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Student name:	Chi Ying Mak Karey	Student ID number:	2019400
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Company Case: A study of Giordano

By Chi Ying Karey Mak (Student ID: 2019400)

HKBM7013 Strategic Management

Lecturer: Dr. Terence Li

University of Wales Trinity Saint David

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Table of Content

1. Introduction	4
2. Business analysis of Giordano	5
2.1 Company background and its business.....	5
2.2 Strategic Direction and its position	6
3. Casual wear industry overview in Hong Kong	8
3.1 Macro-environmental analysis	8
3.1.1 Political and Legal	9
3.1.2 Economic	10
3.1.3 Technology	12
3.2 Opportunities and Threats	12
4. Giordano's value chain activities	13
4.1 Primary activities.....	14
4.2 Secondary activities.....	15
5. Corporate and Business strategy of Giordano.....	17
5.1 Corporate strategy.....	17
5.2 Business strategy	18
5.3 Monitoring on strategy effectiveness	19
6. Recommendation for Giordano and its implementation	21
6.1 Recommendation	21
6.2 Implementation.....	23
7. Conclusion.....	24
8. Reference.....	25
9. Appendix	31

1. Introduction

Hong Kong is a leading global center of textile and clothing industry. People are getting more requirements on casual wear for quality and fast-changing demand patterns. Due to the disruptive impact of COVID-19, the global economy shrunk and casual wear industry has to face the adverse challenges. Various fashion brands are struggling with different strategies for their business continuity.

Giordano is a renowned international apparel retailer in casual wear industry. It was established in 1980s as a small manufacturer and developed to an international retailer. The company remodeled its business scope along the economic environmental changes. However, the profitability of the company seems decreased a lot recently years.

In this report, we will analyze Giordano's strategic direction through its "Vision, Mission and Values". In order to have a better understanding of the casual wear industry, PESTEL analysis was applied to study the current macro- environmental situation of this industry. Legal and political, economic and technology aspects will be detail discussed. Giordano's product life cycle will be demonstrated with the value chain activities involved its primary and support activities. Recent corporate strategy and business strategy will be studied and evaluated with the Balanced scorecard with financial, customers, internal process and growth perspectives.

Finally, recommendation provided for Giordano's business development and continuity. In order to implement effectively, action plan on the recommendation was identified for consideration.

2. Business analysis of Giordano

Giordano is a Hong Kong International apparel retailer and a well-known company in casual wear industry. The company has a long history which was started from a local small manufacturer and developed to an international retail brand. We will further study its strategic direction and their company statement of vision, mission and values.

2.1 Company background and its business

Giordano International Limited is a Hong Kong retailer offer quality apparels for men, women and children. The company was established in 1981 by Jimmy Lai (Khandelwal and Saxena, 2010). It went for public offering and was listed on Hong Kong Stock Exchange as 709 in 1991 (ET Net Limited, 2021). In 1994, Peter Lau succeeded from Jimmy Lai and became the Group's Chairman and Chief Executive since then (Wirtz, 2011). The company engages in retailing and distribution of apparel products under their licensed brands of Giordano, Giordano Junior, Giordano Ladies and BSX (Giordano International Limited, 2021).

Giordano was set up as a manufacturer, it expanded and developed as a renowned apparel brand in Asia Pacific region (Jin and Woo, 2014). Hong Kong is the headquarter of the company and principal place of business. It has about 2,185 stores covers Asia Pacific and the Middle East (Giordano International Limited, 2021). Due to the impact of COVID-19 and global economic contraction, Giordano's sales in 2020 plunged by 35.7% (Giordano International Limited, 2021).

2.2 Strategic Direction and its position

Vision, mission and value statement is important for an organization. Vision and Mission statement is closely linked to the company's strategic management, strategic communication and organizational culture (Allison, 2019).

