



Business Plan

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www.prosperando.org

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1. Executive Summary

There are 17.3 million people working for microenterprises in Mexico. 20% of them are in the manufacturing sector, of which the largest segment is food production. In the food industry alone, microenterprises employ an average of 10 workers with annual sales of \$100,000, and 75% are led by women.¹

Microenterprises are flourishing in Mexico. In the aftermath of the 2008 economic downturn, an increasing number of people are being laid off from large corporations and are reverting to self-employment. Microenterprises struggle to manage suppliers and customers (both end consumers and retailers) because companies are spread out over a large geographical area. Microenterprises pay large premiums to local agents for raw materials and incur high transportation costs to market and deliver product to retailers. They face high barriers to entry for lack of human and financial resources necessary to reach new markets.

According to national statistics, 50% of microenterprise revenues are spent on raw materials and profit margins average 18%.² Costs can be significantly reduced if economies of scale are created through the aggregation of raw materials orders, transportation services and distribution channels.

Challenges Faced by Microenterprises

- **Manufacturing Challenges:** Microenterprises lack standardized production methods, quality controls and information on quality standards. They do not have access to raw materials sourcing from intermediaries and they face seasonality and price volatility of inputs.
- **Innovation Challenges:** Microentrepreneurs lack the capacity to develop new products due to limited access to capital and the inability to create a sustainable competitive advantage.
- **Commercialization Challenges:** There is a shortage of customer knowledge and value proposition, product differentiation, value communication and brand recognition among microenterprises, as well as restricted access to affordable packaging and labeling.
- **Links to Market:** The microenterprise industry is highly fragmented. There is limited knowledge about distribution channels, little bargaining power with suppliers and distributors, no access to transportation or logistics partners and no resources for a sales force.

PROSPERA is a for-profit social venture whose mission is to foster the sustainable development of Mexican microenterprises through cost-effective materials sourcing, marketing and distribution and consulting/coaching.

- **Cost-effective materials sourcing** – Microenterprises buy in cash and infrequently (low cost to serve) but have been forced to pay a premium for packaging materials because their purchase volumes are small and they do not have contacts with large producers.
- **Marketing and distribution** – Microentrepreneurs have been unable to reach urban markets because they have not built relationships with logistics providers and distributors. Currently, microentrepreneurs do everything by themselves. They struggle between production, marketing, financing, sales and distribution having little time to develop new products or find new suppliers to reduce their operating costs.
- **Consulting/coaching** – PROSPERA will be able to offer cost and revenue improvements that provide sufficient incentive for microenterprises to modify/increase their operations.

PROSPERA is a one-stop shop for microenterprises; an end-to-end service provider that 1) reduces the complexity of operations 2) drives lower costs and 3) increases revenues for microenterprises via aggregation throughout the value chain.

No organization currently provides these microenterprises with such a breadth of services or the level of cost improvements. PROSPERA is able to offer these services efficiently because it has identified a large segment of microenterprises that have similar packaging requirements and has built relationships with suppliers, logistics providers and distributors.

¹ 2008 National Economic Survey, INEGI.

² Ibid, 2004.

The success of PROSPERA is dependent upon being able to recruit large numbers of microenterprises to engage with PROSPERA, which is contingent upon the following:

- The ability of microenterprises to increase production in response to increased demand for their goods as a result of cheaper inputs (and consequently lower prices) and increased distribution.
- The continued refusal of large producers, logistics providers and retailers to work with small, individual microenterprises and their willingness to engage with PROSPERA.
- The absence of a similarly integrated and efficient approach from a competitor.

Current economic conditions present an opportunity for Mexican manufacturing to leapfrog global competition, and with microenterprises representing 95% of the industry (with \$16Bn in revenues), there is a sizeable market for discounted aggregate purchases and basic small-business consulting.

The PROSPERA business model consists of three phases. In Phase 1 PROSPERA will reduce raw material costs by aggregating microenterprises' purchases, increase sales using a retailer and merchandiser networks and reduce delivery and holding costs via centralized warehousing. Phase 2 involves the provision of business services and mentoring programs, and Phase 3, community development through education, healthcare, employment and investment guidance.

PROSPERA's primary revenue streams come from providing purchasing and distribution services for clients. Profits are a function of the savings that PROSPERA passes on to the microenterprises. PROSPERA's sourcing service expects to charge an average of 5% - 10% of the sourced product cost, depending on purchase quantity and excluding transportation. Payment terms vary from 0% to 50% upon order, with the balance COD. Additional factors that drive pricing are default risk and transportation method.

PROSPERA expects cash requirements in 2010 to be ~\$100K³ and to break even in 2011 with \$450,000 in revenues from 250 clients.⁴ By the end of 2012, PROSPERA expects to serve ~550 microenterprises in three states, with revenues and net income of \$2.0MM and \$1.2MM, respectively.

Proof of concept: PROSPERA has been studying microenterprises for the last 18 months. During the pilot phase in Zacatecas, PROSPERA conducted in depth interviews with 80 food manufacturing microenterprises to gain a firsthand understanding of the dynamics of microenterprises, their incentives, motivations, best practices and challenges. We focused on the challenges shared by most microenterprises to find a comprehensive and effective solution to foster growth.

PROSPERA is already engaged with 65 microenterprises as a business consultant and has secured agreements with a food labeling company, two food packaging companies and two logistics companies to both source and distribute raw materials and supplies. The next steps are to begin sourcing and transportation operations and recruit additional microenterprises in the state of Jalisco and other regions of Mexico.

2. Problem Definition

Meet Margarita Rojas



She is our target customer. She is 32 years old, a graduate of a technical school in Guadalajara with a degree in Marketing. She started a business with her family selling sauces and salad dressing following the secret recipe of her grandmother. She was chosen by her family to lead the new venture, develop the product line and market to local retailers because of her degree and previous experience as a cashier at a local grocery store. Every two weeks, Margarita visits 14 different local suppliers to purchase all the material she needs to produce her sauces: spices, preservatives, glass jars, lids, containers, cardboard boxes, among others. On a weekly basis, Margarita visits 23 different retail stores to deliver her products and

³ Excluding the \$45K grant from Echoing Green

⁴ Based solely on purchase aggregation. Please refer to the notes to the financial statements for additional detail.

