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"CONSTITUTION AND PRACTICAL APPLICATION OF THE TEXTILE IMPORTS
COMPANY HOMME ELLEGANT, FROM ITS CREATION TO THE REAL IMPORTATION
PROCESS"

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ABSTRACT

The present work focuses on the requirements and the process to found a textile importing company. In the first chapter, the international, national and local textile market will be analyzed, in order to identify the necessities of the local market and the opportunities there are for applying this project.

The second chapter, comprises the investigations and development of the whole constitution of the company, this means legal requirements to obtain the exporting license and authorization to carry out commercial activities. Also, the attempted structure of the company will be held in this chapter.

Finally, in the last chapter, the importation process will be thoroughly analyzed, from the international textile purveyor's selection, going through the international cargo, insurance contract, customs agent, duty and taxes, to finally plan the profitability of the company.

INTRODUCTION

Nowadays, the world we live in is almost entirely communicated thanks to the process of globalization and information technologies which have become an unquestionable and essential part of people's daily lives, and which have practically eliminated barriers such as distance, culture and language. Therefore, we can communicate in real time with people from the other side of the world as well as do business with foreign companies with different cultures, without meeting each other.

The above mentioned reality can be found in all markets and industries, including of course the textile industry and market. These factors have allowed the latest fashion trends from Paris, Milan, Tokyo or New York, known as the fashion capitals of the world, to be quickly introduced into Latin American countries like Colombia, Argentina or Brazil, considered fashion exponents in South America. There are even times that new tendencies are launched simultaneously due to the speed information is transmitted.

Therefore, it is essential for the Ecuadorian textile industry to be up to date regarding fashion tendencies such as color, designs and types of cloth to be used. Unfortunately, the Ecuadorian textile industry is not capable of keeping up with neighboring countries Colombia and Peru; countries that due to their demographic situations, which is far greater than Ecuador's, can innovate and produce innovative and different fabric compared to the fabric produced in our country.

Due to Peru's and Colombia's higher population density, they can make fabric that does not fit any line, this means that they not only manufacture cloth that sells quickly or cloth that has a big demand. For instance, in Ecuador we produce one colored lycra fabric in different sizes, but in Colombia they make plain lycra fabric, stamped, cloaked, emery cloth and others. By giving their cloth something extra or some added value such as printing on it, the market is being reduced because dressmakers, fashion chains and boutiques do not want to have the same designs in their window displays.

That is why in Ecuador, which has around fifteen million inhabitants, this is a limitation because in order to cover the costs of developing designs and the investment for producing those, a minimum amount of meters are required. On the other hand, for Colombian factories this is not a problem since in Colombia there are over forty eight million inhabitants, which means more than three times the population of Ecuador, and this represents a huge market for which factories can produce more than the minimum required amount. As a consequence of the big markets, Colombian and Peruvian factories are bigger and modern than Ecuadorian factories.

In Ecuador it is harder to manage production of cloth for fashion because of its small market, due to its small population compared to neighboring countries.

This is why Ecuadorian factories produce basic cloth, also known as line cloth or high turnover cloth. For instance, there is the Piqué cloth which is used to make polo t-shirts. This cloth has been produced by more than 10 national companies for over 15 years using the same components, material and technology. This is because this product will be sold quickly, compared to products made in Colombia such as the striped piqué cloth, which is the same piece of cloth but with striped designs, or the stretch or the spandex piqué cloth which is a stretch fabric that easily adapts to a woman's body.

It is the exact same case for men's textile market, in the line of cashmeres, gabardines, linen and cloth fabrics. There are 4 well positioned national producers with vast experience in making cashmere, gabardine, and linen. However, three of these companies have very similar products; their product portfolio is made up by gabardine and cashmere cloth with the same or very similar characteristics regarding its components and type of fabric, only the filament quality, the weight of the product and the design are different. While the other producer operates in a lower market segment with lower quality cloth.

These four manufacturers do not provide a variety of products, for instance different quality cloth. They have the same type of cloth with certain changes in design and weight. This lack of variety and innovation is because they do not use

cutting edge machinery and because the national market is not big enough in order to invest in new machinery and production technologies. Therefore, this does not mean producers would not like to innovate, it means that they will not be able to get their investment in return as quickly as they would like and need. This is the problem I have identified during the experience of working in the textile market, that is, the lack of national production of different, modern, aggressive and innovative cloths.

For 7 years, I have been part of my family's tradition to work and serve the city and the region by selling cloth and accessories to make clothing for sports, the industry, work, men, women, household linen and hospital apparel. This family tradition dates back to the 1960's, when my grandparents started to sell clothes, accessories and cloth. In 1970, they founded "Almacenes Lira", and this is where I have worked and learned about the industry since I was 18. I have worked in the family company for seven years and specialized in the commercial area where I have been able to identify weaknesses in the Ecuadorian textile industry as well as in cloth retailers. As a result, I was encouraged to set up a textile import business aimed to men's formal, semi-formal and casual wear that would complement the current supply of textile factories and retailers in the city and the region.

This project is aimed at covering the male segment since the national textile supply is scarce and limited. Therefore, our goal is to implement a textile importer in the city that will supply the market in Cuenca, Azuay, the south and most likely the whole country with top quality products which differ from the supply of national production and priced in accordance with reality in order to have fair profit margins for the consumer and significant margins for the importer.

The aim of this project is to offer retail or wholesale suppliers an alternative in formal cloth for the male segment. This alternative will offer quality, good prices, and it will be different from national production. In other words, we will have cashmeres with different combinations such as rayon polyester and others. This thesis project will research and then develop the implementation process for the textile importer, which we will call Homme Elegant. Our research will include legal, taxation, business, tariff, customs, budget and logistic requirements.

We will begin this project by briefly analyzing the global and the national textile market, especially the male segment since our company will focus on this segment. By analyzing the reality of the global market, where the main suppliers are located, and the reality of our country and city, we will study the current supply and demand in order to justify the implementation of our import company. We will then find out everything about the legal, business, customs, and taxation requirements for the public and private sector needed to set up a trading company as well as all the requirements needed to obtain an import license. In this regard, we will talk to the Internal Revenue Service (SRI, in Spanish), the Ecuadorian Customs Corporation (CAE, in Spanish), the Ecuadorian Institute of Intellectual Property (IEPI, in Spanish), the Ecuadorian Social Security Institute (IESS, in Spanish), and other institutions in order to comply with all of the applicable regulations in the country.

After complying with all the requirements we will move on to the logistics process which starts by contacting and negotiating with the international suppliers, we will then look at the import logistics and risks, method of payment, nationalization, customs procedures, hire a customs agent, and others. All this will be done by optimizing time, costs and securing the merchandise. Finally, the right suppliers will be determined and the budget established by adding the values of the business such as the business premises, the staff, accounting system, financing, and other costs.

CHAPTER I

THE LOCAL, NATIONAL AND WORLD TEXTILE MARKET

1.1 Justification

Since May 2007 I have been part of one of the main textile retailers in the city of Cuenca and the southern part of the country, Almacenes Lira Cia. Ltda. The company was founded by my grandparents Segundo León Rodríguez and Farita Castillo Tapia in October 1970. During 44 years Almacenes Lira Cia. Ltda has been located on Antonio Borrero 10-68 between Mariscal Lamar Street and Gran Colombia Street in the city of Cuenca.

Until 2005 the company had two shareholders, the founders of the company, who during that same year decided to cede their shares, in equal parts, to four of their children. One of the beneficiaries was Genaro León Castillo, my father, who worked at the company since the late 1980's, first as the administrative chief and then as the assistant manager. In 2007, after my father had to leave the company due to health reasons, I started to work at the company. During this year, there was an accelerated process of significant changes in the company.

I started in Almacenes Lira in May 2007, when Farita Castillo was the administrative and commercial manager. She taught me many aspects of the textile sector, such as types of cloth, the use of each type of cloth, measurements, purchasing merchandise, selling, and other practical and important issues regarding the business management of a textile business.

