



FACULTAD DE CIENCIAS ECONOMICAS Y ADMINISTRATIVAS

GAIA Clothing & Accessories



**Trabajo de Titulación presentado en conformidad a los requisitos
establecidos para optar por el título de:**

**INGENIERO COMERCIAL CON MENCIÓN EN NEGOCIOS
INTERNACIONALES**

**Profesor Guía:
OSCAR ESTEBAN
ROSA SANCHIDRIAN**

**Autor:
HERNAN SANTIAGO ESPINOZA GUDIÑO**

**Año:
2010**

Statement of confidentiality & Non- Disclosure

This document contains proprietary and confidential information. All data submitted to **Universidad de las Américas** is provided in reliance upon its consent not to use or disclose any information contained herein except in the content of its business dealings with **Hernán Santiago Espinoza Gudiño**. The recipient of this document agree to inform its present and future employees and partners who view or have access to the document's content or its confidential nature.

The recipient agree to instruct each employee that they must not disclose any information concerning this document to others except to the extent that such matters are generally know to, and are available for use by, the public. The recipient also agrees not duplicate or distributes any material contained herein without our express written consent.

Hernán Santiago Espinoza Gudiño retains all title, ownership and intellectual property rights to the material including all supporting documentation, files marketing material and multimedia.

BY ACCEPTANCE OF THIS DOCUMENT, THE RECIPIENT AGREES TO BE BOUND BY THE AFORMENTIONED STATEMENT.

STUDENT DECLARATION OF AUTHORSHIP

"I declare that this work is original, I authored, that in this work have been cited relevant sources and their implementation comply with the laws that protect the copyright laws"

HERNAN SANTIAGO ESPINOZA

C.I. 171306524-9

1. Executive Summary

Origin of the idea

The idea of the plan came when the team realized the potential of the Alpaca fiber of being the most eco-friendly fiber in the world. For having the broadest range of natural colors and specific characteristics of the fiber, working with this raw material can result in efficiency in the use of water, electricity and oil; in addition, it will also result in offering final products free of chemicals. Taking into consideration that Alpaca is already a known fiber in the fashion-luxury sector the idea came to create a company involved in offering luxury, fashionable and eco-friendly products. That is how the idea of **GAIA Clothing and Accessories** was born. Although the main raw material is going to be Alpaca, **GAIA** will also work with other eco-friendly fibers like organic cotton, wool, silk, vicuña and bamboo (in natural colors or dyed with eco-friendly products).

Mission, Vision and Values

The reasons to be part of **GAIA Clothing and Accessories** are mentioned in our mission: "We are a dynamic company dedicated to create and distribute excellent quality clothing with exclusive designs, manufactured with eco-fibers and under environmentally friendly processes, applying policies of care and preservation of our planet, these processes help decreasing the consumption of valuable resources of the world we live in".

Thinking in the following years, our company will compete in the apparel industry with high quality, fashionable and eco-friendly products, offering each day better products, increasing the conscious of the people, promoting the use of eco-friendly apparel in order to take care of the world we live in. Opening two new stores each year, giving us a total of ten stores in the next five years in USA, we

Final Project - UDLA

will become the first eco-fashion brand (top of mind) in the markets we will enter. In the process, we will give Alpaca the positioning of the most eco-friendly fiber in the world. This is our vision and this is what we are looking for.

The philosophy of our company is based in our clients; the company was created thinking about our customers, to meet the most demanding needs that people have at the moment of buying clothing and accessories. In addition these products will be provided with the great difference that are made of eco-friendly fibers and that the whole ecological process that our garments follow until the moment they are in the hands of our customers, have been thoughtful towards the environment.

Our company seeks to achieve “excellence” in customer service, covering the needs they have and making them know the benefits of using this type of clothing and how beneficial it is to our planet, without disregarding the importance of offering a high quality and fashionable product.

Business Model

Our business model was shaped to give our company flexibility and the ability to focus efforts and resources in the most critical activities in the sector: sales, branding and marketing strategies. Because of that, *outsourcing* is a key part of our model. Critical activities like manufacturing and design will be outsourced. The raw materials for production will come from Peru and Ecuador; the design will be outsourced to different parts of the world. The manufacturer will be located in Peru and the finished goods exported to the United States. The main sales channel would be exclusive boutique/ stores, starting with two stores in Chicago and opening two stores in a new city every year of operations (New York, Boston, Washington D.C. and Seattle). The operation in the U.S. will be wholly owned.

Market Analysis

The Clothing industry in USA is as big as 150 billion USD and the tendency of the apparel market is upwards but at a slow pace. In these days being cost effective and having good strategies is critically important. In less than a decade a lot of companies have close its doors due to a lot of emerging nations –like China- that have an advantage producing and developing quality products but at lower costs.

At this moment the eco-apparel industry in United States is highly fragmented, the same is with the retail of Alpaca products; there are a lot of small players. There are no significant barriers to enter this market. The key point to enter in such a market is providing the consumer – which is everyday more demanding- constantly with new garments and providing them with products that offer them value added, like those that protect the environment and have more benefits like the Alpaca garments.

The newest tendency in this market is about eco-friendly garments and it is also the aim of our company. Green apparel manufacturers are coming to rescue this industry which growth more than 700 percent in less than a decade. Some experts in the fashion industry believe that this trend will be more important in the future and “green” clothing will be more and more a part of the ordinary choices of everyone because each process and each material is being looked at with new eyes.

Marketing

We believe that one of the main factors to be successful in this industry is to build a solid brand. We will build our brand under two main aspects. The first one is that we are offering to the consumer high-end luxury products which are

fashionable and eco-friendly garments and accessories. The second one is that we will produce most of our garments with the most eco – friendly raw material for this kind of products, the Alpaca.

We will anticipate the demands of our clients through a constant market research; also we will put all of our efforts to increase the brand awareness among our clients as fast as possible. Our principal aim is to become the number one eco- apparel brand in all the markets that **GAIA** enters. We know well all of our competitors, what are they doing and what are going to be their next moves, we are aware that knowing our competitors will provide us with a competitive advantage against them.

It is important to mention that **GAIA** main distribution channel will be exclusive boutiques which are part of our strategy to interact directly with the consumer and provide the best service to our clients. Also we believe that being closer to the consumers will give us the opportunity to explain them the specific attributes of our products.

We will consolidate in the most effective way our marketing efforts starting with the brand and taking into account activities such as promotion and distribution. These activities and strategies will help **GAIA** to play an important role in this market.

Financial Analysis

The initial Investment for the project will be of \$232,375.00 half of the investment required will be obtained from a bank loan and the other half by the owners' capital injection. The more important costs of the company are Marketing, Rent and Salaries/ Wages.

Regarding the Financial Analysis the company's forecast shows healthy liquidity, activity and performance ratios from the first year of operations. The desired level of sales for every store the first year is opened is USD\$ 1'350,000.00. The profit margin in the first year would be of 19% and in the fifth year operations the same ratio will be of 37%. The average Return On Equity (ROE) for the first five years of operations is 15.

Strategic Proposals

After making a thorough analysis the following strategies are suggested. First, give Alpaca the positioning of the most eco-friendly fiber in the world. Also, the use of IT to facilitate the integration of the communication efforts along the value chain is the second strategic proposal. Thirdly, the company should seek endorsements from celebrities, icons and the media for its products. The fourth strategy is to obtain differentiation by offering a highly personalized service in the stores. Finally, the fifth strategy is to diversify the fibers used in production, especially for the summer and spring collections. In the final part of the following study, details and specific actions are suggested for each of the proposed strategies.

1.1. Resumen Ejecutivo

Origen de la idea

La idea del plan nace al darse cuenta del potencial de la fibra de alpaca, al ser la fibra más ecológica del mundo. Por contar con ciertas características específicas y la más amplia gama de colores naturales, trabajando con esta materia prima conseguimos optimizar el uso de agua, electricidad y aceite, además esto se verá reflejado al momento de ofrecer productos finales libres de químicos.

Teniendo en cuenta que la alpaca es una fibra ya conocida en la industria de la moda de lujo, viene la idea de crear una empresa que ofrezca productos lujosos, a la moda y fabricados con fibras ecológicas. De esta manera es como nació la idea de GAIA Clothing and Accesories. Aunque la alpaca será nuestra principal materia prima, GAIA también trabajará con otras fibras ecológicas, como el algodón orgánico, lana, seda, vicuña y bambú (en colores naturales o teñidos con productos ecológicos).

Misión, Visión y Valores

Las razones para ser parte de GAIA son mencionadas en nuestra misión: "Somos una empresa dinámica, dedicada a crear y distribuir prendas de excelente calidad con modelos exclusivos, fabricadas bajo procesos ecológicos con fibras ecológicas, aplicando políticas de cuidado y preservación de nuestro planeta, estos procesos ayudan a disminuir el consumo de recursos valiosos del mundo en que vivimos".

Pensando en los próximos años, nuestra empresa competirá en la industria de ropa de gran calidad, de moda y productos ecológicos, ofreciendo cada día mejores productos, aumentando la conciencia de la gente, promoviendo el uso de prendas fabricadas con fibras ecológicas, con el fin de cuidar el mundo en el

que vivimos. Abriremos 2 nuevos almacenes cada año, dándonos un total de 10 almacenes en los próximos 5 años en EE.UU, llegaremos a ser la primera marca ecológica (dentro de la mente del consumidor) en los mercados a los que ingresemos. Durante nuestro proceso de expansión, posicionaremos a la Alpaca, como la fibra más ecológica del mundo. Esta es nuestra visión y esto es lo que buscamos.

La filosofía de nuestra empresa está basada en nuestros clientes, la empresa es creada pensando en nuestros consumidores, con el fin de cubrir la demanda de las necesidades más exigentes al momento de comprar prendas de vestir y accesorios. Además, estos productos contarán con la gran diferencia de que son fabricados con fibras ecológicas y han pasado por todo un proceso ecológico hasta el momento de llegar a las manos de nuestros consumidores.

Nuestra empresa busca alcanzar “la excelencia” en servicio al cliente, cubriendo las necesidades que ellos tienen y haciendo conocer los beneficios de usar este tipo de prendas de vestir y cuan beneficioso es esto para nuestro planeta, sin quitar importancia al ofrecer productos de moda y de alta calidad.

Modelo de Negocio

Nuestro modelo del negocio fue formado para dar a nuestra empresa, la flexibilidad y habilidad para enfocar nuestros esfuerzos y recursos en las actividades más críticas dentro del sector: estrategias de ventas, marca y marketing. Por esto la externalización es una parte clave de nuestro modelo. Las actividades críticas como fabricación y diseño serán externalizadas. La materia prima para producción vendrá desde Perú y Ecuador, el diseño será trabajado desde diferentes partes del mundo. La fábrica será ubicada en Perú y el producto final será exportado hacia los EE.UU. Nuestro principal canal de ventas serán las boutiques y almacenes, empezando con 2 almacenes en Chicago y

abriendo 2 almacenes en una nueva ciudad cada año de operaciones (Nueva York, Boston, Washington y Seattle).

Análisis de Mercado

La industria de la ropa en los EE.UU. es tan grande como 150 mil millones de dólares americanos y la tendencia en el mercado de la ropa esta a la alza. En estos días ser rentable y tener buenas estrategias es de gran importancia. En menos de una década, muchas empresas han ido cerrando sus puertas, debido a los mucho países emergentes, como China, que tienen la ventaja de desarrollar y producir productos de calidad, con costos bajos.

En este momento, la eco-industria del vestido en EE.UU. está altamente fragmentada, es lo mismo con la venta al por menor de productos de Alpaca, hay muchos jugadores pequeños. No existen barreras de entrada de consideración en el mercado. La clave para ingresar a un mercado como este, el cual cada día es más demandante, es proveer constantemente nuevas prendas y productos que tengan un valor agregado, como proteger al medio ambiente y tener más beneficios como las prendas de Alpaca.

La nueva tendencia en este mercado son las prendas ecológicas y es esto justamente el objetivo de nuestra empresa. Fabricantes de ropa “natural” vienen a rescatar la industria, con un crecimiento de más del 700% en menos de una década. Algunos expertos en la industria de la moda creen que esta tendencia será más importante y cogerá más fuerza en el futuro y la ropa “natural” será cada día más parte de las elecciones diarias al momento de vestir.

Marketing

Creemos que uno de los aspectos principales para ser exitoso en esta industria, es crear una marca sólida. Crearemos nuestra marca bajo 2 aspectos; el primero es que estamos ofreciendo al consumidor productos de lujo, como son prendas y accesorios de moda y ecológicos; el segundo es que produciremos la mayoría de nuestras prendas con la materia prima más ecológica para este tipo de productos, como es la Alpaca.

Nos anticiparemos a las demandas de nuestros clientes, a través de una constante investigación de mercado, también pondremos todos nuestros esfuerzos para incrementar el conocimiento de marca entre nuestros clientes lo más rápido posible. Nuestro principal objetivo es llegar a ser la marca de vestir ecológica número uno en todos los mercados que GAIA ingrese. Conocemos bien a nuestros competidores y sabemos que es lo que están haciendo y cuales serán sus siguientes movimientos. Estamos concientes de que conociendo a nuestros competidores, nos dará una ventaja competitiva con respecto a ellos.

Es importante mencionar que el principal canal de distribución de GAIA, serán exclusivamente las boutiques, las mismas que son parte de nuestra estrategia para interactuar directamente con nuestro consumidor y así proveer el mejor servicio a ellos. También creemos que estando cercanos a nuestros consumidores, nos dará la oportunidad de explicarles los atributos específicos de nuestros productos.

Análisis Financiero

La inversión inicial para nuestro proyecto es de \$232,375.00; la mitad de la inversión se la obtendrá por medio de un crédito bancario y la otra mitad será

por parte de los dueños. Los costos más importantes de la empresa son Marketing, Alquiler y sueldos y salarios.

De acuerdo a la previsión en el análisis Financiero, en base a la actividad y tasas de rendimiento desde el primer año de operaciones, la empresa muestra una liquidez saludable. El nivel de ventas deseado para cada tienda en el primer año es de \$1'350,000.00. El margen de beneficio en el primer año será de 19% y en el quinto año de operaciones, la misma proporción será de 37%. El retorno promedio sobre capital para los primeros 5 años de operaciones es de 15.

Propuestas Estratégicas

Después de realizar un análisis exhaustivo, las estrategias propuestas son las siguientes. Primero, dar a la Alpaca el posicionamiento de la fibra más ecológica en el mundo. Segundo, el uso de tecnología para facilitar la comunicación a lo largo de la cadena de valor. Tercero, la empresa debe buscar el respaldo de celebridades, íconos y los medios de comunicación para sus productos. Cuarta, obtener diferenciación por medio de ofrecer un alto servicio personalizado en los almacenes. Finalmente, la quinta estrategia es diversificar el uso de las fibras en la producción, especialmente para las colecciones de verano y primavera. En la parte final del siguiente estudio, detalles y acciones específicas son sugeridos para cada una de las estrategias propuestas.

Index

1. EXECUTIVE SUMMARY	4
1.1. RESUMEN EJECUTIVO	9
2. INTRODUCTION: WHAT IS ALPACA?	19
3. ECO-ATTRIBUTES OF THE FIBER	20
3.1. QUANTITATIVE DATA	22
4. SECTOR	23
4.1. ECO-FASHION	23
5. ECONOMIC CRISIS: IS IT THE RIGHT TIME TO INVEST IN THE UNITED STATES?	24
6. MACRO ENVIRONMENT: PEST ANALYSIS	28
6.1. POLITICAL ENVIRONMENT	28
6.2. ECONOMIC ENVIRONMENT.....	29
6.2.1. <i>Situation in United States</i>	29
6.2.2. <i>Situation in Peru</i>	30
6.2.3. <i>Chinese textiles</i>	31
6.3. SOCIAL ENVIRONMENT	32
6.3.1. <i>Environmental awareness in the U.S.</i>	32
6.3.2. <i>A new concept: "Water Footprint"</i>	33
6.4. TECHNOLOGICAL ENVIRONMENT	35
7. MICRO-ENVIRONMENT	36
7.1. THE FIVE COMPETITIVE FORCES MODEL BY MICHAEL E. PORTER	36
7.1.1. <i>New Market Entrants (Low Relevance)</i>	37
7.1.2. <i>Supplier Power (Medium Relevance)</i>	38
7.1.3. <i>The threat of substitutes (High Relevance)</i>	39
7.1.4. <i>Buyer Power (Low Relevance)</i>	40
7.1.5. <i>Competitive Rivalry (Medium-High Relevance)</i>	40
7.2. LIFE CYCLE	41
7.3. BCG ADVANTAGE MATRIX.....	42
7.4. VALUE CHAIN ANALYSIS BY MICHEL E. PORTER	43
7.4.1. <i>Primary Activities</i>	44
7.4.2. <i>Supporting activities</i>	46
7.4.3. <i>Critical activities in the sector:</i>	47
8. DESCRIPTION OF THE COMPANY	48
8.1. MISSION STATEMENT	48
8.2. VISION	48
8.3. VALUES	48
8.4. BUSINESS MODEL.....	49
8.4.1. <i>Supplying</i>	50
8.4.2. <i>Designing</i>	51
8.4.3. <i>Manufacturing</i>	51

Final Project - UDLA

8.4.4.	<i>Warehousing and Transportation of goods</i>	52
8.4.5.	<i>Branding</i>	52
8.4.6.	<i>Selling</i>	52
8.4.7.	<i>Operations in the U.S.</i>	53
8.4.8.	<i>Value proposition</i>	53
8.5.	MARKET ENTRY: WHOLLY OWNED OPERATION.....	53
8.5.1.	<i>Why not franchising?</i>	54
8.5.2.	<i>Why not a Joint Venture?</i>	55
8.5.3.	<i>CHICAGO: Why should we start there?</i>	55
8.6.	LEGAL	58
8.7.	OPERATING PLAN	59
8.7.1.	<i>Operational processes</i>	60
8.7.1.1.	Sourcing:	60
8.7.1.2.	Warehousing:.....	61
8.7.1.3.	Designing:.....	62
8.7.1.4.	Manufacturing:	63
8.7.1.5.	Distribution & Shipping:.....	64
8.7.1.6.	Market Research:.....	65
8.7.1.7.	Pricing:	65
8.7.1.8.	Advertising:	66
8.7.1.9.	Partnering:	67
8.7.1.10.	Selling:.....	67
8.7.1.11.	Customer Service:	68
8.7.2.	<i>Summary of resources</i>	70
8.7.2.1.	General.....	70
8.7.2.2.	Buildings.....	71
8.7.2.3.	Equipment.....	73
8.7.2.4.	Technology and Information Systems.....	73
8.8.	HUMAN RESOURCES	75
8.8.1.	<i>Company policies and others</i>	75
8.8.2.	<i>Organizational structure</i>	77
8.8.3.	<i>Job descriptions</i>	79
8.9.	MARKETING PLAN	87
8.9.1.	<i>Industry Analysis</i>	87
8.9.2.	<i>Competitive Analysis</i>	92
8.9.2.1.	Competitor Analysis – Direct competitors	94
8.9.2.2.	Competitor Analysis – Indirect competitors	97
8.9.2.3.	Competitor Analysis – Future competitors	101
8.9.2.4.	Strategic Group Map	102
8.9.3.	<i>Customer Analysis</i>	104
8.9.3.1.	Target Market	105
8.9.3.2.	Demographic Dimensions	105
8.9.3.3.	Purchase Behavior for apparel.....	107
8.9.4.	<i>Objectives</i>	109
8.9.4.1.	Corporate Objectives	109
8.9.4.2.	Marketing Objectives	109
8.9.5.	<i>Marketing Strategy</i>	110
8.9.5.1.	Marketing Segmentation Strategy	110
8.9.5.2.	Targeting Strategy.....	111
8.9.5.3.	Product Life Cycle.....	112
8.9.5.4.	Potential Strategies.....	113

Final Project - UDLA

8.9.5.5.	Core Strategies.....	113
8.9.5.6.	Positioning strategies.....	114
8.9.6.	Branding	114
8.9.6.1.	Brand.....	114
8.9.6.2.	Slogan.....	117
8.9.6.3.	Logo.....	118
8.9.6.4.	Packaging	119
8.9.6.5.	Concept.....	119
8.9.7.	Marketing Mix	119
8.9.7.1.	The Product.....	119
8.9.7.2.	The Price	126
8.9.7.3.	The Place	127
8.9.7.4.	The Promotion	128
8.9.8.	Performance Evaluation and Monitoring	132
8.10.	FINANCIAL ANALYSIS	133
8.10.1.	<i>Financial Assumptions</i>	<i>133</i>
8.10.2.	<i>Initial Investment</i>	<i>134</i>
8.10.3.	<i>Equity/ Debt Structure</i>	<i>135</i>
8.10.4.	<i>Sales Analysis</i>	<i>135</i>
8.10.5.	<i>Sales Scenarios.....</i>	<i>137</i>
8.10.6.	<i>Cost of Sales</i>	<i>138</i>
8.10.7.	<i>Inventory Management</i>	<i>140</i>
8.10.8.	<i>Fixed Operating Expenses</i>	<i>140</i>
8.10.9.	<i>Salaries and Wages.....</i>	<i>141</i>
8.10.10.	<i>Breakeven Point Analysis</i>	<i>142</i>
8.10.11.	<i>Ratio Analysis.....</i>	<i>143</i>
8.10.12.	<i>Financial Statements.....</i>	<i>144</i>
9.	STRATEGIES AND CONCLUSIONS.....	144
9.1.	SWOT ANALYSIS	144
9.2.	STRATEGIES	144
9.2.1.	<i>Strategy 1: Give Alpaca the positioning of the most eco-friendly fiber in the world</i>	<i>144</i>
9.2.2.	<i>Strategy 2: Use of technology to facilitate the integration and communication efforts among the value chain.....</i>	<i>145</i>
9.2.3.	<i>Strategy 3: Endorsement of celebrities, Icons and Media for our products.....</i>	<i>147</i>
9.2.4.	<i>Strategy 4: Offer a highly personalized service in the store of our company</i>	<i>149</i>
9.2.5.	<i>Strategy 5: Diversify fibers – Introduce products with other fibers in the summer and spring collection</i>	<i>151</i>
9.3.	CONCLUSIONS.....	152
10.	BIBLIOGRAPHY.....	156
11.	EXHIBITS	158
11.1.	EXHIBIT 1 – REQUIRED START UP FUNDS	158
11.2.	EXHIBIT 2 – EXPECTED GROWTH FOR EACH YEAR OF OPERATIONS	159
11.3.	EXHIBIT 3 – SALE FORECAST FOR THE FIRST FIVE YEAR OF OPERATIONS (IN UNITS)	160
11.4.	EXHIBIT 4 - SCENARIOS	161
11.5.	EXHIBIT 5 – COST OF SALES	162
11.6.	EXHIBIT 6 – FIXED EXPENSES	163
11.7.	EXHIBIT 7 – SALARIES AND WAGES	164

Final Project - UDLA

11.8.	EXHIBIT 8 – BREAKEVEN POINT ANALYSIS PER CATEGORY OF PRODUCT.....	165
11.9.	EXHIBIT 9 – RATIO ANALYSIS	166
11.10.	EXHIBIT 10 – PRODUCTION AND INVENTORY LEVELS.....	167
11.11.	EXHIBIT 11 – BALANCE SHEETS YEAR TO YEAR	168
11.12.	EXHIBIT 12 – INCOME STATEMENT: FIRST YEAR OF OPERATIONS: SEPTEMBER 2009 – AUGUST 2010	169
11.13.	EXHIBIT 13 – INCOME STATEMENT: SECOND YEAR OF OPERATIONS: SEPTEMBER 2010 – AUGUST 2011	170
11.14.	EXHIBIT 14 – INCOME STATEMENT: THIRD YEAR OF OPERATIONS: SEPTEMBER 2011 – AUGUST 2012 ...	171
11.15.	EXHIBIT 15 – INCOME STATEMENT: FOURTH YEAR OF OPERATIONS: SEPTEMBER 2012 – AUGUST 2013	172
11.16.	EXHIBIT 16 – INCOME STATEMENT: FIFTH YEAR OF OPERATIONS: SEPTEMBER 2013 – AUGUST 2014	173
11.17.	EXHIBIT 17 – CASH FLOW STATEMENT: FIRST YEAR OF OPERATIONS: SEPTEMBER 2009 – AUGUST 2010	174
11.18.	EXHIBIT 18 – CASH FLOW STATEMENT: SECOND YEAR OF OPERATIONS: SEPTEMBER 2010 – AUGUST 2011 175	
11.19.	EXHIBIT 19 – CASH FLOW STATEMENT: THIRD YEAR OF OPERATIONS: SEPTEMBER 2011 – AUGUST 2012 176	
11.20.	EXHIBIT 20 – CASH FLOW STATEMENT: FOURTH YEAR OF OPERATIONS: SEPTEMBER 2012 – AUGUST 2013 177	
11.21.	EXHIBIT 21 – CASH FLOW STATEMENT: FIFTH YEAR OF OPERATIONS: SEPTEMBER 2013 – AUGUST 2014	178
11.22.	EXHIBIT 22 – YEAR END SUMMARY.....	179
11.23.	EXHIBIT 23 – EXAMPLES OF COMPETITORS’ PRODUCTS.....	180
11.24.	EXHIBIT 24 – NATURAL COLORS OF ALPACA OFFERED BY OUR MAIN SUPPLIERS.....	181
11.25.	EXHIBIT 25 - WHY CHICAGO?	182
11.26.	EXHIBIT 26 – LEGAL REQUIREMENTS	183
11.27.	EXHIBIT 27 – STEPS TO PREPARE A GARMENT READY FOR EXPORTATION	184
11.28.	EXHIBIT 28 – MEDIA CHANNELS SCHEDULE	186
11.29.	EXHIBIT 29 – SWOT ANALYSIS.....	187

Index of Tables

TABLE 1 CONSUMPTION OF RESOURCES IN A STANDARD TEXTILE LINE	22
TABLE 2. COMPETITOR ANALYSIS I	93
TABLE 3. COMPETITOR ANALYSIS II.....	94
TABLE 4. COMPETITION ANALYSIS III.....	98
TABLE 5. PURCHASE BEHAVIOUR FOR APPAREL	107
TABLE 6. PROMOTION BUDGET	132
TABLE 7. EXPECTED LEVEL OF SALES.....	136
TABLE 8. SALARIES AND WAGES I	141
TABLE 9. SALARIES AND WAGES II	142

Index of Figures

FIGURE 1. ALPACAS	19
FIGURE 2. ECO-ATTRIBUTES OF THE FIBBER	20
FIGURE 3. STUDY MADE BY IBM FOR THE “CUSTOMER FOCUSED APPAREL RETAILER STUDY	27
FIGURE 4. 5 FORCES OF PORTER.....	36
FIGURE 5. PRODUCT LIFE CYCLE	42

Final Project - UDLA

FIGURE 6. BCG MATRIX	42
FIGURE 7. VALUE CHAIN	44
FIGURE 8. ALPACA'S PROCESSED TOPS	50
FIGURE 9. ORGANIZATION DIAGRAM	78
FIGURE 10. STRATEGIES GROUP MAP	103
FIGURE 11. DEMOGRAPHIC DIMENSION	105
FIGURE 12. PRODUCT LIFE CYCLE CURVE	112
FIGURE 13. OUR LOGO I	118
FIGURE 14. EXAMPLE OF TAG	118
FIGURE 15. SEASONALITY OF ALPACA PRODUCTS IN THE U.S. (SOURCE: GRUPO INCA)	137

HSEG, UNIVERSIDAD DE LAS AMERICAS

2. Introduction: What is Alpaca?

The Alpaca (*Vicugna pacos*) is a domesticated species of South American camelid. It resembles a small llama in superficial appearance.

Alpacas are kept in herds that graze on the level heights of the Andes of Ecuador, Peru, northern Bolivia, and northern Chile at an altitude of 3,500 m (11,483 ft) to 5,000 m (16,404 ft) meters above sea-level, throughout the year. Alpacas are considerably smaller than llamas, and unlike llamas, alpacas are not used as beasts of burden but are valued for their fiber. Alpaca fiber is used for making knitted and woven items, much as sheep's wool is. These items include blankets, sweaters, hats, gloves, scarves, a wide variety of textiles and ponchos in South America, and sweaters, socks, coats and bedding in other parts of the world. The fiber comes in more than 52 natural colors as classified in Peru, 12 as classified in Australia and 16 as classified in the United States.

Figure 1. Alpacas



Alpaca fiber is classified as a rare specialty fiber. It is five times warmer than sheep wool fiber and more luxurious than cashmere. An infinite array of natural colors can be produced by blending these fibers. Alpaca fiber can also be easily worked. Alpaca fiber is strong and resilient and has more thermal capacity than almost any other animal fiber. The fiber actually contains microscopic air pockets that contribute to the creation of lightweight apparel with very high insulation

value. Alpaca fiber does not itch as wool often does because it does not contain lanolin and has a smooth cell structure.

From high in the South American Andes, Alpaca is one of the finest and most luxurious fibers in the world. Alpaca —once reserved for Inca royalty—is silky against the skin and very smooth to the touch.

Alpaca's unique hollow core gives it an insulating softness that is extremely lightweight yet much warmer and stronger than wool. In addition, alpaca is hypoallergenic—often wearable for those people who are allergic to wool.

3. Eco-attributes of the fiber

Alpaca fiber is already well known in the fashion circles in the United States, for being luxurious, fine and warm. Our intention is to capitalize that positioning and add a new one: Alpaca is the most eco-friendly fiber in the world. In comparison to any other fiber, working with Alpaca with our approach will result in energy efficiency, water saving and delivering products chemical-free.



a. How energy efficiency is achieved and why is important?

There are two ways that Alpaca can result in energy saving. First of all, in the production area, the amount of energy to process 1kg of Alpaca is the lowest in comparison to other fibers, thus, will help to reduce carbon emissions to the environment.

b. How water saving is achieved and why is important?

Now the most fashionable eco-fiber is organic cotton. Organic cotton is grown without pesticides or chemicals, and clothes made with this fiber are usually dyed with natural - chemical free - components to highlight its ecological attributes. However, is a little known fact that cotton, even the organic kind, produces soil erosion.

Also most consumers do not consider the amount of water that is needed to grow and process organic cotton. According to Alexandra Alter from the Wall Street Journal, it takes roughly 500 gallons of water, including water used to grow, dye and process the cotton, to make a pair of Levi's stonewashed jeans. The same Journalist raised an important topic in her article in February, 2009: "Yet Another 'Footprint' to Worry About: Water"¹(Wall Street, 2009). An actual eco-friendly product has to be responsible in the consumption of one of our most valuable resources: water.

In 2004 worldwide, 2.2 million deaths were attributed to unsafe water – nine out of ten of these deaths were children under the age of five² (Linda Loudermilk, 2009). One of the largest public health issues of our time is lack of clean water.

Alpaca has over 52 natural colors, by far the broadest range of natural colors and possible combinations. The amount of water that is saved by not dyeing the fiber is surprisingly significant. Thus it gives the fiber an important advantage combining water saving with the possibility to offer fashionable collections with a broad range of colors.

¹ Wall Street Journal: "Yet Another "Footprint" to Worry About: Water" - 17 February 2009

² Linda Loudermilk: www.lindaloudermilk.com

c. How come chemical free products and why is important?

Again, because of the variety of natural colors, we will be able to offer attractive collections without using chemicals in the production process to dye the fiber. This topic is especially important in developing countries like Peru and Ecuador, where there is a lack of suitable Sewage Treatment Plans. The spill of chemicals to the drain pipes can cause serious problems like contaminated rivers and diseases. Also Italian and American researchers found in 2002 that risks of nasal, bladder and gastrointestinal cancers among spinners, weavers and dyers were elevated 28 to 126 percent by the use of chemicals in the production processes³ (The Land Institute, 2008).

3.1. Quantitative Data

The following chart describes the consumption of resources when any fiber is dyed in a standard textile processing line:

Table 1 Consumption of Resources in a standard textile line

Resources	Meassure Units	Consumption Un./Kg Dye	Cost per Unit US.\$/ Un.	Cost US.\$/kg Dye
Electricity	Kw- hr	1.45	0.08	0.12
Water	Cubic Meters	0.23	0.35	0.08
Oil	Gallons	0.34	1.75	0.59

Source: Inca Tops S.A.

To dye one kilo of any fiber the following resources are used, 1.45 Kw – hr, 0.23 Cubic Meters of water and 0.34 Gallons of Oil. So for example if we plan to use

³ The Land Institute, “Take a Holiday from Clothes Shopping”, 27 November 2008
www.thelandinstitute.org

1000 kilos of Alpaca in natural colors in our collections, around 230,000 liters of clean water and 340 Gallons (around 1,288 liters) of Oil will be saved. Other factors like no use of chemicals and carbon emissions should also be taken in consideration.

