

EOI Escuela de Organización Industrial

Final Project:

MERCAORGANIC Business Model

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Mercaorganic is a network of stores where customers will find high quality organic products that will help them to take care of their health and wealth, while promoting fair trade.

Mission:

"Become the only intermediary between consumers and organic producers and also offer the best quality seasonal local products in order to promote the regional agriculture"

Vision:

"Create the most important European network of organic producers and thereby provide health and wealth"

1. Environmental Analysis

1.1. PESTEL:

1.1.1 Political Factors:

In 2007 El Ministerio de Medio Ambiente y Medio Rural y Marino (MARM) published "*El Plan Integral de Actuaciones para el Fomento de la Agricultura Ecológica*". This document was governmental support on ecologic agriculture in order to expand the sector. Along with this we can find the already existing specific regulation on ecological products: "*Reglamento (CE) 834/2007*" where each product must be certified and inspected by an official committee depending on each autonomous region.

In 2006 the government forbade the "**BIO**" denomination for ecological products, cutting down grants for the products named with it, the resolution is still valid.

Recent government change (December 2011) will be introducing new rules regarding SMEs, such as reducing taxation of benefits, shortening the time for setting up a business and specific conditions for VAT payment.

1.1.2 Economical Factors:

Firstly we can highlight a slight improvement of the economic situation forecasted for the incoming years. Spanish GDP suffered a 4% drop during 2009, but in 2010 figures started to show slight improvement.

Along with the above, the IMF forecasts show an economic growth of 0.8% in 2011, and for 2013 the economy will grow around 1%.

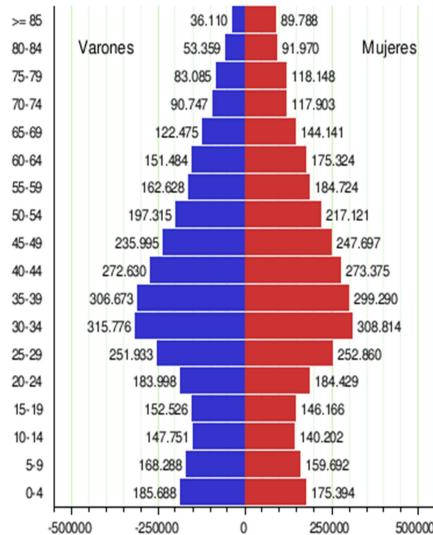
Secondly, one of the Spanish economy's weaknesses is the labor market. The unemployment rate has grown one percentage point in 2011. The current unemployment rate is 24% and the forecasts are not optimistic in the short term. This situation does not help to raise the consumption.

Last but not least, the family's consumption seems to stay in a similar situation in 2012 and exports rate will decrease from 9% to 2.3%. Added to those negative factors, we should consider that the fiscal adjustments measures will increase the difficulty for a short term recovery.

Nowadays the situation of the Spanish economy is difficult, especially in those issues related with the consumption. This condition shows us that we should offer a product focusing on a specific market. A target that is highly involved in the organic product's consumption.

1.1.3 Social Factors:

As it is shown in the population pyramid, the birth rate has decreased in the last years. We should take this tendency into account because our target is mainly made of people, who identify themselves as environmental friendly.



Due to cultural development, both environmental and health awareness have increased. The population is more concerned than ever about nutritional requirements, creating with these natural products (without chemical additives) the “health conscious market”. The organic consumption started as a fashionable philosophy and step by step has developed into a key part of our diet. This new consumer’s tendency has made several brands redefine their corporative image adding new “ecological factors”.

We can define the **Green Consumer** *as that who is ecologically responsible and shows it in his shopping habits. These “green consumers” are part of our market research.

The Spanish organic market is less developed than the German or the British. Nevertheless all forecasts show a positive evolution.

1.1.4 Technological Factors:

Regarding logistics, new technologies offer the possibility of delivering the product where is needed when is needed. The science developed around the lean operating model and the six sigma managing model will help the company to create a unique business model.

1.1.5 Environmental Factors:

According to recent studies we are facing a difficult environmental situation. To promote a business model that enhances the natural agriculture with a complete elimination of pesticides and other chemical products may help to perform the actual situation.

1.1.6 Legal Factors:

The organic market is legislated by the ISO 14000 norm. This norm accepted by the international community and states how to establish an **Environment Management System (EMS)**,* in order to reduce the environmental impact of economic activities. Any business can implement this management system to comply with the existing regulation.

Under the same philosophy we find the legal framework provided by the **“Hazard Analysis and Critical Control Point” (HACCP)***. This norm establishes a set of bullet points to be

fulfilled to keep record and control of the impact the business activity has regarding subjects such as hygiene, safety production procedures, etc.

1.1.7 Conclusions:

Concerning politics it can be concluded that the legal frame benefits Mercaorganic both from an environmental perspective and also from being an SME, because the project perfectly combines both tendencies.

Despite the crisis there is still a place for optimism because it can be forecasted future growth (slight but growth) thanks to the new government's measures if they are able to reduce the unemployment rate.

From the social point of view it is perceived a future rise of the potential organic customers thanks to the growing environmental and health awareness.

1.2 Competitors

1.2.1 Objective

Before starting up the new company, one of the first actions to take is identifying the competitors. It should be distinguished between two kinds of competitors: Service and product competitors.

1.2.2 Service Competitors

Based on the obtained information we can assert that at the moment our service would not meet a lot of competition in Spain neither in the rest of Europe.

1.2.3 Product Competitors

Regarding this, the competition is more intense hence there are a lot of organic products sellers, even if they reach only a small share of potential customer.

	Price	Diffusion	Efficacy
Supermarkets	High	Capillary	Low
Herbalist and Dietary	High	Not Uniform	Low
Organic Shops	High	Not Uniform	Low
Small Markets, Cooperatives, Direct Sales	Low	Not Uniform	Medium-low
On-line Shops	High	High	Medium

After this first analysis, it is realized that there is a **"Blue Ocean"*** within the Spanish market, helping to be innovative, trying to give clients a new experience, and a challenge to create the network of organic producers that the sector needs.

Also we have to take into account that the current competitors could be in the future partners. It should be found ways of reaching agreements with some of them in order take advantage of some synergy.

1.3 Channels

1.3.1 Objective

The distribution strategy for the service that Mercaorganic is going to offer is a key element for differentiation. The company has to take into account the existing channels in the sector to define the added value that the costumer will perceive.

1.3.2 Existing Channels of ecologic products

In Spain, even is one of top producer countries of ecological products, the market share is extremely low. The producers argue that one of the main causes of that situation is the distribution channels.

The existing channels for the sector are the following:

Supermarkets

- Lack of interest in Ecologic products
- Difficulties for the producers for accomplish the conditions required in terms of product homogeneity, continued offer and capacity.
- High power to set the price for the final customer, normally this price is expensive even that the supply chain is short.

Herbalist and organic shops

- Most consumers are not using these stores because the ecological products prices are higher than the conventional.

1.3.3 Channels for Mercaorganic

Stores

- We will offer the complete range of fresh organic products
- Located in strategic urban areas close to the target market.
- Innovative and "green" atmosphere with trendy design.

1.3.4 Conclusions

The market needs a more direct approach and close relationship between the producers and the consumers. With the existence of new channel strategies and the creation of loyal group of consumers, the demand will increase and that will reflect in the improvement of the quality offering a more reasonable price-quality relation.

1.4 Suppliers

1.4.1 Objective

Suppliers play a vital role in a company's life. The growth of an organization depends heavily on the suppliers' offer. The selection of these partners is one of the most critical issues for a company in order to reduce costs, especially if it is considered the current competitiveness and the necessity of taking advantage over competitors.

At the same time, supplier choice should not be focused only on economic advantages. In fact having reliable and trust worthy suppliers can be important for the company image and also for safety of the business process.

1.4.2 Our Suppliers

The products and service that are going to be purchased to third parties are:

- Organic Products
- IT system
- Electricity
- Logistics
- Internet/phone
- Employees

We consider critical supplier(s) for our business those providing organic products, our core business.

1.4.3 Conclusions

It is certain that the choice of suppliers is a crucial decision for our company. It will be necessary to establish specific supplier selection criteria taking into account that it is not possible to grant customers good products or services if the suppliers are not aligned with the company objectives. In the future it can be outsourced some services, such as advertising, marketing or related matters, depending on the evolution of the business.

2. Sector Analysis

2.1 Barriers to entry and exit:

2.1.1 Objective:

In this paragraph the company defines if there is any existing barrier to entry or exit for an organization that wants to compete in the organic food distribution. Thereby threats of new entrants in the industry can be identified.

The company should take into account the following factors:

- In terms of *economies of scale*, Mercaorganic needs to create a strong relationship with producers. Due to this relationship it would be able to apply for a price discount for high volume of orders. The current market does not offer low prices for ecologic products. However, if the company obtains a high level of sales it must offer a lower price to the final consumer and create a new barrier to new competitors' entrance.
- In the future a barrier to entry will be *product and service differentiation*. Mercaorganic will offer a unique way of buying organic products. This value added will be considered as an entry barrier only with the creation of a strong process from beginning to end of the value chain. This strategy has to make customers choose the company by changing the buyer experience, and thereby make service and quality the main factor of choice and not price.
- The *capital requirement* for this type of business could act as a barrier of entry or exit; It should be also analyzed the investment in the infrastructure required for the products distribution.
- Other types of barriers to entry could be the access to the *distribution channels the know-how* and those ones related with legal and governmental aspects. For the business these factors do not represent a barrier to entry or exit.
- The barriers of exit also represent an important factor for the competition in the sector. The *return of the investment* could represent a barrier of exit for the business. If the company decides to leave the sector, the fixed assets and resources will be amortized relatively easy. However, if the amount received is not enough to cover the payment of the initial capital, it would represent a limitation for the company.

2.1.2 Conclusions:

There are existing barriers to entry and exit of the sector that the company must have to take into account. The company has to create a strong business model in order to avoid the entrance of new competitors. The differentiation in service will represent a barrier depending on how consolidated is the process through the value chain. Thereby, the relationships and partnerships between the stakeholders are extremely important in this sector to achieve a successful strategy.

2.2. Potential new competitors:

2.2.1 Objective:

The entrance of new competitors into a market depends on the barriers to entry and the attractiveness of the business model. So far, nobody else is offering the same combination of products and services that Mercaorganic is offering, and new competitors could see it as an opportunity.

2.2.2 Possible new competitors:

It should be considered as new competitors not only new companies that could enter into the market, but also traditional companies that could decide to imitate Mercaorganic's model and target its customers, and that may represent a tougher threat. It refers to those companies that have been identified as "competitors for product" and could become competitors also "for service".

It was considered that the most dangerous new competitors could be:

- Hyper- and Supermarket: They could install dispenser in their point of sale, using their strong bargaining power to have fresh product at a low price. Their high diffusion may allow them to reach most of the potential customers. Hypermarkets are usually located at cities suburb and that can also represent a further advantage.
- Association of producers: They could open points of sale in the cities, using Mercaorganic's model and making the supply chain even shorter. They could take advantage of their role of producers.
- Other small shops: Other small shops could imitate the business model, but they are not considered as a real threat for the business, because they would not have a competitive advantage like high diffusion.
- New companies: It has to be considered new companies that could see the model attractive and profitable. They might also be able to improve it in one or more aspects obtaining a competitive advantage.

2.2.3 Conclusions:

New competitors can represent a threat for the business, especially supermarkets. They may find the business model very interesting and easily importable. Perhaps it would be more profitable for Mercaorganic to find some kind of alliance with them.

2.3. Customer bargaining power:

2.3.1 Objective:

The organic and natural food industry is relatively large and popular and has been growing constantly through the past years. The most demanded consumption chains for consumers are the following:

- Mainstream supermarkets
- Warehouse stores
- Natural food stores
- Local farmers markets
- Internet grocers

2.3.2 Spanish and Italian markets:

The concentration of these shops is low, in fact, organic agriculture represents 2.5% of the total Spanish agricultural sector, and over 80% are destined for export, limiting consumer's choice in the domestic market, reducing bargaining power of customers.

2.3.3 Rest of Europe:

For the moment the business model is being analyzed for Spain and Italy, but the aim and goal of the enterprise is global. The design analysis method will be applicable to other countries, especially those within Europe.

2.3.4 Analysis of consumer bargaining power:

Consumer purchase decisions are based on subjective experiences and perception. The business model is dealing with very specific products.

It should be taken into account that there is a low price-elasticity of demand, because the consumption of organic food is essential for customers. Very low price elasticity implies that changes in prices have little influence on demand.

Potential customers are really concerned about nutritional requirements of organic products, without chemical additives. If the business is able to communicate this point to the consumers their loyalty is guaranteed. The customers could also negotiate discount, payment facilities and improvements in product quality, but talking about small volumes, the bargaining power is low.

2.3.5 Conclusion:

In summary the bargaining power of consumers in the sector of organic products is low, because they are seeking an exclusive product.

2.4. Supplier bargaining power:

2.4.1 Objective:

The strength of suppliers represents a weak or a strong force hinges on the amount of bargaining power they can exert and, ultimately, on how they can influence the terms and conditions of transactions in their favor. The cost of supplies can have a significant effect on the company's profitability. The presence of powerful suppliers reduces the potential profit in an industry. By threatening to raise prices or reduce the quality of goods and services, suppliers increase competition within an industry. As a part of the methodology, the main objective you can relate to the suppliers is to be able to evaluate their strength and influence.

2.4.2 Suppliers:

In the following table it is shown the key suppliers the business has. For building the bargaining power classification it has been taken into account the following criteria:

- Number of suppliers
- Size of suppliers
- Uniqueness of service
- Ability to be substituted
- Cost of changing

Obviously as a consequence of the suppliers' power increment the possibility the company has to answer decrease. It is also explained the main actions they can do to increase their bargaining power and put the company under pressure.

	Bargaining Power	Pressure Actions	Company Power
Organic Producers	Medium	Price Cooperatives Long term contract Minimum purchase	Medium
Logistics / Transportation	Medium	Price Long term contract Minimum purchase	Medium
Marketing and Publicity	Medium	Long term contract	Medium
Business Accommodation	Medium	Price Long term contract	Medium
IT System	Medium	Long term contract Minimum purchase	Medium
Electricity	High	Price	Low
Phone and Internet	High	Price	Low
Employees	Low	Labor unions	High

2.4.3 Conclusions:

The business doesn't have the resources to produce its own inputs. In this position it might consider forming a partnership with its supplier(s). This can result in a more even distribution of power. Another option may be to increase the power by forming a buying group of small producers to buy as one large-volume customer.

2.5. Possible competitor response strategies:

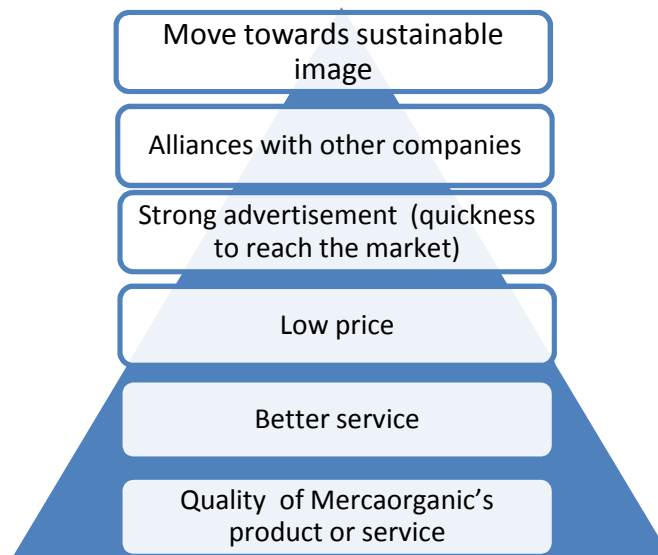
2.5.1 Objective:

Before introducing into the market a new product or service, a company should predict which competitors will respond, how and when. Given the central role of competition in the economic system, the study of competitive response is essential for any understanding of

business action, especially if the product or service the company is going to launch is innovative.

