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"Analysis of Production Under the Maquila System, Lingerie in
Colombia"

Graduate thesis prior to obtaining a Bilingual Bachelor
degree in International Studies minor in Foreign Trade

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Cuenca – Ecuador

2015

DEDICATION

To my be loved parents
Sonia and Fernando

ACKNOWLEDGEMENTS

Special appreciation to my parents and family for the unconditional love and support, especially to my sister Carolina for her help. To my teachers and tutor for sharing their knowledge, and all those who in one way or another contributed to the realization of this thesis.

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ABSTRACT

This thesis analyzes the feasibility of producing lingerie under the maquila regime in Colombia because it is highly important to determine where there can be more competitive benefits. To achieve that objective, we first identified the trade agreements between Ecuador / Colombia and the legal rules. Next, we analyzed the possible maquiladoras and their production process. Finally, we did a comparison between the costs of production in Ecuador and the costs of production with the maquila regime in Colombia. This analysis determined the best location to produce, according to the best production costs, the retail price and the potential commercial markets.

INTRODUCTION

In Ecuador the lingerie industry is not well developed, as the market-leading brands are imported. However, the demand for lingerie in Ecuador is growing. For this reason, there is now an opportunity to create a new lingerie brand that satisfies the demand and, in turn, competes with the national and international markets.

A product not only needs high demand, but also needs to be competitive in the market on price, quality, design and service. Therefore, it is necessary to analyze the cost-effectiveness of producing within Ecuador or taking advantage of preferential schemes import/export, such as the maquila Colombian regime.

Therefore, this study will use documentary research about the Colombian maquila, the signed trade agreements between Ecuador and Colombia, and a comparative study of costs and prices between Colombia and Ecuador to determine the best location to produce.

CHAPTER I: BACKGROUND, CONCEPTS AND DEFINITIONS

1.1 Problem description and product

Nowadays, we live in a globalized world where it is necessary to compete in order to succeed in the business market. It is not enough to beat the price of the competition, but to improve the quality and efficiency to achieve success.

The lingerie company is a new proposal for women's lingerie that offers high quality and design. The purpose is to fulfill customer expectations while competing in national and international markets.

Because it is a new brand, the lingerie company must determine the location of production. That is, whether to make use of a maquiladora in Colombia or produce within Ecuador, in order to position itself in the market.

1.2 Maquiladora: concept, origin y characteristics

1.2.1. Concept

To understand better what a Maquila is, we are going to review concepts of different authors.

The term *maquila* came from the Arab *makila* (capacity measure). This term was used to name the portion of flour, grain or oil that corresponded to the miller for grinding (Rivera, 2010).

According to Orlando Greco, "any activity concerning the production process of a company that is sent to a different one to be carried out is an activity of "maquila". This means production for others" (Greco, 2009).

According to the Colombian Act 1860 of 1999, maquila is defined as “the productive operations performed when developed through non-reimbursable imports in which the foreign contracting supplied to the domestic producer directly or indirectly, a hundred percent (100%) of the Commodity or external inputs needed to manufacture the export good, notwithstanding the Commodities or national supplies used in” (Resolución 1860 , 1999).

Consequently, a maquiladora is a system that allows any productive activity, either development, improvement, alteration or repair of an imported good, under a temporary import for re-export.

The maquila system works through a contract (contract of maquila), where the foreign company is in charge of the production of goods or provision of a service in a maquila company. This contract has the objective of saving costs and thereby reducing the final price of the product (RM, 2009).

Finally, the maquila system aims to reduce costs. To achieve this, a company delegates the production process to another company outside the country. The production at the end of their work is re-exported. The import and re-export maquiladora system enjoys tariff preferences, which enables cost savings.

1.2.2. Origin

According to Juergen Schuldt, the maquila had its beginnings in Puerto Rico during the decade of the fifties and a decade later the maquila system was adopted in Asia and Latin America. However, the maquila gained popularity and importance in the seventies and eighties.

Initially the term maquila was defined as the industry process of transformation, elaboration and repair of foreign goods that were in the country on a special temporary import for re-export.

The governments where the maquiladoras are located, facilitate the production through the infrastructure and exemptions which are in favor of maquiladoras in order to obtain tax revenues.

In order to be approved as a maquila, the producer must meet certain prerequisites. The most important requirement is that the maquiladora must export one hundred percent of its production and its location should be determined preferably in industrial development zones. However, it is forbidden for the maquiladoras to be located in areas of industrial concentration.

Over time, the maquila has changed in two ways: raw materials do not necessarily have to be imported, making use of local raw materials, and a small part of the production may be intended for domestic consumption. In order to allocate maquila production for the domestic market, the product should not be similar to the domestic production or domestic production must be insufficient (Schuldt, 1991).

On the other hand, the maquila concept had its origins in Mexico, but over time it has been acquiring a variety of names such as industrial enclaves for export, exportation platforms, free zone, border industrialization programs, transformation services, production areas for export, etc.

Although the maquila has changed, both in its application and in the way it is called, it pursues the same purpose: production at low costs and competition in the global market by bulk production.

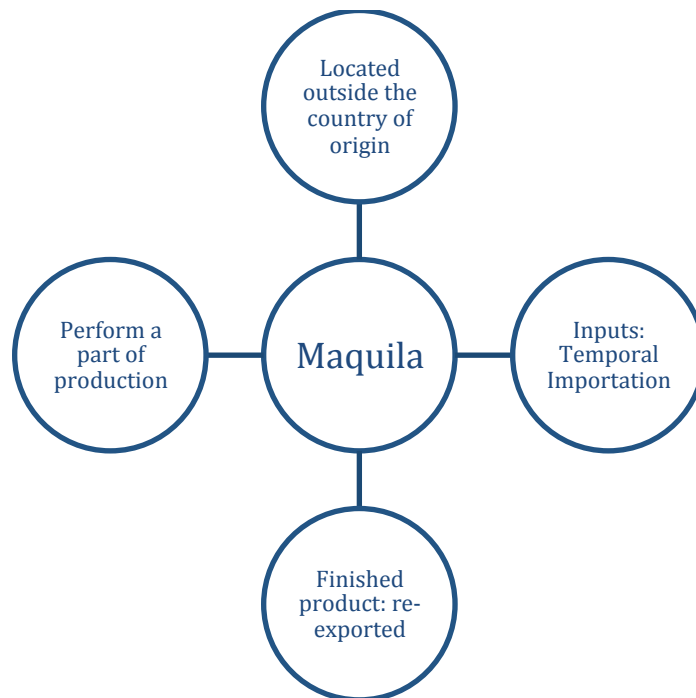
1.2.3. Characteristics

Considering the above concepts, we can say that a maquila has the following characteristics:

- It is an economic unit, which may or may not be located outside the country of origin

- The maquila is responsible for performing a part of the production process or provide a service under contract parameters
- The inputs that are used for the manufacture of the product are within the country as temporary importation
- The finished product must be re-exported

Chart 1: Maquila Characteristics



Source: Developed by the author

1.2.4. Types of Maquila

According to the authors Jorge Carrillo and Alfredo Hugalde, the maquiladora industry can classify the maquiladora company based on its central characteristic the intensive use of labor. From this feature, there are three types of maquiladoras:

1.2.4.1. Maquiladoras company type 1: Intensification of manual labor.

They are characterized by the presence of foreign plants, not tied to domestic production, depending on the decisions of the matrix and its major customers. They are not manufacturers, but assemblers. The priority of these

businesses is the production of large volumes. For this reason manufacturers employ unskilled laborers, which affects the quality of the product implying lower wages and intensification of work.

The weaknesses of this type of company are lack of technology and skilled labor.

1.2.4.2. Maquiladoras company type 2: Rationalization of work.

They are companies from various countries with different manufacturing processes. These companies, unlike the first generation, seek to have higher technological levels using machinery and tools, besides seeking greater autonomy in decision-making. With the necessary tools and autonomy in decision-making, work and production is rationalized.

These companies are already looking for skilled labor, such as skilled technicians and engineers, which gives more responsibility to workers.

On the other hand, quality is important as well as respecting the contracts in time delivery, inventory maintenance, etc.

Type 2 businesses is more competitive and continually advances in technology and organizational structure to improve.

1.2.4.3. Maquiladoras company type 3: Intensive knowledge competencies.

These companies are focused on research, development and design. They have greater presence of transnational corporations. They remain scarce regional suppliers, but develop significant intercompany linkages and enhance the inter chains. That is, a central vertical integration process is undertaken by forming industrial complexes, which in turn enhances the linkages with national suppliers.

Type 3 companies have qualified workers as engineers and senior technicians. In these companies the knowledge, creativity, design and shape of the manufactured products are indispensable and privileged (Jorge Carrillo and Alfredo Hugalde, 1997).

Chart 2: Types of maquila

	Work	Plant	Technology	Workers	Aim
Maquiladora Type 1	Intensification of manual labor	Foreign	Scarce	Unskilled	Volume production
Maquiladora Type 2	Rationalization of work	Foreign/Large companies	Increased technological interest	Qualified	Quality in the production
Maquiladora Type 3	Intensive knowledge competencies	Presence of transnational companies	High technological level	Highly qualified	Research, development and design

Source: Developed by the author

1.3 Free zone

1.3.1 Origin

According to Enrique Anchordoqui, free ports or free zones were appearing in places of transshipment trade or re-exportation locations, along the traditional lines of routes of commerce.

Free zones were not given as a deliberate policy for promoting economic development, but were a necessity for transporting goods. They were a determined area to store goods, which, for the purposes of customs, were considered outside the customs territory of the state.

The expansion of economic and commercial activities of some powers with their distant colonies made this mechanism used to accumulate goods to then distribute them in their respective colonial markets (Anchordoqui, 1977).

The needs of international trade, arising from the economic situation of countries as well as the desire to include certain areas with difficult access to the oceans, were also factors cooperating to implement these types of "zones".

After World War II, Free zones are implemented through international treaties, often incorporated into peace treaties.

Examples:

- Treaty of Berlin in 1878, establishing a free zone in Bhutan (Russia)
- Treaty of Versailles maintaining existing zones in Germany before the war.

1.3.2 Concept

Hernando Caicedo, advisor of foreign trade in Colombia defines free zones as “the geographical area bounded within the country, where industrial activities of goods and services, or commercial activities take place under special regulations on tax, customs and foreign trade matters. Goods entering in these free zones are considered outside the national customs territory for purposes of taxes on imports and exports” (Caicedo, 2013).

The International Labor Organization defines free zones as “industrial zones with special incentives to attract foreign investors, in which imported materials are put through a certain degree of processing before being exported again” (Vega Zafra, 2010).

As a result, a free zone is a specific geographical location within a country, where there are special rules in order to attract foreign investment and industrial activities where either goods or services are performed.

1.3.3 Classification

Speaking of free zones, we face various terminologies that countries use to address this tactic. However, all different denominations have a defined geographical area in common, which is not considered part of the customs territory of the receiving country and thus the import and export of goods is allowed without tariff and other import and export duties are free.

According to Jaime Granados, these areas can be categorized by function as follows:

1.3.3.1. By type of economic activity: Marketing or processing.

The activities of the areas that specialize in the marketing of goods or services, are storage, packaging, testing, labeling, cleaning, blending, reconditioning transport or processing. These activities are minimal so there is no talk of major production patterns.

On the other hand, free processing or industrial areas are intended to subject the goods to transformation processes using inputs whether domestic or imported.

This classification is very important. Different controls that do not allow local production are affected by the products or services performed within the free zone due to the fact that these have tariff preferences.

1.3.3.2. By the economic sector: goods or services.

This zone will be designated, because it is different than the service sector and the commerce of goods. Each one has its own customs control.

1.3.3.3. By product destination: internal or external market.

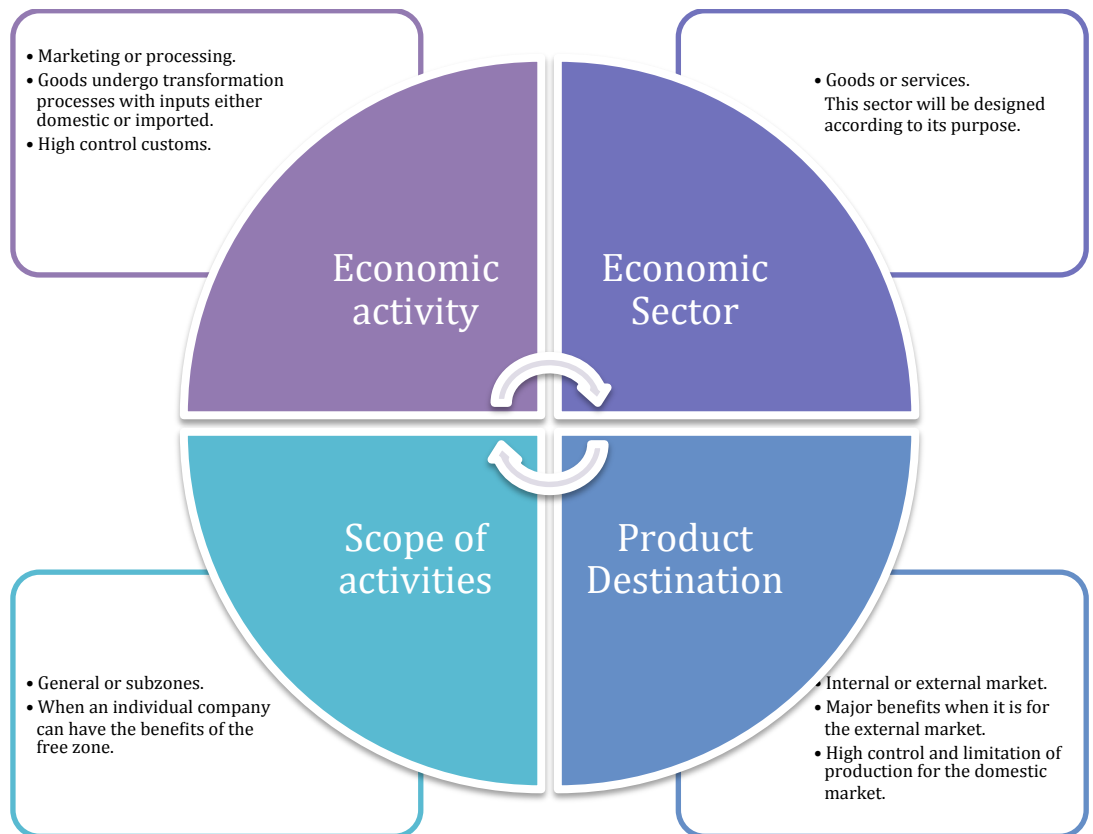
When the free zone is oriented to the export market, it has customs facilities such as release of tariffs and a good infrastructure. When the scope is strictly abroad, the approval of the free zone operation continues with simple procedures because they will not compete with local production.

While there are also market free zones within the local market, it should be emphasized that this occurs in countries with large domestic markets. The Foreign Trade Zone of the United States and the Free Zone of Manaus, Brazil are examples of such areas.

1.3.3.4. By scope of activities: General or subzones

Some states allow the establishment of general free zones in industrial parks where there are large numbers of companies. Due to lack of space in these industrial areas, states also allow the possibility for individual companies, apart from the ones located in the park, to benefit from this process, as well. These other individual companies are classified as sub-zones, and are hosted by a free zone mother (Granados, 2002).

Chart 3: Free Zone Classification



Source: Developed by the author

1.4 Outsourcing: concept and function

The decision to outsource an activity or business function is vitally important because through this decision we can improve quality, efficiency and also allow for cost reduction.

There are various conceptualizations for outsourcing according to different authors. Some concepts of outsourcing are presented below for a better understanding of the topic.

According to the General Director of Services for IBM, outsourcing is "delegate [d] to an external partner the management of certain business processes so the provider, being an expert in these areas, is offered increased service quality and cost reduction" (Zufiria, 2006).

On the other hand, Brian Rothery says that when talking about outsourcing we are talking directly about supply and supply problems, and he defined this by saying "Outsourcing really means finding new suppliers and new ways to ensure the delivery of raw materials, items, components and services. It means using the knowledge, experience and creativity of new suppliers that previously was not used" (Rothery, 2002).

Finally, Mora and Schupnik define outsourcing as a "transfer to third non-core activities" (Fabiola Mora & Walter Schupnik, 2009).

As a result, we can say that outsourcing gives some function or business to third parties. The involved third parties are expert external companies that acquire the responsibility to perform the delegated work with maximum efficiency and quality. But do not forget, you can outsource everything except the core activities of the company.

1.5 Countries benefiting from the maquila regime in textiles

The maquila industry is an industry that benefits both the maquiladora company and the employer.

The information below was obtained based on the interview with Engineer Juan Malo General Manager of *Curtosa*, and other information was gathered from the Honduran Association of Maquiladores website.

For the maquiladora, benefits are:

- Technology transfer
- Innovation
- Improved productivity, with a margin of error of 0%
- Funding from the contracting company
- Cash payments at the start of production

Moreover, maquiladoras produce jobs and foreign investment for the local economy.

