

Mascot International A/S



tested to work

Written exam after 1st semester

Skriftlig eksamen efter 1. semester

The basis for the company's sale / Virksomhedens salgsgrundlag/

13 January 2011 / 13. januar 2011

08.30-14.30

This exam case consists of 4 assignments carrying the following weights in the total assessment of the paper

Dette opgavesæt består af 4 opgaver, der indgår i bedømmelsen af den samlede opgavebesvarelse med følgende vejledende vægte

Assignment/Opgave 1:	40 %
Assignment/Opgave 2:	20 %
Assignment/Opgave 3:	20 %
Assignment/Opgave 4:	20 %

Assignments: (In Danish below)

Assignment 1 (40%)

The Western European workwear market is highly competitive with more than 750 players. The primary challenge facing the workwear market originates from its fragmented state, which leads to increased cost of servicing a customer. Moreover, the workwear market is highly price sensitive and the companies operating in it have witnessed a decrease in their revenue per new customer. These trends have been accelerated due to the financial crisis.

Based on relevant models and theories please analyze MASCOT International A/S competitive situation and discuss MASCOT International A/S ability to meet the future challenges on the market

Assignment 2 (20%)

Please consider which factors you think the management could have attached importance to in connection with establishing production in Vietnam and present your considerations in a structured manner. You must explain why and how these factors are relevant for MASCOT International A/S.

Assignment 3 (20%)

On 20 December 2010 Mascot International A / S in Denmark received an offer of 50,000 zippers from a Chinese supplier. Due to the bustle of the Christmas season, the company has not yet responded to the offer, which otherwise looks good. But suddenly yesterday an email from the Chinese supplier arrived, announcing that they have to raise the price by 25% because of production problems.

Moreover, in the autumn of 2010 Mascot International A / S had a large order produced at the factory in Vietnam. The parties to the contract are Mascot International A/S and a German buyer, a large construction company in Köln (Cologne). The workwear was sent by ship to the Dutch port Rotterdam, where it was delivered by truck to the buyer in Cologne. The clothes were delivered mid November 2010 in boxes which were then stored in a remote warehouse belonging to the German contractor, since the clothes wouldn't be presented before the last working day before Christmas as a kind of Christmas present for their employees. However, it has become apparent that there are several errors in the production, which was only discovered shortly before Christmas.

At a trade fair in Leipzig, Germany in October 2010 Mascot's representative was approached by a major German manufacturer of workwear, who wanted the German manufacturer and Mascot to cooperate on pricing and workwear models, so that they would not, as the representative said, "compete each other out of business".

In addition to being workwear, the name Mascot is also linked to an English mini car primarily produced in 1960s and 1970s. The car is now a collector item and the company has discovered that companies calling themselves Mascot, or using the name, have been established in several countries and that they all pro-

duce spare parts for the cars.

Question:

Please analyze what legal problems can be linked to the listed events? You must provide a legal justification for their solution. The answer may assume that the issue between Mascot International A/S and the Chinese supplier and the German construction company are settled by a Danish court. China and Germany have joined the CISG in its entirety.

Assignment 4 (20%)

The company is step by step recalculating old standard costs. Total cost in one of the entities support 3 sales areas is 1,110,000 DKK and includes computation, shipping and energy use in transportation.

Expense category	Expenses
Computer systems	600,000
Shipping department, all included	450,000
Energy	60,000
Total	1,110,000

Support function financing

	Salesarea 1	Salesarea 2	Salesarea 3	Total
Sales of internal services on licenses	600,000	150,000	360,000	1,110,000
Service based costs @ 100%	-600,000	-150,000	-360,000	-1,110,000
Total operating income	0	0	0	0
Net profit from area-services (%)	0,00	0,00	0,00	0,00

Quantities are known, and new assumptions are received on the causality of resource use to the 3 main activities: Invoice handling, package handling and shipping handling.

Sales, costs and statistics

	Salesarea 1	Salesarea 2	Salesarea 3	Total
Sales volume (no. of units)	4,000	1,000	2,000	
Unit selling price	150	150	180	
Shipping hours per sold unit	0,25	0,80	0,10	
No. of invoices	4,250	800	1,200	
Number of package	2,400	600	375	

Computer costs are 60 percent caused by invoicing and the rest equally between packaging and shipping. All shipping department costs are caused by shipping activities. Finally, energy costs are split in 25 percent to invoicing and to packaging and 50 percent to shipping.

Questions:

4.1. Determine ABC cost driver rates, calculate, analyse and make an economic evaluation of the new results on operating costs.

The finance department also do other developments right now, and because of a strong motivational behaviour, you have just been offered a free choice between 2 issues of which you have to work out the one and **only one** immediately. Your choices are:

Either:

4.2.A. Explain credit rating; what it will include on the company and possibly conclude?

Or:

4.2.B. Explain tools for measuring company profitability, performance or key indications?

Spørgsmål på dansk

Opgave 1 (40%)

Det vesteuropæiske marked for arbejdstøj er stærkt konkurrencepræget med mere end 750 udbydere. Den største udfordring for markedet for arbejdstøj kommer fra den meget fragmenterede struktur, som kendetegner markedet, hvilket fører til øgede omkostninger til håndtering af kunderne. Endvidere er markedet meget prisfølsomt og udbydere oplever faldende indtjening på nye kunder. Disse tendenser er yderligere blevet accelereret af finanskrisen.

Baseret på relevante modeller og teorier bedes du analysere MASCOT International A/S konkurrencemæssige situation og diskutere MASCOT International A/S evne til at imødekomme de fremtidige udfordringer på markedet.

Opgave 2 (20%)

Du skal komme med dine strukturerede overvejelser om, hvilke faktorer ledelsen kan have lagt vægt på ifm. etablering af produktion i Vietnam. Du skal begrunde hvorfor og hvordan faktorerne er relevant for MASCOT International A/S.

Opgave 3 (20%)

Mascot International A/S i Danmark modtog 20. december 2010 et tilbud fra en kinesisk leverandør på 50.000 lynlåse. På grund af almindelig travlhed omkring jul har virksomheden endnu ikke fået besvaret tilbuddet, som ellers ser godt ud. Men i går modtog man pludselig en mail fra den kinesiske leverandør, hvori denne meddeler, at de er nødt til at hæve prisen med 25%, da de har haft problemer med produktionen.

