Business Plan
1. INTRODUCTION

The goal of the company is to sell personalised clothes through Internet to the customers, at an affordable price.

**BUSINESS UNIT:** Customized Fashion E-commerce.

**MISSION:** To provide the young, modern and urban Spanish women, customized and tailor-made apparel, according to their desires, integrating design and efficient processes, at an affordable price.

**VISION:** Be the reference fashion webpage to style-concerned women that do not want to spend a big budget.

2. MACROENVIRONMENT: FASHION

2.1 POLITICS

Fashion in Europe is protected by the World Intellectual Property Organization. This organization delivers the Locarno Classification for industrial designs. It is based on a multilateral treaty administered by WIPO. This treaty is called the Locarno Agreement Establishing an International Classification for Industrial Designs. The designs are protected through the Common Registered Design and the Common Non-registered Design. When a design is registered, it has a five-year protection, which can be renewed up to 25 years. The Non-registered one protects it for 3 years since the design's first divulgation. It is a right exclusively against being copied.

This registration is not given much importance due to the ephemeral vocation on the fashion designs.

The Industrial Design Law has a specific regime to ensure the item is not being copied:

1. The design must be innovative, and not identical to any other.
2. The design must have a singular character. This is detected after an expert compares and examines two designs. Differences may be negligible for a casual observer (like buttons position, long of a skirt…) but have a very different global impression to the expert.
3. It must be registered on the Spanish Office for patents and trademarks, on its Designs Register. Nevertheless, the registration system is not generalized. In 2007, the Worldwide Intellectual Property Organization only recorded 29 protected designs, and the Office of Internal Market Harmonization attended 7421 demands, mainly of items such as watches, wallets or lenses.

2.2 ECONOMICS

In 2008 the Spanish women’s-wear market reached a value of $15.9 billion, the forecast for this market in 2013 is to have an increase of 5.4% from 2008 and to reach a value of $16.8 billion. Spain accounts for 6.9% of the European total women’s-wear market's value. The clothing, footwear, sportswear and accessories retailers segment was the Spanish women’s-wear markets most lucrative in 2008, generating 62.9% of the market's overall revenues.

The women's-wear market comprises: women's active-wear, casual wear, essentials, Formal-wear, formalwear-occasion and outer-wear.

2.3 SOCIAL

Consumer’s decision to buy clothes is influenced by factors such as fashion, lifestyle and a desire to show social status. In this sector the power of the buyer tends to be weakening since the demand patterns are susceptible to branding and advertisement.
However, buyers have insignificant switching costs and brand choice is dependant only on the personal taste of customers. Even though, brand awareness in the market is high, loyalty of consumers to specific brands is moderate and a high level of choice increase buyer power. Brand loyalty inside the womenswear market is linked more with the particular designer than the retailer.

Trends on women fashion consumerism remark the different fashion idea women have according to their age. Older women tend to search classic and longlasting products. Young, find fashion as a way to interact and express themselves. They are the most dynamic sector to cover the shorter cycles of product and to renew, as they are more concerned about fashion, and less about the quality of the garments. As an example, production of Inditex, one of the world apparel’s leader, is studied to be wore only around 10 times, according to a study of Harvard Business School. Advertising is one of the reasons for this change. Fully emotional messages relate fashion with success, and the extreme consumerism is settled in the society, and fashion is perceived as happiness and wellness.

It is also worthy remarking the difficulties of finding apparel for less used sizes, which make those users be dissatisfied with the retail environments, fashion and sizing provision among Spanish market players. The larger woman has great difficulty in finding well-fitting fashionable clothing. For those women, clothing consumption activity is less pleasure and leisure oriented. It creates negative emotions, which results in avoidance of consumerisms behaviours.
Spain is a fashion concerned country. According to the list of Most Fashioned Cities developed by Forbes, on the top 10 there is one Spanish city: Barcelona.

2.4 TECHNOLOGY

Textiles are acquired completely processed, after having passed through the required stabilization processes, in order to maintain all its properties and qualities.

A normal tailoring process developed by apparel retailers requires specialized technology. However, our competitive advantage needs a personalized production one-by-one, and consequently, cutting and sewing will be made with average machinery.

3. MACROENVIRONMENT: E-COMMERCE

3.1 POLITICS

Single European information Space: Its aim is to create a modern, market-oriented regulatory framework for the digital economy that includes the trust, privacy and security that are critical to e-business (Strategy for a secure European information Society, May 31 of 2006).

The EU’s .eu domain: Allows everyone to have a European identity online. It’s useful for companies wanting to operate as a single market without setting up multiple websites.

EUROPE´S E-BUSINESS INTERNAL MARKET


VAT Invoicing Rules: Ensure that all member States tax authorities recognize the validity of electronic invoices.
VAT rules on radio and television broadcasting services and certain electronically supplied services: Mean that EU suppliers no longer have to charge VAT when supplying digital products to countries outside the EU, as was the case before e-service existed.

SPAIN’S E-BUSINESS INTERNAL MARKET

Remote sales are considered the ones that take place without the physical presence of buyer and seller. In Spain, e-commerce is regulated by the Information Society and e-commerce Law from the Minister of Industry, Tourism and Commerce, and is applied to all the internet services that are part of an economic activity.

Companies interested on this commerce, must inscribe in the Register of Remote Sales, included in the Retail Commerce Sort, from the Ministry of Economics and Treasury.

The company must provide the information of itself, as well as all the data, fees and behavioral codes. When a transaction is made, the buyer must receive an acknowledgement receipt.

In case of faulty product, consumer must prove the defect, harm, and causality relation between both. Producer should prove that the harm did not exist when finished its transaction, or that the technical knowledge did not allow the identification of the defect. Producer could not avoid the responsibility of it in case the failure is due to a third party.

All damages and prejudices, even the moral ones, could be compensated in agreement to the general civil Legislation. The Law of Guarantees recognizes on the one hand the right of reparation or substitution of the good, or on the other hand, a reduction on the price or the end of the contract.

The customer does not have the right of repentance (returning the product during 7 days after its reception, because it does not satisfy its expectations) in case of items produced according to the customer’s specifications or personalized. The transaction must respect the customer’s data protection.
The global internet retail sector grew by 13.6% in 2008 to reach a value of $325.2 billion in revenues. The compound annual growth rate of the sector in the period 2004-2008 was 24.6%. Within the apparel retail sector in the Internet, the electrical and electronics segment proved to be the most lucrative in 2008, generating total revenues of $80 billion, equivalent to 24.6% of the sector's overall value. In comparison, the
apparel segment generated revenues of $51.4 billion in 2008, associated to 15.8% of the sector's aggregate revenues.

With respect to the countries preferences in the global internet retail sector the Americas accounts for 49.5% of the sector's value. In comparison, Europe accounts for a further 28.3% of the sector's revenue.

SPAIN

The Spanish apparel retail sector grew by 1.2% in 2008 to reach a value of $30.1 billion in revenues. The compound annual growth rate of the sector in the period 2004-2008 was 0.8%. Within the apparel retail sector the women’s-wear segment generated the 52.8% of the total industry revenues in 2008. Meanwhile, the menswear the 32.7% and the infants-wear the 14.5% of the total industry sales.

3.3 SOCIAL

![Pie chart showing apparel retail industry segmentations in Spain in 2008: 52.8% for women's wear, 32.7% for men's wear, and 14.5% for infants' wear. Source: Datamonitor]

In few years the Internet has consolidated itself as a very powerful platform that has changed the way we do business and the way we communicate. Internet, as no other communication medium, has given a globalized dimension to the world, has made distances shorter and the world smaller. Internet has become the Universal source of information for millions of people.
Internet is now a low investment tool for making businesses. With a very low budget, anyone can have a web page in Internet. This way, almost any business can reach a very large market, directly, fast and economically, no matter the size or location of the business and almost anybody that can read and write is able to have access to the Web.

The internet and the e-business allows new forms of partnership, and improve both the way companies work and the products they offer, allowing them to be more competitive in their daily work as they can benefit from a single market from the first time.
### Internet Users in Europe

**September 2009**

- World: 75.9%
- Europe: 24.1%

Source: Internet World Stats - www.internetworldstats.com

### Internet Users in the World

**Growth 1995 - 2010**

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### Internet Top 10 Countries in Europe

**September 2009**

<table>
<thead>
<tr>
<th>Country</th>
<th>Millions of Users</th>
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<tbody>
<tr>
<td>Germany</td>
<td>54.2</td>
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<tr>
<td>United Kingdom</td>
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<td>Russia</td>
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<td>France</td>
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<td>Italy</td>
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<td>Spain</td>
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<td>Turkey</td>
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<td>Ukraine</td>
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Source: Internet World Stats - www.internetworldstats.com
TRENDS

The most frequent activity of internet users is still email, followed very closely by online searches, other regular uses are searching for a map or driving directions, looking for information about a hobby or interest, checking the weather and getting news.

Online commerce including shopping, banking and paying bills continuous to grow in popularity in the European union, 80% of internet users purchases or have purchased a product or service.

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<th>Internet Usage in Europe</th>
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<td>EUROPE</td>
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<tr>
<td>Europe</td>
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<tr>
<td>Rest of World</td>
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<td>TOTAL WORLD</td>
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NOTES: (1) European Internet Statistics were updated for September 30, 2009. (2) Population is based on data from the Census Bureau. (3) The usage numbers come from various qualified sources, mainly from data published by Nielsen Online, ITU, GfK, and other trustworthy sources. (4) Data may be cited, giving due credit and establishing an active link back to Internet World Stats. Copyright © 2009, Minivatts Marketing Group. All rights reserved worldwide.

The use of Internet depends also on gender, men are more likely than women to get news, buy travel services, check sport scores and participate in online auctions. Women are more likely than men to get health information, use support-group Web
sites, and get information about spiritual and religious topics. Young people (ages 18-29) are more likely to do research for school, use instant messaging, listen to music, use dating sites and share files.

When talking about Europeans you can see that most of the people purchase travel tickets, books and concert/ theater/ festivals tickets and clothes representing a 33% of online users, but analyzing it by gender you realize that are mostly women the ones who buy clothes with a 13% of difference.

The main sources of information when researching or considering buying a product or service are mainly search engines 76%, and more than half of the consumers use also websites of well known brands.
European online shopper’s use web research to decide which brand to buy and 40% of them change their mind while researching; showing the importance of the power that websites can have in the purchasing decision.

European online shoppers spend on average €747 each online in a six month period, 32% above 501€ and 66% between 0-500€, being Norway and UK the ones who spend the most and Belgium, Spain, Germany, France and Italy spending below European average.

SPAIN

In Spain 69% of all internet users have shopped online, spending an average of €589.75 and buying 5 items online in just 6 months, the 72% spends between 0-€500 and the 26% remaining more than €501. When looking at specific categories, it appears that tourism related products and tickets for entertainment are the most popular products for online purchases, followed by other important types of products like books, electronics, software, clothing and hardware.

Reasons not to buy online include the lack of confidence when dealing with a webpage, mainly with payments, delivery and after-sales service.
3.4 TECHNOLOGY

Businesses that do not accept online payments are letting money go away. Allowing customers the ability to make purchases from your website is essential in today's business.

One of the main worries of online shoppers is online fraud, but there are a number of payment tools you can employ now to keep the dangers away.

ONLINE PAYMENTS TOOLS

- PayPal: This is one of the most popular and well-known online payment services. They allow you to accept payments online, taking a certain percentage of the payment in fees; the customers can use credit cards and debit cards.

- Google checkout: It is supposed to be better than paypal. They are trying to reach the goal to be an equal to paypal, but offering better security and great customer service. They want to position their self's more towards preventing fraud, and paypal seems to go along with fraud and the people who are committing the fraud. Google may change the way web payment processors work by taking into account that customers do want to feel secure, as they give their credit card numbers or other personal information away.

- Shopping cart: The shopping cart allows your customers to place many items into a virtual shopping cart and pay for all items at one time. This is essential if you own a store with physical products; it allows handling multiple purchases and processing credit-card transactions.

- Merchant services: This method is offered by banks to allow small businesses to accept credit card payments. Many banks allow you to use their merchant services to accept online payments. Is an account you establish with a bank to accept credit cards. Unless you use PayPal, you'll need a merchant account to accept credit cards through your Web site.

- Electronic check authorization: With this method, business owners are available to accept electronic checks, or e-checks, from their customers. This eliminates some of the annoying of paper checks and allows customers that do not have credit or debit cards to make purchases through your site.
Hosted and licensed e-commerce solutions: This method is both hosted and owned by the main company. It has a lower initial cost, but higher monthly fees. With a licensed e-commerce solution, a business purchases the rights to use the software. It has a higher start up cost, but lower or no monthly fees.

Recurring billing: With this system, you can easily charge regular payments from your customers. This is ideal for subscription-type services. You can also use it to spread the cost of a high ticket number out over a few months.

Fraud: Cutting-edge security, fraud prevention and chargeback protection are a must in online commerce.

The Chargeback Protection service allows e-commerce companies to search a database of shoppers who have requested chargebacks in the past, and they can also submit data on people who have requested chargebacks on purchases at their own stores, all this in order to address the problem of chargeback abuse and minimize the related economic losses.

E-commerce companies worldwide that accept credit card payment are required to comply with the Payment Card Industry Data Security Standards (PCI DSS), in order to enhance payment account data security.
4. MICROENVIRONMENT: FASHION E-COMMERCE

4.1. FIVE FORCES DRIVING INDUSTRY COMPETITION

THREAT OF POTENTIAL NEW ENTRANTS: MEDIUM

Barriers of entry are medium. On the one hand the business costs and initial investment are low. But on the other hand, it is difficult to replicate a company with careful and accurate operations management.

THREATS OF SUBSTITUTE PRODUCTS: HIGH

There is a high threat of customers preferring to buy in regular retail shops, because the online buying is still no settled in the country.

Substitutes of the company could be: other web pages that sell clothes, Fashion retailers and the traditional Dressmakers.

Despite most substitutes are produced by high profitable industries, they are not subject to improve price-performance tradeoffs with our industry.
BARGAINING POWER OF SUPPLIERS: LOW

There are many Moroccan companies that are used to produce clothes for european and American countries, so there is no high bargaining power from them. Suppliers are not concentrated and there is a huge potential market of them.

BARGAINING POWER OF BUYERS: LOW

Because we are first in the new segment customized e-fashion we have a competitive advantage in the perception of the customer of our brand. The customer pays the established price, and the only option he has is to look for another e-store.

RIVALRY AMONG EXISTING FIRMS: HIGH

Rivalry between companies is high. Although The Closet has a high level of product differentiation and positioning, prices are very competitive in the normal retailer shops. Rivalry is intensified in some way because consumers have the option of comparing prices and switching websites easily.