4. Sector

Our target is focused on people from 25 years to 45, male and female who belongs to medium and high socio-economic class, who reside in the United States of North America and are interested in clothes that are of high quality, like innovative and fashionable designs. These persons are also environmentally concerned and are starting to change their consumption habits. Our broad sector is “green” apparel. Our specific sector is retail of clothes and accessories in the U.S. made from alpaca.

Our intention is to purchase eco-friendly fibers, mainly Alpaca, and sell it transformed in luxurious clothing and accessories, highlighting the new positioning of Alpaca as the most eco-friendly in the world. As well as selling products made with others eco-friendly fibers like organic cotton and, wool and vicuña (in natural colors).

4.1. Eco-fashion

The companies that sell Alpaca products in the U.S. promote them as luxury, exclusive products. Other businesses market the fiber for its natural properties: is finer, warmer and stronger than most fibers in the world. Also, a few competitors are involved in “fair-trade” models with rural communities in the Andes and promote social responsibility to market their products. However, none of them has seen the potential of the fiber to be marketed as eco-friendly.

Combining the known properties with our new ecological positioning we would be in the area of luxury eco-fashion. According to Entrepreneur.com, leading web site and magazine, for medium and small entrepreneurs in the United States, “Green” apparel was one of the most promising and hottest industries to invest in 2008.

Eco-fashion is all about choosing clothing manufactured in an environmentally sound way—whether it’s through sustainable materials or bio-friendly production—without sacrificing ideals of style, comfort, and esthetics. Is about giving the customers the opportunity to feel good and look good: fashion-conscious clothing for an eco-conscious lifestyle.

Eco-fashion can be referred as many ways: fashion-forward, eco-chic or conscious clothing, but one thing is certain: Green apparel will grow vigorously more and more.

For that reasons, it is a perfect opportunity to enter the U.S. market and give Alpaca the well-deserved reputation of the most eco-friendly fiber in the world. The dominant material used in “Green” apparel is organic cotton but the fiber is not suitable for the luxury segment. Also, Alpaca has unquestionable advantages over organic cotton as the ideal eco-friendly fiber. Alpaca will be used in 70% of our production and will account for more than 80% of our sales revenue.

5. Economic Crisis: Is it the right time to invest in the United States?

One of the biggest doubts that can surge regarding our project is to decide if it is the right time to invest in the United States. After all, the country is going through one of the most challenging crisis in its history. Unemployment rates are going to the highest levels in decades; millions have lost their homes, financial institutions, ostensibly solid, with a long history have disappear in thin air, the

Final Project - UDLA

country is immersed in two complicated wars (Iraq and Afghanistan), the government deficit is only going to increase and many analysts predict that the worse is yet to come. We are not being pessimistic, just realistic. So with this discouraging scenario as our framework, why would someone invest in our project?

First of all, our costs of entry are going to be considerably lower. Important parts of our cost structure like advertisement, renting and wages are going to become cheaper. In addition, branding is a critical area to the success of our project and in terms of costs it is the perfect time to start building a brand. Many successful companies have been created in the worst crisis, not only because of cost issues but also because it allows companies to reevaluate their business models. It is not a coincidence that Internet giants like Google and Amazon were created during the “dot.com” crisis in the early 2000s⁴(Open View Havish, 2009).

Secondly, this present crisis has a particular characteristic that gives our project an advantage. It is the first crisis (at least in the U.S.) where environmental concerns have not been postponed over economic concerns. The U.S. citizens have realized that their consumption habits are not sustainable in time and they have to be changed. In addition, for the first time there is full government commitment to promote eco-friendly practices and products. Even in www.business.gov the Official business link to the U.S. government, there is a whole section “Start a Green Business”, where they provide useful guides for new businesses, energy efficiency guides, case studies and examples. In addition, you can apply for an U.S. Environmental Protection Agency (EPA) sponsorship that assists your company to connect with other “green” industries and entrepreneurs, and also help your company to grow its brand.

⁴ Open View-Havish, Dot- Com Crisis, <http://openview-harish.blogspot.com>

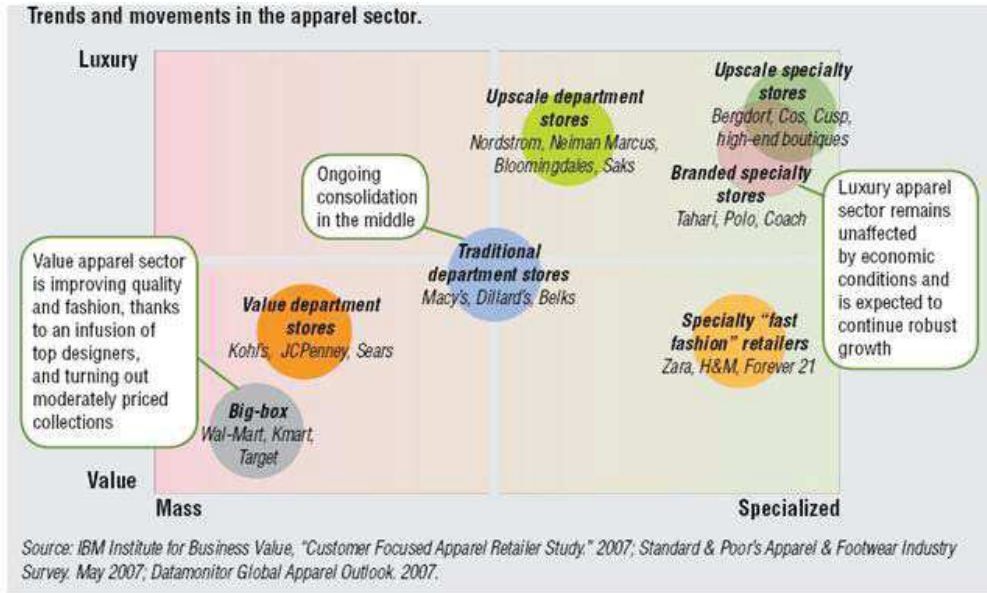
Final Project - UDLA

Thirdly, there are many products that claim to be eco-friendly but the reality is far from it. For example, Hydrogen was supposed to be the fuel of the future, but it turns out that the amount of energy to produce it makes it less efficient than regular fuel. We believe that our products made with Alpaca fiber will be all around eco-products: they save water, no chemicals (organic), energy efficiency in the production and they can help to reduce the industry's carbon footprint.

Also if not in the U.S., where? The crisis is hitting hard all over the world. Europe, China, India, all the major players in the world economy are being greatly impacted by the crisis and our company is targeting the high-income segment. Besides, Entrepreneur.com, leading web site and magazine for entrepreneurs in the U.S., said that green clothing was one of the best sectors to invest in the U.S. in 2008.

In addition, a study made by IBM for the "Customer Focused Apparel Retailer Study" in 2007 indicated that the luxury apparel sector is the least affected by economic conditions, as shown in the following figure.

Figure 3. Study made by IBM for the “Customer Focused Apparel Retailer Study



HSEG, UNIVERSIDAD DE

6. Macro Environment: PEST Analysis

PEST stands for **P**olitical, **E**conomic, **S**ocial and **T**echnological analysis and entails the most relevant macro environmental factors that a company needs to take into consideration. This strategic management tool is especially useful to provide a framework, understand the market and determine the threats and opportunities for any given company.

6.1. Political Environment

The United States – Peru Trade Promotion Agreement was signed on April 12, 2006. Eighty percent of consumer and industrial goods traded between U.S. and Peru will be duty-free immediately upon entry into force of the Agreement. This comprehensive Free Trade Agreement (FTA) will eliminate other barriers to goods and services, promote economic growth, and expand trade between the two countries. The Peruvian textile sector is one of the most favored by the FTA⁵ (Office of the US Trade Representative, 2009)

Although the FTA has not been put into force yet, textiles from the Andean Community (Bolivia, Colombia, Ecuador and Peru) are benefited from the Andean Trade Promotion and Drug Eradication Act (ATPDEA) that provides duty-free access to U.S. markets for approximately 5,600 products.

There is a full commitment of the Peruvian government and the society in general towards international trade. This outward orientation is total, so much, that Peru is already in Free Trade Agreement negotiations with Europe and China.

⁵ Office of the US Trade Representative, Free Trade Agreements, <http://www.ustr.gov>

6.2. Economic Environment

6.2.1. Situation in United States

The current crisis in the United States is far from over. In 2008, more than two million jobs were lost and many analysts think that the worst is yet to come. The crisis started with subprime mortgage calamity and it was prompted by the speculation of mortgage brokers, financial institutions and the irresponsibility of consumers by taking too risky loans.

The crisis extended to Wall Street. Huge, historic and seemingly solid financial institutions no longer exist. The automobile industry was also hit and the future of the three main American car companies (GM, Ford and Chrysler) is uncertain. Both Wall Street and the car industry had to be helped by a bail-out plan of hundreds of billions of dollars.

Obama's bail-out plan which intends to inject to the economy more than one trillion dollars, is having more problems to be approved than expect. The bail-out plan includes individual tax cuts, business tax cuts, infrastructure spending, "green" investments and aid for States facing deficits⁶ (Time Magazine, 2009).

The more optimistic analysts predict that the crisis would last at least 18 months and the GDP growth for 2009 will be 0%. The crisis is also affecting the availability of loans given by U.S. institutions, so any loan necessary for the project is going to be requested at a Peruvian bank or another international institution.

⁶ TIME Magazine: January 26, 2009.

Regarding our specific sector, before the crisis started Americans were expending an average of \$1,760.00 per year per household in clothes. However, in high income households the yearly expense in clothes can be as high as \$150,000.00. (Idem)

With the crisis there is no doubt that the consumption patterns of clothes are going to change. In one hand, many people are going to postpone or cut back their normal spending on clothes. On another hand, luxurious brands are already lowering their prices to become more affordable to the middle-high income segment.

6.2.2. Situation in Peru

In the last decade, Peru have been growing at rates over the South American average and in the last couple of years (2006-2008) the GDP yearly growth rates were between 7% and 9%.⁷(Time Magazine, 2009). The main reasons for these impressive figures are the following:

- ✓ Historic high mineral prices: Peru is a main exporter of minerals (i.e. copper, silver) and the demand of economies like China and India caused an unprecedented price increase. Although now prices have decrease dramatically, mining companies in Peru will continue to be an indispensable part of the economic engine.
- ✓ Good environment for foreign investment: Unlike countries in the region like Bolivia and Venezuela, Peru has recognized that Foreign Direct Investment (FDI) is one of the pillars for economic growth.
- ✓ Growth of the non-traditional exportation sector: The portfolio of Peruvian exportations is now more diverse and competitive.

⁷ TIME Magazine, 2009

Although the crisis is going to affect Peru, it is better equipped than most countries to handle it. The GDP it is still projected to grow by 3% in 2009. The financial sector is stable and loans are continued to be granted to companies that fulfill the legal and financial requirements.

Also, the Nuevo Sol (S/.), the Peruvian currency, is one of the most stable currencies in the world. Therefore, the company will not be at much risk by sudden changes in the exchange rates that can make our costs less competitive.

Regarding our specific sector, in the period January to November 2008, Peruvian alpaca fiber exports reached \$96.9 millions, showing a 2.1% decrease in comparison to the same period in the previous year. The amount of unprocessed raw material reached \$24.2 million; the export of alpaca yarn already processed and ready to manufacturing was \$25.9 million. Finally, the value of finished goods with alpaca (garments, accessories, confections, etc.) showed an impressive 19.2% growth in comparison with the same period in 2007, the value of this finished goods was \$32.1 million. Roughly, half of the Peruvian alpaca exports had as point of destination the United States⁸. The data was provided by Prom Peru, a government organization in charge of promoting international trade.

6.2.3. Chinese textiles

In 1974 a system of quotas known as the Multi-Fiber Agreement (MFA) was introduced for the international trade of textiles ⁹(Chandrasekhar, 2003). The purpose of the system was to protect textile producers in developing countries from foreign competition, by limiting the amount of textiles each nation could export. For many years, this system protected countries like Sri Lanka,

⁸ Prom Perú , Sector Textil, Confecciones Enero-Diciembre 2008

⁹ Presentation by H.E. K.M. Chandrasekhar, Chairman ITCB, EC Conference on the Future of Textiles and Clothing after 2004, Brussels, 5 – 6 May 2003. <http://www.itcb.org/Documents/ITCB-MI35.pdf>

Bangladesh and Peru from Chinese textiles. After the creation of the World Trade Organization in 1995, its member agreed to eliminate the MFA in 2005. However, textile producers around the world failed to predict the entrance of China into the WTO in 2001.

With no trade barriers like quotas it became almost impossible to compete with Chinese textiles. China not only has low wages and a productive labor force, but also the capability and infrastructure to create unimaginable economies of scale and reduce order-to-shipment cycles to a minimum. Textile producers' nations (rich and developed ones) have tried, with no success, to extend the MFA system.

Producers and nations have to find a new approach to compete with Chinese or Indian textiles, without resorting to protectionism. They have to find a way to compete with Chinese textiles through technology, innovations and marketing. If a Peruvian or American producer tries to compete with Chinese textiles in volume or price it will definitely fail. In our opinion, the only way to compete with China in the textile sector is to introduce high value added products with a strong brand.

6.3. Social Environment

6.3.1. Environmental awareness in the U.S.

In the last years, there has been an incredible increase in the awareness and response of the U.S. population towards conservation and the environment in general. This change have been triggered by various factors: undeniable evidence of global warming, the importance of renewable energies to decrease the dependency on foreign oil and the certainty that Americans' consumption and waste habits are not sustainable.

Now more than ever, eco-friendly products have great value added and a potential competitive advantage if they are marketed cleverly.

Regarding our specific sector, “Green” apparel is becoming a booming industry. Even in times of crisis people are starting to pay more attention to the amount and the origin of the resources needed to make clothes.

According to Bo Breda, academic director for fashion design at The Art Institute of California: "Green clothing will be more and more a part of ordinary life choices for everyone. Each process, each material used is being looked at with new eyes"¹⁰.

Organic cotton debuted first--and remains the biggest seller. Organic Exchange expects the organic cotton industry to hit sales of \$2.6 billion in 2008. A 2006 Organic Trade Association survey pointed out that "organic non-foods are still emerging as a category"--which means lots of fresh opportunity.

6.3.2. A new concept: “Water Footprint”

It takes roughly 20 gallons of water to make a pint of beer, as much as 132 gallons of water to make a 2-liter bottle of soda, and about 500 gallons, including water used to grow, dye and process the cotton, to make a pair of Levi's stonewashed jeans¹¹.

A handful of companies have started tracking such "water footprints" as a growing threat of fresh-water shortages looms. Climate change has caused glaciers to shrink, eroding vital sources of fresh water. And growing global demand for food and energy is placing even more pressure on diminishing supplies.

¹⁰Entrepreneur (2009), The hottest industries for the coming year, www.entrepreneur.com

¹¹ Wall Street Journal: “Yet Another “Footprint” to Worry About: Water” - 17 February 2009

Final Project - UDLA

Two-thirds of the world's population is projected to face water scarcity by 2025, according to the United Nations. In the U.S., water managers in 36 states anticipate shortages by 2013, a General Accounting Office report shows.

Lately, water foot-printing has gained currency among corporations seeking to protect their agricultural supply chains and factory operations from future water scarcity. In this year, representatives from about 100 companies, including Nike Inc., PepsiCo Inc., Levi Strauss & Co. and Starbucks Corp., will gather in Miami for a summit on calculating and shrinking corporate water footprints. In December, a coalition of scientists, companies and development agencies launched the Water Footprint Network, an international non-profit that helps corporations and governments measure and manage their water footprints.

The water-footprint concept was coined in 2002 by Arjen Hoekstra, a professor of water management at University of Twente in the Netherlands. Using data from the U.N.'s Food and Agricultural Organization, Mr. Hoekstra and other researchers calculated the water content that went into the making of various products and applied those statistics to people's consumption patterns to get a rough water footprint for average individuals and nations as a whole.

The most impressive figures of water footprints are found in textile products. The same article by the Wall Street Journal that pointed out that roughly 500 gallons of water are needed to produce a pair of Levi's stonewashed jeans indicated that a cotton T-shirt typically takes some 700 gallons of water to produce.

Therefore, a fiber like Alpaca that consumes less water in every stage of its production can claim a real advantage over other fibers as an eco-friendly product. After all, there is no doubt that our most valuable natural resource is water.

6.4. Technological Environment

E-commerce is the use of electronic communications and digital information processing technology in business transactions to create, transform, and redefine relationships for value creation between or among organizations, and between organizations and individuals (B2C, B2B or C2C)¹² (E-commerce, 2007). The Internet has eliminated many trade barriers, nowadays anyone can export to the anywhere even in small quantities.

E-commerce has increasingly become a necessary component of business strategy and a strong catalyst for economic development. The integration ICT in business has revolutionized relationships within organizations and those between and among organizations and individuals. Specifically, the use of ICT in business has enhanced productivity, encouraged greater customer participation, and enabled mass customization, besides reducing costs.

Mobile Commerce (also known as M-Commerce or mCommerce) is the ability to conduct commerce, using a mobile device e.g. a mobile phone, a PDA, a smart phone and other emerging mobile equipment. This type of transaction is growing incredibly fast in U.S. especially with the increasing popularity of devices like the iPhone and Blackberry, and it could open a lot of possibilities to our project.

In our specific sector, it is very hard to sell garments, accessories, clothes in general via Internet or Mobile devices. The vast majority of consumers when buying clothes they feel the need to try the products and feel the fabric. However, e-Commerce and M-Commerce can be valuable channels to sell to loyal customers that are already familiar with a company's product. In addition, companies like Envi (www.shopenvi.com) and Peruvian Connection

¹²E-commerce and E-business, 2007, www.apdip.net/publications

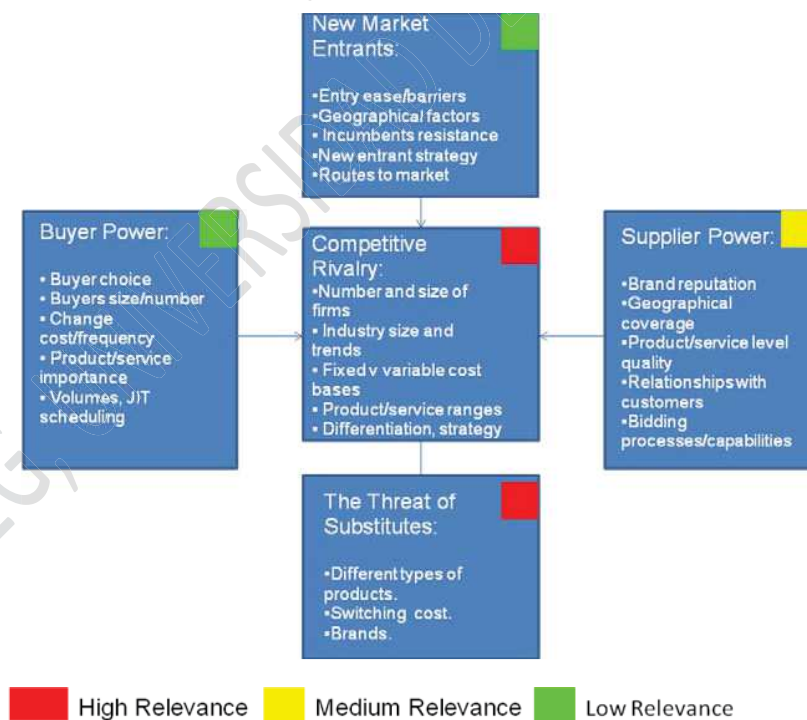
(www.peruvianconnection.com) have prove that selling clothes trough Internet at a large scale is possible and can be very profitable.

7. Micro-environment

7.1. The Five Competitive Forces Model by Michael E. Porter

Porter's model of five competitive forces that shape competition and thus as well a strategy reveals the roots of an industry's profitability and provides an effective framework for anticipating and influencing competition. And since the essence of the strategic analysis is to understand and cope with competition the following pages provide an overview of each of the five forces and the factors underlying them.

Figure 4. 5 Forces of Porter



7.1.1. New Market Entrants (Low Relevance)

Peru as a country is now developing in an incredible pace, the country offer economic stability for those who want to invest, accounts with excellent human resources and now is constantly investing in new technologies. There are a lot of factors which make Peru and mainly the alpaca industry a profitable option. It is important to mention that Peru participates actively in multilateral, regional and bilateral forums, exploiting the complementarity of negotiations in each of these fronts which gives the country really good commercial relationships and better access to new markets.

The first stage of the supply chain are mainly small farmers in the Peruvian Andes -also Bolivia and Ecuador- and results shown that among them there are no limitations to share knowledge and this is possible due to the need of efficiency among farmers and due to the need to increase productivity at low prices. The capabilities to reduce prices are low; there are just a few industrial groups that invest in technology to develop this industry. Also is important to mention that the Alpaca is manly transformed by traditional processes and this processed are mainly low-priced labor.

The entrance barriers in this industry are not significant. An important reason is that in this industry economies of scale are very helpful but there is not a critical success factor, this industry is mainly driven by differentiation and a high customer loyalty (differentiation strategy). Customers in this industry often choose to be with a niche player because certain core competencies or better services that only that particular player is providing in the market. There are also an unlimited number of possibilities to outsource services like processing the fabrics, design and distribution which gives the industry a plus to have specialized companies and better quality.

And the last one but no less important is Internet. With internet small companies anywhere in the world can easily go global, there are a lot of possibilities to sell the product by internet, find new resources or partners. These factors allow distances to be shortened and increase the possibilities to enter the sector. One example is alibaba.com, in this web page there are more than 2,000 small and medium alpaca manufacturers which provide any kind of product made with alpaca fabrics. Also the Internet has contributed to the capability of coordinating the activities of organization and business at lower costs.

One of the difficulties within this market is mainly the infrastructure, at this moment more than the 75% of alpaca manufacturers are in rural areas and these areas are difficult to reach. But this is not an important factor for those who want to manufacture alpaca fabrics because the risk is taken by the intermediate which collect the fabrics from farmers in these rural areas and distribute it to wholesalers.

7.1.2. Supplier Power (Medium Relevance)

There are two important suppliers in this market, the first one are mainly small farmers that manage their animals according to traditional practices. The socio – economic conditions of these farmers are mainly poor and they have low negotiation power.

There are many industrial processes within this industry and a long distribution chain, but there are just a few suppliers with technological capabilities to be really efficient and to meet international standards. The second type of supplier is the intermediaries who recollect the Alpaca fiber and trough a long opaque

intermediary Chain distribute the product to manufacturers and stores. This kind of suppliers has more power of negotiation.

The alpaca industry has some difficulties among the supplier chain. One of the main problems among the suppliers is the lack of investment and modernization, but this is an opportunity for those who are willing to invest and to develop the industry. Another issue is that the operation costs are quite high mainly for the intermediaries which are the players that take the higher risk. Also there is a lack of Peruvian brands which could be an important factor to aggregate value to the supplier chain.

7.1.3. The threat of substitutes (High Relevance)

The threat of substitutes in this industry is extremely high due to the fact that there are a lot of different kinds of substitutes like the kind of fabrics competing directly with the alpaca like:

- ✓ Mohair: from the Angora goat and is highly resilient and strong
- ✓ Angora wool: from the Angora rabbit.
- ✓ Cashmere: from the Kashmir goat.
- ✓ Vicuna: the softest coat cloth in the world.

Just to mention some. Another kind of substitutes can be the well known brands and designers; this is an important fact because the consumers of apparel are mainly driven by this factors. For example: Hermes, Armani, Gucci, Hugo Boss, etc. These are possible substitutes of the alpaca apparel due to the price and due to the extra value that it represents to the final consumer.

The threat that substitute products pose to apparel industry's profitability depends on the relative price-to-performance ratios of the different types of apparel to

which customers can turn to satisfy the same basic need. In this industry there are a lot of ranges of prices which can make the consumer switch from one brand to another.

7.1.4. Buyer Power (Low Relevance)

The buyer do not exercises a high pressure among the companies in this industry, the buyer who is interested in this kind of garments are buyers that are not sensitive to the price but are sensitive to the design and the brand because they are demanding exclusivity. Another factor is that the concentration of the buyers is not relative to the seller which means that there are just a few possibilities to the buyer, making the alpaca products more demanding for consumption.

The barging power of the buyers occurs when leverage is given to the buyer and demand for lower prices, increase quality and demand more services. In this sector of the apparel industry (Premium priced items) the buyer is not price sensitive, the buyer looks for the differentiation among another brands and the added value. The expected quality of the products is more important to the buyers than the price.

7.1.5. Competitive Rivalry (Medium-High Relevance)

In the last decades the apparel industry has become a global industry which means that not only is international in its reach, but also is in its organization. USA is the main buyer of fabrics and apparel with a market of USD\$ 1,120 million and the main suppliers are China and Italy. Peru is becoming a significant player within this industry, is one of the most dynamic countries due to the exports of garments from alpaca fiber.

In a broader sense, in this industry the competitive rivalry tends to be high because these products are really easy to substitute and there is an existing power of suppliers and buyers in the market. On the other hand, the competition in the United States in alpaca finished products is moderate.

There is a representative quantity of competitors in this country but mainly small and medium. The industry of end products made with alpaca in this country is in the developing phase and have a lot of opportunities for those players that are willing to take them.

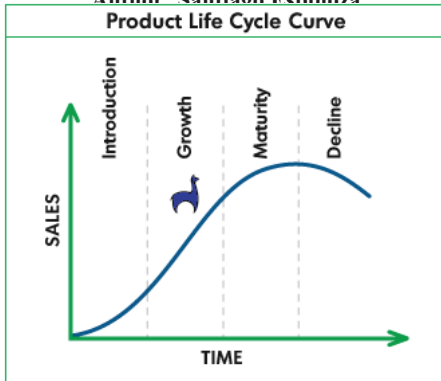
One of the main strategies to avoid competitiveness followed in this industry is the differentiation strategy; this strategy would be viable for those companies that want to create satisfaction among their clients. The main challenge in the alpaca's industry would be to cope with the specialized needs of the costumers who are part of a niche segment in the market.

In the United States the main competitors are exclusive boutiques where people buy alpaca products and their positioning is as luxury products and artisanal products made with this fabric. These products are premium priced, mainly exclusive apparel and it is important to mention that the main features of the alpaca fabrics increase the demand in the fashion market.

7.2. Life Cycle

Product Life Cycle is a simple strategic tool that determines the stage (Introduction, Growth, Maturity or Decline) of any given good or service. It takes into consideration the level of costs, sales, behavior of the demand, competitors and level of investment to determine in which stage a product or service is.

Figure 5. Product Life Cycle – Porter
Author: Santiago Espinoza

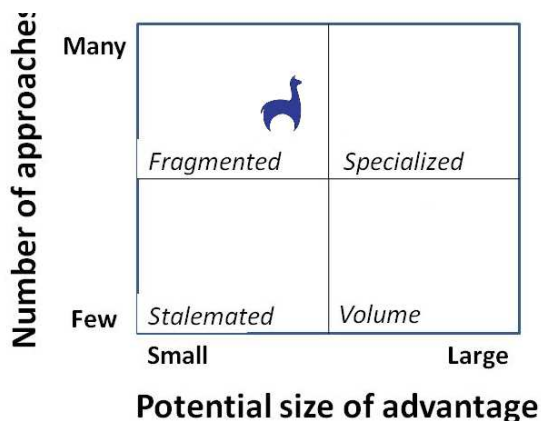


This industry is growing with an accelerated speed and its products are having great acceptance in the United States as in all over the world, because people are starting to know the advantages of this fiber. In the growth stage key success factors are: cost efficiency, diversification, localization and investment.

7.3. BCG Advantage Matrix

This strategic tool is in form of a Matrix that contrasts two axes. The first one is the potential size of advantage (referring to the possibility of economies of scale in the sector). The second axe, the vertical one, refers to number of approaches to achieving advantage, in other words if there are many or few possible competitive advantages (high or low differentiation).

Figure 6. BCG Matrix – Author: Santiago Espinoza



In this case, the sector, retail of clothes and accessories made from alpaca in the U.S., falls into the Fragmented category. This means there are many approaches to gain a competitive advantage, but economies scale do not determine the success.

The sector in the U.S. is formed by many medium and small companies that differentiate themselves mainly based on design, quality and prices.

7.4. Value Chain Analysis by Michel E. Porter

	Irrelevant	Low relevance	Medium relevance	Higher relevance	High relevance
Relevance	1	2	3	4	5

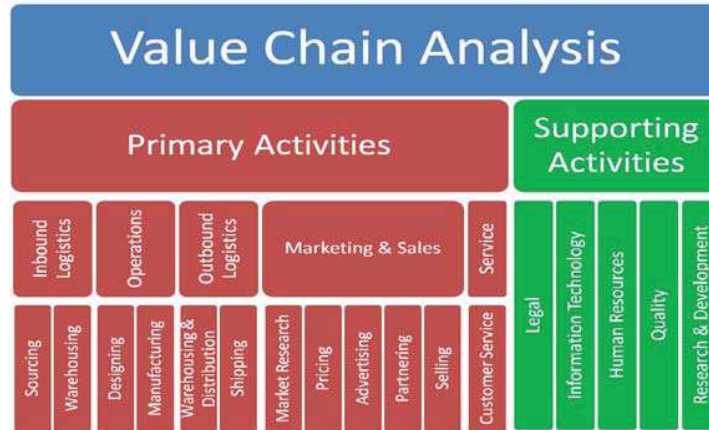
Value Chain can be defined as: “A framework developed by Michael Porter that disaggregates a firm into its strategically relevant activities in order to understand the behavior of costs and the existing and potential sources of differentiation. Porter argued that a firm gains competitive advantage by performing these strategically important activities more cheaply or better than competitors. A value chain is embedded in a larger stream of activities called a 'value system.' Gaining and sustaining competitive advantage depends on understanding not only a firm's value chain but how it fits into the overall value system. The activities are divided into primary and support activities.”¹³

As we can observed in the definition, the Value Chain Analysis has many advantages and can be used for strategic decisions, classifying activities into primary or supporting allows management to look their business from a different perspective and also to focus on core or value add activities (critical activities or tasks where company can perform better) and why not, outsourced others. Lastly, it provides insights about cost behavior and differentiation.

In the case of apparel industry, the following image describes the value chain of this industry:

¹³ "Dictionary of Business" by Graham Bannock, Evan Davis, Paul Trott, and Mark Uncles (London : Economist in association with Profile Books, 2003)

Figure 7. Value Chain



Author: Santiago Espinoza
Source: Michael Porter

7.4.1. Primary Activities

✓ Inbound Logistics

- *Sourcing*: This category involves all the tasks needed to coordinate and manage all the efforts on purchasing, procuring and selecting sources that will provide raw materials for the end-product, the process of applying, scoring and selecting of sources is critical because it has a direct impact on the quality and label of the product. (Relevance: 4)
- *Warehousing*: Groups all the tasks related to storing and managed raw and other materials required in the manufacturing process. (Relevance: 3)

✓ **Operations**

- *Designing*: According to business persons in the industry, designing is one of the most important activity within the value chain, it gives identity and define the trend to pursuit in the market; all the products are based on the outputs of this stage. Design includes: colors, textures, styles, stamps, and any mixture among them. (Relevance: 5)
- *Manufacturing*: Is a corner stone in the industry, includes every activity that must be perform for producing the end-product, uses all the materials sourced and stored on the inbound logistics stage and will give inputs (finished-product) for the rest of the chain. In this stage is important to mention all the processes, procedures and best practices that it will take place in order to produce a quality product according to the standards and research. (Relevance: 5)

✓ **Outbound logistics**

- *Warehousing & Distribution*: As the same way of warehousing in Inbound Logistics, it groups all the activities regarding to store and manage of finished products. It also contains the activities related to distribute the finished-product on the supply chain locally. (Relevance: 5)
- *Shipping*: This category of activities includes all the tasks related to ship the product to the different points of sale (wholesaler, retailer, and end-customer) mainly overseas. (Relevance: 3)

✓ **Marketing & Sales**

- *Market research*: In this category are found all the activities related to market research, in other words, the outcome of these activities will allow the company to understand markets & customers, but

also to help on decisions such as: next market, target customers, customer behavior, so on, and so forth. (Relevance: 3)

- *Pricing*: Includes all the work needed to define a price strategy and set margins across the business lines. It takes into consideration many variables such as: economy, market, customer and company insights. (Relevance: 3)
- *Advertising*: As being a commodity and part of the fashion industry, the advertising of the product is key success factor, groups all the activities that achieved this goal, from the design & planning of the campaign until the use of different media out there (TV, word-of-mouth, newspaper, and radio). (Relevance: 4)
- *Partnering*: Includes any task or activity related to develop, maintain and manage selling partner relationships. (Relevance: 2)
- *Branding*: Includes the positioning of the brand in the mind of potential consumers and the general image of the company, it is definitely a critical activity in the sector (Relevance: 5)
- *Selling*: This category speaks for itself, all the efforts towards a sell. Includes forecasting, budgeting and the sale cycle activities. (Relevance: 5)

✓ **Service**

- *Customer Service*: it represents the last primary group of activities and includes all the tasks regarding customer service, in other words, the process before (pre-sale), during (on-sale), and after a purchase (after-sale). (Relevance: 5)

7.4.2. Supporting activities

- ✓ **Legal**: These activities comprises the application of the legal practices and understanding of the political environment and regulation available to

- source, produce, distribute and sell the product locally and internationally. Special attention is required to patents, property rights, denomination of origin, and international trade policies and legal-frameworks. (Relevance: 2)
- ✓ **Information Technology:** Information technology and communications activities are relevant supporting activities, through the entire cycle of the product and the all the value chain is required any support from technology activities. (Relevance: 2)
 - ✓ **Human Resources:** The most important asset in the company. Includes all the tasks needed to manage and get the most of them, activities such as: profiling, recruiting, hiring, teaming, training, awarding, promoting, are examples of activities. (Relevance: 2)
 - ✓ **Quality:** It groups activities regarding quality planning, quality assurance and quality control of the processes in the entire value chain. (Relevance: 5)
 - ✓ **Research and Development:** Although this activity is not primary, it contribute to the success of the entire formula, it gives activities such as innovation, prototyping, new product designs, new market-oriented products, so forth. (Relevance: 3)

7.4.3. Critical activities in the sector:

Critical activities in the sector include Designing, Manufacturing, Warehousing and Distribution (of the finished product), Selling, Branding, Customer Service and Quality.