Mascot International A/S har desuden i efteråret 2010 fået produceret en større ordre på fabrikken i Vietnam. Aftaleparterne er Mascot International A/S og en tysk køber, som er et stort entreprenørselskab i Köln. Arbejdstøjet blev sendt pr. skib til den hollandske havneby Rotterdam, hvor det blev fragtet videre med lastvogn til køberen i Köln. Tøjet blev leveret midt i november 2010 i kasser og blev herefter lagt på et fjernlager tilhørende den tyske entreprenør, idet denne først ville præsentere tøjet på den sidste arbejdsdag inden jul som en slags julegave til sine ansatte. Det har imidlertid vist sig, at der er adskillige fejl i produktionen, som først blev opdaget kort inden jul.

På en messe i Leipzig i Tyskland i oktober 2010 fik Mascots repræsentant en henvendelse fra en stor tysk producent af arbejdstøj, der ønskede at den tyske producent og Mascot skulle samarbejde om priser og arbejdstøjsmodeller, så de ikke som repræsentanten sagde: "konkurrerede hinanden ud af markedet".

Ud over at være arbejdstøj er ordet Mascot også knyttet til en engelsk minibil primært produceret i 1960-erne og 1970-erne. Bilen er i dag en liebhaver bil og firmaet har konstateret, at der i flere lande er etableret virksomheder, der kalder sig Mascot eller har ordet i deres navn, og som alle producerer reservedele til bilerne.

Spørgsmål:

Analyser hvilke juridiske problemer de anførte hændelser giver og giv en juridisk begrundelse for deres løsning. Besvarelsen kan forudsætte, at spørgsmålet mellem Mascot International A/S og den kinesiske leverandør og det tyske entreprenørselskab afgøres ved en dansk domstol. Kina og Tyskland har tiltrådt CISG i sin helhed.

Opgave 4 (20%)

Virksomheden er trin for trin i færd med at rekalkulere gamle standard-cost satser. De totale omkostninger i en af støttefunktionerne understøtter 3 salgsområder og er i alt på 1.110.000 DKK, der omfatter edb-brug, shipping og energi forbrug til transport.

Omkostnings kategori	Omkostning
Computer systemer	600.000
Shipping afdelingen, alt inklusiv	450.000
Energi	60.000
Total	1.110.000

Støtte funktions finansiering

	Salgsområde 1	Salgsområde 2	Salgsområde 3	Total
Salg af interne services på licenser	600.000	150.000	360.000	1.110.000
Service omkostninger @100%	-600.000	-150.000	-360.000	-1.110.000
Total, resultat	0	0	0	0
Netto afkast fra services (%)	0,00	0,00	0,00	0,00

Kvantiteter er kendte, og nye forudsætninger er modtaget om sammenhænge mellem ressourceforbrug for de 3 hovedaktiviteter: Faktura håndtering, paknings håndtering og shipping håndtering.

Salg, omkostninger og statistik

	Salgsområde 1	Salgsområde 2	Salgsområde 3	Total
Salgs mængde (antal enheder)	4.000	1.000	2.000	
Salgspris, pr. Enhed	150	150	180	
Shipping timer pr. solgt enhed	0,25	0,80	0,10	
Antal fakturaer	4.250	800	1.200	
Antal pakninger	2.400	600	375	

Computer omkostningerne er 60 pct. forårsaget af faktureringen og resten er ligeligt fordelt mellem pakning og shipping. Alle shipping omkostninger er forårsaget af shipping aktivitet. Endelig er energi omkostninger delt i 25 pct. til fakturering og pakning og 50 pct. til shipping.

Spørgsmål:

4.1. Bestem ABC omkostnings driver satser, beregn, analyser og foretag en økonomisk vurdering af de nye resultater for driftsomkostninger.

Økonomiafdelingen er også drivkraft bag andre udviklinger lige nu, og på grund af en stor motiverende adfærd, er du lige tilbudt et frit valg mellem 2 opgaver, af hvilke du skal udføre den ene og **kun den ene**, men straks. Dit opgave valg er:

Enten:

4.2.A. Forklar kreditvurdering; hvad det vil indeholde for firmaet og muligvis konkluderer

Eller:

4.2.B. Forklar værktøjer til måling af profitabilitet, performance og nøgle indikatorer

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Company description¹

Mascot International A/S is an international, family-owned business, which develops, manufactures and markets high-quality workwear and safety footwear for craftsmen and industry. For many years, the company has experienced rapid growth in turnover as well as revenue. At present, Mascot has a staff of more than 1300 competent and committed employees in Europe and Vietnam as well as a great number of workers in subcontracting sewing factories in the Far East. MASCOT is market leader within workwear in Denmark and among the leading brands in Europe. MASCOT was awarded the »Product Quality Leadership« among 750 European manufacturers of workwear.

Tested to work

According to the company MASCOT's TESTED TO WORK is more than just an slogan. It is also the fundamental work philosophy behind MASCOT as a company as high standards with regard to being TESTED TO WORK are set in all areas of production, service and appearance. The company carries out stringent controls right from the selection of raw materials and dyeing of fabrics, to production and dispatch. Likewise, constant controls are issued and high standards set for the suppliers, production facilities and distributors. All employees are required to be TESTED TO WORK in dealing with the daily challenges. It is through this rigorous controls and professionalism in all areas that the company can ensure and maintain the high standards MASCOT's products are known for.

MASCOT Denmark

MASCOT A/S in Silkeborg, Denmark is MASCOT's parent company and here there are 230 employees. The administration, shop-in-shop warehouse and finished goods warehouse are here also.

MASCOT's Finished Goods Warehouse

MASCOT maintains one of Europe's largest stocks of workwear. Over 2 million products, divided among 17,000 product numbers are ready for dispatch. MASCOT's Finished Goods Warehouse is an extremely effective mechanism that houses goods received and quality control to packaging and dispatch. Before the products get to the shelves at all, quality control steps in and checks every production batch that comes in.

The company offers day-to-day delivery in Denmark and the northern part of Germany, while delivery to the rest of Europe depending on the location typically will be within 2-5 days.

Danish Sales Team and showrooms

A large group of Sales Consultants service the well developed network of distributors in Denmark. In the stores, they offer advice on decoration and fitting out of the shops. Account Managers are available to provide support and advice to large end users. In a constructive way they ascertain what will suit the end user requirements best.

MASCOT Europe

European Sales Team and Showrooms

The large European Sales Organisation serves the needs of the well developed network of distributors and customers. With sales staff in Germany, Austria, Switzerland, Holland, Belgium, Ireland, UK, France, Czech Republic, Norway, Sweden and Finland MASCOT covers a large part of Europe.

