

A Work Project, presented as part of the requirements for the Award of a Master's degree in Management from the NOVA – School of Business and Economics.

APPENDIX SECTION
INTERNATIONALIZATION STRATEGY OF LABIRINTO
SHOES TO SYDNEY (AUSTRALIA)

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Contents

Appendix 1 – Portuguese Footwear Industry Trends	1
Appendix 2 – Filipe Shoes Milestones.....	4
Appendix 3 – Knowledge transfer between generations in Filipe Shoes’ Firm	5
Appendix 4 – Filipe Shoes’ Financial data.....	6
Appendix 5 – Resources of Filipe Shoes.....	7
Appendix 6 - Footwear Assembling Process.....	10
Appendix 7 – Filipe Shoes’ organizational Chart.....	11
Appendix 8 – Country Selection Simplified Grid.....	12
Appendix 9 – Population density in Australia & distribution per age and sex.....	12
Appendix 10 – Spending patterns of consumers of Labirinto’s target market.....	14
Appendix 11 – Sales Volume & Value in Australia and Expected growth	15
Appendix 12 – Documents needed for Australia to import goods	16
Appendix 13 – Evolution of Australia’s currency fluctuation compared to the Euro	17
Appendix 14 – More on the PESTEL analysis – Economic Force:	17
Appendix 15 – More on the PESTEL analysis – Socio-Cultural Force:.....	18
Appendix 16 – Australia’s E-commerce Statistics	20
Appendix 17 – Australia’s Climate.....	21
Appendix 18 – Australia’s import processing charge.....	21
Appendix 19 – More on the PESTEL analysis – Legal Force:	22
Appendix 20 – Australia’s Footwear international trade in 2013-2014	22
Appendix 21 – Drivers of Porter’s Five Forces in Australia’s Footwear industry.....	23
Appendix 22 – Suggested brand identity and brand positioning for “Labi”	25
Appendix 23 – Modes of entry.....	28
Appendix 24 – Tips on how to find the ideal distributor.....	30
Appendix 25 – Export Process of Filipe Shoes	33
Appendix 26 – Supply Chain Management	34
Appendix 27 – Resource Commitment.....	36
Appendix 28 – Implementation Plan Proposal with required tasks & timeframe	38
Appendix 29 – Financial Calculations.....	40
Appendix 30 – Pricing in Australia.....	44
Appendix 31 – Calculations of Market Dimension (population).....	45
Appendix 32 – Sales growth	46
Appendix 33 – Demonstration of price Calculations for 1 st year of sales	46
Appendix 34 – Initial Investment.....	47
Appendix 35 – Business Model Financials	48
Appendix 36 – Optimistic Scenario.....	49
Appendix 37 – Pessimistic Scenario.....	50
Appendix 38 – Sensitivity Analysis	51

Appendix 1 – Portuguese Footwear Industry Trends

In the last decade, the world has been facing a turbulent macroeconomic framework, which could have severely harmed the footwear industry as it mainly sells to foreign markets. More specifically, during 2012 the exports within Europe were 94,5% of total exports, with Oceania receiving the least amount of Portuguese footwear (a mere 0,4%). Nonetheless, the Portuguese footwear industry has actually increased its contribution to the country’s economy. In fact, their positive performance can be seen bellow, through the growth of the number of companies, employment, production and value of this sector over the past years.

Figure 1 – Portuguese Footwear Industry Trend

Source: APPICAPS 2013 Report: “Statistical Study – Footwear, Components and Leather Goods.”

	1974	1984	1994	2004	2006	2008	2009	2010	2011	2012**
Industry Indústria										
Companies Empresas										
number número	673	971	1 635	1 432	1 448	1 407	1 346	1 245	1 324	1 354
Employment Emprego										
number número	15 299	30 850	59 099	40 255	36 221	35 398	32 510	32 132	34 509	35 355
Production Produção*										
thousand pairs milhares de pares	15 000	48 000	108 866	84 897	71 643	69 101	67 044	62 012	69 491	74 156
Gross Production Value Valor bruto de produção*										
thousand Euros milhares de Euros	12 330	318 891	1 620 001	1 471 214	1 338 555	1 397 617	1 414 614	1 283 475	1 511 085	1 797 030

Besides, the production has increased and this is partially due to worker’s higher productivity over the last few years. Since 2010, the pairs of shoes produced per worker have risen by 4%, to around 2,100. Not only so, but production has also increased to answer demand, which has been rising due to the reduction of trade barriers.

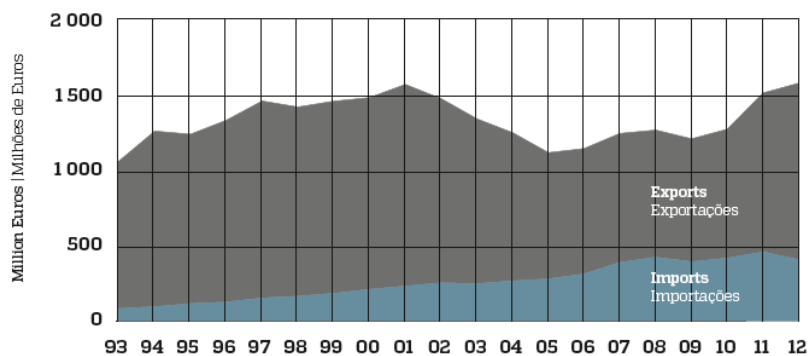
This footwear cluster is mainly located in the North of Portugal, with most of the production happening in São João da Madeira, Santa Maria da Feira and Felgueiras. The latter is considered the Portuguese capital of footwear, having a workforce of 12 104 employees in 2011. Regarding the types of footwear, Portugal is specialized in producing leather footwear; 90% of production is made using this input. Moreover, there is a slightly higher focus on female footwear which represents 43% of the sales value in comparison to men’s footwear with 34%.

Also notable is the increase of the average export price, which in 2012 reached its highest, 23 Euros. Despite the increasingly rivalry coming from low-cost production countries (mostly located in Asia), Portugal has managed to distinguish itself by defining a strategy motivated by a significant investment in technology, innovation and on design.

The Portuguese footwear industry has seen three stages in regards to its trade balance. During the 1990’s, the trade balance was extremely positive as the exports had a higher significance than imports. By the end of this decade, in 2001, the value was of € 1,362 million. However, after this, a huge proportion of manufacturing facilities were closed and the Asian market gained importance. This resulted in an abrupt decrease of exports until 2005, whilst on the other hand imports kept increasing, reaching a surplus of around € 850 million in 2005. However starting in 2005, as stated previously, the industry was restructured and focused their strategy in differentiation rather than cost advantage, thus enabling an improvement in the trade balance, reaching its highest value of € 1,193 million in 2012.

Figure 2 – External trade of the Portuguese Footwear Industry (1993-2012)

Source: APPICAPS 2013 Report: “Statistical Study – Footwear, Components and Leather Goods.”



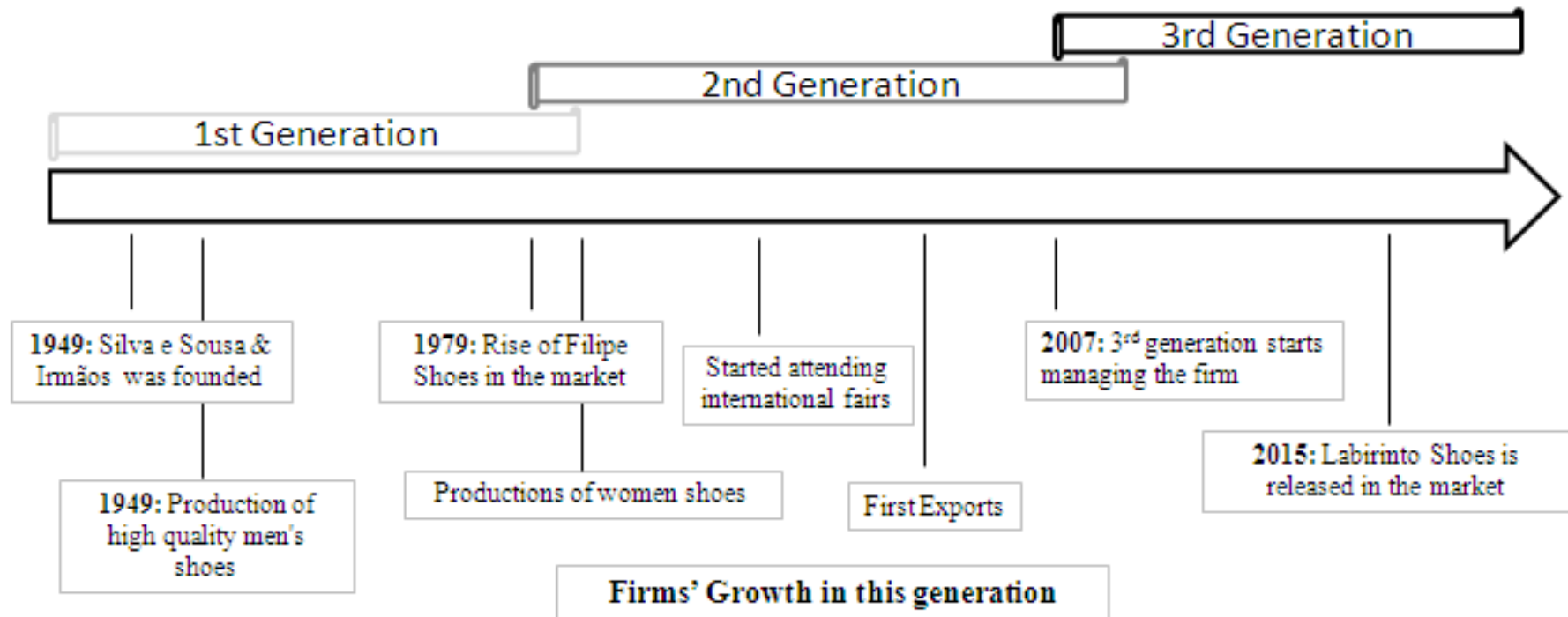
Finally, Portugal has the highest revealed comparative advantage rate in this industry than any other country in the World. What this measures is that the value of

footwear exported by a country in comparison to its total exports, meaning the footwear industry is the one that most contributes to the Portuguese trade balance. In fact, Portugal exports footwear around 5,5 more times than any other good.

Source of all data above: APPICAPS 2013 Report: “Statistical Study – Footwear, Components and Leather Goods.”

Appendix 2 – Filipe Shoes Milestones

Figure 3 – Timeline of the most important dates for the firm



Appendix 3 – Knowledge transfer between generations in Filipe Shoes’ Firm

Ikujiro Nonaka’s article describes two outlooks on the organizations; “**information processing machines**” (believed by western management, Frederick Taylor, Herbert Simon) or organizations as “**knowledge-creators**”. On the one hand, the first chain of thought supports that company’s knowledge is mostly a result of quantifiable data and thus their success can equally be measured via quantifiable methods (ex: increased efficiency, lower costs, and improved return on investment). On the other hand, the second believes that in this constantly changing environment in order to succeed companies must develop the capabilities to “*consistently create new knowledge, disseminate it widely throughout the organization, and quickly embody it in new technologies and products, providing continuous innovation. These companies have become famous for their ability to respond quickly to customers, create new markets, rapidly develop new products, and dominate emergent technologies*”. Once studying Filipe Shoes firm, it is possible to see that the education of the generations in fact combines both these approaches. It is proved through the organizational changes throughout their history that Filipe Shoes knows how to adapt quickly; flexibility is crucial.

Moreover, knowledge can be decomposed into; explicit knowledge and tacit knowledge. **Explicit knowledge** is related to quantifiable and systematic information which is easy to share (ex: product specifications). This happens in the generation’s transfers. A big proportion of knowledge is explicit as it is linked to manufacturing skills within the firm so by observation, imitation and practice enabled by overlapping the generations for a period of 6 years this transfer and learning is possible.

Tacit knowledge is harder to transfer as it is more subjective, depending on interpretations. This type of knowledge is also known as know-how. Consequently it is also harder to share. Nonetheless, this knowledge is equally transferred amongst managers. This is the reason why between generations in Filipe Shoes there is usually a different view on the business and a slightly different strategy. Their adaptation capabilities and the realities they face make them see the business and the needs differently than the previous generation. This transfer of power between generations is what endows them with flexibility. All in all, the knowledge transfer between generations is guided by the following steps:

1. **From tacit to tacit;** initially the new generations become familiarized with the business through observation and practice.
2. **From explicit to explicit;** managers will inherit this tacit, quantifiable knowledge and share it with the remaining workers.
3. **From tacit to explicit;** this knowledge is embodied in the ways of doing business in Filipe Shoes by all employees.
4. **From explicit to tacit.** Given the experience of day-to-day business and the business environments faces, employees are frequently exposed to new explicit knowledge that they use to develop their tacit knowledge and internalize it. This is what allows constant change.

Appendix 4 – Filipe Shoes’ Financial data

The following data was provided via our primary source (i.e. one of the firm’s managers) as well as through secondary sources of information:

- Every manager has 33% share of firm¹
- 95% exports and 5% sales volume in Portugal
- 5% sales of their own brand abroad (in countries such as Japan, Korea, Australia and other less mature markets in terms of the shoe market)
- Sales value in 2013 of € 7,736,899.66²
- Sales volume growth over the last years:
 - 5% compared to last year
 - 7% compared to 2 years ago
 - 10% in the last 3 years
 - The reason for this growth is that there has been a growing trend to favor quality products, made of natural products such as leather instead of synthetic materials.

¹ Free-Report presented in the online platform (www.einforma.pt)

² Obtained from the IES (Informação empresarial Simplificada) Report of 2013

Appendix 5 – Resources of Filipe Shoes

Competencies – this is a reflection of the combination of the capabilities and human resources of a firm – anchored by technology/systems, processes and values – which give origin to knowledge creation. Moreover, is it a core competency if it contributes to either a unique cost advantage and/or a unique customer benefit, thus giving origin to a competitive advantage.

