INTERNATIONALIZATION STRATEGY OF JJ HEITOR
SHOES TO SOUTH AFRICA

List of Appendixes

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Appendix 1 – Geographical Distribution of Sales

**Graphic 1** – Percentage of sales distributed geographically: 2013

- **Portugal**: 4.78%
- **European Union**: 28.7%
- **Non-European Union**: 66.52%


**Graphic 2** – Percentage of sales distributed geographically II: 2013

- **Portugal**: 4.78%
- **France**: 56.65%
- **Germany**: 7.46%
- **Belgium**: 1.62%
- **Italy**: 0.02%
- **Canada**: 28.39%
- **USA**: 0.16%
- **Africa**: 0.13%
- **Asia**: 0.02%
- **Others EU**: 0.77%
- **Others**: 0.02%

*Source:* JJ Heitor

**Note:** The above sales are only from the private labels. The own brand was created in November 2013 and only started generating sales in 2014.
Appendix 2 – Private Label Clients

Table 1 – Analysis of the private label clients of JJ Heitor

<table>
<thead>
<tr>
<th>Private label Clients</th>
<th>Country of Origin</th>
<th>Product Line</th>
<th>Final retail price</th>
<th>Channels of Distribution</th>
<th>Website</th>
</tr>
</thead>
<tbody>
<tr>
<td>JOHN FLUEVOG</td>
<td>Canada</td>
<td>Women, Men Shoes, bags and accessories</td>
<td>[€150–€420]</td>
<td>Own stores Online shop</td>
<td><a href="http://www.fluevog.com">www.fluevog.com</a></td>
</tr>
<tr>
<td>LLOYD</td>
<td>Germany</td>
<td>Women, Men Shoes, bags and accessories</td>
<td>[€100–€300]</td>
<td>Own stores Online shop</td>
<td><a href="http://www.lloyd-shoes.com">www.lloyd-shoes.com</a></td>
</tr>
<tr>
<td>Façonnable</td>
<td>France</td>
<td>Women, Men Clothes, shoes, bags and accessories</td>
<td>[€275–€550]</td>
<td>Own stores Online shop</td>
<td><a href="http://www.faconnable.com/EN">www.faconnable.com/EN</a></td>
</tr>
</tbody>
</table>

Source: Primary source – website from the private label clients

Note: Not the entire list of clients.
Appendix 3 – Product Portfolio of JJ Heitor Shoes

Currently, JJ Heitor Shoes is commercializing its third collection (Spring/Summer 2015). It started with the Spring/Summer 2014 collection and since then it has renovated its product portfolio for every collection. A summary of the product portfolio for each collection and some products are presented below:

1st collection – Spring/Summer 2014

Grace Collection – 4 models; 10 products
Audrey Collection – 6 models; 15 products
Marie Antoinette Collection – 4 models; 9 products
Anna Collection – 5 models; 13 products
Marylin Collection – 5 models; 11 products
Total – 24 models; 58 products

Figure 1 – Shoes from the Grace Collection


2nd collection – Fall/Winter 2014/2015

Julianne Collection – 6 models; 19 products
Nicole Collection – 6 models; 15 products
Kate Collection – 6 models; 15 products
**Scarlett Collection** – 6 models; 18 products

**Total** – 24 models; 67 products

*Figure 2* – Shoes from the Kate Collection

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**3rd collection – Spring/Summer 2015**

**Gisele Collection** – 4 models; 11 products

**Mary-Kate and Ashley Collection** – 5 models; 16 products

**Charlize Collection** – 5 models; 13 products

**Emma Collection** – 3 models; 9 products

**Natacha Collection** – 4 models; 12 products

**Cinderella Collection** – 3 models; 9 products

**Lottie Collection** – 7 models; 19 products

**Total** – 31 models; 89 products

*Figure 3* – Shoes from the Gisele Collection

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[Image]
Appendix 4 – Financial Situation

Important Notes:

- This financial analysis is based on the information presented in a complete financial report on Joaquim José Heitor, S.A., freely provided to the group by eInforma.
- Last year of information available is 2013.
- When the term ‘similar firms’ appears it is referring to the category of firms (Small Companies) that eInforma used to classify JJ Heitor.¹

1. Sales


Sales Evolution


- Over time, JJ Heitor has been decreasing its sales. Even though the trend is negative, the sales value in 2013 (approximately €5,2M) was superior to the average value of sales in similar firms in the Portuguese industry (€4,7M).
- The geographical distribution of sales is in Appendix 1.

¹ The category of small firms is constituted by 188 analysed firms with an average business volume of €4,7M, an average net income of €73,705 and an average number of 71 employees.
2. Profitability situation

JJ Heitor presents a profitability situation slightly below the average of similar firms:

**Graphic 4 – Evolution of JJ Heitor EBITDA (€): 2009-13**

**EBITDA Evolution**


- The EBITDA of the firm presented a positive evolution over the years. However, in 2011 suffered a huge decrease due to a failure in an important order, which is already being overcome and displaying higher values (€253,125,80 in 2013). In comparison, with the similar firms it is marginally below the average (€261,461,03).
- Additionally, its EBIT margin (1,86%) is also below the respective values for similar firms in the Portuguese industry (2,70%).
- Its profit margin, measured by $\frac{\text{EBITDA}}{\text{Sales}}$ is circa 4,8% whereas the one of the similar firms is about 5,53%.

3. Liquidity situation

The firm’s liquidity situation is positive:

- The Networking capital value (€1,1M) is almost the double for similar firms in the Portuguese industry (€0,6M).
- JJ Heitor’s general liquidity ratio amounts to 1,79, which indicates an enhanced liquidity situation than the one of similar firms in the Portuguese industry (1,67).
- There has been a significant reduction of Cash Balance since 2011 (from €338,000 to €88,000 in 2013), which might also reflect investments undertook in the own brand.

- JJ Heitor received a subsidy from QREN of €58,323 from its approved project: “Reforço do posicionamento nos mercados internacionais, através da criação e desenvolvimento de um marca própria”

Appendix 5 – Value Chain

Figure 4 – JJ Heitor’s Value Chain

Source: JJ Heitor

Note: Even though the above values are not consistent with the final margin value (5%), these were provided by the firm.
These values are mainly for the private labels, however most of the activities are the same between private labels and own brand.

Appendix 6 – Logistics and Operations of JJ Heitor

Figure 5 – Fluxogram of JJ Heitor

Source: JJ Heitor
**Figure 6** – Production Fluxogram of JJ Heitor

**Source:** JJ Heitor

At JJ Heitor, within the majority of its clients and business volume (B2B) its reputation can be considered as a core resource – specialized asset. In fact, company reputation is “reflected in the confidence various stakeholders have in their relationships to the company.” Hence, that is the reason why it is so fundamental for JJ Heitor to have a positive reputation and why established its enhancement as one of the strategic objectives.

In general, family firms have a more trustworthy reputation (Habbershon and Williams, 1999). Regarding JJ Heitor, it highly depends on its private label clients who must trust the firm since have to share information circa its collections that they do not want to be disclosure. Thus, the firm has been able to establish a solid, positive and trustworthy reputation over the years being recognized as a credible firm through its history and image.

Several private label clients have given their positive testimonials in which highlight both trust and respect towards JJ Heitor contributing for the support of this resource (See Appendix 7.1 to read the private label clients’ testimonials). A good reputation positively affects the competitive advantage of a firm aiding to attract and retain its employees and clients adding value to its business and bearing that “the family’s reputation and relationships with suppliers, customers and other external stakeholders are reportedly stronger and more value laden.”

The credibility of the processes at JJ Heitor allow the firm to be fully organized being capable to capture the value from this core resource and completely realize its potential. Nevertheless, it is not difficult to imitate neither rare as several other firms also own it.

2. Organizational Culture – Organizational Capability

“Organizational culture is a complex set of values, beliefs, assumptions and symbols that define the way in which a firm conducts its business” (Barney, 1986). Ultimately,
culture is at the bases of defining who are the employees, customers, suppliers and competitors of a firm and how should it interact with them (Louis, 1983). The core values of the organizational culture of JJ Heitor (core competence) are the family spirit and the excellence and are at the heart of this firm. Firstly, the family spirit is extremely difficult to measure. Nevertheless, there is an environment of respect and caring within the organization, more specifically in the relation between the board and its employees. For instance, production managers have significant autonomy to take the necessary on-time decisions and are not questioned by the board in front of other workers. There is in fact a close relationship that portrays the family spirit that is still intact at JJ Heitor. Simultaneously, excellence is communicated throughout the design, the inputs from top suppliers and ultimately through its products. Furthermore, in the private label clients testimonials (See Appendix 7.1) the organization culture of the firm based on the family values is highlighted, which allows to the creation of value by the firm. As well as the fact that many consumers are more willing to buy from a firm whose organizational culture is associated with family values.

Additionally, the organizational culture of a firm cannot be imitable. There is a path dependency since each firm has its own history, its own characteristics hence its own organizational culture. The same occurs for JJ Heitor, which currently has its organizational culture embedded enough to capture the gains. It has a key influence on coordination and on the firm priorities. However, organizational culture cannot be considered as a rare resource due to the fact that several Portuguese footwear firms also consider its organization culture to be a differentiation factor.

3. Rigorous selection of raw materials – Organizational Capability

The majority of shoes Made in Portugal require the use of leather. This can be pointed as the “most fundamental raw material for the Portuguese firms” being the most demanded by the Portuguese shoe producers. Consequently, Portugal has been capable to hold the 8th position of worldwide leather footwear exporter (See Appendix 7.2).

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6 This was possible to depict by a meeting with in the firm and by visiting the factory.
7 Based on a focus group session carried in Russia by JJ Heitor.
Since JJ Heitor wants to provide excellence and quality it must be stricter and apply more criteria when choosing the raw materials, especially the leather. In fact, the rigorous selection of raw materials (core competence) allows delivering a higher quality product, which will capture more value. JJ Heitor focuses in having the best quality at competitive prices from Portuguese, Italian and Spanish suppliers. The firm is continuously ensuring that it has the most recent, sophisticated and elegant materials since it understands this importance for the quality of the final product. The excellence in the materials used increases the quality of its products and its perception by the consumers, which is highly valuable. The firm has been capable to exploit and apply it in its production process. However, it is easily imitable since it is not difficult for a firm to develop the demanding selection of inputs and it is not rare. In fact, “several Portuguese firms in the industry are currently being more demanding in relation exactly to this concern of the selection of raw materials.”

4. Innovative Design – Intangible Resource

To succeed in the footwear industry it is highly important to invest in the design of the footwear. In fact, along with the high quality the design will make a considerable difference in the final product, which will influence the consumer in the buying moment.

At JJ Heitor, when the own brand was launched the inherent necessity to arrange a full time designer and invest in this matter was understood and taken. The designer is responsible for delivering an innovative and sophisticated product design. It must follow the worldwide fashion footwear tendencies and ensure that it is attractive. It is in fact a fundamental core competence of the firm that influences the offering of its own brand products. Moreover, the innovative design of JJ Heitor Shoes is a differentiator factor of the product for the consumer. Hence, it adds value since it also increases the perceived value of the product by the consumers who are willing to spend more on the product that has that appealing design. However, the innovative design is also common amongst several footwear brands that claim to have it. Competitors can easily imitate shapes, colours and formats reducing the differentiation among themselves which currently

9 Information provided in the meeting by Vasco Heitor and Justa Oliveira (JJ Heitor’s consultant).
occurs. Thus, it is not rare neither inimitable. In addition, JJ Heitor has been exploiting the gains from this core competence. It has adapted and invested in the design of its products every collection, which is up-to-date with the fashion preferences.

5. Positive externalities from the shoe cluster – Intangible Resource

Currently, in Portugal there is a shoe cluster, in which firms are capable to benefit from positive externalities related with the learning that can be acquired. It contains the firms from the shoe industry and also the suppliers of the diverse components – the footwear components and the leather goods industries. “There is a network of relationships among them all – an intangible network, specific, unique and therefore hard to replicate – which represents the great capital of the cluster.”

In Portugal, there is a solid geographical concentration of firms in five areas, which employ 75% of the workers in this industry being one of its strengths. It allows for “multiple cross-firm linkages and synergies along the value chain”, formal and informal business network formation, diffusion of knowledge and “spillovers of technology, skills, information, marketing, and customer needs” (Porter, 1998).

Additionally, this cluster provides the firm with a higher knowledge circa the diverse foreign players; joint strategic efforts; strong international reputation as a Made in Portugal firm – home for fashion and quality; and a shaped diversified industrial base (APICCAPS, 2013).

JJ Heitor by belonging to the cluster has a simplified access to information, employees, inputs, institutions and public goods (architecture of relations). Hence, this is greatly valued because it allows the firm to boost productivity as well as quality. It is not common neither easily imitable in other countries. There are other shoe clusters such as in Italy (main competitor of Portugal), but are highly difficult to build given the trust and sense of belonging that must exist between firms that are located in the same geographical concentration and the continuously share of knowledge. JJ Heitor and its employees, processes, systems and businesses have been able to exploit the potentiality of this core resource.

12 In Felgueiras, Guimarães, Barcelos, Feira (location of JJ Heitor) and Oliveira de Azeméis.
By performing the VRIO test, it is necessary for each core resource to answer four different questions: Is it valuable? Is it Rare? Is it costly to imitate? And is the firm organized to capture the value? (Barney, 1995). Step by step, by answering the different questions it is possible to achieve the competitive implication for each. Solely a resource that positively passes all the requirements constitutes a source of sustainable competitive advantage.