The weak barriers of entrance and low exit barriers, the absence of direct competitors and the fast industry growth, make this a low risk industry.
4.2. BUSINESS & LIFE CYCLE

BOSTON CONSULTING MATRIX

The Customized Fashion E-Commerce is a fragmented business.

Our business has an approach for achieving advantage, but it’s small. Barriers of entry are also low. There is no relationship between profitability and market share, as there can be at the same time big competitors with small profitability, and the other way around. Supply is fragmented, so there would not be scale economy.

INDUSTRY LIFE CYCLE: INTRODUCTION PHASE

The customized fashion e-commerce is a new concept in Spain. Being in this introduction phase entails low barriers of entry and exit, as well as high prices and commercial expenses. There is no hostile rivalry or competitors. Due to this, it is easy to get new clients and also to have gross margins.
5. CUSTOMIZATION TRENDS

Markets have been evolving and what customers demand has evolved too. What once was a trend now has changed completely, mass production is a thing of the past and mass customization is what sets the trend for the future. Mass customization is a term used when customers have the opportunity to personalize or customize the items which have traditionally been mass produced. This trend is increasingly extending throughout many industries, cars, clothing, shoes, foods and more.

Customers now want to feel like individuals, they want products that are unique and that suit them, they want it their way. Mass customization allows consumers to express themselves and in the long run mass customization will end up in individualization and personalization. Mass customization deals with the great problem of inventory or stock and with sales forecasting since the processes are triggered by actual orders of what customers really want.

Huge brands are now adopting this trend and are incorporating them into their product offerings. Here are some examples:

- Massimo Dutti (Inditex) offers personal tailoring from a series of prototypes. This service is offered in some shops world-wide, and the delivery time is 3-4 weeks.
- Nike has now NikeID, a new way to design your own nike’s based on a model of shoe you can choose the colors you want, the fabrics and designs, all within a range offered.
- Puma has its Mongolian BBQ where you can choose from 3 models and choose the colors and design you want your snicker to have.
Adidas created Mi Adidas, depending on the sport you do or what you want your shoes for, Mi Adidas scans each foot individually in order to make them fit perfectly and then you can choose the colors you want and even personalize it putting whatever message you want on it.

Other known shoe brands that have adopted this trend are All Star & Dr. Martens.

Coca-Cola is going to launch a soda fountain that can hold more than a 100 flavors of soda.

Chocri is a German company that makes customized chocolate bars ordered online, you choose the base of the chocolate you want, white, dark or milk chocolate and then you choose from over a 100 toppings the ones you want on your bar.

M&M's now offers candy made with the color you want and you can either put an image or a message in each M&M.

In the automotive industry MINI is taking into account this new trend and has created on its webpage a space where you can design your own MINI roof top. Customers are able to make their own designed foil and if approved by BMW, your MINI dealer will fix it on the roof.

Another clear example of customization can be analyzed with DELL, which set the trend in the laptop market by changing the way they sold computers when they created the “direct model”; by doing so customers are allowed to customize their laptops in order to fulfill their specific needs and not only this but to also enable a fast delivery. Since this model allowed DELL to reduce inventories and as a consequence reduce cost, this benefit was translated directly to the customers. As a result customers were able to obtain a customized, low-cost computer delivered to their homes in a few days.

You can now customize not only your shoes and candies but also music, PCs, ipods, beers and a variety of services and products.

This trend of customization is a return to the old days of tailor-made products, what has changed is that now there are new technologies available which enable this customization to be done in a mass-scale, that is why its called mass-customization.

Among these technologies, internet is one of the most visible and important because it provides an interface and the virtual experience needed to help customers make their choice.
For the textile sector customization is taking part in a way in which consumers can imprint their own style in the garments they want, being directly involved in the creation process. T-shirts, jeans and all types of clothes are now being requested by customers to be delivered to them with a unique touch, helping this trend of customization gain more ground.

6. COMPETITORS

The following companies sell though internet customized clothes:

- Tailor4less: is a webpage for men and women where you can buy suits, shirts, jackets, trousers, skirts, coats and accessories. In this page you click on a predetermined model in order to choose how you want it in terms of color, fabrics, measurements and finishing. The prices are high and the fabrics are imported from England and Italy. Their mission: “In the low-cost era, a concept like tailor4less is a must: "Affordable elegance". “We believe that quality and elegance should be compatible with price”. Tailor4less ships to all over the world. (Delivery time 16 days).

http://www.tailor4less.com/en/woman/
• The dress maker online: Functioning from South Africa, this web page offers customized garments to women who have “individual likes and needs”. Their mission statement is: “We are dedicated to provide quality garments. What you want, see, need or desire we will create for you, with fanatical attention to every little detail.” They concentrate on evening dresses. (Delivery time 4 to 6 weeks)

http://www.thedressmakeronline.co.za/

Anne Spang: This is a web page from Denmark, which offers tailor-made clothes with high quality and quick delivery. They have a variety range of products; which includes jackets, trousers, skirts, shirts, vests, suits and coats for men and women. In this page first you have to choose the product, and then you decide the fabric taking into account quality/price and color/pattern, the style of the product, choosing between the basic styles or altering the design with the predetermined options.

They have high prices and offer a style guide to help you find the perfect clothes for your body shape, this in order to be consequent with offering clothes that will perfectly fit you, no matter your body shape. They also offer information about the fashion trends of the current year, making emphasis in the colors, clothes and accessories of the current season. (Delivery time 3 weeks from the day payment is received).

http://www.annespang.com/shop/frontpage.html
Light in the box.com: This web page offers you dresses for all kind of especial occasions, weddings, parties, cocktails and you can also find a special section of dresses that famous have wore, dividing it by well-known series and awards like gossip girl, sex and the city, Emmys, Cannes Festival, Grammys, Oscar, Golden Globes etc. They give you the option to obtain the dresses changing only its color and size at affordable prices. Finally they offer a Custom tailor page where they give you advice of how to measure yourself and a size chart. (Delivery time 16 days).

http://www.lightinthebox.com/wholesale-Women-s-Clothing_c1755
These web pages make clothes but they have a more narrow range of products or options from which the customer may choose from. Another basic difference is that these companies are not focused on the Spanish market; they may sell in Spain but are not mainly concerned about the Spanish consumer.
6. SUBSTITUTE PRODUCTS

Tailoring fashion through internet can be replaced by the customer for the following:

7.1. PRET A PORTER

Fashion e-commerce: Consumer can find similar products, although without value of personalization and exclusivity. This business is still not very developed in Spain. The main fashion retailers operating in Spain do not offer online shopping. Inditex group and H&M are the fashion shops with higher sales in this country. However, neither of these brands has online services, apart from catalogues or information. Mango has an e-shop, whose sales have increased 35% from last year world-wide.

Companies without a shop in place, but who may have a catalogue, like La Redoute or Asos, are also competitors. Another trend is the online outlet shops that offer brand-name clothes with a high discount. Webpages like Buyvip or Vente Privée receive up to 800 visits per day.

Fashion retailers: The traditional shops offer the experience of trying on, comparing in situ, and attending to them is for many woman a hobby.

7.2. HAND MADE CLOTHES

Traditional Dressmakers: This service provides the added value of a face-to-face service, on which the clothes can be 100% personal and adapted to the customer’s demand. There is no legal limitation. However, the cost of this service is higher, due to the labor cost and the fitting service.
8. SUPPLIERS

RELATIONS WITH SUPPLIERS

Since our production process is going to be developed in Morocco, our agent will be in charge of handling the relation with our raw material suppliers. This relation is key for the business as it is one of the most sensible variables in the entire process, because of this our agent will not only be based in Morocco but is also Moroccan in order to avoid any cultural differences during the negotiation and speed up the process of knowing the suppliers and their background. Hiring a local will enable us to take advantage of its knowledge on the way things work and of the pre-established relations he/she might have.

HOW TO LOOK FOR SUPPLIERS

The best way to look for manufacturers, importers, distributors or business partners in Morocco is using the support of different institutions:

- Economic and Commercial Embassy Office of Spain in Rabat
- Spanish Chambers of Commerce in Tangier and Casablanca
- Autonomous promotion Institutes (eg, Instituto Valenciano de Export-IVEX, COPCA, Chambers of Commerce ...)
- AMITH (Association Marocaine des Industries du Textile et de l'Habillement)

Other options can be participating in the commercial activities and business meetings organized by the Spanish institutions in Morocco, or participating in the Moroccan- Hispanic annual forum of investments and business cooperation, which takes place every year in Tangier. It is organized by the Spanish Chamber of Commerce in Tangier, the AMITH, the division of investment and business cooperation of the Spanish Foreign trade Institute (ICEX), the Spanish Confederation of Business (CEOE) and the Spanish Intertextile Council (CIE).

Another way can be participating in the industry trade shows which are organized in an annual base. For the textile sector here are some examples:

- MAROC SOURCING: "Salon des matières textiles, finissage, accessoires et services textiles". This is an international trade fair held biannually in Casablanca. It is organized by the AMITH in collaboration with the Moroccan Exportations Promotion Center.
SALON MAROC IN MODE: This trade has several editions per year in Morocco and abroad and it is organized by the AMITH (Association Marocaine des Industries du Textile et de l'Habillement.)

9. POTENTIAL ENTRANTS

Being on the first period of the lifecycle of the business entails the threat of new entrants to the business. The manufacturing cost of the product is low. The incorporation of the developing countries that, due to its demography and resources should be world powers, but are not because of historical issues, allows having cheap manufacturing to the retail companies. Labor costs on the BRICs are far lower than in US or Europe, in both low and high qualification.

The crisis has enforced the presence of the Asiatic suppliers, lowering the imports of the EU to 11%. China was in 2009 the main supplier to Spain, with imports reaching 1,344.3 millions of euros, only in the first semester of 2009. For instance, Inditex’s last year memory reflects that 35.16% of its production is made in Asia. And this is also made by luxury companies like Armani, Hugo Boss or Prada.

There is an easy access to suppliers, with a growing amount of factories with competitive prices and occidental knowledge on qualities.

Entering the tailor e-commerce does not require a high investment. Production can be outsourced, so neither factory nor special machinery is required. This entails a low switching cost for the companies that want to enter the business.

Taking into account the previous facts, leads to understand that the success of the business relies mainly on the logistics and marketing since The Closet has to educate the Spanish women in this new service. Production costs may be low, but transporting the items up to Spain, and not rising the cost, means the difference between being profitable and not. The complex operation may increase the final product to customers, ending with the business idea of affordable prices.
10. SWOT & SUPER SWOT

STRENGTHS

- No standardized product, can adapt to customer needs and desires.
  The fundamental basis of The Closet is based on the idea of fulfilling customer’s desires. They will send to The Closet the design of the clothes they want to be tailored and we are in charge of making a reality this design. In conclusion, we don’t have a pre-established base of designs; we are flexible enough to adapt to customers’ needs.

- Functional web page, easy to manage.
  It will provide the customer the virtual experience needed to help them to make their choice. The Closet will be characterized by how easy is to manage the web page. It will emphasize in making the processes of taking measurements, explaining their design and the additional changes they would like to include and making the requested very entertaining and didactic.

- Clothes at affordable prices.
  To provide affordable prices to our customers our production will be outsourced in Morocco in order to obtain lower manufacturing costs than in Spain. This idea is also possible taking into account the distribution channel that The Closet is using, since we are web based, meaning that we don’t have stores and additionally outsourcing the manufacture phase we don’t incur in large fixed costs that would at the end increase our final price.

- Customized Fashion oriented business
  Our business is focused on customization fashion, that’s why our mission is to fulfill the activities of a tailor but with the additional value of being global, low price driven, accessing the service without moving of your home, office, university, etc. and having a free advice about fashion, trends and what fits customers best.

- Easy to expand to international markets.
  As being web based the_ closet has the opportunity of reaching different countries in an easy way, at a low cost, with practically the same infrastructure.
This expansion will only be constrained by the costs of transportation, if they still allow the closet to be profitable.

**BOOST STRENGHTS**

- Continuous improvement of the delivery process to reduce time and cost. A key process in our value chain is the delivery, in terms of cost and time, being this issue one of the most important facts in the decision making for buying in the web. The Closet has to be able to offer their customers a cost and time efficient process so customers can be highly satisfied and become recurrent customers.

- Manufacture in Morocco to reduce costs to achieve affordable prices to final consumers. Making the manufacturing in Morocco is very important for The Closet; as this would be one of the key drivers to be able to offer our clients the promise of customized clothes at affordable prices. All the above taking into account that in Morocco is possible to find low labor costs which would be translated into lower production costs for The Closet and finally lower prices for the customers.

- Consolidate and maintain solid relationships with partners to assure quality and time delivery. As the delivery process is one of our strategic keys in developing our value proposition and our positioning in the market as fast delivering, cost-efficient and average quality, we have to ensure solid relationships with partners in Morocco, including manufactures, distributors and quality controller to be able to truly certify and deliver the customer our value proposition.

- Invest in high qualified web designer and apply cutting edge technology. This is one of the ways The Closet can deliver to their customers the idea of creating a functional web page that is easy to manage, were they can experience in the best way possible the customized fashion e-shopping.

- Positioning our brand as the first not standardized-customized business. This idea will allow The Closet to take advantage of being the first in Spain in this kind of business and be positioned as the top of mind in the standardized-customized sector.
WEAKNESSES

- No previous experience in this business.
  None of the team members has been previously engaged in a project of this kind, no previous background in founding a company or dealing with outside suppliers.

- The Closet is an unknown brand in the market.
  People tend to buy clothes from known brands from which they've already bought clothes before because they know their size and how it fits.

- No previous relationship with manufacturers.
  The Closet lacks of a commercial relationship with manufacturers in Morocco to begin operations with an established producer.

- No physical contact with the client for information.
  Since the business is solely based on internet there is no physical contact with the clients in order to have a face to face interaction to give the feeling of the classical tailor.

- Dependence on third party elements such as logistics companies.
  Transportation is carried out but a company that cannot be control by us.

CORRECT WEAKNESSES

- Hire a person in Morocco to do quality control.
  Quality is a major issue in the value proposition from The Closet to the buyers, for this reason a person will be hired in order to guarantee that quality standards are met and the clothes are sent complying with the requirements of the customers.

- Continuous investment in marketing.
  To position the page and have brand recognition there will be a marketing budget to invest in search engine marketing (SEM) and online advertising. There will also be an online PR campaign to create a buzz.
OPPORTUNITIES

- Customer has evolved and customization is what sets the trend for the future.
  Nowadays customers want to have the opportunity to personalize or customize the items which have traditionally been mass produced, customers wish to feel like individuals, they want products that are unique and that suit them, they want it their way.

- Mass customization is a trend that is increasingly extending throughout many industries, cars, clothing, shoes, foods and more.
  Different traditional industries and brands are entering the customization trend cars, clothing, shoes, foods and more. This customization is a return to the old days of tailor-made products, with the difference that now it’s developed and enhanced by the technology available.