Specialized assets – These are represented by tangible or intangible assets which given their characteristics are not always available to other competitors at the same level. This is to say that, in case they are available, it is probably the case that it will cause such an increase in costs that it will impede the firm to gain abnormal returns.

Architecture of relationships – The resources belonging to this category will also contribute to knowledge creation, but this time through internal and external relationship networks between the firm and other industry players. This resource may also add flexibility and adaptability to the firm, helping them adjust to different environments.

Figure 4 – Filipe Shoes Organizational Resources

Source: Strategy II Slides, written by Professor João Silveira Lobo, 2nd quarter of the 1st semester, 2013.

Filipe Shoes/Labirinto Shoes Resource Platform		
Competences	Specialized Assets	Architecture of Relationships
Human Resource management	Production center/Manufacturing facilities	Partners and supplier network
In-house design and R&D team – including new product development	Economies of scale/learning	R&D/ Innovation network
On-going research of raw materials (namely leathers)	International reputation	Cluster network
Production + Quality management	Technology	
Sales and distribution	Computerized control systems	
Diversity of footwear models (within the comfortable segment)	Registered brand	
Know-How	Employees & qualified managers with management Bsc.	

In-house R&D and design: Regarding this competency, Filipe Shoes has three internal designers who are responsible for keeping up to date with the industry trends and also acknowledge client's preferences, adapting to their needs. In terms of R&D, Filipe Shoes recognize the importance of this as it will contribute to better products in the long-run. By acquiring new machinery which is more precise or faster at performing the jobs they will be contributing to the increase the quality of final output and/or production capacity.

On-going research of raw materials: The firm attributes great importance to this competence. The reason for this is tied to the fact that the main input of Filipe Shoes footwear is leather and it represents the majority of the marginal cost of production. As such, in order to avoid price fluctuations to cover the costs of leather, Filipe Shoes must ensure that the suppliers of leather are always selling this raw material at a fairly constant price and with exceptional quality as this is also reflected in the quality of the footwear.

Production and quality management: Filipe Shoes has very demanding standards in terms of the quality of its output. Thus, in order to assure they comply with such standards there is a great emphasis on the following; screening the inputs, i.e. the quality of the leather, only admitting a margin of error of 3% in terms of quantity supplied. This implies screening the leather stock supplied for details such as the thickness of the material, its resistance, texture, color and quantity. Secondly, the margin of error admitted for the final product is inexistent, meaning it cannot have any defects and for this there is a person responsible for supervising each stage of the assembly process. This means analyzing the performance of the workers in the cutting and sewing process in order to comply with the standards as well as other details in the assembly and final touches phases in order to guarantee consistency in the products delivered.

Economies of scale: Filipe Shoes has a margin over its products of only 20% meaning they sell their footwear at an average of 24€³ for normal shoes and 60€⁴ for boots. As such, given that Filipe Shoes has good quality footwear at a low price for private labels, the firm Filipe Shoes is able to sell their products to many brands. Whether they are lower end brands and in that case the final price to consumers is not high as the markup placed by these brands is low or even to middle/high-end brands which simply place a high mark-up on the products. In this case, having such a vast portfolio does not harm the brand image as Filipe Shoes is never visible to final consumers. Hence, by selling to a multiplicity of brands, Filipe Shoes gains in scale. This means, their production capacity is such that it enables them to reduce their costs by diluting fixed costs.

International reputation: Filipe Shoes already has agreements with more than 300 brands internationally thus having significant brand awareness and reputation. Also, Filipe Shoes can reap benefits of Portuguese footwear reputation, as this is a category it belongs to. In fact, the reputation in regards to quality and design of footwear is so high that Portugal has been able to have the world's 2nd highest price in this category, after Italy (APPICAPS, 2013).

Technology: Portuguese footwear is number 1 in technology (APPICAPS, 2013). Moreover, the agreements with CTCP are extremely influential in this respect. More specifically, this competency involves activities which are performed by CTCP as is the case of technical and technological training of Filipe Shoes' staff and physical and chemical tests to contribute to innovation and quality improvement of footwear. Another example is the norms applied by this entity and the quality control certificates, in addition to CTCP's investment in good practices to avoid damaging the environment.

Cluster network: Being part of the Portuguese cluster with entities such as APPICAPS and CTCP, the information is shared amongst all players thus providing them with the tools to make the most informed decisions. This industry and cluster is so important for the Portuguese economy that it received a great deal of financial aid for its

³ 20 (i.e. marginal production cost)*1,2

⁴ 50 (i.e. marginal production cost)*1,2

developments. An example of this is seen in the Portuguese Shoes website, with news that states “this sector will reinforce its investment in the internationalization process, with a fund of € 12 million to help do so in more than 30 countries” (Portugueseshoes.pt, 2014).

Furthermore, according to Footure 2020 by APPICAPS, the cluster network allows for a fast response and flexibility, it has increased the quality standards of the products and has reinforced the capability of product development by upgrading the footwear offer in terms of design. Additionally, the accumulated know-how of the cluster and its geographic concentration contributes to a fast diffusion of knowledge, for instance on how to act in foreign markets.

Appendix 6 - Footwear Assembling Process

1. Cutting

- Manual cutting process
- *Balancés* (most used – represents 90% of the cutting process)
 - Requires iron molds (that are very expensive)
- Automatic cutting machines (10% of the cutting process)
 - Advantage: does not require a minimum production volume to pay back the investment. This allows for a greater variety of products within one collection.

2. Sewing

- Pre-sewing: this is where the leather is standardized – cleaning, smoothening and preparation of the leather
- Sewing (manual or automated)

3. Assembly

- Giving the shoe its final shape/form
- Shoes are placed inside the mold
- Footwear is placed inside machines that enable the assembly of the front and back part of the shoes
- The shoes enter an oven and the “*cardadeiras*” (manual and/or automatic)
- Gluing process (manual and/or automatic)

- After gluing the sole to the shoe, they then pass through a fridge to conclude this gluing stage.

4. Finishing touches

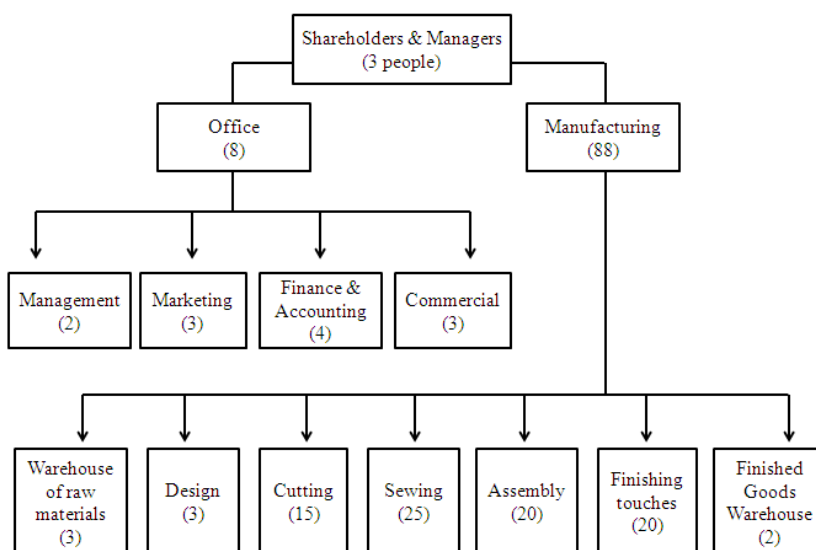
- Attaching the footbeds to inside of the shoes
- Footwear is cleaned and special products are used to embellish the final product (brushing, brightening or any other relevant product or process, depending on the type of shoes)
- Placed inside the final shoe boxes
- Labeling (sent digitally by the private labels and Filipe Shoes just has to print them)

Primary Source; Filipe Shoes' manager

Appendix 7 – Filipe Shoes' organizational Chart

Figure 5 – Filipe Shoes organizational chart

Primary Source; Filipe Shoes' manager



Note: In the office, there are some people that work for more than one department.

Appendix 8 – Country Selection Simplified Grid

Criteria	Weight	Australia
1. Return variables:		
Population size (market/sales potential)	0- 4	3
GDP per capita	0- 3	3
Infrastructures (influencing logistic costs)	0- 2	2
Ease of transportation & communication (for coordination purposes between Filipe Shoes and the Australian market)	0- 3	2
Mobility of funds (to analyze the extent to which the firm may extract their profits from this market)	0- 3	3
Tax rate	0- 2	2
Footwear market size	0- 5	2
Market share potential (10 years' time)	0- 2	1
Total		18
2. Risk Variables:		
Legal transparency & corruption	0- 4	1
Political risk	0- 4	1
Country's social and economic conditions (to understand if there is the possibility of unsatisfied groups disrupting the business cycles)	0- 3	1
Fluctuations in Exchange rate	0- 2	2
Total		5

Appendix 9 – Population density in Australia & distribution per age and sex

Figure 6 – Population Density in Australia

Source: Australian Bureau of Statistics, 2010

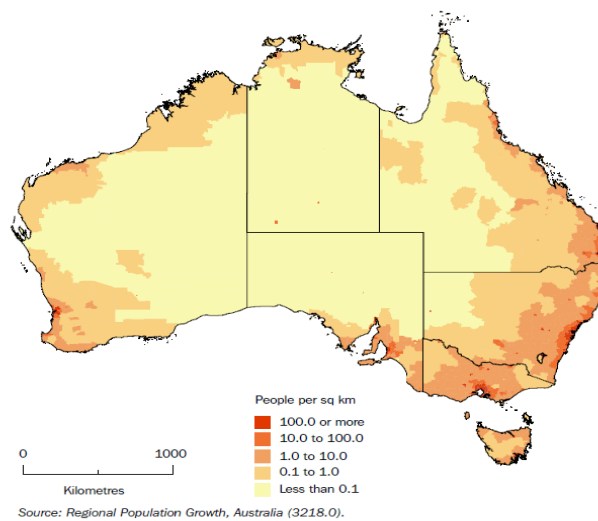
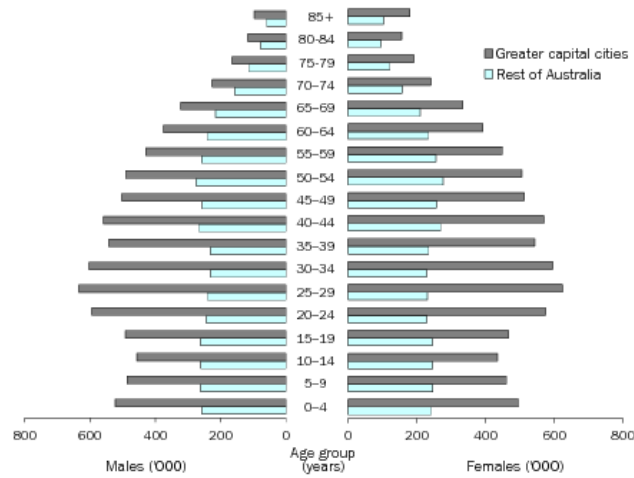


Figure 7 – Age and sex distribution ('000) in Australia, 2013

Source: Australian Bureau of Statistics, 2013



As seen in the figure above, Australia does not have an ageing population. In fact, the distribution of age is favorable to Labirinto Shoes as the highest proportion of population coincides with Labirinto’s target market, i.e. population aged between 25 and 39, with approximately a total of 1,25million males and 1,2 million females in 2013.

Even more specifically, one can analyze the distribution of Sydney’s population per age segment, as this will reveal useful for Filipe Shoes’ financial projections to test the validity of targeting a certain age segment. As such, from the figure bellow, one can see that in June 2011, the age segment between 25-39 was roughly 11,5% for males and 12,25% for females in greater Sydney.

Figure 8 – Age and sex distribution (%) in New South Wales, 2011

Source: Australian Bureau of Statistics, 2011

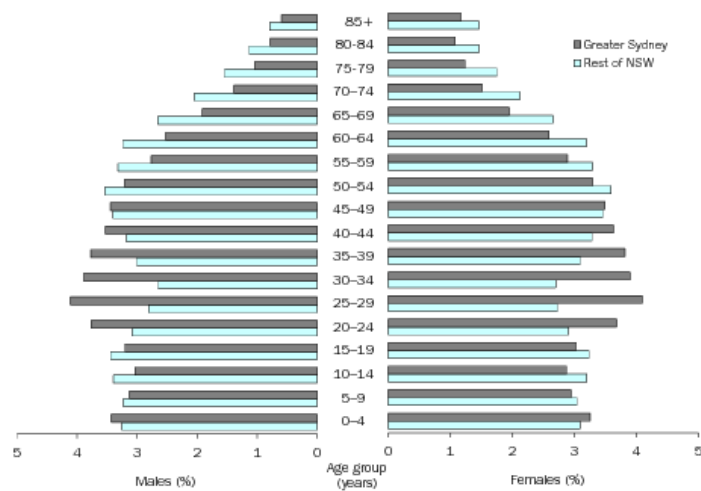
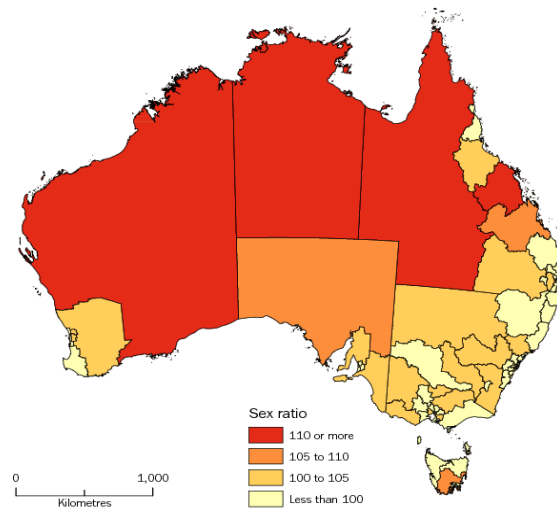


Figure 9 – Males per 100 females in Australia, 2013

Source: Australian Bureau of Statistics, 2011



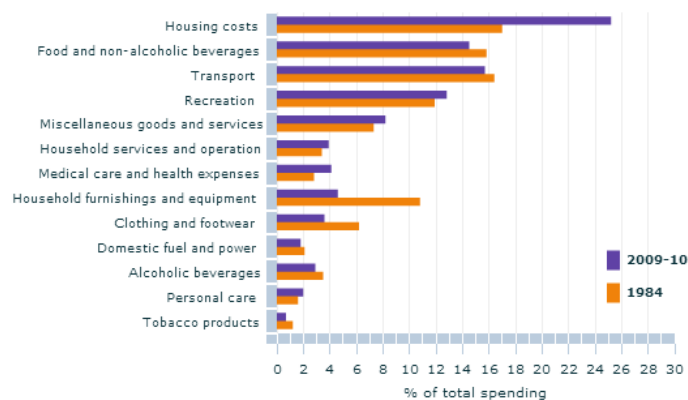
The figure above shows that the eastern coastal area is the only part of Australia which has an even distribution of males to females, with exception of cities as Brisbane, Sydney and Melbourne that have a slightly higher proportion of females. The rest of the country has a higher proportion of males than females and this is most evident in the states of Western Australia, Northern Australia and part of Queensland, with a ratio of 110 males or more per 100 females.