**Figure 7 – VRIO Framework (Rothaermel, 2013)**

![VRIO Framework Diagram]


**Appendix 7.1 – Private Label Clients Testimonials**

**John Fluevog Testimonial:**

"Congratulations to Heitor for 50 years of a successful family business. We, at John Fluevog, are proud to be a part of Heitor’s success. Heitor has been a big part of John’s Fluevog’s business in North America and other parts of the world for the past 10 years. We are very thankful for the faithfulness Heitor has displayed in giving great product on time season after season. We, at John Fluevog shoes, pride ourselves in being a company that has family values and feel privileged to be working with the Heitor family that has the same values. Heitor has exceeded expectations to make our business relations successful. We thank the whole Heitor family and their employees and wish them much success in the coming years."

John Fluevog – CEO

Yves Desfarge Testimonial:
“The fact that the company Heitor is a family business is very important to me. I like to feel the love of a job well done by everyone involved. The Heitor brothers are complementary and work with them is a great pleasure. From my drawing to the model, the model to the sample and the sample to the production we understand us well because they are true professionals. In 20 years of collaboration we have always grown in confidence. Happy Birthday and long live Heitor.”
Yves Desfarge – CEO

Espace Testimonial:
“Working with Heitor is first assurance to work in confidence and in the concrete. Few words but many exchanges, with the efficiency of direct confrontation of the idea and its realization. From the drawing to the model, the research to the sample, there is always the sharing of technical knowledge, know-how and creative enthusiasm that has made Heitor a manufacturer of quality, which gives life to the talent of others.”
Philippe Jagueneau – Styliste

Appendix 7.2 – Exporters of Leather Footwear

Table 2 – Top 10 Exporters of Leather Footwear: 2013

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>€ million</th>
<th>Continent Share</th>
<th>Pairs (million)</th>
<th>Continent Share</th>
<th>Average Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>China</td>
<td>9.387,72</td>
<td>20,9%</td>
<td>828</td>
<td>36,8%</td>
<td>€11,33</td>
</tr>
<tr>
<td>2</td>
<td>Italy</td>
<td>7.087,67</td>
<td>15,8%</td>
<td>133</td>
<td>5,9%</td>
<td>€53,17</td>
</tr>
<tr>
<td>3</td>
<td>Vietnam</td>
<td>3.563,87</td>
<td>7,9%</td>
<td>231</td>
<td>10,2%</td>
<td>€15,46</td>
</tr>
<tr>
<td>4</td>
<td>Hong Kong</td>
<td>2.759,25</td>
<td>6,1%</td>
<td>151</td>
<td>6,7%</td>
<td>€18,30</td>
</tr>
<tr>
<td>5</td>
<td>Germany</td>
<td>1.990,7</td>
<td>4,4%</td>
<td>59</td>
<td>2,6%</td>
<td>€33,55</td>
</tr>
<tr>
<td>6</td>
<td>Indonesia</td>
<td>1.820,8</td>
<td>4%</td>
<td>77</td>
<td>3,4%</td>
<td>€23,61</td>
</tr>
</tbody>
</table>

14 Translated from the French language
15 Translated from the French language
<p>| | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
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<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>Belgium</td>
<td>1.690,98</td>
<td>3,8%</td>
<td>58</td>
<td>2,6%</td>
</tr>
<tr>
<td>8</td>
<td>Portugal</td>
<td>1.630,87</td>
<td>3,6%</td>
<td>56</td>
<td>2,5%</td>
</tr>
<tr>
<td>9</td>
<td>India</td>
<td>1.574,77</td>
<td>3,5%</td>
<td>113</td>
<td>5%</td>
</tr>
<tr>
<td>10</td>
<td>Spain</td>
<td>1.516,27</td>
<td>3,4%</td>
<td>46</td>
<td>2%</td>
</tr>
</tbody>
</table>


Appendix 8 – Industry Mapping Players

**APICCAPS** (*Associação Portuguesa dos Industriais de Calçado, Componentes, Artigos de Pele e seus Sucedâneos*) – national commercial association whose main objective is to promote a sustainable development of the companies and activity sectors it represents. So as to achieve this objective, APICCAPS develops a series of initiatives in the areas of internationalization, investigation, technical assistance, formation and others.

**CTCP** (*Centro Tecnológico do Calçado de Portugal*) – non-profit organization created in 1986 by two public institutions, IAPMEI and INETI. Its main objectives are to provide technical and technological support to footwear and sector-related firms, to promote technical training among human resources, incentivize improvements in the products and industrial processes and to perform investigation studies.

**Academia de Design e Calçado / CFPIC** (*Centro de Formação Profissional da Indústria de Calçado*) – this centre was created in 1966 with the purpose of responding to the footwear industry needs of human resources training. Its two main objectives are to develop capabilities and know-how among human resources in the footwear industry and to promote knowledge and innovation. It provides full-time courses to young and adult individuals in the areas of product development and footwear design, amongst others.¹⁶ There is also the opportunity to customize a training program (*‘On the Job’* formation) in order for it to meet each company’s needs.

Public Institutions – These institutions that are run by public funds design the programs, what is going to be supported by the funds and take care of the necessary regulation for it. Hence, are responsible for more specific questions. For instance, elaborate international fairs. There are several public institutions that are involved in this industry such as AICEP (Agência para o Investimento e Comércio Externo de Portugal) which goal “is to promote a competitive business environment that stimulates the international expansion”\textsuperscript{17} of the Portuguese economy, IAPMEI (Instituto de Apoio às Pequenas e Médias Empresas e à Inovação) that foments the “competitiveness and growth of businesses highlighting the innovation, entrepreneurship and business investment in the small and medium enterprises.”\textsuperscript{18}

European Union – European Union acts in this industry through the distribution of community funds, such as FEDER (Fundo Europeu de Desenvolvimento Regional) and FSE (Fundo Social Europeu). These funds finance several projects and initiatives in areas such as urban and regional development, job creation and social inclusion.\textsuperscript{19} In Portugal, the responsible institution for deciding how to split funds by regions and industries is called QREN (Quadro de Referência Estratégico Nacional). Until last year, the total value of already conceded public financing was €28.860 million, of which 30% were targeted for developing Human Capital and 12,4% specifically aimed at developing the North Region of Portugal where JJ Heitor is located.

Universities – In order to support the cluster, there are universities which are in charge of helping in the development and theoretical conception of several projects. The CEGEA (the Research Centre in Management and Applied Economics) of the Portuguese Catholic University of Oporto is responsible for the editorial and technical coordination of various strategic studies for the cluster, such as the ‘Footure 2020’ and the ‘Footwear, components and leather goods 2013 Statistical Study’.

Technological Infrastructures – The Technological Infrastructures are responsible for providing and developing the necessary technologies to implement the projects

\textsuperscript{17} Retrieved from http://www.portugalglobal.pt/EN/AboutUs/Pages/AboutUs.aspx (Accessed October 7, 2014)
provided by the universities and companies itself. In this way, these institutions make possible the theory provided by the university, promoting the innovation in the Portuguese Shoes Cluster. For instances, the Scientific and Technological System (SCT) entities are non-profit organizations responsible for researching and developing in several sectors.\(^{20}\)

**CIP** *(Confederação Empresarial de Portugal) –* in 1974 it was created the CIP (Confederação da Indústria Portuguesa), *“an advocate of the industrial democracy, based on a free initiative that leads to an effective market economy and that appears as an answer of the businessmen to the environment at the time marked by destruction of the free initiative and obstacles to private activity.”*\(^{21}\) Later on, in 2011 it was signed an agreement in which CIP – *Confederação Empresarial de Portugal* is responsible to take care of the functions (institutional, representation and lobby) that were assumed by this entities. Moreover, it aims to effectively defend the interests of all the Portuguese companies and be represented as a strong employer structure.

**Media** – The cluster provides paid services to businesses related to social communication, such as renovating the website of the company, making catalogues for each collection, taking photographs in international events, and several other accessories of communication that help the company promoting itself. However, these services have demonstrated a negative feature since there are firms that take advantage of the discounted service when do not have conditions for it (for example, do not have a proper business plan).

**Outsourcing Companies** – Outsourcing involves the contract of a business process to another firm. *“In the footwear industry relying on outsourcing companies is a common practice.”*\(^{22}\) Moreover, outsourcing of consultancy in terms of brand (image and communication), internationalization and human resources is very frequent. In the case of JJ Heitor, it hired an outsourcing company (Agency B+ Comunicação) to take care of

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\(^{22}\) Information provided in the meeting by Vasco Heitor and Justa Oliveira (JJ Heitor’s consultant)
the image and communication of its own brand. It is responsible for the branding, brochures, catalogues and packaging.\textsuperscript{23}

**Clients** – JJ Heitor has both private label and own brand clients. At the same time, those are both national and international. However, it relies more on the international ones than in the national ones since more than 95% of its sales are abroad (See Appendix 1). Currently, as previously mentioned the private label sales represent around 98,5% of its global sales. Hence, the majority of clients are from the private label (See Appendix 2).

**Suppliers** – The firm relies on both domestic (80%) and international suppliers (20%) from Italy and Spain, which supply mainly leather, outsoles and linings. The firm searches for suppliers that offer the product with a good quality/price relation and a commercial accompaniment that satisfies the needs of JJ Heitor. For instance, Artur Vieira and Marsipel are suppliers of leather.

**Competitors** – The main competitors of JJ Heitor are firms especially from the Italian market, but also from Spain. Those represent the highest threat for the firm. The Italians have the products with the highest quality hence having higher prices, demand for it, known it very well and have a positive reputation and image.

**Appendix 9 – Footwear Industry**

**Worldwide Footwear Industry**

According to APICCAPS (2014), the worldwide footwear industry has been growing throughout the years. Ultimately achieving the highest production ever of 22 billion pairs of shoes in 2013. Nevertheless, the majority of this production (87%) is pursued in Asia with China as an unquestionable leader with 63,3% of the worldwide footwear production in terms of quantity. Hence, this country produces “almost 2 out of every 3 pairs of shoes sold in the world.”\textsuperscript{24} It is followed by South America, which solely represents 5%.

On the other hand, “the geographical patterns of consumption show stronger


\textsuperscript{24} p. 5. APICCAPS. 2014. “World Footwear Yearbook 2014 by Portuguese Shoes.”
dynamism.” In the last years, Asia increased its share of the world total to 51% largely at the expense of Europe (17%) and North America (15%). Africa has slightly reinforcing its position (See Appendix 9.1).

Concerning international trade, both worldwide exports and imports have boosted over the last years. Regarding exports, both Asia (86%) and Europe (11%) have relevance as exporters of footwear. The imports pattern is also changing. Since 2010, both Europe and North America have decreased their worldwide shares whereas both Asia and Africa have increased by 2% and 3%, respectively (APICCAPS, 2014). However, Europe continues to hold its leadership position with 36% of the worldwide footwear imports (See Appendix 9.2).

**Portuguese Footwear Industry**

The situation of the Portuguese footwear industry has significantly changed. Thirty years ago, this industry offered cheap labour and consequently was required for mass production. Nowadays, the scenario has evolved. In reality, Made in Portugal is now associated with high-quality, sophistication and fashionable shoes. It is characterized by production know-how and advanced added-value activities of product development. In fact, “the sector decided to bet in the technological modernization and in the international promotion making the brand ‘Portuguese Shoes: Designed by the Future’, its flag in the external markets.” Additionally, an impressive campaign was created with the objective of expanding the international presence of Portuguese footwear: The sexiest industry in Europe (APICCAPS, 2013).

As a consequence, Portugal has been able to establish a strong position in the market worldwide. It produces more than what it consumes (75 million pairs and 51 million pairs, respectively) and also exports more than it imports. In fact over the years, its value of exports has been increasing and achieved its highest point with €1,85M. Portugal was ranked in the 11th position of footwear exporter in 2013 and holds the second highest average export price (€24,9) per pair of shoes (See Appendix 9.3).

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Appendix 9.1 – Worldwide Footwear Production and Consumption

Figure 8 – Distribution of Footwear Production by Continents: 2013 (quantity)

PRODUCTION


Graphic 5 – Top 10 Footwear Producers: 2013 (quantity)

<table>
<thead>
<tr>
<th>#</th>
<th>COUNTRY</th>
<th>PAIRS [MILLIONS]</th>
<th>WORLD SHARE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>China</td>
<td>14 200</td>
<td>63.3%</td>
</tr>
<tr>
<td>2</td>
<td>India</td>
<td>2 065</td>
<td>9.2%</td>
</tr>
<tr>
<td>3</td>
<td>Brazil</td>
<td>900</td>
<td>4.0%</td>
</tr>
<tr>
<td>4</td>
<td>Vietnam</td>
<td>770</td>
<td>3.4%</td>
</tr>
<tr>
<td>5</td>
<td>Indonesia</td>
<td>700</td>
<td>3.1%</td>
</tr>
<tr>
<td>6</td>
<td>Pakistan</td>
<td>370</td>
<td>1.7%</td>
</tr>
<tr>
<td>7</td>
<td>Turkey</td>
<td>300</td>
<td>1.3%</td>
</tr>
<tr>
<td>8</td>
<td>Bangladesh</td>
<td>298</td>
<td>1.3%</td>
</tr>
<tr>
<td>9</td>
<td>Mexico</td>
<td>245</td>
<td>1.1%</td>
</tr>
<tr>
<td>10</td>
<td>Italy</td>
<td>202</td>
<td>0.9%</td>
</tr>
</tbody>
</table>