2.5.2 Possible strategies of competitors:

There is a wide range of strategies that competitors could adopt in order to face the threat that Mercaorganic would represent for them:



- Quality: It should be one of Mercaorganic's strengths, but it does not mean that any other competitor could not develop a strategy based on this aspect, trying to reach the same level in the medium/long term.
- Offer more services: Competitors could offer several services that clients could consider more relevant than Mercaorganic's services; (e.g. delivery of products)
- Lower price: Competitors may sell organic products reducing their current prices, especially supermarkets could leverage on their bargaining power with suppliers to meet Mercaorganic's competition.
- Strong advertisement (quickness to reach the market): Competitors, especially hypermarkets and supermarkets may take advantage of their advertisement strategy (e.g. mailbox leaflets) reaching a higher number of potential customer with small additional expenses.
- Alliance with other companies: Companies that are already known and have already built their image could find fewer difficulties in forging alliances with other businesses, and also take advantage of their brand name in order to have better conditions.
- Move towards sustainable image: Sustainability is becoming more important for society every day. Customers are more sensible about this issue; competitors could link their image to this concept, pursuing a double purpose: meet customer's needs and face competition.

2.5.3 Conclusions:

There are many strategies that competitors can develop, but most of them would work only at supermarkets. Supermarkets would not need to make radical changes in their current model to apply those strategies, while other competitors will meet more difficulties. As said before, the most menacing competitor will be supermarkets because they have relatively easiness to response to any initiative.

2.6. Substitute products or services:

2.6.1 Objective:

It has been considered as substitute service or product those that may replace what Mercaorganic offers. The existence of substitute products is a reality that should be taken into account. Even if nobody is offering the same products and services, they could take part of the market share.

2.6.2 Possible substitute services:

According to the research of organic shops, there are not direct competitors to the company. This differentiation is an outcome of the business model and reflects the fact that Mercaorganic is dealing with a very specific service. But, it should be also taken into account some substitute products and services. These are basically two. Knowing the impact that competitors have on the demand and consequently in the business, it has to be analyzed their main characteristics:

- Conventional organic stores: All stores that offer organic products within the traditional supply chain.

- Positioning: Few places, high prices, small places.
- Target: General ecologic people.
- Success strategy: Comfortable service.

- Companies like "Los Huertos": This company rents gardens in which customers can plant and use tractors, irrigation and personnel that will take care of their crop. When the products are mature to consume, the client can order the production or go to gather it.

- Positioning: Few places, high prices, uncomfortable service.
- Target: Special ecologic people.
- Success strategy: Innovation and exclusivity.

2.6.3 Possible substitute products:

Regarding the possible substitute products, Mercaorganic will strain in quality management in order to obtain customers' confidence and loyalty. This make any substitute product, since it is considered any product of the same range as substitute product, does not turn out to be such a strong threat.

2.6.4 Conclusions:

Substitute products can represent a threat for the business, especially all the shops of organic products that do not sell in bulk. Due to the clear business' differentiation and the high quality, Mercaorganic could be able to convert competitors into partners. They may be interested in partnering, and this will be used as a great opportunity to gain market share.

3. SWOT Analysis

3.1 SWOT:

In the following table have been evaluated the strengths, weaknesses, opportunities and treats involved in the project.

Internal Analysis		External Analysis	
Strengths		Opportunities	
<ul style="list-style-type: none"> • The business model is innovative and will be based on high quality service. The new distribution channel will satisfy a market hole. • Customers have low bargaining power. • The quality features of products will be certified. • Products and their processes will be environmental friendly. • The shops' environment will be exclusive. • Thanks to the fair trade philosophy will get closer to both customers and producers. 		<ul style="list-style-type: none"> • There is not a strong direct competition at the moment. • In the organic market there are not strong brands. • The awareness about personal and environmental health is increasing in both consumers and public institutions. • Spain is one of the leading countries in organic agriculture. • Europe is one of the biggest market opportunities. 	
Weaknesses		Threats	
<ul style="list-style-type: none"> • Logistics may increase the cost. • Some products' characteristics may not match with Mercaorganic's philosophy. • Conservation represents also a challenge. • To be aware of customer needs and to get their feedback will take some time. • The Know-How: lack of skills or previous experience. 		<ul style="list-style-type: none"> • Supplier's bargaining power is high and the company depends heavily on them. • Consumers lack of information about organic products. • In Spain there is a lack of "organic culture". • At the moment the use and the consumption of organic product is low. • Competitor's response strategies can be aggressive. • Forecasts about general consumption in Spain are pessimistic and organic products do not represent a priority for customers. 	

3.2. How to improve the weaknesses:

3.2.1 Objective:

As any business model Mercaorganic needs to be aware of the weaknesses that are within it and, as far as it is possible, try to design strategies to improve them.

3.2.2 Strategies to improve weaknesses:

Weaknesses	Strategies
Difficulties at the logistics	Internal logistics Logistics outsourced
Products that do not match with Mercaorganic	Reduce portfolio Import
Expiration dates	Innovative supply chain
To be able to get the feedback	Periodical surveys To get preferences through the club
The Know How	External consulting Cooperation with other business

To sell fresh products increases the difficulties in the logistics that may also be expensive. To face this problem Mercaorganic should think either to develop the logistics internally or to outsource them. While designing an internal logistic plan would make it easier to control the distribution, to set up contracts with transportation companies would reduce the initial investment and may give long term contract's advantages.

It has to be considered that some products cannot, or might not, be in the region the company is. Mercaorganic has to define if those goods are going to be imported from other regions or just refuse to sell them and thereby reduce the portfolio.

While selling fresh products the company has to deal with the expiration dates. This is an important matter that should be analyzed in the operational plan and so increase the possibilities the company getting to an innovative supply chain.

As any innovative business, Mercaorganic should be aware of customers' needs and get their feedback. Obviously this will take some time, but there are some alternatives to make the process go faster. Mercaorganic could consider both to do periodical surveys and to track, through the membership club, the clients' preferences.

It is frequent at a business start to find the *Know How* barrier. It refers to all the difficulties that may appear due to the lack of skills or previous experience. To face it the business should ask either for external consulting or for cooperation with other businesses.

3.3. How to face the threats:

3.3.1 Objective:

To be innovative represents several threats that should be analyzed and faced. Mercaorganic has to consider which of these threats could be managed and which ones are just risks that should be taken.

3.3.2 Strategies to face threats:

Threats	Strategies
Suppliers bargaining power is high	Long term contracts Creation of partnerships
Lack of information and "organic culture" in Spain	Web page Brochures Mails Information campaigns
Aggressive competitors' response	Creation of partnerships Highly differentiation
Decrease on consumption	To focus on loyal customers

Mercaorganic business model depends on several suppliers and thereby their bargaining power is high. To prevent an increment of their influence the company can either negotiate long term contracts or create partnerships. These solutions mean both more favorable conditions and some benefits due to the gain of market share.

Nowadays the consumption of organic products in Spain is relatively low because there is lack of information about it. To face this situation Mercaorganic has to increase the information available to get to potential customers that do not know yet the benefits of organic consumption. The company has several channels to achieve that:

- To design a web page, including direct links to producers and suppliers
- To provide brochures with descriptions and advantages
- To mail the customers that had already provided
- To do information campaigns, that may be coordinated with the government

As soon as the company success, the competitor's response can be aggressive. A solution could be to get to a partnership with them. Some supermarkets and organic shops may be interested in developing alliances with the company. If it is not possible, the only way for Mercaorganic to deal with competitor's responses will be to get to highly differentiation not only in products' quality but also in service. These actions will be perceived by the customer only if the processes involved within the value chain are strong.

Forecasts about general consumption are pessimistic and organic products may not represent a priority for those customers that are price sensitive. The company should focus on the target that will be loyal, because financial crisis effects are out of Mercaorganic influence area.

3.4. How to highlight the strengths:

3.4.1 Objective:

Mercaorganic has to be conscious of its strengths, which are many, try to highlight them and so build a strong business.

3.4.2 Strategies to highlight strengths:

Strengths	Strategies
Innovative business model	To focus on innovation
Customers bargaining power is low	Loyalty plans
Products certification	Look for external certification Certification label
Environmental friendly processes	To build partnerships
Exclusive shop's environment	To update the environment To be aware of tendencies and customers

As long as the business is pioneering, the company should focus on innovation. Originality should be promoted not only in the communication strategy but also inside the Marketing Plan. Mercaorganic needs to transfer this message to its customer every time it contact with them.

Due to the lack of competition at the very beginning, the customer bargaining power is low. The company has to take advantage of this situation and try to gain customers inside the loyalty plan.

As any organic business its products must be certified. In addition to the mandatory official recognition Mercaorganic should look for another type of external certification to make so the difference. Both guarantees should be shown in the products' label in order to gain the trust of the clients.

According to Mercaorganic philosophy products and their processes must be environmental friendly. To promote this characteristic the company could contact other recognized environmental friendly institution or organizations. Alliances or partnerships with them would be advantageous for Mercaorganic's image.

Innovation will not only be focused on products and its processes, but also on the shops' environment, trying to get an exclusive atmosphere. To keep this feature Mercaorganic needs to update the stores' environment periodically taking into account tendencies and customers' opinions.

3.5. How to take advantage of the opportunities:

3.5.1 Objective:

The business has to be aware of those opportunities discovered through the sector and environmental analysis. Success will be achieved only if Mercaorganic manages how to take advantage of these opportunities.

3.5.2 Strategies to take advantage of opportunities:

Opportunities	Strategies
No direct competition	To build entry barriers
Big market opportunity in North Europe	To franchise the business model
No strong brands yet	Creation of a strong brand Creation of an "organic culture" To look for government support
Increase in the health and environmental awareness	To look for government support
Spain as a leader in the organic agriculture	To offer better conditions to suppliers

There is not a strong direct competition at the moment due to the innovative business model. Mercaorganic needs to take advantage of this opportunity and try to build entry barriers to avoid new competitors.

Nowadays North Europe is one of the biggest markets opportunities, so Mercaorganic should think about franchising the business model to imply it in other regions.

In the organic market there are not strong organic brands at the moment. Mercaorganic has to do both to build an ecologic culture and to create a powerful name. Additionally the company could take advantage of possible governmental aids to broaden the diffusion process.

The awareness about environment and personal health is increasing in both consumers and public institutions. Since Mercaorganic is offering a healthy way of living the government may help the business in this aspect too.

Finally the company should consider that Spain being one of the leaders in the organic agriculture can represent a big opportunity. If Mercaorganic offers the producers better negotiation conditions than the actual channels (supermarkets), will gain trust, loyalty and long term contracts. The factor that the majority of the production is being exported can represent several difficulties in the negotiation process, but to offer a local partner like Mercaorganic and to guarantee their promotion within the region could be attractive to them.

4. Marketing Plan

4.1 Introduction to the Marketing Plan:

A written marketing plan is the result of a solid marketing strategy that is a fundamental part of the business strategy. Companies like Mercaorganic, the one that is going to be analyzed in the following paragraphs, should develop deeply their marketing plan, because it is a key factor in companies based on the "business to consumer" model.

As any other marketing plan the one presented below should cover the following challenges:

- Understand the market
- Understand the characteristics of the product (
- Identify the potential consumer
- Create awareness
- Attract & Retain customers
- Branding & Differentiation

4.1.1 Product and Service Description:

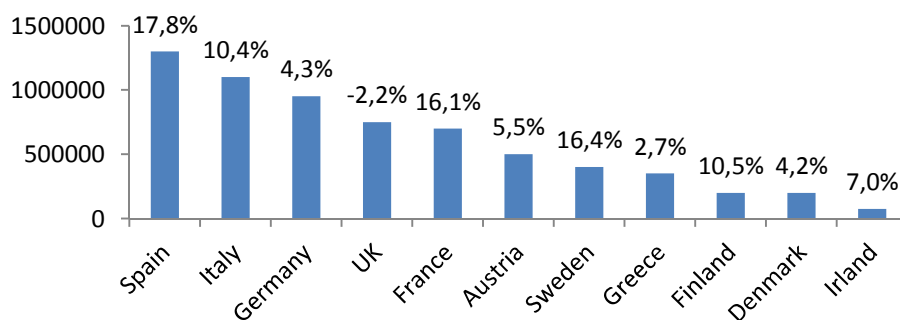
Mercaorganic is a network of markets and stores where customers will find high quality organic products that will help them to take care of their health and wealth. The business will develop agriculture while promoting fair trade.

4.2 Market Research:

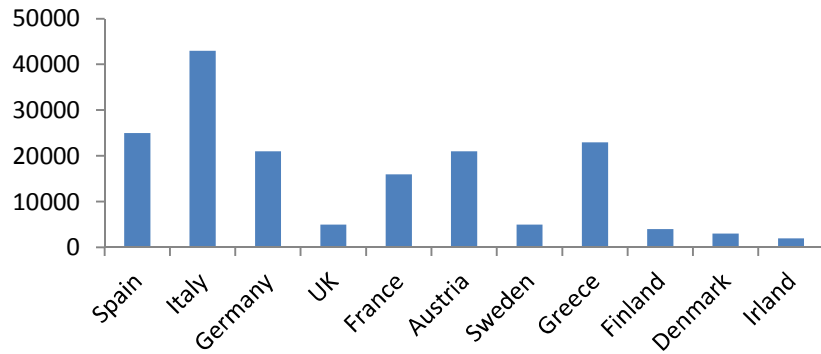
A market research is a fundamental component of any business strategy and its main aim is to gather information about the potential markets and consumers.

4.2.1 Organic Sector in Europe:

The evolution of the utilized agricultural area (ha) in Europe in the year 2009 has been the following:



One of the criteria utilized for locating the Mercaorganic stores are the number of producers in the area (year 2009).



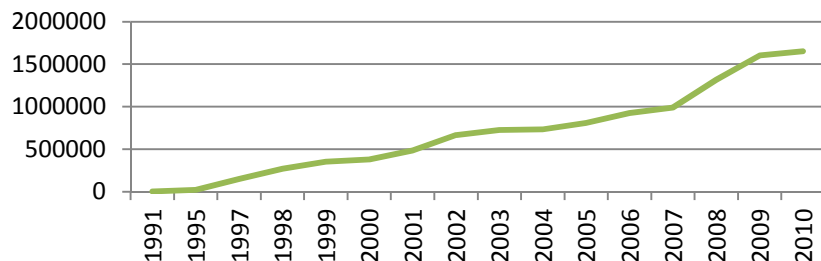
The data showed above helped to choose the future business markets: Spain and Italy. These countries are not only the ones that higher numbers of producers have, but also the countries with faster evolution of organic utilized area.

The business strategy that Mercaorganic will follow is the establishment of stores in Spain in the first year and the expansion to Italy during the fifth year.

4.2.2. Organic Sector in Spain:

Organic Production:

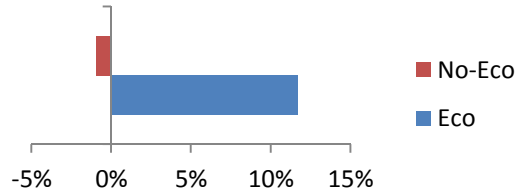
Spain is currently leading the organic production in Europe according to the agricultural surface and its evolution. Nowadays most of this production is being exported decreasing the bargaining power of farmers and ranchers. The graphic shows the surface (ha) evolution in the last 20 years.



Organic Production Evolution (ha)

Organic Consumption:

The weight of the ecologic segment is still small when compared to the whole food industry. In terms of volume it represented a 1.9% of the total sales in 2009. But if it is compared the ecologic sales evolution between 2009 and 2010 with the non-ecologic segment the result is the following:

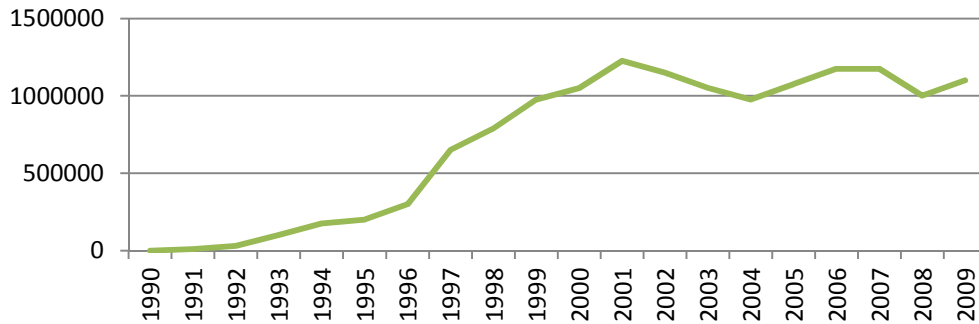


These results show that this type of business will represent a challenge in Spain, especially due to the lack of organic culture in the country. However, the recent evolution of the sales within the country shows an increasing concern about the organic subject and a potential blue ocean regarding distributors of these goods.