Appendix 10 – Spending patterns of consumers of Labirinto’s target market

Note: this data is of 2009-10 and since then these patterns have changed. However, this is the latest data available.

Figure 10 – Spending Patterns (a) of young couple households (b)

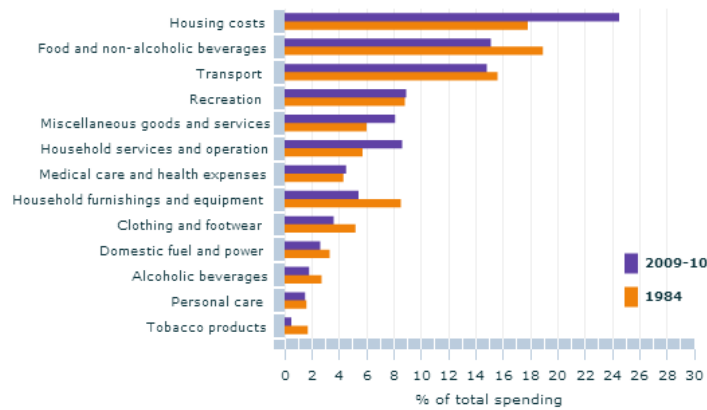
Source: Australian Bureau of Statistics, 2010



- (a) Spending per category (in percentage of total spending)
- (b) Household type: reference person is below 35 years old

Figure 11 – Spending Patterns (a) of young couple households (b)

Source: Australian Bureau of Statistics, 2010



- (a) Spending per category (in percentage of total spending)
- (b) Household type: oldest child is below 5 years old
- (c) One family households

The figures above are representative of the spending patterns of Labirinto’s target market, the young adults. As one can see, clothing and footwear is not the most relevant category, accounting only for 4% of total spending in 2009/2010.

Appendix 11 – Sales Volume & Value in Australia and Expected growth

Figure 12 – Sales of Footwear by Category: Volume 2008-2013

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

'000 units	2008	2009	2010	2011	2012	2013
Children's Footwear	17,578.3	18,517.0	18,967.3	19,121.0	19,303.0	19,594.8
Men's Footwear	29,304.4	29,160.9	29,190.2	29,395.2	29,671.2	30,123.4
Women's Footwear	52,831.9	54,702.1	54,428.6	54,219.1	54,046.1	54,297.1
Footwear	99,714.6	102,380.0	102,586.1	102,735.2	103,020.3	104,015.3

Figure 13 – Sales of Footwear by Category: Value 2008-2013

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

A\$ million	2008	2009	2010	2011	2012	2013
Children's Footwear	389.6	414.5	413.2	414.5	416.0	426.4
Men's Footwear	1,050.7	1,115.5	1,110.9	1,123.1	1,136.3	1,163.5
Women's Footwear	2,109.5	2,235.3	2,225.8	2,213.9	2,213.0	2,255.1
Footwear	3,549.9	3,765.3	3,750.0	3,751.5	3,765.3	3,845.0

Figure 14 – Forecast Sales of Footwear by Category: Value 2013-2018

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

A\$ million	2013	2014	2015	2016	2017	2018
Children's Footwear	426.4	426.7	426.8	427.8	429.7	432.0
Men's Footwear	1,163.5	1,174.6	1,184.7	1,197.9	1,212.7	1,230.9
Women's Footwear	2,255.1	2,251.6	2,246.4	2,248.8	2,271.1	2,304.1
Footwear	3,845.0	3,852.9	3,857.9	3,874.5	3,913.5	3,967.0

Figure 15 – Forecast Sales of Footwear by Category: % Volume Growth 2013-2018

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

% volume growth	2017/18	2013-18 CAGR	2013/18 Total
Children's Footwear	-0.7	0.1	0.6
Men's Footwear	0.5	0.8	3.9
Women's Footwear	0.5	0.0	0.1
Footwear	0.3	0.3	1.3

Appendix 12 – Documents needed for Australia to import goods

According to data retrieved from the Ease of doing business in Australia (2014) which stated that the time to import is registered as 8 days, with 7 required documents and a cost to import per container equal to US\$ 1,170 (€ 974.96⁵).

Procedures to import	Time (days)	Cost in US\$
Documents preparation	3	200
Customs clearance and technical control	1	170
Ports and terminal handling	2	400
Inland transportation and handling	2	400
Total	8	1,170

⁵ All conversions through the appendix section of this work project were done on the 3rd of January 2014 on the following websites:

<http://www.x-rates.com/calculator/?from=USD&to=EUR&amount=1000>

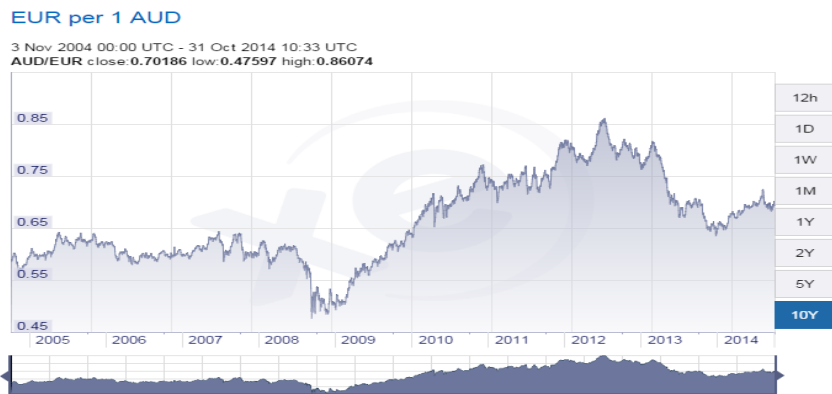
<http://www.x-rates.com/calculator/?from=AUD&to=EUR&amount=1000>

Documents to Import
Bill of lading
Commercial invoice
Customs import declaration
Packing declaration
Packing list
Release order
Technical standard/health certificate

Appendix 13 – Evolution of Australia’s currency fluctuation compared to the Euro

Figure 16 – currency fluctuation: EUR per 1 AUD

Source: (Xe.com, 2014)



The currency fluctuation saw a huge appreciation of the Australian dollar around 2008, after the financial crisis and it rose until reaching its highest in mid-2012. Since then, the AU\$ has started losing value in comparison to the Euro, although with slight fluctuations.

Appendix 14 – More on the PESTEL analysis – Economic Force:

Australia’s top three export destination countries are China, Japan and Republic of Korea whereas the top three import sources are China, United States and Japan, respectively.

Regarding trade relations with Portugal in 2013, Australia mainly imported vehicles (€ 11,47m), cork (€ 9,44m) and footwear (€ 8,10m) and exported Aircraft, spacecraft & parts (€ 2m) and hand or machine tools (€ 1,35m). The trade balance favors the Portuguese nation. Australia imported around € 93 m from Portugal whilst only exporting € 10,8m to this country. In fact, using Australia as a reference, Portugal

ranks as the 59th import source and 101st export destination. However, using Portugal as the benchmark, Australia ranks as 40th export destination, receiving 0,2% of Portuguese exports, which is not very significant especially when compared to Spain (Portugal’s top export destination) which receives more than one fifth of all Portuguese exports.⁶

The following figures also state that in 2011, 26% of footwear imported by Australia was of leather origin. Australia was classified as the world’s 16th largest importer in value with US\$ 1.333 million (€ 899 m) and as seen below this value has been growing exponentially since 2001. Thus, one may suspect that this tendency is expected to continue in the future.

Figure 17 – Australia’s Footwear Industry

Source: World footwear 2012 Yearbook. APPICAPS



Another relevant factor is that it takes 14 days to enforce a contract. Ranking 68th in Protecting investors and 18th in resolving insolvency, there are reduced the incentives for FDI (foreign direct investment).⁷

Appendix 15 – More on the PESTEL analysis – Socio-Cultural Force:

Hofstede defines cultures according to several dimensions; nonetheless the most significant results for Australia are obtained in the individualism and indulgence dimensions. In concern to individualism, Australia scores an astonishing 90, thus signaling independent individuals who are not as easily influenced by groups (which may in turn influence the types of marketing campaigns chosen by firms). Finally, scoring 71 in the indulgence category reflects the population’s way of living in the

⁶ Source: Portugal Fact Sheet retrieved from the Australian Government – Department of Foreign Affairs and Trade

⁷ Ease of Doing Business in Australia Report 2014

sense that they are less concerned than many countries in controlling their impulses and desires. The Australian society enjoys life and leisure time.

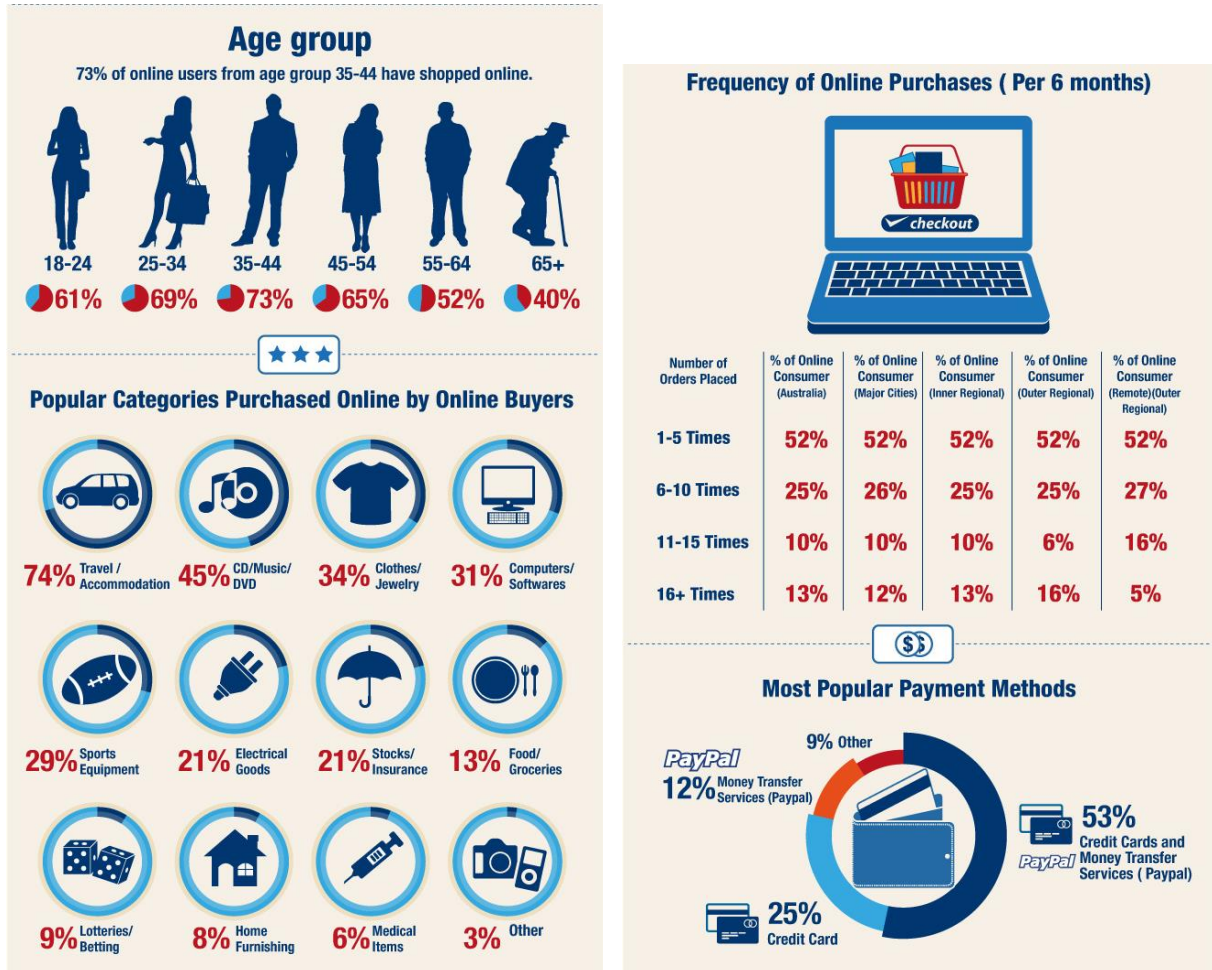
Regarding leisure time, the Australian Bureau of Statistics (ABS) reported 8.2 million people going abroad in 2012; a huge rise when compared to 2011 (7.8 million) and even more surprising when related to 2002 (3.5 million). Expedia also registered the populations' propensity to opt for historical/cultural destinations. In fact, this same report stated that *"37% of Aussies listed sightseeing vacations focused on history and culture as their preferred holiday"*.