8. Description of the Company

8.1. Mission Statement

We are a dynamic company dedicated to create and distribute excellent quality clothing with exclusive designs, manufactured with eco-fibers and under environmentally friendly processes, applying policies of care and preservation of our planet, these processes help decreasing the consumption of valuable resources of the world we live in.

8.2. Vision

Our company will compete in the apparel industry with high quality, fashionable and eco-friendly products, offering each day better products, increasing the conscious of the people, promoting the use of eco-friendly apparel in order to take care of the world we live in. Opening two new stores each year, giving us a total of ten stores in the next five years in USA, we will become the first eco-fashion brand (top of mind) in the markets we will enter. In the process, we will give Alpaca the positioning of the most eco-friendly fiber in the world.

8.3. Values

- ✓ Produce apparel using eco-friendly raw materials with exclusive designs and excellent quality.
- ✓ Do not use products which could damage the environment.
- ✓ Willingness to offer to our clients and employees a kind treatment, support, quality, efficiency and timely response.
- ✓ Act with intelligence, complying with the assigned responsibility in the use of the information, material and financial resources.

- ✓ Work, live and speak with honesty, respect and consistency in all forms of behavior of employees.
- ✓ Require grow as individuals and as an organization to devote the resources to overcome the time.
- ✓ Being a learning organization continually creating a better future and a better environment.
- ✓ Build camaraderie and a mutual correspondence, working together, bringing the best of ourselves to get excellent results.
- ✓ Give everyone what it is based on reason and truth.
- ✓ Visualize the future and guide the effort towards excellence in service and competitiveness.
- ✓ Professional secrecy and corporate information.
- ✓ Act accordingly, doing everything to help to achieve the objectives.
- ✓ To provide security to our customers and employees based on the professionalism of the institution.
- ✓ Permanent search in obtaining benefits for customers and the institution.
- ✓ The rational use of human and economic resources with a sense of sobriety.
- ✓ Work with companies who like us are concerned and maintain high level of social responsibility, taking into account both the care of the environment, as well as the communities from where our raw materials come from.

8.4. Business Model

Our business model was shaped to give our company flexibility and the ability to focus efforts and resources in the most critical activities in the sector: sales,

branding and marketing strategies. Because of that, *outsourcing* is a key part of our model.

8.4.1. Supplying

Although the supply chain of Alpaca starts with rural families known as “Pastores Alpaqueros” (Alpaca herders/breeders), our company would buy the raw material from companies in Peru and Ecuador that sell the yarn (in cones or tops) already processed and ready to manufacture products. Our suppliers include Inca Tops (www.incatops.com) and MICHELL & CIA (www.michell.com.pe) in Peru, and PAQOCHA in Ecuador.

Figure 8. Alpaca's processed tops



Alpaca's processed tops, in natural colours

What these companies have in common is that they have eco-friendly collections of raw material processed and ready to start production of apparel. Also they work closely with rural communities to improve the quality of the Alpaca and protect this South American tradition of more than 5,000 years old. Peruvian alpaca is mostly recognized for having a better quality, while Ecuadorian alpaca offer more competitive prices. The processed high quality alpaca in natural colors ranges between US\$18 and \$25 per kilo. **Exhibit 24** shows the range of Alpaca natural colors provided by our main suppliers. As mentioned before, Alpaca products will account for 70% of our production and 80% of our sales revenue.

Although our products will be mainly made from Alpaca, these companies also offer other eco-friendly fibers like organic cotton, vicuña and wool (in natural colors or dyed with eco-friendly products) to diversify our portfolio of products. These fibers will be purchased in low quantities. The average price of these raw

materials (processed and ready to manufacture) ranges between US\$12 and \$30 per kilo.

An office based in Peru would be in charge of purchasing and storing the raw material. This office would be responsible of supervising the manufacture and design. Also would be in charge of storing and shipping the finished products.

8.4.2. Designing

Although designing is a critical activity, it will be outsourced to specialized firms more in touch with our targeted American customers and the fashion business. The costs to design a model can vary from US\$80 to US\$200. There would be four collections per year, and each collection needs to have at least 90 different designs to be attractive and varied for the potential customers.

8.4.3. Manufacturing

This activity is also critical and it also would be outsourced to a specialized company located in Peru. These companies offer the services of hand-knitting manufacture and/or knitting with specialized equipment (machinery). Our production volumes do not justify the investment on an owned manufacturing plant and equipment. There would be four main categories in our portfolio: hand-knitted accessories, knitted accessories, hand-knitted garments and knitted garments. The average manufacturing cost for each accessory (gloves, scarves, hats, etc.) ranges between US\$5.50 and US\$9.50. The average manufacturing cost for each garment (coats, ponchos, sweaters, etc.) ranges between US\$13.00 and US\$23.00.

All the costs were calculated assuming the company Incalpaca S.A. is the company that will be on charge of all the manufacturing.

8.4.4. Warehousing and Transportation of goods

The company will rent different warehouses for raw materials and finished goods. In Peru, a warehouse will be rented for the raw material and for the finished goods before sending them to Chicago.

In the first three years of operations, a warehouse in Chicago will be available for storing the finished goods and distribute them to the different stores. At the end of the third year of operations a small warehouse will be bought in Chicago.

The transportation will be from Peruvian Port Callao to New York Port by ship and the by land from New York to Chicago. The product will be transported in containers in LCL (Less Container Load) or FCL (Full Container Load) depending on the size of the shipment. The size of the containers is 20 feet and each container can hold 200 boxes, each box with 50 units.

The cost per container from Callao to New York is US\$ 1,856.00 and the cost per container from New York to Chicago is US\$ 756.00. With those prices the Transportation of Goods (Fixed Operating Expense) was calculated.

8.4.5. Branding

There are two major efforts in this area. First of all, give our brand the positioning of a high-end luxury company that offers fashionable and eco-friendly garments and accessories. Secondly, give the alpaca fiber the well deserved positioning of being the most eco-friendly fiber in the world (which is never been tried before).

8.4.6. Selling

Our main source of sales would be two exclusive-boutique stores located in Chicago, for the first year of operations. For every year of operations, two

exclusive-boutique stores will be open on another U.S. city (New York, Boston, Washington D.C. and Seattle).

The second sales channel would be the company's Collection Catalogs. Finally, the third sales channel would be the company's web site from where we would be able to sell to anywhere in the United States. However, both the Catalogs and our Website will be complementary sales channels and mainly directed to customers that already bought our products and know our brand. People like to try the clothes and feel the fabric before buying an item (especially a luxury item). Therefore, the success of our stores will determine our Website's traffic and Catalog rotation.

8.4.7. Operations in the U.S.

Besides the stores, a base in Chicago would also be required to manage the U.S. operations: receiving and storing finished products, customer service, shipping for online sales, etc.

8.4.8. Value proposition

Offer high quality, luxury and fashionable garments and accessories, made, predominantly, with the most eco-friendly fiber in the world: alpaca.

8.5. Market Entry: Wholly Owned Operation

The market entry strategy would be through a wholly-owned-operation in the U.S. because we want total control on our investment and we are willing to take the risk of such a venture. In addition, we feel that we have a general good understanding of local customs and regulations. Although, we do not have complete understanding of the environment and business practices, we plan to hire local staff for the management of the U.S. operations and for the stores.

As seen in the Five Forces Analysis, barriers of entry are not considerable in this sector. Also, our volumes in production do not make it indispensable to have a partner in distribution or logistics. In addition the company is going to sell very exclusive and unique products, so the real profitability of the business is in the final customer.

There are important disadvantages with choosing this market entry strategy like high risk and high exposure, and a larger investment needed. However, we believe it is the most suitable for the company's business model. In the following part, the reasons for not using other options to enter the U.S. market will be explained.

8.5.1. Why not franchising?

Franchising is the concept where the franchisor is granting the rights to a large number of intellectual property items, all bundled in a business package to a franchisee who pays royalties for using this business model. Most franchises tend to be retail establishments like restaurants or bookstores.

Franchising will give our company an apparent physical presence in the United States without investing capital. However, given that our brand and our products are not known in the market, the company would not be able to charge much in royalties and the cost of opportunity of not having a wholly owned operation would be too great.

This can be a suitable strategy when we have a well established brand and the company needs to expand quickly.

8.5.2. Why not a Joint Venture?

With a Joint Venture the company would have to find one or more partners to share the costs, knowledge and profits of a new corporation created in the United States. The newly created company could be owned by the JV partners in any combination of ownership percentages. Joint Ventures reduce risk and exposure, and take advantage of the partner's (or partners') strategic advantages.

One obvious way to go is to use a partner for distribution, but as mentioned before, our production volumes do not justify for a distribution or logistics partner. Another way to go is to have a JV with current retail stores to let them sell our products, however our product is very unique so we will not only lose a share of the high profit margin but also the company wants to do a very specific work regarding the brand and its positioning. Therefore, it could be very dangerous to let another establishment deal with our final customers.

What's more having a JV could mean losing the direct contact with the final customers and losing valuable information and feedback useful to improve our products and practices.

In short, there is not a strategic advantage that a partner can bring to a partnership that justifies losing control of the operation and sharing the profits.

8.5.3. CHICAGO: Why should we start there?

Chicago or "Windy City" as it is often called is the largest city in the U.S. state of Illinois and the Midwestern United States, as well as the third-most populous city in the United States with more than 2.8 million residents. One of the largest cities

Final Project - UDLA

in North America, Chicago is among the world's twenty-five largest urban areas by population¹⁴(2000 Census, 2009).

The city lies within the humid continental climate zone, and experiences four distinct seasons. Summers are warm and humid; winters are cold, snowy and windy with temperatures below freezing. Spring and fall are mild with low humidity. Chicago can suffer extreme winter cold spells. Thus the weather is one of the factors we had chosen this city; it is optimal for alpaca's clothing.

Chicago is also a major transportation hub in the United States. It is an important component in global distribution, as it is the third largest inter-modal port in the world after Hong Kong and Singapore, which helps a lot at the moment to transport any kind of products, and in our case, apparel.

Chicago is a city that is becoming increasingly a center of fashion and attractions, today the city's attractions bring 44.2 million visitors annually. O'Hare International is the second busiest airport in the world¹⁵ (Chicago Visitor, 2008).

The city is where the big designers and big fashion chains are putting their eyes. This is another reason, we have chosen this city to establish our first stores, since there is a potential market just waiting to be exploited and has the enough resources to purchase the clothes that our company offers, at the same time we offer exclusive models. We are working to offer garments that are made with eco-friendly fibers that help to take care of the environment, such as our main raw material, the alpaca.

¹⁴ "2000 Census: US Municipalities Over 50,000: Ranked by 2000 Density". Demographia. <http://www.demographia.com/db-2000city50kdens.htm>. Retrieved 2009-06-14.

¹⁵ Chicago Visitor, Two Attraction, 2008, www.chicagovisitor.info

Exhibit 25 shows additional information about Chicago, like Median household income, Average household Income, Per capita income, Median Disposable Income and information on the different Trade Shows in the city.

HSEG, UNIVERSIDAD DE LAS AMERICAS

8.6. Legal

We consider that the best option to establish our company is as a Limited Liability Company (LLC) because is a relatively new, hybrid-type of legal structure which will provide us with the limited liability features of a corporation and the tax efficiencies and operational of a partnership.

The legal name of the company will be:

GAIA Clothing & Accessories LLC.

We take in consideration that the legal issues will require a big effort and we are considering outsourcing the legal service to create the company; some legal aspects that we are taking into account are the following:

- ✓ Tax permits and Registration
- ✓ State licenses and Permits
- ✓ Local Licenses and Permits
- ✓ Business Entity Filing
- ✓ Fictitious Name Filing
- ✓ Employer requirements

To see in more detail all the requirements needed see **Exhibit 26**.

8.7. Operating Plan

This section of our work will describe with enough detail how we will operate our business on daily basis. It tries to layout our thinking in how to run the business and how to support our selling, administrative and other functions of the business from an operational stand point. Our description of the operational tasks will be based on the value chain and our critical and supporting activities identified in that section, so it will be helpful for the reader to look at the value chain section in previous chapters.

What's exactly an operations plan? There are many definitions about the subject and how it fit on a business plan, some definitions covers a wide scope of tasks to perform and some others just a few. According to Susan Ward, the operating plan section describes the physical necessities of the business' operation, such as your business physical location, facilities and equipment¹⁶.

Taylor & Francis cited operations plan as "is concerned with the supply side of the business¹⁷". It's well understood that operations means day-to-day activities, so, in this section we will addresses among others the following questions:

- ✓ How our product will be made?
- ✓ Who are our suppliers?
- ✓ What quality-control measures will we implement?
- ✓ What if, something goes wrong?
- ✓ What facilities, equipment, buildings, and assets will we need?

¹⁶Info Canada, <http://sbinfocanada.about.com/cs/businessplans/a/bizplanoperplan.htm>

¹⁷ Taylor & Francis Group, "Sales and Operations Planning: Know where You're going", 2006

8.7.1. Operational processes

8.7.1.1. Sourcing:

This activity will be performing locally from our office in Peru, from there, our team will manage any activity related to procure, purchase and select the sources of raw materials (processed yarn). We will gather our raw materials from Peru and Ecuador following our procedure of sourcing. This procedure will describe among other things the following:

- ✓ What requirements our suppliers should have to be part of our supplying.
- ✓ Their product, what standards or characteristics should have for internal classification
- ✓ Payment and contract terms
- ✓ What they need to do to become certified sources.

This procedure (first key component) is extremely important because it will describe any aspect of this process and more importantly, allow our company not only has internal quality but also quality of the product. Our sourcing process will be supported with our technological tool (second key component) that will in first instance manage all aspects of our sources and secondly will allow our providers to interact directly with us using our Internet platform. Here, our Portal will attract sources and they can provide us information about them and join our network, later, our team will contact them and start our relationship.

The last key component in this process is how we will manage our relationship with our suppliers. We will work closely to them in order to work on quality

aspects according to our needs and help them in many ways. With this approach, we are trying to not only establish long term relationships but also commitment.

8.7.1.2. Warehousing:

For warehousing, our facilities in Peru will contain two separate areas to store raw materials for manufacturing purposes and also finished products ready to ship to our point of sales internationally. This process also is documented on procedures, it will contain among others:

- ✓ Layout of the warehouses
- ✓ Labeling and identification of items
- ✓ Emergency paths
- ✓ Any specific raw material or finished product, how it will be store
- ✓ Handling aspects

This process has three key elements in their operation, first, the layout and identification of each section within the warehouse. This nomenclature/floor design will help the business to easily and conveniently store materials and uploaded/downloaded quickly with trucks and others (in a timely and efficient matter). Second element, technology is also present in two ways: a) RFID technology, for real inventory purposes and, b) warehouse management system. Our warehouses will have a spacious area (third key component) for contain simultaneously several trucks.

RFID technology will be available only in the third year of operations. Before, our production volumes do not justify that kind of investment.

8.7.1.3. *Designing:*

This group of activities is critical for the business, operationally; it will be outsourced to third parties who have the responsibility of designing our collections based on specific requirements or fashion trends. This operational process is documented as well and includes:

- ✓ What inputs our outsourcer will receive from us or others
- ✓ Quality aspects and intellectual property if applicable
- ✓ Payment and contract terms
- ✓ Way and formats of delivered designs
- ✓ Service level agreement terms

Our team will select carefully the company who does designing work for our company, could be individuals or companies. We will try to hire fashion designers from high-fashion countries such as France, Italy, US or Japan, who understand the fashion world and can easily design new trends. Also, depending on our sales and marketing strategy, we will use local designers for certain markets and foreign designers for others and market this aspect.

As being an outsourcing process, our team should be aware of the terms and conditions of the contracts (externally) and how the designs will be introduced in our manufacturing process (internally). A key aspect in this operating outsource process is the concept called "Service Level Agreement" or SLA, which will address variables such as time of delivery, quantities per design, response to modifications, models, penalties, etc. This concept will allow us to manage this relationship and pursue quality in the process.

8.7.1.4. *Manufacturing:*

This also is an outsourced process, it will be outsource to a local manufactory in Peru. Our selecting criteria for manufacturing purposes will be based on experience, other references, cost per volume/unit, quality standards used on manufacturing process and value add. This manufactory will receive our raw materials and specifications of the designs. At the end of the process, this third party will deliver the finished products to us to be store in our facility. In the documentation of this process it can be found the following:

- ✓ What inputs / outputs will required this process
- ✓ How our company will provide raw materials and designs
- ✓ How the third party will deliver the finished products
- ✓ How will perform tests before final production
- ✓ How we measure quality
- ✓ Packing specifications
- ✓ Payment and contract terms
- ✓ Service level agreements measurements

This procedure will be governed by the SLA; this SLA includes quality measures and production metrics as well. Also, our team will run audits on the production lines to ensure quality. It's extremely important that our manufacturing partner complain with international standards of production and also best practices in terms of human rights and processes. The key element in this operational process is the SLA with the manufacturer and the warranties.

8.7.1.5. *Distribution & Shipping:*

These activities are made by a third party using their transporting infrastructure, in other words, the 3PL¹⁸ will use their trucks to move finished product to/from our warehouses to/from the point of sales or to the port if this is the case. Our procedures to distribution and shipping will include:

- ✓ Frequency of movement of merchandise
- ✓ Description of the routes or paths to cover
- ✓ Packing specifications (for international shipping) (In Exhibit 27 it is showed how the product will be delivered by the manufacturer – with tags, labels and in sealed bags ready to be putted in boxes for exportation).
- ✓ Information necessary for exporting purposes (big quantities)
- ✓ Coordination with UPS/FedEx (Internet purchases)
- ✓ Handling specifications
- ✓ Labeling or coding standards
- ✓ Terms and conditions of the contract and SLA

The key element of this process will be the transportation fleet (trucks), local infrastructure and how it will fit into our supply chain process to put our product on the market in a timely manner. To address this issue, our team will coordinate with our 3PL and also constantly with the point of sales and thru our online inventory systems we can predict inventory volumes and distribution demands. In the case of shipping abroad, our office in Peru will work with a trade agent to help us with international logistics and exporting activities. We will use UPS/FedEx for internet shopping.

¹⁸ Third party Logistics (3PL)

8.7.1.6. *Market Research:*

This group of activities will be outsourced to a specialized firm. This firm will be responsible to identify our targets, markets, qualifications of our customers, needs, trends, and any other relevant information for decision making. This relationship and contract will be managed as project basis and be run according our needs and not so often. This procedure will describe:

- ✓ Description and scope of the desired research
- ✓ Qualifications of the market research firm
- ✓ Format of the results
- ✓ Terms and conditions

Here, is important to ensure a good sample, first source data and meaningful results. In some cases, our company will conduct by ourselves market research using local sources and Internet; this approach will make us save money.

8.7.1.7. *Pricing:*

This group of activities will be performed locally thru a committee. This committee is conforming by the general manager, sales manager and production manager. The output from this procedure will be our pricing strategy and the mark-up for our products. It will take into consideration also: local economy, purchasing power, inflation, etc. In this procedure is found:

- ✓ Inputs needed to set prices
- ✓ List of variables to considered (external / internal)
- ✓ Calculation formulas
- ✓ Possible scenarios and strategies

The technology tool is the key in this operational process. It will gather all the information and variables needed to begin the process and will forecast possible results based on different scenarios. It allows management and committee team to take decisions with enough information about the market and current situation.

8.7.1.8. Advertising:

For these activities is important to take into consideration outputs from other operational process such as: sourcing, designing, manufacturing, market research and pricing. Advertising will be outsourced to a marketing firm which is responsible of the marketing & advertising campaign. Whether be a paper, radio, Internet or TV advertising, the design should be presented, debated and approved by our management team. Variables to take into consideration: target market, country, marketing mix, budget, etc. How these activities will be performed and coordinated with the outsourcer are described in the advertising procedure, this includes among other things the following:

- ✓ Payment and contract terms
- ✓ Service level agreement
- ✓ Definition of media types
- ✓ Media plans and formats
- ✓ Publishing activities
- ✓ Media contact information

Relevant elements in this process are: a) message or concept to be advertised, b) selection of media: internet, radio, TV or paper; c) media plan with frequency, d) measuring and performance of marketing efforts. In terms of performance, is important to measure the impact of marketing on sales and on investment, financially speaking, how much the advertising and other efforts related contribute at the bottom line. Once the advertising campaign is design, our team

will decide if make a special launch or just run the campaign, in certain cases, a mayor effort will be done depending on the season or special collections.

8.7.1.9. *Partnering:*

This group of activities will be performed locally thru a program. The main purpose is to handle and manage partners from sales perspective. In other words, all the activities regard maintaining relationships with distributors, suppliers and other potential partners will be coordinated using a special program. This procedure includes description of tasks such as:

- ✓ Enrolment of partners
- ✓ Qualification criteria of partners
- ✓ Responsibilities of partners
- ✓ Selling support and advertising materials provided
- ✓ Scoring measures and reward systems

Technology is the key element in this operational process. Using the Portal that runs over Internet will allow our partners to interact online with our company.

8.7.1.10. *Selling:*

This group of activities will be performed locally and internationally. Locally in the destination market, for our business purposes, we will open two Stores in Chicago, so, our selling model there is people coming to our store and sells them merchandise on the spot. To be able to accomplish this goal, we need a strategic location in Chicago, good design and layout, great atmosphere, and aggressive and young looking good salespeople. Internationally, our second sales model is using Internet as sales tool. We will provide an online store in our website so

users can purchase directly clothes. Whether locally or internationally, our sales procedure will address the following aspects:

- ✓ Forecasting methods
- ✓ Selling cycle
- ✓ Gathering information from our customers
- ✓ How to approach customers
- ✓ Internet purchases
- ✓ Different calculations (commissions, shipment, etc.)

Three elements are crucial in this operational process; the first one is the location and the store in general sense, this will define if customers will be attracted or not or have intention to purchase. Secondly, our online stores (technology) that will allow experienced customers buy directly. Third, sales people with interpersonal skills, friendly and selling skills.

8.7.1.11. Customer Service:

Customer service is an inherent part of our strategy and operating process. It encompasses a set of activities related to serve and attend our customer/partner/suppliers base. From our small call center in Peru our team will support and receive inquiries from our worldwide customers, if our customers want to talk with any company representative, this is the way. Other method of contact will be thru our website, we will implement a live chat service and email (forms) capabilities to received feedback from them. Also our Portal will have function abilities to allow partners & suppliers to help us improve our service. In our stores in Chicago, our customer service will be live at the store, meaning that our salespeople will attend immediately our customers' inquiries or help them with any subject. In the store we should have small pieces of paper with a quick survey on it; our customers can fill this up and give us their feedback shopping

Final Project - UDLA

with us. Another way to get feedback from them, on any voucher printed in the store, on the back of the receipt will come a internet-code that allow customers make a online survey as well post-service.

This operational process is documented as well and will include among others the following:

- ✓ Steps to process any inquiry or complain of customers (via Internet, live in person, telephone or survey)
- ✓ Response times and follow up
- ✓ How to handling customers
- ✓ Interaction with different departments within the company
- ✓ Warranties and refunds policies.

Here the cornerstones of this operational process are: a) Software to manage customers (CRM) and surveys. This piece of software is part of our solution and is inherent in our Extranet, Website and internal applications. It has workflow capabilities so is easy to follow up and integrate several departments in our company, in this way our customers will be in contact with one person. b) Paper based surveys (on the store and on receipts) c) our Call Center, enabling several telephone lines with customer representatives waiting for calls.

These are the mayor operational process from our day-to-day operations; those will allow us to get our business up and running. We use and will encourage documenting any operation process for easy understanding of the duties, process and roles of each person and department, we follow an international standard such as ISO 9000 thus give us internal and external advantages.

8.7.2. Summary of resources

Of all the operation process mentioned in the previous section, we will need facilities, equipment, information systems and any other assets that will describe as follows:

8.7.2.1. General

This category covers the hours of operation and the days the business will be open, it's classified in four different offices: Peru (HQ), Chicago (two Point of Sale or Stores) and Online Store.

- ✓ Peru: Office hours from 9am to 6pm, Monday thru Friday, one shift. It will be open year round and days-off will be ruled against Peruvian Law.
- ✓ Chicago:
 - Store 1 will be open from 10am to 8pm on Monday to Friday, Saturday from 10am till 8pm and Sunday from 10am till 1pm, also one shift. Days-off will be ruled by US but most of them the store will be open.
 - Store 2 will be open from 10am to 8pm on Monday to Friday, Saturday from 10am till 8pm and Sunday from 10am till 1pm, also one shift. Days-off will be ruled by US but most of them the store will be open.
- ✓ Online store: Our website will be available for browsing, ordering and purchasing 24 hours, 7 days a week, year round. Only in special occasions and on planning basis for maintenance support, the site will be shutdown (will do it during non peak hours).
- ✓ Every year two new stores will be open in a new city.

8.7.2.2. Buildings

This category includes all premises needed to operate our business in all locations. Basically we will use three different premises, one in Peru which is our Head Quarters and two stores located in Chicago (the first year of operations).

- ✓ Head quarters in Peru: Rented building will have in total 800 sq meters of space containing administrative offices, two warehouses and space for loading trucks, this premise will be located in La Marina Avenue, San Miguel District and is near to the port. The description of the layout of the office is:
- ✓ Administrative section, here will be located the administrative personnel, general layout is:
 - Management area: encompasses management people
 - Operations area: sourcing, warehouse, designing, manufacturing and logistics process people.
 - Marketing & sales area: encompasses sells people
 - Call center area: encompasses customer service representatives.
- ✓ Warehousing section, both premises for raw materials and finished products are located here. Both warehouses are interconnected and each has plenty of space to move inside the warehouses and to load trucks on designated areas. General layout is:
 - Warehouse 01 for raw materials
 - Warehouse 02 for finished products.
- ✓ Deck for trucks
 - Aisles for moving cargo.
- ✓ Stores in Chicago: The stores will have a flat interior design (not much walls), clear and fancy (nice colors, nice contrasts, and nice

Final Project - UDLA

pictures/models) and we will use windows and lighting systems. Also in the stores will be running all day several videos and music tracks to create a friendly and attractive atmosphere. Store locations are: Store 1 will be located in North Michigan Avenue. Store 2 will be located in Oak Street. The space of the stores is around 200 and 250 sq meters. General layout of both stores will include:

- Management area: here we will have a private space for the store manager.
- Store space: this area will be located our merchandise divided by sections, in each section will be different collections and racks to hold our merchandise or dolls wearing our clothes. Also, we will have dressing rooms and space for paying.
- Warehouse area: this will be an area in the back of the store for storing purposes; one of the stores will have enough space for storing merchandise, the idea here is to have certain inventory and other things needed for running the store.
- A small office will be rented for the Marketing and Operations personnel.
- In the second year of operations is expected to rent a small warehouse to serve as a logistic base for two cities (Chicago and New York) and also to set up the offices for the U.S. operations.
- In the final months of the third year of operations a small warehouse would be bought in Chicago, to serve for three (and eventually five cities) and finishing establishing Chicago as our distribution center.

8.7.2.3. *Equipment*

This section will describe in high level detail the equipment required by the business to operate such as equipment for all the premises and other assets.

- ✓ HQ in Peru: here is a list of things to considerer:
 - 8 personal computers (for all administrative, operations, marketing & sales, and call center functions)
 - One pallet jack
 - Pallets storage system
 - PBX and several telephone lines for call center capability
- ✓ Stores in Chicago: the general equipment is less, but also include different purpose assets, among the things needed per store are:
 - 2 personal computers (for management purposes and cashier)
 - 2 or 3 POS for approving credit card payments and others.
 - 2 Flat screens to hang inside the store, the purpose is to show our advertising and send messages to our customers, also, to play videos and other media.
 - 1 Projector has the same function ability as the flat screens, but different approach.
 - 1 Sound system, for play music on the store and create this atmosphere.
 - Paper based surveys and other marketing materials

8.7.2.4. *Technology and Information Systems*

This section will describe from technological point of view all the software and special equipment needed in our premises to run the business accordingly. Here is a detailed explanation of what we need:

Final Project - UDLA

- ✓ Peru head quarters, basic requirements:
 - High speed internet connection
 - Administrative system (payroll, accounts receivables, account payable, asset management, etc.)
 - Operations system (procuring, warehousing, inventory, fleet management, import/export)
 - Sales and Marketing system (pricing, customer service, ticketing, online surveys)
 - Extranet for suppliers, partners, employees and customers in general
 - RFID tags & readers (from the second year of operations)
 - Software for design
- ✓ Stores in Chicago, basic requirements:
 - High speed internet connection
 - POS software (capable of printing surveys on the back)
 - Rewards and membership software
- ✓ Online store: basically for our online portal we will need technological support and be sure have the following characteristics:
 - Merchant capable (ability to process online payments with credit card and other means)
 - Security measures (certificates of security, SSL, encryption and other ways to guarantee security among our shopping experience)
 - Redundancy (ability to run our website without interruption (24x7), that means redundancy elements on our IT design and infrastructure, for example using data center services.

8.8. Human Resources

This section describes the most valuable asset in our company, which are our personnel. Here is found the detailed description of the people we need to run the business and also brief descriptions of the jobs. The Project Management Institute (PMI) describes the human resource plan as “the processes that organize, manage and lead the project team. The project team is comprised of the people with assigned roles and responsibilities for completing the project¹⁹”.

Also, the PMI recommends four mayor activities²⁰ to focus on the human part of the organization, those are:

- ✓ Develop human resource plan
- ✓ Acquire project team
- ✓ Develop project team
- ✓ Manage project team

First, we will introduce our general benefits and personnel policies that apply to all employees.

8.8.1. Company policies and others

- ✓ Employment:
 - Equal opportunity affirmative action: Our Company is committed to providing a working environment free from unlawful discrimination and to fostering a nurturing and vibrant community founded upon the fundamental dignity and worth of all of its members.

¹⁹ A guide to the Project Management Body of Knowledge, 2008

²⁰ Idem

Final Project - UDLA

- Recruitment: In general all administrative positions, including senior and executive level positions, must be posted through the Jobs at our company website.
 - Administrative hiring process: As part of its commitment to equal employment opportunity and affirmative action, our Company has established an Administrative Hiring Process for all applicants.
 - Medical examination: Our Company may require medical examinations of selected employee groups as a condition of employment.
- ✓ Wages and salaries
- Pay policy: Our Company provides a pay program designed to attract and retain employees, some employees will have fixed salary and others variable part as well.
 - Starting salaries and range structures: Starting salaries for new hires should reflect the selected candidate's job related qualifications and experience within available resources.
- ✓ Employee concerns
- Employee and Labor relations: every manager within our company should be responsible to deal any concern or labor relation with their subordinates.
 - Probationary period: A support staff employee is considered to be on probationary status for a sixty calendar-day period beginning with the date of employment. Upon an employee's satisfactory completion of the probationary period, he or she is

considered to be a regular employee (unless the job is stated to be temporary).

- Probationary performance evaluation: The Probationary Performance Evaluation is designed to assist the supervisor in deciding whether or not each new support staff employee has satisfactorily completed the probationary period. Also is used to assess the performance of the employee for further development, promotions or salary increases.
- Discipline: It is expected that all employees adhere to generally accepted rules of conduct and organizational behavior.

