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The Efficiency of a Business Model with European Union Contributions in the Olive Oil Sector

Abstract

I chose to produce this dissertation because I find it extremely stimulating to be able to connect my passion for my olive oil with my area of study. I felt I needed to conclude my bachelor degree with a management project which would become a useful tool for myself in my future prospects. I envisioned this dissertation as something that would allow me to match the practical skills I have acquired through my direct participation in the Trebula Sabina project with the theoretical skills provided by my academic path.

“Il Convento” is born to offer a quality product to the market. It refers to extra virgin oil, produced near Rieti (IT). Being a very high quality product, it is expensive to produce and for this reason its price is located above common products price. The target includes people with medium-high income and then mostly older people, so working on a niche market. What my product owns that makes it better of competitors is: it is 100% biologic and made in Italy, it is produced in a place with optimum atmospheric conditions and has a very high quality, the firm is family-run and it is produced in a special socio-cultural context. In fact the firm is characterized by an old Franciscan convent located in Monteleone Sabino (RI), the old Trebula Mutuesca, where many roman ruins are found. The product name indeed comes from the old place denomination and from the territorial origin, taking the name of “Trebula Sabina”. The sale is mainly envisioned through the e-commerce on its own website, but also through good hotels and restaurants taking into account various distribution channels by third parties. Great reliance will be on exporting first to Europe then to the rest of the world also through a plan for communicating via social networks, blogs and articles managed, written and edited by our press office. For revenue streams, traditional sales will be used, with the possibility in the future to expand the offer with the addition of another line of oil, pharmaceuticals or cosmetics based on oil or food waste resulting therefrom. Key resources are all present: physical resources (tools, warehouses, machinery), human resources (workers and coordinators), intellectual and financial resources (we’ve been funded from EU).

Summary:

1 – INTRODUCTION

The simple agricultural company "Il Convento" was founded in 2016 by the need to improve the organizational structure and efficiency of many small companies in the same territory. The production of extra virgin olive oil is a characteristic element of my family that, originating from northern Italy, reached the lands of the Sabina and started this tradition. We are located in Monteleone Sabino in the province of Rieti, the classic Italian village, where agriculture is the main activity of the residents. The old convent of this village is located on a hill and has belonged to my family since about 1800, after having Franciscan friars residing there, they had to sell it because of a severe crisis.

The family of my father is very numerous, counts in fact a total of eight brothers, all grown there and that's why there is a strong link with this place by our family; bond that they have been transmitted to their children and to me in particular.
When my grandfather died in 1991 that I was not yet born, his interests had to be divided into eight equal parts, which was not at all simple.
Because of the small plots, a factor as a coordinator was necessary for the work like the maintenance of houses and gardens or agricultural tasks such as the annual performance of oil. Everyone in fact dedicated economic resources to their own plot of land using old harvesting tools such as old manual pliers or old methods such as placing tarpaulins on the ground. However, the new technologies have made it possible to considerably speed up production by lowering costs such as those foreseen by the slowness of old methods. This, however, remained only a good idea as the new tools were too expensive and inconvenient for such a small plot of land. Meanwhile, the production costs raised in the years, leaving the want to keep the business merely lower thus avoiding any risk and any mansion of selling that the owners had to do, so given the situation, they began to limit the production to only personal stocks and then they left the remaining land uncultivated.

Personally I found this example of great help as emblematic of the current agricultural situation throughout Italy but also in Europe. Small farmers, therefore, are not able to meet the demands of work and high risk management, so they tend to abandon the land and therefore the whole business. This is what has happened in the past years and the reason why the European economy has suffered so much. Then the European Union has allocated a large number of funds for the restoration of the targeted continent's economy in various sectors and in which the agricultural sector is more important than many others. Millions and millions of euros have been made available every year to encourage companies in this field, turning the issue from an agricultural activity to an agricultural-business one.

This is the reason why we founded this society in 2016, to improve the previous organizational structure and to improve with all the contributions made available by the EU and therefore improving our efficiency.

With the unification of all the small plots of land in fact, it was possible to purchase modern machinery, improving production and thanks to the large amount of land managed all together, also reducing costs.

The company is well structured and able to improve thanks to the use of strategies, taking advantage of the opportunities for the production and sale of the product to create a shop, the so-called e-commerce.

Unfortunately, in this type of business we must face problems that mainly concern climatic factors and where often nothing can be done.

In fact, the past year has been a bad year because the very high temperatures and the severe drought (it did not rain throughout the summer) have characterized the loss of 80% of the total crop, which is a very serious damage.

Not least are the attacks of the olive oil fly, an insect that penetrates inside the fruit finding the favourable conditions for reproduction. The effects are catastrophic and in the last four years the harvest has been twice completely thrown away because the oil was of very poor quality. For this reason, last year, we involved our agronomists in a

very extensive program of territorial monitoring and with the support of a seller of biological instruments and products that provide large quantities at discounted prices, the support of mills that propose agreements based on discounts to who participates in this program and the support of the surrounding municipalities from an economic and social point of view. The result was excellent and many landowners and farmers in the area have immediately joined the initiative also by participating in a course to take a license in order to purchase plant protection for plants.
It is important to point out, however, that the only protection of our land would not have had a great effect as insects from neighbouring lands would have arrived in any case despite the extermination of those present in our area.

In this thesis then, in chapter 2, I will analyse the world oil market in the first place, collecting important data and trends in order to understand where the main problems and opportunities are, but also to understand in which areas of the world will be more useful to export or to invest and which are proposed as major competitors both in terms of quantity and quality. As will be seen in more detail, in fact, Spain and Greece are the biggest producers together with Italy, but some countries like Chile and Australia are starting to invest in this sector too, so they will have to be monitored for years to come. The main importing countries, on the other hand, appear to be the United States, Japan, Germany, the United Kingdom, France but also Russia, with particular regard to the first two where people are also willing to spend a little more for a product of extreme quality like this.

In chapter 3, however, I will talk about the contributions of the European Union, explaining exactly what they are, what they are for, who can get them and how, why they are offered and how to use them.
The impact that these contributions can make to a company is impressive, so much that without these, perhaps, not even us like many others, wouldn’t have tried to take such a risky way not getting much in return.

Finally, in chapter 4, I will talk about my company as an example of the current situation. As already mentioned, the problems that came from a bad organization and mismanagement and how to solve them being in a similar situation. It will be then analysed the new income statement compared to the previous ones to fully understand the impact of these improvements in economic terms and it will be equally interesting to analyse the ways and solutions present to consolidate the brand in order to further increase revenues. Above all, I will analyse and evaluate the company strategies for territorial expansion and therefore production and opportunities such as the construction of a mill, trade agreements with restaurants or partners such as the Gambero Rosso, exports and new markets, obtaining recognized awards, biomass and cosmetics production; all linked to the production of extra virgin olive oil.

2 - OLIVE OIL MARKET ANALYSIS

2.1 The Worldwide Olive Oil Market

Olive oil is probably the only product traded and consumed worldwide closely linked to the Mediterranean; in the period between 2004 and 2005 non-Mediterranean countries covered less than 2.5% of world production.

The olive oil market is a very complex market: production regards both developed and developing countries, and is carried out through very different production systems, even within the same country; olive oil is a type of regional product but is anyway traded worldwide; its transformation activities are very dispersed, while the bottling is increasingly concentrated and often the large multinationals take it over; it must be said, however, that at the same time, even small and medium-sized enterprises, which carry out bottling themselves, can be profitable if they operate with efficient marketing strategies.

The consumption of olive oil on a world scale has been growing for years, but consumption patterns are constantly changing, both in terms of quantity and quality consumed; this type of market is very segmented; in some countries and for some consumers, referring to the most prosperous and the most educated ones, the qualitative attributes of the product start to assume an ever-increasing role in purchasing decisions; the European Union (EU), that is the largest producer and consumer of olive oil, strongly protects the internal market, despite allowing preferential access to a number of Mediterranean countries.

Some of the exporting countries are also important importers, just as there are exporters who do not produce olive oil at all; however, the olive oil market is characterized by a very large number of conflicts of interest that develop vertically and horizontally between various actors both along the "supply chain" and in the same country and between actors from different countries.
In recent years, therefore, all the dynamics concerning olive oil production, consumption and trade have received much more attention than it was in the past.

2.2 Production and Consumption

As every year, the International Olive Council (IOC), is responsible for carrying out a study in order to draw up an estimate that covers both production and consumption. As for the 2015-2016 campaign, a world production of around 3 million tons has been indicated, with an increase of 23% compared to the previous year.
Segmenting these data, it emerged that about 2 million tons, corresponding to 68% of world production, came from the European Union, which individually perceived a growth of 43% compared to the previous year. The International Olive Oil Council went even further into the research, bringing to light that Spain (the world's largest producer of olive oil) produced 63% of total production of the European Union, while Italy (the second world producer) holds 17% and Greece (the world's third largest producer) has maintained a constant production compared to the previous year with its 300 thousand tons.

World production of olive oil (fig.2.1)

Countries	2009/10	2010/11	2011/2012	2012/2013	2013/2014	2014/2015 *	2015/2016 **	Var. 15-16/14-15	Sample Rate
					(.000 ton)				
Algeria	26,5	67,0	39,5	66,0	44,0	69,5	73,5	5,76%	2,45%
Argentine	17,0	20,0	32,0	17,0	30,0	6,0	25,0	316,67%	0,83%
Australia	18,0	18,0	15,5	9,5	13,5	19,5	18,0	-7,69%	0,60%
European Union	**2.224,5**	**2.209,0**	**2.395,0**	**1.461,5**	**2.482,5**	**1433,5**	**2049,5**	**42,97%**	**68,35%**
Chile	12,0	16,0	21,5	15,0	15,0	15,5	16,5	6,45%	0,55%
Israel	3,5	12,5	13,0	18,0	15,0	17,5	14,0	-20,00%	0,47%
Jordan	17,0	27,0	19,5	21,5	19,0	23,0	29,0	26,09%	0,97%
Lebanon	9,0	32,0	14,0	14,0	16,5	21,0	20,0	-4,76%	0,67%
Lybia	15,0	15,0	15,0	15,0	18,0	15,5	18,0	16,13%	0,60%
Morocco	140,0	130,0	120,0	100,0	130,0	120,0	130,0	8,33%	4,34%
Palestine	5,5	25,0	15,5	15,5	17,5	24,5	22,0	-10,20%	0,73%
Syria	150,0	180,0	198,0	175,0	180,0	105,0	215,0	104,76%	7,17%
Tunisy	150,0	120,0	182,0	220,0	70,0	340,0	140,0	-58,82%	4,67%
Turkey	147,0	160,0	191,0	195,0	135,0	170,0	143,0	-15,88%	4,77%
Egypt	3,0	4,0	9,0	16,5	20,0	21,0	25,0	19,05%	0,83%
Iran	4,0	4,0	7,0	3,5	5,0	4,5	6,5	44,44%	0,22%
Other Countries	31,5	35,5	33,5	38,5	41,0	34,0	53,5	57,35%	1,78%
World	**2.973,5**	**3.075,0**	**3.321,0**	**2.401,5**	**3.252,0**	**2.440,0**	**2.998,5**	**22,9%**	**100,0%**

Composition % UE production (2015-2016)

