

Strategic Market Change and New Product Development: The Case of the Italian Knitwear Sector

by
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Abstract

This study analyses Italian knitwear manufacturers that operate both in international consumer and business markets and assesses the different forms of competition that exist between them. The purpose of the research is to analyse the different positioning of these firms within the chain of production that they belong to.

The firms that deal with fashion operate in different competitive contexts and have to launch new products frequently (seasonal collections of various lines and brands), erecting barriers (to mobility and imitation) related to competitors and lowering obstacles related to their stakeholders.

The research was carried out within a longitudinal dataset composed of 30 Italian knitwear firms. Then, a particular investigation was conducted towards analytical case studies of the most representative firms of the sector, which constituted a privileged research laboratory.

This study therefore provides a valuable reference point for future research in strategic decision making flexibility in new product development processes.

Keywords: predevelopment market planning, commercial internationalization, supply chain relationships.

1. Introduction

This study analyses the modern strategies of fashion marketing that firms of a medium sized take up in order to function successfully within a plurality of national markets, and it evaluates the effects of such strategies regarding turnover, income trends and market share.

The research work was established in order to analyse how firms within this industrial sector evolve their marketing strategies and approaches by orienting themselves towards customerisation.

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The work finds its place amongst studies that analyse industrial firms and their strategies of international development and the study was undertaken in order to investigate the efficiency of choices to synchronise the planning of new cycles of international business with segments of national markets that have significant levels of bilateral trade, and to identify completely new segments in countries that are at the initial stages of industrialization and are scarcely open to international exchanges.

This research, drawing on the resource-based view, investigates how a firm's market orientation resources and capabilities influence the firm's international market selection between culturally close and distant markets and how the matching of marketing orientation and international market selection impacts on its international performance.

In this paper the widening of international business from the perspective of small and medium sized enterprises has been studied, verifying the positioning (vertical specialization, diversification etc.) of international knitwear supply chains (Marcone, 2001; Arkolakis and Ramanarayanan, 2009).

This study intends to see if there is an awareness, especially regarding leader firms, that segmentation strategies require the adoption of both a bottom up and a top down approach, in order to benefit from the opportunities offered by the emergence of temporary micro segments, that also present different characteristics in varying geographical contexts, and assume original forms if they are served by adequate means of distribution.

The objective of the study is to identify the innovative choices formulated with the aim of restructuring styling and design (planning of samples) and production activities. New product development practices (NPD) have been well studied for decades in large, established companies and in firms that have belonged only to particular manufacturer sectors. Implementation of best practices such as pre-development market planning and cross-functional teams have been positively correlated with product and project success over a variety of measures. However, for small and medium sized firms that belong to so-called traditional manufacturing sectors, field research into ground-level adoption of NPD practices is lacking. Because of the risks associated with missteps in new product development and the potential for firm failure, understanding NPD within these firms is critical.

The main differences in development approach, from what is prescribed for large and technology intensive firms, are driven by necessity from a scarcity of resources. These firms simply did not have the resources (financial or human) to create multi-or cross-functional teams or organizations in the traditional sense for their first product.

This study has been established in order to supply management with the conceptual categories that are necessary to interpret the positioning of the firm within the demand structure in order to make modifications (competitive repositioning strategies).

Finally it also intends to supply indications regarding the evaluation of results attributed to the decision making processes of marketing.

It is based on empirical research conducted on 30 Italian firms that produce knitwear garments. Particular attention has been placed on the constitution of samples, only including firms that carry out design, engineering and production internally, and produce consistently in Italian plants. Only a few of the cases researched have delocalized sites abroad, through foreign direct investment (FDI), high or full equity. These plants have not substituted the domestic or original sites. The research has been carried out through a well-structured questionnaire, as well as through repeated visits to the firms' research centers in the course of which the hypotheses for research amongst various area managers (marketing, styling, production, finance) are verified.

As far as the methodology that has been adopted is concerned I would like to point out that in different phases both the inductive and deductive methods (with a prevalently positive-interpretative approach) have been used.

Regarding the structure of the work; in the first part of this paper the factors that characterise the structure of supply are examined, to increase awareness and to highlight the different positioning of firms within the supply chain to which they belong. Attention is then focused on the study of marketing choices taken by medium sized firms, that set up strategies some time ago and are careful in the planning new ones in national markets that are yet to be explored.

2. Which marketing capabilities: Hypotheses for research.

The firms are aware that the necessary competitive skills needed to compete are insufficient for the task of maintaining their present competitive position over time.

In the present economic context, the firms must rapidly create, develop and modify the resources they have in their possession. It is necessary to frequently establish intensive processes of research, selection and activation of the most adequate strategies to create and take advantage of new market opportunities, both with existing markets and with new openings within emerging segments.

Only a market-oriented firm proactively and systematically acquires and evaluates market intelligence, concerning customers, competitors and other environmental forces.

Marketing orientation is an organizational culture which initiates the relevant behaviour for the final effective and efficient provision of superior value for consumers (Narver and Slater, 1990; Hunt and Morgan, 1995). Building on the resource-based view, many Authors (Hult et al., 2005; Ketchen et al. 2007) argue that marketing orientation represents important firm specific resources and capabilities because it is valuable, rare, imperfectly imitable, and not substitutable. This study draws upon the resources, capabilities (i.e. flexibility), and performance framework to show how proactive strategic decision-making flexibility plays a crucial role in developing new products that can create new opportunities and comply with market needs.

Hypothesis 1a. Firms equipped with market orientation advantages may adopt different approaches when selecting international markets compared to less market-oriented firms.

Hypothesis 1b. A firm's strategic planning is positively related to its practical strategic decision-making flexibility.