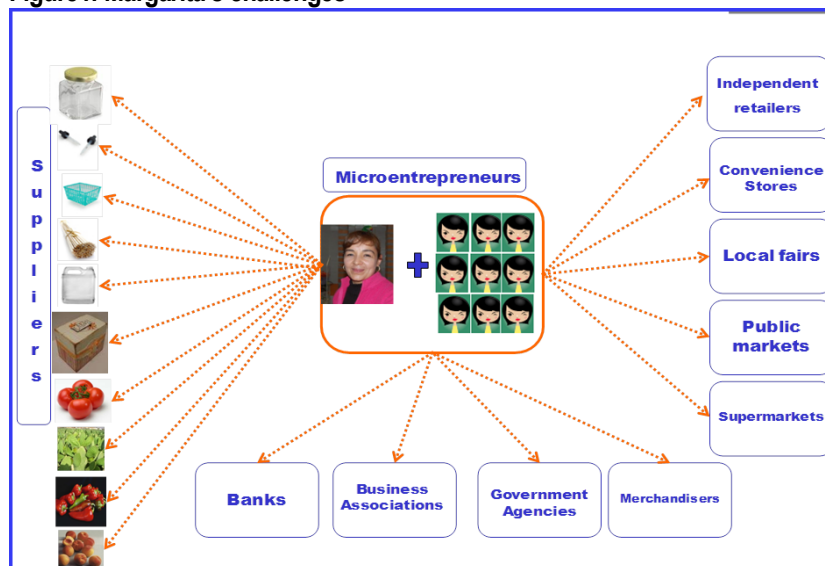
to ensure they are appropriately placed in the shelf space provided. Retailers pay her on net-45 and net-60 basis. When introducing a new product or selling at a new store, Margarita hires local merchandisers to sample her products to new customers. Every six months, Margarita attends local trade fairs to meet with buyers from the supermarket chain stores. She has been able to sign some deals there but finds it challenging given that on average there are 700 other microentrepreneurs competing for shelf space in supermarket chains.

“It’s all about time management” says Margarita when asked about the challenges of running her business. Regarding her response to the current economic downturn, Margarita plans to visit even more retailers and attend to more trade fairs to maintain her sales in the hope of expanding her customer base. Margarita is determined to grow her business. She knows she is paying premium prices by sourcing raw materials from local intermediaries. She has tried sourcing directly from manufacturers but was unable to meet minimum purchase quantities and her fellow microentrepreneurs were unwilling to aggregate their common purchases, for fear of theft or deception by Margarita and the suppliers. A year ago, Margarita was approached by a US buyer interested in testing her salsas among Mexican customers living in San Jose, CA.



Unfortunately, she was unable to match the benchmarked prices by the US buyer because she could not find other entrepreneurs willing to share the transportation and merchandising costs. There are 31,000 microentrepreneurs like Margarita selling food products in the state of Jalisco alone, and 120,000 in Mexico as a whole, concentrated mainly in the Bajío, Puebla and Northern Mexico regions. Figure 1 summarizes Margarita and her fellow microentrepreneurs’ challenges.

Figure1: Margarita’s challenges



Intermediaries between the manufacturers of inputs and microenterprises typically have local monopolies where they charge 60% above wholesale prices because microenterprises either have no relationships with manufacturers or cannot meet minimum order quantities.

Solution

Prospera is an end-to-end service provider that 1) reduces the complexity of operations, 2) drives lower costs and 3) increases revenues for microenterprises via aggregation throughout the value chain.

Key Executional Pieces

The following are highlights from Prospera’s execution plan. Items that are in-progress or have already been completed are noted in *italics*, with further detail in the footnotes.

A. Raw materials sourcing: 1. Identify (via interviews conducted by partner universities and local government) the raw materials commonly purchased by microenterprises, including periodic demand. *In-progress*⁵ 2. Find manufacturer with the lowest cost at comparable quality and reasonable minimum order quantities. *In-progress*⁶ 3. Purchase from supplier on net-45 or net-60 day terms and deliver to customers COD (Note: Benefit of negative cash conversion cycle is not estimated in financials). **B. Transportation:** 1. Contract with 3rd-party logistics provider to secure warehouse space for raw materials and customer product and delivery from manufacturers to customers and from customers to retailers. *Completed*⁷ 2. Develop rate card detailing point-to-point and warehousing charges. **C. Merchandising:** 1. Hire experienced merchandisers from large retail 2. Send merchandisers to retailers to sell to buyers. **D. Retail sales:** Secure commitment from retail partners to source from Prospera in support of their CSR strategy and as a way to reduce the number of vendors each buyer has to interface with (Note: This will accelerate sales but is not a requirement). **E. Seasonal sales:** Position Prospera as a vehicle for local and federal government officials to direct funds into local communities via seasonal/holiday gift baskets for events like Christmas and Mexican Independence Day. Prospera also acts as an agent that aggregates a selection of products into one bundle for the government. **F. Order Management:** To maintain order processing headcount at a minimum while scaling the business, Prospera will employ an application developed to manage incoming and outgoing cellular text messages via PC. The application allows text messages to be 1) received in the thousands and then downloaded to a PC 2) transferred easily to and from a spreadsheet or Access database and 3) transmitted to thousands of customers from a PC. **G. Dynamic Aggregation:** A model that has gained popularity in the US and Brazil where a product is advertised at a heavily discounted price with the caveat that a minimum order quantity needs to be met. It serves as an incentive for customers to tell others about Prospera, and Prospera will use the model to determine which new raw materials to procure for microenterprises while test pricing. **H. AidMatrix:** AidMatrix is Supply Chain Management (SCM) software designed by Accenture for non-governmental organizations that require an asset registry, needs management, procurement management, online ordering, online auctions, fleet management and referrals management. Prospera and AidMatrix have submitted a grant request to the US State Department for \$80,000 in funding. **I. Customer feedback:** Prospera will collect customer feedback via SMS, telephone and employee contacts and will conduct periodic interviews with customers to identify areas for improvement.

Customer Acquisition Strategy

With success contingent on overcoming the trust barrier (currently addressed through local partnerships) and signing up a large number of microenterprises Prospera has identified the following channels to drive adoption:

- A. Identifying early adopters and highlighting success stories: Newer microenterprises tend to be less jaded and more willing to try new things; we will need their success stories to convert the larger base of microenterprises into customers and we plan to offer our first set of customers significant incentives to join the platform.
- B. Retail loading dock booths: microenterprises sell to retailers primarily by going to loading docks (even though they do not have trucks) to interface with buyers. Prospera will maintain booths at these locations with salespeople to inform microenterprises of the benefits of working with Prospera.
- C. Referrals: Prospera will remit a percentage of first-year revenues associated with new customers to the referring party, including local agents⁸, other microenterprises, and ancillary service providers.
- D. Institutional partnerships: Prospera will engage the business, microfinance, non-profit and governmental organizations involved in the community to gain exposure to their constituent microentrepreneurs in vehicles such as trade fairs and newsletters.