4.2.3. Organic Sector in Italy:

Organic Production:

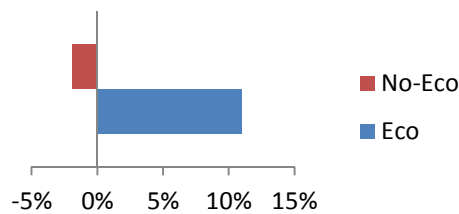
The production in Italy experimented rapid growth during the 90's and between 2001 and 2009 remained, more or less, stable. As it happens in Spain most of this production is being exported. The following graph shows this evolution.



Organic Production Evolution (ha)

Organic Consumption:

Following the same tendency to Spain the ecologic sales are increasing while the average food consumption is contracting, probably due to the financial crisis.



Both countries still represent low percentage of the total food sales (both around 2%) but their production indicates an interesting market to Mercaorganic's business model.

4.3. Four C's Analysis:

4.3.1 Company:

Vision:

Create the most important European network of organic producers that will provide wealth and health.

Mission:

"Become the only intermediary between consumers and organic producers. The company will offer the best quality seasonal local products in order to promote the regional agriculture"

Values:

- Provide wealth and health.
- Promote local organic agriculture, making it easier for farmers the distribution of their products. Become the intermediary between farmers and consumers.
- Offer high quality seasonal products. Guarantee excellence by ensuring the fulfillment of the standards requirements.
- Provide spaces to learn about the organic culture and share environmental awareness.
- Encourage and expand the organic production as a business opportunity.

Challenges / Goals:

- Be recognized as THE organic retailer.
- To provide high quality organic local products.
- Create a loyal organic community.
- Promote fair trade for both consumers and producers.
- Get close to local producers and gain their trust.

Resources:

- Stores and Markets
- Employees
- Network of suppliers

4.3.2 Competition:

Online Shops:

- Jelanisol & Montebello
- Cestaverde.com
- Novaterra

Organic Supermarkets and Stores:

- The Organic Shop
- Ecocentro
- El Vergel (Supermarket + Restaurant)
- NaturaSi

4.3.3 Context:

- Due to cultural development, both environmental and health awareness have increased.
- The population is more concerned about nutritional requirements, creating with these natural products (without chemical additives) the “health conscious market”
- Spain and Italy are the main producers of organic food in Europe. Most of this production is being exported (around 80%).
- Across Spain the industry has grown substantially over the last few years.
- Andalusia is fast becoming Europe’s organic nerve center.
- The distribution of organic products still presents challenges. They are still difficult to find.
- Despite the huge amount of production, there is a lack of local outlets for organic producers, unlike in other countries.

4.3.4 Customers

The type customer that may be interested in Mercaorganic’s products will be:

- People who have raised great interest to healthy and tasty diet with high nutritional compounds.
- Committed with the sustainability and environmental cause.
- Customers who are able to identify the characteristics and benefits of organic and ecologic products.
- Those who understand what organic means:
 - Environmentally friendly farming
 - Animal welfare
 - Farming without drugs, antibiotics, wormers
 - Prohibiting GMOs
 - Prohibiting chemicals pesticides
 - Healthy soil
- Well- informed, normally by reading the labels are able to identify the authenticity of organic products.
- People that associate some risks with the no-consumption of fresh food.
- Those that are already used to consume organic products.

4.4 Segmentation, Targeting, Positioning and Differentiation:

4.4.1 Segmentation

Objective

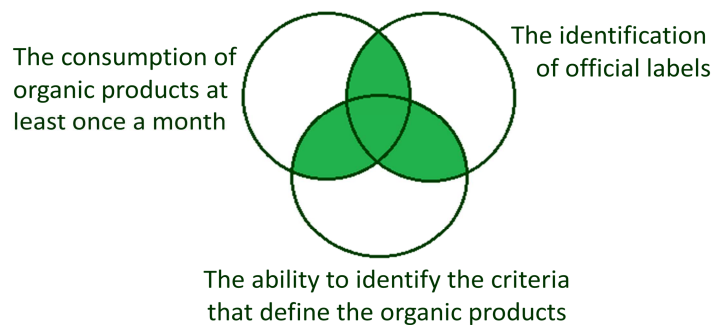
The aim of the following segmentation can be resumed in four main objectives:

- The obtaining of qualitative and quantitative variables to get an image of the clients' structure and their possibilities of development.
- To get a characterization of the typology and socio-demographic profile of the customers.
- To characterize the new customer typologies that may be open to the incorporation of new organic products in their shopping habits by changing the actual message.
- To get a detailed description of both the reasons of buying organic products and the reasons of the no-use of them.

Methodology applied

The methodology applied had been taken from a recent research (November 2011) made by the *Ministerio de Medio Ambiente y Medio Rural y Marino*, that nowadays is called *Ministerio de Agricultura, Alimentación y Medio Ambiente*. The study has been done taking into consideration the Spanish market, but in the following paragraphs it will be explained how to apply the same methodology in different countries.

To identify among the global consumers which are ecologic it has been applied three criteria:



Every person that matched in two of these three criteria has been identified as a potential organic consumer.

Once it has been identified the percentage of ecologic consumers, they have been classified according their socio-demographic profile and according their attitude towards the organic consumption. Thanks to this classification they have been divided into four main segments: Des-involved, convinced, ecologist and health conscious.

After this main division, the segments have been asked to answer the following questions:

- Why did you start to consume organic products? Why will you keep the consumption?
- Which organic product did you try at first?

- How many years have you been consuming organic products?
- Have you changed your organic consumption habits?
- Why have you reduced your consumption? Why have you increased it?
- Which percentage of your consumption is organic? Why don't you increase the percentage?
- Where do you use to buy organic products?
- Which other environmental friendly products do you consume?

The analysis of the answers received may not only help to identify the segments that the company should target but also to get a detailed description of the customer profile.

Finally, it should be taken into account that this answers may help also to identify competitors and potential partners and to design the final portfolio.

Description of the four main segments:

The aim of the following paragraph is to get an image of the customer structure and typology, along with its demographic profile. Among the "Green Consumers" it has been identified four groups according to their attitudes.

§ **Des-involved:**

"I consume organic products because is fashionable"

- They show a des-involved attitude regarding the climate change. They think that it is an unavoidable process.
- Their organic consumption is more influenced by fashion than by deep convictions.
- Less aware about having a healthy lifestyle.

§ **Convinced:**

"I am wary of brands and I claimed a more natural and environmental friendly lifestyle"

- They are engage with the ecologic cause; thereby they show a combative and militant attitude regarding it.
- Their commitment with organic consumption is due to a healthy way of living and environmental friendly mentality.
- They are knowledgeable about organic products and they know how to identify them.

§ **Ecologist:**

"The environment conservation depends on us"

- They are aware about the environment and thereby they show healthy habits.
- They know better than the average those companies that are sustainable.
- They know how to identify organic products and they use to read every label.
- They show openness regarding new products.

§ **Health Conscious:**

"Organic products help me to take care of my health"

- They are not as engage with the environmental cause as the other groups.

- Their main awareness is the healthy lifestyle and they link organic products with a better physical condition.

4.5 Targeting:

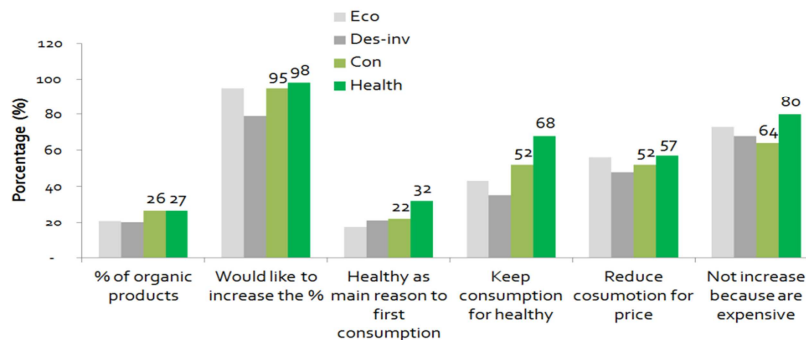
The groups that we choose as our potential customers are:

- Convinced
- Healthy

The 2 segments represent the **16%** of the total sample of the Market research.

The reasons for chose these 2 groups are the following:

- Amount of consumption and intention of increasing it.
- Cause of Consumption.
- Price as key factor for decrease the consumption.



Observations:

- These 2 groups are the ones with more percentage of organic products and highest intention of increasing it.
- Another key aspect is the history in consumption; these consumers had tried ecologic products 8 and 6 years ago.
- The other 2 groups consume less quantity of organic products and are also younger in the industry.
- The company is looking for experienced consumers that are both well informed and really interested in promoting and helping to develop organic culture.
- They include health as main motivation to start to consume and also to keep the consumption of organic products.
- Is important that the consumers are aligned with the philosophy of the company. The 2 groups are the ones with more percentage in the questions related with health. Health is one of the main needs that the company will cover with its products and services.
- Other reasons are related with the quality and authenticity of the products as really organic. Causes like avoid pesticides, higher quality and avoid dyed and preservatives are most important for these groups than for other two.

- One of the objectives of the company is to guarantee the authenticity of the product; these consumers will be able to value these aspects.
- The price is an important factor and the two selected groups are the most sensitive about the price.

4.5.1 Customer Profile:

After deciding which the company's target group is, there are enough data to construct the customer profile. The main characteristics about the target customer are summarized in the following chart:

Demographic Profile

Numbers are in percentages:

Sex	Female	Male				
	62	39				
Age	18-29 years	30-39 years	40-54 years	55-69 years		
	16	32	29	24		
Social Class	High-Middle High	Middle	Low-Middle Low			
	33	45	22			
Life Cycle	With Children	Younger than 12	Older than 12			
	68	38	41			
Habitat	Less than 10,000 habitants	10,000-200,000 habitants	More than 200,000 habitants			
	18	49	35			
People at home	1	2	3	4	5	6 or more
	9	23	28	29	10	3
Studies	Without studies	Primary education	Secondary education	Higher education		
	4	2	53	41		
Activity	Working	Not working				
	69	32				

Behavior associated to organic products:

- Main Motivation to start: Health, avoid pesticides and environmental friendly reasons.
- Average time consuming: 7 years.
- First organic product tried: Vegetables, Fruits and Milk.
- Main reasons to increase consumption: Health, avoid pesticides and environmental friendly reasons.
- Main reasons to decrease consumption: Price.
- Reasons to not increase the consumption: Price and difficulties to locate products.
- Channels: Hypermarkets and Supermarkets.

4.6 Positioning & Differentiation:

4.6.1 Positioning:

The objective of this paragraph is to identify the needs of the consumers and their perception about the existing organic market. The company will find opportunities in order to design a business model adapted to those needs.

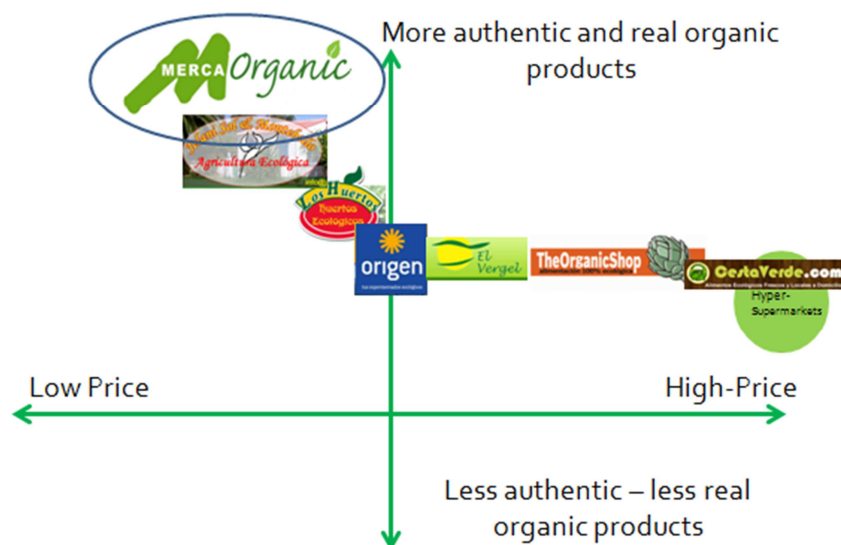
It is important to know how will be the position of Mercaorganic in the market compared with the competitors and the key differentiation factors.

The producers are going to be the strategic partner of the company. They will help to fit the customers' expectations. It will be created win-win partnerships for the suppliers.

Consumers need and perceptions of the organic market	Mercaorganic's opportunities	How is going Mercaorganic going to achieve it?
"Organic products are very expensive"	<i>Fair and competitive price</i>	<ul style="list-style-type: none"> • Close and trust-based relationship • Shorter value chain • Seasonal products
"Many times the ecologic products are not really ecologic" "We are looking for higher quality"	<i>Guarantee the quality and authenticity of the organic products</i>	<ul style="list-style-type: none"> • Develop a high quality certification system • Supervise farmers production • Training for local farmers
"They are not easy to find"	<i>Create a network of stores and local markets</i>	<ul style="list-style-type: none"> • Open stores in several regions with high presence of producers
"We are taking care of the health"	<i>Provide healthier and authentic organic products</i>	<ul style="list-style-type: none"> • Production away from polluted areas

Perceptual Map:

In the organic market the authenticity of the products and their price are the most important attributes for the customers. Mercaorganic wants to be positioned as the company with competitive fair prices and with the most authentic and real organic products.



4.6.2 Differentiation:

The factors that will differentiate Mercaorganic regarding the value added provided to the customers are the following:

Support to the local farmers:

The company is going to be recognized as the one promoting and helping development of organic agriculture. The producers will find some advantages in these partnerships:

- Mercaorganic will be as close as possible to them. That means lower logistics and more facilities in the distribution of the products.
- The company will provide a place to sell their products, guaranteeing their sales.
- The payment will be faster than selling through supermarkets or hypermarkets.
- They can be part of a network of both local producers and consumers.
- The company will promote and advertise the brands. The company name will be highlighted in the labels.

All this support will be recognized by the customers. The clients will become evangelist of Mercaorganic spreading its values to the community.

Superior quality and authentic products:

Due to the proximity to the producers, the products will be natural and authentic. The company will offer less processed products, more flavorful, straight from the producers, unadulterated by artificial additives and quality certified.

Competitive and fair prices:

Mercaorganic does not want to offer the lowest price of the market. The products will have competitive and fair price for the producers, for the consumers and for the company.

New customer experience:

The possibility of buying in the Mercaorganic stores will offer a special shopping experience. The customer will go back to the roots, buying in a place close to the producer. They would choose the products, feel their texture and taste their real flavor. Mercaorganic will satisfy and delight its clients exceeding their expectations in every shopping. The customer service will be extraordinary with knowledgeable, kind and helpful assistants.