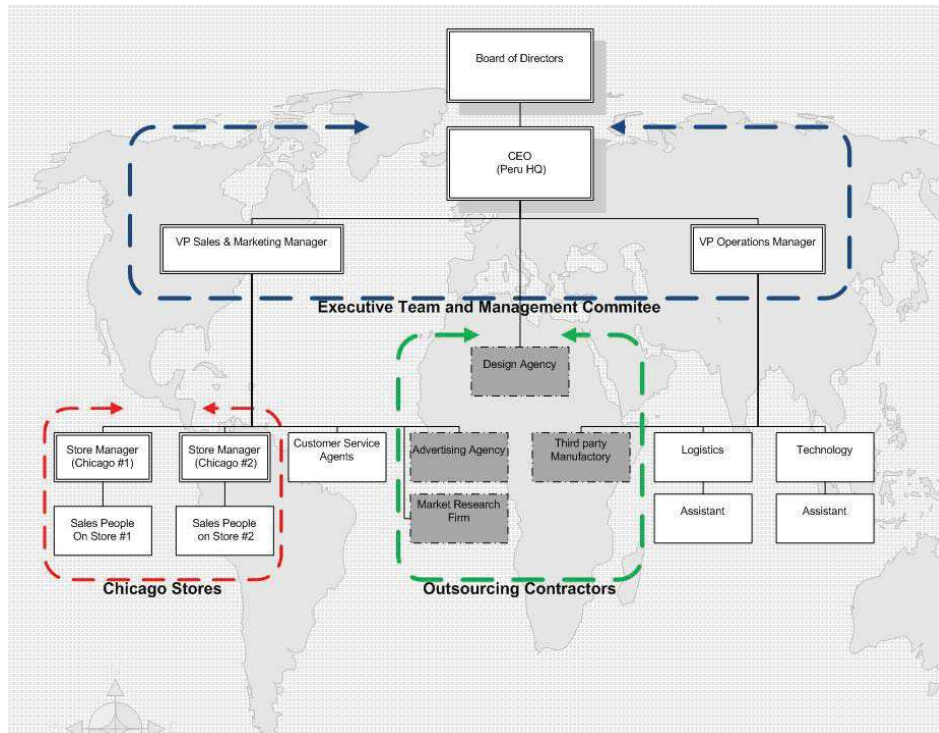
✓ Operating policies

- Regular business hours: The normal business day at our Company begins at 9:00 a.m. Employees are expected to work forty (40) hours per week. Certain offices and departments, because of the nature of their operation, may require different work schedules.
- Smoking: Smoking is prohibited in any indoor area and outdoor eating places.

8.8.2. Organizational structure

To better understand our organization structure, let's look the following diagram:

Figure 9. Organization Diagram



Author: Santiago Espinoza

Here we can observe how our company is structure and the main roles, among the things illustrated in the diagram are:

- ✓ Three main components within our internal organization:
 - First, the Executive management team which is made up of three Key executives, the CEO of the company, the Vice President of Marketing & Sales and the VP of Operations. Also, this group of people will be part of the committee.
 - Second, the people who are part of our Stores in Chicago, this people are: The manager of each store and sales people on site.

- Third, our third party contractors or outsourcers. Base on our value chain these are:
 - Designing, which is directly managed thru the committee
 - Manufacturing, who is directly coordinated by Operations
 - Market Research & Advertising, who are coordinated by Marketing & Sales.
- ✓ The main roles or responsibilities to run our business and the amount of required personnel which are:
 - HQ in Peru: Management team (2 people), customer service agents (2 to 3), logistics (1 to 2) and technology (1 to 2).
 - Stores in Chicago: 2 stores managers and 2 to 4 sales people on each site.
 - Management team in the U.S.: VP of Marketing and Sales, Marketing and Sales Assistant, Logistics Personnel (1 to 2)
- ✓ Line of authority well identified.

8.8.3. Job descriptions

- ✓ Job title: Chief Executive Officer
 - Description: In charge of implementing the strategic goals and objectives of the organization and enable the Board to fulfill its governance functions. Also, give direction and leadership toward the achievement of the organization's philosophy, mission, strategy, and its annual goals and objectives
 - Location: Lima, Peru
 - Primary responsibilities:
 - Board administration and support
 - Program, product and service delivery
 - Financial, task, risk and facilities management

Final Project - UDLA

- Human resource management
 - Community and public relations
 - Fundraising
-
- ✓ Job title: VP of Marketing and Sales
 - Description: Provide leadership and coordination of company sales and marketing functions. Develop and implement sales and marketing strategy. Monitor and analyze sales and marketing activity against goals.
 - Location: Chicago, Illinois – United States
 - Primary responsibilities:
 - Direct and coordinate company sales and marketing functions.
 - Develop and coordinate sales selling cycle and methodology.
 - Direct and oversee the company marketing function to identify and develop new customers for products and services.
 - Research and develop strategies and plans which identify marketing opportunities, direct marketing, and new project development.
 - Analyze and evaluate the effectiveness of sales, methods, costs, and results.

Final Project - UDLA

✓ Job title: VP of Operations

- Description: Provides overall direction and guidance to the operational activities of the organization with the objective of maximizing growth and profitability as well as day-to-day leadership and management to all company operations functions.
- Location: Lima, Peru
- Primary responsibilities:
 - Manages organization operations by directing and coordinating activities consistent with established goals, objectives, and policies.
 - Implements programs to ensure attainment of business plan for growth and profit.
 - Provides direction and structure for operating units.
 - Implements improved processes and management methods to generate higher ROI and workflow optimization.
 - Develop and create strategies and policies aligned with organizational goals.

✓ Job title: Store manager

- Description: is responsible for the day-to-day management of the store in accordance with overall company policy.
- Location: Chicago, Illinois – United States (the first year of operations and then every city the company enters)
- Primary responsibilities:

Final Project - UDLA

- Managing and motivating a team to increase sales and ensure efficiency.
- Managing stock levels and making key decisions about stock control.
- Analyzing sales figures and forecasting future sales volumes to maximize profits.
- Analyzing and interpreting trends to facilitate planning.
- Ensuring standards for quality, customer service and health and safety are met.
- Responding to customer complaints and comments.
- Organizing special promotions, displays and events.

✓ Job title: Sales people

- Description: Sells merchandise to store customers and assist store manager in other duties.
- Location: Chicago, Illinois – United States (the first year of operations and then every city the company enters)
- Main responsibilities:
 - Answer phones and respond to customer requests.
 - Sell product and place customer orders in computer system.
 - Provide customers with product and service information.
 - Up sell products and services.
 - When customers make purchases, salespersons typically scan merchandise price tags, total the order, accept

Final Project - UDLA

payment, make change, wrap purchases, and issue receipts.

- Handle exchanged or returned merchandise
- Perform stock work
- Unload merchandise
- Fold clothes and arrange displays.
- Put price tags on new merchandise or mark down prices on sale items.

✓ Job title: Customer service agents

- Description: Answer phones to respond to orders, general customer inquiries, invoice questions, and customer complaints.
- Location: Lima, Peru.
- Primary responsibilities:
 - Answer phones and respond to customer requests.
 - Sell product and place customer orders in computer system.
 - Provide customers with product and service information.
 - Up sell products and services.
 - Transfer customer calls to appropriate staff.
 - Identify, research, and resolve customer issues using the computer system.
 - Follow-up on customer inquires not immediately resolved.
 - Complete call logs and reports.

- ✓ Job title: IT Chief
 - Description: Direct and manage computing and information technology strategic plans, policies, programs and schedules for business and finance data processing, computer services, network communications, and management information services to accomplish corporate goals and objectives, all in coordination with the VP of Operations.
 - Location: Lima, Peru
 - Main responsibilities:
 - Direct and manage computing and information technology strategic plans, policies, programs, and schedules for business and finance data processing, computer services, network communications, and management information services to accomplish corporate goals and objectives.
 - Evaluate overall operations of computing and information technology functions and recommend enhancements.
 - Advise senior management on strategic systems conversions and integrations in support of business goals and objectives.
 - Interact with company managers on internal and external operations that are impacted by the capture, storage, processing and dissemination of information.
 - Review and approve major contracts for computing and information technology services and equipment.

Final Project - UDLA

- Ensure the security of the information systems, communication lines, and equipment.
 - Oversee the development, design, and implementation of new applications and changes to existing computer systems and software packages.
- ✓ Job title: Logistician
- Description: Logisticians handle processes involved in a supply chain, liaising with a variety of parties including suppliers of raw materials, manufacturers, distribution, retailers and consumers.
 - Location: Lima, Peru
 - Main responsibilities:
 - Monitoring the quality, quantity, cost and efficiency of the movement and storage of goods.
 - Coordinating and controlling the order cycle and associated information systems.
 - Analyzing data to monitor performance and plan improvements and demand.
 - Allocating and managing staff resources according to changing needs
 - Liaising and negotiating with customers and suppliers.
 - Implementing health and safety procedures.
 - Managing staff training issues.
 - Project management;
 - Production Engineer/technical auditor

- ✓ Job title: Assistants
 - Description: Support managers and local teams in many day to day duties. Specifically, is required many assistants for the operations department to be able to manage the operation.
 - Main responsibilities:
 - Assist manager and department teammates.
 - Report and document incidents.
 - Provide technical expertise in specific areas such as: communications, warehousing, shipping, etc.

HSEG, UNIVERSIDAD DE LAS AMERICAS

8.9. Marketing Plan

8.9.1. Industry Analysis

The US Clothing industry includes 100,000 stores with combined annual revenue of more than \$ 150 billion USD. Larger companies include companies like Nordstrom, Marshalls, Tommy Hilfiger; American Brands; Ralph Lauren and Abercrombie & Fitch. This industry is concentrated and the 50 biggest companies account with more than the 65% of the industry revenue. It is important to mention that in this industry in USA, China has gained a dominant position in apparel and manufacturing sector and the USA makers of these items have suffered a long period of decline.

Today's environment of the economic slowdown combined with rising prices in manufactured countries and apparel products will put a damper in the apparel industry. Companies that positioned themselves for the upper middle market with "affordable luxury" are scrambling to restructure product lines to make them more affordable and this can be a disadvantage for this industry at this moment. The consumers in USA and elsewhere are drowning in debt and they are cutting costs that are not necessary. Clothing is a necessity but is important to mention that consumers are changing its habits and prefer to spend money in garments that are not so expensive than the ones that they were buying before.

Another important factor is the spending of clothing in USA, a normal household spend around \$ 1,760 USD in clothing in 2007 compared to \$1,550 in 2002, this spending spree, was caused in certain way by a 30 percent drop in real apparel prices over the past decade, according to the Bureau of Labor Statistics.

Final Project - UDLA

In recent years hundreds of thousands US manufacturing jobs have been lost in the last decade in the textile and manufacture sector. Since 1997 more than 360 textile manufacture plants have close its doors and hundreds of thousands jobs have been permanently lost. This is due to an important factor which is that a lot of nations with lower costs of production have take advantage of this crisis.

In United States during 2007 manufactures have produced around \$44.5 billons of USD in fabrics according to the US census bureau²¹(Government Census, 2009) and \$10.5 billons are apparel and fabrics. During the last year US imported \$96.4 billons in apparel and textile (up from \$93.3 billons in 2007) while it exported only \$15.9 billons.²²(Plunkett Research, 2009)

One factor that is critical for this sector is the global inflation, particularly the rising cost for energy, raw materials and logistics, has put the end to the days of the low clothing prices. For example China is nowadays the main importer in this industry but lately his prices in cost labor, logistics and energy have increase and some experts say that in less than 10 years China will have problems to compete in manufacturing prices due to the increase of the labor cost and production capabilities. On the retail end, consumers in the United States have enjoyed wide selections and moderate prices. American apparel is approximately \$450 millions on this market-an amount equal to the 80 percent of the food and grocery sector's sale at retail (US census figures²³(Government Census, 2009)). Another important factor in this industry is to reduce cost and improve competitiveness with technology, for example, Just-in-time inventory driven by high computerized supply chain management systems is now an immense asset to major companies, and the best example is Zara from the Inditex group.

²¹ Government Census, 2009, www.census.gov

²²Plunkett Research, Apparel Textiles Fashion Trends, 2009, www.plunkettresearch.com

²³ Government Census, 2009, <http://www.census.gov/industry/1/mq315a065.pdf>

Demographic changes will offer tremendous opportunities to US Fashion players, for example, US, right now, has more than 77 million baby boomers which are beginning to enter the 60+ age category. As more and more of these people are becoming seniors their tastes and needs are changing and this is traduced in revenues to apparel sellers who are interesting to play in this sector. Meanwhile the Hispanic population in US is increasing exponentially –it is expected to rise 50 percent the quantity of Hispanic ethnicity in 2030- will offer superb marketing and product development opportunities.

Most department stores and apparel stores are changing the way they sell their products into more innovative ways. When consumers shop at these big stores like Nordstorm, Nieman Marcus or Dillar's they find floor after floor of clothing, accessories and cosmetics. This have created problems within the department store industry, as managers, faced with intense competition, developed the habit of continuously discounting merchandise in sale events, consequently pressuring profitability. Nonetheless, department stores remain major forces in apparel retailing today.

It is important to mention that the main drivers for this industry are basically two; which are the personal income and the fashion trends. There is a significant quantity of players in this market which can offer a wide selection of clothing and have advantages in purchasing, distribution and Marketing. There are other small players, these ones offer unique designs, merchandise, and target very specific demographics providing superior customer service or just serving in local markets. Apparel market has been and will always be a tough, highly competitive business, and many companies rise successfully, quickly and then fell. One of the industry main drivers –as we mentioned- is fashion and the respond to this

Final Project - UDLA

critical factor will determine the success or failure of a company. For example some of the most successful retail chains are those that are focused in niche markets with special tastes and demands, like special demographics or special fashion trends. Speaking about trends, the well documented expanding girth of Americans is placing new challenges as cloths for those people with overweigh of all ages, tastes and income that require cloths in larger size. So, the designers and merchandisers are facing new challenges to provide the market with larger clothes in a more flattering way. While Americans (and also people from other countries) have putting on weight, they have also developed an interest in Sports apparel and workout gear to wear at the gym and in other leisure activities and this is one of the fastest growing categories in the apparel sector.

The newest tendency is about eco-friendly garments and it is also the aim of our study. Nowadays we now that the production of synthetic fabrics consumes petroleum, blows out green house gases and contaminate the wastewater, bearing organic solvents, heavy metals and poisonous dyes and fiber treatments. And it is not just about synthetic fabrics also conventional cotton clothing comes with a tremendous cost. This cotton grows in around 2 percent of the US farmland, the cotton crop accounts for one of every four pounds of pesticides sprayed, Agriculture Department figures show²⁴(USDA, 2009). Things are worse in the global south, where cotton accounts for half of pesticide use. The US imports a little bit more than the other 9 big importers combined. Other important factor is that the American companies outsource their sewing and spinning jobs to Asia and Latin America where the environmental capacities are much worse, meaning that America also exports a big pollution problem as well. Some important facts to mention is that for example; one single shirt generates as much as 15 gallons of chlorine- polluted wastewater and it needs more than 700

²⁴USDA, 2009, www.usda.gov

gallons to produce which is more than three times the amount the average American uses every day for drinking, bathing, washing dishes and flushing toilets.

Green apparel manufacturers are coming to rescue this industry. According to the nonprofit organization Organic Exchange²⁵(Organic Exchange, 2009) the global market for organic cotton grew by \$1.4 billion (700 percent) from 2002 to 2007 and it is estimated to grow to \$ 2.6 billion in 2008. The organic cotton is more environmental friendly than the normal industrial cotton but still has a lot of environmental issues like soil erosion and it consumes a huge quantity of one of our most valuable resources: water. That is one of the reasons we choose Alpaca as our main fabric.

As it has been said many times throughout this study, Alpaca, if treated correctly, has the potential to be the most eco-friendly fiber in the world. One of the main reasons is because it saves water – a lot of water- because the alpaca has around 52 natural colors it is not necessary to dye the fabrics and this reduces the consumption of water in enormous quantities and avoids polluting the water. Another main reason is that the Alpaca do not need Chemicals or pesticides and besides is energy efficient in the production processes. This fabric is the most environmental fabric in the world and is already well known in the fashion circles in the United States for being a luxury fabric, fine and warm.

Some experts in the fashion industry believe that this trend will be more important in the future and green clothing will be more and more a part of the ordinary choices of everyone because each process and each material is being looked at with new eyes.

²⁵Organic Exchange, 2009 - www.organicexchange.org

8.9.2. Competitive Analysis

Nowadays in The United States of America there are just a few representative competitors in this sector –Alpaca mainly and eco-friendly apparel - which gives the opportunity to new entrepreneurs to develop this market and make profits from it. The Alpaca apparel market in USA is starting to win position among consumers and represents a desirable market for those who are in the apparel business, but nevertheless the competition is fierce due the outrageous quantity of substitutes that are in the apparel market.

In this country the main players are small parties that sell their products through small boutiques stores, catalogs and internet. We identified two main types of competitors; the direct and indirect competitors. Among direct competitors are companies that sell Alpaca products and also those who are developing eco-friendly products.

In this analysis the main competitors will be analyzed systematically, according to production capacity, also specific characteristics and consumer demands and our main criteria to this analysis are as follows:

Table 2. Competitor Analysis I

Direct Competitors ²⁶	Indirect Competitors ²⁷	Main Criteria
 <p>EST. 1976 PERUVIAN CONNECTION</p> <p>HUNA</p> <p>LINDA LOJDERMI</p>	 <p>envi BE GREEN</p> <p>H&M</p> <p>N NORDSTROM</p>	<ul style="list-style-type: none"> • Fabrics • Quality • Price • Main Channel • Products • Objectives • Assumptions • Strategy • Capabilities • Possible response




²⁶ These companies represent the main competitors that are established in the USA and due to its sales volume and similarity of products are the main competitors.

²⁷ This are just some examples and do not represent the total of indirect competitors.

Final Project - UDLA

8.9.2.1. Competitor Analysis – Direct competitors

Table 3. Competitor Analysis II

Criteria / Competitor			
Fabric	Alpaca Organic Cotton Recyclable Materials	Organic Cotton Alpaca	Sasawashi Bamboo Sea cell Soya and other exotic self-sustaining plants
Quality	High	Medium – High	High
Price	Premium Price \$200 – \$2,000 USD	High Price \$ 150 – 1500 USD	Premium Price \$100 – \$1,000 USD
Main Channel	Stores in USA (Washington, Kansas, Santa Fe, Vermont) Stores in England Internet Catalogs	Stores USA (Duty free Corners) Stores in Peru, Argentina & Chile. Internet (as an Information site)	Store In Chicago Small boutiques all around USA. Online retailers. Boutiques in Canada and Denmark
Products	Sweaters Outwear Skirts Dresses Accessories Hat, Scarves & Gloves Home Décor	Knit wear Outwear Home accessories Scarves.	Sweaters Outwear Skirts Dresses Accessories Hat, Scarves & Gloves Tops

Final Project - UDLA

			Jackets T-Shirts
Objectives	<p>Dedication to the preservation and perpetuation of luxurious textile designs from all over the world.</p> <p>Including new and entirely original collection of garments for women and men, including exquisite, one-of-a-kind art Knits.</p>	<p>To give raw materials the maximum added value in the origin for exportation to niche markets, leaving aside the ones of low quality and commodities.</p> <p>Not to be a static entity, but much to the contrary a dynamic one ready to face new challenges.</p>	<p>Luxury eco redefines sustainability with design that gives back to the earth.</p> <p>Linda Loudermilk clothing outfits the movement, providing the uniform for this new kind of earth warrior – an infusion of hope for an abused but resilient planet.</p>
Assumptions	<p>Their Garments are based in luxury textile designs mainly for women.</p> <p>Their products are based in fabrics like Alpaca and Cotton just from Peru.</p> <p>Their products are based in Art-knit.</p> <p>Their products are based on traditional designs.</p> <p>Their target is not</p>	<p>Their products are Standard and classic.</p> <p>The target of this competitor is not wide.</p> <p>They have good distribution Strategy but limited to wholesalers and their own stores.</p> <p>This company has a limited quantity of designs.</p> <p>Their target is extremely specific.</p>	<p>Their Garments are based in luxury textile designs mainly for women and they provide also luxury garments for men but in a small quantity.</p> <p>Their products are based in fabrics like Bamboo, soy and natural fabrics.</p> <p>Their network</p>

Final Project - UDLA

	wide.		distribution is huge; right now this company distributes its products in more than 50 luxury stores around USA.
Strategy	Fare Trade Modernization. Design approach Grow sales with new products. Promotional campaigns.	Niche Market Fare Trade Promotional campaigns Eco- friendly approach. Standard products.	Diversification Luxury eco-friendly garments Eco-Stamp: kind of a certification for eco-friendly products
Capabilities	Production Distribution Marketing Design	Production Distribution Marketing Design	Design Distribution Marketing Production
Possible Response of the competitors	This company could identify that Chicago represents a potential market and establish a store in the city. This company, at this moment, uses Internet mainly as a promotional tool and this company. However, it can break into the	The main sales strategy of this company is selling through special corners in airports in USA. They can change its strategy and establish physical stores especially in Chicago where a lot of companies are opening fashion and trendy apparel stores. This company accounts with good production and	This company represents one of our mayor concerns because at this moment they do not produce garments with Alpaca and organic cotton. Meaning that it can hurt our business if they decide to start to produce with these

Final Project - UDLA

	<p>market through Internet and start selling their products through this channel.</p>	<p>distribution capabilities and also they can improve selling more eco-friendly products.</p>	<p>materials. Another assumption could be that if they decide to produce with Alpaca they could make the fiber more known and benefit us indirectly.</p>
--	---	--	--

8.9.2.2. Competitor Analysis – Indirect competitors

The indirect competitors represent mainly companies that offer products and services close to ours and have the same approach of quality, price and almost same target. In some cases this competitors offer eco- friendly products but they do it with a different approach or they do not work with eco-friendly products at all.

We identified that our company has two types of indirect competitors. The first ones are mainly medium-small luxury boutiques which their main characteristic is that they work with independent designers and with commercial and luxury fabrics like cotton, wool, silk or cashmere. These companies usually are located in the main shopping streets in Chicago like "Magnificent Mile" which refers to the roughly mile-long stretch of North Michigan Avenue between Oak Street and the Chicago River where you can find the most exclusive and trendy boutiques. This type of competitors in general is targeting our same market with similar products and with the same value proposition which makes them tough competitors.

Final Project - UDLA

The second type of competitors includes the big designers' names like Giorgio Armani, Burberry, and Escada and so on, which have much better brand recognition and production capacity than the medium-small boutiques. In this industry the competitive environment is dynamic and the competitor's ability to react is swiftly and should be taken into account. For example the big name brands represent a potential threat to us in this segment because in any moment they can develop an Eco-friendly line and they have better capabilities to distribute, promote and sell the product.

Another important factor within this industry and is really important to understand is the consumer behavior. The consumers are pegged to certain brands and some of the consumers are already loyal to them and is going to be difficult to make them switch.

We identified some main indirect competitors and we analyzed them systematically, according to production capacity also same characteristics and consumer demands. Our main criteria to this analysis are as follows:

Table 4. Competition Analysis III

Criteria / Competitor			
Fabric	Organic Cotton Bamboo Organic Wool Soy	Cotton Organic cotton Wood Ecological Fabrics.	All kind of fabrics. Organic cotton.
Quality	Medium	High	Low to High
Price	Competitive price \$ 50 – 400 USD	Medium- low Price \$20 – \$380 USD	Low to Premium \$20 – \$5,000 USD
Main Channel	Boutique in Boston,	In Chicago they have two	In Chicago 12 stores

Final Project - UDLA

	<p>USA</p> <p>Internet mainly.</p> <p>This company serves as online retailer for all small designers.</p>	<p>Stores in the main shopping streets.</p> <p>And another 169 stores all around USA.</p>	<p>and their projection is to more by the end of 2011.</p> <p>All around USA</p> <p>Internet Sales.</p>
Products	<p>Blazers</p> <p>Cardigans</p> <p>Dresses</p> <p>Hand Bags</p> <p>Outwear</p> <p>Lingerie</p> <p>Skirts</p> <p>Sweaters</p>	<p>Sweaters</p> <p>Outwear</p> <p>Skirts</p> <p>Dresses</p> <p>Accessories</p> <p>Hat, Scarves & Gloves</p> <p>Tops</p> <p>Jackets</p> <p>T-Shirts</p>	<p>All Kind</p>
Objectives	<p>Sell eco-conscious clothing</p> <p>Their goal is to keep the world of fashion and the actual world in perfect balance, and to give the customer all the latest fashions without taking from the world you have to live in.</p>	<p>Quality for H&M is about making sure their products meet or exceed customers' expectations. It also means that they have to be manufactured under good conditions and that customers must be satisfied with the company. Taking responsibility for how their operations affect people and the environment is also an essential prerequisite for H&M's continued</p>	<p>To be the biggest department store in the United States, providing all kind of products suitable for all the members of the family.</p> <p>Assure the best price possible and provide the best service possible.</p>

Final Project - UDLA

		profitability and growth.	
Assumptions	<p>It is a boutique that buys clothes from other designers. Their products have a unique sizing system. Their principal products are based on organic cotton and bamboo. Their distribution capabilities are poor. This company utilizes a lot of designers as a strategy. Envi does not manufacture.</p>	<p>Their products are based in fashion and design, they do not have a luxury collection but this is mainly because its target. They offer a wide range of products in different styles but they are not exclusive. They can sell its products all around the world, its power of negotiation with suppliers is huge and its distribution as well. They can decide on diversify its business and offer luxury collections as well.</p>	<p>This company provides all kind of products including eco friendly products and at this moment their main focus is apparel, shoes and beauty but they do not have a specific target due to its wide portfolio of products.</p>
Possible Response of the competitors	<p>At this moment this company has only one store but it has been very successful selling to any place in the U.S. through its web site. This company does not sell Alpaca products but they can recognize that this fabric can be well introduced to the</p>	<p>This company had always a big environmental procurement and now is introducing to the market new eco – friendly products mainly made from ecological cotton. This represents a big threat for us because this company has a tremendous power of distribution and a great</p>	<p>It is important to assume that this company could include a luxury collection and compete directly with us.</p>

Final Project - UDLA

	market and is quite profitable.	supply chain management. This company does not sell exclusive garments but they could adopt a diversification strategy and enter this sector.	
Strategy	Eco-friendly approach. Fair Trade Grow Sales with new products Independent designers Promotional campaigns	Good management of the supply chain High Quality Control Pioneer in introducing eco-friendly products Environmental procurement	Best price possible Aggressive expansion Good supply chain management Marketing and promotional activities
Capabilities	Marketing Design Distribution (only one store and Internet)	Extremely high quality control. Distribution Cost effective approach Production Marketing	Supply chain Management. Distribution Marketing Design

8.9.2.3. Competitor Analysis – Future competitors

In the Andean community there is a representative quantity of entrepreneurs that are willing to participate in this sector. These are mainly small manufacturers or intermediaries that can sell their products through internet and take advantage of the low cost that this model represents. Also take advantage of the third part logistics that can help small business to go global. This model is growing and

nowadays we can find just a few players on eBay selling alpaca garments and some others selling eco –friendly products.²⁸

We identified that this model can attract new players into the market because it is easier to find potential clients and to communicate with them, but it has a lack of personal touch and does not give the possibility to this entrepreneurs to provide a customized service. In addition this model has some disadvantages, like the consumers are skeptic to buy such a product trough Internet because this kind of products must be tried- on, feel the texture and once fulfilled these expectations the consumer will make the purchase. Another disadvantage about this model is that is not an option for those whose main strategy is growing aggressively. This model can be representative for those players that are not looking to sell big quantities and its strategy of growth is not through volume sales but trough finding a specific niche.

Other representative future competitors are the main retailers which are catching up with new trends.

The eco friendly trend is new and more companies are willing to innovate and diversify. Some examples are the retailers, which are taking into account that the consumer is changing its preferences and is looking for this kind of products, for example Wal-Mart just started, in some of its stores, to sell eco-friendly products mainly of recyclable cotton. Another example is Nordstrom that in this year will introduce its eco-friendly apparel line, at this moment these companies do not represent direct competition because its target and sales distribution channels are different.

8.9.2.4. *Strategic Group Map*

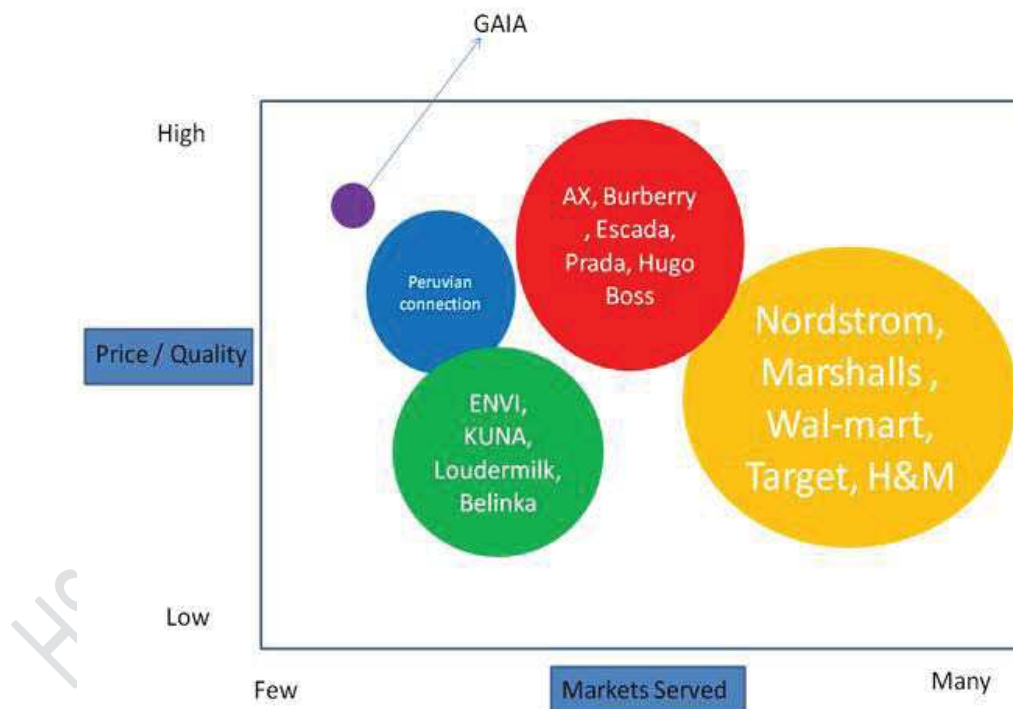
²⁸eBay - <http://search.ebay.com>

Final Project - UDLA

Our main competitors are represented in the blue circle and in the green circle; these are companies that, for its characteristics like price, quality, target and volume sales are representative competitors.

These players are in the market with a small quantity of shops or they just sell their products through internet and they are specialized in eco-friendly products with ecological raw materials like bamboo, soy, Alpaca, cotton, wool and so on. They are mainly independent designers and their garments are in some cases luxurious, but their main strategy is that they are exclusive and eco-friendly approached.

Figure 10. Strategies Group Map



However in the red and yellow circles we have our indirect or future competitors. The yellow circle represents mainly big retailers that already have an eco-friendly line of products and they sell them in big quantities. In some cases they are

introducing new eco lines of products like H&M that just launched a new collection mainly made of organic cotton for this spring 2009. Target and Wal-Mart already count with an eco line of T-shirts.

In the red circle is our mayor threat which are the competitors that account with better brand recognition and distribution possibilities, these companies are well positioned among the consumers, but we say that they are future competitors because at this moment they do not produce or account with an eco-collection, but is going to be a matter of time to them to realize that consumers are changing their preferences and they will demand more products environmentally friendly.

At this moment GAIA occupies a position a little big distant of the main group, this is not necessary bad. Our strategy is to maintain a premium price and a high quality because in this sector, especially in the luxury garments, the market served is reduced and really exclusive, so the distribution should be smaller in comparison with the big retailers, which have different target and strategy. GAIA group is targeted to a niche market and its position in the group mapping is due to the exclusivity of the brand and due to the reduced segment.

8.9.3. Customer Analysis

In this analysis we identified our possible target and we will define its demographics and possible reactions to our brand.

8.9.3.1. Target Market

Our target is focused on people from 25 years to 45, male and female who belongs to medium and high socio-economic class, who reside in the United States of North America and are interested in clothes that are of high quality, like innovative and fashionable designs. These persons are also environmentally concerned and are starting to change their consumption habits. Around 75% of our portfolio of products will be garments and accessories for women. Our broad sector is “green” apparel. Our specific sector is retail of clothes and accessories in the U.S. made from alpaca.