The United States and some European countries, hire maquiladoras in foreign countries that have the following benefits:

- A system of incentives in tariffs
- Cheaper production costs in relation to costs in their respective countries
- Location
- The forex system

(Asociacion Hondureña de Maquiladores, 2013)

Chart 4: Major International brands made in Colombia

Brand	Origin Country
Adidas	Germany
Victoria's Secret	United States
JCPenney	United States
Polo Ralph Lauren	United States
Tommy Hilfiger	United States
Liz Clairborne	United States
Nautica	United States
Grupo Cortefiel	Spain
Oxford Industries	United States
Timberland	United States
Pierre Cardin	Italy
Hanes	United States

Source: Developed by the author - (Inexmoda, 2012)

1.6 Overview of Colombia

Colombia is located in South America, bordered by Panama, Venezuela, Brazil, Peru, Ecuador and the Caribbean Sea. With an area of 1 138.910 km² it has approximately 45,745.783 inhabitants. The official language is Spanish and its currency is the Colombian peso (\$ 1 = 2001.00 Pesos) January 2014. Colombia is a presidential republic whose current president is Juan Manuel Santos Calderon (The World Factbook, 2013).

The Colombian economy is constantly growing due to solid economic policies and promotion of free trade agreements. This economic growth is evident in the annual GDP. In 2012, the GDP reached \$366 billion dollars and grew more than 4% annually for the last three years (The World Factbook, 2013).

Moreover, we must not forget that Colombia is an oil exporter, and much of its economy is vulnerable due to falling oil prices. However, the industries and services contribute significantly to the economy with 37.5% and 56% of GDP, respectively.

The economic policies of President Juan Manuel Santos focus on strengthening trade and encouraging investment in the country. With this policy in mind, Colombia has signed the Free Trade Agreement between the US and Colombia (FTA) in 2011. Currently, Colombia is building free trade agreements with many countries including Canada, Chile, Mexico, Switzerland, the European Union, Venezuela, South Korea, Turkey, Japan, China, Costa Rica, Panama, and Israel (The World Factbook, 2013).

Despite government efforts, there are major problems in the economy, such as inequality, underemployment, drug trafficking, and especially the infrastructure needed to sustain economic expansion.

According to the Association of Free Zones of the Americas in Colombia there are 29 Free Zones that are under the regime of Law 1005 of 2005.

The benefits obtained from the Free Trade Zones are:

- Income tax of 15%
- No cause or customs taxes are paid (TAX, Tariff)
- Applicability of international trade agreements
- Participation in the local market

(Asociación de Zonas Francas de las Américas , 2014)

Chart 5: Colombia Free Zones

1	Zona Franca Andina City: Manizales	11	Tocancipá Free Zone City: Bogota	21	Puerta de Las Américas S.A. City: Cartagena
2	Palmaseca City: Cali	12	Pereira International City: Pereira	22	Dexton S.A. City: Cartagena
3	Celpa S.A.S. City: Buenaventura	13	Plic S.A. City: Bogota	23	Zona Franca Internacional Atlántico (ZOFIA) City: Barranquilla
4	Cencauca City: Caloto	14	Zona Franca de Occidente City Mosquera	24	Zona Franca La Cayena City: Barranquilla
5	Parque Sur City: Villa Rica - Cauca	15	Metropolitana S.A.S. City: Bogota	25	Zona Franca de Santander City: Floridablanca
6	Surcolombiana S.A.S. City: Neiva	16	Intexzona S.A. City: Siberia, Funza	26	Zona Franca de Cúcuta City: Cucuta
7	Magdalena Medio Andina S.A.S. City: La Dorada, Caldas	17	Zona Franca Agroindustrial de Chiquinquirá Gea City: Chiquinquirá	27	Zona Franca del Pacífico City: Palmira
8	Eje Cafetero Free Trade Zone City:Tebaida, Quindio	18	Tayrona S.A. City: Santa Marta	28	Zona Franca Parque Central City: Cartagena
9	Urabá Agrícola Santa María Free Trade Zone City: Medellin	19	Brisa Free Trade Zone City: Bogotá	29	Zona Franca de Bogotá City: Bogota
10	Rionegro Free Trade Zone City: Rionegro, Antioquia	20	Candelaria S.A. Free Trade Zone City: Cartagena		

Source: Developed by the author

(Asociación de Zonas Francas de las Américas , 2014)

1.7 Trade Agreements: Ecuador/Colombia

The commercial history between the two neighbors Ecuador and Colombia, has its beginnings in their formation as national states. Their first economic activities were agricultural and handicraft production. Therefore, neighboring countries began with competitive commercial relations rather than complementary ones.

Initially, trade relations between Ecuador and Colombia were not significant, because until the mid-twentieth century, countries focused attention on stronger economies like Europe and the United States. However, after World War II, the focus changed as Colombia industrialized, specializing in food and textile production and allocating production not only to the domestic market but also to the international market (Romero, 2006).

In order to promote development in Colombia, the Vallejo Plan Colombia and The Agrarian Reform emerged in 1959. These policies were key to development and were essential for Colombian international trade. The Vallejo Plan was a strategy of tax exemptions on imports of raw materials used to produce goods and services for export. The land reform increased the size of domestic markets and expanded the agricultural frontier. From these significant changes, Colombia and Ecuador initiated the expansion of their economic relations and international cooperative relationship (Romero, 2006).

Ecuador and Colombia, are currently focused on two different trade policies. Ecuador has an endogenous vision, which aims to promote the country's brand. Therefore, signing new trade agreements are not of primary importance. Colombia meanwhile has an open trade policy for free trade and investment. However, these two countries with opposing political and economic initiatives, maintain good business relationships and are signatories to three existing trade agreements: World Trade Organization, Andean Community: Andean Sub regional Agreement and MERCOSUR FTA.

1.7.1. World Trade Organization

The World Trade Organization (WTO) is an international organization responsible for regulating trade between countries. It was established in January 1995 and is headquartered in Geneva, Switzerland. The main objective of this organization is to help producers, exporters and importers of goods and services to carry out their activities. The WTO has 159 member countries and the current director is Roberto Azevêdo (OMC, 2013).

The functions of the WTO are the following:

- Manage WTO trade agreements
- Provide a forum for trade negotiations
- Try to solve trade disputes
- Monitor national trade policies
- Provide technical assistance and training for developing countries
- Cooperate with other international organizations

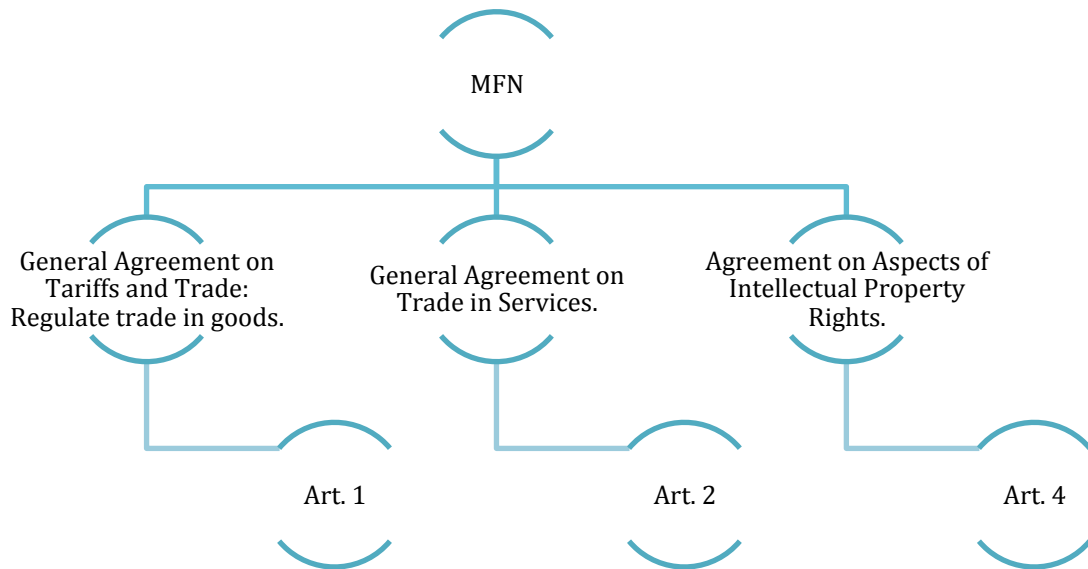
The purpose of this organization is fairer trade; therefore, one of its main principles is non-discrimination. This is achieved by the Most Favored Nation and National Treatment.

1.7.1.1. Most Favored Nation (MFN):

It refers to equal treatment for all countries, making it illegal for countries to discriminate among their trading partners.

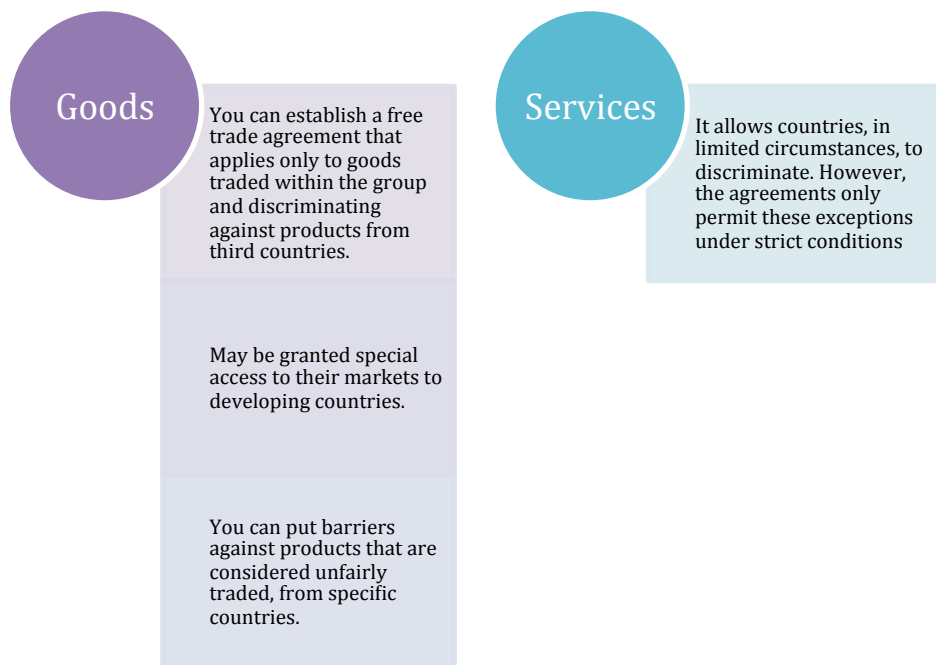
This principle is vital, since it is covering the three main areas of trade: trade in goods, trade in services, and intellectual property rights (OMC, 2013).

Chart 6: MFN – Main Areas of Commerce



Source: Developed by the author – (OMC, 2013)

Chart 7: Exceptions – Most Favored Nation



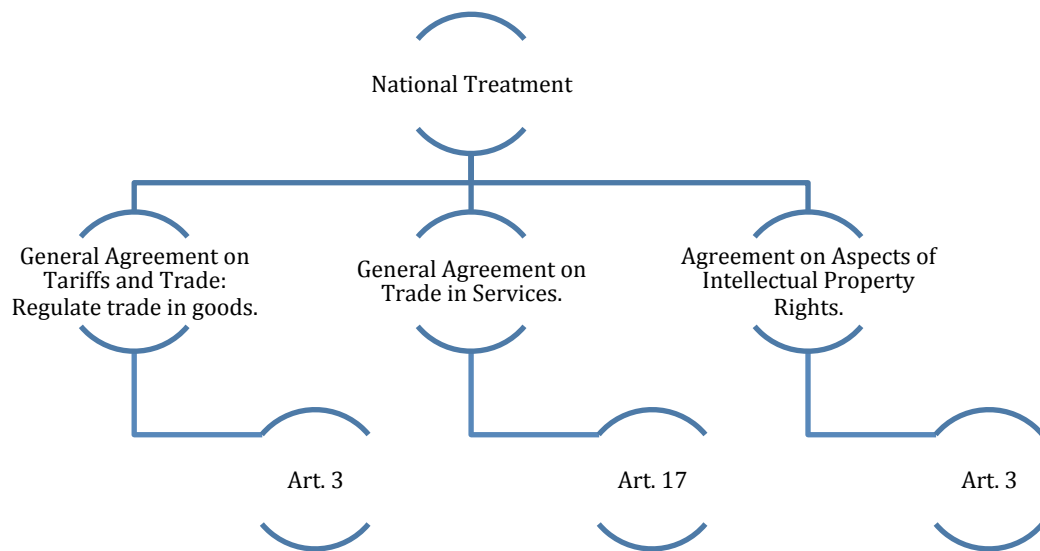
Source: Developed by the author – (OMC,2013)

According to World Trade Organization definition "MFN means that every time a country lowers a trade barrier or opens up a market, it must do so for the same goods or services from all its trading partners, whether rich or poor, weak or strong" (OMC, 2013).

1.7.1.2. National Treatment

It refers to equal treatment for both nationals and foreigners. All aspects of trade such as goods, copyrights, foreign patents and services and brands must receive equal treatment, regardless of national or international companies (OMC, 2013).

Chart 8: National Treatment



Source: Developed by the author – (OMC, 2013)

According to World Trade Organization, "National treatment only applies once a product, service or item of intellectual property has entered the market. Therefore, the application of customs duties on imports is not a violation of national treatment even to products manufactured in the country are not charged an equivalent tax" (OMC, 2013).

1.7.2. MERCOSUR: FTA

MERCOSUR, the Southern Common Market, was created in March 1991 in a meeting between Argentina, Brazil, Paraguay and Uruguay in Asuncion, Paraguay. Four countries signed the "Treaty of Asuncion", whereby the Southern Common Market created the MERCOSUR. The secretariat of MERCOSUR is in Montevideo.

The MERCOSUR comprises Argentina, Brazil, Paraguay, Uruguay, Venezuela and Bolivia (found in accession since December 2012).

Chile, Ecuador, Colombia and Peru are associated states.

Objectives of MERCOSUR, under Article 1 of the Treaty of Asuncion:

- 1. The free movement of goods, services and factors of production between countries through, among others, the elimination of customs duties and non-tariff movement of goods, and any other equivalent restrictions;*
- 2. the establishment of a common external tariff and the adoption of a common trade policy in relation to third States or groups of States and the coordination of positions in regional and international economic and trade forums;*
- 3. the coordination of macroeconomic and sectorial policies between the States Parties: from agricultural, industrial, fiscal, monetary, exchange and capital, services, customs, transport and communications trade and others agreed, to ensure suitable conditions of competition between States Parties;*

4. *the commitment of States Parties to harmonize their legislation in relevant areas in order to strengthen the integration process"* (MERCOSUR, 2013).

1.7.3. Andean Community of Nations: Andean Sub regional Agreement

The member countries of the Andean Community of Nations (CAN) are Bolivia, Colombia, Ecuador and Peru. This group was formed in order to improve the standard of living of each nation's inhabitants; therefore, each country pledged to cooperate economically and socially through this integration.

In May 1969, they signed the Cartagena Agreement, starting the Andean Integration of Nations. In the beginning it was known as the Andean Pact or Andean Group, but today it is known as the Andean Community of Nations.

Following this integration major changes began, moving from a model of "import substitution" where high tariffs protect domestic industry to an open free trade model. This new model was adopted in 1989 during a meeting in the Galapagos. Finally, in 1993 the Andean countries eliminated tariffs among themselves, so there was free movement of goods and services (CAN, 2013).

The CAN has achieved important goals in different areas of their cooperation and integration.

Placing emphasis on trade relations, CAN has successfully formed an Andean free trade tax payment rate of 0% to 100% of its products.

With this free trade area the following has been achieved:

- Increasing trade in manufactured goods between the countries, and with the creation of jobs and the promotion of micro and medium enterprises.
- Commercial growth.
- Creating rules and mechanisms to facilitate trade in the Andean region.

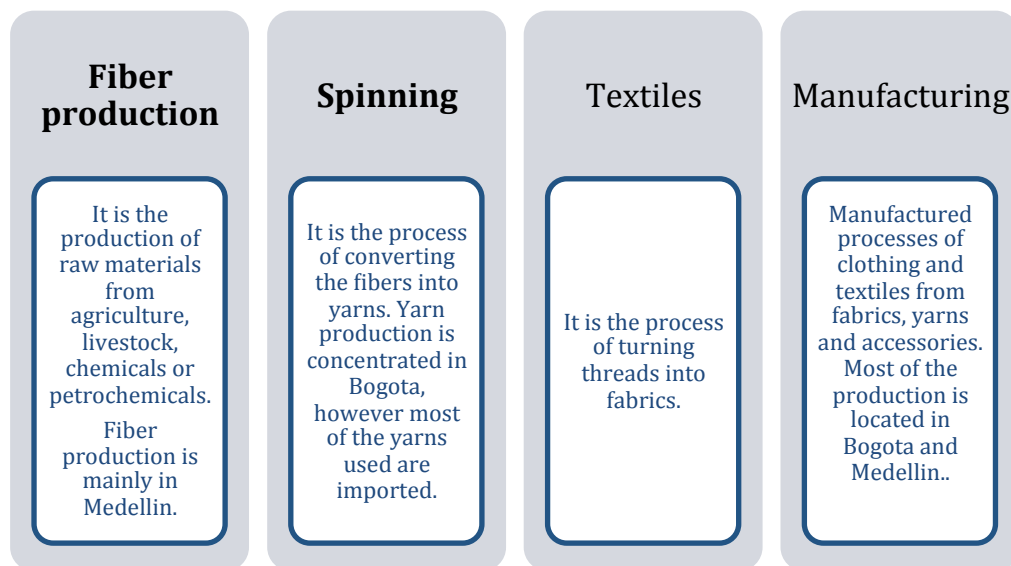
- To join 0% tariff lien on the goods or services, it is essential to obtain the certificate of origin of the product (CAN, 2013).