4.7 Definition of Ecologic/Organic Products:

Before going into detail it is important to generally define what an organic product is and its most important characteristics:

- Product that comes from agriculture or livestock
- Environmental friendly (Produced without the use of chemical substances: pesticides, fertilizers or medicines)
- Product obtained respecting the natural rate of growth of animals and plants
- Product elaborated without addition of artificial substances (additives, conservatives, food colorings, flavors or scents)

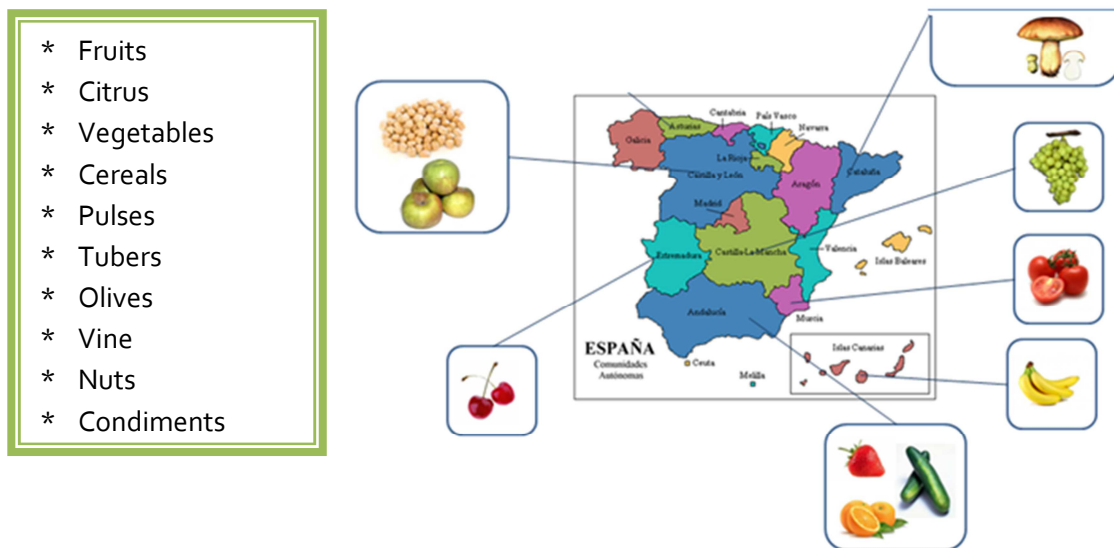
4.7.1 Mercaorganic products:

Due to its nature and its philosophy, the company cannot have a standard range of product for all their shops; it will depend on two main factors:

- The products sold will be only the available within the province in which the shop will be located
- The products the company will offer will be only those available in a determined season, in order to offer to customers only fresh products.

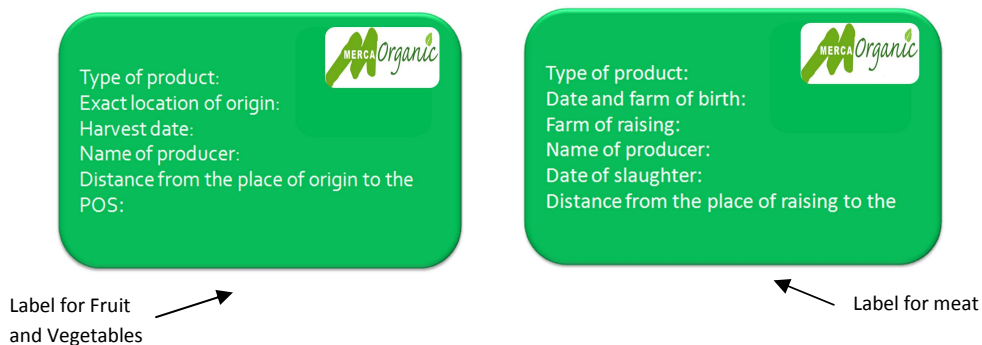
With the purpose of having an idea of the issues the company can have to deal with, and try to define how and where organize the network, it is important to identify a detailed list of product that Mercaorganic can sell in its stores (not in the same place and at same time).

In the map it is possible to see some of the most important product for the different geographic areas in order to have an idea of the concept of "local product".



Labels:

The products are going to be sold under the brand "Mercaorganic", and its clients will find all information about the product in an informative "label" positioned in the shop. The structure of the label will be the following:



Packaging:

The use of packaging will be minimized, the products will be sold only in recyclable shoppers and recyclable paper. The design will be very simple, only the logo and the name of the brand will appear.

Since one of the most important issues of organic products is the lack of homogeneity, very often customers are skeptic about their taste due to its external aspect. Mercaorganic's customer will have the opportunity to taste the product before buying them; it will allow them to avoid bad surprises and to be confident with the goods they buy.

4.8 Price Strategy:

At this stage it is not possible to assess all expenses and costs of the company, so it has not been possible to fix the prices of the products adding a markup on the costs.

The technique used to fix the prices was the following:

- An investigation on competitors in order to have a fair benchmark
- The sale price of three competitors have been compared
- The price has been fixed 10% below the average competitor's price

Example of price calculation:

PRODUCT	COMPETITOR 1	COMPETITOR 2	COMPETITOR 3	AVG COMPETITORS PRICE	MERCAORGANIC PRICE
Eggplant	€ 1,58	€ 2,46	€ 2,05	€ 2,03	€ 1,83
Green Beans	€ 4,30	€ 4,70	€ 4,19	€ 4,40	€ 3,96
Cucumber	€ 2,31	€ 2,55	€ 2,35	€ 2,40	€ 2,16
Pepper	€ 2,38	€ 2,28	€ 2,18	€ 2,28	€ 2,05
Tomato	€ 2,25	€ 2,35	€ 2,12	€ 2,24	€ 2,02
Lettuce	€ 2,26	€ 2,90	€ 2,60	€ 2,59	€ 2,33
Zuchinni	€ 2,30	€ 2,54	€ 2,50	€ 2,45	€ 2,20
Pepper	€ 2,35	€ 2,55	€ 2,20	€ 2,37	€ 2,13
Potatos	€ 1,02	€ 0,90	€ 1,00	€ 0,97	€ 0,88
Apple	€ 2,18	€ 2,10	€ 1,99	€ 2,09	€ 1,88

One of the company's aims is to sell its products cheaper than competition, and it could appear difficult to understand how Mercaorganic can fix a lower price without knowing its costs. The point is that even if the costs are not defined, the short supply chain, the cost savings due to the delivery process, the strict relation with producers and the short conservation time of the product (only seasonal product will be sold) should give the company important advantages that will be reflected in the final price of the goods.

4.9 Distribution Strategy:

When a company starts a new business, the choice of the location and its geographic distribution is a crucial point that requires a careful analysis of consumers and, especially in the case of Mercaorganic, also the concentration of suppliers (producers). For this reason the criteria adopted in order to choose the locations where start the business has been:

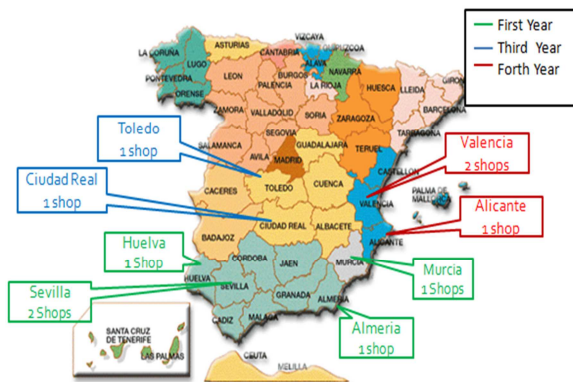
- The concentration of potential customers
- The concentration of producers
- The Income per capita of the potential regions.

Based on the market investigation the highest concentration of potential costumers included in the company's target live in cities with a number of habitants higher than 50.000, comprised except the biggest cities (Barcelona and Madrid) which have the lowest concentration of consumers. Among the cities that fulfilled this criteria, those with the highest number of producers have been chosen to start the business.

It does not mean that in the future Mercaorganic will be present in bigger cities; in fact the purpose of the company is to expand all over Spain and abroad.

Looking at the table below, it is possible to have a clear idea about the criteria used by the company in order to choose the locations and in the map are highlighted the cities in which the Mercaorganic decided to start its business.

Cities	# of Producers	Population	Per Capita Rent
ALMERÍA	1.663	190.000	19.757
VALENCIA	864	798.000	17.937
ALICANTE	489	334.757	16.763
MURCIA	2.272	442.000	15.876
HUELVA	1.373	148.000	15.166
SEVILLA	1.177	703.000	15.100
CIUDAD REAL	1.099	75.000	15.080
TOLEDO	1.126	83.000	15.030
CÁDIZ	1.121	124.000	14.419
ALBACETE	1.464	171.000	13.978
GRANADA	1.556	240.000	13.217
CÓRDOBA	1.554	328.000	12.528
BADAJOS	2.818	151.000	12.272



The company decided to start its business in eight cities during the first 5 years of operation, in order to test the model and evaluate the results; the number of shops in each city will depend on the dimension of the city, at beginning the company fixed the relation of one store per 100.000 habitants.

The first cities where the company decided to be present are Almeria, Murcia, Huelva and Sevilla. These cities are the ones that match the criteria defined in a better proportion. The first expansion will take place at the 3rd year, whit the opening of new stores in Toledo and Ciudad Real, and the following year the company-s goal is to reach Valencia and Alicante.

The forecast for the fifth year is to keep expanding the national business with a total of 10 stores in 8 cities and extend the business to Italy. Mercaorganic will open one store in Italy in 2017.

Mercaorganic will be indirectly presented also in smaller towns with weekly or periodic markets that will be used by producers to sell their products to the final client under Mercaorganic brand. The market will not represent a source of revenue for the company; they are thought to be an incentive for the producer and a channel to advertise the brand.

4.10 Communication Strategy and Media Plan:

4.10.1 Loyalty Program

Customers:

With the loyalty program the company will require to obtain information about the clients. With this information will be identify the most loyal customers. The top clients will have special treatment and the company will focus on maintain a solid relationship with them.

§ Collection of information:

In each store there will be forms to be filled by the customers. With the data the company will organize an information system.

§ Loyalty Card:

- The clients that fill the form will be given a loyalty card.
- This loyalty will be useful to know which type of products they preferred and the amount of their purchases.
- The loyalty program offers more information about clients, so the company can adapt to their necessities.
- The clients are going to be part of the company, since they are going to interact with Mercaorganic through mails and blogs
- The company will design a loyalty point program and thanks to it, customers will receive gifts related to the organic culture. (Recipe books, tickets to organic fairs, cooking classes and discounts)

Producers:

Suppliers will be a strategic part of the marketing strategy for Mercaorganic. There will be created a network in order to build a trust-based a relationship. To maintain this relationship the company will have permanent contact with them.

The company will organize visits for producers showing them the opportunities and advantages that they will have if they decide to sell through Mercaorganic.

For the products that present more sales in a specific season the company will design a price catalogue. The prices will be focus on gifts that may help them to develop their business.

Each loyal producer will have a label with the company name in their farms that guarantee and sign their relationship with Mercaorganic.

4.10.2 Promotion:

For the customers:

- Biocultura Fairs: Mercaorganic is going to be at different in the most important fair about organic products. The fair will be take place in March in Valencia and will attract producers across Spain and will promote the brand.
- After the first purchase customers will receive a 20% discount coupon to be used in the next purchase.
- The company will offer cooking class for loyal clients.
- After 4 months for weekly purchases inside the stores our clients will receive a discount coupon for the next purchase.
- Price promotion for those loyal clients that recommend the company. Every 9 customers who their purchase is due to recommendation Mercaorganic will give a 40% discount coupon.
- The company will offer visits for schools' students to organic farms. This way the company can promote both the local farmers and the brand. After the visit the students will be given a special discount for their parents.
- Packing in special dates. During Christmas the company will deliver a pack with fresh organic fruits & vegetables. This will be given as a gift for purchases of more than 70 Euros.

For the 2nd and 3rd year:

- In Spain will be applied similar promotions in the areas with new stores.
- In those regions with existing shops it will be maintained the presence in fairs, the promotion for recommendations & the special packaging.

For the producers:

Local Markets: The Company will organize markets where the producers could sell their products. Mercaorganic will organize the market, being the contact between the authorities and the producers.

Each producer will pay its own place in the market. The markets will be open two Sundays per month. It will be an advantage for producers because they will sell their products directly to the customers.

Conditions to open the markets:

- Little towns of provinces with existing stores
- Towns with population between 10.000 and 50.000 inhabitants

Location of the Markets:

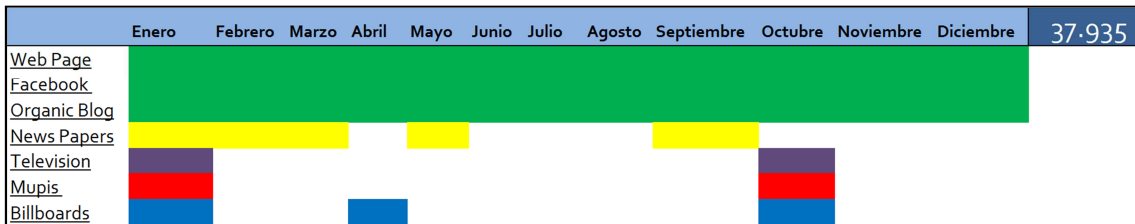
- Seville
- Huelva
- Murcia
- Almeria
- Alicante
- Toledo

The markets will be opened each Sunday. Those months with higher movement due to vacations or due to any other reason, the market will be the opportunity to open the market more than once a week.

4.11 Media Plan

The company will enhance their appearance during the first months. The media actions will be useful to capture the attention in the customer in the launching stage of the stores.

For the first year the timing for the media plan is the following:



The next years the media mix chosen by Mercaorganic will be the same. The amount of Marketing Budget will vary depending of the sales. The expenses in Marketing will represent the 10 % of the sales for the first 5 years.

It will be used the same mix of media for those regions with new stores. In those regions where the company is already in, the timing of part of the media will be changed.

Media Plan - First Year of operation:

Online	Newspapers	Television	Exterior Advertisement
Web Page Information: Mission Vision Values Product Information Shops Location Shareholders Recipes.	Regional Voz De Almería La Verdad (Murcia) Diario de Sevilla	Canal Sur (Almería - Huelva- Sevilla)	Mupis & Billboards Strategic Location in the cities with presence.

Organic Blog: Creation of a Community Contact Information between producers Local Markets Organization Producers meetings			
<i>Permanent</i>	<i>2 Times Per week / 5 months per year</i>	<i>2 Times per week/ 2 months per year</i>	<i>7 days per week / 2 months per year</i>

4.12 Sales Forecast:

As a part of the Marketing Plan it is important to calculate the sales for the first 5 years of operation. The effort in Marketing Activities will be crucial for capture sales for the initial customers and keep increasing it for the following years.

4.12.1 Market Size Definition.

The company will defined the market size depending of different factors:

1. Population of the city. This information is the base for calculate the potential Market
2. Reach: The definition of reach includes the amount of habitants that Mercaorganic could cover with one store. The assumption is 100.000 habitants per store.
3. Target Segment: The percentage of the 2 segments chosen over the total customers is 16%.

4.12.2 Sales Calculation

The Final Sales for Mercaorganic are defined taking into account the next assumptions:

1. Market Share: After the definition of the Market Size or Potential Market the company set the objective of 11% of Market Share for the first year. This is a realistic figure considering that Mercaorganic is new in the market and the brand recognition will take some time.
2. Average Spent: The research includes information about that the consumption in Euros of each Spaniard in one year (99.2 Euros). For the calculation the company did some adjustments of the spent according the per capita rent. The same methodology has been used for the forecast of the Italian market, taking in account that the per capita spent in organic product in Italy is 120.21 €

4.12.3 Forecasted Growth

For the calculation it is important to maintain the percentage of historical growth if the industry (10%) for the first 5 years.

The company will increase the market share 3% in the 1st year and 4% per year during the following five years. In the fifth year Mercaorganic will reach a market Share of 26%.

The information are summarize in the next chart:

Sales	632.253	907.412	1.525.577	2.611.120	4.272.103
YEARLY TURNOVER VARIATION		44%	68%	71%	64%
TOTAL MARKET SIZE	80.976	89.852	126.367	180.012	213.946
MARKET SIZE SPAIN	80.976	89.852	126.367	180.012	198.014
MARKET SIZE ITALY	-	-	-	-	15.933
MARKET SHARE ACCUMULATED	11%	14%	18%	22%	26%
MARKET GROWTH	10%	10%	10%	10%	10%
NEW CLIENTS	8.907	3.672	8.240	14.273	20.534
CLIENTS ACCUMULATED SPAIN	8.907	12.579	20.819	35.092	51.484
CLIENTS ACCUMULATED ITALY	-	-	-	-	4.143
TOTAL ACCUMULATED CLIENTS		12.579	20.819	35.092	55.626
AVERAGE SPENT/ YEAR SPAIN	71	72	73	74	76
AVG SPENT/YEAR ITALY	87	88	89	91	92

5. Human Resources Plan

5.1 Value Chain & Value Added:

5.1.1 Value proposition

- ✓ Authentic organic products with superior quality at competitive and fair prices.
- ✓ New customer experience while buying in a place that will exceed the expectations in every shopping.
- ✓ Contribute with the organic agriculture through the support of local farmers.