Over the past 18 months, PROSPERA team conducted in depth qualitative research with 8% of food manufacturing microenterprises in Zacatecas to improve the understanding of the challenges faced and define the most important bottlenecks of microenterprises' cost structure. In addition, the team conducted 2 pilot exercises, in October 2008 and

⁵ A team of 10 undergraduate students from Tec de Monterrey, Universidad Panamericana de Guadalajara and ITESO are currently in Guadalajara to conduct interviews with microentrepreneurs. 15 UC Berkeley Business and Public Policy graduate students will be in Guadalajara in May to follow-up and conduct further research.

⁶ A glass jar manufacturer charges 60% less than local agents has been found, with a minimum order quantity of 10K jars (USD 0.20 each). 10K units represent the demand of 10-15 typical microenterprises.

⁷ Transportes Especializados HG is a 3rd-party logistics provider based in Guadalajara.

⁸ Prospera provides a way for local agents to earn revenue from microenterprises that they cannot serve.

February 2009 respectively, to test the Business Development division in Guadalajara. Table 1 in the Appendix provides a detailed description of PROSPERA's implementation plan for its first 4 years of operations as well as its main milestones and investment needs.

PROSPERA provided packaging inputs that were **40% cheaper by sourcing from a low-cost provider**, inclusive of transportation costs. Further conversations with manufacturers revealed that the minimum order quantities could be met easily by the demand from a handful of microenterprises. The price differential between suppliers is a clear evidence of the asymmetries of information and lack of bargaining power. PROSPERA also offers consulting services. Most microenterprises are run by individuals with little to no formal business training but with a strong desire to work with business students and professionals to examine their businesses to increase profit margins and develop innovative products. A number of non-profit organizations provide very specific classes to address some of these knowledge gaps, but their scope is often limited and rarely approach microenterprises as clients but rather as students.

Microenterprise development in Mexico offers a unique opportunity to accelerate local economic growth and create sustainable sources of employment within the country. Female-led microentrepreneurship is a sustainable response to the current economic crisis and to poverty alleviation in the long-run. According to World Bank studies, better economic opportunities for women are associated with higher incomes, higher literacy, better health and faster economic growth. The promotion of microenterprise growth in Latin America has the potential to lower the high unemployment rate and emigration problem within the country.

PROSPERA offers the possibility to:

- Support the development of microenterprises by improving profit margins and facilitating marketing and sales
- Develop a scalable business model that can be extended with low capital investment to other regions and sectors
- Integrate microenterprises into the greater food manufacturing supply chain

3. The Market

A growing market for PROSPERA

Microenterprises are flourishing in Mexico as an increasing number of people are being laid off from large corporations following the 2008 economic downturn. It is difficult to assess the exact growth rate of this sector given that many microenterprises operate in the informal sector. Official statistics report that by the end of 2008 new businesses' growth rate increased by 12% in Mexico, with 535,000 new small businesses in the formal economy.⁹ The Federal Economic Development Agency expects this number to increase by 18% in 2009. There are 17.3 million people working for microenterprises: 40% of them are in the food industry.¹⁰

The global downturn provides an opportunity for food producers in Mexico

Although the Mexican manufacturing industry has not been immune from the effects of the economic downturn, certain sectors have proved more resilient than others. The recent weakening of the Mexican peso softened the impact of the slowdown in consumer demand by effectively raising the cost of imported goods relative to locally-manufactured goods and making Mexican production cheap relative to foreign production.

In 2008, the Mexican manufacturing sector grew 1%, down sharply from annual average growth of 11% from 2003 to 2007. Food manufacturing, on the other hand, grew 5% in 2008 coming off of 9% average growth from 2003 to 2007. Current economic conditions present an opportunity for Mexican manufacturing to leapfrog global competition, and with microenterprises representing 95% of the industry (with \$16Bn in revenues), there is a sizeable market for discounted aggregate purchases and basic small-business consulting.

In the startup phase, PROSPERA will focus on the food industry. With 40% of all manufacturing enterprises, food is the largest segment. There are more than 120,000 microenterprises, employing approximately 1.8 million people, and 75% of these businesses are owned and led by women.

⁹ SARE, Secretaría de Economía, www.contantopyme.com

¹⁰ Mexico's Employment Survey for the last quarter of 2008, INEGI.

The following are risk factors PROSPERA may face in the current market:

	RISK	STRATEGY
Buying Power	Logistics and volume discounts are subject to volume minimums	PROSPERA's partners require a minimum of a 3 year commitment
Economic Variables	Unpredictable market swings, the economic health of partners and internal microenterprise factors	PROSPERA has no direct influence over market forces
Financial/Inventory	PROSPERA is liable for orders not picked up by microentrepreneurs and will have a limited period of time to sell the inventory on the microenterprise's behalf	AidMatrix technology will assist on procurement and logistics management
Perishables	Perishables can only be introduced in the long term due to their short lead time	PROSPERA will not provide perishable raw materials until further development stages

Market Segmentation and penetration plan

In selecting a packaging supplier, microenterprises take into account the following factors:

- Value (quality vs. cost)¹¹
- Level of trust in PROSPERA (in the case of pay-in-advance terms and credit lines provided)
- Lead time
- Minimum order quantities

On the other hand, PROSPERA's costs to serve customers are driven primarily by:

- Purchase quantity
- Required lead time
- Default risk

(See Table 2 for a detailed market segmentation plan).

4. Industry Analysis

According to national statistics, microenterprise growth is expected to be 6%. The development schedule for the expansion of our operations follows the geographical concentration of manufacturing microenterprises (See Chart 1).

Geographical location

PROSPERA's field operations will be based in Guadalajara Jalisco given that the company will start operations in this state and its partners are also based in this city. In 2012, PROSPERA will open a local branch at the Bajío region, to start providing sourcing services to clients obtained through the competition. By 2013, PROSPERA will open a local branch in Puebla.

The development schedule follows geographical concentrations of manufacturing microenterprises along with concentrations of people between 15-30 years old and is based on a national statistics estimate of microenterprises' growth, accounting for the economic downturn and considering geographical growth rates.¹² Mexican youth is critical to PROSPERA's model given that manufacturing innovations will be drawn from this sector.

Competitive Landscape

The company's competitors are fragmented in organizations providing certain aspects of PROSPERA's services. In this section we outline the most important groups of competitors.

¹¹ Initially, PROSPERA will offer a limited selection of packaging materials that are at least of comparable quality as is locally available, at a lower cost.

¹² The average age in the selected states is 22 years old.