1.8 Textile Industry in Colombia: Lingerie

According to the Sustainability Report 2012: Sector Fashion System, the Textiles sector and manufacturing is varied. Its main production is of yarns and fabrics for clothing, housewares and even also the production of fibers for industries such as agriculture and construction.

The activities in this sector range from the production of raw materials to manufactured products.

Chart 9: Activities of the Textile and Manufacturing Sector



Source: Developed by the author

This sector is one of the most important industries in Colombia, generating value, employment and foreign exchange. This is because there is domestic production from the processing of raw materials to manufacture the final product.

On the other hand, even though this sector is constantly growing it also has competition from imports of internationally recognized brands.

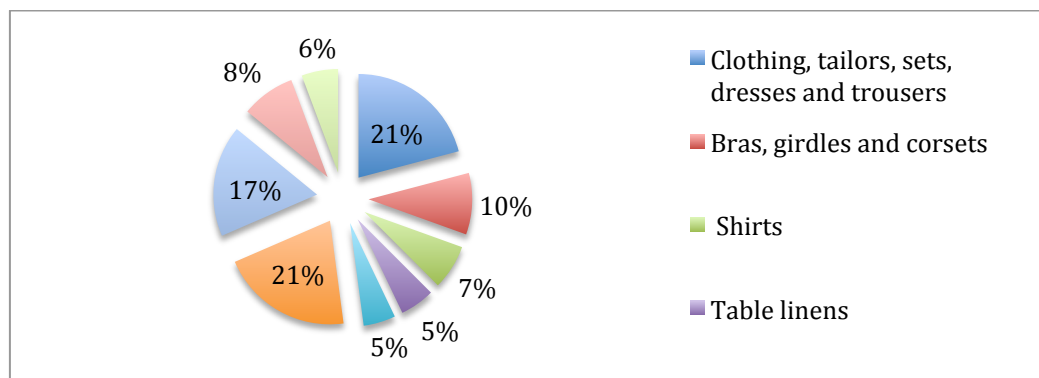
In this sector we can find more than 30,000 companies registered at the Commerce Companies Chambers, 70% of these companies are engaged in manufacturing and services (ANDI, 2012).

This sector had about 1,044 companies producing textiles and apparel. The main production of textiles and apparel in Colombia are located in the departments of Antioquia, Cundinamarca, the Eje Cafetero (Risaralda, Caldas and Quindio) and Valle del Cauca (Proexport Colombia, 2012).

According to the National Association of Entrepreneurs of Colombia, the main exports in 2012 in this sector are:

- Clothing: Clothing, tailors, sets, dresses and trousers: 20.9%. Bras, girdles and corsets 9.6%. Shirts: 7%. Table linens 5.4%. Underwear and nightgowns: 5%.
- Textiles: Textiles point: 20.6%. Cotton fabrics 17.4%. Woven fabrics of synthetic filament 8.4%.

Graphic 1: Major Export Products 2012



Source: Developed by the author

As we can see lingerie represents a significant percentage in relation to export apparel.

The textile industry is an industry that is rising, which already has international presence and is constantly innovating in order to compete in the global market.

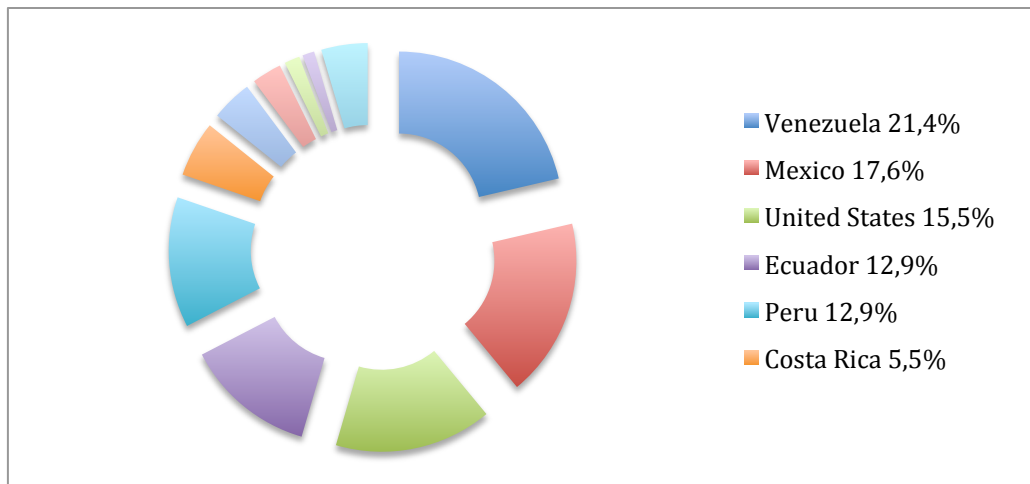
1.8.1. Major Export Destinations 2012

Graphic 2: Major Export Destinations - Tariff Item 6108: Combinations panties, petticoats, nightgowns, pajamas



Source: International Trade Center, TradeMap, 2014

Graphic 3: Major Export Destinations - Tariff Item: 6212 Brassieres, girdles, corsets, suspenders, garters and similar articles



Source: International Trade Center, TradeMap, 2014

The main importers of Colombian lingerie are Venezuela, Mexico, Peru, Ecuador and the United States. However, Venezuela is the largest import customer in lingerie and clothing in general.

Globally, Colombia is located at position 29 of exporters of lingerie. The leading exporters are Asian countries, with China being the largest exporter followed by Bangladesh, Sri Lanka and India.

The main reasons for these countries to lead the global market is their established capacity for spinning and weaving, revaluation of the exchange rate, large scale economies and countries with cheap labor costs (Pacific Asia).

1.9 Maquila in Colombia: Standards and Requirements

The maquila regime is a special regime that seeks to encourage exports. In Colombia, the regime is specified in the "Special system of import and export - Vallejo Plan", Decree 444 of 1967, resolution 1860 of 1999, and stakeholders (contracting / maquiladora) made available through the "Contract of Maquila".

1.9.1. Vallejo Plan

According to the author Luis Jorge Garay, the Vallejo Plan is a special system of import and export that was instituted in 1959 under the rule of the Military Junta. Regulation of operations began in 1961. The plan released firms from paying tariffs on imported inputs for the first years. However, it was only for firms that have export contracts with the government. Subsequently, in 1967 the legislation was complemented by establishing a procedure for granting extensions on imported inputs used in exports already made and partial export in the case of imports of machinery.

This is how the Plan Vallejo encourages exports. The mechanisms used were tax exemption, producers / exporters, raw materials, supplies, capital goods, machinery and spare parts needed for the production of products intended for export. However, to be a beneficiary of this system, it is necessary to perform a contract where there is a commitment to export all or part of production obtained (Garay).

The decree 444 of 1967, is the legal regime that regulates the Vallejo Plan. In this decree, we can find the modalities of import / export that stimulate production and export.

Chart 10: Decree 444 - Main production goods and export incentive

Art. 172	Art. 173	Art. 174	Art. 179
<ul style="list-style-type: none"> • Import of raw materials with a commitment to export 100%. 	<ul style="list-style-type: none"> • Import of raw materials with a commitment to partially export. • Import of capital goods with a commitment to export 70% 	<ul style="list-style-type: none"> • Imports of capital goods with commitment to export 1.5% of the imported value.. 	<ul style="list-style-type: none"> • Replacement of raw materials and supplies.

Source: Developed by the author – Decree 444 of 1967

Moreover, resolution 1860 of 1999, specifically states the provisions of the Special Systems of Import - Export.

In Section II of this resolution, there are provisions for trade in regard to maquila operations. Certain articles in this section of the resolution state the definition of a maquila, who has access to a maquila program and their obligations. The particular articles that specify these particular criteria are the following:

ARTICLE 71. Development of the object. The term Maquila, the operations performed under Article 172, when developing through imports not refundable in which the foreign contracting supplied to the domestic producer directly or indirectly, the hundred percent (100%) of the Commodity or external inputs needed to manufacture the export good, notwithstanding the Commodities or national supplies used.

Article 72. Access Program: Those who meet the condition of the preceding Article, may access a Program Plan Vallejo maquila

operations, for which they must meet the other requirements outlined in Section III of Chapter I of this Resolution.

In addition to the aforementioned, if there is a link between the foreign contractor and the domestic producer where one party (directly or indirectly) controls the other, will be required for purposes of program approval, demonstrating that each of the parties has a tax inspection or an external audit different than the other party.

Article 73. Special obligations of the Maquila User: The maquiladora user, once approved the program, has to adopt a systematic inventory of raw materials and finished product. This control information must be updated and available to be verified by INCOMEX anytime .

The user of Maquila shall submit to INCOMEX a report of its operations semiannually, filling out the format for the effect provide the Monitoring and Control Division.

ARTICLE 74. Demonstration and verification of commitments: To demonstrate export commitments, it is not required presenting tables of raw materials and products. The proof of export commitments shall be made to the Division of Control and Monitoring by submitting inventories of raw materials and finished products imported and exported, certified by the foreign contracting. The legal representative and the auditor of the domestic producer have to state the degree of compliance for each export period.

Article 75. Type of guarantee of compliance: Ensuring compliance which becomes development programs maquila operations may be personal, banking or insurance status, user selectable.

ARTICLE 76. Referral: maquila programs regarding import quota, term to demonstrate, export commitment, validity, and amount of the guarantee shall be governed by the general rules set forth in this resolution for the operations of Commodities .

1.9.2. Maquila Contract

In order for the maquiladora contract to be properly implemented, it must complete the following processes:

First, the producer must be registered in the Registry of Producers of National Assets, and it must complete the "Registration of producing national property" form. This form is found in the Module Single Form of Foreign Trade - VUCE .

Next, the "Registration producer of domestic goods" must be signed under oath by the representative of the company that hires the maquila.

Finally, the item related to the description of the production process within the "Record Producer of National Assets" form, besides the description of the process, must indicate that is being conducted under a Maquila Agreement duly executed and identified, specifying the parties who subscribe. This contract must be scanned and sent by email: kmjunco@mincomercio.gov.co or received by certified mail to the group of national producers of the directorate of International Trade, noting the number corresponding to the given filing system VUCE (Direccion de Comercio Exterior , 2010).

It is important to remember that the subcontracting agreement must contain:

- The full address of the maquiladora production plant
- Operations or production processes to be fulfilled
- The duties and responsibilities of each party
- The duration of the contract

CHAPTER II: MAQUILA COMPANIES AND THE PROCESS OF PRODUCTION

2.1. Top lingerie maquiladoras in Colombia

The textile and clothing sector is one of the most important sectors of the Colombian economy, as it has experience and provides employment, industrialization, investment, and economic development. However, this development would not have been possible if production was limited to the national level. Colombia producers have their own brand and produce to third parties, thus there is increased production, employment and exportation (Inexmoda, 2012).

The main lingerie maquiladora companies that join Colombiamoda every year are:

- Balalaika
- BONCO
- CHANTALL
- YASHIRA LINGERIE
- MARIE LOUISE
- LILI – PINK – INTIMA SECRET
- ETERNA PRIMAVERA – GIRLS BRAND
- C.I CONFECCIONES JEAN PAUL S.A

These maquiladoras works with “full package”, which means that the maquiladora company is in charge of the whole process from buying the raw material until the packaging of the finished product.

2.1.1. Analysis of specialization by type of product

In order to discover the proper assembly plant for the production of an Ecuadorian lingerie brand, it is necessary to analyze all the above maquilas to learn general information and specialization.

Chart 11: Analysis of maquiladora companies in Colombia

COMPANIES	WHAT THEY PRODUCE	WORKS WITH "FULL PACKAGE"	YEARS OF EXPERIENCE	WEB PAGE	CUSTOMER SERVICE RESPONSE TIME
BONCO	Women's underwear	YES	12	YES	24 HORAS
CHANTALL	Manufacture of underwear for women, children and men.	YES	—	YES	NO ANSWERS
YASHIRA LINGERIE	Manufacture of women's underwear	YES	10	YES	72 HOURS
MARIE LOUISE	Manufacture of women's underwear	YES	—	YES	—
LILI - PINK - INTIMA SECRET	Manufacture of underwear for male and female.	YES	—	YES	NO ANSWER
ETERNA PRIMAVERA - GIRLS BRAND	Sportswear clothing and underwear for women, children and men.	YES	—	YES	96 HOURS
BALALAIKA	Lingerie, pajamas and sport clothes for women.	YES	52	YES	12 HOURS
CHAMELA	Manufacture of underwear and clothing for women.	YES	25	YES	36 HOURS
C.I CONFECCION ES JEAN PAUL S.A	Manufacture of casual, sport and intimate male and female clothing.	YES	40	YES	24 HOURS

Source: Developed by the author

Based on the analysis of maquiladora companies, three companies were selected. These companies are the best fit for our needs of production. After this analysis we researched a little more about these companies and their type of production.

2.1.1.1 Balalaika

Balalaika is a business group composed of two companies: Confecciones Balalaika S.A and Textiles Balalaika S.A. They have 20 years of experience in manufacture and exportation and are located in Girardota, Colombia.

The manufacturer company specializes in lingerie, pajamas, swim suits and sportive clothes. On the other hand, the fabric company produces lace and textiles (Balalaika, 2013).

2.1.1.2 BONCO

Bonco is a textile producer and manufacturer. They have 12 years of experience and are a specialized lingerie company located in La Estrella, Colombia (BONCO, 2013).

2.1.1.3 C.I CONFECCIONES JEAN PAUL S.A

Clothing Jean Paul has 40 years of experience in textile production; however, the company changed its name in 2005. The company has experience in exports, mainly to Mexico, Guatemala, Salvador, Costa Rica, Panama, Venezuela, Chile, Honduras, Puerto Rico, Ecuador, USA, Trinidad and Tobago, Aruba and Curacao.

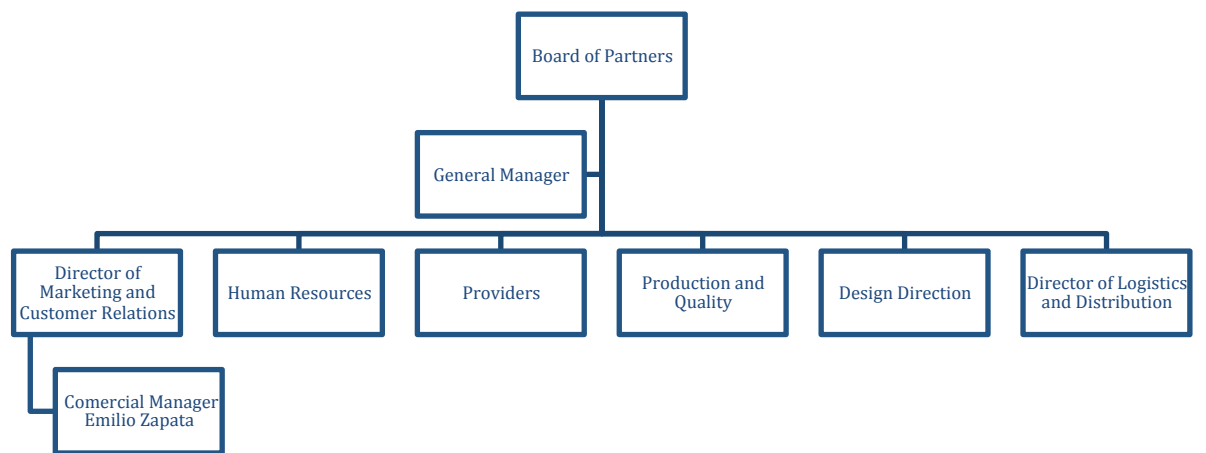
Among its customers are Avon Colombia, Marketing Personal SA, Lebon, Almacenes Flamingo, Caravan, Agaval and 120 wholesalers. Their trademarks are Jean Paul and Jean-ete. They specialize in production of underwear, swimwear, sportswear and casual wear (Jean Paul International, 2013).

2.1.2 Organizational Structure

Understanding the organizational structure of the company allows us to have more information about how the company functions internally. Also, it gives us guidelines of the responsibility of each area and with whom we can communicate for different requirements.

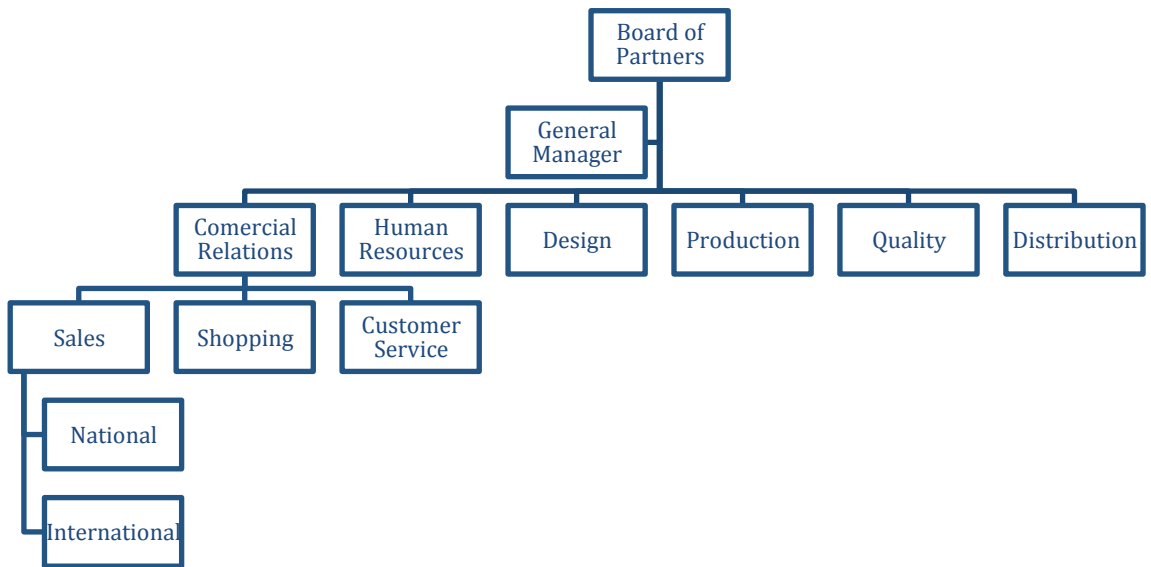
In the case of Bonco (BNC), Balalaika and Jean Paul maquiladoras, commercial management departments are responsible for communicating with customers. The heads of these departments informed me about the organizational structure of each company and, in turn, were those who made the proform invoice.