**Figure 9** – Distribution of Footwear Consumption by Continents: 2013 (quantity)


**Graphic 6** – Top 10 Footwear Consumers: 2013 (quantity)

<table>
<thead>
<tr>
<th>#</th>
<th>COUNTRY</th>
<th>PAIRS (MILLIONS)</th>
<th>WORLD SHARE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>China</td>
<td>3 678</td>
<td>19.0%</td>
</tr>
<tr>
<td>2</td>
<td>USA</td>
<td>2 285</td>
<td>11.8%</td>
</tr>
<tr>
<td>3</td>
<td>India</td>
<td>2 068</td>
<td>10.7%</td>
</tr>
<tr>
<td>4</td>
<td>Brazil</td>
<td>816</td>
<td>4.2%</td>
</tr>
<tr>
<td>5</td>
<td>Japan</td>
<td>674</td>
<td>3.5%</td>
</tr>
<tr>
<td>6</td>
<td>Indonesia</td>
<td>540</td>
<td>2.8%</td>
</tr>
<tr>
<td>7</td>
<td>United Kingdom</td>
<td>447</td>
<td>2.3%</td>
</tr>
<tr>
<td>8</td>
<td>Russian Federation</td>
<td>434</td>
<td>2.2%</td>
</tr>
<tr>
<td>9</td>
<td>Germany</td>
<td>407</td>
<td>2.1%</td>
</tr>
<tr>
<td>10</td>
<td>France</td>
<td>402</td>
<td>2.1%</td>
</tr>
</tbody>
</table>

Appendix 9.2 – Worldwide Footwear Exports and Imports

Figure 10 – Distribution of Footwear Exports by Continent of Origin: 2013 (quantity)


Figure 11 – Distribution of Footwear Imports by Continent of Destination: 2013 (quantity)

Graphic 7 – Distribution of Footwear Imports by Continent of Destination: 2013 (quantity)

<table>
<thead>
<tr>
<th>Continent</th>
<th>2010</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>EUROPE</td>
<td>39%</td>
<td>36%</td>
</tr>
<tr>
<td>ASIA</td>
<td>22%</td>
<td>24%</td>
</tr>
<tr>
<td>NORTH AMERICA</td>
<td>26%</td>
<td>24%</td>
</tr>
<tr>
<td>AFRICA</td>
<td>8%</td>
<td>11%</td>
</tr>
<tr>
<td>SOUTH AMERICA</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>OCEANIA</td>
<td>2%</td>
<td>2%</td>
</tr>
</tbody>
</table>


Appendix 9.3 – Portuguese Footwear Industry

Graphic 8 – Portuguese Footwear Industry: 2003-13

Table 3 – World Top 15 exporters: 2013 (value)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>€ (millions)</th>
<th>World Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>China</td>
<td>38.605</td>
<td>40.4%</td>
</tr>
<tr>
<td>2</td>
<td>Italy</td>
<td>8.598</td>
<td>9%</td>
</tr>
<tr>
<td>3</td>
<td>Vietnam</td>
<td>8.043</td>
<td>8.4%</td>
</tr>
<tr>
<td>4</td>
<td>Hong Kong</td>
<td>3.887</td>
<td>4.1%</td>
</tr>
<tr>
<td>5</td>
<td>Belgium</td>
<td>3.759</td>
<td>3.9%</td>
</tr>
<tr>
<td>6</td>
<td>Germany</td>
<td>3.565</td>
<td>3.7%</td>
</tr>
<tr>
<td>7</td>
<td>Indonesia</td>
<td>3.011</td>
<td>3.2%</td>
</tr>
<tr>
<td>8</td>
<td>Netherlands</td>
<td>2.567</td>
<td>2.7%</td>
</tr>
<tr>
<td>9</td>
<td>Spain</td>
<td>2.434</td>
<td>2.6%</td>
</tr>
<tr>
<td>10</td>
<td>France</td>
<td>2.179</td>
<td>2.3%</td>
</tr>
<tr>
<td>11</td>
<td>Portugal</td>
<td>1.848</td>
<td>1.9%</td>
</tr>
<tr>
<td>12</td>
<td>India</td>
<td>1.819</td>
<td>1.9%</td>
</tr>
<tr>
<td>13</td>
<td>United Kingdom</td>
<td>1.504</td>
<td>1.6%</td>
</tr>
<tr>
<td>14</td>
<td>Romania</td>
<td>1.046</td>
<td>1.1%</td>
</tr>
<tr>
<td>15</td>
<td>USA</td>
<td>934</td>
<td>1%</td>
</tr>
</tbody>
</table>


Graphic 9 – Average export price among Top 15 exporters: 2013

Appendix 10 – Analysis of Potential African Countries

Table 4 – GDP (€ billion): 2008–13

<table>
<thead>
<tr>
<th>GDP (€ billion)</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>228.94</td>
<td>225.41</td>
<td>232.31</td>
<td>240.41</td>
<td>246.51</td>
<td>251.16</td>
</tr>
<tr>
<td>Angola</td>
<td>37.69</td>
<td>38.49</td>
<td>40.09</td>
<td>42.7</td>
<td>44.1</td>
<td>45.71</td>
</tr>
<tr>
<td>Mozambique</td>
<td>6.71</td>
<td>6.83</td>
<td>7.58</td>
<td>7.86</td>
<td>8.42</td>
<td>9.025</td>
</tr>
<tr>
<td>Nigeria</td>
<td>109.85</td>
<td>117.87</td>
<td>127.5</td>
<td>133.11</td>
<td>138.72</td>
<td>146.74</td>
</tr>
</tbody>
</table>

Source: Euromonitor International from national statistics/Eurostat/UN/OECD, 2014

Table 5 – GDP Growth Rate (%): 2008–13

<table>
<thead>
<tr>
<th>GDP Growth</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>3.6%</td>
<td>(1.5%)</td>
<td>3.1%</td>
<td>3.6%</td>
<td>2.5%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Angola</td>
<td>13.8%</td>
<td>2.4%</td>
<td>3.4%</td>
<td>3.9%</td>
<td>5.2%</td>
<td>4.1%</td>
</tr>
<tr>
<td>Mozambique</td>
<td>6.8%</td>
<td>6.3%</td>
<td>7.1%</td>
<td>7.3%</td>
<td>7.2%</td>
<td>7.1%</td>
</tr>
<tr>
<td>Nigeria</td>
<td>3.4%</td>
<td>8.2%</td>
<td>7.8%</td>
<td>4.9%</td>
<td>4.3%</td>
<td>5.4%</td>
</tr>
</tbody>
</table>

Source: The World Bank

Table 6 – Consumer Expenditure (€ million): 2008–13

<table>
<thead>
<tr>
<th>Consumer Expenditure (€ million)</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>110,957,3</td>
<td>116,239,7</td>
<td>125,583,3</td>
<td>137,999,4</td>
<td>151,815,9</td>
<td>163,786</td>
</tr>
<tr>
<td>Angola</td>
<td>16,049.5</td>
<td>28,417.7</td>
<td>24,465.5</td>
<td>27,433.8</td>
<td>31,791.3</td>
<td>36,551.2</td>
</tr>
<tr>
<td>Mozambique</td>
<td>4,805.5</td>
<td>5,352.2</td>
<td>5,986.3</td>
<td>7,326.9</td>
<td>8,147.6</td>
<td>9,034.2</td>
</tr>
<tr>
<td>Nigeria</td>
<td>119,686.7</td>
<td>146,158.5</td>
<td>176,195.6</td>
<td>199,283.7</td>
<td>199,948.9</td>
<td>233,450.1</td>
</tr>
</tbody>
</table>

Source: Euromonitor International from national statistics/Eurostat/UN/OECD, 2014

Table 7 – Annual Disposable Income (€ million): 2008–13

<table>
<thead>
<tr>
<th>Annual Disposable income (€ million)</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>110,573,6</td>
<td>116,509,6</td>
<td>126,625,7</td>
<td>139,796,4</td>
<td>153,090,6</td>
<td>165,302,8</td>
</tr>
<tr>
<td>Angola</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Mozambique</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Nigeria</td>
<td>133,641.6</td>
<td>157,870.3</td>
<td>190,187.5</td>
<td>216,301.0</td>
<td>215,936.1</td>
<td>252,308.8</td>
</tr>
</tbody>
</table>

Source: Euromonitor International from national statistics/Eurostat/UN/OECD (2014); The World Bank
Table 8 – Social Factors: 2013

<table>
<thead>
<tr>
<th></th>
<th>Total Population</th>
<th>Female population</th>
<th>Female population from 25 to 54 years</th>
<th>Urbanization Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>52,981,991</td>
<td>51.5%</td>
<td>18.5% (9,801,668)</td>
<td>62.4%</td>
</tr>
<tr>
<td>Angola</td>
<td>21,471,618</td>
<td>50.4%</td>
<td>14.5% (3,113,384)</td>
<td>42%</td>
</tr>
<tr>
<td>Mozambique</td>
<td>25,833,752</td>
<td>51.1%</td>
<td>14.4% (3,720,060)</td>
<td>32%</td>
</tr>
<tr>
<td>Nigeria</td>
<td>173,615,345</td>
<td>49.1%</td>
<td>14.9% (25,868,686)</td>
<td>46%</td>
</tr>
</tbody>
</table>

Source: The World Bank; CIA – The World Factbook

Table 9 – Footwear Consumption (million pairs of shoes): 2013

<table>
<thead>
<tr>
<th>Footwear consumption (million pairs, 2013)</th>
<th>Rank in Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>272</td>
</tr>
<tr>
<td>Angola</td>
<td>153</td>
</tr>
<tr>
<td>Mozambique</td>
<td>—</td>
</tr>
<tr>
<td>Nigeria</td>
<td>142</td>
</tr>
</tbody>
</table>


Appendix 11 – PESTEL Analysis

Political

South Africa’s “peaceful political transition was one of the most remarkable political feats of the past century. The magnitude of the constitutional and institutional re-design had a deep transformative impact on the entire system of government as well as the region” (The World Bank, 2014). Nowadays, the country is considered as a stable one with a multi-racial democracy presenting a medium-low political risk. Since 1994, the African National Congress (ANC) has led the government and it is responsible for eight of the country’s nine provinces.

It belongs to both the African Union and the Southern African Development Community in terms of its relationships with the countries from the African continent, in which it is ideally located to access them. Regarding its relation with the European Union, South Africa is a member of the Trade, Development and Cooperation Agreement (TDCA), a free trade zone in which most of the bilateral trade is subjected to a preferential treatment (reduction) in terms of tariffs. In addition, it is a member of the World Trade Organization (WTO) and applies the Harmonized System (HS) of import classification.

27 According to Marsh-Maplecroft Risk Management Research
Overall, the trade tariffs have been reducing. However, South Africa has a trade tariff on footwear of 20.7%, implying a relatively high trade tariff burden. Furthermore, in 2012, South Africa held the 32nd position as a worldwide importer accounting for 0.7% of the imports world share (€99 billion). It main import partners are China, Germany and Saudi Arabia. However, the European Union accounts for 28.3% of South African imports. Portugal ranks in the 53rd position with 0.21% share of the country’s imports (See Appendix 11.1).

Economic
South Africa was admitted in the BRICS group of major emerging markets positively impacting its position as an African potency in 2010 and represents the continent at the G20. It is definitely the economic powerhouse of Africa holding 25% of the continent’s GDP having a crucial role with the other markets of the region. It has been considered the largest economy of Africa, but this year it held the second place being surpassed by Nigeria. It was ranked in the 41st position as a country to do business with (Doing Business 2014) and in terms of competitiveness in 56th out of 144 as an efficiency driven economy claiming third place among the BRICS (Global Competitiveness Report 2014-15). Its economy is mostly based on services, which contribute to 70% of the GDP and 65% of the employment. It is followed by industry and mines, with 27.6% of the GDP and 26% of the employment, and by agriculture and fishing (2.4% of the GDP).

After several years of experiencing an extremely positive behaviour with growth rates above 5% between 2004 and 2008, the South African economy suffered a significant slowdown with lower GDP growth rates mainly due to the rise in the fuel and food prices, the decrease in private consumption and in foreign investment resulting from the global financial and economic crisis. In fact, in 2009, the GDP growth reached a negative value of 1.5% as a consequence of a reduction in the demand, in the investment and in the increase of the commodities prices namely the steel and platinum that have a strong position in the South African exportations (See Appendix 11.2).

Nevertheless, in 2010 the country was capable to improve its economic situation to a

28 The World Bank
29 WTO – World Trade Organization
30 Brazil, Russia, India, China and South Africa
GDP growth rate of 3.1% because of the economic stimulus measures taken by the Government and the enhancement of the international economy. Afterwards, the growth was of 3.6%, 2.5% and last year of 1.9% reflecting the downturn of the economy. In the 1st semester of 2014, the South Africa’s economy continued to slowdown. It has been highly hurt by labour strikes and power shortages. Furthermore, the poor economic performance can be principally attributed to structural problems and a lack of skilled workers. However, it is expected that the economy will grow displaying a GDP growth rate of 2.3% in 2014 and of 3.7% in 2015. This will be mostly a consequence of the fiscal policy that encourages consumption and investment as well as the business activities. Until 2018, the outlook is for the country’s economy to show a more positive growth reaching 4.7% in 2017.

Nonetheless, South Africa has high consumer expenditure per capita by regional standards. In 2013, it was around €3.103.4 per capita whilst the GDP per capita was of €4.724 (See Appendix 11.3). Over the last five years, the consumer expenditure in the country has significantly grown. Specifically, the same occurs for the footwear consumer expenditure that in 2013 had a value of €3.143.17 million. It is a country that belongs to the upper middle-income category according to the United Nations Development Program (UNDP). In 2013, annual disposable income per household reached €11.763,34 showing a rising tendency.

Even though the income is growing and there is a rise of the middle class, one of its main problems continues to be an extremely high-income inequality, which can be measured by the Gini Index. In fact, South Africa has the most unequal income distribution in the world. In 2013, the richest 10% had 48.5% of the share of total annual disposable income whilst the poorest 10% solely had 0.3% (Euromonitor International, 2013). Hence, the income is not well distributed among individuals or households within the economy. South Africa has a Gini coefficient of 0.65 being more close to perfect inequality (1). This fact has a harmful effect on the country’s economic development and business environment impacting investment, political stability, health and education amongst other areas. On the other hand, it might create diverse opportunities for the businesses that are targeting medium-to-high income segments and luxury goods (Euromonitor International, 2013).
Regarding currency, the exchange rate €/ZAR\textsuperscript{32} has been increasing over the years, which signifies that the South African Rand (ZAR) has been largely depreciating (See Appendix 11.4). In December 2009, €1 was equal to ZAR 10,59 whilst in Jun 2014 the same euro corresponded to ZAR 14,56. Hence, the exchange rate is becoming weaker and imports into South Africa are more expensive, so import firms to the country will lose competitive position. It is highly important to take this indicator into account since the country experiences substantial exchange rate volatility.

