be able to buy in their own city. Since H&M is only present in online markets within certain areas of Europe, and more recently in the United States, they have a large opportunity to expand even more. One of H&M's goals is to expand its stores largely into China and the US, as there is enormous potential for high sales. There is also great potential for expansion in other markets such as Russia, Germany, the UK, Italy, Poland and France (H&M, 2013).

As H&M has been greatly focusing on its sustainability efforts, they have a large opportunity to combine their marketing and sustainability strategies to gain an advantage against its competitors. They have the opportunity to show their consumers the cost-benefit balance of purchasing their product versus competitors, as many consumers are becoming more interested in being 'green' (Meyer, 2001). A study by GfK Roper has shown that environmental concerns are rising; however, many people feel as though they cannot personally contribute to improving the environment (Martin & Shouten, 2012). H&M has an opportunity to educate their consumers by using a combination of their marketing and sustainability strategies, as many people are currently unaware of the company's activities or how they could personally act sustainably. As mentioned by Helena Helmersson, Head of Sustainability at H&M, they want to inspire their consumers to change their behavior by, for instance, washing their clothes at a lower temperature (H&M, 2013).

Threats

The fashion industry has been facing major environmental challenges, such as harsh working conditions and heavy water usage. Martin and Shouten (2012) state that developed nations are shown to consume the majority of the world's energy resources, and H&M could be seen as a large contributor. It is extremely difficult for such a large retailer to become completely sustainable, and cut out all things that may damage the environment. Their plans to expand into numerous locations can definitely overpower the fact that they put a great deal of effort into their sustainability initiatives, as many people would not understand how expansion can be sustainable. As H&M is a large chain, they may be thought of as a negative influence on consumers, as many people consume more than they should (Meyer, 2001).

Another major threat is the low brand loyalty in today's market, due to consumers looking for lowest prices. Consumers are often fickle and will switch from retailer to retailer in order to find the best deals for the best

quality. This leads to another threat, which is that H&M’s largest competitor, Zara, makes all of their products in-house, while the majority of H&M’s products are made abroad. If there is only a small difference in price between the companies on certain items, the consumer may decide to visit the competitor’s store due to the perception of better quality.

Sustainability Strategies

For many years, the fashion industry has been facing major environmental challenges such as high levels of water consumption and use of chemicals in the production process. More recently consumers have become very environmentally conscious, paying more attention to how clothing is produced before making a purchase. Swedish fashion has built up a reputation of being of higher quality, as well as having high environmental responsibility; therefore, sustainability has become an expected part of the Swedish fashion industry (Embassy of Sweden, 2013). However, customers need to believe that the environmental issues are real problems and that purchasing the product over a competitor’s will make a difference (Charter & Polonsky, 1999). As well, the sustainable product being offered must have some sort of benefit for the consumer versus purchasing a competitor’s product.

The CEO Karl-Joan Persson stated that, “Our goal is for H&M to be at the forefront of sustainability. We work hard to always strengthen our customer offering. I think that adding sustainable value to our products is one of the keys to do so” (H&M, 2013). It is apparent that H&M is working hard to become an ‘embracer’ company, meaning that they recognize that sustainability strategies are pertinent in gaining a strong competitive advantage (MIT Sloan Management Review, 2011). They are not only focused on their internal success, but the concerns of the surrounding environment; this leads them to be assertive in their spending on sustainability initiatives. At H&M, there are approximately 170 employees who work in the sustainability department at various office locations (H&M, 2013).