1. Raw material producer: Packaging and labeling companies can easily compete with PROSPERA's sourcing services if they gain access to information of large groups of microenterprises. However, they have little understanding of the dynamics of this sector and focus on large corporations, concentrating on one set of products with few packaging alternatives and lack the flexibility of providing a diverse set of raw materials as PROSPERA Network. **2. Traditional middle men (Coyotes):** Coyotes have a small customer base and no sourcing agreements with large producers, few strategies to develop customer loyalty, and rely on physical interactions for new clients. They exploit information asymmetries and microenterprises' lack of bargaining power and tend to work with specific groups of microenterprises in isolated communities that do not have access to direct producers. **3. Local Economic Development Agencies:** Agencies often provide grants to microenterprises to source raw materials and even deal with the actual purchases and the logistics of getting the materials to microenterprises but they work only with their constituents and have little incentive to find volume discounts, new products or provide timely sourcing services. They provide manuals on manufacturing best practices and offer free consulting and accounting services, but rarely invest in educational initiatives for microenterprises to learn about the service provided. Their motive is political and concrete results are a strategy to generate votes regardless of the economic value to the microenterprise. **4. Business Associations (Integradoras):** In 1999, the Mexican Federal Government created *Integradoras* in order to encourage microenterprise consolidation but the model has not been as successful as expected due to legal constraints. Microenterprises consolidated as *Integradoras* can only make purchases locally and are not allowed to import products. Most are led by men and are composed of relatives. *Integradoras* have few incentives to increase its pool of members as the model requires unanimous agreement and increased efficiencies raise the cost of decision making.

Competitive advantage: PROSPERA's competitive advantage is multi-faceted: 1) delivering efficiencies of scale, where large numbers of microenterprises are managed by a combination of robust technologies and processes, ensuring the lowest prices, 2) ability to generate qualified leads among microenterprises by a) reaching them at: trade fairs, retail loading docks, and through institutional partnerships b) developing a referral program that fundamentally changes microenterprises incentives and encourages them to refer other clients in order to get the discount PROSPERA offers. 3) streamlining the supply chain and leverage SMS technologies and web-based SCM solutions to run PROSPERA's operations in a cost-effective manner. 4) PROSPERA's ability to leverage Gabriela's position as a World Bank consultant and involvement in Sello Rojo, one of the largest dairy companies in Mexico, to forge partnerships with major retailers such as Wal-Mart, and MFIs such as Compartamos and government agencies.

Our competitive advantages cannot be matched by traditional wholesalers and distributors to microenterprises due to PROSPERA's direct business relationships with its partners, and due to their higher overhead costs (incl. warehousing, direct sales force and high employee turnover).

The largest **barrier to entry** by far is trust. Microentrepreneurs have become conditioned to distrust their suppliers, retailers and fellow entrepreneurs, a result of a history of business exploitation. Secondly, the complexity of operating such a comprehensive solution requires multidisciplinary capabilities, thus making it prohibitive for most small organizations to attempt on their own. PROSPERA puts the trust of our customers above all else. To ensure that we earn and maintains this trust, the company is guided by the principles of customer obsession, frugality, innovation and a high hiring bar. In addition, PROSPERA's partnerships with local governments universities and Micro Finance Institutions (MFIs), allows the venture to leverage partners' reputation and track record working with microenterprises to gain credibility among customers.

Phased approach to achieve profitability.

Phase 1: Market entry

In interviews with microenterprises' in Mexico, the challenges stated repeatedly are the high costs of getting in front of retailers (merchandising headcount) and physical distribution. Our solution is to serve as a distributor that employs 1) merchandisers to handle sales for multiple microenterprises and 2) a 3rd party logistics provider that receives product in a central location and delivers to the network of retailers throughout Mexico, where the scale driven by aggregation results in lower unit costs for our clients.

The distributor model reduces the number of vendors retailers' have to interface with and improves the consistency of supply (Prospera will hold buffer inventory and work with retailers to provide demand forecasts to the microenterprises), which are in turn the two obstacles retailers face in bringing on smaller suppliers.

The second most viable opportunity is aggregate sourcing, because 1) the incumbents' prices are high, 2) the investment and associated risks are low and 3) the operation is relatively simple. For instance, Prospera buys the glass jars that are

most commonly used by food producers and passes on a portion of the approximately 60% in savings versus the local reseller's prices.

Phase 2: Service and geographical expansion

The beginning of Phase 2 will be marked by the successful replication of our model outside of Jalisco, namely the Bajío region, and the expansion of Prospera's suite of services¹³. Opportunities to reduce cost via aggregation exist throughout the microenterprise's value chain, so with a significant base of microenterprises the next step will be to identify partners that can provide ancillary services such as insurance, accounting, and legal. In exchange for driving business to these partners, Prospera will negotiate a percentage of the first year's fees.

This phase will also be highlighted by the beginning of Prospera's continuous improvement program, in which Prospera connects microenterprises with mentors from industry and consultants from universities to find ways to improve. We have already been successful in engaging mentors and universities, but will defer more focused efforts until core business operations are stable.

5. Management Team

Gabriela Enrigue, co-founder and CEO, received her Master in Public Policy from UC Berkeley in May 2008. From 1994 to 1999, Gabriela worked for her family logistics company analyzing expansion plans, managing vendor and inventory planning. Since June 2008, Gabriela has been consulting for the World Bank in the Finance and Private Sector Development Group. Gabriela led *Doing Business in Mexico Evaluation*. **Miguel Duhalt** is currently studying his MBA in Duke University at the Fuqua School of Business. He has more than six years of experience in the financial industry. He has also been very active as an entrepreneur developing projects in marketing, sales and operations. **Natalia Gomez** is a Fulbright Scholar and a Master candidate of International Development Policy at the Sanford School of Public Policy. She brings to the team financial expertise, 3 years of work experience in entrepreneurship support programs in developing countries. She became involved in PROSPERA in order to contribute to the start-up of the business model and to gain a deeper understanding of the challenges to microenterprise development in Latin America and innovative ways to overcome them. **Gema Stratico** is a Master candidate of International Development Policy at the Sanford School of Public Policy. She brings expertise in raising capital for social enterprises, brand management for non-profits and customer acquisition strategies in rural underserved markets. As Managing Director of the Duke Microfinance Leadership Initiative (DMLI) she is currently leading the Microfinance Investment Fund. In participating in the Duke Start-Up Challenge, she hopes to earn more experience on issues of project management, sustainable development and social entrepreneurship. **Ksenia Voropaeva** a senior pursuing a major in Public Policy with a concentration in Economic Policy, a certificate in Markets and Management and a minor in Russian. As the manager of the Duke Microfinance Leadership Initiative, she brings expertise in operations for microfinance institutions. She also has prior experience in finance and consulting. In participating in the Duke Start-Up Challenge, she hopes to gain first-hand experience in developing a business model that aligns profitability with social impact.