Chart 12: Organizational Structure- BNC



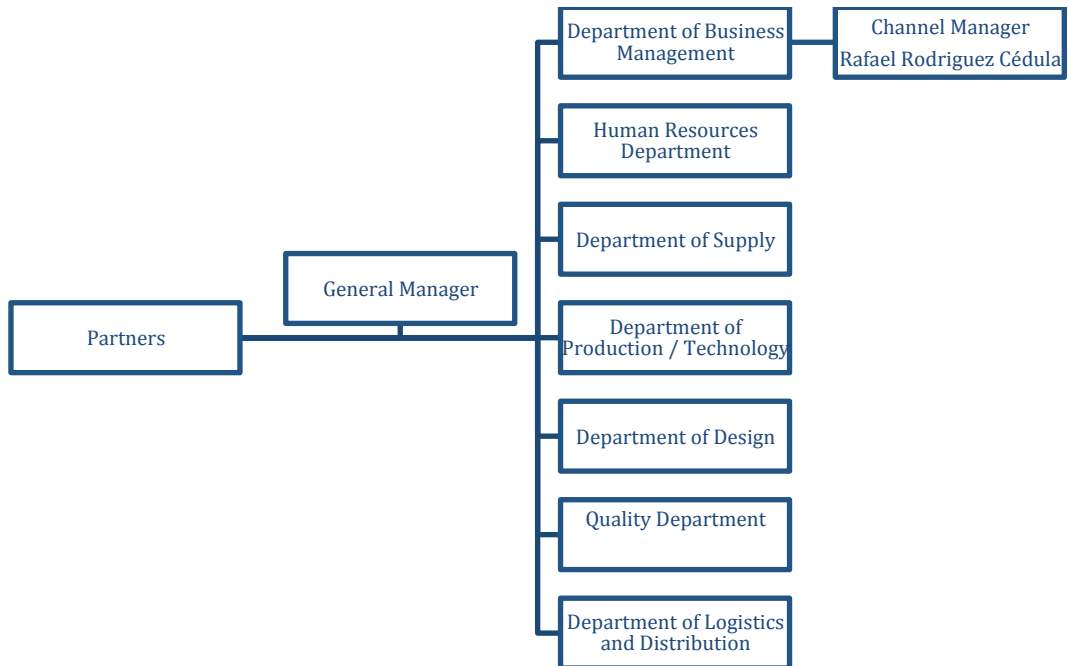
Source: Developed by the author – Telephone consultation

Chart 13: Organizational Structure - C.I CONFECCIONES JEAN PAUL S.A



Source: Developed by the author – Telephone consultation

Chart 14: Organizational Structure - Balalaika



Source: Developed by the author – Telephone consultation

2.1.3 Capacity of production and compliance

The capacity of production and compliance could be determined knowing the specific data of the manufacturing enterprise, such as: the number of employees, number of machines available for making garments and the monthly capacity for production.

To determine how maquiladoras function, it is necessary to know which one has the best production practices and compliance. For this we will use the indicators: years of experience, production capacity, hired human group, certifications and machinery.

These indicators help determine whether the maquiladoras will be able to produce orders on time and with best quality and technology.

Chart 15: Capacity of production

	BONCO (BCN)	C.I CONFECCIONES JEAN PAUL S.A	Balalaika
Experience	12 years	40 years	52 years
Production Capacity	600 thousands garments in a month	400 thousands garments in a month	350 thousands garments in a month
Number of employees	750 workers	600 workers	500 workers
Certifications	—	—	ISO 9001
Machinery	430	350	215

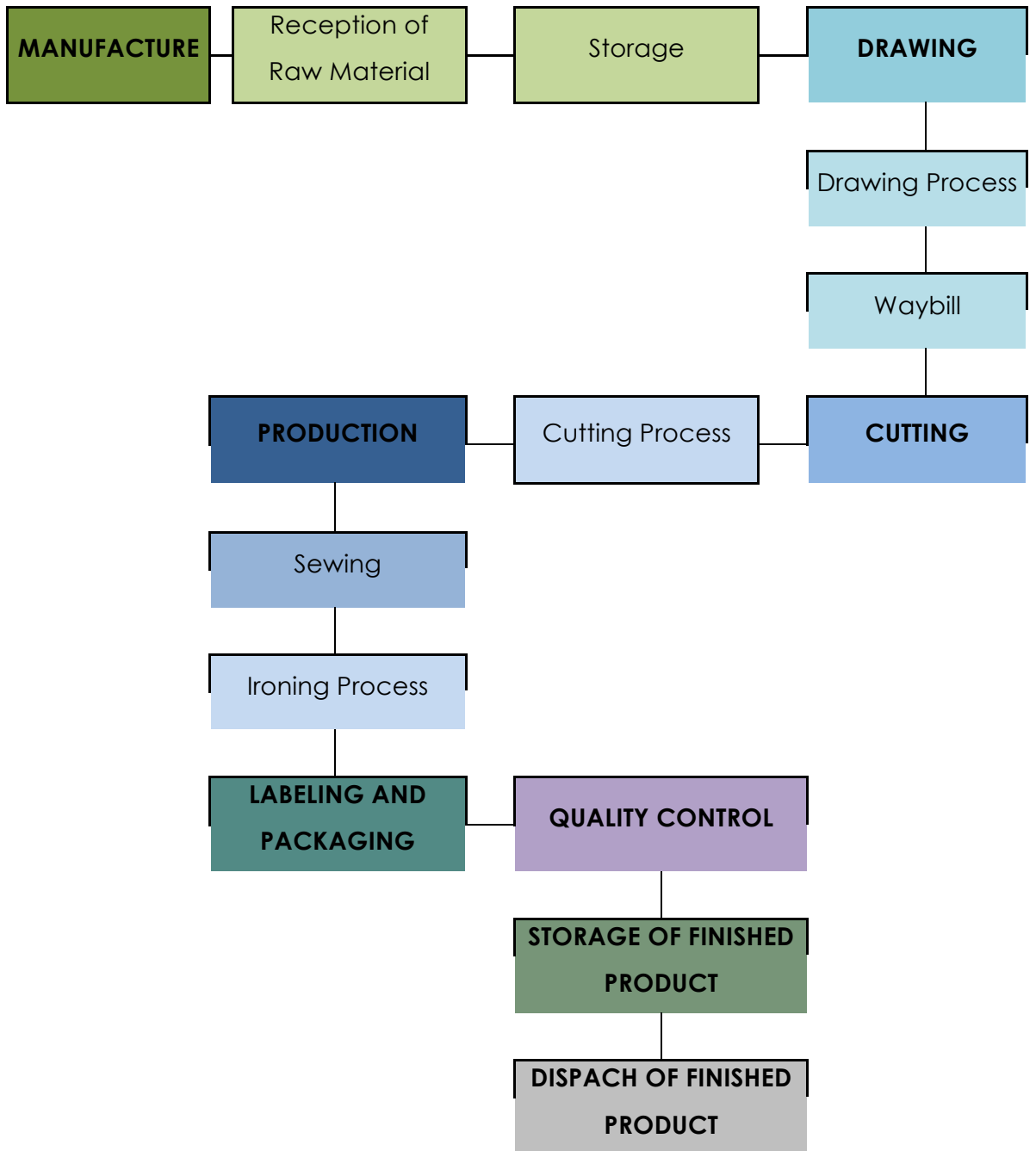
Source: Developed by the author - Information obtained from telephone interviews.

2.2 Process for the production

The process for producing lingerie has eight stages. Those departments are responsible for each production stage and they must meet the established times in chronological order, conducting product reports and keeping track of costs and production time.

This production process is vital, as it helps to maintain communication between the different production areas.

Chart 16: Production Process



Source: Developed by the author

CHAPTER III: PRODUCTION COSTS

In this chapter we analyze whether the production costs under the maquila regime in Colombia offer competitiveness to Ecuadorian lingerie. This is achieved by the breakdown of costs of production in Colombia and the breakdown of production costs in Ecuador.

3.1 Production Costs in Colombia

To determine the production costs of lingerie in Colombia, it is important take into account the cost of the finished product, the importation expenses and the production volume.

To obtain the values of the finished product, we requested proforma invoice from BALALAIKA, BONCO and C.I. CONFECCIONES JEAN PAUL. The last enterprise never answered the request.

Table 1: Proforma Invoice from Confecciones Balalaika S.A.

CONFECCIONES BALALAIKA S.A.			
PROFORMA			
DESCRIPTION	SIZE	COLOR	PRICE
Bra without arc with lace	34 – 40	White, black, nude	\$6,83
Bra in Jacquard	32-38	Blue, black, various colors	\$7,17
Panty Flex basic colors x3	Unique	Assorted	\$1,27
Invisible panty	S - L	Basic colors	\$2,00
Invisible thong	S -XL	Basic colors	\$1,56
Push up strapless bra with lace	30 – 38	Blue, black, coral, white, beige	\$10,00
Fused bra bustier style	30 – 38	Black, skin, white and beige	\$10,50
Special design	On request	Corset: Special design	\$29,70
Special design	On request	Corset: Special design	\$28,00
Fused panty with lace	S -XL	Black, skin, white, beige	\$4,39
Shortie with lace	S -XL	Black and White	\$2,89
Thong with lace	S - XL	Black, skin, white, beige	\$3,28
Bras in nylon spandex and lace	32 – 36	Neon coral, black and printed	\$8,39
Bras with lace	28 -36	White	\$8,06
Control bra	34 – 40	White, black, skin, printed	\$9,72
Corset: lace, underwire foam and special design	On request	Corset: Special design	\$22,00

Source: Confecciones Balalaika , Rafael Rodríguez, Channel Manager

Table 1: Proforma Invoice from Confecciones Balalaika S.A.

CONFECCIONES BALALAIKA S.A.			
PROFORMA			
DESCRIPTION	SIZE	COLOR	PRICE
Corset: lace, underwire foam and special design	On request	Corset: Special design	\$25,00
Panty bikini stamped with waistband	XS - L		\$2,72
Nylon spandex and lace bikini	XS - L	Blue, cherry and more	\$2,72
Thong with lace	S - XL	White, black and more	\$2,72

Source: Confecciones Balalaika , Rafael Rodríguez, Channel Manager

Table 2: Proforma Invoice from BONCO

BONCO			
PROFORMA INVOICE			
DESCRIPTION	SIZE	COLOR	PRICE
Lycra nylon, merged back with thin strap	32-38	Digital printing or colors to choose	\$5.45
Lycra nylon panty, fused fabrics with elastic band at the waist	S - I	Digital printing or colors to choose	\$1,90
Lycra nylon thong, fused fabrics	S - I	Digital printing or colors to choose	\$1,98
Lycra nylon, fused fabrics with elastic band at the back	32-38	Digital printing or colors to choose	\$5.40
Lycra nylon panty, digital print stripe down the leg and waist	S - I	Digital printing or colors to choose	\$2.30
Lycra nylon thong , fused fabrics elastic band at the waist	S - I	Digital printing or colors to choose	\$1,85
Green lycra nylon, thin strap 10mm	32-38	Digital printing or colors to choose	\$5.30
Green lycra nylon panty with digital print	S - I	Digital printing or colors to choose	\$2.00
Lycra nylon thong with digital print and elastic band	S - I	Digital printing or colors to choose	\$1,90
Lycra nylon bra with thin strap 10mm	32-38	Digital printing or colors to choose	\$5.35
Lycra nylon panty, fused fabrics with elastic decorative band at the waist	S - I	Digital printing or colors to choose	\$1,90
Lycra nylon thong, fused fabrics with fringe at the waist	S - I	Digital printing or colors to choose	\$2.00
Lycra nylon, elastic band in the back and strap 10mm	32-38	Digital printing or colors to choose	\$5.40
Lycra nylon panty, fused front	S - I	Digital printing or colors to choose	\$1.97
Lycra nylon thong , fused front	S - I	Digital printing or colors to choose	\$2.02
Lycra nylon bra with fringe in the front	32-38	Digital printing or colors to choose	\$5.60

Source: BONCO, Gustavo Zapata, Salesman

Table 2: Proforma Invoice from BONCO

BONCO			
PROFORMA INVOICE			
DESCRIPTION	SIZE	COLOR	PRICE
Lycra nylon panty with digital print and decorative elastic band	S - I	Digital printing or colors to choose	\$2,00
Lycra nylon strapless bras	32-38	Digital printing or colors to choose	\$6,10
Lycra nylon panty	S - I	Digital printing or colors to choose	\$1,85
Lycra nylon thong	S - I	Digital printing or colors to choose	\$2,05
Lycra nylon, fused fabrics and lace	32-38	Digital printing or colors to choose	\$5,85
Lycra nylon panty, fused fabrics and lace	S - I	Digital printing or colors to choose	\$2,00
Lycra nylon thong, fused fabrics	S - I	Digital printing or colors to choose	\$1,88
Lycra nylon bra, fused fabrics and strapless	32-38	Digital printing or colors to choose	\$5,60
Lycra nylon panty, fused fabrics	S - I	Digital printing or colors to choose	\$1,97
Lycra nylon thong, fused fabrics	S - I	Digital printing or colors to choose	\$2,05

Source: BONCO, Gustavo Zapata, Salesman

After reviewing the proforma invoices and analyzing the prices and fabrics, we chose to work with Balalaika. Balalaika offers more variety in fabrics, foams, best production costs and working conditions.

3.1.1 Cost of the finished product: importation

To determine the cost of the finished product and the cost of importing we first classified the garments according to the right tariff heading. The FOB value of imports is determined and then the cost of insurance and freight was calculated.

The finished garments are under the heading 6212.10.00.00 "bras and corsets" (ANNEX 1) and 6108.21.00.00 "panties and cotton panties" (ANNEX 1). These headings have 100% liberation. This liberation is applicable by presenting the origin certificate of the product, which the manufacturer has the responsibility to make.

Having the release of 100%, the merchandise is free from Ad Valorem and Specific Tariff (the Specific Tariff in this headings is \$5,50 USD for each Kg. and the Ad Valorem is 20%).

3.1.1.1 FOB Value

To start importation it is essential to know the FOB value of the merchandise, this value is the market value at the customs boundaries of a country.

Table 3: Valor FOB

	ITEM	MODEL	UNITS	UNITARY COST	TOTAL COST
BASICS	BRA	Bra without arc and lace	200	\$6,83	\$1.366,00
	BRA	Bras in Jacquard	200	\$7,17	\$1.434,00
	PANTIES	Panty Flex basic colors x3	200	\$1,27	\$254,00
	PANTIES	Invisible Shortie	200	\$2,00	\$400,00
	THONG	Invisible thong	220	\$1,56	\$343,20
	BRA	Strapless bra with lace	124	\$10,00	\$1.240,00
BRIDES	BRA	Fused bra - bustier style	100	\$10,50	\$1.050,00
	CORSET	Corset lace, underwire, foam and special design	80	\$29,70	\$2.376,00
	CORSET	Corset lace, underwire, foam and special design	80	\$28,00	\$2.240,00
	PANTIES	Fused panty with lace	100	\$4,39	\$439,00
	PANTIES	Shortie with lace	124	\$2,89	\$358,36
	THONG	Thong with lace	160	\$3,28	\$524,80
	BRA	Bras in nylon spandex with lace	130	\$8,39	\$1.090,70
	BRA	Lace bra	130	\$8,06	\$1.047,80
	BRA	Control-Top	130	\$9,72	\$1.263,60
	CORSET	Corset lace, underwire, foam and special design	100	\$22,00	\$2.200,00
TREND	CORSET	Corset lace, underwire, foam and special design	100	\$25,00	\$2.500,00
	PANTIES	Panty with print fabric	195	\$2,72	\$530,40
	PANTIES	Bikini, nylon spandex and lace	195	\$2,72	\$530,40
	THONG	Thong with lace	229	\$2,72	\$622,88
	TOTAL		2997		\$21.811,14

Source: Developed by the author
The FOB value of 2997 garments is \$ 21.811,14 USD

3.1.1.2 Cost of freight

The cost of freight is the transportation cost of the merchandise from Colombia to Ecuador. To make the best decision of transport, we requested quotes to different transport enterprises such as Yicheng Logistics, CTK Logistic S.A. and DHL.