Moreover, generation Y (the young population of Australia who embodies the future target of Labirinto Shoes) is said to shift their spending priorities into experiences (as is the case of travelling) instead of searching for housing or purchasing significantly expensive assets.

Two other factors that may indirectly influence Labirinto shoes are; environmental concerns and the proportions of obese population in Australia. Regarding the first factor, consumers are increasingly supporting eco-friendly practices which may be a threat for Labirinto as they are using leather as the core of their products. However, the firm could still try to incorporate this new trend in their business models (examples: use part of revenues for donations or by using recyclable packaging). Finally, regarding latter this may prove to be an opportunity as this obesity problem will call for promoting an active lifestyle and the brand Labirinto may gain with this, given that Labirinto' collections are targeted to people with active lifestyles.

Appendix 16 – Australia’s E-commerce Statistics

Figure 18 – Online Shopping Statistics in Australia



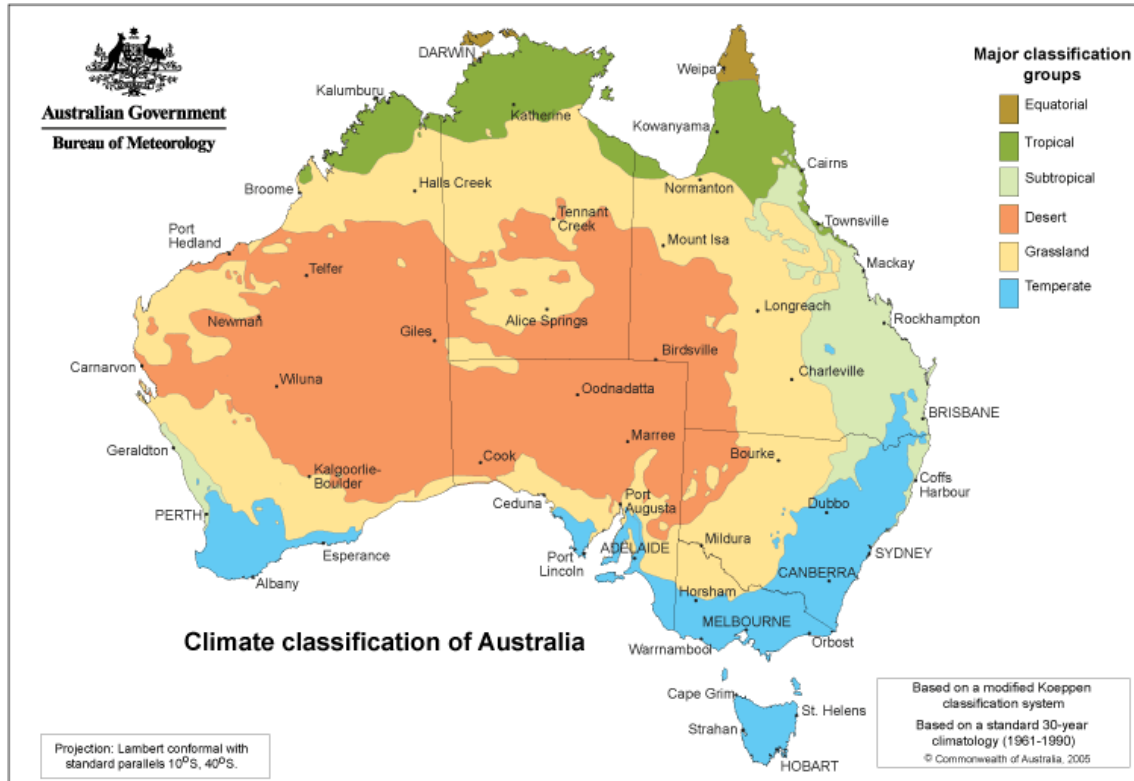
Source

<http://www.ecommercereport.com.au/australian-online-commerce-to-hit-37billion-by-2013/>
<http://www.smartcompany.com.au/internet/20111103-16-ecommerce-superstars.html>
<http://engage.acma.gov.au/commsreport/e-commerce/>
<http://blog.marginmedia.com.au/Our-Blog/bid/83708/Australian-Internet-and-Social-Media-Statistics-May-2012>

Appendix 17 – Australia’s Climate

Figure 19 – Australia’s Climate Classification

Source: Australian Government, Bureau of Meteorology



Appendix 18 – Australia’s import processing charge

➔ For imports between A\$1,000 and 10,000 (€ 6.74,4 2 and € 6.744,27):

- Maritime transportation with an electronic import declaration: A\$ 50.00 (€ 33,72)
- Maritime transportation with an electronic import declaration: A\$65.75 (€ 44,34)

➔ Imports > A\$10,000 (€ 6.744, 27):

- Maritime transportation independently of the type of import declaration: A\$152.60 (€ 102,91)

Source: (DutyCalculator, 2014)

Appendix 19 – More on the PESTEL analysis – Legal Force:

Australia belongs to the Organization for Economic Cooperation and Development (OECD) and to the World Trade Organization (WTO).

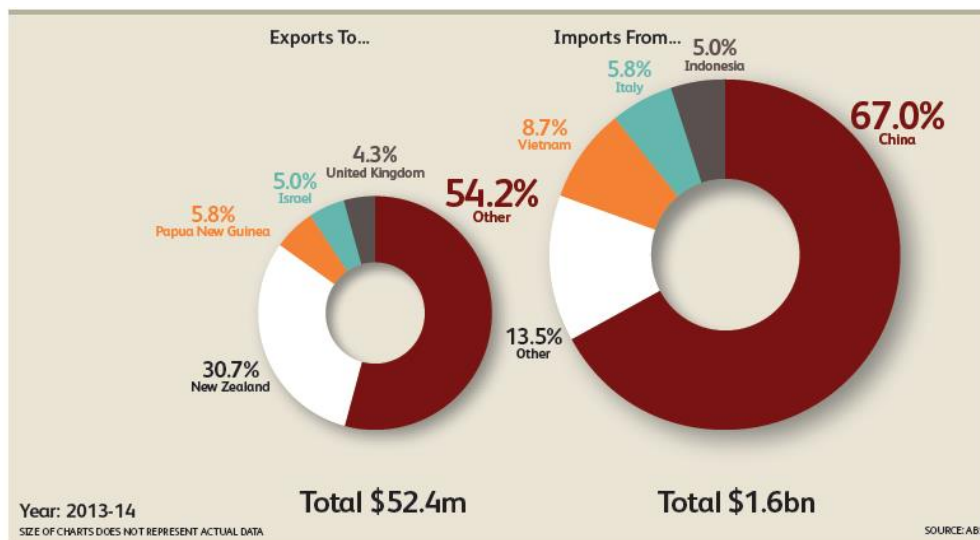
Being as Labirinto Shoes is a Portuguese based brand, the “European Union – Australia Partnership Framework” is relevant. Namely, in what concerns objective II of this agreement. It entails promoting trade liberalization as it supports the premise that exchanges between the EU and Australia are beneficial for world economy’s development. This Framework includes actions such as discussions regarding policies towards free trade agreements (FTAs) for instance.

Regarding the Bilateral relationships, Portugal is represented through the Portuguese embassy located in Canberra and the Consulate in Sydney. Portugal and Australia are tied, but not directly through bilateral trade agreements. Their interests are connected for other reasons; Timor-Leste. Portugal and Australia are both concerned in guaranteeing the stability in Timor-Leste and thus bring together assistance to this country.

Appendix 20 – Australia’s Footwear international trade in 2013-2014

Figure 20 – Australia’s Imports & Exports, 2013-14

Source: Australian Bureau of Statistics



Appendix 21 – Drivers of Porter’s Five Forces in Australia’s Footwear industry

Figure 21 – Drivers of Buyer Power in the footwear market in Australia, 2013

Source: Marketline

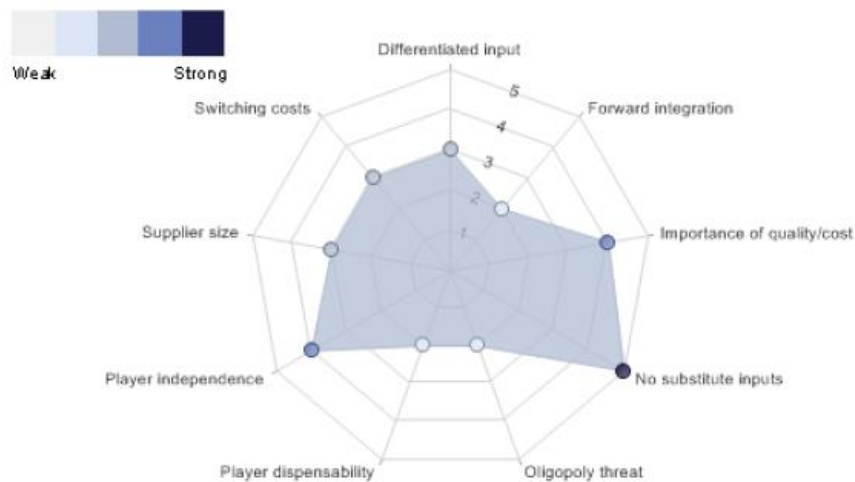


SOURCE: MARKETLINE

MARKETLINE

Figure 22 – Drivers of Supplier Power in the footwear market in Australia, 2013

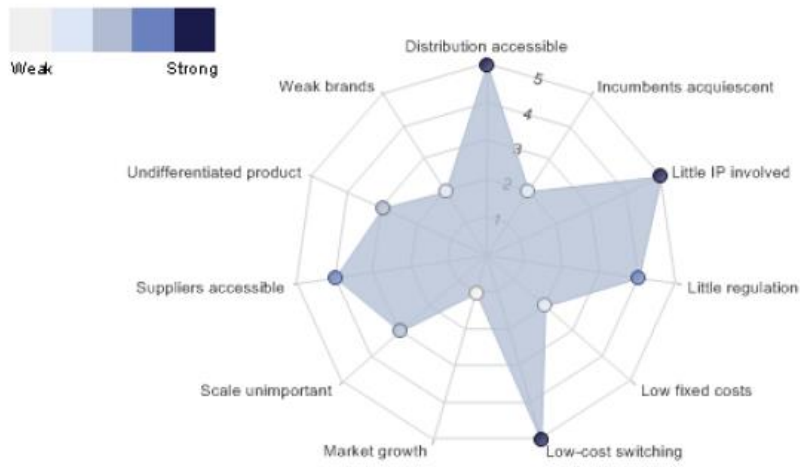
Source: Marketline



SOURCE: MARKETLINE

MARKETLINE

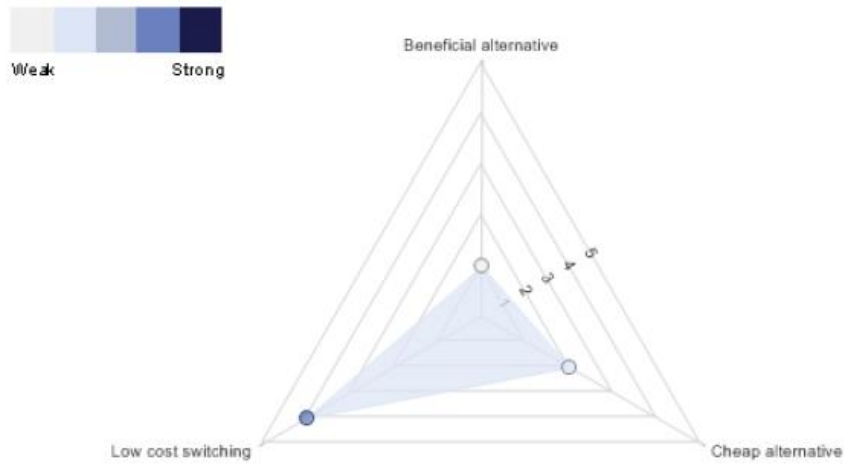
Figure 23 – Factors influencing the prospect of footwear’s new entrants in Australia, 2013
Source: Marketline



SOURCE: MARKETLINE

MARKETLINE

Figure 24 – Factors influencing the threat of footwear’s substitutes in Australia, 2013
Source: Marketline

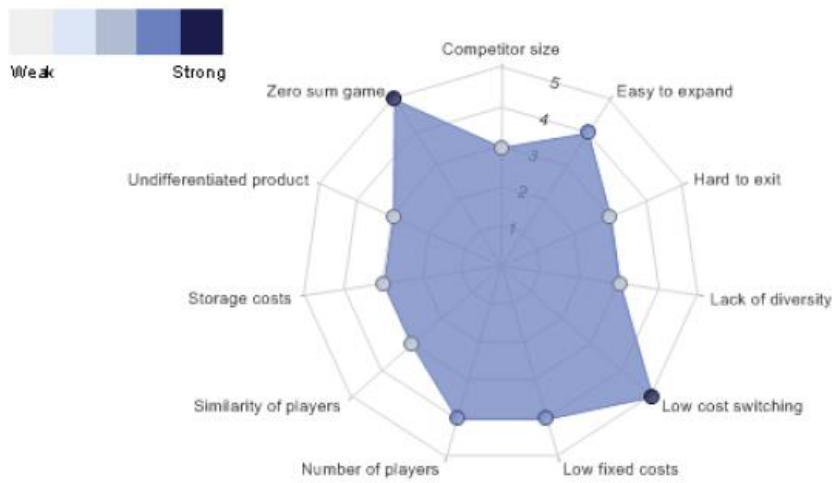


SOURCE: MARKETLINE

MARKETLINE

Figure 25 – Drivers of degree of rivalry in the footwear market in Australia, 2013

Source: Marketline



SOURCE: MARKETLINE

MARKETLINE

Appendix 22 – Suggested brand identity and brand positioning for “Labi”

Notes for launching an own brand

According to Kapferer products may become obsolete whereas brands are eternal. With time, products will adapt to the new needs of the constantly changing business environment and carry a visible change, but the name that stands behind this new product (i.e. the brand) will remain. Thus, one must know how to build a brand as it must be coherent and represent a certain culture in which its portfolio will fit. A brand is a “credibility tag” that will reflect the characteristics of its products and the benefits consumers should get from them. This reinforces the importance of defining a clear brand strategy for Labirinto Shoes in its early ages.