Mission statement defines the company's business. Giordano's mission is to make people "Feel Good" and "Look Great" and it is supported with their corporate values of Quality, Knowledge, Innovation, Service and Simplicity (Giordano, 2021). It seems Giordano's mission was built based on its brands value and positioning of value-for-money. The company takes into the modern and minimalist lifestyle to offer quality apparel with low detailed design (Giordano, 2021). The brand provides high-quality, value-for-money and easy-to-wear apparel through its operation network, their salesperson are welcome and serve the customers with smile and attentive. In 2002, the government launched a campaign to promote quality customer service with the advertisement performed by Andy Lau (Wells, 2019). Since then, Hong Kong has been promoted as Asia's shopping heaven. Giordano's corporate values seem in line with the current business environment and market needs. In order to outperform from the market peers, Giordano demonstrated its commitment on their quality service. Over the years, the company won numerous awards for excellence service not only in Hong Kong, also including its overseas outlets in Singapore, Taiwan and Dubai (Wirtz, 2011).

As stated in their corporate values, Giordano believed it's important for updating expertise and sharing knowledge (Giordano, 2021). The management believed training is important for transfer and sharing of learning (Wirtz, 2011). Giordano offers various training workshops for staff development. In order to attract talent with similar value, Giordano launched Fast Track Management Trainee Scheme in Hong Kong for cultivating new generation of young leaders

with international vision (Giordano International Limited, 2015). This can help the company to build in their business culture and value throughout the program.

Giordano's company vision is 'to be the Best and the Biggest World Brand in Apparel Retailing' (Giordano, 2021). Internalization is one of the company's business directions. Giordano developed from a local manufacturer to an international retailer which stated its footprint first in Taiwan, Singapore and China. With reference to the Hofstede's cultural dimensions theory, it seems these countries are not only geographically close and they are sharing similar culture (Figure 1).

Figure 1. Cross-cultural comparison among Hong Kong, Taiwan, Singapore and China



Sources: Hofstede Insight, 2021

After that successful expansion in South East Asia, Giordano strategically entered the Middle East market to build up their reputation and brand name. Recently, the company is also planning to expand to developing market like African counties to take the lead with its international business expansion (Giordano International Limited, 2021).

There are various competitors in casual wear industry which have similar prices lines and

business objective, e.g. Uniqlo, Zara, H&M, etc. In order to achieve their vision statement to be the Best and the Biggest World Brand, Giordano seems still have a long way to go to achieve their business goal, but the company seems want to bring out a clear message to its employees and shareholders about their business planning of international expansion.

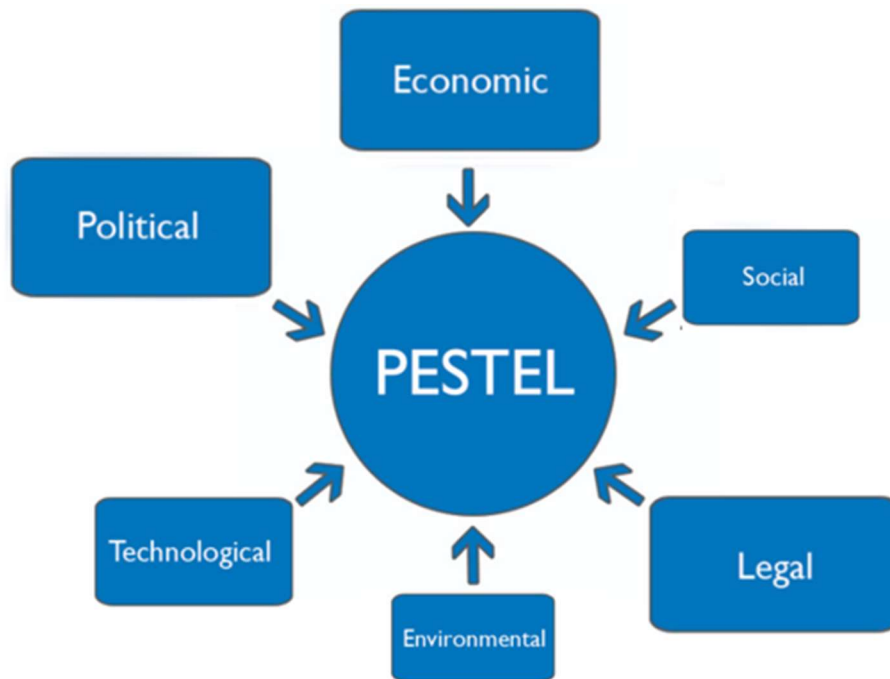
3. Casual wear industry overview in Hong Kong

