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BUSINESS PLAN: HERMIT, THE BRAND WITH ECOLOGIC IDENTITY

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Mestrado em Gestão

Orientador:

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ISCTE Business School

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BUSINESS
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Departamento de Marketing, Operações e Gestão Geral

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In order to build a business plan and the theoretical basis that supports it, it's necessary to invest a big amount time, have a huge sense of discipline, responsibility, and commitment. It's also fundamental to have people around you that can keep you on the right path. For that reason, I find it's relevant to give a word of acknowledgment to everyone who helped to develop this assignment.

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Resumo

A presente tese é um plano de negócios de uma marca que irá entrar no mercado de uma forma inovadora, priorizando a sustentabilidade em detrimento dos lucros. Hermit é uma marca de roupa casual e outdoor que quer incentivar o consumerismo, oferecendo produtos que contribuam verdadeiramente para a proteção do ambiente, através de uma política de devolução.

O seu objeto de estudo decompõe-se em dois ramos. A nível micro, investiga a viabilidade do negócio. A nível macro, considera a possibilidade de incentivar outras empresas a adotar estratégias similares.

O plano de negócios e a sua estratégia baseiam-se numa vasta literatura teórica e numa rigorosa metodologia de pesquisa. A análise de dados indica um potencial de crescimento do mercado significativo e destaca a intenção dos consumidores de se tornarem cada vez mais conscientes ao adquirir algo. A análise externa e interna identifica a conjuntura sociocultural e a identidade da marca como a principal oportunidade e recurso, respetivamente. Por outro lado, mostra potenciais ameaças como a roupa em segunda mão.

A estratégia da Hermit é sustentada por três pilares que têm de funcionar em harmonia: máxima sustentabilidade dos produtos, mitigação do trade-off entre ecologia e economia; e forte identidade da marca construída ao redor dos valores principais. Para aumentar a probabilidade de sucesso, a estratégia tem de ser coordenada com uma estratégia de marketing trifásica: criação de uma comunidade que conhece a marca; promoção e venda de produtos; e marketing dos resultados dos investimentos ambientais.

Considerando suposições realistas, a previsão de free cash-flows mostrou um Valor Atual positivo de 55 104,39 € para um horizonte temporal de sete anos. O ponto de equilíbrio para o nível de vendas é 4573 unidades e o período de retorno é 6,17 anos.

A conclusão global para o objeto de estudo é que a Hermit é um negócio sustentável viável, ainda que seja sensível ao nível de vendas. Por outro lado, não é possível concluir que o projeto pode tornar-se uma referência para outras empresas, uma vez que a viabilidade não é a única variável relevante para responder a essa questão. O que se pode concluir deste trabalho é que as empresas poderiam fazer muito melhor para atenuar o trade-off entre economia e ecologia.

Palavras-Chave: Tendência; Sustentabilidade; Plano de negócios; Redes sociais; Trend; Troca; Consumo consciente; Identidade da marca; Moda sustentável; Negócio sustentável

Classificação JEL: M13; Q01; M39; M37

Abstract

This thesis is a business plan of a brand that will approach the market in an innovative manner, by prioritizing sustainability over profits. Hermit is a casual and outdoor clothing and accessories brand that wants to raise awareness to conscious consumption, by offering products that truly contribute for environmental protection, through a give-back policy.

Its research problematic decomposes itself in two branches. On a micro level it investigates the business' viability. On macro level it assesses the possibility of incentivizing other companies to adopt similar strategies.

The business plan and its strategy are based upon a vast theoretical literature and a rigorous research methodology. The data analysis indicates a significant potential for market growth and highlights the willingness of consumers to become more conscious when they purchase. The external and internal analysis identifies the socio-cultural conjecture and the brand identity as the main opportunities and resources, respectively. On the other hand, it shows potential threats such as second-hand clothes.

Hermit's strategy lies on three pillars that must work in harmony: maximum sustainability of products, mitigation of trade-off between economy and ecology, and strong brand identity built around its core values. To increase the probability of success, the strategy must be coordinated with a three-phased marketing strategy: creation of a community who knows the brand, promotion and sale of products, and marketing of the environmental investments' results.

Under realistic assumptions, the free cashflow forecast showed a positive NPV of 55 104,39 € for a seven years' time horizon. The break-even point for sales level is 4573 units and the payback period is 6,17 years.

The overall conclusion for the research problematic is that Hermit is a viable sustainable business, even though it's sensible to the sales level. On the other hand, it's not possible to conclude the project could become a benchmark for other companies, as viability is not the only relevant variable to answer that question. What one may infer from this work is that companies could do much better to attenuate the trade-off between economy and ecology.

Key words: Trend; Sustainability; Social Media; Trade-off; Conscious consumption; Brand identity; Sustainable fashion; Sustainable Business

JEL Classification: M13; Q01; M39; M37

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1 – Executive Summary

Hermit is a casual and outdoor clothing and accessories brand that wants to raise awareness to conscious consumption by offering quality products that truly contribute for environmental protection. By definition, hermit is “one that retires from society and lives in solitude especially for religious reasons” (Merriam-Webster, 2020). Named based on this terminology, the brand sees itself as a loner on the attempt to offer genuine sustainability to society, refusing to take advantage from the problem to make an extra buck. However, this loneliness is not desired and its entrance in the market aims to turn the company into the most sociable hermit ever seen, accompanied by many conscious consumers that share the same religion: environment protection.

Vision: Hermit aims to open the door for many other companies to adopt a new approach to the market more focused on sustainability than on profits. Its ambitions to increase its range of products made from recycled and/or sustainable materials, and to expand to other sectors. It wants to turn the society less consumerist and more conscious.

Mission: Hermit’s mission is to offer durable, quality products produced on the most sustainable way possible, and to compensate the waste produced by participating in external environmental projects and/or by investing in suppliers of recycled or eco-friendly materials. The company wants to achieve its medium/long-term goals by creating a culture around the brand. This culture will be leveraged by its solid identity, which stems from its operations and core values.

This business plan explains what’s behind the idea and what sustains the ambition of bringing it to the market. It starts with the literature review of several scholars about the key theoretical concepts and techniques that will not only justify the need to have this business on the market, but that will also help it to succeed. Then, it goes through the primary and secondary data to observe what the market’s forecasts and the potential customers have to say about the industry. Based on the data gathered, an external and internal analysis are conducted to prepare the entrepreneur for the threats and opportunities that may arrive. They also allow him to identify what are the brand's main strengths and weaknesses.

After the theoretical review and the data, external and internal analysis, it’s time to reveal the strategy to implement the business idea. This section includes how the company will operate, which specific products or services it will offer, how it will structure itself, and what’s its strategy for the future. This section culminates on the establishment of Hermit’s main objectives for the outcoming years. The work previously done will help to set the most realistic objectives possible.

Finally, there’s the financial valuation which goes through all the costs, and potential revenues in order to compute the Free Cash Flows and to determine if the business is viable or not. All the sections of this project were done following a certain methodology which is explained, analyzed, justified and evaluated on the “Research Methodology” section.

2 - Literature Review

In order to present this business plan, it's essential that anyone who may be interested can understand its content. Thus, this literature review aims to go through the main theoretical concepts and ideologies which are the foundations of the project.

2.1 - Current Trends

To achieve success, this business plan will conduct the brand according to the current trends in the market. In its bibliometric analysis, Cuc concluded that the main trends in business model research, which may conduct to the creation of new businesses are sustainability and clean production issues, entrepreneurship, digitalization and information systems developments (2019).

Reinforcing this position, Lubin and Etsy went further and considered sustainability as a megatrend. According to these scholars, due to their impact, megatrends oblige companies to make significant and on-going changes on how they compete. However, their impact can be predictable up to some point, by analyzing how organizations prospered in previous megatrends (2010).

Consumers have been demanding for sustainable products and services, governments have been interceding with unprecedented levels of new regulation over greenhouse gases, and companies have been investing on turning their operations more efficient and eco-friendlier. Therefore, the economic agents already recognize sustainability as a central matter and started to change their behavior, fueling its classification as a megatrend (Lubin & Esty, 2010; Biloslavo, Bagnoli & Edgar, 2018; Stal & Bonnedahl 2016).

Further on this thesis, it will be explained why this can and should be applied specifically to this startup, and how to follow this trend can be beneficial to its viability and longevity, in theory. Nevertheless, first it's crucial to review the literature that connects business with sustainability and sustainable entrepreneurship.

2.2 - Sustainability

Preserving the environment and the planet is becoming more difficult, as the global environment changes continue to occur rapidly in the air, oceans, land and freshwater. Since these changes are directly or indirectly related with human action, there's an urgency for a sustainability transition in order to reverse or slow down the changes. However, this transition is tremendously difficult to implement. Although we have enough technological and social innovations, we still need to establish a universal agreement representing the urgent need to share responsibilities and work together towards a more sustainable world (Kates & Parris, 2003).

Hence, we've been seeing the transition of industries into the sustainability trend. Skerlos et al. defined sustainable industries as the ones that increase the value of raw material, products, or

components, keeping the accessibility of natural resources and environment of quality for future generations (2008). Other scholars saw the concept from a more broadening perspective, arguing that sustainable industries must consider the impact of their operations and product in the environment and society, adding to the concern to generate profits. Thus, sustainable industries must consider three dimensions: economic, environmental and social (Kumar, Singh & Lamba, 2018; Parida, Sjödin & Reim, 2019).

However, it's challenging to invest in new processes, technologies, suppliers, research and development to produce in a sustainable process and, at the same time, be competitive in the market, competing against other companies that do not have these concerns or costs (Hughen & Lulseged, 2014). Furthermore, based on the theory that says business strategy and operation strategy are interrelated, each one affecting and being affected by the other (Skinner, 1969), aligning business strategy with operations is hard to do (Marinho & Cagnin, 2014).

Therefore, there's the question whether sustainable industries are enough to reverse the damages made, since the absolute growth in threats to the planet exceeds the pace of the countering trends in reducing energy and material use, in reducing pollutants, and in controlling the unsustainable extraction of land and sea resources (Kates & Parris, 2003). Perhaps we do not leave "enough and as good" behind for generations to come (Hummels & Argyrou, 2020). This will be discussed further in this review.

From this transition stem new businesses and new ideas through a paradigm for sustainable and smart product innovation. This paradigm employs the innovation ecosystem theory to transform from value chain-based mode to ecosystem-based mode, where actors interact with each other to achieve the sustainability goal and shared value for all stakeholders (Yin, Ming & Zhang, 2020). Thus, and in accordance with the object of this thesis, it is important to review the literature about sustainable entrepreneurship.

2.3 - Sustainable Entrepreneurship

Some scholars believe that, since the importance lent to environmental issues is increasing (Aghelie et al., 2016), then entrepreneurs should not be only profit driven (Schaltegger & Wagner, 2011; Shepherd and Patzelt, 2011). Hence, the traditional concept of entrepreneurship focusing on value creation in terms of economic results has been extended to address non-economic benefits as well (Shepherd and Patzelt, 2011; Urbaniec, 2018).

Dean and McMullen defined sustainable entrepreneurship (SE) as "the process of discovering, evaluating, and exploiting economic opportunities that are present in market failures which detract from sustainability, including those that are environmentally relevant" (2007).

Table 2.3.1 depicts the definitions established by other scholars along the years.

Table 2.3.1 - Scholars' definitions of the sustainable entrepreneurship concept.

Schaltegger and Wagner (2011)	Sustainable entrepreneurship can be described as an innovative, market-oriented and personality-driven form of creating economic and societal value by means of breakthrough environmentally or socially beneficial market or institution innovations.
Lans et al. (2014)	Sustainable entrepreneurship is seen as a way of generating competitive advantage by identifying sustainable as new business opportunities, resulting in new and sustainable products, methods of production or ways of organizing business processes in a sustainable way.
Belz and Binder (2017)	Sustainable entrepreneurship is the recognition, development and exploitation of opportunities by individuals to bring into existence future goods and services with economic, social and ecological gains.

Source: Hummels, H., Argyrou, A. (2020). *Planetary demands: Redefining sustainable development and sustainable entrepreneurship*. *Journal of Cleaner Production*, vol. 278

Sustainable entrepreneurs are responsible for trying to create economic growth that leads to positive externalities for the planet (Liu et al., 2018; Reid et al., 2010). They also stand as a collective influence on governments and politics into adopting policies that create or support sustainable development (Pacheco, Dean & Payne, 2010; Pinkse & Groot, 2015).

Although this sounds good on paper, this is much harder to apply in real life. Hummels & Argyrou argued the insufficient action of sustainable entrepreneurs and industries through the concept of planetary boundaries. The authors argued that if a so-called sustainable company surpasses pre-defined boundaries, it can't be considered "sustainable". This applies to new businesses too and their respective entrepreneurs that fail to balance the needs of present and future generations by insufficiently respecting those limits. Therefore, these scholars concluded that besides promoting sustainable entrepreneurship, there's a need to define consistent planetary boundaries that must be respected, if companies want to keep their "sustainable" tag (2020).

Before defining the rules that agents should respect, it's important to analyze how economy coexists with ecology. Therefore, let's take a step back and observe on a macro level how the trade-off between these two concepts constitutes a challenge to achieve true sustainability.

2.4 – Ecology and Economy Trade-off

A trade-off is a situation where it's impossible to achieve two or more objectives at the same time. Decisionmakers need to weigh a loss in at least one of the objectives, in order to get a gain in the other. Management literature hasn't paid much attention to trade-offs between economic, environmental and social dimensions, although they're undeniable (Hahn, Figge, Pinkse & Preuss, 2010).

Trade-offs are present in the so-called "sustainable businesses" as well. Hummels & Argyrou explained this in their work about the planetary boundaries previously referenced. According to them, if electric cars' production overpass the pre-defined boundaries of sustainable businesses for environment

protection, they won't be considered "sustainable" anymore. Therefore, even the electric car production, which is seen by the public as a sustainable business, faces conflicts between ecology and value creation (2020).

However, there are some scholars which have a more optimistic approach, by considering the win-win paradigm. The win-win paradigm accepts that there are cases where both ecology and economy dimensions gain. Under this paradigm, there are businesses that will profit more if they are socially and environmentally responsible (Dyllick, Hockerts, 2002; Salzmann et al., 2005).

The work of Hahn et al. rejects the win-win paradigm and criticizes the investment in its research. According to them, in win-win paradigm, environmental and social issues are only considered while they contribute to an improvement of the economic performance. Therefore, these scholars believe the win-win paradigm derived from a purely economic perspective (2010).

Sustainability in businesses based in win-win logic will only present solutions without a conflict, which couldn't differ more from what happens in real life and does not truly contribute for sustainable development. Hence, instead of searching for win-win solutions, future research should develop tools to assess and evaluate trade-off situations in sustainable businesses to identify strategies that generate relevant corporate contributions to sustainable development, even if it includes trade-offs (Hahn, Figge, Pinkse & Preuss, 2010).

Facing the hypothesis that there's always a trade-off between ecology and economics and that the win-win paradigm presented by some scholars is rather limited, this project's goal is to try to create a brand that mitigates that trade-off to the maximum, introducing a new win-win paradigm. Furthermore, the strategy passes by sharing this ambition with everyone, armed with a strong brand identity that allows the consumers to easily identify the company and its products. Hence, it's relevant to go through the theory behind brand identity to understand how it works.

2.5 – Brand Identity

The concept of brand identity (BI) was investigated by several scholars along the years. De Chernatony said that BI is reflected by brand's vision and culture, which drive its desired positioning, personality and future relationships (1999). Aaker and Joachimsthaler stated that BI represents what the organization wants the brand to stand for. It must consider what customers want and represent what the company will do over time, while attempting to differentiate itself from the competition (2000). Bhattacharya & Sen added that brand identity contemplates the distinctive and enduring characteristics of a brand. The more this identity is fed, the more prestigious and distinctive it may get, enhancing the brand's strongness and attractiveness (2003).

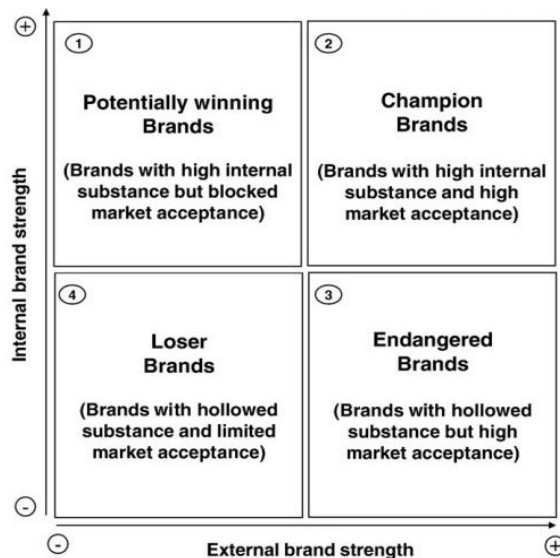
More recently, there's the idea that brand identity is a dynamic concept that develops itself through mutually influencing inputs from managers or consumers. The brand's central attributes are considered

only partly enduring – the core values maintain consistency over time, but other dimensions vary to adjust to the environment context – turning it into a dynamic concept (da Silveira, Lages & Simões, 2013).

This dynamic feature of BI demonstrates two things. First, it shows the importance companies give to stakeholders’ (e.g. consumers) perceptions of the brand (Kirmani, Sood & Bridges, 1999). Second, it reflects the benefits of consumers’ self-identity (da Silveira et al., 2013), meaning it considers the advantage of having consumers that relate themselves with the brand – brand identity similarity. Consumers tend to find a brand identity more desirable when they believe the BI corresponds to their own sense of who they are (He & al., 2016).

Burmann, Jost-Benz and Riley’s work goes deeper into brand identity’s potentialities, by arguing that managers should consider internal groups of stakeholders when they are defining their BI (2009). This is depicted in Figure 2.5.1.

Figure 2.5.1 -Brand Strength categorization



Source: Burmann, C., Jost-Benz, M., & Riley, N. (2009)

Thus, according to the figure, champion brands are the ones that are not only accepted by the market, but that also have a strong identity for their employees, for example. Brands that are only accepted by the market are considered endangered, while the ones that have a strong internal bases are characterized as brands with potential.

This projects’ brand identity will be based on this framework and marketing will play an essential role to build it. However, new businesses face limited funds to start their operations so it’s smart to explore alternatives that can be both efficient and inexpensive. Social media marketing could be a simple and cheaper solution for gathering and communicating with customers. Therefore, it may be important to go through the literature that approaches the subject in more depth.

2.6 – Social Media Marketing

Kaplan and Haenlein defined social media (SM) as online applications, platforms, web tools or technological systems that facilitate collaboration and content sharing between its members (2010). Due to these characteristics, SM platforms immediately revealed a huge potential to help businesses, as they constitute an important source of business intelligence, providing intelligence on trends in the marketplace, information about competition and feedback on the products or services offered (Roberts, Piller & Luttgens, 2016). Thus, social media use helps companies to comprehend customer needs and respond to them proactively. This leads to higher success rates for innovations (Parveen, Ismawati & Ainin, 2016).

Focusing on small businesses, Martín-Rojasa et. al's investigation confirmed that the use of SM positively affects new business venturing (2010). Entrepreneurs use social media for different reasons and purposes. Instead of outsourcing consultancy and market research, they can use platforms like Facebook or Instagram to take advantage from their connectivity, overcoming the lack of experience and know-how they may face at the beginning (Kuhn, Galloway & Collins-Williams, 2016).

Furthermore, SM has allowed entrepreneurs to network with co-entrepreneurs. It allowed them to establish relationships based on similar interests (Quinton & Wilson, 2016). This promotes partnerships that drives co-creation and innovation (Bhimani, Mention, & Barlatier, 2018; Rathore, Ilavarasan, & Dwivedi, 2016).