The way a brand is launched is critical as it will have repercussions in the long run. A successful brand launch may positively impact order volumes and values as well as its market share. However, this is only feasible if the brand convinces its end consumers that it satisfies an important need. Hence, a brand must not only consider the functional values but also the non-functional aspects. This reflects the need of defining the brand strategy which encompasses the brand identity and positioning.

Brand identity prism

Brand Identity is core. It is the central aspect that will define all other elements of the brand; representing what the brand stands for and what makes it unique. This tool clarifies the brand's meaning along with the associations that the brand managers desire to create and maintain over time. Using Kapferer's identity prism as the model to define Labirinto's brand identity it is necessary to take into account six different dimensions:

Physic: this dimension includes the most salient brand features, which may be intangible. This also includes physical features consumers evoke when thinking of the brand and it may even embrace the logo or a flagship product that represents what the brand stands for (European Institute for Brand Management, 2014).

Relationship: it is how the brand interacts with consumers, what it delivers to them. This is extremely important in order to create a need for the product.

Customer Reflection: consists of the brand's projected/desired consumer type. It is not necessarily a synonym of the target group's characteristics, as the latter may be much wider than the customer-reflection group. In order to define this aspect, advertising campaigns may help. However, in the case of exporting to Australia through an intermediary, the latter is in fact in the hands of the distributor.

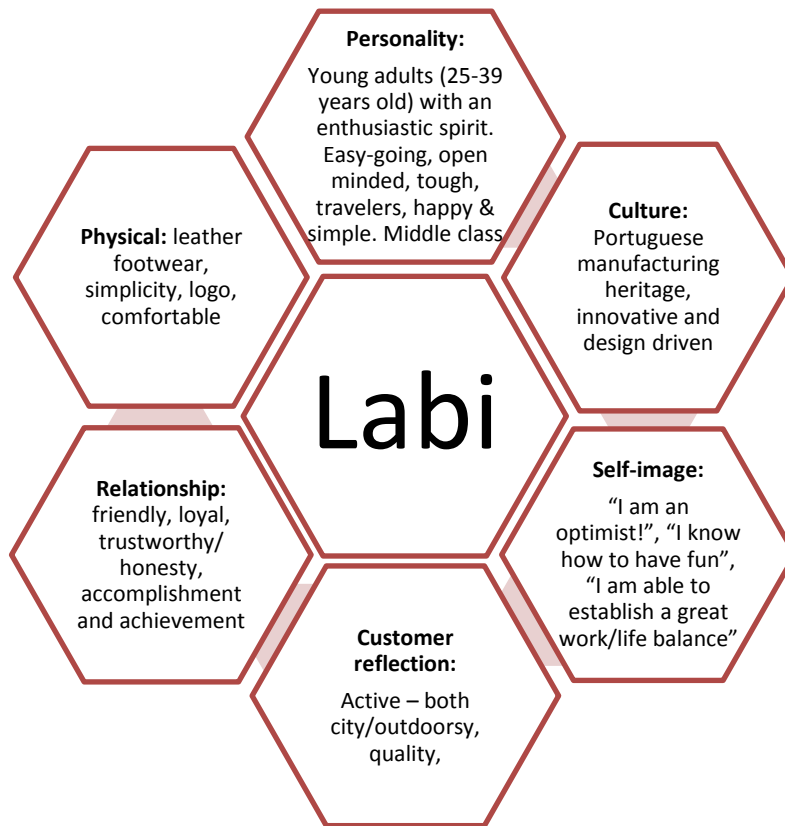
Personality is the answer to the following question: if the brand were a person, what type of person would it be?

Culture: is according to Kapferer the most important element of brand identity. It is the story that the brand conveys, it is where the brand comes from (i.e. its roots).

Self-image: is what managers expect consumers to feel when using the brand.

Having said this and considering the strategy suggested throughout this work project, the following Kapferer Brand Identity Prism is suggested for the brand Labirinto Shoes:

Figure 26 – Labirinto Shoes suggested brand identity Prism (Kapferer)



Brand positioning is another complement to the brand management strategy and embodies what the managers want consumers to think about the brand or how the brand is different from its competitors. Thus, the **suggested positioning statement for Labirinto Shoes** is as follows:

“For young and active people who enjoy travelling [target], Labi is a quality leather footwear brand [frame of reference, POP] that sells versatile and comfortable footwear at the best price-quality ratio, [POD] because of their manufacturing superiority, gained through their years of experience and partnerships with institutions as CTCP [Reason to believe]”

More ideas regarding positioning and more specifically in terms of packaging; show the heritage behind the shoes and/or showcase a city in each box. According to McKinsey’s Consumer Decision Journey (2009), the moment of purchase, which defines which brand purchase, is highly influenced by the brands positioning and thus its importance.

Appendix 23 – Modes of entry

1. Indirect exporting consists in an agreement with an intermediary from the firm's home market (i.e. Export Management Company or an Export Trading Company) that will deal with all the export documents and process. This is a common strategy used by firms who have recently started their internationalization process, which is not the case of the one being studied. Filipe Shoes already has an international presence, although not with the brand Labirinto, the managers still have the knowledge and know-how of the internationalization process.

2. Direct exporting; in this case an intermediary is also used though this time in the foreign market, usually distributors, agents, retailers or even online. On one hand, agents are paid via commissions or royalties to provide insights on the new market's local reality, i.e. support services regarding marketing/advertising, product features, legal requirements, etc. On the other hand, distributors are intermediaries who buy the footwear and then make the product reach the foreign market consumers by selling to wholesalers or/and retailers. Finally, a company may also choose to export directly to a foreign retailer, eliminating the amount of intermediaries and reaching the storefronts directly.

<p>Pros:</p> <ul style="list-style-type: none">• Knowledge of the foreign market given through the foreign intermediaries• Potential profits are higher when compared to indirect exporting• Quick access to market• Limited resource commitment so the firm may focus on its core competencies• Still relatively low risk due to low financial commitment• Given the low commitments by the firm there is still a high degree of flexibility	<p>Cons:</p> <ul style="list-style-type: none">• Not in full control on activities such as distribution, marketing, etc.• Management team may get distracted due to bureaucracies• Implies more costs as the firm Filipe Shoes has to incur in the distribution costs
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3. Strategic alliances; this is similar to a joint venture, except for the fact that the two or more companies have a non-equity agreement, compromising to cooperate

and collaborate. All in all, it is a loose form of joint venture which may include the integration of marketing & distribution only or full integration.

Even though it may have several advantages, because this is a fluid form of an agreement, it is especially hard to create control mechanisms hence contributing to trust and confidence issues. Consequently, it is also not a good option for Filipe Shoes' own brand. (Gomes et al, 2011)

4. Licensing & Franchising is an agreement in which a firm concedes to another (i.e. the licensee or franchisee) the authorization and access to the use of intellectual property in exchange of a payment, usually a fee or royalty during a certain period.

This form of internationalization is beneficial because it consists in a cost effective way to enter a new market that would also enable Filipe Shoes to work with the Australian population, gaining know-how and allowing them to establish relationships with the local networks. However, it has its pitfalls. The most crucial problem which declines this option is the fact that Filipe Shoes does not even have a patent to license neither does it have enough brand awareness to attract a licensee partner or open Labirinto Shoes' stores. Additionally, even if it did, the manufacturing process would have to be conducted elsewhere through outsourcing, reducing the level of control, which is especially important for quality reasons. All in all, it is not adequate due to "problems of quality control, lack of control over technology and inability to realize experience curve economies" (Hill, 2008).

5. Foreign direct investment (FDI); this mode of entry implies having an ownership of a company in a foreign country, holding 10% or more of the shares (International Monetary Fund, 2004). Taking Filipe Shoes as the example, the company could either acquire shares in an Australian company associating itself to it or Filipe Shoes could own a subsidiary overseas, meaning they would also own all the foreign intermediation procedures from scratch (i.e. production, distribution, marketing, etc.). The latter is in fact a wholly owned subsidiary, often called Greenfield investment, the most advanced form of FDI with 100% ownership. Regarding the FDI strategy, Filipe Shoes could decide to do so for different strategic reasons; vertical, horizontal or conglomerate (Financial Times, 2014). However, any of these options require too large of an investment for this initial stage.

6. Joint Venture; All in all this is simply another type of FDI which consists in two or more companies that have joint equity ownership and control, allowing the member companies to have separate legal identity. Joint ventures may include the integration of marketing & distribution only or be fully integrated.

FDI and joint ventures are a means to surpass certain legal & political constraints to merger activities and once again would give insights on knowledge regarding the Australian way of doing business. Nevertheless, they are not the most adequate for Filipe Shoe's internationalization process to Australia as they would require too much financial and resource commitment. Not only so but these methods do not allow complete control over technology and operations, also creating indirect costs and risks related to the incapability of integrating all the firm's activities with foreign companies (Gomes et al, 2011). Last but not least, there may be conflicts between the companies involved, although this may be true for all types of internationalization processes. Overall, this method implies too many risks as Australia is a new market for the firm to explore and thus there is a need to test the market before making such a commitment. Filipe Shoes needs to focus on developing its resources and its strategy to this country first. Moreover, if this was done it would make Filipe Shoes very dependent on Australia.

Appendix 24 – Tips on how to find the ideal distributor

Dealing with distributors is not always easy, especially in the case of Australia which is a new market and Labirinto Shoes has no past experience with distributors in this geographic area. As such, the following key points are presented to help with this process.

First of all, the firm can contact APPICAPS, AICEP or the chamber of commerce for instance to know what competitors are doing. Another good practice is to research who are the distributor's clients and analyze their opinions regarding their respective distributors. This is a great way to find out what are the potential opportunities and/or problems Labirinto Shoes may face as a client. As mentioned previously, taking advantage of Chambers of Commerce abroad is also worthy as they have local knowledge of the market and can help Labirinto Shoes doing business

besides contribution in networking efforts. Increasingly, paying close attention to the footwear industry media can help Labirinto Shoes establish contacts. Another source of information is obviously foreign government trade offices as their core business is to help promote exports as well as trade fairs which will help in meeting potential contacts.

Last but certainly not least it is critical to know which retailers the distributors have agreements with and to **study these likely distributors**. In other words, this means Labirinto Shoes should aim to analyze the following checklist:

Key Features to analyze	Indicators
Sales force	Size; is the sales force able to take on the project of selling Labirinto Shoes?
Sales history	Market share; sales volume; average sales volume per employee
Local territory exploration	Is the distributor present in Sydney? Are the retailers with whom the distributor has contracts in Sydney recognized? Does the distributor have short or long term plant to expand in Sydney?
Distributor's product portfolio	What retailers does the distributor have agreements with? What kind of product lines/brands does the distributor have? Are they in line with Labirinto Shoes' positioning? Does the distributor have contracts with other Portuguese brands? What size does the order have to be for the distributor to agree to sell Labirinto Shoes? Does the financial projection fulfill to this volume and is it actually feasible taking into account Sydney and its respective demographic/social factors?
Distributor's facilities	What kind of warehouse facilities does the distributor have (i.e. size, location, etc.)? How does the distributor control its stock?
Distributor's Marketing Plans	What is the distributor's sales strategy? How do they track their sales? What kind of communication channels are employed by the distributor (ex. Website, brochures, etc.)? Will the distributor provide data that may be helpful for Labirinto Shoes' forecasts? Will Labirinto Shoes have to contribute monetarily for marketing initiatives done by the distributors?
Distributor's experience & reputation with institutions (clients, banks, etc.)	

How to negotiate with Australians

Now that the tips on how to find the ideal distributor have been presented, Labirinto Shoes must pay attention to certain aspects once they have selected their potential distributor and want to move on to the negotiation stage. More specifically, the managers of this brand must be aware of the cultural differences felt in terms on relationships, communication, negotiations and in the establishment of agreements/contracts.

Relationship wise, Labirinto Shoes should know that business can be done without previously establishing contact, however it may be better to let yourself be known. Australians may question business-only people, hence it is good to show a

personal side as the business relations grow. Moreover, Australians favor an egalitarian society which means they are likely to show more empathy with an average individual rather than those who exhibit more authority.

In terms of communication, this should not be a major problem for Labirinto Shoes as the native language is English. Nonetheless, Australian English may require a slightly greater effort to understand as it may be spoken fast and there may be use of popular expressions. Extremely important is to adhere to Australian's communication style which is very direct. Furthermore, in terms of cultural differences, Labirinto Shoes managers should avoid being insulted in case they are mocked as this may actually be a sign that the distributor is establishing a favorable relationship. Also, note that thumbs-up with a rising movement of the arm can be offensive in Australia.

Regarding negotiations, Labirinto Shoes should be aware of the individualistic nature of the Australian population. This means that if two Australian individuals from the same team disagree, Labirinto Shoes may still stand a chance of convincing one who will then play against the other team member in agreeing. Also, although status is not extremely important, Filipe Shoes should still use employees with a higher hierarchy to engage with Australian counterparts as this signals that the firm considers this negotiation important. Filipe Shoes should initially use the formal titles of *Mr./Ms.* before the family name to address to the counterparts and only use their first name after they have been offered to. Australians also value punctuality.

Regarding presentations, when the firm is presenting Labirinto Shoes notice it is okay and actually advisable to showcase not only all the positive aspects of this brand but point out possible weaknesses. The reason this is so important is because Australians tend to suspect such "perfect" products, brands or services.