Key Activities:

- Strategic negotiation with the local produces to ensure the freshness of the product and the delivery at time.
- Advantages and win-win relationship with local producers. With the reduction of the traditional supply chain the producers will gain benefits related with logistics and costs.
- Superior customer service in a store .Knowledgeable, kind and helpful assistants.
- Unique format of the stores. High contact between products and customers.
- Marketing initiatives to build a network between consumers and producers that promote and advertise their work.

5.1.2 Value chain and value added:

Objective:

The company needs to map and describe the different activities that will take place in the business. This will help it to identify the core processes in order to build competitive strengths and deliver the value proposition to the costumer.

The relationship with producers is a key process in order to add value to the business, while helping the development of organic agriculture.

Advantages for local farmers:

Changes in the traditional supply chain:

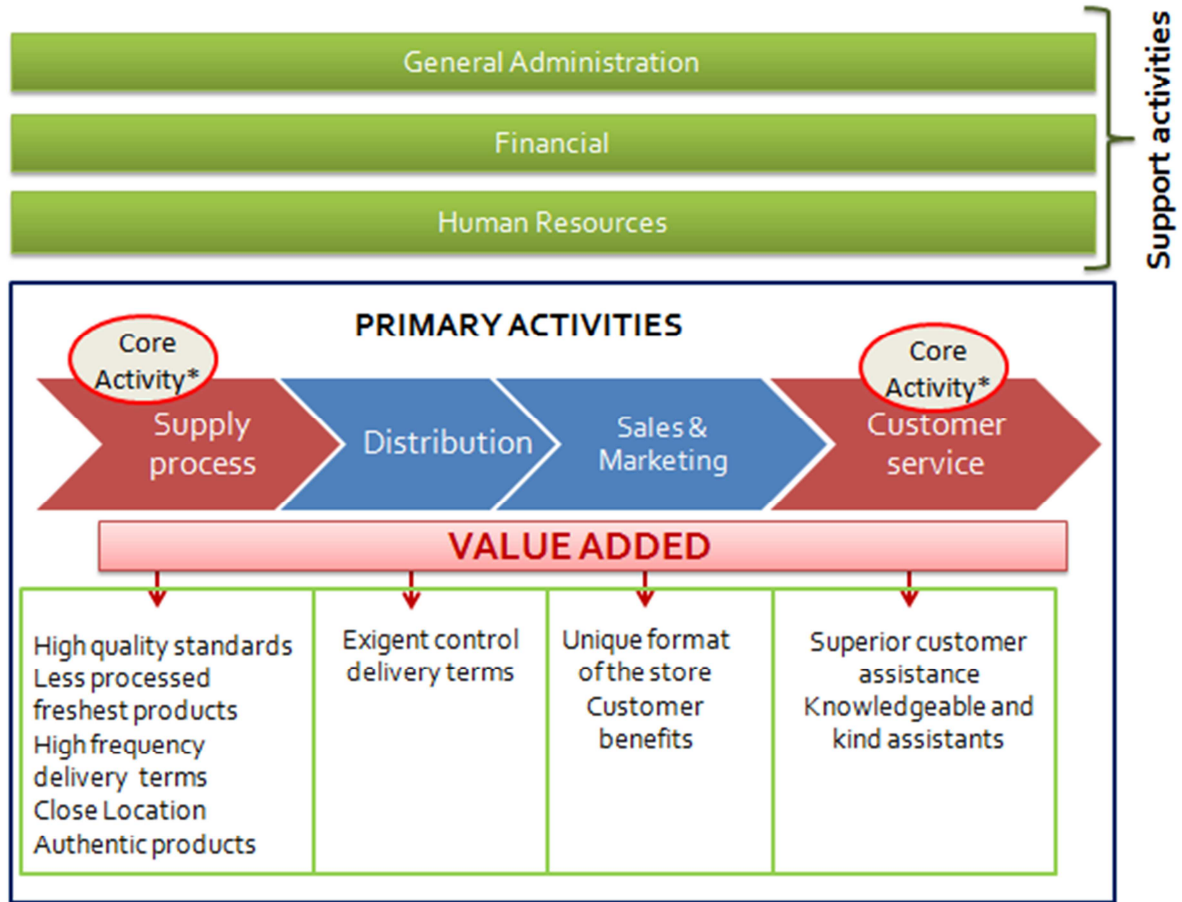
- Direct distribution from farms to the store and, thereby to the final customer. The activity will be in charge of the producer.
- Faster payment conditions due to the elimination of intermediaries.
- Mercaorganic will avoid logistics cost. The reduction will mean lower product cost and thereby suppliers and customers will be benefited.

A network to promote local producers that will include customers' participation.

Value chain diagram:

The core activities will require special attention from the company. Indeed is where the company should focus on. With the supplier's contribution and the strategy development,

Mercaorganic will fulfill customers' expectations and will also achieve a competitive advantage in the market.



5.2. Activities, Roles and Responsibilities:

In the following table it can be found a detailed description of the main activities taking place within the business activity. They are shown accordingly to the value chain presented above. Each of these activities has a responsible and someone who is accountable of them and, at the same time, it is detailed which of the actions should be consulted or informed. For a better understanding:

- **A** = Accountable
- **R** = Responsible
- **C** = Consulted
- **I** = Informed

Within the table is also considered which roles will be, for the starting up years, covered by only one position and which positions will cover more than one role.

			Shop Assistance	Store Responsibility	Area Supervision	Sales & Marketing Responsibility	Financial Responsibility	Operational Responsibility	General Management	
			Shop Assistant	Store Responsible	Area Supervisor	Sales & Marketing and Financial Director		General and Operational Manager		
PRIMARY ACTIVITIES	Supply Process	Supplier definition			I	C		R	A	
		Supplier quality control			R			A	I	
		Negotiation with local producers		I	R	I	I	A	C	
		Goods purchase		I	R	A	I	I		
		Periodical supervision			R			A	I	
	Distribution	Delivery process	I	R	A	I				
		Inventory management	I	R	A	I	I			
		Waste Management	R	A						
		Products' quality control	R	A	I					
	Sales & Marketing	Product definition			I	C		R	A	
		Daily operations at the store	R	A						
		Marketing operations		I	I	R	I		A	
		Market Intelligence		I	I	R	C		A	
	Customer Service	Customer's benefits	I	I	I	R	I		A	
		C.S. in the store	R	A		I				
Collect information		I	I		R	A				
	Post-sale service	R	C	I	A					
SUPPORT ACTIVITIES	General Administration	Strategy design			I	C	C	C	R	A
		Policies implementation			I	C	C	R	A	
		KPIS Analysis			I	C	C	C	R	A
		Supervision				I	I	I	R	A
		Relation with authorities			R	I	I	A	C	
	Financial	Accounting					R		A	
		Reports construction			I	I	R	I	A	
		Information Analysis					R		A	
		Investments and financial decisions					R	C	A	
		Optimize costs		I	I	C	R	C	A	
	Human Resources	Recruitment			R				A	
		Training	I	R	A	C				
		Work environment management	I	R	A					
		Salaries and compensations planing	I	I	I	I	R	A	I	C

5.3 Organization Chart:

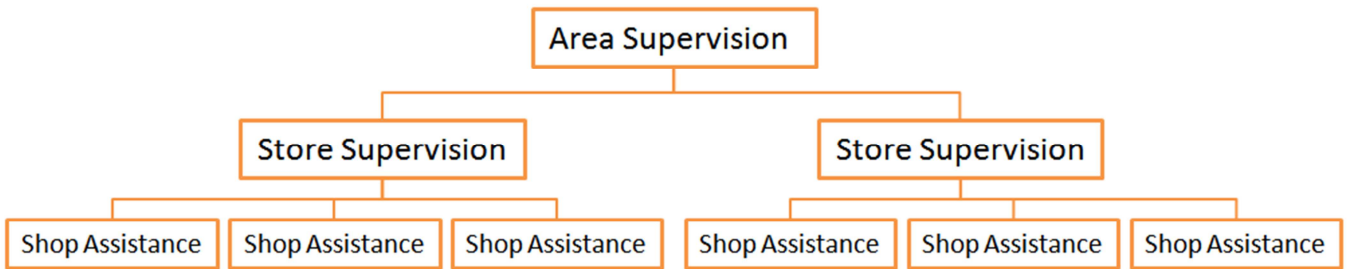
An organization chart helps to understand how the responsibilities are distributed within a company. For a better comprehension of Mercaorganic organizational structure the representation of this chart has been divided into two different levels.

The first chart represents the different positions in the management level. For the first years the financial and sales and marketing responsibilities will be covered by one person who will work as “Sales & Marketing and Financial Director”. The same structure will be replicated in the roles of operational responsibility and general management.

The Area Supervisor will be accountable to the “General and Operational Manager”.



The following chart represents how the company works on a regional level. Each “Area Supervisor” will be in charge of an average of two “Store Supervisors” and, at the same time, each “Store Supervisor” will take care of three “Shop Assistants”.



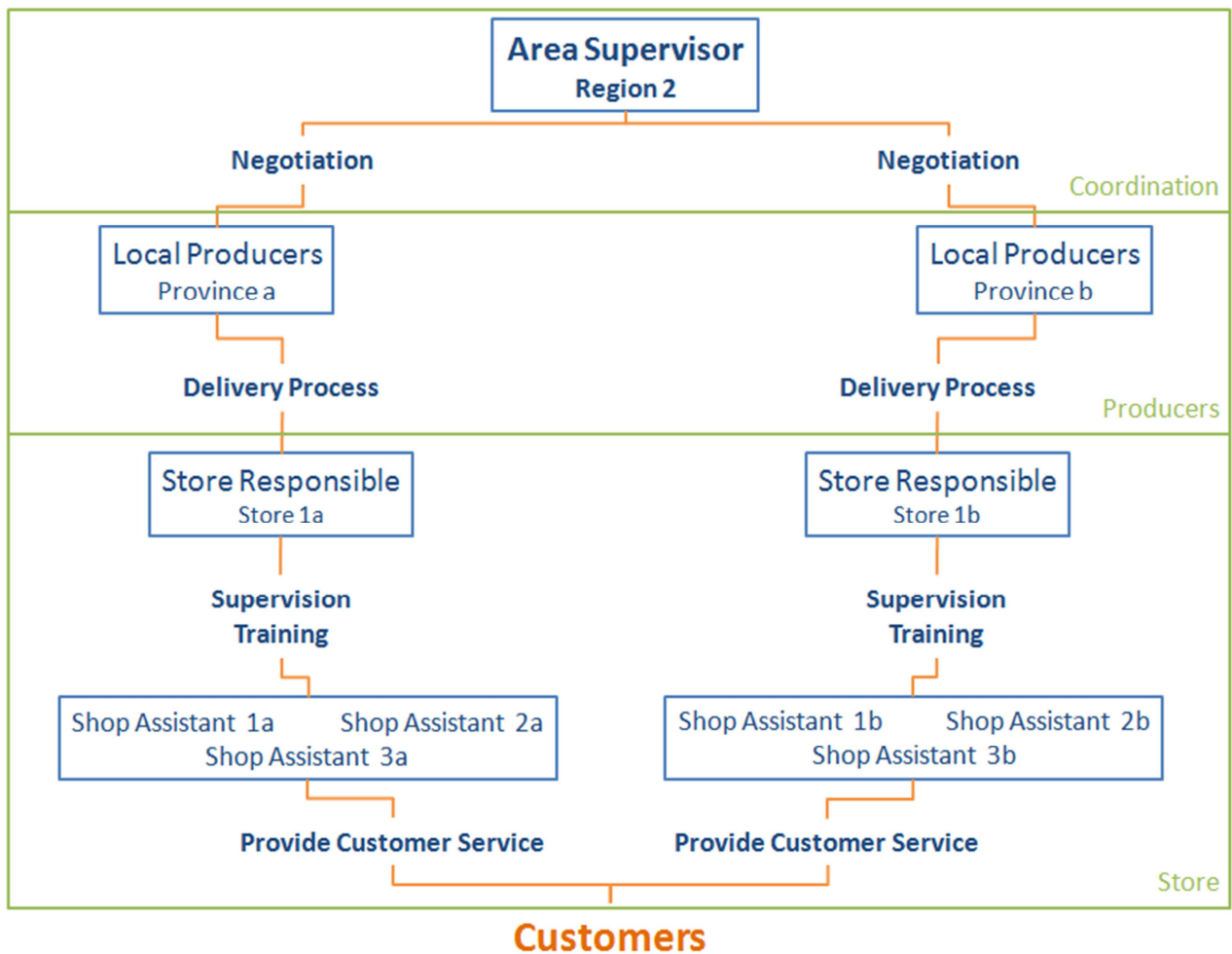
5.4 Enterprise Layout:

To understand how the company at national and regional level works it has been designed the following charts.

The first chart represents the company at a national level for the first three years. The headquarters will be in Murcia for strategic reasons. From this city will be covered the main managing functions by two people working as “General and Operational Manager” and “Sales & Marketing and Finance Director”. At it is also shown each “Area Supervisor” will be in charge of two provinces covering between two and three stores:



In a customer focused business as Mercaorganic, it is more interesting to understand how each business unit works. The following chart represents a region with two different provinces having each province one store. The main interactions between players are mentioned and it is also specified which actions are under Mercaorganic responsibility and which ones should be covered by the local producers:



5.5 Jobs Description

Each position within the company requires from specific requirements. In the following table it can be found a short job description, according to the roles explained above, and the soft skills recommended to cover this position.