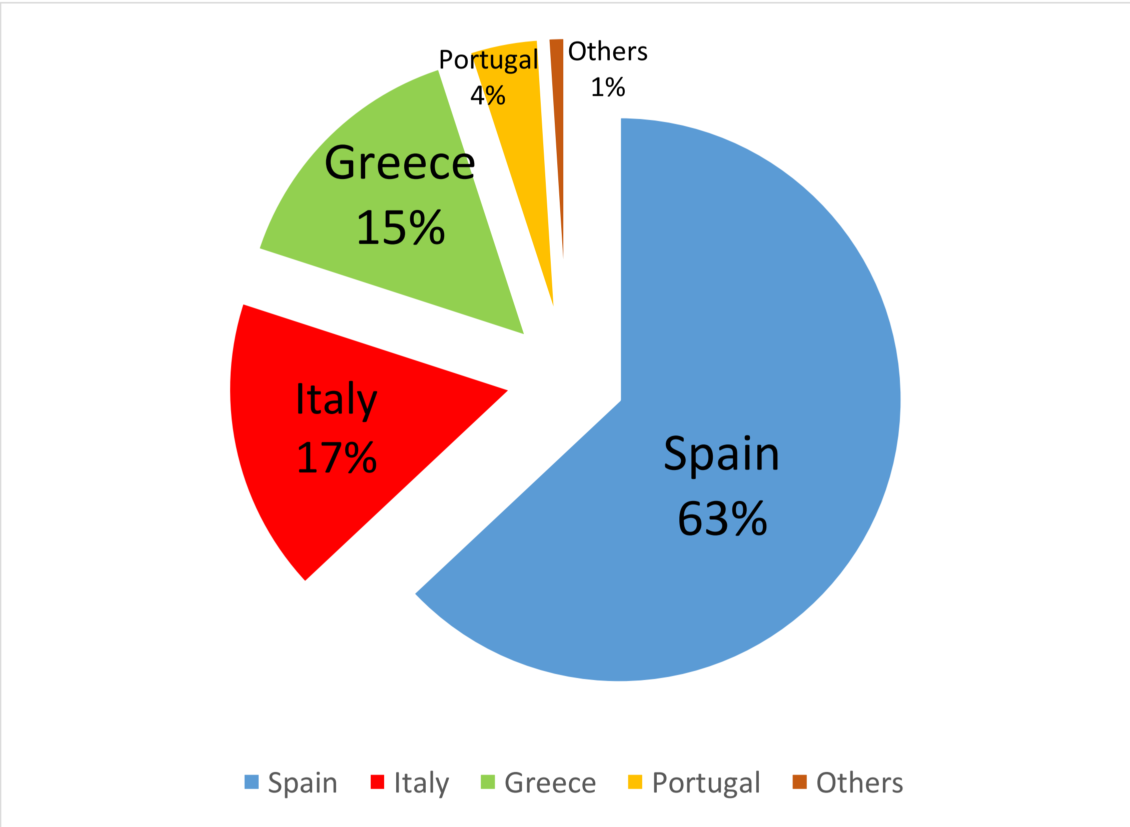


Fig. 2.2 (***Elaborations Ager-Unaprol on COI data***)

In terms of consumption, however, the International Olive Council has estimated a global level of 3 million tons, thus considering an increase of 4.6% with respect to the previous campaign. The European Union and the United States share the largest share of this consume, holding respectively 54% and 10% of the totality of the planet.

The European Union recorded an increase of 5.4% compared to the previous analysis but also a big drop of 13.5% if we consider the last five years. The United States, on the other hand, showed a growth of 12% over the same period.

Within the European Union, consumption is mainly concentrated in the countries that exercise production such as Spain and Italy, even if the latter has undergone a large decline, with the exception of the last two years. Among the major consumers at European level we certainly find England, immediately followed by Germany, and both show a growth trend of consumption of olive oil that leave a good hope to producers, or rather, exporters.

Evaluation on consumption (Fig 2.3)

Areas/Countries	2010/11	2011/12	2012/13	2013/14	2014/15 (prov.)	2015/2016 (prev.)	var. % (2015 on 2014)
World	**3.061,0**	**3.085,0**	**2.989,0**	**3.075,5**	**2.857,5**	**2.989,0**	**4,6%**
European Union	1.866,5	1.790,0	1.621,0	1.731,0	1.532,0	1.615,0	5,4%
UE Producer Countries	*1.645,1*	*1.582,2*	*1.411,9*	*1.508,5*	*1.331,6*	*1.414,3*	6,2%
Of which Italy	*660,0*	*610,0*	*550,0*	*641,0*	*521,0*	*580,8*	11,5%
Of which Spain	*554,2*	*574,0*	*486,9*	*524,8*	*490,0*	*490,0*	0,0%
UE non Producer Countries	*221,4*	*208,1*	*208,8*	*222,4*	*200,8*	*200,7*	0,0%
Of which Germany	*58,8*	*61,0*	*60,5*	*66,0*	*58,7*	*58,2*	-0,9%
Of which United Kingdom	*69,5*	*59,2*	*62,0*	*61,3*	*58,9*	*58,7*	-0,3%
United States	275,0	300,0	287,0	301,5	290,0	308,0	6,2%
Turkey	131,0	150,0	150,0	105,0	146,5	124,0	-15,4%
Brasil	61,5	68,0	73,0	72,5	66,5	66,5	0,0%
Canada	40,0	39,5	37,0	40,5	37,5	38,5	2,7%
Japan	35,5	43,0	51,0	54,0	59,0	60,0	1,7%
China	29,5	40	39	32	31	31	0,0%

Elaborations Ager-Unaprol on COI data

2.3 An Italian Overview

The olive sector Italian supply chains are often characterized by small business dimensions that determine a strong fragmentation in the agricultural phase. The average company size in Italy is around 1.2 hectares (1.78 in the specialized ones) and the number of companies present on our territory amounts to 900,000, thus covering about 1,000,000 hectares. There is therefore a problem of disorganization or even worse, of inefficiency, thus bringing production to an inevitable structural decline. In addition, there is a phenomenon of rationalization by the farmers who give up their lands and don’t reap their fruits anymore.

It's incredible how in this sector and in a country like Italy, the demand is consistently greater than the supply and therefore the production, but at the same time, it is also interesting to notice how the average consumption is diverging more and more towards products of higher quality. It is therefore certain that, nowadays, consumers have grown in terms of need and demand certainties and certain guarantees of origin and provenance, making use of an oil that is at least extra virgin, if not biological or PDO

On the market level though, many issues regarding agricultural entrepreneurs or farmers are matched to bring this kind of activity: production costs are significantly high and thinking to hilly places it is even more expensive (collection operations are very much harder), and its market price is never fair with respect to that.

The consumer, moreover, is not facilitated by an informed choice because of the great confusion in this category within the Great Distribution.

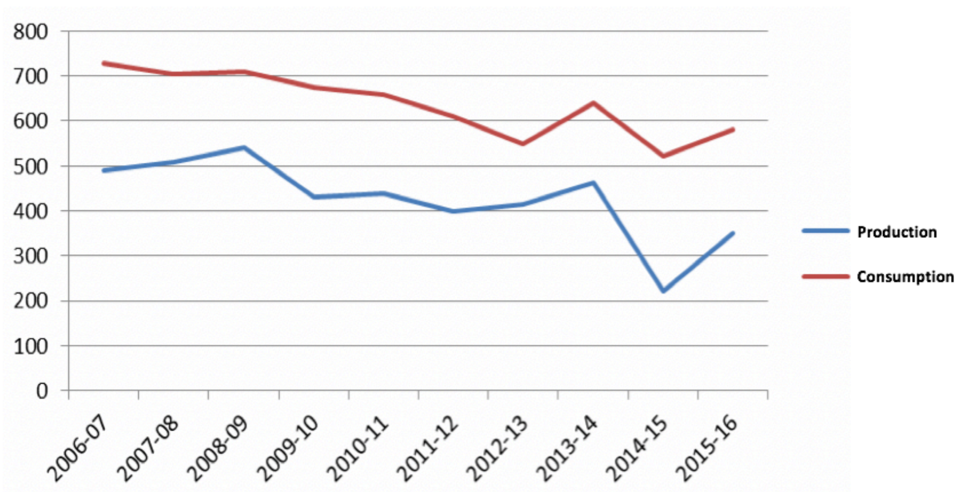
2.4 Production and Consumption in Italy

In the 2015/2016 campaign, the general production level was perceived to increase, while ISMEA estimated an expected production volume of about 380 thousand tons for the current year (2016/2017) compared to 222 thousand of the previous year, then recording an increase of 70% that, however, must be considered as a non-ordinary fact. In particular, the central regions have evidently recovered much after the losses of the last seasons, mainly due to the very strong attack of the olive oil fly which severely damaged the crops of the whole area. For some regions there is even talk of a doubled volume if not tripled compared to that of the previous seasons.

Also in Italy, there has been a strong tendency to decrease the consumption of olive oil, probably due to the decreasing trend regarding production despite our country being the second largest producer in the world.

Production and consumption, therefore, have almost always moved in parallel, and going to analyse the latest campaign, we can see a deficit of about 250 thousand tons per year between supply and demand. At this point, in order not to leave the unsatisfied demand, Italy fills this gap by importing the necessary quantity of oil from other producing countries.

Production and Consumption in Italy (fig. 2.4)



Elaborations Ager-Unaprol on COI data

2.5 The Biological Sector

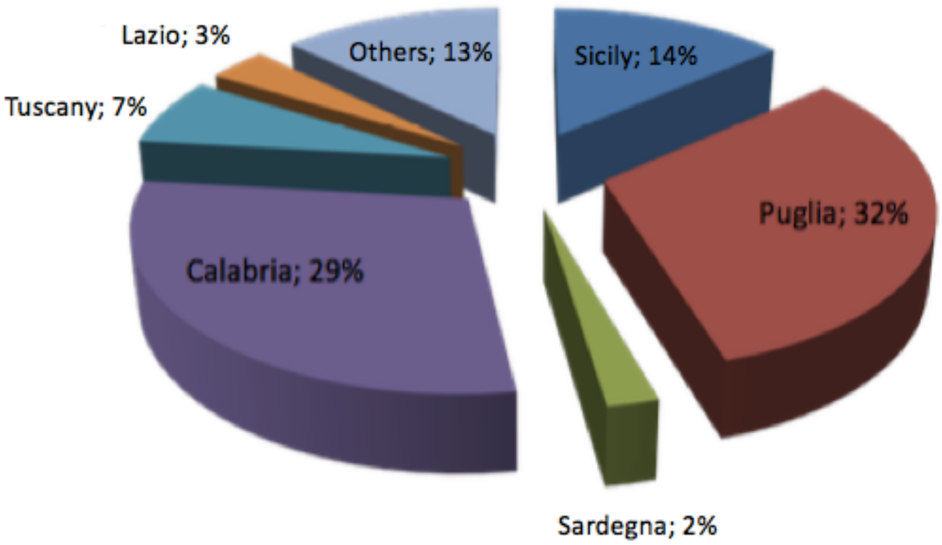
Recently, as previously mentioned, consumers have embarked on a more careful attention to product quality in this sector, and for this reason, the biological sector is also extremely important. Always more and more firms adopted this policy, increasing the number of operators, the investment prospects and the obvious consequence of biological products on the current market. This trend of consumers has always wanted them to entrust more and more to a 100% healthy product and it has almost led this to be considered a no longer niche product.

The fortune of those who have adopted this policy in Italy, is found in the fact that the territorial characteristics with their agro systems are extremely adaptable to the conversion from the conventional to the biological production process, without necessity, however, of great innovations and therefore without large sums of money to invest.

However, to take into account the fact that operating in the biological will be more difficult, since the cost of defence is very high, effectively discouraging small producers.