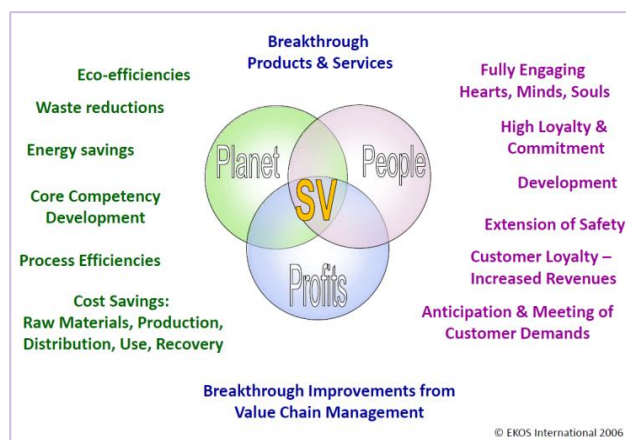
The Triple Bottom Line: People, Planet and Profit

Many companies are improving on their corporate social responsibility and favor the guidelines for the 3 Ps to do so: People, Planet and Profit. The Triple Bottom Line creates a new outlook on corporate success, as it does not simply focus on the financial success of the company, but also the social and environmental successes. Peter Fisk (2010) mentions in his book, “People, Planet, Profit”, that a business can positively impact people and the environment whilst achieving profitable growth.

People

In 1997, H&M created a Code of Conduct covering topics such as health and safety and workers’ rights that all of its suppliers must abide by. As the majority of H&M’s clothing is produced in Bangladesh, more than any other apparel company, this leads them to be greatly responsible for the working conditions there. After the devastating garment factory fires that occurred in Bangladesh, H&M quickly agreed to sign a legally binding agreement to improve the safety of buildings there (Stock, 2013). As well, they have been focusing on educating the garment workers in Bangladesh on their rights in the workplace. Just recently in September 2012, CEO Karl-Johan Persson visited the Bangladeshi Prime Minister in order to show H&M’s determination to gain higher minimum wages for the garment workers (H&M, 2013). However, H&M does not pay living wages for its suppliers, which is something they have been greatly criticized on.

Figure 4: The Triple Bottom Line (3 Ps) (Business & Sustainability PPT, 2012)



H&M's continuous growth has created approximately 7,400 jobs around the world, and has contributed to more people being employed by their various suppliers (H&M, 2013). The company works tremendously hard to make sure that the people they directly employ feel involved in the company, and that the people employed by their suppliers are well-educated on their rights. As well, they want to improve the health conditions of all the people involved with the company.

Planet

There are numerous initiatives that H&M has undertaken to land themselves a top spot in the list of companies that are working hard to become sustainable. In order to explain their efforts, it is necessary to provide a few examples.

Firstly, H&M began a commitment to organic cotton in 2004, by including small amounts of certified organic cotton into children's clothing. According to the Textile Exchange's Global Market Report on Sustainable Textiles in 2010, H&M became the top user of organic cotton in the world (H&M, 2013). The organic cotton is used in each one of their existing clothing divisions. By choosing organic cotton, this means that they are avoiding the use of pesticides and using significantly less water.

Secondly, H&M has an existing three-year partnership with the World Wildlife Fund to reduce their water impacts along the value chain. They are working to educate their colleagues, suppliers and customers on how to use water responsibly, and how water usage can negatively impact the environment. Their goal is to train anyone involved with the company on how to make more sustainable choices. As well, they are focusing on improving the management of river basins in both China and Bangladesh (H&M, 2013).

Lastly, H&M has come up with a plan to cut waste by offering discounts to consumers who turn in their old clothes at any of the H&M stores (Stock, 2013). This initiative started in February 2013 and it is planned to be in all of their 2,900 outlets by the end of the year. The customers are motivated to drop off their old clothing, of any brand name, because they receive a discount voucher to be used during their next purchase. If the garments are in good condition, they can be reused to make other products. Any items that cannot be reused are broken down and manufactured into other materials and used, for example, by the auto industry (H&M, 2013). If the items are in absolutely no condition to be reused or recycled, they can be transformed into energy.

Profit

H&M has a turnover of approximately 13 billion euros, which is more than half of the Swedish fashion industry (Embassy of Sweden, 2013). They have greatly contributed to Sweden's rising export sales, and have helped to make Swedish fashion recognizable around the world. Ingrid Giertz-Martenson from the Centre of Business History in Stockholm (2012) noted that H&M has been the most successful company on the Swedish stock market ever since their stock market launch in 1975.