Over the last five years, even though the inflation rate in South Africa has presented high values it has been decreasing (See Appendix 11.5). It fell around 3\% in 2010 and since then it has been incrementally increasing. Nevertheless, the values are lower than were in the past. In 2013, the inflation rate in the country was circa 5,7\% compared to 7,1\% in 2009. This higher inflation is mainly due to large currency depreciations and higher food prices whereas its reduction is mostly because of a prudent monetary policy (The World Bank, 2014).

**Social**

South Africa can be considered one the most diverse countries in the world having its population constituted by several ethnic groups. In 2013, South Africa had a youthful population of 53 million (See Appendix 11.6). Throughout the last five years, South Africa’s population has slightly increased displaying constant growth year after year around 1,3\%. The tendency is for the population to grow and reach 58,1 million in 2030, an increase of approximately 10\% from 2013. In fact, South Africa’s youthful population guarantees that its numbers will definitely continue to grow in the future (Euromonitor International, 2014). Moreover, in 2013, 51,5\% of the total population was female whereas the remaining 48,5\% were male. In addition, the population that ranges from 25 to 54 years old and are women represented 18,5\% of the whole South African population meaning 9,801,669 people (CIA – The World Factbook).

In South Africa, the ten major cities are geographically well dispersed. In fact, the major city in terms of population is Johannesburg. It accounted for 4,4 million of the total population in 2013 and representing 13,6\% of the urban population. It is expected that by 2030 this will continue to be the leader comprising 5,7 million people. It is followed

\textsuperscript{32} South African Rand (ZAR); ZAR per €1
by Cape Town (legislative capital) as the second largest city in the country. It is fundamental to refer that this will be the fastest growing city in South Africa since it will grow by 32.2% having a population of 5.2 million in 2030 (Euromonitor International, 2014).

Regarding the urban and rural areas, it is possible to affirm that South Africa’s population is mostly urban because the country’s urbanization rate is higher than 60%. Hence, the majority of the population lives in an urban setting.

Another fundamental problem of South Africa is its high unemployment rate of approximately 25%. In fact, higher education and training are not sufficient in the country and it is vital to overcome this issue. South Africa’s labour market efficiency is negatively influenced by tremendously strict hiring and firing practices, tensions in labour-employer relationships and wage inflexibility (The Global Competitiveness Report 2014-15).

Additionally, it is the second country in the world with more deaths from HIV/AIDS (excess mortality), which can result in lower life expectancy, higher infant mortality, higher death rates, lower population growth rates and changes in the distribution of population by age and sex than would otherwise be expected (CIA – The World Factbook, 2014).

**Technological**

Nowadays, South Africa’s is well prepared in terms of technology readiness. For instance, its manufacturing output is highly characterized as technological-intensive and has cutting-edge technology in several sectors such as machinery, automotive vehicles and scientific equipment.

According to the Global Competitiveness Report 2014-15, South Africa does reasonably well in more complex areas such as business sophistication and innovation, benefitting from good scientific research institutions and strong collaboration between universities and the business sector in innovation. In fact, South Africa has developed several leading technologies mainly in the areas of energy and fuels, steel production, mining and information technology. In addition, it has modern transport networks and sophisticated telecommunications facilities emphasizing its top infrastructures.\(^\text{33}\)

Environmental
South Africa in fact is not protecting enough its rich biodiversity. It only protects few areas; its wastewater treatment is very poor; it is reducing its fish stocks; and its CO$_2$ emissions are at the same level of more industrialized economies. On the contrary, the country is making several progresses in terms of forest stewardship (Global Competitiveness Report 2014-15).

Legal
In South Africa there is a favourable legal and business environment established, which normally relies on Roman-Dutch law. Nonetheless, English law has also highly influenced especially company laws. Its has an extremely efficient legal framework in challenging and settling disputes; its institutions have quality and pay attention to intellectual property protection and property rights (The Global Competitiveness Report 2014-15).

Overall, “general commercial legal practices relating to transactions and the drafting of commercial agreements are generally globally applicable and in line with international norms and conventions.”$^{34}$ In addition, both the trade and industries are assumed within the framework of a free enterprise economy.

Appendix 11.1 – Main Import Partners

Table 10 – South Africa’s Main Import Partners: 2013

<table>
<thead>
<tr>
<th>Rank</th>
<th>% Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>1</td>
</tr>
<tr>
<td>Germany</td>
<td>2</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>3</td>
</tr>
<tr>
<td>USA</td>
<td>4</td>
</tr>
</tbody>
</table>

Portugal | 53    | 0,21%

Source: ITC – International Trade Centre

Appendix 11.2 – South Africa’s GDP

Table 11 – South Africa’s GDP (constant 2005 prices, € billion): 2008–18

<table>
<thead>
<tr>
<th>Year</th>
<th>Constant 2005 Prices, € billion</th>
<th>% Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>228,94</td>
<td>3.6%</td>
</tr>
<tr>
<td>2009</td>
<td>225,41</td>
<td>(1.5%)</td>
</tr>
<tr>
<td>2010</td>
<td>232,31</td>
<td>3.1%</td>
</tr>
<tr>
<td>2011</td>
<td>240,41</td>
<td>3.5%</td>
</tr>
<tr>
<td>2012</td>
<td>246,51</td>
<td>2.5%</td>
</tr>
<tr>
<td>2013</td>
<td>251,16</td>
<td>1.9%</td>
</tr>
<tr>
<td>2014&lt;sup&gt;a)&lt;/sup&gt;</td>
<td>256,94</td>
<td>2.3%</td>
</tr>
<tr>
<td>2015&lt;sup&gt;a)&lt;/sup&gt;</td>
<td>266,49</td>
<td>3.7%</td>
</tr>
<tr>
<td>2016&lt;sup&gt;a)&lt;/sup&gt;</td>
<td>278,21</td>
<td>4.4%</td>
</tr>
<tr>
<td>2017&lt;sup&gt;a)&lt;/sup&gt;</td>
<td>291,29</td>
<td>4.7%</td>
</tr>
<tr>
<td>2018&lt;sup&gt;a)&lt;/sup&gt;</td>
<td>303</td>
<td>4%</td>
</tr>
</tbody>
</table>

Source: The World Bank; Forecasted by Economist Intelligence Unit (EIU); a) Forecast

Graphic 10 – South Africa’s GDP growth rate (% annual): 2008–13

Source: The World Bank
### Table 12 – South Africa’s GDP per capita (constant 2005 prices, €): 2008–13

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP per capita, €</th>
<th>% Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>4619,64</td>
<td>2,3%</td>
</tr>
<tr>
<td>2009</td>
<td>4489,65</td>
<td>(2,8%)</td>
</tr>
<tr>
<td>2010</td>
<td>4569,09</td>
<td>1,8%</td>
</tr>
<tr>
<td>2011</td>
<td>4671</td>
<td>2,3%</td>
</tr>
<tr>
<td>2012</td>
<td>4722,36</td>
<td>1,1%</td>
</tr>
<tr>
<td>2013</td>
<td>4747,23</td>
<td>0,6%</td>
</tr>
</tbody>
</table>

Source: The World Bank

### Appendix 11.3 – South Africa’s Consumer Expenditure and Income

### Table 13 – South Africa’s Consumer Expenditure (€ million; %): 2008-13

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Expenditure (€ mn)</td>
<td>110,957,3</td>
<td>116,239,7</td>
<td>125,583,3</td>
<td>137,999,4</td>
<td>151,815,9</td>
<td>163,786</td>
</tr>
<tr>
<td>% growth</td>
<td>–</td>
<td>4,8%</td>
<td>8%</td>
<td>9,9%</td>
<td>10%</td>
<td>7,9%</td>
</tr>
<tr>
<td>Consumer Expenditure per capita</td>
<td>2,207,3</td>
<td>2,284,2</td>
<td>2,440,8</td>
<td>2,656,4</td>
<td>2,898,0</td>
<td>3,103,4</td>
</tr>
<tr>
<td>per capita % growth</td>
<td>–</td>
<td>3,5%</td>
<td>6,9%</td>
<td>8,8%</td>
<td>9,1%</td>
<td>7,1%</td>
</tr>
<tr>
<td>Consumer Expenditure on Footwear (€ mn)</td>
<td>1,866,89</td>
<td>2,045,5</td>
<td>2,268,76</td>
<td>2,561,89</td>
<td>2,867,31</td>
<td>3,143,17</td>
</tr>
</tbody>
</table>

Source: Euromonitor International from national statistics/Eurostat/UN/OECD, 2014

### Graphic 11 – Household Income Distribution: 2013

Source: Euromonitor International from national statistics (2013)
Median Income: €5,459
Mean Income: €11,837

**Graphic 12** – Top 5 countries Gini Index: 2000–11

![Gini Index Chart](image)

**Source:** Euromonitor International from national statistics (2013)

**Graphic 13** – Average Household Annual Disposable Income by Decile: 2013 and 2030

![Decile Income Chart](image)

**Source:** Euromonitor International from national statistics (2013). Data for 2030 are forecasts.
Appendix 11.4 – South Africa’s Exchange Rate

Graphic 14 – South Africa’s Exchange Rate (€/ZAR): 2009–13

Source: XE Live Exchange Rates

Appendix 11.5 – South Africa’s Inflation Rate

Graphic 15 – South Africa’s Inflation (%): 2009–13

Source: The World Bank
Appendix 11.6 – South Africa’s Population

**Graphic 16** – South Africa’s size of population (million): 2009–13

![Population Chart](image)

**Source:** The World Bank

**Figure 12** – Top 10 cities in South Africa by Population

![City Population Chart](image)

**Source:** Euromonitor International, 2014
Graphic 17 – Urbanization Rate (%): 2013

Source: The World Bank

Appendix 12 – South Africa’s Footwear Industry

Graphic 18 – South Africa’s Footwear Industry: 2003-13

Table 14 – South Africa’s Footwear Profile: 2013

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>Quantity</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€ million</td>
<td>World Rank</td>
<td>Pairs (millions)</td>
</tr>
<tr>
<td>Exports</td>
<td>26,45</td>
<td>62</td>
<td>3</td>
</tr>
<tr>
<td>Imports</td>
<td>782,18</td>
<td>19</td>
<td>216</td>
</tr>
<tr>
<td>Production</td>
<td>–</td>
<td>–</td>
<td>59</td>
</tr>
<tr>
<td>Consumption</td>
<td>–</td>
<td>–</td>
<td>272</td>
</tr>
</tbody>
</table>


Figure 13 – Africa Footwear Consumption: 2013 (quantity, million)


Appendix 13 – Main Footwear Trading Import Partners

Table 15 – South Africa’s Main Footwear Trading Import Partners: 2013

<table>
<thead>
<tr>
<th>Import Markets</th>
<th>€ million</th>
<th>Value Share</th>
<th>Pairs (millions)</th>
<th>Quantity Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>536,14</td>
<td>69%</td>
<td>190</td>
<td>88%</td>
</tr>
<tr>
<td>Vietnam</td>
<td>89,76</td>
<td>11%</td>
<td>9</td>
<td>4%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>43,28</td>
<td>6%</td>
<td>4</td>
<td>2%</td>
</tr>
<tr>
<td>Italy</td>
<td>35,26</td>
<td>5%</td>
<td>2</td>
<td>1%</td>
</tr>
<tr>
<td>Lesotho</td>
<td>21,64</td>
<td>3%</td>
<td>5</td>
<td>2%</td>
</tr>
</tbody>
</table>

Appendix 14 – Types of Footwear Imports Traded

Graphic 19 – Types of Imports Footwear Traded: 2013 (quantity)


Appendix 15 – Footwear Market Value

Table 16 – South Africa footwear market value: 2009–13\(^{35}\)

<table>
<thead>
<tr>
<th>Year</th>
<th>Children’s Footwear</th>
<th>Men’s Footwear</th>
<th>Women’s Footwear</th>
<th>Footwear</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€ million</td>
<td>ZAR million</td>
<td>€ million</td>
<td>ZAR million</td>
</tr>
<tr>
<td>2008</td>
<td>136,39</td>
<td>1.908</td>
<td>871,73</td>
<td>12.195</td>
</tr>
<tr>
<td>2009</td>
<td>178,15</td>
<td>2.492,2</td>
<td>989,43</td>
<td>13.841,5</td>
</tr>
<tr>
<td>2010</td>
<td>215,73</td>
<td>3.018</td>
<td>1.105,54</td>
<td>15.465,8</td>
</tr>
<tr>
<td>2011</td>
<td>254,03</td>
<td>3.553,7</td>
<td>1.202,01</td>
<td>16.815,4</td>
</tr>
<tr>
<td>2012</td>
<td>289,96</td>
<td>4.014,4</td>
<td>1.320,41</td>
<td>18.471,7</td>
</tr>
<tr>
<td>2013</td>
<td>321,69</td>
<td>4.500,2</td>
<td>1.472,91</td>
<td>20.605,1</td>
</tr>
</tbody>
</table>

CAGR\(^{36}\): 2008-13 | 12,7% | 12,4%

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources (2014)

---

\(^{35}\) The market is valued at retail selling price with any currency conversions computed using constant annual average 2013 exchange rates.

