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Silver Fashion (Greece)

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This case has been prepared as a basis for class discussion rather than to illustrate either the effective or ineffective handing of a business / administrative situation.

SILVER FASHION

Introduction

It was late April 2010 and Afrodite Vakondiou, owner and manager of Silver Fashion, was sitting at the kitchen table in her apartment in Athens. She was enjoying the unusual pleasure of having a leisurely breakfast with her son Angelos, but even still the talk was about what steps her company should take in the months ahead. Silver Fashion, her retail clothing store, had gone through several phases over the past decade, including numerous problems relating to its expansion and growth. After several rollercoaster years of growth, decline and stabilisation, Afrodite had now managed to save a considerable amount of money, which could potentially finance a promising growth in operating capital and secure the future development of Silver Fashion. Angelos had recently been speaking with a local bank manager about the possibility of securing bank loan for a new store and he was pleased to discover that the bank was favourable towards the idea given the sound financial position of the business. Indeed, the terms and conditions of the proposed loan were very appealing and the prospect that this expansion could have on the potential growth the company, in a relatively short period of time, was particularly enticing to Angelos who wanted to see it expand beyond its current base. However, Afrodite did not feel that the economic situation in Greece was safe enough to undertake such a venture. Rumours were circulating about the possibility of the national economy going bankrupt and returning to the old currency, the Drachma, or even leaving the EMU. In addition, Afrodite would have to risk not only the stability and slow growth of the existing store, which secured a good quality of life for her and her family, but also the funds she had saved up under the very strenuous conditions that the business had gone through in the past. She would prefer to increase the sales in the business by moving slightly down-market in terms of what she sold so that she could purchase products more cheaply from China, attract more people from the larger middle-income female market, and so increase profitability by expanding sales and decreasing costs. However, Silver Fashion was already well-established in the higher-quality end of the market and she was concerned that she would lose many of the clients that she had generated over many years hard work. A decision had to be made quickly and Afrodite had two weeks to get back to the business angel with a final response.

The History of Silver Fashion

In the early 1980's Afrodite and her husband George were running a summer pizza operation from May to October. After three years in that business they realised that the money that they were earning was not enough to cover their needs as they had a young family which created for them an additional set of economic responsibilities. Afrodite decided to seek work with a friend, Michael, who owned two clothing retail stores in Athens. Fashion was an area of interest for Afrodite and this was her opportunity to establish herself in this industry. In November 1986 she started working for 'Silver Fashion' and soon after her commencement Michael realised that Afrodite had a talent for this type of work. In particular, she excelled at running the store, picking out the right clothes for the window, arranging the merchandise in the store, and approaching customers. Afrodite was a natural entrepreneur and evolved into a valuable colleague. As a result of her work, sales started to rise and profits increased substantially. Consequently, Michael promoted Afrodite to the position of Buyer (buying merchandise from the wholesalers) and discovered that she was equally as good at this work, as she had an excellent talent and terrific judgment in buying from the wholesalers. In order to avoid the possibility of Afrodite becoming a strong competitor in the future (by opening her own store), Michael invited Afrodite to be his business partner. Initially this would involve opening a new retail store, with the eventual progression into the wholesale business for Silver Fashion.

Shortly afterwards Michael and Afrodite opened a new retail store and simultaneously started the wholesale side of the business. Due to this expansion and the demanding nature of their business, their needs for employees increased, so Mary (Michael's wife), along with George and Angelos (Afrodite's husband and son respectively), started to work with them in Silver Fashion. Angelos and Mary were in charge of the retail stores, George was responsible for the clients and the wholesale business (as well as discovering new retail clients), Afrodite was the buyer and Michael was in charge of personnel, management and finances. The primary challenge for Afrodite and Michael was to come up with an idea to make the wholesale business highly competitive, have good quality merchandise and good prices. After much deliberation they offered the following proposition to their importers: the merchandise they would buy would be in large quantities, they would not use credit and they would always pay cash. In return for this deal, they asked for a 15 percent discount on all clothing bought. They reached this agreement with many of their importers and with the increased cash flow Michael and Afrodite opened up a new showroom which had the biggest variety and the best prices amongst their competitors.