About SEK 42 million, which is approximately \$6.3 million US, is invested into community projects and emergency relief (H&M, 2013). As stated in the company's Corporate Social Responsibility Report of 2012, they were able to raise in-store donations of SEK 5.3 million, approximately \$800,000 US, for these initiatives with the help of their customers. In the future, as noted by the Head of Sustainability Helena Helmersson, they hope to cut costs by becoming carbon neutral and producing zero waste (H&M, 2013).

SURVEY

In order to further explore H&M's successes, I created a short questionnaire that was filled out by a random sample of exchange students at the University of Gothenburg (see Appendix). Although the sample size was fairly

small with only 17 respondents, 6 males and 11 females, I believe it adds valuable information to my research. The applicants are from all parts of the world, hopefully creating an unbiased and general opinion. The questionnaire first asked the applicant how often they shop in H&M per year, assuming they already know of the company. I then wanted to focus on H&M's marketing and sustainability strategies in order to support the information I have provided throughout this paper, as well as to see how these strategies affect the general public.

RECOMMENDATIONS

After analyzing the results, it has become obvious that the majority of the students from the sample, approximately 88 percent, are not aware of H&M's sustainability initiatives (see Appendix, Table 4). The majority of the respondents, specifically 94 percent, are aware of the advertising campaigns that H&M puts out through different channels, such as television or Internet ads (see Appendix, Table 1). Therefore, it would be beneficial for H&M to create an ad campaign that shows how they are working to become a sustainable company. Many people only notice the advertisements displaying the new clothing items that are coming into the stores; however, what they are doing to make these clothing items sustainable is not obvious. Walking through the streets of Sweden, advertisements are posted everywhere, but only the brand name is noticeable. Most of their consumers envision H&M as a great option for affordable clothing, as approximately 88 percent of the survey respondents believe they offer good deals compared to competitors (see Appendix, Table 3). If they create an advertisement that is distinctive compared to their usual models standing in striking poses, this may catch their audience's attention, and allow them to envision H&M as both sustainable and affordable. For instance, if the consumers were able to see the bright red H&M logo combined with their current WWF campaign, they may be intrigued to learn more.

H&M consistently speaks out about how they are working towards becoming sustainable, but they are not reaching the correct audiences. They choose to speak out about their initiatives, but they have not yet received extensive attention from their target market. However, in order to tackle this problem, they must do it in a way so as to avoid 'green washing'. They do not want their consumer market to begin believing that they are only using green tactics in order to increase sales. Instead, they should continue to input resources into their sustainability initiatives and educate their stakeholders in the process.

CONCLUSION

Erling Persson did an excellent job of predicting the fashion trends of Swedish shoppers, and this prediction has turned into a global success that is only continuing to expand. The concept of 'fast fashion' is something that H&M quickly adopted. The company has been extremely successful for many years by incorporating famous designers and celebrities into the brand, making it more and more fashionable. The creation of menswear as well as children's wear has made it a store that the entire family can visit.

After analyzing H&M using Porter's Five Forces Model, it became apparent that the company focuses on a cost leadership strategy. They have focused on making a quality product at an affordable price, which is what the majority of consumers are looking for in today's market. However, since H&M's products are not hard to replicate, they do face the threat of other companies imitating their ideas. As well, consumers today seem to have low brand loyalty will switch to another brand if it offers an even slightly better price. Fortunately, H&M seems to have a large influence over their suppliers, as they are long-term partners of the company. Lastly, the competitive rivalry within the fashion industry is quite high, and their largest competitor Zara has always been one step ahead.

Using the SWOT analysis helped to show how well H&M is doing internally as well as externally. The company has many internal strengths that are continuing to keep them above their competition. For instance, their intelligent IT infrastructure that keeps communication channels open between all sections of the company. A major

weakness of the company is that they depend on outside suppliers and may not have complete control over the activities that the suppliers undertake. A large opportunity H&M has is to further expand in significant markets such as China and the United States. Lastly, H&M faces external threats such as environmental challenges. Many companies are now pressured to improve on their business activities to make sure that they will not negatively impact the environment.