- Internet as a Tool
  Internet has become a low investment tool for making business. This way, we can reach a very large market, directly, fast and economically, no matter the size or location of our business and almost anybody that can read and write can have access to the Web.

- Spanish online commerce including shopping has been continuously growing.
  Spanish internet shoppers have been increasing during the last years, and the fact that in Spain, apparel e-commerce is still lower (30%) than the European average (32%) means that companies of online shopping are still in the growing market.

- Plus size women.
  It is very difficult to find trendy apparel for less used sizes, which make those users be dissatisfied with the retail environments, fashion and sizing provision among Spanish market players. The plus size woman has great difficulty in finding well-fitting fashionable clothing.

- The people between 25 to 34 years old buy more frequently clothes through internet.
Our target is Spanish women between 20 and 35 which include the segment of those trendy technological optimist young people who buy more cloths through internet.

- The people that buy in internet are price driven.
  People that buy on internet is principally because they are looking for lower prices. (E-Commerce study B2C 2009, Spanish Government, Ministry of industry commerce and tourism).

MAXIMIZE OPPORTUNITIES

- Offer trendy customized low cost products.
  Giving the customer the products that they really want but cannot afford, that are unique and that suit them, what they want the way they want it.

- Enter the Spanish market, which is still growing in online shopping.
  Be able to position first in the market as brand with personalization and exclusiveness values in a growing market in which customers want to be treated as individuals.

- Focus our attention in the young people segment.
  Our principal segment would be the frequently online shoppers.

- Make the web page inclusive for plus size women.
  Target those women that are being left aside offering them well-fitting fashionable clothing.

- Integrate customization with fashion information and assessment.
  Build the customer relationship giving personalized and customized services and products to help them find their perfect fit.

THREATS

- New category in the market.
  The creation of this company encounters the inconvenient of being a new and unknown category in the Spanish market. Spain is under the average of e-commerce usage compared to Europe. These two factors make a barrier that should be faced.
• Change in the current policies and legislations of design's property.
   The current Intellectual Property Rights regarding fashion designs allows retail firms to take inspiration in others designs. However, these policies might change in the future.

• High amount of substitute products.
   A not very clearly shown competitive advantage of the company, may maintain the customer’s preference to both the normal retail brands and the traditional dressmaker, on which there is no threat of size misunderstanding.

• Preference on physical shops.
   Customers are loyal to those brands that have a physical shop and who besides that offer an experience.

• Lack of confidence of the customers.
   Possible customers fear to share their personal data and payment information to an unknown receptor that may abuse of this data for its own profit.

• Online expenditure of Spanish consumers.
   72% of Spanish internet users that shop online spend less than 500€ during 6 months, whereas European online shoppers spend on average €747.

• Danger of online fraud.
   There is the possibility that any external agent cracks the service and therefore, the company offers a fraudulent transaction without being aware of that.

FACE THREATS

• Provide added value.
   The customers should receive a valuable service that enforces the link and loyalty to our brand.

• Develop strong marketing.
To avoid the lack of knowledge from our target group, an accurate marketing campaign should enforce the awareness of The Closet in the potential customers.

- **Making Operations a priority.**
  The production processes should be carefully developed, to provide the customer the shortest delivery time possible, and make it a competitive advantage and increase customer satisfaction.

- **Enforcement of security and information.**
  Using the service of security companies (e.g., Verisign) the reliability of transactions will be proved. Also, by showing the information of the company and contact, clearly available for the potential customers, we would reduce the uncertainty and fears towards internet security.

- **Deep study of the Moroccan culture and business.**
  By previously studying the gaps between the two countries and by hiring local people, many problems would be avoided.

## 11. COMPANY OPERATIONS

### 11.1 WHY MOROCCO

Morocco is one of the Arab countries most attractive for the European investors because of: their logistic advantages (proximity to Europe); tax incentives (not paying corporate tax in the first five years); low labour cost; a guaranteed transfer in: invested capital, dividends, other investment-related revenues, and capital gains on asset sales; non-double taxation treaties and financial aids.

Examples of this incentives are: labour cost in Morocco is 73% lower than in Spain (minimum wage 200 Euros), the social security accounts for 18.7%, compared to the 34% in Spain, the cost of a transported kilogram is 60% lower than in Spain and the inflation is only around the 2%.

With respect to the high competition coming from Asia, the Moroccan companies have something that China cannot compete with. The fast adaptation to the demands of the European customers as being able to deliver the orders within a
week and the costs incurred in shifting the quality control equipment and team to Asia in comparison with Morocco (cost-distance).

As a result of this, around 1,200 Spanish companies are installed in Morocco. Most of them are from the food, energy, textile, automotive and fishing industry; some of these examples are Mango and Zara. The former subcontracted suppliers who handle the manufacturing, mainly produced in China (approximately 45%), Morocco (23%) and the rest in workshops in different countries such as Turkey, Vietnam or India. For Zara and the Inditex group Morocco is his second-biggest supplier because of his proximity to Spain, it allows the firm to get new designs to European stores in a few days, helping it react more quickly to catwalk trends.

11.2 PROCESSES

The head-quarter of the company will be in Madrid where we will have the administrative departments; we would have also a subsidiary in Morocco where we’ll have the operations.

The operations begin with the customer order, she will sign in on the web page and will send the requirements of her order; the designer will receive this and will make a proposal customized for him and would send it back in a working day.

Once we have the compliance of the customer about the design, we will begin the tailoring process, which consist of four activities: first pattern, this is making the templates from which the parts of a garment are traced into fabric; second cut, get the style or shape of a garment in its fabric; third sew, the fastening of the fabric and the accessories to finish the garment; forth Quality assurance, this final activity is the systematic monitoring and evaluation of the various aspects of the final garment to ensure that standards of quality and customer requirements are being met, if the result of this activity is a rejection of the garment the process will begin again, if not it will pass to the next step. All this process will take between 2.64 hours and 5.28 depending on the quality assurance.

Continuing with the process the next step will be ironing, packaging and labeling. Arranging, enclosing and protecting in the The Closet box the products for distribution, then the requirements for distributions will be checked, this requirements are: city, day, hour and address for delivery. All the order of the week will be deliver to the logistic operator for the transport to Spain.
Finally in Spain the order will be delivered to the customer’s house. If he has any problem regarding the product quality, requirements or measures, he will be given a bonus to go to a tailor and make the rearrangements.

The transportation will be done with a logistic operator that will be in charge of the delivery of the product to the different destinies. It will depart from Casablanca (Morocco) in ship and arrive at Algeciras (Spain) in 36 hours approximately. Then it will go by truck to the different cities, the time of arrival will depend on the city. In total the customer will receive his product in 15 day max, this already taking into account the different problems that the logistic operator may encounter, such as strikes, weather, and illegal immigrants.
11.3 PURCHASING PROCESS

MATERIALS

The fabrics and accessories used for the production of the garments will be bought in Morocco. The procurement of the raw materials will be done by an e-catalogue; The Closet from selected suppliers has an e-catalogue of the fabrics offered, the price per meter and the minimum amount of meters needed for an order to be placed. The agent is in charge of verifying the quality of the materials delivered to the tailor, the amount of fabric that the tailor effectively receives and the waste of material that can be reusable once the garment is finished.

The procurement policy is established by an agreement made with the supplier in which the supplier will provide a fabric data base for The Closet of pre-established fabrics and colors which will be at disposal for ordering when an order is placed. Orders will only be placed by a pull system; once an order is placed to The Closet, the purchase order of the materials will be made; this due to the fact that no physical warehouse will be available to store raw material and no inventory costs are contemplated within the normal operation.
11.4 IMPORT PROCESS – LOGISTIC OPERATOR

The first step for carrying out operations in Morocco is to obtain the number of foreign trade operator and for that it is necessary to contact the local office of the Department of foreign Affairs. It is indispensable to submit the certificate of “high patent” and the number of Registration trade (no fee is charged).

For beginning the import activity is necessary the registration in the “Registro de Comercio” and in the “Fichero de Operadores de Comercio Exterior” (FOCE). The first one is done in the first level court of the place where the principal location or headquarters of the society is located, in our case Spain. The second takes place in the Directorate of Foreign Trade Policy. To register for the FOCE, it is necessary to submit the following documentation:

- Trade Registration Certificate.
- Registration Certificate in the role of patents. It should be necessary to clarify the type of importer for the traders and the type of manufacturer for the industrial.

IMPORT RULES AND PROCEDURES

We can freely import from Morocco all kinds of products unless there are very specific (like explosives, fireworks etc.). In this case the importer must sign a commitment to import (with 5 copies) along with a proforma invoice. This document allows the traffic of merchandise through the customs and helps facilitate its payment (this document has a validity of six months). The merchandise that is exempt of the payment is not forced to present this documentation. Nevertheless, occasionally there could appear restrictions or prohibitions on the imports of certain products.

The goods that are subject to import licenses, must submit a document (with 6 copies) along with a proforma invoice. The decision of approval or denial of the license is provided within a month. The validity of the statement is three months.

The goods subject to customs duty must present their request in four copies along with the proforma invoice; the validity of the statement is six months. The documents presentation has to be always accompanied by a “Declaración Única de Mercancía” (DUM).

TRANSPORT

We are going to use a Maritime mean of transport taking into account that this mean has the lowest cost in the customs procedures and in the delivery process to
Spain. This transport will depart from Casablanca, Morocco with final destiny Algeciras, Spain.

In Algeciras, the logistic operator will unbind the load and transfer it to a terrestrial mean of transport that will deliver the package to the customer.

IMPORTATION TITLE FORMS

Importation forms must be accompanied by a proforma invoice containing five copies:

- The unit price expressed in the output –factory value, FOB.
- The amount expressed in the appropriate units.
- The trade name of the product.

For the previous import declarations and import licenses is admitted:

Overcoming the initial total amount by 10%, with the condition that this superavit is derived from an increase in the unit price that doesn’t exceed the 10%.

Overcoming the initial total weight by 10%, with the condition that this superavit doesn’t result from:

- An over cost of the initial total amount of goods.
- An over cost of the number of units.
- A reduction in the unit price of the goods.

TARIFF BARRIERS

Since February of 2001 there are only four basic rights for the calculation of the import duties, ranging from a low 2.5% to a maximum of 40%. However, there are several exceptions depending on the product, affecting mainly the agricultural products and the ones locally manufactured, reaching the maximum duty of 339% for imports of animals and sheep meat products derivatives.

At this moment would have to pay in average a duty of 12% and VAT of 18%.

NON-TARIFF BARRIERS

The Association Morocco-EU Agreement that is in place since March 2000, has launched a dismantling of tariffs process between the two territories which should culminate in 2012 with the existence of a free trade zone of industrial products. It means that the industrial native products from both sides
would flow without any duty restrictions. The dismantling of tariffs is progressive, to know the status of a particular item, the schedule arrangement for the agreement of the corresponding duty should be consulted.

On October 21 of 2003 European Commission reached an agreement with the Moroccan Government regarding the progressive trade liberalization in agricultural products.

In the case of industrial products, a progressive dismantling of the duties and charges that affect the trade between the two territories has been established, with a transition period of 12 years as maximum, since the agreement came into effect in March 2000. It established three product groups.

Those for which the custom duties and charges will be abolished, having an equivalent effect for the import of products originated in the EU since the agreement came into effect. This section refers primarily to the equipment that nowadays is already liberalized.

The products that will phase the progressive dismantling of the duties and charges would follow the following steps:

75% of the basis, when the agreement comes into effect, a year later a reduction of 50% of the basis, after two years a reduction of 25% of the basis and three years after the implementation of the agreement will be removed the remaining rights.

The products locally manufactured that have slowly dismantling procedures after three years of the agreement has come into effect would be 90% reduced and would progressively continue reducing 10% yearly, until being totally liberalized after 12 years since the agreement has come into effect.

Finally, there is a list of products excluded from the Agreement.

11.5 MARKETING AND SALES

- Advertising and public Relations
  The CMO is in charge of this area, here is where the marketing and PR strategies are defined and developed.

- Establish contact with the potential customers via the The Closet web page.
Through the The Closet’s web page we will track and contact people that can become our future customers, and manage the advertising and promotion campaigns.

- Reception of the quotation and delivery to the customer
  The marketing department will receive a quotation from the finance department specifying the cost and price of the order and a design proposal from the design department, that will be sent to the customer.

- The Closet web page Customer survey
  There are two points in the process where we are going to obtain feedback from the customer through a survey in our web page. First, when the product has been delivered to know if the customer is satisfied with the product and the clothes have a perfect fitting or a modification is needed; second, after the modification has been done to know if the customer is now satisfied.

11.6 QUALITY

- Raw material reception
  After the operations department puts the purchase order, the supplier will send the raw materials to the agent, who will be in charge of handing it to the tailors.

- Quality assurance
  The agent will receive the raw materials and he will make sure that they are the ones needed and that they comply with the The Closet quality requirements. If they comply he will take them to the tailors.

- Return raw materials
  If the raw materials do not comply with the quality requirements the agent will send them back to the supplier.

- Internal quality Assurance
  After the order has been tailored the agent verifies that the product complies with the requirements, if not he will give it again to the tailor if it is okay he will inform the financial department.
11.7 OPERATIONS

- **Design Proposal**
  The designer receives the order from the marketing department and makes the design proposal.

- **Determine Raw materials**
  The designer will determine the list and quantity of the raw materials needed to produce the order.

- **Put the purchase order**
  After the marketing department informs the operations department that the customer accepts the proposal the purchase order will be put in place.

- **Send order to tailoring**
  After the raw materials are approved, the order for the tailor in Morocco will be put in place.

- **Logistic Operator**
  The agent will be in charge of managing the relations with the logistic operator that will make the logistics and duty payments from Morocco to the customer’s location by maritime and terrestrial means of transport.

- **Deliver the product**
  The agent will be in charge of supervising that the product arrives to the customer’s location within the time expected.

- **Fitting modifications**
  If any fitting adjustment to the product is necessary, the customer will receive from us a bonus for La Retoucherie to make the required modifications.

11.8 FINANCE

- **Make the quotation**
  The financial department after receiving the list and quantity of materials from the operations department prepares the quotation for the order determining the final price.
• Receives the payment
   After the customer accepts the design proposal it has to make the payment of the order via the web page in order to continue with the process.

• Pay suppliers and payroll
   After receiving the materials and determining if they are accepted, the chief financial officer will authorize the payment to the supplier. She will also approve every 30th of each month the payment of the payroll to the employees.

• Invoice
   When the product is finished and sent by the agent the CFO will authorize to payment of the invoice to the suppliers.

• Make the financial statements
   The CFO will be in charge of making and conducting the financial statements and arrange to deliver the necessary information to the accountant.