Finally, and probably the most relevant literature for this thesis' purpose, entrepreneurs also use social media to market their product/services. SM allows entrepreneurs to advertise their products on several platforms (Cant, 2016), reducing costs substantially when compared with traditional advertising (Brink, 2017; Michaelidou et al., 2011). Supporting the theory above, there's the interesting figures registered in Australia. In the Land Down Under there was 73% increase in small businesses on social media between 2011 and 2018 compared to 57% of medium and 41% of large businesses in the same period (Yellow, 2018). Therefore, small businesses and startups are the frequent users of this tool, and the business presented in this thesis will likely follow the same path.

However, this is not the only advantage of social media marketing. Kim and Ko empirically investigated how social media marketing that is entertaining, customized and that interacts with the target can contribute positively for brand building (2012). Godey et al. added that SM marketing is used by brands to build stronger consumer-brand relationships, through entertaining content that generates electronic word-of-mouth (2016).

SM marketing influences consumer behaviours. Nowadays, brands recognize SM as one of the most important marketing tools, meaning it's essential to understand how it contributes to the brand-building process (Cheung & al., 2020). Nevertheless, a good and strong brand must be allied to quality products,

relevant to the market, that represent what the brand stands for. Therefore, it's key to analyze the theoretical work that goes through the niche where the company will position itself.

2.7 – Sustainable Fashion

Scholars agree when they attempt to conceptualize sustainable fashion. Lee defined sustainable fashion as products that are made of organic raw materials in an environmental and social-friendly manner. The fabrics would also be dyed or undergone the bleaching process using less harmful chemicals or bleaches (2010). Anson supported this by saying that sustainable fashion products are often made by recycled textiles (2012). Finally, Shen et al. say that sustainable fashion is characterized for offering products that reflect the consideration for labor conditions and environmental protection. The products must be produced and sold with sustainable goals. This is achieved through eco-materials (e.g. recycled fabrics and organic cotton), environmentally safe dyeing methods (e.g. letting the fibers be stained instead of dyed by using onion skin stains, beets or berries), and eco-packaging (2012).

Sustainable fashion also contemplates durability, which is the opposite of the fast fashion's business model. Education is considered to be essential to the throwaway culture of consumers and raise awareness of clothing industry's ethical issues (Ayres, Ferrer & Van Leynseele, 1997). Marketing plays an essential role in this education process. Developing label and packaging designs that catch consumers' attention and inform the consumers is one way of achieving that awareness (Fraj & Martínez, 2006).

In the past, people were interested in purchasing eco-fashion but they were not willing to sacrifice personally, such as paying a higher price (Carrigan & Attala, 2001; Joergens, 2006). This happened because fashion consumers were discouraged by products' poor quality, such as scratchy hand feel and uncomfortable materials (Carrigan & Attalla, 2001; Olivia & Kallenberg, 2003). However, nowadays, consumers not only care about sustainable products, but they are also willing to pay higher prices for goods with those characteristics (Shen et al., 2012). Scholars' different positions may be explained by the growth of quality of this type of products, making them more acceptable by fashion consumers (Chan & Wong, 2012).

3 – Methodology

This section intends to exhibit the methods used to answer the main research problematic of this final assignment. It's constituted by the identification of the research problematic, the methods used in each section of the innovative business plan and by the evaluation of the chosen methods.

3.1 - Research Problematic

Sustainability is considered one of the biggest current trends that is causing agents to change their behavior. In the business context, following this trend would provide companies with a source of competitive advantage through differentiation. It would also generate higher long-term financial returns and diminish the cost of capital (Lubin & Esty, 2010).

However, these changes are difficult to apply as it's challenging to stay competitive, especially if the competition decides not to shift towards the trend (Hughen & Lulseged, 2014). These fears make companies hesitate to take the leap, leading to the scholars' argument that current sustainable industry is not doing enough to reverse the damages made to the planet (Kates & Parris, 2003).

The need to reform the sustainable industry puts pressure on entrepreneurs to create businesses that generate positive externalities without being completely profit driven (Schaltegger & Wagner, 2011; Shepherd and Patzelt, 2011). On the other hand, the scholars' skepticism about a win-win situation when it comes to economy and ecology, makes entrepreneurs' task a real puzzle (Hahn, Figge, Pinkse & Preuss, 2010).

Obviously, this business plan's first goal is to assess if the business presented is viable, considering all the requirements and tactics needed to obtain a truly sustainable operation. Notwithstanding, on a macro level, this research will attempt to solve the puzzle, and to create a new win-win situation.

On what concerns the Management field, it's relevant to see if approaching the market without merely craving for profit and focusing on offering products that have positive externalities may open a precedent for more companies to shift towards real sustainability and to reform the industry. If this is verified, it may encourage the creation of more ideas that have the potential to become solutions for nowadays and future problems. Furthermore, it will demonstrate if this specific idea has the potential to become a real venture.

In conclusion, the objectives of this research are divided in two branches: one focused in the business idea itself, and other that explores the macro problematic, as depicted in Annex A. Under this academic perspective, there was an attempt to surpass these problematics using several methods to structure, estimate and forecast results. In order to sustain the credibility of this work, the methods used on the research will be explained in the next topics.

3.2 – Business model methodology

First, it's important to share the method used to create and structure the idea. The framework used as the foundation for the innovative business plan was the business model Canvas conceptualized by Osterwalder and Yves (2010). They defined a business model as “the description of the rationale of how an organization creates, delivers, and captures value”.

The business model Canvas is constituted by nine building blocks which are inter-related and should be elaborated according to a certain order to follow a logic line, as depicted in the Annex B.

3.3 – Data

3.3.1 – Type of Data

In this research it was used a quantitative research method, as the information obtained can be counted, measured, and expressed using numbers. Both primary and secondary data analysis were quantitative.

Secondary data was used to find the current dimension of the market and the forecasts for its evolution. On the other hand, primary data was gathered to see how the targeted population would face the problematic here presented and the entrance of a product that intends to solve it.

3.3.2 – Data Collection

What concerns the secondary data, it was collected and analyzed from previous research by other authors (Saunders, Lewis & Thornhill, 2015). The article chosen as source was The Business Research Company (October, 2020), as it provided a complete overview about the current value of the market and forecasted its future.

Regarding the primary data, it was gathered through a survey, more specifically a questionnaire. The ideal sample would be constituted by 200 individuals with purchasing power, to represent the targeted population. However, there was a higher focus on millennials and young adults not only because they are expected to be the consumers of tomorrow and for a longer time, but also because they are more aware of this problematic that will directly affect their future.

The survey was shared on social media, in universities and Erasmus groups, and amongst friends and friends of friends. It was online from 26th of February 2021 until 3rd of March 2021 and 227 responses were gathered.

3.3.3 – Processing of Data

Secondary data was exposed as loose figures. Thus, first there was a manual selection of the relevant data which was then inserted in a table. Finally, it was used a graphic illustration to depict the table and demonstrate the market evolution. The main tool used to process the data was Excel.

Primary data was analyzed using SPSS. The software helped to understand, depict and compare variables. There was an attempt to find correlations between the variables in study through Cramer's V, crosstabulation and Spearman's Rho, which are used for categorical variables.

3.4 – External and internal analysis methodology

To conduct the external and internal analysis, this business plan went through theoretical models that serve as analytical tools to assess the main opportunities, threats, strengths and weaknesses of the idea. Thus, to observe the market it was used secondary data, the PESTEL analysis and the Porter's Five Forces model. On the other hand, to assess the robustness of the idea itself, it was used the VRIO framework and primary data in the form of a survey. All the information gathered was then used as foundation to conduct a SWOT analysis.

3.4.1 – PESTEL Analysis

Rothaermel defined PESTEL analysis as a framework that categorizes and analyzes an important set of external factors that might impinge upon a firm. These factors can create both opportunities and threats for the firm (2014). The acronym PESTEL represents the external factors considered by the framework: Political, Economic, Socio-cultural, Technological, Environmental and Legal.

3.4.2 – Porter's Five Forces Model

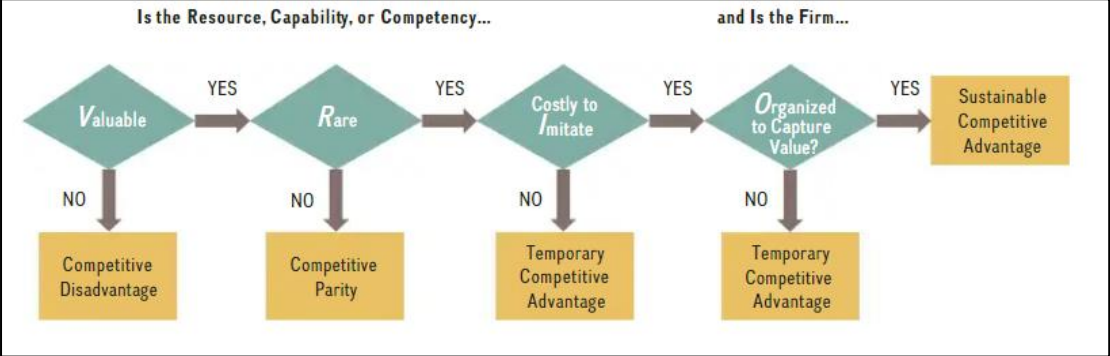
Moving on to the industry analysis, this research used the Porter's Five Forces Model. Rothaermel defined it as a framework that identifies five forces that determine the profit potential of an industry and shape a firm's competitive strategy (2014). The five forces considered in this framework are: Threat of New Entrants, Bargaining Power of Buyers, Bargaining Power of Suppliers, Threat of Substitute Products and Services and Rivalry among Existing Competitors (Porter, 2008).

3.4.3 – RBV and VRIO Framework

To conduct the internal analysis, first the core capabilities were identified through the resource-based view. Resource-based view helps to identify companies' core capabilities, assuming resources heterogeneity and immobility – resources differ from firm to firm and are not easily transferable across organizations (Rothaermel, 2014).

After the identification of the business’s core competencies, it was used the VRIO framework to classify them and to predict firm-level competitive advantage. The classification of a given core capability will depend on the analysis outcome, as depicted in figure 3.4.3.1.

Figure 3.4.3.1 – VRIO Framework



Source: Rothaermel, F. T. (2014). *Strategic management*. New York: McGraw-Hill/Irwin. 2nd edition.

3.4.4 – SWOT Framework

Rothaermel defined SWOT analysis as a framework that allows managers to synthesize insights obtained from an internal analysis of the company’s strengths and weaknesses (S and W) with those from an analysis of external opportunities and threats (O and T) to derive strategic implications. It allows the strategist to evaluate a firm’s current situation and future prospects (2014). Therefore, all the results from the analysis tools performed before helped to build the SWOT framework. The posterior analysis was performed as depicted in figure 3.4.4.1, in order to construct the strategy for the business.

Figure 3.4.4.1 – SWOT Analysis

		External to Firm	
Strategic Questions		Opportunities	Threats
Internal to Firm	Strengths	How can the firm use internal strengths to take advantage of external opportunities?	How can the firm use internal strengths to reduce the likelihood and impact of external threats?
	Weaknesses	How can the firm overcome internal weaknesses that prevent the firm from taking advantage of external opportunities?	How can the firm overcome internal weaknesses that will make external threats a reality?

Source: Rothaermel, F. T. (2014). *Strategic management*. New York: McGraw-Hill/Irwin. 2nd edition.

3.5 – Financial Valuation Methodology

To assess the viability of the project it was necessary to review and apply what was learned on the finance courses of this Master’s program and Bachelor degree. The viability was verified through the

analysis of the economic viability. Although the equilibrium between debt and equity may reduce the weighted average cost of capital (WACC) and lead to a higher net present value (NPV), the entrepreneur found no reason to leverage its position by adding financial risk to the project. Furthermore, if there's the need to inject company, it's more useful for the business to obtain capital from a source that will feel the urge to participate and to add value, which does not happen with creditors.

This final part of the project had a lot of "backstage" work that is exposed mainly in the annexes. All that work culminated on the "Financial Valuation" section in the form of several measures that help to interpret the results and to infer conclusions.

3.5.1 – NPV, IRR, Payback period and Break-Even Analysis

The main measure used to demonstrate if the project is whether profitable or not was the Net Present Value. The NPV is the difference between the present value of cash inflows and the present value of cash outflows over a period of time. Therefore, a NPV above zero indicates the project will generate profit, meaning it's worth to invest on it. The discount of the cashflows to the present date is essential to obtain an accurate conclusion regarding a project's viability. As one dollar today is not worth the same as one dollar tomorrow, NPV intends to demonstrate if the future cashflows are higher than zero today (Freitas Miguel, 2019; Damodaran, 2014). However, it's important to note that in this context of assumptions and forecasts, a NPV too close to zero may not be an indicator solid enough to ensure the project's viability.

Associated to the NPV, the Internal Rate of Return (IRR) was also used as an interpretative value for assessing the project's viability. It represents the discount rate that makes the NPV equal to zero. The higher the IRR, the more valuable the project is. This is true because high IRR's have more chances to be higher than the WACC, the opportunity cost of the project. Therefore, if the IRR is bigger than the WACC, the project will generate profit (Freitas Miguel, 2019; Damodaran, 2014).

On the other hand, the Payback period indicates the amount of time necessary to recover the cost of the project. Logically, shorter paybacks mean more attractive investments. This indicator should be used as a secondary interpretative technique and be accompanied by the NPV or the IRR analysis (Damodaran, 2014).

Finally, the Break-Even analysis shows how many sales it takes to pay for the cost of doing business. This type of analysis involves the computation of the break-even point (BEP) (Lesure, 1983). The break-even point is calculated by dividing the total fixed costs of production by the price per individual unit less the variable costs of production per unit.

3.5.2 – WACC, CAPM and Hamada Equation

In order to compute the Net Present Value, it is necessary to estimate the WACC which is a calculation of a firm's cost of capital in which each category of capital is proportionately weighted. All sources of

capital, including common stock, preferred stock, bonds, and any other long-term debt, are included in a WACC calculation (Damodaran, 2014). For this project it was considered 100% equity, so the WACC is equal to the return on equity.

The method used to obtain the return on equity was the Capital Asset Pricing Model (CAPM). CAPM is used for pricing risky securities and generating expected returns for assets given the risk of those assets and cost of capital. Furthermore, the model's assumptions erase investors' potential motives for not diversifying portfolios (Freitas Miguel, 2019; Damodaran, 2014). Hence, through this model the expected return on equity of risky securities is obtained and it can be used as discount rate for the forecasted cashflows, in the form of opportunity cost. Figure 3.5.2.1 depicts the CAPM formula. The risk-free rate accounts for the time value of money and the other components account for the investor taking on additional risk.

Within the CAPM there's the β component that represents the systematic risk measure, or the sensibility of a specific stock to the returns of the portfolio. The β used in CAPM can be unlevered or levered, depending if the debt-to-equity ratio is zero or higher than zero respectively. Therefore, in this project financed 100% by equity, the CAPM had an unlevered β . Hence, it was used the unlevered beta retrieved from a file created by Professor Damodaran.

If this project had debt, the entrepreneur would have to use the Hamada Equation to turn the levered β obtained into de unlevered β that does not account with the financial risk associated to debt. The Hamada equation is depicted in figure 3.5.2.2. It's important to note that the debt-to-equity ratio to determine the β used on CAPM refers to the industry of the project under valuation and not to the project itself. This is true because the CAPM represents the opportunity cost of investing on the project under valuation (Freitas Miguel, 2019; Damodaran, 2014).

Figure 3.5.2.1 – CAPM

$$ER_i = R_f + \beta_i(ER_m - R_f)$$

where:

ER_i = expected return of investment

R_f = risk-free rate

β_i = beta of the investment

$(ER_m - R_f)$ = market risk premium

Source: <https://www.investopedia.com/terms/c/capm.asp>

Figure 3.5.2.2 – Hamada Equation

$$\beta_L = \beta_U \left[1 + (1 - T) \left(\frac{D}{E} \right) \right]$$

where:

β_L = Levered beta

β_U = Unlevered beta*

T = Tax rate

D/E = Debt to equity ratio*

Source: <https://www.investopedia.com/terms/h/hamadaequation.asp>

3.5.3 – Sensitivity Analysis

To finish a section full of assumptions and forecasts, it was found appropriate to change some variables according to a more pessimist and optimistic scenario to see its effect on the project's viability. Therefore, it was used the Sensitivity analysis. A sensitivity analysis determines how different values of

an independent variable affect a particular dependent variable under a given set of assumptions. In other words, sensitivity analysis can be used to analyze how much one can afford to be off in his/her estimates and margins without altering the decision to accept or reject the investment. (Freitas Miguel, 2019; Damodaran, 2014).

In this project, for the negative scenario it was tested the effect of a decrease on sales. Due to the current COVID-19 pandemic, the consumption took a hit, so it's relevant to this project to verify its effects on the project's viability. On the other hand, for the positive scenario, it was found that it might be interesting to consider a panorama where the State finances half of the realistic scenario's NPV for this business plan. As exposed in the literature review and in the PESTEL analysis, the sustainable trend is leading to a conjecture where the State is a significant interested agent in financing sustainable businesses. More than ever, there are opportunities to obtain public funds to perform a national sustainable transaction. For these reasons, this project analyses a scenario where significant public funds are used as a take-off aid to the business and verifies their effect on its financial results.

3.6 – Methods' Justification and Evaluation

It's relevant to conclude the methodology section with the justification and evaluation of the methods used in the research. First, the business model Canvas was selected because it's an easy way of organizing an idea that seemed to be rather messy in the entrepreneur's mind. Furthermore, it's also easy for any reader to understand how the idea can turn into a business, through the analysis of the inter-related nine building blocks. Hence, by starting with a simple and intuitive initial framework, it's easier to develop and understand the research that follows.

Second, the data methodology selected is the simplest way to provide the entrepreneur and the potential investors with the most relevant information about the market's dimension, the population's perception of the market and their willingness to buy the product. Since it was intended to obtain information from a significant number of individuals, it wouldn't be efficient to use a qualitative research method. It was found that the best option would be to ensure standardized, measurable answers that could be analyzed through statistical methods. This way, it was possible to provide a general idea of the market's dimension and what the population thinks about the entrance of the company in the market.

On what concerns the method to gather the data, online surveys certainly have its limitations. For example, it's not possible to be certain that the answers correspond to the truth nor if one individual only answer the survey once. Nevertheless, given the current health situation, the online society we live in and the target population, it's much more efficient to use online surveys, overcoming the method's disadvantages.

Third, the external and internal analysis tools were selected to assess if the business would fit, considering the external market factors (PESTEL), the industry environment (Porter's Five Forces) and the value of its core capabilities (VRIO framework) and to start building a strategy (SWOT analysis). The tools are simple to use and help the entrepreneur to put the idea into context and to logically explain why it will succeed.

Finally, regarding the methodology used to assess the viability of the project, one may say the biggest limitation is the high number of assumptions that despite being retrieved based on facts, have evidently a deviation from reality that can be significant. Besides, CAPM has also its own limitations. It assumes that investors are rational and risk-averse, and that the securities market are efficient and very competitive, when this might not correspond to reality. Nevertheless, the methodology is intuitive, and it's widely applied worldwide for valuating projects. Following the successful forecast of other projects, it was decided that this one should use the same methods.

On a final note, the problematics identified in Annex A were approached using methods which attempted to generate conclusions as close to reality as possible. Nevertheless, it's important to understand that only after the implementation of the business strategy it will be possible to know for sure if these problems are possible to solve or not.