Australians follow a cooperative negotiation style (aiming at win-win outcomes), which means they are able to compromise if proved that this is beneficial for both sides and consider in information sharing a fundamental part of negotiations. Notice however that Australians do not bargain aggressively as they see considerable concessions as a reflection of being 'ripped off.' Concerning decisions, Filipe Shoes has to be aware that more than one individual will generally give input on the decision; even top executives may be included despite not being present in the meeting. Also curious is

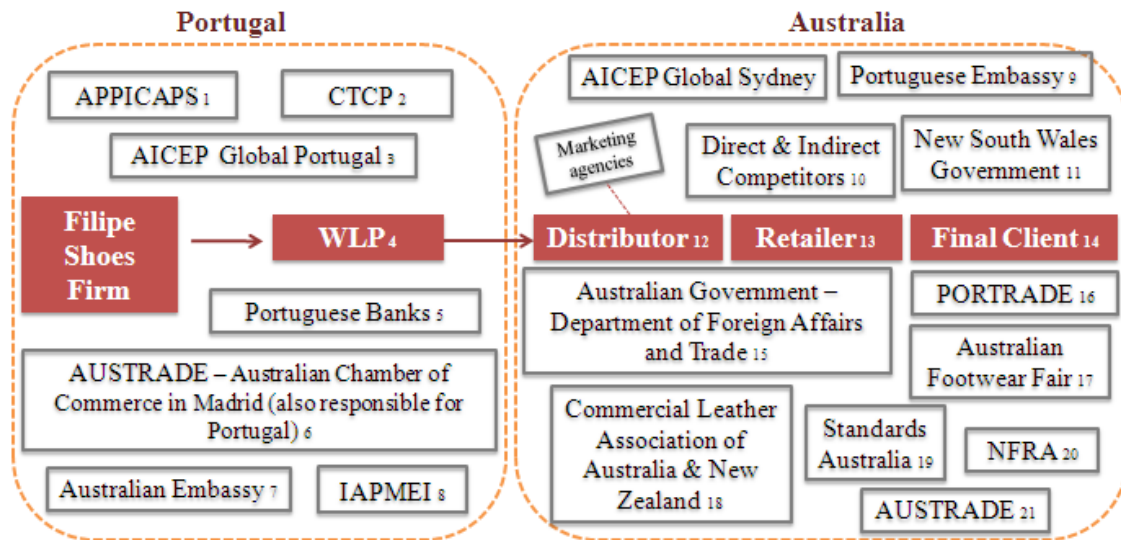
that Australians enjoy taking risks from time to time which gives opportunities to non-established brands as is the case of Labirinto Shoes.

Finally, only once a contract has been signed by both parties does this reflect a final agreement and requests to make adjustments after this will translate distrust and be viewed negatively.

Overall, independently of the nationality being dealt with, the most important is to; learn about the way of doing business, to be patient and be prepared. The ultimate goal is to find the best possible deal for both parties as this will help reach an agreement. (Katz, 2007)

Appendix 25 – Export Process of Filipe Shoes

Figure 27 – Supply Chain Management Diagram to Australia



1-www.apiccaps.pt/ 2-www.ctcp.pt/ 3- www.portugalglobal.pt/ 4- Labirinto Shoes’ freight forwarder that uses the maritime route via Singapore to reach Sydney. 5- For financial aid 6- <http://www.austrade.gov.au/Local-Sites/Spain> 7- austemb.lisbon@dfat.gov.au 8-<http://www.iapmei.pt> 9- <http://www.portugal.embassy.gov.au/lbon/home.html> 10- Footwear brands in present in Sydney. Although many other brands may be considered as they can be reached via e-commerce. 11- Government of NSW, which includes Sydney; <https://www.nsw.gov.au/> 12 – To be chosen by Filipe Shoes’ firm 13- Chosen by the distributor 14- Curious, adventurous young adults who enjoy travelling and purchase comfortable footwear for this purpose 15 - <http://www.dfat.gov.au/trade/> 16- <http://www.portrade.com.au/> 17- Footwear fair in Sydney; www.australianshoefair.com;18-<http://www.leffler.com.au/cla.htm>;19 – Standards Australia; <http://www.standards.org.au/Pages/default.aspx> . 20- National Footwear Retailers Association; www.nationalfootwearretailers.com.au.

On the left hand side of the figure above, one may find the Portuguese entities which help reduce the entry barriers. One of the ways to do this is by providing the Firm Filipe Shoes with financial aid and/or help deal with legal affairs. On the right hand side, one can see the influential entities in the Australian market.

Appendix 26 – Supply Chain Management

Incoterms are essentially rules and conditions that parties have to fulfill once they engage in trades. The contracts established between the entities summarize the conditions under which the sales of goods worldwide must be completed and provide direction to those involved in the international trade (i.e. importers, exporters, lawyers, transporters, insurers, etc.). There are 11 incoterms available (ICC), sub-divided into two categories from which one must choose from:

For any type of transportation:	
Ex Works (EXW)	The seller solely has to be concerned with packaging the items. The buyer has to collect the goods at the seller’s premises once they are available. Minimum risk for the seller.
Free Carrier (FCA)	The seller conveys the goods to the transporter’s premises, being accountable for paying the carriage until this point of delivery.
Carriage Paid To (CPT)	The seller has to arrange and cover the costs of the carriage transportation.
Carriage & Insurance Paid To (CIP)	The seller is additionally responsible to contract and pay a minimum insurance to cover the buyer’s transportation risks during the bulk of the journey.
Delivered at Terminal (DAT)	The seller has the responsibility of covering the costs until the terminal/port destination, without devising delivery to final destination and the import customs.
Delivered at Place (DAP)	The only concern the seller is exempted from is the import customs.
Delivered Duty Paid (DDP)	The seller carries the risks entirely since he is responsible for all transportation transaction costs.

For maritime or waterway transportation:	
Free Alongside Ship (FAS)	The seller solely has to carry the goods until the loading port and cover the respective costs.
Free On Board (FOB)	The seller is accountable for transporting the goods until the port from which they are going to be exported and loading the goods on the boarding vessel. From that point on the risks are carried by the buyer.
Cost & Freight (CFR)	Seller must also arrange and pay for the necessary freight so goods reach the destination port.
Cost, Insurance & Freight (CIF)	Similar to CFR but the seller also has to cover the insurance risk.

The information above can be summarized with the following graphic illustration of the costs incurred by each party:

Figure 28 – Incoterms

www.UNIVERSAL CARGO.com

	INCOTERM										
	EXW	FCA	FAS	FOB	CFR	CIF (2)	CPT (1)	CIP (1) (2)	DAT	DAP	DDP
	Ex Works	Free Carrier	Free Alongside Ship	Free Onboard Vessel	Cost & Freight	Cost, Insurance & Freight	Carriage Paid To	Carriage And Insurance Paid To	Delivered At Terminal	Delivered At Place	Delivered Duty Paid
SERVICES	Who Pays	Who Pays	Who Pays	Who Pays	Who Pays	Who Pays	Who Pays	Who Pays	Who Pays	Who Pays	Who Pays
Origin Warehouse Packaging Service	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Origin Loading	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Origin Export Customs Declaration/Duty/Tax	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Delivery to Port of Export/Inland Freight	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Origin Terminal/Port Charges	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Loading on Vessel	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Carriage Charges (Ocean/Air Freight)	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Insurance	Buyer	Buyer	Buyer	Buyer	Buyer	Seller	Buyer	Seller	Seller	Seller	Seller
Destination Terminal/Port Charges	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller
Delivery to Place of Destination	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller	Seller
Import Customs Clearance/Tax/Duty	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller

(1) Risk of loss or damage is transferred from Seller to Buyer when the goods have been delivered to the carrier.

(2) While the Seller is responsible for insurance coverage during the main voyage, the buyer may have additional 'insurable interest' and prudence may dictate purchase of additional coverage.

Appendix 27 – Resource Commitment

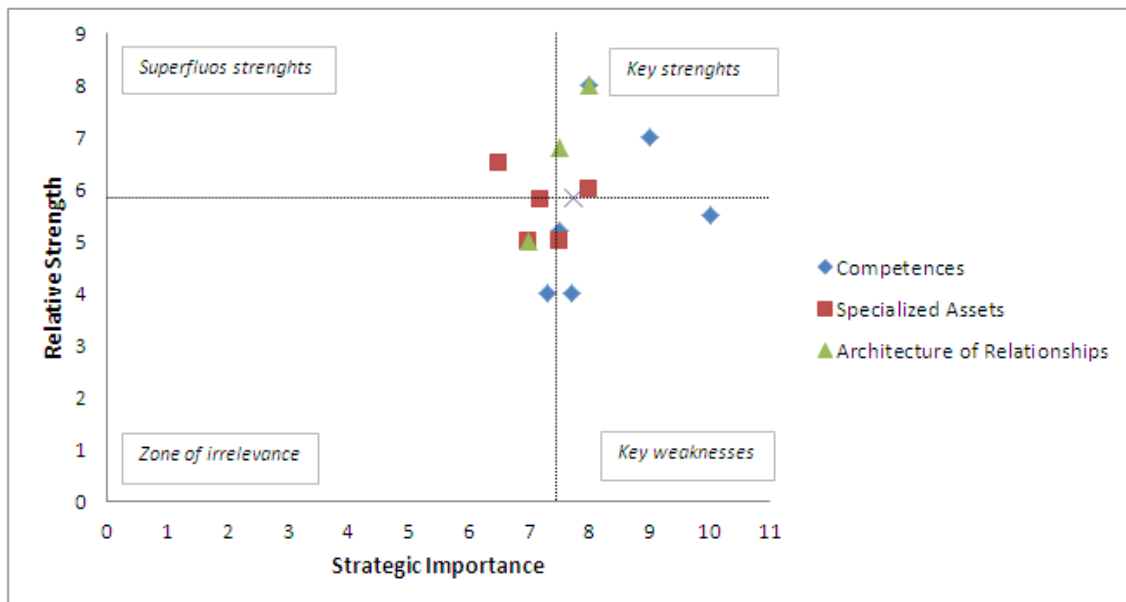
The following table describes Labirinto Shoe’s resources, how important they are in the market they will enter (i.e. the Strategic Importance) and how well Labirinto Shoes or the firm Filipe Shoes performs in respect to the same resources (i.e. Relative Strength).

Competences	Strategic Importance	Relative Strength
Marketing - more specifically brand management	7,7	4
On-going research of raw materials	8	8
Production + Quality management	9	7
Financial management & managerial know how	10	5,5
Design capabilities and constant improvement of footwear collection	7,5	5,2
Organizational structure of the firm (develop partnerships, sales & after-sales department)	7,3	4

Specialized Assets	Strategic Importance	Relative Strength
Production/manufacturing facilities (output capacity) – factory is not being used at full capacity	7,5	5
Technology	7	5
Computerized control systems	6,5	6,5
Employees	8	6
Economies of scale learning	7,2	5,8

Architecture of Relationships	Strategic Importance	Relative Strength
Partners and supplier network	7	5
R&D/Innovation network	7,5	6,8
Cluster network	8	8

Figure 29 – Organizational Resources’ strategic importance & relative strength



One may see that the resources that need most commitment are increasing the usage of the manufacturing unit’s output capacity, the focus on brand management,

improving design capabilities and accumulating management know-how as they are currently key weaknesses. This means they're relative strength in the market is significant (i.e. they are important to succeed in Australia) however, Labirinto Shoes is still underdeveloped in these aspects (meaning their relative strength is comparatively lower than for other resources).

Thus, to overcome this problem, as said before, Labirinto Shoes must focus on improving design through partnerships for instance (university designers or with CTCPC to improve in terms of technology). Regarding marketing, in order to succeed with a new born brand one must carefully establish what it stands for and create the merchandising activities (i.e. packaging, slogan, name, logo, communication channels, etc.) that reflect the culture of this brand. Finally, to enhance the management capabilities the firm must as a starting point enhance their knowledge in regards to internationalization strategies (via contacts with other institutions as AICEP and PORTRADE). Increase, the firm should also focus on the service unit, acknowledging the importance of customer relationship management and after-sales follow-ups.