• Tax payments and financial expenses
   The CFO must authorize the payment of the taxes and financial expenses of the period, taking into account these main points:
   
   • Corporate tax in Spain: 30 %.
     We would try to get a 25 % tax for small companies for the first €120.000 in revenues, from there on 30% would be applied.
   • Corporate tax incentive: 3% credit for expenses in activities related to internet or e-commerce for small and medium-sized companies.
   • VAT, consumption tax is borne ultimately by the final consumer → 18%
   • Capital Duty, is generally levied on the contribution of capital upon the formation or upon a subsequent increase of the subscribed capital = 1% on the value of the net assets.
   • As the subsidiary in Morocco is an exporter we have an exception of the corporate tax for 5 years and a 50% reduction after this period.
   • Morocco has signed a non-double taxation treaty with Spain.
MARKETING & SALES
- Advertisement and public Relations.
- Establish contact with the potential customers via the closet web page.

OPERATIONS
- Design Proposal
- Determine Raw materials
- Put the purchase Order
- Send order to tailoring (Morocco)
- Return raw materials

QUALITY
- Reception of the materials
- Quality Assurance
- Compliance
- Invoice
- FILE*

FINANCE
- Make the quotation
- Receives the payment
- Pay suppliers and payroll
- Invoice
- FILE*
12. QUALITY CONTROL

12.1 CUSTOMER REQUIREMENTS PROCESS

CUSTOMER MAKES THE ORDER

The Closet in its webpage receives an image, uploaded by the customer or selected by her from the image date base available in the webpage, and enters her measures. This information is recorded as customer requirements in our customer database. This record enables us to have an indicator of the percentage of recurrent customers, since it will show how many times this information is retrieved by the customer.

DESIGN PROPOSAL

Once the customer has sent all the data required, the designer from The Closet will develop a change in the model with the modifications necessary to personalize the model and define the fabrics and colors in which it could be available in order to send it to the customer. The proposal is sent to the customer with the price, the customer then will decide if the product is accepted or not.

In this point of the process a record of the customers lost will be taken, this measure will help us know if the designs proposed are really fulfilling the expectations of the consumers by having the percentage of customer that never get to make the order.

If the proposal is rejected by the customer then the process is over at this point, if it’s accepted then the process continues with the normal flow.

PRODUCT DELIVERY

The finished product is ready for delivery and shipped to where the customer is. Once this process has ended an online survey will be sent to the buyer to know if all its requirements were satisfied, as an indicator we will have the percentage of requirements met.
12.2 PRODUCT REQUIREMENTS PROCESS

RECEIVES PRODUCT REQUIREMENTS

All the data required from the customer is collected, image of the garment, measures and specifications. The specifications of the product done by the customer will be filed to identify what are the customer trends and likes.

DESIGN PROPOSAL

With all the data available the designer works on the model proposed by the customer, makes the necessary modifications, taking into account the client specifications and the measures to provide a model that varies with the original and better fits the customer. At this point the average time it takes between the customer putting the order and receiving the design will be measured.

DETERMINE RAW MATERIAL

Once the design is done, the designer has to determine what material is going to be used to manufacture the garment and make sure that the fabric is available.

Once the design is ready and the fabric is selected it’s sent to the client for acceptance, if the client refuses the design sent, a redesign is done and sent again, if the proposal is accepted then the manufacturing process may begin.

PUT THE PURCHASE ORDER

Once the design has been accepted by the customer the materials necessary to produce it have to be purchased, an order is made to the supplier of raw materials which will be delivered to the tailor. A record of the materials orders will be kept in order to keep a track of the most used materials.
TAILORING

With the pattern and the material on the site, the tailor begins the pattern, cutting and sewing process. The average time it takes to have a piece ready will be recorded to have the data of the process time.

QUALITY ASSURANCE

Once the garment is finished, the designer has to verify that it complies with the specifications set by him/her, the cuts have to be well made and the entire sewing perfect. If the piece doesn’t approve the designer’s inspection then the product will have to be made again.

A record of the outcome of the quality evaluation will be kept; this will enable The Closet to have information about the percentage of products rejected. If the piece approves the quality inspection then the product continues with the process.

PRODUCT DELIVERY

When the product is ready still at the tailor’s location the product delivery is coordinated with the logistic operator in order to reach its final destination. The average time it takes for the product to go from the manufacturers premises until it reaches the customer will be measured to have data of how long is the transport taking.

12. 3 CUSTOMER SATISFACTION PROCESS

DESIGN PROPOSAL

After completing the basic steps established by The Closet to make an order, the customer receives back a proposal which shows how the garment selected is going to look after being customized to the clients needs and specifications, the fabrics and colors in which the garment will best suit the customer and the price.

All the order details from the customers will be recorded and indicators will be measured: the percentage of customers that are recurrent
and what percentage of promotions is redeemed, all this to measure client loyalty.

If the customer accepts the proposal sent the process continues, if not then a redesign is made and a new proposal is sent again for customers approval, the reasons for disapproval will be asked to the client in order to improve the flaws.

DESIGN, TAILORING AND RECEIPT

When the proposal has been accepted by the customer then all the internal procedures are triggered in order to produce the defined garment and send it to the customer.

The customer receives the product and tries it on and decides if it fits as desired, if the garment fits perfectly then the process ends, if not then an assessment of why the clothes are not fitting will be made. If the clothes are faulty because of an internal process error, then The Closet will give the customer a bonus to make the modifications required. If it doesn’t fit because of an error made by the customer when giving the measures or instructions then the modifications will not be paid by The Closet.

The percentage of returned products and the percentage of re-adjustments made will be measured to keep track of how many faulty items are being shipped to consumers and to evaluate what are the problems in the process.

Once the modifications have been made the customer will again try the clothes on and see if there’s still missing some kind of improvement to be made. If no other modifications are to be made then the process ends and the client has approved the product received.

After finalizing all this process a customer survey will be sent to the buyer in order to evaluate the overall satisfaction with the product and service delivered by The Closet. An indicator will be also evaluated to see the percentage of customers that have made an order and don’t order again after 4 months of receiving their design.
Customer Requirements Process

CUSTOMER

Customer makes the order

NO

compliance

YES

END

Product Delivery

COO DELIVERY

Design proposal

CQO DESIGN

% of costumers that never makes an order

% of requirements met

% of recurrent costumer

% of costumers that never makes an order

End customer Survey

End customer

% of requirements met
Customer Satisfaction Process

- % of recurrent customers
- % of promotions redeemed

Reasons for not approving the design.

- Mail with access link to a survey

Problems in production. Problems in logistic.

% of return product

- % of clothes re-adjusted

End costumer Survey

- % of clients that Don't make and order after receiving the design.
## 13. COST & EXPENDITURE SUMMARY

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<th></th>
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<th>Year 2</th>
<th>Year 3</th>
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<td>INSURANCE</td>
<td>€ 240</td>
<td>€ 244</td>
<td>€ 249</td>
<td>€ 254</td>
<td>€ 259</td>
</tr>
<tr>
<td>OFFICE RENTAL</td>
<td>€ 10.800</td>
<td>€ 11.016</td>
<td>€ 11.236</td>
<td>€ 11.461</td>
<td>€ 11.690</td>
</tr>
<tr>
<td>UTILITIES</td>
<td>€ 3.960</td>
<td>€ 4.039</td>
<td>€ 4.120</td>
<td>€ 4.202</td>
<td>€ 4.286</td>
</tr>
<tr>
<td>Air Conditioning</td>
<td>€ 840</td>
<td>€ 857</td>
<td>€ 874</td>
<td>€ 891</td>
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<tr>
<td>Water Consumption</td>
<td>€ 720</td>
<td>€ 734</td>
<td>€ 749</td>
<td>€ 764</td>
<td>€ 779</td>
</tr>
<tr>
<td>Electricity</td>
<td>€ 1.800</td>
<td>€ 1.836</td>
<td>€ 1.873</td>
<td>€ 1.910</td>
<td>€ 1.948</td>
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<tr>
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<td>€ 612</td>
<td>€ 624</td>
<td>€ 637</td>
<td>€ 649</td>
</tr>
<tr>
<td>CLEANING PERSONEL</td>
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<td>€ 624</td>
<td>€ 637</td>
<td>€ 649</td>
</tr>
<tr>
<td>INSURANCE</td>
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<td>€ 127</td>
<td>€ 130</td>
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<td>€ 115.757</td>
</tr>
<tr>
<td></td>
<td>Year 1</td>
<td>Year 2</td>
<td>Year 3</td>
<td>Year 4</td>
<td>Year 5</td>
</tr>
<tr>
<td>------------------------------</td>
<td>---------</td>
<td>---------</td>
<td>---------</td>
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<tr>
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</tr>
<tr>
<td>--------------------------------</td>
<td>-------------</td>
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<td>SALARIES MAD</td>
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<td>€ 78</td>
<td>€ 80</td>
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<tr>
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<td>€ 1.100</td>
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<td>€ 155</td>
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<td>€ 249</td>
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<td>€ 259</td>
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<tr>
<td>OFFICE RENTAL</td>
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<td>€ 909</td>
</tr>
<tr>
<td>Water Consumption</td>
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<td>€ 637</td>
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</tr>
<tr>
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<td><strong>€ 113.551</strong></td>
<td><strong>€ 115.757</strong></td>
</tr>
</tbody>
</table>
14. MARKETING

14.1 SEGMENTATION

DEMOGRAPHIC SEGMENTATION

Market: Spain

1 INE, Instituto Nacional de Estadística.
2 http://www.internetworldstats.com/europa.htm
Our demographic segmentation begins with the Spanish population, our main market. Then we select those who are internet users, these represent a 63% of the total population, of all, 69% have shopped online, and 33% have purchased clothes.

From this possible market we decided that the ones who fit better The Closet customer profile will be, females (40,4%), medium income (47,3%) and high + medium high income (36,3% and between the ages of 20-35 years old (31,1%), having a potential market of 688,957 women in Spain.

<table>
<thead>
<tr>
<th>FEMALE</th>
<th>HIGH + MEDIUM HIGH</th>
<th>MEDIUM INCOME</th>
<th>AGE 20-35</th>
</tr>
</thead>
<tbody>
<tr>
<td>40%</td>
<td>36,3%</td>
<td>47,3%</td>
<td>31,1%</td>
</tr>
<tr>
<td>2,649,877</td>
<td>961,905</td>
<td>1,253,392</td>
<td>688,957</td>
</tr>
</tbody>
</table>

Source: Estudio sobre comercio electrónico B2C 2009, GOBIERNO DE ESPAÑA, MINISTERIOS DE INDUSTRIA, TURISMO Y COMERCIO

PSYCHOGRAPHIC SEGMENTATION

Our target is women that use internet as a usual channel for information, communication and shopping. Look for convenience and variety, have innovative and impulsive behaviors towards internet shopping. They are considered trend setters or fashionable, and have low risk aversion.

Hence we are focusing on trendy, stylish, fresh looking and cosmopolitan women. A woman engaged in fashion, who anticipates trends, stays updated, enjoys shopping, develops fashion expertise to share and thinks fashion is entertainment. This woman loves the sensation of being part of an exclusive club.

Our costumers read Elle, Vogue, Vanity Fair, Cosmopolitan, Hola, and are aware of the latest technology, they are technology optimists: they believe technology makes their life more enjoyable, like adventure, travelling and risky sports. Change and all which seems to be innovative is important for them.

In this order of ideas The Closet customer could be summarized in a persona called ANA. She is a single 27 year old female that works and has no
kids. Who likes technology, shopping, music, partying and looking for new things; dislikes waiting, crowd when shopping and status quo. She has as hobbies traveling, reading and sports. Ana’s goals are being successful in her career and have her own business, she does not discard love but she has a practical approach regarding this aspect of life; you could describe her as sociable, fashionable and original.

Having in mind our target, we obtain four different clusters of our demographic segmentation that consist in: Basic, women disengaged with fashion, that do not enjoy shopping and do not spend much time thinking about what to wear; Occasional, participate in fashion and enjoy shopping for specific needs, think about fashion only for specific situations and for them fashion is both entertainment and practical; Planners and Shoppers, participate in fashion on a regular basis, stay up to date, enjoy shopping and think fashion is practical and Fashionistas, are highly engaged in fashion, anticipate trends and stay up to date, think fashion is entertainment and enjoy shopping, they also like to develop fashion expertise to share.

Finally taking into account the above information we obtain a potential market of 54% considering fashionistas and planners and shoppers, and given that the first year our production capacity is low and we will center our attention in educating the customer and building our brand, our first year market share will be 4% of fashionistas (early adopters) and 1% of Planners and Shoppers, which means 7,349 women.
14.2 POSITIONING

POSITIONING AIM

We are a customize fashion e-store that provides young, modern and urban women, a *tailor-made apparel* according to their desires, integrating design and efficient processes, at an *affordable price*. We want to be the reference fashion web page to style-concerned women that do not want to spend a big amount of money.

<table>
<thead>
<tr>
<th>CLUSTERS</th>
<th>POTENTIAL MARKET</th>
<th>Percentage</th>
<th>MARKET SHARE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fashionitas</td>
<td>121,933</td>
<td>4%</td>
<td>4,877</td>
</tr>
<tr>
<td>Planners &amp; Shoppers</td>
<td>247,198</td>
<td>1%</td>
<td>2,472</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>369,132</strong></td>
<td><strong>5%</strong></td>
<td><strong>7,349</strong></td>
</tr>
</tbody>
</table>
BLUE OCEAN STRATEGY

Our product will be in a new category placed between traditional Tailors and traditional shops called customized e-fashion, name that highlights the main characteristics of our brand. To be more specific when we talk about traditional tailors, we are referring to the independent small tailors to where we used to go to make arrangements to our clothes, or particular garments for special occasions, and traditional shops meaning the prêt a porter shops like Zara, Mango, H&M, etc.

In this new category (customized e-fashion) we decided to eliminate the variable of trying the clothes on before buying, variable that is very important in traditional tailors and traditional shops, because we decided to distribute through the internet to reach a high volume of people at a low cost.

Additionally, we decided to make a trade-off between the price and the time to purchase, variables that we reduce and as a result of this the convenience variable in The Closet is lower than in traditional shops but more or less similar to traditional tailors.

We also decided to raise the fashionable and the personalization variables, proposing the strengthening of two different variables: the fashion and trend advisor and the home delivery. We can resume that our product aim is to be the personal tailor of our customers, who manufactures the customized fashion clothes that our clients are interested in, making them suit perfectly our customer’s body shape.
Is there exceptional buyer utility?

YES

Is the price easily accessible to the mass of buyers?

YES

Can we attain the cost target to profit at the strategic price?

YES

What are the adoption hurdles? Are we addressing them?

YES

a commercially viable blue ocean idea
14.3 PRODUCT

The Closet is created in order to fulfill customer needs that have not been yet satisfied by other services or products in the market. Our aim is to become the modern tailor, a web based interface through which clients can make their own designs or garments as they would like it and that fits them perfectly.