Board of Advisors: Our board helps the team review the growth strategy, financial and business model and have proven critical at opening doors both in Mexico and in the US such as Walmart Mexico, the Google Foundation and Mexican Angel investors interested in funding social enterprises like PROSPERA.

Héctor Cárdenas: President and CEO of The Ergo Group. He has consulted with government agencies at the federal, state and local levels in both the US and Mexico. He has specialized in public management with a particular emphasis on business process reengineering and the use of information technologies to improve government services. He is on the board of Nacional Financiera's California Business Council and is President of Silicon Valley Mexico Talent Network, a non-profit organization that brings together Mexican executives and knowledge economy professionals interested in fostering Mexico's development. **Enrique Pani:** He is responsible for Deutsche Bank's investment banking activities in Mexico, which include capital raising and mergers and acquisitions. Enrique also ran Latin American Equity Capital Markets, and participated in over US\$4 bn in capital raising for clients across the region. He is a 12-year veteran at Deutsche Bank, having started as an equity research analyst in Mexico. **Naeem Zafar:** He is a part of the faculty of Haas Business School at the

¹³ We have already been approached by the food Chambers of Commerce of the states Puebla, Sonora and Guanajuato expressing their interest in testing our model among their members. However, Prospera is currently focused on perfecting its model in Jalisco first before considering geographical expansion.

University of California Berkeley where he teaches Entrepreneurship and Innovation at the MBA program. Naeem is also with Concordia Ventures and focuses on educating and advising entrepreneurs with all aspects of starting and running a company. Naeem has been with six startups and has extensive experience in mentoring and coaching CEOs.

6. Business Model

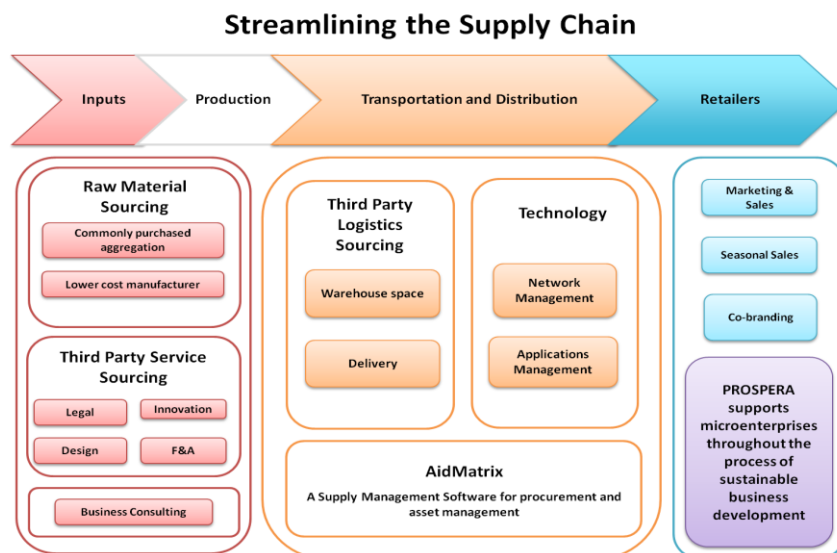
PROSPERA acts as a supply chain integrator by facilitating networks between microenterprises and PROSPERA's partners. At the input stage, PROSPERA places aggregate orders of raw materials from suppliers to create economies of scale for microenterprises. PROSPERA also sources legal, financial, accounting and other business services. The production process is performed independent of PROSPERA. At the transportation and distribution stage, PROSPERA obtains discounts from logistics providers and retailers and passes on the savings to the microenterprises. At the final stage of distribution, PROSPERA will support microenterprises through marketing and sales strategies, seasonal packages and co-branding. Along all of the stages of the supply chain integration, PROSPERA will utilize supply management software and SMS technology to facilitate faster and more efficient business transactions.

To attract and retain microenterprises PROSPERA will use the following step-by-step process:

1. Promotion and targeting: a) Identify clients b) Provide information about PROSPERA services c) Hand out application forms and provide incentives for good performance through credit allowances d) Complete client due diligence and determine their credit score in order to create a client file
2. Call microenterprise owners or group leaders to place orders
3. PROSPERA sales representative meets with the group of clients and collects payment
4. PROSPERA sources raw materials from partners
5. PROSPERA delivers materials to the leader of the group of microenterprises

By 2011, PROSPERA will encourage customers to place orders by internet and will provide additional discounts for internet orders. By 2012, PROSPERA will provide the service of online purchases in order to reduce the company's costs of service delivery. Additional discounts will be offered for online purchases. In order to win reference customers, PROSPERA will use the information provided by microenterprises in its application form and will tap on the leaders of groups of microenterprises. Considering the strategies of lead generation, brand positioning and bond building described in this section, table 8 summarizes PROSPERA's customer acquisition costs.

Figure 2: PROSPERA Business Model



Marketing Strategy

PROSPERA will generate brand awareness through its partnerships, co-branding initiatives and community events. We will host a product design competition for microentrepreneurs and will pair winners to industry specialists in various fields as mentors. PROSPERA will then co-brand these products and leverage its network to obtain packaging, labeling, logistics and transportation discounts to increase product sales.

During its first competition, PROSPERA expects to have 150 participants from Jalisco with the assistance of PROSPERA's partner, the *Tecnologico de Monterrey* of Guadalajara, which already provides business training to 130 food manufacturing microenterprises in Los Altos de Jalisco. In the future the competition will focus on the development of health-conscious products given that demand has been growing by 20% over the past 3 years and is expected to grow by 30% for the next 5 years.¹⁴ New categories, such as Gourmet and Medically-restricted products, will be incorporated on a yearly basis.

PROSPERA has also developed an outreach campaign targeted to universities, business associations and microenterprises being supported by local economic development agencies. During its pilot phase in Zacatecas, PROSPERA was able to recruit 8% (45) of the manufacturing microenterprises in the state by organizing a pilot trade fair and inviting microenterprises to sell their products there.

7. Social Impact

PROSPERA's mission is to fundamentally transform the way microenterprises do business in Latin America, starting with Mexico. By developing innovative ways to bring together farmers, suppliers, logistics providers, retailers, universities, investors and local governments to help microenterprises grow, PROSPERA contributes to the creation of sustainable sources of employment opportunities among local communities while empowering microentrepreneurs to foster a culture of innovation and constant improvement. Through PROSPERA's network, microentrepreneurs have a platform to engage with other sectors of society and a voice their challenges and needs.