8.9.3.2. Demographic Dimensions

Figure 11. Demographic Dimension

Criteria	Analysis
Demographics	<p>Our target is a mixture of people with middle to high income of the so called Generation X and the elders of the so called Millennials (or Generation Y).</p> <p>Of the Generation X we are targeting people between 31 and 45 years old, born between 1964 and 1977. This demographic has high purchasing power and is much more environmentally aware than the previous generation (the “baby boomers”).</p> <p>The youngest of the Generation Y (people born between 1978 and 1984, now 25 to 30 years old) are very environmentally aware, are starting to spend more in clothes and luxury items and are very influenced by the latest trends.</p> <p>The combination of both targets account for roughly 25% of</p>

Final Project - UDLA

Customer Behaviors	<p>the U.S. population. We also should consider that our products are mainly aimed to women because they spend much more in luxury clothing.</p> <p>We identified that the consumer behavior is really difficult to determine because the consumers are constantly changing its preferences. This is a sector which main drivers are fashion and consumer power and it is important to understand, as a company, that what works today may not work tomorrow. That's why we analyzed the purchase behavior in the table below.</p>
Geographic Regions	<p>At this moment the geographic region is the east coast of the USA – with Chicago as a starting point and future logistic base for five different cities. The American culture is famous for its purchase capacity; it is a country which expends more than the 10% of its income per capita in clothing. Nowadays this geographic region represents a big challenge for any industry and it is important to take into account that most of the people in this region have high debt and they have reduced their spending significantly.</p>
Purchase Habits	<p>See purchase behavior chart.</p>
Resistance to Change	<p>The resistant to change from the normal apparel to eco – friendly apparel is LOW but there are a few problems. At this moment there is not enough variety of products in the market and also there are not enough places where the consumer can find these products (of course this is in comparison with the normal apparel). These products are easy to adopt by the consumer and they represent a new trend that we think is irreversible. Nowadays and in the future the consumer will consider purchasing eco –friendly products because they are more aware of the environment.</p>

8.9.3.3. Purchase Behavior for apparel

Table 5. Purchase Behaviour for Apparel

Recognition of the need	First off all we know that clothing is one of the basic needs for a human being and it will be always a necessity – it won't change- . We as consumers know that in certain point we will need clothes to wear and we have different necessities for different occasions. It also depends in our lifestyle and the environment in which we live.
Alternatives identification	Once that the consumers identified their needs the next step is to evaluate their alternatives and a lot of factors come into play, such as the buying power or the place where they can make their purchases. In the apparel business the consumer can find a lot of these alternatives and sometimes this factor will confuse the consumer or will make more difficult this decision.
Evaluation of the alternatives	This is the most interesting part of the consumer behavior and this is the part where a good marketing strategy and promotion effort will give us a competitive advantage among our competitors. Some of the consumers in this category and mainly in the United States are willing to spend more of their income in basic necessities and this is because they always want to improve their life style and this is why a lot of companies make their efforts in this part of the consumer behavior. The consumer will gather all their alternatives and will chose one to cover the necessity in place.
Purchase decision	The consumer – mainly in this industry- will like to touch the product, they want to try on the items, they want to choose the colors and sizes and once they have done

Final Project - UDLA

all that with many possible brands alternatives they will make the decision of purchasing the product. The brand will play a major role in the decision. Attributes like fashion, and the satisfaction of buying an exclusive product come into play in the decision too.

After sales behavior.

This is a critical factor for the consumer because if the consumer is satisfied with the product it will come back and what is more important it will promote our brand telling his/her family or work mates. In this industry is normal to create royalty programs or special membership card to follow up their needs, behavior on fashion and purchase behavior.

HSEG, UNIVERSIDAD DE LAS AMÉRICAS

8.9.4. Objectives

8.9.4.1. Corporate Objectives

- ✓ Introduce the “green” concept to our clients and to the public in general.
- ✓ Create and improve our skills to anticipate the needs of our clients.
- ✓ Work with and to the client.
- ✓ Establish a culture of well dressing with eco-friendly apparel.
- ✓ Open two new stores each year from now.
- ✓ Consolidate our stores, as a prominent option to the people to buy eco-friendly and fashion apparel.
- ✓ Promote environmental awareness of staff and clients.
- ✓ Respect for the environment.
- ✓ Offer products not harmful to people and the environment.
- ✓ Conduct our business according to the highest levels of ethics.
- ✓ Maintain a proactive management culture.
- ✓ Promote the alpaca as the most ecological fiber in the world.

8.9.4.2. Marketing Objectives

Short term

- ✓ Increase brand awareness in the eco-apparel market segment from 0% to 20% in the first year in Chicago (2 first stores).
- ✓ Create brand awareness for the new collections to be launched in the fourth quarter.
- ✓ Gain at least 3,000 new clients in eco-apparel market segment per quarter.

- ✓ Sell 5,800 products per store in year 1.
- ✓ Achieve a high level of customer satisfaction among 95% of target customers.
- ✓ Increase market share in eco-apparel market segment by 0.10% in first operational year.
- ✓ Sell the 40% of all our sales during the winter season.
- ✓ Achieve 20% of profit margin.

Long term

- ✓ Become the number one eco-apparel store in each of the markets we will enter in the next 5 years.
- ✓ Build strong ad awareness for eco-apparel over the next three years.
- ✓ Make our brand synonymous with eco-apparel emotional/rational elements.
- ✓ Increase profit margin of the whole product line from 20% in the first year to 40% in year 5.
- ✓ Increase the sales by Internet and Catalogs from \$150,000 in year 1, to more than \$500,000 in year 5.
- ✓ Maintain an annual increase in the marketing budget of only 25%, increasing effectiveness of our marketing efforts for the next five years.
- ✓ At the end of the year 5, have 10 stores in 5 different cities: Chicago, New York, Boston, Washington D.C. and Seattle.

8.9.5. Marketing Strategy

8.9.5.1. Marketing Segmentation Strategy

Our segment is defined under the concept of the Lifestyle Segmentation, because our product is offered to people who like to be fashion with the latest

design apparel and also care about the environment and try to help in the care of it. Our potential clients are people from medium to medium high and high lifestyles.

8.9.5.2. *Targeting Strategy*

Target marketing is our strategy in this area, because we are focus in a specific segment, which is the eco-friendly apparel with high level designs.

Target Market

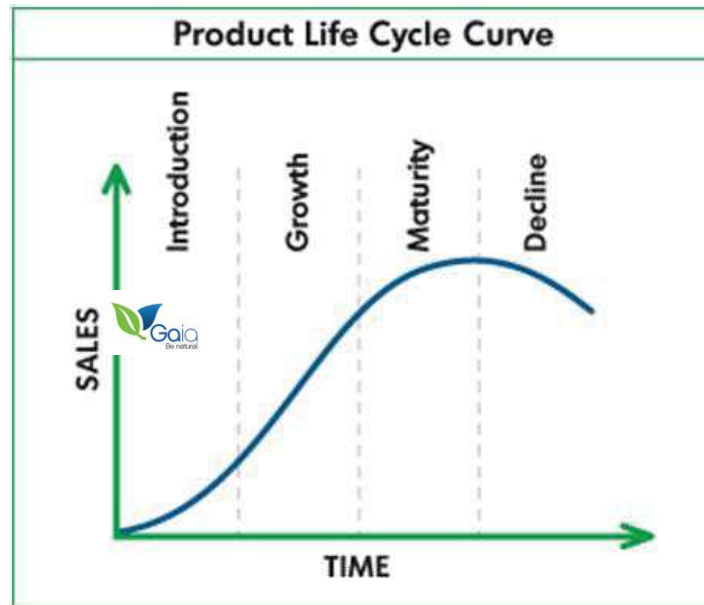
Our target is focused on people from 25 years to 45, male and female who belongs to medium and high socio-economic class, who reside in the United States of North America and are interested in dress clothes that are of high quality, innovative designs which are made of fibers that contribute to environment, eco-friendly apparel. Around 75% of our portfolio of products will be garments and accessories for women. Our specific sector is retails of clothes and accessories made from ecological fibers and mainly with alpaca.

Our potential clients are people really interested in the care of the environment in all possible ways, and at the same time they enjoy to dress a luxury garment with ecological fibers and exclusive designs.

Gaia will offer all the products directly in its stores and also the company offers the possibility to our clients, to buy through Internet and Catalogs, with the same security and expecting a garment with the same excellent quality and warranty of the raw materials.

8.9.5.3. Product Life Cycle

Figure 12. Product Life Cycle Curve



Porter Charter

As the chart above indicates, the company's products, a company that sells high quality products, manufactured under processes and ecological raw materials (mainly alpaca), is at the stage of introduction into the product lifecycle.

It is at this stage because it is a totally new company that provides innovative products and enters the market with a new product offering clothing designs created with fibers such as alpaca and organic cotton.

A determining factor in the growth of the company and selling its products is the steady increase of people who care about clothes that are manufactured using ecological processes and ecological fibers and at the same time the high

purchasing power available to persons residing within the areas we have chosen to establish our stores.

8.9.5.4. *Potential Strategies*

Differentiation strategies

1. Create a unique experience for the consumer at the moment to visit our stores and also when they are using a garment made with eco-fibers.
2. Reinvent our business model when necessary, keeping the aim of the company which is work with ecological raw materials.
3. Offer the highest quality product with the best raw materials.
4. Focus on the niche market created by people who love to be fashion and to be ecological.
5. Be innovative.
6. Be the best in design.

Low cost strategy

1. Low-cost strategy in all the departments of the company, but without damaging the customer's expectation.

8.9.5.5. *Core Strategies*

- ✓ Provide innovative products of high quality, based in eco-fibers and exclusive designs, promoting the concept of caring for the environment with the use of such garments and elegant and fashion wearing.
- ✓ Launch publicity campaigns by the mass media, such as radio, internet and also in specialized magazines.

- ✓ Provide an exceptional customer service and thus get publicity by one of the most effective methods, word of mouth.
- ✓ Apply direct marketing obtaining a good relationship between the company and the customers.

8.9.5.6. *Positioning strategies*

- ✓ Create awareness of the benefits that the customer gets at the moment to buy such a garment, as well as providing help to the planet, reducing the inappropriate use of resources and necessary commodities, such as water.
- ✓ Relate Gaia with eco-friendly, luxury and fashionable products.
- ✓ Give Alpaca the positioning of the most eco-friendly fiber in the world.

8.9.6. **Branding**

8.9.6.1. *Brand*

What is a brand?

A brand is a collection of symbols, experiences and associations connected with a product, a service, a person or any other artifact or entity.

Brands have become increasingly important components of culture and the economy, now being described as "cultural accessories and personal philosophies".

Some people distinguish the psychological aspect of a brand from the experiential aspect. The experiential aspect consists of the sum of all points of contact with the brand and is known as the brand experience. The psychological

aspect, sometimes referred to as the brand image, is a symbolic construct created within the minds of people and consists of all the information and expectations associated with a product or service.

Our name

GAIA Clothing and accessories

Why do we choose this name?

Gaia is a name which carries a deep meaning, it is not only a simply word, it is more than that.

Gaia is a Greek goddess personifying the Earth, is composed of two elements, which means land and old, which translates to Grandmother Earth²⁹ (Goddesses, 2008).

Some sources, such as anthropologists James Mellaart, Marija Gimbutas and Barbara Walker, claim that Gea or Gaia as Mother Earth is an evolution of the Great Mother of preindoeuropeo, a goddess of life and death frightening but generous, who was venerated as early as the Neolithic Near East, Anatolia and the area of influence of the Aegean culture, but also beyond Malta and Etruscan land.

This is why we chose this name, because it embodies and is the name of the planet from the big house "Earth". Mother Earth provides us with valuable resources of which we are taking advantage without damaging the environment. There is a direct relationship. Since it is a complete cycle, as Gaia or Mother Earth provides us with resources and we "return the favor" taking care of the

²⁹ Goddesses, 2008, www.paleothea.com

Final Project - UDLA

environment, using products that are natural, so we also work to care for valuable resources such as water.

HSEG, UNIVERSIDAD DE LAS AMERICAS

8.9.6.2. Slogan

Slogans are claimed to be the most effective means of drawing attention to one or more aspects of a product, they should be composed by few words, a short sentence which could be easy to remember for the customers.

Our slogan

Be natural

Why do we choose this slogan?

As it is mentioned above, the slogan has to be directly connected with the main issues and aspects of the products that are offered, in this case we are providing garments and accessories which are manufactured under ecological processes and with 100% ecological fibers, at this moment the company is offering products based in natural raw materials to people who really care about the environment, taking a natural product to take care of the nature, being natural. Also, considering the uniqueness and exclusiveness of our products the slogan has to appeal a specific lifestyle.

As conclusion, being easy to remember for our customers, and taking into account our main issues... BE NATURAL.

8.9.6.3. Logo

What is a logo?

A logo is a graphical element (ideogram, symbol, emblem, icon or sign) that is the image of a trademark or a commercial brand. Typically, a logo's design is for immediate recognition.

Our logo

Figure 13. Our Logo I



Example of the tag will be used in the garments and accessories:

Figure 14. Example of tag



8.9.6.4. *Packaging*

Our products need a package which goes according with our main concept, be natural, be eco-friendly. Then we are going to follow the ecological process, using recyclable bags, made with recyclable materials and with water stamps instead of stamps which use ink. This is our strategy in packaging, because in all the steps of the chain we keep the concept of caring about environment.

8.9.6.5. *Concept*

The brand name, its logo, the slogan and the packaging, try to convey we are an eco-friendly company, while the location and lay out of our stores, the high quality of our products, the fibers we will use in production (mainly alpaca) and other marketing efforts will help to convey we are a company involved with fashion and luxury products. In short, the brand is based in two pillars: fashion + eco-friendly.

8.9.7. Marketing Mix

8.9.7.1. *The Product*

Description: Our products are garments and accessories made mainly from high quality Alpaca fiber in natural colors (from white to black, going through all shades of brown and gray) and another fiber such as organic cotton. The products will be marketed as eco-friendly luxury items. Around 75% of our portfolio of products will be garments and accessories for women. In **Exhibit 23** a small sample of the main competitors' is shown. This Exhibit will help to visualize the kind of products our company will sell.

Product sub lines

- ✓ **Garments:** This line will represent roughly 60% of our sales revenue and roughly 40% of the number the units (volume) we will sell. Garments include coats, jackets, sweaters, ponchos, skirts, T-shirts vests and dresses. In comparison with accessories, for these products design will be much more important. This type of products can also be separated in two:

1. Hand Knitted Garments: This is our more expensive category and the one with the lowest rotation. Design is critical in this category. It will represent 15% in units sold (volume) but almost a quarter of our sales revenue. The average price will be of \$350.00.
2. Knitted Garments: This will be our most important source of revenue (33%) and it will represent roughly 25% of the number of units sold. Designs will be simpler and more practical in comparison to Hand Knitted Garments. The average price will be of \$300.00.

- ✓ **Accessories:** This line will represent roughly 40% of our sales revenue and roughly 60% of the number of the units (volume) we will sell. Accessories include scarves, shawls, gloves, tops and hats. This type of products can be separated in two.

1. Hand Knitted Accessories: According to the market trend, this would be our most sold category of products (in volume – 33%) and it will represent roughly 25% of our sales revenue. The average price will be of \$200.00 and it has great value added by being hand-knitted.

Final Project - UDLA

2. Knitted Accessories: This would be our cheapest category because it will be the simplest (knitted by machines and with convenient designs). According to our sales forecast, this category will represent a quarter of our total units sold (in volume – 25%) but only 18% of our sales revenue. The average price will be of \$150.00.

Functionality: The primary purpose of clothing is to keep the wearer warm. In hot climates this function is minimal, while in very cold climates it is very high and it is also to provide the wearer with a special garment with a luxury concept making emphasis in the benefits of the eco –friendly fabrics.

Attributes: Our products are complex and depend of a lot of features like design, packaging and functionality so their attributes are high.

Features & benefits: The principal feature/benefit of these garments is that they are fashionable luxury items produced with special fabrics taking into account the environmental issues.

In the case of the alpaca fiber From high in the South American Andes, Alpaca is one of the finest and most luxurious fibers in the world. Alpaca —once reserved for Inca royalty—is silky against the skin and very smooth to the touch.

Alpaca's unique hollow core gives it an insulating softness that is extremely lightweight yet much warmer and stronger than wool. In addition, alpaca is hypoallergenic—often wearable for those people who are allergic to wool.

Alpaca will be used in 70% of our production and will account for more than 80% of our sales revenue.

Final Project - UDLA

Alpaca fiber is already well known in the fashion circles in the United States, for being luxurious, fine and warm. Our intention is to capitalize that positioning and add a new one: Alpaca is the most eco-friendly fiber in the world. In comparison to any other fiber, working with Alpaca with our approach will result in energy efficiency, water saving and delivering products chemical-free.

In the case of the organic cotton it is the most recognized environmental friendly material for producing garments and its benefits of production make this material easy to handle. Nowadays the consumer knows that when they buy garments made of organic cotton they are helping to reduce the pollution of the environment mainly caused by pesticides.

In the case of packaging this garments do need a big strategy of packaging as marketing tool because it is an important characteristic to help us to maintain the concept. The format of the packaging will be as recyclable bags provided in the store at the moment of the purchase and they will be made with recyclable material, they will account with a green design and the stamp will be water based instead of ink, this helping us to maintain our concept of eco-friendly products. The provider of these bags will be local based company that main aim is to provide products made from recyclable materials like paper and plastic and it is also our main provider for the production. (The cost of this activity is included in the “Advertising” budget)

In case of the tags in the garments they will provide a friendly description of the product and a description of why buying our eco-friendly product will help the environment. They will contain the logo of GAIA Clothing & Accessories and will describe where the product was produced also the type of fabric of which is made of and the instructions of usage. The tag will be made also from recyclable materials and will be provided by the same company in Peru that is providing the

packaging and the production. (The cost of this activity is included in the Manufacturing budget).

Collections

As in any other company involved in fashion, it is important to keep an important variety of products, in tuned with the market tastes and expectations. According to Annie Hurlburt, owner and manager of Peruvian Connection, a leading fashion boutique and on-line store for Alpaca products (among other fibers), each collection have to count with at least 40 designs to be attractive. In average, we will have 90 designs per collection.

The demand seasonality and the sales forecast for each collection was made accordingly with the data and suggestions made by Grupo Inca, business group involved with all sorts of alpaca trading (from raw material to finished goods). Grupo Inca is the owner of Incalpaca S.A. and Inca Tops S.A., seller of tops and processed yarn of all kind of fibers to manufacture garments and accessories.

It is important to consider that most of the designs will be done in different colors to provide assortment to customers and maintain an image of exclusiveness.

Winter Collection

Is, by far, the most important collection of the company, in many ways its success will define the profitability of the business for the whole year of operations. It will represent more than 40% of our yearly sales revenue. Production of this collection will be finished in November and it will be sold from December to February.

It is an ideal period for selling Alpaca because it has the coldest months of the year. Although Alpaca fiber can be also used in light clothes, its attributes are

Final Project - UDLA

better take advantage of when used in apparel made for cold weather. In addition, this collection will also be sold during the peak in consumption caused by Christmas.

The products manufactured for this collection will mainly be: thick sweaters, coats, jackets, gloves, scarves, hats and ponchos.

To help assure the success of the collection, we plan to allocate more than 50% of the advertising and marketing budget to this period.

Spring Collection

Production of this collection will be finished in February and it will be sold from March to April. This collection will represent more or less 23% of our sales revenue.

For this collection lighter clothes have to be made. The products manufactured for this collection will mainly be: sweaters, jackets, shawls, scarves, dresses, skirts and hats.

The budget for advertising and marketing activities for this collection will fall to 12% of the total. Although we consider this collection very important, we plan to capitalize on the heavy spending done on promoting the brand in the previous months for the Winter Collection.

Summer Collection

This is our weakest collection, by far, in the year. Production of this collection will be finished in April and it will be sold from June to August. It is expected to have negative net income during July and August; sales levels will not be enough to cover important fixed costs such as Salaries, Wages and Rent.

Final Project - UDLA

For this collection even lighter clothes have to be made. The products manufactured for this collection will mainly be: light sweaters, t-shirts, dresses, skirts, belts, vests and tops.

Another specific change for this collection will be the variety of fibers used. Given that Alpaca is not suitable for summer, clothes will be designed in other eco-friendly fibers like organic cotton, bamboo, silk, wool (in natural colors), etc.

The allocated budget for marketing activities for this collection will be the lowest, just 6% of the total budget, in an effort to lower fixed expenses.

Autumn Collection

In terms of revenue, it is expected to be the second collection in importance. It will represent around 25% of our sales revenue. Production of this collection will be finished in August and it will be sold from September to November.

However, it is expected that September will be always a month with negative net income. That is because in September the weather is still hot in east Coast of the U.S. and the company will begin to spend more heavily on advertising and marketing activities, preparing itself to the high-selling season.

This period marks the return of products more suitable for Alpaca fiber and where the sales sharply begin to increase. The products manufactured for this collection will mainly be: sweaters, coats, jackets, shawls, gloves, scarves, hats and ponchos.

The budget for advertising and marketing activities will be 30% of the total budget.

8.9.7.2. *The Price*

The average prices per category are as follow:

Hand Knitted Garments \$350.00

Knitted Garments \$300.00

Hand Knitted Accessories \$200.00

Knitted Accessories \$150.00

One of the main drivers of how we determine the price is according to our costs. We are considering a 10 percent of the value of the product as production expenses, which include expenses of design, manufacturing and raw material leaving us a 90 percent of gross margin.

This wide margin over the cost of sales is to be able to cover important fix expenses like renting, advertising and salaries/ wages. For example we have consider that the rent of the commercial stores in Chicago and offices during the first year will be around 23% of our total sales, the advertising efforts will account the 17% and salaries and wages around 16%. With the current price strategy and if the company sales are as expected our profit margin will be around 19% in the first year of operations.

Another main driver for the pricing strategy was the competition. We evaluate the pricing of more than 10 different companies involved in Alpaca products and eco-friendly apparel. Our prices are, more or less, an average of the prices of our main competitors.

Finally, the pricing has to be consistent with our brand and marketing strategies. That is why we have a *premium* pricing strategy.

8.9.7.3. *The Place*

The products of GAIA Clothing and Accessories are produced in South America, currently in Peru specifically, under stringent quality standards, where we take care of the good provenance of our raw materials and the well done processes that continue until we get the final garment or accessory. It is one of our strengths our unique and innovative designs, they come from different parts of the world, which always sought to keep our collections in line with the latest fashion trends.

We are also trying to establish trends, not only at the moment to talk about the designs, but also to create a new trend that comes at the moment to buy garments and clothing accessories, because you can combine two concepts that nowadays are very important and valid in the world in which we live, these are to be fashion and trendy, as well as use clothing that have been manufactured under processes that are environmentally safe and with eco-friendly fibers.

Once the clothes are ready to be put up for sale, they are transported toward the United States, and once already in this country, distributed to the different cities and to the different stores that our company will have. At the moment of entering the U.S. market, our first stores will be located in the city of Chicago, IL, where we will have two exclusive and high-level boutiques, in order to sell the products of GAIA Clothing and Accessories.

Our company also has sales through catalog and by Internet, where our clients can find each of the garments and accessories that our stores have in stock, with all the details of design, raw materials, sizes and more. With this we seek to

better serve to our customers, they already know the quality and good reputation with the products available in our stores.

As we have mentioned previously, our distribution channels are three: exclusive stores, catalogs and internet.

Our stores will have widely and comfortable rooms with all necessary amenities to make the visit of our clients will be more than just shopping at a boutique. With our stores we are seeking to become a meeting point for people who have the same ideology and who have the same likes, where they can share and enjoy each moment as the world demands now. These shops will be located at strategic sites in the cities, exclusive and high capital gains, which create the feeling of tranquility and welfare, as well as elegance and sophistication to our clients. This will be our most important channel, these stores account for 95% of our sales.

The catalogs and internet are going to be our second channel of sales, through which our clients, who already know us and know the high quality and exclusive designs of our products, could buy the garments and accessories they like, expecting the same customer service and without any kind of doubt about the provenance of the products.

8.9.7.4. *The Promotion*

The promotions are established depending on the seasonality and special features by the company. The main strategy and strength that our company has is the issue that we are offering products made from ecological fibers and taking care of the environment, filling in that way the niche that was created by the people in this trend.

Advertising

Our products are going to be promoted by several channels, such as radio, specialized magazines, newspapers, outdoors, events and public relations and also by internet.

As it is mentioned above, it depends on the seasonality to use each of the media channels; we will focus our efforts during the change of season and also during the Christmas time.

Exhibit 28 shows the schedule about how the media channels are going to be used each month. This schedule will be the same for the following three years, with some modifications that will be necessary for the changes in the market and in the environment.

Personal selling

Our employees must be prepared and trained to give the customer the best of services, responding in a polite and friendly way, offering our products and providing advices on the customers' personal image, with this we are seeking to create, not just satisfaction by acquiring a high quality product with a unique design, but also to deliver the service they deserve, as well as being advised when choosing a garment or accessory. The chosen good will cover the customer's expectations and being consistent with the personality and tastes of each individual.

We know that in this kind of business a good sales force could be the difference. The personal in our stores in Chicago (the first year) will need to create a connection between them and our clients because we believe that this relationship will help us to create a powerful influence as a *referential*

*marketing*³⁰ - where our customers serve as a sort of mini sales force. They will refer us to others because our sales force will try to create a positive relationship with them in the store providing them with all the information possible of our products.

Sales force needed

- ✓ Number of persons needed :
 - Store Number 1: 2 people
 - Store Number 2: 2 people
- ✓ Type of Sales forced needed:
 - Proactive because they will work directly with customers.
 - Good social skills and good communication skills
 - Good care of personal image.
 - Enthusiastic to help customers with their requirements.
 - Knowledgeable in the latest fashion trends and fashion advices for different type of customers.

Sales promotion

Taking into account our channels of promotion, and without neglecting the real concept of what the meaning is and what sales promotion handles, and because is often mistaken for advertisement, we will implement short-term techniques to promote the purchase of our products, both former as well as potential clients. This we will do in different ways, providing free coupons, discounts, taking care not to lose the good image of our stores, which offer exclusive products with top quality.

³⁰ We mean Reference Marketing as “word of mouth marketing”

Loyalty Programs

Rewards program: the main aim of this program is to provide rewards for those customers that repeat purchases and also to attract new potential customer through them. The benefits will mainly in two forms:

- ✓ The first one is about reward points and gift certificates. The consumer will be award in the low season each time that he/she makes a purchase in the store; this can cause the customer to make a future purchase and will promote the consumption during the low season. The points will expire in certain date and they will account in an average of 5 to 15 percent of the purchase depending in the product and its margin. About the gift cards, they will be given in the high season and they will account a small account of each purchase in the store and their main aim of this gift card program is that they can be transfer to another customer. This loyalty program is calculated in the budget and it represents 5% of the marketing expenses
- ✓ The second one is about an Affinity program. This program will capitalize customers' interest by supporting a social responsibility cause, event or charitable organization with every purchase that they make. This program will also help us as brand strategy also we consider this program not just as marketing tool, it is also part of the personality of the company due to its main interest will be to protect the environment and promote the social causes that are affecting our global environment. The affinity program theme will change according to our criteria and the personality of the company and we will always communicate this aim with the promotion of the products in the media chosen. The cost of this program will be the

1% of our revenue the first year and its represents around \$28,700 USD.

Promotion budget

Table 6. Promotion Budget

50% advertising
40% personal selling
10% sales promotion

Author: Santiago Espinoza

The budget is \$500,000.00 for the first year, and it is divided proportionally as the chart shows above. For the following 4 years the budget will increase in 25% each year.

8.9.8. Performance Evaluation and Monitoring

We will monitor and evaluate our performance, taking into account several aspects, both quantitative and qualitative.

We will have continuously control in advertising campaigns, and also take into account the way in which the recipients of these campaigns react, that is the conduct and behavior that show our customers and potential customers. To this end, we shall take into account parameters that allow us to measure the loyalty of our customers, as well as the number of new customers into our stores acquired in a given period of time.

Market research studies will also be conducted, which will include surveys and questionnaires to ascertain the awareness of our brand in the market we are

focused, as well as to conclude whether the brand is positioned in the top of mind for consumers of garments and accessories produced from ecological fibers.

On the other hand, we will continuously do sales analysis and also analyze profit and loss statements and other financial statements; those which are able to give us the growth or decrease of our company in a precise and accurate quantitative way.

8.10. Financial Analysis

The financial forecasts were based on the size of the “green” apparel and the Alpaca sectors in the U.S., historical data, our production capabilities and the suggestions made by experts in the industry (both for expected units sold and sales revenue per store).

The expected level of sales and pricing strategy maintains apt cash flows and high profitability from the first year of operations. The marketing budget and the general strategies of the company were determined to achieve the desired level of sales per store.

8.10.1. Financial Assumptions

The following assumptions were considered for the financial analysis:

- ✓ Half of the required start-up funds will come from self-financing and the other half from a bank loan from a Peruvian institution.
- ✓ The average monthly cost to rent one store/boutique in an exclusive area in a major city in the U.S. is \$25,000. The space of the stores will be between 200 and 250 sq meters.
- ✓ The cost of Renting includes all the cost of improving, decorating and additional expenses of setting each store for business.

Final Project - UDLA

- ✓ The analysis does not consider major economic changes or extreme scenarios for the next five years (important inflation, fluctuation of exchange rates, natural disasters, etc.)
- ✓ The year of operations starts in September and finishes in August.
- ✓ Each year of operations, two new stores will be opened in a new city.
- ✓ All the financial information is in US \$.
- ✓ Each store will have a manager and two sales persons.
- ✓ The seasonality of our sales is the same seasonality of the Alpaca products in the United States, because 70% of our products will be made from that fiber.
- ✓ Accounts Receivables are collected 100% in 1 to 30 days.
- ✓ Accounts Payables are paid 50% in 1 to 30 days and 50% in 31 to 60 days.
- ✓ At the end of the third year of operations, an investment of \$5'000,000 will be made to acquire a small warehouse in Chicago (North Knox Ave.). This asset investment would be to better manage the operation and to completely establish Chicago as our distribution base.

8.10.2. Initial Investment

The initial Investment for the project will be of \$232,375.00. The detail of the Investment is in **Exhibit 1** – Required Start Up Funds. The most important costs will be the Initial Inventory of finished products, Rent Deposits, Pre-Opening Salaries and Wages, and Advertising.

8.10.3. Equity/ Debt Structure

As mentioned before, half of the required Investment will come from self financing in the form of Capital. So the owners' cash injection will be of \$116,188.00, the rest will come from a Peruvian Bank (BCP) as a loan, the interest rate will be of 9.00% and the term of payment will be 36 months. In **Exhibit 1** the detail can also be seen of the Equity / Debt Structure. At the beginning of the first year of operations, the Equity to Debt Ratio is 1 (to be able to get the loan from the bank). The evolution of this structure is showed in **Exhibit 9** – where all the Financial Ratios are presented.

In the fourth and fifth year of operations, \$2'000,000.00 will be paid in dividends to the shareholders.

8.10.4. Sales Analysis

The following is the analysis of our Moderate Sales Scenario.

Our main assumption for the sales analysis is that each store is going to be able to reach roughly \$1'350,000.00 in sales revenue in the first year of operations, to obtain the desired profitability. That number was obtained evaluating the production plan (that will be outsourced), a pricing strategy similar to our more direct competitors and the suggestions of experts in the market from companies like Peruvian Connection and Incalpaca. With two stores in Chicago, and each store selling at the expected levels, our market share (of the green apparel sector) will be 0.10% in the first year of operations.

Final Project - UDLA

As described in the product description, the company will have four categories of products. The following chart is the expected level of sales (in units and sales revenue) for the first year of operations with two stores operating in Chicago:

Table 7. Expected Level of Sales

Category of Products	Price	Demand in Units	Share of Volume	Sales Revenue	Share of Sales
Hand Knitted Accessories	\$200.00	4,000	33%	\$800,000.00	28%
Knitted Accessories	\$150.00	3,200	26%	\$480,000.00	17%
Hand Knitted Garments	\$350.00	1,800	15%	\$630,000.00	22%
Knitted Garments	\$300.00	3,200	26%	\$960,000.00	33%
TOTAL	-	12,200	100%	\$2,870,000.00	100%

As reviewed in the Marketing Plan, we have three sales channels: Exclusive stores, Internet and Catalogs. In the first of year of operations, the plan is for each store to sell 47.5% of the total revenue and the remaining 5% will be sold through the company's web site and its catalogs. Sales through Internet and Catalogs will be made predominantly by customers that have visited our stores and are familiar with the brand and its products.

The expected level of growth for each year was calculated assuming that every year two stores will be opened in a new city. Also, the sales of each store will grow the same as the eco-apparel sector is growing (between 7% and 15% for the next five years). Finally, sales through the web site and catalogs will grow as much as the sector and an additional 25% each year, on account on having more loyal customers and more stores that generate online traffic and catalog circulation. **Exhibit 2** presents how the growth was calculated for the first five years of operations.