The National Information System on Biological Agriculture has reported in the analysis the biological olive surface is divided into more than 70% of southern territories, Including countries such as Puglia, Calabria and Sicily.

Regional Distribution of Olive-Covered Areas (fig.2.5)



Elaborations Ager-Unaprol on COI data

2.6 The DPO Sector

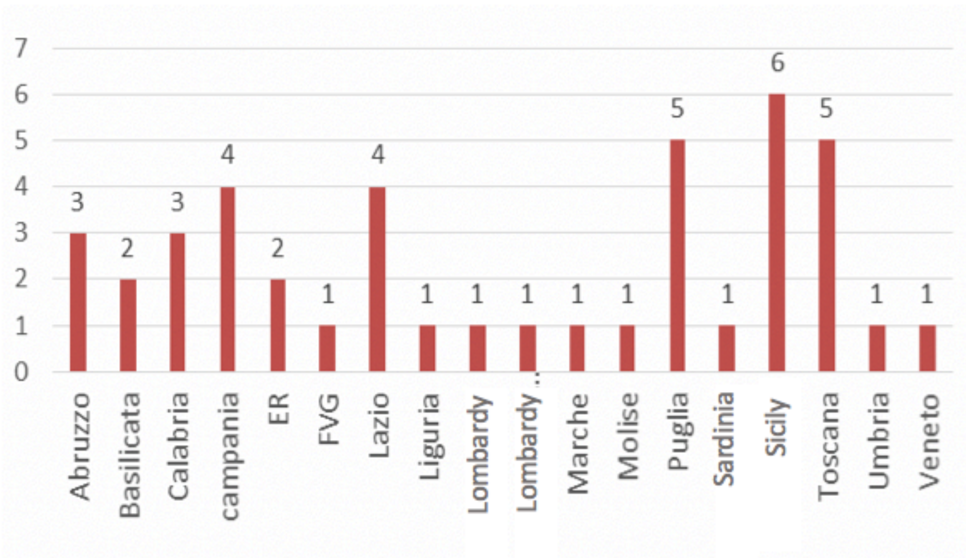
Oil produced in denomination, on the other hand, maintains a marginal role in the total production of extra-virgin olive oil. The reason is the persistence of problems that have always existed such as the disorganization of supply in many cases, the fragmentation of productivity, the difficult organizational coexistence of the supply chain between public and private components but also the lack of instrumental factors that provide support for overcome competition with foreign products.

This does not mean, however, that there are not large margins for growth in this sector, such as, for example, investing in more advanced market segments. Among them, consumers are more aware and therefore more sensitive to quality products and emotional products.

When we speak of denomination we refer to the origin of the product, as the origin that determines itself an added value, in terms of territorial quality; and in a world like the current one in which differentiated production becomes the solution to the increasingly segmented consumer demand, then denomination production plays a fundamental role in the market.

Italy fortunately, seems to have understood it well enough, so much to be the European country with the largest number of agri-food products with a denomination of origin or geographical indication. In the specific case of olive oil, 34% of the quality oils are considered to be Italian PDO and PGI products, while Spain and Greece hold 24% and 23% respectively. By analysing more in-depth this type of production in Italy, it is understood that most of the denomination production comes from Sicily, Tuscany and Puglia as they hold more awards for that than other regions.

PDO and PGI Denominations per Region (fig 2.6)



Elaborations Ager-Unaprol on COI data

Despite its importance, the production of PDO or IPG products in Italy accounts for less than 1% of the total of the Food department. For the exports, on the other hand, sales amounted to 40 million euros in 2014, thus resulting in a 10% drop compared to the previous year due to lower product availability. Here too, the value of PDO or PGI oil

represents just 1% of the total value of exports in the food sector.
The sales of this type of oil in the large-scale retail trade, derive for 74% from Northern Italy, while at the price level, they are slightly lower than those in Central Italy and higher than those in the south. The contraction of values and sales volumes recorded in comparison with the previous year has not to be underestimated.

2.7 Sales of Olive Oil in the "GDO"

Sales of olive oil in the GDO pass first of all from the transformation process. This type of activity is divided into two phases: that of processing in the mill and that of bottling. Sometimes these two phases are joined together and carried out both within the mills. In some cases, even the mills buy oil from the market to bottle it and finally sell it.
The mills themselves suffer from a great dispersion of regional and provincial results, in the sense that some Italian regions hold a very high share of daily capacity but a much lower amount of pressed olives and therefore a lower amount of total oil production.
The yield also showed a strongly decreasing trend in the last three years, probably due to climatic, crop, varietal factors, those concerning the types of crushers used and factors of choice in the balance between yield and quality.
Making some calculations it emerges that among all the types of oils, extra virgin olive oil has a percentage of 73% of sales volumes, followed by olive oil with 13% and 100% Italian extra virgin olive oil with 12% while the remainder is occupied by organic oils and PDO or PGI. Despite these data it is interesting to know that biological sales have increased by 31.55% in the last five years against 4.45% recorded by those PDO-PGI. Also in these five years the growth of the extra virgin olive oil remained stable, while that of olive oil went sharply down with a -12.88% as the 100% Italian extra-virgin olive oil (-14.49%).
As for prices, we find organic and PDO-PGI clearly above other products, with a tendency

to increase. In fact, a high quality oil remains a more niche product while for other products the GDO adopts marketing strategies based on low prices. In any case, the highest average prices are found in the central-northern area against the lowest in the south, despite a higher concentration in terms of production. The same is true for sales also because in the centre-north there are larger and more organized companies while in the south the companies are purely agricultural and deal with direct sales compared to large retailers.

Consumers are often confused by GDOs because olive oil is often placed in a compartment without being fairly disposed and therefore difficult to understand compared to a quality oil that could be next to it.

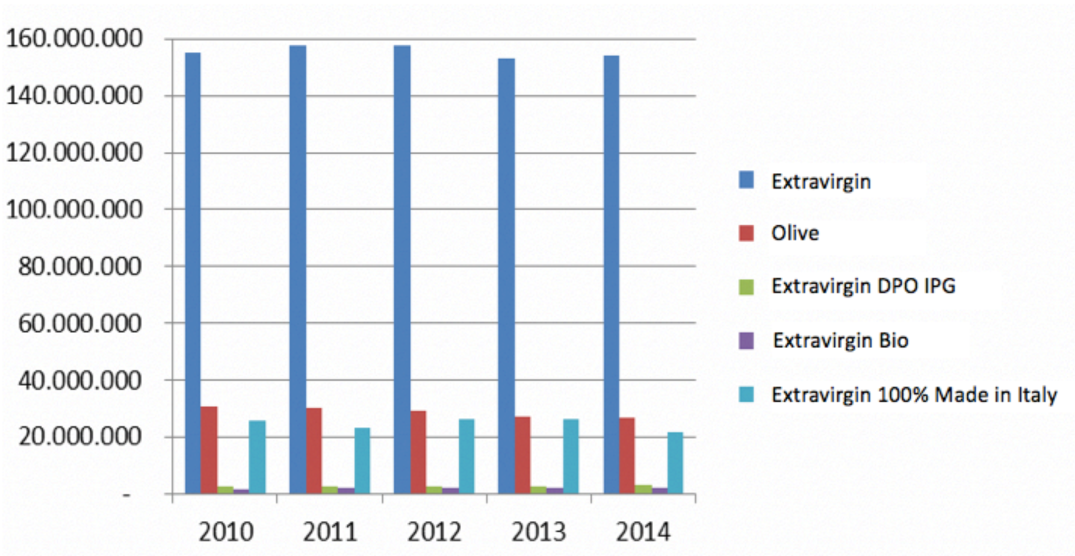
In the higher price range we find the PDO-PGI, which is positioned above the biological for two reasons: the cost of certification and the possibility of a biological oil of non-Italian origin.

Italian extra virgin olive oil, which in the last five years has seen a considerable decline, has instead undergone a positive trend reversal due to recent judicial investigations on the counterfeiting of oil by major Italian commercial brands. In fact, among the accusations we find that extra virgin oils are not bottled and labelled in the same way with almost imperceptible differences and so deceiving consumers.

In any case, these companies also suffered serious damage to their sales, which fell sharply.

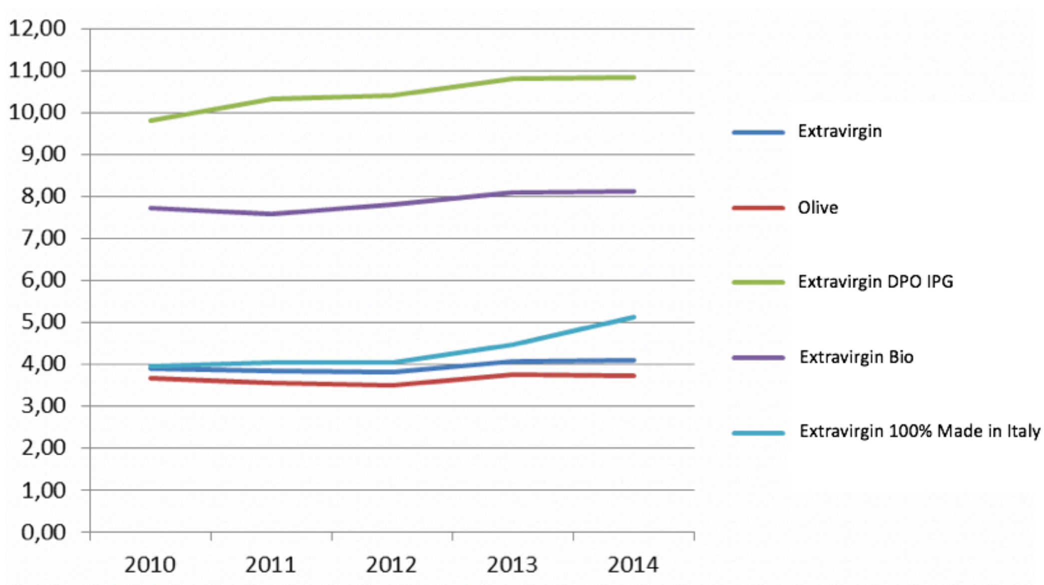
Nonetheless, generic extra virgin oils are still the best sellers in terms of volume, although helped by the promotions applied by large companies to those products that are close to the expiration date (and also badly preserved), creating confusion again in the consumer, unable to recognize the real value of a specific product; however, this applies to all types of oil and in the case of those PDO, consortia should withdraw the old products as soon as the new ones get available.

Sales per volume per category (fig. 2.6)



Elaborations Ager-Unaprol on COI data

Value of Unitary Prices (fig. 2.7)



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2.8 The Import-Export

Historically Italy is the first importer of olive oil, recording a constant trend with a volume very similar if not higher than the quantity of production. Mainly imports come from Spain (around 66%) as it is the world's largest producer, but also because large Italian commercial brands have been taken from two major Spanish companies: first the SOS Corporaciòn Alimentaria S.A. and then the Deoleo S.A.