My labor in Almacenes Lira began from the bottom, first working part time as a salesman, then as an accounting assistant for 4 months, and in October 2007 I started to work as the sales supervisor. The sales supervisor is in charge of purchases, costs, sales price, promotions, and everything regarding retail and wholesale of fabrics.

Since 2010 , the company gave me a new position as the sales manager; including big responsibilities like being in charge of the sales staff and all the

processes regarding purchases and sales, such as orders, imports and local purchases, prices, customer service, negotiations with suppliers and customers. In the new position, many fundamental aspects and characteristics of the textile market in the city of Cuenca, the southern part of the country, the country and even internationally were learned. In this regard, strengths, weaknesses, threats, and opportunities of this family business were identified. Those will be explained in detail right ahead.

1.2 Analysis of the national and the world textile market

It is essential to know the reality of the national and the world textile market in order to understand the needs of our country's market as well as how the international textile trade works. This implies knowing about the main fabric producers, economic powers, the main markets for Ecuadorian exports as well as the imports in our country

1.2.1 History

Fabrics and textiles have been around since the beginning of mankind, first, they were basic need for people but over time they have turned into accessories which could be considered luxuries. Many years ago clothing was a basic need for people since it protected them from cold weather and covered their bodies. Nowadays, it is an accessory that expresses quality, luxury, class, elegance and even social status.

The history of textiles and fabrics date back to when primitive people began covering their bodies with animal skin. According to several studies of human history, over time people started looking for ways to facilitate the making of clothes, and so they began producing thread with animal and vegetable fibers such as linen and wool. As a consequence of producing thread using natural fibers, humans replaced the heavy and rough animal skin with compact fabrics made of natural fiber threads. This process took place thousands of years ago and it can be verified with the findings in the Lascaux cave in France where archeologists found needles and strings that date back almost fifteen thousand

years ago. Similarly in Egypt and India they found spinning hemp, wool and linen five thousand years old.¹

For hundreds of years, several forms of fabric and fiber types were developed in different parts of the world such as Asia, Europe and up to the Middle Ages when textile production was revolutionized with the invention and the promotion of the spinning wheel. At that time, manufacturing companies were located in different European countries, mainly in England with wool fabric, Holland with cloth, France with silk and more delicate textures for women, and Italy with cloth.² Besides these European countries, it is worth noting that China already produced several types of cloth, mainly high quality silk.

Over time, the textile industry became more technological and changed completely. This radical change started in the UK, the epicenter of the industrial revolution, and expanded throughout the continent. At the end of the XVII century, Jhon Kay invented the first weaving machine called the flying shuttle which replaced man with a fast and sophisticated machine. This improved time and costs in production and started mass production of cotton fabrics in Europe, which later spread throughout the world. These changes were the starting point for the textile industry we know today, which has reached a point where production almost entirely depends on machine work and performance.³

Therefore, nowadays there exists a connected, dependent and somewhat unified world textile market. This means that in Ecuador it is easy to offer Chinese made products without having supplying problems since production and imports are faster and more efficient. Thanks to these radical changes in the textile industry, we can have access to textile products and fabrics that are not produced in the national industry.

¹ Universidad de Galicia, España. (www.edu.xunta.es).

² Portal de la Industria Textil, de la Confección y la Moda. (www.laindustriatextil.com.ar).

³ Reding Borja, Gabriela, *Historia del Mundo Contemporáneo*, McGraw-Hill Latinoamericana, 2000.

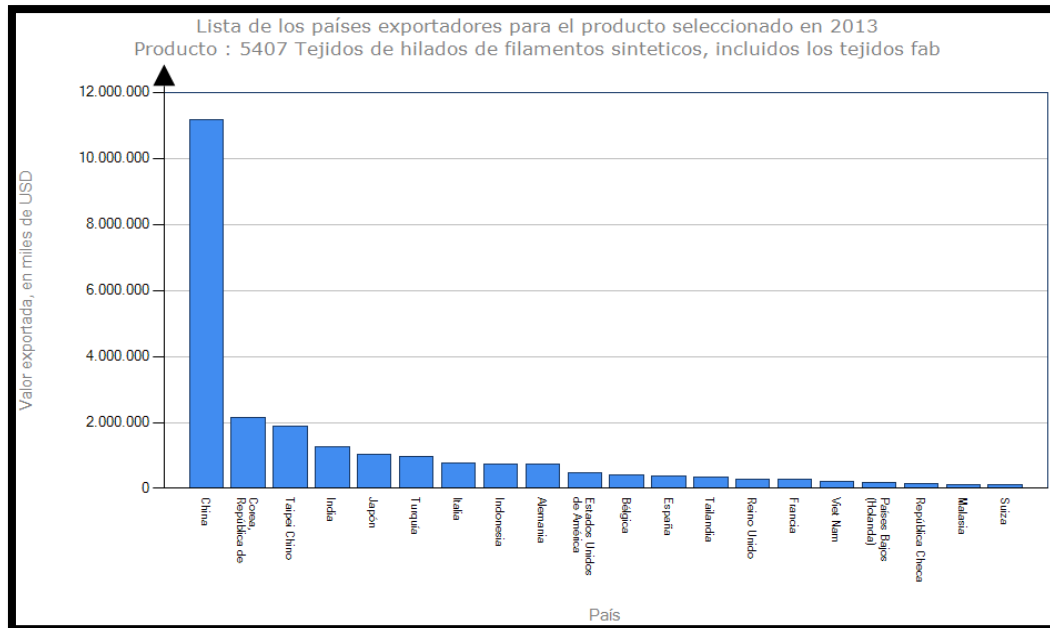
1.2.2 Brief analysis of the world textile market

Currently, thread, fabrics and textiles of different characteristics and components are produced worldwide. There are some powerful countries in the textile industry because of their technology, economic power, knowledge, development, quality, price, production capacity and demographics. For instance, in Asian countries like China, India, Taiwan, Korea, Hong Kong and Indonesia, countries with high density populations and economies, are the biggest producers and exporters of threads and fabrics in the world.

In order to analyze the world textile market regarding countries that import and export fabric, the website: www.trademap.org is the main source, which is the website for the International Trade Center. At this site you can find real and up to date statistics on all types of trade worldwide. We used this website to get the information we will present next, the search criteria was the tariff heading 54.07 which deals with fabric made with filaments or thread of synthetic fiber such as polyester, nylon, micro fabrics or lycra; and tariff heading 60 which deals with fabric made with cotton and natural fiber. We used this search criteria since nowadays basically all fabric is produced with these materials.

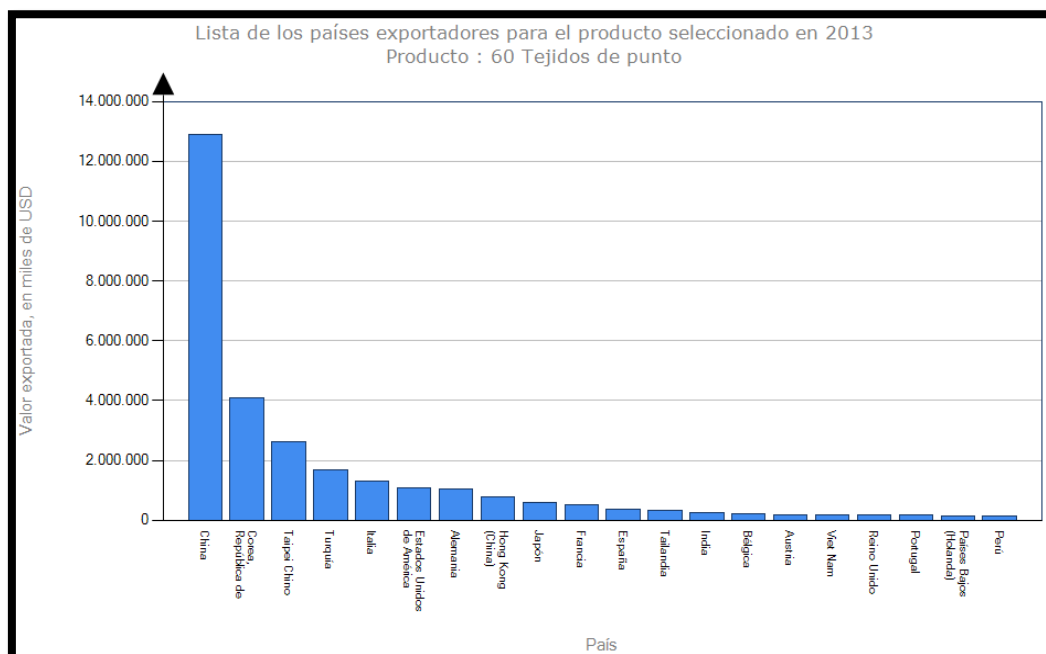
Regarding world exports of fabric, China is the largest exporter both for fabric made with natural fibers (tariff heading 60) and synthetic fabric (tariff heading 5407). There is considerable difference with other countries, this indicated China's power in the textile market. The graphs below show the twenty main exporters regarding the tariff headings mentioned above in the year 2013.