Casual wear industry is a very competitive business in Hong Kong, various international brands and retailers are attracted to build up their distribution channel in Hong Kong, such as H&M, Marks & Spencer, ZARA and Uniqlo, etc. Macro-environmental analysis of this industry sector will be discussed with PESTEL analysis and further determine its opportunities and threats for this industry with Porter's Five Force Model.

3.1 Macro-environmental analysis

In this section, we will analysis the major macro-environment factors with PESTEL analysis. This analysis tool was established by a Harvard professor, Francis J. Aguilar, in 1964 which is useful in identifying the external forces that could directly impact on the business (Aguilar, 1967). We will target to analysis on the most important factors including political and legal, economic and the technology factor.

Figure 2. PESTEL analysis



Source: Illustrated by writer

3.1.1 Political and Legal

Political and legal stability is important for the casual wear industry which tends to be more sceptical about for the profitability of the business. The industry players have concern and uncertainty on global trade tensions and the enforcement of trade barriers. Causal wear is a fast fashion industry, in order to maintain the cheaper labor cost, the company set up garment factories in lower labor cost countries, like China, Vietnam, Bangladesh, etc. Various trade agreement and tariff treatment in different countries will increase the uncertainty of the business profit and operating cost. Start of China-US trade war increased the manufacturing costs of goods and products. Since 1st September 2019, apparel and textile from mainland China are subject to 15% additional tariffs when importing to US (HKTDC, 2019). Most of the goods from Hong Kong are exported to the US from Hong Kong are originated from China, hence, they are subject to higher tariffs (White, 2020).

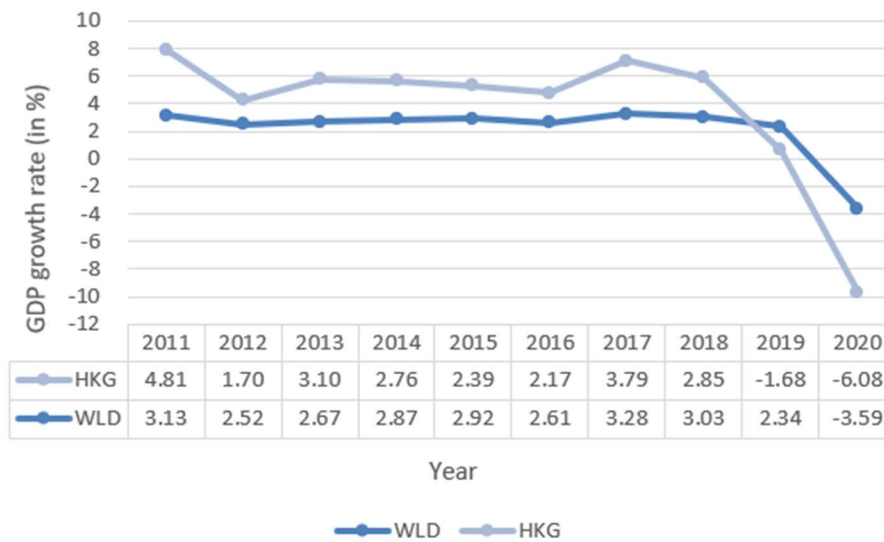
The political tension in Hong Kong also result in uncertainty in the industry. In 2019, shut down of streets in downtown and government district due to political unrest decreasing the customer sentiment. This resulted a more challenging market and business environment.

Ethics and Compliance are becoming an important risk factor under political and legal. People become more awareness of this aspect. There is increasing numbers of ethical fashion brands in Hong Kong recent years, e.g., Basics for Basics, The R Collections, Cosmos Studio, etc. Consumers are more aware on the sustainability and ethical practices embedded in the operation of company. According to Cheng, there is a rise in concern and needs on sustainability fashion development (Cheng, 2019). International brands, like ZARA and H&M, implemented the CSR program in their value chain process.