4 - Contextualization

This section intends to put this final project into context. First, through the introduction of the business idea itself and the explanation of its relevance to the market. Second, through a primary and secondary data analysis concerning the market. Third, through the external and internal analysis, including the PESTEL analysis for the market, the Porter's Five Forces for the industry and the resource-based view followed by the VRIO framework to the company. Its aim is to identify the main strengths, weaknesses, threats and opportunities, culminating into a SWOT analysis that helps to sustain the strategy for the project.

4.1 – Business and Relevance

As introduced before, Hermit is a sustainable outdoor and casual clothes brand with the bold ambition of succeeding in the business world without harming the environment. One may see how the idea was structured and how the business is expected to work in the business model Canvas in Annex C. This general exposition of the business and how it will work will be approached with more detail further in this assignment.

As explained above, the company and its products will contribute to the sustainability of the planet because when people buy our eco-friendly products are not buying goods from other companies that would be harmful for the planet. On the other hand, Hermit's relevance to the market is reinforced by the allocation of a significant part of profits to the brand's current and potential suppliers to improve their production methods; and to NGO's and foundations financing relevant environmental projects.

Hermit will position itself on the sustainable fashion market. It will use a strategy based on its identity and in a special marketing approach to pass its message. Nevertheless, before going through the implementation strategy and the operations mechanisms of the company, it is essential to analyze the market and the brand itself.

4.2 – Market Data

This section will present all the data retrieved from secondary and primary sources. It serves as basis to perform the subsequent external and internal analysis.

4.2.1 – Secondary Data Analysis

It's important to start with an overlook of the market size and the forecasts for its evolution, as depicted in the table 4.2.1.1 and in the graph 4.2.1.2.

Table 4.2.1.1 – Market Size and its forecasted evolution.

	Market Value (In billions of \$)	CAGR
2019	6,35	8,7%
2023	8,25	6,8%
2025	9,81	9,1%
2030	15,17	9,1%

Source: The Business Research Company.
(October, 2020). *Ethical Fashion Market*

Graph 4.2.1.2 – Market Size – Present and Forecast.



Sustainable fashion market has been growing significantly from 2015, at a compound annual growth rate (CAGR) of 8,7% until reaching the 6,35 billion dollars in 2019. The forecasts point out to a growth deceleration until 2023, registering CAGR of 6,8%. However, the report predicts a soar of the annual growth rate to 9,1% from that year until 2030, forecasting that the sustainable fashion market will be worth 15,17 billion dollars (Ethical Fashion Market, October 2020).

Given the current epidemiologic situation worldwide, the data was updated by Ethical Fashion Market Global Report 2020-30: COVID-19 Growth And Change, forecasting a market decline from 6,35 billion dollars in 2019 to 6,14 billion dollars in 2020 at a compound annual growth rate (CAGR) of -3,24%. Nevertheless, it remains optimistic towards the predictions for 2023, keeping the market size's forecast for 8,25 billion dollars, with a CAGR of 10,33% (December, 2020).

4.2.2 – Primary Data Analysis

In order to know better the market where the company wants to enter, it's relevant to present a primary data analysis retrieved from potential customers, in the form of a survey. From the survey in Annex D, 227 responses were gathered, and 9 variables were originated. Before presenting the relevant conclusions inferred from SPSS, it's important to highlight some important notes. First, there was no evidence of a correlation between demographic variables and market research variables, as depicted in Annex E. However, the latter are correlated with each other, as shown in Annex F. Second, the preference of customers for second-hand clothes is not conditioned by income nor significantly correlated with the sustainability variables as depicted in Annex G.

Following the notes, it will be presented the analysis' most relevant results for this specific business idea. First, it is important to observe which part of the population is concerned about the environment and sustainability problematic. This is depicted in the Annex H¹.

It's possible to observe that the huge majority of respondents strongly agree (67,84%) or partially agree (21,59%) that the production of clothes should be more sustainable. However, the percentage of respondents that do not worry about the sustainability of clothes during the purchase is quite significant (7,05% do not care at all about the sustainability of the materials when they buy clothes and 21,15% partially disagree that it's a relevant criteria). On the other hand, only 14,10% of respondents strongly care about sustainability of the materials when they buy clothes, going against the 67,84% that agreed its production should be more sustainable. Notwithstanding, it's important to note the ambition of the respondents to become more conscious consumers regarding the environmental impact of their purchases (37% partially agree and 37,89% strongly agree, against 0,441% that strongly disagree). This might be a good indicator of the market's growth potential, as previously forecasted under a macro perspective in the secondary data analysis (see table 4.2.1.1 and graph 4.2.1.2).

Following this, it's relevant to see the impact of the differentiative approach to the market proposed by the company on demand. Annex I and Annex J compare the purchase intentions in the current framework of the sustainable fashion market with the consuming intentions facing a market where the environment protection is more important than profits. The first annex focus on willingness to pay more for the sustainable product, while the second annex shows respondents' willingness to wear a less famous/known brand.

From the Annex I, one can observe that the number of respondents willing to pay more grows when facing the new market framework proposed by this business idea (from 23,79% to 33,04% who answered "strongly agree"). Although this may be a positive indicator that the brand may generate clients, there are still a significant percentage of respondents that only partially agree in paying more for a product under this market framework. This leaves room for some questions, namely if their answer would change after the pricing is determined.

Regarding the prestige and trust of the brand exposed in Annex J, it's possible to see that respondents who were not willing to give up their trusted brands in the current sustainable market did not shift completely their opinion facing the new market framework (despite there's a reduction of the percentage of respondents that do not agree or partially do not agree with the affirmations – diminished from 13,21% to 5,73% - the percentage of consumers that strongly agree with the affirmations only grew 3,08%). Even though this may not be a good sign, it shows how respondents see brands and how loyal

¹ The Annex H's legend is equal for all the annexes in the primary data analysis.

they are to them. Thus, the solution to change these responses may pass by turning Hermit into a known, strong and trustworthy brand.

Finally, it's important to observe respondents' preferences regarding second-hand clothes, as it's a substitute product to what Hermit offers to the market. After all, by wearing second-hand clothes the production of new clothes is avoided, as well as the consequent pollution and waste. The distribution of respondents concerning this issue is depicted in Annex K.

From the Annex K, one may see that the vast majority prefers to buy new clothes (35,68% strongly agree and 27,75% partially agree with the statement), but a relatively significant part of respondents may be potential second-hand clothes buyers/users (6,61% disagree and 11,89% partially disagree with the statement). Furthermore, according to annex G it can be observed that the respondents who do not prefer to buy new clothes over wearing/buying second-hand clothes are also the people who tend to worry more about the environment protection, which are Hermit's potential clients. Therefore, second-hand clothes can become a competitor product brand should be aware of, in a scenario where the company's goal of turning people into more conscious consumers is achieved.

In summary, people are alert and desire to consume more consciously in the future, and the type of market framework proposed in this business plan has the capacity to attract new clients. Yet, the brand needs to earn consumer's trust to become their preference, and second-hand clothes might be a substitute product to watch out for.

4.3 – External Analysis

As a marketer and retailer of an ecologic brand, Hermit belongs to the tertiary sector and it will position itself on the sustainable fashion market. Before going through the implementation strategy and the operations mechanisms of the company, it is essential to analyze the factors that influence the market, the attractiveness of the industry, including the competition analysis, and the brand itself.

4.3.1 – PESTEL Analysis

4.3.1.1 – Political Factors

The world is totally focused on managing the impact of COVID-19, especially the politicians. However, as said above, sustainability is an important current trend that is influencing all economic agents' behaviors. Governments are not an exception. According to Ethical Fashion Market (October, 2020), China, India and France are some examples of governments that are supporting the sustainable transition, as depicted in Annex L.

On what concerns Portugal, the birthplace of this business plan, it's possible to observe a general concern of politicians for the sustainability shift. On a country governed by central parties (alternating between left and right), our leaders' campaigns have been including more and more sustainable policies.

Portugal agreed and participated in EU-wide policies on the environment. Portugal signed the Kyoto Protocol and, in September 2016, ratified the Paris Agreement. Furthermore, it ranks 18 worldwide in environmental policies (Stiftung, 2020).

According to National report on the implementation of the 2030 Agenda for Sustainable Development, Portugal aims to strengthen the conviction that the planet needs to be protected from degradation, including through sustainable consumption and production (2017). Besides that, Lisbon was considered the European Green Capital of 2020 (European Commission, 2019).

Therefore, in terms of political factors that may condition the project, it's inferable from the information above that they will probably generate opportunities rather than threats.

4.3.1.2 – Economic Factors

The main economic factors that are currently affecting the market are depicted in table 4.3.1.2.1.

Table 4.3.1.2.1. – Economic factors of the market.

	Portugal	EU 27
GDP 2019 (millions of euros)	250 860,00	13 928 753,00
GDP growth rate (2019)	2,20%	1,60%
GDP per capita (PPS) 2019	24 387,90 €	31 142,00 €
Interest Rate for loans up to 1 million euros in Portugal (2020)	2,22%	NA
Tax Burden 2019 (% GDP)	36,80%	41,10%

Source: PORDATA/ Eurostat

The comparison between Portugal and EU 27 is important to put the information into context. It may be interesting to realize that the EU27 GDP per capita is 27% higher than Portugal's, but the average European citizen has a tax burden only 4,3% higher than the average Portuguese citizen.

Concerning the table above, it's important to note that the serious pandemic the world faces nowadays will probably originate one of the biggest recessions of history. Therefore, GDP's, consumption and investment are expected to fall significantly in the next years, which may condition the market and the viability of the project. Nevertheless, the sustainable transition shall continue and as a sustainable company, it's possible that the economic conjuncture remains supportive of this kind of businesses, with more economic agents interested in their success.

4.3.1.3 – Socio-Cultural Factors

As the public opinion moves accordingly to the sustainable trend, the socio-cultural factors influencing the market can generate opportunities. Some socio-cultural factors, influencing choices and decisions of the market are:

- 60% of millennials say they want to shop more sustainably (Ecothes, 2021).
- The growing awareness of the adverse effects of the textile industry on the environment is encouraging customers to opt for ethical fashion materials (Ethical Fashion Market; October, 2020).

4.3.1.4 – Technological Factors

As people are asked to stay indoors, take-away services and online shopping are used more often. Consequently, this kind of services will evolve and improve even more. Therefore, this stands as a market opportunity to use digital platforms for products' distribution.

In terms of the outsourced production, the main technological factors that may influence the market are:

- The emergence of eco-friendly logos and new techniques for processing sustainable fabrics like organic cotton or hemp.
- Techniques that use recycled plastic from oceans and other materials to produce different products.
- The Internet of Things promises to speed-up processes and reduce lead times.

4.3.1.5 – Environmental Factors

Since some of the main goals of the brand are to promote sustainable consumption and truly contribute to environment protection, there are not many environmental external factors that will condition the project and its market because it's designed to pollute the least possible.

However, despite all the technology available and the policies adopted to sustain the sustainable position, it's practically impossible to produce without generating waste. Hence, in the specific sector and given the brand's main activity, it must be noted that:

- It takes between 10 000 and 20 000 liters of water to produce 1kg of cotton (Ecothes, 2021).
- By 2030, it's expected that there will be 148 million tons of fashion waste (Ecothes, 2021).
- Textile production is a major contributor to climate change. It produces an estimated 1.2 billion tons of CO₂ equivalent per year (Ecothes, 2021).

Therefore, the market must have these factors into consideration if it wants to remain sustainable. It needs to minimize and avoid these externalities, and to find new ways of compensating their effects.

4.3.1.6 – Legal Factors

As one could see in the political factors above, legislations have been adapted to encourage the creation of sustainable businesses. However, it's important to see which other legal factors both in Europe and in Portugal may condition the market.

Europe:

- General Data Protection Regulation (GDPR) (Regulation (EU) 2016/679), enforceable from 25 May 2018.
- Imposto sobre o Valor Acrescentado (IVA) - Diretiva Comunitária 77/388/CEE (Newco, 2020)

Portugal:

- Regulamento Geral de Proteção de Dados (RGPD) - Lei n.º 58/2019
- IRC - DL 442-B/88 (Newco, 2020)

4.3.2 – Porters' Five Forces Model

4.3.2.1 – Threat of New Entrants

Given the fact that sustainability is a current trend that is getting more supporters as the climate urgency rises, it's acceptable to say that today there's a moderate threat of entrance of new players in the industry. However, as exposed in the Research Problematic, there might still exist a fear of taking the leap towards sustainability.

Since the present research aims to erase that fear, and assuming it will succeed, it would be imprudent to not consider the threat of new entrants a serious matter. In other words, from an optimistic point of view, once Hermit enters the industry, the threat of new entrants with innovative ways of approaching the market will be a strong possibility.

Yet, the number of customers it's expected to rise, as forecasted in the Market Data Analysis, giving the idea that there will be still enough blue ocean for new businesses to join the truly sustainable fashion industry without jeopardizing the companies that are already there.

4.3.2.2 – Bargaining Power of Suppliers

Suppliers are considered to be extremely important to the industry. They are the agent that knows the technology and has the means to produce exactly what and how it's idealized. Since suppliers with the knowledge and the technology to help the company are not abundant, their bargaining power is significantly higher than in fast fashion industry, for example.

4.3.2.3 – Bargaining Power of Buyers

With all the options of clothing existent in the market, if this particular industry has clients, then they are really looking for sustainable clothing and to consume more ethically. Therefore, demand is more inelastic to prices, which make buyers' bargaining power less of a threat. On the other hand, it's expected that their standards for high quality and, obviously, for a strong sustainable "tag" rise.

4.3.2.4 - Threat of Substitute Products and Services

One may say sustainable fashion is a substitute or an alternative to industries like fast fashion. This said, it might be accurate to say that inherently, fast fashion will always be a substitute of sustainable fashion. Yet, considering the results of the market analysis performed above, hopefully the latter will be gradually a bigger threat to the former, than the other way around.

Other businesses that may substitute what the industry aims to do are the second-hand clothes shops, which undeniably contribute to a more sustainable planet and to reduce waste: "An increase of 10% in second-hand clothing sales could deliver environmental benefits, cutting carbon emissions per tonne of clothing by 3% and water use by 4%" (Ecothes, 2021).

Now, the question lies on if second-hand clothes may become big enough as a threat. In UK, every year tons of clothes end up in a landfill or are incinerated instead of recycled or allocated to other people (Ecothes, 2021). However, according to the Primary Data Analysis above, which was based on the business' main target responses, there's already a part of the population that do not prefer to buy new clothes over wearing/buying second-hand clothes. Hence, it might be prudent to watch out for second-hand clothes as a potential threat as a substitute product.

4.3.2.5 - Rivalry among Existing Competitors

Although there's the ambition to extend the brand to sustainable, backpacks, reusable water bottles, shoes and other accessories, in this Porter's Five Forces analysis there will be considered only competitors that produce sustainable clothes for both casual and outdoor purposes. The main identified competitors may be found in Annex M.

4.4 – Internal Analysis

4.4.1 – Resource-based view and VRIO Framework

Based on Hermit's Canvas model the core capabilities/resources of the brand are:

- Photo edition
- Creative marketing/design
- Innovative and sustainable spirit
- Patent/logo

- Brand identity

Annex N classifies the brand's key resources and capabilities. It's rather intuitive to understand the classification of the brand's core resources and capabilities. Nevertheless, it's interesting to note what's behind the last resource's classification. Hermit's brand identity it's considered to be unique in the industry and the heart of the company. It engobes the vision, the mission, and the core values. The way the products are produced and packed are influenced by the brand identity and it's expected that in the future it will generate an organizational culture classified as source of sustainable competitive advantage (Barney, 1986).

4.5 – SWOT Analysis

After the external and internal analysis, it's possible to identify the main opportunities, threats, strengths and weaknesses, as depicted in Annex O. Afterwards, the SWOT analysis for this project explained in Annex P will be used as foundation for the implementation strategy and long-term plan.

5 – Implementation Strategy

The overall strategy stands on three pillars: maximum sustainability of products, mitigation of trade-offs and brand identity. The pillars are interrelated and need to operate in harmony to increase the odds of creating a successful business.

The maximum sustainability of products is intuitive and depends on a careful choice of suppliers and on the innovation in packaging and transport solutions. It's important to not be naïve and to understand that even with all the effort it won't be possible to produce and distribute our products without generating some waste. That's why the company's strategy is sustained by another important pillar that will try to solve this issue.

The waste that stems from the production of clothes and accessories is proof that there's a trade-off between economics and ecology, as approached above. In order to ensure the viability of a business is necessary to make money. Even if the business attempts to be sustainable, to generate income it will be necessary to produce something and, consequently, to generate some waste. Since this company intends to try to have zero waste or even more than compensate and generate positive externalities, there's a component of the strategy that will be fully focused on mitigating the trade-off. In general, it passes by the creation of a department specialized in selecting outside environmental projects and potential suppliers to allocate part of the profits of the operations. The goal is to give back the planet the value created at its expenses. The main challenges are to select the right projects that can turn limited funds into very significant positive externalities and to do the allocation without compromising the business viability.

Last but not least, there's the third pillar that not only sustains the main strategy but that also sustains the other two: brand identity. It was the perception of the climate emergency that generated this business idea. Therefore, it only makes sense to carry it along with everything the company does. In order to do it, it's necessary to have people that share our beliefs and that have an intense sense of integrity to carry them to the future. Resilience, perseverance and honesty are the other three core values that must be present in the brand identity and in the people that work for the company. The path ahead will be full of obstacles and adversities and customers' trust will be an essential asset to surpass them.

Although this identity will be passed on to customers, first it's more important to integrate it amongst Hermit's employees. They will join forces with the company's products and represent the brand. The employees are the company and if the company doesn't believe in what it sells, why would people trust us and buy our products? Hermit shall become a master in preaching its culture internally at the same time it excels on spreading the word to the world. Thus, in this strategic pillar, marketing will play a role of extreme importance. It must be bold and appealing, matching what the company is trying to achieve.

Further in this section, it will be explained how these three strategic pillars will be applied in practice, but before it's important to present some academic works that support the elaboration of Hermit's strategy.

5.1 – Notes about the strategy

Through this research it was found support to the pre-idealized strategy. Literature review provided key information that backup the strategy here presented. On what concerns the general strategy and the harmony necessary between its pillars, Lubin and Esty showed the articulation between product, business model and execution is essential when the goal is to be successful following the sustainable trend (2010). Figure 5.1.1 defends it is not enough to supply sustainable products to benefit from sustainability as competitive advantage.

Figure 5.1.1 – Making a Sustainability Winner



Source: Esty and Lubin, 2010

Second, the strategy definition must be extra rigorous when generating the brand identity. Burmann, Jost-Benz and Riley are the scholars whose work supports the strategy the company wants to implement regarding brand identity. Their matrix depicted in figure 2.5.1 in Literature Review – Brand Identity - classifies brands which focus in sharing its identity as *Potential Winning Brands*, while brands that only focus on being accepted by the market are classified as *Endangered Brands* (2009). Obviously, the goal is to have both and to obtain a winning brand. Nevertheless, this work defends our idea that sharing Hermit's message with the individuals and entities that work with the company is a priority. Only after it's certain that the brand is internally understood and everyone involved knows what its goals, it will

be given more emphasis in spreading the word to the rest of the world. In other words, if the project doesn't succeed, it will go down as a potential winning brand, and not as an endangered brand.

Third, when it comes to the point of spreading the message to potential customers, marketing strategy will play an essential role. Kim and Ko's work converges to what Hermit intends to do with marketing. They found evidence that marketing which is entertaining and that interacts with the public can contribute positively for brand building (2012). The plan is to have a marketing as bold as the business idea, meaning it is intended to create entertaining and interesting content and not to jump right to selling a product.