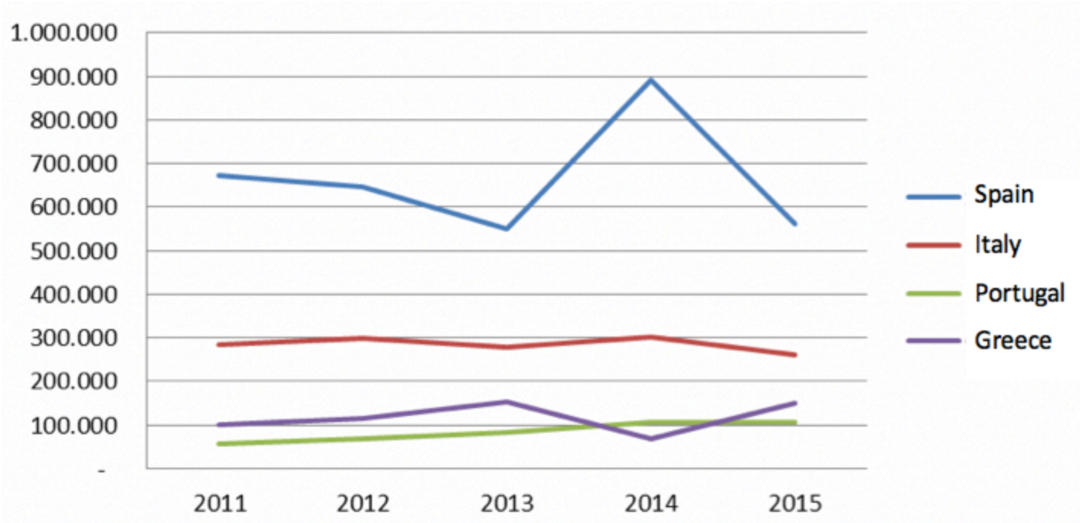
The most secluded in terms of Italian imports are Greece, Tunisia and Portugal. Although the latter holds only 2%, it must be considered that in recent years it has tripled its volume of oil exported to our country.

As far as exports are concerned, Italy is still in second place after Spain with 23% of the total. It is considered that 93% of total exports is concentrated in only four countries. On the other hand, a large quantity of oil produced is strictly linked to the territory of origin of cultivation.

A recent study has shown that countries such as Argentina and Chile have developed a lot in the olive sector and even exported larger volumes than countries like Greece, Morocco and Turkey. In fact, the invested surface by these two countries has respectively increased over the last decade by 40% and 205%, making super-intensive plants and therefore with very high yields, their strength.

Although Spain is confirmed as the largest exporter in the world, its trend is very inconstant compared to the Italian one, while among the countries importing olive oil we find the United States in first place with about 28% followed by Germany with the 15% and France with 10%. The United States, however, recorded a negative trend in recent years, probably due to information on the counterfeiting scandal of Italian extra virgin olive oil.

Exports of Main Countries (fig.2.8)



Elaborations Ager-Unaprol on COI data

Not to be missed, however, is Australia, which has also invested heavily on super-intensive plants and tends to standardize products, thus aiming for mass consumption rather than the niche one.

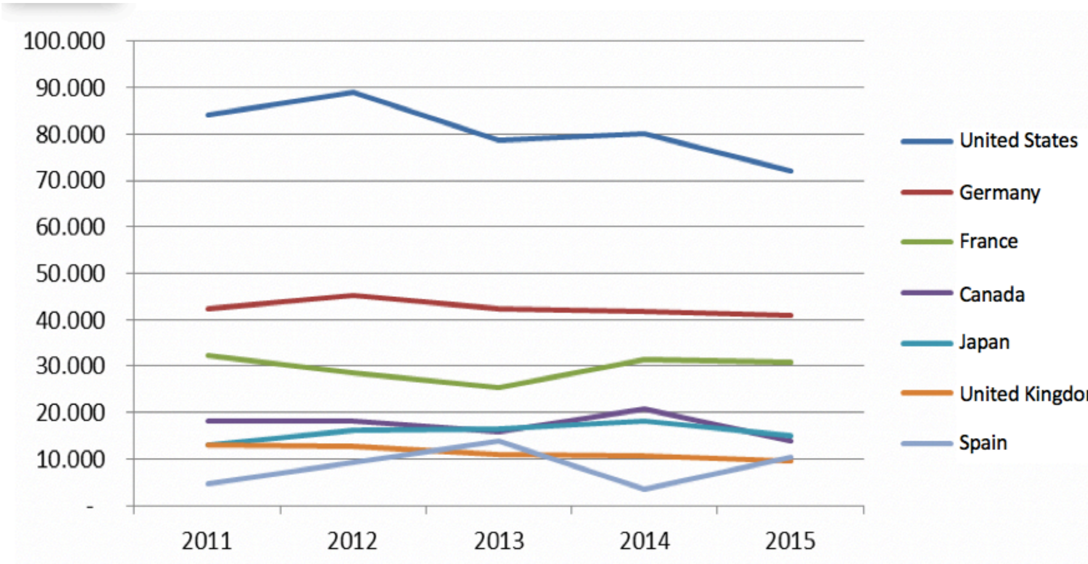
Italy historically has a deficit that is lower than the volumes because the imported oil is represented by a decidedly lower average price compared to the exported one, thus meaning that Made in Italy is widely considered and appreciated all over the world.

The average general prices are obviously different from country to country: the oil of Morocco is that of lower value for example, followed immediately by Tunisia and Spain; Portugal, surprisingly, has the highest prices (considering 2015).

Among the countries that import Italian olive oil, it should be noted that Japan is the one willing to spend more, followed immediately by the United States first and then the United Kingdom.

The main fact, however, that emerges from all these data is that recently the oil business is having a consideration never seen before, and given the new competitors who prefer a strategy of standardization and mass, it is necessary for Italy to aim for recovery of the foreign market through large quality grafts, considering the vast varietal heritage we enjoy.

Italian Exports (fig. 2.9)



Elaborations Ager-Unaprol on COI data

3 - EU CONTRIBUTIONS

3.1 EU Contributions: An Overview

The European Union has developed a fund for the financing of public or private bodies, through a cohesion policy between all the Member States, with the aim of investing and therefore encouraging economic growth both on the continental and on the state level but also on the regional one, thus aiming at a European territorial cohesion.
The EU clarifies who can apply for these funds and what are the areas of activity involved in this project: applicants must necessarily be interested in opening an activity, and therefore a VAT number or have to develop their own start-up. This initiative aims mainly at facilitating young and female entrepreneurship, while at the same time trying to revalue those areas that do not enjoy wealth and large economies.
The sectors concerned are numerous: the environmental, the media, energy, justice, education, agriculture with rural development, technology and innovation, urban and regional development, maritime and fisheries policies and humanitarian aid.
These funds are naturally managed by the governments of reference according to the rules and directives in order to allow monitoring of their use for responsible spending by the receivers.
Despite being numerous and of various kinds, the main types of funds granted by the EU are essentially five and are referred to as structural: the regional development (ERDF), the social (ESF), the cohesion (FC) based on economic convergence for less developed regions, agriculture and rural development (EAFRD) and maritime and fisheries (EMFF).
Then there are grants for projects linked to EU policies and procurement to purchase goods, services or works necessary for activities such as studies or training courses, etc.

3.2 How Contributions Work

There are two types of European funds: direct and indirect. In the first case, the European Commission of Brussels provides funds directly to the end user through participation in calls published regularly in the Official Journal of the European Union. In the second case, on the other hand, the European Commission delegates the task of managing the financial resources directly to the Member States, which consequently transfers everything to the Regions.

Loans are subsidized non-repayable loans granted to applicants, without the obligation to repay. Only in a few exceptional cases there is a small percentage requested back through a rate plan or in the form of interest.

The European, national, regional or municipal agencies usually publish different types of calls to which it is possible to participate by sending the appropriate application with a documentation and a business plan such as to convince the commission to be chosen. Usually the European Commission supports two types of funding: those dependent on <u>production in relation to the area invested</u> and those for the implementation of projects. In the case of project funding, the Commission allocates grants between 50% and 60% up to a maximum of 75% to 80% of the total investment, while the remaining stays at the expense of the beneficiary of this contribution.

These grants are cumulative and for the development of a company it can be fundamental to use them fully. In this context and in Italy in particular, "Invitalia", an agency for attracting investment and business development, takes care of these calls, investments and the development of start-ups.

Once the loan has been received, the receiver must only guarantee a minimum period of five years of activity from the effective start date, which also includes the goods subject to the European facilities. The costs usually eligible for this type of financing may be due to personnel costs, travel and accommodation, durable goods such as buildings and machinery, IT costs, consumables and other general expenses.

3.3 EU Regional Contributions: Lazio Region

Lazio was appointed on 17 November 2015 by the Committee for the seven years from 2014 to 2020 to contribute to the rural development project, thus receiving 804 million euro of public money divided between European funds, national funds and additional national resources.

The purpose of the Lazio Region is mainly to improve the competitiveness of the agricultural and forestry sector, but also that of social integration and economic improvement of rural areas by enhancing ecosystems.

Approximately a 15% increase is expected on the management of water resources as a contribution to agricultural land through contracts for soil improvement and biodiversity support.

Contribution is foreseen for around 1300 companies on a regional level for restructuring and accommodation investments, with 1240 young agricultural entrepreneurs also helped to start up commercial activities.

Furthermore, work is being carried out on the conversion of about 17,000 hectares to organic farming and the maintenance of another 76,000 hectares for a production of the same type. Approximately 6% of the RDP funds are directed to cooperation and innovation in the agricultural sector, while social inclusion and economic development will involve 32% of rural populations through development strategies and 16% will benefit from new or renovated infrastructure.

The total programs envisaged for the 28 Member States are 118 and are mainly based on environmental, social and economic issues, with precise objectives set but also with the help of the partnership between all countries, always on the principle of cooperation.

3.4 Territorial and occupational Analysis: Lazio Region

Italy currently holds 22 different regional RDPs, except one that has been developed on a national basis, but provides funding for the links of actors in rural development.
Considering the land area of about 17 thousand km2, it is noted that 57% is devoted to agriculture while 25% to forestry. Overall, 96% of the area is considered rural and around half are classified as less favoured.
The funding of the RDP, however, takes into consideration the population of each region (in Lazio about 6 million), the percentage of elderly who in this case is quite high (about 20%) and the level of unemployment, especially that between 15 and 24 years old (around 40% in 2012).
The regions, Lazio in particular, are undergoing strong structural declines since the beginning of 2000 onwards. Today there are in this region almost 100,000 companies with an average of 6.5 hectares each for a total of 639,000 hectares of Agricultural Land. Most of these companies are family run or managed by individuals, holding a very low number if not non-existent of insiders.
Education also plays an important role: although it is increasing in the last years, it is at rather low levels (only 67% of people completed the compulsory education cycle). Other important data that should make us reflect are those concerning age: just think that 55% of people who have an agricultural activity are between 41 and 64 years old, those under 40 are only 9% while those under 35 only 4.5%.

The area of Lazio is represented by a particularly favourable climate that therefore stimulates the production of food such as fruit and vegetables, olive oil, olives, kiwi, table grapes, potatoes, wine, cereals and sugar beets. Quality products are numerous and quantitatively 59 quality PDO or PGI, while 7% of total productions are made through biological processes.

To be taken into consideration is certainly the low export rate coming from this region,

which in fact represents only 2.5% of the national total.
As for the production of energy from renewable sources and biomass, the figure is even more worrying: in fact, its production compared to the national total stands at 0.68% for the agricultural sector.
The naturalistic heritage of Lazio covers 487,000 hectares and is divided into protected natural areas, parks and reserves. Some of them already have a well-structured management plan, but the goal is always to improve with strategies concerning plant diseases, soil erosion, landslides and pollution.