Marketing orientation enables the firm to respond to market intelligence in a timely and efficient manner and allows it to create more effective strategies for R&D, production, competition and customer services.

Management and organized systems must evolve in order to understand which marketing capabilities influence sales by themselves and what the margins are. Market-sensing skills are the particular abilities to learn about what is happening in the markets that are served (domestic and overseas), utilizing information supplied by clients and by economic operators situated at different levels of the distribution channel.

Styling and planning activities have a particularly important role in the competitive processes of a firm and the management must demonstrate the capacity to manage them efficiently. The critical nature of these particular managerial abilities derives from a plurality of aspects that are briefly described below:

- firstly, when complex and costly marketing programmes are put into action, styling and design activities are the very foundation of such programme;

- such activities moreover are inserted into processes of planning new technologies, applied to marketing activities that are profoundly transforming the market relationship between consumers and operators in the sector (producers, intermediaries, and other marketing operators);

- finally, the two activities are part of a well-developed strategic processes of marketing, inspired in other words by the principles of responsible and sustainable marketing.

Hypothesis 2. What needs to be highlighted is that a firm's orientation towards the market is vital in generating the success of new products (Baker and Sinkula, 2005; Ulrich and Ellison, 2005).

Another aspect that needs to be underlined regards the attention placed by knitwear firms on bringing the distributor and the stylist together (see, among others, Cachon and Kök). This leads to the necessity to re-orientate the research (new styles, modified technical characteristics, market analysis) according to a bottom up logic¹. This leads one to the conclusion that multi-channel planning makes sense only if the consumer is also aware of the different distribution strategies, that until now is only in a few cases synonymous with real processes of supply differentiation.

Hypothesis 3. Management therefore must carefully evaluate if the creation of new formats of distribution are compatible with the segmentation strategies of the target markets and, at the same time if they can cope with new formats (cross selling strategies, client profiling etc.)

The firms investigated are aware of the necessity to evolve management systems and organisational structures, in order to identify which marketing capabilities mainly influence sales and to ascertain what the margins are. Market sensing capacities are the peculiar abilities to learn what is happening in the market being served (national and foreign), using information supplied by clients and by economic operators situated at various levels of the distribution channel.

Operators within area marketing must possess specialised marketing capabilities and at the same time set up efficient interfacing with the different areas of the firm, and with the external competitive context (consumer market, socio-cultural factors, supply market, architectural marketing capabilities). The specific marketing capacities of the firm arise as a result of the organisational behaviour that is geared towards the creation of value that is

¹ This concerns an exploratory market vision that guides the processes of development of products where there is some uncertainty as to whether the innovative contents are encompassed in final products that obtain the success desired in particular global niches.

difficult to modify and what is more they are more efficient if they are more difficult to imitate (Morgan et al., 2009).

As far as 'architectural skills' are concerned, one can observe that the choice to produce collections in a specific moment of the season, that are made up of different products and the necessity to distribute them in some sales points or with new modes of distribution, necessitates the construction of new agreements with suppliers of the supply chain as well as with the deliverers. Moreover firms are aware that the credibility of their marketing strategies depends on the capacity of the operators of the marketing area to interact in a particular way with distributors and retailers.

Hypothesis 4. The formation of marketing capabilities, having both specialised and architectural characteristics, makes it possible to put into action the single strategies of 'product market' (Walker et al., 1987; Van den Bosch et al., 1999; Vorhies et al., 2009).

The formation of newer and newer knowledge of marketing within the organisations of firms allows the adoption of future strategies that are difficult to define and evaluate for current and potential competitors, and in any case it represents a deterrent to possible replication.

Knitwear firms are still strongly oriented towards the product, but are at the same time aware of the need to integrate specific and historical skills, matured in manufacturing with the new needs of distribution and sales, knowing how to interface marketing activities in general with specific actions taken in collaboration with retailers.

It has been affirmed that the interaction between marketing and manufacturing during the planning of products is positively correlated to the competitive advantage of the product and more concretely to the income generation that arises from the planning activity (Swink and Song, 2007).

To be more precise, the heterogeneity of the resources possessed by firms belonging to the same sector is at the very foundation of performance: the technological resources and resources that have matured in the marketing area, that complement each other, play a crucial role in increasing entrepreneurial income (Stieglitz and Heine, 2007).

3. Research methodology

An interpretative, qualitative approach - utilizing selected multi-case study interviews (Yin, 2003; Eisenhardt and Graebner, 2007) such as the primary data collection method - is

chosen because it helps to navigate and understand the complex issues that are associated with the data quality concept, and its relation to the factors involving managerial practices to implement facilities in design and marketing activities. Case studies investigate the issue within a real life context, drawing on the reviews of a number of sources, and provides the means to review theory and practice iteratively. Multiple cases ensure that common patterns are identified rather than generalized from what might be change occurrences (Eisenhardt, 1989; Janesick, 2000).

The qualitative case study has been defined as an empirical research that primarily uses contextually rich data from bounded real-world settings to investigate a focused phenomenon (Bonoma, 1985; Yin, 1989; Meredith, 1998; Stuart et al. 2002; Eisenhardt and Graebner, 2007).

To reduce any potential sources of bias, multiple data sources were used (multiple interviews, review of internal documents, and e-mails, etc.) to minimize interpretative problems. In depth interviews and data collection were performed over an eight-year period (from 2005 to 2012).

We have adopted several data sources: semi-structured interviews (the interview tool is updated based on emerging data), observations (plant tours, attendance at meetings), and archival sources (documents, production and marketing statistics, ...). As far as the data analysis is concerned, the research has highlighted the trend of a series of key variations, like the cost of the thread and how much of it is in stock, the employment level, the turnover, and the export value.