Graph 1. Exporting countries under tariff heading 5407



⁴ http://www.trademap.org/Country_SelProduct.aspx

Graph 2. Exporting countries under tariff heading 60



http://www.trademap.org/Country_SelProduct_Graph.aspx?nvpm=3|||60||2|1|1|2|1|2|1|1

⁴ List of exporting countries under tariff heading 5407, International Trade Centre, http://www.trademap.org/Country_SelProduct.aspx

These two graphics clearly show that China is the textile trade leader in the world, both in fabric made with synthetic fibers (11.164.664 billion dollars) and fabric made with cotton (12.900.389 billion dollars). Following China are Korea, Chinese Taipei, India, Turkey, USA, Hong Kong, Japan, Vietnam, Germany, Italy, UK, Thailand, France, Spain, Indonesia and Belgium, which are well below China's exports.

It is worth noting that the figures above correspond to the total exports of fabric made with synthetic and cotton fibers and does not include the total of textile exports because exports of clothes and textile goods such as thread, elastic and other products are not being analyzed. In China's case, the total exports were over 80 billion dollars in 2013.⁵

Different fabrics such as poplin and cotton made designed for shirts, as well as knitted fabric in various presentations that are used for t-shirts, sweatpants, sports and casual clothes in general are produced in China. Furthermore, cloth of combed cotton yarn and polyester which is used for coats, jackets, and sweaters. Finally, in China, cashmeres, gabardine, indigo and other types of cloth used for formal and casual pants are also produced. Therefore, China is indeed an indispensable supplier for Homme Ellegant.⁶

India is also a world power in the textile industry, mainly for men. India's gross domestic product is around 2 billion dollars⁷ and since it has the second largest population in the world, it has a big high tech textile industry. India has several products for men, mainly cashmeres, gabardine and linen for formal and casual clothes for young men and adults.

Due to strong influence during colonial times, that is, during the XIX century and the beginning of the XX century, several types of product industries were adopted and implemented in the UK because of low labor costs. Therefore,

⁵ Comercio Mundial de prendas de vestir y Telas, InexModa, www.inexmoda.org.co, Medellín, Colombia.

⁶ Maalouf Pier, Manager of Importadora Merylan, Interviewed by phone on April 20, 2014, Quito, Ecuador.

⁷ GDP in India, <http://datos.bancomundial.org/pais/india>

nowadays the UK is the main manufacturer of cloth for pants and shirts for men. India is another international supplier for men's clothes.⁸

Taiwan, Korea, Japan, Bangladesh and Indonesia are also important producers of textiles and fabrics in Asia; they play an important role at the international level and have shown a significant increase in fabrics and clothing in the last few years, but products from these countries are generally more expensive for our context compared to those from China. Additionally, these markets are not well known to Ecuador and will not be considered as possible suppliers for Homme Ellegant.⁹

Besides these Asian countries, the European Union also plays an important role in the world textile market, mainly Germany, France, United Kingdom, Italy and Spain. However, due to their strong economies and development levels, European fabrics are expensive and are therefore not appealing to our national market because of their prices. Their turnover would be low and does not represent a good investment for most importers.¹⁰

Products from the EU are almost entirely better quality than Chinese products, but because of production costs in the EU, they are not potential suppliers for Ecuador since prices would be too high. Rather, the EU is an important supplier of finished products, such as clothes, for Ecuador. For example, there is Bershka, Zara and H&M which have a great influence in the Ecuadorian Market. The EU is the second largest clothes exporter in the world; according to the Institute for Exports and Fashion (Instituto para la Exportación y Moda, Inexmoda) from Colombia, in 2010 this trading bloc exported 99 billion dollars' worth of clothes and finished products.

In the field of textile importers around the world, there are several countries from the list of above mentioned world exporters of synthetic and cotton fabric, such

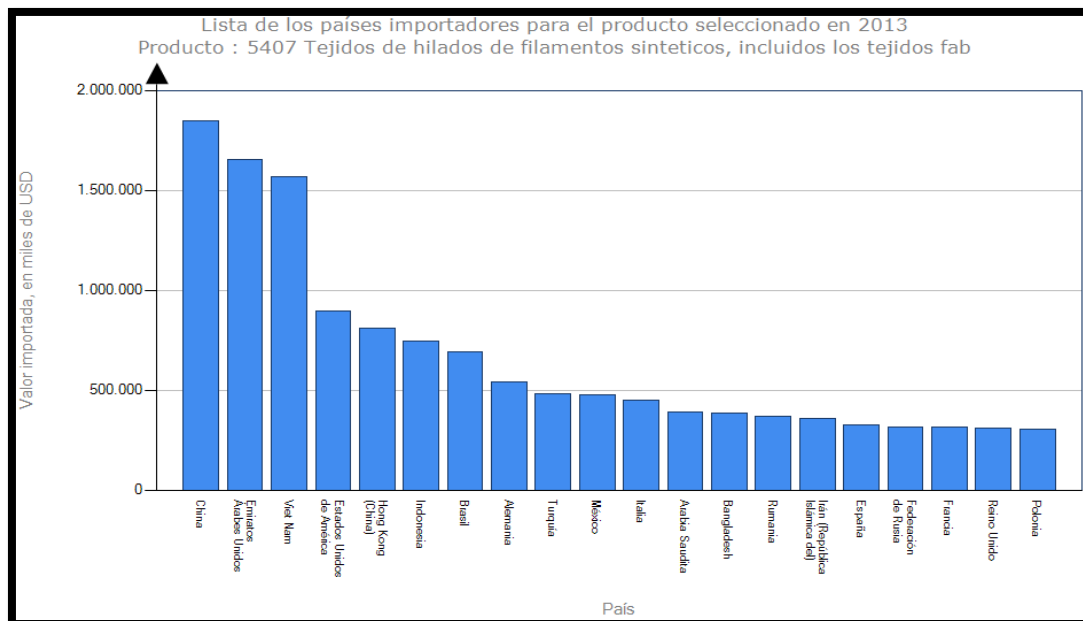
⁸ Jarrín Carlos, Manager of Importadora Casa Lulú, Interviewed by phone on April 25 2014, Guayaquil, Ecuador.

⁹ Comercio Mundial de prendas de vestir y Telas, InexModa, www.inexmoda.org.co, Medellín, Colombia.

¹⁰ Jarrín Carlos, Manager of Importadora Casa Lulú, Interviewed by phone on April 25, 2014, Guayaquil, Ecuador.

