

## SpainSko

In December 1994, Gonzalo and Pilar Goyes were asking themselves what the future of SpainSko, S.L. might be. They started this small family concern about eight months earlier, and had already invested some seven million pesetas (1), which was about 70 percent of the 10 million total investment they had originally forecasted as funds necessary for their new business venture to reach break-even.

SpainSko imported Dansko shoes and then distributed them within Spain using direct marketing methods. (See SpainSko's initial advertising leaflet in **Exhibit 1**, pages 746–748.)

Dansko shoes followed the new European concept of “comfort shoes:” they were not orthopedic, but simply aimed to allow the feet to work properly. They fitted any shape of healthy foot perfectly and the design sacrificed aesthetic appearance in the interests of greater comfort.

The figures that Gonzalo and Pilar obtained from the calculations they did to work out the cost of identifying new customers seemed excessively high to them. They were still a long way from making each purchase of Dansko shoes a profitable transaction.

In the past, they carried out various promotional activities to reach different potential customer segments, some of which produced results far removed from those obtained in similar exercises in other parts of Europe. They made inserts for magazines, and mailings to various consumer groups (priests and nuns, pharmacists, chiropodists, members of associations of diabetics, etc.).

Gonzalo knew that the key to reaching profitability and self-financing the growth of the business lay in building up a database of existing customers of Dansko shoes, who would be sent a mailing every six months, each of which was expected to yield an 8 percent response.

In December 1994, however, the most important objective was to lower the cost of gaining new customers. If they failed to do so, they would have to give up their attempt to carry out direct sales in Spain, because even greater resources would be needed in order to overcome the lack of response to the advertising campaigns.

Faced with this situation there were several options:

1. Persevere with the system they had been using (inserts and mailings). This was the method used in Germany, the country with the highest sales figures.
2. Set up a retail store.
3. Look for a new distribution channel, such as selling through pharmacists, teachers of physical education, physiotherapists, etc.
4. Publish advertisements like those that Birkenstock (their rival) had been using.
5. Attend trade fairs (as was done in Germany).

### BACKGROUND

#### *History*

Pilar Cerezo left the labour market at the age of 25 in order to devote herself full-time to looking after her husband and four children. As they got older, the children took up less and less of her time and Pilar decided to talk to her husband Gonzalo about her wish to make some contribution to the family income, given that she had a few hours a day in which to do so.

Gonzalo Goyes had several years of experience as a manager, consultant, and expert in setting up new business ventures. He had great initiative and imagination. He was the general manager of a

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This case was prepared by Clara Parés, under the supervision of Professor Lluís G. Renart and Francisco Parés, lecturer at IESE, Barcelona, Spain. Copyright © 1995, IESE. Reprinted by permission.

company called Interstrategies, S.A., which had a number of shareholders and was a business strategy consultancy and promoter of small companies that were just starting up. In view of Pilar's situation, he realized that he had to come up with an idea for a small business venture that was personal, had flexible working hours, was close to home, did not require regular travel, and called for a maximum investment of 10 million pesetas.

Some 20 years before, Gonzalo had to spend two weeks in Denmark during the month of February. The bad weather, the cold, and the damp ruined his footwear (traditional moccasins) and he found it necessary to buy another pair of shoes that were both hard-wearing and as comfortable as possible. It was his first purchase of Dansko shoes (which in Denmark sold under the brand name of Jacoform). For the next 20 years he remained a loyal consumer of the brand, mainly on account of their comfort and durability. He bought them whenever he went to Denmark or ordered them via any friend or colleague who happened to be going there. Later, he discovered that he could order them by telephone.

Importing Dansko shoes and distributing them in Spain was, on the face of it, the sort of, venture that would suit Pilar. For this reason, on May 25, 1993 Gonzalo got in touch with the manufacturer of Dansko, a Danish company by the name of A/S Jac. Engelbredt which was owned by the family of the same name. Jacob Engelbredt recommended that Gonzalo contact Alfred Frank in Switzerland. He was the person responsible for sales of Dansko worldwide (except in Scandinavian countries), and acted as an independent distributor for Switzerland.

#### **INFORMATION RECEIVED FROM ALFRED FRANK**

##### *Jacoform and Dansko Distribution in Europe*

A telephone conversation with Alfred Frank helped Gonzalo Goyes begin to understand how the world of Dansko shoes worked.

A/S Jac. Engelbredt was a family company with about 60 workers in its factory near Copenhagen and another 20 or so in a second factory in Poland. The shoes they manufactured were sold in the Scandinavian countries under the name of Jacoform and in the rest of Europe under that of Dansko.

The company started in the 1960s as a designer and manufacturer of children's shoes, prompted by a Danish physiotherapist who was looking for a pair of shoes with the right anatomical shape that would allow his children's feet to develop correctly. From their studies of footwear for children, they realized that it would be possible to apply the same concept to fully developed feet. They started manufacturing shoes for adults: basic, functional, anatomical shoes, with enough room for the toes to spread at each step. In 1994, the leather for the shoes was selected and imported from countries such as Spain, cured in Denmark, then sent to Poland to be hand-sewn, and returned to Denmark, where the soles were stuck on and the shoes were prepared for sale (the laces were fitted, etc.).

At first, A/S Jac. Engelbredt sold in Denmark and exported to Germany using the brand name Jacoform. The shoes were a success, but the distributor registered the Danish brand in his own name and started to manufacture locally. After the subsequent lawsuit, Jacob Engelbredt was allowed to use the Jacoform brand only in the Scandinavian countries. In addition to this, a change in fashion in the Scandinavian countries (one that favoured the sale of Italian-designed shoes) brought serious problems for the manufacturer. It was then that, with the help of Alfred Frank (an expert in consumer marketing who was interested in setting up a small business in Switzerland), the following decisions were made:

1. Change to a new brand name that would be registered internationally: Dansko.
2. Maintain the traditional shape of Jacoform shoes, giving priority to the functionality of the foot over aesthetics, fashion, and price.
3. Dansko would be positioned as a "special" shoe in terms of comfort and functionality.

4. Outside of Scandinavia, the shoes would be distributed by means of direct marketing, since the costs of producing in Denmark and of the raw materials used were incompatible with the demands of traditional shoe retailers.

### *Product Features*

Dansko shoes were authentic moccasins: the leather covering the sides and the sole of the foot was all one piece, thereby guaranteeing that there would be no stitching on the soles. They were shaped anatomically, which made them look strange, but it was this shape which allowed the toes to spread freely when the foot was bent for walking. They were scientifically designed to be adaptable and appropriate to maintaining correct posture. The sole was made of special rubber, the flexibility of which was graduated so that it was softer under the toes than under the heel, which is where practically the whole weight of the body is borne. The high quality leather and the fact that the shoes were hand-sewn ensured their great durability and comfort.

The range of Dansko products was quite wide. There were about 40 different models of shoes and sandals in a variety of basic shoe colours (black, brown, navy blue, beige, etc.).

Sales experience in other European countries showed that one third of the retail price of each pair of shoes went to paying the manufacturer's costs, one third was spent on advertising, and the rest covered the distributor's overhead expenses and profits. (**Exhibit 2**, on pages 750–752, has a technical description of the product.)

### *Distribution of Dansko in Central Europe*

The key differentiating features of Dansko's distribution system were that they did not compete on price and they were not sold in traditional shoe shops. Dansko shoes were sold directly to the public using direct marketing methods. They were offered to groups of potential customers, such as religious orders, pharmacists, diabetics, naturist

associations, etc., through direct mailings or via inserts in magazines. The mailings included an advertising leaflet about Dansko shoes and an order form (which was printed on thicker card and required no return postage). The customer did not have to pay for the shoes on receipt. The shoes were sent by mail and the customer had a few days to try them out. If the customer finally decided to buy them, he/she went ahead with the payment. If not, the customer was expected to return the shoes, also by mail.

Under this system, 50 percent were returned, half because the customer wanted a different size or style, and the rest because the customer decided not to buy after all, having once seen and tested the product.

The distributor had to bear the risk of dispatching the shoes. Given the particular characteristics of Dansko's customers, there were very few non-payments. The "Group" of importers of Dansko shoes into different countries was very satisfied with this system.