This study, surrounding the relationship-building approach and the international marketing strategies, adopts a multi-phase methodology. It is divided into research stages of pilot investigation and empirical model validation, conducted in sequential order during a multiyear period. Such an arrangement helps to integrate and reconfigure a variant view in relevant studies, proposing a framework to be verified in the samples representing different fields of the firm. The pilot investigation phase, comprising an initial exploration and small-scale survey, entails the conceptual framework of relationship-building in international knitwear supply chains. The empirical model validation phase, using data obtained from wider surveys, completes the empirical verification of new cycles of international business for the management of international strategies.

Preliminary Interview Protocol

Data were collected through 60 semi-structured questionnaires, 45 – to 90 – min. interviews with leaders and participants from all the functional areas involved (stylists, marketing and product

managers, entrepreneurs, retailers) in the process of «design-engineering-production» of each fashion collection.

The intent of each interview was to understand the interviewee's role in design and marketing processes and his or her perception of the process and to explore the orientation of the different actors and functional areas (Meredith, 1998; Stuart et al., 2002; Eisenhardt and Graebner, 2007). To assess these orientations, we explicitly asked interviewees about their incentives, goals, internal work in processes, and relationships to other actors and functional areas. Regarding interview protocol, given the nature of the research, the interviewees were not required to stay within the standard questions: an interviewee who seemed to be exploring a fruitful avenue was permitted to continue in that direction. This semi-structured protocol changed over time as each subsequent interview was used to triangulate the responses from previous interviews and expanded the list of questions as we uncovered more elements of the planning process. This continuous expansion and improvement of the protocol after each interview is a normal part of the process of grounded theory development.

Finally, part of the protocol also included direct observation of the main planning meetings and extensive debriefing time afterwards. This allowed us to observe the behaviour of the different actors in the planning process and to obtain explanations for observed behaviour during the meetings.

4. Competitive positioning within the international supply structure

In the Italian knitwear sector, especially over the last decade, the level of concentration on technical aspects has increased and the overall production capacity has decreased. This phenomenon has been underestimated in periods in which demand has reached its maximum level. The intensity of competition has been felt particularly by firms that operate in an international context, where competition is based on aggressive maneuvers and on sudden and unpredictable modifications in strategies involving segmentation of markets.

The Italian knitwear firms investigated backed out of this competitive game, highlighting clearly their position in the segment (or sub-sector) within the Italian knitwear sector. By behaving in this way, they also evade even the competitive force of Italian competitors. One must note firstly that the Italian knitwear sector has undergone a strong process of concentration (reduction in the number of operators); secondly, the positioning of the firms investigated in specific segments of the supply structure of *made in Italy* items, is the outcome of a segmentation strategy that has been adopted for some time and still now protects them in an almost natural manner from high barriers towards mobility.

It is more the positioning of the firm in the competitive arena, both nationally and internationally, rather than the positioning of the product that defines the value of the brand and actually reinforces it. Moreover, thanks to this efficient segmentation and also to the correct positioning within the demand structure, knitwear products avoid the easy substitutability of the product by retailers and the final consumer.

It is becoming more and more opportune for the relevant resources that are employed for marketing activities to not only lead to an improvement in market performance, but to be valued according to the principles of efficiency in carrying out a multiplicity of complex

marketing activities. It is particularly important for knitwear firms that serve multiple segments rather than a specific niche market, to offer marketing service programmes, that are specific to the sector. At the same time it is vital that they choose a variety of production and marketing strategies that address different aspects (innovative characteristics, consumer needs, means of acquisition etc.). Such means of competing are typical in ‘multi-focused firms’.

The propensity of knitwear firms to differentiate their supply to retailers has determined a tendency towards the specialisation (type of thread, technical characteristics of the garment, ‘wearability’, function, use etc.) of the producer (upstream specialisation), especially by firms that have chosen not to modify their location and have opted for growth of the innovative content of their operating activities and management techniques, adopted from their origins, and characterized by tradition, human capacity, and entrepreneurship in the production of knitwear (system area, district, cashmere valley etc.)².

The value of the knitwear increases according to the sensorial and emotional features perceived by the customer. An interesting theoretical contribution divides up the value of a project (*design value*) into the following three parts: rational value, kinesthetic value and emotional value (Noble and Kumar, 2010).

A knitted garment is a good that cannot be pigeonholed into a specific time period: in fact it is not possible to affirm, as is the case with other fashion system goods, that a style of knitwear is futuristic, modern, retro, contemporary, nostalgic, etc.

During the last few years the enterprises have successfully pursued trading up strategies, orienting their offers towards versions of products of a higher quality and complexity and of a more elevated profit margin for the firm. The sensitivity towards peculiar segments has been increased by the presence, even during these years of strong economic depression, of customers who have buying behaviors characterized by a highly individualized process of choice and who are continuously looking for products that represent symbolism and emotional content³.

This is the case with customers who are looking for distinction and identity and who are careful about the symbolic and emotional-experiential attributes of single products. They orient their choice, in a functional manner, on the basis of the evaluation of the traditional

² Some interesting scientific contributions regarding the opportunity cost of learning, in markets characterised by an imperfect circulation of information have been recently supplied by Furusawa and Konishi (2007), Sköld and Karlsson (2007), Brocas and Carrillo (2009), Matsushima (2009).

³ For an interesting analysis of the strategies directed to potentiate emotional and symbolic elements of supplied value see, among others, the contributions of Levy (1959) and Holbrook (1999).

elements both in terms of the supply and the distribution channels (Pine et al., 1999; Busacca and Castaldo, 2000)⁴.