For example, the first years of operations around \$2'700,000 will be the sales revenue of the two stores on Chicago, and approximately \$150,000 through

Internet and Catalogs. In the fifth year of operations, roughly \$17'000,000 will be the sales of our ten stores and \$500,000 the sales of our web site and Catalogs.

Seasonality is a big factor in the sales forecast and production planning, given that Alpaca products causes peaks of consumption in cold seasons. That is the main reason that the winter will account for more than 40% of the company's total sales. The following chart helps visualize the seasonality tendency of Alpaca products in the U.S.:

Figure 15. Seasonality of Alpaca products in the U.S. (Source: Grupo Inca)

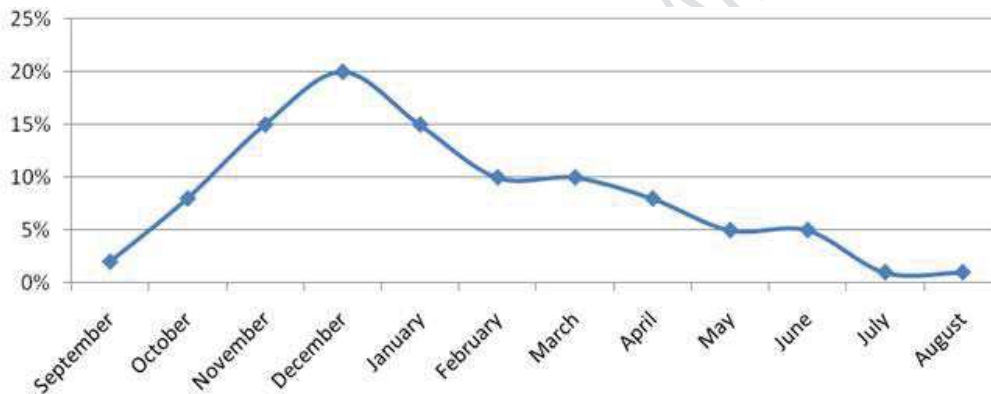


Exhibit 3 shows the sales forecast for each category of products for the next five years (in units), in the Moderate Scenario.

8.10.5. Sales Scenarios

In order to evaluate the extent of the profitability of the business, if some elements go in our favor or not, three Sales Scenarios were developed: Pessimistic, Moderate and Optimistic. Although, only the Financial Statements of the Moderate Scenario are included in the Project, in this section the variations in sales, net income, profitability and cash balance can be seen for each scenario for the first three years of operations of the company.

The variables that establish each scenario are demand and price, but in each scenario it is assumed that two new stores are opened every year. Even in the Pessimistic Scenario, the project shows profitable results from the first year of operations.

Exhibit 4 shows the variations in price and demand for each Scenario and how these variables affect the expected results of the company.

8.10.6. Cost of Sales

The Cost of Sales was calculated with the actual costs that the company Inca Tops S.A. would charge our company for outsourcing the manufacture of products and the raw material.

Exhibit 5 shows how the cost was calculated for the first collection of the company, composed by 3,600 products and 90 different designs. That chart was the basis to calculate the cost of sales for the first five years of operations of the company:

The components of the cost of sales are mainly the Raw Material, Manufacturing Cost and the Design. However, it also includes the “Tech Sheet” (the cost of setting the production equipment for each different design), and the “Details/Art Work” that includes the cost of labels, buttons, package (ready for exportation), etc.

The average cost of raw material per kilo is \$22.00, this cost was calculated taking into consideration that the production will be 70% made with Alpaca and the rest with fibers like organic cotton, wool and vicuña.

The cost for each design of clothes will vary from \$80.00 to \$200.00 and will be in charge of different free-lance designers in the United States. The

manufacturing will be done by Inalpaca S.A., Textile Company located in Arequipa, Peru, and the costs are specified for each category of product in **Exhibit 5**. The manufacturing costs range from \$5.50 to \$23.00 per product.

HSEG, UNIVERSIDAD DE LAS AMERICAS

8.10.7. Inventory Management

Exhibit 10 shows the changes in Inventory month to month for the first five years of operations. The Initial Inventory is 3,600 products. Every three months the collection will be sent to the U.S. from Peru. The winter collection would be sent in November, the spring collection in February, the summer collection in May and the autumn collection in August.

However, one of the assumptions in the financial statements is that all the units produced are sold, and that is far from the reality, especially in the fashion retail sector. That is why we included the cost “Inventory Management” in the Fixed Operating Expenses. This item represents the costs involved with not selling as expected. It is calculated as roughly 10% of the total Cost of Sales of each year and is spread equally month by month.

8.10.8. Fixed Operating Expenses

The most important Fixed Expenses of the company are Advertising and Renting. **Exhibit 6** illustrates each of the fixed expenses of the company for the first five years of operations. It also shows each the expected growth rates for each year for each expense. Some costs have a constant growth rate, like “Advertising” that has a yearly increase of 25%. Other costs like “Transportation of products” and “Inventory Management” have a growth behavior equal to the expected growth in sales (detailed in **Exhibit 2**). Finally, some costs like Utilities, Internet or Office Expenses have growth rates related to the number of offices and stores the company will manage each year.

8.10.9. Salaries and Wages

In this part two very different countries were compared, U.S. and Peru, in terms of level of salaries, labor laws, employee benefits, etc. The staff in the U.S. in the first year is conformed in the following way:

Table 8. Salaries and Wages I

	Monthly Salary
VP Marketing and Sales	\$5,500.00
Store #1 Manager	\$3,600.00
Store #2 Manager	\$3,600.00
Marketing & Sales Assistant	\$2,800.00
Sales Personnel (4)	\$10 per hour
Warehouse Personnel (1)	\$10 per hour

The chart includes the monthly salaries but not the additional payroll taxes and benefits (vacations, insurance, social security, etc.). Each year the staff in the U.S. will increase by six persons, two Store Managers and four more Sales Persons for the newly two opened stores. The expected increase in wages will be 3% per year.

The staff in Peru is showed in the following chart:

Table 9. Salaries and Wages II

	Monthly Salary
CEO	\$3,500.00
VP of Operations	\$1,500.00
IT Chief	\$800.00
Logistician	\$500.00
Call Center (2)	\$300.00
Warehouse Personnel (1)	\$300.00

The chart includes the monthly salaries but not the additional payroll taxes and benefits. Salaries and Wages in Peru account for \$7,200.00 per month, and the taxes and benefits are around 30%. The expected increase in wages will be 3% per year.

Exhibit 7 illustrates the calculation of the Salaries and all the related expenses.

8.10.10. Breakeven Point Analysis

The break-even point for a product is the point where total revenue received equals the total costs associated with the sale of the product. A break-even point is typically calculated in order for businesses to determine if it would be profitable to sell a proposed product, as opposed to attempting to modify an existing product instead so it can be made lucrative.

Considering that the average Gross Margin per Unit is 90.74%, the Fixed Expenses are \$1'243,485, Salaries and Wages are \$463,743 for the first year, the Breakeven Point in Sales is \$1'881,384.00 for the first year of operations. That can be translated into \$893,657 per store.

Also, the breakeven was calculated for each of the company's categories of products. It takes into consideration, the amount of fixed expenses and

salaries/wages needed to operate two stores (the first year of operations). The expenses allocation was based on the sales revenue share and the expected marketing efforts for each category.

Exhibit 8 shows the detail of the Breakeven Point (in dollars and units), gross margin per unit and fixed cost allocation. It also details the amount of units and dollars each store has to sell of each category of products to breakeven.

8.10.11. Ratio Analysis

A tool used to conduct a quantitative analysis of information in a company's financial statements. Ratios are calculated from annual figures and are then compared to previous years.

The Ratio Analysis shows a healthy growth year to year. Liquidity Ratios shows high results since the first year of operations. The company will have no problems to cover its short term liabilities. There is a notable decrease from the second year to the third year in both liquidity ratios (Current and Quick), caused by the \$5'000,000 acquisition of the warehouse at the end of year three.

Profitability Ratios also show positive results year to year. Net Profit Margin increase year by year, except on the fourth year, again caused by the acquisition of the warehouse in Chicago. The first year of operations, the Net Profit Margin is 19% and in the fifth the margin is 37%. The average Return On Equity (ROE) for the first five years of operations is 15.

Exhibit 9 shows the liquidity, debt, profitability and efficiency ratios from the first to the fifth year of operations.

8.10.12. Financial Statements

- ✓ Balance Sheets – Exhibit 11
- ✓ Income Statements – Exhibit 12 to Exhibit 16
- ✓ Cash Flow Statements – Exhibit 17 to Exhibit 21
- ✓ Year End Summary – Exhibit 22

9. Strategies and Conclusions

9.1. SWOT Analysis

Refer to exhibit 29 for detailed explanation of the SWOT

9.2. Strategies

9.2.1. Strategy 1: Give Alpaca the positioning of the most eco-friendly fiber in the world

Type of Strategy: Offensive

From the SWOT Analysis:

- ✓ S1. Brand: Fashion + eco-friendly
- ✓ S4. All around Eco products
- ✓ O1. Boom in the “green” apparel sector
- ✓ O2. First mover advantage – Alpaca = eco-friendly

One of the most innovative aspects of our project is the fact that GAIA would be the first company that realized the potential of Alpaca as the most eco-friendly fiber in the world. Therefore, one of our main strategies is to try to achieve that positioning for our Alpaca products. Our alpaca products would be the most eco-

friendly in the world because they contribute to saving water and energy, and they are chemical free.

The strategy will bring attention to our brand and it will give us a first mover advantage if the competitors decide to imitate our products. However, it will not be an easy task because the fiber is relatively unknown and the reasons for being eco-friendly could result to technical or complicated for the consumers. Therefore, education is a big part of this strategy. The following actions explain how this positioning will be achieved.

- ✓ All promotional channels (web site, catalogs, in the stores, etc.) have to explain, thoroughly, that Alpaca is the most eco-friendly fiber in the world and explain in a practical and simple way the reasons. Comparison charts of the consumption of resources of all the different fibers must be included also.
- ✓ Include facts: each of our products will have a tag indicating the amount of resources saved. For example, a garment made from Alpaca that weights 0.5 kilos must have a tag that indicates that is chemical free and also that it contributed saving 130 liters of clean water and one liter of oil.
- ✓ In the medium term, seek the collaboration of the Government of Peru and Ecuador to help promote the Alpaca as the most eco-friendly fiber and indirectly our brand in different events and publications. After all, the Alpaca industry involves a lot of poor rural families in the Andes that can be greatly benefited in the long term if the positioning is achieved.

9.2.2. Strategy 2: Use of technology to facilitate the integration and communication efforts among the value chain

Type of Strategy: Reactive

From the SWOT Analysis:

- ✓ S3. Organization's flexible structure
- ✓ T5. Lack of coordination *among value chain*

As being our business and our industry versatile, we need to have not only well documented our practices but also place special attention in how to integrate, manage communications and avoid misunderstandings among our entire value chain, all this efforts to pursuit a common objective which is have enough information for decision making purposes.

Our flexibility allow us to reinvent ourselves and change according to the circumstances and customers demands, from the value chain perspective, we need to facilitate any means to improve coordination and to avoid conflicts through the value chain. From the versatile perspective, our business employs outsourcing as competitive advantage, so, it's highly important to mitigate all these risks.

One measure that addresses this threat is our technology approach based on our flexibility and integration, in other words, the platform we provide to our value chain in order to integrate them and manage all aspects of communications and monitoring our relationship and interests in common. This platform we called "Portal", and is an effort from our company to give our value chain participants one "only step" to communicate and deal with us, with this one step approach, our suppliers can stay updated with our needs and demands and also from our perspective, monitor and control their given supplies.

9.2.3. Strategy 3: Endorsement of celebrities, Icons and Media for our products

Type of Strategy: Offensive

From the SWOT Analysis:

- ✓ S2. Unique high end quality products
- ✓ S4. All around Eco products
- ✓ O4. High influence of Celebrities, Icons and media in fashion

The main aim of this strategy is to attract those celebrities and icons that put the mother earth first and through those catch the attention of possible clients to use Eco-friendly garments provided by GAIA Clothing and Accessories. We know that this is an industry mainly driven by those *fashionistas* that come out with new trends and establish the new tendencies into the market and so forth; we are looking to attract possible endorsements because they can greatly influence our target market.

This strategy is important due to the influence that celebrities and icons could create among our consumers. This is because the consumers are identified with certain social icons and consumers are aware about what are they doing, where are they going and of course, what are they wearing. We believe that in this industry this could create an enormous advantage for our company.

The first step should be to find a celebrity in which the consumers feel comfortable with like Adrian Gernier, Julia Louis-Dreyfus and Ed Begley which are mainly celebrities that are environmentally aware and they already use eco-garments or do eco- friendly practices. This activity should be realized in the first

Final Project - UDLA

year of the launch of the company and it is critical because the celebrity or icon selected will help to build the image of the brand.

During this period we will achieve;

- ✓ Find an Icon on which our target consumers feel identified.
- ✓ Make the Icon to wear our garments and attract the media attention to promote our brand.
- ✓ Achieve a contract with the celebrity to promote and act as Image of our brand at the smallest cost possible.

The second step will be to attract the media. We know that our items are unique high end quality products and they are targeted for those who are aware of the environment, these people nowadays are looking for those products that help to save the environment saving energy, water and recycling materials. In the other hand, the media is interesting to provide objective news for those interested in this significant socio-political topic and a good way to promote our brand and for a small amount will be trying to be on the news. This activity will be achieved through the following activities:

- ✓ Being in major events where the eco- friendly products are promoted.
- ✓ Being in international fairs where the eco- friendly garments could be promoted.
- ✓ Promote our affinity program which is mainly focused to support social causes.
- ✓ Promoting our brand trough the selected celebrities in major fashion events and in the major social cause events where they make presence.

We know that the media is a very powerful tool, than can provide us with a good-low cost promotion to our brand. It is important to mention that these efforts have to be done the whole time and they have to increase proportionally to our company growth.

9.2.4. Strategy 4: Offer a highly personalized service in the store of our company

Type of Strategy: Adaptation

From the SWOT Analysis:

- ✓ W1. Too small: Trend follower not a trend setter
- ✓ W3. Unknown brand
- ✓ O5. High sensitivity to customer service

We chose this type of strategy, taking into account that we are entering into a market that does not know the brand because is completely new and offers innovative products that do not yet have wide acceptance among consumers. Due to this we cannot enter into the market by imposing new trends, but we could follow some trends of competitors that are already established.

This strategy will serve as a key factor when competing with our direct competitors, as it marks the difference between them and us, this will be our competitive advantage, as well as the innovative products of high quality and manufactured with ecological fibers we are offering.

We will put our best efforts to ensure providing good customer service, and with practice and experience that we will acquire, to reach excellence in customer service and stand out in this way, not only among our direct competitors, but also with indirect competitors and in the industry in general.

The following actions will be put in action:

Training

The first and most important step in this process of striving for excellence in customer service is the training our employees will receive, with respect to presentation, both personal and corporate, image consulting to clients, advising at the moment of choosing a garment or accessory, good treatment and willingness to listening the needs and concerns of both clients as well as peers and colleagues from the company.

Our employees will have continuously training in market knowledge, benefits of the products we offer, because it is good and friendly to use products made with organic materials.

The employees will be trained in techniques of customer service, personal attention, while attending motivational workshops, in which they can build and increase their socialization and communication skills, and increase their enthusiasm and positivity, in a way that increases its self-esteem and this will be directly reflected in the work and time to meet a client.

The training is going to be also focus in techniques of response requirements by telephone and by internet, because we are going to have an open line for our customers in case they have any doubt, and we also have the commitment to give a response within the next 24 hours to the people who send an email.

Compensations

As part of the compensations are including the ongoing training and education. We want engaging and caring employees as one of the basis for corporate growth.

There will also be bonus, to encourage each of one of them to give the best of themselves to respond to any concern that arises from our customers or co-workers. Setting periodic goals, which will be rewarded when achieved and also there will be another bonus for passing those goals, which will be gave to each employee who has not only reached a certain goal, but has also exceeded.

Why should be the staff interested?

With all that we seek to help our people to be proactive, creative and innovative, that in our company the most important issues are the camaraderie, good working atmosphere and especially the excellent treatment and service to the customer, creating not only good willingness to work, but also educating them about issues like the environment, recycling and much else that will help create a healthier world.

9.2.5. Strategy 5: Diversify fibers – Introduce products with other fibers in the summer and spring collection

Type of Strategy: Defensive

From the SWOT Analysis:

- ✓ W2. High reliance on a relatively unknown fiber (Alpaca)
- ✓ T3. High seasonality

One of our strengths, having all around eco-products on account on working with Alpaca fiber, can become also one of our weaknesses. Alpaca is not suitable all year round. It would be unthinkable to expect to sell much Alpaca products during summer, unless we offer special off-season sales with really low prices.

That is the main reason we decide a diversification strategy in our raw materials. Nonetheless, the aim of eco-products must not be lost. The company should procure materials like organic cotton, vicuña, wool, silk and bamboo in natural colors or dyed with eco-friendly products.

The company must look for other manufacturers and (only in the case of some fibers like bamboo) look for other suppliers. Another proposed solution is combining alpaca with these new fibers to create garments and accessories consistent with our company's image.

Organic cotton would be the main alternative because is the most known fiber, by far, in the "green" apparel sector. The company should pay really good attention to the type of designs that will be used with organic cotton, because if we offer products too simple it can really damage our brand image.

As mentioned before, we still expect that Alpaca products will account for 70% of our production but products with other fibers must be offered to keep up with the dynamism and changes in the fashion business.

9.3. Conclusions

- ✓ Working with Alpaca fiber in the right way will result in obtaining efficiency in the consumption of valuable resources: water, oil and electricity; and in delivering finished products free of chemicals. That is the reason we think the fiber can be given the positioning of the most eco-friendly fiber in the world.
- ✓ Our business model was shaped to give our company flexibility and the ability to focus efforts and resources in the most critical activities in the sector: sales, branding and marketing strategies.

Final Project - UDLA

- ✓ It is important to have a name related with the aim of the business, in this way we can transmit the concept of our company and the reason because we are selling this kind of products, eco-friendly products.
- ✓ As the same as the name, the slogan and the logo are very important, those are going to be the “face” of the company, and those will be remembered by the customers.
- ✓ This is an eco-friendly company because is taking care of the products it is offering and how they could affect to the environment, and the provenance of them.
- ✓ It is necessary that due to we are a new brand in the market, we should apply differentiation and adaptation strategies in order to win market share.
- ✓ We will work based on a code of ethics and values, to provide garments and accessories made from eco-friendly fibers produced with high quality and ecological processes that do not affect the environment.
- ✓ A determining factor in the growth of the company and selling its products is the steady increase of people who care about clothes that are manufactured using ecological processes and ecological fibers.
- ✓ Our target market is from 25 years old to 45 years old, due to they are in the “green” trend and they are people who have the acquisition power to buy this kind of products.
- ✓ Critical activities like manufacturing and design will be outsourced. The raw materials for production will come from Peru and Ecuador; the design will be outsourced to different parts of the world. The

Final Project - UDLA

manufacturer will be located in Peru and the finished goods exported to the United States.

- ✓ The main sales channel would be exclusive boutique/ stores, starting with two stores in Chicago and opening two stores in a new city every year of operations (New York, Boston, Washington D.C. and Seattle). The operation in the U.S. will be wholly owned.
- ✓ The US Clothing industry includes 100,000 stores with combined annual revenue of more than \$ 150 billion USD also an enormous potential growth and it represents an outrageous opportunity for those willing to take it.
- ✓ Nowadays in The United States of America there are just a few representative competitors in this sector –Alpaca mainly and eco-friendly apparel - which gives the opportunity to new entrepreneurs to develop this market and make profits from it.
- ✓ Future competitors are the main retailers which are catching up with new trends and this represent a tough competitive future in this industry with more production, distribution and marketing capacities.
- ✓ A good application of our marketing plan strategies and activities will help the company to be successful and to expand in the near future as we planned.
- ✓ One important step to create awareness among our potential consumers will be trough a good effort in PR, because we are a small company which is offering an incredible product with incredible features and characteristics.
- ✓ The initial Investment for the project will be of \$232,375.00 half of the investment required will be obtained from a bank loan and the

Final Project - UDLA

other half by the owners' capital injection. The more important costs of the company are Marketing, Rent and Salaries/ Wages.

- ✓ The company's forecast shows healthy liquidity, activity and performance ratios from the first year of operations.
- ✓ The desired level of sales for every store the first year is opened is USD\$ 1'350,000.00.
- ✓ The profit margin in the first year would be of 19% and in the fifth year operations the same ratio will be of 37%. The average Return On Equity (ROE) for the first five years of operations is 15.
- ✓ After making a thorough analysis the following strategies are suggested. First, give Alpaca the positioning of the most eco-friendly fiber in the world. Also, the use of IT to facilitate the integration of the communication efforts along the value chain is the second strategic proposal. Thirdly, the company should seek endorsements from celebrities, icons and the media for its products. The fourth strategy is to obtain differentiation by offering a highly personalized service in the stores. Finally, the fifth strategy is to diversify the fibers used in production, especially for the summer and spring collections.

10. Bibliography

- ✓ Wall Street Journal: "Yet Another "Footprint" to Worry About: Water" - 17 February 2009
- ✓ Linda Loudermilk: www.lindaloudermilk.com
- ✓ www.thelandinstitute.org: "Take a Holiday from Clothes Shopping" – 27 November 2008
- ✓ TIME Magazine: January 26, 2009.
- ✓ Prom Perú – Sector Textil – Confecciones Enero-Diciembre 2008
- ✓ www.entrepreneur.com – The hottest industries for the coming year
- ✓ Wall Street Journal: "Yet Another "Footprint" to Worry About: Water" - 17 February 2009
- ✓ "Dictionary of Business" by Graham Bannock, Evan Davis, Paul Trott, and Mark Uncles (London : Economist in association with Profile Books, 2003)
- ✓ <http://sbinfocanada.about.com/cs/businessplans/a/bizplanoperplan.htm>
- ✓ 2006, Taylor & Francis Group, "Sales and Operations Planning: Know where You're going"
- ✓ Third party Logistics (3PL)
- ✓ 2008, A guide to the Project Management Body of Knowledge
- ✓ Government Census - www.census.gov
- ✓ Plunkett Research – Apparel Textiles Fashion Trends – www.plunkettresearch.com
- ✓ Government Census - <http://www.census.gov/industry/1/mq315a065.pdf>
- ✓ USDA - www.usda.gov
- ✓ Organic Exchange - www.organincexchange.org

Final Project - UDLA

- ✓ These companies represent the main competitors that are established in the USA and due to its sales volume and similarity of products are the main competitors.
- ✓ This are just some examples and do not represent the total of indirect competitors.
- ✓ eBay - <http://search.ebay.com>
- ✓ We mean Reference Marketing as “word of mouth marketing”
- ✓ <http://www.biztradeshows.com/usa/usa-tradeshows.mp?industry=apparel-fashion>
- ✓ Business.gov - http://search.business.gov/permitme2_0.do?q=chicago&bcat=0
- ✓ 2003, The Global apparel value chain, United Nations Industrial Development Organization
- ✓ 2006, Perfil de Mercado y Competitividad Exportadora de Prendas de Alpaca
- ✓ 2004, Alpaca Lies? Speculative Bubbles in Agriculture: Why they happen and how to recognize them
- ✓ Office of the US Trade Representative, www.ustr.gov
- ✓ Demographia, www.demographia.com
- ✓ Chicago Visitor, www.chicagovisitor.info
- ✓ Goddesses, 2008, www.paleothea.com

11. Exhibits

11.1. Exhibit 1 – Required Start Up Funds

Final Project MBA - GAIA
Exhibit 1 - Required Start Up Funds

Required Start-Up Funds	Amount	Totals	Depreciation	Notes	
Fixed Assets					
Real Estate	\$ -				
Buildings	-		20.00 years		
Leasehold Improvements	15,000		7.00 years		
Equipment	20,000		7.00 years		
Furniture and Fixtures	3,000		5.00 years		
Vehicles	-		5.00 years		
Other Fixed Assets	-		5.00 years		
Total Fixed Assets		38,000			
Operating Capital					
Pre-Operating Salaries and Wages	20,000				
Prepaid Insurance Premiums	-				
Beginning Inventory	82,875				
Legal and Accounting Fees	2,000				
Rent Deposits	55,500				
Web Design	5,000				
Supplies	500				
Advertising and Promotions	20,000				
Licenses	2,000				
Other Initial Start-Up Costs	1,500				
Working Capital (Cash On Hand)	5,000				
Total Operating Capital		194,375			
Total Required Funds		\$ 232,375			
Sources of Funding	Amount	Totals	Loan Rate	Term in Months	Monthly Payments
Owner's Cash Injection	50.00%	116,188			
Outside Investors	0.00%	-			
Additional Loans or Debt					
Commercial Loan	50.00%	116,188	9.00%	36.00	\$3,694.73
Total Sources of Funding	100.00%	\$ 232,375			\$3,694.73

11.2. Exhibit 2 – Expected Growth for each year of operations

Channel	% Sales				
	2009-10	2010-11	2011-12	2012-13	2013-14
Store #1: Chicago	47.50	52.25	57.48	63.22	72.71
Store #2: Chicago	47.50	52.25	57.48	63.22	72.71
Store #3: New York	-	47.50	52.25	57.48	66.10
Store #4: New York	-	47.50	52.25	57.48	66.10
Store #5: Boston	-	-	47.50	52.25	60.09
Store #6: Boston	-	-	47.50	52.25	60.09
Store #7: Washington D.C	-	-	-	47.50	54.63
Store #8: Washington D.C	-	-	-	47.50	54.63
Store #9: Seattle	-	-	-	-	47.50
Store #10: Seattle	-	-	-	-	47.50
Internet & Catalogs	5.00	6.88	9.45	13.00	17.87
	100.00	206.38	323.90	453.89	619.90
Expected Growth	-	106.4%	56.9%	40.1%	36.6%

Final Project - UDLA

11.3. Exhibit 3 – Sale forecast for the first five year of operations (in units)

	September	October	November	December	January	February	March	April	May	June	July	August	Totals
Hand Knitted Accesories													
Year 1: 2009 - 10	80	320	600	800	600	400	400	320	200	200	40	40	4,000
Year 2: 2010 - 11	165	660	1,238	1,651	1,238	826	826	660	413	413	83	83	8,255
Year 3: 2011 - 12	259	1,036	1,943	2,591	1,943	1,296	1,296	1,036	648	648	130	130	12,956
Year 4: 2012 - 13	363	1,452	2,723	3,631	2,723	1,816	1,816	1,452	908	908	182	182	18,156
Year 5: 2013 - 14	496	1,984	3,719	4,959	3,719	2,480	2,480	1,984	1,240	1,240	248	248	24,796
Knitted Accesories													
Year 1: 2009 - 10	64	256	480	640	480	320	320	256	160	160	32	32	3,200
Year 2: 2010 - 11	132	528	991	1,321	991	660	660	528	330	330	66	66	6,604
Year 3: 2011 - 12	207	829	1,555	2,073	1,555	1,036	1,036	829	518	518	104	104	10,365
Year 4: 2012 - 13	290	1,162	2,179	2,905	2,179	1,452	1,452	1,162	726	726	145	145	14,525
Year 5: 2013 - 14	397	1,587	2,976	3,967	2,976	1,984	1,984	1,587	992	992	198	198	19,837
Hand Knitted Garments													
Year 1: 2009 - 10	36	144	270	360	270	180	180	144	90	90	18	18	1,800
Year 2: 2010 - 11	74	297	557	743	557	371	371	297	186	186	37	37	3,715
Year 3: 2011 - 12	117	466	875	1,166	875	583	583	466	292	292	58	58	5,830
Year 4: 2012 - 13	163	654	1,226	1,634	1,226	817	817	654	409	409	82	82	8,170
Year 5: 2013 - 14	223	893	1,674	2,232	1,674	1,116	1,116	893	558	558	112	112	11,158
Knitted Garments													
Year 1: 2009 - 10	64	256	480	640	480	320	320	256	160	160	32	32	3,200
Year 2: 2010 - 11	132	528	991	1,321	991	660	660	528	330	330	66	66	6,604
Year 3: 2011 - 12	207	829	1,555	2,073	1,555	1,036	1,036	829	518	518	104	104	10,365
Year 4: 2012 - 13	290	1,162	2,179	2,905	2,179	1,452	1,452	1,162	726	726	145	145	14,525
Year 5: 2013 - 14	397	1,587	2,976	3,967	2,976	1,984	1,984	1,587	992	992	198	198	19,837
TOTAL													
Year 1: 2009 - 10	244	976	1,830	2,440	1,830	1,220	1,220	976	610	610	122	122	12,200
Year 2: 2010 - 11	504	2,014	3,777	5,036	3,777	2,518	2,518	2,014	1,259	1,259	252	252	25,178
Year 3: 2011 - 12	790	3,161	5,927	7,903	5,927	3,952	3,952	3,161	1,976	1,976	395	395	39,516
Year 4: 2012 - 13	1,107	4,430	8,306	11,075	8,306	5,537	5,537	4,430	2,769	2,769	554	554	55,375
Year 5: 2013 - 14	1,513	6,050	11,344	15,126	11,344	7,563	7,563	6,050	3,781	3,781	756	756	75,628

Final Project - UDLA

11.4. Exhibit 4 - Scenarios

Pessimistic Scenario

- Demand: 15% lower than estimated
- Price: 10% lower than estimated
- Annual Sales per Store: \$1'042,886

Category of Products	Price	Demand in Units 1 st year
Hand Knitted Accessories	\$180.00	3,400
Knitted Accessories	\$135.00	2,720
Hand Knitted Garments	\$315.00	1,530
Knitted Garments	\$270.00	2,720
TOTAL	-	10,370

Moderate Scenario

- Demand: As estimated
- Price: As estimated
- Annual Sales per Store: \$1'363,250

Category of Products	Price	Demand in Units 1 st year
Hand Knitted Accessories	\$200.00	4,000
Knitted Accessories	\$150.00	3,200
Hand Knitted Garments	\$350.00	1,800
Knitted Garments	\$300.00	3,200
TOTAL	-	12,200

Optimistic Scenario

- Demand: 15% higher than estimated
- Price: 10% higher than estimated
- Annual Sales per Store: \$1'724,511

Category of Products	Price	Demand in Units 1 st year
Hand Knitted Accessories	\$220.00	4,600
Knitted Accessories	\$165.00	3,680
Hand Knitted Garments	\$385.00	2,070
Knitted Garments	\$330.00	3,680
TOTAL	-	14,030

	2009-10	2010-11	2011-12
Sales	\$2,195,550	\$4,531,066	\$7,111,455
Net Income	\$101,254	\$809,090	\$1,625,688
Profitability	4.61%	17.86%	22.86%
Ending Cash Balance	\$167,679	\$956,841	\$2,554,026

	2009-10	2010-11	2011-12
Sales	\$2,870,000	\$5,922,963	\$9,296,020
Net Income	\$548,971	\$1,732,255	\$3,074,074
Profitability	19.13%	29.25%	33.07%
Ending Cash Balance	\$602,528	\$2,313,714	\$5,356,507

	2009-10	2010-11	2011-12
Sales	\$3,630,550	\$7,492,548	\$11,759,465
Net Income	\$1,057,581	\$2,780,985	\$4,719,467
Profitability	29.13%	37.12%	40.13%
Ending Cash Balance	\$1,096,550	\$3,855,109	\$8,540,071

11.5. Exhibit 5 – Cost of Sales

Costs of production per category of product

Accesories

	Quantity	Cost p/u	Total
Hand knitted			
Designs (models)	25	\$120.00	\$3,000.00
Details / Art Work	1200	\$1.50	\$1,800.00
Manufacturing	1200	\$8.00	\$9,600.00
Raw material (yarn)	0.15	\$3.30	\$3,960.00
Total	1200	\$15.30	\$18,360.00
Knitted			
Designs (models)	20	\$80.00	\$1,600.00
Tech Sheet	20	\$40.00	\$800.00
Details / Art Work	900	\$1.50	\$1,350.00
Manufacturing	900	\$4.00	\$3,600.00
Raw material (yarn)	0.15	\$3.30	\$2,970.00
Total	900	\$11.47	\$10,320.00

Garments

	Quantity	Cost p/u	Total
Hand knitted			
Designs (models)	20	\$200.00	\$4,000.00
Details / Art Work	600	\$3.00	\$1,800.00
Manufacturing	600	\$20.00	\$12,000.00
Raw material (yarn)	0.5	\$11.00	\$6,600.00
Total	600	\$40.67	\$24,400.00
Knitted			
Designs (models)	25	\$150.00	\$3,750.00
Tech Sheet	25	\$50.00	\$1,250.00
Details / Art Work	900	\$3.00	\$2,700.00
Manufacturing	900	\$10.00	\$9,000.00
Raw material (yarn)	0.5	\$11.00	\$9,900.00
Total	900	\$29.56	\$26,600.00