All the importers of Dansko shoes in different countries were considered to form a "group." They shared the design of advertising leaflets, mailings, and other promotional activities in order to reduce costs. Every new distributor had to be accepted by all the members of the group, each of which had exclusive rights in its own country. The group shared their experience and know-how with new members, while new members had to bear in mind that they too would one day be members of "the group" and that they should make financial contributions toward promotion. "The group" met twice a year and participated in product development with Jacob Engelbrecht. It also took part in the joint planning of production requirements and would assume the moral obligation of finding a way to get rid of obsolete stock, should it be necessary.

In 1993, "the group" was made up of the exclusive importers of Dansko shoes located in Germany, Switzerland, Holland, and Austria. Alfred Frank started his importing business in Switzerland very successfully in the same way as

Pilar would be doing. He had been a manager at Procter & Gamble and then decided to retire to his farm, at some distance from the centre of Basel, in order to set up his own business. His fine results had led J. Engelbrecht to appoint him as "the group's" coordinator.

In 1994, "the group" would sell some 35,000 pairs of shoes and 45,000 were forecast for 1995. Forecasts for the year 2000 were for 120,000 pairs between the whole group.

In the first letter that Alfred Frank wrote to Gonzalo, he talked about various aspects of the distribution and sale of Dansko shoes, and advised the Goyes family:

"Sales prices in the whole of Europe are quite high, higher than Clarks, Ganter, or other brands of comfort shoes that are on sale in shoe shops and other retail stores. This is normal and Dansko customers are not particularly price sensitive.

"The initial problem I had in Switzerland was how to explain to my target audience why Dansko shoes have this peculiar shape, and how to convince women that they could wear these shoes too. It was not an easy task, but the result was brilliant. In 1994, 60–65 percent of Dansko customers in Switzerland were women, whereas in Germany they represented only 40 percent.

"I think that anyone wanting to set up a business importing and distributing Dansko shoes in Spain must do so with a view to reaching reasonable sales levels after three to five years. I ought also to say that I would rather start exporting to France than to Spain.

"Prospective distributors in Spain must believe that the product can be sold directly. In the future, the distributor will be expected to contribute funds to the group of Dansko distributors for the design of advertising leaflets and mailing costs.

"In Switzerland, Germany, and Denmark many different models and colours are currently sold. I would recommend that you start with a limited range of models.

"We are only prepared to collaborate with distributors who we believe really understand the product, have mastered direct sales techniques, able to contribute enough funds to "the group," and can reach adequate sales figures in three years."

## FIRST STEPS FOR THE GOYES FAMILY

### *Market Study*

During, the summer of 1993, using the sparse information derived from Alfred Frank's letters, Gonzalo asked his daughter Yolanda, who had a diploma in business studies and was about to start the fourth year of her economics degree, to carry out a small market study of the shoe sector in Spain in order to start to get to know their future distribution area. They had to find out if Spain was as difficult a market as Alfred Frank had said.

In broad terms, this was how the Spanish footwear market stood in 1992.

Spain was one of the largest manufacturers of footwear in the EEC, although the average quality of the products was nowhere near as high as Dansko. For this reason, shoes manufactured in Spain were not expensive on average. In spite of this, the figure for the purchase of shoes per capita in Spain (3.2 pairs a year) was one of the lowest in Europe (average of 4.2 pairs a year). This was due to the mild climate in the country (which means that shoes do not have to be replaced so often) and to the lower level of income.

In 1989, 186.3 million pairs had been manufactured in Spain. Shoe manufacturers were small companies and formed a very fragmented sector, with 4 percent of the manufacturers having some international presence. Spain was one of the main footwear exporting countries, particularly in the higher price points. The trade balance in 1989 had been the following:

Exports from Spain	128,738,000,000 ptas.
Imports into Spain	15,001,000,000 ptas.
Balance	113,737,000,000 ptas.

The sector was in difficulty and many manufacturers were going under.

With regard to distribution systems, there were no large chains of shops specialized in shoe retail, and the value chain was basically as follows:

- Retailers usually had a gross margin of 50 percent of the retail price.

- Wholesalers and sales representatives had a gross margin of around 13 percent of the retail price.
- Manufacturers got about 37 percent of the retail price.

For example, if the recommended retail price of a pair of shoes in a retail store was 15,000 ptas., 7,500 ptas. was the retailer's gross margin; 1,950 went to the wholesaler or representative; and 5,550 ptas. was the price paid to the manufacturer.

On the other hand, the fashion factor was more important than in other countries that had more functional tendencies. Sports shoes were gaining ground over dress shoes, and the changing seasons were well reflected in sales. Women bought more pairs of shoes per year than men, although at lower unitary values.

Demand in the Spanish market was very seasonal, and was becoming more focused on the medium-high range, with more importance given to comfort and durability. The demand for shoes did not increase with the level of income, and brands were becoming more important (sales through retail stores with exclusive brands were going up).

In Yolanda's opinion, there seemed to have been only one brand of comfort shoe in the Spanish market for two years: Birkenstock, whose head office was in Germany. It was advertised through small advertisements in the magazine *Integral*; anyone interested was invited to send off for further information and a catalogue, prior to placing an order.

In addition to Birkenstock, there were other brands in the Spanish market that, although they were not exactly "comfort shoes," were shoes that were more comfortable than most and were aesthetically more "normal" (such as Mephisto or Clarks). They were sold in retail outlets (pharmacists and shoe shops) at higher than average prices (around 20,000 ptas.). The competition in this category was broadly made up of three groups of brands:

*Mephisto*: easy to find and similarly priced to Dansko. Their sporty design made them more suitable for use in the mountains, at weekends, etc.

*Clarks and Scholl*: a little cheaper than Mephisto, but more difficult to find. The design was very classic and not as sporty as Mephisto. The range was wider as it included styles for around the house as well as sandals.

*Bally*: only sold in top-class shoe shops and at higher prices than Dansko. They were very classical dress shoes.

Selling shoes through distributors and retailers was an option that the Goyes family had not yet rejected until they analyzed the prices and margins: 50 percent of the retail price of each pair of shoes sold was the retailer's margin, which was justified by the high level of stock required because of fluctuations caused by the fashion factor. This margin was too high for a shoe like Dansko, where the cost for the importer-distributor was already higher than the retail price of the majority of shoes sold in Spain.

The immediate conclusion reached by Pilar and Gonzalo Goyes was that they would need to sell the shoes via direct marketing, although it would be difficult to find people interested in the product since this type of shoe was a totally new concept for Spanish consumers. For the time being, they knew that the shoe market had great potential because of its size, and they had the feeling that there was a significant number of people who had problems with their feet.

One of the main problems encountered by the Goyes family was that of introducing the concept of a "comfort shoe." The customers had to be prepared to sacrifice the aesthetic appearance of their shoes and accept comfort as the fundamental feature of Dansko shoes. They would have to get used to the idea of accepting the natural shape of the foot as an aesthetic shape, and likewise the design of Dansko shoes. This seemed to be the most difficult part.

### *Travel*

Before they started buying any shoes from Engelbrecht, Gonzalo thought it would be sensible



to visit Alfred Frank and the shoe factory in Denmark, thereby making their first serious investment in the potential business.

In October 1993, the Goyes couple traveled first to Switzerland, where their immediate impression was that the business was organized in basically the way that they were looking for: a business run by Frank and his wife, with the help of two girls. They sold enough pairs of shoes to keep the family and cover the cost of two extra salaries.

They went to Denmark a couple of days later, where they familiarized themselves with the manufacturing process of the Dansko shoes and gradually expanded their knowledge of the world of shoes, about which they had never previously known anything in particular (nor had they ever dreamt they would end up knowing it in such great detail!).

### *Start of Operations*

There were a number of factors that pushed the Goyes family into starting the new business. For example, SpainSko (the name and brand they had chosen for the importing and distribution company in Spain) was able to start operations and share certain costs with other newly created companies that were also supported by Interstrategies (the consulting company of which Gonzalo was a director). In addition to this significant help, they calculated that with a maximum of 10 million pesetas they could set up the business and reach the break-even point.