MASCOTs showrooms are to be found in several large cities throughout Europe. By arrangement, distribu-

¹ Based on www.mascot.dk

tors and customers can be shown the full range of workwear and safety footwear. This gives an opportunity to see, feel and talk about the products away from the busy working environment.

Mascot Vietnam

In the spring of 2008 MASCOT opened its own factory in Northern Vietnam 50 Km from Hanoi. A completely new building of 15,000 m², it houses administration, raw materials, the sewing facility and quilt factory. Currently there are 1000 staff employed here under Danish management.

Raw Materials

MASCOT ensures high quality of raw materials and components as the company manages all the procurement and ensure 100% quality control in the large 7,000m² newly built raw material warehouse. The state of the art warehouse is the nerve centre of the global raw material logistics. It is from here that the sewing facilities in Vietnam and other countries are supplied with raw materials.

Quilt Fabric

MASCOT manufactures all its own quilt, reflective strips and other accessories used in the sewing facilities in Vietnam. More than 800km of quilted fabric is produced every year. The quilt is ultrasound welded at 20kHz, thus creating a friction heat which melts together the individual layers of fabric and wadding. The wadding consists of man made fibres. This procedure ensures durable fabric of a high quality.

Sewing Facility

The sewing facility at MASCOT's own factory is also newly built and came into operation in the spring of 2008. European Management and state of the art equipment make it possible to produce efficiently and effectively. The sewing facility is an appealing working environment, with good salary, healthy and free food and a dedicated doctor and nurse. Information on preventative measures for example, infectious diseases, good eating habits and personal hygiene is provided to the staff.

Corporate social responsibility

MASCOT are one of Northern Europe's largest producers of Workwear and social responsibility is considered a natural part of developing a business. With MASCOT the goal is not only to create a profitable business but also to meet the ethical, social and environmental responsibilities as a company.

MASCOT's social responsibility covers a lot and includes relationships with suppliers, customers and employees in connection to the environment both locally and globally²:

Code of conduct

At MASCOT we work from a global Code of Conduct which consists of a series of basic principles for ethical and responsible conduct throughout the world. Compliance with both national and international legislation and international conventions for example in connection with our own factory in Vietnam and external suppliers is taken as a matter of course.

Employees

We focus on creating a good environment for employees, because we believe that good working conditions are a requirement for employees to actively participate in developing the company. Therefore, we have open and clear personnel policies where there is the possibility for diversity and development.

At MASCOT's own sewing facility and raw material warehouse in Vietnam we focus especially on preventative health measures and high safety levels. Actual initiatives include the recruitment of our own doctor

² www.mascot.dk

and nurse at the factory, healthy and nutritious meals for employees, good pay, trade unions and an 8 hour day.

Local Community

As a family owned company headquartered in Silkeborg, Denmark, we place great importance in playing an active role in the local community and provide support to various activities and associations. We also provide sponsorship.

Environment

As a business we must take part in the responsibility of protecting our environment. All our suppliers commit to adhere to their countries current applicable laws on the environment.

European Workwear Customer Value Enhancement Award 2010

In 2010 Mascot won the 2010 European Workwear Customer Value Enhancement Award³. The Frost & Sullivan Award for Customer Value Enhancement is presented to the company that has demonstrated excellence in implementing strategies that proactively create value for its customers with a focus on improving the return on the investment that customers make in its services or products. This award recognizes the company's inordinate focus on enhancing the value that its customers receive, beyond simply good customer service, leading to improved customer retention and ultimately customer base expansion.

The reasons for giving the award to Mascot were as follows⁴:

Key Industry Challenges Addressed by Enhancing Customer Value

The primary challenge facing the workwear market originates from its fragmented state, which leads to increased cost of servicing a customer. Moreover, the workwear market is highly price sensitive and the companies operating in it have witnessed a decrease in their revenue per new customer. The success of the market participants depends on their ability to offer high quality and customised products to their consumers. Consequently, it will strengthen the brand names of companies and create a loyal customer base.

Mascot's Performance in the Workwear Market

Mascot is a \$80 million company and a leading participant in the European workwear market. It has a strong and loyal customer base and a wide network of distributors across Europe, possessing strong brand equity. Even during recession, the company fared better than its competitors fare and witnessed a significant rise in sales.

Key Performance Drivers for Mascot

Factor 1: Focus on Quality

One of the key strengths of Mascot has been its focus on the quality of its products. From raw materials to finished garments, every stage has its own process for comprehensive quality check to ensure the best quality. Raw materials play a significant role in the quality of a finished garment. Therefore, Mascot ensures that it utilises raw materials of high grade in terms of form, material attribute and composition. A team of highly skilled textile engineers, with twenty to thirty years of industrial experience, helps the raw material suppliers in maintaining quality. In addition, the company has two laboratories; one for quality control and the other for product development. Besides these, for ensuring high-quality finished products, the company approves its raw materials only after rigorous and meticulous testing in the laboratory.

³ www.frost.com

⁴ ibid

The company also performs complex chemical and physical tests (in compliance with international standards) on its existing and new products in its cutting-edge laboratory. These tests are performed to ensure that its products qualify well in terms of shrink and wear resistance, tensile and tear strength, colour nuances and fastness, retention of shape and weight, etc. The quality control team ensures that random samples from batches of finished garments are examined stringently. Only after passing stringent scrutiny is a batch of finished garment moved onto the warehouse. The company's keen focus on product quality has ensured that even its competitors treat its products as quality benchmarks.

Mascot provides guarantees on double and triple seams in the workwear's exposed areas and on zips for two years, which promises free replacement or repair. The accessories and fabrics that it uses are certified to Øko-Tex Standard 100. This signifies that there is no health risk involved if the material is exposed to the skin. These factors add to its product quality, and consecutively, to its brand strength and equity. Hence, the company's high quality and high-priced range of products have witnessed growth in sales despite the economic recession over the last 18 months.

Factor 2: High Brand Value

Mascot is a reputed and well-known brand in the western European workwear market. It is an undisputed leader in the workwear market of Denmark, and is one among the top brands across other European nations. In 2007, it received the Superbrand status in Denmark while being adjudged as the best brand in Holland. The high brand value of Mascot is reiterated by its recent success in 2010 Corporate Fashion Awards. The Dutch trade association for workwear has bestowed the company with an award of Best Brand 2010.