	Job Description	Attitude	Skills	Position Requirements
General Manager	The role of the general manager is to design the strategy, supervise the appropriate implementation of the company's policies and control the results according with the budget.	<ul style="list-style-type: none"> * Self-motivated * Proactive * Self-confident 	<ul style="list-style-type: none"> * Strategic design * Dynamicity * Leadership * Decision Making * Analytical Thinking * Organization * Good business sense 	<ul style="list-style-type: none"> *MBA degree * Minimum Languages Requirement: Spanish and English * 5 years experience similar Job * Full-time job
Operational Responsible	The main roles of the Operational Responsible are to implement the policies of the company according with the strategy, define and select products and supplier and supervise the operational activity of the company	<ul style="list-style-type: none"> * Proactive * Collaborative * Self-confident * Flexible 	<ul style="list-style-type: none"> * Problem Solving * Decision Making * Analytical thinking * Coordination * Leadership *Controlling * Budget awareness 	<ul style="list-style-type: none"> * University degree * Minimum Languages Requirement: Spanish and English * 3 Years experience in similar job * Technical agricultural knowledge * Full-time job
Area Supervisor	Reporting to the Operational Responsible, he/she takes care of the relations with local producers: previous quality control during the selection process, negotiation, purchase of goods (contract) and periodical supervision of the farms. Furthermore he/she is in charge of the relation with local authorities for the negotiations for local markets and for the recruitment process.	<ul style="list-style-type: none"> * Positive with people * Collaborative * Determined * Good posture 	<ul style="list-style-type: none"> * Negotiation * Controlling * Communication * Leadership * Judgment 	<ul style="list-style-type: none"> * University degree * Minimum Languages Requirement: Spanish and English * 3 years experience in the sector * Basic human resources knowledge * Technical agricultural knowledge * Full-time job
Store responsible	The store responsible will deal with the supervision of the daily activities of the shop: inventory management, delivery process control, work schedule and employees. He/She will be also in charge of new assistant training.	<ul style="list-style-type: none"> * Collaborative * Motivate * Team worker 	<ul style="list-style-type: none"> * Staff development * Speech clarity * Controlling * Organization 	<ul style="list-style-type: none"> * University degree * Minimum Languages Requirement: Spanish and English * 3 years experience in similar job * Communication and social skills. * Food handling license * Full-time job
Shop Assistant	The shop assistant is responsible for the daily activities of the shop like product quality control and waste management, but the main function is to be the face of the company maintain the relationship with customer and being responsible of the post sale service.	<ul style="list-style-type: none"> * cheerful * Clean * Flexible * Courteous * Smiling 	<ul style="list-style-type: none"> * Customer oriented * Communication * Teamwork 	<ul style="list-style-type: none"> * knowledge of customer service * Experience with public * Food handling license * Part-time job

<p>Sales and Marketing Director</p>	<p>Reporting directly to the Manager director of the company Develops the marketing strategy and plan according the company budget. Responsible of understanding the current and potential customer, collect and analyze information about sales.</p>	<ul style="list-style-type: none"> * Customer oriented * Proactive * Creative * Enthusiast 	<ul style="list-style-type: none"> * Analysis of information * Strategy design * Organization * Planning * Attention to detail * Good business sense 	<ul style="list-style-type: none"> * University degree * Minimum Languages Requirement: Spanish and English * 5 years experience in similar job * Strong knowledge of planning * Knowledge of data analysis * Full-time job
<p>Financial Director</p>	<p>Responsible of the economic and financial management of the company. Analyses the financial situation, controls cost looking for their optimization and provides the information to the General Manager.</p>	<ul style="list-style-type: none"> * Collaborative * Motivate * Self-confident 	<ul style="list-style-type: none"> * Analysis of information * Management of financial resources * Attention to detail 	<ul style="list-style-type: none"> * University degree * Minimum Languages Requirement: Spanish * 5 years experience in similar job * Strong knowledge of accounting * Full-time job

5.6. Competencies

In the following table it is described which are the core competencies required for each position. For a better understanding of how is it represented, it should be taken into account that:

White: Competency not required
Bright Green: Recommended competency
Dark Green: Highly dependent of this competency

			Business Intelligence	Decision making	Communication	Negotiation	Learning Skills	Planning	Dealing with Pressure	Teamwork and Social Skills	Leadership	Proactivity	Customer Orientated	Technical Agricultural Knowledge	
PRIMARY ACTIVITIES	Supply Process	Supplier definition													
		Supplier quality control													
		Negotiation with local producers													
		Goods purchase													
	Distribution	Periodical supervision													
		Delivery process													
		Inventory management													
		Waste Management													
	Sales & Marketing	Products' quality control													
		Product definition													
		Daily operations at the store													
		Marketing operations													
Customer Service	Market Intelligence														
	Customer's benefits														
	C.S. in the store														
	Post-sale service														
SUPPORT ACTIVITIES	General Administration	Collect information													
		Strategy design													
		Policies implementation													
		KPIS Analysis													
	Financial	Supervision													
		Relation with authorities													
		Accounting													
		Reports construction													
	Human Resources	Information Analysis													
		Investments and financial decisions													
		Optimize costs													
		Recruitment													
	Training														
	Work environment management														
	Salaries and compensations planing														

5.7. Compensation Policy:

5.7.1. Compensation Plan:

The company must design the compensation plan for employees based on general objectives. These objectives will cascade down from each organizational level and position in order to align the performance with the main strategy.

General Objectives:

	RESULT AREAS	OBJECTIVES	INDICATOR
GENERAL OBJECTIVES	Financial	Profitability	Operational Margin
	Sales	Increase Revenues (Sales compared to last period)	% increase of sales by period
	Customer acquisition	New customers (Area and store level)	Number of new clients in a specific period

Customer satisfaction	Maintain a high level of customer satisfaction	85% Overall qualification
Customer satisfaction	Product quality	85% positive comments about product quality
Employees	Ensure the appropriated training to customer face employees	100% of the new employees trained

Type of compensation per position:

The following chart represents the compensation, fixed and variable, for each position. In the variable compensation, the employee will receive the amount only if the objective is achieved. The objectives will be represented at a Company, an Area and a Store level.

The store assistants will not receive monetary variable salary. Instead, these employees will have benefits plan. The plan will depend on 2 factors:

- Feedback from the customer. Each store will have service evaluation forms. In these questionnaires, the customers could leave comments about the service provided from a specific employee. Every positive feedback will provide changeable points to the employee.
- Store responsible evaluation. The responsible will have some guidelines to evaluate each employee. The evaluation methodology will be focus on the performance of the employee related with the functions assigned. If the employee overcomes an established score, the company will add points to its record.

The benefits program will be designed for rewarding the employee. By accumulating points, the employee would be able to buy special gifts and enjoy some advantages.

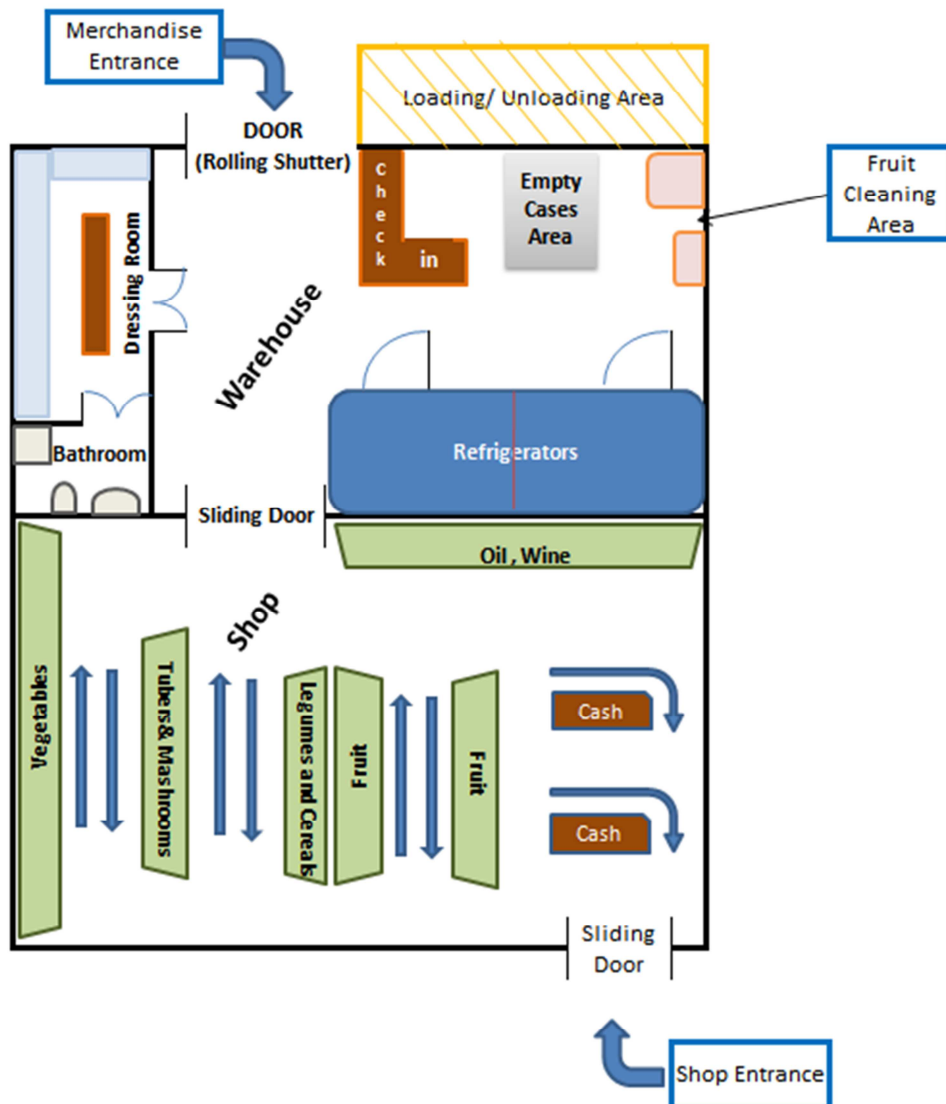
Compensation Chart for the first year of operation:

Position	Salary	Annual	Fix Base	%	Variable Base	%	Variable remuneration	
							%	Indicator
General and Operational Manager	€ 3.800	€ 45.600	€ 2.660	70%	1.140	30%	15%	Operational Margin (% Profit/Sales)
							25%	% increase of total sales by period
							15%	Number of new clients in a specific period
							15%	85% Overall qualification in customer satisfaction survey
							15%	70% positive comments about product quality
Sales & Marketing and Financial Director	€ 3.000	€ 36.000	€ 1.800	60%	1.200	40%	20%	Operational Margin (% Profit/Sales)
							20%	% increase of total sales by period
							20%	Number of new clients in the area stores in a specific period
							20%	85% Overall qualification in customer satisfaction survey
							20%	70% positive comments about product quality
Area Supervisor (2 people)	€ 2.200	€ 26.400	€ 1.320	60%	880	40%	5%	Operational Margin (% Profit/Sales)
							40%	% increase of area sales by period
							15%	85% Overall qualification in customer satisfaction survey according to the area
							15%	70% positive comments about product quality in the area stores
Store Responsible (4 people)	€ 1.500	€ 18.000	€ 1.050	70%	450	30%	25%	% increase of store sales by period
							5%	Number of new clients in the correspondant stores in a specific period
							25%	85% Overall qualification in customer satisfaction survey according to the store customers
							25%	70% positive comments about product quality in the store customers
							20%	100% of the new employees trained
Store Assistant (3 per store) Part-time	5 euros/hour 514 euros/month	€ 6.168	€ 6.168	100%				Assistants could apply to a Benefits Plan

6. Operational Plan

6.1 Introduction

As any other Operational Plan the one below is a subset of strategic work planning. It describes short-term ways of achieving milestones. In order to visualize better the integrated system it is showed a pilot plan of one store. Thereby the reader will have a better understanding of how the activities will be performed and in which scenario:



For designing the Mercaorganic's operational system it was considered that there were essential activities to deliver the business value proposition. The main activities were grouped into five areas to facilitate the understanding of the following Operational Plan:

- The Inventory Management System
- Key Processes Description
- Logistics Management
- Quality Management System

6.2 Inventory Management System:

6.2.1 Objective:

An Inventory Management System defines business standards to guarantee that the purchasing process is done following given parameters. To make it clear and understandable four different criteria are given. Each of them will have certain intervals limiting their influence over the purchasing process.

The magnitude of the different criteria will allow the system to easily classify the preference of each product across the supply chain.

6.2.2 Criteria:

The criteria that have been chosen for managing the inventory preferences were the following:

- Packaging Volume
- Expiration Date
- Customer Preference
- Margin (Profit)

Packaging Volume:

The Packaging Volume is a standard that has an important relevance regarding the storage. The bigger physical volume the order represents, the smaller each purchase should be. This might help the company to avoid big warehouses and logistic problems. (The volume will be measured in International System of Units (SI) dm^3 .)

Expiration Date:

The Expiration Date plays a role in the food industry. It is understandable that the more perishable a product is, the smaller each order and the time between purchases should be. (The Expiration Date will be measured in days.)

Customer Preference:

When it is said that the Customer Preference will be evaluated, means that the demand will be key in the Inventory Management System. To consider the seasonal demand of products drive into a pull operational model that will help the company to reduce waste. (The demand will be categorized into three different levels: Low, Medium or High.)

Margin (Profit):

It will be also essential for the system the margin of each product. It should be considered that the profitability within the organic food industry is closely related not only with the demand but also with the availability, meaning with availability also the goods' seasonality. (The margin or profitability will be measured in percentage %).

6.2.3 Inventory Management

The system will classify the results into three different levels: A, B and C (3, 2 and 1 points respectively). A (3 points) represents these inputs that will have preference in the system and C (1 point) the less urgent in the purchasing process. Every criterion will also have a different weight within the system. The method will work as it is represented as following:

	A (3 Points)	B (2 Points)	C (1 Point)	
Packaging Volume (dm ³)	1000 dm ³ - 750 dm ³	750 dm ³ – 500 dm ³	< 500 dm ³	0,10
Expiration Date (days)	3-4 days	5-10 days	> 10 days	0,30
Customer Preference (Low, Medium, High)	High	Medium	Low	0,30
Margin (Percentage %)	>8%	8% - 4%	4% - 1%	0,30

The Inventory Management System will conclude that:

- **3-2 points:** High frequency (2-3 times per week)
- **2-1 points:** Medium frequency (once a week)
- **Bellow 1 point:** Low frequency (once between 10 or 20 days)

6.2.4 Classification of products by category

In this chapter it is important to clarify how would be the accurate way to classify the different kind of products of Mercaorganic depending on the Inventory category. As an example the next chart shows some of the products that will be available in the store located in Almeria:

Example of Almeria Store:

	A (3 points)	B (2 points)	C (1 point)
Packaging Volume (dm ³)	Watermelon	Onion Potato Apple	Strawberry
Expiration Date (Days)	Strawberry	Apple Watermelon	Onion Potato
Customer Preference	Potato Apple	Strawberry Watermelon	Onion
Margin (Percentage %)	Strawberry	Apple Watermelon	Onion Potato

The chart above classifies every product depending on the measure indicated in each category. The different points and weights will define the final inventory category. For instance in the case of the strawberry the calculation will be the following:

	Points	Weight	Score
Packaging Volume (dm ³)	1	0,1	0,1
Expiration Date (Days)	3	0,3	0,9
Customer Preference	2	0,3	0,6
Margin (Percentage %)	3	0,3	0,9
Final Score			2,5

The methodology applied in the Inventory Management System will give the company important data to take crucial decisions about the ordering process. It is important to have a record of the products' real behavior once Mercaorganic begins to sale. With historical information the inventory will be time adjusted and will provide more accurate information.

The final score for the products chosen to show the process are expressed in the next chart:

Frecuency	Final Product Categories	Examples of Products
High	2,4 - 3 points	Strawberry (2,7 points)
Medium	1,8 - 2,3 points	Apple (2,3 points) Watermelon (1,9 points)
Low	1 - 1,7 points	Onion (1,1 points) Potato (1,7 points)

The methodology described in this stage will help the company to optimize its resources. These decisions will be crucial for the reduction of the cash requirements and will have an important impact in the financial business plan.

6.3 Key Processes Description

6.3.1. Objective

As any other business model Mercaorganic has some daily activities that are constantly repeated. It is also easily understandable that these processes are fundamental in the value proposition delivery of the company.