Our key social impact indicators are the following: 1) Savings for entrepreneurs at the bottom of the pyramid to increase margins and household incomes. 2) Number of jobs created in low-income zip-codes: Our goal is to rebuild trust among microentrepreneurs while supporting them to scale their businesses and create new local jobs. We are assuming that microentrepreneurs have the capacity to scale their businesses and hire every year 5 additional employees during the first two years of working with PROSPERA and 2 additional workers on subsequent years. 3) Savings in welfare costs: According to national statistics, the Mexican government spends, on average, \$3,500 per person on welfare benefits annually.¹⁵ Given the inefficiencies of the Mexican welfare system, approximately 60% of these costs are spent in administration and government overhead costs. Table 12 presents PROSPERA's Social Return on Investment projections (See Appendix for Social Return on Investment).

8. Financials

PROSPERA will reach 50 microenterprises in 2010 in Jalisco. By 2012 PROSPERA will have 500 FMEs in Jalisco and will start operations in el Bajío. In 2012 we anticipate having 20,197 FMEs in Bajío and by 2013 PROSPERA will expand to Puebla. In 2013 Puebla expects to work with 11,428 FMEs (See Table 4).

PROSPERA's highest costs are general and administrative (G&A) expenses, which count for an average of 15% of PROSPERA Revenues (See Table 5). Staffing costs include general management and the sales and operations payroll. The growth rate in payroll will increase 8% annually (assuming 1.5% inflation) but G&A costs will decrease over time as a function of the steep learning curve in the first years of operation. Once the business is on the ground and running, PROSPERA will be able to employ less people to complete the general and administrative tasks, except in sales representatives and regional coordinators. We assume that a sales representative can manage 20 clients (Table 6).

An important component of PROSPERA's Financials is capital expenditure on the technology infrastructure. The number of computers, servers and software licenses depend on the number of PROSPERA employees (Table 7). We use a straight line depreciation model and we assume that all our investments in technology will depreciate in three years (Table 8).

PROSPERA marketing strategies will be direct marketing as well as viral marketing and word of mouth. In the first five years 10% of revenues will be allocated to the marketing budget (Table 9).

¹⁴ Reporte Anual del Mercado de Alimentos, SAGARPA- FIRA, Marzo 2009, <http://www.sagarpa.gob.mx/desarrolloRural/Paginas/pusmnp.aspx>

¹⁵ Mexico's Employment Survey for the last quarter of 2008, INEGI.

PROSPERA expects to generate a social surplus of \$98,059,488. The social return on investment is outlined in Table 11.

Table 1: PROSPERA financial projections (Expected Scenario):

Income Statement					
	2010	2011	2012	2013	2014
Revenues	25,000.0	600,000.0	2,839,375.0	4,594,625.0	7,124,250.0
Expenses					
General and Administrative	(166,375.0)	(196,125.0)	(317,401.9)	(368,194.4)	(429,305.6)
Operations	(35,000.0)	(167,600.0)	(347,592.0)	(543,780.5)	(830,490.9)
Sales	(33,360.0)	(196,128.0)	(458,161.9)	(777,494.2)	(1,180,904.4)
Marketing and Partner Management	(2,500.0)	(97,800.0)	(365,585.5)	(591,732.3)	(855,276.3)
Equipment Depreciation	(3,828.0)	(13,949.8)	(30,864.8)	(62,357.3)	(118,995.8)
Website Design and Maintenance	(3,850.0)	(3,600.0)	(6,400.0)	(3,300.0)	(3,300.0)
Total Expenses	(244,913.0)	(675,202.8)	(1,526,006.1)	(2,346,858.7)	(3,418,273.0)
Income (Loss) before taxes	(219,913.0)	(75,202.8)	1,313,368.9	2,247,766.3	3,705,977.0
% Operating Margin	(879.7%)	(12.5%)	46.3%	48.9%	52.0%
Income Taxes (ISR at 28%)	(61,575.6)	(21,056.8)	367,743.3	629,374.6	1,037,673.6
Net Income (Loss)	(158,337.4)	(54,146.0)	945,625.6	1,618,391.8	2,668,303.4
% Net Income Margin	(633.3%)	(9.0%)	33.3%	35.2%	37.5%

Table 2: PROSPERA Financial Worst Case Scenario:

Income Statement					
	2010	2011	2012	2013	2014
Revenues	\$25,000	\$450,000	\$1,987,563	\$3,216,238	\$4,625,600
Expenses					
General and Administrative	(\$53,940)	(\$90,330)	(\$188,995)	(\$276,082)	(\$396,138)
Operations	(7,500)	(29,900)	(53,076)	(71,388)	(92,426)
Sales	(27,920)	(171,245)	(380,340)	(639,379)	(1,070,378)
Marketing and Partner Management	(1,875)	(49,950)	(184,059)	(297,905)	(408,142)
Equipment Depreciation	(4,767)	(9,987)	(15,624)	(22,615)	(25,625)
Website Design and Maintenance	(3,310)	(2,860)	(5,570)	(3,120)	(3,120)
Total Expenses	(99,312)	(354,271)	(827,665)	(1,310,489)	(1,995,829)
Income (Loss) before taxes	(\$74,312)	\$95,729	\$1,159,898	\$1,905,748	\$2,629,771
% Operating Margin	-297.2%	21.3%	58.4%	59.3%	56.9%
Income Taxes (ISR at 28%)	(20,807)	26,804	\$324,771	\$533,610	\$736,336
Net Income (Loss)	(\$53,504)	\$68,925	\$835,127	\$1,372,139	\$1,893,435
% Net Income Margin	-214.0%	15.3%	42.0%	42.7%	40.9%

Table 3: PROSPERA will be worth \$1,852,127.50 in five years

Net Present Value					
	2010	2011	2012	2013	2014
Net Income (Loss)	(158,337.4)	(54,146.0)	945,625.6	1,618,391.8	2,668,303.4
Depreciation (+)	3,866.7	14,090.7	27,309.9	41,163.1	56,973.2
Change in WC	0.0	0.0	0.0	0.0	0.0
CapEx	(15,466.7)	(33,162.7)	(36,295.5)	(54,665.4)	(81,915.5)
Initial Investment	(920,115.8)				
UFCF	(1,090,053.1)	(73,218.0)	936,640.0	1,604,889.5	2,643,361.1
NPV	\$1,852,127.50				
IRR	61%				

(Refer to Table 8 for PROSPERA proforma Balance Sheet)

Financial data from comparable businesses are difficult to find. There are no public or private companies in Mexico with similar business models.