5. The orientation towards the market of new product development activities.

In the current competitive context, more than in the past, it has become clear that creativity is a prerequisite for effective innovation for all businesses, independently of their size and of the business in which they operate. In the field of ‘economic enterprise’ the ‘prejudice’ of attributing the denomination of «*knowledge intensive*» only to a limited number of sectors, has been overcome (Rullani, 2004).

Many of the successful firms investigated apply certain new product development practices such as up-front market planning and adoption of cross-functional teams. These two fundamental aspects, at the heart of product planning methodologies are essential to a successful product launch (Cooper, 2001).

As far as pre-development market planning is concerned, it has been noted that it is based on a plurality of factors, among which the following can be pointed out: careful market segmentation, identifying different types of users and buyers, and understanding the perceived and latent needs of both. The firms investigated do not implement a traditional cross-functional organization in carrying out frequent processes of design engineering and production (see figure 1). More formal links are of a cross-firm nature and they regard cooperation between knitwear firms and suppliers of threads.

The stage of idea creation and planning has to be carried out with an organizational-managerial approach that is orientated towards *problem solving*. This necessity is made even more complex by the fact that all the different stages need to be accomplished for the contemporaneous launch of numerous models of products⁵. These planning activities need to be realized quickly while respecting the high expectations of productivity. (see figure 1).

Firms who plan their new collections with continuity, finalizing the areas of style, production and sales, in accordance with the objectives of differentiation and cost reduction, gain a significant advantage. *Market oriented* and *cost saving* innovative projects (samples) are completely pursued by the firms that improve the operative and product performance by

⁴ It has been affirmed that “hi-touch” products actually appear to be barely adaptable to virtual windows (Valdani and Ancarani, 2009).

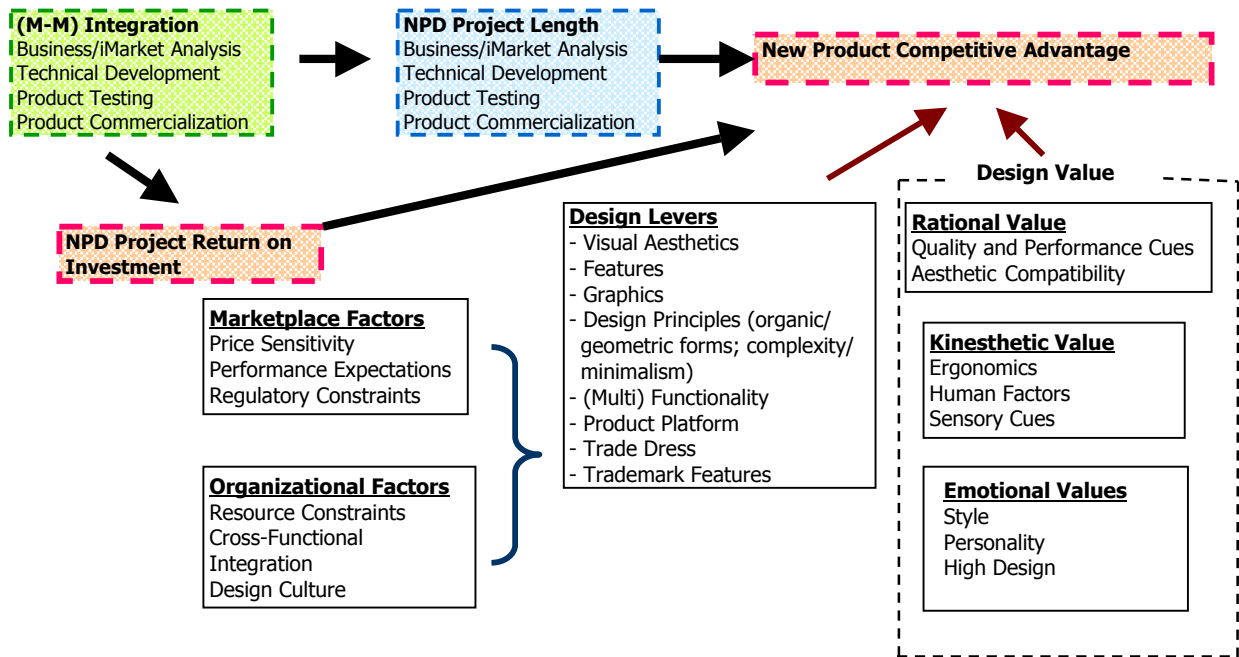
⁵ The activities of study and anticipation of tendencies of the market are strictly connected to the capacity to begin programs of *real time market research*.

developing effective planning activities (Griffin 1997; Gerwin and Barrowman, 2002; Langerak et al. 2004).

The following factors are involved in the operative performance of innovative projects adopted in the planning of new collections:

- The conformity of innovative projects to the needs of the market;

Figura 1 - Marketing-Manufacturing (M-M) Integration in various Stages of New Product Development



Source: our elaboration

- The adhesion of elements of originality of the prototype (or projects) to the features of the production system (installed capacity, degree of flexibility of the resources used in the production system, techniques adopted to plan the production);
- The knowledge of the budget of the retailers; the budget influences the assortment that the retailer can buy and the ‘price limit’ for which the knitting clothing can be more easily sold for, the sell-out that must be managed with the returned goods policy and end of the season sales;
- The objectives of quality.

The NPD process used by the analyzed firms is informal and-much more skeletal than commonly recommended structured processes. These firms put less focus on managing the process and more emphasis on managing their goals.