Finally, it's important to include flexibility in the strategy as defended by Esty and Lubin, and Gallo. Their articles show the importance of not resting on the green first-mover tag, as business move fast, and new competitors may arrive (2010). Continuous innovation is required to keep a sustainable competitive advantage and building a winning contingency plan is a smart move to secure potential hazards.

5.2 – Products and Services

The products are one of the pillars of the brand's strategy and they will reflect its identity and values. Despite being the products offered that will generate income and ensure Hermit's viability, it's important to note that they are not the priority at the beginning. They shall only be presented to the consumers on a second phase of the strategy implementation.

Notwithstanding, this topic will present the products the brand wants to launch in the short/medium-term and which partners are targeted to help the company at the beginning.

5.2.1 – Offered Products

According to the business model above, the intention is offer two different lines: Outdoor and Trekking enthusiasts, and Urban activists. To ensure the best design possible and to keep up with the fashion trend, the brand intends to recruit a fashion designer who shares the same ambition and the sustainable mentality.

Outdoor and Trekking enthusiasts: comfortable clothes such as training suits, t-shirts, tops, hoodies, caps and outdoor jackets. On medium/long-term, the brand aims to supply reusable bottles, vests, eco-backpacks and outdoor shoes.

Urban Activists: more stylish outwear such as shirts, tops, blouses, shorts, sweatshirts, and hoodies. On medium/long-term, the brand aims to supply sunglasses and eco-snickers or shoes.

5.2.2 – Product Benefits and Differentiation Aspects

Hermit wants to offer products that stand in the market as another quality option for fashion and that represent a cool brand. What differentiates the products from the ones offered by other sustainable

brands is the assurance that consumer's money will contribute to change how economics face the environmental problematic. The goal is not to obtain profits that will help to keep producing partial sustainable products, but to apply the capital obtained from value creation to actually do something relevant to try to solve and reverse our environmental footprint. Plus, the company's success might turn it into an example for the whole industry, incentivizing other companies to adopt the same tactics.

On the other hand, Hermit will gather at the table more stakeholders than an ordinary sustainable fashion business normally would do, and with the bold goal of benefiting them. NGO's will make bigger efforts and compete to come up with the most efficient environmental project in order to deserve the company's funds. Suppliers will have the chance to shift smoothly to the sustainable production by obtaining funds that will finance part of their research for new production methods.

Thus, the goal is to benefit customers and the planet, but some other stakeholders will benefit as well in the process. The differentiation is within the culture which the company wants to create around the product, and not in the product itself. The product represents sustainability, and it must do it with integrity, but it's the culture that will stem from the brand idea and the values that constitute the differentiation.

5.2.3 – Suppliers and General Terms of trading

Hermit's short-term main partner will be a local company called Lohuba. Their main operations are the ecologic serigraphy. They specialize in a sustainable process of stamping clothes with logos and designs. The main reasons that led the company to choose Lohuba as the initial core partner are their location, the fact that their culture matches Hermit's and obviously the necessity to have our logos and designs stamped in a sustainable way.

On an initial phase, the company will also partner up with Stanley/Stella and Continental Clothing Co. which are the certified manufacturers of sustainable clothes. They have a partnership with Lohuba, but the company's intention is to go directly to these companies, storage the orders and let the serigraphy specialize only on the stamps to try to reduce intermediary costs. Down the road, the company wants to search for national manufacturers that have the same know-how and/or are willing to learn and to certify their production.

This will contribute for the local economy and it will reduce transportation costs and pollution. Furthermore, the current available manufacturers do not produce all the kinds of clothing Hermit wants to present to its clients and up to this point it's still uncertain if they are willing to do it. In the future it is also intended to have our own designs and ask manufacturers to produce them.

Finally, the company needs to worry about eco-packaging solutions and the distribution. Regarding the packaging, there are a few designs already created which are interesting – recycled cardboard, corrugated cardboard, repack, recycled plastic pillows. However, Hermit intends to network with other

agents with more experience in the industry to obtain some ideas. Thus, Lohuba and the manufacturers might help us to identify the options available and to select the best fit to the brand's specific case. Furthermore, they can help us to identify local companies that are able to produce the packaging. It would not make sense to get eco-packaging from overseas that would generate more pollution through its shipping than if the brand had chosen regular packaging produced locally.

Regarding distribution, Hermit will outsource to the available player that offers the most competitive price to the most sustainable shipping option, like DHL. The brand also wants to work on the efficiency of the logistics process to diminish the product's path from the manufacturer to the final consumer, aiming to extend it to the materials producer in the future.

5.2.4 – Product Quality and Development

Product quality will be ensured by recurring to certified partners that know how to work according to the companies' requests. Product development will consist of simultaneously maintain the product quality and understand which part of the time and capital needs to be allocated to find new ways, materials and solutions for sustainable production of quality clothes. Furthermore, the brand wants to expand the type of products offered to reach adjacent markets in short-term and perhaps totally different ones in the long-term.

5.2.5 – Patents/ Trademarks/ Design Rights

Currently there's no patent on the logo nor the trademark. Although it is crucial to protect the intellectual property of the brand in the short-term, the differentiation component of what it's offered is not replicable by simply imitating those elements. Thus, although there's the need to patent the trademark and the logo, it is known that it takes time and effort to build a culture around a brand.

5.3 – Marketing Strategy

This topic details the marketing strategy. In this business idea, marketing is absolutely crucial because it's the mechanism used to share the brand's values and identity with all stakeholders. The strategy passes by using social media (Facebook, Instagram and Twitter) to build a strong digital marketing basis to reach the target consumers and to cut costs.

There are three marketing phases: the first and the most important with the purpose of attracting followers and potential future clients. The first contact with the outside world will be made during this phase. The second phase will be more related with the presentation, promotion, and sale of Hermit's products. The main goal is to turn the followers into customers. Finally, the third phase will focus on the divulgation of the environmental investments' outcome. It's a way of proving stakeholders that the brand did what it promised, in order to retain and gather clients.

5.3.1 – First Phase Marketing

Hermit's strategy does not want to follow the same road as other recent brands one sees nowadays in social media. Most of the time, people who decide to create a clothing brand and to advertise it in social media create a page with zero followers and post images or content exclusively aiming to display their products and sell them right away to the consumers. Even if the brand has a strong identity and a reason to exist in the market, it might not be well-known enough to gather attention and attract followers, especially if its content cuts to the chase and it's full of "buy it now" innuendos.

For Hermit, it's important to be humble enough to understand the brand is new in the market and has everything to prove before conquering people's trust. Thus, the first marketing phase is to attract followers with interesting content related to the brand's purpose of existence, and without revealing any commercial intentions. Sales must be the consequence of people's support to the idea and not of an intensive and spamming marketing, which is typical in consumerism.

For this reason, the page will be launched as a movement for the nature and environment protection. It will have content like pictures and videos of beautiful natural landscapes, but also of our ecologic footprint with shocking content to sensitize people. Promoting campaigns like cleaning beaches and hoods it's also an option under consideration. The content is intended to have a personal touch, gathering the founders and sympathizers of the cause. At this phase, the goal is to present Hermit more like an adventure blog, than an outwear and accessories brand. It's also important to actively interact with followers to make them feel valued and to understand what their needs and preferences are.

Nevertheless, the brand will be always present by inserting the logo in part of the content in creative and discrete ways, merging it with the nature. Furthermore, there will be triggers that intend to raise followers' curiosity promising news and advancements in the project.

Therefore, a skilled photographer and photography/video editor is the key asset to be successful with this strategy. The costs will be residual, as the campaigns and trips to the shooting places are also personal experiences the founders and sympathizers would do even if the project did not exist.

5.3.2 – Second Phase Marketing

Once there's a strong base of followers that often interact with the page, the content will start to merge the items available for sale with the clean-up campaigns, natural landscapes and sensibilization images. Initially, it's important to not focus excessively on the products. After all, Hermit is all about the nature (not consumerism) and the company wants to pass that message to its followers. Gradually, the idea is to mix content that highlights the products with the type of content that has been published. Both types shall mix the product with the cause, but one of them will give more emphasis to the product and display the purchase options and eventual promotions.

In this phase it will also be conducted the expansion of the brand's visibility through different campaigns such as giveaways, for example. The goal is to incentivize Hermit's followers base, considered to be the fans of the cause, to attract new consumers by sharing the page. Hermit will fund the environmental projects and produce sustainable products, independently if the follower has a strong affection for its goals. Thus, by buying the products the consumer will contribute to the cause whether it's his/her intention or not, which justifies the need to expand brand's visibility.

5.3.3 – Third Phase Marketing

Third phase marketing will consist of the divulgation of the environmental projects' results. After the environmental projects start to show relevant results, the company will share them with the world using the brand's page on social media and make sure everyone knows that consumers' money was applied as promised. This intends to create a cycle of trust, essential for the brand's reputation. Hermit hopes this strategy leads to the retention and gathering of clients.

Funds allocated to suppliers will be marketed when products with the new characteristics generated from that investment are released. Afterwards, the new characteristics will be always highlighted on the product's information while the latter is displayed to the consumer.

5.4 – Sales and Pricing

This section aims to disclosure how the sales will be conducted and what will be the pricing for the products offered. Furthermore, it's intended to explain which aftersales services will be available, and how the company will gather and process the information about its performance as a business.

5.4.1 – Unique Selling Points

From the time Hermit starts to operate, between 15 to 25% of the profits will be allocated to environmental projects or to increase/diversify the sustainability of the products. Furthermore, there will be unique collections of day-to-day and outdoor clothes made from different eco-friendly materials.

5.4.2 – Storage and Purchasing process

The sales process is relatively simple. Initially, the order will be made through direct message on social media, until Hermit is able to afford its own website. All communications with customers will be made using the page and the direct messages on the page.

Hermit will gradually display products on the pages. It's important to have some storage, but the company won't be able to have big quantities in stock. Thus, the goal is to launch the products gradually, while accumulating some stock. Then, the customer reaction is observed and analyzed using the Customer Relationship Management software. According to their reaction, Hermit will decide if it's better to increase the stock of the products displayed, launch new ones, or do both. The company will store its products in a borrowed home until it becomes logistically inefficient, which means the costs of storage won't be significant.

Once the order is placed, the product is packed and then sent to the client through an outsourced distribution company. Hermit will consider sustainability, range and cost when choosing the distribution company.

5.4.3 – Aftersales Services

The aftersales services will be offered through the page and the chat in social media. Down the road, if there's the possibility to afford an official website, the aftersales services will change its main platform. Besides providing the consumer all the information about the products and the materials displayed, Hermit will adopt policies usually used by other online businesses. Therefore, people will be able to return the products if they are unhappy or exchange it if it doesn't fit. The contacts will be made through direct messages initially, and through a contact form later on. The company does not expect to have to hire someone to perform this task initially, but as the business grows, it may be necessary to have someone specialized in communications with customers.

5.4.4 – Customer's Reach

The target consumer is everyone. Notwithstanding, due to the fact that they are more sensitized for the issue Hermit's trying to help to solve, young adults with a medium purchasing power will probably be the brand's best customers in general. They also tend to use social media more than other groups of consumers.

Specifically, the most expectable profitable consumers are the core followers and the outdoor enthusiasts. Most of them are expected to belong to the "young adults" category, but obviously there will probably be several exceptions. Hermit expects these two groups of consumers to be regular customers. The core followers are the group of people that supported Hermit in marketing phase one and the outdoor enthusiasts are the people who love to do trekking and walk in the nature in a sustainable way.

These two groups are also important to spread the word about the brand. They will be the company's main ambassadors. After all, the idea is to reach as many people as possible. If they are not sensitized to the cause, it's Hermit's mission to sensitize them, and there's no better way to do it than through happy customers.

5.4.4.1 – Data Management

To adapt the marketing strategy and to succeed on reaching customers, it's important to have information about them and their preferences. Hermit will use a Customer Relations Management software that will help to keep and order the data about its clients. Then, it will only take a committed team of people to interpret the data and create or adapt strategies.

5.4.5 – Pricing

This section presents Hermit's products prices and the gross profit margin practiced. It also explains the strategy behind the pricing, the influence of competitors on that strategy and the market position of the brand consequent of the prices charged.

5.4.5.1 – Products Pricing

When people buy Hermit products, they won't be acquiring just a product. They will be also reducing consumerism and fast fashion purchases, and they will be funding environmental projects. Therefore, Hermit's products added value is significantly higher than their competition's. For that reason, the average gross profit margin is 65%. It varies from 50% to 70% depending on the type of product. The products and their respective PTC are depicted in the Annex T.

5.4.5.2 – Price Position in the Market and Price Strategy

The pricing strategy aims to invite fast fashion consumers to pay more for sustainability and to convince luxury clients that Hermit offers quality wearing and it's or will be as prestigious as their favorite brands. It will place Hermit among other non-luxury brands' level, although it won't have the same recognition initially.

Prices won't be affected by changes in competitor's pricing strategy. Hermit is an individual brand with its own identity, and its prices are the reflection of the unique value it adds to the market. If the brand decides to change them, it will be to achieve its objectives more efficiently.

5.5 – Organization, Management and Operations

This section shows how the company is structured, how many people will be involved, how many outsourced agents will intervene, how the operations will occur and how they are going to be controlled.

5.5.1 – Organization and Business Structure

The company is currently owned by one person. The legal name of the company is Hermit Lda. and initial social capital is 5000€. The ownership is expected to be shared equally, with the second member involved, at the business' early stages. Therefore, in the short-term Hermit is expected to have a social capital of 10 000€, divided by two partners.

5.5.1.1 – Project's capitalization strategy

Considering the net present value obtained, the brand will need an injection of capital between the end of year 1 and the beginning of year 2. Hermit will have a capital structure constituted 100% by equity. Therefore, the strategy passes by integrating a business angel or a friends & family's member as an investor in exchange for a part of equity. The founder partners will inject more of their own capital and the amount that they are not able to cover will be applied by the third member.

Hermit will take advantage from a year of brand consolidation to use its intangibles value to bargain with the third partner. By doing this, Hermit expects to obtain more capital in exchange for a smaller piece of the business.

5.5.2 – Staff and Salary Levels

As the organization chart depicts, there are two key members of the company: the CEO and the Ethics Manager. The CEO will be focused on the business and operations, while the Ethics Manager's main tasks will be to search and select the best environmental projects to allocate Hermit's capital. Therefore, it's his/her task to manage funds and decide with transparency, integrity and honesty which NGO's will benefit from the investment. It's a position that requires a big commitment with the brand identity and high ethical values. The person selected will team up with the CEO to coordinate actions and decisions.

Below the CEO there's the COO and CFO. As long as the business remains small, the CEO will perform the tasks of the COO. On the other hand, until the business grows, the Ethics Manager will also assume the CFO position. The Ethics Manager/CFO will deal directly with the outsourced legal advisor and the outsourced accountant, with the assiduous participation of the CEO. The COO will be responsible for marketing campaigns, photography, logistics and aftersales services.

The business is expected to be relatively small during the time horizon forecasted, meaning that the company's structure will be organic, and the people involved must be ready to do any task if necessary. The positions expected to be necessary facing a sudden soar of business activity are a marketing and photography professional and an aftersales administrative.

Regarding compensation, besides profits, each partner is expected to earn the minimum national wage from the point Hermit starts to commercialize its products, which is expected to start in the second year. If necessary and possible, the salaries will be postponed until the relation between social media followers and potential sales show stronger indicators. This allows the company to work without staff costs before it starts to generate revenue.

If the business grows unexpectedly fast and the company needs to hire more staff, the salaries expenses predicted will be in accordance with the market average and the position. However, given that the target market is currently a niche, the financial forecasts will only account with the salaries of the two partners. Salaries will be reviewed according to company's performance.

5.5.3 – Business Advisors and Outsourcing

Hermit's business advisors will be an experienced accountant and a legal advisor for any legal issues and questions the company may have to solve. The brand will specialize in the marketing and sales of products and in the investment in environmental projects. The remaining services and products required for the activity will be outsourced (e.g. production of clothes and other accessories, stamping of logos and distribution to the client).

As long as the campaigns remain punctual, the brand will also outsource a photographer. In the medium/long-term, when hiring a marketing specialist, the company will search for photography skills in that professional as well, internalizing the photography needs.

In the medium-term, these services and products will probably keep being outsourced. Nevertheless, the goal is to diversify the suppliers and to have most of the products produced in Portugal. If it becomes necessary and efficient, Hermit will create an accounting department as well.

5.5.4 – Business Space Office Needed

Business space for office and storage are not required in the short-term. Hermit will use a borrowed residency to store and manage the business. In medium-term, when the borrowed headquarters are not enough, the company will rent a place where it will concentrate both the storage and the offices. Since this is an online business idea, it won't require a big office space and the remaining staff can work from home.

5.5 – Long-Term Strategy

As explained before, Hermit wants to expand the type of products offered. By medium-term, it's expected to have most of the production in Portugal with the outdoor and casual clothes collection complete made from organic or recycled materials. Then, in long-term, Hermit wants to expand the products offered to shoes, sunglasses, backpacks, reusable bottles and vests. All these products must obey to sustainable production and be made of eco-friendly materials as well.

On what concerns the other part of the business, Hermit expects to have enough funds to finance an entire environmental project, instead of merely donating to the NGO's. This will allow the company to hear pitches from several candidates and choose the project that will benefit the planet the most. Furthermore, by this time the company expects to have already a significant part of profits allocated to the investment on suppliers' processes. Therefore, the intention is to start separating the funds allocated to NGO's projects from the capital destined to improve the products/services supplied by the brand's partners.

Assuming the business will be a success, Hermit intends to expand the brand to other sectors, namely to healthy vegetarian/vegan homemade food and eco-tourism. These sectors would be more locally based at the beginning, with the possibility to expand to other areas if successful. The idea is to combine both sectors by offering a housing service in cottages surrounded by a permaculture garden with a homemade menu complementing the stay. Both businesses would be based on a private property already owned by the founder. Nevertheless, the operations would work the same way: part of profits would always be allocated to relevant environmental projects and to help the suppliers' transition to a more sustainable production.

6 – Objectives

Following the logic line behind the construction of this business plan, only now there's enough information to establish realistic objectives. Hermit's objectives need to be aligned with its strategy, described in the previous section, and must consider all the analysis conducted in section 4.

6.1 – Year 1

- Produce quality and captivating marketing;
- Organize 3 campaigns of environmental sensibilization;
- Start searching for Portuguese manufacturers;
- Start searching for NGO's to partner with;
- Gather between 15000 and 20000 followers on Instagram, between 2000 and 3000 on Twitter and between 3000 and 5000 on Facebook.

6.2 – Year 2

- Produce quality and captivating marketing;
- Organize 3 campaigns of environmental sensibilization;
- Double the number of followers in social media;
- Sign with one or more Portuguese manufacturers;
- Sign with three or more NGO's;
- Sell 1000 products.

6.3 – Year 3

- Produce quality and captivating marketing;
- Organize 3 campaigns of environmental sensibilization;
- Double the number of followers in social media;
- Launch two or three medium-term products;
- Start Producing in Portugal;
- Search for Portuguese manufacturers for medium-term products and sign with them;
- Co-participate in the first environmental project organized by one of the partner NGO's;
- Sell 3000 products.

6.4 – Year 4

- Produce quality and captivating marketing;
- Organize 3 campaigns of environmental sensibilization;
- Double the number of followers in social media;
- Launch the remaining medium-term products;
- Start producing medium-term products in Portugal;
- Co-participate in the first environmental project organized by one of the partner NGO's;
- Co-participate in new methods for sustainable production for manufacturers;
- Sell 6500 products.

