

## Reading Outsourcing production

# Made in Europe

By Jo Johnson, Fred Kapner and Richard McGregor

Almost every fashion label outside the top super-luxury brands is either already manufacturing in Asia or thinking of it. Coach, the US leather goods maker, is a classic example. Over the past five years, it has lifted all its gross margins by 10 manufacturing solely in low-cost markets. In March 2002 it closed its factory in Laredo, Puerto Rico, its last company-owned plant, and 15 outsources all its products. Burberry has many Asian licensing arrangements. In 2000 it decided to renew Sanyo's Japanese licence for 20 ten years. This means that

to be seen, particularly in Asia, as European. Domenico De Sole of Gucci says: "The Asian consumer 45 really does believe whether it's true or not that luxury comes from Europe and must be made there to be the best." Serge Weinberg, Chief Executive of Pinault Printemps Redoute, which controls Gucci, says it will not move Gucci's production offshore. Yet some in the 55 industry recognise that change may be round the corner even for the super-luxury brands. Patrizio Bertelli, Chief Executive of Prada, says: "The 'Made in Italy' label is important but what we are really offering is a style and style is an expression of culture." He 65 therefore recognises that quality fashion items may

From the *Financial Times*

### FINANCIAL TIMES World business newspaper.

- A** Why do some companies make luxury products abroad rather than at home?
- B** Read the article and answer these questions.
- Which brands are mentioned? Do you know which country each is from?
  - Which companies make all of their products in their own country?

not always need to be produced in Italy. Amitava Chattopadhyay, Professor of Marketing at Insead, the business school, says: "A brand is a set of associations in the mind of the consumer and one of these is the country of origin. For luxury goods, the role of the brand is crucial. To damage it is a cardinal sin and no brand manager will want to get the balance between manufacturing location and the brand image wrong."



▲ Mother, baby and pushchair in Burberry.

- C** Which of these statements are true? Correct the false ones.
- Coach no longer has a factory in Puerto Rico.
  - Coach, like many other companies, is outsourcing its products to reduce costs.
  - Some Japanese people choose to buy Burberry products made in Europe rather than in Japan.
  - Sanyo's store in Tokyo sells Burberry products made only in Asia.
  - According to Domenico De Sole, the best luxury products are made in Japan.
  - Gucci is planning to outsource some of its products.
  - Patrizio Bertelli believes that luxury fashion products should always be made in Europe.
  - Amitava Chattopadhyay says that companies need to pay careful attention to where they manufacture their products.
- D** Choose the best summary of the article.
- Most manufacturers of luxury brands do not wish to produce their goods in low-cost countries because they believe that it will damage their brand image.
  - Most manufacturers of top brands now produce their goods in low-cost countries. Consumers no longer care about where the products are manufactured.
  - Asian consumers think that European luxury goods are of high quality. The current trend of making such goods in Asia could damage the reputation of these luxury brands.

## Language review Present simple and present continuous

The present simple and the present continuous have several uses.

- We use the present simple to give factual information, for example about company activities.

*Coach outsources all its products.*

*Does Burberry outsource its products?*

- We use the present simple to talk about routine activities or habits. *I always buy Armani suits. Do you usually buy designer brands?*
- We use the present continuous to talk about ongoing situations and projects.

*Sanyo is now reacting to this demand.*

- We use the present continuous to talk about temporary situations. *We are testing a new brand at the moment.*

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**A** Which of the time expressions below do we usually use with the present simple? Which of the time expressions do we usually use with the present continuous? Which are used with both?

usually	this year	every day	now
often	nowadays	once a month	these days
currently	at the moment	these days	

**B** Complete these sentences with the present simple or the present continuous forms of the verbs in brackets.

- a) This year we ..... (try) to develop a brand with personality.  
b) We usually ..... (develop) brands that say something.
- a) Powerful brand names ..... (create) strong consumer loyalty.  
b) At the moment we ..... (look) for a new brand name that suggests something about the product's benefits and qualities.
- a) L'Oréal ..... (sell) cosmetics and toiletries to consumers around the world.  
b) This year L'Oréal ..... (invest) over £180m in R & D.
- a) The marketing department always ..... (keep) within its budget.  
b) Because the company made a loss last year, the marketing department ..... (try) to reduce costs.