Seminal research argues the importance of practices ranging from the implementation of cross-functional teams (Taguchi and Nonaka, 1986; Wheelwright and Clark, 1992) to the

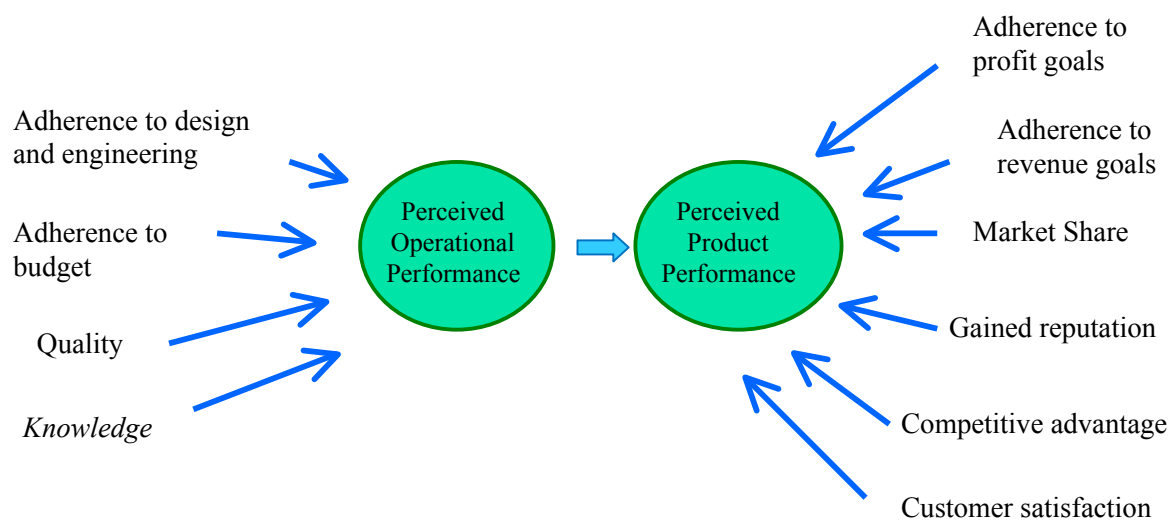
improvements in effectiveness and efficiency in project outcomes. Overwhelmingly, this research has been targeted toward established small and medium sized fashion firms with a varied and innovative product portfolio.

Operative performance is therefore of a technical nature: and allows an improvement and a better evaluation of the technical characteristics of a firm's innovative project.

As far as product performance is concerned, the parameters used to evaluate it are market results (turnover and market share) and financial-economic factors (profit margin of each collection, cash flow, etc.). In this regard (in relation to product performance) we have to stress the importance of the service offered both to final customers and to retailers in order to offer a competitive product. One of the services to necessarily offer to the final customer is the technical knowledge of the product and the professionalism in which retailers carry out their role; while the service offered by the manufacturer, including re-assortment, payment deferment and flexibility in discount policy, significantly conditions the evaluation process and the choice of the retailers.

The connection between operative performance and that of the product cannot go unnoticed: good operative performance during the phase of predisposing the samples is the basis of the eventual success of the product. Only the simultaneous achievement of the technical objectives of the project (*operational performance*) and the market objective of the product (*product performance*) increases the competitiveness of the firm. (see figure 2).

Figura 2 - Strategic Marketing Goals: A Theoretical Model



It is interesting to observe that during the launch of new products, the more modestly sized firms that offer a complex product in turbulent and dynamic international markets effectively reinforce the ‘imitation barriers’ towards direct and potential competition and at the same time communicate detailed information about the features of the products (technical-functional, innovative and aesthetic) to the main stakeholders (spin suppliers, retailers, customers) preventing spontaneous and dangerous ‘informative barriers’ from being formed⁶. The peculiar capacity to regulate the flow of information to the stake holders and at the same time the carrying out of the phases of idea creation, as well as the launch of new

⁶ Regarding this subject, it was affirmed that during the phase of launch (introduction) of complex products, firms that have to deal with turbulent and dynamic market contexts must reduce the barriers towards their stakeholders through investments in communication, managing industrial relations with partners of the supply chain (Talke and Hultink, 2010).

collections, guarantees unexpected goals, which is to say the success of their product on the market. This sustains the increment of the turnover and the increase of the market share in those markets in which the demand is complementary to the reduction of demand from industrialized countries.

Price sustainability or pricing policies go through aggressive strategies of differentiation of the supply to the retailer and from the retailer to the final consumer, that can be effectively realized only in the presence of a concrete interest in cooperation from the line operators.

6. Marketing-Manufacturing Integration (MM)

During the course of the empirical survey it could be observed that the firms obtain positive economic results at the end of the development of all the activities of sample preparation: we want to focus our attention on the fact that the samples are planned and produced in conditions of efficiency and it is of such a high quality that it could even be sold there and then. Price competitiveness is based for some of the firms investigated, on a series of managerial initiatives deeply connected, one to another, that range from the rationalization or carry-over of planning activities to the reduction of the samples and of the lines, to the early closure of the sales campaign.

The activities that involve the operators of the two areas are many and complex: the most important ones are the market analysis and the study of the positioning of the firm in the 'business market', the technical development of the product, the prototype production or 'pilot-knitwear', and commercialization activities, etc.

The design and the planning of the fashion collection involves both the operators of the production and the marketing area. Thanks to the team work of the two areas, the knitwear firm obtains many tangible advantages. First of all, a successful collection on the market increases the firm's turnover and the relative market share and increases the sell-out of the retailer. Furthermore, the choice of the thread and the phases of elaboration during the phases of design and engineering depend not only on the innovation of the fashion product but also on the production costs, in that they cannot surpass 'the sales price' that is identified in a provisional budget with the 'budget price' of the retailers.