6.5 – Year 5-7

- Produce quality and captivating marketing;

- Organize 3 campaigns of environmental sensibilization per year;
- Grow social media followers by 50% yearly;
- Start projecting alternative businesses, such as eco-tourism and healthy recipes;
- Fully fund the first environmental project;
- Keep co-participating in new methods for sustainable production;
- Assume a growth rate for the business of 15%.

These objectives will serve as basis for the financial analysis in the subsequent section.

7 – Financial Information

7.1 – Profit and Loss Forecast

Figure 7.1.1 – Profit and loss forecast

PROFIT AND LOSS FORECAST							
	Realistic Scenario						
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Revenue (Sales)							
Revenues	0,00 €	20 520,73 €	61 562,19 €	133 384,75 €	153 392,47 €	176 401,34 €	202 861,54 €
Total Revenue (Sales)	0,00 €	20 520,73 €	61 562,19 €	133 384,75 €	153 392,47 €	176 401,34 €	202 861,54 €
Cost of Sales							
Average Cost of Goods Sold	0,00 €	6 111,04 €	18 333,12 €	39 721,75 €	45 680,01 €	52 532,01 €	60 411,82 €
Total Cost of Sales	0,00 €	6 111,04 €	18 333,12 €	39 721,75 €	45 680,01 €	52 532,01 €	60 411,82 €
Gross Profit	0,00 €	14 409,69 €	43 229,08 €	93 663,00 €	107 712,45 €	123 869,32 €	142 449,72 €
Expenses							
Payments to personnel	2 704,76 €	26 934,85 €	26 934,85 €	26 934,85 €	30 975,07 €	35 621,33 €	40 964,53 €
Branding Costs	1 242,25 €	1 242,25 €	1 242,25 €	1 242,25 €	1 242,25 €	1 242,25 €	1 242,25 €
Outsourcing Expenses (Accountant, legal and photo editor)	2 150,00 €	3 600,00 €	3 300,00 €	3 400,00 €	3 910,00 €	4 496,50 €	5 170,98 €
Packaging/Shipping costs	0,00 €	1 118,06 €	3 354,17 €	7 267,36 €	8 357,47 €	9 611,09 €	11 052,75 €
Control Systems/ Commodities and other costs	0,00 €	1 200,00 €	1 815,60 €	1 815,60 €	2 087,94 €	2 401,13 €	2 761,30 €
Reserves to allocate to environmental projects/ production methods	0,00 €	3 602,42 €	10 807,27 €	23 415,75 €	26 928,11 €	30 967,33 €	35 612,43 €
Total of Expenses	6 097,01 €	37 697,57 €	47 454,13 €	64 075,81 €	73 500,84 €	84 339,63 €	96 804,24 €
Sub-total Expenses (EBITDA)	-6 097,01 €	-23 287,88 €	-4 225,05 €	29 587,20 €	34 211,61 €	39 529,69 €	45 645,48 €
Amortizations	9 326,20 €	9 326,20 €	9 326,20 €	9 326,20 €	9 326,20 €	9 326,20 €	9 326,20 €
Depreciations	0,00 €	279,96 €	279,96 €	279,96 €	279,96 €	279,96 €	559,92 €
Amortizations + Depreciations	9 326,20 €	9 606,16 €	9 606,16 €	9 606,16 €	9 606,16 €	9 606,16 €	9 886,12 €
Net Profit Before Taxes (EBIT)	-15 423,21 €	-32 894,04 €	-13 831,22 €	19 981,03 €	24 605,45 €	29 923,53 €	35 759,36 €
Taxes	0,00 €	0,00 €	0,00 €	4 196,02 €	5 167,14 €	6 283,94 €	7 509,47 €
NOPLAT	-15 423,21 €	-32 894,04 €	-13 831,22 €	15 785,02 €	19 438,30 €	23 639,59 €	28 249,89 €

7.2 – Free Cashflow

Figure 7.2.1 – Free Cashflows

FREE CASH FLOW								
	Realistic Scenario							
	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
NOPLAT	0,00 €	-15 423,21 €	-32 894,04 €	-13 831,22 €	15 785,02 €	19 438,30 €	23 639,59 €	28 249,89 €
Amortizations	0,00 €	9 326,20 €	9 326,20 €	9 326,20 €	9 326,20 €	9 326,20 €	9 326,20 €	9 326,20 €
Depreciations	0,00 €	0,00 €	279,96 €	279,96 €	279,96 €	279,96 €	279,96 €	559,92 €
Operational Cash Flow	0,00 €	-6 097,01 €	-23 287,88 €	-4 225,05 €	25 391,18 €	29 044,47 €	33 245,75 €	38 136,02 €
Working Capital Terminal Value	0,00 €	0,00 €	0,00 €	0,00 €	0,00 €	0,00 €	0,00 €	66 786,55 €
CAPEX Terminal Value	0,00 €	0,00 €	0,00 €	0,00 €	0,00 €	0,00 €	0,00 €	2 239,68 €
Total Inflows	0,00 €	-6 097,01 €	-23 287,88 €	-4 225,05 €	25 391,18 €	29 044,47 €	33 245,75 €	107 162,24 €
CAPEX	0,00 €	0,00 €	1 399,80 €	0,00 €	0,00 €	0,00 €	0,00 €	2 799,60 €
Investment in Working Capital	0,00 €	0,00 €	6 362,06 €	12 303,44 €	25 621,87 €	5 701,77 €	7 840,10 €	8 957,32 €
Total Outflows	0,00 €	0,00 €	7 761,86 €	12 303,44 €	25 621,87 €	5 701,77 €	7 840,10 €	11 756,92 €
Project Cash Flow	0,00 €	-6 097,01 €	-31 049,74 €	-16 528,49 €	-230,69 €	23 342,70 €	25 405,66 €	95 405,33 €

7.3 – Break-Even Analysis

Figure 7.3.1 – Break-even Analysis

Break-Even Analysis	
VARIABLE COSTS	
Reserves to allocate to environmental projects/ production methods	18 761,90 €
Cost of goods sold	31 827,11 €
Total	50 589,01 €
FIXED COSTS	
Payments to personnel	27 295,75 €
Branding Costs	1 242,25 €
Outsourcing Expenses (Accountant	3 718,21 €
Packaging/Shipping costs	5 822,98 €
Control Systems/ Commodities and other costs	1 725,94 €
Amortization	9 326,20 €
Depreciation	279,96 €
Total	49 411,29 €
Average Number of Units	5208,13
Variable Unit Cost	9,71 €
Weighted Average Price per Unit	20,52 €
Unit Contribution Margin	10,81 €
Break-even sales level	4572,04

7.4 – Investment View

Figure 7.4.1 – WACC and growth rate for FCF between year 5 and year 7.

WACC	Growth Rate FCF (Y5-Y7)
Assumption	Assumption
5,28%	15,00%

Figure 7.4.2 – Investment view with NPV, IRR and Payback Period

Realistic Scenario								
Year	0	1	2	3	4	5	6	7
FCF	- €	- 6 097,01 €	- 31 049,74 €	- 16 528,49 €	- 230,69 €	23 342,70 €	25 405,66 €	95 405,33 €
DFCF	0,00 €	-5 791,29 €	-28 013,96 €	-14 164,72 €	-187,78 €	18 048,55 €	18 658,64 €	66 554,95 €
NPV	NPV of project considering 7 years							
	55 104,39 €							
IRR	25,88%							
Payback Period (years)	6,17							

7.5 – Sensibility Analysis: Pessimistic and Optimistic

Figure 7.5.1 – Pessimistic Scenario with NPV, IRR and Payback Period

Pessimistic Scenario	Impact	NPV	IRR	Payback Period (years)
COVID 19 generated a big decrease in revenues for a long period of time.	-43,5%	-18 546,39 €	-4,19%	7,66

Figure 7.5.2 – Optimistic Scenario with NPV, IRR and Payback Period

Optimistic Scenario	Impact	NPV	IRR	Payback Period (years)
The State participates with 50% of the NPV at year 0 to support sustainable businesses. It will be accounted as other income over 4 years.	27 552,20 €	91 725,18 €	2415,14%	4,64

7.6 – Provisional Balance Sheet

Figure 7.6.1 – Pessimistic Scenario with NPV, IRR and Payback Period

Provisional Balance Sheet								
	Year 0 (End)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Assets								
Current Assets								
Cash & Equivalents	10 000,00 €	3 902,99 €	51 369,08 €	43 030,88 €	69 510,92 €	105 617,24 €	148 950,62 €	196 453,69 €
Inventory			4 104,146 €	12 312,44 €	26 676,95 €	30 678,49 €	35 280,27 €	40 572,30737 €
State			1 405,54 €	4 216,62 €	9 136,00 €	10 506,40 €	12 082,36 €	13 894,72 €
Accounts Receivable			2 103,37 €	6 310,12 €	13 671,94 €	15 722,73 €	18 081,14 €	20 793,31 €
Total Current Assets	10 000,00 €	3 902,99 €	58 982,14 €	65 870,07 €	118 995,81 €	162 524,86 €	214 394,39 €	271 714,02 €
Non-current Assets								
Net Tangible Fixed Assets			1 119,84 €	839,88 €	559,92 €	279,96 €	- €	2 239,68 €
Net Intangible Assets	65 283,43 €	55 957,22 €	46 631,02 €	37 304,82 €	27 978,61 €	18 652,41 €	9 326,20 €	0
Total non-current assets	65 283,43 €	55 957,22 €	47 750,86 €	38 144,70 €	28 538,5319 €	18 932,37 €	9 326,20 €	2 239,68 €
Total Assets	75 283,43 €	59 860,21 €	106 733,00 €	104 014,76 €	147 534,35 €	181 457,23 €	223 720,59 €	273 953,70 €
Equity								
Paid-in Capital	10 000,00 €	10 000,00 €	64 000,00 €	64 000,00 €	64 000,00 €	64 000,00 €	64 000,00 €	64 000,00 €
Contributed Surplus	65 283,43 €	65 283,43 €	85 283,43 €	85 283,43 €	85 283,43 €	85 283,43 €	85 283,43 €	85 283,43 €
Capital Reserves								
Retained Earnings							21 724,70 €	63 768,03 €
Transited Results		- 15 423,21 €	- 48 317,25 €	- 62 148,47 €	- 42 167,43 €	- 13 365,97 €		
Total Equity	75 283,43 €	59 860,22 €	100 966,18 €	87 134,96 €	107 116,00 €	135 917,46 €	171 008,13 €	213 051,46 €
Liabilities								
Current Liabilities								
Short-term Loans								
Accounts Payable			1 047,06 €	2 720,49 €	5 543,84 €	5 092,36 €	5 856,21 €	6 734,65 €
State			4 719,77 €	14 159,30 €	30 678,49 €	35 280,27 €	40 572,31 €	46 658,15 €
Net Income Taxes		- €	- €	- €	4 196,02 €	5 167,14 €	6 283,94 €	7 509,47 €
Total Current Liabilities	- €	- €	5 766,82 €	16 879,80 €	40 418,35 €	45 539,77 €	52 712,46 €	60 902,26 €
Non-current Liabilities								
Medium/long-term Loans								
Total Non-current Liabilities	- €	- €	0	0	0	0	0	0
Total Liabilities	- €	- €	5 766,82 €	16 879,80 €	40 418,35 €	45 539,77 €	52 712,46 €	60 902,26 €
Liabilities and Equity	75 283,43 €	59 860,22 €	106 733,00 €	104 014,76 €	147 534,35 €	181 457,23 €	223 720,59 €	273 953,72 €

7.7 – Financial Comments

To obtain the present value, it was considered a time horizon of seven years and the reallocation of 25% of the gross profit to environmental causes or production processes. The present value of the brand was determined to compute the amortizations and the cost of goods sold were based on real values retrieved from real suppliers.

In break-even analysis, the reserves allocated to environmental projects are considered a variable cost. In fact, the reserves depend on the quantities sold, but they are not an integrating part of the product. Therefore, they are classified as other expenses in the profits and losses forecast. The level of sales necessary to cover fix costs is slightly below the average number of units expected to be sold.

It's possible to observe that the project has a positive present value and it's significantly higher than zero. This indicates not only that the project is viable, under the business plan's assumptions, but also that it would probably remain viable if the assumptions, which are partly based on averages and estimations, perfectly matched the real-world values.

Sales have a huge influence in the project's viability. Under a pessimistic scenario where COVID-19 reduced units sold by about 43%, the project became unviable. These results should be also be kept in mind for a realistic scenario. If the quantities assumed to be sold are too off reality, then even under normal conditions the business may not be viable. Under an optimistic scenario, where the State subsidies half of the investment, not only the business would become more valuable, but it would also allow the founders to remain the sole partners without having to split the business.

8 - Conclusions

Although Hermit is not the most innovative idea, it's certainly a beautiful one. It's the concept of creating a business based on three pillars which complement each other to culminate in a truly sustainable strategy supported by an unorthodox marketing strategy.

This innovative business plan aimed to answer two questions. First, on a micro level, is it possible to create a real and viable sustainable business that promotes a conscious consumption and the environment protection? Second, under a macro perspective, is it possible to mitigate the trade-off economy/ecology and to find room for an economy that prioritizes positive externalities over profit?

Regarding the first question, the overall conclusion is that the business is viable, even practicing fair prices and giving back a significant part of profits to compensate the waste generated by its operations. However, it's important to highlight a few points that may condition this viability.

First, more investigation should be conducted to assess what's the real damage to the planet caused by the brand, and to monetize that impact. This would allow to determine the real percentage that should be given back and if the business would remain viable. Furthermore, the investigation should also contemplate NGO's projects that can leverage and maximize the funds.

Second, even though there is room for growth in the market, people tend to consume more sustainably, and governments give incentives to the sector, the business is very sensible to the sales level. Facing a scenario where sales take a significant hit, or where the brand does not have the capacity to promote itself may put at risk the business' viability. This leads to a cautious conclusion towards the viability of this type of ideas. Nevertheless, it's definitely possible for businesses to give more than they do without overcharging their clients with outrageous prices.

Regarding the second question, based on the financial results, Hermit could become the benchmark for other companies to adopt a similar strategy and significantly reduce their footprint on the planet. Notwithstanding, in a context where all businesses are required to have a give back policy, the brand identities built around that might cease to be a source of competitive advantage and differentiation. In addition, there are several different industries with their particular characteristics that could show different financial results from the ones obtained in this assignment.

The main conclusion one should take from this project is that businesses can do better than what they currently do. If businesses do not focus excessively on profits, maybe they cannot mitigate the trade-off between economy and ecology completely, but they can at least reduce it.

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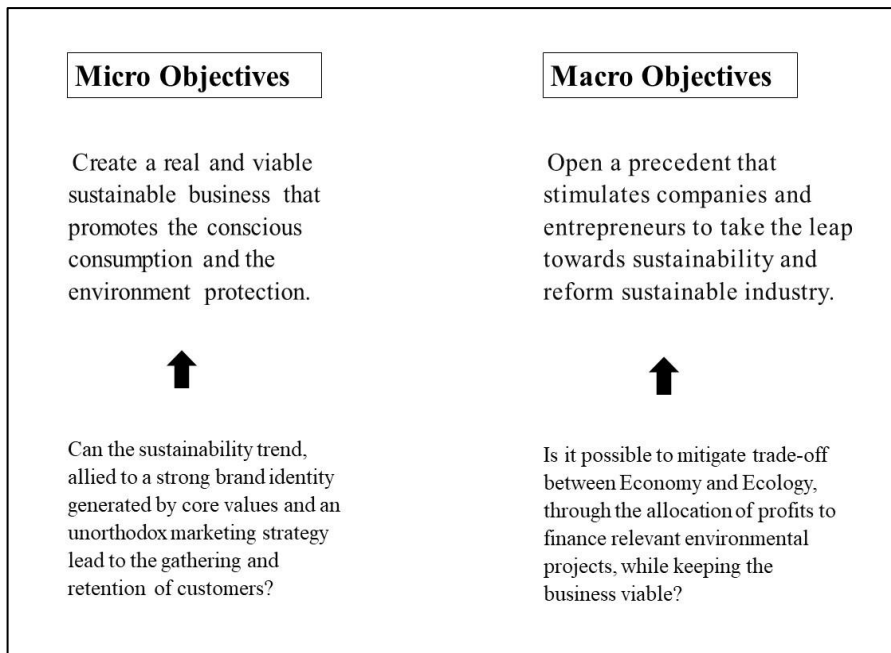
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Annexes

Annex A – Assignment’s main objectives



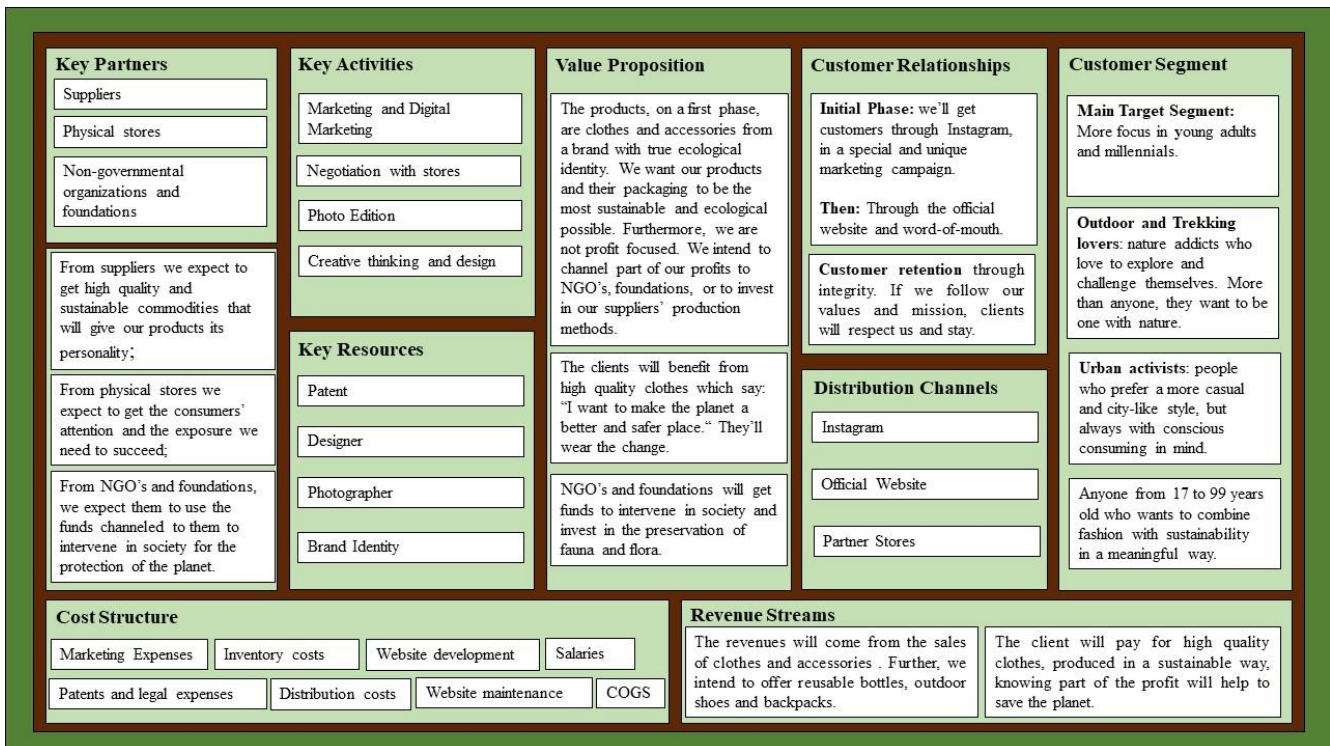
Annex B – Canvas Business Model and its Building Blocks

The Business Model Canvas

<p>Key Partners</p> <p>8. Some activities are outsourced, and some resources are acquired outside the enterprise.</p>	<p>Key Activities</p> <p>7. . . . by performing a number of Key Activities.</p>	<p>Value Proposition</p> <p>2. It seeks to solve customer problems and satisfy customer needs with value propositions.</p>	<p>Customer Relationships</p> <p>4. Customer relationships are established and maintained with each Customer Segment.</p>	<p>Customer Segments</p> <p>1. An organization serves one or several Customer Segments.</p>
<p>Cost Structure</p> <p>9. The business model elements result in the cost structure.</p>	<p>Key Resources</p> <p>6. Key resources are the assets required to offer and deliver the previously described elements . . .</p>		<p>Channels</p> <p>3. Value propositions are delivered to customers through communication, distribution, and sales Channels.</p>	
	<p>Cost Structure</p> <p>9. The business model elements result in the cost structure.</p>		<p>Revenue Streams</p> <p>5. Revenue streams result from value propositions successfully offered to customers.</p>	

Source: Osterwalder & Yves (2010)

Annex C – Hermit Business Model Canvas



Annex D – Survey: Conscious Consumption - Sustainable Fashion

My name is João Rodrigues Bruno and I'm on the 2nd year of the Master's Programme in Management at ISCTE. To complete my thesis, I would kindly ask for 3 minutes of your time to answer this anonymous questionnaire.