\(^{36}\) Compound Annual Growth Rate
Table 17 – South Africa footwear market value forecast: 2013–18

<table>
<thead>
<tr>
<th>Year</th>
<th>Children’s Footwear</th>
<th>Men’s Footwear</th>
<th>Women’s Footwear</th>
<th>Footwear</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€ million</td>
<td>ZAR million</td>
<td>€ million</td>
<td>ZAR million</td>
</tr>
<tr>
<td>2013</td>
<td>321.69</td>
<td>4.500,2</td>
<td>1.472,91</td>
<td>20.605,1</td>
</tr>
<tr>
<td>2014</td>
<td>340,09</td>
<td>4.757,6</td>
<td>1.520,11</td>
<td>21.265,5</td>
</tr>
<tr>
<td>2015</td>
<td>358,96</td>
<td>5.021,6</td>
<td>1.575,4</td>
<td>22.038,9</td>
</tr>
<tr>
<td>2016</td>
<td>377,34</td>
<td>5.278,7</td>
<td>1.629,58</td>
<td>22.796,8</td>
</tr>
<tr>
<td>2017</td>
<td>395,38</td>
<td>5.531,1</td>
<td>1.681,39</td>
<td>23.521,6</td>
</tr>
<tr>
<td>2018</td>
<td>409,05</td>
<td>5.722,4</td>
<td>1.707,68</td>
<td>23.889,4</td>
</tr>
</tbody>
</table>

CAGR: 2013-18 | 4,8% | 3,9%

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources (2014)

Appendix 16 – Footwear Market Distribution

Table 18 – South Africa’s footwear market distribution: 2013 (% value)

<table>
<thead>
<tr>
<th>Channel</th>
<th>% Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Store Based Retailing</td>
<td>97,1%</td>
</tr>
<tr>
<td>- Grocery Retailers:</td>
<td>11,1%</td>
</tr>
<tr>
<td>Hypermarkets and supermarkets</td>
<td>9,1%</td>
</tr>
<tr>
<td>Traditional Grocery Retailers</td>
<td>2%</td>
</tr>
<tr>
<td>- Non-Grocery Retailers:</td>
<td>86%</td>
</tr>
<tr>
<td>Clothing and Footwear Retailers</td>
<td>67,2%</td>
</tr>
<tr>
<td>Department Stores</td>
<td>9,3%</td>
</tr>
<tr>
<td>Sportswear Retailers</td>
<td>5,5%</td>
</tr>
<tr>
<td>Variety Stores</td>
<td>3,5%</td>
</tr>
<tr>
<td>Others</td>
<td>0,5%</td>
</tr>
<tr>
<td>Non-Store Retailing</td>
<td>2,9%</td>
</tr>
<tr>
<td>Home shopping</td>
<td>1,2%</td>
</tr>
<tr>
<td>Internet Retailing</td>
<td>1,7%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources (2014)

37 Compound Annual Growth Rate
## Appendix 17 – Main players

### Table 19 – Main Players in Women’s Footwear Brands in South Africa (medium-to-high segment)

<table>
<thead>
<tr>
<th>Country</th>
<th>Brand</th>
<th>Retailer</th>
<th>Type</th>
<th>Minimum Price</th>
<th>Maximum Price</th>
<th>Average Price</th>
<th>Average Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>Tosoni</td>
<td>Spitz</td>
<td>Sandals</td>
<td>€45</td>
<td>€95</td>
<td>€70</td>
<td>€89</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Shoes</td>
<td>€70</td>
<td>€145</td>
<td>€108</td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td>Aldo</td>
<td>Aldo, Edgars,</td>
<td>Sandals</td>
<td>€30</td>
<td>€100</td>
<td>€65</td>
<td>€97</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Busby</td>
<td>Shoe</td>
<td>€38</td>
<td>€150</td>
<td>€94</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Boots</td>
<td>€80</td>
<td>€185</td>
<td>€133</td>
<td></td>
</tr>
<tr>
<td>USA</td>
<td>Nine West</td>
<td>Edgars, Busby</td>
<td>Sandals</td>
<td>€45</td>
<td>€105</td>
<td>€75</td>
<td>€106</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Shoes</td>
<td>€78</td>
<td>€115</td>
<td>€97</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Boots</td>
<td>€90</td>
<td>€200</td>
<td>€145</td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>Schutz</td>
<td>Europa Art Shoes</td>
<td>Sandals</td>
<td>€94</td>
<td>€125</td>
<td>€110</td>
<td>€150</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Shoe</td>
<td>€135</td>
<td>€185</td>
<td>€160</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Boots</td>
<td>€155</td>
<td>€205</td>
<td>€180</td>
<td></td>
</tr>
<tr>
<td>USA</td>
<td>Vince Camuto</td>
<td>Edgars</td>
<td>Sandals</td>
<td>€60</td>
<td>€240</td>
<td>€150</td>
<td>€212</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Shoe</td>
<td>€80</td>
<td>€260</td>
<td>€170</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Boots</td>
<td>€130</td>
<td>€500</td>
<td>€315</td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td>Carvela</td>
<td>Spitz</td>
<td>Sandals</td>
<td>€112</td>
<td>€198</td>
<td>€155</td>
<td>€235</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Shoes</td>
<td>€174</td>
<td>€325</td>
<td>€250</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Boots</td>
<td>€200</td>
<td>€400</td>
<td>€300</td>
<td></td>
</tr>
<tr>
<td>USA</td>
<td>Stuart Weitzman</td>
<td>Spitz</td>
<td>Sandals</td>
<td>€298</td>
<td>€530</td>
<td>€414</td>
<td>€420</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Shoes</td>
<td>€390</td>
<td>€465</td>
<td>€428</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Boots</td>
<td>€385</td>
<td>€450</td>
<td>€418</td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td>Roberto Botticelli</td>
<td>Roberto Botticelli</td>
<td>Sandals</td>
<td>€285</td>
<td>€545</td>
<td>€415</td>
<td>€483</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Shoes</td>
<td>€390</td>
<td>€509</td>
<td>€450</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Boots</td>
<td>€285</td>
<td>€885</td>
<td>€585</td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td>Salvatore Ferragamo</td>
<td>Salvatore Ferragamo</td>
<td>Sandals</td>
<td>€635</td>
<td>€958</td>
<td>€797</td>
<td>€695</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Shoes</td>
<td>€360</td>
<td>€840</td>
<td>€600</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Boots</td>
<td>€635</td>
<td>€740</td>
<td>€688</td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td>Sergio Rossi</td>
<td>Europa Art Shoes</td>
<td>Sandals</td>
<td>€450</td>
<td>€1520</td>
<td>€985</td>
<td>€1041</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Shoes</td>
<td>€465</td>
<td>€1640</td>
<td>€1053</td>
<td></td>
</tr>
</tbody>
</table>
## Appendix 18 – Computations of Market Dimension

**Market Dimension** – Computations to achieve the footwear market dimension in Johannesburg and Cape Town for JJ Heitor Shoes:

### Step 1

Obtain the South African population who lives in Johannesburg and in Cape Town, which are considered urban areas.

From Euromonitor International, we have access to the fact that 13,6% of all urban population live in Johannesburg and 11,31% in Cape Town.

South Africa’s Population: 52,981,991

Urbanization Rate: 62,4%

% of Urban Population in Johannesburg: 13,6%

% of Urban Population in Cape Town: 11,31%

#### Urban Population in South Africa:

\[
\text{South Africa Population} \times \text{Urbanization Rate} = 52,981,991 \times 62,4\% = 33,060,762,38
\]

#### Urban Population in Johannesburg:

\[
\text{Urban Population in South Africa} \times \% \text{ of Urban Population in Johannesburg} = 33,060,762,38 \times 13,6\% = 4,496,264
\]

#### Urban Population in Cape Town:

\[
\text{Urban Population in South Africa} \times \% \text{ of Urban Population in Cape Town} = 33,060,762,38 \times 11,31\% = 3,739,172
\]
Step 2
From the urban population living in the two cities, obtain the females with ages from 25 to 54 years old because represent the target’s gender and age of JJ Heitor Shoes consumers.

According to Statistics South Africa (from census 2011) 23.4% of the population of the city of Johannesburg are female from 25 to 54 years old and in Cape Town that value is of 22.1%.

Female Population from 25 to 54 years old living in Johannesburg (urban area):

\[
\text{Urban Population in Johannesburg} \\
\times \% \text{ of female from 25 to 54 years old living in Johannesburg} \\
= 4.496.264 \times 23.4\% = 1.052.126
\]

Female Population from 25 to 54 years old living in Cape Town (urban area):

\[
\text{Urban Population in Cape Town} \\
\times \% \text{ of female from 25 to 54 years old living in Cape Town} \\
= 3.739.172 \times 22.1\% = 826.357
\]

Step 3
From the previous results, achieve the number of female population from 25 to 54 years old that live in Johannesburg and in Cape Town (urban area) and have medium-to-high income.

Table 20 – Johannesburg and Cape Town population with medium-to-high income (decile 7, 8, 9, 10):

<table>
<thead>
<tr>
<th>Decile</th>
<th>Percentage</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>9.1%</td>
<td>409.160</td>
</tr>
<tr>
<td>8</td>
<td>7.7%</td>
<td>346.212</td>
</tr>
<tr>
<td>9</td>
<td>4.5%</td>
<td>202.332</td>
</tr>
<tr>
<td>10</td>
<td>2.4%</td>
<td>107.910</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>23.7%</strong></td>
<td><strong>1.065.614</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Decile</th>
<th>Percentage</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>11.9%</td>
<td>444.961</td>
</tr>
<tr>
<td>Decile</td>
<td>%</td>
<td>Population</td>
</tr>
<tr>
<td>----------</td>
<td>------</td>
<td>------------</td>
</tr>
<tr>
<td>Decile 8</td>
<td>8,7%</td>
<td>325.308</td>
</tr>
<tr>
<td>Decile 9</td>
<td>3,6%</td>
<td>134.610</td>
</tr>
<tr>
<td>Decile 10</td>
<td>1,4%</td>
<td>52.348</td>
</tr>
<tr>
<td>Total</td>
<td>25,6%</td>
<td>957.228</td>
</tr>
</tbody>
</table>

Source: Statistics South Africa from Census 2011

% of Johannesburg’s population with medium-to-high income: 23,7%
% of Cape Town’s population with medium-to-high income: 25,6%

Female Population from 25 to 54 years old living in Johannesburg (urban area) with medium-to-high income:

\[
\text{Female Population from 25 to 54 years old living in Johannesburg} \\
\times \ % \ \text{Johannesburg's population with medium to high income} \\
= 1.052.126 \times 23,7\% = 249.354
\]

Female Population from 25 to 54 years old living in Cape Town (urban area) with medium-to-high income:

\[
\text{Female Population from 25 to 54 years old living in Cape Town} \\
\times \ % \ \text{Cape Town's population with medium to high income} \\
= 826.357 \times 25,6\% = 211.547
\]

Market Dimension in Johannesburg: 249.354 women
Market Dimension in Cape Town: 211.547 women

**Total Market Dimension: 460.901 women**
Appendix 19 – Export Strategy

Figure 14 – Different Organizational Arrangements for Exporting


Appendix 20 – Indirect Exports

Major types of Indirect Intermediaries

1) Export Management Company (EMC) – is a firm that either acts as the exporter’s agent or purchases merchandise from manufacturers for international distribution. It operates on a contractual basis. Its task is “generating orders for its clients’ products through the selection of appropriate markets, distribution channels and promotional campaigns. Additionally, it collects, analyses and furnishes credit information and advice regarding foreign accounts and payment terms.”\(^{38}\)

2) Export Trading Company (ETC) – are similar to an EMC, but normally operate

based on demand than supply, in which they deal with both exports and imports. Its primary purpose is to match domestic exporters to foreign customers and identify suppliers who can fill orders in foreign markets acting as independent distributor for many manufacturers (Daniels et al., 2013).

Appendix 21 – Direct Exports

1) **Direct selling through distributors** – a firm can sell its products to a foreign distributor who based on its understanding of the local market profitably sells them to wholesalers, retailers or both. “The distributors usually carry a stock of inventory as well as handle service calls. Moving product from manufacturer to customer means they must deal with larger buyers, retailers and small end users in the market.”

2) **Direct selling to foreign retailers and end users** – The firm sells straight to the retailers and end consumers in the foreign market. “Exporters opt to bypass distributors and sell directly to foreign retailers, given that it translates into greater control and higher margins.”

3) **Direct selling over the Internet** – The firm sells its products for the final consumers in the foreign market using the Internet. Hence, through e-commerce, which is “easy to engage, provides faster and cheaper delivery of information, generates quick feedback on new products, improves customer service, accesses a global audience” among other.

---

Appendix 22 – Direct Selling Options for JJ Heitor Shoes

Figure 15 – Direct selling through distributors


Figure 16 – Direct selling to retailers with a partnership with a representative agent

Appendix 23 – Potential Distributors of JJ Heitor Shoes

Table 21 – List of Potential distributors/importers of JJ Heitor Shoes in South Africa

<table>
<thead>
<tr>
<th>Name</th>
<th>Company</th>
<th>Portfolio of Brands</th>
<th>Website</th>
<th>E-mail</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The House of Busby</strong></td>
<td>House of Busby (Pty) Ltd</td>
<td>Aldo, Nine West, Steve Madden, Topshop, Guess</td>
<td><a href="http://www.busbyhouse.com">www.busbyhouse.com</a></td>
<td>–</td>
</tr>
<tr>
<td><strong>Watson Shoes</strong></td>
<td>Bolton Footwear (Pty) Ltd</td>
<td>Bass, Dr. Hart, Franco Gemelli, Grasshoppers, Paolo Falcone, Step on Airs, Watson Shoes</td>
<td><a href="http://www.watson-shoes.co.za">www.watson-shoes.co.za</a></td>
<td><a href="mailto:brent.maron@watson-shoes.co.za">brent.maron@watson-shoes.co.za</a></td>
</tr>
<tr>
<td><strong>Tiago Fashion Group</strong></td>
<td>Tiago Trading (Pty) Ltd</td>
<td>Carducci</td>
<td><a href="http://www.tiago.co.za">www.tiago.co.za</a></td>
<td><a href="mailto:admin@tiago.co.za">admin@tiago.co.za</a></td>
</tr>
<tr>
<td><strong>Eddels Shoes</strong></td>
<td>Eddels Shoes (Pty) Ltd</td>
<td>Riccardo, John Drake, etc.</td>
<td><a href="http://www.eddels.co.za">www.eddels.co.za</a></td>
<td><a href="mailto:chris@eddels.co.za">chris@eddels.co.za</a></td>
</tr>
<tr>
<td><strong>Olympic Flair</strong></td>
<td>Olympic Flair (Pty) Ltd</td>
<td>–</td>
<td><a href="http://www.flairfootwear.com">www.flairfootwear.com</a></td>
<td><a href="mailto:maryanne@flairfootwear.com">maryanne@flairfootwear.com</a></td>
</tr>
</tbody>
</table>

**Note:** This is not the entire list of footwear importers in South Africa. It is simply a list of possible ones that will aid the firm when doing the search for the distributor/importer in South Africa. There are several others that should also be examined since it can present a more suitable option for the firm apart from the ones in this proposal.