3.1.2 Economic

Economic factors are highly related and significant consequence on causal wear industry as it may influence the sales as well as the profit of the business. Hong Kong's economy is violently plunged since 2018 with a low GDP growth rate due to the economic downturn caused by the COVID-19 and political unrest. Graph 1 shows the World and Hong Kong GDP growth rate for the years during 2011 to 2020.

Graph 1. World and Hong Kong GDP Growth rate from 2011-2020



Sources: World Bank, 2021

Starting from 2021, the improvement in global economic conditions and the recovery of pandemic shows positive impact on Hong Kong economy. According to the press release from Hong Kong Economy, the real GDP growth forecast for the year of 2021 is revised to 5.5%-6.5% (Hong Kong Economy, 2021). Recovering of economic activity result in strong labor market. Unemployment rate decreased from the peak of 7.2% in 2020 to 5.5% in the second quarter of 2021 (Hong Kong Economy, 2021).

Recovery of economy will help in overall customer spending which highly influence the buying power and the customer spending desire. Latest quarter of 2021 noted there is a 3.61% increase in private consumption expenditure (Moody's, 2021). Increased in purchasing power and customers are more willing to spend on services and essential apparel. Low pricing of the casual wear can aid the business of this industry.

3.1.3 Technology

In this changing world, nowadays technology plays an important role on business operations including product development, robotic manufacturing, supply chain as well as sale channels. Digital transformation and adoption of information technology changed the business landscape.

City lockdown and travel restriction during the COVID pandemic changed purchasing habit of the customer, significant customers are engaged in the e-commerce channel. Survey from HKTDC noted there is 73% of apparel companies are experienced or interested in e-commerce (HKTDC, 2019).

The start of economy recovery provides a better business environment, however, facing various uncertainty of political and legal issue with the rapidly growth and changes in digital transformation which causing the apparel and casual wear industry to be less optimistic in general.

3.2 Opportunities and Threats

Porter's Five Force Model is an analytic tool for determination of the industry attractiveness (Porter, 1980). However, threats of the casual wear industry also reveal when looking into the buying power and rivalry of this industry.

The bargaining power of buyers is relatively high for casual wear industry due to variety of brands and less differentiated products. Although quality prices and quality standard can lower this force, in most buying situation, customers evaluate the attractiveness of the

products depends on their preference values (Grönroos and Ravald, 1996).

Considering casual wear is an essential apparel with simple design and can be fit in day-to-day lives. This turn the industry to be popular which allow it to quickly turned into a fast fashion market saturated with undifferentiated products. The intensity of competitive is comparably high. Continuous extensive products development and improvement in cost structure are needed in this highly competitive industry, value marketing also becomes more critical for essential products like casual wears.

Although this industry is facing various challenging, Hong Kong is regarded as a global leading hub for garment manufacturing and trading. It is geographically advantages for international manufacturing retailers like G-2000, Giordano, I.T, etc., to broaden their retail network. Casual wear industry has a significant transformation over the years and it develops rapidly. The industry still remains attractive by its opportunities. It is no doubt that fashion is regarded as a short-lived trend nowadays, however, casual wear is known to be more sustainable with low-skilled production quality in the apparel industry. Globalization, higher profit margin with shorter product life cycles through multiple sale channel to boost business is the current market trends for this industry. According to the survey from HKTDC in 2019, casual wear industry is the most popular fashion category and the level of demand in the future years would stand high.

4. Giordano's value chain activities

Value chain analysis is important to demonstrate the product life cycle. The company's activities involved to create the value of its product includes daily operation and support

activities. According to Ensign (2001), value chain analysis is useful for a company to achieve competitive advantage for strategic planning through understanding the sources of activities and the complex linkages. Giordano's value chain will be studied in this section through its primary and secondary activities.