**C** Complete the text below with the present simple or the present continuous forms of the verbs in brackets.

At the moment I .....<sup>1</sup> (work) for a cosmetics company. We offer a full range of cosmetic products and .....<sup>2</sup> (sell) cosmetics and toiletries around the world. Our main cosmetics brand .....<sup>3</sup> (dominate) the French market and it .....<sup>4</sup> (do) well in the rest of Europe at the moment, too. In fact, the brand .....<sup>5</sup> (become) more and more popular throughout the world and our market share .....<sup>6</sup> (grow) every day.

We usually .....<sup>7</sup> (develop) and .....<sup>8</sup> (extend) products under our existing brand name. The brand is distinctive and .....<sup>9</sup> (stand) out from the competition. However, this year we .....<sup>10</sup> (create) a completely new brand of cosmetics.

**Discussion**  
Two promotions

**A** Work in pairs. Student A reads Case 1 and answers the questions. Student B reads Case 2 and answers the questions.

**Case 1 Harley Davidson**



In 2003 the Harley Davidson brand was 100 years old. Although its brand image is based on the spirit of wild and rebellious youth such as Marlon Brando in the film *The Wild One* (1954), the typical consumer is very different. They are likely to be rich, middle-aged accountants trying to recapture their youth. The average age of Harley Davidson customers is 46 compared with 36 for the rest of the motorbike industry. At the party to celebrate the centenary, the surprise performer was actually Elton John, rather than the Rolling Stones who many people had expected. This caused many of the 150,000 riders and dealers to leave the event very unhappy. Although sales and earnings for Harley Davidson have been increasing for the past 18 years, many people see trouble on the road ahead. The problem is Harley Davidson's typical customers come from the baby-boom generation (1946–1964) and, as these customers get older, Harley Davidson may find its market shrinking.

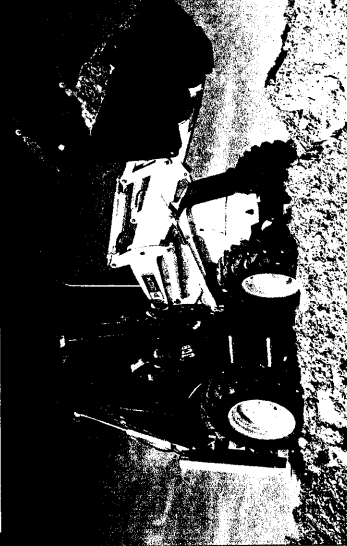
- 1 What is the brand image of Harley Davidson?
- 2 Why were many people unhappy about the music at the party?
- 3 What problem could Harley Davidson have in the future?
- 4 What can Harley Davidson do to preserve its sales? Should it change its brand image? Should it look for new market segments? Should it stretch its brand?

**Case 2 JCB**

- 1 Where does the name JCB come from?
- 2 What was surprising about JCB's customer research?
- 3 What sort of products do you think JCB developed as a result of its research?
- 4 Can you think of a similar example of brand-stretching in your country?

JCB is a world-famous engineering company. It was founded in 1945 by Joseph Cyril Bamford. He began his business working alone in a small garage. JCB makes construction and agricultural equipment such as tractors, earth-moving vehicles and loading machines. Now its world headquarters in England is one of the finest engineering factories in Europe. The company produces over 130 different models on four different continents and sells a full range of equipment in over 750 countries. It is truly a global brand.

JCB's research showed that its customers associated the company with the following brand values: 'yellow', 'digger' and 'durable'. Adults say the brand as being very British and suggest the firm image of quality and being a well-established brand with a vibrant history.



- B** Share information about your case with your partner.
- What was the original brand image of the product in your case study?
  - Who does the brand appeal to now?

**Skills**  
Taking part in meetings 1

**A** 1.5 Four marketing executives at a cosmetics company, Marvel Plc, are talking about licensing their 'Luc Fontaine' product range to an Asian manufacturer. Listen to the conversation and answer the questions.

- 1 Why do the marketing executives at Marvel Plc want to license their 'Luc Fontaine' product range?
- 2 What advantages does Susan Li offer to Marvel?
- 3 According to Barbara, what is the disadvantage of offering a licence to Susan Li?
- 4 What suggestion does Barbara make to her colleagues?

**B** 1.5 Listen again and complete the extracts.

- Marcia Alain, how .....<sup>1</sup> about this? Is she the right person for us?
- Alain Definitely. In my opinion, she's ideal.
- Marcia Right. Valerie, what .....<sup>2</sup> ?
- Valerie I .....<sup>3</sup> because she's very good at marketing. I've met her several times.
- Marcia Barbara, you're shaking your head. ....<sup>4</sup> ?
- Barbara I'm .....<sup>5</sup> agree. I don't think she's suitable at all.
- Marcia So what do you suggest then?
- Barbara .....<sup>6</sup> find someone else. I do have someone in mind.
- Barbara In my opinion, his company has a lot to offer. ....<sup>7</sup> meet him and see if he's interested?