The INCOTERMS used are FOB / FCA, therefore the carrier must transport the product from Medellin, Colombia to Guayaquil, Ecuador.

Table 1: Proforma Invoice from Yicheng Logistics Ecuador S.A.

YICHENG LOGISTICS ECUADOR S.A.		
Rate in terms: FCA / FOB		
Shipping: Medellin / Colombia		
Destination: Guayaquil / Ecuador		
DETAIL	VALUE / USD	
AIR FREIGHT	UNITIES	AIR
Colombia	1	45,45
Pick up	1	280,00
Air guide	1	50,00
Collect fee	5%	18,77
Total		394,22
DESTINATION CHARGE		
Storage	1	45,00
Handling	1	95,20
Administration	1	84,00
Processing and data transmission	1	106,40
Total Freight + Guide Cut (\$ 81,76)		806,58
T.T. DIRECT FLY!		

Source: Yicheng Logistics, Esmeraldas Alicia Vargas

Table 2: Proforma Invoice from CTK Logistic S.A.

CTK Logistic S.A.		
ECUADOR AIR IMPORTATION (GUAYAQUIL)		
TAMPA		
FREIGHT +100Kg	USD 2.50 x Kg/Vol	250,00
FS	USD 0.20 x Kg/Vol Min USD 5	20,00
DUE CARRIER	USD 25	25,00
DUE AGENT	USD 50	50,00
DOC FEE	USD 50	50,00
LOCAL TRANSPORT	USD 120	120,00
INTEGRAL OFFICE	USD 150	150,00
SUB TOTAL		665,00
LOCAL COSTS + TAX		200,00
TOTAL COST		865,00
ECUADOR AIR IMPORTATION (GUAYAQUIL Y QUITO)		
TAMPA		
FLETE +100Kg	USD 2,20 x Kg/Vol	220,00
FS	USD 0.10 x Kg/Vol Min USD 10	10,00
DUE CARRIER	USD 25	25,00
DUE AGENT	USD 50	50,00
DOC FEE	USD 50	50,00
TRANSPORTE LOCAL	USD 120	120,00
ADUANA INTEGRAL	USD 150	150,00
SUB TOTAL		625,00
COSTOS LOCALES + IVA		200,00
COSTO TOTAL		825,00

Source: CTK Logistic S.A., Ing. Ivonne García

DHL: The freight cost of a load of 85 kg. with a volume of 80x80x80, from Medellín-Colombia to Guayaquil-Ecuador, is \$1285,56 USD. Gabriela Martínez of the DHL sales department informed me about the cost of the freight, but she did not send a physical proforma invoice because to do so the applicant must register in the DHL database.

As we can see in charts 4 and 5, the cheapest option is with the enterprise Yicheng Logistics with a value of \$806,58 USD.

3.1.1.3 Insurance Value

The insurance value is determined by the total importation FOB and comprises 0.5% prime 3.5% Super quartermaster of banks, 0.5% Rural Social Security and 0.4% Policy Rights.

Table 3: Insurance value

INSURANCE	
COST AND FREIGHT	22.617,72
0.5% PRIME	\$113,09
3.5% SUPER OF BANKS	\$3,96
0.5% RURAL SOCIAL SECURITY	\$0,57
0.4% POLICY RIGHTS	\$0,45
TOTAL	118,06

Source: Developed by the author

Table 4: Importations of the tariff headings 6212.10.00.00 and 6108.21.00.00

HEADINGS: 6212.10.00.00 – 6108.21.00.00		
	FOB	21.811,14
	FREIGHT	806,58
	INSURANCE	118,06
CIF		22.735,78
ADVALOREM	20%	4.547,15
SPECIFIC TARIFF	\$5,50	---
LIBERATION	100%	4.547,15
NET ADVALOREM		0
FODINFA	0.50%	113,67
SAFEGUARD		0
ICE		
TAX	12%	2.741,94
TOTAL TARIFFS		2.855,61

Source: Developed by the author

3.1.2 Indirect Import Costs

The indirect import costs are all the additional items to pay such as the following:

- Cost of customs broker: It is the honorarium of the custom broker, these are fixed in air and land loads.
- Inland freight: It is a value determined by the transport company, according to the weight and volume of the load.
- Verifier: It is a fixed cost (\$274 USD) charged by customs for each importation, regardless of the volume or weight of the goods.
- INEN: The INEN certificate has a cost of \$224 USD plus \$400 USD for verification and paperwork of each imported product.
- MIPRO: The MIPRO certificate has no cost, therefore it must be transacted by a lawyer. The average attorney fees responsible for processing the document is \$90 USD.

Movement of capital: The 5% outflow of foreign exchange, the first import has an exemption of one thousand dollars.

Table 5: Indirect Import Costs

COSTOS INDIRECTOS DE IMPORTACION	
COST OF CUSTOMS BROKER	190,40
INLAND FREIGHT	30,00
VERIFIER	274,00
INEN	1.294,00
MIPRO	90,00
MOVEMENT OF CAPITAL	1.090,56
TOTAL	2.968,96

Source: Developed by the author

The importation total cost is \$5.942,64 USD, which represents an import cost of \$1.98 USD per item.

3.1.3 Production Volume

The functional production volume is according to the minimum proposed by the maquiladora company. So, the first collection with the new designs should be greater than 2500 items.

Table 6: Production Volume

LINE	ITEMS	MODEL	UNITIES
BASICS	BRA	BRAB001	200
	BRA	BRAB002	200
	PANTIES	PANB012	200
	PANTIES	PANB013	200
	THONG	PANB014	220
BRIDES	BRA	BRAN003	124
	BRA	BRAN004	100
	CORSET	CORN005	80
	CORSET	CORN006	80
	PANTIES	PANN015	100
	PANTIES	PANN016	124
	THONG	PANN017	160
TREND	BRA	BRAT007	130
	BRA	BRAT008	130
	BRA	BRAT009	130
	CORSET	CORT010	100
	CORSET	CORT011	100
	PANTIES	PANT018	195
	PANTIES	PANT019	195
	THONG	PANT020	229
TOTAL			2997

Source: Developed by the author

3.1.4 Retail price

To determine the retail price the unit cost was first established taking into account all import costs, then the price was set according to the competition and the market. To know our direct competition and our market, a market research was performed. This study consisted of 100 surveys in the city of Cuenca at Mall del Rio, Centro Comercial el Vergel and Universidad del Azuay.

- **Market:**

The ideal costumers for these products are sexy and stylish women between 25 and 50 years of age, middle socio economic class who like to be fashionable.

According to the conducted survey (ANNEX 3), at the moment of buying a bra, women evaluate comfort first followed by the quality, design and finally the price.

Moreover, through the survey we found that 46% of women are willing to pay between \$36 USD and \$60 USD for a bra that gives the above characteristics.

Our target market is called "seekers of comfort and beauty".

- **Competition:**

Our direct competition is Victoria's Secret and Leonisa, because these are the major brands in the city of Cuenca (ANNEX 3). Furthermore, these brands have similar features to those of our product in terms of basic lines and trend underwear.

On the other hand, the bridal line is a lingerie line that does not have direct competition in the city of Cuenca. In the city there is not a company dedicated exclusively to bridal lingerie. However, we took into account the prices of the finest line of Victoria's Secret in the US and the Touché brand that has stores in Quito and Guayaquil.

Table 7: Analysis of competition prices

LINE	ITEM	Retail Price Leonisa	Retail Price Victoria's Secret	Retail Price Touché
BASICS	BRA	\$30,00	\$30,95	N/A
	BRA	\$35,00	\$32,95	N/A
	PANTIES	\$12,00	\$10,50	N/A
	PANTIES	\$12,00	\$10,50	N/A
	THONG	\$10,00	\$9,50	N/A
BRIDAL	BRA	N/A	\$52,50	\$66,70
	BRA	N/A	\$68,00	\$69,44
	CORSET	N/A	\$258,00	\$120,00
	CORSET	N/A	\$140,00	\$115,00
	PANTIES	\$20,00	\$28,00	\$30,00
	PANTIES	\$20,00	\$32,00	\$34,00
	THONG	N/A	\$22,00	\$30,00
TREND	BRA	\$45,00	\$41,95	N/A
	BRA	\$40,00	\$34,50	N/A
	BRA	\$35,00	\$30,95	N/A
	CORSET	N/A	\$118,00	N/A
	CORSET	N/A	\$100,00	N/A
	PANTIES	\$25,00	\$16,50	N/A
	PANTIES	\$14,00	\$14,50	N/A
	THONG	\$10,00	\$10,50	N/A

Source: Developed by the author

After determining the target market and comparing competition prices, the price was set for retail sale also based on the company policy.

Price company policy: As a strategy of introduction to the market, the retail prices will be 20% lower than the competition.

Table 8: Retail Price

LINE	ITEM	UNITIES	MODEL	UNITARY COST	RETAIL PRICE
BASICS	BRA	200	BRAB001	\$8,81	24,00
	BRA	200	BRAB002	\$9,15	28,00
	PANTIES	200	PANB012	\$3,25	8,40
	PANTIES	200	PANB013	\$3,98	8,40
	THONG	220	PANB014	\$3,54	6,00
BRIDAL	BRA	124	BRAN003	\$11,98	48,00
	BRA	100	BRAN004	\$12,48	55,00
	CORSET	80	CORN005	\$31,68	100,00
	CORSET	80	CORN006	\$29,98	96,00
	PANTIES	100	PANN015	\$6,37	20,00
	PANTIES	124	PANN016	\$4,87	20,00
	THONG	160	PANN017	\$5,26	16,00
TREND	BRA	130	BRAT007	\$10,37	34,00
	BRA	130	BRAT008	\$10,04	32,00
	BRA	130	BRAT009	\$11,70	28,00
	CORSET	100	CORT010	\$23,98	85,00
	CORSET	100	CORT011	\$26,98	70,00
	PANTIES	195	PANT018	\$4,70	12,00
	PANTIES	195	PANT019	\$4,70	12,00
	THONG	229	PANT020	\$4,70	10,00

Source: Developed by the author

3.2 Production Costs in Ecuador

To determine the production costs of lingerie in Ecuador, it is important to take into account the cost of raw material, the importation expenses of raw materials, labor costs and the production volume.

3.2.1 Cost of raw materials

The cost of the raw material consists of the value of the fabric, inputs such as foams for bras, clasps, elastic, labels and packaging.

3.2.1.1 Cost of raw Material: Fabric

To determine which supplier to use and where to get the raw material, different materials were evaluated in Ecuador as well as Colombia through requested proforma invoices.

A first option was the importing of fabrics from Colombia. Therefore, we researched online for fabric producer companies. Only one was found, therefore, all data was gathered using "Vila Empresa de Lencería S.A.".

Vila is a company dedicated to the production of fabrics, foams and supplies for lingerie. This company has some setbacks. They do not have a variety of fabrics and lace, the price is high and the importation of fabric cost rises even more. You must also buy 5 kilos per color of fabric to reduce the price.

Table 9: Proforma invoice of fabrics "Vila Empresa de Lencería S.A."

VILA EMPRESA DE LENCERIA S.A.						
FABRIC	COMMERCIAL NAME	MINIMUM CHARGE	COLOR	YIELD	WIDE	PRICE X METER
Nylon – Lycra	Silky	100 kilos	White, Ivory, nude ad light	4.9 mt/kg	1.50	\$ 21.76
Nylon – Lycra	Silky	100 kilos	Dark	4.9 mt/kg	1.50	\$ 23.42

Source: Vila Empresa de Lencería S.A., Melissa Eusse, Commercial Advisor

The next option was to buy raw material in the local market. However, the fabric companies in Cuenca such as Lira, Vanidades and Marcella do not have lingerie fabrics, and the lace they offer is limited in model and color. After searching within the Cuenca market, we proceeded to search for providers in the city of Quito. There, we could contact Protela, a company of Colombian fabrics featuring a variety of fabrics and exclusive lace for lingerie, swimwear and athletic clothing.

Table 10: Proforma Invoice from PROTELA

PROTELA	
FABRICS	METER PRICE
REF: F 2221 14 "KASABIA" WIDE LACE	\$1,35
REF: F 2701-12 "SAHARI BICOLOR"	\$1,12
REF: F 2381 06 "FENWA" WIDE LACE	\$1,12
REF: P30693 REINFORCING FABRIC. COLORS: BLACK, WHITE AND NUDE	\$5,72
REF: F3454 02 "JACQUAR CONTROL ITACA"	\$13,00
REF: P30925 "LYCRA JERSEY BRILLIANT"	\$7,28
REF: P 13037 "HEDEN"	\$4,82
REF: F 3302 01	\$7,84
REF: F 2601010	\$2,24
REF: F 260109	\$2,24
REF: F 2810-05	\$2,24
REF: F 2901 64	\$2,02
REF: F 2426-05	\$0,67
WHOLESALE PRICES REQUIRED MINIMUM PURCHASE OF SET AMOUNTS	

Source: PROTELA COMPANY, Sales Advisor

Finally, we chose Protela as a fabric supplier because it has variety of fabrics, the best prices and the best service. The company has a sales consultant in Cuenca, who is in charge of transporting the fabric and frequently visiting the company with new designs and fabric textures.

3.2.1.2 Cost of Raw Material: Inputs

Within the city of Cuenca there is not a company that sells supplies for lingerie, so after an extensive search two choices of providers in the country were found. "Din Cia. Ltda" a company located in Guayaquil and "ISC" a company located in Quito. A proforma invoice of necessary inputs were requested to each of the companies, then we decided to work with ISC since it has more variety in elastic and stretchy lace, and covers rods. However, the provider of foams will be Din, because ISC does not have these inputs.

Table 11: Proforma Invoice from "DIN CIA. LTDA"

DIN CIA. LTDA.			
Administration: mdc.alarcon@din.com.ec DISTRIBUTOR OF DOMESTIC INDUSTRY			
PROFORMA INVOICE			
QUANTITY	DETAIL	UNIT PRICE	P.V.P
50 Meters	Elastic 07	0,1607	8,03
1 Pair	Bra cups 32-36	19,6428	19,64
1 Pair	Bra cups 36-38	2,4553	2,45
1 Pair	Triangle bra cups 36	19,6428	19,64
1 Thousand	Nickel Ring 8MM	22,8392	22,83
1 Thousand	Nickel tensioners	22,8392	22,83
www.din.com.ec Headquarters.- (04)2523611, 2322591 Boyacá 1614 and Clemente Ballén, Guayaquil, Ecuador Branch Office.- (04)2281149 Centro Comercial Plaza Quil local # 41, Guayaquil, Ecuador			

Source: DIN CIA. LTDA., María del Carmen Alarcón, Administrative department

Table 12: Proforma Invoice from “ISC”

ISC - INSUMOS PARA LA INDUSTRIA			
DELIVERY TIME: IMMEDIATE DELIVERY PRICE DOES NOT INCLUDE TAXES OR SHIPPING			
PROFORMA INVOICE			
QUANTITY	DESCRIPTION	UNIT PRICE	TOTAL PRICE
120	Rod covers Ref. 150	0,233	27,96
100	Straps 10mm Ref.13101	0,2077	20,77
1000	Nickel rings of 10 mm	0,0202	20,16
1000	Nickel tensioners of 10mm	0,0202	20,16
1000	Nickel zetas of 10mm	0,0234	23,39
100	Rods	0,2369	23,69
150	Underwear elastic Ref. 7214	0,1	15
200	Clasp 2x2x30	0,112	22,4
200	Clasp 2x3x30	0,12	24
100	Straps of 8mm Ref. 10081	0,1831	18,31
100	Straps of 13mm Ref. 18131	0,2862	28,62
ingenieriaserviciosycomercio@uio.satnet.net www.isc.ec			

Source: Empresa ISC, Ximena Mejía, Sales Manager

3.2.1.3 Costs of Raw Material: Label and package

Each item requires two labels. The first label has to have the size, brand, origin, fabric composition, address of the manufacturer and the care instructions. The other label contains the size, brand and price.

Internal tags:

- Dimensions: 2cm x 4cm
- Material: Satin

Main tag

- Dimensions: 2cm x 4cm
- Material: Matt laminate

Table 16: Proforma Invoices of the labels

PROFORMA INVOICES: Main labels and internal labels								
COMPANY	GENERAL INFORMATION	QUANTITY	DETALLE	NITARY PRICE	TOTAL PRICE	SUB TOTAL	TAX	TOTAL
APLIK	INNOVACION A TU ALCANCE Tel: 022 867 388	5000	LABEL PRINTED IN SATIN 2CM*4CM TWO COLORS	0,0159	79,5	151,0	18,12	169,12
		5000	ROLLING MATE PRINTED LABEL TWO COLORS 2CM*4CM	0,0143	71,5			
ETIQUETEX S.A.	Juan Sélis 76-24 y Tadeo Benítez Tel: 022 482 728 / 022 472 859	5000	LABEL PRINTED IN SATIN 2CM*4CM ONE COLOR	0,0104	52	129,5	15,54	145,04
		5000	LABEL PRINTED IN SATIN 2CM*4CM TWO COLORS	0,0155	77,5			
CLICK !	Av. Ricardo Muñoz y Av. 10 de Agosto Tel: 2887548 / 0987292466	5000	ROLLING MATE PRINTED LABEL TWO COLORS 2CM*4CM	0,0201	100,5	100,5	12,06	112,56
GRAFICAS GQ	Cumaná S/N y Abelardo J Andrade Tel: 07-2835327	5000	ROLLING MATE PRINTED LABEL TWO COLORS 2CM*4CM	0,0187	93,5	93,5	11,22	104,72

SOURCE: Information obtained by the sales department of each of the companies – Developed by the author

After reviewing the labels proforma invoices, we decided to choose Aplik, as that company who provides labels in satin and printed labels. Also it has good prices and can do the same design on the two labels.