Factor 3: Leverage of Operational Excellence

Mascot leverages its excellence across various operations, such as production, distribution, sales and product development, to deliver high-quality and fashionable workwear to the end consumers.

Exclusive Factory:

Mascot's exclusive manufacturing facility at Vietnam helps it to control its inventory and thus, bring down the inventory costs. It also enables the company to maintain a stringent check on the quality of its products, as it is not dependent on outsourced manufacturers. This ensures on-time delivery of products, which gives rise to trustworthiness amongst its distributors. Moreover, the company can incorporate innovative best practices and technology without much adieu in its own production facility.

Loyal Distributors:

The company's commitment to offer high-quality products while assuring their on-time delivery has guaranteed a set of loyal distributors across Europe.

Sales Force:

Mascot has a large sales force, one of the biggest in the industry, which it utilises to sell its range of products and gather prime feedback on its products and service quality.

Product Development:

The company identifies its target users and their specific requirements and incorporates them while developing its new range of products. An example of the company's attentiveness to market signals would be its idea of incorporating magnets in the workwear manufactured for carpenters. The carpenters find this innovation very useful as they can attach the nails to these magnets while performing their work and hence, have both their hands free for other activities. Thus, Mascot believes in observing, identifying needs first, and then developing products, which cater to these specific needs.

Factor 4: A Customer-centric Approach

Mascot has the capability to manufacture and supply customised products, which adhere to specific design, form, colour and accessory- specifications provided by clients who place large orders. In addition, the company has a print facility adjacent to its warehouse. It is used to deliver garments with personalised names

or company logos printed on them. Furthermore, Mascot delivers these orders in the form of personalised packets. The company takes customer complaints in all earnestness and ensures their early redressal. It fixes the garment defects and even replaces the whole garment if required, when legitimate complaints are received through its channel of distributors.

Western European Workwear Market⁵

Workwear is the clothing worn by employees in various industries. It varies between industries; for instance, workwear used in an industrial manufacturing facility is different from the one used in a corporate office. The former is usually made of polycotton, as it needs to be durable and cost effective and have functional qualities. On the other hand, as the latter is generally used for representative purposes, more emphasis is given to its design or model. Earlier, workwear was considered only as an accessory in a workplace; however, now, it has transformed into an essential component. Companies consider workwear essential for various purposes, such as the following

- Prevent soiling of personal clothes
- Corporate branding
- Employee identification
- Promotional activities
- Safety aspects

Supply chain

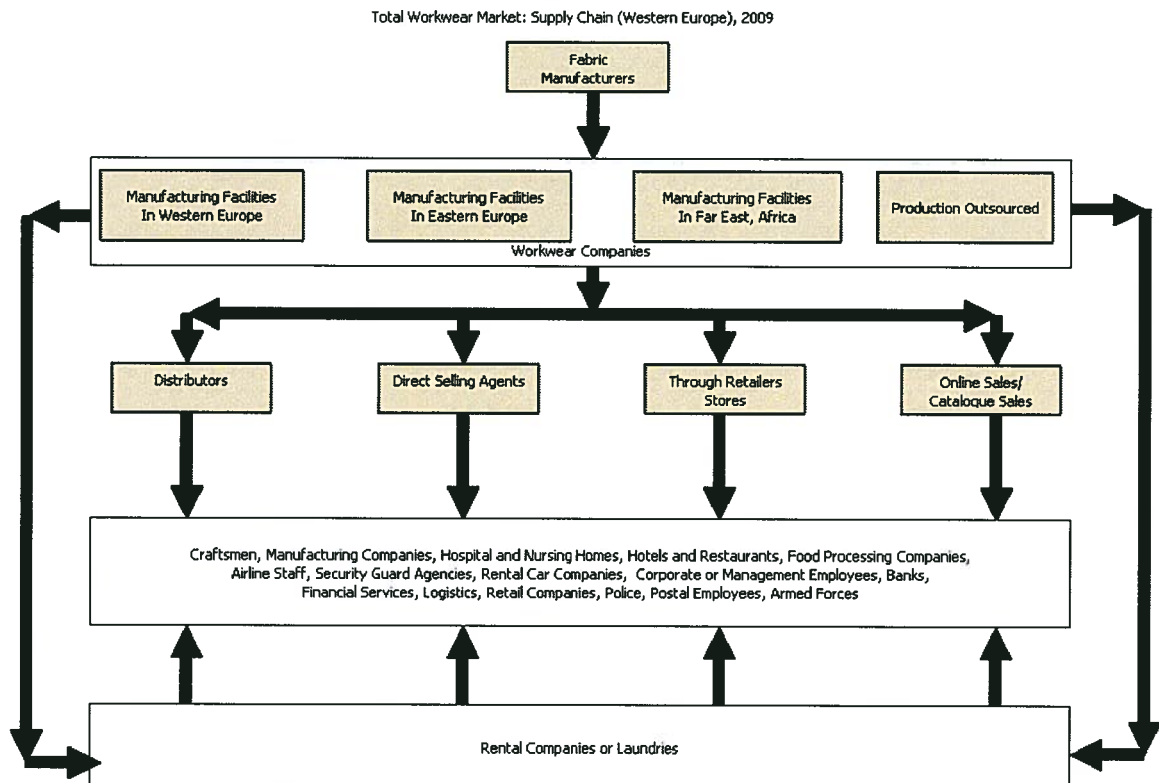


Chart 1 illustrates the supply chain in the total western European workwear market in 2009.

Major manufacturers of workwear fabric are Carrington Career & Workwear Ltd, Invista, Klopman International, Lauffenmühle GmbH & Co. KG, Marton Mills, Schoeller Textil AG, and Royal Tencate. Other fabric

⁵ Frost & Sullivan "Western European workwear market 2010"

companies exporting to western Europe are Alok Industries, Arvind Mills, JCT Limited, and Singtex Technical Fabric.

Industry challenges

Understanding and Meeting Diverse Needs of the Market

The market needs of end users/ customers change across regions of western Europe. Even within a country, design, style, fabric, and colour specifications of workwear vary according to the industry/ profession. In addition, these specifications are dynamic with significant changes happening over a short period of time. Hence, workwear manufacturers need to have strong knowledge of customers in a region, and come up with products that satisfy their varying needs.

Managing Inventory and Working Capital

Workwear needs of each and every customer varies largely. Therefore, the manufacturers of workwear need to have sufficient stock keeping units (SKU) to ensure consistent supply to different customers. To ensure availability of products, workwear manufactures need to maintain a minimum number of garments in inventory for each SKU. For many leading workwear companies, inventory turnover ratio is only 3.75 to 4.0. Major challenge for workwear companies is to add customers, through organic or inorganic means, without affecting the inventory turnover ratio.