Cooperation is aimed at the realization of specific innovative projects, from which capsule collection, flash collection or market pre-tests emerge. These collections are introduced to the market before the official sales campaign or in particular moments of the season. The interaction between the operators of the two areas is particularly critical, many

problems need to be solved in a more rapid planning phase, finalized to satisfy consumption needs, in the case of flash or capsule collection, or of re-assortment of retailers involved in the launch of pre-tests, for which it is of fundamental importance to have a good sell-out and a sales season that becomes increasingly longer.

In these situations cooperation is important and the main objectives should be to lower costs and to reduce risk for each innovative project. As far as the first aspect is concerned, the early launch prolongs the monetary and operative cycle, while flash collections have high planning and fixed marketing costs per unit sold. As far as the risks are concerned, it can be observed that they can be found in the probable effect of ‘cannibalism’ between collections or seasonal lines.

The pursued aim of leader firms is to amplify the positive effects of the seasonal efforts during planning, distribution and sales, even if the international context in which they operate becomes complex and turbulent.

The enterprises remain strongly oriented to production even if, as clearly evident, it is not possible to define the lever of product as a element that is exclusively internal to the firm.

It cannot escape ones attention that ‘fashion system’ market oriented firms must pursue competitive objectives based on product innovation and on the recovery of efficiency in the development of complex activities of design and production. At this point in time the adoption of management production techniques inspired by VRP (*Variety Reduction Programme*), the use of evolved information systems in the production system still characterised by *labour intensive* phases, and the use of planning systems in formalized production are particularly critical.

7. Business internationalization strategies

In a firm’s commercial internationalization process, one key strategic decision is international market selection. Entering new markets, in particular foreign markets, involves a major commitment of resources – strategic, technical, managerial and financial.

The market-oriented analyzed firms tend to chose culturally distant markets that help them exploit their marketing capabilities. *Sweaters manufacturers adopt marketing strategies that are based on a constant growth of marketing capacity, (specialized and structural), in order to unexpectedly allow them a leading role in new micro-segments of world markets.*

The analysis of the marketing activities of knitwear firms seems to underline the delicate role that internationalization strategies have in increasing the capacity to compete in the international sphere: the firms of this compartment are more and more *export-oriented* ; they

plan different strategies according to each market, choosing entry channels and distribution techniques that vary from country to country or adopting ‘multiple marketing strategies’ in the same macro geographical areas, where they are in reality compelled to undertake explorative marketing strategies.

It is possible to observe that international marketing strategies plan their entry into market/Countries in different ways and that they do not follow a sequential strategic path as proposed in the vast majority of managerial theory. It is also possible to observe that that knitwear firms do not start the process of internationalization of sales in new markets/Countries by copying the experiences previously matured in other geographical contexts and they involve new and sometimes unusual resources (human and organizational, knowledge of the market).

Commercial International strategies are particularly expensive for knitwear companies: also in the case of indirect internationalization through the help of importer-distributors, the price that it must correspond to is inevitably inclusive of the expenses incurred to the importer for the fixed costs borne by him (capacity costs). Italian knitwear firms, also in this situation bear the contact costs and sometimes the transitional costs with foreign vendors.

Regarding the SME’s observed, the international marketing strategies are carried out by following a path of development that represents a very diversified trajectory. Generally speaking the international strategies do not always go together with the development of internal capabilities.

Co-participating International strategies that expose firms to major patrimonial and organizational risks are instead significantly linked to the capabilities progressively matured by the organization (*learning capabilities*) in evaluating and in choosing the foreign-market objective: the analysis of foreign markets, knowledge of their way of functioning, training of entrepreneurial and managerial resources, the identification of new consumer needs, evaluation of international intermediates and retailers, and the choice of new modalities of distribution and sales (channel management)⁷ .

The FDI is almost always high equity and it is based on the instauration of stable relationships with reliable foreign partners-distributors⁸. This fact significantly reduces uncertainty for both partners due to the motivations that lead them to co-operate, to the knowledge of the reciprocal expertise in the field of fashion retail and in the end to the

⁷ An interesting study on the *alliance learning process* has recently been conducted by Kale and Singh (2007).

⁸ The alliance management capability is a multidimensional construct that comprises three aspects, between them they are distinct but at the same time strongly connected, listed as follows: coordination, communication and cohesion (Hoang and Rothaermel, 2010; Schreiner et al. 2009).

complementarities of the operational style adopted. This fact also alleviates considerably the preoccupation that the requested investment to form or to develop various kinds of assets do not produce the hoped for advantages.(return)

The knitwear companies analyzed are owners of some retail shops and they manage others through different means of commercial affiliation, showing the propensity to maintain an elevated degree of vertical integration ‘on the valley’ (downstream) in national and in foreign markets. It can be underlined that the preference for exclusive forms of sales and the elevated control over the ways in which the products are sold represent elements that discourage the entrance of new competitors and the consequence is that the competition of operators present in the segment of the lower range appears to be less aggressive.

All marketing activities are carried out within the organizational structure of the headquarters: it entertains direct relationships with the retailers also in those situations in which commercial intermediates are involved, to which marketing functions are not delegated. It can be in fact observed that the salesmen utilised both in Italy and in foreign markets are given extremely limited marketing tasks ⁹.

The commercial distribution of the analyzed firms are of a selective kind and the conscious choice to cover a narrow geographical market area, where the goods are sold, renders the target segment under-served.

Selective sales contracts, or in some cases even those of an exclusive nature are concluded with all the retailers (national and foreign); in cases in which the entrance in the foreign market is made through the help of importers-distributors, the exclusive contracts are stipulated directly by the domestic firm with the salesmen, with the result that the tasks of the importers are limited to the functions of customs clearance and to the logistics of stockpiling and delivering goods.