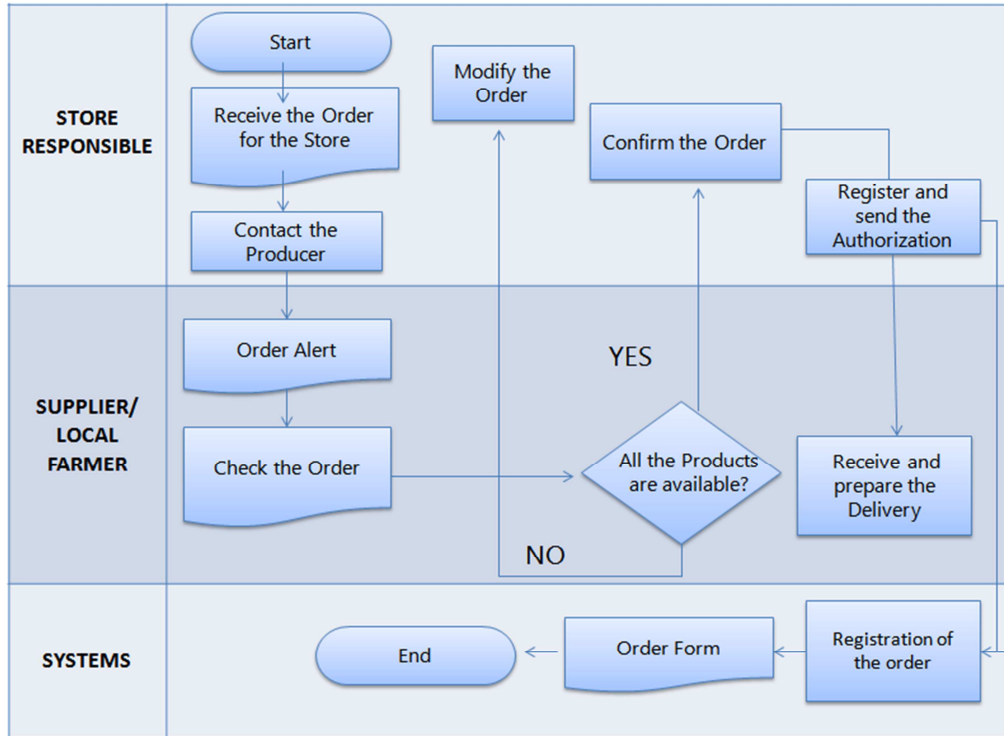
In the following paragraphs are described the three more complex activities that should be performed in a daily basis:

- The Purchase of Goods
- The Reception of Goods at the Store
- The Post-Sale Service: Complaints handling Process

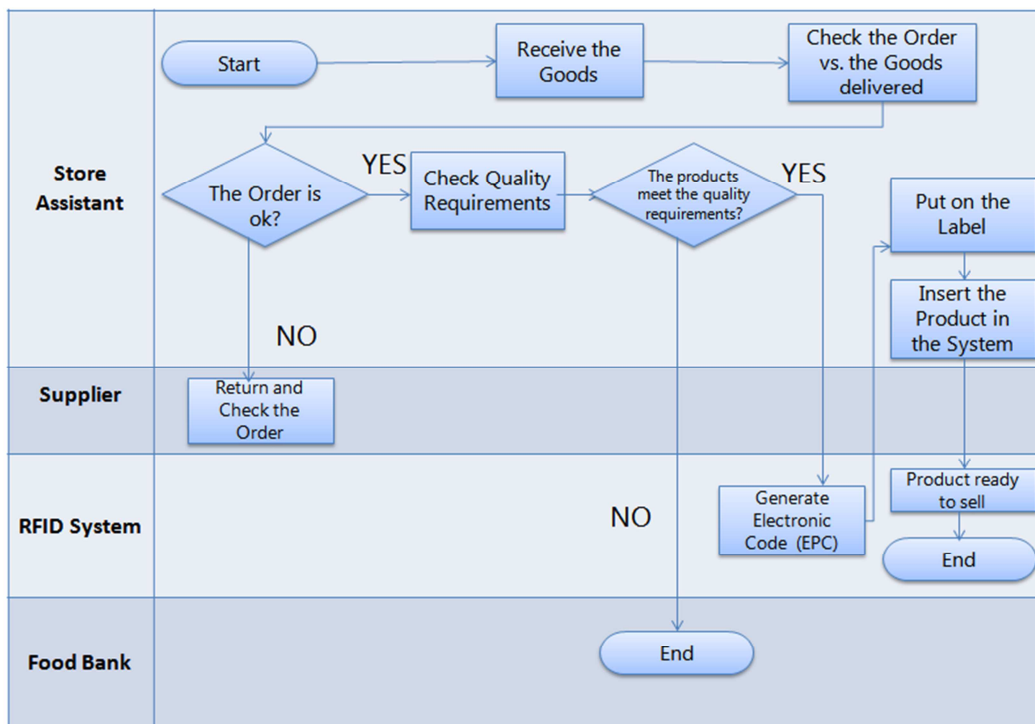
6.3.2. Flow Charts

To make it easier to understand the activities will be explained through Flow Charts. These tools communicate how processes work and how they are done. Furthermore, the mapping out clarify the understanding and help to think about where each process can be improved.

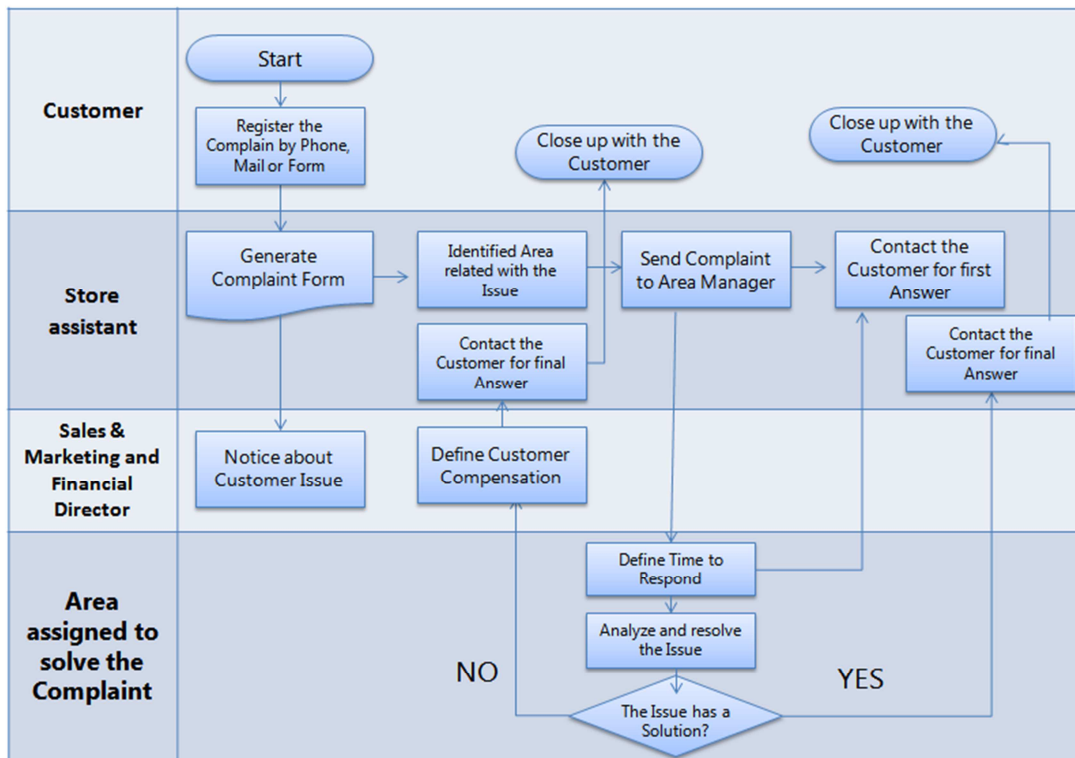
Purchase of Goods:



Reception of Goods at the Store:



Post-Sale Service: Complaints handling Process:



6.4 Logistics Management

6.4.1 Objective

In such a business, where the value provided is basically fresh food logistics play a role. This section aims to get to a draft design of the Logistics Management.

6.4.2. Outsourcing

In order to reduce initial investment and avoid further fixed costs, logistics will be outsourced. To estimate an approximate cost some hypothesis were taken:

- A fee per km. (0.25€)
- An average trip of 70 km
- Average carries per week (1.5)
- A variable cost depending on the weight

According to this premises outsourcing the logistics will represent a given cost that will be taken into account in the financial plan.

Kg	1000	900	800	700	600	500	400	300	200	100
Average Km cost per trip	€ 17,50	€ 17,50	€ 17,50	€ 17,50	€ 17,50	€ 17,50	€ 17,50	€ 17,50	€ 17,50	€ 17,50
Variable cost (Weight)	€ 317,50	€ 332,50	€ 297,50	€ 297,50	€ 257,50	€ 242,50	€ 197,50	€ 152,50	€ 127,50	€ 72,50
Total cost of the trip	€ 317,50	€ 332,50	€ 297,50	€ 297,50	€ 257,50	€ 242,50	€ 197,50	€ 152,50	€ 127,50	€ 72,50

Average weight transport (Kg)	550,00
Average transport cost	€ 229,50
Average Carriage per week	1,5
Weeks in a year	52
Avg unitary transport cost (per Kg)	€ 0,42
Total Expenses per year (Y1)	€ 17.901

VARIABLE COST DEPENDING ON WEIGHT					
Weight	>900 Kg	701-900 Kg	501-700 Kg	300-500 Kg	<300 Kg
Rate	€ 0,30	€ 0,35	€ 0,40	€ 0,45	€ 0,55

Total yearly cost (Y1)	€ 90.902
Total yearly cost (Y2)	€ 92.381
Total yearly cost (Y3)	€ 131.382
Total yearly cost (Y4)	€ 166.760
Total yearly cost (Y5)	€ 186.268

6.5 Quality Management System

6.5.1 Objective

At any business-to-customer company the quality should be carefully controlled, but even more if the value provided the company is food. To manage this issue Mercaorganic will develop a Quality Management System. This Method will help the company to supervise every step of the supply chain and decide which one has to be evaluated.

6.5.2 Quality Management Model

To check if the company is running in a proper way the processes should be divided into two main categories: "Product Life Cycle" and "Delivery of Service".

Supervision of the Product Life Cycle:

This step of the Quality Management System aims to look after the product through the supply chain. So the company can identify if there is any problem, meaning with a problem a drop of the quality standards, and easily solve it. To get a better overview of the whole process it has been divided into three different levels.



Producers:

As it was reflected in both the mission and the vision for Mercaorganic it is key the relation with its suppliers. This relation is not only based on trust but also on the supervision of certain quality standards.

The control at the producers level will start even before the contract is signed, because to get to an agreement with Mercaorganic they will need to show the ownership of any of the official certifications required to be considered organic.



After this requirement every producer has to pass an internal examination designed by Mercaorganic. The exam will test further quality requirements to become a supplier. These characteristics are basically related with the distance.

Once the producer meets all the requirements he will get the possibility of signing a contract with Mercaorganic. Anyway the company will manage periodical supervisions of the processes carried out by suppliers to check that every parameter is as expected.

Transport:

Logistics, as it was explained above, are outsourced. Mercaorganic will supervise that the company contracted to perform this role fulfill all the requirements (employees, trucks, fridges...). Mercaorganic needs also to guarantee that the products quality is been maintained and supervised through the entire supply chain (including the transportation stage).

To get to an efficient control of the transport process the producer will write a report at the departure of the goods and he will submit it to the store. So will do the store responsible at the arrival of the truck. Mercaorganic success is based on trust, that's why producers play a role in the daily activity of the company.

Stores:

At the stores the supervision of the goods' quality will be done constantly. Apart from the physical aspect, the fruits will randomly internally checked. There will be a check list that the store responsible will manage in both the warehouse and the shopping space.

Supervision of the Delivery of Service:

Within the company will be also a strong supervision of the Delivery of Service. Mercaorganic will design a check list to verify that every stakeholder is customer oriented, especially those employees who will run the stores. Both the competences and the hierarchical structure of the Company are specified and explained in the Human Resources Plan.

7. Financial Plan

.1. Legal Plan

The company under the brand of MERCAORGANIC will be formed by 5 members. The legal form decided for the business will be a Limited Liability Company (LLC). In this condition its capital is divided into participation units, and partners are not personally liable for the company's debts.

To create this type of company the minimum capital required in Spain is 3.000 Euros. The taxes will be paid according to the Spanish Corporate Taxation representing them a 35% of the Earnings before Taxes.

The Initial Share Capital provided by the shareholders will be 100.000 € and it will be structured as follows:

Rona Daveri Maszlanka	20.000 €
Antonio Hernandez Maurandi	20.000 €
Dario Vannuzzi	20.000 €
Mercedes Rodríguez Carrillo	20.000 €
Angela Cristina Cedeño Lopez	20.000 €

The activities to create the company will include the following:

- Draw up the Bylaws of the company
- Creation of the Limited Liability Company
- Obtain the Public Deed of formation under the name of "MERCAORGANIC SL"
- Obtain the tax identification number (CIF) and register the company at the tax authorities
- Pay the "Transacciones Patrimoniales" tax at Treasury Department delegation
- Deposit the Capital in a bank or saving bank to obtain the Bank Communication
- Registration of the company at the Mercantile Register
- Subscribe the company to the "Impuesto de Actividades Económicas" (IAE)
- Subscribe the company to the V.A.T. (Impuesto sobre el Valor Añadido – I.V.A.)
- Subscribe the company to the Social Security

7.1.2 Constitution Costs

The legal requirements that every company has to apply to create a company and register are summarized in the next table:

Description	Amount
Opening Costs	1200
Mercantile Registration	200
Accounting Books	220
Total	1620

7.2 Creation of the Company

Mercaorganic will start up the 1st of January 2013. The fiscal and legal requirements will be done from September to December of 2012. The most important process during this period will be the approval of the financial institutions regarding the required loans.

7.2.1 Investment Strategy

The company should assume several expenses in order to start up the operation at the stores.

Local Reforms

The locals where stores will operate will be rent. For the initial investment it is important to consider the reforming cost of the place according to the company's needs and image. This item includes all the activities related with the construction and accommodation required by the store. The reference fee for this type of work is **68.000 Euros** per store.

Technology Systems

The products' traceability is a key factor for Mercaorganic owing to due dates and perishable conditions of fruits and vegetables. Each organic shop will require the basic tools for the payment transactions. Inventory management software and bar code identification will be crucial for tracking the products from the farm to the store.

The next chart shows the expected cost for each item:

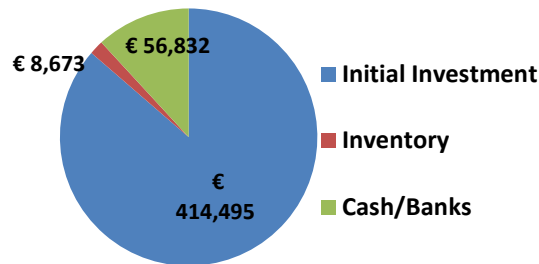
	Total IT	Total Per store 1st Year
Cash Machines (2 Per store)	4.500	900
Scales (2 per store)	2.500	500
TPV (1 per store)- Inventory Software system	9.000	1.800
Barcode & scanner system (1 per store)	1.200	240
	17.200	3.440

Furniture & Fixture

The highest investment in each Mercaorganic store will be the equipment required for keeping products fresh. The minimum requirements for the 5 stores will be the following:

Description	Total
Cold Storage (2 per store)	41.830
Industrial Sink (1 per store)	3.470
Furniture (2 per store cash machines)	6.600
Baskets (20 per store)	2.500
Shelves (15 per store)	2.895
Total	57.295

FINANCIAL REQUIREMENT



7.3 Financial Needs Coverage

In order to calculate the financial needs it will be taken into account the working capital required to operate the first year. In addition to the expenses described above, the company will require cash and extra money to cover unexpected expenses.

	Total
Local Reforms	340.000
Technology Systems	17.200
Furniture & Equipment	57.295
Cash	92.228
Stock	2.227
Total	510.000

The financing alternatives that the company will evaluate are the ICO loans and the ENISA participation loans:

Loan TYPE	Amount Required	Interest Rate (%)	Amortization Period (years)
ICO emprendedores 2012	160.000	6,976%	7
ENISA Linea Emprendedores	50.000	3,368%	4

ICO Loan

Mercaorganic SL will ask for ICO EMPRENDEDORES 2012 line of credit. This program is designed to entrepreneurial companies that comply with some specific requirements. The company is eligible to receive this loan given the condition of new enterprise with less than 5 years of activity.

ICO offers 1 million Euros per client each year. The amount that the company will ask for is **160.000 Euros**. The Interest rate will be 6.79%. The loan will be requested the 1st of November 2012.

ENISA Loan

The company will require a participative loan for the first year of operation. The most appropriate source is the "Enisa Linea de Emprendedores" loan.

The loan is compatible with the ICO loan and the amount requested will be **50.000 Euros**. The interest rate is 3,368%. The loan will be requested the 1st of November 2012.

Business Angel

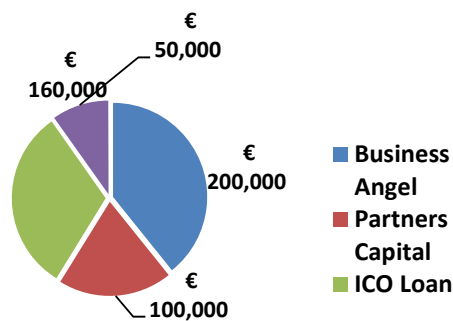
The company will submit to the Spanish Business Angels Association (ESBAN). This association is an investors' network organized for research and pool their investment capital.

Conditions for the investment:

- Capital amount: Between €25.000 and €250.000.
- Start-up companies in their creation stage.
- Sectors with potential growth.
- Up to 50% participation in the company.