The Closet allows clients to upload a picture from a garment they like or select it from our own database; they will be able to choose fabrics, colors and accessories from a predetermined list. Clients can also submit their own comments about the changes they want to do on the garment. Our design department will take into account all the customers desires and will make its own suggestions in order to propose the design that will better suit the client not only taking into account the fashion trends but also their figure and measurements and to comply with the intellectual property regulation.

Clients will have to introduce their measures on our webpage; these measures will be kept on our data base as every client will have a profile. Clients will also be able to be part of our blog and participate actively in it; in the blog they can find the latest fashion trends and all the comments of our fashionistas and their suggestions too.

Once the client has selected the garments she wants, has introduced her measures in the system and has chosen all the details she wants, the price will be calculated and shown in the screen, she will also be informed that now she has to wait a period of 24 hours in order to receive the proposal made by The Closet. The client will then have to approve the design and proceed with the payment. The payment will only be possible by Paypal, which is a convenient and safe system used worldwide in many transactions.

Finally the client will receive after 2 weeks the garment at home, if the garment doesn’t fulfill the customer’s expectations an evaluation with the The Closet team will be done to see if the garment has had a problem in the process made by us, if that’s the case, the corrections to the garment will be our responsibility and the client will be guaranteed a perfect fit.
14.3.1 TECHNICAL DESCRIPTION

The-Closet is a company that produces clothes for the Spanish market. Our channel is a webpage, through which all the relation with the customers is developed. Orders as well as personal data of the customers are received through this medium.

The operation centre of the company will carry out the management of all the processes of the value chain. However, the design of the products will take place in an office in Morocco as well as the manufacturing process.

ESSENTIAL CHARACTERISTICS

The channel that includes all the communication with the customers is the corporate webpage. It includes the following content:

The e-shop area. In it, the customer will register, ask for the product, the budget, and do all the feedback with the company.

Fashion blog: The blogs are progressively increasing its importance in the fashion industry. As an example, in the last edition of the Cibeles Madrid Fashion Week, a group of bloggers were following the event, placed at the same level as the fashion critics. The inclusion of this daily updates from an already popular blogger would increase the number of readers and potential customers.

A database that includes the most fashionable ideas for the inspiration of the customer.

14.4 PRICE

As our product is customized by each of our clients and they are who finally decide which fabric and design they prefer for their garment, we couldn’t obtain specific prices for each of our products. So we decided to group them in six general categories and take into account the average meters per garment used for each of these categories, we defined costs per garment for the fabrics, thread, accessories and final transportation to the customer.

For all this calculations we also took into account that an experienced tailor can produce four garments approximately each day. So the number of tailors hired will be defined based on the hours required to produce the garments and the number of garments to be produced which are going to be distributed in the six categories.
The prices of the garments offered by The Closet are then set taking into account the cost per unit (garment) and by making a benchmarking of the prices of the competitors. To this price we add the tax, that in this case is 18%, and a mark-up that allow us to cover the fixed costs. Finally we obtain the prices that are described in the table below. Comparing those prices to other online shops that offer similar products, our products are located in an affordable level.

<table>
<thead>
<tr>
<th>GARMENTS</th>
<th>JACKET</th>
<th>PANTS</th>
<th>SKIRT</th>
<th>SHIRT</th>
<th>DRESS</th>
<th>T-SHIRT</th>
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</thead>
<tbody>
<tr>
<td>Meters per Garment</td>
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<td>1</td>
<td>2</td>
<td>1</td>
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<td>Prices Fabric per Garment</td>
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<td>€ 19.94</td>
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<td>€ 4.79</td>
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<td>Thread &amp; Accessories</td>
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<tr>
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<td>€ 27</td>
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<td>€ 19</td>
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<table>
<thead>
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<th>PRICE COMPARISON</th>
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<tr>
<td>------------------</td>
</tr>
<tr>
<td>Jacket</td>
</tr>
<tr>
<td>Pants</td>
</tr>
<tr>
<td>Skirts/Shorts</td>
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<tr>
<td>Shirts</td>
</tr>
<tr>
<td>Dress</td>
</tr>
<tr>
<td>T-Shirts</td>
</tr>
</tbody>
</table>
14.5 DISTRIBUTION

14.5.1 Web page (see appendix 1)

The Closet’s web page will include three main areas, distributed in 3 sections:

1. CUSTOMER’S DATA & DESIGN: Clients’ area where they can access, modify their information and make orders.
   a. LOG IN & PERSONAL DATA: Customers must log in and give their basic personal and address data. This area will also keep the client’s measurements.
   b. DESIGN: Customer will have an area to upload as many images as they want as a reference for our designer, a text area for descriptions and a woman figure over which notes can be written to give more detailed information.
   c. MEASURING: In this area, the customer will find the way to measure herself in order to have her design made. A video in which an attractive tailor explains in detail the measurements needed for each garment.

2. FASHION ADVICE & INFORMATION: Is planned to attract and enforce loyalty in our costumers. This is the place where our customers are going to be informed about the new trends, for them to find the inspiration required to make their own designs. This is updated on a daily basis for them to find recent news.
   a. FASHION BLOG: The webpage of The Closet will include the blog of one of the most followed girls in the Webpage of The Closet. The blog will remain independent of content and as it is a reference daily updated, fashion followers will enter The Closet’s page to read their favorite blog.
   b. GALLERY: A database of fashion designs that include the trendiest ones together with classics.

   This area is thought to create a sense of community. Is an area where women can participate interacting with each other sharing their experiences in fashion and style and with experts that will give them advice in new fashion trends. By enabling customers to this interaction The Closet expects to enhance the experience and motive them to feel part of our group.

3. TRUSTING AREA: According to the qualitative research done, the main concern women have when buying on internet is the lack of trust. This area is thought to be a place to have both information from other customers and from the company, with total availability to contact for any question.
a. TESTIMONIALS: Previous clients will be able to make comments in this forum, where potential customers will also be able to share opinions and doubts.

b. FAQ's: The most frequently asked questions (for instance: what happens if the clothes do not comply with the measurements I gave?) will be explained in advanced.

c. ABOUT US: In order to avoid customers’ lack of trust, the data of The Closet will be clearly exposed.

d. CONTACT US: Directly from every page of the web, a contact link will provide the customers the e-mail and phone number of customers’ service.

14.5.2 Logistics

Once the clothes are ready, the garments will be placed in The Closet boxes, each with the address of the final destination. A weekly compilation of the boxes will be made in order to complete a shipment box. Our suppliers of logistics and transport will pick up this box in Casablanca and will be in charge of the shipment from there to Algeciras, as well as of the import tariffs and custom procedures.

Afterwards the same supplier will be in charge of distributing each individual box within the Spanish territory, this distribution will be made by land and will take an approximate 3 days to reach final destination.

14.6 PROMOTION

Regarding the Technology Adoption Life Cycle of Geoffrey Moore3, a model for understanding the acceptance of new products is the market penetration progressive bell shape, which is divided in several groups. The aim of The Closet’s strategy will be to reach the customers of the initial stages of the product lifecycle.

---

**Innovators** pursue new products aggressively, sometimes even before the marketing program has been launched. They appreciate the product and value its competitive advantage over the competitors and make great critics because they truly care.

The **Early Adopters** match an emerging product to a strategic opportunity, high visibility and charisma to the project. They pursue not an improvement but a breakthrough. Go outside the mainstream, not very price sensitive, more than willing to press and recognition.

The strategy the company is going to follow for the introduction stage will aim these goals:

- To place The Closet’s message in the most visited internet sites of these innovators.
- To use direct communication that impulses the feedback.
- Find the big bosses (subscribers) of fashion (people that dictate purchases, represent a significant marketing opportunity) whose references and recommendations are very valued by the fashionistas when making a buying decision, and make them part of the strategy as subscribers.

Among innovators and early adopters there is a gap. It is important to make a natural and progressive link between innovators and early adopters. If this transition is disrupted, customers can be taken by competitors. The service must be presented in a different way to be accepted by the next group. The Closet value proposition translates the service into a major benefit for the contemporary woman, where the early adopters will not buy just a garment, but a change agent.
Since The Closet is a new company in a market (e-commerce) that still is developing in Spain, the first step is to build the brand. Setting it up in the consumer's mind may be possible with the generation of positive messages from unbiased sources, which will strengthen the brand credibility and will make the product known. The disadvantages of these sources are that content cannot be controlled, nor timing and visual appearance of the message.

Conventional advertising is used for brand maintenance and building. However, the strategy of The Closet will not include it on the introduction stage, due to the high costs of it, and to strategic purposes. Instead of assuming the high tariffs of above the line advertising, The Closet will be focused on Viral Marketing, by using Public Relations and promotions. This strategy relies on the customer's motivation to transmit the commercial message to others, also known as word of mouth, in order to create an exponential growth in the exposure of this message. This strategy has been successfully used by other companies like Amazon, that dedicated the previously expenses in conventional advertising to free shipping of the books' orders.

PUBLIC RELATIONS

1. Research:
   a. Find the influent fashion bloggers in Spain and their virtual meeting points. Identification of the subscribers.

2. Anonymous:
   a. First direct email to the 20 most followed ones. Very personalized, recognising the creativity, charisma and achievements of every blogger. Soon they will receive more information.

3. Secret club:
   a. Second email to the bloggers: they have been selected to join, if they want, the membership of a fashion secret club. They will be asked to enter a promotional website (see appendix 2) and give their address data in order to receive a present.

---

4 Milestone 2: Sector Analysis.
b. Bloggers will receive at their addresses a beautiful box. It will include a silver necklace shaped like a key, and an invitation to make the fashion design they want, customized and only for themselves.

c. The main page of the promotional web will include a fashion game, and the potential customers that play it, should have to demonstrate their fashion skills and knowledge, in order to win memberships and discounts. They will be asked to introduce their personal data and contact, in order to have a database. The bloggers will enter the normal webpage, in order to introduce their personal data, measures, and make an order.

d. Once the bloggers have introduced their designs, they will be invited to a secret party to pick them up. To open the door of the Secret club, they will need to wear the key necklace.

4. The Party:

a. Private party with specialized media, the bloggers and other guests related to fashion, where The Closet will be fully presented, as well as the designs made by each blogger.

b. Every guest of the party will receive 5 invitations to make their fashionistas friends join the club. Each time one new member makes an order, she will receive 5 more invitations for her friends and the inviter will have a discount on the next shop.

E-MARKETING

a. Progressive introduction in the social networks (tuenti, facebook, twitter). Mysterious groups and profiles will appear with the message “I have The Closet’s key”, as well as a link to the promotional webpage.

b. A daily clipping with all the content about The Closet in the social networks, blogs and information channels must be done.

c. Promotions and opportunities to become a member of The Closet will be drawn in those internet platforms.
SALES PROMOTION PLAN

- After every client has received her clothes, a personal mail will be sent and feedback will be asked. A tracking will be made of the unsatisfied clients, who will receive a discount on their next order.
- After 8 weeks if a client has not made any new order, she will receive a discount for the next one.

MEASUREMENT AND CONTROL (SEE APPENDIX 3)

The metrics for evaluating the success of the promotion will be analyzed on a daily basis, and the suitable corrections must be applied, in order to achieve the best results possible.

<table>
<thead>
<tr>
<th>Merchandising</th>
<th>Unit Price</th>
<th>Amount</th>
<th>Total Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>boxes</td>
<td>€ 2</td>
<td>42</td>
<td>€ 84</td>
</tr>
<tr>
<td>messenger</td>
<td>€ 5</td>
<td>42</td>
<td>€ 210</td>
</tr>
<tr>
<td>necklaces</td>
<td>€ 50</td>
<td>42</td>
<td>€ 2.100</td>
</tr>
<tr>
<td>promotional webpage</td>
<td>€ 6.000</td>
<td>1</td>
<td>€ 6.000</td>
</tr>
<tr>
<td>blog introduction</td>
<td>€ 400</td>
<td>12</td>
<td>€ 4.800</td>
</tr>
<tr>
<td>free orders</td>
<td>€ 29</td>
<td>54</td>
<td>€ 1.587</td>
</tr>
<tr>
<td>renting</td>
<td>€ 1.500</td>
<td>1</td>
<td>€ 1.500</td>
</tr>
<tr>
<td>catering</td>
<td>€ 30</td>
<td>40</td>
<td>€ 1.200</td>
</tr>
<tr>
<td>hostess</td>
<td>€ 50</td>
<td>4</td>
<td>€ 200</td>
</tr>
<tr>
<td>photographer</td>
<td>€ 200</td>
<td>1</td>
<td>€ 200</td>
</tr>
<tr>
<td>lightning and sound</td>
<td>€ 1.000</td>
<td>1</td>
<td>€ 1.000</td>
</tr>
<tr>
<td>welcome pack</td>
<td>€ 30</td>
<td>40</td>
<td>€ 1.200</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td></td>
<td><strong>€ 20.081</strong></td>
</tr>
</tbody>
</table>

**TOTAL**
15. HR POLICY

15.1 GENERAL HR POLICY

The Closet is always looking for overall satisfaction of clients, providing them fashion and trendy clothes delivering them at affordable prices. In order to comply with this, our aims have to be embraced by our team of collaborators. The selection and recruitment carried out by The Closet is based on searching talented and committed people, who believe and understand that client satisfaction is key for the business.

The employees are expected to comply with all the terms stated on their contracts, to follow a proper conduct within labor hours and to carry out their work in an efficient and responsible way.

15.2 COMPANY CONSTITUTION

As a first step the name of the company has to be confirmed with the Spanish Central Mercantile Register in order to verify that is not being used already by any other company. After clearance the registered name is then The Closet S.L.

The share capital is determined as follows:

<table>
<thead>
<tr>
<th>Share</th>
<th>Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monica Espinosa</td>
<td>€ 12,000</td>
</tr>
<tr>
<td>Paloma Fernandez</td>
<td>€ 12,000</td>
</tr>
<tr>
<td>Natalia Quijano</td>
<td>€ 12,000</td>
</tr>
<tr>
<td>Veronica Quijano</td>
<td>€ 12,000</td>
</tr>
<tr>
<td>External investor</td>
<td>€ 20,408</td>
</tr>
<tr>
<td><strong>100%</strong></td>
<td><strong>€ 68,408</strong></td>
</tr>
</tbody>
</table>

A bank account is opened in the name of the company; the domicile of the company is established to be in Madrid, Spain. Since not all the Shareholders are EU-citizens a resident permit has to be requested.
The Closet has also to establish the bylaws which will contain the following information:

- Definition of the purpose of the company.
- Definition of the body of administration. Paloma Fernández is appointed as director of the company.
- Definition of board meetings, elections, duties.
- Amendments.

A public deed of incorporation has to be executed in a Spanish public notary, the provisional tax identification number obtained, and transfer tax paid, all this in order to register the company in the Mercantile Register and finally obtain definitive tax identification number.