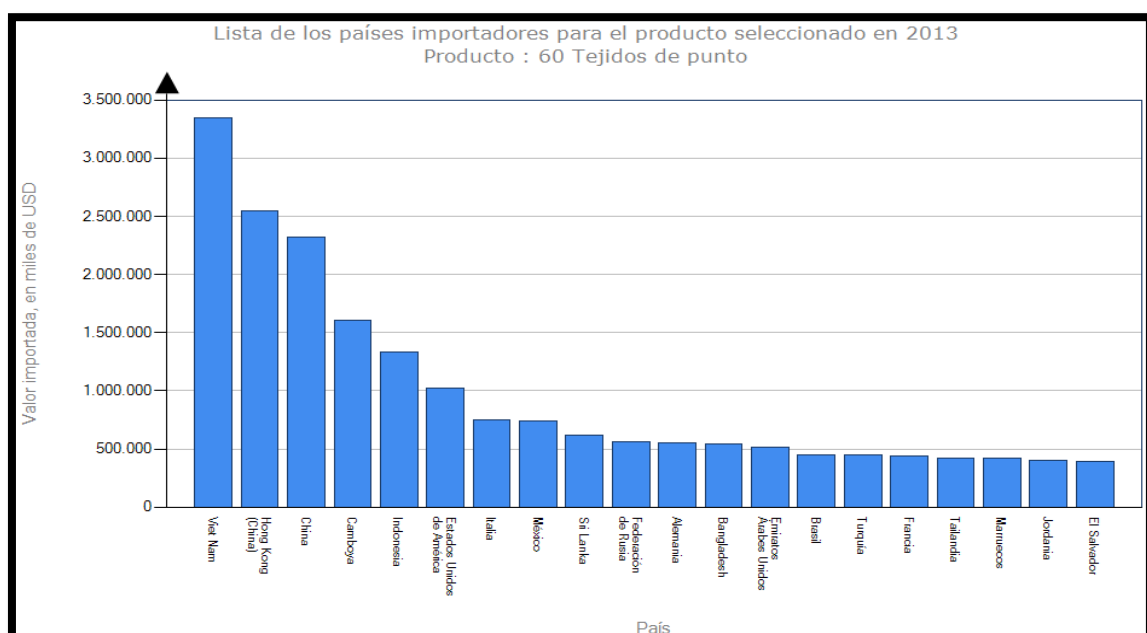
as China which is one of the largest importers of synthetic fabrics, despite being the largest exporter. This is because China imports synthetic fabric in order to produce clothes for important brands that have moved their factories to this country. In other words, China imports fabric and then exports finished products. Below are graphs showing world textile imports in 2013.

Graph 3. Importing countries under tariff heading 5407



http://www.trademap.org/Country_SelProduct_Graph.aspx?nvpm=3||||5407|||4|1|1|1|1|1|2|1|1

Graph 4. Importing countries under tariff heading 60



Vietnam is the largest importer of cotton fabric and the third largest importer of synthetic fabrics; the total value of these imports is 4.919.212 dollars. Vietnam's case is similar to China's, in Vietnam there are factories that produce clothes for well-known brands such as Nike and therefore they need to import fabric. The other countries on this list: Indonesia, Camboya, Sri Lanka, Tailandia, Marruecos, El Salvador and México, in part, face the same situation as China and Vietnam. Among the 20 largest importers of fabrics in the world countries like the USA, Italy, France, Turkey, Germany, Russia, Brazil and Spain have a strong textile industry and have important brands in their own countries and in some cases internationally.

1.2.3 Brief analysis of the regional market

The United States is by far the largest importer and exporter of fabrics and clothes. Technology and fashion tendencies make the USA the most important fashion industry in the American continent. In case it does not export fabric, it exports clothes to all neighboring countries.

In the 1960's it moved its mass production to Central America. For example, fabrics and clothes factories such as Nike, American Eagle, and others moved to countries like Mexico, Nicaragua and Honduras in order to reduce their production costs, which is possible due to these countries' cost of living which is lower than in the USA. In the mid 1990's, the USA moved its factories to Asia for the same reasons.¹¹

For this reason, the USA has not been an important exporter of fabrics to Ecuador in the last 15 years. It has however been a significant exporter of finished products or clothes.¹² In our market there are fabrics that come from the USA and which are mainly used for men and women, but for most clothes manufacturers and cloth merchants in our country prefer to import from Colombia, Peru and China.

¹¹ Commanding Heights of Economy Documentary, Daniel Yergin y [Joseph Stanislaw](#), 2002.

¹² Comercio Mundial de prendas de vestir y Telas, InexModa, www.inexmoda.org.co, Medellín, Colombia.

Fabrics from these three countries have the same components, quality, design and colors as the ones from Europe and the USA at lower prices. Therefore, the USA is not one of our possible suppliers for our Homme Ellegant project.

The rest of the American continent, i.e. Canada and Mexico are among the twenty largest economies in the world in exports and imports of fabrics and clothes.¹³ But they are not appealing for the Ecuadorian textile industry since there are other important countries in the textile and fashion business that are closer and have lower final prices, such as Colombia, Brazil, Argentina and Peru. These countries symbolize tendencies and impose fashion in the continent even though they are not among the largest economies in the world.

Despite being countries with high quality, very modern and appealing products, Argentina and Brazil are expensive countries, and so importing fabrics from these countries is not attractive for Ecuador. Thus, there is only one Brazilian factory with some market share in Ecuador, *Vicunha*, which is a company that entered the country after purchasing a national factory called La Internacional. It should be noted that the cloth from this company is made in Ecuador, or else it would not be competitive. Therefore, Peru and especially Colombia represent potential strategic partners for importing textiles and clothes.

In 2011 the Colombian textile sector represented more than 12% of the Gross Domestic Product in the industrial sector and almost 6% of the country's exports, which represents more than 1.3 billion dollars¹⁴, 397 million belong to exports of fabrics and the remaining 900 million correspond to clothes¹⁵. Ecuador plays a key role in Colombian exports, it is the first destination of Colombian textile exports with 30% and the third destination for finished products with 11%¹⁶. Colombia is the most important country for Ecuador in the textile industry since it has manufacturing and merchant businesses such as Lafayette, Pat Primo, Protela, Sutex and Distritex in our country. These companies have fabric depots,

¹³ Comercio Mundial de prendas de vestir y Telas, InexModa, www.inexmoda.org.co, Medellín, Colombia.

¹⁴ Proexport Colombia.

¹⁵ "Exportaciones Textiles Colombianas 2011", www.inexmoda.com

¹⁶ "Exportaciones Textiles Colombianas 2011", www.inexmoda.com

salesmen, wholesale offices and retail stores in Ecuador. The location of these two countries as well as tariff preferences for textiles facilitate trade between them. Therefore, Homme Ellegant will seek Colombian suppliers.

In 2013, Peru exported 518 million dollars in textiles for making clothes and imported 977 million. In clothes, it exported 1242 million dollars and imported 625 million¹⁷. According to the *Comite Textil de la Sociedad Nacional de Industrias del Perú* in 2013 Ecuador was the third destination of Peruvian exports and in 2014 it was the fourth.¹⁸ (See Annex 1)

Since Ecuador is not the main destination of Peruvian exports, there are companies, like Busatex S.A, that are interested in entering the country with distributions and in some cases exclusivity. Therefore, Peruvina textile manufacturers which are almost all located in Lima, are potential suppliers for Homme Ellegant.

1.2.4 Brief analysis of the national textile market

The Ecuadorian textile industry began back in colonial times, when the fabric was made from sheep's wool and production was considered handcrafted and slow. In the XX century, Ecuadorians started to harvest cotton and used it to produce textiles. Thanks to this material, in the 1950's great companies that still stand today, such as Deltex, Tejidos Pintex, Industrial Politex, Textil Ecuador, Textil San Pedro, and others were created. During the last three decades of the XX century, many thread and cloth manufacturers started to operate: Textiles Litoral and Textiles San Antonio in Guayaquil; Sintofil, Francelana, Textil Padilla, Cortyvis and Texpac in Quito.¹⁹

In Ecuador there are currently more than thirty textile and spinning factories that, according to the *Asociación de Industrias Textiles del Ecuador- AITE* (Association

¹⁷ "Perú en cifras", <http://expotextilperu.com/> 21 de mayo de 2014.

¹⁸ "Boletín de Importaciones del Sector Textil, SIN Comité Textil, <http://www.comitetextilperu.com/Boletin%20Textil/expor.html> , Abril 2014.