At that time clothing manufacturers in Greece mostly made clothing for big brand names, and these manufacturing businesses were very attractive, mainly due to the low labour cost. As a common policy, these manufacturers produced a 10 percent surplus in their total production. Afrodite's sister-in-law owned one of the biggest clothing factories in the country and due to this coincidence, Silver Fashion entered the market, and started buying the 10 percent surplus from these suppliers. As a result of buying this surplus at a very low cost and by paying cash, Silver Fashion could offer these high quality clothes at a low price, and consequently, the showroom improved its competitive position. The expansion of the business (3 retail stores) and the new showroom created additional demand for labour. The company hired additional sales persons and a driver for the wholesale distribution to the clients. The business was doing extremely well, it was profitable, and sales were growing. Competitors in the wholesale/importer industry could not compete with Silver Fashion on the basis of price, and these competitors delayed their distribution and deliveries in order to sabotage Silver Fashions reputation. Silver Fashion responded to this by expanding further into imports. They removed all intermediaries and decided to carry all imports alone. This move turned out to be very profitable for Silver Fashion.

Economic Crisis Causes Difficulties

By early 1987, the wholesale/import business was supplying approximately 400 retail stores. These customers were all paying cash which gave Silver Fashion 80 million Drachmas worth of financial allowance (capital). When the new season (Autumn 1987) arrived, the company decided to invest all its capital into new imports. A total of 80 million Drachmas (the equivalent at that time of €240,000) worth of merchandise orders were made to foreign clothing manufacturers. On the evening of November 26th 1987, George and Afrodite were having dinner and watching TV at their apartment in Athens. Suddenly, the programme stopped due to breaking news, broadcasting that the Greek Minister of Economics was announcing a devaluation of the national currency, the Drachma, by 15 percent. At the same time, the government was passing a new law that required every company importing merchandise from abroad to deposit, with no interest for a six month period at the Bank of Greece, 80 percent of the value of the merchandise being imported when clearing their merchandise through customs. George and Afrodite could not believe what was happening. Michael phoned them immediately after the announcement. They had clothing, to the value of 80 million Drachmas, which had just arrived at the Greek port and was supposed to go through customs the following day. Afrodite and George panicked and could not sleep that night. At 6.30am they arrived at the customs office in the port of Piraeus. A huge crowd was waiting outside the customs office. Everyone was trying to understand what was going on and what was going to happen. George believed that this was the end of Silver Fashion, as there was no way that they would be able to deposit 64 million Drachmas at the Bank of Greece in order to clear the inventory through customs.

The situation for Silver Fashion could be described in the following way:

1. At the Athens customs office the company had merchandise worth 80 million Drachmas, paid to the supplier;
2. Given the new government actions, in order to clear the imported merchandise through customs the company would have to deposit, with no interest for 6 months, 64 million Drachmas to the Bank of Greece;
3. Given the 15 percent devaluation of Drachma, the company would have to raise its prices which would make their products less competitive in the market. This fact raised the possibility of having unsold goods and facing an increase in their stock.
4. The 64 million Drachmas required by the customs office could only be obtained through a loan, which would include interest payments.

So the company was at a crossroad, trying to decide whether to clear through customs or not.

The decision that was finally made was to take the risk, and follow through with the loan and the repercussions that this decision might entail. In order to minimize the loss from this unexpected obstacle, Michael and Afrodite had to lay off some of their employees, thereby decreasing the company's labour cost. The driver was let go and George replaced him. At every retail store they made redundant one sales person, in total three people. At the same time they were trying to find new customers in order to sell this new merchandise as soon as possible. Following a door-to-door policy, at every city and every town they could possibly reach, Silver Fashion managed to sell the total amount of the imported merchandise within 40 days. This allowed the company to recover its 80 million costs plus 20 percent more, which was just enough to cover the total costs incurred.