As already mentioned, the RDP is responsible for investing in all the operations for rural development, but it is essential to understand how and to what will be given more importance.
The experience of expectations is a way of thinking, in the agricultural, food or regulatory, innovative and technological fields, processing of quality products and problems of diversification. In addition, the energy aspect will be promoted, aiming to reduce consumption by using renewable sources efficiently. Thanks to the RDP, the data are important for each development factor, as regards the production processes, cooperation, supply chain actions or risk management analysis has never been such an entrepreneurial point of view as it is becoming recently like that.
On the other hand, with regard to the improvement of ecosystems in the field of agriculture and forestry, it has been found that around 15% of rural areas will undergo water improvement, around 18% will see an improvement in soil erosion while a 17% will concern biodiversity; all this will be done by means of management contracts. On the other hand, 26% of the amount established by the EAFRD will be donated for the environmental and territorial healthy management directly to the operators who are in the biological field and the payments are a correlated in relation to the area owned and managed.

On the efficiency of resources and climate, the RDP aims to sequester carbon and support afforestation, restore forest damage by restoring environmental value to ecosystems and conserving them. In fact 3.2% of the land planned in the Lazio Region are put under management contract to reduce emissions of greenhouse gases and ammonia while 2.3% instead, will be subject of the same type of contract but with the aim of preserving the carbon sequestered.

€ 34 million, have been processed by public and private bodies in favour of an improvement in the field of energy efficiency, as summed up for the production of renewable energy, amounting to a total of € 64 million.

On the other hand, 17.1% of the resources of the RDP has been envisaged for social inclusion and local development outside the areas to support the creation, growth and diversification of small and medium-sized enterprises. All this with incentives in the field of technology and innovation, supply of services and renewal of villages and in rural areas with consequent social assistance.

The action plan will be carried out and coordinated by 12 groups called "Leader Groups" which will cover 32% of the rural population and thus create around 400 additional jobs. In terms of budget, total public funding is broken down as follows:

- € 222.6 million for measure 4 on investments in tangible assets
- 114.7 million euros for measure 6 investments in agriculture and business development
- € 113.9 million for measure 11 on organic investments
- 70 million euros for the measure 19 investments for the management of Leader groups

3.5 The Danger of the PAC Reform

As already discussed in the first chapter, it is now clear that in the last ten years the economic sectors have drastically changed, with the agricultural sector at the forefront on the basis of a transformation and therefore a change of identity that has led to advantages and disadvantages. The number of farms operating is decreasing, but the utilized agricultural area is on the rise, employment is decreasing and production more than anything tends towards a diversification of supply, creating an added value that meets the strong food requirements despite the strong changes in important factors such as climate and prices with which there is a need to adapt. In 2011, the agri-food sector had already reached pre-crisis levels again, while in the last decade, exports grew by 43%, showing an increase from 4.65 to 6.64 billion euros, but at the same time imports also increased 50%, from 8.53 to 12.76 billion euro. The difference between imports and exports is therefore evident, reaching a trade deficit of 6.1 billion euros. Ten years ago in Italy the value of the average production was around 30 thousand euros while now there are almost 55 thousand euros against the almost 200 thousands of Germany and 156 thousands of France.

Despite the crisis has started a process of expulsion of labour, thus leading to a reduction in the number of companies, it is registered that they are increasing:

- Graduates head of farms, up from 4.7% to 6.4%
- Businesses with at least one young person, up 14%
- Businesses with a female management, managed to manage 20% of the Italian agricultural area against the European Union average of 13%

Thus, consumers have evolved and demand higher quality, more services and more attention to environmental issues; this explains why the offer in this sector has changed and from which the investments for diversifications, biological products and PDO and PGI are derived.

Also not to be underestimated is the agri-tourism sector, which has risen sharply in the last few years, reaching a 35% increase, reaching 22.661 units in 2016.

Having taken note of these data, however, the agricultural sector will have to face the new rules that will be established by the European Union and will come into force in 2020.

In fact, the Common Agricultural Policy (CAP) will undergo a reform and given the post-

Brexit conditions, the changes in the time span between 2021 and 2027 are expected to be very rigid. The exit of the United Kingdom from the EU has caused quite a few economic damages and now we find ourselves having to fill a very important hole of 14 billion euros per year that European economic policy will necessarily have to deal with.
Currently, for EU agriculture spending, the EU allocates around 60 billion annually, corresponding to 39% of the total budget and a 30% cut is assumed for this type of expenditure. Italy in particular, is likely to be severely damaged and is in fact the country that risks, in the process of convergence, the greatest economic damage.

In this regard, a hypothesis of national co-financing was proposed on the model of the Rural Development Plan (RDP) to alleviate the weight of the planned cuts; and while Italy supports this plan in full, Spain and France are on opposite sides; instead, to Germany, this revival of the project and then of the EU budget can be useful in view of a new coalition government.

Finally, a proposal considered interesting came from the president of the agricultural group of Cavalieri Del Lavoro, supporting the relaunch of the US model based on policies and anti-cyclical aid, thus linking the level of public support in line with the general price trend.

4 - “IL CONVENTO S.S”

4.1 Analysis of Inefficiency Issues

In recent years the efficiency of companies in the agricultural sector has dropped significantly: total production has fallen, costs have become unsustainable and the resources available are not sufficient or are wasted. All this comes mainly from the lack of funds to revive the companies (this is the reason for the contributions allocated by the European Union) and the disorganization of the same.
To list and discuss in more detail these typical problems we refer to a simple farm in particular, which these problems first addressed and then resolved: "The Convent S.S."

It all started with a succession, an inheritance of olive grove land divided by eight people and with an average area of about 3 hectares for each plot (the national corporate average in the olive sector is just over one hectare). As often happens to those who have small land plots, although there may be the will to make them profit, there are very high costs, given the new technologies and innovations that make obsolete the old methods, for a not worth return. Here then the land is abandoned and the plants become even less productive due to the lack of care. This is what is happening to agriculture, at least the European one.

Analysing in detail these problems taking as an example the company mentioned above we have the following: in the hill area of Sabina for each hectare there are about 160 olive trees, with an average production of 10kg each; it is self-evident that 10kg multiplied by the 160 plants give a total production of 1600kg of olive per hectare, which also multiplied by the 3 hectares owned by each of the eight owners mentioned above give a total of 4800kg of olives each.
In Sabina, the average olive yield is at 18%, so to really know how big the production will

be in terms of litres of oil, the 4800kg is multiplied by 18% of the yield, for a total of 864 litres for each of the eight owners.

To look like this in reality could also seem a positive production that could also bring discrete earnings, but the truth is that some fundamental aspects must be considered when deciding to carry on a certain type of business:

- Business risk: agriculture is an unpredictable business, production is not constant and while the data previously shown reflect a positive year, to manage an agricultural business one has to deal with the scarce production that could occur due to of climatic factors like for example the drought or the attacks of the olive oil fly able to completely damage all the crop and from which to defend itself is very expensive, especially in this case where it operates in the biological and there is not a higher quantity with which to limit certain costs.
- Difficulty of access to contributions: the European Commission holds a total of pre-established funds and obviously cannot afford to grant them to all companies. This is the reason why there are calls and to win them you have to own certain activities to get as many points as possible, something that small businesses struggle to obtain for economic and utility reasons.
- Administrative burdens: the considerable administrative costs are almost similar for a small or medium-sized company and clearly weigh much more in the first case where the profit is certainly lower.
- Costs for vehicles and technologies: with a small plot of land it is useless to spend a lot of money to buy new machinery if production remains low, consequently there is the need to adopt old machinery which increase production costs.
- Bureaucracies:
- Difficulty to sell: assuming a production that in the best case complies with 864 litres of oil per 3 hectares, as in this case, removed those for family consumption remain 800 litres to be placed on the market. All that remains is to sell it door to door or find a sales channel to get rid of the thought such as crushers or other distribution chains.

The real problem in the production on their own, however, which springs from the sum of these is the high cost of production that is approximately 15 euros per litre, far too much for those who hope to resell it and maybe even earn something. Therefore, the sales plan is not competitive and is destined for economic failure.

A solution, if we want to call it like that, for the management of such land for those who do not have time to deal with it or simply do not want to, is the production on behalf of third parties. This solution, however, is not exempt from inefficiency issues and therefore it is not advisable, however, if the present situation is that outlined by the example. The advantages and disadvantages of this type of production are the following:

- Less nuisance: the landowner will not have to worry about some practices such as fertilizing plants, pruning them, harvesting olives or crushing them. All this considering the use of products and machinery not owned by the landowner and therefore rented.
- Production costs: if as seen above, the costs of production on own account are extremely high, those for production on behalf of third parties turn out to be even more so, even reaching a total cost of about 20 euros per litre. It is clear that there is a 30% increase compared to the method already seen.
- Difficulty of sale: with a production cost of 20 euros per litre it is almost impossible to sell because it is really difficult to find a large number of customers willing to spend those figures to which, among other things, something in the final price should be added if wants to consider a minimum of profit.
- Business risk: it is the same as production on own account
- Difficulty of access to contributions: it is the same as production on own account
- Administrative charges: it is the same as production on own account
- Bureaucracies: they are the same as production on their own account

From this analysis it is clear that nowadays it is very difficult for those without large land, to carry out this type of activity due to the lack of autonomy of organization given the high costs. However, there is a solution, and it is exactly the one pursued by the "Il Convento S.S." farm.

4.2 “Il Convento S.S.”: An Example of Efficiency

Given these problems, there are two possible ways: to engage with dedication and solve problems in order to take advantage of it, but this still costs time and resources, or to let go everything, which in this case is certainly not the right way to go thanks also to the ancient family tradition in this type of production and the close relationship with this land and with this oil.

The solution adopted in this case, and that could be a solution for many, was to make a pact between all eight owners in order to unify their plots under a single property, a single company with the task of managing the all. No one but one person wanted to take on this task and now almost 25 hectares of land are managed solely.
In this way the “Società Semplice Agricola” called "Il Convento" was created, together with the multi-year lease contracts stipulated for the land of all eight owners at a derisory rent.
This type of agreement provides that the business owner takes care of various tasks:

- Maintenance of gardens
- Shredding of olive groves
- Fertilization of plants
- Pruning of plants
- Olive harvesting
- Olive pressing
- Management of company personnel
- Coordination of work (with the help of a trusted coordinator)

- Business management (purchase of machinery, purchase of products for treatments, analysis of financial statements, etc.)
- Preservation of the product
- Sales and marketing of the product

At this point all the eight former owners are satisfied because they will not have the task of dealing with administrative and financial problems, they will take advantage of the gardening services without having to commit themselves, they will get a high quality oil at the price of production (up to the amount established for the consumption of 50 litres), their land will be maintained over time in efficiency and value (which would have been lowered following an abandonment) and in addition will not be subject to business risk.

Obviously, an operation of this type would bring advantages not only to the owners of small plots but also to the company, also with new possibilities, that has now become unique and efficient thanks to many factors listed below:

- A company with a larger agricultural area can allow a very large and elaborate development with regard to organization and allows to justify the realization of certain investments in order to guarantee the desired operational efficiency.
- Thanks to the large agricultural area it is easier to access the contributions, but in particular those related to production undergo a sharp increase (in the case of this company the union of the plots has increased from 16,000 euros to 26,000 euros per year).
- Also the non-refundable contributions on investments will receive an increase, estimated to be 60% instead of 40% as in the previous case.
- A company of this size can and must afford the engagement of experts, the agronomists, in order to monitor the health conditions of plants and to keep up-to-date on the issue of new calls to receive further contributions, otherwise it can be difficult to be aware on that (it is important to stipulate a contract based on percentage payments on the received contributions rather than a fixed sum

because the agronomist may not be sufficiently stimulated in the research of new contributions)

- It is fundamental in economic terms that in a situation like this the land is not purchased but taken into management and then leased. The purchase prices of the same are very high and would make the investment too expensive and risky for the expected returns. Therefore, the financial commitments and risks would thus be reduced, having the possibility, if necessary, to further expand the company by leasing new land.