¹⁹ "Historia y Actualidad", Asociación de Industrias Textiles del Ecuador, www.aite.com

of Ecuadorian Textile Industries) produce fabric "from all types of material and the most used are cotton, polyester, nylon, acrylic, wool and silk."²⁰ Besides the factories, there are more than one hundred retailers and authorized distributors in the country, mainly in the most important and inhabited cities, such as Guayaquil, Quito, Ambato, Atuntaqui, Cuenca, Santo Domingo, Riobamba and Machala.

In the 1990's the Ecuadorian textile industry started to enter foreign markets such as Colombia, Venezuela, Peru and Brazil, but not at significant levels. In 2000 when Ecuador dollarized its economy, its exports increased. For example, Delltex, one of the oldest companies in the business, exports to Brazil and Argentina one of its star products, blankets for the winter season. And Francelana S.A exports its famous gabardine style or woolen gabardine special to important Colombian retail chains of men's clothing.

However, in the national textile industry there is still a lack of products for the men's segment since all the factories that produce cloth for this segment have similar or the same products for shirts, pants, suits, t-shirts, and sportswear. This is why cloth importers have a significant share in the national market, they import merchandise that is not made in the country.

The Ecuadorian companies that import cloth for men are Intimoda, GoldFashion, Casa Lulú and El Barata, all located in Guayaquil. In Quito there are two, Casa Andrés and Merylan. These companies have cashmeres, gabardines and linen for pants, cloth for shirts and fabrics for coats. They have very competitive prices that are usually lower than similar national products, which benefits the clothing industry.

This manufacturing sector, the garment industry, with clothing, lingerie, and household products is growing in the country despite imports from other countries. In fact, the Ecuadorian textile sector directly employs fifty thousand people and it indirectly employs two hundred thousand. Therefore, it is the

²⁰ "Historia y Actualidad", Asociación de Industrias Textiles del Ecuador, www.aite.com

second manufacturing sector that generates more jobs after the food and beverages sector.²¹

The national textile business has had a significant change in the last few years, for example, restrictions to imports of finished products, i.e. clothes. This measure, taken by the government of President Rafael Correa, has benefited clothes manufacturers and now national made products have a larger share in clothes shops. Furthermore, an important increase of nationally produced cloths is expected let's take the case of Textil San Pedro, this company produces plain weave fabric such as towels, gabardine and canvas. Pietro Giacometti, the sales manager, says that since 2000 the company has constantly grown due to the restriction on imports. This indicates a bright future for the textile industry, which is protected by the state.

Fabric manufacturers have experienced growth in the last four years due to two very specific situations. First, the policy of protecting national industries through tariffs, and second public sectors buy national products for its institutions. On the one hand, we have the Hilando el Desarrollo project, which is the government's initiative to give all students from public schools and high schools a uniform.²² And on the other hand, there is the purchasing system of the National Institute of Public Procurement (Instituto Nacional de Compras Públicas- INCOP), which is the means through which all public companies notify their requirements. For example, when the Ministry of Agriculture needs uniforms for its staff, it asks INCOP to get qualified manufacturers to make them. The important thing about this process is that the uniforms must be made with nationally produced fabric.²³

Finally, it is worth mentioning that the national textile industry, which is currently growing, is not really diversifying its product portfolio since it is doing what it used to do fifteen or twenty years ago, i.e. copying the main products from other companies. Therefore, nowadays there are more than ten companies that

²¹ "Historia y Actualidad", Asociación de Industrias Textiles del Ecuador, www.aite.com

²² PROAÑO, Alberto, General Manager of Rizzoknit, Interviewed by phone on April 9, 2014, Quito, Ecuador.

²³ Cañar, Juan, Manager and Owner of FACIM, Interview, May 20, 2014, Cuenca, Ecuador.

manufacture polycotton cloth for t-shirts and sportswear and compete to place their products in different cities around the country. This is why imported fabrics still have a good share in the country, especially those from Colombia, China and Peru. In this regard, textile importers from Guayaquil and Quito continue growing their market share as well Colombian textile manufacturers such as Pat Primo, Lafayette, Protela and others.²⁴

This reality gives the grounds needed to start the Textile importer "Homme Ellegant", which will import men's products which cannot be found in the national market and thus increase the product portfolio of the market. This will provide quality and innovative options for manufacturers. In the province of Azuay and in the southern provinces of the country like Loja, Zamora Chinchipe, Morona Santiago, El Oro and Cañar, there is a significant number of people in the fashion business that produce clothes, shoes, sportswear and household linens that sell locally and nationally. These people need their distributors, Almacenes Lira, Modatex, Almacenes Gogo, Casa Farah, Rafatex, and others, to be constantly evolving their supplies.

1.2.5 Analysis of the local textile market and the family business

Almacenes Lira Cia. Ltda is a textile business that sells retail and wholesale. The company's prestige during 44 years are due to its strengths and opportunities that have been found along the way. Strengths such as providing people a wide range of merchandise that meet the needs of practically all textile manufacturers, it has all types of fabric for sportswear, household lines like curtains, sheets, blankets, quilts, furniture upholstery fabric, industrial clothes, work clothes, cloth for men and women, school and institution uniforms and finally, a formal and executive line of products for men and women.

One of the company's greatest strengths is its prices, because it is an authorized distributor of national factories it has exclusive discounts for customers and this is why they prefer Almacenes Lira rather than other sellers in the city or the country.

²⁴ PORTILLA, Carlos Andrés, National Manager of Línea Pinelli – Pat Primo, May 22, 2014, Cuenca, Ecuador.

Because of the company's prestige, purchasing power and ability to pay, textile factories and importers prefer Almacenes Lira.

However, the company also has weaknesses such as the lack of parking spaces, since the municipality prohibited parking in some streets in the center of the city unfortunately right where the store is located. For this reason, several customers prefer to pay more for their merchandise at other stores and avoid the traffic and the time to find a safe parking space. Besides this, one of the company's strengths becomes a weakness, i.e. the inventory levels that the company must have to supply all the merchandise for the textile market are high, and this puts a limit in the implementation of new products or to do bigger importations.

As every other company, Almacenes Lira Cia.Ltda., has threats and opportunities. Its opportunities are based on its name since it is very well positioned in the regional market and this will enable it to have new product lines such as finished products, haberdashery and bazaar. This would turn Almacenes Lira into a complete supplier for wholesale and retail manufacturers in the region and would avoid customers the annoying experience of having to go elsewhere for thread, buttons or zippers. Another opportunity is to implement a wholesale distribution warehouse for imported products which come from Guayaquil or Quito as currently the company does not import significant quantities due to its lack of capital; it only imports twice a year.

Finally, the company's main threats are the existing competition in all product lines. Companies like *Mi Almacén* only supply sportswear fabric, has less workers and a much smaller inventory than Lira's. This allows *Mi Almacén* to have lower profit margins and have similar prices to those of Almacenes Lira Cia.Ltda.

Additionally, a big threat is the easy access that customers have to national producers or importers that do not sell their products to Almacenes Lira. For example, our company is the authorized distributor of *Intela*, a manufacturer of fabric for sportswear, but we do not work with *Textiles Tornasol* or *Single Jersey* which are companies that produce the same fabrics as *Intela*. So since these two companies do not sell their products to Almacenes Lira, they have their own

salespeople in Cuenca who sell directly to the manufacturer and hence no distributor is needed.

This tendency of not needing the distributor, by shortening the distribution chain and taking the merchandise directly from the producer to the clothes manufacturers, threatens Almacenes Lira's stability. This is something that has been growing for the last three years. Often customers now travel to Quito or Guayaquil to do their shopping and have become regular customers of some factories.

This is also the case of fabric for men's clothes since there are people who sell fabric from the same factories Almacenes Lira gets its fabric, at lower prices because they have low costs. For instance, Hernán Garate works alone in a small shop, he buys and then sells cashmeres, linen and woolen cloth from factories like *Francelana S.A*, *Delitex* and *Textiles Litoral*.