SUBSIDIARY IN MOROCCO

Additionally a subsidiary in Morocco will be established (The Closet Tailoring) which will be responsible for hiring all the workers related to the activity of manufacturing, more specifically the Designer & Quality Controller, the tailors and the agent. From a fiscal standpoint, this subsidiary will make The Closet benefit from the existing tax incentives in the country (an exemption of corporate tax for the first five years and a 50% reduction after this period).

The Moroccan subsidiary will be owned by the Spanish company, which will be responsible for recruiting the personnel carrying out the planned activities in Morocco (Designer and tailors). With this structure The Closet will also benefit from the double taxation treaty with Morocco that includes a provision for exchange of information (art. 21 of the Consolidated Tax Law Societies), so in case dividends are distributed from Morocco to Spain, they will not be taxable in Spain.
16. GENERAL ORGANIZATION CHART

JOB POSITIONS

- **CEO**
  The Chief Executive Officer is responsible for providing strategic leadership to the company, by working to establish, implement and oversee the long-term goals, strategies, plans and policies of The Closet. The CEO also leads the team to develop effective solutions to business challenges, is responsible for driving the company to achieve and surpass objectives, direct the development, communication and implementation of effective growth strategies and processes. Supervise the compliance with policies regarding corporate governance, risk management, financial reporting as well as compliance with applicable legal and regulatory requirements.

- **Chief Financial Officer**
  Provides both operational and programmatic support to the organization. Also supervises the finance unit and is the chief financial spokesperson for the organization. The CFO reports directly to the President/Chief Executive Officer (CEO) and directly assists the Supply chain manager (SCM) on all strategic and tactical matters as they relate to budget management, cost benefit analysis, forecasting needs and the securing of new funding. The CFO also works with the President/CEO on the strategic vision including fostering and cultivating stakeholder relationships on city, state, and national levels, as well as assisting in the development and negotiation of contracts.

- **Chief Marketing Officer (CMO)**
  Oversees the marketing functions of the company in order to accomplish two goals: to increase the level of sales for the company, while at the same time enhancing and improving the positioning and image of the brand. This conceals creating unique customer experiences that ensure retention and contribute to positive relationships between the customer and the company. The CMO is not only responsible for overseeing the advertising activities but also for ensuring that the promise delivered by a given ad is fulfilled in the eyes of the customer.

- **Supply Chain Manager**
  Ensures that every program and operation of the Supply Chain is structured, resourced and delivered in a way that consistently adds value to it. Provides strategic direction and oversight, which includes refining and developing new procedures. The
SCM also oversees a comprehensive quality and safety structure in the organization and leads planning efforts to achieve the organizational quality and safety vision.

- **Designer & Quality controller**
  The main responsible in the Moroccan subsidiary reports to the Supply Chain Manager. Its mission is to create designs according to the Client’s requirements, and to revise the quality of production and safety structure in situ in the production place.

- **Agent in Production**
  The agent from the subsidiary’s country will help the company to establish The Closet’s networks in Morocco. The agent will be in charge of establishing the relation with the raw material suppliers, the logistic in order to deliver this materials to the production site, and finally coordinate the transportation of the finished production in order to begin the exportation process.

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### 16.1 WAGES SUMMARY

<table>
<thead>
<tr>
<th>Job Position</th>
<th>Salary/month year 1</th>
<th>Employees</th>
<th>Total/month year 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO, CMO, CFO, SCM</td>
<td>€ 800</td>
<td>4</td>
<td>€ 3.200</td>
</tr>
<tr>
<td>Agent</td>
<td>€ 500</td>
<td>1</td>
<td>€ 500</td>
</tr>
<tr>
<td>Designer &amp; Quality Controller</td>
<td>€ 900</td>
<td>1</td>
<td>€ 900</td>
</tr>
<tr>
<td>Tailors</td>
<td>€ 200</td>
<td>6</td>
<td>€ 1.264</td>
</tr>
</tbody>
</table>
17. STAFF POLICIES

RECRUITMENT

The Closet’s recruiting process is an important step towards the creation of the competitive advantage: quality clothes and operations. The company’s HR will be constituted under the Spanish law. The headquarters of the company will be placed in Madrid and will be the working base for the CEO, CFO, CMO, SCM.

The type of contract will be Full time, respecting the standard work week of 40 hours and the minimum working conditions (overtime working hours, holidays and extra payments) that are described in the corresponding Statute of Workers and collective bargaining agreements that are applicable.

In Morocco, The Closet’s selection will include one “Designer and Quality Controller”, he/she will be placed on a permanent basis in the African country. Additionally we will have an agent and the tailors in charge of the manufacturing process that will be contracted by our Moroccan subsidiary.

DEVELOPMENT

The Managers of The Closet must be involved in the creation of the company policies, since they are representatives of the company. The purposes and procedures of it must be aligned with the business strategy. They have to be communicated to all the members of the company, and the Supply Chain Manager will be responsible of its implementation.

The employees from Morocco will receive a 1-week training course to understand the company and to manufacture the products according to the quality expected. Periodical reviews must be made, in order to monitor that the policies are being carried out correctly.

PAYMENT

The Designer and Quality Controller, as well as the tailors, will receive a salary according to their home country, Morocco. However, since The Closet's
garments quality must achieve the European standards, salaries will be based above the average, and variable compensation will be included in every contract, in order to promote the employees' motivation.

18. KEY PERFORMANCE INDICATORS

The key performance indicators (KPI’s) will be the way to keep track and measure the key activities necessary to achieve performance excellence and top quality results.

PLANNING AND POLICY
- Turnover rate: The Closet is interested in knowing how effective it is in retaining the key employees, tailors, agent, and designer.

- Accurate number of people per area: To optimize and align the The Closet organization capacity and the business strategy, due that our growth in the business is linked to our production capacity / number of tailors.

- Percentage of compliance issues resolved: For The Closet is very important to maintain a good and efficient environment with employees who are key in our business. We want to keep track of the difficulties and solve all of them.

- Time to resolve grievances and complaints: The complaints must be resolved within a time frame of a week to keep a good relationship with our employees and customers.

- HR cost as a % of total cost: This will help The Closet to measure the impact of HR policies in the benefit of the company.

**SOURCE AND SELECT**

- Cycle time to fill open position: It is crucial for The Closet’s operations to maintain a low cycle time because it could affect the time to deliver a product or the quality of it. We need to have a good “change management process for the key positions.

- New hire losses: To measure the effectiveness of The Closet recruitment process and determine whenever we need to make changes.

- Actual vs. plan headcount: For The Closet planning process is crucial to have a headcount plan according to our business strategic objectives and track the effectiveness of it.

**DEVELOP AND COUNSEL**

- Number of employees trained: For The Closet is critical to keep quality and vendor performance. Hence we need to keep all our employees trained.

- Percentage of employee’s interests aligned with the company: The Closet wants to have all its employees’ motivations aligned with its strategies and
policies to achieve fashion and sourcing leadership in the new customized e-fashion segment.

- Percentage of expectation met after 45 days: To be effective with the HR policies, The Closet must keep track of employees' expectations in order to minimize the percent of quits.

REWARD AND RETAIN

- Compensation cost as a percentage of salary: To measure the The Closet HR policy impact on employee's salary.
- Percentage of compensation and benefits due to employee's performance: To measure how many employees are committed with The Closet business objectives.
- Employee’s satisfaction compensation package: To measure the acceptance of the The Closet HR compensation policies.

REDEPLOY AND RETIRE

- Number of quits per month: To measure the effectiveness of the The Closet HR policies and manage a good handover of the key positions.
- Percentage of satisfaction with the retirement package: To ensure the The Closet ex-employees will make a good publicity of the company.

MANAGE INFORMATION

- SLA met with agent: To measure the effectiveness of the agent’s performance and be sure that mutual expectations are aligned in order to fulfil the The Closet business objectives.
- Number of customer complaints: To measure customer satisfaction and identify the root cause of problems, in order to keep an excellent shopping experience.
- Error rate: The The Closet aim is to maintain the error rate as minimum as possible, we are building brand recognition based on reputation and word of mouth, so it is crucial to deliver our promise.
19. FINANCE

19.1 ASSUMPTIONS

To make projections of costs, expenses and sales we search for information about the projections of inflation over the next five years. We found the inflation from 2010 from the Bank of Spain and then we projected to the next 6 years using the euro area expected inflation from the article of the "the NIME Outlook for the World Economy", having the following results:

<table>
<thead>
<tr>
<th>Year</th>
<th>Inflation Spain</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1</td>
<td>1.80%</td>
</tr>
<tr>
<td>Year 2</td>
<td>1.84%</td>
</tr>
<tr>
<td>Year 3</td>
<td>1.88%</td>
</tr>
<tr>
<td>Year 4</td>
<td>1.93%</td>
</tr>
<tr>
<td>Year 5</td>
<td>1.97%</td>
</tr>
</tbody>
</table>

After obtaining these projections we continue with the preparation of the financial statements, the first of which is the Profit and Loss Statement:

19.2 PROFIT AND LOSS

VERTICAL ANALYSIS

<table>
<thead>
<tr>
<th>Category</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>€ 359,147</td>
<td>€ 387,816</td>
<td>€ 418,943</td>
<td>€ 452,762</td>
<td>€ 498,854</td>
</tr>
<tr>
<td>COGS</td>
<td>€ 222,751</td>
<td>€ 233,332</td>
<td>€ 244,220</td>
<td>€ 255,391</td>
<td>€ 271,698</td>
</tr>
<tr>
<td>Gross Margin</td>
<td>€ 136,396</td>
<td>€ 154,484</td>
<td>€ 174,723</td>
<td>€ 197,371</td>
<td>€ 227,156</td>
</tr>
<tr>
<td>Admin. Expenses</td>
<td>€ 101,273</td>
<td>€ 109,389</td>
<td>€ 111,430</td>
<td>€ 113,551</td>
<td>€ 115,757</td>
</tr>
<tr>
<td>Sales Expenses</td>
<td>€ 20,074</td>
<td>€ 27,462</td>
<td>€ 27,979</td>
<td>€ 28,518</td>
<td>€ 29,081</td>
</tr>
<tr>
<td>EBITDA</td>
<td>€ 15,049</td>
<td>€ 17,633</td>
<td>€ 35,314</td>
<td>€ 55,302</td>
<td>€ 82,319</td>
</tr>
<tr>
<td>Depretiation</td>
<td>€ 5,859</td>
<td>€ 5,936</td>
<td>€ 5,936</td>
<td>€ 2,680</td>
<td>€ 1,613</td>
</tr>
<tr>
<td>EBIT</td>
<td>€ 9,190</td>
<td>€ 11,697</td>
<td>€ 29,378</td>
<td>€ 52,621</td>
<td>€ 80,706</td>
</tr>
<tr>
<td>Financial Expenses</td>
<td>€ 22,133</td>
<td>€ 0</td>
<td>€ 0</td>
<td>€ 0</td>
<td>€ 0</td>
</tr>
<tr>
<td>Financial Income</td>
<td>€ 2,006</td>
<td>€ 2,917</td>
<td>€ 4,124</td>
<td>€ 5,599</td>
<td>€ 7,747</td>
</tr>
<tr>
<td>Earnings Before</td>
<td>-€ 10,937</td>
<td>-€ 14,614</td>
<td>-€ 33,503</td>
<td>-€ 58,220</td>
<td>-€ 88,453</td>
</tr>
<tr>
<td>Taxes</td>
<td>€ 0</td>
<td>€ 1,103</td>
<td>€ 10,051</td>
<td>€ 17,466</td>
<td>€ 28,536</td>
</tr>
<tr>
<td>Net Profit</td>
<td>-€ 10,937</td>
<td>-€ 13,511</td>
<td>-€ 23,452</td>
<td>-€ 40,754</td>
<td>-€ 61,917</td>
</tr>
<tr>
<td>Retained Earnings</td>
<td>€ 0</td>
<td>€ 2,702</td>
<td>€ 4,690</td>
<td>€ 8,151</td>
<td>€ 12,383</td>
</tr>
<tr>
<td>Total Net Profit</td>
<td>-€ 10,937</td>
<td>-€ 10,808</td>
<td>-€ 18,761</td>
<td>-€ 32,603</td>
<td>-€ 49,534</td>
</tr>
</tbody>
</table>
The Profit & Loss shows a negative profit in the first year due to costs incurred in the financial expenses, because of a lack of liquidity. This changes in the next years because of our solid financial structure. The customer has to pay in advance to trigger the production process and we pay to our raw material suppliers in a 90 days period.

Through the vertical analysis of the profit and loss we can evidence that the most important items are the cost of goods sold (COGS) and the administrative expenses. This is because of the structure of our company, since it’s internet based we don’t invest a significant amount of money in marketing and promotion, all is done through the web. So taking this into account we can say that our mayor investment is in the production of our clothes in Morocco and all the cost and expenses that it involves (raw materials, salaries, utilities, packaging and transport).