- The expansion of the company also becomes easier following the requirements of the European Union and is also easily adaptable to any changes in European legislation.

- It is essential that at least one young professional agricultural entrepreneur ("IAP") who is under the age of 35 is present in a company such as this one, as legal manager and then CEO, and that: makes agriculture its main source of income and who has paid the contributions for at least three years or has attended the course, supporting and passing the exam usually proposed by the Region, to become a professional agricultural entrepreneur (actually the initial grant fee is 70,000 euros). Obviously, next to an inexperienced young person, the figure of a partner with experience behind him is able to add his professionalism to the project.

- Taxation is very facilitated although it is only on the land registry income.

- As already mentioned, the investment grants can also concern the purchase of machinery and on average they are around 60% of the total purchase. It becomes fundamental to exploit these contributions to buy, for example, tractors, to pay them at 40% and to sell them after 5 years at the purchase price (always 40% of the total), so as not to spend money except for maintenance and always have the machinery of last generation certainly much more productive than the previous ones.

4.3 The Advantage of the Legal Form

Simple agricultural society is the simplest corporate form of the Italian legal system. Formalities are not required for its establishment and to exploit all the tax benefits that derive from it and is made up of people without having the opportunity to engage in commercial activities, limited only to agricultural cultivation of land, forestry, animal breeding and related activities.

To be recognized as such, the indication of agricultural company must be contained within the company name and have as its object the exclusive exercise of agricultural activities to enjoy the facilities on land registry tax.

The deed of incorporation may also take place in a verbal form unless the transfer of real estate, credits or work activities exists; while following this, the registration in the local chamber of commerce within the special section must be carried out without replying to legal effects. In fact, its only function is that of personal data certification and public news. All shareholders are responsible for their assets if a bankruptcy occurs or the company becomes insolvent.

In order to benefit from the tax benefits that are directed to the growers it is essential that at least one of the members is an "IAP"; one of the advantages, for example, is the acquisition of agricultural land, with a reduction in registration and mortgage taxes, paying a fixed amount of 200 euros and a land registry of 1%, otherwise 15% and 2%.

The establishment of a farm, however, does not even appear to be expensive, as the only costs to be dealt with are € 18 for secretarial fees and € 59 for stamp duty in electronic form for partnerships; social cooperative societies, on the other hand, are exempt from this payment.

In a simple agricultural society income is calculated inherently to the cadastral income of the land in possession, whether it is cultivated or rented, and revalued by 70%, while if the land is in the possession of an entrepreneur the revalued dominical income of the 80%. The tax obligations instead, provide for the income tax return derived from income earned on a proportion of the percentage on profit participation, and finally, accounting for this type of company is facilitated by considering the cadastral taxation very simple and the only duty is to deliver an annual VAT declaration on sales and purchases unless the turnover is less than € 7,000 annually. Finally, the Irap declaration and partnerships, those with limited liability and the cooperatives can afford to decide to be taxed on a cadastral basis rather than on business income.

On the tax front, on the other hand, the Renzi government approved through the agriculture bonus a large number of incentives to facilitate the recruitment of young people, investments in the online sector such as e-commerce for Made in Italy products and tax deductions for lease of agricultural land by revaluing the dominican and agrarian incomes from 5% to 10%.

Furthermore, in 2018 the Super Amortization of 130% was confirmed against 140% of the previous year to incentivize investments in machinery, plant and equipment. The subjects who can take advantage of these amortizations are the business income holders and the professionals with self-employment income in single or associated form and consists in the benefit of a 30% increase on the purchase cost.

More in detail, in the agricultural sector, this Super Depreciation concerns, for example, agricultural machinery, irrigation systems, furniture and office equipment (computers for example), cars and buildings.

Between 2016 and 2017, however, the IMU, the Irap and then the agricultural IRPEF were abolished, taxes on the cadastral income of agricultural enterprises, thus introducing the bonuses reserved for young farmers and young professional agricultural entrepreneurs such as incentives for the export of made in Italy and provides a 100% contribution relief on IMPS contributions. The important thing is that the subject in question is less than 40 years of age and this tax relief cannot last for more than three years as required by the official text of the Budget Law of 2018.

4.4 Consequences on Balance Sheet

An efficient organization that makes full use of the European contributions also makes it possible to take advantage of the budget, in fact, we have seen the example of the contributions on investments that allow you to always have efficient and modern equipment and means taking advantage of increased productivity without having to bear no cost.

In detail, the income statement mainly benefits from four fundamental elements:

- The EU operating grants (CAP) that help reduce production costs by up to 60%
- Financial expenses do not have to be accounted for as financial needs are fully covered by operating and capital account grants, which are still offered by the EU
- At the time of sale of the agricultural vehicles acquired through the EU contribution to the capital contribution, a capital gain is realized which is able to fully offset the annual depreciation
- The reduced tax allowance allows you not to subtract annual taxes from the profits of the farm

This means that EBITDA (profits before interest, taxes, depreciation and amortization are taken into consideration) is exactly the company's net profit and therefore a good organization is positively reflected in the financial statements thanks to lower payables and in the income statement thanks to the stability of revenues with contributions, the lack of interest, the lack of weight of depreciation and lack of taxes.

The actual impact on the budget is now analysed by considering it both with and without the additional help of European contributions for young farmers.

The premises before analysing both budgets are as follows:

- The olive trees for each hectare are 160
- Total hectares are 25
- The total number of plants is 4.000 units
- The average production of each plant is to be considered between 7kg and 10kg (7kg will be the one used in the count to keep it low)
- The average yield of olives is 18% which for each quintal is equal to 18 litres
- The kg of olives harvested daily per person have an average of 150kg
- The cost of labour per day and per person is 100 euros
- The cost of milling and transport is one euro per litre
- The cost of maintaining the land through pruning, fertilizing, cutting and treatment is 1.000 euros per hectare

The 7kg of olive produced by each plant is multiplied by the total number of plants managed by the company: 7 x 4.000 = 28.000, the total kg of olive produced on average; then dividing the total production for the average daily crop per person will have: 28.000 / 150 for a total of 186 working days, which as a premise, cost 100 euros each. Therefore, 186 days multiplied by their cost will give: 186 x 100 = 18.600 that in terms of budget are the euros needed for the total cost of the collection.
Now, multiplying the total production of 28.000 kg for its yield of 18% will have a total of 5.040 litres produced and knowing that the cost of milling and transportation is one euro per litre, we will add another 5.040 euros to the costs for the production plus another 5.000 estimated for other overhead costs.
Then adding up all, 18.600 of the collection cost, 5.040 of the cost for milling and transport and 5.000 of the general costs will have a total of 28.640 euros of total

expenditure and that divided by 5.040 litres produced gives a total cost of 5.68 euros for litre.
It is now assumed that all the litres are sold at 10 euros each, and for which, rounding the cost of production for excess to 6 euros per litre, there will be 4 euros of margin on each litre sold obtaining a total of 4 x 5.040 = € 20.160, that is the total profit.

Going to analyse the differences between the two budgets, however, we need to understand what the aid of production subsidies consists of (the investment on investments will not be taken into consideration because it is difficult to calculate but brings advantages in efficiency and therefore on production and consequently costs will still be minor).
Thanks to these contributions and with the presence of a young farmer it’s possible to get a total of 26.000 euros for the maintenance of land and plants thanks to pruning, fertilization, shredding and treatments for plants. Once 1.000 euros have been raised for agronomists, the remaining sum of money is exactly 1.000 per hectare, which is precisely the cost of maintenance; therefore, without affecting costs or revenues analysed and always considering a sale set at 10 euros per litre, the profit will remain the same as previously calculated, i.e. 20.160 euros.

The difference then on having a young farmer or not is the fact that otherwise the contributions would have been only 650 euros per hectare (-35%), leaving then uncovered a cost of 350 euros for each, which multiplied by 25 hectares gives a total damage of € 8.750 to be considered as additional expenses. It is therefore self-evident that the total profit will be 20.160 euros less these 8.750 euros for a total of 11.410 euros.
The difference between a budget and another is exactly 9.020 euros per year, definitely a lot of money that could not repay the commitment and dedication used for this result.
To be added, however, that oil prices, especially high quality, PDO and biological prices, are in a sharp growth phase and will soon rise again; therefore, by increasing prices and respecting sales (perhaps even increasing production and therefore reducing costs) it

will be possible to obtain a much greater profit by making this a much more profitable business than it has ever been before.

In fact, one of the objectives is that of marketing the same through e-commerce, where the expenses will be more (about 12 euros per litre thinking about the cost of production, bottling, packaging, shipping and that of communication) but also the selling price will be considerably higher (it will be about 25 euros with a margin of 13 euros per litre) despite the quantities sold are expected to be lower at least initially.

4.5 The Creation of a Solid Brand

The Simple Agricultural Company "Il Convento" was established with the aim of creating a well-organized, structured and above all an efficient company; beyond these aspects, however, there is also the goal of expanding and conquering the market. In fact, given the excellent characteristics of the product, the company efficiency, the territorial value of production and many other factors, there are excellent possibilities to achieve this goal.

Let's start by listing and describing all the factors that contribute to the creation of a brand destined to be solid over time and referred to as "Trebula Sabina":

- The quality of the product: the extra virgin olive oil in question comes from the hills of the upper Sabina, precisely in Monteleone Sabino. It is an area where the oil produced is of recognized quality although it is not internationally renowned as the local farmers have never done so to make it known: perhaps because they are mostly small producers, perhaps for their protectionist attitude or perhaps for poorly concentrated tourism, given the territorial incontamination.

  Trebula Sabina oil is an extra virgin olive oil made in Italy of very high quality and produced through a biological process, as well as recognized as PDO and in fact, has a large amount of polyphenols that determine its excellent preservation over time. The quality of an oil is recognized on the basis of some parameters such as the quantity of polyphenols or its acidity and these values in the Trebula Sabina oil have been recognized as extremely balanced by the chamber of commerce. For this reason, it is not a utopia to think of having in hand one of the best products at national level, and given the marked qualitative differences of Made in Italy, even at world level. However, consumers' tastes must always be considered since there are various types of oil, from the fruitiest to the most bitter to the spiciest, etc.

- Place and history: as already mentioned, the place of production is Monteleone Sabino in the province of Rieti and it’s an area where the cultivated land is recognized as PDO. This small town with few inhabitants, although small, brings with it a cultural heritage that should not be underestimated. First of all it is to be specified the fact that its ancient name was Trebula Mutuesca, from which the name of the product takes its cue; it was the place from which the Roman consul Lucio Mummio came from and where they were often practiced war exercises by the Roman army. It was in fact built an amphitheatre that is still listed as an historic monument and one of the main cultural attractions of the area, along with countless ancient Roman and Hellenic finds. In fact, on the site there are some ruins deriving from the battle of Corinth, in which the consul Lucio Mummio participated taking home a great war booty.

  Moreover, to be considered as an added value for the historical recalls of this place, the famous poet Virgil wrote in his most famous work, the Aeneid, a passage (VII, 711) making a small dedication to the brave soldiers of the lands of the olive trees of Trebula: "Ereti manus omnis oliviferaque Mutusque", for the Sabine agricultural landscape dominated by olive groves and symbol of the ager trebulanus.