Besides these, there are two or three suppliers of imported cashmeres, linen and woolen cloth which work the same way, they have minimum costs and thus low profit margins. However, those margins are suitable for their business structure. This represents a threat as well as a weakness for Almacenes Lira since due to its structure it cannot lower its inventory level nor its profit margin because its fixed costs are high; it has twenty five people working in sales and ten people in the administrative area.

Because of this and the experience gained during 7 years of work at Almacenes Lira, the initiative to implement a textile importer is held, which is aimed at only one market segment, in hopes that this will counteract the suppliers mentioned above. The name of the textile importer, which is aimed at the casual and formal men's market, which by the way is starting to evolve and expand, will be "Homme Ellegant" (Elegant man in French). Currently, men's clothing is becoming as volatile, innovative and requested as women's clothing.

Homme Ellegant will have a wholesale distribution of cashmeres, linen, gabardine, woolen cloth, and all types of shirt and t-shirt fabric for all ages. In

Cuenca, Homme Ellegant's potential customers will be Almacenes Lira, Casa Farah, Modatex, Textiles BGG, Marsella, Vanidades and others. These companies are suppliers of important dressmakers in the city.

As the sales manager of Almacenes Lira, I have seen that in our context, university majors like textile design and fashion design are booming and that both men and women are strongly entering the men's market segment in a way that fashion is becoming a necessity. Renowned designers such as Diego Peña, José Altamirano, Pedro Cueva, and others, need there to be variety, quality and good prices in the local market for them to make their clothing.

In this regard, Homme Ellegant Textile Importer wants to become the supplier of recognized manufacturing firms such as Inmoda, Incomodasa, Camisería Inglesa, Sofine and Vatex. These manufacturing companies make suits and clothing and sell wholesale to institutions or sell through their retail shops nationwide. Finally, thanks to the work experience as Sales Manager at Almacenes Lira, I know there are potential markets for Homme Ellegant in the provinces of El Oro, Loja, Zamora Chinchipe, Morona Santiago, Cañar, Chimborazo and Tungurahua.

CHAPTER II

THE CREATION AND THE STRUCTURE OF THE TEXTILE IMPORTER

2.1 Introduction

As mentioned in the previous chapter, Homme Ellegant will import and be a wholesale distributor of men's textiles. In the beginning, the company will meet the demand of the southern part of the country, and in the future it plans to broaden its coverage to the central and northern parts of the country. Therefore, the company's needs as well as obligations and requirements it must meet in order for it to work efficiently and be properly established must be identified. This chapter will present a tentative legal and organization structure for the company. During the first part, the type of company to be established, its social statutes, operational requirements, the staff and their functions within Homme Ellegant will be discussed.

Once the first part is done, there will be some research and then detail the fundamental requirements and permits required for the creation of the company to register it as an importer in the Ecuadorian Customs Office.

2.2 Structure and fundamentals of Homme Ellegant

Before starting any paperwork to create a company or for it to come into operation, it is important to determine vital points so that company can start its activities in the best way possible. For instance, it is important to determine the type of company to establish, its basics and legal structure, its shareholders, its capital and internal statutes. This information, which has already been determined by Homme Ellegant's future shareholders, is presented below.

2.2.1 Legal structure of the company

Firstly, the legal structure of the company will be determined. Whether Homme Ellegant will be a limited company, a limited liability company, limited partnership company, or a mixed economy company²⁵; this according to the Ecuadorian Companies Act. There are only two options for Homme Ellegant, either a limited company or a limited liability company.

²⁵ Companies Act, Codificación. November 5, 1999.

According to the Ecuadorian Companies Act in section six "The limited liability company" in article 143 is defined as:

"The limited liability company is a firm whose capital, which is divided in negotiable shares, is created with the contributions of shareholders who are only responsible for their equity stake"

This type of company must indicate it is a limited liability company by writing this or its abbreviation "C.A" or S.A", in Spanish, after its name.

According to articles 143 and 144 in the Companies Act, the Superintendence of Companies will not accept a company's name if it could be mistaken with another company. The limited liability company must have at least two shareholders, if they are natural persons. If they are a legal person or institutions of public or private law, there may only be one shareholder.²⁶

This type of company is made up of shares which are freely negotiable. In this type of company, the person as such is not relevant, the person's shares are; that is, the company considers the person's equity stake. Every shareholder is free to negotiate their shares without the consent or the approval from the rest of the shareholders, this according to article 191 in the Companies Act. Similarly, every shareholder only responds to his or her shares, i.e. they have limited responsibility. And finally, the voting rights and the influence of the shareholder depends on the capital value they have contributed to the company. ^{27,28}

On the other hand, according to the Ecuadorian Companies Act, section five, article 92, a limited company is defined as:

"A limited company is made up by three or more people who are only held responsible for social obligations up to the amount of their

²⁶ Companies Act, Codificación. Article 147. November 5, 1999

²⁷ Companies Act, Codificación. Article 210. November 5, 1999.

²⁸ "La Administración en las Compañías de Responsabilidad Limitada y en las Sociedades Anónimas", López Verónica, 2008,

contributions. They do business by using their business name which should include the words "Limited Company" or its abbreviation."

This company is divided into partnerships or participations rather than into shares. It must have at least two partners and maximum fifteen, who respond to their amount of participations in the business. In case the number of shareholders is exceeded, the company must be dissolved or turned into another type of company. A limited company will always be a trading company since they are capital companies.²⁹

This type of company is a closed circle of shareholders where the participations can be transferred among the company's partners, prior the approval of all the company's partners. They can also be transferred to third parties prior the approval of one hundred per cent of the partners. Participations may also be transferred through inheritance and they will be represented by a delegate of the inheritors.³⁰ The more participations a partner has, the greater his / her rights and power in the company. Furthermore, this company has limited capital and it will not be able to quote on the stock exchange.³¹

Homme Ellegant will have four shareholders, Maria Angélica, Maria Gabriela, Maria Antonia and Genaro Andres León Ordoñez, who have unanimously decided to become a limited company. The reason for becoming a limited company are, firstly, to maintain a closed circle of partners in the company and limit the participations to only the four siblings in the company. And secondly, due to the fact that for the partners of the company, people are more important than capital, and hence each one of the partner's knowledge and involvement in the company is very significant. And finally, the partners of the company

²⁹ Companies Act, Codificación. Section 2. *De las personas que pueden asociarse*. November 5, 1999.

³⁰ Companies Act, Codificación. Articles 107 and 113. November 5, 1999.

³¹ "La Administración en las Compañías de Responsabilidad Limitada y en las Sociedades Anónimas", López Verónica, 2008,
http://www.uazuay.edu.ec/bibliotecas/derecho/la_administracion.pdf

believe there can be further trust and tranquility to manage the company if family members are in charge.

It is worth noting to come to this decision due to the experience of family tradition in Almacenes Lira which has been using this type of company for forty four years and has proven to be successful. New family generations have shown there is a successful inheritance experience which has resulted in significant growth and positioning for the company. Therefore, the shareholders of Homme Ellegant aim at having the same and even better results that Almacenes Lira has had during all these years.

2.2.2 Share capital and statutes of incorporation

After agreeing on the type of company, the four siblings who will be the shareholders of Homme Ellegant and will contribute with the company's share capital, have agreed on the amount for the company's incorporation. The amount of share capital was determined by considering that this company will begin its business activities for the first time and will therefore need financial support for its first imports, cover current and noncurrent expenses for the company's first month, and to finance the credit that will be given to several customers. The share capital will be divided into four equal parts and will be distributed as follows:

Table 1 Share Capital

NAME	CONTRIBUTION	SHARES
Ma. Angélica León	30,000.00	25%
Ma. Gabriela León	30,000.00	25%
Ma. Antonia León	30,000.00	25%
Genaro A. León	30,000.00	25%
TOTAL:	120,000.00	100%

Done by: Genaro León O.