Procuring from Offshore and Nearshore to Manage Product Cost and Flexibility

Many of the leading workwear companies have established manufacturing locations in the Far East (China, Vietnam, India etc), Africa (Tunisia, Morocco etc), and Eastern Europe (Poland, Slovakia, Hungary etc) in order to reduce manufacturing cost of products. However, this led to increase in lead time, which has resulted in the need for maintaining a manufacturing location near to the customer. This has increased the complexity of sourcing, and the workwear companies have to devise processes to overcome this challenge.

High Intensity of Competition

The intensity of competition is high as the workwear market is fragmented; hence, the workwear companies need to guard against increase in cost, and improve product differentiation.

Market drivers⁶

Increase in Employment in the Services Industries

Employment in the market services industries, in western Europe, increased from 61.9 million in 2006 to 66.8 million in 2008 at a CAGR of 3.8 per cent. This trend is expected to continue in the forecasted period. Wholesale and Retail is a major segment of market services industry and most of the employees in this segment wear casual workwear; hence growth of employment in the market services industries is a major growth driver for casual workwear segment.

Growth in the Healthcare Industry

Increasing growth in the healthcare industry is a significant driving force for the white workwear segment in western Europe. Even during the times of recession, there was stable growth in the healthcare industry when compared to other end-user industries such as manufacturing and construction. This growth will propel the demand for white workwear in western Europe.

New Product Innovations

Clothing constantly undergoes changes in designs and material types, influenced highly by the fashion trends of the given time. These trends influence the workwear market. Also the colour preferences of employees, preference for workwear that will be appropriate for both formal as well as casual occasions and the functional needs of workwear are constantly changing which is driving the product innovation in the

⁶ See appendix 2

market. Examples of some of employees' preferences include the need for additional pockets, resistance of the clothing material to fading due to repeated washing and so on. In addition, a recent trend is to provide more protection in areas that are prone to wear and tear, such as knees and elbows. Hence, due to the changing needs of consumers, there is a constant demand for new types of workwear. This is driving workwear manufacturers to focus on innovation in order to fulfil the needs of their consumers. Innovations in the marketplace are achieved in different forms such as change in designs of workwear or type of material used. Focus on innovation drives the demand for workwear; this acts as a driver for the overall western European workwear market.

Need for High-performance Fabrics

There is an increasing demand for specialty and high-performance fabric-based workwear, especially in industries such as healthcare and hospitality. Two important trends in specialty clothing in Western Europe is the focus on anti-bacterial materials and need for moisture wicking fabric. The demand for anti-bacterial garments is increasing in the healthcare and hospitality industries, due to the need for high levels of cleanliness and hygiene. As these specialty workwear belong to the high-end price segment of the market, the increasing demand for them is set to drive the average price in the market.

Market Restraint

Decline in Employment in Manufacturing Industries

The increasing cost for production operations has prompted many manufacturers to shift their bases to low-cost countries. This has reduced the manufacturing operations in western Europe significantly. Hence, the number of workers, especially the users of blue workwear, is declining steadily in Western Europe. This is a major restraint for the growth of the total western European workwear market.

Industry analysis

Threat of New Entrants - Medium

- Economies of Scale - Low
- Manufacturing - Production of workwear is labour intensive, hence there is very little economy of scale in manufacturing. This is the major reason for very small companies with revenues of \$1 to \$2 million to have their own manufacturing plants than to import workwear. However, with most of the companies outsourcing their production to low cost countries, some companies are developing economy of scale in cutting, and preparation of fabric, especially for high end fabrics
- Purchasing - There is very little economy of scale in purchasing fabrics. However, with a lot of workwear companies importing rather than producing, leading companies such as Kwintet, Alexandra, Mascot, Snickers, and Alsico use their bargaining power to procure garments at lower price than small companies
- Research & Development - Research & Development is not a major expenditure in this industry
- Marketing & Customer Service - Leading workwear companies are developing economy of scale in marketing by consolidating back end activities of major brands (grown organically or acquired). In the next five years, these factors could be a major entry barrier
- Sales Force - Diverse needs of customers require a sales person to spend more effort per customer than in other industries. Relationship between the sales person and the customer is a major competitive factor. Hence, established sales force is a major entry barrier in the market. For this reason, most of the workwear companies after acquisition of another manufacturer, do not prefer to consolidate their sales force. Though this is a major entry barrier, there is very little economy of scale in this factor
- Product Differentiation - High
- Brand reputation is a major decision making factor for the customer in buying workwear products. Hence, most of the workwear companies retain the acquired brand names in the region
- Capital Requirements - Low
- Switching Costs - Low

- When customers switch from one workwear company to another, the time and money efforts is less
- Access to Distribution Channel - High
- Only a few customers buy directly from the workwear companies. The share of rental/ laundry companies is increasing, and the companies which are specializing in this channel are getting benefitted from this trend

Intensity of Rivalry - High

The workwear industry is highly crowded with around 700 to 750 participants. Except for a few leading companies, most of the workwear manufacturers have similar capabilities and strategies which intensifies the competition

Workwear industry is in a mature stage with minimal organic growth. Hence companies are becoming price competitive. In addition, they are also offering more value added services in order to win customers from their competitors

Switching cost for customers is low, which makes it easier for them to shift from one workwear company to another easily

Bargaining Power of Customers - High

Major customers have the complete information about the cost of garments

Switching costs are minimal

Most of the rental companies follow tapered sourcing - produce a part of their requirement through their subsidiary company. Hence, they pose a credible backward integration threat to the suppliers. In addition, distributors also import directly from the manufacturers in low cost countries, which further strengthens their bargaining power.

Currently, bargaining power of suppliers and threat of substitute products is non-existent.

Fragmented Market

The market is fragmented due to the following reasons

- Diverse market needs
- Regional brands are well established and preferred by customers
- Relationship between the local representative and the customer is critical
- High overhead costs necessitate owner management
- Low overall entry barriers
- Economy of scale is minimal
- High inventory costs

Appendix 1 Movers & Shakers interview with Michael Grosbøl⁷

Movers & Shakers Interview with Michael Grosbol, CEO, Mascot International A/S

By Deepan Kannan, Industry Analyst, Chemicals & Materials, Frost & Sullivan

Mascot International is Europe's largest privately owned manufacturer of workwear and safety footwear, selling workwear only through a large network of distributors. Mascot consists of 300 competent and committed employees in Europe as well as 3000 workers in production facilities overseas including its own production facility in Vietnam. Mascot received the award for "Product Quality Leadership" in 2006, awarded by international research company Frost & Sullivan. This award is only awarded every five years. In March 2009 Mascot was awarded the Company Clothing Industry Awards Best Stocked Workwear Design Award. Mascot's Head quarters are in Denmark.