The analyzed firms use a ‘scout’ only in the attempt to explore new geographical areas, even if in those country-markets they are present in the form of direct sale. The recourse to this atypical commercial intermediary, used for very short periods, is the only form of distribution that connects the firm to the shop and to the final customer.

8. The co-operative relationship with the retailers

⁹ It has been affirmed in the vast majority of the economic literature that the price policy of the middleman generates the increase of the demand (so called rebound) only in oligopolistic sectors with productive capacity in excess (Fingleton, 1997; Ju et al. 2010).

During this economic crisis many retailers struggle to obtain satisfactory results, in terms of the sell-out, or at least they are not having the same success as in the past. For this reason during the purchase season, expecting an inferior turn over, they reduce the merchandise ordered in the show room.

The knitwear companies analyzed do not adopt unbundling strategies such as slimming down the supply or even offering products of a lower quality (trading down), towards retailers that reduce their budget.

From the analysis of the relationships that are made with the retailers, it emerges that the supply is not substantially flexible, if by flexibility you mean the diversification of delivery time, re-assortment during the season, the delivery of products having functional features and personalized prices¹⁰. Only in a few cases can one notice that the producer concedes, giving back to the distributor during the sales season, a part of the purchased merchandize, on the condition that the goods given back are part of the percentage of the turnover of the retail shop and that other products are bought for the same amount.

Knitwear producers use the cooperation of the fashion retailer in planning and selling before the collection. This constitutes a pre-test market, so that there can be an evaluation of the correspondence to the needs of the customer of the goods that have a radically new stylistic idea or types of textiles that are particular because of their finesse and composition (thickness) and that are forecasted to represent the products that will be at the heart of the launch of new lines¹¹. This logic of marketing, inspired by the principles of customerisation, represents another expensive promotional campaign (mobile advertising) in order to help fashion branding strategies.

The collections present strong elements of stylistic and functional innovation each season and therefore the retailers are exposed to evaluation and choice problems that are typical of 'first buy' situations, and the decision must be made under conditions of uncertainty, as far as the technical content is concerned (mix of textiles, processing techniques, etc.) and as to the acceptance or non-acceptance of the target-client.

For too long knitwear production, compared to firms belonging to other sectors of the fashion system, have managed sales according to an orientation of a transactional kind and they have only recently become aware that the managing and the organization of distribution

¹⁰ As can be observed in the personalization of the supply and possibly also in the price, they are maneuvers that are called reverse marketing (Ancarani and Shankar, 2004).

¹¹ In each test the distributor (in cases in which we are dealing with a chain of distribution) introduces a new product for a short period of time in only one of the shops and uses the data related to the amount of sales realized (of the new product) as a key input in its own forecasting process (Fisher and Rajaram, 2000).

and sales activities must be based on managerial techniques inspired by the methods of ‘key values’ (Homburg et al., 2002; Palmatier, 2008).

Orientation towards the management of ‘key values’ has significant implications for the ways in which SME’s manage and organize the activities of the sales personnel, who must be able to manage not only the external relations that the firm entertains with the market of reference as in the case of the orientation to transactional sale (external interface), but it also has to be able to insert itself into the relations that involve the actors inside the firm in the development of the product (intra-organizational interface) (Joshi, 2010).

9. Some concluding reflections

I. The strategic choice to specialize in the production of knitwear lines and to offer differentiated collections appear at the moment to be better pursued by the production plants that develop integrated cycles of labor internally. This seems to favour the formation of flexible marketing capabilities.

Among the firms investigated, those that recur to *‘façonisti’*, develop an initial contractual partnership, that is not even formalized in the organizational sense, with mainly Italian firms specialized in the supply of particular fashion lines or in the development of determined areas of activities (production of sample-clothing, planning and production of samples, etc.)

Competitiveness based on the specialization of integrated production lines and, at the same time, the supply of differentiated articles of clothing, reinforce the link of the knitwear firms with the partners of the line, both with the upstream actors (Italian spinners) and with downstream actors (retailers).

It can be observed that the supply of differentiation through the managing of integrated cycles of labor enable the firms to deal with aggressive international competition that plays a part only in the price factor and during the last few years seems to have appreciably improved the parameters of competitiveness of the Italian knitwear compartment (revenue margins, increase in turnover, etc.)

II. It can be noticed that the planning of flash collections has the purpose of taking advantage of market opportunities that present themselves at a given moment of the season and in some situations even to expand the market. The effectiveness of this creative strategy

implies that the management is able to use specific planning capabilities related to the product, to the technical-productive process and to a reserve of market driving resources.

During the recent periods of international crisis it has been evident that in industrialized countries, in some more than in others, the supply of Italian products in the fashion sector, traditionally sold in the highest segments of the market, in which the customers have an elevated capacity of expenditure and ask for innovative and sartorial products, has decreased notably. The supply has suddenly become sensitive to price, in the sense that the usual customers, having less expenditure capacity, have begun to perceive the price of these products, that in reality has not increased, as being unacceptable. In this changed context of supply, the firms have started to look towards the new and difficult to penetrate country-markets, in which the demand in these elite segments has been rapidly increasing.

III. Knitwear firms are still strongly oriented to the product, but they are aware of the necessity to integrate specific and historical competencies developed in the manufacturing of new needs of distribution and sale, knowing how to interface the marketing activities to the corporate level with specific actions together with the retailers.