4.1 Primary activities

Primary activities of the value chain are those department directly linked to the distribution, daily sales and marketing and also customer service. Giordano was set up as a manufacturer in Hong Kong, it operated through its own production line, inventory system and retail stores for sales. Due to the changing environment, Giordano sold out its interests in manufacturing since 2008 (Giordano International Limited, 2009). Thus, it does not maintain its own production plants now (Giordano International Limited, 2018). The company has outsourced its manufacturing operation to supplier in China where the costs of labor and factories are comparatively low (Jin and Woo, 2014) and other markets with preferential international trade agreement (Giordano International Limited, 2018).

Giordano treated the inventory control as an important measurement on its merchandising efficiency, the core value of the company is aimed to achieve "Zero Storage" (Giordano International Limited, 2018). The company relied on technology to facilitate its inventory management and logistic system (Wirtz, 2011). It also optimized technology innovation to improve the qualities and capabilities in production (Giordano International Limited, 2018).

According to Wirtz (2011), with the use of information technology, sales information in the stores can be recorded and used for analysis the customer's purchase patterns. This can help the company to enhance its competitiveness by effectively managing its inventories and

products to response to the customers' need and demand.

Giordano seems able to manage to maintain the company's inventory turnover on costs at around 80 days. However, due to the pandemic, Giordano's inventory turnover on costs increased due to the low cost. The inventories turnover days increased to 100 in 2019 and further up to 115 days in 2020 while the revenue of the company plunged from HKD 5,509mio in 2018 (Giordano International Limited, 2019) to HKD 3,122mio in 2020 (Giordano International Limited, 2021). Increase the inventory turnover will increase the product life cycle.

Giordano used to have coordinated marketing program and smart promotional campaign to have to maintain its business growth (Giordano International Limited, 2019). The outbreak of pandemic impact the economic hardly, Giordano's management reacted and changed their operation model to improve its sales margin. The company encouraged the usage of e-business operation and increased the penetration of various sales channels, including wholesales business. Both online and wholesales business seem able to generate higher operating margin. Online business recorded significant growth in 2020, it achieved HKD 326mio sales which contributed 10.5% of the total sales, it is almost 22% growth when compared with 2019 (Giordano International Limited, 2021).

4.2 Secondary activities

Secondary activities are also known as the support activities which aim to help to run the primary activities smoothly. In order to achieve sustainability, Giordano maintains Environmental, Social and Governance and adopt its Corporate Social Responsibility policy on its operations, including suppliers' production facilities (Giordano International Limited,

2018). Giordano links the supply chain management with the company's quality control system with ethical procurement on sourcing, quality assurance and production (Giordano International Limited, 2021).

Recent years Giordano has developed its e-business with digital technologies, the out-break of COVID-19 have even speeded up the process of digitalization. The adoption of technologies improves the existing business process and transforms them to a more efficient way. Development of the online channel became one of the business strategies of the company. Considering this, it is believed Giordano has a strong in-house information technology department to support its daily operation.

Wirtz (2011) claimed Giordano has a flat organizational structure. The company is leading by Peter Lau as Chairman and Chief Executive (Giordano International Limited, 2021). This arrangement aims to provide a strong and consistent leadership to the company which allow a more effective planning and execution of business decision. Peter is also vesting in Management committee, nomination committee and remuneration committee of the company (Giordano International Limited, 2021). This shows that financial performance and business planning of Giordano are governed by corporate level. Giordano as an international company, the quality management are usually managed at business level. The company empowered the local manager for an efficient coordination and faster decision-making (Wirtz, 2011). Overall performance was monitored by the headquarters and weekly performance were distributed to the responsible managers (Wirtz, 2011).