Going through this very tricky and dangerous situation, Afrodite and Michael realised the danger of giving their total financial capital to imports. Additionally, the uncertainty of the Greek economy at that time, plus the additional devaluations of Drachma that took place within a period of 3 years, caused the owners of Silver Fashion to change the nature of their business. As a result, they split their wholesales business between domestic and foreign producers, and thereby reduced the risk involved in foreign transactions due to fluctuations in exchange rates and devaluations of the currency. Instead they identified Greek clothing manufacturers that would take up a significant share of their supplies of good quality products. This solution was in fact their salvation, and Silver Fashion managed to survive the market crisis that followed and quickly rebuild its business. This upturn in the business continued for a 6 year period. The wholesale part of the business was healthy and profitable, and so were the retail stores. With the Maastricht Treaty (in 1993), new conditions in the EU market allowed for free movement of capital and merchandise and there were no barriers in trade in the exchange of goods and services across EU countries. Furthermore, all currencies of the EU had fixed exchange rates with each other, since the goal of a common currency (until the implementation of the Euro area in 2000) had already been shaped and the EU members had already fixed their national currencies to the ECU (European currency at the time, but not in circulation). All bureaucratic procedures were now much simpler and imports from EU countries no longer had to pass customs and the exchange rate uncertainty was no longer an issue. Therefore, with the introduction of the common currency (the euro), international transactions were once again made simple for Silver Fashion.

Decline of the Greek Clothing Industry

After the signing of the Maastricht Treaty, a new set of guidelines on government support meant that the Greek government had to reduce all subsidies to domestic clothing manufacturers. As a result of this policy, the labour cost for domestic production made Greek manufacturers less competitive. Consequently foreign fashion houses started moving their plants to low wage countries in the Balkan regions, such as Bulgaria and Romania. The speedy death of the clothing manufacturing industry in Greece now made any type of domestic supplies practically unavailable to Silver Fashion and so the company started looking for new manufacturing plants in the Balkans to replace the Greek ones that had closed down. However, the cost of transportation was high for supplies from the Balkans. In addition, these countries were not members of the EU at the time and so there was no facilitation of transactions through the use of the common currency and the open borders policy of the European Union common market. These conditions made the company pull out of the clothing market in the Balkans quite quickly.

The transformation of the economic forces across the globe and the concentration of a great portion of the global clothing manufacturing in China, mainly due to the vast availability of a very cheap labour force, was beginning to make the Chinese clothing manufacturing a dominant power in the global market at this time. The Chinese soon became the largest wholesale suppliers in Europe and the rapid spread of the Chinese dominance meant that Silver Fashion's wholesale operations could no longer compete against this new rival. This led to the decision to close down Silver Fashion's wholesale operations and to exit this particular market, which meant that retailing was the only branch of the company remaining. Afrodite and Angelos bought out Michael's share of the company and continued alone with one retail store (they closed the other two stores). Afrodite was in charge of sales, the window dressing, as well as store decoration. Angelos was in charge of supplies, buying and financing. By 2005, competition in the retail market had become quite intense, which was further heightened with the introduction into the market of some large multinational retail chains. However, the availability of credit by commercial banks enabled the expansion of small local stores which were competing on both price and quality, and the expansion of the economy in the years before the 2004 Olympic Games were hosted in Athens had created more generally a good economic and business environment. However, it had also created a false bubble on a number of levels, including the cost of merchandise, rents (paid to the store owners), high interest rates, etc. Almost all elements involved in trade were greatly overvalued, with stores in popular neighbourhoods having their rent doubled or tripled in just a short few years.