Kilos per collection	1065
Average cost per kilo	\$22.00
Products per collection	3600
Number of designs	90

COSTS	
Raw material	\$23,430.00
Manufacturing	\$41,850.00
Design	\$14,400.00
TOTAL	\$79,680.00

Final Project - UDLA

11.6. Exhibit 6 – Fixed Expenses

Final Project MBA - GAIA Fixed Operating Expenses

Fixed Operating Expenses	Monthly	2009-10	2010-11	2011-12	2012-13	2013-14
Expenses						
Advertising	\$ 41,667	500,000	625,000	781,250	976,563	1,220,703
Insurance (Liability and Property)	800	9,600	14,400	19,200	24,000	28,800
Internet	120	1,440	2,160	2,880	3,600	4,320
Legal and Professional Fees	300	3,600	3,708	3,819	3,934	4,052
Office Expenses	800	9,600	14,400	19,200	24,000	28,800
Transportation of products	500	6,000	12,383	19,434	27,234	37,194
Rent (on business property)	55,000	660,000	1,279,800	1,918,194	2,575,740	3,253,012
Inventory Management	1,500	18,000	37,148	58,303	81,701	111,582
Repairs and Maintenance	200	2,400	2,472	2,546	2,623	2,701
Supplies	100	1,200	1,800	2,400	3,000	3,600
Telephone and Communications	100	1,200	1,800	2,400	3,000	3,600
Travel	150	1,800	1,854	1,910	1,967	2,026
Total Expenses	101,237	1,214,840	1,996,924	2,831,536	3,727,360	4,700,390

Growth Chart per Cost	% Sales				
	2009-10	2010-11	2011-12	2012-13	2013-14
Advertising	-	25%	25%	25%	25%
Insurance (Liability and Property)	-	50%	33%	25%	20%
Internet	-	50%	33%	25%	20%
Legal and Professional Fees	-	3%	3%	3%	3%
Office Expenses	-	50%	33%	25%	20%
Transportation of products	-	106%	57%	40%	37%
Rent (on business property)	-	93%	50%	34%	26%
Inventory Management	-	106%	57%	40%	37%
Repairs and Maintenance	-	3%	3%	3%	3%
Supplies	-	50%	33%	25%	20%
Telephone and Communications	-	50%	33%	25%	20%
Travel	-	3%	3%	3%	3%

Final Project - UDLA

11.7. Exhibit 7 – Salaries and Wages

Final Project MBA - GAIA Salaries and Wages

Salaries and Related Expenses in the US	#	Assumptions	Wage Base	Monthly	2009-10	2010-11	2011-12	2012-13	2013-14
Percent Change						3.00%	3.00%	3.00%	3.00%
Salaries and Wages									
Store Managers Salaries	2			\$ 7,200	86,400	175,392	267,054	361,465	458,709
Administration Staff	2			8,600	103,200	106,296	109,485	112,769	116,153
Wages									
Full-Time Employees	5			8,667	104,000	190,320	279,230	495,610	593,679
Estimated Hours Per Week		40.00							
Estimated Rate Per Hour		\$ 10.00							
Independent Contractors				-	-	-	-	-	-
Total Salaries and Wages	9			24,467	293,600	472,008	655,768	969,845	1,168,541
Payroll Taxes and Benefits									
Social Security		6.20%	\$ 102,000	1,517	18,203	29,264	40,658	60,130	72,450
Medicare		1.45%		355	4,257	6,844	9,509	14,063	16,944
Federal Unemployment Tax		0.80%	\$ 7,000	42	504	504	504	504	504
State Unemployment Tax		2.70%	\$ 7,000	142	1,701	1,701	1,701	1,701	1,701
Other Employee Benefit Programs		12.00%		2,936	35,232	36,289	37,378	37,378	37,378
Total Payroll Taxes and Benefits				4,991	59,897	74,603	89,749	113,776	128,976
Total Salaries and Related Expenses - United States				29,458	353,497	546,611	745,517	1,083,621	1,297,517
Total Salaries and Related Expenses - PERU				9,187	110,245	113,552	116,959	120,467	124,081
Total Salaries and Related Expenses - TOTAL				38,645	463,742	660,163	862,476	1,204,088	1,421,598

Final Project - UDLA

11.8. Exhibit 8 – Breakeven Point Analysis per Category of Product

Category	Hand Knitted Accesories	
	Total	Percentage (%)
Price	\$200.00	100.00%
Cost of Sales	\$15.30	7.65%
Gross Margin	\$184.70	92.35%

Fixed Cost* Allocation	\$509,429.05	30.00%
------------------------	--------------	--------

Total	Annual	Monthly
Breakeven in dollars	\$551,629	\$45,969
Breakeven in units	2758	230

Per Store	Annual	Monthly
Breakeven in dollars	\$275,814	\$22,985
Breakeven in units	1379	115

Category	Knitted Accesories	
	Total	Percentage (%)
Price	\$150.00	100.00%
Cost of Sales	\$11.47	7.64%
Gross Margin	\$138.53	92.36%

Fixed Cost* Allocation	\$254,714.53	15.00%
------------------------	--------------	--------

Total	Annual	Monthly
Breakeven in dollars	\$275,798	\$22,983
Breakeven in units	1839	153

Per Store	Annual	Monthly
Breakeven in dollars	\$137,899	\$11,492
Breakeven in units	919	77

Category	Hand Knitted Garments	
	Total	Percentage (%)
Price	\$350.00	100.00%
Cost of Sales	\$40.67	11.62%
Gross Margin	\$309.33	88.38%

Fixed Cost* Allocation	\$424,524.21	25.00%
------------------------	--------------	--------

Total	Annual	Monthly
Breakeven in dollars	\$480,335	\$40,028
Breakeven in units	1372	114

Per Store	Annual	Monthly
Breakeven in dollars	\$240,167	\$20,014
Breakeven in units	686	57

Category	Knitted Garments	
	Total	Percentage (%)
Price	\$300.00	100.00%
Cost of Sales	\$29.56	9.85%
Gross Margin	\$270.44	90.15%

Fixed Cost* Allocation	\$509,429.05	30.00%
------------------------	--------------	--------

Total	Annual	Monthly
Breakeven in dollars	\$565,102	\$47,092
Breakeven in units	1884	157

Per Store	Annual	Monthly
Breakeven in dollars	\$282,551	\$23,546
Breakeven in units	942	79

Fixed Cost*	Fixed Operating Expenses + Salaries and Wages	\$1,698,097
-------------	---	-------------

HSL

11.9. Exhibit 9 – Ratio Analysis

	2009-10	2010-11	2011-12	2012-13	2013-14
Liquidity					
Current Ratio	5.21	23.03	8.28	45.28	108.80
Quick Ratio	4.62	22.58	8.08	45.10	108.63
Safety					
Debt to Equity Ratio	1.25	0.93	0.58	0.23	0.14
Profitability					
Sales Growth	-	1.06	0.57	0.40	0.37
SG&A to Sales	0.58	0.45	0.40	0.38	0.34
Net Profit Margin	0.19	0.30	0.34	0.34	0.37
Return on Equity	4.73	15.39	27.46	14.17	12.86
Return on Assets	0.68	0.70	0.56	0.55	0.52
Efficiency					
Days in Inventory	17.97	72.39	46.12	32.91	24.10
Inventory Turnover	20.03	4.97	7.81	10.94	14.94
Sales to Total Assets	3.59	2.34	1.65	1.61	1.41

Final Project - UDLA

11.10. Exhibit 10 – Production and Inventory Levels

	First Year of Operations												Second Year of Operations												Third Year of Operations											
	2009				2010				2010				2011				2011				2012															
	September	October	November	December	January	February	March	April	May	June	July	August	September	October	November	December	January	February	March	April	May	June	July	August	September	October	November	December	January	February	March	April	May	June	July	August
Sales	244	976	1830	2440	1830	1220	1220	976	610	610	122	122	904	2014	3777	5036	3777	2518	2518	2014	1259	1259	252	252	790	3161	5927	7903	5927	3952	3952	3161	1976	1976	395	395
Hand Knitted Accessories	80	320	600	800	600	400	400	320	200	200	40	40	165	660	1238	1651	1238	826	826	660	413	413	83	83	259	1036	1943	2591	1943	1296	1296	1036	648	648	130	130
Knitted Accessories	64	256	480	640	480	320	320	256	160	160	32	32	132	528	991	1321	991	660	660	528	330	330	66	66	207	829	1555	2073	1555	1036	1036	829	518	518	104	104
Hand-Knitted Garments	36	144	270	360	270	180	180	144	90	90	18	18	74	297	557	743	557	371	371	297	186	186	37	37	117	466	875	1166	875	583	583	466	292	292	58	58
Knitted Garments	64	256	480	640	480	320	320	256	160	160	32	32	132	528	991	1321	991	660	660	528	330	330	66	66	207	829	1555	2073	1555	1036	1036	829	518	518	104	104
Initial Inventory	3600	3356	2380	6040	3600	1770	3356	2136	1160	1404	794	672	6844	6341	4327	11880	6844	3068	10341	7823	5809	6312	5954	4802	14429	13639	10477	22332	14429	8502	13639	9687	6526	7316	5340	4945
Hand Knitted Accessories	1200	1120	800	2000	1200	600	1120	720	400	480	280	240	2264	2099	1438	3915	2264	1026	3099	2273	1613	1778	1565	1283	4439	4180	3143	7030	4439	2496	4180	2884	1848	2107	1459	1330
Knitted Accessories	900	836	580	1540	900	420	836	516	260	324	164	132	1751	1619	1091	3072	1751	760	2619	1959	1430	1562	1232	1166	3691	3484	2655	5764	3691	2136	3484	2447	1618	1826	1307	1204
Hand-Knitted Garments	600	564	420	960	600	330	564	384	240	276	186	168	1079	1004	707	1822	1079	521	2004	1633	1336	1410	1224	1187	2608	2491	2025	3774	2608	1733	2491	1908	1442	1558	1267	1208
Knitted Garments	900	836	580	1540	900	420	836	516	260	324	164	132	1751	1619	1091	3072	1751	760	2619	1959	1430	1562	1232	1166	3691	3484	2655	5764	3691	2136	3484	2447	1618	1826	1307	1204
Final Inventory	3356	2380	550	3600	1770	550	2136	1160	550	794	672	550	6341	4327	550	6844	550	7823	5809	4550	5054	4802	4550	13639	10477	4550	14429	8502	9687	6526	4550	5340	4945	4550	4550	
Hand Knitted Accessories	1120	800	200	1200	600	200	720	400	200	280	240	200	2099	1438	200	2264	1026	200	2273	1613	1200	1365	1283	1200	4180	3143	1200	4439	2496	1200	2884	1848	1200	1459	1330	1200
Knitted Accessories	836	580	100	900	420	100	516	260	100	164	132	100	1619	1091	100	1751	760	100	1959	1430	1100	1232	1166	1100	3484	2655	1100	3691	2136	1100	2447	1618	1100	1307	1204	1100
Hand-Knitted Garments	564	420	150	600	330	150	384	240	150	186	168	150	1004	707	150	1079	521	150	1633	1336	1150	1224	1187	1150	2491	2025	1150	2608	1733	1150	1908	1442	1150	1267	1208	1150
Knitted Garments	836	580	100	900	420	100	516	260	100	164	132	100	1619	1091	100	1751	760	100	1959	1430	1100	1232	1166	1100	3484	2655	1100	3691	2136	1100	2447	1618	1100	1307	1204	1100
Finished Goods sent to U.S.				5490		2806		854		6294				11330		9791		1762		9879						17782		9089		2766		13844				
Hand Knitted Accessories				1800		920		280		2064				3715		2899		578		3239						5830		2980		907		4539				
Knitted Accessories				1440		736		224		1651				2972		2519		462		2591						4664		2384		726		3631				
Hand-Knitted Garments				810		414		126		929				1672		1854		260		1458						2624		1341		468		2043				
Knitted Garments				1440		736		224		1651				2972		2519		462		2591						4664		2384		726		3631				
Cost of final Inventory	\$74,367	\$53,113	\$13,262	\$79,680	\$39,829	\$13,262	\$47,799	\$26,546	\$13,262	\$18,576	\$15,919	\$13,262	\$139,366	\$95,504	\$13,262	\$150,332	\$68,090	\$13,262	\$181,527	\$137,665	\$110,251	\$121,217	\$115,734	\$110,251	\$908,170	\$239,329	\$110,251	\$325,380	\$196,303	\$110,251	\$222,118	\$153,277	\$110,251	\$127,461	\$118,856	\$110,251
Cost of Inventory Purchases	\$0	\$0	\$119,552	\$0	\$0	\$61,104	\$0	\$0	\$18,597	\$0	\$0	\$137,070	\$0	\$246,725	\$0	\$0	\$223,093	\$0	\$0	\$58,380	\$0	\$0	\$215,129	\$0	\$0	\$387,233	\$0	\$0	\$197,919	\$0	\$0	\$60,236	\$0	\$0	\$301,466	\$0

	Fourth Year of Operations												Fifth Year of Operations																								
	2012				2013				2013				2014				2014																				
	September	October	November	December	January	February	March	April	May	June	July	August	September	October	November	December	January	February	March	April	May	June	July	August	September	October	November	December	January	February	March	April	May	June	July	August	
Sales	1107	4430	8306	11075	8306	5537	5537	4430	2769	554	554	554	1513	6050	11344	15126	11344	7563	7563	6050	3781	3781	756	756	363	1452	2723	3631	2723	1816	1816	1452	908	908	182	182	
Hand Knitted Accessories	290	1162	2179	2905	2179	1452	1452	1162	726	726	145	145	397	1587	2976	3967	2976	1984	1984	1587	992	992	198	198	496	1984	3719	4959	3719	2480	2480	1984	1240	1240	248	248	
Knitted Accessories	290	1162	2179	2905	2179	1452	1452	1162	726	726	145	145	397	1587	2976	3967	2976	1984	1984	1587	992	992	198	198	496	1984	3719	4959	3719	2480	2480	1984	1240	1240	248	248	
Hand-Knitted Garments	163	654	1226	1634	1226	817	817	654	409	409	82	82	223	893	1674	2232	1674	1116	1116	893	558	558	112	112	223	893	1674	2232	1674	1116	1116	893	558	558	112	112	
Knitted Garments	290	1162	2179	2905	2179	1452	1452	1162	726	726	145	145	397	1587	2976	3967	2976	1984	1984	1587	992	992	198	198	496	1984	3719	4959	3719	2480	2480	1984	1240	1240	248	248	
Initial Inventory	18394	17286	12856	28469	18394	10087	17286	11749	7319	8426	5657	5104	23457	21944	15894	38583	23457	12113	21944	14382	8331	9844	6063	5306	5739	5376	3923	9370	5739	3016	5376	3560	2108	2471	1563	1382	
Hand Knitted Accessories	5739	5376	3923	9370	5739	3016	5376	3560	2108	2471	1563	1382	7399	6903	4919	12358	7399	3680	6903	4423	2440	2936	1696	1448	6059	5662	4076	10027	6059	3084	5662	3679	2092	2489	1497	1298	
Knitted Accessories	4731	4441	3279	7636	4731	2552	4441	2988	1826	2117	1390	1245	3940	3716	2824	6171	3940	2266	3716	2601	1708	1931	1373	1262	6059	5662	4076	10027	6059	3084	5662	3679	2092	2489	1497	1298	
Hand-Knitted Garments	3193	3029	2376	4827	3193	1967	3029	2212	1559	1722	1313	1232	3940	3716	2824	6171	3940	2266	3716	2601	1708	1931	1373	1262	6059	5662	4076	10027	6059	3084	5662	3679	2092	2489	1497	1298	
Knitted Garments	4731	4441	3279	7636	4731	2552	4441	2988	1826	2117	1390	1245	6059	5662	4076	10027	6059	3084	5662	3679	2092	2489	1497	1298	6059	5662	4076	10027	6059	3084	5662	3679	2092	2489	1497	1298	
Final Inventory	17286	12856	4550	18394	10087	4550	11749	7319	4550	5657	5104	4550	21944	15894	4550	23457	12113	4550	14382	8331	4550	6063	5306	4550	5739	5376	3923	9370	5739	3016	5376	3560	2108	2471	1563	1382	
Hand Knitted Accessories	5376	3923	1200	5739	3016	1200	3560	2108	1200	1563	1382	1200	6903	4919	1200	7399	3680	1200	4423	2440	2440	1200	1696	1448	1200	5739	1200	5739	1200	5739	3016	5376	3560	2108	2471	1563	1382
Knitted Accessories	4441	3279	1100	4731	2552	1100	2988	1826	1100	1390	1245	1100	5662	4076	1100	6059	3084	1100	3679	2092	1100	1497	1298	1100	5662	4076	1100	6059	3084	1100	3679	2092	1100	1497	1298	1100	
Hand-Knitted Garments	3029	2376	1150	3193	1967	1150	2212	1559	1150																												

Final Project - UDLA

11.11. Exhibit 11 – Balance Sheets Year to Year

Final Project MBA - GAIA Balance Sheet - Year to Year

Amounts in US\$

	August 2009	2009-10	2010-11	2011-12	2012-13	2013-14
		End of Year One	End of Year Two	End of Year Three	End of Year Four	End of Year Five
Assets						
Current Assets						
Cash	5,000	663,013	2,313,602	441,514	3,105,671	7,916,111
Accounts Receivable	-	-	-	-	-	-
Inventory	79,680	13,262	110,251	110,251	110,251	110,251
Prepaid Expenses	105,000	70,000	35,000	-	-	-
Other Current	1,500	1,000	500	-	-	-
Total Current Assets	191,180	747,275	2,459,353	551,765	3,215,922	8,026,362
Fixed Assets						
Real Estate	-	-	-	-	-	-
Buildings	-	-	-	5,000,000	5,000,000	5,000,000
Leasehold Improvements	15,000	15,000	15,000	15,000	15,000	15,000
Equipment	20,000	20,000	20,000	20,000	20,000	20,000
Furniture and Fixtures	3,000	3,000	3,000	3,000	3,000	3,000
Vehicles	-	-	-	-	-	-
Other Fixed Assets	-	20,000	40,000	60,000	80,000	100,000
Total Fixed Assets	38,000	58,000	78,000	5,098,000	5,118,000	5,138,000
Less: Accumulated Depreciation	-	5,600	11,200	16,800	266,800	516,800
Total Assets	229,180	799,674	2,526,152	5,632,965	8,067,122	12,647,561
Liabilities and Owner's Equity						
Liabilities						
Accounts Payable	-	1,328	2,741	4,303	10,332	12,539
Notes Payable	114,590	79,763	41,668	0	0	0
Mortgage Payable	-	-	-	-	-	-
Line of Credit Balance	-	62,366	62,366	62,366	62,366	62,366
Total Liabilities	114,590	143,457	106,775	66,668	72,698	74,904
Owner's Equity						
Common Stock	114,590	114,590	114,590	114,590	314,590	514,590
Retained Earnings	-	541,628	2,304,788	5,451,707	9,679,834	16,058,067
Dividends Dispersed	-	-	-	-	2,000,000	4,000,000
Total Owner's Equity	114,590	656,218	2,419,378	5,566,297	7,994,424	12,572,657
Total Liabilities and Owner's Equity	229,180	799,674	2,526,152	5,632,965	8,067,122	12,647,561

Final Project - UDLA

11.12. Exhibit 12 – Income Statement: First Year of Operations: September 2009 – August 2010

Final Project MBA - GAIA Projected Income Statement - Year One

In US\$

	September	October	November	December	January	February	March	April	May	June	July	August	Totals
Income													
Hand Knitted Accessories	16,000	64,000	120,000	160,000	120,000	80,000	80,000	64,000	40,000	40,000	8,000	8,000	800,000
Knitted Accessories	9,600	38,400	72,000	96,000	72,000	48,000	48,000	38,400	24,000	24,000	4,800	4,800	480,000
Hand Knitted Garments	12,600	50,400	94,500	126,000	94,500	63,000	63,000	50,400	31,500	31,500	6,300	6,300	630,000
Knitted Garments	19,200	76,800	144,000	192,000	144,000	96,000	96,000	76,800	48,000	48,000	9,600	9,600	960,000
Total Income	57,400	229,600	430,500	574,000	430,500	287,000	287,000	229,600	143,500	143,500	28,700	28,700	2,870,000
Cost of Sales													
Hand Knitted Accessories	1,224	4,896	9,180	12,240	9,180	6,120	6,120	4,896	3,060	3,060	612	612	61,200
Knitted Accessories	734	2,935	5,504	7,339	5,504	3,669	3,669	2,935	1,835	1,835	367	367	36,693
Hand Knitted Garments	1,464	5,856	10,980	14,640	10,980	7,320	7,320	5,856	3,660	3,660	732	732	73,200
Knitted Garments	1,892	7,566	14,187	18,916	14,187	9,458	9,458	7,566	4,729	4,729	946	946	94,578
Total Cost of Sales	5,313	21,254	39,851	53,134	39,851	26,567	26,567	21,254	13,284	13,284	2,657	2,657	265,671
Gross Margin	52,087	208,346	390,649	520,866	390,649	260,433	260,433	208,346	130,216	130,216	26,043	26,043	2,604,329
Total Salary and Wages	38,645	38,645	38,645	38,645	38,645	38,645	38,645	38,645	38,645	38,645	38,645	38,645	463,742
Fixed Business Expenses													
Advertising	20,000	30,000	100,000	150,000	80,000	30,000	30,000	20,000	10,000	10,000	10,000	10,000	500,000
Insurance (Liability and Property)	800	800	800	800	800	800	800	800	800	800	800	800	9,600
Internet	120	120	120	120	120	120	120	120	120	120	120	120	1,440
Legal and Professional Fees	300	300	300	300	300	300	300	300	300	300	300	300	3,600
Office Expenses	800	800	800	800	800	800	800	800	800	800	800	800	9,600
Transportation of products			1,500			1,500			1,500			1,500	6,000
Rent (on business property)	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	660,000
Inventory Management	2,250	2,250	2,250	2,250	2,250	2,250	2,250	2,250	2,250	2,250	2,250	2,250	27,000
Repairs and Maintenance	200	200	200	200	200	200	200	200	200	200	200	200	2,400
Supplies	100	100	100	100	100	100	100	100	100	100	100	100	1,200
Telephone and Communications	100	100	100	100	100	100	100	100	100	100	100	100	1,200
Travel	150	150	150	150	150	150	150	150	150	150	150	150	1,800
Total Fixed Business Expenses	79,820	89,820	161,320	209,820	139,820	91,320	89,820	79,820	71,320	69,820	69,820	71,320	1,223,840
Other Expenses													
Amortized Start-up Expenses	2,958	2,958	2,958	2,958	2,958	2,958	2,958	2,958	2,958	2,958	2,958	2,958	35,500
Depreciation	467	467	467	467	467	467	467	467	467	467	467	467	5,600
Interest													
Commercial Loan	859	839	818	796	775	753	732	710	688	666	643	621	8,900
Commercial Mortgage	-	-	-	-	-	-	-	-	-	-	-	-	-
Line of Credit	-	468	468	468	468	468	468	468	468	468	468	468	5,145
Taxes	-	3,121	56,680	81,201	63,142	38,634	39,090	26,471	5,589	6,045	-	-	319,974
Total Other Expenses	4,284	7,852	61,390	85,890	67,810	43,280	43,715	31,074	10,169	10,604	4,536	4,514	375,119
Net Income	(70,663)	72,029	129,294	186,511	144,374	87,188	88,253	58,807	10,082	11,147	(86,958)	(88,436)	541,628

Final Project - UDLA

11.13. Exhibit 13 – Income Statement: Second Year of Operations: September 2010 – August 2011

Final Project MBA - GAIA Projected Income Statement - Year Two

In US\$

	September	October	November	December	January	February	March	April	May	June	July	August	Totals
Income													
Hand Knitted Accesories	33,020	132,080	247,650	330,200	247,650	165,100	165,100	132,080	82,550	82,550	16,510	16,510	1,651,000
Knitted Accesories	19,812	79,248	148,590	198,120	148,590	99,060	99,060	79,248	49,530	49,530	9,906	9,906	990,600
Hand Knitted Garments	26,003	104,013	195,024	260,033	195,024	130,016	130,016	104,013	65,008	65,008	13,002	13,002	1,300,163
Knitted Garments	39,624	158,496	297,180	396,240	297,180	198,120	198,120	158,496	99,060	99,060	19,812	19,812	1,981,200
Total Income	118,459	473,837	888,444	1,184,593	888,444	592,296	592,296	473,837	296,148	296,148	59,230	59,230	5,922,963
Cost of Sales													
Hand Knitted Accesories	2,526	10,104	18,945	25,260	18,945	12,630	12,630	10,104	6,315	6,315	1,263	1,263	126,302
Knitted Accesories	1,515	6,058	11,359	15,145	11,359	7,573	7,573	6,058	3,786	3,786	757	757	75,726
Hand Knitted Garments	3,021	12,085	22,660	30,213	22,660	15,107	15,107	12,085	7,553	7,553	1,511	1,511	151,067
Knitted Garments	3,904	15,615	29,278	39,037	29,278	19,518	19,518	15,615	9,759	9,759	1,952	1,952	195,185
Total Cost of Sales	10,966	43,862	82,242	109,656	82,242	54,828	54,828	43,862	27,414	27,414	5,483	5,483	548,279
Gross Margin	107,494	429,975	806,203	1,074,937	806,203	537,468	537,468	429,975	268,734	268,734	53,747	53,747	5,374,684
Total Salary and Wages	55,014	55,014	55,014	55,014	55,014	55,014	55,014	55,014	55,014	55,014	55,014	55,014	660,163
Fixed Business Expenses													
Advertising	25,000	37,500	125,000	187,500	100,000	37,500	37,500	25,000	12,500	12,500	12,500	12,500	625,000
Insurance (Liability and Property)	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	14,400
Internet	180	180	180	180	180	180	180	180	180	180	180	180	2,160
Legal and Professional Fees	309	309	309	309	309	309	309	309	309	309	309	309	3,708
Office Expenses	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	14,400
Transportation of products	-	-	3,096	-	-	3,096	-	-	3,096	-	-	3,096	12,383
Rent (on business property)	106,650	106,650	106,650	106,650	106,650	106,650	106,650	106,650	106,650	106,650	106,650	106,650	1,279,800
Inventory Management	4,643	4,643	4,643	4,643	4,643	4,643	4,643	4,643	4,643	4,643	4,643	4,643	55,721
Repairs and Maintenance	206	206	206	206	206	206	206	206	206	206	206	206	2,472
Supplies	150	150	150	150	150	150	150	150	150	150	150	150	1,800
Telephone and Communications	150	150	150	150	150	150	150	150	150	150	150	150	1,800
Travel	155	155	155	155	155	155	155	155	155	155	155	155	1,854
Total Fixed Business Expenses	139,843	152,343	242,939	302,343	214,843	155,439	152,343	139,843	130,439	127,343	127,343	130,439	2,015,498
Other Expenses													
Amortized Start-up Expenses	2,958	2,958	2,958	2,958	2,958	2,958	2,958	2,958	2,958	2,958	2,958	2,958	35,500
Depreciation	467	467	467	467	467	467	467	467	467	467	467	467	5,600
Interest													
Commercial Loan	598	575	552	529	506	482	459	435	411	386	362	337	5,633
Commercial Mortgage	-	-	-	-	-	-	-	-	-	-	-	-	-
Line of Credit	468	468	468	468	468	468	468	468	468	468	468	468	5,613
Taxes	-	39,664	152,029	214,835	160,472	97,680	98,616	70,125	24,581	25,517	-	-	883,518
Total Other Expenses	4,491	44,132	156,474	219,257	164,870	102,055	102,967	74,452	28,884	29,796	4,255	4,230	935,864
Net Income	(91,854)	178,486	351,776	498,323	371,476	224,961	227,145	160,666	54,398	56,582	(132,864)	(135,935)	1,763,160

Final Project - UDLA

11.14. Exhibit 14 – Income Statement: Third Year of Operations: September 2011 – August 2012

Final Project MBA - GAIA Projected Income Statement - Year Three

In US\$

	September	October	November	December	January	February	March	April	May	June	July	August	Totals
Income													
Hand Knitted Accesories	51,825	207,298	388,684	518,245	388,684	259,123	259,123	207,298	129,561	129,561	25,912	25,912	2,591,225
Knitted Accesories	31,095	124,379	233,210	310,947	233,210	155,474	155,474	124,379	77,737	77,737	15,547	15,547	1,554,735
Hand Knitted Garments	40,812	163,247	306,088	408,118	306,088	204,059	204,059	163,247	102,029	102,029	20,406	20,406	2,040,590
Knitted Garments	62,189	248,758	466,421	621,894	466,421	310,947	310,947	248,758	155,474	155,474	31,095	31,095	3,109,470
Total Income	185,920	743,682	1,394,403	1,859,204	1,394,403	929,602	929,602	743,682	464,801	464,801	92,960	92,960	9,296,020
Cost of Sales													
Hand Knitted Accesories	3,965	15,858	29,734	39,646	29,734	19,823	19,823	15,858	9,911	9,911	1,982	1,982	198,229
Knitted Accesories	2,377	9,508	17,828	23,770	17,828	11,885	11,885	9,508	5,943	5,943	1,189	1,189	118,851
Hand Knitted Garments	4,742	18,968	35,565	47,419	35,565	23,710	23,710	18,968	11,855	11,855	2,371	2,371	237,097
Knitted Garments	6,127	24,507	45,951	61,268	45,951	30,634	30,634	24,507	15,317	15,317	3,063	3,063	306,340
Total Cost of Sales	17,210	68,841	129,078	172,103	129,078	86,052	86,052	68,841	43,026	43,026	8,605	8,605	860,517
Gross Margin	168,710	674,840	1,265,325	1,687,101	1,265,325	843,550	843,550	674,840	421,775	421,775	84,355	84,355	8,435,503
Total Salary and Wages	71,873	71,873	71,873	71,873	71,873	71,873	71,873	71,873	71,873	71,873	71,873	71,873	862,476
Fixed Business Expenses													
Advertising	31,250	46,875	156,250	234,375	125,000	46,875	46,875	31,250	15,625	15,625	15,625	15,625	781,250
Insurance (Liability and Property)	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600	19,200
Internet	240	240	240	240	240	240	240	240	240	240	240	240	2,880
Legal and Professional Fees	318	318	318	318	318	318	318	318	318	318	318	318	3,819
Office Expenses	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600	19,200
Transportation of products			4,859			4,859			4,859			4,859	19,434
Rent (on business property)	159,850	159,850	159,850	159,850	159,850	159,850	159,850	159,850	159,850	159,850	159,850	159,850	1,918,194
Inventory Management	7,288	7,288	7,288	7,288	7,288	7,288	7,288	7,288	7,288	7,288	7,288	7,288	87,454
Repairs and Maintenance	212	212	212	212	212	212	212	212	212	212	212	212	2,546
Supplies	200	200	200	200	200	200	200	200	200	200	200	200	2,400
Telephone and Communications	200	200	200	200	200	200	200	200	200	200	200	200	2,400
Travel	159	159	159	159	159	159	159	159	159	159	159	159	1,910
Total Fixed Business Expenses	202,917	218,542	332,775	406,042	296,667	223,400	218,542	202,917	192,150	187,292	187,292	192,150	2,860,687
Other Expenses													
Amortized Start-up Expenses	2,958	2,958	2,958	2,958	2,958	2,958	2,958	2,958	2,958	2,958	2,958	2,958	35,500
Depreciation	467	467	467	467	467	467	467	467	467	467	467	467	5,600
Interest													
Commercial Loan	313	288	262	237	211	186	160	134	107	81	54	27	2,059
Commercial Mortgage	-	-	-	-	-	-	-	-	-	-	-	-	-
Line of Credit	468	468	468	468	468	468	468	468	468	468	468	468	5,613
Taxes	-	82,763	257,844	362,404	268,692	164,147	165,612	119,695	47,013	48,479	-	-	1,516,649
Total Other Expenses	4,205	86,943	261,999	366,534	272,796	168,225	169,665	123,721	51,013	52,452	3,947	3,920	1,565,421
Net Income	(110,285)	297,482	598,678	842,652	623,989	380,051	383,471	276,329	106,739	110,158	(178,757)	(183,588)	3,146,919