Appendix 28 – Implementation Plan Proposal with required tasks & timeframe

Objectives:

1. Prepare Labirinto shoe's brand internally (i.e. define the brand identity, positioning, portfolio and communication channels)
2. Select one trustful distributor, after conducting due diligence on at least 3
3. Partnership with at least 4 retailers in the first 5 years
4. Obtain a 1,55% market share in the 1st year of sales (i.e. 2017) and 2,20% after 8 years
5. Recover the investment in 4/5 years
6. Maintain the business running for a period of at least 10 years
7. Use this entrance to test the potential of the Australian market and analyze the possibility of expanding to another city

Tasks:

Pre-entry	Definition of product portfolio and brand strategy (Labirinto Shoes designers + Labirinto's brand manager)
	Develop the communication channels of the brand (Labirinto's brand manager + outsourcing to brand creator)
	Attend Sydney's annual Shoe Fair in March (2 of Filipe Shoes managers)
	Analyze competitors & prospective partnerships (Commercial team)
	Costs and sales forecast (Filipe Shoes finance team)
	Invest time to network with potential distributors and select one distributor (Filipe Shoes managers)
	Contact AICEP, PORTRADE, Portuguese embassy, etc. to help with legislation – licenses & export documentation (Filipe Shoes manager)
	Establish distributor contract (Filipe Shoes managers)
Entry	Contact local retailers and establish agreements (distributor)
	Ensure production and on-time stock delivery to the port of Leixões + maritime transportation to Sydney (under the FOB contract the first part is Filipe Shoes obligation, more specifically the logistics employee of the commercial team whilst the maritime transportation is the distributor's responsibility)
	Transport the stock from Sydney's port to inside the city and deliver to retailers (under FOB: distributor – operations manager)
	Establish the marketing means and commercial efforts (distributor)
	Sell footwear to end consumers (retailers' Salesforce in stores)
	Evaluate operations and activity reports (financial + commercial team)
Post-entry	Request feedback from distributor and opinions from end consumers (available through communication between distributor and Filipe Shoes managers)
	Maintain regular communication and information flow with the distributor (Filipe Shoes managers and distributor)
	Research the possibility of new retailers and partners (distributor)
	Revisit the business plan + make financial forecasts of sales and costs (commercial + financial team)
	Constantly monitor distributors performance (Filipe Shoes managers with input from the commercial and finance teams)
	Product development (manufacturing unit)

Activities timeframe:

Tasks		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Pre-entry	Definition of product portfolio and brand strategy	█										
	Develop the communication channels of the brand	█										
	Attend Sydney's annual Shoe Fair in March	█	█									
	Analyze competitors & prospective partnerships	█	█									
	Network with potential distributors and select one distributor	█	█									
	Costs and sales forecast	█	█									
	Contact AICEP, PORTRADE & Portuguese embassy to help with licenses & export documentation	█	█									
	Establish distributor contract	█	█									
Entry	Contact local retailers and establish agreements		█	█								
	Ensure production and on-time stock delivery to the port of Leixões + maritime transportation to Sydney			█	█	█	█	█	█	█	█	█
	Transport the stock from Sydney's port to inside the city and deliver to retailers		█	█	█	█	█	█	█	█	█	█
	Establish the marketing means and commercial efforts		█	█	█	█	█	█	█	█	█	█
	Sell footwear to end consumers			█	█	█	█	█	█	█	█	█
	Evaluate operations and activity reports			█	█	█	█	█	█	█	█	█
Post-entry	Request feedback from distributor and opinions from end consumers		█	█	█	█	█	█	█	█	█	█
	Maintain regular communication and information flow with the distributor		█	█	█	█	█	█	█	█	█	█
	Research the possibility of new retailers and partners											
	Revisit the business plan + make financial forecasts of sales and costs											
	Constantly monitor distributors performance											
	Product development				█	█	█	█	█	█	█	█

Appendix 29 – Financial Calculations

In order to conduct the financial analysis, some things must be considered. To begin with, it is crucial to determine the market dimension (i.e. the size of the potential buyers of Labirinto brand). For this purpose, four steps were taken:

- 1° The total population of Sydney was measured according to the Australian Bureau of Statistics (both male and female);
- 2° Within Sydney's population, the population who enjoyed travelling (which is in line with Labirinto's brand identity) was computed according to a statistics retrieved from ABS (government statistics);
- 3° The population who spends in pre-travelling expenses, more specifically with footwear purchases was then considered given data retrieved from Expedia.
- 4° Finally, the previous potential market was then reduced to solely the middle income class giving a final **market dimension of around 124,15 thousand people.**

Notice that in this stage, some assumptions had to be made, namely:

- Sydney's population is considered constant over the years;
- Given that the statistics retrieved are averages, one assumed that they are valid for both males and females.

The next step taken was to **consider the market share the brand wants or should reach in both female and male segments to incur in a profitable project.** Note however that one must consider the knowledge of Filipe Shoes firm in regards to footwear manufacturing skills. The firm is currently producing an output which is 85% dedicated to male footwear, whereas only 15% is destined for male footwear. As such, in order to maintain a similar output and simply take advantage of the unused capacity

of the firm, without incurring in extra costs with training these **market shares will be such that when multiplied by the market potential there will be higher sales quantities for the female segment rather than the male**. Regarding sales growth, it is assumed that it will only grow until 2020. The reason for this is that during the first few years of Labirinto Shoes presence in Australia their awareness will grow relatively fast and thus has an impact on sales values. However, brand awareness takes a long time to achieve and thus after this initial growth, it will start being hard to gain significant increases in brand awareness, leading to a stabilization of sales values (i.e. sales growth for the remaining years is so insignificant that one will consider it as 0%).

Once deriving the sales quantities, one must compute all costs associated to the manufacturing process to obtain the COGS per unit. These COGS include the costs with raw materials, labor, transportation costs, storage costs and allocated overheads as is the case of energy costs with machinery used for production for instance. In Filipe Shoes case, according to their manager, the firm is presently spending € 15 solely in regards to costs with raw materials and transportation costs thus the energy, labor and transportation costs must be added. For transportation costs the freight forwarder **Worldwide Logistics Portugal (WLP) was contacted** to obtain the total costs associated to our delivery sizes⁸, which was then divided by the total units sold to Australia to obtain a cost of transportation per unit sold. Regarding energy and salaries, the total annual salaries (Pordata.pt, 2014) and energy costs (Filipe Shoes' IES 2013) were considered and then according to the fraction used for the size delivery considered, the proportion of costs was calculated on a unit basis. For this purpose, the formulas used were the following:

⁸ According to WLP the costs include the delivery pickup along with transportation from the warehouse in Santa Maria da Feira to the port of Leixões, terminal handling charges, bill of landing and the export declaration form.

Per unit Costs	Formulas
Energy costs	$[(\text{Annual energy costs}) \times (\text{sales volume to Australia})] \div (\text{total footwear output per year})$
Salary costs	$[(\text{Annual salary costs} \times \text{sales volume to Australia})] \div (\text{total footwear output per year})$

Adding these calculations, and taking into account the Portuguese inflation rate (Pordata.pt, 2014 – using an average of the last two years), the **COGS per footwear were of €17,5 in 2017**. Note that here another two important assumption were made. First, although the costs of female and male footwear are different, in this case **the values considered are an average. Thus, the COGS are a single figure for both kinds of collections**. Secondly, in terms of total wages, **one additional worker was considered as the implementation plan requires hiring a new employee assigned to a new unit** which is responsible for helping in customer relationship management, in the internationalization process and after-sales duties. One is then in position to use the following formulas:

Price	Formula used to compute price
Merchandize price (i.e. price charged to distributor)	$\text{COGS} / (1 - \text{profit margin})$
Distribution price (i.e. price charged to the retailers)	$\text{marginal cost to the distributor}^9 * (1 + \text{distributor markup})$
Retail price (i.e. price in-store for end consumers)	$\text{Distribution price} * (1 + \text{retail markup}) * (1 + \text{GST})$

Hence, using the first formula of the merchandize price and considering the goal of increasing the profit margin of this brand to 40%, the **final merchandize price for 2017 (i.e. the first year of sales) is €29,2**.

In respect to distribution, their marginal cost was also computed according to data provided by WLP whilst fashion retailing sources revealed that the markup charged by retailer is usually 100% and the markup assumed for the distributor was of 70%.

⁹ Marginal cost = merchandize price + insurance + import customs + MNF duty rate + freight forwarder costs

Therefore, the distribution price and retail price obtained for 2017 is of €62,7 and € 137,9, respectively.

Once these figures are all obtained, it is possible to construct a business model for the launching of Labirinto Shoes as an own brand. However, first the following was determined;

- Initial investment, which in this case are the **costs incurred to attend the footwear fair in Sydney** as well as the **branding costs** as this is a new brand which has to define its packaging, logos, slogan, etc. and also the costs of **registering the trademark** in Australia. Here, the initial investment will occur in both 2015 (year 0) and 2016 (year 1). The only difference is that in 2015 all costs are included in the initial investment whereas in 2016 the branding costs and trademark registration have already occurred, hence only the costs related to Sydney's fair are included.
- Regarding depreciation, as this project takes advantage of unused capacity, no new machinery was purchased. The depreciation of machinery occurs independently of incurring in this project and thus is considered a sunk cost. Hence, the **depreciation value is zero.**
- Starting in 2015, the **tax rate** imposed will be **21%**.
- The discount rate used to discount the project cash flows (i.e. the WACC which depends on the firm's capital structure). **According to Filipe Shoes manager WACC = 3%.**

Appendix 30 – Pricing in Australia

Main Footwear Retailers in Australia and their respective brand portfolio ¹⁰

Footwear Wholesalers	Retailers	Brands	Type of Footwear	Price range (€) ¹¹	Approx. Average Price (€)
Fusion Retail Brands Pty Ltd	Mather	Colorado	Adventure wear, quality footwear for outdoors	90,0 – 130,95	110,48
		Hush Puppies	Comfortable and casual everyday shoes	117 - 160,21	138,61
		Roc	Mainly leather boots for several purposes, ranging from school to casual footwear	Not available online	-
	Williams	Colorado	-	90,0 – 130,95	110,48
		Roc	-	-	-
RCG Corporation Ltd	RCG Brands Pty Ltd	Chaco	Adventure shoes whose core input is leather, slightly sporty and targeted to a young audience	64,29 - 120,54	92
		Cushe		Not available online	-
		Merrel		94,40 – 139,90	116,9
	Betts Group Pty Ltd	Airflex	“High quality leather fashionable footwear with a key focus on comfort and durability that features unique technologies” (Airflex website)	63,11 - 119,23	91
		Betts	Comfortable and versatile footwear for youngsters	49,09 - 84,19	67
	Pacific Brands Limited	Clarks	Elegant good quality casual footwear	90,12 - 161,35	125,74
		Hush Puppies	-	117 - 160,21	138,61
		Julius Marlow	Leather shoes mostly destined for business-casual work environments	90,10 - 140,24	115,17
	Planet Shoes ¹²	Clarks	-	90,12 - 161,35	125,74
		Dansko	All day comfort shoes with a modern twist made of several types of leather, ranging from sandals to high heels, flats or boots	Not available online	-
		Ecco	Affordable quality, comfortable and good-looking shoes	105,17 - 273,47	189
		Fly London	Unconventional fashionable shoes, mostly with heels or wedges	136,77 - 157,81	147
		Jambu	Vegan products made with eco-friendly designs. Their slogan says “Life is a journey, step into your comfort zone”, reflecting the features of their footwear	55,40 - 230,72	143
		Merrel	-	94,40 – 139,90	116,9
		Naot	Leather shoes for both male and female – boots, sandals, clogs. Also sell footbeds.	139,51 - 244,68	192

¹⁰ Notice there are so many retailers that only the most related to footwear were selected and within retailers, given the amount of brands, only the most similar to the brand Labirinto Shoes were considered as these will act as the direct competitors in the Australian Market.

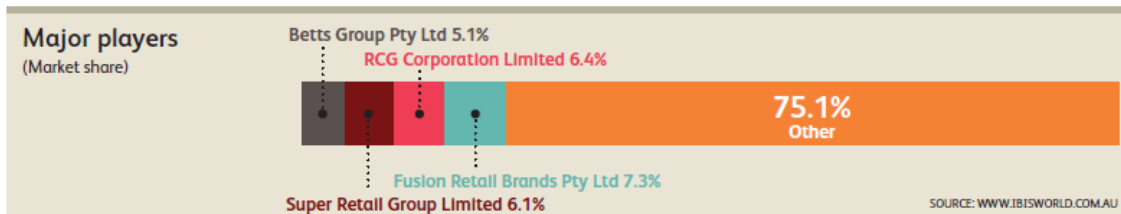
¹¹ Prices are an estimate as they were retrieved online from the brands’ websites, accessed on the 11th of November 2014 and thus may not correspond to the real prices presented in stores. Conversions of the currency to Euro was done on the 12th of November 2014 in the website <http://www.x-rates.com/calculator/?from=AUD>

¹² Great opportunity as Labirinto Shoes may take advantage of the already existing networks with Portuguese manufacturers as is the case of Fly London.

		Timberland	Producer of quality leather shoes for outdoor activities for the adventurous spirits	100,96 - 260,13	181
		Wolky	Footwear designed for walking	108,36 - 260,13	184

Figure 30 – Retailer’s Market shares in Australia

Source: IbisWorld.com.au



Within the brands analyzed, one may conclude that the brands which are most similar to Labirinto Shoes, having the same concept of comfortable footwear are brands like Merrell and Timberland. However, these brands invest in simple and consistent designs, not presenting breaking innovations between collections and are slightly more athletic, as they are traditionally dedicated to outdoors sports and activities. The brand Labirinto Shoes on the other hand is able to provide leather quality shoes with a modern touch by playing with textures, shoe formats and colors while delivering good value for money price tags. Labirinto Shoes is great for people who want comfortable shoes but want to wear them in many types of environments, not only in outdoor activities but also and mainly whilst wondering through cities (as daily basis, versatile footwear).