**HORIZONTAL ANALYSIS**

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
<th>H %</th>
<th>Year 3</th>
<th>H %</th>
<th>Year 4</th>
<th>H %</th>
<th>Year 5</th>
<th>H %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUES</strong></td>
<td>€ 359.147</td>
<td>€ 387.816</td>
<td>8%</td>
<td>€ 418.943</td>
<td>8%</td>
<td>€ 452.762</td>
<td>8%</td>
<td>€ 498.854</td>
<td>10%</td>
</tr>
<tr>
<td><strong>COGS</strong></td>
<td>€ 222.751</td>
<td>€ 233.332</td>
<td>5%</td>
<td>€ 244.220</td>
<td>5%</td>
<td>€ 255.391</td>
<td>5%</td>
<td>€ 271.698</td>
<td>6%</td>
</tr>
<tr>
<td><strong>GROSS MARGIN</strong></td>
<td>€ 136.396</td>
<td>€ 154.484</td>
<td>13%</td>
<td>€ 174.723</td>
<td>13%</td>
<td>€ 197.371</td>
<td>13%</td>
<td>€ 227.156</td>
<td>15%</td>
</tr>
<tr>
<td><strong>ADMIN. EXPENSES</strong></td>
<td>€ 101.273</td>
<td>€ 109.389</td>
<td>8%</td>
<td>€ 111.430</td>
<td>2%</td>
<td>€ 113.551</td>
<td>2%</td>
<td>€ 115.757</td>
<td>2%</td>
</tr>
<tr>
<td><strong>SALES EXPENSES</strong></td>
<td>€ 20.074</td>
<td>€ 27.462</td>
<td>37%</td>
<td>€ 27.979</td>
<td>2%</td>
<td>€ 28.518</td>
<td>2%</td>
<td>€ 29.081</td>
<td>2%</td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td>€ 15.049</td>
<td>€ 17.633</td>
<td>17%</td>
<td>€ 35.314</td>
<td>100%</td>
<td>€ 55.302</td>
<td>57%</td>
<td>€ 82.319</td>
<td>49%</td>
</tr>
<tr>
<td><strong>DEPRECIATION</strong></td>
<td>€ 5.859</td>
<td>€ 5.936</td>
<td>1%</td>
<td>€ 5.936</td>
<td>0%</td>
<td>€ 2.680</td>
<td>-55%</td>
<td>€ 1.613</td>
<td>-40%</td>
</tr>
<tr>
<td><strong>EBIT</strong></td>
<td>€ 9.190</td>
<td>€ 11.697</td>
<td>27%</td>
<td>€ 29.378</td>
<td>151%</td>
<td>€ 52.621</td>
<td>79%</td>
<td>€ 80.706</td>
<td>53%</td>
</tr>
<tr>
<td><strong>FINANCIAL EXPENSES</strong></td>
<td>€ 22.133</td>
<td>€ 0</td>
<td>-100%</td>
<td>€ 0</td>
<td>€ 0</td>
<td>€ 0</td>
<td>€ 0</td>
<td>€ 0</td>
<td>€ 0</td>
</tr>
<tr>
<td><strong>FINANCIAL INCOME</strong></td>
<td>€ 2.006</td>
<td>€ 2.917</td>
<td>45%</td>
<td>€ 4.124</td>
<td>41%</td>
<td>€ 5.599</td>
<td>36%</td>
<td>€ 7.747</td>
<td>38%</td>
</tr>
<tr>
<td><strong>EARNINGS BEFORE TAXES</strong></td>
<td>-€ 10.937</td>
<td>€ 14.614</td>
<td>234%</td>
<td>€ 33.503</td>
<td>129%</td>
<td>€ 58.220</td>
<td>74%</td>
<td>€ 88.453</td>
<td>52%</td>
</tr>
<tr>
<td><strong>TAXES</strong></td>
<td>€ 0</td>
<td>€ 1.103</td>
<td>111%</td>
<td>€ 10.051</td>
<td>811%</td>
<td>€ 17.466</td>
<td>74%</td>
<td>€ 26.536</td>
<td>52%</td>
</tr>
<tr>
<td><strong>NET PROFIT</strong></td>
<td>-€ 10.937</td>
<td>€ 13.511</td>
<td>224%</td>
<td>€ 23.452</td>
<td>74%</td>
<td>€ 40.764</td>
<td>74%</td>
<td>€ 61.917</td>
<td>52%</td>
</tr>
<tr>
<td><strong>RETIRED EARNINGS</strong></td>
<td>€ 0</td>
<td>€ 2.702</td>
<td>74%</td>
<td>€ 4.690</td>
<td>74%</td>
<td>€ 8.151</td>
<td>74%</td>
<td>€ 12.383</td>
<td>52%</td>
</tr>
<tr>
<td><strong>TOTAL NET PROFIT</strong></td>
<td>-€ 10.937</td>
<td>€ 10.808</td>
<td>199%</td>
<td>€ 18.761</td>
<td>74%</td>
<td>€ 32.603</td>
<td>74%</td>
<td>€ 49.534</td>
<td>52%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
<th>%</th>
<th>Year 3</th>
<th>%</th>
<th>Year 4</th>
<th>%</th>
<th>Year 5</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MARKET SHARE VARIATION</strong></td>
<td>5%</td>
<td>5.25%</td>
<td>5%</td>
<td>5.51%</td>
<td>5%</td>
<td>5.79%</td>
<td>5%</td>
<td>6.19%</td>
<td>7%</td>
</tr>
</tbody>
</table>
Through the horizontal analysis we can evidence the increase in the sales of an 8% until the year 5, in which the sales increase in a 10%. This is support with the market share increase predictions, which is in the table above. In this table we are assuming a moderate increase of 5% in the market share year after year, taking into account that we are using viral marketing strategy that allows increase exponentially our number of customers.

Other important variations in our profit and loss are the increase in the sales expenses in year 2, this due to the increase in the salaries of the agent and the designer. The decrease in the financial expenses in year 2, is a result of the lack of liquidity of the first year, situation that changes in the following years, as was explained before.

### 19.3 BALANCE SHEET

#### VERTICAL ANALYSIS

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>V %</th>
<th>Year 2</th>
<th>V %</th>
<th>Year 3</th>
<th>V %</th>
<th>Year 4</th>
<th>V %</th>
<th>Year 5</th>
<th>V %</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASSETS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CASH/BANKS</td>
<td>€ 30.000</td>
<td>25%</td>
<td>€ 30.000</td>
<td>21%</td>
<td>€ 25.000</td>
<td>15%</td>
<td>€ 25.000</td>
<td>12%</td>
<td>€ 25.000</td>
<td>9%</td>
</tr>
<tr>
<td>SHORT TERM FINANCIAL INVESTMENTS</td>
<td>€ 73.890</td>
<td>61%</td>
<td>€ 97.220</td>
<td>69%</td>
<td>€ 137.480</td>
<td>81%</td>
<td>€ 186.644</td>
<td>86%</td>
<td>€ 258.246</td>
<td>90%</td>
</tr>
<tr>
<td>ACCOUNTS RECEIVABLE</td>
<td>€ 0 0%</td>
<td>0%</td>
<td>€ 0 0%</td>
<td>0%</td>
<td>€ 0 0%</td>
<td>0%</td>
<td>€ 0 0%</td>
<td>0%</td>
<td>€ 0 0%</td>
<td>0%</td>
</tr>
<tr>
<td>TOTAL CURRENT ASSETS</td>
<td>€ 103.890</td>
<td>85%</td>
<td>€ 127.220</td>
<td>91%</td>
<td>€ 162.480</td>
<td>96%</td>
<td>€ 211.644</td>
<td>98%</td>
<td>€ 283.246</td>
<td>99%</td>
</tr>
<tr>
<td>NET FIXED ASSETS</td>
<td>€ 18.122</td>
<td>15%</td>
<td>€ 12.823</td>
<td>9%</td>
<td>€ 6.887</td>
<td>4%</td>
<td>€ 4.856</td>
<td>2%</td>
<td>€ 3.905</td>
<td>1%</td>
</tr>
<tr>
<td>FIXED ASSETS</td>
<td>€ 23.981</td>
<td>20%</td>
<td>€ 24.618</td>
<td>18%</td>
<td>€ 24.618</td>
<td>15%</td>
<td>€ 25.267</td>
<td>12%</td>
<td>€ 25.929</td>
<td>9%</td>
</tr>
<tr>
<td>ACCUMULATED DEPRECIATION</td>
<td>€ 5.859</td>
<td>5%</td>
<td>€ 11.795</td>
<td>8%</td>
<td>€ 17.730</td>
<td>10%</td>
<td>€ 20.411</td>
<td>9%</td>
<td>€ 22.024</td>
<td>8%</td>
</tr>
<tr>
<td>TOTAL ASSETS</td>
<td>€ 122.012</td>
<td>100%</td>
<td>€ 140.043</td>
<td>100%</td>
<td>€ 169.367</td>
<td>100%</td>
<td>€ 216.500</td>
<td>100%</td>
<td>€ 287.151</td>
<td>100%</td>
</tr>
<tr>
<td>LIABILITIES</td>
<td>€ 64.541</td>
<td>53%</td>
<td>€ 69.061</td>
<td>49%</td>
<td>€ 74.934</td>
<td>44%</td>
<td>€ 81.312</td>
<td>38%</td>
<td>€ 90.046</td>
<td>31%</td>
</tr>
<tr>
<td>SHORT TERM BANK CREDITS</td>
<td>€ 0 0%</td>
<td>0%</td>
<td>€ 0 0%</td>
<td>0%</td>
<td>€ 0 0%</td>
<td>0%</td>
<td>€ 0 0%</td>
<td>0%</td>
<td>€ 0 0%</td>
<td>0%</td>
</tr>
<tr>
<td>VAT PAYABLE</td>
<td>€ 33.269</td>
<td>27%</td>
<td>€ 35.569</td>
<td>25%</td>
<td>€ 39.064</td>
<td>23%</td>
<td>€ 42.895</td>
<td>20%</td>
<td>€ 48.118</td>
<td>17%</td>
</tr>
<tr>
<td>ACCOUNTS PAYABLE</td>
<td>€ 31.272</td>
<td>26%</td>
<td>€ 33.492</td>
<td>24%</td>
<td>€ 35.870</td>
<td>21%</td>
<td>€ 38.417</td>
<td>18%</td>
<td>€ 41.928</td>
<td>15%</td>
</tr>
<tr>
<td>LONG TERM LOANS</td>
<td>€ 0 0%</td>
<td>0%</td>
<td>€ 0 0%</td>
<td>0%</td>
<td>€ 0 0%</td>
<td>0%</td>
<td>€ 0 0%</td>
<td>0%</td>
<td>€ 0 0%</td>
<td>0%</td>
</tr>
<tr>
<td>EQUITY</td>
<td>€ 57.471</td>
<td>47%</td>
<td>€ 70.982</td>
<td>51%</td>
<td>€ 94.433</td>
<td>56%</td>
<td>€ 135.188</td>
<td>62%</td>
<td>€ 197.105</td>
<td>69%</td>
</tr>
<tr>
<td>SHARE CAPITAL</td>
<td>€ 68.408</td>
<td>56%</td>
<td>€ 68.408</td>
<td>49%</td>
<td>€ 68.408</td>
<td>40%</td>
<td>€ 68.408</td>
<td>32%</td>
<td>€ 68.408</td>
<td>24%</td>
</tr>
<tr>
<td>ACCUMULATED PROFIT OR LOSSES</td>
<td>-€ 10.937</td>
<td>-9%</td>
<td>-€ 12.833</td>
<td>0%</td>
<td>€ 18.633</td>
<td>11%</td>
<td>€ 51.237</td>
<td>24%</td>
<td>€ 100.770</td>
<td>35%</td>
</tr>
<tr>
<td>RETAINED EARNINGS</td>
<td>€ 0 0%</td>
<td>0%</td>
<td>€ 2.702</td>
<td>2%</td>
<td>€ 7.392</td>
<td>4%</td>
<td>€ 15.543</td>
<td>7%</td>
<td>€ 27.927</td>
<td>10%</td>
</tr>
<tr>
<td>DIVIDENDS</td>
<td>€ 0 0%</td>
<td>0%</td>
<td>€ 0 0%</td>
<td>0%</td>
<td>€ 0 0%</td>
<td>0%</td>
<td>€ 0 0%</td>
<td>0%</td>
<td>€ 0 0%</td>
<td>0%</td>
</tr>
<tr>
<td>LIABILITIES + EQUITY</td>
<td>€ 122.012</td>
<td>100%</td>
<td>€ 140.043</td>
<td>100%</td>
<td>€ 169.367</td>
<td>100%</td>
<td>€ 216.500</td>
<td>100%</td>
<td>€ 287.151</td>
<td>100%</td>
</tr>
</tbody>
</table>
Through the vertical analysis of the Balance Sheet we can see once more the high liquidity of The Closet, since the 80% or more of the total assets is composed by the short term financial investment plus the cash/banks, and given that the accounts receivable are zero because the clients pay in advanced, the company can finance themselves through other sources like the suppliers, which would lead them to a high working capital.

As a result of the losses of the first year, due to the constitution of the company and there viral marketing strategy that allows increase exponentially the number of customers, which represents having a low customers the first year of operation. As consequences of this the liabilities of the company represents the first year a greater percentage over the equity. This situation change completely the second year as the company began to have profits and auto-financing themselves through the suppliers, showing a greater percentage of equity over liabilities, difference that grows over the following years.

Through the horizontal analysis it is possible to see the increase of the short term financial investments showing the increasing liquidity of the company through the years.
In the Equity is interesting the evolution of the accumulated profits or losses, which shows how the company recovers from the losses of the first year and begins increasing its profits and accumulating them.

**19.4 CASH FLOWS**

In order to obtain our NPV and our IRR we need to calculate our Cash flow, which for our realistic scenario will be as follows:

<table>
<thead>
<tr>
<th>Year 0</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>NET PROFIT</td>
<td>-€ 10.937</td>
<td>€ 13.511</td>
<td>€ 23.452</td>
<td>€ 40.754</td>
<td>€ 61.917</td>
</tr>
<tr>
<td>DEPRECIATION</td>
<td>€ 5.859</td>
<td>€ 5.936</td>
<td>€ 5.936</td>
<td>€ 2.680</td>
<td>€ 1.613</td>
</tr>
<tr>
<td>VARIATION IN A.P</td>
<td>€ 31.272</td>
<td>€ 2.220</td>
<td>€ 2.378</td>
<td>€ 2.547</td>
<td>€ 3.511</td>
</tr>
<tr>
<td>VARIATION IN VAT PAYABLE</td>
<td>€ 33.269</td>
<td>€ 2.300</td>
<td>€ 3.495</td>
<td>€ 3.831</td>
<td>€ 5.223</td>
</tr>
<tr>
<td>INVESTMENTS IN NFA</td>
<td>-€ 23.981</td>
<td>-€ 636</td>
<td>€ 0</td>
<td>-€ 649</td>
<td>-€ 662</td>
</tr>
<tr>
<td>FINANCIAL EXPENSES</td>
<td>€ 22.133</td>
<td>€ 0</td>
<td>€ 0</td>
<td>€ 0</td>
<td>€ 0</td>
</tr>
<tr>
<td>INITIAL INVESTMENT</td>
<td>-€ 68.408</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL CASH FLOW</td>
<td>-€ 68.408</td>
<td>€ 57.615</td>
<td>€ 23.330</td>
<td>€ 35.260</td>
<td>€ 49.164</td>
</tr>
</tbody>
</table>

**DISCOUNT RATE** 8.7%
**NPV** € 114.191
**IRR** 60%
**PAYBACK** 1 year & 6 months

Once we have the cash flow, a discount rate has to be calculated. This discount rate is the risk free plus a risk spread that is inherent to each industry or sector. The risk free for Spain has been increasing in the last periods and it’s situated now in 3.7%, for the calculation of the risk spread a risk of the sector and a risk of the company is calculated. The risk of the sector is a 4% and the risk of a company is 1%, why is the risk of the sector higher than the risk of our company?, this is because the entire sector doesn’t have the same financial structure as us, our financial structure of not having accounts receivable because we receive all the money at date from the customers and our delay payment (90 days) to suppliers give us an internal source of financing which in consequence give us a really low risk for liquidity.
This in turn gives us a discount rate of 8.7% which is used to discount the yearly cash flows to obtain the NPV. An NPV higher than 0 is an indicator that the project is creating value, and an IRR of 60% means that investors will get a return 51.3% higher than if they would invest in other project in the same sector. The payback of the investment done in this project will be of a year and 6 months.