The survey aims to gather data about population's perception of conscious consumption in the fashion industry. The information retrieved will then be analyzed and it will help to prepare the launch of a new sustainable product in the market. The data will be used exclusively for academic purposes.

Please note that it's extremely important to answer each question with honesty.

Thank you very much for your help!

Demographics

Gender: Female/Male/Other

Age

Monthly Household Income: Below Average/Average/Above Average

Where do you live?: City/Countryside

Conscious Consumption - Sustainable Fashion

1. In average, how often do you buy clothes?

1. Never
 2. Almost never (less than once a year)
 3. Rarely (once a year)
 4. From time to time (every six months)
 5. Often (every two or three months)
 6. Very often (monthly)
 7. All the time (weekly)
2. The production of clothes should be more sustainable.
 1. Totally disagree
 2. Partially disagree
 3. Neither agree nor disagree
 4. Partially agree
 5. Strongly agree
 3. Sustainability is an important criteria that influences your choices when you buy clothes.
 1. Totally disagree
 2. Partially disagree
 3. Neither agree nor disagree
 4. Partially agree
 5. Strongly agree
 4. You expect to become/continue to be a conscious consumer regarding the environmental impact of your purchases.
 1. Totally disagree
 2. Partially disagree
 3. Neither agree nor disagree
 4. Partially agree
 5. Strongly agree
 5. You prefer to buy new clothes, rather than using/buying second-hand clothes.
 1. Totally disagree
 2. Partially disagree
 3. Neither agree nor disagree
 4. Partially agree
 5. Strongly agree

6. You are willing to pay more for quality and aesthetically pleasing clothes, if it's guaranteed that their production is sustainable.
 1. Totally disagree
 2. Partially disagree
 3. Neither agree nor disagree
 4. Partially agree
 5. Strongly agree

7. You are willing to pay more for quality and aesthetically pleasing clothes, if it's guaranteed that their production is sustainable, and that a significant part of profits will be allocated to relevant environmental projects and/or to invest in new methods for sustainable production.
 1. Totally disagree
 2. Partially disagree
 3. Neither agree nor disagree
 4. Partially agree
 5. Strongly agree

8. You will consider to purchase a piece of cloth from a lesser-known brand, if it's guaranteed that their products are sustainable.
 1. Totally disagree
 2. Partially disagree
 3. Neither agree nor disagree
 4. Partially agree
 5. Strongly agree

9. You will consider to purchase a piece of cloth from a lesser-known brand, if it's guaranteed that their products are sustainable, and that a significant part of profits will be allocated to relevant environmental projects and/or to invest in new methods for sustainable production.
 1. Totally disagree
 2. Partially disagree
 3. Neither agree nor disagree
 4. Partially agree
 5. Strongly agree

Annex E – Measure of association between demographic and market research variables

Demographic variables: monthly household income (D1), age (D2), gender (D3), home environment (city/countryside) (D4)

Market research variables: How often do respondents buy clothes (MR1); Respondents are willing to pay more for quality and aesthetically pleasing clothes, if it's guaranteed that their production is sustainable (MR2); Respondents are willing to pay more for quality and aesthetically pleasing clothes, if their production is sustainable and if a significant part of profits will be allocated to relevant environmental projects and/or to invest in new methods for sustainable production (MR3); Respondents will consider to purchase a piece of cloth from a lesser-known brand, if it's guaranteed that their products are sustainable (MR4); and Respondents will consider to buy clothes from a lesser-known brand, if their products are sustainable, and if a significant part of profits will be allocated to relevant environmental projects and/or to invest in new methods for sustainable production (MR5).

Spearman Rho - D1 and MR1

Correlation Coefficient	1,000	,129
Sig. (2-tailed)	.	,052
N	227	227

Spearman Rho - D1 and MR2

Correlation Coefficient	1,000	,045
Sig. (2-tailed)	.	,500
N	227	227

Spearman Rho - D1 and MR2

Correlation Coefficient	1,000	,014
Sig. (2-tailed)	.	,838
N	227	227

Spearman Rho - D1 and MR4

Correlation Coefficient	1,000	,069
Sig. (2-tailed)	.	,302
N	227	227

Spearman Rho - D1 and MR5

Correlation Coefficient	1,000	,027
Sig. (2-tailed)	.	,690
N	227	227

Spearman Rho – D2 and MR1

Correlation Coefficient	1,000	-,092
Sig. (2-tailed)	.	,168
N	227	227

Spearman Rho – D2 and MR2

Correlation Coefficient	1,000	-,025
Sig. (2-tailed)	.	,703
N	227	227

Spearman Rho – D2 and MR3

Correlation Coefficient	1,000	-,059
Sig. (2-tailed)	.	,377
N	227	227

Spearman Rho – D2 and MR4

Correlation Coefficient	1,000	-,039
Sig. (2-tailed)	.	,557
N	227	227

Spearman Rho – D2 and MR5

Correlation Coefficient	1,000	-,046
Sig. (2-tailed)	.	,487
N	227	227

Cramer's V– D3 and MR1

Nominal by Nominal	Phi	,343
	Cramer's V	,343
N of Valid Cases		227

Cramer's V– D3 and MR2

Nominal by Nominal	Phi	,115
	Cramer's V	,115
N of Valid Cases		227

Cramer's V– D3 and MR3

Nominal by Nominal	Phi	,150
	Cramer's V	,150
N of Valid Cases		227

Cramer's V– D3 and MR4

Nominal by Nominal	Phi	,132
	Cramer's V	,132
N of Valid Cases		227

Cramer's V– D3 and MR5

Nominal by Nominal	Phi	,266
	Cramer's V	,266
N of Valid Cases		227

Cramer's V– D4 and MR1

Nominal by Nominal	Phi	,179
	Cramer's V	,179
N of Valid Cases		227

Cramer's V– D4 and MR4

Nominal by Nominal	Phi	,159
	Cramer's V	,159
N of Valid Cases		227

Cramer's V– D4 and MR5

Nominal by Nominal	Phi	,234
	Cramer's V	,234
N of Valid Cases		227

Annex F – Correlation between Market Research variables

Market research variables: Respondents are willing to pay more for quality and aesthetically pleasing clothes, if it's guaranteed that their production is sustainable (MR2); Respondents are willing to pay more for quality and aesthetically pleasing clothes, if their production is sustainable and if a significant part of profits will be allocated to relevant environmental projects and/or to invest in new methods for sustainable production (MR3); Respondents will consider to purchase a piece of cloth from a lesser-known brand, if it's guaranteed that their products are sustainable (MR4); and Respondents will consider to buy clothes from a lesser-known brand, if their products are sustainable, and if a significant part of profits will be allocated to relevant environmental projects and/or to invest in new methods for sustainable production (MR5).

Spearman Rho – MR2 and MR3

Correlation Coefficient	1,000	,662**
Sig. (2-tailed)	.	,000
N	227	227

Spearman Rho – MR4 and MR5

Correlation Coefficient	1,000	,797**
Sig. (2-tailed)	.	,000
N	227	227

Spearman Rho – MR2 and MR4

Correlation Coefficient	1,000	,339**
Sig. (2-tailed)	.	,000
N	227	227

Spearman Rho – MR3 and MR5

Correlation Coefficient	1,000	,537**
Sig. (2-tailed)	.	,000
N	227	227

Annex G - Correlation between Second-hand clothes preference variable and monthly household income.

Second-hand clothes preference variable: Respondents prefer to buy new clothes, rather than using/buying second-hand clothes (2H1)

Monthly household income: monthly household income (D1)

Sustainability variables: The production of clothes should be more sustainable (S1); Sustainability is an important criterion when respondents buy clothes (S2); Respondents expect to become/continue to be conscious consumers regarding the environmental impact of their purchases (S3).

Spearman Rho – 2H1 and D1

Correlation Coefficient	1,000	,111
Sig. (2-tailed)	.	,095
N	227	227

Spearman Rho – 2H1 and S1

Correlation Coefficient	1,000	-,155*
Sig. (2-tailed)	.	,020
N	227	227

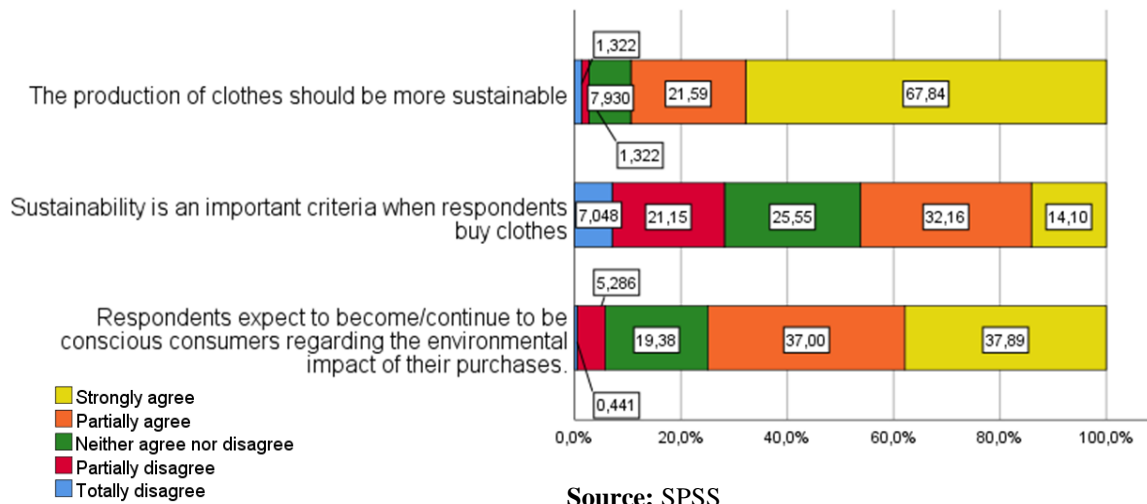
Spearman Rho – 2H1 and S2

Correlation Coefficient	1,000	-,205**
Sig. (2-tailed)	.	,002
N	227	227

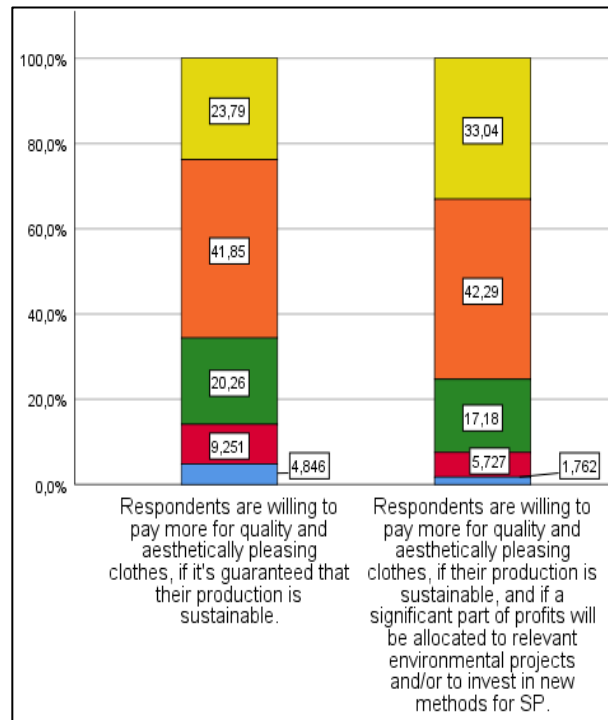
Spearman Rho – 2H1 and S3

Correlation Coefficient	1,000	-,157*
Sig. (2-tailed)	.	,018
N	227	227

Annex H - Sustainability variables: Distribution of responses in percentage.

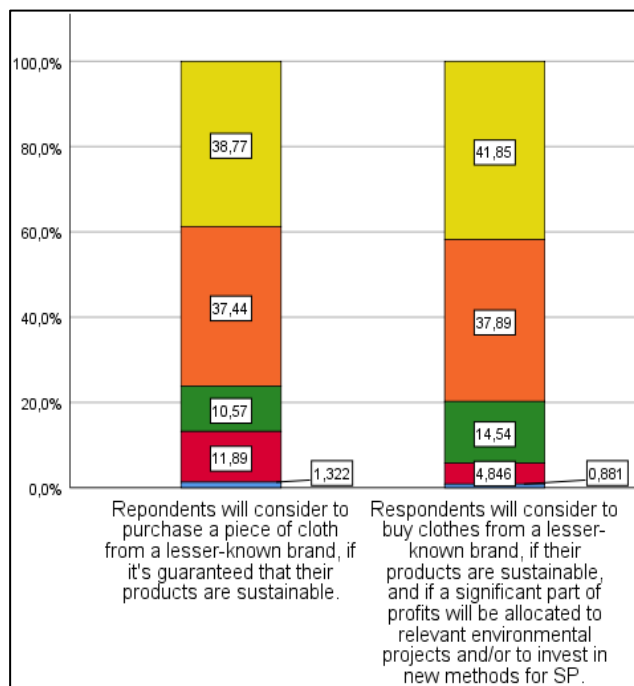


Annex I – Market research variables: comparison between willingness to pay more for a sustainable product in the current sustainable fashion market and the market proposed in this business idea.



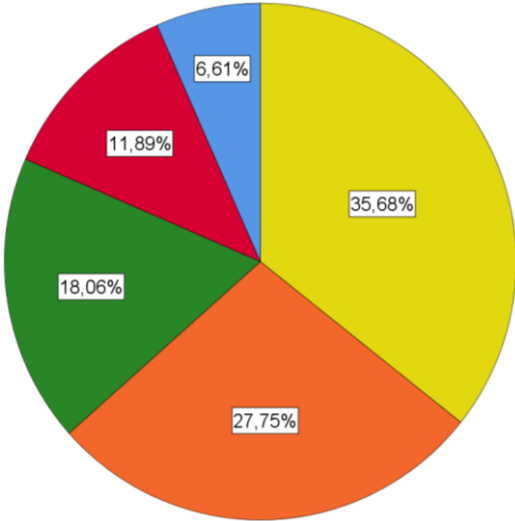
Source: SPSS

Annex J - Market research variables: comparison between willingness to purchase less famous/known brands in the current sustainable fashion market and the market proposed in this business idea.



Source: SPSS

Annex K – Second-hand clothes preference variable: Respondents prefer to buy new clothes, rather than using/ buying second-handed clothes.



Source: SPSS

Annex L – Foreign political measures to support green transition.

China	In 2018, the government of China announced its plan of sustainable manufacturing including the apparel manufacturing industry.
India	In August 2019, the government of India launched a project which aims to move towards sustainable fashion that contributes to a clean environment. It involved 16 leading retail fashion brands.
France	<ul style="list-style-type: none"> o In 2019, France announced its decision to make Paris the sustainable fashion capital of the world by 2024. The government launched an initiative which is expected to bring designers and experts together to help make the fashion industry greener. o In February 2020, the government of France passed a regulation which requires clothing companies in the country to follow around 100 sustainability provisions, including a prohibition on the destruction of unsold goods. The ethical clothing market is thus supported by government initiatives worldwide, which will make a large impression on the industry.

Source: Ethical Fashion Market (October, 2020)

Annex M – Main competitors in the international and local markets.

TYPE	Competitors	Description	Relative Strengths	Relative Weaknesses	Revenue	Current Market Share
Sustainable Fashion Producers Main Competitors	Picture Organics	Sustainable outdoor clothing brand established in 2008 and that keeps improving its methods to compete with the non-sustainable clothing industry.	-Strong sustainable culture -Campaign with ONG's -Different materials and methods - Strong marketing strategy	- Profit concerns implicitly prioritised - Outdoor wear focus - Low impact in Portuguese market - Does not outsource environmental projects	12.712.004,04 €	$\frac{12.712.004,04 \text{ €}}{5.930.619.716,00 \text{ €}}$ = 0,21%
	Patagonia	Patagonia is a clothing company that sells outdoor clothing marketed as sustainable. It was established in 1973.	-Detains a big market share -Became one of the most sustainable brands worldwide -It's investing a lot in sustainable collections	-It's not sustainable from day one - Its 1% give-back policy to the planet it's residual comparing to its revenue	634.276.275,00 €	$\frac{634.276.275,00 \text{ €}}{5.930.619.716,00 \text{ €}}$ = 10,69%
	Cotopaxi	Cotopaxi is a brand that produces and sells backpacks and outdoors clothes and connects its revenues with charity for social causes.	-Has a foundation -Social sustainability driven -Use recycle materials	- More focused on outdoor products -More focused on social issues - Low impact in Portuguese market	19.704.849,61 €	$\frac{19.704.849,61 \text{ €}}{5.930.619.716,00 \text{ €}}$ = 0,33%
	Prana	Clothing brand with casual use focus that aims to become truly sustainable.	-It has partnerships with several associations that aim for sustainability. -Significant market share	- It only started to become truly sustainable -Doesn't have a target for reduction of CO2 emissions	132.775.166,90 €	$\frac{132.775.166,90 \text{ €}}{5.930.619.716,00 \text{ €}}$ = 2,24%
Sustainable Fashion Producers Main Competitors in Portugal	Náz	Portuguese brand created in 2016 which aims to compete with the fashion industry and its unethical methods.	-It's active in Portuguese Market -Uses different materials besides cotton	- Doesn't have a give-back policy - Doesn't team up with other entities - Doesn't invest in environmental projects.	Not Found	NA

Source: <https://www.timeout.pt/porto/pt/compras/as-melhores-marcas-sustentaveis-no-porto-e-arredores>
<https://bearfoottheory.com/eco-friendly-outdoor-apparel-brands/>

Annex N – Hermit’s VRIO framework

Resource/ Capability	Valuable	Rare	Costly to Imitate	Organize d to	Value Creation
Photo Edition	Yes	No	No	Yes	Competitive Parity
Creative marketing/design	Yes	No	No	Yes	Competitive Parity
Innovative and sustainable spirit	Yes	No	No	Yes	Competitive Parity
Patent and Logo	Yes	Yes	Yes	Yes	Sustainable Competitive Advantage
Brand Identity	Yes	Yes	Yes	Yes	Sustainable Competitive Advantage

Annex O – Hermit’s strengths, weaknesses, opportunities and threats

SWOT	
Strengths: - Unique ambition; - Logo; - Core values and identity. - Marketing.	Weaknesses: - Higher costs; - Not known; - Several imitable resources.
Opportunities: - Socio-cultural conjuncture; - Political interest in shifting towards sustainability; - Technological development	Threats: - Direct competitors with lower costs; - Second-hand clothes; - High bargaining power of suppliers;