A third hypothesis has emerged. In effect, a firm's orientation towards the market is vital in generating the success of new products. The marketing approach is oriented not only to the planning of specific and sporadic innovations (flash collections, pre-test, promotional campaign, etc), that is, to 'experiences' in which target customers are involved as well as a few and selected retailers (*experiential marketing*), but also to the ideation and management of a systematic relationship of cooperation (*relationship marketing*) finalized towards the attainment of specific objectives in the short and medium term (customer satisfaction, best sell-out of the retailer, selection of modalities of presence and entry into foreign markets, increase of the market, economic and financial performance).

The analyzed operators believed for too long that the multichannel could be correctively and effectively managed concentrating their efforts (resources used and management techniques) on the consolidation of the relationship with the customer, limiting themselves to manage the relation with the retailer with a logic of the past. At the moment they feel the necessity to plan and manage a modern 'distributive architecture' to sustain the positioning strategy in the international structure of the supply (synchronization of the business cycle). This necessitates the training of new managerial capabilities and the quick planning of techniques, able to manage distributive activities effectively and with the required flexibility.

The objective is to integrate the marketing strategy traditionally adopted in the compartment studied with the direct and local marketing activities that each firm frequently modifies in order to pursue ambitious results.

IV. In a general sense, marketing orientation (MO) pertains to an organizational culture that emphasizes aspects such as customer orientation, competitor orientation, inter-functional coordination, and responsiveness as being vital for organizational success (Kohli and Jaworski, 1990; Narver and Slater, 1990). A major cultural antecedent of MO is ‘entrepreneurial proclivity’, which is an entrepreneurial predisposition characterized by the dimensions of innovativeness, risk taking, and proactivity. Many studies, in fact, did find evidence for an indirect positive relationship between MO and performance (Keskin, 2006).

We have found that small empowered teams leading projects substantial in scope can be extremely effective when roles are expanded, decision power is at ground-level, and there is little emphasis on defined processes.

The results of the empirical research suggest that the effective management of the development of new products in the analyzed sample is no less important-and perhaps more so-than for large companies belonging to high tech sectors, given the historically high fashion content of products and firm-level failure rates.

V. It was thought that the strong integration between the finalities and the operational modalities of the areas of production and marketing was necessary only in some phases of the process of the development of the new collections. On the contrary it is from the interaction between the areas in the phases of the cycle ‘design-engineering-production and sale’ of the collections, that is mainly different for each line offered to the market, that the sales, income generation and the other production activities emerge. The benefits of the interaction are at the moment pursued with difficulty, considering that the planning process is initiated, even more than in the past, at an earlier stage, with respect to the sales season, and must take place in a very short time, and that the distribution of each collection is completed over a much longer time period. It is desirable that the firms favour the formation of modern marketing capabilities (in a sense both specialistic and architectural); these should not only involve marketing operators but also production operator and all elements in supply chain too (upstream and downstream).

VI. The distributive formats of the firms adopt ‘multichannel strategies’, that employ at the same time *monobrand* and *multibrand* shops or physical and virtual channels, that have the peculiarity of presenting homogeneous products in the style¹².

The creative generation of new formats of channels allows an ulterior differentiation of the supply: what remains to be evaluated is if the multichannel can represent a concrete opportunity to be taken advantage of, even in the case of a demand attentive to the functional attributions of the supply, in which the level of expertise of the consumer grows¹³.

10. Limitations

The knitwear sector is a sub-sector in the Italian fashion system that has received lots of empirical attention. Although these research results encourage a new research direction using more-defined constructs (marketing orientation, multi-segmented market strategies, new product development, multi-channel strategic marketing choices) this study has not investigated how these aspects absorb resources (financial and organizational) and what should be the most adequate mode of governance of the constructs when considering them as a whole.

While the research has made significant contributions to research and practice, there are limitations that need to be considered when interpreting the study’s findings. Because of the limited number of observations (n°), the revalidation of constructs was not carried out in this research. This needs to be addressed in future research.

Another limitation of this research is the absence of a comparison between the strategic decisions formulated by the firms that, in the period under consideration, have shown positive performance and those that have shown a more modest or even negative performance.

Furthermore, this study only considers the proactive dimension of marketing strategic flexibility and provides preliminary evidence for the development of a proactive flexibility in new fashion collection decision processes. In turbulent environments, it becomes even more important to make proactive and reactive decisions in a timely manner. Small windows of opportunity, economic crises, and overly aggressive competitors may intensify turbulent conditions.

¹² The firms analyzed do not make, and do not think of making in the future, a transversal form of knitwear production, in other words, that is thought to be functional to a whole family nucleus with the objective of initiating distributive policies, new for them, that needs a recourse to the one-stop-shop.

¹³ The theme of the shopping experience has become an aspect of growing importance inside the fashion world (Iacobelli, 2010).

11. Some implications for Managerial Practice

This study contributes not only to academic research but also to practitioners (entrepreneurs, managers, Institutions, ...) on several fronts.

The positive impact of innovative climates on proactive strategic decision-making flexibility seems almost inevitable: innovative climates enable firms to exploit and find new product and market opportunities, which can be translated into competitive advantages.

Managers might need to acknowledge the importance of flexibility in the strategic decision-making process and to consider the relationship between the effectiveness of this process and the level of flexibility. Thus firms should seek new product development initiatives and ideas within their organizations and within their supply chain and sometimes use intuition in decision making.

The results also show that the interplay between proactive strategic decision-making flexibility and new product performance is significant. As expected, strategic flexibility provides firms with an ability to adapt to changing environments and to create new market opportunities, product, niche markets (new competitive arenas), and to multi-deliver successful new and more differentiated fashion collections. Moreover, the results have significant managerial implications concerning how knowledge generated through knowledge-intensive activity can help firms to achieve both strategic and monetary benefits.

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