The business suited Pilar perfectly in terms of day-to-day requirements. She knew that one of the children would be able to answer the telephone and process orders on any occasion when she could not get to the office. For the time being, the costs had been calculated without including any labour costs (Pilar would be paid no salary at the beginning), but Pilar was happy to accept this sacrifice since she knew that "the early bird catches the worm," and being the one to introduce these shoes onto the market could be an important advantage.

Initially, the main aim of the business was to get a database of people who had already bought Dansko shoes, since the chances of them doing so again were very good. Customer loyalty was very high throughout Europe and was the key to success in marketing the product. This was reflected in the fact that they got an 8 percent response to every mailing to past customers, which was done twice a year, whereas mailings to the general public only got a response of two or three per thousand impacts.

In February 1994, once they made the decision to attempt to import and distribute Dansko shoes through Spain by direct marketing, there were two areas where Pilar set to work immediately: the advertising leaflet and the lists of names and addresses to reach the prospective target audience.

The offer from "the group" (the usual way of referring to the group of distributors in Central Europe) regarding the brochures was generous, although it turned out to be unsuitable for the Spanish market. Like the Goyes family, Alfred Frank always tried to save as much as possible on his costs, spending only where absolutely necessary. Therefore, he offered SpainSko the possibility of using the same brochures used in the rest of Europe, which could be obtained at very low cost given the large print runs. This offer was immediately rejected once the samples reached Gonzalo. They were six pages of pale, sad colours, very un-Mediterranean, with a medical air about the recommendations, and graphic explanations of the product. Gonzalo had imagined a much more modern advertising leaflet for the shoes and decided to commission a new design from a small company in Barcelona that specialized in advertising and graphic design and whose work was always very successful. The design and subsequent printing made the leaflet more expensive. In the first print run of 100,000 copies, each leaflet cost 21 pesetas, including the reply coupon that was stuck to it.

The leaflet included explanations about the product and instructions on how the sales system worked. Once it was finished, all they had to do was to send it to people who were particularly sensitive about their footwear.

As for the initial range of products, there were about 40 different possibilities within Dansko (combining the different styles and colours). However, they decided to start in Spain with a much smaller range that would combine the more classic styles with the two-tone styles (considered more sporty). All the styles would be sold at an average price of 18,000 ptas. (VAT and handling and shipping costs included), bearing in mind that the German Mark (the currency used by Engelbredt for invoicing) had an exchange rate of 80 ptas./Deutsche Mark (see Exhibit 1).

The prices were fixed at this level because, according to the information supplied by Alfred Frank, the cost structure for each pair of shoes was as follows:  $\frac{1}{3}$  of the retail price covered the cost of buying the shoe from the manufacturer, another third was spent on advertising and sales promotions, and the rest was the contribution margin for the importer/distributor.

Pilar thought it would be useful to have one model with a lower retail price (16,100 ptas., model 5049, Latin brown) in order to find out how sensitive the public was to price. Also, Gonzalo managed to obtain a significant discount on one of the models of which Denmark had a high level of stock. The reason for this excess stock was that the colour of this style was poorly reproduced in the brochure used in Europe (it looked a lot worse in the brochure than in reality), and so it had not sold as well as the rest. Controlling the exact colours was a serious problem when it came to producing advertising material.

Furthermore, in addition to importing shoes with laces or velcro, they also decided to import the model "Clou," which came in a clog design but with the same properties as the other Dansko shoes. Its retail price would be 15,100 ptas. Pilar thought that if Dansko's customers really found the shoes comfortable, they might be interested in having a pair in the same shape as those for outdoors, but for indoor use.

After a few months of operating in Spain, they found that their cost structure would be different: almost 50 percent of the retail price went on import

costs (largely owing to the depreciation of the peseta, which in December 1994 reached 88 ptas./DM), while the other 50 percent did not even cover the advertising expenses. The contribution margin was insufficient. At bottom, this was what most worried and frustrated Pilar. "The shoes may be marvelous, perfect, oh so comfortable . . . but we're never going to make a living from them!"

### *Features of the Sales System Set Up in Spain*

The sales process began by mailing the advertising leaflets to selected names and addresses or by inserting the same leaflets in selected publications. Anybody interested in the product was invited to place his/her order by returning the reply coupon duly completed with their personal details and the size and style required. They also had to send a cheque, VISA number, or proof of a bank transfer. Therefore, payment had to be made in advance, when the order was placed.

The Goyes knew that in Germany the customer paid for the shoes once he/she had tried them on at home and was sure that they fitted. The big disadvantage of this system was that 50 percent of the shoes sent out were returned, although a lot of people tried them on, and this was the main aim: seeing the shoes in a photograph in a brochure was not a great sales tool. In spite of everything, Pilar did not dare to send out hundreds of pairs of shoes in Spain without having any guarantee that they would be either returned or paid for. She had the feeling that the Spanish market was different from the German market in this respect.

Each customer had to choose the style and size. The leaflet included a scale of shoe sizes and foot measurements. There had never been problems with this system in the whole of Europe. The number of changes due to wrong sizes was very low.

SpainSko agreed to change the style, colour, or size as many times as necessary until the customer was satisfied. In some cases, the product could be returned. Payment in advance avoided the problem of non-payment for SpainSko, and was necessary for the dispatch system they were using. The shoes

would be sent out to the customer using a courier service and would take less than 24 hours to reach their destination. Dispatch by mail was rejected as they believed the Spanish system was not reliable enough.

Given how difficult it was to try the shoes on, as they were not available in any shops, the option of trying the product at home was offered and could be requested on the order form. The price of this service was the same as the cost of sending the shoes by courier (1,250 ptas. including waiting time for the messenger) and the extra amount was added to the sales price.

### *Start of the advertising campaign*

**First shots.** In March 1994, SpainSko carried out its first promotional activity by inserting advertising leaflets (printed in Spain but translated into German) into a German-language magazine, *Kontakt*, that was published in Spain. The magazine had 10,000 subscribers, who were basically immigrants from Central and Northern Europe resident in Spain. The idea came about because of the wide acceptance of Dansko shoes in Germany. The insert cost 120,000 ptas. (all the prices of the campaigns are given without the 16 percent VAT), plus the cost of the leaflets that SpainSko gave to the magazine. Only three sales were achieved.

At the same time, an agreement was made with the company, Arex, to do a number of inserts of the same leaflet in Spanish during the months March to June. Arex binds copies of various Spanish magazines into more hardwearing versions for use in waiting-rooms (magazines such as *Hola*, *Lecturas*, *Woman*, *Interviú*, *Actualidad Económica*, etc., in other words, women's magazines, current affairs, and other non-specialized themes). This cost 102,800 ptas. plus the cost of the leaflets; 8,677 inserts were done. Only one sale was made.

To finish off the promotional effort in this first month, a mailing was done to 500 members of the Goyes family and friends, 550 chiropodists, and 500 religious institutions. A letter presenting SpainSko was sent (see **Exhibit 3**, on pages 753–758), with an advertising leaflet and a reply

coupon. The cost of each mailing was 64 ptas., which broke down as follows: 21 ptas. for the leaflet and reply coupon; 8 ptas. for the envelope; 28 ptas. for postage; and 7 ptas. for the presentation letter. The results were slightly better: 5 sales to chiropodists, 13 to religious centres and, fortunately, 44 sales to family and friends of the Goyes family.

Sales to family and friends were a great success, which was very comforting for Pilar and Gonzalo, but unfortunately this was not representative of the market. They had not achieved enough sales from the rest, but had gained a lot of experience (bearing in mind that they were starting from scratch).

**1st campaign. April/September 1994.** Pilar was not expecting any more replies to the previous inserts, despite the anticipation with which she answered the office telephone, and was looking at alternative means of advertising within the same context. This time, she turned toward inserts in more specialized magazines on nature, health and dietary matters. She ordered another insert, this time in the magazines *Integral* and *Cuerpomente* (owned by the same publisher), but only in the copies sent out to subscribers (16,900 in *Integral* and 9,000 in *Cuerpomente*). The total cost of the two inserts was 290,000 ptas. plus the cost of the leaflets. This time, Pilar Goyes seemed to be going in the right direction: 7 sales in *Cuerpomente* and 44 in *Integral*.