However, the international financial crisis that erupted in 2008 had a huge impact on Greece. First, banks stopped giving out credit to entrepreneurs, and payments on time from customers started became quite difficult. Soon the economy started to slow down. In addition, banks also stopped giving credit to households, borrowing decreased, there was increased liquidity, demand fell and overall consumption decreased. Afrodite soon realised that as sales were steadily falling and customers were asking for 'cheaper' goods, and so Silver Fashion would have to change its buying and pricing policy. Profit margins narrowed considerably, and at the same time sales were falling. The government elections in October 2009 brought to light the significant fiscal problems that the Greek government was facing. Greece was close to bankruptcy. The consequential emergency austerity measures had a negative impact on Greek citizens. The retail industry was severely affected and several retail stores soon went out of business. Banks stopped providing any type of credit and unemployment skyrocketed. Retailers and wholesalers had no liquidity to cover their obligations. However, at the same time, store rents decreased significantly, cash was highly valued and all transactions delivered in cash allowed for considerable profit. The decrease in demand made the wholesale sellers decrease their pricing considerably. Eventually the bubble began to deflate and the property owners who were left for a long time with their shops empty were now lowering their rent charges even further. The market was creating opportunities for new businesses to start up at a very low cost.

Unfortunately, the projections for the Greek economy were not good. The economy had entered a recession period, and some economic analysts argued that it would take more than five years for the economy to recover. In addition, some other analysts believed that the situation would deteriorate even further because it would be impossible for Greece to avoid bankruptcy and the regression back to the Drachma (the old Greek currency). As a result, the environment was very fragile with a strong sense of uncertainty. There was decreasing competition in the retailing sector and many firms were closing down, while several others were barely surviving. Fortunately, Silver Fashion had relatively stable sales and was making a profit, despite the financial crisis. With low labour cost, since there was only George working together with Angelos and Afrodite, as well as stable fixed costs, Sliver Fashion had managed to stay healthy amid the economic uncertainty. Curiously, the crisis also brought with it new opportunities for expansion, as the rents for stores had become considerably cheaper, the cost of merchandise had fallen, and the government had passed new laws lowering the minimum wage and making labour conditions more flexible. Consequently, market conditions had become more favourable for entrepreneurs to invest at a lower cost, although the greater risk of new investments made any decisions very difficult. Competition had decreased, but at the same time prices had fallen significantly. As a result, being competitive is hard unless a retailer can buy cheap. As a consequence of this financial and economic instability, there was no clear direction in which a company might proceed.

Different Strategic Marketing Options

Afrodite always believed that the merchandise carried by Silver Fashion would generally be described as ‘high quality’, while the prices could be classified as ‘value-for-money’. However, over the last few months, given the high cost of purchases for high quality clothes, Afrodite and Angelos had started considering the idea of lowering the quality of their product which would allow them to cut their prices, thereby making their merchandise more attractive to a larger fraction of the consumers. They had already tried this practice by buying few pieces of lower quality at a time and they had observed some positive changes with respect to the number of their customers and the volume of their sales, as well as the mouth-to-mouth advertising that this practice has created for their store. This small success raised the question of whether or not they should shift their buying policy as a whole to middle quality, lower cost merchandise.

The ladies retail fashion market in Athens could be distinguished in two main categories: (1) non-brand, low price clothes; and (2) established brand, more expensive merchandise. These two categories were very different in that they attracted different types of consumers, who were primarily differentiated based on their budget. The cost-saving category could be described as a market where there were two types of competitors - the small family businesses which usually consisted of one or two stores, and the big multinational company chain stores which offered standardised non-differentiated product and were highly competitive in terms of price and quality. As a result, for a person establishing a store in this sector, the primary competition would come from (1) the small businesses located in the same neighbourhood and from which only the locals would shop, and (2) the big shopping malls which were located in the area and which attracted shoppers into one large location from a wide geographic region. These shopping malls were usually populated by bigger volume chain stores that would frequently carry merchandise in the same range of quality and price as the small stores in their neighbourhood. The rents charged for outlets in these shopping malls were much higher than would be found in an Athens neighbourhood but the number of people going past the store would be substantially higher than would be found in a suburban street of the city.

The stores selling more expensive clothes generally targeted consumers with a higher budget, women who were looking more for quality and were less concerned with special deals. Since the beginning of the financial crisis, this fraction of the market had shrunk and several retailers who specialised in this market segment had adjusted their quality and prices to meet the different demand characteristics of the public who now had much lower benchmarks in terms of quality and price. Some retailers of high-quality clothes had started to move down from high-quality products to medium-quality clothing, while simultaneously several small stores had gone out of business over the past year. Those stores that remained realized the apparent need for them to locate less pricy wholesale markets, to lower their prices, to become more competitive, and to increase the quality of their services in order to remain profitable. Meanwhile, for the chain stores, the focus had been on decreasing labour costs and taking advantage of their purchasing power to sell stock at much lower prices than small businesses were capable of achieving.