The table above shows the total share capital of the company (\$120,000) and the amount each shareholder will contribute. Now, here are other essential elements of the incorporation statutes:

- Company's share capital: Homme Ellegant's share capital will be one hundred twenty thousand dollars divided into one hundred twenty thousand shares worth one dollar each.
- Prohibitions on the participations: the shares cannot be turned into securities nor can they be called shares due to legal requirements.
- Selling participations: the buying or selling of participations require the unanimous approval of the shareholders in order to a) sell participations to another shareholder and b) sell participations to a third party
- Board meeting: the board will be made up by all those who have share capital in the company and they will meet at least once a year so that the manager can present reports and discuss the management of the company. Each one of the company's partners will be called personally and will get an email to notify them of the meeting. They may also be called to attend extraordinary meetings.

The first time the partners are called to attend the board meeting, the quorum to start the meeting must be half plus one. The second calling will start no matter how many partners have attended the meeting.

- Administrative body: the company's administration will be in charge of a Manager, who will be chosen from one the board members. The manager will be the company's legal representative during two years, and may be reelected for several periods if the board deems appropriate. The manager's salary will be determined by the board.

The board has the power to select an external Administrative Manager, as long as it is a unanimous decision. The designation of the manager will be done through a public document.

- Manager's functions and limitations:

The manager has the power to guide the company through its normal operations by always seeking its growth and continuous improvement. The limitations will be set by the Board.

The Manager, who is also the company's legal representative, has the power to decide for the company and will be in charge of its responsibilities and activities.

Functions:

- 1- Manage and improve the company; make decisions regarding purchases, sales, prices, costs, opening new markets, imports and distribution of new products.
- 2- Hire people for accounting, sales and the warehouse.
- 3- Purchase tools, materials, and all types of means necessary to improve the operation and performance of the company.
- 4- Manage and provide credit to customers, as well as collect debts
- 5- Negotiation and recruitment with the public sector through the public procurement portal SERCOP.
- 6- Manage all the processes of purchases and imports.
- 7- Manage and control the sales department

Limitations:

1. Debt levels: the manager can incur in a debt of maximum \$40,000 to purchase merchandise and \$10,000 to purchase materials, goods or any means needed for the company.
2. The selling of assets must be approved by the board. The Manager does not have the power to carry out this type of activity.
3. The annual planning must be handed in to the partners of the company so that they can advise any changes.

These are the main points that have been determined by the company's partners, they are fundamental for the creation of the company. Other points will be included in the statutes of the company before completing it. It is worth noting that one hundred per cent of the partners agree with the above mentioned points.

2.2.3 The company's organizational structure

To start this section of chapter two, as a businessman, I think it is imperative to clearly understand the aim of the company, i.e. to find an identity and a goal to be pursued by all those who are part of Homme Ellegant, its partners and workers. Therefore, we have come up with a mission and a vision statement:

- Mission statement: to provide the national textile market variety and quality textiles which are not produced in the national industry in order to expand companies' and dressmakers' product portfolios.
- Vision statement: to become the leading importer of fabric in the country and create customer loyalty and trust by providing high quality product at the best price.

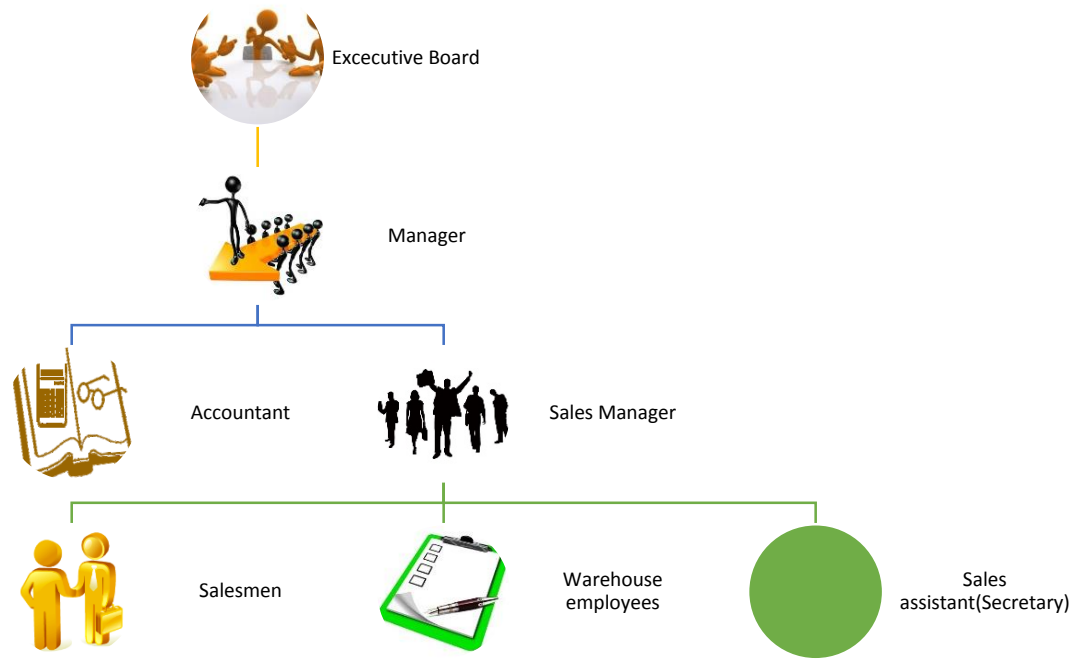
At the beginning Homme Ellegant must prioritize the use and optimization of its resources, especially economic resources, in order to minimize possible financial problems during the company's first months, and until it reaches its break even point and then begins to make a profit.

The board of directors is the head and ultimate authority in Homme Ellegant, and it will designate a manager, who will preferable be one of the board members. On the hand, they will recruit an external professional to occupy this position for the period stated in the company's statutes.

The manager will have to comply with his or her administrative, logistics and commercial management and control functions. Therefore, the manager will control the accounting and imports departments, as well as the sales

department, along with the sales manager, two people in charge of the warehouse, and a sales assistant. Below is the tentative organizational chart for Homme Ellegant:

Graph 5 Organizational Chart



The figure shown above is the structure the company should have; it may however be modified according to the needs of the company during its operation. We came up with this tentative structure as a result of the experience we have gained at work during a daily basis and after having spoken to importers from all over the country, who have shared their ideas and models used in their companies.

As a company, Homme Ellegant prioritizes social responsibility; therefore it will comply with all the requirements and obligations stated by the Ecuadorian Social Security (IESS). The organizational chart shown above will determine the employment situation with each worker and its premise will always be to provide benefits for both the employee and the employer.

The manager will have a contract, according to Labor Laws, for a fixed period of time due to his / her position. The accountant and sales manager will have a "relación de dependencia" contract, meaning that you work for someone else and that person pays you for doing your job. Tentatively, the accountant's and sales manager's salary will be \$600 and \$900, respectively. And from \$900 to \$1,600 for the manager.

In the operational part of the company, there are two people who will work in the warehouse and one sales assistant, they will get paid a basic wage which is \$364. The salesmen will have a different relationship with the company, they will get paid a basic wage plus sales commission, which is of course will depend on the amount of sales they have at the end of every month. According to the company's sales expectations, salesmen's commission will be around 1.50 and 2 %. Homme Ellegant will cover a percentage of the salesmen's expenses such as fixed costs like accommodation and transportation. The salesmen will cover other expenses they may have during their trips.

2.2.3.1 Functions to be carried out

Every organization needs someone to be in charge, and at Homme Ellegant the board will assign somebody to be the head of the company. This person will be in charge of all the processes that have to do with the normal operation of the company and its continuous improvement. In other words, there will be an integral administration of the company, which includes the accounting, financial and commercial areas. The manager will have autonomy to develop his or her skills and knowledge, but will always be controlled by the board of directors.

There will be only one accountant who will be responsible for the company's accounts, and he or she will be supervised by the manager. Furthermore, the accountant will be responsible for all the import process of Homme Ellegant.