Annex P - Hermit’s SWOT analysis

External to the firm			
	Strategic Questions	Opportunities	Threats
Internal to the firm	Strengths	To take advantage from opportunities the brand needs to: -Use its ambition and identity, through a strong marketing strategy to convince governors and the public to join the cause.	To reduce likelihood of threats the brand should: - Be loyal to its identity and the values to create value and justify higher prices; - Diversify suppliers and invest in them to foment relations.
	Weaknesses	To take advantage from opportunities the brand needs to: -Gain reputation and spotlight by following its identity and through a strong marketing strategy; -Create enough value that justify higher costs.	To overcome weaknesses that might help threats the brand needs to: - Create enough value that justify higher costs; - Offer quality and fashionable products; - Gain reputation by following its identity and through a strong marketing strategy;

Annex Q – Financial Valuation Assumptions

Assumptions		
Description	Value	Source / Explanation
Project's time horizon	7 years	As a non-traditional business with a peculiar approach, it will take more time to achieve the break-even point like. Hence, it makes sense to forecast for a longer time-horizon.
Business growth rate for the last 3 years	15%	The project is expected to stabilize on the 4th year. Therefore, it's possible to simplify and assume a growth rate for the last 3 years, using the discounted rate as reference. https://www.geckoboard.com/best-practice/kpi-examples/revenue-growth-rate/
Sizes ratio for bulk orders (for t-shirts, hoodies, tops,...) adjusted to demography.	0,25-1,5-2,25-1-0,75-0.25 (XS;S; M; L; XL; 2XL)	https://originalfavorites.com/pages/sizing-bell-curve
Percentage of gross profits to allocate to environmental projects/ production methods	25%	Business Plan - Brand identity
WACC = Return on Equity	5,28%	Business Plan methodology - Debt-to.Equity ratio for this project is 0. Retrieved from computation.
Risk-free rate 16/07/2021	1,31%	https://vcharts.com/indicators/10_year_treasury_rate
Industry's unlevered beta (Environmental and Waste Services)	0,81	http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/Betas.html
Return on Equity (Environmental and Waste Services)	6,21%	http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/roe.html
Risk premium (Return on equity-risk-free rate)	4,90%	Computation
Average collection period for accounts receivable (in months)	1	According to the business model, it won't take more than 1 month to receive accounts receivable.
Average period to pay accounts payable (in months)	1	As long as the business remain small, Hermit won't have bargaining power to pay its paybles later than 1 month, in average.
Founder/Head of Marketing, Ethics Manager/CFO's salary in Year 1	0 €	Part-time job rewarded with Equity.
Founder/Head of Marketing, Ethics Manager/CFO's salary (Minimum wage) - From Year 2	665 €	https://www.eurodicas.com.br/salario-minimo-em-portugal/
Company's contribution to the Internship Programme	20%	https://www.iefp.pt/estagios
Number of months in the year	12	
Number of paid months in Portugal	14	
Days of work per month	22	
Food allowance (minimum)	4,77 €	https://www.doutorfinancas.pt/simulador-de-salario-liquido-2021/
Single Social Fee	23,75%	https://www.pmesalarios.pt/simulacao/custofunc
Insurance for workers	1%	https://www.cgd.pt/Site/Saldo-Positivo/negocios/Pages/custo-trabalhador-empresa.aspx
Total cost of registering a Trademark	1 242,25 €	https://justica.gov.pt/Registos/Propriedade-Industrial/Marca/Quanto-custa-registar-marcas-ou-outros-sinais
Average cost per session of Legal Advisement in Portugal	100,00 €	https://www.zaask.pt/quanto-custa/advogados-direito-comercial
Estimated number of sessions - Year 1	4	Zero revenue year
Estimated number of sessions - Year 2	12	Beggining of activitie
Estimated number of sessions - Year 3	9	Consolidation of business
Estimated number of sessions - Year 4	10	Consolidation of business
Monthly cost of na Accountant for Start-ups	150,00 €	https://www.e-konomista.pt/quanto-custa-um-contabilista/
Photographer/Editor's services price per hour	25 €	Value retrieved from a photographer/editor with nearly 10 years of experience.
Estimated number of hours needed for photos - Year 1	70	Estimated value
Estimated number of hours needed for photos - Year 2	24	Estimated value
Estimated number of hours needed for photos - Year 3	24	Estimated value
Estimated number of hours needed for photos - Year 4	24	Estimated value
Microsoft office price per month	10,30 €	https://www.microsoft.com/pt-pt/microsoft-365/business?market=pt
Hubspot price per month	41 €	Values from official website
Commodities (Internet, water, electricity,...) per month	100 €	Very small company with a small number of workers. Costs estimated based on one common household.
Number of computers needed (Year 2)	2	Estimated value based on staff.
Number of computers needed (Year 7)	4	Estimated value based on staff.

Tangible Assets - Price of HP professional computer	699,90 €	https://www.pcdiga.com/computadores/portateis/portateis/portatil-hp-pavilion-laptop-15-eg0011np-15-6-38w66ea-ab9
Intangible Assets - Brand Value at moment 0	65 283,43 €	https://www.dummies.com/business/marketing/branding/how-to-calculate-your-brands-equity/
RePack S packs (100 units) needed in year 2	6	Estimated value
RePack S packs (100 units) needed in year 3	14	Estimated value
RePack S packs (100 units) needed in year 4	28	Estimated value
RePack M packs (100 units) needed in year 2	6	Estimated value
RePack M packs (100 units) needed in year 3	14	Estimated value
RePack M packs (100 units) needed in year 4	28	Estimated value
RePack S size price (100 units)	275 €	https://shop.repack.com/
RePack M size price (100 units)	300 €	https://shop.repack.com/
Average National Shipping costs (DHL + National Post)	6,97 €	https://www.ctt.pt/feecom/app/open/shipping/request.jsp?lang=def
Average European Shipping costs	13,64 €	Average computed based on information retrieved directly from DHL.
Continental average unitary prices	Retrieved from official website order service with company account (conservative approach)	https://www.continentalclothing.com/style/view
Continental shipping cost (order of 350 units)	140 €	https://www.continentalclothing.com/style/view
VAT	23%	https://eportugal.gov.pt/cidadaos-europeus-viajar-viver-e-fazer-negocios-em-portugal/impostos-para-atividades-economicas-em-portugal/imposto-sobre-valor-acrescentado-iva-em-portugal
Inventory rate (based on expected sales)	20%	Estimated value
Average Gross Profit Margin - Hermit	65%	Business Plan Pricing Strategy and Products sheet computation
Average Gross Profit Margin - Non-brand products	53,33%	https://www.getdor.com/blog/2020/01/10/how-to-increase-profit-margins-in-retail/
Sales in year 1 (units)	0	Business Plan Objectives section
Sales in year 2 (units)	1 000	Business Plan Objectives section
Sales in year 3 (units)	3 000	Business Plan Objectives section
Sales in year 4 (units)	6 500	Business Plan Objectives section
National sales in year 2	70%	Estimated value
International sales (Europe) in year 2	30%	Estimated value
National sales in year 3	65%	Estimated value
International sales (Europe) in year 3	35%	Estimated value
National sales in year 4	55%	Estimated value
International sales (Europe) in year 4	45%	Estimated value
Order Quantity	OQ = forecasted sales * (1+ inventory rate)	
Sales of products with a price range between 0 and 22 euros	75%	Estimated value
Sales of products with a price range above 22 euros	25%	Estimated value
Years of depreciation for computers	5	https://turbotax.intuit.com/tax-tips/small-business-taxes/depreciation-of-business-assets/L4OStLQEL
Years of amortization for the brand	7	Time horizon for the project
Pessimistic Scenario - Sales decrease due to COVID-19	43,5%	https://www.statista.com/statistics/1131181/coronavirus-impact-on-clothing-industry-europe/
Business taxes for small companies	21%	https://www.pwc.pt/pt/pwcinforfisco/guia-fiscal/2021/irc.html

Annex R – Suppliers’ Costs and selected models

Continental

T-shirts				
	Code	Quantity	Avg Price per unit	Total average unitary price
Women	SA16	100	4,43 €	4,76 €
Men	-			
Unisex	EP01	100	3,22 €	3,55 €
	FS01	100	3,71 €	
	EP100	100	4,77 €	

Thin Sweatshirts				
	Code	Quantity	Avg Price per unit	Total average unitary price
Women	-			
Men	EP22	100	4,20 €	4,53 €
Unisex	SA22	100	5,98 €	6,31 €

Hoodies				
	Code	Quantity	Avg Price per unit	Total average unitary price
Women	-			
Men	-			
Unisex	EP61P	100	14,66 €	14,99 €

Tops				
	Code	Quantity	Avg Price per unit	Total average unitary price
Women	EP44	100	3,91 €	
	EP17A	100	3,05 €	3,38 €
Men	-			

Thick Sweatshirts				
	Code	Quantity	Avg Price per unit	Total average unitary price
Women	EP64	100	10,87 €	11,20 €
Men	-			
Unisex	SA40	100	11,44 €	
	EP65	100	10,87 €	11,20 €

Sweat Pants				
	Code	Quantity	Avg Price per unit	Total average unitary price
Women	-			
Men	-			
Unisex	EP68J	100	12,36 €	12,69 €

Shipping costs	
Shipping cost	229,50 €
Added Cost per unit	0,33 €

Stanley

T-shirts			
	Code	Quantity	Price
Women	STTW017	50	3,96 €
Men	STTU758	50	2,58 €
Unisex	STTM606	50	4,41 €
	STTU757	50	6,72 €

Thin Sweatshirts			
	Code	Quantity	Price
Women	STTW114	50	6,90 €
	STTW017	50	3,96 €
Men	STTM560	50	5,29 €
Unisex	-		

Hoodies			
	Code	Quantity	Price
Women	-		
Men	-		
Unisex	STSU824	50	16,67 €
	STSU812	50	10,59 €

Tops			
	Code	Quantity	Price
Women	STTW038	50	3,78 €
	STTW013	50	3,54 €
Men	-		
Unisex	-		

Thick Sweatshirts			
	Code	Quantity	Price
Women	-		
Men	STSM567	50	13,31 €
Unisex	-		
	-		

Kariban

Caps - Kariban				
	Code	Quantity	Avg Price per unit	Total average unitary price
Unisex	Kariban 6 panels	100	3,80 €	3,80 €

Giftcampaign.pt

Matt Cruiser 400ml	
Quantity	Unitary Price
1000	1,64 €
500	1,80 €
250	1,94 €

Cork Design 770ml	
Quantity	Unitary Price
1000	4,34 €
500	4,68 €
250	4,97 €

Daily Hidratation 650 ml	
Quantity	Unitary Price
1000	8,32 €
500	8,80 €
250	9,59 €

Explorer 750ml	
Quantity	Unitary Price
1000	2,89 €
500	3,16 €
250	3,33 €

CERGAM

Emilia 500ml	
Quantity	Unitary Price
500	3,60 €

Annex S – Sustainable Logo suppliers and selected partner

Rooftop

Rooftop				
Average Fix costs	Total (3 colours)	Total (2 colours)	Total (1 colour)	Average
Big logo	105,00 €	70,00 €	35,00 €	70,00 €
Medium logo	75,00 €	50,00 €	25,00 €	50,00 €
Small logo	60,00 €	40,00 €	20,00 €	40,00 €
Average	75,00 €	50,00 €	25,00 €	50,00 €

Rooftop						
Average variable costs	Total (50 pieces)	Total (100 pieces)	Total (150 pieces)	Price per unit (Y2)	Price per unit (Y3)	Price per unit (Y4)
Big logo	325,00 €	325,00 €	390,00 €	6,50 €	3,25 €	2,60 €
Medium logo	275,00 €	275,00 €	220,00 €	5,50 €	2,75 €	2,20 €
Small logo	225,00 €	225,00 €	90,00 €	4,50 €	2,25 €	1,80 €
Average	275,00 €	275,00 €	220,00 €	5,50 €	2,75 €	2,20 €

Average total cost per unit			
Y2	Y3	Y4	Average
5,51 €	2,76 €	2,21 €	2,76 €

Lohuba

Lohuba				
Average Fix costs	Total (3 colours)	Total (2 colours)	Total (1 colour)	Average
Big logo	75,00 €	50,00 €	25,00 €	50,00 €
Medium logo	75,00 €	50,00 €	25,00 €	50,00 €
Small logo	75,00 €	50,00 €	25,00 €	50,00 €
Average	75,00 €	50,00 €	25,00 €	50,00 €

Lohuba		
Average variable costs	Total (100 pieces)	Price per unit
Big logo	280,00 €	2,80 €
Medium logo	280,00 €	2,80 €
Small logo	280,00 €	2,80 €
Average	280,00 €	2,80 €

Average total cost per unit			
Y2	Y3	Y4	Average
2,84 €	2,81 €	2,81 €	2,81 €

Lohuba is the better option. Its flexibility more than compensates the average price difference.

Annex T – List of Products

Products	COGS	Gross Profit Margi	Price	VAT	Final Price	Retail Price	Release Year	
T-shirt Unisex	5,39 €	65%	15,41 €	23%	18,96 €	18,99 €	2	
T-shirt Women	7,57 €	50%	15,14 €	23%	18,63 €	18,99 €	2	
Thin Sweatshirt Women	9,71 €	50%	19,43 €	23%	23,90 €	23,99 €	2	
Thin Sweatshirt Men	9,71 €	50%	19,43 €	23%	23,90 €	23,99 €	2	
Sweatshirt Unisex	14,01 €	70%	46,71 €	23%	57,45 €	57,99 €	2	
Sweatshirt Women	14,01 €	70%	46,71 €	23%	57,45 €	57,99 €	2	
Hoodie Unisex	13,40 €	70%	44,68 €	23%	54,96 €	54,99 €	2	
Sweat Pants Unisex	12,69 €	65%	36,25 €	23%	44,59 €	44,99 €	2	
Top Women	6,19 €	65%	17,69 €	23%	21,76 €	21,99 €	2	
Qty								
1000	Inox reusable water	1,64 €	70%	5,47 €	23%	6,72 €	8,99 €	3
500	bottle (400ml)	1,80 €	70%	6,00 €	23%	7,38 €	8,99 €	
250		1,94 €	70%	6,47 €	23%	7,95 €	8,99 €	
1000	Inox reusable water	2,89 €	70%	9,63 €	23%	11,85 €	14,99 €	3
500	bottle (750ml)	3,16 €	70%	10,53 €	23%	12,96 €	14,99 €	
250		3,33 €	70%	11,10 €	23%	13,65 €	14,99 €	
1000	Premium Inox reusable	8,32 €	65%	23,77 €	23%	29,24 €	33,99 €	3
500	water bottle (650ml)	8,80 €	65%	25,14 €	23%	30,93 €	33,99 €	
250		9,59 €	65%	27,40 €	23%	33,70 €	33,99 €	
Caps	6,61 €	65%	18,90 €	23%	23,24 €	23,99 €	4	
Sunglasses	Products require more research.							
Vests	Products require more research.							
Eco backpacks	Products require more research.							
Eco shoes	Products require more research.							
Average	7,95 €	65%	18,90 €	23%	23,24 €	23,99 €	-	
Average for products below 22€	5,79 €	65%	15,28 €	23%	18,79 €	18,99 €	-	
Average for products 22€ or higher	12,69 €	65%	36,25 €	23%	44,59 €	44,99 €	-	

Annex U – Salaries

Payments to Personnel								
		Base Salary	Social Security	Work accident insurance	Total food allowance	Number of Employees	Total Cost per employee	Total Cost per year
PAYMENTS TO PERSONNEL IN YEAR 1	Ethics Manager/ CFO	0 €	0 €	7,76 €	104,94 €	1	112,70 €	2 704,76 €
	Founder/ CEO	0 €	0 €	7,76 €	104,94 €	1	112,70 €	
PAYMENTS TO PERSONNEL IN YEAR 2	Ethics Manager/ CFO	665,0 €	184,3 €	7,8 €	104,9 €	1	962,0 €	26 934,85 €
	Founder/ CEO	665,0 €	184,3 €	7,8 €	104,9 €	1	962,0 €	
PAYMENTS TO PERSONNEL IN YEAR 3	Ethics Manager/ CFO	665,0 €	184,26 €	7,8	104,9	1	961,96 €	26 934,85 €
	Founder/ CEO	665,0 €	184,26 €	7,8	104,9	1	961,96 €	
PAYMENTS TO PERSONNEL IN YEAR 4	Ethics Manager/ CFO	665,0 €	184,3	7,8	104,9	1	961,96 €	26 934,85 €
	Founder/ CEO	665,0 €	184,3	7,8	104,9	1	961,96 €	

Annex V – Other Costs

Branding Costs				
	Asset	Maintenance	Maintenance	Maintenance
	Year 1	Year 2	Year 3	Year 4
Trademark	127,37 €	127,37 €	127,37 €	127,37 €
Logo	127,37 €	127,37 €	127,37 €	127,37 €
Company Name	127,37 €	127,37 €	127,37 €	127,37 €
Answer	5,37 €	5,37 €	5,37 €	5,37 €
International Costs	854,77 €	854,77 €	854,77 €	854,77 €
Total	1 242,25 €	1 242,25 €	1 242,25 €	1 242,25 €

Control Systems/ Commodities and other costs				
	Year 1	Year 2	Year 3	Year 4
Microsoft Office	0,00 €	0,00 €	10,30 €	10,30 €
HubSpot	0,00 €	0,00 €	41,00 €	41,00 €
Commodities	0,00 €	100,00 €	100,00 €	100,00 €
Total per month	- €	100,00 €	151,30 €	151,30 €
Total cost per year	- €	1 200,00 €	#####	1 815,60 €

Outsourcing Expenses				
	Year 1	Year 2	Year 3	Year 4
Accounting Fees	0 €	1 800,00 €	1 800,00 €	1 800,00 €
Legal Advisor Fees	400,00 €	1 200,00 €	900,00 €	1 000,00 €
Photographer/ Editor	1 750,00 €	600,00 €	600,00 €	600,00 €
Total	2 150 €	3 600 €	3 300 €	3 400 €

Packaging Expenses				
Re-Pack	Year 2	Year 3	Year 4	
S Package	1 650 €	3 850 €	4 950 €	
M Package	1 800 €	4 200 €	5 400 €	
Average Cost	1 725 €	4 025 €	5 175 €	
Average	1,44 €	1,12 €	0,66 €	1,12 €

Distribution Costs								
Shipping		Min. Price	Max. Price	Average cost	Average cost per unit shipped	Total cost	Total cost (50% strategy)	Average cost per unit shipped (50% strategy)
	Europe	4,89 €	22,39 €	4 092,00 €	13,64 €			
Year 3	National	6,97 €	6,97 €	13 591,50 €	6,97 €	27 913,50 €	13 956,75 €	4,65 €
	Europe	4,89 €	22,39 €	14 322,00 €	13,64 €			
Year 4	National	6,97 €	6,97 €	24 917,75 €	6,97 €	64 814,75 €	32 407,38 €	4,99 €
	Europe	4,89 €	22,39 €	39 897,00 €	13,64 €			

Annex X – Present Value of the brand

Sales of products with a price range between 0 and 22 euros	75,00%
Sales of products with a price range above 22 euros	25,00%
Average for products below 22€	15,28 €
Average for products 22€ or higher	36,25 €

General Brands Profit Margin	53,33%
Hermit Average Profit Margin	65,00%
Difference	11,67%

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Quantity sold	0	1 000	3 000	6 500	7 475	8 596	9 886
Brand Price Premium	-1 242,25 €	2 394,77 €	7 184,31 €	15 566,00 €	17 900,90 €	20 586,04 €	23 673,94 €
Hermit Brand's NPV	65 283,43 €						