Human resources management is the challenging in various regions due to social and cultural difference especially for the international company like Giordano. Training and talent management is the most critical issues. As mentioned in the corporate value, Giordano has a

strong commitment to service. The company believes people are the key. Hence, the Group had a stringent recruiting and training program for its employees in order to match with the company's expectation in service orientation and character (Wirtz, 2011). Giordano launched Global Talent Development and Retention Initiative and regarded it as one of the strategic programs in coming years which aims to cultivate their corporate culture for employees' continuous development across various regions (Giordano International Limited, 2021). In order to retain and attracting talents, Giordano's remuneration aligned with their company's objective and performance. The company reviews their employee performance regularly, performers were motivated with attractive sales and business incentive schemes (Giordano International Limited, 2021).

5. Corporate and Business strategy of Giordano

Organization strategy aims to provide a long-term business direction of the company. The process of strategic planning should be flexible and adaptable to meet with the company's unique needs. In this section, we will analysis the corporate and business strategy of Giordano and further evaluate its effectiveness with the balance scorecard.

5.1 Corporate strategy

Operation strategy of Giordano has incorporated integration strategy during the company development. In old days, Hong Kong is famous for textile industry, at that moment textile industry employed the highest number of local workers. In considering the cost and the change in economic environment, local manufacturer started to move their production plants to the mainland. Giordano was set up as a merchandiser in Hong Kong, align with the

economic change, the company adopted forward integration to transform its value chain from the original equipment manufacturer model to original design manufacturer model to offer higher quality products to reinforce the brand position for higher pricing power and profit margins. This strategy consistent to the corporate value of Giordano to provide value-for-money products to their customers.

Giordano expanded their retail business and wholesales franchises to promote the company as an international retailer. Recently years, Giordano changed to adopt intensive strategy for market development. In order to achieve substantial growth, Giordano increases internationalization with its footprint covering Asia Pacific regions, further to Middle East, Canada and America (Jin and Woo, 2014). In 2018, the company reinforce the existing market of mainland China and Southeast Asia as their target countries (Giordano International Limited, 2019). Giordano also takes the lead for geographical expansion in developing countries, the company begins with South African and Zambian markets and is planning to various African countries (Giordano International Limited, 2021).

5.2 Business strategy

Business strategy is important for the company to establish its long-term planning. The main purpose of the business strategy is to strengthen the business performance and enhance the market position to achieve the business goal. Michael Porter's generic competitive strategies is widely used to understand the business strategy of the company for maintaining competitive advantages (Tanwar, 2013). According to Porter (2004), the generic strategies are cost leadership, differentiation, focus and the hybrid of them.

Giordano seems to pursue best-cost provider strategy. This strategy is a combination of low-

cost provider and differentiation strategies which aim to satisfy the value conscious customer's expectations by offering value for the money products. As market competition increases, customers have a higher expectation when purchasing. Giordano has various brands under its company and the company is selling their products with low to medium prices. However, the company's supply chain supports the company to pursue this strategy. The company is diligent on sourcing their suppliers, most of their suppliers are located in China or developing countries for lower production cost. Nowadays, customers are becoming more price sensitive especially in Asia (Business Asia Hub, 2017).

As mentioned in previous section, China and Southeast Asia is the target market of the company, Giordano adopt the best-cost provider strategy for business development, this strategy is also suitable for the demand market like China to fulfil their expectation on quality and service. Giordano seems to demonstrate high level of service to their customers which differentiate itself from their competitors like Cotton On and H&M. The company has in-house training for employee development and have been honored with various service awards and recognitions. It seems the company is competitive advantage to achieve its business goal through understanding the culture, demographic and needs of the customers.

5.3 Monitoring on strategy effectiveness

Maintaining the balanced scorecard is a fundamental element for monitoring the formulation and implementation of strategy (Guzman, Rodrigues and Quesado, 2018). Instead of providing a narrow financial information, it is important to demonstrate the communication and promotion of the organizational strategy in an overall view to all the company stakeholders. This involves the measurement of financial, customers, internal process and also the growth (Guzman, Rodrigues and Quesado, 2018).