**C** Which of the phrases in Exercise B are:

- 1 asking for opinions?
- 2 giving opinions?
- 3 agreeing or disagreeing?
- 4 making suggestions?

**D** Role play this situation.

Jonson, a large department store in Chicago, USA, is losing money. Its main product areas are food, clothing and household furniture. Seventy percent of its revenue comes from clothing, twenty-two percent from food and eight percent from furniture. Three directors of the company meet to discuss the company's problems and how to solve them.

Work in groups of three. Student A: turn to page 141. Student B: turn to page 147. Student C: turn to page 149. Read your role cards then role play the discussion.

Vocabulary file pages 170 and 174

**Useful language**

**Asking for opinions**  
How do you feel about ... ?  
What do you think?  
What's your opinion?  
What's your view?

**Agreeing**  
That's true. I agree.  
Absolutely / Exactly.  
I think so too.

**Making suggestions**  
I think we should ...  
How about ... ?  
Why don't we ... ?  
Maybe / Perhaps we could ...

**Giving opinions**  
I think ... / I don't think ...  
In my opinion ...

**Disagreeing**  
I see / know what you mean, but ...  
I'm afraid I can't agree.  
Maybe, but ...

# Caferoma

## Background

Caferoma, a well-known brand of coffee, is owned by PEFD, a company based in Turin, Italy. It is promoted as an exclusive product for people who love ground coffee. Its image is of an Italian-style coffee. It has a strong and slightly bitter taste, and costs more than almost every other ground coffee product on the market.

## Problems

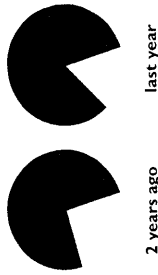
In the last two years, Caferoma's share of the quality ground coffee market has declined by almost 30% (see chart). There are several reasons for this:

a) **Brand loyalty.** Consumers have become less loyal to brands and more price conscious. They are willing to buy lower-priced coffee products.

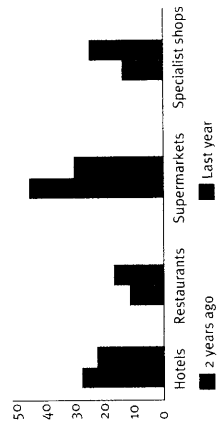
c) **'Copycat' products.** Competing products of Italian-style ground coffee are selling at prices 30 to 40% lower than Caferoma.

d) **Brand image:** the Caferoma brand no longer seems to be exciting and up-to-date.

b) **Price:** Supermarkets are selling, under their own label, similar products to Caferoma at much lower prices.



Sales outlets as a percentage of Caferoma sales



Focus group results

Do you think Caferoma is...	% of people answering 'yes'
expensive?	60
value for money?	43
good quality?	70
old-fashioned?	80
exciting?	23
exclusive?	55

## Possible solutions

### Repositioning the product

Change Caferoma's image to appeal to a different market segment. (Which segment? What changes to taste, quality, packaging, logo, labelling, distribution?)

### Pricing

Reduce the price by, say, 20% to 30% so that it is in the medium range of prices.

### Advertising

Develop a new advertising campaign to relaunch the brand.

### Multiple brands

Sell Caferoma, with small changes to product, under different brand names at lower prices.

## Task

As members of PEFD's marketing team, hold an informal meeting. Consider the advantages and disadvantages of each solution. Then decide what to do to stop the decline in the product's market share and to increase profits.

## Writing

Write an e-mail to Caferoma's Managing Director, Mario Cumino. Summarise what action you agreed to take at the meeting to solve Caferoma's problems. Explain your reasons.

Writing file page 133

## Own brand label products

Allow supermarkets and hypermarkets to sell Caferoma under the supermarkets' own brand labels. Continue to market the Caferoma brand at the same time.

## A new product

Bring out an instant coffee or decaffeinated product under the Caferoma brand as soon as possible.

## Stretching the brand

Allow some makers of coffee equipment (cafeteres, percolators, coffee machines, etc.) to use the Caferoma brand on their goods, for a licensing fee.

1.6 Claudia, Caferoma's Marketing Manager, has some recent news from one of Caferoma's biggest customers, Majestic Hotels, a major European hotel chain. She discusses the news with Caferoma's Sales Director, Pietro. Listen to their conversation. How does this new information affect your decisions?