It is important to refer that this list is not completely up-to-date. It was based on an AICEP document that was dated in February 2013 and in a South African footwear industry report by *Who Owns Whom* in October 2014. The most recent information was not provided for the pursuit of this Work Project by AICEP.

Appendix 24 – Footwear Sales Channels in South Africa\textsuperscript{42}

**Mass merchants** – Sell large quantities of diverse products to a huge audience at low prices, mainly own brand products. Hence, footwear purchases are for highly price sensitive consumers (mass market) and are based in the principles of supply and demand (e.g. Walmart, Jet, Mr. Price, Ackermans).

\textsuperscript{42} It corresponds to the Place in the Marketing Mix (4 P’s)
**Department Stores** – Offer a wide range of footwear for every type. Consumers can freely choose between multiple designer brands and private labels at different price points. In fact, consumers can have the intention of searching for one specific brand and, in the end, buy a similar product from another one (e.g. Stuttafords, Edgars).

**National chains** – Have also a mix of products from their own brands and from other companies/brands. Do not have such a high range of products as the department stores. Depending on each national chain, can offer brands from several price points and own brand products for the same level of prices. Its own brand products have more quality and design than the ones of the mass merchants (e.g. Woolworths, Trusworths, Green Cross, Foschini).

**Specialty stores** – Sell mostly footwear from their own brand or other designer/well-know brands over a licensing agreement (the store is specialized in footwear). These stores specialize in brands that look for niche markets or have a particular style aimed for the medium-to-high income consumers who benefit from a good service quality and expert guidance in the store (e.g. Spitz, Busby Retail).

**Independent retailers** – Sell different footwear brands and are focused on brand products from the medium-to-high segment. Offer service, selection, quality, customization and personalized customer care, which is rare to find them all in only one channel. Its competitors are mainly the specialty stores and department stores, but also the national chains (e.g. MeMeMe, Desch).
Appendix 25 – Pricing Strategy

Table 22 – Data to perform the pricing strategy

<table>
<thead>
<tr>
<th>Data</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>JJ Heitor margin</td>
<td>23,1% Calculated (based on firm’s information)</td>
</tr>
<tr>
<td>Distributor margin</td>
<td>35% Assumption (decided by the distributor)</td>
</tr>
<tr>
<td>Retailer margin</td>
<td>30%–38% Assumption (decided by the retailer)</td>
</tr>
<tr>
<td>JJ Heitor Shoes production cost</td>
<td>€65 Given by the firm (average)</td>
</tr>
<tr>
<td>JJ Heitor Selling Price to distributors</td>
<td>€84,5 Given by the firm (average)</td>
</tr>
<tr>
<td>Consumption Tax (VAT)</td>
<td>14% Tabulated in South Africa</td>
</tr>
</tbody>
</table>

With the above data, it is possible to achieve the margin of JJ Heitor Shoes products when selling to distributors, the price distributors sell to the retailers (distribution price) and the price the retailers sell to the end-consumers (retail price). The computations are below.

1. **Selling Price to distributors** = €84,5

   **JJ Heitor Shoes margin** = (Selling Price to distributors – Production cost) / Selling Price to distributors

   \[
   = (€84,5 – €65) / €84,5 \\
   = 0,231 = 23,1\%
   \]

2. **Selling price to retailers (Distribution price):**

   **Distribution margin** = 35%

   \[
   = (Distribution Price – Selling Price to distributors) / Distribution Price
   \]

---

43 It corresponds to the Price in the Marketing Mix (4 P’s).
44 Based on firm’s information
45 Taking into consideration the industry and the fact that it is an emergent market.
**Distribution Price** = Selling Price to distributors / (1 – Distribution margin)

\[ = \frac{€84.5}{1 - 35\%} \]

\[ = €130 \]

3. **Selling Price to end-consumers:**

**Retail Price** = [Distribution Price / (1 – Retailer margin)] * (1+ Consumption Tax)

\[ = \frac{€130}{1 - 30\%} \times (1+14\%) \]

\[ = €212 \]

and

\[ = \frac{€130}{1 - 38\%} \times (1+14\%) \]

\[ = €240 \]

In South Africa, with the adopted mode of entry JJ Heitor will sell its own brand products to the distributors by an average price per pair of shoes of €84.5. Hence, achieving a margin of 23.1%. Even though this margin is much higher when compared with the margin obtained in the value chain, this is the one the firm aims to achieve in emergent markets as South Africa. From that, the distributor is responsible for selling JJ Heitor Shoes products to the retailers, which will sell to the end-consumers. For that, both the distributor and the retailer will set its own margin that JJ Heitor has no influence about it. As an estimate in this market, taking into consideration the industry and the information provided by the firm, the average distribution price and retail price per pair of shoes will be €130; and between €212 and €240, respectively. The range of the final retail price already includes the consumption tax in the country. These values as previously mentioned are only estimations of the final price, which are suitable for the women’s footwear market in South Africa since the firm will compete in quality and design and not in price. The average price of similar brands in the market is in the line with this range of average prices for JJ Heitor Shoes in South Africa.

**Appendix 26 – Supply Chain Management**

To perform this analysis it is assumed a best-case scenario in which JJ Heitor Shoes is

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46 To calculate the retail price several other costs need to be included such as transportation costs, insurance, customs duties, etc. Hence, this is simply an approximation of the final price in the market.
capable to penetrate the South Africa market. It will increasingly intensify its operations in the foreign market working towards accomplishing the strategic objective of increasing the global own brand sales to 10% of the total volume of sales in 10 years.\textsuperscript{47}

Moreover, a fundamental characteristic of the export process is how the good is going to be taken to the other country. Hence, this can be done through different ways. It can be either by surface (truck or rail), by sea, by air or even by a mix between these – intermodal transportation (Daniels et al., 2013). In this case, the most appropriate form is to have a mix of them. From the factory of the firm in Santa Maria da Feira until the port of Leixões, the nearest port, the products will go by truck. Afterwards, the products can be shipped to two different ports in the country. This should be decided under the contract with the distributor. Moreover, can be shipped until the port of Cape Town or shipped until the port of Barcelona and from there to the port of Durban since Johannesburg does not have a maritime port and that is the nearest one. The sea freight is the adequate one since it is much cheaper than air freight and there is very low possibility of the products being damaged. If the products are discharged in Cape Town, a part stays there and the other ones that go to Johannesburg have to be transported by rail. Otherwise, if the products are discharged in Durban, have to be transported by rail to Johannesburg and to Cape Town. This will be at the financial responsibility of the distributor. The whole process takes around between 28 to 33 days and it exists weekly departures to both ports.

It is therefore important to define the incoterm of the established contract between the firm and the distributor since it allows standardizing the international business. According to the International Chamber of Commerce, it exists eleven incoterm divided in two main categories: Multimodal Incoterms and Maritime or River Incoterms.\textsuperscript{48} After evaluating each one, for JJ Heitor Shoes the most proper would be the FOB – Free on Board contract from the maritime or river category. JJ Heitor is only responsible to produce the shoes, transport it to the port of Leixões and load it on board of the vessel. Hence, the firm is responsible to pay for the expenses at the origin whilst

\textsuperscript{47} Since the firm’s time horizon for this objective is extremely difficult to achieve (5 years) and it takes a long time for a brand to penetrate it was necessary to increase the time of analysis. However, this objective is for the total (global) sales of the brand including other foreign markets in which it is present.

\textsuperscript{48} The most recent version is from January 1, 2011
the vessel and the costs at the destiny are paid by the importer. It is important to mention that, by norm, the shipping firm (transportation) is nominated by the buyer (distributor) since it will be the one to pay the majority of the expenses as stipulated in the contract under the FOB. However, to better estimate the costs that JJ Heitor would have to incur under this contract a possible firm was selected as the shipping firm. Moreover, there are several Portuguese firms that operate directly with the transport of goods to South Africa. After examining different proposals one was chosen to be responsible for this service, which was Optimus II Transitários Lda that belongs to the GTL Group.

For Optimus II Transitários Lda, it can transport goods over FCL – Full Container Load with 20 feet container (30 m³) or 40 feet (60 m³) and over LCL – Less Container Load. Due to the fact that the footwear to be exported will be small and of lightweight volume it is best to opt for a LCL in which other goods will be accommodated in the container in order to fill it, which will be a cost of the importer.

If this is the incoterm adopted, JJ Heitor has to pay for the costs at the origin, which are around €430 for each container sent to South Africa (See Table 23). It has to pay for the transportation until the port; for the THC – Terminal Handling Charge in the port of Leixões; for the ISPS – International Ship and Port facility security code; to present the BL – Bill of Lading; pay for the dispatch; and for the DME – document necessary. It also has to present a pro forma invoice, a commercial invoice, a certificate of origin, an export packing list and a shipper’s export declaration.

<table>
<thead>
<tr>
<th>Table 23 – Costs of the firm of transporting JJ Heitor Shoes products to South Africa per collection (under the FOB agreement)⁴⁹</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Transportation to South Africa</strong></td>
</tr>
<tr>
<td>THC – Terminal Handling Charge</td>
</tr>
<tr>
<td>ISPS – International Ship and Port Facility Security Code</td>
</tr>
<tr>
<td>BL – Bill of Lading</td>
</tr>
<tr>
<td>Truck until the port of Leixões</td>
</tr>
<tr>
<td>Dispatch</td>
</tr>
<tr>
<td>DME</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

⁴⁹ This is the total cost per container sent. Since it exists two collections per year, the annual cost will be €860.
Appendix 27 – Business Plan: Implementation Plan Proposal

Objectives

- Realize a trade mission to Johannesburg and Cape Town
- Be present in the AFT trade exhibition of the sector that is in Cape Town
- Select a suitable foreign distributor
- Achieve 1% of the firm’s total sales in South Africa at least in the 1st year
- Achieve a positive accumulated cash flow at least prior to the first 3 years of implementation
- Maintain the business operations in the market throughout 10 years after implementation
- Grow and work towards achieving the strategic objective of increasing the own brand global sales to 10% in 10 years of operations
- Test the African market in order to further expand to other countries (as a platform for exports)

Men

<table>
<thead>
<tr>
<th>Tasks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Secretary</strong> – Schedule meetings with the distributor and handle paperwork about the foreign market.</td>
</tr>
<tr>
<td><strong>2. Factory workers</strong> – The firm has a 2nd line of production that it will have to use to produce the products from its own brand to answer the needs of the distributor. Hence, two more workers will have to be hired to do exactly that.</td>
</tr>
<tr>
<td><strong>3. Commercial team</strong> – Its responsible for dealing with the operations in the foreign market. It has to obtain the necessary export documentation, evaluate the different possibilities of distributor and aid in select one. It has to manage the relationship with the distributor in the host country, in which it must solicit continuous feedback (and also customer feedback and how the brand is doing). Also, secure the transportation process with the shipping firm until the vessel.</td>
</tr>
<tr>
<td><strong>4. Board members and other key employees</strong> – Represent the brand in the South African fairs and important trade events; as well as realize trade missions trips to the place to establish contacts and evaluate potential opportunities.</td>
</tr>
</tbody>
</table>

50 *International Apparel, Textile and Footwear Trade Exhibition of Southern Africa*
The research period to enter the South African market started in September 2014, with the work developed in this internationalization strategy plan which will be followed by research pursued by the firm. Afterwards, the firm has to identify, evaluate and select a foreign distributor to be the importer. During this time, it should first realize a trade mission to the country (both Johannesburg and Cape Town) and after be present in the AFT exhibition event that takes place in November 2015 in Cape Town. It should gain knowledge about the market, realize focus groups with representatives of the target market of the brand and understand if there are any alterations to the product that need to be done according to the footwear and fashion trends in the South African market. Then, after selecting the distributor it will be prepared to start exporting in January 2016 with its Spring/ Summer Collection. Every year it will sell two collections. It is important that it revises the plan and the contract with the distributor. As well as monitor the relationship, in which constant feedback and meetings should be implemented. In the long run, it should analyse and study the option to expand to other cities and potential African countries hence being South Africa considered a strategic market to further grow in the continent.

Money
It is fundamental to estimate the necessary investment of exporting JJ Heitor Shoes to South Africa in order to realize how much will be the initial investment of the firm. As previously mentioned, export promotion activities are fundamental to establish contacts, select distributors and gain knowledge about the foreign market. For that, it would be essential for the firm firstly to realize a trade mission to the country as well as
participate in a professional fair of the footwear sector since it is the only footwear importer exhibition in the country. 51 Nevertheless, that comprises several costs, as it is possible to observe in the tables below (See Table 24 and Table 25).