In term of financial measurement, Giordano seems not able to perform. Giordano's stock price has a downtrend since 2013 as shown in Appendix 1 and 2. The company's beta value is 0.54 (Yahoo!Finance, 2021). Levy (2002) claimed beta can help to understand the relationship between volatility of the company asset and the volatility of the market. Hirschey (2001) also interpreted companies with beta value greater than one are more volatile than the market. It seems the stock prices of Giordano moves slower than the market average. This can be supported with the decreasing return on equity (ROE) of the company. Giordano's ROE decreased from 28% in 2011 to -4.4% in 2020 (Giordano International Limited, 2021). It is believed Giordano is less efficient at creating profit when comparing with its competitors in this industry.

Giordano has a high commitment to its quality and service, the company emphasized on service and value for money concept. This idea coincides with the company's corporate values for "Exceeding customer's expectation". One remarkable service-related campaign launched by Giordano including invite customers to criticize its service in exchange for a free T-shirt (Wirtz and Ang, 2000). The company demonstrated its superior service and outstanding quality which has been recognized with different service awards worldwide. This also enabled the company to accomplished for multiple markets and multiple brands strategy. The company had conclusively set up various brands with admitted market positioning and brand identity.

As discussed in the previous section, Giordano encourages and supports for continuous learning and development, the company continuously upgraded and modified the management trainee program since its launched. Recently, they are also planning to extend this program from Hong Kong to China. It seems Giordano offered various program for

internal development and continuous improvement on employees' knowledge. This corporate strategy effectively to promote employee satisfaction and retention.

However, Giordano's strategy on inventory control seems not efficient when compare with its competitors. Efficient project management shall be achieved due to the flat organization structure of Giordano. According to its latest annual report in 2018, the inventory turnover days keep on increasing. In contrast, its competitor, Zara has a super-efficient supply chain through productive internal department organization. Zara manages its product with a short time-to-market which takes around 10 to 15 days (MartinRoll, 2020). Giordano has to improve its productivity of supply chain process in order achieve its target of "Zero Storage".

6. Recommendation for Giordano and its implementation

Although Giordano is good at its service and quality, there is still have a lot of room for improvement. From the financial and the internal process control of the company, this already reflected the company is not efficient enough for generating its profit. In this section, we will provide recommendation and implementation plan on its business and corporate strategy.

6.1 Recommendation

Giordano's retail and distribution mainly operates in Asia Pacific and Middle East. In order to realize the company's vision as "the Biggest World Brand", it has to extend its footprint and increase the penetration to Western countries such as Europe and American. Concerning Giordano has a good human resource management platform and its organizational structure which allow the region head to have own decision and management, the intensive strategy for

market development to develop is good for the company to introduce its product into new geographic area.

However, Giordano might have to be aware that different positioning strategy should be introduced in different geographic market. Eastern and western customer has different attitudes to spending behavior due to cultural differences (Euromonitor International, 2007).

Due to the difference in culture and needs, Giordano has to identify the target customers, analysis their behavior and needs for determining its brand positioning.

In order to penetrate into western countries, Giordano can consider to use different competitive strategies in different region. Western customers usually are willing to pay for higher price for the brand with higher perceived value. The company should use focused differentiation strategy to rely on the product differentiation to build up their brand images. The company could focus on high-end quality and mass marketing to establish their brand in western and Europe countries.

Furthermore, Giordano may also apply product development strategy to increase the sales by introducing new product line, e.g. baby's apparel. Recent years child clothing market is becoming more attractive. According to HKTDC research, it mentioned the global forecast for children apparel reached USD 230 billion by 2024 (Lam, 2021). Parents are more willing to purchase high quality apparel for their children and babies. Considering China has implemented the two-child policy and the increasing birth rate, the baby and child apparel are believed to have a faster growth rate. With the new idea of gender-free fashion is also growing in baby and child apparels (Barton, 2021), Giordano can consider to expand this new trend of inclusive and accessible fashion in their production line in Asia to attract more customers which helps the company to expands its customer scope.

6.2 Implementation

Market development and product development of intensive strategy have been recommended to Giordano as its business development plan which aim to improve its sales and profitability as well as its market shares.