Annex Y - WACC

<p>Figure 3.5.2.1 – CAPM</p> $ER_i = R_f + \beta_i(ER_m - R_f)$ <p>where:</p> <p>ER_i = expected return of investment R_f = risk-free rate β_i = beta of the investment $(ER_m - R_f)$ = market risk premium</p> <p>Source: https://www.investopedia.com/terms/c/capm.asp</p>	<p>Figure 3.5.2.1 – Hamada Equation</p> $\beta_L = \beta_U \left[1 + (1 - T) \left(\frac{D}{E} \right) \right]$ <p>where:</p> <p>β_L = Levered beta β_U = Unlevered beta* T = Tax rate D/E = Debt to equity ratio*</p> <p>Source: https://www.investopedia.com/terms/h/hamadaequation.asp</p>
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Risk-free rate	1,31%
Unlevered Beta	0,81
Market Risk premium	4,90%
WACC = Return on Equity	5,28%

Annex Z – Depreciations, Amortizations, Intangibles and CAPEX

Amortizations (Intangible Assets)																
	Asset Name	PY of the Brand	Number of Equipment	Total Acq. Value	Depreciation Rate	Amortization Period (years)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Accumulated Amortizations	Net Book Value	
Year 0	Hermit Brand	65 283,43 €	1	65 283,43 €	14%	7	9 326,20 €	9 326,20 €	9 326,20 €	9 326,20 €	9 326,20 €	9 326,20 €	9 326,20 €	9 326,20 €	65 283,43 €	0,00 €
TOTAL				65 283,43 €			9 326,20 €	9 326,20 €	9 326,20 €	9 326,20 €	9 326,20 €	9 326,20 €	9 326,20 €	9 326,20 €	65 283,43 €	0,00 €

Depreciations (Tangible Assets)														
	Asset Name	Acquisition Value (Unit)	Number of Equipments	Total Acq. Value	Depreciation Rate	Depreciation Period (years)	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Accumulated Amortizations	Net Book Value
Year 2	HP professional computer	699,90 €	2	1 399,80 €	20%	5	279,96 €	279,96 €	279,96 €	279,96 €	279,96 €	-	1 399,80 €	0,00 €
Year 7	HP professional computer	699,90 €	4	2 799,60 €	20%	5	-	-	-	-	-	559,92 €	559,92 €	2 239,68 €
TOTAL		1 399,80 €		4 199,40 €			279,96 €	279,96 €	279,96 €	279,96 €	279,96 €	559,92 €	1 399,80 €	2 239,68 €

Annex AA – Working Capital and Purchases

Purchases							
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Cost of Goods sold	0,0 €	6 111,0 €	18 333,1 €	39 721,8 €	45 680,0 €	52 532,0 €	60 411,8 €
Inventory (eoy)	0,0 €	4 104,1 €	12 312,4 €	26 677,0 €	30 678,5 €	35 280,3 €	40 572,3 €
Inventory (boy)	0,0 €	0,0 €	4 104,1 €	12 312,4 €	26 677,0 €	30 678,5 €	35 280,3 €
Total purchases	0,0 €	10 215,2 €	26 541,4 €	54 086,3 €	49 681,6 €	57 133,8 €	65 703,9 €

Auxiliar Table - Working Capital Calculation							
	Realistic Scenario						
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Current Assets							
Accounts Receivable = Yearly Sales * (1+VAT rate) / 12*Average Coleccion Period in months	0,0 €	2 103,4 €	6 310,1 €	13 671,9 €	15 722,7 €	18 081,1 €	20 793,3 €
VAT to be received	0,0 €	1 405,5 €	4 216,6 €	9 136,0 €	10 506,4 €	12 082,4 €	13 894,7 €
Total of Current Assets	0,0 €	3 508,9 €	10 526,7 €	22 807,9 €	26 229,1 €	30 163,5 €	34 688,0 €
Current Liabilities							
Inventory	0,00 €	4 104,15 €	12 312,44 €	26 676,95 €	30 678,49 €	35 280,27 €	40 572,31 €
Accounts Payable	0,00 €	1 047,06 €	2 720,49 €	5 543,84 €	5 092,36 €	5 856,21 €	6 734,65 €
Income Tax to be paid next year	0,00 €	0,00 €	0,00 €	4 196,02 €	5 167,14 €	6 283,94 €	7 509,47 €
VAT to be paid in the next year	0,00 €	4 719,77 €	14 159,30 €	30 678,49 €	35 280,27 €	40 572,31 €	46 658,15 €
Total of Current Liabilities	0,00 €	9 870,97 €	29 192,24 €	67 095,30 €	76 218,26 €	87 992,73 €	101 474,57 €
Working Capital	0,0 €	6 362,1 €	18 665,5 €	44 287,4 €	49 989,1 €	57 829,2 €	66 786,5 €
Investment in Working Capital	0,0 €	6 362,1 €	12 303,4 €	25 621,9 €	5 701,8 €	7 840,1 €	8 957,3 €

Annex AB – Payback Time (Realistic, Pessimistic and Optimistic)

Payback - Realistic			
Year	NPV	Balance	
0	- €	- €	
1	- 5 791,29 €	- 5 791,29 €	
2	- 28 013,96 €	- 33 805,24 €	
3	- 14 164,72 €	- 47 969,96 €	
4	- 187,78 €	- 48 157,75 €	
5	18 048,55 €	- 30 109,20 €	
6	18 658,64 €	- 11 450,56 €	
7	66 554,95 €	55 104,39 €	6,1720

Payback - Pessimistic Scenario			
Year	NPV	Balance	
0	0,00 €	0,00 €	
1	- 5 791,29 €	-5 791,29 €	
2	-28 585,22 €	-34 376,50 €	
3	-18 321,10 €	-52 697,60 €	
4	- 3 037,04 €	-55 734,64 €	
5	4 650,84 €	-51 083,80 €	
6	4 433,75 €	-46 650,05 €	
7	28 103,66 €	-18 546,39 €	7,6599

Payback - Pessimistic Scenario			
Year	NPV	Balance	
0	0,00 €	0,00 €	
1	751,37 €	751,37 €	
2	-18 021,79 €	- 17 270,41 €	
3	1 491,73 €	- 15 778,69 €	
4	4 241,73 €	- 11 536,95 €	
5	18 048,55 €	6 511,60 €	
6	18 658,64 €	25 170,23 €	
7	66 554,95 €	91 725,18 €	4,6392

Annex AC – Pessimistic Scenario

Year	Units sold	Units sold under pessimistic scenario	FCF (Pessimist Scenario)
1	0	0	- 6 097,01 €
2	1000	565	- 31 049,74 €
3	3000	1695	- 16 528,49 €
4	6500	3673	- 230,69 €
5	7475	4223	23 342,70 €
6	8596	4857	25 405,66 €
7	9886	5585	95 405,33 €

Allocation rate for Environmental Projects (Pessimistic Scenario)	15%
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Year	1	2	3	4	5	6	7
Units sold	0	1000	3000	6500	7475	8596	9886
Units sold under pessimistic scenario	0	565	1695	3673	4223	4857	5585

Profit and Loss Forecast							
	Pessimistic Scenario						
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Revenue (Sales)							
Revenues	0,00 €	11 594,21 €	34 782,64 €	75 362,39 €	86 666,74 €	99 666,76 €	114 616,77 €
Total Revenue (Sales)	0,00 €	11 594,21 €	34 782,64 €	75 362,39 €	86 666,74 €	99 666,76 €	114 616,77 €
Cost of Sales							
Average Cost of Goods Sold	0,00 €	3 452,74 €	10 358,21 €	22 442,79 €	25 809,21 €	29 680,59 €	34 132,68 €
Total Cost of Sales	0,00 €	3 452,74 €	10 358,21 €	22 442,79 €	25 809,21 €	29 680,59 €	34 132,68 €
Gross Profit	0,00 €	8 141,48 €	24 424,43 €	52 919,60 €	60 857,54 €	69 986,17 €	80 484,09 €
Expenses							
Payments to personnel	2 704,76 €	26 934,85 €	26 934,85 €	26 934,85 €	30 975,07 €	35 621,33 €	40 964,53 €
Branding Costs	1 242,25 €	1 242,25 €	1 242,25 €	1 242,25 €	1 242,25 €	1 242,25 €	1 242,25 €
Outsourcing Expenses (Accountant and legal)	2 150,00 €	3 600,00 €	3 300,00 €	3 400,00 €	3 910,00 €	4 496,50 €	5 170,98 €
Packaging/Shipping costs	0,00 €	631,70 €	1 895,10 €	4 106,06 €	4 721,97 €	5 430,26 €	6 244,80 €
Control Systems/ Commodities and other costs	0,00 €	1 200,00 €	1 815,60 €	1 815,60 €	2 087,94 €	2 401,13 €	2 761,30 €
Reserves to allocate to environmental projects/ production methods	0,00 €	1 221,22 €	3 663,66 €	7 937,94 €	9 128,63 €	10 497,92 €	12 072,61 €
Total of Expenses	6 097,01 €	34 830,02 €	38 851,46 €	45 436,69 €	52 065,86 €	59 689,40 €	68 456,47 €
Sub-total Expenses (EBITDA)	-6 097,01 €	-26 688,54 €	-14 427,03 €	7 482,90 €	8 791,68 €	10 296,77 €	12 027,62 €
Amortizations	9 326,20 €	9 326,20 €	9 326,20 €	9 326,20 €	9 326,20 €	9 326,20 €	9 326,20 €
Depreciations	0,00 €	279,96 €	279,96 €	279,96 €	279,96 €	279,96 €	559,92 €
Amortizations + Depreciations	9 326,20 €	9 606,16 €	9 606,16 €	9 606,16 €	9 606,16 €	9 606,16 €	9 886,12 €
Net Profit Before Taxes (EBIT)	-15 423,21 €	-36 294,71 €	-24 033,20 €	-2 123,26 €	-814,49 €	690,60 €	2 141,49 €
Taxes	0,00 €	0,00 €	0,00 €	-445,88 €	-171,04 €	145,03 €	449,71 €
NOPLAT	-15 423,21 €	-36 294,71 €	-24 033,20 €	-1 677,38 €	-643,45 €	545,57 €	1 691,78 €

Free Cashflow								
	Pessimistic Scenario							
	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
NOPLAT	0,00 €	-15 423,21 €	-36 294,71 €	-24 033,20 €	-1 677,38 €	-643,45 €	545,57 €	1 691,78 €
Amortizations	0,00 €	9 326,20 €	9 326,20 €	9 326,20 €	9 326,20 €	9 326,20 €	9 326,20 €	9 326,20 €
Depreciations	0,00 €	0,00 €	279,96 €	279,96 €	279,96 €	279,96 €	279,96 €	559,92 €
Operational Cash Flow	0,00 €	-6 097,01 €	-26 688,54 €	-14 427,03 €	7 928,79 €	8 962,72 €	10 151,74 €	11 577,90 €
Working Capital Terminal Value	0,00 €	0,00 €	0,00 €	0,00 €	0,00 €	0,00 €	0,00 €	33 941,26 €
CAPEX Terminal Value	0,00 €	0,00 €	0,00 €	0,00 €	0,00 €	0,00 €	0,00 €	2 239,68 €
Total Inflows	0,00 €	-6 097,01 €	-26 688,54 €	-14 427,03 €	7 928,79 €	8 962,72 €	10 151,74 €	47 758,85 €
CAPEX	0,00 €	0,00 €	1 399,80 €	0,00 €	0,00 €	0,00 €	0,00 €	2 799,60 €
Investment in Working Capital	0,00 €	0,00 €	3 594,56 €	6 951,44 €	11 659,72 €	2 947,66 €	4 114,73 €	4 673,15 €
Total Outflows	0,00 €	0,00 €	4 994,36 €	6 951,44 €	11 659,72 €	2 947,66 €	4 114,73 €	7 472,75 €
Project Cash Flow	0,00 €	-6 097,01 €	-31 682,90 €	-21 378,48 €	-3 730,93 €	6 015,06 €	6 037,01 €	40 286,10 €

Purchases							
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Cost of Goods sold	0,0 €	3 452,7 €	10 358,2 €	22 442,8 €	25 809,2 €	29 680,6 €	34 132,7 €
Inventory (eoy)	0,0 €	2 318,8 €	6 956,5 €	15 072,5 €	17 333,3 €	19 933,4 €	22 923,4 €
Inventory (boy)	0,0 €	0,0 €	2 318,8 €	6 956,5 €	15 072,5 €	17 333,3 €	19 933,4 €
Total purchases	0,0 €	5 771,6 €	14 995,9 €	30 558,7 €	28 070,1 €	32 280,6 €	37 122,7 €

Auxiliar Table - Working Capital Calculation							
	Realistic Scenario						
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Current Assets							
Accounts Receivable = Yearly Sales * (1+VAT rate) / 12 * Average Coleccion Period in months	0,0 €	1 188,4 €	3 565,2 €	7 724,6 €	8 883,3 €	10 215,8 €	11 748,2 €
VAT to be received	0,0 €	794,1 €	2 382,4 €	5 161,8 €	5 936,1 €	6 826,5 €	7 850,5 €
Total of Current Assets	0,0 €	1 982,5 €	5 947,6 €	12 886,5 €	14 819,5 €	17 042,4 €	19 598,7 €
Current Liabilities							
Inventory	0,00 €	2 318,84 €	6 956,53 €	15 072,48 €	17 333,35 €	19 933,35 €	22 923,35 €
Accounts Payable	0,00 €	591,59 €	1 537,08 €	3 132,27 €	2 877,18 €	3 308,76 €	3 805,07 €
Income Tax to be paid next year	0,00 €	0,00 €	0,00 €	-445,88 €	-171,04 €	145,03 €	449,71 €
VAT to be paid in the next year	0,00 €	2 666,67 €	8 000,01 €	17 333,35 €	19 933,35 €	22 923,35 €	26 361,86 €
Total of Current Liabilities	0,00 €	5 577,10 €	16 493,61 €	35 092,21 €	39 972,84 €	46 310,49 €	53 540,00 €
Working Capital	0,0 €	3 594,6 €	10 546,0 €	22 205,7 €	25 153,4 €	29 268,1 €	33 941,3 €
Investment in Working Capital	0,0 €	3 594,6 €	6 951,4 €	11 659,7 €	2 947,7 €	4 114,7 €	4 673,2 €

Annex AC – Optimistic Scenario

Profit and Loss Forecast							
	Realistic Scenario						
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Revenue (Sales)							
Revenues	0,00 €	20 520,73 €	61 562,19 €	133 384,75 €	153 392,47 €	176 401,34 €	202 861,54 €
Total Revenue (Sales)	0,00 €	20 520,73 €	61 562,19 €	133 384,75 €	153 392,47 €	176 401,34 €	202 861,54 €
Cost of Sales							
Average Cost of Goods Sold	0,00 €	528,46 €	1 585,37 €	39 721,75 €	45 680,01 €	52 532,01 €	60 411,82 €
Total Cost of Sales	0,00 €	528,46 €	1 585,37 €	39 721,75 €	45 680,01 €	52 532,01 €	60 411,82 €
Gross Profit	0,00 €	19 992,28 €	59 976,83 €	93 663,00 €	107 712,45 €	123 869,32 €	142 449,72 €
Other Income							
Government grant	6 888,05 €	6 888,05 €	6 888,05 €	6 888,05 €	0,00 €	0,00 €	0,00 €
Total of other income	6 888,05 €	6 888,05 €	6 888,05 €	6 888,05 €	0,00 €	0,00 €	0,00 €
Other Expenses							
Payments to personnel	2 704,76 €	26 934,85 €	26 934,85 €	26 934,85 €	30 975,07 €	35 621,33 €	40 964,53 €
Branding Costs	1 242,25 €	1 242,25 €	1 242,25 €	1 242,25 €	1 242,25 €	1 242,25 €	1 242,25 €
Outsourcing Expenses (Accountant, legal and photo editor)	2 150,00 €	3 600,00 €	3 300,00 €	3 400,00 €	3 910,00 €	4 496,50 €	5 170,98 €
Packaging/Shipping costs	0,00 €	1 118,06 €	3 354,17 €	7 267,36 €	8 357,47 €	9 611,09 €	11 052,75 €
Control Systems/ Commodities and other costs	0,00 €	1 200,00 €	1 815,60 €	1 815,60 €	2 087,94 €	2 401,13 €	2 761,30 €
Reserves to allocate to environmental projects/ production methods	0,00 €	4 998,07 €	14 994,21 €	23 415,75 €	26 928,11 €	30 967,33 €	35 612,43 €
Total of Expenses	6 097,01 €	39 093,22 €	51 641,07 €	64 075,81 €	73 500,84 €	84 339,63 €	96 804,24 €
Sub-total Expenses (EBITDA)	791,04 €	-12 212,89 €	15 223,81 €	36 475,24 €	34 211,61 €	39 529,69 €	45 645,48 €
Amortizations	9 326,20 €	9 326,20 €	9 326,20 €	9 326,20 €	9 326,20 €	9 326,20 €	9 326,20 €
Depreciations	0,00 €	279,96 €	279,96 €	279,96 €	279,96 €	279,96 €	559,92 €
Amortizations + Depreciations	9 326,20 €	9 606,16 €	9 606,16 €	9 606,16 €	9 606,16 €	9 606,16 €	9 886,12 €
Net Profit Before Taxes (EBIT)	-8 535,17 €	-21 819,06 €	5 617,64 €	26 869,08 €	24 605,45 €	29 923,53 €	35 759,36 €
Taxes	0,00 €	0,00 €	1 179,71 €	5 642,51 €	5 167,14 €	6 283,94 €	7 509,47 €
NOPLAT	-8 535,17 €	-21 819,06 €	4 437,94 €	21 226,57 €	19 438,30 €	23 639,59 €	28 249,89 €

Free Cashflow								
	Realistic Scenario							
	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
NOPLAT	0,00 €	-8 535,17 €	-21 819,06 €	4 437,94 €	21 226,57 €	19 438,30 €	23 639,59 €	28 249,89 €
Amortizations	0,00 €	9 326,20 €	9 326,20 €	9 326,20 €	9 326,20 €	9 326,20 €	9 326,20 €	9 326,20 €
Depreciations	0,00 €	0,00 €	279,96 €	279,96 €	279,96 €	279,96 €	279,96 €	559,92 €
Operational Cash Flow	0,00 €	791,04 €	-12 212,89 €	14 044,10 €	30 832,74 €	29 044,47 €	33 245,75 €	38 136,02 €
Working Capital Terminal Value	0,00 €	0,00 €	0,00 €	0,00 €	0,00 €	0,00 €	0,00 €	66 786,55 €
CAPEX Terminal Value	0,00 €	0,00 €	0,00 €	0,00 €	0,00 €	0,00 €	0,00 €	2 239,68 €
Total Inflows	0,00 €	791,04 €	-12 212,89 €	14 044,10 €	30 832,74 €	29 044,47 €	33 245,75 €	107 162,24 €
CAPEX	0,00 €	0,00 €	1 399,80 €	0,00 €	0,00 €	0,00 €	0,00 €	2 799,60 €
Investment in Working Capital	0,00 €	0,00 €	6 362,06 €	12 303,44 €	25 621,87 €	5 701,77 €	7 840,10 €	8 957,32 €
Total Outflows	0,00 €	0,00 €	7 761,86 €	12 303,44 €	25 621,87 €	5 701,77 €	7 840,10 €	11 756,92 €
Project Cash Flow	0,00 €	791,04 €	-19 974,75 €	1 740,66 €	5 210,87 €	23 342,70 €	25 405,66 €	95 405,33 €