On the other hand, the package is very important to protect the garment. Therefore, each item must have its own plastic bag with snap enclosure.

To choose the providers of packaging, three factories who produce plastic packaging were visited within the city of Cuenca: Plastideal, Funziplast and Plastiazuay S.A.. Of these three companies only Funziplast can make the packaging required. To buy and get the best price, we requested a proforma invoice to Primadecor SA that is located in the city of Quito.

Table 13: Proforma Invoice of plastic bags for packaging

PROFORMA INVOICES: PLASTIC BAGS FOR PACKAGING							
COMPANY	GENERAL INFORMATION	QUANTITY	DESCRIPTION	U. PRICE	SUBTOTAL	TAX	TOTAL
FUNZIPLAST	Mariscal Lamar 14-40 y General Torres Telf: 2830325 Cel: 0986894295	1000	PLASTIC BAGS 5cm*10cm	0,23	840,00	100,80	940,80
		1000	PLASTIC BAGS 10cm*20cm	0,29			
		1000	PLASTIC BAGS 30cm*30cm	0,32			
PRIMADecOR S.A.	P. O. BOX EC 170120 Quito, Ecuador Telf: 2 2800226 FAX: 2 247793	1000	PLASTIC BAGS PVC 5cm*10cm	0,19	720,00	86,40	806,40
		1000	PASTIC BAGS PVC 10cm*20cm	0,25			
		1000	PLASTIC BAGS PVC 30cm*30cm	0,28			

Source: Information obtained by the sales department of each of the companies – Developed by the author

When analyzing the costs and expertise of the two companies, Primadecor SA was chosen. Primadecor is specialized in PVC sleeves for packing clothes and their costs are better than Funziplast.

3.2.3 Labor Costs

In order to calculate the cost of labor, a payroll was created with all items designed for one year including the production times for each garment, which we determined after speaking with a textile designer.

Table 18: Role of annual payments

POSITION	UNIFIED SALARY 11 MONTHS	DISCOUNTS			BENEFITS			XIV SALARY	VACATIONS	RESERVE FUNDS	EMPLOYER CONTRIBUTI ON 12.15%	IESS CONTRIBUTION
		UNIFIED SALARY	IESS 9.35%	LIQUID TO PAY	XIII SALARY	XIII SALARY						
WORKER 1	3,795,00	345	32,26	312,74	345	345	340	14,38	28,75	41,92	74,18	
WORKER 2	3,795,00	345	32,26	312,74	345	345	340	14,38	28,75	41,92	74,18	
WORKER 3	3,795,00	345	32,26	312,74	345	345	340	14,38	28,75	41,92	74,18	
TOTAL PRODUCTION		1,035,00	96,77	938,23	1,035,00	1,035,00	1,020,00	43,13	86,25	125,75	222,53	
SALES 1	3,905,00	355	33,19	321,81	355	355	340	14,79	29,58	43,13	76,33	
TOTAL SALES		355	33,19	321,81	355	355	340	14,79	29,58	43,13	76,33	
DESIGN	5,500,00	500	46,75	453,25	500	500	340	20,83	41,67	60,75	107,5	
SECRETARY	3,795,00	345	32,26	312,74	345	345	340	14,38	28,75	41,92	74,18	
MANAGER	14,300,00	1,300,00	121,55	1,178,45	1,300,00	1,300,00	340	54,17	108,33	157,95	279,5	
TOTAL ADMINISTRATION		2,145,00	200,56	1,944,44	2,145,00	2,145,00	1,020,00	89,38	178,75	260,62	461,18	
TOTAL PAY ROLE	\$38,885,00	\$3,535,00	\$330,52	\$3,204,48	\$3,535,00	\$3,535,00	\$2,380,00	\$147,29	\$294,58	\$429,50	\$760,03	

Source: Developed by the author

Table 14: Breakdown of expenditure of labor for time

ANNUAL COST OF LABOR	53.501,40	100%
MONTHLY COST OF LABOR	4.458,45	8,33%
DAILY COST OF LABOR	148,62	0,28%
LABOR COST PER HOUR	18,58	0,03%

Source: Developed by the author

Table 15: Labor cost per item according to the time of preparation

ITEM	TIME	COST
BRAS	20 minutes	6,20
CORSETS	45minutes	13,95
PANTIES	10 minutes	3,10
THONG	6 minutes	1,86
BRIDES CORSETS	60 minutes	18,58

Source: Developed by the author

3.2.4 Production Volume

The production volume that is going to work is 2997 items, because it is important to manufacture the same number of items for a fair comparison between the Ecuadorian and Colombian production.

3.2.5 Retail Price

To set the retail price we must take into account each of the inputs and raw materials for making garments, as well as the value of labor, the label and the packaging items was added.

Starting from these values, the retail price of lingerie manufactured in Ecuador will be the same retail price of lingerie manufactured in Colombia, in order to make a fair comparison.

Table 21 : Retail Costs

LINE	ITEM	MODEL	UNITS	VARIABLE COSTS					FIXED COSTS			TOTAL FIXED COSTS	UNITY COST	RETAIL PRICE
				FABRIC	COPAS	INPUTS	LABEL AND PACKAGE	TOTAL VARIABLE COSTS	LABOR					
BASICS	BRA	BRAB001	200	3,54	2,85	1,2	0,31	7,9	6,2	14,1	24			
	BRA	BRAB002	200	3,54	2,85	1,2	0,31	7,9	6,2	14,1	28			
	PANTIES	PANB012	200	1,77			0,24	2,01	3,1	5,11	8,4			
	PANTIES	PANB013	200	1,77			0,24	2,01	3,1	5,11	8,4			
	THONG	PANB014	220	0,88			0,24	1,12	1,86	2,98	6			
BRIDES	BRA	BRAN003	124	6,57	22	3	0,31	31,88	6,2	38,08	48			
	BRA	BRAN004	100	7,29	22	3	0,31	32,6	6,2	38,8	55			
	CORSET	CORN005	80	56,24		2,5	0,34	59,08	18,58	77,66	100			
	CORSET	CORN006	80	48,64		2,5	0,34	51,48	18,58	70,06	96			
	PANTIES	PANN015	100	3,65		2	0,24	5,89	3,1	8,99	20			
	PANTIES	PANN016	124	3,28		2	0,24	5,52	3,1	8,62	20			
	THONG	PANN017	160	1,32		2	0,24	3,56	1,86	5,42	16			
TREND	BRA	BRAT007	130	3,86	2,85	1,5	0,31	8,52	6,2	14,72	34			
	BRA	BRAT008	130	3,76	2,85	1,5	0,31	8,42	6,2	14,62	32			
	BRA	BRAT009	130	3,76	2,85	1,5	0,34	8,45	6,2	14,65	28			
	CORSET	CORT010	100	41,04	22	2,1	0,34	65,48	13,95	79,43	85			
	CORSET	CORT011	100	39,98		2,1	0,34	42,42	13,95	56,37	70			
	PANTIES	PANT018	195	1,93		0,6	0,24	2,77	3,1	5,87	12			
	PANTIES	PANT019	195	1,88		0,6	0,24	2,72	3,1	5,82	12			
	THONG	PANT020	229	0,97		0,6	0,24	1,81	1,86	3,67	10			

Source: Developed by the author

3.3 Production competitiveness analysis

The parameters that help us determine where to produce are the production costs and the contribution margin that would be obtained starting from the retail prices proposed in points 3.1.4 and 3.2.5

Table 16: Production competitiveness analysis

	Production Volume	Total Cost of Production	Contribution Margin Production
ECUADOR	2.997 Unities	\$54.012,88	\$29.929,12
COLOMBIA	2.997 Unities	\$27.745,20	\$56.196,80

Source: Developed by the author

As shown in Table 22, the cost of production is higher in Ecuadorian lingerie, beating the Colombian production at \$26,267.68 USD. This represents an increase in cost and a decrease in the contribution margin of perceived production company of 46.74%.

Tables 23 and 24 indicate the desired income and earnings per item achieved both for Colombian and Ecuadorian production output. The desired Colombian production yields are more desirable since the lowest yield is only 50% and some items exceed 70% yield. On the other hand, Ecuadorian production yields vary between 6% and 66%. The two production models can make a profit; however, the Colombian maquila will have higher performance and utility.

Table 23: Analysis of desired performance and earnings per item, Colombian production

Item	DESIRED PERFORMANCE ANALYSIS AND EARNINGS PER ITEM: COLOMBIAN PRODUCTION										
	Retail Price Leonisa	Retail Price Victoria's Secret	Retail Price Touché	Unities	Retail Price	Unitary Cost	Desired percentage yield	Earnings per item	Total Cost per Item	Earnings per total items	
BRA	30	30,95	N/A	200	24	8,81	63%	23,81	1762	3000	
BRA	35	32,95	N/A	200	28	9,15	67%	27,73	1830	3715,45	
PANTIES	12	10,5	N/A	200	8,4	3,25	61%	8,33	650	1016,67	
PANTIES	12	10,5	N/A	200	8,4	3,98	52%	8,29	796	862,33	
THONG	10	9,5	N/A	220	6	3,54	41%	6	708	492	
BRA	N/A	52,5	\$66,70	124	48	11,98	75%	47,92	1485,52	4456,56	
BRA	N/A	68	69,44	100	55	12,48	77%	54,26	1248	4178,09	
CORSET	N/A	258	\$120,00	80	100	31,68	68%	99	2534,4	5385,6	
CORSET	N/A	140	\$115,00	80	96	29,98	68%	93,69	2398,4	5096,6	
PANTIES	20	28	\$30,00	100	20	6,37	68%	19,91	637	1353,63	
PANTIES	20	32	\$34,00	124	20	4,87	75%	19,48	603,88	1811,64	
THONG	N/A	22	\$30,00	160	16	5,26	67%	15,94	841,6	1708,7	
BRA	45	41,95	N/A	130	34	10,37	69%	33,45	1348,1	3000,61	
BRA	40	34,5	N/A	130	32	10,04	68%	31,38	1305,2	2773,55	
BRA	35	30,95	N/A	130	28	11,7	58%	27,86	1521	2100,43	
CORSERT	N/A	118	N/A	100	85	23,98	71%	82,69	2398	5870,97	
CORSET	N/A	100	N/A	100	70	26,98	61%	69,18	2698	4219,95	
PANTIES	25	16,5	N/A	195	12	4,7	60%	11,75	916,5	1374,75	
PANTIES	14	14,5	N/A	195	12	4,7	60%	11,75	916,5	1374,75	
THONG	10	10,5	N/A	229	10	4,7	55%	10	1076,3	1213,7	

Source: Developed by the author

Table 24: Analysis of desired performance and earnings per item, Ecuadorian production

DESIRED PERFORMANCE ANALYSIS AND EARNINGS PER ITEM: ECUADORIAN PRODUCTION										
Item	Retail Price Leonisa	Retail Price Victoria's Secret	Retail Price Touché	Units	Retail Price	Unitary Cost	Desired percentage yield	Earnings per item	Total Cost per item	Earnings per total items
BRA	30	30,95	N/A	200	24	14,1	41%	23,9	2820	1959,66
BRA	35	32,95	N/A	200	28	14,1	49%	27,65	2820	2709,41
PANTIES	12	10,5	N/A	200	8,4	5,11	39%	8,38	1022	653,41
PANTIES	12	10,5	N/A	200	8,4	5,11	39%	8,38	1022	653,41
THONG	10	9,5	N/A	220	6	2,98	50%	5,96	655,6	655,6
BRA	N/A	52,5	\$66,70	124	48	38,08	20%	47,6	4721,92	1180,48
BRA	N/A	68	69,44	100	55	38,8	29%	54,65	3880	1584,79
CORSET	N/A	258	\$120,00	80	100	77,66	22%	99,56	6212,8	1752,33
CORSET	N/A	140	\$115,00	80	96	70,06	27%	95,97	5604,8	2073,01
PANTIES	20	28	\$30,00	100	20	8,99	55%	19,98	899	1098,78
PANTIES	20	32	\$34,00	124	20	8,62	56%	19,59	1068,88	1360,39
THONG	N/A	22	\$30,00	160	16	5,42	66%	15,94	867,2	1683,39
BRA	45	41,95	N/A	130	34	14,72	56%	33,45	1913,6	2435,49
BRA	40	34,5	N/A	130	32	14,62	54%	31,78	1900,6	2231,14
BRA	35	30,95	N/A	130	28	14,65	47%	27,64	1904,5	1688,9
CORSERT	N/A	118	N/A	100	85	79,43	6%	84,5	7943	507
CORSET	N/A	100	N/A	100	70	56,37	19%	69,59	5637	1322,26
PANTIES	25	16,5	N/A	195	12	5,87	51%	11,98	1144,65	1191,37
PANTIES	14	14,5	N/A	195	12	5,82	51%	11,88	1134,9	1181,22
THONG	10	10,5	N/A	229	10	3,67	63%	9,92	840,43	1431

Source: Developed by the author

Another important factor is the human factor. The advantage of working with a Colombian company is the experience it has with production, manufacturing expertise in achieving the best finishes in the finished product and a minor error percentage. On the contrary, to start production in Ecuador, it is necessary to train and teach workers how to produce and how to avoid wasting material. This process of training and learning will cost the company more time and money.

CHAPTER IV: COMMERCIAL MARKETS

This chapter analyzes the potential commercial markets for Ecuador's lingerie. To do this, we identified the main lingerie importers and exporters worldwide. Therefore, we could meet both our potential prospects and also our competitors in order to decide where to sell.

4.1 Main importers

As we can see there are 4 tables that express this data, tables 25-28. The top five lingerie importers worldwide are the United States, France, Germany, Japan and the United Kingdom. Nevertheless, the most important country is the United States. This country represents 23.86% of bras and 26.38% of panties imported during the 2009-2013 period.

Table 17: Main Importers of Heading 621210 "Bras"

Importers	Imported value in 2009	Imported value in 2010	Imported value in 2011	Imported value in 2012	Imported value in 2013
World	\$7.556.852	\$8.383.467	\$9.140.622	\$9.014.911	\$9.122.120
United States of America	\$1.689.516	\$2.035.398	\$2.037.199	\$2.155.037	\$2.397.299
France	\$561.934	\$606.472	\$673.031	\$607.409	\$618.477
Germany	\$584.253	\$549.314	\$637.168	\$577.615	\$607.108
Japan	\$460.280	\$468.597	\$584.999	\$623.032	\$597.912
United Kingdom	\$653.718	\$643.521	\$657.864	\$535.639	\$551.677
Hong Kong	\$715.398	\$813.411	\$816.404	\$834.494	\$411.028
Italy	\$322.779	\$322.765	\$351.995	\$317.343	\$304.840
Netherlands	\$161.243	\$193.091	\$230.626	\$188.090	\$251.374
Austria	\$202.860	\$210.181	\$247.965	\$213.618	\$238.391
Canada	\$162.887	\$188.969	\$194.678	\$194.243	\$224.365

Expressed values in thousands of US dollars

Source: http://www.trademap.org/Country_SelProduct_TS.aspx

Table 18: Main Importers of Heading 621210 “Bras”

Importers	Imported percentage in 2009	Imported percentage in 2010	Imported percentage in 2011	Imported percentage in 2012	Imported percentage in 2013
World	100%	100%	100%	100%	100%
United States of America	22,36%	24,28%	22,29%	23,91%	26,28%
France	7,44%	7,23%	7,36%	6,74%	6,78%
Germany	7,73%	6,55%	6,97%	6,41%	6,66%
Japan	6,09%	5,59%	6,40%	6,91%	6,55%
United Kingdom	8,65%	7,68%	7,20%	5,94%	6,05%
Hong Kong	9,47%	9,70%	8,93%	9,26%	4,51%
Italy	4,27%	3,85%	3,85%	3,52%	3,34%
Netherlands	2,13%	2,30%	2,52%	2,09%	2,76%
Austria	2,68%	2,51%	2,71%	2,37%	2,61%
Canada	2,16%	2,25%	2,13%	2,15%	2,46%

Values expressed in percentage

Source: http://www.trademap.org/Country_SelProduct_TS.aspx

Table 19: Main Importers of Heading 610821 “Panties for women or girls”

Importers	Imported value in 2009	Imported value in 2010	Imported value in 2011	Imported value in 2012	Imported value in 2013
World	\$2.674.409	\$2.940.999	\$3.021.298	\$2.724.001	\$2.796.918
United States of America	\$683.334	\$832.883	\$757.653	\$732.058	\$729.774
Japan	\$217.191	\$224.009	\$273.841	\$251.014	\$239.512
Germany	\$210.639	\$205.387	\$234.306	\$198.269	\$224.662
United Kingdom	\$245.594	\$235.573	\$241.115	\$200.493	\$192.928
France	\$139.748	\$154.287	\$161.117	\$126.789	\$136.264
Netherlands	\$93.109	\$85.514	\$89.280	\$78.769	\$92.879
Austria	\$89.998	\$94.406	\$102.895	\$73.452	\$88.163
Italy	\$98.544	\$102.242	\$97.098	\$86.779	\$85.550
Russian Federation	\$37.438	\$58.566	\$64.553	\$63.692	\$70.816
Australia	\$53.931	\$55.833	\$71.186	\$58.435	\$65.404
Canada	\$61.173	\$70.421	\$64.019	\$62.753	\$63.483

Expressed values in thousands of US dollars

Source: http://www.trademap.org/Country_SelProduct_TS.aspx

Table 20: Main Importers of Heading 610821 “Panties for women or girls”

Importers	Imported percentage in 2009	Imported percentage in 2010	Imported percentage in 2011	Imported percentage in 2012	Imported percentage in 2013
World	100%	100%	100%	100%	100%
United States of America	25,55%	28,32%	25,08%	26,87%	26,09%
Japan	8,12%	7,62%	9,06%	9,21%	8,56%
Germany	7,88%	6,98%	7,76%	7,28%	8,03%
United Kingdom	9,18%	8,01%	7,98%	7,36%	6,90%
France	5,23%	5,25%	5,33%	4,65%	4,87%
Netherlands	3,48%	2,91%	2,96%	2,89%	3,32%
Austria	3,37%	3,21%	3,41%	2,70%	3,15%
Italy	3,68%	3,48%	3,21%	3,19%	3,06%
Russian Federation	1,40%	1,99%	2,14%	2,34%	2,53%
Australia	2,02%	1,90%	2,36%	2,15%	2,34%
Canada	2,29%	2,39%	2,12%	2,30%	2,27%

Values expressed in percentage

Source: http://www.trademap.org/Country_SelProduct_TS.aspx

4.2 Main Exporters

Among the leading exporters in the world market are countries like China, Sri Lanka, France, Bangladesh and Germany. The market leader exporter is China and represents 30.94% of bras and 31.51% of panties, globally.