Appendix 31 – Calculations of Market Dimension (population)

Total population in Sydney	4.667.283
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2. Population that enjoys travelling		
Male	40%	214.695,02
Female	40%	228.696,87
Total		443.392

3. Population that buys footwear before travelling		
Male	40%	85.878,01
Female	40%	91.478,75
Total		177.357

4. Final Potential		
Male	70%	60.114,61
Female	70%	64.035,12
Total		124.150

Appendix 32 – Sales growth

Sales growth		10,00%	12,00%	15,00%	0,00%	0,00%	0,00%	0,00%	0,00%
Yearly potential (starting in the 1st year of sales)	2017	2018	2019	2020	2021	2022	2023	2024	2025
Male sales %	0,30%	0,33%	0,37%	0,43%	0,43%	0,43%	0,43%	0,43%	0,43%
Female Sales %	1,25%	1,38%	1,54%	1,77%	1,77%	1,77%	1,77%	1,77%	1,77%

Appendix 33 – Demonstration of price Calculations for 1st year of sales

Male Sales Volume	180,00
Female Sales Volume	800,00
Male to total ratio	18,37%
Total sales volume	980,00

Costs with raw materials	15,22 €
Salary cost with this delivery	1.841,93 €
Energy costs with this delivery	153,88 €
operating costs with energy & salaries/ pair of footwear	2,04 €
costs with Raw material + wages + energy per pair of footwear	17,26 €

Trasportation costs (FOB)	
Delivery pickup	76,11 €
Bill of landing	45,67 €
DME (declaração de mercadoria disponível à exportação)	15,22 €
Despacho de exportação	55,81 €
Terminal Handling Charges	55,81 €
total price of delivery	248,63 €
Unit costs per shoes incurred by the enterprise in transportation	0,254 €
Total COGS per unit	17,512 €

Unit Merchandize price	29,19 €
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Distribution Costs in Australia	
MNF duty rate	1,46 €
Import processing charge	0,11 €
insurance	0,292 €
freight forwarder until Sydney	0,292 €
Total unit costs incurred by the distributor in Australia	2,152 €

Unit Distribution price	53,276 €
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Unit Retail price	117,207 €
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Appendix 34 – Initial Investment

Inicial Investment	
Presence in Sydneys international shoes fair (enrollment + stand)	10.000,00 €
Flights to Sydney	2.000,00 €
Hotel	1.600,00 €
Other costs for the trip to sydney	1.000,00 €
Branding costs (logos, packaging, etc.)	2.000,00 €
Registering a trademark in australia	850,00 €
Communications	1.000,00 €
Total initial investment	18.450,00 €

n° employees	2
flight costs	1.000,00 €
n° of nights	4
hotel per night	200,00 €
other costs per day/employee	100,00 €
n° of days	5

Appendix 35 – Business Model Financials

Figure 31 – Projected Business model scenario

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Male Sales Volume	-	-	180	198	222	255	255	255	255	255	255
Female Sales Volume	-	-	800	880	986	1134	1134	1134	1134	1134	1134
Total sales volume	-	-	980	1078	1208	1389	1389	1389	1389	1389	1389
Merchandize price			29,19 €	29,58 €	29,98 €	30,37 €	30,82 €	31,28 €	31,74 €	32,21 €	32,69 €
Revenue			28.603,33 €	31.887,27 €	36.210,06 €	42.186,89 €	42.811,26 €	43.444,86 €	44.087,85 €	44.740,35 €	45.402,51 €
costs	18.450,00 €	15.600,00 €	18.162,00 €	20.132,36 €	22.726,03 €	26.312,14 €	26.686,75 €	27.066,92 €	27.452,71 €	27.844,21 €	28.241,50 €
- initial investment	18.450,00 €	15.600,00 €									
- COGS			17.162,00 €	19.132,36 €	21.726,03 €	25.312,14 €	25.686,75 €	26.066,92 €	26.452,71 €	26.844,21 €	27.241,50 €
- other operational costs			1.000,00 €	1.000,00 €	1.000,00 €	1.000,00 €	1.000,00 €	1.000,00 €	1.000,00 €	1.000,00 €	1.000,00 €
EBITDA	- 18.450,00 €	-15.600,00 €	10.441,33 €	11.754,91 €	13.484,02 €	15.874,76 €	16.124,50 €	16.377,95 €	16.635,14 €	16.896,14 €	17.161,00 €
% Gross margin (before taxes)			37%	37%	37%	38%	38%	38%	38%	38%	38%
Depreciation			0	0	0	0	0	0	0	0	0
Tax (21%)			2.192,68 €	2.468,53 €	2.831,64 €	3.333,70 €	3.386,15 €	3.439,37 €	3.493,38 €	3.548,19 €	3.603,81 €
Free Cash Flow (FCF)	- 18.450,00 €	-15.600,00 €	8.248,65 €	9.286,38 €	10.652,38 €	12.541,06 €	12.738,36 €	12.938,58 €	13.141,76 €	13.347,95 €	13.557,19 €
Net margin (after taxes)			29%	29%	29%	30%	30%	30%	30%	30%	30%
Discounted CF (3%)	- 18.450,00 €	-15.145,63 €	9.841,96 €	8.498,35 €	9.464,50 €	10.818,03 €	10.668,17 €	10.520,25 €	10.374,23 €	10.230,09 €	10.087,82 €
Accumulated CF	- 18.450,00 €	-33.595,63 €	-23.753,68 €	-15.255,32 €	- 5.790,82 €	5.027,20 €	15.695,38 €	26.215,62 €	36.589,85 €	46.819,94 €	56.907,77 €
NPV	90.410,31 €										
IRR		24%									

This gives an NPV of € 91.410,31 and an IRR of 24%. According to the financial decision rules, these numbers indicate that this is a project worth investing in (NPV > 0 and IRR = 24% > WACC = 3%).

Appendix 36 – Optimistic Scenario

This scenario assumes a **20% higher sales growth rate in each year**, meaning the following growth rates; 12%, 14,4% and 18% for the first three years of sales, respectively. With everything else constant, the following results are obtained:

Figure 32 – Optimistic Business model scenario

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Male Sales Volume	-	-	180	201	231	272	272	272	272	272	272
Female Sales Volume	-	-	800	896	1025	1210	1210	1210	1210	1210	1210
Total sales volume	-	-	980	1097	1256	1482	1482	1482	1482	1482	1482
Merchandize price			29,19 €	29,57 €	29,96 €	30,35 €	30,80 €	31,26 €	31,72 €	32,19 €	32,67 €
Revenue			28.603,33 €	32.441,88 €	37.631,91 €	44.982,51 €	45.648,25 €	46.323,84 €	47.009,43 €	47.705,17 €	48.411,21 €
costs	18.450,00 €	15.600,00 €	18.162,00 €	20.465,13 €	23.579,15 €	27.989,50 €	28.388,95 €	28.794,30 €	29.205,66 €	29.623,10 €	30.046,73 €
- initial investment	18.450,00 €	15.600,00 €									
- COGS			17.162,00 €	19.465,13 €	22.579,15 €	26.989,50 €	27.388,95 €	27.794,30 €	28.205,66 €	28.623,10 €	29.046,73 €
- other operational costs			1.000,00 €	1.000,00 €	1.000,00 €	1.000,00 €	1.000,00 €	1.000,00 €	1.000,00 €	1.000,00 €	1.000,00 €
EBITDA	- 18.450,00 €	-15.600,00 €	10.441,33 €	11.976,75 €	14.052,76 €	16.993,00 €	17.259,30 €	17.529,54 €	17.803,77 €	18.082,07 €	18.364,48 €
% Gross margin (before taxes)			37%	37%	37%	38%	38%	38%	38%	38%	38%
Depreciation			0	0	0	0	0	0	0	0	0
Tax (21%)			2.192,68 €	2.515,12 €	2.951,08 €	3.568,53 €	3.624,45 €	3.681,20 €	3.738,79 €	3.797,23 €	3.856,54 €
Free Cash Flow (FCF)	- 18.450,00 €	-15.600,00 €	8.248,65 €	9.461,63 €	11.101,68 €	13.424,47 €	13.634,85 €	13.848,33 €	14.064,98 €	14.284,83 €	14.507,94 €
Net margin (after taxes)			29%	29%	30%	30%	30%	30%	30%	30%	30%
Discounted CF (3%)	- 18.450,00 €	-15.145,63 €	9.841,96 €	8.658,74 €	9.863,70 €	11.580,07 €	11.418,97 €	11.259,96 €	11.103,03 €	10.948,14 €	10.795,27 €
Accumulated CF	- 18.450,00 €	-33.595,63 €	-23.753,68 €	-15.094,94 €	- 5.231,24 €	6.348,83 €	17.767,80 €	29.027,76 €	40.130,79 €	51.078,92 €	61.874,20 €
NPV	110.102,81 €										
IRR		25%									

This results in a higher NPV of €110.102,81 as well as IRR which is now equal to 25%.

Appendix 37 – Pessimistic Scenario

This scenario assumes a **20% lower sales growth rate in each year**, meaning the following growth rates; 8%, 9,6% and 12% for the first three years of sales, respectively. With everything else constant, the following results are obtained.

Figure 33 – Pessimistic Business model scenario

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Male Sales Volume	-	-	180	194	213	239	239	239	239	239	239
Female Sales Volume	-	-	800	864	947	1061	1061	1061	1061	1061	1061
Total sales volume	-	-	980	1058	1160	1300	1300	1300	1300	1300	1300
Merchandize price			29,19 €	29,59 €	29,99 €	30,39 €	30,84 €	31,30 €	31,76 €	32,23 €	32,71 €
Revenue			28.603,33 €	31.303,47 €	34.788,20 €	39.511,52 €	40.096,29 €	40.689,72 €	41.291,92 €	41.903,04 €	42.523,21 €
costs	18.450,00 €	15.600,00 €	18.162,00 €	19.782,08 €	21.872,92 €	24.706,91 €	25.057,77 €	25.413,83 €	25.775,15 €	26.141,83 €	26.513,93 €
- initial investment	18.450,00 €	15.600,00 €									
- COGS			17.162,00 €	18.782,08 €	20.872,92 €	23.706,91 €	24.057,77 €	24.413,83 €	24.775,15 €	25.141,83 €	25.513,93 €
- other operational costs			1.000,00 €	1.000,00 €	1.000,00 €	1.000,00 €	1.000,00 €	1.000,00 €	1.000,00 €	1.000,00 €	1.000,00 €
EBITDA	- 18.450,00 €	-15.600,00 €	10.441,33 €	11.521,39 €	12.915,28 €	14.804,61 €	15.038,52 €	15.275,89 €	15.516,77 €	15.761,22 €	16.009,28 €
% Gross margin (before taxes)			37%	37%	37%	37%	38%	38%	38%	38%	38%
Depreciation			0	0	0	0	0	0	0	0	0
Tax (21%)			2.192,68 €	2.419,49 €	2.712,21 €	3.108,97 €	3.158,09 €	3.207,94 €	3.258,52 €	3.309,86 €	3.361,95 €
Free Cash Flow (FCF)	- 18.450,00 €	-15.600,00 €	8.248,65 €	9.101,90 €	10.203,07 €	11.695,64 €	11.880,43 €	12.067,95 €	12.258,25 €	12.451,36 €	12.647,33 €
Net margin (after taxes)			29%	29%	29%	30%	30%	30%	30%	30%	30%
Discounted CF (3%)	- 18.450,00 €	-15.145,63 €	9.841,96 €	8.329,53 €	9.065,30 €	10.088,76 €	9.949,67 €	9.812,35 €	9.676,77 €	9.542,93 €	9.410,80 €
Accumulated CF	- 18.450,00 €	-33.595,63 €	-23.753,68 €	-15.424,15 €	- 6.358,85 €	3.729,91 €	13.679,58 €	23.491,93 €	33.168,70 €	42.711,63 €	52.122,44 €
NPV	71.321,89 €										

IRR	23%
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As expected this leads to a lower NPV of € 71.321,89 as well as IRR which is now equal to 23%. Nonetheless, even in this pessimistic scenario the financial forecasts of this project indicate that this is a project worth investing in (NPV > 0 and IRR = 23% > WACC = 3%).

Appendix 38 – Sensitivity Analysis

Figure 34 – Projected Cash Flow Analysis of the Project

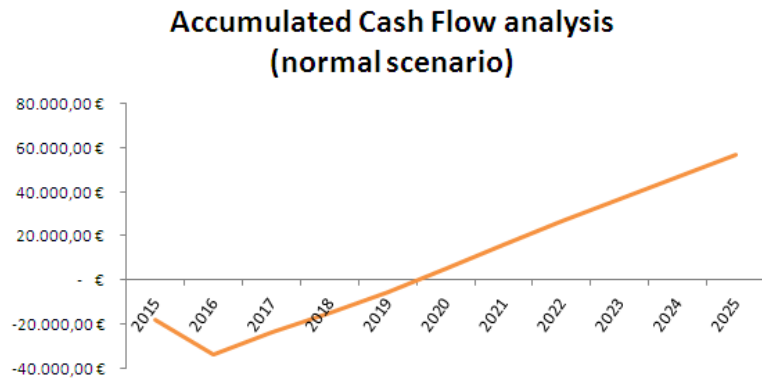


Figure 36 – Sensitivity Analysis to Sales Volume

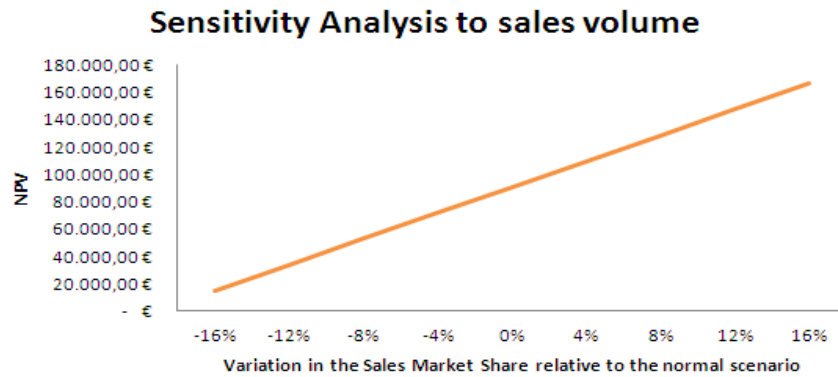


Figure 35 – Sensitivity Analysis to Initial Investment

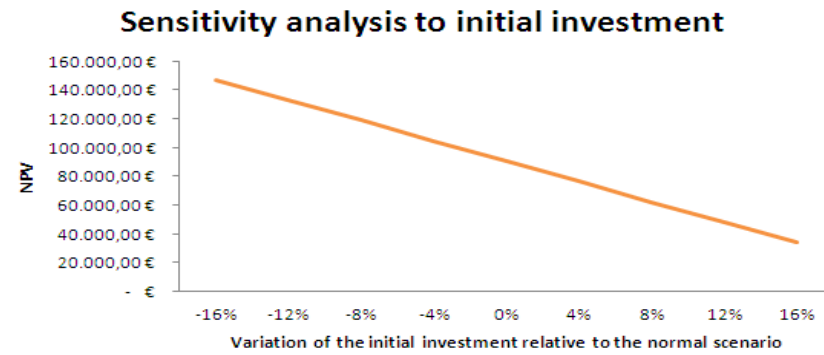


Figure 37 – Sensitivity Analysis to WACC