Because it usually obtained good results in other countries in Europe, leaflets were sent to the members of the Association of Diabetics of Catalonia (ADC). In total, 1,550 leaflets were sent out, with mailing costs of 115,000 ptas. including the postage, the envelopes, and the rental of the address list. The addresses were rented as the company did not have a right to the membership list, since it was the ADC that actually did the mailing. They only achieved nine sales, which earned a commission of 2,000 ptas. per pair for the ADC. Also, about 20 leaflets were left in the lobby of the ADC and the International Association of Diabetic Sportsmen (IADS): three sales were made through the IADS. The idea of trying to make contact with members of these associations was that people with diabetes often have problems with their toenails: their toes become painful if their shoes are too tight.



In view of the low response rate achieved in these two activities, the Goyes family reached the conclusion that there were still some illnesses that were socially unacceptable. It was known that in 1994 12 percent of the Spanish population had an excess of sugar in their blood but that only 7 percent were being treated for diabetes.

During the month of May, another sale was made from the Arex campaign, but the arrival of orders came to a complete standstill during the summer. The low level of diversification and the high seasonality of the product range were reflected in SpainSko's income statement.

By September, Pilar was anxious for winter to arrive to get things going in the company again. She thought that the middle of that month would be a good time to restart advertising the shoes. The family wondered whether they ought to go back to one of the target groups to which they had already done mailings and inserts, or whether they should try to get a better response by using different advertising media to target different groups of potential customers.

They opted for the latter course and did a mailing to 3,700 pharmacists all over Spain, addressing the pharmacists as consumers and not as prescribers or retailers of the product, since SpainSko could not yet allow itself the luxury of paying the high margin on each sale that professionals would demand for recommending a product. The cost of buying the list of pharmacists' addresses came to 47,200 ptas. (to which had to be added the cost of the leaflets, the envelopes, the presentation letter, and the postage). The result was four sales.

*Conclusion of the first campaign.* Evaluating this first campaign was difficult because sales had been really low (leaving aside the friends) and because cash problems were almost upon them. In spite of this, Gonzalo was aware of the knowledge and experience they had gained, and so did not consider it a failure. They had tried a good number of different means of communication that were appropriate for their budget and product, and only one, the magazine *Integral*, had brought a slightly hopeful result. The average response rate was decidedly low.

Another important aspect at the end of this first campaign was that of the 134 orders received since the start of operations, 113 were first orders and 21 were repeat orders, or orders of two pairs of shoes.

Just two people sent a cheque with their order form and without calling by phone first, while four telephoned before doing so. The rest placed their orders by telephone. If people were calling by telephone it was because at heart they needed some sort of moral reassurance. "Are they really as comfortable as the ad says? Are they really as well finished as they look?" Being able to speak directly to Pilar gave them a sense of security. Therefore, almost 100 percent of telephone calls were converted into sales.

It was also evident that only 5 percent of customers read the information and instructions in the brochure properly.

*2nd campaign.* Once again, the Goyes family wondered whether to repeat any of the advertising they had already done, on the assumption that a second impact could increase the response, or whether they should change the focus of the previous campaign. Pilar reluctantly agreed to repeat some mailings while also carrying out some new actions.

Given that the consumer did not seem to be too price sensitive, an increase in price was considered, given how much the peseta had depreciated (it was now standing at 88 ptas./DM). In the end, however, there was no price increase because it would have meant changing all the leaflets and reprinting them.

In September, a second mailing was sent to pharmacists and religious orders, which was where the largest response had been. In total, some 2,500 letters were sent out at a total cost of 160,000 ptas. (including leaflets, envelopes, postage and letters). The result was 17 sales (8 to religious bodies and 9 to pharmacists).

In accordance with the responses, a geographic selection of the provinces with the best response rates were made and an insert was placed in October in copies of *Integral* and *Cuerpomenta* for subscribers and copies sold at kiosks in those areas

(in total, 39,000 copies). The cost was 450,000 ptas. Plus the 21 ptas./unit for the leaflet and reply coupon.

Between October and December, 52 pairs were sold through *Integral* and 14 through *Cuorpomente*.

**Situation in December 1994.** The Goyes family had invested 7,250,000 ptas. In the business and they were therefore getting close to the limit they had originally set themselves of 10,000,000 ptas. In fact, the most significant investments in stock and advertising had already taken place. A year after the company had been set up and after eight months of activity, break-even was still a dream in spite of not including any salaries or labour costs in the profit and loss statement. (See **Exhibit 4** on page 759).

Furthermore, the comments reaching Gonzalo about the business were pretty depressing. "Are you telling me you're trying to sell shoes as ugly as this by direct marketing? You must be mad!" The income statement showed significant losses.

In spite of everything, the owners of SpainSko knew that in Europe an 8 percent response rate was obtained from mailings to customers if they were carried out twice a year (16 percent annually). Bearing in mind the significance of friends spreading the word and the fact that many potential customers kept the brochures for a long time before deciding to place an order, an annual response of 25 percent might optimistically be reached. If so, the period of amortization of the cost of obtaining clients decreased considerably. Each sale brought the company 7,200 ptas. of gross margin, and it was estimated that each client would buy a further four pairs of shoes in his/her lifetime (on average), in addition to the initial order.

Since each pair of shoes sold generated a gross margin of 7,200 ptas., Gonzalo calculated that the investment made so far in advertising was not greater than the value of the client base they had achieved (187 clients). The gross margin was calculated by subtracting the cost of the imported shoe, the cost of shipping via courier, the cost of collecting the money, and VAT from the price paid by the final consumer. The latter did not affect the company's

results for 1994 because during that year the amount of VAT incurred had been much greater than that paid by the customers.

The next problem that SpainSko would encounter was the selection of new promotion media: where to advertise and the best time to advertise.

There were ultimately several options for continuing the business other than letting it die (an option which the Goyes family did consider at times of crisis, but which Gonzalo and Pilar were fairly reluctant to accept):

- a. Keep selling their shoes by using essentially the same direct marketing media and systems they had used so far.
- b. Set up their own exclusive retail shoe store. This was an option that would give the potential customer a chance to try out the product in comfort, although it would require a really high investment, and it would take time to set up. Rent of at least 200,000 ptas. a month would have to be paid, the premises would have to be fitted out and an employee taken on with a minimum salary of 1,200,000 ptas. a year. The high volume of stock needed would make the cost of financing much higher. The Goyes could obtain a bank loan at an annual rate of about 13 percent.
- c. Look for new distribution channels. They had thought about selling through pharmacies, although the same stock problem occurred as with shops, and they did not want the product to be associated with the idea of treatment or illness. There was yet another significant disadvantage: the margin.
- d. Run advertisements in general interest magazines and newspapers. This method did not work in Europe and could be too risky to try out in Spain. However, Birkenstock did it.

The cost of an 8 x 11cm ad in the weekly "Life and Science" supplement of *La Vanguardia*, the most prestigious daily newspaper published in Barcelona with a circulation

of 220,000 copies, was 256,000 ptas.; the same size ad in *Cuerpomente* was 60,000 ptas. for a circulation of 40,000 copies, and 60,000 ptas. in *Integral* for some 60,000 copies.