Table 4: Food Manufacturers Microenterprises Target

	2010		2011		2012		2013		2014	
	#	% of tot	#	% of tot	#	% of tot	#	% of tot	#	% of tot
PROSPERA Phase 1 (Jalisco)	50	0.3%	250	1.5%	500	2.9%	750	4.1%	1,100	5.7%
PROSPERA Phase 2 (expansion to Bajío)	-	0.0%	-	0.0%	50	0.2%	100	0.5%	200	0.9%
PROSPERA Phase 3 (expansion to Puebla)							40	0.4%	80	0.7%
Total microenterprises engaged	50	0.1%	250	0.4%	550	0.8%	890	1.2%	1,380	1.8%

Table 5: Cost Structure

Cost Structure					
	2010	2011	2012	2013	2014
Total G&A Costs	166,375.0	196,125.0	317,401.9	368,194.4	429,305.6
% of revenue	665.5%	32.7%	11.2%	8.0%	6.0%
Sales Costs	33,360.0	196,128.0	458,161.9	777,494.2	1,180,904.4
% of revenue	133.4%	32.7%	16.1%	16.9%	16.6%

Table 6: G&A costs (Staffing Costs)

Position	Annual Salary + bonus	Growth rate	2010		2011		2012		2013		2014	
			8%	FTEs	FTEs	\$	FTEs	\$	FTEs	\$	FTEs	\$
General Management												
CEO (US)	\$150,000		1.0	150,000	1.0	162,000	1.0	174,960	1.0	188,957	1.0	204,073
General Manager	\$60,000		0.0	0	0.0	0	1.0	69,984	1.0	75,583	1.0	81,629
Administrative Assistant	\$15,000		0.5	7,500	1.0	16,200	1.0	17,496	1.0	18,896	1.0	20,407
<i>General Management total compensation</i>			1.5	157,500	2.0	178,200	3.0	262,440	3.0	283,435	3.0	306,110
Sales												
		number of companies x rep	25		21		20		20		22	
Sales representative	\$10,000		2.0	20,000	12.0	129,600	28.0	326,592	45.0	566,870	64.0	870,713
Sales director	\$20,000		0.3	6,000	1.0	21,600	1.0	23,328	1.0	25,194	1.0	27,210
<i>Sales total compensation</i>			2.3	26,000	13.0	151,200	29.0	349,920	46.0	592,065	65.0	897,923
Operations												
		number o companies x coord	50.0		50.0		50.0		52.4		53.1	
Microenterprise coordinators	\$15,000		1.0	15,000	5.0	81,000	11.0	192,456	17.0	321,227	26.0	530,591
IT engineer	\$15,000		0.5	7,500	1.0	16,200	1.0	17,496	2.0	37,791	3.0	61,222
Inbound Coordinator	\$15,000		0.0	0	1.0	16,200	2.0	34,992	3.0	56,687	4.0	81,629
Outbound Coordinator	\$15,000		0.0	0	0.0	0	1.0	17,496	1.0	18,896	1.0	20,407
Buyer	\$15,000		0.0	0	1.0	16,200	2.0	34,992	3.0	56,687	4.0	81,629
Logistics Manager	\$25,000		0.5	12,500	1.0	27,000	1.0	27,000	1.0	31,493	1.0	34,012
<i>Operations total compensation</i>			2.0	35,000	9.0	156,600	18.0	326,592	27.0	522,780	39.0	809,491
Marketing & Partner management												
Marketing & Partner Manager	\$35,000		0.0	0	1.0	37,800	2.0	81,648	3.0	132,270	3.0	142,851
Administrative Assistant	\$15,000		0.0	0	1.0	16,200	1.0	17,496	1.5	28,344	1.5	30,611
<i>Partnership management total compensation</i>			0.0	0	2.0	54,000	3.0	99,144	4.5	160,613	4.5	173,462
Total Compensation												
<i>Payroll Taxes and Health (3% of wages, Impuesto Sobre Nomina+ Seguro Social)</i>			5.8	218,500	26.0	540,000	53.0	1,038,096	80.5	1,558,894	111.5	2,186,986
<i>Payroll Taxes and Health (3% of wages, Impuesto Sobre Nomina+ Seguro Social)</i>			3%	6,555		16,200		31,143		0		0
Total salary expense				225,055		556,200		1,069,239		1,558,894		2,186,986

Table 7: Capital Expenditure in Technology

	Growth rate		2010		2011		2012		2013		2014	
	8%	Reqmts	\$		\$		\$		\$		\$	
			Reqmts	\$	Reqmts	\$	Reqmts	\$	Reqmts	\$	Reqmts	\$
Computers	\$800	4	3,200	9	7,776	11	10,264	15	15,117	21	21,163	
GSM receivers	\$100	4	400	2	216	2	233	2	252	2	252	
Software and licenses	\$2,000	4	8,000	9	19,440	11	25,661	15	37,791	21	52,908	
Servers	\$3,000	-	-	1	3,240	1	3,499	-	-	1	3,779	
Equipment Costs			\$11,600		\$30,672		\$39,658		\$53,160		\$78,102	
Equipment Depreciation			\$3,828		\$13,950		\$30,865		\$62,357		\$118,996	

Table 8: Depreciation Schedule

Depreciation Schedule					
	2010	2011	2012	2013	2014
Depreciation	3,866.7	14,090.7	27,309.9	41,163.1	56,973.2
Long Term Assets	11,600.0	30,672.0	39,657.6	53,159.8	78,102.1
Capex	15,466.7	33,162.7	36,295.5	54,665.4	81,915.5

Table 9: Marketing Expenses

	% of revenues	2010		2011		2012		2013		2014	
		Revenues	Expenses	Revenues	Expenses	Revenues	Expenses	Revenues	Expenses	Revenues	Expenses
Marketing budget	10%	25,000	2,500	600,000	60,000	2,839,375	283,938	4,594,625	459,463	7,124,250	712,425
Marketing salaries			0		37,800		81,648		132,270		142,851
Total marketing expenses		2,500	2,500	97,800	97,800	365,586	365,586	591,732	591,732	855,276	855,276