Table 24 – Costs of realizing a trade mission

<table>
<thead>
<tr>
<th>Costs of a trade mission to South Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 people</td>
</tr>
<tr>
<td>Go-return flight</td>
</tr>
<tr>
<td>1 week (6 nights and 7 days)</td>
</tr>
<tr>
<td>Domestic flight</td>
</tr>
<tr>
<td>Hotel ****</td>
</tr>
<tr>
<td>Other stay costs</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

Table 25 – Costs of participating in a professional fair of the sector (Cape Town)

<table>
<thead>
<tr>
<th>Costs of participating in AFT trade event</th>
</tr>
</thead>
<tbody>
<tr>
<td>4 people</td>
</tr>
<tr>
<td>Go-return flight</td>
</tr>
<tr>
<td>1 week in November (6 nights and 7 days)</td>
</tr>
<tr>
<td>Hotel ****</td>
</tr>
<tr>
<td>Other stay costs</td>
</tr>
<tr>
<td>Cost of the stand and space</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

Additionally, there are other costs that are also involved. Hence, the necessary initial investment to start exporting to the country is presented in the table below and has a total value of €36,511,40 (See Table 26).

Table 26 – Initial Investment of the firm to start exporting its own brand to South Africa

<table>
<thead>
<tr>
<th>Money</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade Mission</td>
</tr>
<tr>
<td>Costs of participating in a professional fair</td>
</tr>
<tr>
<td>Bureaucracy costs</td>
</tr>
<tr>
<td>Register the trademark</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

51 Takes place in Cape Town during 3 entire days, in which 4 people would go – one Administrator, the Commercial Director, the designer and one employee providing support.
This initial investment includes the trade mission to Johannesburg and Cape Town; the participation in the AFT trade event; bureaucracy costs that the firm has to deal in order to start exporting to the country such as the issue of a pro forma invoice, commercial invoice among other; and the register of the trademark in the South African market. This investment would take place throughout the year of 2015.

### Memos

<table>
<thead>
<tr>
<th>Strategic Theme</th>
<th>Objectives</th>
<th>Measurement</th>
<th>Target</th>
<th>Initiative</th>
</tr>
</thead>
</table>
| **Financial**   | - Improve domestic profit  
- Increase international sales | - Volume of sales and net income  
- Volume of orders by the distributor  
- EDITDA % in relation to domestic EDITDA | - Increase sales revenues by 1% of total sales after 1 year  
- Achieve positive cash flow at least in the 3rd year  
- Achieve a 10% of global brand sales in the export years | - Pricing Strategy  
- Find foreign distributor and contract  
- Export the product |
| **Customer**    | - Brand awareness  
- Loyalty to the brand  
- High consumer satisfaction  
- High perceived quality | - Market Research  
- Customer Feedback  
- Number of stores selling JJ Heitor Shoes footwear  
- Website visits per month from South Africa | - Significant increase in brand awareness after 2 years of operations  
- 50% of potential clients aware of JJ Heitor Shoes  
- More than 75% of customer satisfaction | - Trade mission  
- Promotion through local fairs, trade shows and events  
- Marketing strategy by the firm and distributor (online and offline)  
- Increase feedback |
| **Internal**    | - No drastic alteration in the workforce  
- Work towards achieving the goals in the foreign market  
- Language and culture coherency | - Distributor feedback  
- Complaints about the shoes  
- Performance evaluation based on objectives  
- Export team efficacy in reaching objectives | - Be present in the market throughout 10 years after implementation | - Continuous flow of information with the distributor  
- Constant update of the trade conditions  
- Increase relationship with South African Associations |
| **Learning**    | - Test the African market to further expand  
- Adapt to the South African market  
- Forecast consumer needs and demand; major trends  
- New knowledge | - Success in the first African country  
- Time of implementation | - Achieve the established objectives in the implementation  
- Time to start exporting: 1 – 1,4 years | - Realize trade mission and focus sessions  
- Adapt if necessary the product to the market  
- Establish contacts  
- Participation in trade events |
Appendix 28 – Financial Projections

Appendix 28.1 – Revenues and Cost of Goods Sold

Table 27 – Revenues and Cost of Goods Sold: Normal Scenario

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td># Year</td>
<td>0</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td>8</td>
<td>9</td>
<td>10</td>
</tr>
<tr>
<td>Quantity Sold</td>
<td>-</td>
<td>791</td>
<td>1,146</td>
<td>1,490</td>
<td>1,788</td>
<td>2,056</td>
<td>2,262</td>
<td>2,352</td>
<td>2,437</td>
<td>2,520</td>
<td>2,599</td>
</tr>
<tr>
<td>Growth Rate</td>
<td>-</td>
<td>145%</td>
<td>130%</td>
<td>120%</td>
<td>115%</td>
<td>110%</td>
<td>104%</td>
<td>103,6%</td>
<td>103,4%</td>
<td>103,15%</td>
<td>102,95%</td>
</tr>
<tr>
<td>Average price per pair of shoes</td>
<td>84,5 €</td>
<td>86,2 €</td>
<td>87,9 €</td>
<td>89,7 €</td>
<td>91,5 €</td>
<td>93,3 €</td>
<td>95,2 €</td>
<td>97,1 €</td>
<td>99,0 €</td>
<td>101,0 €</td>
<td>103,0 €</td>
</tr>
<tr>
<td>Revenues</td>
<td>-</td>
<td>68 133,20 €</td>
<td>100 769,00 €</td>
<td>133 619,69 €</td>
<td>163 550,50 €</td>
<td>191 844,73 €</td>
<td>215 249,79 €</td>
<td>228 336,98 €</td>
<td>241 288,25 €</td>
<td>254 481,89 €</td>
<td>267 748,04 €</td>
</tr>
<tr>
<td>Average production cost per pair of shoes</td>
<td>65,0 €</td>
<td>66,3 €</td>
<td>67,6 €</td>
<td>69,0 €</td>
<td>70,4 €</td>
<td>71,8 €</td>
<td>73,2 €</td>
<td>74,7 €</td>
<td>76,2 €</td>
<td>77,7 €</td>
<td>79,2 €</td>
</tr>
<tr>
<td>Total cost of goods sold</td>
<td>-</td>
<td>52 410,2 €</td>
<td>77 514,6 €</td>
<td>102 784,4 €</td>
<td>125 808,1 €</td>
<td>147 572,9 €</td>
<td>165 576,8 €</td>
<td>175 643,8 €</td>
<td>185 606,3 €</td>
<td>195 755,3 €</td>
<td>205 960,0 €</td>
</tr>
</tbody>
</table>

Note:
- Each collection has an average of 31 models and the minimum purchase by the distributor is 6 pairs per model.
- For the initial quantity order, it is assumed that the distributor will require in the first collection 50% of the 31 models at 18 pairs per model. Afterwards, for the second collection in the same year it will require 75% at 22 pairs per model. For the following years it will grow according to the established growth rate.
- The growth rate in the first year will be 45% (assumption but based on values indicated by the firm). Then, it is expected that the consumption of JJ Heitor Shoes will grow faster in the first years as a new brand in the market and then start to stabilize in the following ones (tendency). For instance, in a growth of 30% from the 2nd to the 3rd year, and 20%, 15%, 10%. After 5 years, it will grow at the same pace as the women’s footwear market growth in the country, in which the growth rate is assumed to be the same for each scenario.
- The cost of goods sold is assumed to vary 2% every year due to the increase in the price of the inputs. The average price per pair of shoes (selling price to the distributors) is assumed to also increase 2% every year to account the increase in the cost of goods sold.
Table 28 – Revenues and Cost of Goods Sold: Pessimistic Scenario

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<tr>
<td>Quantity Sold</td>
<td>-</td>
<td>672</td>
<td>840</td>
<td>1 008</td>
<td>1 189</td>
<td>1 368</td>
<td>1 477</td>
<td>1 536</td>
<td>1 592</td>
<td>1 646</td>
<td>1 697</td>
</tr>
<tr>
<td>Growth Rate</td>
<td>-</td>
<td>125%</td>
<td>120%</td>
<td>118%</td>
<td>115%</td>
<td>108%</td>
<td>104%</td>
<td>103,6%</td>
<td>103,4%</td>
<td>103,15%</td>
<td>102,95%</td>
</tr>
<tr>
<td>Average price per pair of shoes</td>
<td>84,5 €</td>
<td>86,2 €</td>
<td>87,9 €</td>
<td>89,7 €</td>
<td>91,5 €</td>
<td>93,3 €</td>
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<td>97,1 €</td>
<td>99,0 €</td>
<td>101,0 €</td>
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<tr>
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<td>-</td>
<td>57 913,22 €</td>
<td>73 839,35 €</td>
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<td>127 599,65 €</td>
<td>140 563,77 €</td>
<td>149 110,05 €</td>
<td>157 567,57 €</td>
<td>166 183,37 €</td>
<td>174 846,50 €</td>
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<tr>
<td>Average production cost per pair of shoes</td>
<td>65,0 €</td>
<td>66,3 €</td>
<td>67,6 €</td>
<td>69,0 €</td>
<td>70,4 €</td>
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<td>74,7 €</td>
<td>76,2 €</td>
<td>77,7 €</td>
<td>79,2 €</td>
</tr>
<tr>
<td>Total cost of goods sold</td>
<td>-</td>
<td>44 548,63 €</td>
<td>56 799,50 €</td>
<td>69 522,59 €</td>
<td>83 677,39 €</td>
<td>98 153,57 €</td>
<td>108 125,98 €</td>
<td>114 700,04 €</td>
<td>121 205,82 €</td>
<td>127 833,36 €</td>
<td>134 497,31 €</td>
</tr>
</tbody>
</table>

Note:
- The initial quantity sold will be less 15% than it was in the Normal scenario. Afterwards, it will grow according to the established growth rate.
- The growth rate in the first year will be 25%, almost half of the initial growth in the Normal Scenario (assumption). Then, it is expected that the consumption of JJ Heitor Shoes will grow faster in the first years as a new brand in the market and then start to stabilize in the following ones (tendency). For instance, in a growth of 20% from the 2nd to the 3rd year, and 18%, 15%, 8%. After 5 years, it will grow at the same pace as the women’s footwear market growth in the country, in which the growth rate is assumed to be the same for each scenario.
- The cost of goods sold is assumed to vary 2% every year due to the increase in the price of the inputs. The average price per pair of shoes (selling price to the distributors) is assumed to also increase 2% every year to account the increase in the cost of goods sold.
Table 29 – Revenues and Cost of Goods Sold: Optimistic Scenario

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</tr>
<tr>
<td>Quantity Sold</td>
<td>-</td>
<td>909</td>
<td>1 591</td>
<td>2 386</td>
<td>3 102</td>
<td>3 723</td>
<td>4 169</td>
<td>4 336</td>
<td>4 492</td>
<td>4 645</td>
<td>4 791</td>
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<tr>
<td>Growth Rate</td>
<td>-</td>
<td>175%</td>
<td>150%</td>
<td>130%</td>
<td>120%</td>
<td>112%</td>
<td>104%</td>
<td>103,6%</td>
<td>103,4%</td>
<td>103,15%</td>
<td>102,95%</td>
</tr>
<tr>
<td>Average price per pair of shoes</td>
<td>84,5 €</td>
<td>86,2 €</td>
<td>87,9 €</td>
<td>89,7 €</td>
<td>91,5 €</td>
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<td>97,1 €</td>
<td>99,0 €</td>
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<tr>
<td>Revenues</td>
<td>-</td>
<td>78 353,17 €</td>
<td>139 860,42 €</td>
<td>213 986,44 €</td>
<td>283 746,01 €</td>
<td>347 305,12 €</td>
<td>396 761,37 €</td>
<td>420 884,46 €</td>
<td>444 757,03 €</td>
<td>469 076,34 €</td>
<td>493 529,29 €</td>
</tr>
<tr>
<td>Average production cost per pair of shoes</td>
<td>65,0 €</td>
<td>66,3 €</td>
<td>67,6 €</td>
<td>69,0 €</td>
<td>70,4 €</td>
<td>71,8 €</td>
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<td>74,7 €</td>
<td>76,2 €</td>
<td>77,7 €</td>
<td>79,2 €</td>
</tr>
<tr>
<td>Total cost of goods sold</td>
<td>-</td>
<td>60 271,67 €</td>
<td>107 584,94 €</td>
<td>164 604,95 €</td>
<td>218 266,17 €</td>
<td>267 157,79 €</td>
<td>305 201,06 €</td>
<td>323 757,28 €</td>
<td>342 120,79 €</td>
<td>360 827,96 €</td>
<td>379 637,92 €</td>
</tr>
</tbody>
</table>

Note:
- The initial quantity sold will be **more 15%** than it was in the Normal scenario. Afterwards, it will grow according to the established growth rate.
- The growth rate in the first year will be 75% since the sales will highly increase (this value was indicated by the firm). Then, it is expected that the consumption of JJ Heitor Shoes will grow faster in the first years as a new brand in the market and then start to stabilize in the following ones (tendency). For instance, in a growth of 50% from the 2nd to the 3rd year, and 30%, 20%. 12%. After 5 years, it will grow at the same pace as the women’s footwear market growth in the country, in which the growth rate is assumed to be the same for each scenario.
- The cost of goods sold is assumed to vary 2% every year due to the increase in the price of the inputs. The average price per pair of shoes (selling price to the distributors) is assumed to also increase 2% every year to account the increase in the cost of goods sold.
### Appendix 28.2 – Forecasted Incremental P&L and Cash-Flow Statement: Normal Scenario