  Later around 1200 the pre-existing sanctuary of Santa Vittoria (i.e. the patron saint of Monteleone) was erected, which still today, together with its underground catacombs, is a tourist destination for those visiting the area. Shortly thereafter, on another hill, another church was built, from which time the building was built step by step, that is the merging of another structure that became a convent. This convent is located near the via Francigena (the road travelled by San Francesco) and was erected just to give the possibility to the pilgrims to make a stop along their journey. Obviously, the order of the friars was the Franciscan one, but a strong crisis forced the friars, around the middle of the nineteenth century, to sell the whole convent with the surrounding land annexed to a family already present in the area. It is there that, precisely on that hill and inside that convent, that the "Il Convento" Simple Agricultural Society was founded in 2016.

Fig. 4.1

- Family and tradition: from the sale of the Franciscan friars' convent until today, the detaining family has always maintained the tradition: that of olive oil production. For over 150 years, the same family has been handed down, from generation to generation, this tradition by selling the excess product to anyone who needs it through a "Door to Door" sales process, i.e. direct sales to friends, friends of friends or just locals who did not own an olive grove or those who came to visit wanting to buy it.

  Now, however, that the market has changed and even the sales channels have changed, the family acquires a much more important role for the consumer: in fact, behind the consolidation of a solid brand for a product especially in the food sector, a presentation like this is such a good one, which makes the product much more genuine and more desired by consumers.

- The logo and the bottle: in this case, a study was carried out to understand the creation of the brand and the marketing, creating a special logo (brand image), a bottle and its label.

  First of all, together with the logo, the name of the product is also present, Trebula Sabina, written strictly in green as the colour of the leaves of an olive tree, which as mentioned above intends to recall the historical and local origins of the product.

  Above its name is an olive tree representing the product sold and an amphitheatre, always to recall the historical origins. As for the bottle, however, a specific form was chosen for marketing purposes under the advice of an expert as deemed more attractive by the consumer and will be produced in 500ml formats for consumption mainly homemade, from 250ml for a consumption of representation as it could be for restaurants and 100ml for those who simply want to test the product.

Fig. 4.2

- Variety: in the 25 hectares of olive grove in the farm the plants are divided into two different types: one called Leccino and one called Carboncella. Both are varieties of very high quality but the Carboncella in particular, although in smaller quantities, is much more appreciated; reason why the intention is to create more product lines based on the variety, with distinct price ranges and with the possibility of mixing the two types to create a third. In this way it would be possible to get to more market segments under the same brand, which would thus consolidate more easily.

- Prices: as mentioned above, having to create more product lines, different costs will be established for each line. In general, however, entering a market mainly niche in which consumption is not high but well paid, the price will be slightly lower than the competitors who have already established themselves in recent times with the goal of taking over that band and plan to reach them and finally overcome them. The prices will be decidedly high due to two reasons: the first is given by the high costs of production and business management, there is a need for an adequate return that is worth the commitment and the risk of the company you are going to face in a business like this ; the second is given by the entering in a market with a product of such high quality but at a much lower price would result, in the eyes of the consumer, the less good product compared to its actual value as not everyone can enjoy good information in this area and unknowingly we tend to judge the value of an asset only from its price.

- Website: it is from the website that the sales of the bottles will start, it’s been decided to focus on e-commerce, so it was created and is almost ready for use. In creating a website, it’s important to be very careful as it is considered as a shop in this case, but also as a business card. For this reason, the graphic, stylistic and character of the site, its structure, its contents, the simplicity of being able to easily reach each section and pictures as visual impact will be very relevant. Once this is done, however, the activity of SEO (Search Engine Optimization) is fundamental, as an activity for the use of numerous constantly updated keywords within the website so as to appear in the first positions in the sector searches carried out on Google and have more chances that it will be opened by new potential customers.

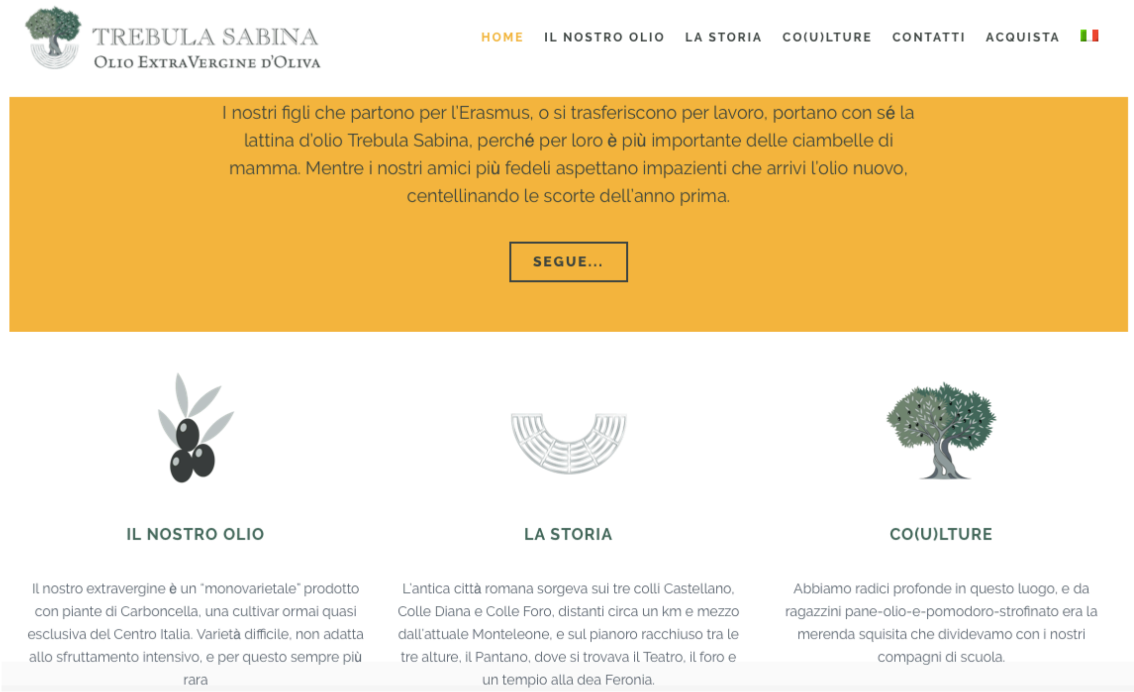


Fig 4.3

- Communication: in the affirmation of a brand, communication plays a more than fundamental role: it may happen to have the best product in the world but if it's impossible to sell it then it means nothing. Here comes the communication that allows the product to be known and consequently purchased. Referring to the extra virgin olive oil, which is the product in question, there are various ways and it is necessary to bring them forward one by one in parallel. In fact, an editorial plan was created by a competent press office to achieve the objectives set. Of course, social networks are of fundamental importance, now the main means of communication in the world, and therefore it is necessary to create company profiles on Facebook, Instagram, Twitter, YouTube and Pinterest. On each of these social networks will be published daily photos or news to keep users up to date and these contents will address specific issues such as historical, cultural, current events or simply business dynamics. All this has to be necessarily coherent with the business carried forward, that is oil and agriculture in general. Then, to keep the most loyal customers, it will be vital to use the email newsletter. The customer becomes more attached to a product that he likes if he / she receives more interesting information on a private basis.

Also interesting is the creation of a blog within the website, where about once a week it is expected to upload an article in order to inform consumers and followers on social networks on issues that might interest them, bringing more traffic and therefore greater possibility of purchase within the website.

They are then evaluated, advertising and sponsorships always on social networks or the creation of advertising videos to be uploaded to YouTube as a source of attraction and the publication of interviews or articles targeted on this company or on this oil by sector and non-sectoral newspapers of more or less importance, thanks to the press office that also deals with this, thus increasing the possibilities of reinforcing the brand.

Fig. 4.4

These are the strengths that put together will lead the brand to position itself appropriately within the market and to consolidate over time given the solid foundations and the countless possibilities to improve and expand this project.

4.6 Opportunities and Strategy

After seeing carefully how "Il Convento SS" has been structured to improve its efficiency, how its contributions are exploited with its effects on the financial statements and what are the elements for consolidating the brand in order to have a strong impact on the market, let's now analyse all the opportunities and possible strategies specifically targeted to the increase in revenues and business expansion.

These are in fact:

- More brands: the idea is to create at least initially two brands with the possibility of making them even more. The main problem is that in Italy people are not yet willing to spend a lot on oil, probably due to the lack of culture but certainly also thanks to the ease in finding it at a good price, although for a quality that is not always up to standard. By creating two brands for the same product, taking advantage of one for home use and one for e-commerce exports, it is also possible to take this type of consumer, eliminating the costs of communication and management on the web in the first case. bottling and packaging are greatly reduced. The cost of production as seen above will therefore be lower but the margin per unit will also be lower, which is why priority will be given to sales made via the brand used by the web.

  In the first case, the oil will be sold mainly in tanks and will be used mainly by families for cooking and seasoning food, and will be sold mainly in Italy under the family brand. In the second case instead the tanks are not considered while the format will be that of the well-kept bottle and sold in half-litre formats mainly for home use, 250 ml which is a more elegant format and can be used for example by restaurants while 125 ml for those who want to get an idea and taste it before spending a lot of money without knowing the product. In the last case the oil is used mainly for seasoning, because given the high prices it will be difficult for customers to use it for cooking and then using much more.

In both cases, however, but definitely more sensible in the second, more lines of oil will be defined depending on the plant from which it comes: a kind of monoculture oil is a little less valuable and will derive from the Leccino plant, a very valuable instead will derive from the plant of Carboncella while a last will be a blend (mixture) of the two and will have value and quality intermediate but overall very high.

- Increase in production: once stabilized in production and sales, the company will be expanded: increase production to reduce costs and then increase sales and therefore earnings. In order to do so, it is necessary to implement the same land management policy of several owners, thus renting other land in a derisory rent, thus managing their olive groves to produce more. Another alternative is that of European funding for the purchase of new land, which is a project financing, can cover up to 60% of the total purchase cost.

  Once the production has increased, however, you have to get rid of the product, and sell many litres of oil personally and via the website can be very complicated. It is therefore necessary to have at least one established distribution channel that can sell a large part, obviously under remuneration, or to avoid losing money it may be appropriate to resell it wholesale, such as to the mills, but at a lower price thus covering the costs.

- Intensive production: another way to create a new product line is that of intensive production, which, as the word says, leads to a significantly higher production per hectare but to the detriment of quality. Obviously, developing an intensive plant is not inexpensive and this aspect must also be assessed, since the cost is around 10,000 euros per hectare. Assuming a purchase of 10 hectares then, the cost will be about 200,000 euros, but since the European Union also finances the purchase of new land always around 60%, then 120,000 euros would be covered leaving a total cost to cover 80,000 EUR. In addition, there is the possibility of creating a new company as in the "Il Convento S.S." there are two young agricultural entrepreneurs but only one in the company is necessary as a managing director to obtain the facilitation of these calls. So, by creating a new company, in addition to 60% of grants for the purchase of new land, 70,000 euros can be obtained for the start of new farms, leaving the total cost of only 10,000 euros to which must be added only the notary fees.

An intensive plant can have up to 500 plants per hectare against only 160 of the traditional land, which on 10 hectares purchased carry a total of 5,000 additional plants. And if the production is always about 10 kg per plant, it will produce an additional 50,000 kg of olive oil which, multiplied by their yield of 18%, leads to a total of 9,000 litres more. As already said this type of oil due to the intensive production technique and also due to its different treatments, it will be of lower quality (however high) and consequently its price will be lower. Even its margin will certainly not be the one produced as top of the range with the trademark and sold by the website but just doing simple calculations is easy to understand how this opportunity is able to bring large revenues to the company, thus posing as one of the more profitable strategies to be implemented in the future.