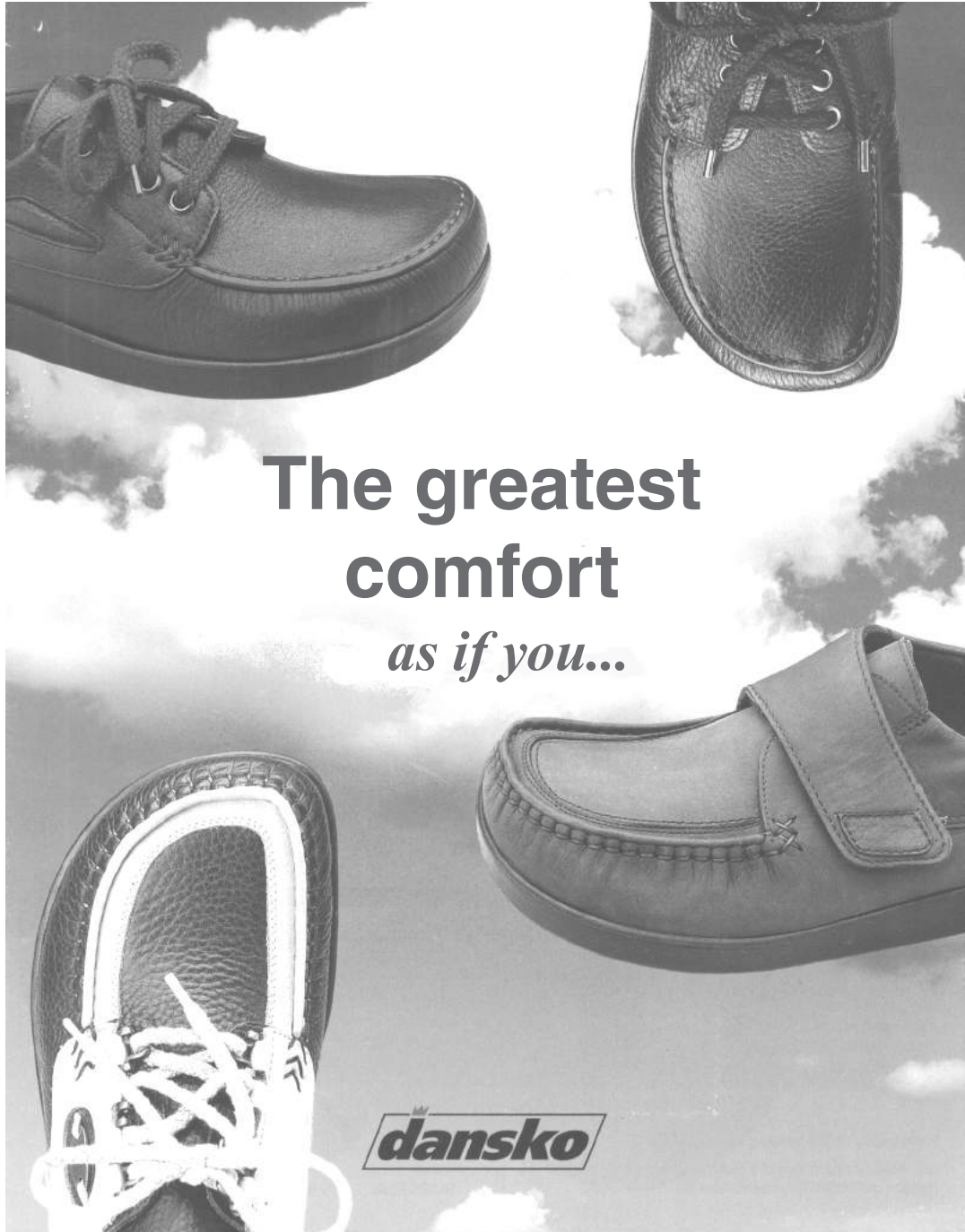
- e. Attend large trade shows on different topics. The aim was to deal directly with people who had tired feet at that precise moment, and ask them to try the shoes. "Who would not enjoy the chance to sit down and try on some new, very comfortable shoes in the middle of a tiring trade fair?" thought Gonzalo.  
The cost of exhibiting and selling at a trade fair in Spain was high (500,000 ptas. as a

minimum for a small stand, including rental of the space, the decoration, travel and the accommodation costs of the two people to attend the public), and they would not be able to carry enough stock to sell anything. In spite of these disadvantages, the public would be able to get to know the brand better and see and try the product. Birkenstock attended some fairs but with a lot of stock for sale.

Would one of these options be equivalent to throwing themselves off a cliff? Did they have enough capital available?

## EXHIBIT 1

SpainSko

*Front cover of the first advertising leaflet (original size: 20 x 27 cm.)*

**EXHIBIT 1**  
*SpainSko (continued)*

*Spread inside the first advertising leaflet (original size: 40 x 27 cm.)*

**...were walking on air**

This is the sensation that best describes using Dansko shoes because their shape is a true reflection of your foot's natural shape.

For the first time in Spain, we can offer you authentic moccasins, made in Denmark, where a single piece of leather covers the whole foot, including the sole fitting it like a glove.

Authentic moccasins can only be made using tough leather which is at the same time soft and flexible.

Top quality. Each of our shoes has been made using a careful selection of top class leather, considered the best in the world. Painstakingly hand sewn, the design of our shoes combines the most advanced technology (robotics) with the most traditional shoemaker's craftsmanship.

The natural shape of the foot. Don't take chances when dealing with the health of your feet.

Dansko shoes are adapted perfectly to your feet allowing you to walk naturally, with the optimum space for your toes, and at a height that lets your spine stand correctly, relieves your knees and your whole body.



**GUARANTEE**

**Super-comfort.** The ergonomic design based on the natural shape of the foot, gives your toes total freedom thereby attaining an overall feeling of wellbeing.

**Natural.** The biodynamic structure with no heel allows you to stand and walk naturally and allows the body's weight to be correctly apportioned.

**Health.** Our shoes reflect our health and have a bearing on it. The special flexible sole has a shock-absorbing effect on jolts to the spine and alleviates joints.

**Breathable.** The quality of the leather, lightly dyed using natural products, ensures the shoes breathe perfectly.

**Hardwearing.** The quality and care taken in production ensure that your shoes will last for many years and are, therefore, a good investment.

Fabricados en Dinamarca y cosidos a mano  
 En exclusiva para España, solo disponibles por venta directa del importador SpainSko S.L.

**SPORT**

The classic Dansko shoe. The most traditional style in the brand. Hardwearing and breathable. The most authentic super comfortable moccasin.



Ref. 5319  
 Black.  
 19,100 ptas.

**CLOU**

The perfect slipper: for comfort at home. All the anatomical advantages of Dansko. Soft as a glove in Nubuk. Authentic moccasin. (Interior in all-over leather). Flexible quiet sole. With a strap for possible heel wear or use as a clog. For the real connoisseur.



Ref. 4932  
 Blue. Nubuk.  
 15,100 ptas.

**VARIO**

No laces and with the comfort and easy cleaning of Nubuk. Easy to fasten using velcro. Ideal for travelling, especially to the Orient.

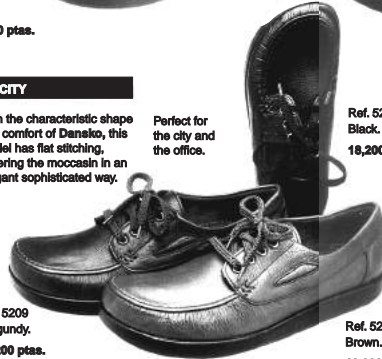


Ref. 5830  
 Brown and blue/grey.  
 18,600 ptas.

Ref. 5825  
 Navy blue.  
 19,870 ptas.

**CITY**

With the characteristic shape and comfort of Dansko, this model has flat stitching, covering the moccasin in an elegant sophisticated way. Perfect for the city and the office.



Ref. 5209  
 Burgundy.  
 18,200 ptas.

Ref. 5219  
 Black.  
 18,200 ptas.

Ref. 5216  
 Brown.  
 18,200 ptas.



Ref. 5019  
 Black.  
 18,050 ptas.

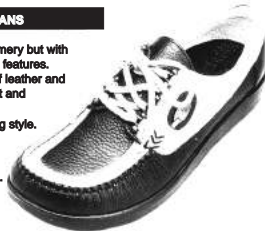
**LATINO**

The softest shoe for the most delicate feet. With just two eyelets, this shoe has a high instep making it ideal for the most demanding of feet.

Ref. 5320  
 Brown and black.  
 19,870 ptas.

**SPORT JEANS**

Light and summery but with all the Dansko features. Combination of leather and Nubuk. Elegant and hardwearing. A special young style.



Ref. 5373  
 Blue and beige.  
 Nubuk.  
 18,990 ptas.

**SPORT DUO**

Elegant combination of two colours. Ideal for casual dressing. For week-ends, the country, going to the match, etc. Strong, water-resistant, comfortable and tireless companion.



Ref. 5388  
 Beige and burgundy.  
 Nubuk.  
 19,870 ptas.

Ref. 5330  
 Brown and blue/grey.  
 Nubuk.