There are 2 phases of action plan for implementing the recommended ideas. First of all, Giordano may consider to rely on the current supply chain resources to build up the production line for baby appeals. According to the Global Customer Insights Pulse Survey conducted by PwC (2021), it revealed 11% of baby boomers are willing to shop more frequently and 9% of them are willing to spend more in fashion. Hence, we assume the new production line can bring in 10-15% additional profit for the company. With the existing research and development team, suppliers and logistics team, this recommendation plan should be able to implement within 12-15 months' time.

At the same time, Giordano may start to plan for increasing the new geographic area in Western and Europe countries. As stated in previous section, this strategy will need more times for implementation, more time will have to be spent on the research on foreign competitors, understanding the culture and needs of the customers. Considering the current market shares of the Giordano is mainly in Asia Pacific and developing countries, the sales contribution from oversea market is around 5% in 2020. Increasing the market shares in the Western and Europe countries may improve the contribution in sales. However, Giordano has to put more effort on sales and marketing for building up their network and branding. This market development strategy will be the long-term business plan for the company to achieve its business goal to be the "Biggest World Brand" in the market.

7. Conclusion

In conclusion, due to the disruptive impact of COVID-19, the global economy shrunk and casual wear industry has to face the adversely challenges. This study was performed through an independent study of Giordano on its challenges currently facing, evaluate its product life cycle through its supply chain and the company strategies through various secondary data sources, academic and literature reports.

The effectiveness and efficiency of business and corporate strategies of Giordano was evaluated with the balanced scorecard. Through analyzing with financial, customers, internal process and growth perspectives, it seems Giordano still have a lot of room to improve on its business strategy and internal organization process control. Based on the identified issue, recommendation on market and product development strategy has been provided along with the implementation plan.

It is in the view of this report that these recommendations would further contribute to Giordano's business sales about 10-15% and promote its position as a biggest World Brand in the casual wear market.

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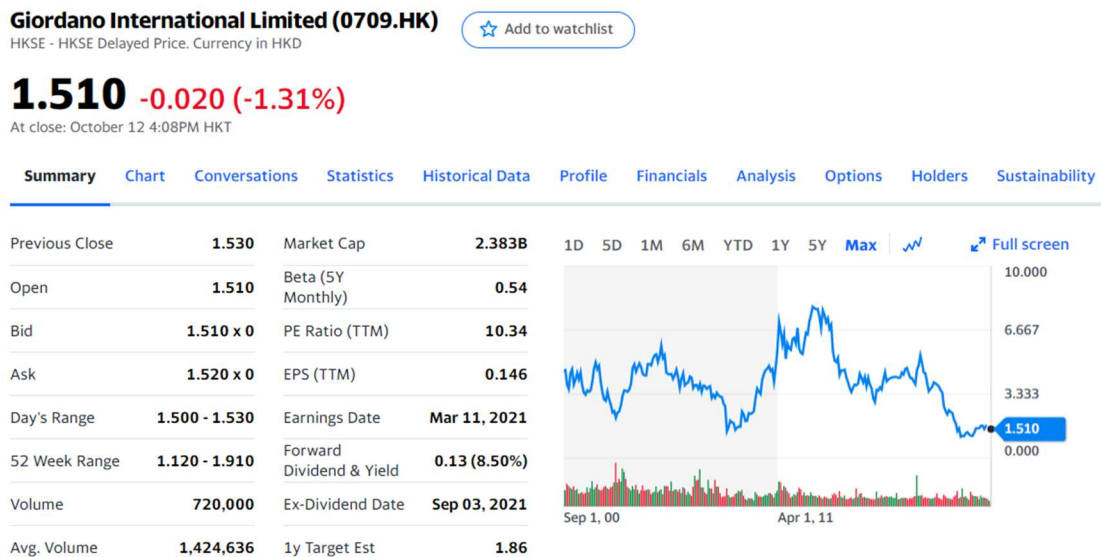
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9. Appendix

Appendix 1. Current stock price and of Giodrano as of 12 October 2021



Source: Yahoo!Finance, 2021

Appendix 2. Current stock price of Giodrano as since 2012



Source: Yahoo!Finance, 2021