After analyzing H&M's marketing strategies, it was important to discuss their sustainability strategies using the Triple Bottom Line. After tragedies that occurred in Bangladesh, it was vital for H&M to improve on the 'People' aspect of the Triple Bottom Line. One thing they were able to do was create a Code of Conduct that all of their suppliers must abide by. However, they still lack in providing living wages for their supplier companies. With the 'Planet' aspect, H&M has been doing numerous things recently to improve on their business activities. They have committed to using organic cotton in their clothing, have created a partnership with WWF and have created a used clothing initiative for their consumers. With the 'Profit' aspect, H&M has greatly contributed to Sweden's rising export sales and has become the most successful company on the Swedish stock market. As well, they use a portion of their profits to invest in community projects.

Overall, H&M's increasing success has made them a huge competitor worldwide. After analyzing the company and completing my survey, it is apparent that they must work harder to create awareness amongst their consumer market. If they want to continue to expand, they must act responsibly and try to educate their consumers to do so as well. They have done fabulously with their marketing campaigns to draw in new customers; however, they do not often seem to highlight their sustainability initiatives. With all of the resources that they have, it is completely possible to improve on their business activities and educate their consumers in the process. As stated by Hart and Christensen (2002), *"multi-national corporations increasingly hear concerns about environmental degradation, labor exploitation, cultural hegemony and local autonomy."* Not only do they have a responsibility to their consumers, but they must also focus on their suppliers and continue to improve on the working conditions in those countries, for instance, by working on a plan to begin paying living wages to those workers. However, as mentioned by Helena Helmersson, improving social and environmental conditions down the value chain will require an industry-wide response (H&M, 2013). In the future, hopefully H&M can work with others in the industry to help to improve upon this issue.

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APPENDIX

A Short Survey on H&M

Gender: _____

Age: _____

1. Assuming you know of H&M, how many times a year do you shop in their stores (approximately)?
 - 1 to 5 times
 - 5 to 10 times
 - 10 to 15 times
 - More than 15 times

2. Do you often notice H&M's ad campaigns on television, the Internet, or around the city?
 - Yes
 - No

3. Are their advertisements effective in persuading you to visit their stores?
 - Yes
 - No

4. Having shopped at H&M, do you believe that they offer good deals compared to other retail outlets?
 - Yes
 - No
 - I don't shop there

5. Are you aware of H&M's sustainability initiatives? If yes, please list an example.
 - Comments

6. Do you enjoy shopping at a store that works hard to be sustainable?
 - Yes
 - No
 - It doesn't affect me

Table 1: Approximate number of times the applicants visit H&M stores (question 1 from the survey).

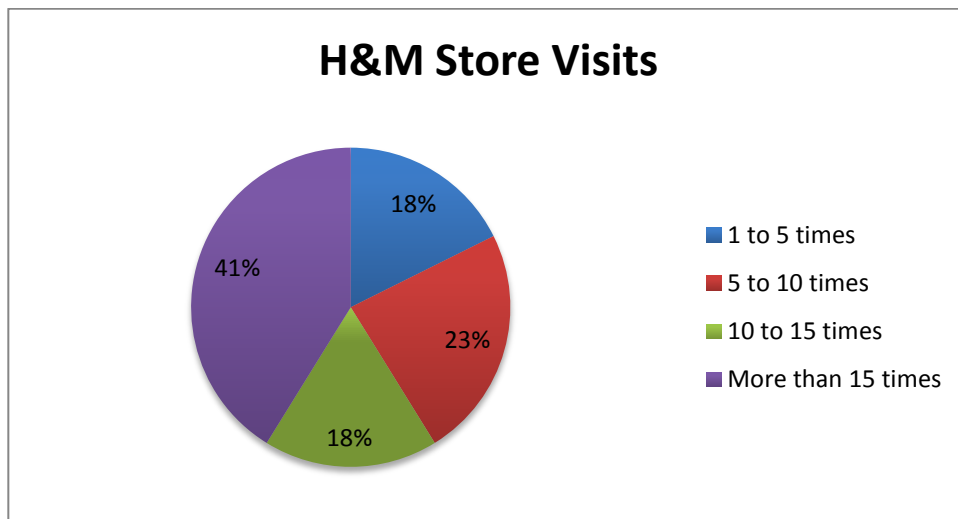


Table 2: H&M’s marketing strategies (question’s 2 and 3 from the survey).

