Chapter 8

To Russia with Love: The Complexity of Penetrating New Markets

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ABSTRACT

Clarwen is a small privately owned company based in southern California, USA. It designs, manufactures, and markets custom-made luxury accessories for men and women. The company is considering pursuing international expansion—primarily into Russia but also into the European and/or Chinese markets—in order to directly increase its revenues by adding potential new customers for its current products. Preliminary market analyses indicate that non-domestic customers are willing and able to buy Clarwen’s products. Cultural factors, as well as the need for innovation, are key to Clarwen’s expansion strategy. Additionally, an internal environmental scan reveals that the firm’s current capabilities are limited, both in terms of production and distribution. Taking into consideration intellectual property and financial risks inherent in going international, especially for a small company, devising an appropriate entry strategy and executing it flawlessly becomes a matter of vital importance. This case examines the socio-economic factors involved in determining what entry mode Clarwen should choose: agents/distributors, franchising, direct marketing, or joint ventures in its attempts to penetrate these markets. Distribution and sales channels, selling factors and techniques, pricing, promotion and advertising, and customer support issues are considered as well.

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CLARWEN: COMMERCE WITH A CAUSE: PRODUCTS WITH DEEP PERSONAL MEANING MADE IN AMERICA

Clarwen is a small, five year old privately-owned company specializing in made-to-order, frequently one-of-a-kind, men’s and women’s bags, belts, wallets, home pieces, and other leather accessories. These are produced from high-end, sometimes exotic, Italian materials in a wide variety of customizable sizes and shapes. As the company owner and designer of this luxury line, Jane Anderson personally oversees the production of each piece, from its conception to manufacturing at the near-by factory, and stands firm by her uncommon (and less lucrative than those of traditional luxury designers) commitments to produce the entire line in the United States and to keep Clarwen out of large retail stores.

Each creation is meticulously finished with proprietary hardware, and with its timeless, sleek design embracing a contemporary twist, with a price range of US$900 to upwards of US$5,000, could undoubtedly be appreciated by the most discerning customer as an investment piece. Accordingly, Clarwen’s exclusive merchandize has quickly developed a devoted following among the Hollywood’s celebrities such as Angelina Jolie, Brad Pitt, Eva Longoria, Diane Lane, Carrie Underwood, Jessica Alba, Channing Tatum, and Courtney Cox, and is frequently featured in Vogue, Elle, People, and InStyle, as well as television programs such as Extra. Available in exotic materials such as eel, ostrich, and alligator, as well as in a number of traditional leathers produced in Italy, Clarwen’s products can be made rugged or sleek, and purchased online, through private showcases, special events, and trunk shows, where they can also be commissioned for customized design and manufacturing. Only 15 employees are mostly close friends or relatives, and the company has a no-discount policy.

Together with Network for Teaching Entrepreneurship, registered as a 501©(3) non-profit corporation, Clarwen is raising much-needed resources for building better communities through mentoring a competition-based entrepreneurial program for low-income students called Giving by Design. This group is frequently commissioned to create original products for fundraising. Upon the advice of a close friend and colleague, Jane Anderson is considering pursuing international expansion - initially into Russia but later maybe also into the European and/or Chinese markets in order to directly increase Clarwen’s revenues by adding potential new customers for its current products. Preliminary market analyses indicate that non-domestic customers are willing and able to buy Clarwen’s products.

However, Jane Anderson is well aware that numerous and complicated cultural factors, as well as the need for innovative, market- and culture-specific positioning and promotion, will be key to Clarwen’s expansion strategy. An internal environmental scan reveals Clarwen’s current capabilities are limited, both in terms of production and distribution. Consequently, taking into consideration intellectual property and financial risks inherent in going international -- especially for a small company -- devising an appropriate entry strategy, and executing it flawlessly, becomes a matter of vital importance.

PART 2: RETAIL IN RUSSIA: CHALLENGES AND OPPORTUNITIES

Russia’s enormous size and level of economic development present both challenges and opportunities to retail market, which is currently divided among many players, and large retail chains’ share is relatively small. Nevertheless, the Russian retail market is heavily saturated and barriers to entry are high, due to lack of quality warehousing,