Mascot had experienced growth in sales even during the times of recession. Could you give a brief note on the opportunities that you witnessed during recession in the workwear market and how was Mascot positioned to capitalize on those?



Michael Grosbøl

M: What we experienced during time of recession was that some of our new ranges actually met the tastes and preferences of the customers better than the products of our competitors. Our product development continued despite the unfavourable economic situation, and when most companies in our industry cut down, we increased or kept the sales and marketing levels. However, admittedly, it was also a time where we streamlined processes. It was a good occasion to look at the company critically – and get the acceptance and understanding from the staff to carry out changes in our cost structure.

How did Mascot fare during the recession? Post recession, how do you think the market scenario has changed? What are the key takeaways for the workwear manufacturers?

M: Mascot managed to increase its profits in 2009 compared to 2008. 2010 has been a year with a double digit growth rate in turnover and profit. We have seen that some of the competitors have disappeared, and we have also seen that there is a heavy pressure on the suppliers. Some of the suppliers and workwear manufacturers have perhaps cut back too much on stocks during the recession period, and therefore, we are facing capacity problems in our industry right now. Some of them are naturally causing price increases.

What do you think are the biggest challenges in the years ahead for Mascot in Europe? What will your strategy be to address these challenges?

M: Clearly, many jobs in the industry will disappear and the population will grow older. It means that the market will be more crowded, and the competition keener. I will not reveal our strategy, how to cope with that situation. But we have one!

Mascot has a high brand reputation in the market. What strategies you are likely to adopt to sustain this position in the market? How do you perceive your brand to be positioned in the future?

M: We will continue to maintain and build our brand marketingwise, and of course continue to producing innovative, high quality workwear. Differentiation is the generic strategy that we have chosen to follow. We will keep positioning Mascot as a high-end product – but at the same time products, where our customers get value for money.

⁷ <http://www.frost.com/prod/servlet/exec-brief-movers-feature.pag?sid=210194078>

In a mature market like workwear, new product development is a key critical success factor for the manufacturers. What would be your key focus in product development?

M: I think that I will keep that within Mascot...

How do you integrate customer feedback into your innovation and R&D strategy?

M: We work with a very structured way of development, in which customers are an important part. They come up with suggestions during focus groups, and they are also testing the products, before they are released for mass production. By working that way we get important input to our innovation and R&D.

How do you keep in touch with your customers?

M: Mascot has an extensive sales force and they report back to the head office concerning customers' needs and wants. In addition to that customers meet our designers/product developers, marketing people and many others from our organisation.

What customer measurements does your management team track?

M: The usual KPIs such as turnover, profitability, order frequency, average order size, number of visits from our sales organisation, buying pattern, payment on time, etc., etc.

Where do you see growth for Mascot? Which verticals? Which regions apart from its traditional European markets?

M: Presently, there is enough to do in Europe. However, the BRIC-countries⁸ as well as the USA might be possible markets within the next few years. However, we have no concrete plans for large investments in sales organisations in these countries.

You also supply safety footwear products. Do you have plans of diversifying your product line further into other PPE products capitalizing on Mascot's strong brand recognition?

M: No, not presently.

As a workwear supplier, how do you think offering safety footwear products complements your business?

M: Yes. Most customers, who wear our clothes, also wear safety footwear, so the synergy for our sales force is obvious.

What would be your key strategies and goals for the safety footwear business?

M: No comments.

What are your vision goals for Mascot in the years ahead?

M: We are working on becoming the leading European workwear brand. Unquestioned.

⁸ Brazil, Russia, India and China

Appendix 2: Western European Workwear Market 2010⁹

Total Workwear Market: Market Engineering Measurements (Western Europe), 2009

Market Engineering Drives Market Strategy and Planning



Measurement Name	Measurement	Trend
Market age	Mature stage	Stable
Revenues (2009)	€3,351.2 million	Decreasing
Potential revenues (2016)	€4,205.2 million	Increasing
Base year market growth rate (2009)	(9.8%)	Decreasing
Forecast period market growth rate (CAGR)	3.3%	Increasing
Units (2009)	266.6	Increasing
Saturation (current/potential users)	60.0%	Stable
Replacement rate (average period of unit replacement)	1.5 years	Stable
Average price	€12.6	Increasing
Price range	€6.0 to €60.0	Increasing
Price sensitivity	High for Blue Workwear; Medium for White and casual workwear; Low for career workwear	Stable
Competitors (active market competitors in base year)	700 to 750	Decreasing
Degree of competition	8	Increasing
Degree of technical change	Low	Stable
Customer satisfaction	6	Stable
Customer loyalty	6	Stable
Market concentration (percent of base year market controlled by top three competitors)	18.6	Increasing

Note: All figures are rounded; the base year is 2009. Source: Frost & Sullivan

Figure 2-1

Total Workwear Market: Unit Shipment and Revenues by Product Type (Western Europe), 2009

Product Type	Units (Million)	Units (%)	Revenues (€ Million)	Revenues (%)
General workwear	144.4	54.1	1,723.2	51.4
Corporate workwear	103.9	39.0	1,320.3	39.4
Uniforms	18.3	6.9	307.7	9.2
Total	266.6	100.0	3,351.2	100.0