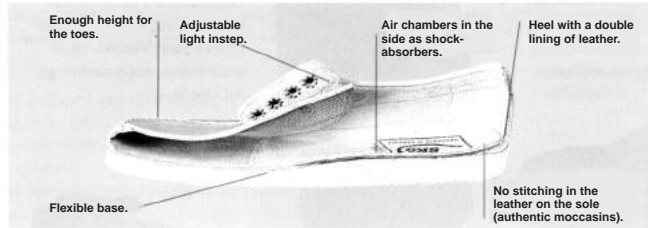
## EXHIBIT 1

SpainSko (continued)

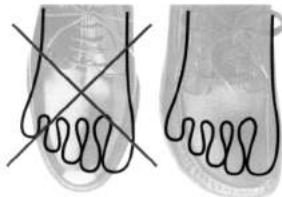
Back cover of the advertising leaflet (original size: 20 x 27 cm.)

## Enjoy the most comfortable and most natural shoes in the world

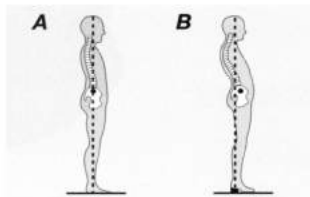
Dansko seen from the inside



1. Liberate your feet, especially your toes



2. Keep your spine straight and firm



## 1. The most natural way of walking

Long periods standing up at work, tight shoes and high heels harm your circulation and affect the muscles.

**Dansko** shoes are specially suitable for jobs where comfort is an absolute requirement, for people with sensitive feet (gout, diabetes...) and for anyone who wants to be really comfortable.

## 2. Relax your muscles and relieve your joints

Shoes with heels put too much pressure on your joints and spine. **Dansko** shoes have no heel and therefore the weight of the body can be spread across the entire foot. Your posture will be natural and straight.

A Correct posture without heels: straight back, straight stomach, relaxed legs.

B Incorrect posture with heels.

## Satisfaction - Guarantee - Convenience - Exclusive Service

**Satisfaction or your money back.** Once you have tried the shoes on in your home, if for any reason you are not entirely satisfied, **SpainSko S.L.** will exchange them for another pair or will refund your money.

**1 year guarantee.** **SpainSko S.L.** undertakes to replace your shoes in the event of there being any manufacturing defect in the first year. (This guarantee excludes normal wear and tear or damage as a result of misuse.)

**Convenient.** Fill out the attached order form, using block capitals and giving your personal details. Remember to specify the method of payment and to sign. Place your order in an envelope and post it to us or telephone it through. In less than two weeks you will receive the shoes in your home (not sent by post but using a courier service, free of charge).

**Exclusive service for home trials.**

**Dansko** shoes are suitable for all feet but if you prefer to try them before making a decision, request this exclusive service, adding an extra 1,250 ptas to your order.

Remember to include your telephone number so as to arrange a time for trying on the shoes. The delivery person will take care of payment, returns, or changes of style, size or colour.

**All models are available in sizes 36 to 47**

In case of doubt regarding your size, stand barefoot over a ruler and measure the length of your foot. The centimetres will give your size.

cm	23	23,6	24,3	25	25,6	26,3	27	27,6	28,3	29	29,6	30,3
size	36	37	38	39	40	41	42	43	44	45	46	47

**For any further information, please contact us at:**



SpainSko S.L. • P. Torreblanca, 2-8, 1ªE  
08190 Sant Cugat del Vallès • Barcelona  
Tel. (93) 675 51 21  
Fax. (93) 675 51 69



## EXHIBIT 1

SpainSko (continued)

Front and back of the reply coupon sent out with the leaflet

		<b>(93) 675 51 21</b>		<i>The easiest and quickest way to place your order, with no need to fill out this form, is to telephone Monday to Friday between 9am and 7pm.</i>	
<input type="checkbox"/> Yes, I want to enjoy the feeling of freedom and comfort of <i>dansko</i> shoes.					
Fill out this order form and send in an envelope to: SpainSko S.L. -P Torreblanca, 2-8, 1°E -08190 Sant Cugat del Vallés, Barcelona					
Full Name _____		ID N° _____			
Address _____					
Post code _____		Town _____		_____	
Province _____		Telephone _____		Age _____	
<b>5219</b>	<b>City</b>	<b>42</b>	<b>Black</b>	<b>18,200</b>	
Reference	Description	Size	Colour	Price	
Means of payment:		I authorize SpainSko to charge the amount of the articles requested. Signature _____		Door to door delivery.	
<input type="checkbox"/> 				<b>FREE</b>	
Expiry date: _____				<b>Total order</b>	
Card No. _____				<input type="checkbox"/> I wish to try the shoes on at home first	
<input type="checkbox"/> Cheque (payable to SpainSko S.L.)				1,250 ptas.	

<b>072732</b>
<ul style="list-style-type: none"> <li>• <b>SpainSko S.L.</b> is the exclusive importer and distributor of the <b>Dansko</b> brand in Spain.</li> <li>• These shoes are exclusive and are not available anywhere else. <ul style="list-style-type: none"> <li>• You can only purchase them directly from <b>SpainSko S.L.</b>, which serves the whole of mainland Spain and the Balearic Islands.</li> <li>• For further information, contact us at: <b>SpainSko S.L.</b> P. Torreblanca, 2-8, 1°E 08190 Sant Cugat del Vallés Barcelona Tel (93) 675 51 21 – Fax (93) 675 51 69</li> </ul> </li> </ul>

**EXHIBIT 2**

*Technical Description of the Product*

*SpainSko*

DESCRIPTION

**DANSKO. A really functional shoe.**

Shoes are basic requirements which help our feet to work properly for the whole of our life.

The shape and make-up of our feet is closely linked to their function. A thorough understanding of how feet work when we walk or run is the scientific base for good shoe designers.

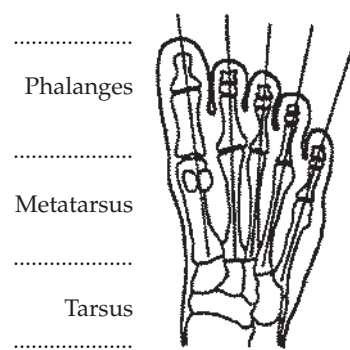
The manufacture of shoes in natural shapes has increased in Europe over recent decades as fashion preferences have given way to functionality.

Of course, fashion cannot be disregarded altogether, and there are certain limitations with regard to the technology and the materials. This has on occasions prevented knowledge about how feet work being fully applied to the design of shoes.

**DANSKO** shoes are the result of the most successful attempt to create a shoe that is highly suitable for all modern requirements and has the shape and functions of a good shoe.

The emergence of new materials, better manufacturing techniques, and close collaboration between the manufacturer, the designer and the feet experts have all made it possible to create these shoes (orthopedists, chiropodists, physiotherapists, and kinesiologists).

The following requirements were borne in mind when designing **DANSKO** shoes:



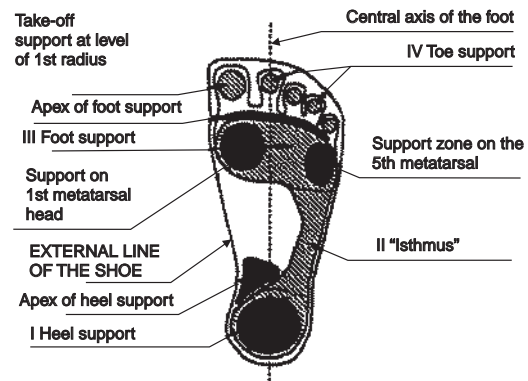
1. The front part of the shoe is shaped like a fan, so that the natural direction of the toe bones can be kept straight, thereby giving them room to expand a bit.

2. The front profile of the shoe is slightly rounded, not slanted from the big toe to the small toe. In this way, it is suitable for almost all shapes of foot, for example if the second toe is as long as the big toe.



3. Good height internally in the shoe including over the big toe, so that there is enough room for slight movements inside the shoe up or down.