Table 21: Main Exporters of Heading 621210 "Bras"

Exporters	Exported value in 2009	Exported value in 2010	Exported value in 2011	Exported value in 2012	Exported value in 2013
World	\$7.073.911	\$8.099.233	\$8.577.478	\$8.568.615	\$8.191.264
China	\$1.824.023	\$2.527.295	\$2.468.129	\$270.510	\$3.239.651
Sri Lanka	\$307.025	\$323.028	\$392.371	\$419.326	\$508.726
France	\$335.145	\$334.769	\$368.647	\$333.245	\$329.006
Germany	\$256.881	\$275.043	\$303.660	\$264.377	\$296.831
Indonesia	\$271.558	\$280.789	\$298.386	\$284.151	\$291.953
Belgium	\$208.964	\$217.456	\$25.166	\$229.977	\$241.896
Italy	\$173.228	\$177.124	\$197.811	\$198.802	\$241.296
Thailand	\$272.911	\$298.494	\$287.511	\$264.069	\$23.888
Bangladesh	\$107.609	\$124.861	\$15.357	\$176.507	\$231.305
Austria	\$238.171	\$218.243	\$249.306	\$240.104	\$224.688

Expressed values in thousands of US dollars

Source: http://www.trademap.org/Country_SelProduct_TS.aspx

Table 22: Main Exporters of Heading 621210 "Bras"

Exporters	Exported percentage in 2009	Exported percentage in 2010	Exported percentage in 2011	Exported percentage in 2012	Exported percentage in 2013
World	100%	100%	100%	100%	100%
China	25,79%	31,20%	28,77%	3,16%	39,55%
Sri Lanka	4,34%	3,99%	4,57%	4,89%	6,21%
France	4,74%	4,13%	4,30%	3,89%	4,02%
Germany	3,63%	3,40%	3,54%	3,09%	3,62%
Indonesia	3,84%	3,47%	3,48%	3,32%	3,56%
Belgium	2,95%	2,68%	0,29%	2,68%	2,95%
Italy	2,45%	2,19%	2,31%	2,32%	2,95%
Thailand	3,86%	3,69%	3,35%	3,08%	0,29%
Bangladesh	1,52%	1,54%	0,18%	2,06%	2,82%
Austria	3,37%	2,69%	2,91%	2,80%	2,74%

Values expressed in percentage

Source: http://www.trademap.org/Country_SelProduct_TS.aspx

Table 23: Main Exporters of Heading 610821 "Panties for women or girls"

Exporters	Exported value in 2009	Exported value in 2010	Exported value in 2011	Exported value in 2012	Exported value in 2013
World	\$2.238.891	\$2.535.176	\$253.804	\$241.038	\$2.740.071
China	\$588.056	\$817.195	\$786.826	\$752.890	\$910.468
Bangladesh	\$127.724	\$145.851	\$169.418	\$195.603	\$232.009
Sri Lanka	\$11.391	\$128.352	\$109.436	\$114.275	\$213.016
India	\$17.204	\$84.077	\$150.972	\$148.808	\$157.876
Austria	\$161.447	\$164.653	\$157.432	\$118.404	\$133.583
Thailand	\$85.282	\$12.256	\$100.812	\$112.162	\$122.325
Viet Nam	\$21.058	\$23.275	\$38.569	\$89.689	\$91.401
Germany	\$76.682	\$82.224	\$90.468	\$72.892	\$87.835
Turkey	\$63.273	\$66.273	\$65.085	\$60.693	\$69.800
France	\$51.488	\$68.501	\$71.481	\$60.453	\$68.057

Expressed values in thousands of US dollars

Source: http://www.trademap.org/Country_SelProduct_TS.aspx

Table 24: Main Exporters of Heading 610821 "Panties for women or girls"

Exporters	Exported percentage in 2009	Exported percentage in 2010	Exported percentage in 2011	Exported percentage in 2012	Exported percentage in 2013
World	100%	100%	100%	100%	100%
China	26,27%	32,23%	31,00%	31,24%	33,23%
Bangladesh	5,70%	5,75%	6,68%	8,12%	8,47%
Sri Lanka	0,51%	5,06%	4,31%	4,74%	7,77%
India	0,77%	3,32%	5,95%	6,17%	5,76%
Austria	7,21%	6,49%	6,20%	4,91%	4,88%
Thailand	3,81%	0,48%	3,97%	4,65%	4,46%
Viet Nam	0,94%	0,92%	1,52%	3,72%	3,34%
Germany	3,42%	3,24%	3,56%	3,02%	3,21%
Turkey	2,83%	2,61%	2,56%	2,52%	2,55%
France	2,30%	2,70%	2,825%	2,51%	2,48%

Values expressed in percentage

Source: http://www.trademap.org/Country_SelProduct_TS.aspx

Not only is it important to know the main competition and potential customers, but it is also essential to know which countries are already lingerie customers of Ecuador. Therefore, in the chart below, we can find the list of import markets of bras and panties exported by Ecuador.

Table 25: List of importing markets for a product exported by Ecuador; product: "Bras"

Importers	Imported value in 2009	Imported value in 2010	Imported value in 2011	Imported value in 2012	Imported value in 2013
World	-	\$1	-	-	\$16
Panama	-	-	-	-	\$15
Bolivia	-	-	-	-	\$2
Colombia	-	-	-	-	-
Costa Rica	-	\$1	-	-	-
Peru	-	-	-	-	-
United States of America	-	-	-	-	-

Expressed values in thousands of US dollars

Symbol (-): No values

Source: http://www.trademap.org/Country_SelProductCountry_TS.aspx

Table 26: List of importing markets for a product exported by Ecuador; product: "Panties for women or girls"

Importers	Imported value in 2009	Imported value in 2010	Imported value in 2011	Imported value in 2012	Imported value in 2013
World	\$6	\$2	-	\$1	\$12
El Salvador	-	-	-	-	\$11
Colombia	\$1	\$2	-	\$1	-
Peru	\$5	\$1	-	\$1	-

Expressed values in thousands of US dollars

Symbol (-): No values

Source: http://www.trademap.org/Country_SelProductCountry_TS.aspx

As we can see Tables 33 and 34, Ecuador is not a lingerie exporter. The exportations during the 2009-2013 period have not been consistent. Nevertheless, it does not mean that is a bad idea to export. This means that Ecuador has a higher start challenge for the exportation of lingerie.

4.3 Commercial Markets for Ecuador's Lingerie

The potential import markets of lingerie, according the Trade Map information, are the United States, Germany and France. Therefore, we are going to analyze those three markets to determine the opportunities of sales and growth of this sector.

Before we start the analysis, it is important to mention that those countries do not have customs barriers for Ecuador in the subheadings 621210 y 610821 as we can see in Tables 35 and 36.

Table 27: Subheading 621210 – Bras

Country	Year	Total Ad Valorem equivalent (Estimated Rate)
United States of America	2013	0%
Germany	2013	0%
France	2014	0%

Source: Trade Center TradeMap – Developed by the author

Table 28: Subheading 610821- Panties

Country	Year	Total Ad Valorem equivalent (Estimated Rate)
United States of America	2013	0%
Germany	2014	0%
France	2014	0%

Source: Trade Center TradeMap – Developed by the author

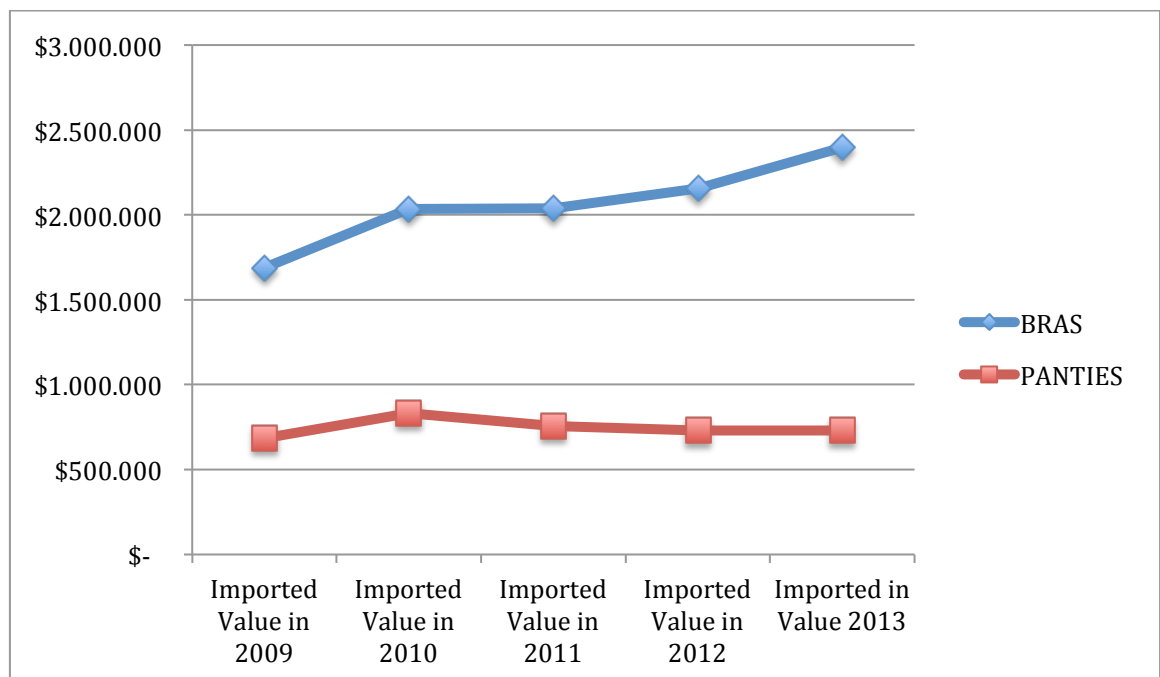
By owning a 0% ad valorem, the products exported by Ecuador gain competitiveness in these new markets as it is directly related to the price to be offered in stores.

4.3.1 United States

The leading lingerie importer worldwide is the United States of America and the heading 621210 "bras" is one of the two hundred principal imported products. The major exporting trading partners to the US are China, Indonesia and Thailand (Trade Map, 2014)

In the United States the importation of bras increases year-by-year pointing out the growing existing demand, as we can see in the Graphic 4. On the other hand, the panties demand does not follow the same pattern of the bras, but for the last three years this importation has been stable and above \$60.000 USD.

Graphic 4: Imported values in thousands of US dollars of headings 621210 “bras” and 610821 “panties” by United States



Source: Trade Center, TradeMap – Developed by the author

However, the American market is a market with 314 billion of customers, a gross domestic product (GDP) that exceeds \$15 billion dollars and a GDP per capita of \$49.802 USD (MINCOMERCIO INDUSTRIA Y TURISMO, 2013).

Because our segment markets to women, the lingerie we offer is what they are looking for. According to PROCOLOMBIA, when American women buy lingerie they evaluate comfort, form and quality, which are characteristics that define our products. On the other hand, the purchase decision is linked to the style and design, for this reason the demand of premium lingerie has increased (PROCOLOMBIA, 2014).

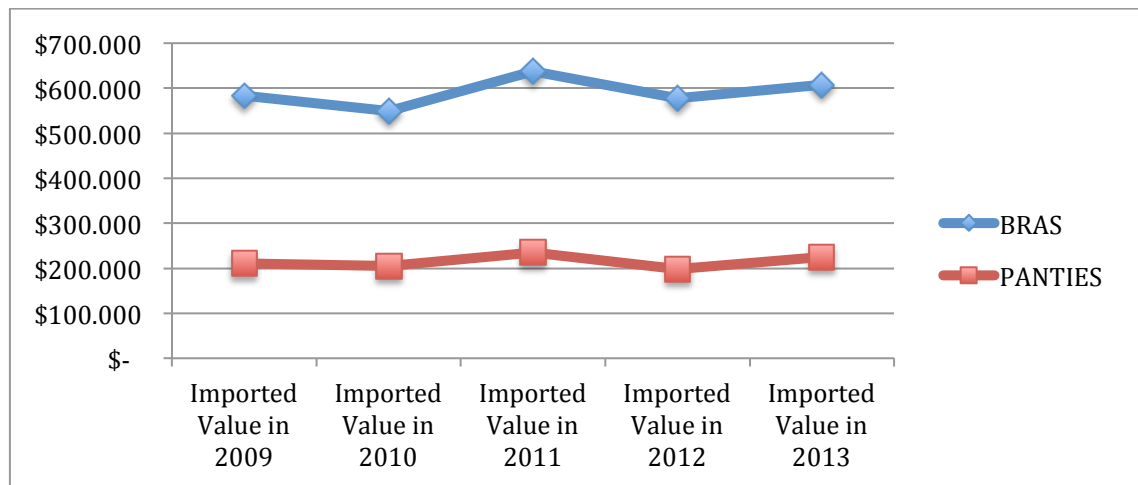
Another notable opportunity is the increase of shopping online. If you want to venture into a new market, you must use a strategy to sell online. This strategy saves the costs of a physical store, so you can release the brand and the product.

4.3.2 Germany

Germany is the second major lingerie importer after the United States. According the Deutsche Bank, “approximately 95% of the clothing production sold in Germany, comes from abroad, only the difference corresponds to the domestic production” (PROECUADOR, 2014). This occurs because the high cost of local production prevents them to be competitive producers.

The importation of bras in Germany are varied as we can see in chart 36, and the same happens with panties importation. Nevertheless, it must be recognized that each year bras and panties importations are up five hundred and two hundred billion dollars, respectively. This indicates the existent lingerie demand in Germany, however we must be careful because it is a changing market.

Graphic 5: Imported values in thousands of dollars of heading 621210 " bras " and 610821 " panties " by Germany



Source: Trade Center, Trade Map – Developed by the author

The German market is a market where innovation and differentiation take an important place. The costumers look for products with high quality and special characteristics. On the other hand, there is a currently youth trend by older consumers. This tendency allows, designer brands, to have an important presence in the market (PROECUADOR, 2014).

Germany is a demanding market. Customers are always looking for a good relation between quality/price, and are characterized by a quick change of clothes collections. For them, a product with organic materials and with a certification of low chemical waste production is more valuable (PROECUADOR, 2014).

4.3.3 France

France, specifically Paris, is known worldwide as a fashion capitol. Therefore, it has a mature, competitive and dynamic market in the textiles and clothing sector. It is the largest lingerie consumer in Europe, and this represents 18% of sales of women's clothing (Proexport Colombia, 2012).

According to Rosario Pajuelo, commercial counselor of Peru in France, the clothing market in France moves over twenty billions euros per year, of which Latin America covers less than 0.5%.

It is an attractive market for new businesses because it is constantly growing (1000 times greater than 20 years ago). There are several important and established brands. However, no brand in the French market exceeds 3.6%.