#### Table 30 – Forecasted Incremental P&L: Normal Scenario

<table>
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<td>10</td>
</tr>
<tr>
<td>Revenues</td>
<td>-</td>
<td>68 133,20 €</td>
<td>100 769,00 €</td>
<td>133 619,69 €</td>
<td>163 550,50 €</td>
<td>191 844,73 €</td>
<td>215 249,79 €</td>
<td>228 336,98 €</td>
<td>241 288,25 €</td>
<td>254 481,89 €</td>
<td>267 748,04 €</td>
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<tr>
<td>Cost of Goods Sold</td>
<td>-</td>
<td>52 410,15 €</td>
<td>77 514,61 €</td>
<td>102 784,38 €</td>
<td>125 808,08 €</td>
<td>147 572,87 €</td>
<td>165 576,76 €</td>
<td>175 643,83 €</td>
<td>185 606,35 €</td>
<td>195 755,30 €</td>
<td>205 960,03 €</td>
</tr>
<tr>
<td>Gross Margin</td>
<td>-</td>
<td>15 723,05 €</td>
<td>23 254,38 €</td>
<td>30 835,31 €</td>
<td>37 742,42 €</td>
<td>44 271,86 €</td>
<td>49 673,03 €</td>
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<td>0 €</td>
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<td>0 €</td>
</tr>
<tr>
<td>Personnel costs</td>
<td>-</td>
<td>19 510,02 €</td>
<td>19 607,57 €</td>
<td>19 705,61 €</td>
<td>19 804,14 €</td>
<td>19 903,16 €</td>
<td>20 002,67 €</td>
<td>20 102,69 €</td>
<td>20 203,20 €</td>
<td>20 304,22 €</td>
<td>20 405,74 €</td>
</tr>
<tr>
<td>Costs with Advertising</td>
<td>-</td>
<td>2 000 €</td>
<td>2 000 €</td>
<td>2 000 €</td>
<td>2 000 €</td>
<td>2 000 €</td>
<td>2 000 €</td>
<td>2 000 €</td>
<td>2 000 €</td>
<td>2 000 €</td>
<td>2 000 €</td>
</tr>
<tr>
<td>Other costs (transportation)</td>
<td>-</td>
<td>860 €</td>
<td>860 €</td>
<td>860 €</td>
<td>860 €</td>
<td>860 €</td>
<td>860 €</td>
<td>860 €</td>
<td>860 €</td>
<td>860 €</td>
<td>860 €</td>
</tr>
<tr>
<td>EBITDA</td>
<td>-6 646,98 €</td>
<td>786,81 €</td>
<td>8 269,70 €</td>
<td>15 078,29 €</td>
<td>21 508,71 €</td>
<td>26 810,36 €</td>
<td>29 730,46 €</td>
<td>32 618,71 €</td>
<td>35 562,38 €</td>
<td>38 522,27 €</td>
<td></td>
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<tr>
<td>Depreciation</td>
<td>-</td>
<td>0 €</td>
<td>0 €</td>
<td>0 €</td>
<td>0 €</td>
<td>0 €</td>
<td>0 €</td>
<td>0 €</td>
<td>0 €</td>
<td>0 €</td>
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</tr>
<tr>
<td>Net Profit Before Taxes</td>
<td>-6 646,98 €</td>
<td>786,81 €</td>
<td>8 269,70 €</td>
<td>15 078,29 €</td>
<td>21 508,71 €</td>
<td>26 810,36 €</td>
<td>29 730,46 €</td>
<td>32 618,71 €</td>
<td>35 562,38 €</td>
<td>38 522,27 €</td>
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<tr>
<td>Corporate tax rate (23%)</td>
<td>-</td>
<td>- €</td>
<td>180,97 €</td>
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<td>3 468,01 €</td>
<td>4 947,00 €</td>
<td>6 166,38 €</td>
<td>6 838,01 €</td>
<td>7 502,30 €</td>
<td>8 179,35 €</td>
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</tr>
<tr>
<td>Net Income</td>
<td>-6 646,98 €</td>
<td>605,85 €</td>
<td>6 367,67 €</td>
<td>11 610,28 €</td>
<td>16 561,70 €</td>
<td>20 643,97 €</td>
<td>22 892,46 €</td>
<td>25 116,40 €</td>
<td>27 383,03 €</td>
<td>29 662,15 €</td>
<td></td>
</tr>
<tr>
<td>Profit Margin</td>
<td>-9,76%</td>
<td>0,60%</td>
<td>4,77%</td>
<td>7,10%</td>
<td>8,63%</td>
<td>9,59%</td>
<td>10,03%</td>
<td>10,41%</td>
<td>10,76%</td>
<td>11,08%</td>
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</tbody>
</table>

**General Note:**
- The operating costs were provided as zero by the firm
- The personnel costs regard the hiring of two employees to deal with the production.
- The marketing costs were assumed to 20% of the total marketing investment in the country taken into consideration that the brand has a global investment per collection of €50,000 (divided by the number of countries it is present it gives around €10,000 per market per year).

**Table 31 – Cash-Flow Statement: Normal Scenario**

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</tr>
</tbody>
</table>

**(+ Cash Flow from Operating Activities**

Net Income

- € -6 646,98 € 605,85 € 6 367,67 € 11 610,28 € 16 561,70 € 20 643,97 € 22 892,46 € 25 116,40 € 27 383,03 € 29 662,15 €

**(- Cash Flow from Investing Activities**

Initial Investment 36 511,4 € - € - € - € - € - € - € - € - € - € - € - € - €

**(+ Cash Flow from Financing Activities**

Subsidies (from QREN) 12 778,99 € - € - € - € - € - € - € - € - € - € - € - € - €

Cash Flow

-23 732,41 € -6 646,98 € 605,85 € 6 367,67 € 11 610,28 € 16 561,70 € 20 643,97 € 22 892,46 € 25 116,40 € 27 383,03 € 29 662,15 €

Discount Rate 3%

**NPV**

99 602,48 €

**General Note:**

- It is assumed that the firm will receive from QREN, a subsidy equal to 35% of the initial investment to internationalize to the target market according to the terms of *Horizonte 2020*.
- The discount rate used (3%) is an average rate that banks are asking for deposits (opportunity costs).
### Table 32 – Forecasted Incremental P&L: Pessimistic Scenario

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<td>Revenues</td>
<td>-57 913.22 €</td>
<td>73 839.35 €</td>
<td>90 379.36 €</td>
<td>108 780.60 €</td>
<td>127 599.65 €</td>
<td>140 563.77 €</td>
<td>149 110.05 €</td>
<td>157 567.57 €</td>
<td>166 183.37 €</td>
<td>174 846.50 €</td>
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<tr>
<td>Cost of Goods Sold</td>
<td>-44 548.63 €</td>
<td>56 799.50 €</td>
<td>69 522.59 €</td>
<td>83 677.39 €</td>
<td>98 153.57 €</td>
<td>108 125.98 €</td>
<td>114 700.04 €</td>
<td>121 205.82 €</td>
<td>127 833.36 €</td>
<td>134 497.31 €</td>
<td></td>
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<tr>
<td>Gross Margin</td>
<td>-13 364.59 €</td>
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<td>29 446.07 €</td>
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<td>34 410.01 €</td>
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<td>2 000 €</td>
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<tr>
<td>Other costs (transportation)</td>
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<tr>
<td>EBITDA</td>
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<td>-1 905.39 €</td>
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<td>6 283.87 €</td>
<td>9 072.57 €</td>
<td>10 839.73 €</td>
<td>12 584.36 €</td>
<td>14 363.45 €</td>
<td>16 151.37 €</td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
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<tr>
<td>EBIT</td>
<td>-9 005.43 €</td>
<td>-5 525.27 €</td>
<td>-1 905.39 €</td>
<td>2 142.02 €</td>
<td>6 283.87 €</td>
<td>9 072.57 €</td>
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<td>12 584.36 €</td>
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<tr>
<td>Net Profit Before Taxes</td>
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<td>-5 525.27 €</td>
<td>-1 905.39 €</td>
<td>2 142.02 €</td>
<td>6 283.87 €</td>
<td>9 072.57 €</td>
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<td>14 363.45 €</td>
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<td>Corporate tax rate (23%)</td>
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<tr>
<td>Net Income</td>
<td>-9 005.43 €</td>
<td>-5 525.27 €</td>
<td>-1 905.39 €</td>
<td>1 649.36 €</td>
<td>4 838.58 €</td>
<td>6 985.88 €</td>
<td>8 346.59 €</td>
<td>9 689.96 €</td>
<td>11 059.86 €</td>
<td>12 436.56 €</td>
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<tr>
<td>Profit Margin</td>
<td>-15.55%</td>
<td>-7.48%</td>
<td>-2.11%</td>
<td>1.52%</td>
<td>3.79%</td>
<td>4.97%</td>
<td>5.60%</td>
<td>6.15%</td>
<td>6.66%</td>
<td>7.11%</td>
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</table>

General Note:

- The operating costs were provided as zero by the firm.
- The personnel costs regard the hiring of two employees to deal with the production.
- The marketing costs were assumed to 20% of the total marketing investment in the country taken into consideration that the brand has a global investment per collection of €50,000 (divided by the number of countries it is present it gives around €10,000 per market per year).
Table 33 – Cash-Flow Statement: Pessimistic Scenario

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<td>-5 525,27 €</td>
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<td>6 985,88 €</td>
<td>8 346,59 €</td>
<td>9 689,96 €</td>
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<td>(-) Cash Flow from Investing Activities</td>
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<td>Subsidies (from QREN)</td>
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<td>Cash Flow</td>
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<td>6 985,88 €</td>
<td>8 346,59 €</td>
<td>9 689,96 €</td>
<td>11 059,86 €</td>
<td>12 436,56 €</td>
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</tbody>
</table>

Discount Rate                  3%
NPV                               4 228,76 €

**General Note:**
- It is assumed that the firm will receive from QREN, a subsidy equal to 35% of the initial investment to internationalize to the target market according to the terms of *Horizonte 2020*.
- The discount rate used (3%) is an average rate that banks are asking for deposits (opportunity costs).
### Appendix 28.4 – Forecasted Incremental P&L and Cash-Flow Statement: Optimistic Scenario

#### Table 34 – Forecasted Incremental P&L: Optimistic Scenario

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<td>Revenues</td>
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<td>139 860.42 €</td>
<td>213 986.44 €</td>
<td>283 746.01 €</td>
<td>347 305.12 €</td>
<td>396 761.37 €</td>
<td>420 884.46 €</td>
<td>444 757.03 €</td>
<td>469 076.34 €</td>
<td>493 529.29 €</td>
<td>500 000 €</td>
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<td>Cost of Goods Sold</td>
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<td>107 584.94 €</td>
<td>164 604.95 €</td>
<td>218 266.17 €</td>
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<td>49 381.49 €</td>
<td>65 479.85 €</td>
<td>80 147.34 €</td>
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<td>108 248.39 €</td>
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<td>Personnel costs</td>
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<td>20 002.67 €</td>
<td>20 102.69 €</td>
<td>20 203.20 €</td>
<td>20 304.22 €</td>
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<td>Other costs (transportation)</td>
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<tr>
<td>EBITDA</td>
<td>- -4 288.52 €</td>
<td>9 710.36 €</td>
<td>26 619.31 €</td>
<td>42 518.66 €</td>
<td>56 985.13 €</td>
<td>68 195.09 €</td>
<td>73 556.90 €</td>
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<td>84 261.83 €</td>
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<td>9 710.36 €</td>
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<td>56 985.13 €</td>
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<td>73 556.90 €</td>
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<td>68 195.09 €</td>
<td>73 556.90 €</td>
<td>78 858.86 €</td>
<td>84 261.83 €</td>
<td>89 693.55 €</td>
<td>89 800 €</td>
</tr>
<tr>
<td>Corporate tax rate (23%)</td>
<td>- -4 288.52 €</td>
<td>9 710.36 €</td>
<td>26 619.31 €</td>
<td>42 518.66 €</td>
<td>56 985.13 €</td>
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<td>84 261.83 €</td>
<td>89 693.55 €</td>
<td>89 800 €</td>
</tr>
<tr>
<td>Net Income</td>
<td>- -4 288.52 €</td>
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<td>20 496.87 €</td>
<td>32 739.37 €</td>
<td>43 878.55 €</td>
<td>52 510.22 €</td>
<td>56 638.82 €</td>
<td>60 721.32 €</td>
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<td>69 064.04 €</td>
<td>70 000 €</td>
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<td>Profit Margin</td>
<td>- -5.47%</td>
<td>5.35%</td>
<td>9.58%</td>
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<td>12.63%</td>
<td>13.23%</td>
<td>13.46%</td>
<td>13.65%</td>
<td>13.83%</td>
<td>13.99%</td>
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</table>

**General Note:**
- The operating costs were provided as zero by the firm.
- The personnel costs regard the hiring of two employees to deal with the production.
- The marketing costs were assumed to 20% of the total marketing investment in the country taken into consideration that the brand has a global investment per collection of €50,000 (divided by the number of countries it is present it gives around €10,000 per market per year).
Table 35 – Cash-Flow Statement: Optimistic Scenario

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(+ ) Cash Flow from Operating Activities

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</thead>
<tbody>
<tr>
<td>Net Income</td>
<td>- €</td>
<td>- 4,288.52 €</td>
<td>7,476.98 €</td>
<td>20,496.87 €</td>
<td>32,739.37 €</td>
<td>43,878.55 €</td>
<td>52,510.22 €</td>
<td>56,638.82 €</td>
<td>60,721.32 €</td>
<td>64,881.61 €</td>
<td>69,064.04 €</td>
</tr>
</tbody>
</table>

(-) Cash Flow from Investing Activities

| Initial Investment | 36,511.4 € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € |

(+ ) Cash Flow from Financing Activities

| Subsidies (from QREN) | 12,778.99 € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € |

Cash Flow

| Cash Flow | -23,732.41 € | -4,288.52 € | 7,476.98 € | 20,496.87 € | 32,739.37 € | 43,878.55 € | 52,510.22 € | 56,638.82 € | 60,721.32 € | 64,881.61 € | 69,064.04 € |

Discount Rate

| 3% |

NPV

| 303,927.29 € |

General Note:

- It is assumed that the firm will receive from QREN, a subsidy equal to 35% of the initial investment to internationalize to the target market according to the terms of Horizonte 2020.
- The discount rate used (3%) is an average rate that banks are asking for deposits (opportunity costs).