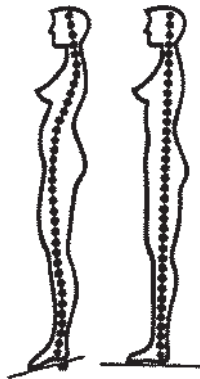
4. The sole has no welts, which assists in the take-off movement over the big toe. With regard to width, as the line of the sole is parallel to the stitching on the moccasin, it makes the shoe look narrower.
5. A relatively small narrow opening to the shoe, and a relatively long area where it does up are combined with a cup-shaped heel and a slightly raised area under the rear of the arch. This ensures firm support in the back half of the shoe and effectively prevents the foot sliding forward.
6. The raised area under the back of the arch mentioned in the previous paragraph, just in front of the heel support, prevents the foot turning inwards when standing (knock-knees). It does not support the arch (which can move freely). Only the rear third of the arch is supported.



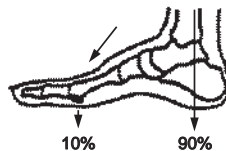
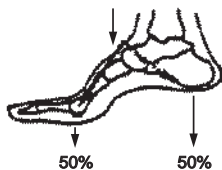
## EXHIBIT 2

## Technical description of the product (continued)

7. Independent of the cup-shaped support that holds the heel in place, the inner sole of the shoe is flat or levelled between the heel support and the forward support of the foot (II: the "isthmus," see Fig 2). This part of the foot has no external curvature and needs constant contact with the sole.
8. In the part below the toe and foot supports, the sole of the shoe has a malleable layer beneath the leather. Each user shapes this part of the sole individually by compressing it and establishing the greatest area of contact. This leads to the formation of a slight ridge between the foot support and the toes. Together with the support mentioned in points 5 and 6, this prevents the foot from slipping forward (see Fig. 2).



9. The shoe has a zero heel, in other words, it has no raised heel nor any difference in level. We are born without raised heels and this zero level is the most natural way for the foot to carry out its functions properly. But remember that the shoe has a cup and a brake in the heel to prevent knock-knees (see point 6). If shoes with high heels are worn, the foot's natural movements are restricted and the body is forced away from its natural centre of gravity. Even low heels force the toes and arches to support the weight of the body.



10. The shoe has a flexible sole that is very light and resistant to friction. This helps during the strong, upward twist by the big toe in order to get the foot off the ground.
11. The bottom of the sole is rounded at the front and at the back, over the so-called foot propulsion line. This assists forward movement, carrying the weight from the heel across the isthmus to the front part of the foot, allowing the foot to take off easily and smoothly.
12. The progressively flexible sole and the shank allow the sole and the foot in general to twist lengthwise towards the end of take-off, when the front part of the foot twists anti-clockwise, whilst the back of the foot twists in the opposite direction (right foot).
13. In general, the shoe is designed with a straight axis, that is to say that the heel directs the foot towards the front in such a way that neither the big nor the little toes are squeezed sideways. This is achieved by having the central axis of the foot (b) in the centre of the heel support and straight down to the second toe, dividing the foot lengthwise in a ratio 3/4.



## NATURAL SHAPE OF A FOOT PRINT



**EXHIBIT 2***Technical description of the product (continued)*

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*SpainSko*

As can be appreciated in the previous thirteen points, the fundamental concept of a **DANSKO** shoe is that the forward part of the foot is free to spread out widthwise whilst holding the rest of the foot and giving maximum support to the arches during the take-off movement. The back area is designed to ensure firm support for the ankle and the heel. In a naturally-shaped shoe, it is not enough for the front part of the foot to be able to move freely, it is also very important that the heel is well supported.

By means of a decreasing angle, the bottom part of the shoe under the sole follows the lengthwise movements of the arch in walking and the rounded edges at the front and back of the sole permit greater surface contact and therefore, a better distribution of weight. Having the foot absolutely level (zero heel) ensures cooperation

between the calf muscles and the pressure muscles in the toes.

The leather used is top quality in terms of water proofing, (6 hours water resistance) as well as flexibility and resistance to bending. The leather is dyed gently so as to maintain its porous nature and achieve water resistance and an ability to breathe at the same time. Thick, flexible, hard-wearing leather therefore lasts longer.

**DANSKO:**

**The shoe that lets you walk "barefoot".**

**The shoe with firm support for your heel.**

**The shoe to wear standing up, walking and running.**

**Imported into Spain by**

***SpainSko, S.L.***

**tel. 93.675.51.21**



**EXHIBIT 3**

*Letter to Friends of Pilar and Gonzalo Goyes, Sent with an Advertising Leaflet (Exhibit 1)*

---

We have just set up SpainSko, S.A.

We have opened an office in Sant Cugat  
Av. Torreblanca, 2-8, 1º, Local E  
Tel. 675.51.21 Fax.675.51.69

We will not be having an official inauguration ceremony but we hope you will call in whenever you can to have a glass of cava with us.

You will already be aware how important your help and support can be in these early days. SpainSko imports and directly distributes Dansko shoes.

These Danish shoes have a natural shape which makes them very comfortable. They are not orthopedic or corrective shoes, they are just very comfortable.

They are manufactured to very high quality standards and in spite of seeming quite expensive, their durability makes them very economical. They are anatomical, water-proof, flexible, made of leather, authentic moccasins (like a glove), recyclable, etc.

They are particularly good for people who suffer from aching feet or who appreciate comfort above all else, such as:

- Those of us who are past the stage of wearing sneakers at week-ends.
- For all the football fans who claim to be sufferers (or not) at matches.
- For those who travel, visit trade fairs, or whose hobbies make them abuse their feet (walking, water, cold, standing, etc).
- For older people whose feet ache, diabetics, those who suffer from high levels of uric acid, or who are just up to date in ecology and natural health.

I am sure that you must know a few of these people. They are our target market.

These shoes are not sold in shoeshops, just directly by us, and it is for this reason that your spreading the word about the product is so important to us in helping to get the business going. If you know anyone who might be interested, call us or send us a fax with their address so that we can contact them.

Very many thanks

**PILAR y GONZALO GOYES**

EXHIBIT 3 (continued)  
Letter to Pharmacists, Sent with a Leaflet (Exhibit 1)

---

**DEAR PHARMACIST: AN OFFER FOR YOU AND YOUR EMPLOYEES.**

- \* You know better than anyone how tired you can feel standing up all day. We would like you to be one of our customers.
- \* **DANSKO** shoes have the following features:
  - \*\* They are not meant to be corrective, just very comfortable and natural.
  - \*\* They respect the natural shape of the foot. They are good for one's circulation.
  - \*\* They exert no pressure of any kind on the toes, either from the front, from the sides or from the top. (Within normal shapes and sizes).
  - \*\* They are held in place exclusively by the cup-shaped heel and the fastening.
  - \*\* Authentic moccasins, with a single piece of leather enclosing the bottom and the sides of the foot. Like a glove.
  - \*\* Flexible rubber sole that helps the foot to twist. Act as a spring, assisting take-off.
  - \*\* Hand-sewn. Manufactured with very soft top-quality leather, with a minimum thickness of 2.5mm. Water-resistant. Porous, hygienic and totally recyclable.
- \* We do not sell through any wholesaler, just directly, giving each customer personal and individual service.
- \* We are writing to you as someone with a professional interest in matters of health.
- \* *SpainSko* is the exclusive importer and distributor in Spain of **DANSKO** shoes.
- \* If you are interested in receiving a complete report on the principles behind the design and manufacture of these shoes, or simply more brochures, please call us on:

*SpainSko*    Tel. (93) 675.51.21  
                  Fax (93) 675.51.69

**Edificio Torreblanca**  
**A.Torreblanca, 2-8, 1° E**  
**08190 San Cugat del Vallés**  
**Barcelona**

Pharmacies, Sept. 94

EXHIBIT 3 (continued)  
*Circular letter to the first customers*

---

*SpainSko*

*News*  
Nº1. Sept. '94

Dear customer,

You are one of the first people in Spain to be wearing Dansko shoes.

Last Spring, our small family company began importing and distributing DANSKO shoes in Spain on an exclusive basis.

I have served nearly all of you or spoken to you on the telephone personally. Many of you have encouraged us to go on with your enthusiasm. It has been a success!

All of those with whom I have spoken after their purchase have commented on how comfortable the shoes are, on the quality of the leather and finishing, and particularly on the prompt delivery thanks to MRW, the courier company used.