Table 10: Pro forma Balance Sheet

Balance Sheet				
	2010	2011	2012	2013
Assets				
Startup Capital	30,000	-	-	-
Cash	(38,396)	93,926	912,874	1,522,785
Accounts Receivable				
Equipment				
Accumulated Depreciation	(3,733)	(7,889)	(16,822)	(28,363)
Goodwill (Volunteer work, w oth est.)	50,000	50,000	50,000	50,000
Total Assets	\$37,870	\$136,037	\$946,052	\$1,544,422
Liabilities and Capital				
Liabilities				
Accounts payable	(13,966)	(410,966)	(619,510)	(2,002,319)
Accrued Liabilities	-	-	-	-
Income Tax Payable	-	-	-	-
Total Liabilities	(13,966)	(410,966)	(619,510)	(2,002,319)
Capital				
Volunteer Network	50,000	50,000	50,000	50,000
Capital Stock	30,000	30,000	30,000	30,000
Retained Earnings	(28,164)	467,003	1,485,561	3,466,741
Total Capital	51,836	547,003	1,565,561	3,546,741
Total Liabilities and Capital	\$37,870	\$136,037	\$946,052	\$1,544,422
<i>Return On Total Assets (ROA)</i>	NA	343%	157%	224%
<i>Return on Equity (ROE)</i>	NA	85%	95%	98%

Table 11: Social Return on Investment

Social Return on Investment (in \$US dollars)

Cash Flow Projections

PROSPERA

FY ending 2010 - 2020

	Pre-Startup	2010	2011	2012	...	2019	2020
Microenterprises served		50	250	550		4,500	5,500
Social and Environmental Benefits							
Savings created for microenterprises		\$125,000	\$1,500,000	\$5,678,750		\$46,462,500	\$56,787,500
New low-income jobs		250	1,250	2,600		13,500	17,000
Welfare savings		\$875,000	\$4,375,000	\$9,100,000		\$47,250,000	\$59,500,000
Total savings for society		\$1,000,000	\$5,875,000	\$14,778,750		\$93,712,500	\$116,287,500
Operating and Capital Costs							
Total operating expenses	(\$1,500)	(\$94,545)	(\$332,698)	(\$737,212)		(\$6,249,570)	(\$7,638,363)
Capital expenditures	-	(14,300)	(21,657)	(341,684)		(2,675,483)	(3,270,035)
Total Operating and Capital costs	(\$1,500)	(\$108,845)	(\$354,354)	(\$1,078,897)		(\$8,925,053)	(\$10,908,398)
Social Benefit Flow	(\$1,500)	\$891,155	\$5,520,646	\$13,699,853		\$84,787,447	\$105,379,102
Discount rate	20%						
NVP of Social and Environmental Benefits	\$125,146,972						
NVP of operating costs	\$6,229,656						
Benefit-cost Ratio	\$20						
Social Value	\$98,059,488						

Appendix

Table 1: PROSPERA Implementation Plan

	Pilot phase	2010	2011	2012	2013
Partnership Development					
Packaging companies					
Logistics companies					
Retailers in Guadalajara, Mexico City and Monterrey					
Economic Development Agencies					
MFIs					
Marketing					
Build customer relationships					
Develop marketing campaign for PROSPERA Network					
Develop marketing campaign for PROSPERA Competition					
Management					
Founding PROSPERA					
Recruiting of sales representatives					
Start taking orders by internet and through cell phone application					
Milestones		1,2	3,4	5,6	7,8
Investment needed		375K			

Table 2: Market Segmentation

Segmentation factor impact on PROSPERA	Ideal	Problematic
Default risk	Low	High

<i>Likelihood that the customer will accept and pay for the product once it is delivered</i>		
Level of trust in PROSPERA		
<i>Willingness of the customer to pay for the product in advance; larger upfront payments decrease default risk</i>	High	Low
Required lead time		
<i>Period from date of order to date of delivery; longer lead times decrease transportation costs because orders can be aggregated and trucks can be filled to capacity</i>	Long	Short
Purchase quantity		
<i>Larger purchase quantities result in lower unit administration and transportation costs, may allow PROSPERA to increase purchase discounts with suppliers as well</i>	Large	Small

Chart 1: Market Expansion Plan

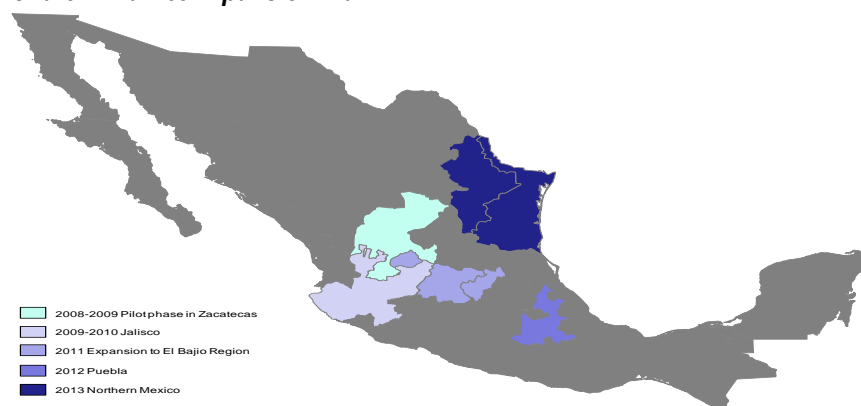


Table 3: Competitive Landscape

	Raw Material Producers	Coyotes	Economic Development Agencies	Integradoras	Local distributors	PROSPERA
Low price	●	●	●	●	○	●
Timely delivery	●	●	●	●	○	●
Differentiated materials	●	●	●	●	○	●
Ease of purchase	●	●	●	●	○	●
Links to markets	○	○	●	●	●	●
Consulting	○	○	●	○	○	●

Excellent	Very good	Good	Fair	Poor
●	●	●	●	○

Table 4: Components of value proposition

Cost component	Current microenterprise approach	PROSPERA's approach to reduce cost	Pricing model
Raw materials	Source independently from local agents	Source from large manufacturers by aggregating microenterprise purchases	Markup on unit cost
Transportation	Deliver personally to each retailer	Reduce microentrepreneur's transportation costs and time investment by centralizing	Distance per case, with

		receipt in one location (or picking up at the customer's location) and deliver to retailers by truckload	minimums
Merchandising	Sell personally to each buyer	Merchandise portfolio of products to each buyer	Commission + listing fee
General & admin	Contract with accountants, insurance co's, MFIs, etc	Negotiate bulk discounts for PROSPERA's clients	Commission
		Provide outsourced services	Pay per use
Revenue driver	Current microenterprise approach	PROSPERA's approach to increase revenue	Pricing model
Retail sales	Sell to buyers within the vicinity	Leverage credibility and partnerships with major retailers to increase coverage	Commission + listing fee
Catalog sales	None	Provide best-in-class products to major catalogers	Commission + listing fee
Seasonal sales	Referrals	Leverage partnership with local and federal governments to contract for Xmas baskets	Commission
Online (2011)	None	Host products on PROSPERA website	Commission + listing fee
Export (TBD)	None	Contract with international retailers to export best-in-class products	Commission + listing fee