Note: All figures are rounded; the base year is 2009. Source: Frost & Sullivan

⁹ Frost & Sullivan: Western European Workwear market 2010

Total Workwear Market: Market Segments (Western Europe), 2009

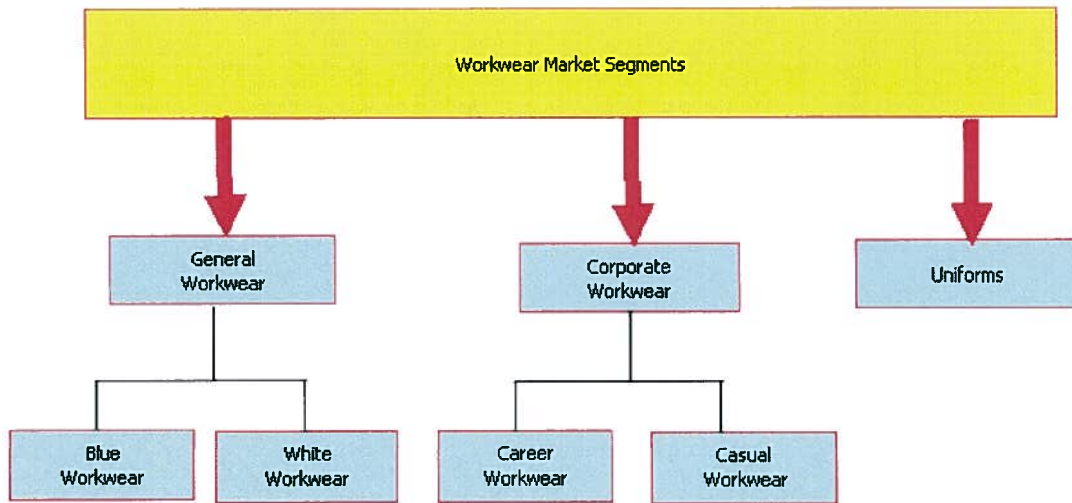


Figure 3-7

Total Workwear Market: Company Market Share by Revenues (Western Europe), 2009

Company	Revenues (€ Million)	Market Share (%)
Kwintet	498.0	14.9
Alsico NV	85.5	2.6
Alexandra plc	76.0	2.3
Snickers	67.6	2.0
Miliez Flory	60.0	1.8
Cepovett	59.5	1.8
Dimension Clothing	56.7	1.7
Mascot	56.0	1.7
Eurodress	54.0	1.6
Williamson-Dickie	51.0	1.5
HaVeP	35.0	1.0
Bierbaum Proenen	34.0	1.0
Kuebler	33.7	1.0
CMS Boco	30.5	0.9
Bjornkläder	30.0	0.9
Joma	30.0	0.9
Gottfried Schmidt	28.4	0.8
Alfredo Grassi	28.2	0.8
Mollinel (Eis)	28.0	0.8
Wensum	25.7	0.8
Albino Holding AG	23.1	0.7
Portwest	22.8	0.7
Reindl	20.1	0.6
Cos alt Ballycare	20.0	0.6
Induyco	20.0	0.6
Iturri	20.0	0.6
Siggi	18.9	0.6
workfashion	15.7	0.5
Pioneer Workwear GmbH (AHLers)	15.3	0.5
New Wave	15.0	0.4
Betrancourt	14.6	0.4
Others	1,777.8	53.0
TOTAL	3351.2	100.0

Note: All figures are rounded; the base year is 2009. Source: Frost & Sullivan

Figure 2-6

Total Workwear Market: Competitive Structure (Western Europe), 2009

Number of Companies in the Market	700 to 750
Types of Competitors	Regional vs Pan European Focused manufacturers (Segment focus or industry focus) vs Broad manufacturers Manufactures workwear only vs manufactures other PPE products as well
Distribution Structure	PPE products distributors vs industrial products distributors Direct sales force, Stores, Online Catalogue sales
Key End-user Groups	Blue Workwear—Manufacturing, Construction, Craftsmen White Workwear—Food Processing, Healthcare, Hospitality Career Workwear—Management staff, im age wear for Airline, Front-desk employees of Hospitality Industry Casual Workwear—Wholes ale and Retail Industry, Logistics Uniforms—Army, Navy, and Airforce; Police; Postal employees
Competitive Factors	Product Design incorporation of latest Fashion trends Reputation Product and technological innovation Price Availability of products lead time

Source: Frost & Sullivan

Appendix 3: Growth at manufacturer of workwear

By BJARNE BANG, *Børsen 310510*

Clothing

Mascot International A/S in Silkeborg lost "only" about 10 percent of its revenue last year, and on the bottom line, there was even progress, although the recession hit many of its customers around the world. And this year things are moving at full speed for the family-owned manufacturer of workwear and safety shoes. Majority shareholder and CEO Michael Grosbøl indicates that growth in turnover since New Year must be measured in two digit percentages. The growth is expected to continue and the CEO expects that an investment of 300-400 million DKK in new premises in Paarup in Ikast-Brande Municipality can be initiated next year.

While the Danish competitor Kansas, part of Kwintet group, last year lost more than a quarter of its turnover and ended at 260 million DKK while operating profit decreased by 70 percent to 9 million the figures are somewhat better in the eastern Jutland company, Mascot.

Revenue in Mascot International decreased by about 50 million to 412 million DKK and operating profit of just over 32 million DKK was 8 percent down from the previous year. However, as a consequence of a decrease in financial items Mascots profit before tax of 18 million increased to almost 21 million DKK.

"It could have been much worse," says Michael Grosbøl and justifies this with the fact that Mascot has kept to its high quality and have not cut down on development of new products.

When everybody in 2008 spoke of the crisis, Mascot was already setting up a new plant in Vietnam. The plant was opened in 2008, and in connection with the relocation and the startup of the plant in Hanoi a large stock of goods was created, which the company benefitted from during 2009. Consequently, Mascot in 2009 could generate a far greater positive cash flow and therefore reduce fiscal expenditure.

Expecting profit

Michael Grosbøl expects that a new domicile in Paarup west of Silkeborg can provide efficiencies and, not least a better cooperation between the various departments of the company when the activities in the existing six different Silkeborg addresses with a total of 300 young people are gathered.

In 2008 Mascot bought more than 400,000 square meter in Paarup where Aarhus-Herning motorway crosses Vejle-Viborg main road, but the recession prompted the company from commencing construction of the new head office.

"We are beginning to look at the project again, but exactly when we start, obviously depends on the business cycle," said Michael Grosbøl.