We would like to have more or less regular contact with you in order to serve your needs or to contact anyone you pass on to us. We know that there are people who are interested in natural comfort who we cannot reach without your help.

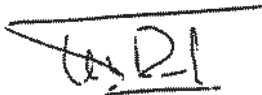
Our objective is quality and comfort, and fashion is moving towards natural, comfortable products.

The Danish manufacturer of these shoes, A/S Jac. Engelbredt, has explained to us how they (a family company), together with Mr Alfred Frank (also a family business), managed to create a group of people in several European countries who distribute and sell these shoes using the same methods as us.

We are so sure of the quality of this product that we have started a sales system in Spain that has no fear of complaints. Up to now, we have had not a single one, except for changes of sizes, which we have done without any quibbles or delays.

We are starting to build a large Dansko Family in Spain.

Thank you for everything.



**EXHIBIT 3** (continued)Circular letter to religious centres, sent along with an advertising leaflet (Exhibit 1)

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**SpainSko**

Many members of religious orders in Northern and Central Europe are loyal users of DANSKO shoes.

- \* *SpainSko* is the exclusive importer in Spain of DANSKO shoes.
- \* DANSKO shoes are very comfortable and natural. They help the circulation and are ergonomic.
  - \*\* They respect the natural shape of the foot.
  - \*\* They exert no pressure of any kind on the toes, either from the front, from the sides or from the top.
  - \*\* They are held in place exclusively by the cup-shaped heel and the fastening.
  - \*\* Authentic moccasins, with a single piece of leather enclosing the bottom and the sides of the foot. Like a glove.
  - \*\* Flexible rubber sole that helps the foot to twist. Act as a spring, assisting take-off.
  - \*\* Hand-sewn. Manufactured with very soft top-quality leather, with a minimum thickness of 2.5mm. Water-resistant (6 hours). Porous, hygienic and totally recyclable.
- \* *SpainSko* does not sell through any wholesaler, just directly, giving each customer personal and individual service.
- \* If you are interested in receiving a complete report on the principles behind the design and manufacture of these shoes, or simply more brochures, please call us on:

**SpainSko** Tel. (93) 675.51.21  
Fax (93) 675.51.69

**Edificio Torreblanca**  
**A.Torreblanca, 2-8, 1° E**  
**08190 San Cugat del Vallés**  
**Barcelona**

Religious orders, April '94

**EXHIBIT 3** (continued)

Circular letter to chiropodists, sent with an advertising leaflet (Exhibit 1)

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**SpainSko**

Some points of interest about **SpainSko**

- \* **SpainSko** is the exclusive importer in Spain of **DANSKO** shoes.
- \* **DANSKO** shoes are not meant to be corrective, just very comfortable and natural. They help the circulation and are ergonomic.
- \* **DANSKO** shoes have the following features:
  - \*\* They respect the natural shape of the foot.
  - \*\* They exert no pressure of any kind on the toes, either from the front, from the sides or from the top.
  - \*\* They are held in place exclusively by the cup-shaped heel and the fastening.
  - \*\* Authentic moccasins, with a single piece of leather enclosing the bottom and the sides of the foot. Like a glove.
  - \*\* Flexible rubber sole that helps the foot to twist. Act as a spring, assisting take-off.
  - \*\* Hand-sewn. Manufactured with very soft top-quality leather, with a minimum thickness of 2.5mm. Water-resistant (6 hours). Porous, hygienic and totally recyclable.
- \* **SpainSko** does not sell through any wholesaler, just directly, giving each customer personal and individual service.
- \* If you are interested in receiving a complete report on the principles behind the design and manufacture of these shoes, or simply more brochures, please call us on:

**SpainSko** Tel. (93) 675.51.21  
Fax (93) 675.51.69

**Edificio Torreblanca**  
**A.Torreblanca, 2-8, 1° E**  
**08190 San Cugat del Vallés**  
**Barcelona**

Chiropodists, March '94



**EXHIBIT 3** *(continued)***Note Setting out the Special Sales Conditions for the Association of Diabetics of Catalonia (ADC)**

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Note on conditions for the ADC

9.3.94

1. Prices include VAT.
  2. The prices are set at a level to be used with no extra discounts and are payable in advance. However, the Association's case is special.
  3. The Association will pay for its sales in cash on delivery of the shoes, or they will have been paid in advance by the customer and will be sent directly to the customer by courier.
  4. If the Association does not invoice but issues a delivery note, SpainSko will send the corresponding invoice to the customer together with the shoes. SpainSko will collect cash on delivery for the shoes and will pay to the Association the corresponding commission at the end of each month:
    - 1,000 ptas for each order from a coupon handed out by the Association, and
    - 2,000 ptas for each direct sale, whether by messenger or at their premises.This commission will be invoiced by the Association with the corresponding VAT for its marketing services.
  5. If the Association prefers to invoice directly, it will have to guarantee all payments, and SpainSko will invoice every two weeks with payment by cheque within the following two weeks. The invoice will be made out for the amount shown as RRP minus the 15 percent VAT, which will be added later to the net amount.
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## EXHIBIT 5

## Summary of the Different Marketing Activities Carried out up to December 1994

Type of action	Number of Impacts	Cost (without 16% VAT)	Result	No of pairs of shoes sold
Insert of 10,000 brochures translated into German in the magazine "Kontakt"	10,000	120,000 ptas. + (10,000 × 21 ptas.) = 330,000 ptas.		3
Arex Insert	8,677	102,800 ptas. + (8,677 × 21 ptas.) = 285,017 ptas.		2 (one immediate sale and another in May)
Mailing to friends of the Goyles family	500	500 × 64 (1) = 32,000 ptas.		44
Mailing to chiropractors	550	550 × 64 (list obtained at no cost) = 35,200 ptas.		5
Mailing to religious bodies	500	500 × 64 (list obtained at no cost) = 32,000 ptas.		13
Total first shots	20,227		714,217 ptas.	67
Inserts in magazines <i>Integral</i> and <i>Cuerpomente</i> (subscribers only)	16,900 + 9,000 = 25,900	290,000 + (25,900 × 21 ptas.) = 833,900 ptas.		<i>Integral</i> = 44 <i>Cuerpomente</i> = 7
Mailing Association of Diabetics of Catalonia (ADC)	1,550	Mail = 115,000 + (1,550 × 21 ptas.) = 147,550 ptas. ADC commission = 2,000 ptas. × 9 = 18,000 ptas. Total = 147,550 + 18,000 = 165,550 ptas.		9
Brochures left at the International Association of Diabetic Sportsmen (IADS)	20	20 × 21 ptas. = 420 ptas.		3
Mailing to pharmacists	3,700	Cost of the list: 47,200 ptas. Total = 47,200 + 3,700 × 64 ptas.) = 284,000 ptas.		4
Total actions in 1st campaign	31,170		1,283,870 ptas.	67 (2)
2nd mailing to pharmacists and religious bodies	2,500	2,500 × 64 = 160,000 ptas.		Pharmacists = 9 Religious bodies = 8
2nd insert in <i>Integral</i> and <i>Cuerpomente</i>	39,000	450,000 + (39,000 × 21 ptas.) = 1,269,000 ptas.		<i>Integral</i> = 52 <i>Cuerpomente</i> = 14
Total actions 2nd campaign	41,500		1,429,000 ptas.	83 (3)
Total actions up to December 1994	92,897		3,427,167 ptas. (4)	217 pairs sold to 187 different clients

(1) The cost of a complete mailing was: 21 ptas. for the brochure with a reply coupon + 8 ptas. for the envelope + 28 ptas. for the stamp + 7 ptas. for the presentation letter.

(2) Of these, only 46 pairs were sold to totally new customers, and 21 were repeat orders, or pairs sold in a two-pair order.

(3) Of these, 74 pairs were sold to new customers, and 9 were repeat orders, or pairs of shoes sold in a two-pair order.

(4) The figure for the total cost of these marketing activities is calculated outside the books, and turns out to be higher than the figure in the column for "advertising and PR" in the income statement because here it includes some costs (envelopes, stamps, letters) which appear under other headings in the profit and loss statement.