Mercaorganic asked for **€ 200.000** to cover part of the Initial Investment. In order to achieve this objective the company will prepare the negotiation and presentation of the business plan.

SOURCES OF FINANCING



7.4. Profit and Loss Statement:

Before starting with the analysis of the annual statements of the company, it is important to say that the company has projected three different scenarios (pessimistic, realistic and optimistic) using as variable the market share. The P&L and balance sheet reported in this chapter refer to the realistic scenario, the statements, but the variations are shown in the charts. In the attached it is possible to see the statements regarding the pessimistic and optimistic scenarios.

For the estimation of the sales, the company used the following methodology:

Sales has been calculated considering the average consumption of organic products in Spain for each organic consumer (99 €). This amount has been adapted to the city in which the company is going to open its stores using as benchmark the GDP per capita.

The calculation of market share has been already explained in the marketing plan.

Since the cost and the price of agricultural product is exposed to wide fluctuations, the cost of goods sold has been calculated as percentage of sales. Knowing the average cost of products and the average price of sales, the company could assert that the margin is 60%. In the table below is shown the example of price calculation:

	Cost	Price of sale	Margin	Margin %
Eggplant	0,58	1,83	1,25	68%
Green Beans	1,5	3,96	2,46	62%
Cucumber	0,81	2,16	1,35	63%
Pepper	0,94	2,03	1,09	54%
Tomato	0,95	2,05	1,1	54%
Lettuce	0,93	2,33	1,40	88%
Zuchinni	0,88	2,20	1,32	60%
Pepper	0,85	2,13	1,28	60%
Potatos	0,35	0,88	0,53	60%
Apple	0,75	1,88	1,13	60%
Average	0,854	2,143	1,289	60%

The growth of sales is based on the estimated growth of organic market in Spain and the estimated growth of market share. The forecast of the company is to expand its business in Spain in 2015 and 2016, and in 2017, if the will open its first store in Italy. The expansion process implementation will depend on the performance of the company.

The highest expenses for Mercaorganic are represented by salaries and general and administrative costs which include the rent of the shop. Another important expenses is the outsourced logistic, that represents a variable cost for Mercaorganic since the contract with the transport company provides that the service will be paid depending on quantity of product transported and distance run. The cost will increase proportionally with the increase of sales.

Since the company doesn't own intangible assets, there is not any kind of amortization, and the depreciation in tangible assets is related to the initial investment assets, and after 2015 it will increase sharply because of the expansion and consequent new investment in fixed assets.

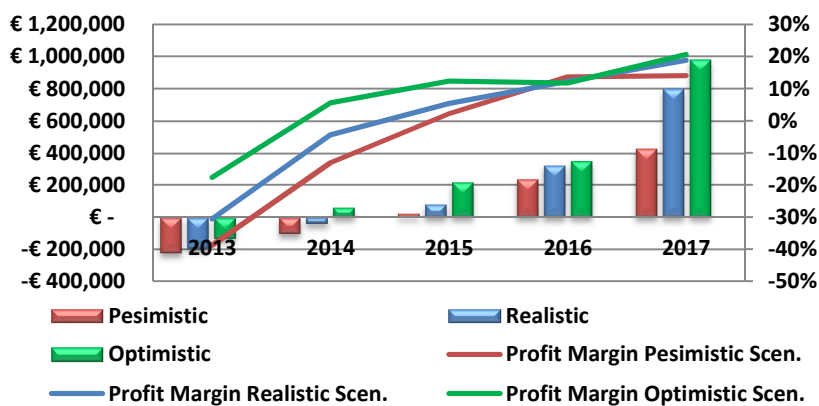
Financial expenses derive from the two loans that are explained above, after the first year the company will not need to ask for further finance sources and will be able to finance its expansion with its profits. The company decides from year 2 to use its financial surplus in order to reduce the ICO loan that is the one with higher financial costs, and achieves to pay back the total loan after 4 years instead that 7 years as expected. On the other hand financial incomes in 2016 and 2017 arise from company's short term investments.

Mercaorganic has a negative Ebitda for the first two years. Also the Ebit will not be positive until 2015, due to higher operating income jointly with a lower passive interest.

The company will close the two first years with losses, but since 2015 it will start to produce profits. The profit got in 2015 is not enough to cover the losses of the two previous years, so Mercaorganic will pay taxes for the first time in 2016.

	2013	2014	2015	2016	2017
SALES	632.253	907.412	1.525.577	2.611.120	4.272.103
Cost of sales	-252.901	-349.354	-579.719	-979.170	-1.580.678
GROSS MARGIN	379.352	558.058	945.858	1.631.950	2.691.425
Marketing	-37.935	-55.806	-94.586	-163.195	-269.143
General and Administrative	-114.420	-114.635	-167.216	-248.839	-277.949
Wages and salaries	-291.964	-295.247	-406.610	-545.225	-609.847
Outsourced services	-90.902	-92.381	-131.382	-166.760	-186.268
Other expenses	-7.617	-7.741	-12.582	-17.567	-17.838
Total Expenses	-542.839	-565.810	-812.376	-1.141.586	-1.361.045
EBITDA	-163.487	-7.752	133.482	490.364	1.330.380
DEPRECIATION TANGIBLES	-41.450	-41.450	-58.029	-81.409	-97.989
AMORTIZATION INTANGIBLES					
EBIT	-204.936	-49.201	75.453	408.955	1.232.391
FINANCIAL EXPENSES	-11.100	-9.098	-5.973		
FINANCIAL INCOME				1.572	5.961
EARNINGS BEFORE TAXES	-193.837	-40.104	81.425	410.527	1.238.352
INCOME TAXES				-90.304	-433.423
NET PROFIT	-193.837	-40.104	81.425	320.223	804.929

PROFIT



7.5. Balance Sheet Statement:

In the assets side of the balance sheet, Mercaorganic's fixed assets are formed only by tangible ones which include the initial investment to set up the stores. Tangible assets increase according with new investment, and they are amortized in ten years.

Regarding the current assets, the initial stock is very low, in fact, due to the characteristics of the goods, its perishable and the philosophy of the company, the stock needs very high rotation a very low levels of inventories.

Account receivables will be also very low, in fact the sale of good and the collection of payment will coincide in almost the totality of the case, with the only exception of credit card payment and B2B clients that will represent only a very small part of Mercaorganic sales.

On the other hand the company will need to start the business with high level of cash in order to face the high non operating expenses that will occur.

Stock, account receivables and cash will increase during the time proportionally with the growth of sales.

The company will have short term bank investment since 2016 that will give 3% interest.

On the liabilities side it is possible to see how Mercaorganic is going to finance its activity. The Equity of the company at beginning is 300.000€ (share Capital) and is divided as shown in the chart. In 2012 and 2013 equity has a decreasing trend, due to the losses of the activity, but since the third year it grows again thanks to retained earnings. According with its policy, company is not going to pay dividends during the three first years, and it will pay 50% of profit the fourth year. Since the 5th years the all dividends will be paid to shareholders.

The debt of the company will be formed by two long term loans as explained above, the company will not need more source of finance and one of the loan will be totally paid at the end of 2015.

In the chart below it is shown the forecasted payback of the investment in the three different scenarios.

	Initial (Start)	2013	2014	2015	2016	2017
NET FIXED ASSETS	414.495	373.046	331.596	439.365	591.754	659.563
Intangible Assets						
Tangible Assets	414.495	414.495	414.495	580.293	814.091	979.889
Accumulated amortization		-41.450	-82.899	-140.928	-222.337	-320.326
CURRENT ASSETS	95.505	11.719	16.819	28.277	100.802	277.872
Accounts Receivable		1.759	2.525	4.245	7.265	11.886
Cash/Banks	86.832	5.552	7.968	13.396	22.929	37.514
Short Term Financial Investments					52.403	198.687
TOTAL ASSETS	510.000	384.765	348.415	467.642	692.555	937.435
EQUITY	300.000	106.163	66.060	147.485	307.596	307.596
Share Capital	300.000	300.000	300.000	300.000	300.000	300.000
Retained earnings				81.425	241.537	241.537
Accumulated losses			-193.837	-233.940	-233.940	-233.940
LIABILITIES	210.000	278.601	282.356	320.157	384.959	629.838
Long term loans(Participative)	50.000	43.740	29.160	14.580		
Long term loans	160.000	141.648	119.415	80.660		
Accounts payable (Producers)		10.321	14.813	24.903	42.624	69.738
Accounts payable		82.893	118.968	200.013	342.335	560.101
TOTAL EQUITY + LIABILITIES	510.000	384.765	348.415	467.642	692.555	937.435

7.6 Cash Flow Statement:

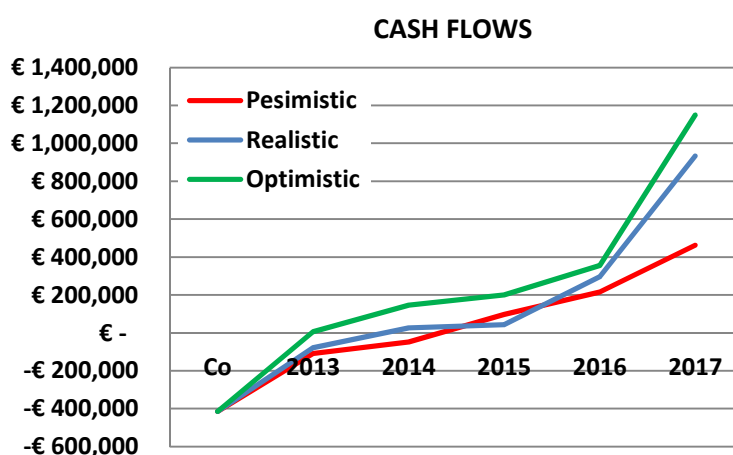
The Cash Flow analysis of Mercaorganic will help the company to build a periodical checking of its "financial health" during the first years operations. To run the business it is crucial to understand and recognize the list of both inflows and outflows the company has. This will help to achieve the objective of maintaining enough cash to operate the business successfully year to year.

	INITIAL	2013	2014	2015	2016	2017
NET PROFIT		-193.837	-40.104	81.425	320.223	804.929
INTEREST PAID		-11.100	-9.098	-5.973	0	0
AMORTIZATION/DEPRECIATION		41.450	41.450	58.029	81.409	97.989
NET INVESTMENTS IN FIXED ASSETS	-414.495			-165.798	-233.798	-165.798
INVESTMENTS IN NOF	0	85.398	33.391	75.016	131.733	201.564
CASH FLOWS	-414.495	-78.088	25.640	42.700	299.567	938.684

The initial investment represents the highest cash outflow of the project. During the first year the company will be able to cover a fraction of its financial needs; however the final cash flow in 2013 will be negative.

In 2015 it is important to notice that the company shows an important recovery, despite the investment in new stores.

The investment in fixed assets will be an important outflow for the company. From 2015 the financial requirements for the company's expansion strategy will be covered by the increase in sales. The improvement in those revenues coming from operations will be reflected in the increment of cash flow during the 4th and 5th year of analysis.



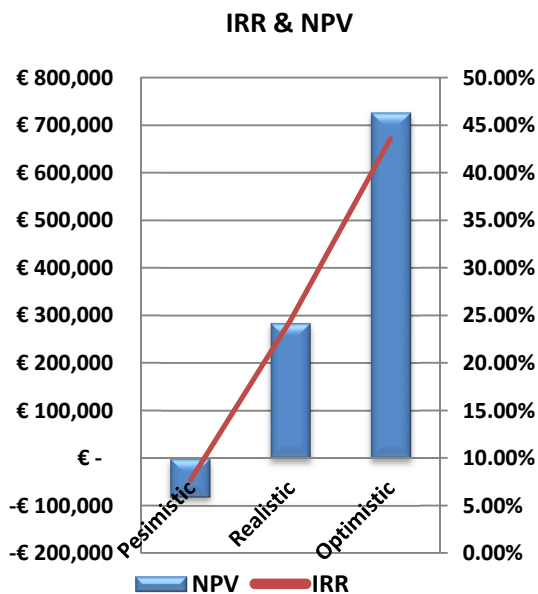
7.7 Investors Return

The cash flow helps the company to analyze the feasibility of the investment and the project's long-term financial costs and benefits.

Mercaorganic Net Present Value is € 289.630 Euros for a forecasted period of 5 years considering a discount rate of 12%. The payback figure represents the project's profitability. The recovery period of the investment is 4 years and 2 months.

It is important to highlight that, according the present strategy, the 5th year the company will start its international growth due to the results of this figures.

The IRR of the project is 24,50%. In a "realistic scenario" this number will be an attractive return for any partner of the company even for a Business Angel. This last type of investors prefers to participate in businesses with the highest level of IRR even if this represents higher risks.



PAYBACK PERIOD	
Pesimistic	4 Years and 7 months
Realistic	4 Years and 2 months
Optimistic	3 Years and 2 months

7.8 Financial Ratios

	2013	2014	2015	2016	2017
SOLVENCY	1,34	1,17	1,37	1,54	1,05
GEARING	1,8	1,1	1,0	1,1	1,5
DEBT STRUCTURE	224%	125%	48%	0%	0%
FIXED ASSETS RATIO	97%	95%	94%	85%	70%

Solvency:

This ratio measures the company's ability to meet its short and long term obligations. In the case of Mercaorganic it plays a role due to the important amount of funds asked for. In this case the fixed assets of the company basically are represented by the stores. These assets are better than the outside funds and this represents good results for Mercaorganic in terms of solvency. The average value of the solvency ratio is 1.29 with a slight lower level during the first years due to the initial investment.

Gearing:

The result of this ratio is useful to analyze the level of dependency on external sources. In the case of Mercaorganic the company will require the support of external entities to cover the financial needs besides the share capital. The first year the ratio is closer to 2 what represents higher dependency and difficulties to access to the financial market. During the following years operations start to show greater levels of sales while helping to reduce this dependency.

Debt Structure:

Debt structure in the case of Mercaorganic shows that it will be mainly long term. The 3rd year the company reduce consistently its debt, and it is reflected in the value of the ratio. Since 2016 the company pays back the total amount of its debt. The accounts payable represent a higher percentage within the short term liabilities.

Fixed assets Ratio:

This ratio helps to analyze both the evolution of the company operations and its growth strategy. During the initial period the business has basically fixed assets represented by the stores, but thanks to the expansion and opening of new stores the company will begin to have higher levels of cash and the opportunity to afford its short term investments. This will reflect a good assets balance during the last years of the analysis.

7.9 Economic Ratios:

	2013	2014	2015	2016	2017
ROE	-91%	-30%	28%	52%	131%
ROA	-53%	-14%	16%	46%	86%
ROI	-55%	-15%	17%	69%	187%

ROE:

During the first three years the partners and investors will not receive any return. The needs for establishing the business and the time required to capture loyal customers make that until the 4th the company does not pay dividends, and at the end of year 4 shareholders will receive 50% of profit as dividend. In 2017 the total amount of profit will be paid as dividends. The ROE will increase thanks to a boost in sales during the 5th year reflecting the good results of the international expansion.

ROA:

From the 3rd year the company will be able to guarantee a valid use of its assets in order to generate earnings. The investment to adapt and reform the stores will be essential to achieve the strategy of the company. It is logic that the first two years the initial investment will require higher outflows of cash. The increase of short term assets mainly due to cash and short investment are related with higher levels of ROA since 2015. Once the company stabilizes its financial situation the levels of ROA will increase up to 86%.

ROI:

The return on the investment is an important ratio to analyze in any business plan. The table presented above shows that the level of ROI during the first 3 years is quite similar to the ROA ratio. This ratio takes into account only the fixed assets over the EBIT. The higher levels in 2016 and 2017 show the capacity of the company in increasing both its efficiency and profitability. The investment in fixed assets will be recovered in 2014 while keeping a growth trend for the future.

7.10 Operational Ratios:

ACC. COLLECTION PERIOD	1,0	1,0	1,0	1,0	1,0
ACC. PAYMENT PERIOD	14,9	15,5	15,7	15,9	16,1
INVENTORY TURNOVER	57,4	55,2	54,5	53,8	53,1