19.5 INDICATORS

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Profitability Ratios</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROE (Return On Equity)</td>
<td>-16%</td>
<td>20%</td>
<td>34%</td>
<td>60%</td>
<td>91%</td>
</tr>
<tr>
<td>ROI (Return On Investment)</td>
<td>8%</td>
<td>8%</td>
<td>17%</td>
<td>24%</td>
<td>28%</td>
</tr>
<tr>
<td>ROS (Return On Sales)</td>
<td>3%</td>
<td>3%</td>
<td>7%</td>
<td>12%</td>
<td>16%</td>
</tr>
<tr>
<td><strong>Efficiency Ratios</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assets turnover</td>
<td>29%</td>
<td>277%</td>
<td>247%</td>
<td>209%</td>
<td>174%</td>
</tr>
<tr>
<td><strong>Financial Ratios</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liquidity</td>
<td>1.61</td>
<td>1.84</td>
<td>2.17</td>
<td>2.60</td>
<td>3.15</td>
</tr>
<tr>
<td>Financial Leverage</td>
<td>112%</td>
<td>97%</td>
<td>79%</td>
<td>60%</td>
<td>46%</td>
</tr>
<tr>
<td>Equity to assets</td>
<td>212%</td>
<td>197%</td>
<td>179%</td>
<td>160%</td>
<td>146%</td>
</tr>
<tr>
<td>Accounts Payable Turnover (days)</td>
<td>51</td>
<td>52</td>
<td>54</td>
<td>55</td>
<td>56</td>
</tr>
<tr>
<td>Working capital</td>
<td>39,349</td>
<td>58,159</td>
<td>87,546</td>
<td>130,332</td>
<td>193,200</td>
</tr>
<tr>
<td><strong>Break even point:</strong></td>
<td>€291,170</td>
<td>€348,910</td>
<td>€344,272</td>
<td>€340,515</td>
<td>€338,347</td>
</tr>
</tbody>
</table>

As we are a new company we do not have a large number of customers at the beginning and taking into account that we have a viral marketing strategy that will increase customers in an exponential way, we would need a short term debt to work with in the first months. Then through the pass of the years we will be able to finance ourselves with our customers and suppliers, that’s why our financial leverage will decrease over the years.

We finance our operations with suppliers which are a cheaper financial mode, we have the money of our customers as a deposit of the order, non-collection period, and we pay to the suppliers between 50 and 56 days, a longer paying period, which lets us broaden our financing period.

The company has a high liquidity; we cover all our liabilities between 1.6 to 3 times with our current assets. It is also shown as we see the increasing working capital through the years.
The assets turnover is high that means that we generate between 170% and 300% in revenues for every dollar’s worth of assets which means we are very efficient in the use of these resources. We also can see that our pricing strategy began with a low margin and increases with the years, that's why we observe a decreasing assets turnover, even though it keeps being a good one.

Our high asset/equity ratio shows our dependence in the liabilities, accounts payable, to finance our daily work, but will be decreasing with the years because of our accumulated profits and retained earnings that will contribute with the liquidity of the company. On the other hand it also shows that the return on the borrowed capital from the share holders exceeds the cost of that capital.

The ROE shows the amount of income returned as a percentage of shareholders equity, what shows us that the first year we would not be able to return income due to the payment of the short term debt that we need to have working capital. The years after we increase constantly our profitability, raising year by year the profit the company generates with the shareholders invested money reaching a 91% of return in the fifth year.

The ROI evaluates how efficient is our investment, and it is positive since year one which means that we are generating earnings from the investment and every year we are being more profitable.

The ROS shows us our operational efficiency, since the first year 3% of our profits are generated per euro of sales, and we reach a 16% in the fifth year, which indicates the company is growing efficiently.

19.6 SCENARIOS

<table>
<thead>
<tr>
<th></th>
<th>Realistic scenario</th>
<th>Decrease sales scenario</th>
<th>Increase costs scenario</th>
</tr>
</thead>
<tbody>
<tr>
<td>NPV</td>
<td>€ 114,191</td>
<td>€ 25,563</td>
<td>€ 24,438</td>
</tr>
<tr>
<td>IRR</td>
<td>60%</td>
<td>23%</td>
<td></td>
</tr>
<tr>
<td>PAYBACK</td>
<td>1 year &amp; 6 months</td>
<td>4 years &amp; 6 months</td>
<td>3 years</td>
</tr>
</tbody>
</table>

Instead of doing a pessimistic and optimistic scenario of our business we decided that for our case is better to understand the implications of the variations in some of our
most important variables, these variables are our market share, which is translated in sales and our transport, packaging and raw materials costs.

By decreasing our market share from 5% to 3.7%, that is in terms of sales volume a decrease from 7,349 units to 6,015 units, we can see that the NPV of the project is considerably reduced, never the less the NPV is still more than zero which means that the project still creates value. It is also clear that the payback period increases in 3 years from what it would be in the realistic scenario.

For the case of the costs increase, a 10% of increase was considered, we can see that the NPV is more sensitive to this variation but our payback period isn’t; only an increase of a year and a half in the payback has to be taken into account in this scenario. Even though the NPV and the IRR are lower than in the realistic scenario, they are still very good, since the NPV has a value of €24,438 and the IRR is 23% which is 14.3 points higher than the discount rate.

19.7 BALANCE SCORE CARD
The strategy plan of the company is focused on three goals: being customer oriented, in order to motivate their loyalty; to create a new category in the mind of the consumer, which is the e-customized fashion; and last, to offer an affordable service.

<table>
<thead>
<tr>
<th>Objectives Mesures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Initiative</td>
</tr>
<tr>
<td>• INCREASE PROFITABILITY • EBIT</td>
</tr>
<tr>
<td>• INCREASE SHAREHOLDERS &amp; INVESTORS VALUE • ROI</td>
</tr>
<tr>
<td>• OPTIMIZE OPERATING COST • Operational Margin</td>
</tr>
<tr>
<td>Customer Perspective</td>
</tr>
<tr>
<td>• BRAND IMAGE • % of clients that would recommend the closet to a friend. • % of highly satisfied clients.</td>
</tr>
<tr>
<td>• HIGHLY PERSONALIZE SERVICE • % of promotions redeemed • % of customer satisfaction</td>
</tr>
<tr>
<td>• INNOVATIVE CUSTOMIZE GARMENT STORE • # of innovations or improvement per month</td>
</tr>
<tr>
<td>• AFFORDABLE PRODUCTS • Competitors benchmarking</td>
</tr>
<tr>
<td>Internal Perspective</td>
</tr>
<tr>
<td>• YOUNG CUSTOMERS ACQUISITION &amp; LOYALTY MANAGEMENT • % of recurrent customer • % of customers that never makes an order • % of clients that ever make an order after receiving the design • % of new customers • % of webpage visitors that make an order</td>
</tr>
<tr>
<td>• INNOVATIVE CHANNEL &amp; CUSTOMIZED PRODUCTS • % of customer that uses other webpage services • % of requirements met</td>
</tr>
<tr>
<td>• QUALITY OF PROCESSES &amp; LOW COST SERVICE CHANNEL • % of products rejected • Average time between putting the order and the cloth being finished • Average time between shipping and receiving • Web page cost / total cost</td>
</tr>
<tr>
<td>Learning &amp; Growth Perspective</td>
</tr>
<tr>
<td>• ENHANCE EMPLOYEES • Motivation index (%) • % of learning curve improvement</td>
</tr>
<tr>
<td>• INTEGRATE KEY TECHNOLOGY • # of technologies implemented to improve the webpage</td>
</tr>
<tr>
<td>• EFFECTIVE MANAGEMENT OF INFORMATION • # of reports from agent • # of publications to investors and shareholders • Average use of video call</td>
</tr>
</tbody>
</table>

To achieve these strategies, a tracking of the following list of measures will be made. Therefore, there will be numeric results of each of the objectives, and the suitable corrections will be applied.

19.8 CONTINGENCY PLAN

Using a risk management Matrix, we identify and classify the most important risks the company could be facing. We decided what would be the measures that we
needed to take in order to control the risks and who would be the accountable for the execution and control of the actions.

<table>
<thead>
<tr>
<th>PROBABILITY</th>
<th>IMPACT</th>
<th>Threat</th>
</tr>
</thead>
<tbody>
<tr>
<td>LOW</td>
<td>LOW</td>
<td>Legislation changes                  Low demand</td>
</tr>
<tr>
<td>MEDIUM</td>
<td>MEDIUM</td>
<td>No conformity with product requirements Increase cost of raw materials</td>
</tr>
<tr>
<td>HIGH</td>
<td>HIGH</td>
<td>Logistic delays due to external factors Logistic delays due to weather conditions</td>
</tr>
</tbody>
</table>

- **Very low Severity Threat**
- **Low Severity Threat**
- **Medium Severity Threat**
- **High Severity Threat**
- **Very High Severity Threat**
20. CONCLUSIONS

Although the fashion industry has been around for a long time and the apparel and retail sector has developed greatly in the last decades, technology is now enabling to approach this industry in a different way, allowing new players in the market to integrate both of these aspects in order to deliver consumers a different product/service.

Even though the Apparel Retail internet business has a high level of substitutes and high level of new entrants, due to the low barriers of entry, it’s essential for this sector in order to succeed to define a specific factor that differentiates the company from the competitors and substitutes to obtain a place in the market. Due to the current absence of customized fashion online companies, we’ll be able to position as first and leaders in the consumer’s mind.

The fact that in Spain, apparel e-commerce is still lower (30%) than the European average (32%) means that companies of online shopping are still in the growing market.

<table>
<thead>
<tr>
<th>INTERNAL</th>
<th>MEASURES TO TAKE</th>
<th>RESPONSIBLE</th>
</tr>
</thead>
<tbody>
<tr>
<td>No conformity with product requirements</td>
<td>Quality control, Bonus for fitting modifications</td>
<td>Agent</td>
</tr>
<tr>
<td>Increase cost of raw material</td>
<td>Define alternative raw materials</td>
<td>Designer</td>
</tr>
<tr>
<td>Product could not be delivered</td>
<td>Define delivery requirements with customer</td>
<td>SCO</td>
</tr>
<tr>
<td>Exchange rates goes up</td>
<td>Plan and schedule contingency resources</td>
<td>CFO</td>
</tr>
<tr>
<td>Company changes</td>
<td>Clearly defined responsibilities Management of the information</td>
<td>CEO</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EXTERNAL</th>
<th>MEASURES TO TAKE</th>
<th>RESPONSIBLE</th>
</tr>
</thead>
<tbody>
<tr>
<td>No conformity with Moroccan Legislation</td>
<td>Involvement of Moroccan agent in the legal issues.</td>
<td>CFO</td>
</tr>
</tbody>
</table>
| Low demand | PR  
E- Marketing  
Sales Promotion | CMO |
| Logistic delays (external conditions) | Delivery - time margin | SCM |
| Logistic delays (weather) | Delivery - time margin | SCM |
Adding this with the lack of direct competence, can make the company be in the customer-benchmark's top position.

Consumer’s decision is mostly influenced by fashion, life style, social status, they are less concerned about quality and their loyalty to the brand is meanly linked to the designers not to the retailer. So continuous advertisement and innovation in the design are important factors for being present all the time in the consumers mind.

The higher risks in the customized e-fashion business are mainly three:

First: competitors will try aggressively to copy our idea. That is why building a solid relationship with our suppliers and having a well coordinated and studied logistics process is key, in order to differentiate ourselves and make it harder for competitors to deliver the same value proposition.

Second: fraud. The Closet is aware that this matter is a sensitive one in the eyes of the consumers, that is why special attention is payed to it and all the mechanisms available to counteract it are put in place throughout our payment procedures and our webpage information.

Third: The high number of return rates. A high number of returns is translated in higher costs, that is why special attention to quality throughout the entire production process and a philosophy of perfect fit and low return rates is established as one of the core values in our company.

We have a simple financial structure, where the customer has to pay in advance to trigger the production process and we pay to our raw material suppliers in a 90 days period, causing an adequate level of liquidity to the company.

The company is highly sensitive to the variations of the costs, specifically the costs of the raw materials. A variation in this item decreases considerably our NPV.

The Closet is highly dependent on its suppliers because this is mainly our only source of financing; this is a high risk that has to be managed through the Moroccan agent, who is in charge of managing the relationships and having alternatives suppliers. Fortunately this situation will be changing with the years because of our accumulated profits and retained earnings that will contribute to the liquidity of the company.

As a consequence of what’s been stated above, the company only needs financial debt in the first months of year one of operations, from the second year onwards it can offer to the shareholders a raising profitability, reaching a 91% of return in the fifth year. Additionally, the ROI is positive since year one which means that the
company is generating earnings from the investment and every year we are being more profitable and more efficient.

Finally, the project shows in the realistic scenario a positive NPV as an indicator that the project is creating value and an IRR of 60%, higher than the discount rate, which means that investors will get a higher return than if they would invest in other project in the same sector, with a payback of only a year and 6 months.

21. APPENDIX
APENDIX 1: The Closet webpage.
demonstrate
you
deserve the key
to
the closet!

show your
fashion knowledge
and enter the closet!

play!
## APPENDIX 3: measurements metrics.

<table>
<thead>
<tr>
<th>Activity</th>
<th>Goal</th>
<th>Timing</th>
<th>Expense</th>
<th>Metric</th>
<th>description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 - anonymus</td>
<td>First contact w/ potential prescriptors, intrigue.</td>
<td>07/09/2010 to 15/09/2010</td>
<td>0€</td>
<td># of clicks on website still unable to log in. # of references in internet</td>
<td>Free-cost action → friendly contact, not intrusive.</td>
</tr>
<tr>
<td>3 – secret club</td>
<td>Have the contact data of the bloggers.</td>
<td>15/09/2010 to 15/10/2010</td>
<td>1340€</td>
<td>membership / invitation. design ordered / membership. # of references in internet</td>
<td>Positive and closer relation with the bloggers.</td>
</tr>
<tr>
<td>4 – the party</td>
<td>Direct contact, appearance. Ask for feedback.</td>
<td>15/11/2010</td>
<td>4900€</td>
<td>% of attendees. # of references in internet</td>
<td>Presentation event of The Closet. Offer perfect service and images for the blogs.</td>
</tr>
<tr>
<td>5 – internet</td>
<td>Receive a positive feedback.</td>
<td>15/09/2010 to 28/02/2011</td>
<td>0€</td>
<td>% of positive, neutral and negative opinions. # of groups' members.</td>
<td>Complete clipping and analysis of the content. Corrections.</td>
</tr>
<tr>
<td>6 - promotions</td>
<td>Impulse the sales by making discounts to the members that make a new purchasing member</td>
<td>15/09/2010 to 28/02/2011</td>
<td>120€</td>
<td>% of repeating order. % of discounts used.</td>
<td>Increase progressively the number of members and orders. Corrections.</td>
</tr>
</tbody>
</table>
APPENDIX 4: The Closet Logo.
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