Changing the quality of clothing in a store, together with the cost of merchandise, is not always an easy thing to do. Manufacturers of cheap clothing are not plentiful and often the quality they offer for the low price is very poor. In addition, these manufacturers are not easy to find, usually they are not located in Greece, and so the transportation costs associated with moving the product from one country to another is quite high. If Afrodite and Angelos wanted to change the quality of merchandise in their store they would also risk losing a large fraction of their customers who looked specifically for high quality clothes. In this case, their sales might drop dramatically and their reputation would most likely be negatively affected. On the other hand, moving from high quality to medium quality merchandise would attract a significant larger number of potential customers who could afford lower quality clothes but who could not buy Silver Fashion goods previously. As a result, Silver Fashion could open up to the medium end of the market which now, due to the current economic conditions, represented a much larger number of customers. In this way, the operation cost for the business could be drastically reduced, less stock would be left due to the low prices, prices would decrease and this would allow for an increase in the volume of sales. If they were able to increase their sales by a higher percentage than the decrease in their prices, then overall they would be able to increase their total revenue. This result, in combination with a cut in costs, could increase the profit margin of the company.

What to Do?

As they drank their coffee at the breakfast table and argued over the future direction that the business should take, Angelos started talking further about the possibility of creating a new store which would have a different brand name and would target a different market segment. A new store that would target a different portion of the market would be able to capture a differentiated set of customers, which would give some more flexibility with respect to the management of stock which could be moved between stores as required, particularly during a sales season. Afrodite highlighted that opening a new business in this economic environment could be highly risky and could put at risk the profitability of the existing Silver Fashion store but Angelos argued that a medium price store with medium quality merchandise would not require a very demanding investment. He was also thinking that he could find a store with low rent, since rents in the middle of the crisis had been significantly decreased due to the huge drop in demand. With the help of his father he could paint the store and put up all of the furniture and shelves required, and then Afrodite could take care of the decoration. Hence, the overall cost of starting up this business would be much lower than the costs that they had accrued in the past in similar cases. At the same time, they could advertise the new store to the existing customers of the Silver Fashion and in this way it could become popular quite fast. However, Afrodite did not agree with this idea. She believed that it would be too risky to create a new brand with a new store, and even though the start-up cost could be kept quite low, she did not think that a new store was missing from their activities. She was worried that customers would go from the more expensive to the less expensive store and that this change in shopping behaviour could put Silver Fashion at risk. She also wondered whether such a store should be located in one of the city's shopping malls rather than on a suburban street as Angelos proposed.

Angelos also had another idea and suggested that the new store could also sell online and through catalogues and that these channels would enable them to target a completely different market (younger ages, people familiar with online shopping, etc.). These channels would have some start-up costs involved, but the overall operational costs would be much lower than for their retail stores. Afrodite did not like this idea either and simply wanted to consolidate their financial position during the economic crisis and not take any risks with their money. Angelos argued that she was being conservative and that this was a time of opportunity if she was willing to take a small bit of risk. As the discussion was becoming more heated, George walked into the room and asked what all of the shouting was about. Afrodite explained that she had taken enough risks in her business career and that she did not want to take any more as she hoped to retire in five years time with a healthy bank balance. Angelos had always assumed that he would take over the family business but now he wondered if his mother had some idea about selling it. George tried to lighten the mood by saying that he had a new idea for the business – to go back to the old days that he loved when he was a trader. He was thinking of setting up a stall in the city centre market place and selling cheap clothes without any worries about branding, promotion, or any other concerns of modern business practice, just buy the clothes for a certain price and sell them for more than you paid. As the three of them sat quietly for a moment at the breakfast table, each was lost in their own idea of the future direction of the business. So much for family unity!