Final Project - UDLA

11.15. Exhibit 15 – Income Statement: Fourth Year of Operations: September 2012 – August 2013

Final Project MBA - GAIA Projected Income Statement - Year Four

In US\$

	September	October	November	December	January	February	March	April	May	June	July	August	Totals
Income													
Hand Knitted Accesories	72,623	290,492	544,672	726,229	544,672	363,114	363,114	290,492	181,557	181,557	36,311	36,311	3,631,144
Knitted Accesories	43,574	174,295	326,803	435,737	326,803	217,869	217,869	174,295	108,934	108,934	21,787	21,787	2,178,687
Hand Knitted Garments	57,191	228,762	428,929	571,905	428,929	285,953	285,953	228,762	142,976	142,976	28,595	28,595	2,859,526
Knitted Garments	87,147	348,590	653,606	871,475	653,606	435,737	435,737	348,590	217,869	217,869	43,574	43,574	4,357,373
Total Income	260,535	1,042,138	1,954,010	2,605,346	1,954,010	1,302,673	1,302,673	1,042,138	651,337	651,337	130,267	130,267	13,026,730
Cost of Sales													
Hand Knitted Accesories	5,556	22,223	41,667	55,557	41,667	27,778	27,778	22,223	13,889	13,889	2,778	2,778	277,783
Knitted Accesories	3,331	13,324	24,982	33,310	24,982	16,655	16,655	13,324	8,327	8,327	1,665	1,665	166,548
Hand Knitted Garments	6,645	26,580	49,837	66,450	49,837	33,225	33,225	26,580	16,612	16,612	3,322	3,322	332,250
Knitted Garments	8,586	34,343	64,392	85,856	64,392	42,928	42,928	34,343	21,464	21,464	4,293	4,293	429,282
Total Cost of Sales	24,117	96,469	180,879	241,173	180,879	120,586	120,586	96,469	60,293	60,293	12,059	12,059	1,205,863
Gross Margin	236,417	945,669	1,773,130	2,364,174	1,773,130	1,182,087	1,182,087	945,669	591,043	591,043	118,209	118,209	11,820,868
Total Salary and Wages	100,341	100,341	100,341	100,341	100,341	100,341	100,341	100,341	100,341	100,341	100,341	100,341	1,204,088
Fixed Business Expenses													
Advertising	81,380	81,380	81,380	81,380	81,380	81,380	81,380	81,380	81,380	81,380	81,380	81,380	976,563
Insurance (Liability and Property)	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000
Internet	300	300	300	300	300	300	300	300	300	300	300	300	3,600
Legal and Professional Fees	328	328	328	328	328	328	328	328	328	328	328	328	3,934
Office Expenses	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000
Transportation of products			6,808			6,808			6,808			6,808	27,234
Rent (on business property)	214,645	214,645	214,645	214,645	214,645	214,645	214,645	214,645	214,645	214,645	214,645	214,645	2,575,740
Inventory Management	10,213	10,213	10,213	10,213	10,213	10,213	10,213	10,213	10,213	10,213	10,213	10,213	122,551
Repairs and Maintenance	219	219	219	219	219	219	219	219	219	219	219	219	2,623
Supplies	250	250	250	250	250	250	250	250	250	250	250	250	3,000
Telephone and Communications	250	250	250	250	250	250	250	250	250	250	250	250	3,000
Travel	164	164	164	164	164	164	164	164	164	164	164	164	1,967
Total Fixed Business Expenses	311,748	311,748	318,556	311,748	311,748	318,556	311,748	311,748	318,556	311,748	311,748	318,556	3,768,210
Other Expenses													
Amortized Start-up Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation	20,833	20,833	20,833	20,833	20,833	20,833	20,833	20,833	20,833	20,833	20,833	20,833	250,000
Interest													
Commercial Loan	-	-	-	-	-	-	-	-	-	-	-	-	-
Commercial Mortgage	-	-	-	-	-	-	-	-	-	-	-	-	-
Line of Credit	-	-	-	-	-	-	-	-	-	-	-	-	-
Taxes	-	94,873	400,020	579,375	402,062	222,707	224,749	153,824	45,394	47,436			2,170,441
Total Other Expenses	20,833	115,706	420,853	600,209	422,896	243,540	245,583	174,658	66,227	68,270	20,833	20,833	2,420,441
Net Income	(196,505)	417,875	933,380	1,351,876	938,146	519,649	524,415	358,923	105,919	110,685	(314,713)	(321,522)	4,428,128



Final Project - UDLA

11.16. Exhibit 16 – Income Statement: Fifth Year of Operations: September 2013 – August 2014

Final Project MBA - GAIA Projected Income Statement - Year Five

In US\$

	September	October	November	December	January	February	March	April	May	June	July	August	Totals
Income													
Hand Knitted Accessories	99,203	396,811	744,021	992,029	744,021	496,014	496,014	396,811	248,007	248,007	49,601	49,601	4,960,143
Knitted Accessories	59,522	238,087	446,413	595,217	446,413	297,609	297,609	238,087	148,804	148,804	29,761	29,761	2,976,086
Hand Knitted Garments	78,122	312,489	585,917	781,223	585,917	390,611	390,611	312,489	195,306	195,306	39,061	39,061	3,906,113
Knitted Garments	119,043	476,174	892,826	1,190,434	892,826	595,217	595,217	476,174	297,609	297,609	59,522	59,522	5,952,172
Total Income	355,890	1,423,561	2,669,177	3,558,903	2,669,177	1,779,451	1,779,451	1,423,561	889,726	889,726	177,945	177,945	17,794,514
Cost of Sales													
Hand Knitted Accessories	7,589	30,356	56,918	75,890	56,918	37,945	37,945	30,356	18,973	18,973	3,795	3,795	379,451
Knitted Accessories	4,550	18,200	34,126	45,501	34,126	22,751	22,751	18,200	11,375	11,375	2,275	2,275	227,505
Hand Knitted Garments	9,077	36,308	68,078	90,771	68,078	45,385	45,385	36,308	22,693	22,693	4,539	4,539	453,853
Knitted Garments	11,728	46,912	87,960	117,280	87,960	58,640	58,640	46,912	29,320	29,320	5,864	5,864	586,399
Total Cost of Sales	32,944	131,777	247,081	329,442	247,081	164,721	164,721	131,777	82,360	82,360	16,472	16,472	1,647,208
Gross Margin	322,946	1,291,784	2,422,096	3,229,461	2,422,096	1,614,731	1,614,731	1,291,784	807,365	807,365	161,473	161,473	16,147,305
Total Salary and Wages	118,467	118,467	118,467	118,467	118,467	118,467	118,467	118,467	118,467	118,467	118,467	118,467	1,421,598
Fixed Business Expenses													
Advertising	101,725	101,725	101,725	101,725	101,725	101,725	101,725	101,725	101,725	101,725	101,725	101,725	1,220,703
Insurance (Liability and Property)	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	28,800
Internet	360	360	360	360	360	360	360	360	360	360	360	360	4,320
Legal and Professional Fees	338	338	338	338	338	338	338	338	338	338	338	338	4,052
Office Expenses	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	28,800
Transportation of products			9,299			9,299			9,299				37,194
Rent (on business property)	271,084	271,084	271,084	271,084	271,084	271,084	271,084	271,084	271,084	271,084	271,084	271,084	3,253,012
Inventory Management	13,948	13,948	13,948	13,948	13,948	13,948	13,948	13,948	13,948	13,948	13,948	13,948	167,373
Repairs and Maintenance	225	225	225	225	225	225	225	225	225	225	225	225	2,701
Supplies	300	300	300	300	300	300	300	300	300	300	300	300	3,600
Telephone and Communications	300	300	300	300	300	300	300	300	300	300	300	300	3,600
Travel	169	169	169	169	169	169	169	169	169	169	169	169	2,026
Total Fixed Business Expenses	393,249	393,249	402,547	393,249	393,249	402,547	393,249	393,249	402,547	393,249	393,249	402,547	4,756,182
Other Expenses													
Amortized Start-up Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation	20,833	20,833	20,833	20,833	20,833	20,833	20,833	20,833	20,833	20,833	20,833	20,833	250,000
Interest													
Commercial Loan	-	-	-	-	-	-	-	-	-	-	-	-	-
Commercial Mortgage	-	-	-	-	-	-	-	-	-	-	-	-	-
Line of Credit	-	-	-	-	-	-	-	-	-	-	-	-	-
Taxes	-	164,890	564,075	809,074	566,864	321,865	324,655	227,771	79,655	82,445	-	-	3,141,293
Total Other Expenses	20,833	185,723	584,908	829,907	587,697	342,698	345,488	248,604	100,489	103,278	20,833	20,833	3,391,293
Net Income	(209,603)	594,346	1,316,174	1,887,839	1,322,683	751,018	757,527	531,465	185,863	192,372	(371,076)	(380,374)	6,578,233

Final Project - UDLA

11.17. Exhibit 17 – Cash Flow Statement: First Year of Operations: September 2009 – August 2010

Final Project MBA - GAIA Projected Cash Flow Statement - Year One

In US\$

	September	October	November	December	January	February	March	April	May	June	July	August	Totals
Beginning Cash Balance	5,000	-	83,740	219,810	494,741	696,171	632,908	760,764	843,877	784,881	802,521	710,674	
Cash Inflows													
Income from Sales	57,400	229,600	430,500	574,000	430,500	287,000	287,000	229,600	143,500	143,500	28,700	28,700	2,870,000
Accounts Receivable	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Cash Inflows	57,400	229,600	430,500	574,000	430,500	287,000	287,000	229,600	143,500	143,500	28,700	28,700	2,870,000
Cash Outflows													
Investing Activities													
New Capital Purchases	-	-	-	-	-	-	-	-	-	-	-	20,000	20,000
Cost of Sales	2,657	13,284	30,552	46,492	46,492	33,209	26,567	23,910	17,269	13,284	7,970	2,657	264,343
Operating Activities													
Total Salary and Wages	38,645	38,645	38,645	38,645	38,645	38,645	38,645	38,645	38,645	38,645	38,645	38,645	463,742
Fixed Business Expenses	79,820	89,820	161,320	209,820	139,820	91,320	89,820	79,820	71,320	69,820	69,820	71,320	1,223,840
Taxes	-	-	59,801	-	-	182,977	-	-	71,150	-	-	6,045	319,974
Financing Activities													
Loan Payments	3,644	3,644	3,644	3,644	3,644	3,644	3,644	3,644	3,644	3,644	3,644	3,644	43,727
Line of Credit Interest	-	468	468	468	468	468	468	468	468	468	468	468	5,145
Line of Credit Repayments	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends Paid	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Cash Outflows	124,766	145,860	294,430	299,069	229,069	350,263	159,144	146,487	202,496	125,860	120,547	142,779	2,340,771
Cash Flow	(67,366)	83,740	136,070	274,931	201,431	(63,263)	127,856	83,113	(58,996)	17,640	(91,847)	(114,079)	529,229
Operating Cash Balance	(62,366)	83,740	219,810	494,741	696,171	632,908	760,764	843,877	784,881	802,521	710,674	596,595	
Line of Credit Drawdowns	62,366	-	-	-	-	-	-	-	-	-	-	-	62,366
Ending Cash Balance	-	83,740	219,810	494,741	696,171	632,908	760,764	843,877	784,881	802,521	710,674	596,595	
Line of Credit Balance	62,366	62,366	62,366	62,366	62,366	62,366	62,366	62,366	62,366	62,366	62,366	62,366	

Final Project - UDLA

11.18. Exhibit 18 – Cash Flow Statement: Second Year of Operations: September 2010 – August 2011

Final Project MBA - GAIA Projected Cash Flow Statement - Year Two

In US\$

	September	October	November	December	January	February	March	April	May	June	July	August	Totals
Beginning Cash Balance	596,595	509,275	744,230	1,075,865	1,803,041	2,321,568	2,157,779	2,483,779	2,709,303	2,586,928	2,669,194	2,525,507	
Cash Inflows													
Income from Sales	118,459	473,837	888,444	1,184,593	888,444	592,296	592,296	473,837	296,148	296,148	59,230	59,230	5,922,963
Accounts Receivable	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Cash Inflows	118,459	473,837	888,444	1,184,593	888,444	592,296	592,296	473,837	296,148	296,148	59,230	59,230	5,922,963
Cash Outflows													
Investing Activities													
New Capital Purchases	-	-	-	-	-	-	-	-	-	-	-	20,000	20,000
Cost of Sales	6,811	27,414	63,052	95,949	95,949	68,535	54,828	49,345	35,638	27,414	16,448	5,483	546,866
Operating Activities													
Total Salary and Wages	55,014	55,014	55,014	55,014	55,014	55,014	55,014	55,014	55,014	55,014	55,014	55,014	660,163
Fixed Business Expenses	139,843	152,343	242,939	302,343	214,843	155,439	152,343	139,843	130,439	127,343	127,343	130,439	2,015,498
Taxes	-	-	191,693	-	-	472,987	-	-	193,322	-	-	25,517	883,518
Financing Activities													
Loan Payments	3,644	3,644	3,644	3,644	3,644	3,644	3,644	3,644	3,644	3,644	3,644	3,644	43,727
Line of Credit Interest	468	468	468	468	468	468	468	468	468	468	468	468	5,613
Line of Credit Repayments	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends Paid	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Cash Outflows	205,779	238,882	556,809	457,417	369,917	756,085	266,296	248,313	418,523	213,882	202,917	240,564	4,175,384
Cash Flow	(87,320)	234,955	331,636	727,176	518,527	(163,789)	326,000	225,524	(122,375)	82,266	(143,687)	(181,334)	1,747,578
Operating Cash Balance	509,275	744,230	1,075,865	1,803,041	2,321,568	2,157,779	2,483,779	2,709,303	2,586,928	2,669,194	2,525,507	2,344,173	
Line of Credit Drawdowns	-	-	-	-	-	-	-	-	-	-	-	-	-
Ending Cash Balance	509,275	744,230	1,075,865	1,803,041	2,321,568	2,157,779	2,483,779	2,709,303	2,586,928	2,669,194	2,525,507	2,344,173	
Line of Credit Balance	62,366	62,366	62,366	62,366	62,366	62,366	62,366	62,366	62,366	62,366	62,366	62,366	

Final Project - UDLA

11.19. Exhibit 19 – Cash Flow Statement: Third Year of Operations: September 2011 – August 2012

Final Project MBA - GAIA Projected Cash Flow Statement - Year Three

In US\$

	September	October	November	December	January	February	March	April	May	June	July	August	Totals
Beginning Cash Balance	2,344,173	2,239,845	2,645,974	3,192,051	4,418,638	5,289,799	5,017,208	5,566,231	4,953,565	3,761,977	2,920,476	1,724,344	
Cash Inflows													
Income from Sales	185,920	743,682	1,394,403	1,859,204	1,394,403	929,602	929,602	743,682	464,801	464,801	92,960	92,960	9,296,020
Accounts Receivable	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Cash Inflows	185,920	743,682	1,394,403	1,859,204	1,394,403	929,602	929,602	743,682	464,801	464,801	92,960	92,960	9,296,020
Cash Outflows													
Investing Activities													
New Capital Purchases	-	-	-	-	-	-	-	1,000,000	1,000,000	1,000,000	1,000,000	1,020,000	5,020,000
Cost of Sales	11,347	43,026	98,959	150,590	150,590	107,565	86,052	77,447	55,934	43,026	25,816	8,605	858,956
Operating Activities													
Total Salary and Wages	71,873	71,873	71,873	71,873	71,873	71,873	71,873	71,873	71,873	71,873	71,873	71,873	862,476
Fixed Business Expenses	202,917	218,542	332,775	406,042	296,667	223,400	218,542	202,917	192,150	187,292	187,292	192,150	2,860,687
Taxes	-	-	340,607	-	-	795,243	-	-	332,320	-	-	48,479	1,516,649
Financing Activities													
Loan Payments	3,644	3,644	3,644	3,644	3,644	3,644	3,644	3,644	3,644	3,644	3,644	3,644	43,727
Line of Credit Interest	468	468	468	468	468	468	468	468	468	468	468	468	5,613
Line of Credit Repayments	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends Paid	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Cash Outflows	290,248	337,552	848,327	632,617	523,242	1,202,193	380,578	1,356,348	1,656,389	1,306,302	1,289,092	1,345,219	11,168,108
Cash Flow	(104,328)	406,129	546,076	1,226,587	871,161	(272,591)	549,024	(612,667)	(1,191,588)	(841,501)	(1,196,132)	(1,252,259)	(1,872,088)
Operating Cash Balance	2,239,845	2,645,974	3,192,051	4,418,638	5,289,799	5,017,208	5,566,231	4,953,565	3,761,977	2,920,476	1,724,344	472,085	
Line of Credit Drawdowns	-	-	-	-	-	-	-	-	-	-	-	-	-
Ending Cash Balance	2,239,845	2,645,974	3,192,051	4,418,638	5,289,799	5,017,208	5,566,231	4,953,565	3,761,977	2,920,476	1,724,344	472,085	
Line of Credit Balance	62,366	62,366	62,366	62,366	62,366	62,366	62,366	62,366	62,366	62,366	62,366	62,366	

Final Project - UDLA

11.20. Exhibit 20 – Cash Flow Statement: Fourth Year of Operations: September 2012 – August 2013

Final Project MBA - GAIA Projected Cash Flow Statement - Year Four

In US\$

	September	October	November	December	January	February	March	April	May	June	July	August	Totals
Beginning Cash Balance	580,445	396,832	966,588	1,868,134	3,850,365	5,181,260	4,710,158	3,480,156	4,001,678	3,731,769	3,910,724	3,592,726	
Cash Inflows													
Income from Sales	260,535	1,042,138	1,954,010	2,605,346	1,954,010	1,302,673	1,302,673	1,042,138	651,337	651,337	130,267	130,267	13,026,730
Accounts Receivable	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Cash Inflows	260,535	1,042,138	1,954,010	2,605,346	1,954,010	1,302,673	1,302,673	1,042,138	651,337	651,337	130,267	130,267	13,026,730
Cash Outflows													
Investing Activities													
New Capital Purchases	20,000	-	-	-	-	-	-	-	-	-	-	-	20,000
Cost of Sales	12,059	60,293	138,674	211,026	211,026	150,733	120,586	108,528	78,381	60,293	36,176	12,059	1,199,833
Operating Activities													
Total Salary and Wages	100,341	100,341	100,341	100,341	100,341	100,341	100,341	100,341	100,341	100,341	100,341	100,341	1,204,088
Fixed Business Expenses	311,748	311,748	318,556	311,748	311,748	318,556	311,748	311,748	318,556	311,748	311,748	318,556	3,768,210
Taxes	-	-	494,893	-	-	1,204,145	-	-	423,967	-	-	47,436	2,170,441
Financing Activities													
Loan Payments	-	-	-	-	-	-	-	-	-	-	-	-	-
Line of Credit Interest	-	-	-	-	-	-	-	-	-	-	-	-	-
Line of Credit Repayments	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends Paid	-	-	-	-	-	-	2,000,000	-	-	-	-	-	2,000,000
Total Cash Outflows	444,147	472,382	1,052,464	623,115	623,115	1,773,775	2,532,675	520,616	921,246	472,382	448,265	478,392	10,362,573
Cash Flow	(183,613)	569,757	901,546	1,982,231	1,330,895	(471,102)	(1,230,002)	521,522	(269,909)	178,955	(317,997)	(348,125)	2,664,157
Operating Cash Balance	396,832	966,588	1,868,134	3,850,365	5,181,260	4,710,158	3,480,156	4,001,678	3,731,769	3,910,724	3,592,726	3,244,602	
Line of Credit Drawdowns	-	-	-	-	-	-	-	-	-	-	-	-	-
Ending Cash Balance	396,832	966,588	1,868,134	3,850,365	5,181,260	4,710,158	3,480,156	4,001,678	3,731,769	3,910,724	3,592,726	3,244,602	
Line of Credit Balance	-	-	-	-	-	-	-	-	-	-	-	-	-

Final Project - UDLA

11.21. Exhibit 21 – Cash Flow Statement: Fifth Year of Operations: September 2013 – August 2014

Final Project MBA - GAIA Projected Cash Flow Statement - Year Five

In US\$

	September	October	November	December	January	February	March	April	May	June	July	August	Totals
Beginning Cash Balance	3,244,602	3,046,275	3,875,760	5,105,530	7,864,456	9,733,656	9,088,389	8,191,404	8,955,001	8,584,564	8,880,214	8,497,027	
Cash Inflows													
Income from Sales	355,890	1,423,561	2,669,177	3,558,903	2,669,177	1,779,451	1,779,451	1,423,561	889,726	889,726	177,945	177,945	17,794,514
Accounts Receivable	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Cash Inflows	355,890	1,423,561	2,669,177	3,558,903	2,669,177	1,779,451	1,779,451	1,423,561	889,726	889,726	177,945	177,945	17,794,514
Cash Outflows													
Investing Activities													
New Capital Purchases	20,000	-	-	-	-	-	-	-	-	-	-	-	20,000
Cost of Sales	22,501	82,360	189,429	288,261	288,261	205,901	164,721	148,249	107,069	82,360	49,416	16,472	1,645,002
Operating Activities													
Total Salary and Wages	118,467	118,467	118,467	118,467	118,467	118,467	118,467	118,467	118,467	118,467	118,467	118,467	1,421,598
Fixed Business Expenses	393,249	393,249	402,547	393,249	393,249	402,547	393,249	393,249	402,547	393,249	393,249	402,547	4,756,182
Taxes	-	-	728,964	-	-	1,697,803	-	-	632,081	-	-	82,445	3,141,293
Financing Activities													
Loan Payments	-	-	-	-	-	-	-	-	-	-	-	-	-
Line of Credit Interest	-	-	-	-	-	-	-	-	-	-	-	-	-
Line of Credit Repayments	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends Paid	-	-	-	-	-	-	2,000,000	-	-	-	-	-	2,000,000
Total Cash Outflows	554,217	594,076	1,439,407	799,977	799,977	2,424,718	2,676,436	659,964	1,260,163	594,076	561,132	619,931	12,984,074
Cash Flow	(198,327)	829,485	1,229,770	2,758,926	1,869,200	(645,266)	(896,985)	763,597	(370,437)	295,650	(383,187)	(441,986)	4,810,440
Operating Cash Balance	3,046,275	3,875,760	5,105,530	7,864,456	9,733,656	9,088,389	8,191,404	8,955,001	8,584,564	8,880,214	8,497,027	8,055,041	
Line of Credit Drawdowns	-	-	-	-	-	-	-	-	-	-	-	-	-
Ending Cash Balance	3,046,275	3,875,760	5,105,530	7,864,456	9,733,656	9,088,389	8,191,404	8,955,001	8,584,564	8,880,214	8,497,027	8,055,041	
Line of Credit Balance	-	-	-	-	-	-	-	-	-	-	-	-	-

Final Project - UDLA

11.22. Exhibit 22 – Year End Summary

Final Project MBA - GAIA Year End Summary

	Year One		Year Two		Year Three		Year Four		Year Five	
	2009 -10	%	2010 - 11	%	2011 -12	%	2012 -13	%	2013 - 14	%
Income										
Hand Knitted Accesorios	800,000		1,651,000		2,591,225		3,631,144		4,960,143	
Knitted Accesorios	480,000		990,600		1,554,735		2,178,687		2,976,086	
Hand Knitted Garments	630,000		1,300,163		2,040,590		2,859,526		3,906,113	
Knitted Garments	960,000		1,981,200		3,109,470		4,357,373		5,952,172	
Total Income	2,870,000	100.00%	5,922,963	100.00%	9,296,020	100.00%	13,026,730	100.00%	17,794,514	100.00%
Cost of Sales										
Hand Knitted Accesorios	61,200		126,302		198,229		277,783		379,451	
Knitted Accesorios	36,693		75,726		118,851		166,548		227,505	
Hand Knitted Garments	73,200		151,067		237,097		332,250		453,853	
Knitted Garments	94,578		195,185		306,340		429,282		586,399	
Total Cost of Sales	265,671	9.26%	548,279	9.26%	860,517	9.26%	1,205,863	9.26%	1,647,208	9.26%
Gross Margin	2,604,329	90.74%	5,374,684	90.74%	8,435,503	90.74%	11,820,868	90.74%	16,147,305	90.74%
Total Salary and Wages	463,742	16.16%	660,163	11.15%	862,476	9.28%	1,204,088	9.24%	1,421,598	7.99%
Fixed Business Expenses										
Advertising	500,000		625,000		781,250		976,563		1,220,703	
Insurance (Liability and Property)	9,600		14,400		19,200		24,000		28,800	
Internet	1,440		2,160		2,880		3,600		4,320	
Legal and Professional Fees	3,600		3,708		3,819		3,934		4,052	
Office Expenses	9,600		14,400		19,200		24,000		28,800	
Transportation of products	6,000		12,383		19,434		27,234		37,194	
Rent (on business property)	660,000		1,279,800		1,918,194		2,575,740		3,253,012	
Inventory Management	27,000		55,721		87,454		122,551		167,373	
Repairs and Maintenance	2,400		2,472		2,546		2,623		2,701	
Supplies	1,200		1,800		2,400		3,000		3,600	
Telephone and Communications	1,200		1,800		2,400		3,000		3,600	
Travel	1,800		1,854		1,910		1,967		2,026	
Total Fixed Business Expenses	1,223,840	42.64%	2,015,498	34.03%	2,860,687	30.77%	3,768,210	28.93%	4,756,182	26.73%
Other Expenses										
Amortized Start-up Expenses	35,500		35,500		35,500		-		-	
Depreciation	5,600		5,600		5,600		250,000		250,000	
Interest										
Commercial Loan	8,900		5,633		2,059		-		-	
Commercial Mortgage	-		-		-		-		-	
Line of Credit	5,145		5,613		5,613		-		-	
Taxes	319,974		883,518		1,516,649		2,170,441		3,141,293	
Total Other Expenses	375,119	13.07%	935,864	15.80%	1,565,421	16.84%	2,420,441	18.58%	3,391,293	19.06%
Net Income	541,628	18.87%	1,763,160	29.77%	3,146,919	33.85%	4,428,128	33.99%	6,578,233	36.97%

Final Project - UDLA

11.23. Exhibit 23 – Examples of Competitors' Products



Kuna: Alpaca and Wool Women's Coat (\$500.00)



Sol Alpaca: Alpaca and Wool Men's Coat (\$350.00)



Peruvian Connection: Baby Alpaca Sweater (\$398.00)



Sol Alpaca: 70% Baby Alpaca, 30% Silk Shawl (\$178.00)



Envi: 100% Organic Cotton Coat (\$282.00)



Peruvian Connection: 100% Baby Alpaca Coat (\$798.00)



Peruvian Connection: Alpaca Stole (\$198.00)



Kuna: Alpaca Scarf (\$188.00)



Peruvian Connection: 100% Baby Alpaca Coat (\$1,200.00)



Kuna: 100% Alpaca Cardigan Suede (\$318.00)

Final Project - UDLA

11.24. Exhibit 24 – Natural Colors of Alpaca offered by our main suppliers

Collection offered by Michell & CIA S.A.

www.michell.com.pe



Collection offered by Inca Tops S.A.

www.incatops.com



11.25. Exhibit 25 - Why Chicago?

	Chicago Illinois	
Median household income	\$47,168	\$57,089
Average household Income	\$58,100	\$68,630
Per capita income	\$22,064	\$25,952
Median Disposable Income	\$40,388	\$47,687

350 West Mart Center/Chicago Apparel Center

In 1977, The Merchandise Mart's sister building, the Chicago Apparel Center, was completed. The 1.7 million-sq.-ft. building houses wholesale apparel showrooms, office and retail space, along with a 3,400-sq.-ft. conferencing facility and the Holiday Inn Chicago Mart Plaza, a 525-room, business class hotel. More than 800,000 sq. ft. is used for office space and includes major tenants such as: Chicago Sun-Times, SBC Communications, Inc., Bank of America, Fiserv Solutions, Comcast SportsNet, Illinois Institute of Art, fob.com and RCN.

With more than 250 wholesale showrooms for apparel and accessories, the Apparel Center serves apparel retailers by hosting market events, fashion shows, seminars and promotional programs designed to attract apparel buyers.

Trade Shows

[Women's & Children's Chicago Apparel Market](#)

Three women's and children's markets, attract national retail buyers and regional store owners to 350 West Mart Center/ Chicago Apparel Center throughout the year.

[The National Bridal Market™](#)

Twice a year, The National Bridal Market™ showcases bridal fashions from top designers and manufacturers. Driven by season, the markets are held in March/April, focusing on Fall, and September/October, premiering Spring lines.

[Chicago Men's Wear Collective™](#)

MMPI focuses on the menswear industry with the Chicago Men's Wear Collective™ tradeshow. The shows in February and August preview Spring and Fall lines.

[STYLEMAX™](#)³¹

Come see the great style at the women's and children's apparel and accessories trade show that runs twice per year, March and October. Located on the 7th-Floor Market Suites of The Merchandise Mart Chicago.

³¹ <http://www.biztradeshows.com/usa/usa-tradeshows.mp?industry=apparel-fashion>

11.26. Exhibit 26 – Legal Requirements³²

Legal Requirement	Documents and Features
Tax Permits and Registration	<ul style="list-style-type: none"> • Employer Identification Number (EIN) • Illinois Tax Permits and Registration
State Licenses and Permits	General Business Licenses
Local Licenses and Permits	<ul style="list-style-type: none"> • Local Licenses and Permits • Building Permit • Health Permit • Occupational Permit • Signage Permit • Alarm Permit • Zoning Permit
Business Entity Filing	Business Entity Registration - Forms and Applications
Fictitious Name Filing (Doing Business As)	When a business name is different from the owner(s) full legal name(s), the Illinois Assumed Name Act requires sole proprietorships and general partnerships to register with their local county clerk's office. Corporations, LLCs, LLPs, and limited partnerships register an assumed name as part of their required business filings with the Illinois Secretary of State.
Employer Requirements	<ul style="list-style-type: none"> • Withholding Income Taxes <ol style="list-style-type: none"> 1. Federal Income Tax Withholding (Form W-4) 2. Federal Wage and Tax Statement (Form W-2) 3. State Taxes • Employee Eligibility Verification (I-9 Form) • New Hire Reporting • Insurance Requirements <ol style="list-style-type: none"> 1. Unemployment Insurance Tax 2. Workers' Compensation Insurance • Workplace Poster Requirements <ol style="list-style-type: none"> 1. Federal Posters 2. State Posters

³² Business.gov - http://search.business.gov/permitme2_0.do?q=chicago&bcat=0

11.27. Exhibit 27 – Steps to prepare a garment ready for exportation

Example: Coat

1) Garment (front sight)



2) Preparing the label.



3) Labeling



4) Garment (back sight)



5) Folding Sleeves.



6) Folding Body.



Final Project - UDLA

7) Folding waist.



8) Preparing for bag.



9) Bag.



10) Bag Sealing.



11) Labeled and ready to be putted in boxes for exportation.



Final Project - UDLA

11.28. Exhibit 28 – Media Channels Schedule

MEDIA	September	October	November	December	January	February	March	April	May	June	July	August
Radio	Dark Blue	Dark Blue	Dark Blue	Dark Blue			Dark Blue					
Specialized Magazines	Green			Green				Green				Green
Newspapers	Dark Blue											
Outdoors	Green	Green				Green	Green				Green	Green
Printed (flyers, etc)	Dark Blue			Dark Blue					Dark Blue	Dark Blue		
Events	Green			Green			Green			Green		
Public Relations	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue
Internet	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green

11.29. Exhibit 29 – SWOT Analysis

SWOT Analysis	Opportunities	O1. Boom in the "green" apparel sector	O2. First mover advantage - Alpaca = eco-friendly	O3. Free Trade Agreement - Peru & United States	O4. High influence of celebrities and icons in fashion	O5. High sensitivity to customer service	Threats	T1. Imitation by competitors with know-how & economies of scale	T2. Economic Crisis - Reduction in apparel expenditure	T3. High Seasonality	T4. Inability of manufacturers to keep up with our growth	T5. Lack of coordination among the value chain
Strengths	Offensive Strategies					Reactive Strategies						
S1. Brand: Fashion + Eco-friendly	<p>1. S1, S4, O1, O2: Positionate Alpaca as the most eco-friendly fiber in the world</p> <p>3. S2, S4, O4: Endorsement of celebrities , icons and media for our products</p>					<p>2. S3, T5: IT to facilitate the integration of the communication efforts</p>						
S2. Unique, high quality products												
S3. Organization's flexible structure												
S4. All around eco-products: energy, water, chemical-free												
S5. Exclusive designs												
Weaknesses	Adaptation Strategies					Defensive Strategies						
W1. Too small: Trend follower not trend setter	<p>4. W1, W3, O5: Offer a highly personalized service in the stores</p>					<p>5. W2, T3: Diversification - Introduce products with other fibers in the summer and spring collection</p>						
W2. High reliance on a relatively unknown fiber in the U.S. (Alpaca)												
W3. Unknown brand												
W4. Lack of significant economies of scale												
W5. High order-to-shipment cycles												