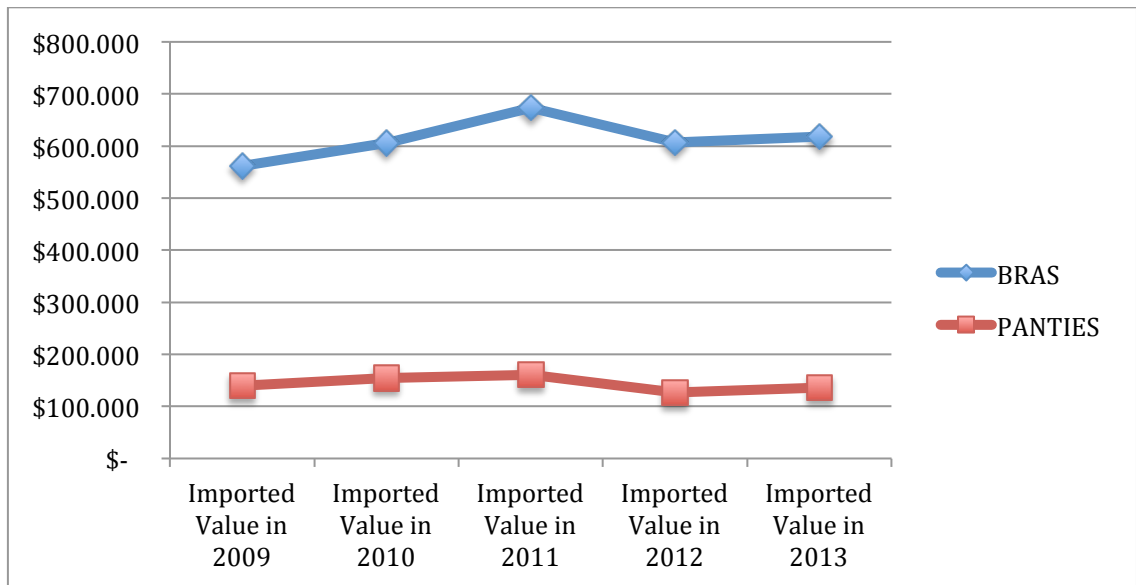
These features give new clothing companies easy opportunity to compete and stay in the market. Therefore, in France there are more than 4,000 clothing companies of which 91% are SMEs (Pajuelo, 2010)

Distribution channels are another indicator of the potential of the French market, since through these channels one can observe that independent boutiques have majority representation (17.10%) at the moment of sale, after major specialized chains like Lafayette, Printemps, etc. (23.60 %).

Do not forget that consumers are essential for any business, so French consumers are an opportunity for the lingerie business. Our products possess the characteristics that consumers appreciate, such as the exclusive design, use of color and cut development. However, we must implement more control in the textiles used since French consumers prefer products with minimum environmental impact and green or organic products (Pajuelo, 2010).

On the other hand, the importation of bras increases year by year indicating the existing growing demand in the country as we can see in Graphic 6. However, panties importation has slightly varied behavior with an importation in the period 2009-2013 up to one hundred billion dollars.

Graphic 6: Imported values in thousands of dollars of heading 621210 " bras " and 610821 " panties " by France



Source: Trade Center, TradeMap – Developed by the author

CHAPTER IV: CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

The research conducted was key to the production decision. By knowing the maquila system in force in Colombia and the treaties of Ecuador and Colombia, we observed that the application of tariff preferences is simple, since a contract and a certificate of origin is issued by the maquiladora.

The study of maquiladoras allowed us to select the best company that adapted to the requirements of major production and met high standards of quality, design and delivery times for prototypes and production.

Moreover, the comparative study of production costs in Colombia and production costs in Ecuador, determined that production within Ecuador increases the cost and decreases the perceived contribution to a company by 46.74%.

The experience that Colombian maquiladoras have are another advantage, because the finished product will have better finishings and a lower percentage of error. Contrary to what would happen if produced in Ecuador, as the staff is inexperienced and the process of training and education will cost the company time and money.

Entering into new markets is important for the growth of the brand. There are many opportunities for the Ecuadorian lingerie in the US, French and German markets. Although, we have much to learn and much to innovate when it comes to smart fabrics and ecological quality seals. There are opportunities and growth in the demand for bras. However, it is not true with panties, and it may be risky to enter this market taking into account these variations.

5.2 Recommendations

Delegating is important as production and requires for the Ecuadorian company to be in constant communication with the Colombian maquiladora factory. We recommend drawing up contracts specifying delivery times and maximum penalties for noncompliance.

It is essential to keep up with the customs rules and keep in constant communication with the customs agent, so as to allow greater flexibility in the import process.

Because production is a pivotal role, it is essential to consider producing within Ecuador for the foreseeable future. However, a new study must be conducted.

Finally, textile innovation as well as quality and environmental certifications are recommended to provide a better product; and, in the future, to enter in other markets.

GLOSSARY

AD-VALOREM (Fee Charged to the Goods) tax administered by the Customs of Ecuador. Percentage varies according to the type of goods and applied to the sum of Cost, Insurance and Freight (Import tax base).

SPECIFIC TARIFF: Tariff imposed for charges of specific monetary unit or quantity of imported goods. For example, \$100 per metric ton of goods.

CUSTOMS AGENT: Agent Customs or Broker is the natural or legal person duly authorized by their respective customs authorities, acting with the appropriate authorities (customs, ministries, and other private or public entities) in the name and on behalf of a third party that contracts its services and gives an authenticated staying power, in the proceedings of an import, export or transit. According to various laws it is established as a subsidiary of the customs administration.

CERTIFICATE OF ORIGIN: The certificate of origin is a document, which proves that the goods to be dispatched originated in a given country or territory. The origin is determined by the country or territory where the product was manufactured or where it has been for the last substantial transformation.

CIF: Cost, Insurance and Freight (named port of destination).

The seller is responsible for all costs, including the main transport and insurance until the goods arrive at the destination port. While insurance has hired the seller, the insurance beneficiary is the buyer. The CIF Incoterm is one of the most used in international trade because the conditions of a CIF price are what make the customs value of an imported product. It should be used for general or conventional cargo.

COST: The cost is the economic cost that represents: the production of a product or the provide of a service.

FOURTEEN SALARY: A school bond equivalent to payment of an annual minimum wage, paid in the month of February in the coast and in July in the mountains.

The periods for entitlement to this salary in the coast is March-February, and in the highlands is July-June. Those who have worked all these periods are entitled to collect the fourteen salary, but if they have worked partially, this salary is proportional to the time they have worked within these periods.

THIRTEENTH SALARY: The Thirteenth salary is also known as Christmas bonus. This is paid by summing up all income held by the worker (bonus, salary, overtime, overtime and commissions), divide that total into 12 months of the year. December 1 to November 30 is the period for calculating the thirteenth salary and pays up to 25 December.

STOWAGE / STOW:

1. Press, highlight loose materials or things to occupy the smallest possible space.
2. Distribute the load properly in a vehicle.
3. Load or unload a ship.

EXW: In factory or agreed place.

The seller makes the goods available to the buyer at their facilities: factory, warehouse, etc. All expenses from that time are borne by the buyer. The EXW incoterm can be used with any kind of transport or a combination of them (known as multimodal transport).

SHIPPING: Price to be paid by renting a boat, plane or truck or cargo carried.

RESERVE FUND: This value represents an Income for the worker (which is paid through the IESS, Calculation of the provision is similar to that of the Thirteenth Salary. $(\text{Salary} + \text{Overtime} + \text{Commissions}) / 12$

FOB: Free on Board (named port of shipment).

The seller delivers the goods on the ship. The seller contracts for transport through a consigner but the cost of transport is assumed by the buyer.

The FOB Incoterm is one of the most used in international trade. It should be used for general cargo (drums, coils, containers, etc.) of goods, not usable for bulk.

FODINFA (Development Fund for Children) Tax administering the INFA. 0.5% is levied on the taxable amount of the import.

ICE (Special Consumption Tax) Administered by the SRI. Percentage varies for goods and services imported.

INEN: Ecuadorian Institute of Standardization.

VAT (Value Added Tax) Administered by the SRI. Corresponds to 12% of: Taxable + ad valorem + FODINFA + ICE.

MIPRO: Ministry of Industry and Productivity.

TARIFF: The tariff item is a numeric code that classifies goods. Internationally headings are harmonized to 6 digits, "Harmonized Commodity Description and Classification of goods" In Peru, the code consists of 10 digits.

RETAIL PRICE (PVP): The retail price is the sum of the cost plus profit.

ROLE OF PAYMENTS: An internal accounting document, in which the values that constitute income and deductions for the employee for remuneration are recorded. For the company these items represent applicable expenses or costs, obligations to employees and third parties. These values must be delivered usually on a monthly basis to the employee as payment for services rendered within the institution.

SAFEGUARD: Safeguards are a form of restriction on international trade in the presence of harm or potential harm to a particular sector of the economy.

VERIFIER: The verifiers customs are companies responsible for verifying that the information reported on the outcomes match the result of physical inspection of the goods.

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ANNEXES

ANNEX 1: TARIFF HEADING

TARIFF HEADING: NOMENCLATURE AND FEATURES

6212.10.00.00 / 6212.90.00.00

- SECTION XI: TEXTILES AND TEXTILE ARTICLES
 - HEADING 6212 Brassieres, girdles, corsets, braces, suspenders etc. & parts
 - SUBHEADING 6212.10.00.00 Brassieres and parts thereof, of textile materials
 - SUBHEADING 6212.20.00.00 Girdles, panty girdles and parts thereof, of textile materials
 - SUBHEADING 6212.30.00.00 Corselets and parts thereof, of textile materials
 - SUBHEADING 6212.90.00.00 Others

6108.21.00.00

- SECTION XI: TEXTILES AND TEXTILE ARTICLES
 - HEADING 6108 - Women's slips, panties, pajamas, bathrobes etc., knitted/crocheted
 - SUBHEADING 6108.10.00.00 Slips and petticoats
 - SUBHEADING 6108.11.00.00 Of synthetic fibers
 - SUBHEADING 6108.19.00.00 610819 Of other textile material
 - SUBHEADING 6108.20.00.00 610821 - Women's/girls briefs and panties, knitted
 - SUBHEADING 6108.21.00.00 Of cotton
 - SUBHEADING 6108.22.00.00 Of synthetic fibers
 - SUBHEADING 6108.29.00.00 Of other textile material
 - SUBHEADING 6108.30.00.00 Nightgowns and pajamas
 - SUBHEADING 6108.31.00.00 Of cotton
 - SUBHEADING 6108.32.00.00 Of synthetic fibers
 - SUBHEADING 6108.39.00.00 Of other textile material
 - SUBHEADING 6108.90.00.00 Others
 - SUBHEADING 6108.91.00.00 Of cotton
 - SUBHEADING 6108.92.00.00 Of synthetic fibers
 - SUBHEADING 6108.99.00.00 Of other textile material

ANNEX 2: SURVEY MODEL

Survey Model

The following survey is about the preferences of women when buying lingerie.

1. What brand of underwear do you wear?

2. Mark with an "X". How much do you spend annually in lingerie?

From 0 to 300 ___
From 301 to 500 ___
Over 500 ___

3. Mark with an "X". How much would you pay for a comfortable bra, excellent quality and good design?

Under 35 ___
From 36 to 60 ___
Over 60 ___

4. List, in order of importance, the characteristics that you evaluate in a bra at the time of purchase. 1 being most important and 4 the least important.

Quality ___
Price ___
Comfort ___
Design ___

5. On what day of the week do you prefer to buy lingerie?

6. On what time of the year do you buy lingerie?

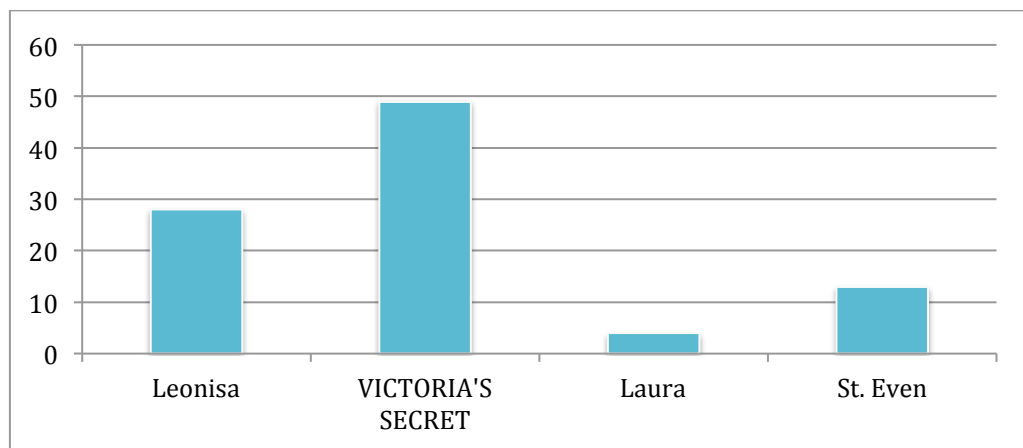
**** Thanks for your help and time!****

ANNEX 3: DATA TABULATION

We surveyed 100 people from upper-middle-class randomly in the "Universidad del Azuay", "Centro Comercial El Vergel" and "Mall del Rio" in the city of Cuenca. We find in the data tabulation 6 wrong surveys with disgruntled responses.

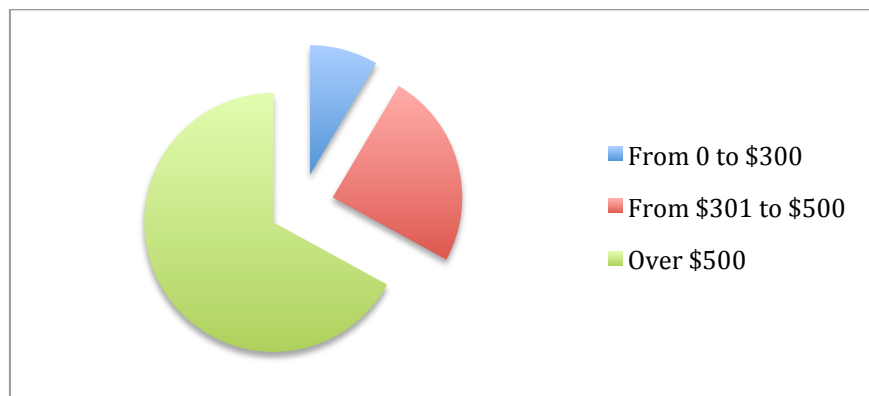
1. What brand of underwear do you wear?

Brands with greater acceptance in the city of Cuenca are VICTORIA'S SECRET and Leonisa.



2. Mark with an "X". How much do you spend annually in lingerie?

In the city of Cuenca the annual average of spending in lingerie is over \$500.



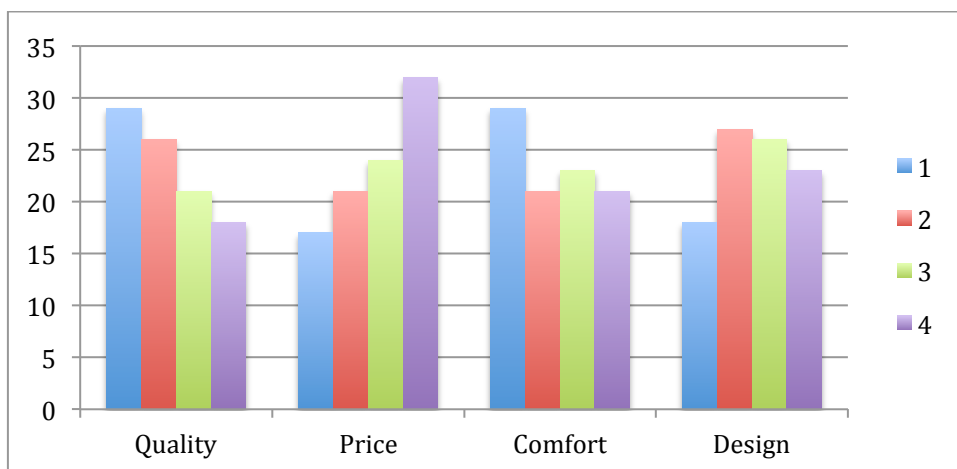
3. Mark with an "X". How much would you pay for a comfortable bra, excellent quality and good design?

The 46% of women are willing to pay for a bra between \$36 USD and \$60 USD, and only the 16% spend over \$60 USD.



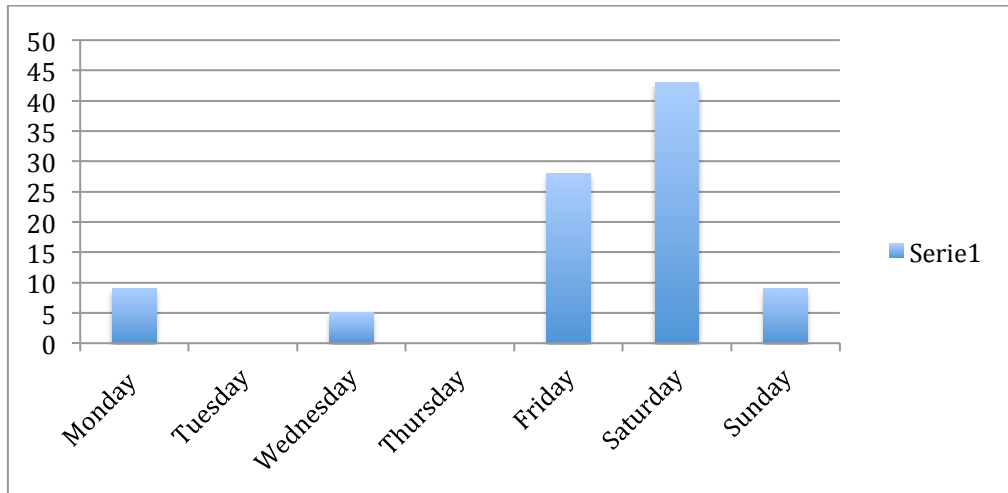
4. List, in order of importance, the characteristics that you evaluate in a bra at the time of purchase. 1 being most important and 4 the least important.

Women at the time of purchase evaluated first the comfort followed by the quality, design and finally the price.



5. On what day of the week do you prefer to buy lingerie?

The preferred days to buy lingerie are Friday and Saturday.



6. On what time of the year do you buy lingerie?

The dates, where the consumption of lingerie is higher, are at the beginning of the year and Valentine's day.