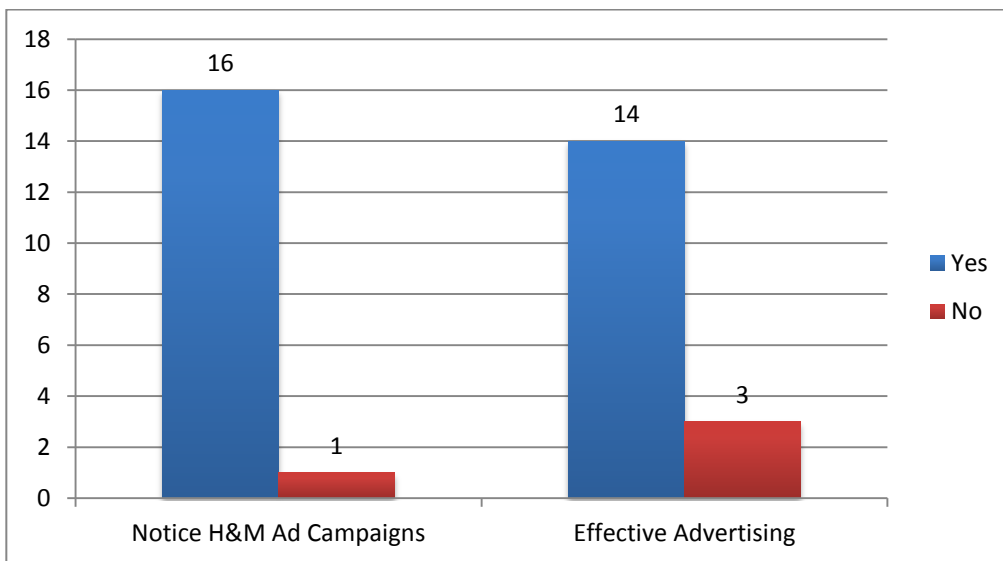


Table 3: Whether or not the applicants believe H&M offers good deals compared to other retailers (question 4 from the survey).

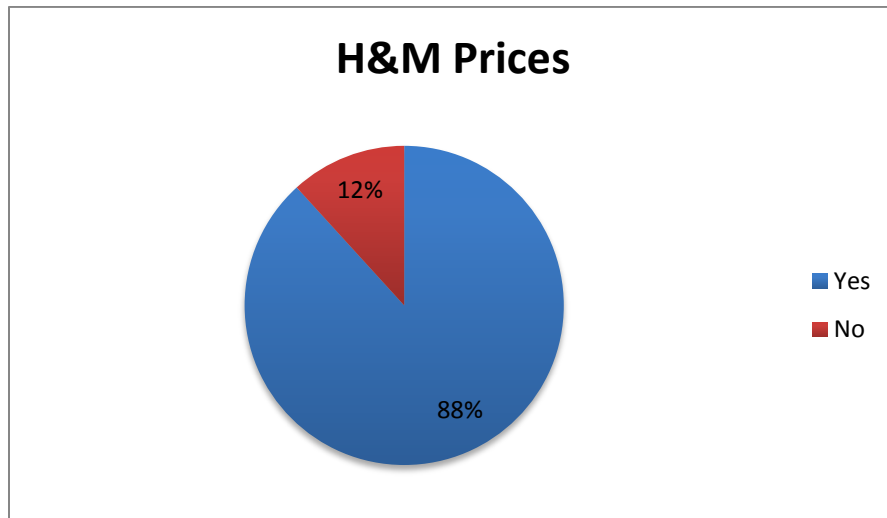


Table 4: H&M’s sustainability initiatives (question’s 5 and 6 from the survey).