- Restaurants and hotels: both restaurants and hotels can play a fundamental role in the sales of these products. A type of customer like them, in fact, would probably be willing to spend less on the purchase considering the quantities ordered by them and the constancy with which they would buy but would bring a guarantee of stability in sales, which, once expanded production, will certainly be of fundamental importance.

Even here, however, it’s important to make a distinction as being an oil of high quality then the restaurant or the hotel buyer will not be outdone. In fact, for medium-range restaurants, the sale of oil destined for direct sales (the family destined) is foreseen and not the one sold on the website, because as already mentioned, not everyone can afford to buy oil at high prices.

Another topic for high-end restaurants, some of which have even recently started adding the oil card in the menu, which are willing to spend more for a quality product that at that point will be sold in targeted bottles, and not in cans, also for elegance and that will certainly be appreciated by the customer.

- The prizes: the fact that the product is 100% made in Italy can certainly be a good starting point for sales, the fact that it is also extra virgin is even more and not to mention the fact that it is also PDO and biological product, which certifies its quality to 100%. But this may not be enough because competitiveness in the market is very strong and there is a need to raise the bar more and more to stay competitive and achieve the best results. There are some prizes, obtainable through the participation in competitions, which will be much in the eyes of consumers and lead them to be more convinced of the purchase. These awards are cumulative and is right for those who receive them, highlight them on the front page on their website. Reason why this award appears to be an excellent opportunity that must be pursued in order to increase sales and why not, even its price.

  A final certification, on the other hand, is given by the Gambero Rosso (Italian publishing house well known worldwide and specialized in food and wine, with the aim of promoting the Made in Italy also abroad) that each year draws up a guide on Italian oils marketed by assigning, depending on their quality: one, two or three leaves. Obtaining the three leaves is obviously not simple but the product in question has all the right credentials to allow it and once obtained it will be extraordinarily useful to add this indicative parameter of the quality on the label.

- Gambero Rosso: as already mentioned, Gambero Rosso is committed to promoting quality products that are 100% made in Italy abroad. This is in fact another of the opportunities that this business can offer, but it cannot be an immediate action because to start this type of collaboration it is necessary to have a significantly higher production, which at the moment is still far from the reality of the facts.

- Export: now producing products made in Italy exporting them abroad is something that is almost taken for granted. It is no coincidence that many try to go down this path: Italian products are the most recognized quality in the world and this leads foreign consumers to pay prices well above those who are used to in Italy, bringing so much higher profits thanks to the higher margin earned per unit. The export is not a simple road though it can bring many satisfactions, in fact it’s necessary to deal with the different regulations of each country that may concern the conformity of the product, its packaging, its label and so on. Even the shipping methods present different difficulties from country to country. Luckily, at least to begin with, the exports will be mainly destined to the European Union countries, which, as regards the product regulations, at least have the same validity for everyone. After a study carried out on the consumption and exportation of oil made in Italy abroad, it has become clear of which countries were the most addressed to this type of market and on which there will also be the aim through targeted communication strategies. These countries are Germany, the United Kingdom and France; while outside the EU we find the United States and Japan in the front line, but the problems outside the EU are different and will be addressed in the future.

- Cosmetics: olive oil, made from the pulp of the fruit of the olive tree, is a powerful antioxidant that is able to prevent the signs of aging thanks to the phenolic compounds, chlorophyll, vitamin E, phytosterols (with restorative action and anti-inflammatory) and squalene, one of the main components of the skin's surface.

  In internal uses, the oil has digestive and laxative properties while in external uses it commits soothing, emollient and antioxidant actions and protects the epidermis from external factors such as wind, rain and sun.

  It is therefore possible to find oil based cosmetics for moisturizing skin treatments such as hands, body and face, for massages and for the treatment of nails and hair, with the latter nourished to protect colour and shine.

  Given this information it is therefore possible to imagine a new source of production and therefore of profit for the company, but it is still to be studied, but considering the possibilities it is to be considered a more than valid opportunity.

- Biomass: the production of olive oil also produces waste, or by-products of waste obtained precisely from its processing. This is the case of the pomace of pomace, composed of the pulp, the peel and the pit. The olive pomace is a fuel and can be used to produce new energy, while its waste can then be used for fertilization. Using and exploiting all these methods it is therefore possible to create a completely efficient and environmentally friendly supply chain as it is not minimally polluting, which is why the European Union also finances this type of investment, making it another element to be added to the list of opportunities that a company of this type can offer.

- The mill: owning a crusher is a huge advantage in the production of oil, as it allows to manage the process to your liking and according to need. It also allows to have additional revenue as there would be the possibility of renting for farmers in the area who have to carry out a milling. However, the problem of an oil mill is its cost; being very expensive it is not at all said that it is convenient to buy one, but it remains in any case an opportunity that will be evaluated in the future if production should substantially increase. At the moment there is a large shed in the company purchased through the EU funds in which the machinery is kept, the bottling plants will be placed and if it will be decided to make an oil mill that would be the ideal place.

- The bio-district: A bio-district is a reality that aims to enhance the economy and local traditions. To do this we try to satisfy both the needs of producers with the search for local markets, the activation of integrated territorial services, the recognition of the role of the bio-farmer, and those of consumers with food security, the knowledge of the places of food production and the search for fair prices with the involvement of public institutions.

  In the Bio-district, the enhancement of biological products is inextricably linked with the promotion of the territory and its peculiarities, to achieve a full development of economic, social and cultural potential.

  The aim is therefore to create a highly specialized territorial area with a high concentration of the organic supply chain. The Bio-districts then put producers, institutions, end consumers on the network, creating synergies between the actors able to convert the other rural territories.

  Although difficult to implement, the establishment of a Bio-district of the Sabina area would bring the value of land and especially of products to grow further, thus increasing the amount of revenues, and is an opportunity not to be underestimated in anticipation of the future.

4 – *Conclusion*

Having to conclude this all-around journey around the various aspects of this business, makes me feel I have earned something. After having researched the market, the industry, disentangled the core of our problems, overcome major issues and having to look for new solutions currently gives me a feeling of strength, other than depth of knowledge and a broader view. This work gave me the possibility to put into practice what I always thought should be done from the beginning: to take what we have and project it into the future. All of this resulting in a feasible project with high profit perspectives. The start-up phase of this business will not even exist, since we are not starting from zero. In fact, as can be inferred from the reading of this thesis, the ideas are quite clear and the business has already started, albeit in a limited way.

However, from the study of the oil market I learned how the market in this sector is clearly changing. In recent years there has been a strong economic crisis that has affected the trend of sales, but this does not change the fact that the olive oil market is growing sharply and is destined to increase even more. When we decided to focus on this sector, we did it with the hope and the conviction that both on a cultural and on an economic level the oil market follows the trend that brought the wine from the sale in low-cost tanks to the wide choice of different types coming to reach stratospheric prices. In fact, consumers have become much more demanding and to date, the importance of owning a product that is both quality and genuine is absolutely fundamental. This is the reason why we chose biological production, that is to deliver to consumers a product that is at the top and in addition there is the intention to create other product lines as their need will probably come in the future wanting to choose a category rather than another, and when it happens, we will not be caught unprepared.

Finally, the study of foreign markets has led us to think of evaluating exports even overseas despite being complicated in terms of regulations on products. It is estimated that in countries such as Japan or the United States, the price of 100% made in Italy, PDO and biological extra virgin olive oil is up to three or even four times as much as the domestic sales price, as the culture for good food and oil in particular is becoming increasingly strong, thanks to the scandals of counterfeited oils, old or not extra-virgin or not even made in Italy, which although they have recorded a decline in exports, however, lead consumers to make a more accurate choice.

From the European policy for contributions, however, I conclude that in the post-crisis period there is a need to restart the economy, which is why the EU has established a large number of funds to be allocated precisely to this and in particular to the agriculture. In fact, a small company cannot survive because of the high production costs, the high innovation costs needed to improve company efficiency and tax burden. This is the reason why many small farmers decide to abandon the business by leaving the uncultivated lands. However, the vision of the agricultural sector is already changing and, in fact, it is now seen with a more entrepreneurial eye and thanks to the help of the contributions many young people propose themselves not as direct farmers, but as agricultural entrepreneurs. Please note that only in Italy there are about 900,000 farms with an average of 1.2 hectares per company; which means that on national soil there is a problem of enormous inefficiency and it would be useful for this business to be extended to more and more young agricultural entrepreneurs in order to make it a great strength and finally, a big profitable source.

It is precisely from these problems that the "Il Convento" Simple Agricultural Society was born. Many small plots of land poorly exploited and organizational inefficiency with results of costs too high and management problems have led us to unification under a single management of these lands that now enjoy more maintenance and therefore more care in defence of climate factors, more organization and consequently more production and more channelled sales. The exploitation of all the contributions made available by the European Union, such as grants for starting a business by a young person, contributions for production and those for new investments such as land purchase, of machinery or projects such as the construction of farms, they have a huge impact on the company balance sheet that makes it very profitable, which would not be such that without them.

The project is also to create a brand and consolidate it over time as a high quality brand on which customers can rely. Being a high quality product also its price will be high, positioning itself among the top products in a niche market. I believe that the means available and the opportunities available are adequate for the success of the project, having at disposal a company with a historical and cultural value and having a good product traditionally worked in the years by my family; the goal in fact is to transmit genuineness, which is essential for customer loyalty.

Finally, we are open to many strategies and opportunities that concern sectors related to the production of oil but still different. This is the case of cosmetics based on olive oil, where a market still to be studied can become a very important resource both nationally and internationally. Thanks to the production of oil, it is also possible to produce energy through the derived waste, and this is also an interesting project for the European Union that finances this kind of environmental impact projects. Putting together all the incentives available as well as the tax exemption (in fact, EBITDA = profits) allows these activities to be well underway making them productive. However, attention must be paid as from 2021 for the next seven years the regulations on EU contributions will change, and a reform of the CAP (Common Agricultural Policy) is expected in the short term.

At the moment what we need to work on is the improvement of the website, which is currently still incomplete, with its publication (at the moment it is only available in private format). After that, samples of bottles and labels with relative boxes and packages will be ordered to verify that everything is correct; it will be important to make a photographic book both for the product and for the company in spring time so as to be added to an already present one made in a winter period. In this regard it will be appropriate to invest a not excessive amount of money for the purchase of a good camera in order not to spend so much money whenever we need photographic material for the continuation of advertising campaigns via social networks or for the simple online communication.

The agreements with the shippers and the possible creation of alternative product lines are still missing, while the initiation plan for the export has still to be well studied, as a professional has to be hired to be responsible for the translation of the site in English and also in other languages.

However, although there is no shortage of things to do, there is no lack of time as the product is currently not available and it will be next December. In fact, as anticipated in the elaborate, this year due to the severe drought that hit the whole area this summer however it is about 80% of the crop coming to produce only 1.000 litres against the average potential of 5.000. The question is also very high and our availability ended in less than a month despite having purchased additional 800 litres from a landowner of the place, and unfortunately all those who apply now cannot be satisfied. This can be read in two ways: on the one hand it can be good because the demand is there and it is not even a little, but on the other, however, with the not being able to please customers there is the risk of losing them for the next years.

However, I remain confident in the success of this project as I believe I have all the right credentials to do so and thanks to the help of the contributions allocated by the European Union succeed in bringing out also some interesting profits, keeping the company constantly operative and efficient but above all in step with the times with the implementation of machinery of the latest generation. Finally, the intention to achieve the desired profits must be achieved by exploiting each sales channel available, following with care and rationality all the strategies and opportunities that the market and this type of business has granted us and that are listed and explained at the internal of this elaborate.

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