Appendix 4: MASCOT International key-figures (nøgletal på dansk i Appendix 5)

Key-figures:					
Year	2009	2008	2007	2006	2005
Profit & Loss (in 1,000 DKK)					
Turnover	374,789	423,577	423,443	348,014	300,299
Gross profit (GP)	150,808	155,230	164,630	124,661	101,666
Depreciations	-10,256	-5,726	-6,602	-6,174	-7,248
Capacity costs	124,011	126,740	104,437	87,101	79,444
Profit before tax	20,269	16,531	54,995	34,266	17,080
Net profit for the year	15,826	12,154	40,511	24,817	12,387
Dividend	2,000	1,000	4,000	2,000	1,000
Assets (in 1,000 DKK)					
Tangible fixed assets	85,403	86,626	52,044	22,918	16,898
Land and buildings	0	0	-	-	-
Current assets	343,450	440,333	350,598	293,208	330,647
Stock	297,713	376,231	272,020	241,421	259,948
Debtors	23,687	25,687	34,346	29,575	25,596
Cash	69	561	4,058	2,870	3,595
Liabilities (in 1,000 DKK)					
Equity	152,645	144,061	137,958	102,177	78,772
Statutory reserves	18,652	20,436	19,010	19,169	19,344
Long term debt	20,200	100,038	104,441	46,000	46,000
Short term debt	237,356	262,424	141,233	148,780	203,429
Balance	428,853	526,959	402,642	316,126	347,545
Key-figures (in %)					
Contribution margin	40	37	39	36	34
Profit margin ration	7	7	14	11	7
Capacity ratio	1	1	2	1	1
Return on investment	6	5	15	12	6
Current ration	145	168	248	197	163
Solvency ratio	36	27	34	32	23
Return on equity	10	8	29	24	16
No. of employees	201	244	206	179	-
Credit rating	A01	A01	A01	A01	A01
End of account year	2009- 12-31	2008- 12-31	2007- 12-31	2006- 12-31	2005- 12-31

Appendix 5: MASCOT International nøgletal (key-figures in English in appendix 4)

Nøgletal:					
År	2009	2008	2007	2006	2005
Resultatopgørelse (i 1.000 kr.)					
Omsætning	374.789	423.577	423.443	348.014	300.299
Bruttofortjeneste	150.808	155.230	164.630	124.661	101.666
Afskrivninger	-10.256	-5.726	-6.602	-6.174	-7.248
Kapacitets	124.011	126.740	104.437	87.101	79.444
Resultat før skat	20.269	16.531	54.995	34.266	17.080
Årets Resultat	15.826	12.154	40.511	24.817	12.387
Udbytte	2.000	1.000	4.000	2.000	1.000
Aktiver (i 1.000 kr.)					
Anlægsaktiver	85.403	86.626	52.044	22.918	16.898
Grunde og bygninger	0	0	-	-	-
Omsætningsaktiver	343.450	440.333	350.598	293.208	330.647
Varebeholdning	297.713	376.231	272.020	241.421	259.948
Varedebitorer	23.687	25.687	34.346	29.575	25.596
Likvider	69	561	4.058	2.870	3.595
Passiver (i 1.000 kr.)					
Egenkapital	152.645	144.061	137.958	102.177	78.772
Hensættelser	18.652	20.436	19.010	19.169	19.344
Langfristet gæld	20.200	100.038	104.441	46.000	46.000
Kortfristet gæld	237.356	262.424	141.233	148.780	203.429
Balance	428.853	526.959	402.642	316.126	347.545
Nøgletal (i %)					
Dækningsgrad	40	37	39	36	34
Overskudsgrad	7	7	14	11	7
Kapacitetsgrad	1	1	2	1	1
Afkastningsgrad	6	5	15	12	6
Likviditetsgrad	145	168	248	197	163
Soliditetsgrad	36	27	34	32	23
Egenkapitalens	10	8	29	24	16
Antal ansatte	201	244	206	179	-
Kreditvurdering	A01	A01	A01	A01	A01
Regnskabsafslutning	31-12-2009	31-12-2008	31-12-2007	31-12-2006	31-12-2005

Appendix 6: Facts on Vietnam.¹⁰

Background

The conquest of Vietnam by France began in 1858 and was completed by 1884. It became part of French Indochina in 1887.

Vietnam declared independence after World War II, but France continued to rule until its 1954 defeat by Communist forces under Ho Chi MINH. Under the Geneva Accords of 1954, Vietnam was divided into the Communist North and anti-Communist South. US economic and military aid to South Vietnam grew through the 1960s in an attempt to bolster the government, but US armed forces were withdrawn following a cease-fire agreement in 1973. Two years later, North Vietnamese forces overran the South reuniting the country under Communist rule. Despite the return of peace, for over a decade the country experienced little economic growth because of conservative leadership poli-

cies, the persecution and mass exodus of individuals - many of them successful South Vietnamese merchants - and growing international isolation. However, since the enactment of Vietnam's "doi moi" (renovation) policy in 1986, Vietnamese authorities have committed to increased economic liberalization and enacted structural reforms needed to modernize the economy and to produce more competitive, export-driven industries. The country continues to experience small-scale protests from various groups, the vast majority connected to land-use issues and the lack of equitable mechanisms for resolving disputes. Various ethnic minorities, such as the Montagnards of the Central Highlands and the Khmer Krom in the southern delta region, have also held protests.



Country Name;

conventional long form: Socialist Republic of Vietnam

conventional short form: Vietnam

local long form: Cong Hoa Xa Hoi Chu Nghia Viet Nam

local short form: Viet Nam



Legal system; based on communist legal theory and French civil law system

Economy overview;

Vietnam is a densely-populated developing country that in the last 30 years has had to recover from the ravages of war, the loss of financial support from the old Soviet Bloc, and the rigidities of a centrally-planned economy. Vietnamese authorities have reaffirmed their commitment to economic liberalization and international integration. They have moved to implement the structural reforms needed to modernize the economy and to produce more competitive export-driven industries. Vietnam joined the WTO in January 2007 following more than a decade-long negotiation process. WTO membership has provided Vietnam an anchor to the global market and reinforced the domestic economic reform process. Agriculture's share of economic output has continued to shrink from about 25% in 2000 to about 21% in 2009. Deep poverty has declined significantly and Vietnam is working to create jobs to meet the challenge of a labor force that is growing by more than one million people every year. The global recession has hurt Vietnam's export-oriented economy with GDP growing less than the 7% per annum average achieved during the last decade. In 2009 exports fell nearly 10% year-on-year, prompting the government to consider adjustments to tariffs to limit the trade deficit. The government has used stimulus spending, including a subsidized lending program, to help the economy through the global financial crisis, and foreign donors have pledged \$8 billion in new development assistance for 2010. Domestic investment grew 16% while committed foreign direct in-

¹⁰ www.cia.gov

vestment fell 70%, a steep reduction after 5 years of growth. Nevertheless, the weaker economy, current account deficit, and subdued foreign investment environment means Vietnam's managed currency, the dong, faced downward pressure through 2009, leading the government to devalue it by more than 5% in December.