The sales department will have a sales manager who will directly follow the manager's orders. The sales manager will be in charge of the operations in the sales department and will be directly responsible for the sales team, their routes, the products which are on sale, salesmen's appearance, periodic visits to customers, product promotions, orders, dispatches and replacement of merchandise. The sales manager will also be held responsible for controlling the two workers in charge of the warehouse and the sales assistant, who will help the sales manager in collections, telemarketing and other sales processes.

Finally, there will be two salesmen who will have to visit several places every 3 weeks. There are six routes that salesmen must cover, and each will last one week. Here are their routes:

Table 2 Routes

Route:	Places to visit:
Cuenca	The whole city
Azuay	Gualaceo, Paute, Sigsig, Santa Isabel, Girón.
Loja – Zamora	Saraguro, Loja, Zamora, Yanzatza, El Panguí, Gualaquiza
El Oro	Pasaje, Machala, Guabo, Piñas, Zaruma.
Morona Santiago	Méndez, Limón, Logroño, Sucua, Macas.
Cañar	Azoguez, Biblián, Cañar, La Troncal, El Tambo

During the implementation of Homme Ellegant in real life, this chapter may be modified according to people's current needs. It could be expanded or reduced. For now it has been designed according to the company's efficiency and the optimization of its resources in order to meet the customers' expectations and provide quality service.

2.3 The creation process of Homme Ellegant

For Homme Ellegant to start its activities, it must comply with all the requirements determined by state organizations which are in charge of controlling, supervising

and regulating businesses and industries as well as those which control foreign trade. In Ecuador there are several regulatory bodies that establish a series of permits, requirements and regulations that must be followed in order to create a company and start operating.

2.3.1 Mandatory process for the creation of the company

Once the type of company has been determined, the next step is to work on the paperwork for the creation of the company and its statutes. This must be done online in the superintendence of companies website at www.supercias.gob.ec. Once in the website, you must click on the option labelled "Portal de Constitución de Compañías", there a new screen will appear so you can register as a user. Then you write the name of the new company that is being created, and in case the name "Homme Ellegant Cia Ltda." is not being used by anybody else, it will automatically be reserved. The reservation of the company's name will last only 30 days and in case the company is not created during this time, the reservation will be eliminated. (See annex 2)

After this, the paperwork for the creation of the company must be done online. First, you must fill in the form for the creation of a company with the company's basic information, capital, the company's legal representative and the company's statutes. Once you have met all these requirements you must pay the paperwork fees in at any Banco Pacifico nationwide.³²

Once all the documentation has been presented in the Superintendence of Companies, one shall await the approval or disapproval of the company's creation. In case it has been approved, you must now go to a Notary Public to register and legalize the creation of the company through a public document.³³

³² "Portal para Constitución de compañías", www.supercias.gob.ec/portalConstitucionElectronica/ , visited on January 10, 2015.

³³ "Constitución de Sociedades Civiles", <http://registromercantil.gob.ec/cuenca/servicios-cuenca/65-constitucion-sociedades-civiles.html> , consultada el 05/febrero/2015.

Finally, after having the public document, the company must be registered in the Mercantile Registry. For Homme Ellegant, the nearest Mercantile Registry office is located on Los Fresnos 100 and Paucarbamba Avenue in the city of Cuenca. All the documentation which has been approved by the superintendence of companies and the public document will be presented here.³⁴

2.3.2 Requirements needed to begin the company's business activities

Now that Homme Ellegant has been legally created by the Superintendence of Companies, notarized and registered in the Mercantile Registry, it is time to go to the Internal Revenue Service (IRS) in order to get a license which will allow the company to carry out its business activities. According to the type of company we have created, the IRS determined that it should operate under a Taxpayer registration number or RUC in Spanish. According to the IRS the RUC is an ID number for all natural persons and societies that carry out business activities in Ecuador.³⁵ These economic activities will produce taxes that must later be filed to the IRS using the company's Taxpayer registration number.

To obtain the RUC for Homme Ellegant, we must fill in the RUC 01-A form (See Annex 3) and have it signed by the company's legal representative, we must include the original public document stating the company's creation, as well as a copy, which was previously registered in the Mercantile Registry. The document stating the designation of the company's legal representative, which must be notarized and registered in the Mercantile Registry, is also needed. Additionally, we must present the company's address, phone number, name, copies of identification documents, minutes of the legal representative's designation and the company's business activities, which is the importation and wholesale selling of fabric and textile goods.³⁶

³⁴ "Constitución de Sociedades Civiles",

³⁵ Internal Revenue Service – RUC, <http://www.sri.gob.ec/web/10138/92> (visited on December 10, 2013)

³⁶ Registration requirements and Updating of companies, IRS.
www.sri.gob.ec/web/guest/inscripcion (visited on December 10, 2013)

Once the IRS authorizes Homme Ellegant to start its business activities, it has to be registered in the Ecuadorian Customs Corporation or *Corporación Aduanera del Ecuador* (CAE) as an importer. According to CAE, "all natural and legal persons from Ecuador, or foreigners living in Ecuador, can import once they are registered as importers in the ECUAPASS system and once the company has gotten an approval from the National Secretariat of Ecuadorian Customs or *Secretaria Nacional de Aduanas del Ecuador*³⁷, i.e. to import we must be registered and have access to CAE's system. ECUAPASS is a compulsory system that all importers and exporters need for any business activity. This system operates with a Korean system called UNI-PASS.³⁸

To register in ECUAPASS, first you need the digital signature of the natural person or the import or export company. Homme Ellegant must present: a) a notarized copy of the legal representative's ID and voting certificate, b) the updated taxpayer registration number- RUC, c) a certificate of compliance given by the IRS, d) a certificate of compliance given by the Ecuadorian Social Security Institute, e) a certificate of compliance and a certificate of the company's legal existence given by the Superintendence of Companies and f) get the authorized digital signature from the legal representative.³⁹

With an operating RUC you can get the digital signature in the Banco Central del Ecuador website, it is then validated in Security Data which is the body authorized by the National Council of Telecommunications. This certification is mandatory according to the E-commerce, digital signatures and data messages law ⁴⁰.

³⁷ Processes to import, CAE, http://www.aduana.gob.ec/pro/to_import.action#re2

³⁸ ECUAPASS, FAQ, CAE.

http://www.aduana.gob.ec/archivos/Ecuapass/faqs_ECUAPASS.pdf (visited on November 24, 2014)

³⁹ Resolution No. 17 Comité de Comercio Exterior, Articles 1, 2, 3 and 4. Date: August 2, 2011.

⁴⁰ Secutity Data, <https://www.securitydata.net.ec/> (website visite don November 24th , 2014)

After this process, which is shown step by step in the website, the Central Bank will take some time to activate the digital signature and after it has been approved it must be entered and assured by Security Data. Finally, after this process, the next step is to register in Ecuadorian Customs Corporation system, ECUAPASS. Once in the system, you must create a username and a password and then upload the company's information. And after that, the company will have its import license.

Having this online system facilitates the paperwork for the import company and saves the staff from Homme Ellegant time since they do not have to go to the CAE office and do this process personally. This optimizes time and resources for both the importer / exporter and CAE. Additionally, the safeness of the system is guaranteed.⁴¹ Once in the Ecuadorian Customs System, you must register the type of merchandise you will import, this according to regulations issued by COMEX in regulations 182, 183, 184 and 364 where it states the importance of detailing the merchandise to be imported.

Once the company complies with all the requirements and permits for its creation, it must get the permits for the company's operation. In other words, the company must get permits to operate in its premises. Firstly, it needs to get a Municipal Patent in order to carry out its business activities in premises. There are different types of patents; like patents for bars, restaurants and related businesses, for industries, factories, bakeries and professional patents for lawyers and architects.⁴²

Homme Ellegant needs to get a commercial patent. The requirements in order to get this patent are to fill in the Patent Form, which can be found in the Municipal building on Benigno Malo and Mariscal Sucre Street or in its other building located on Solano Avenue and 12 de Abril Street, a copy of the legal

⁴¹ ECUAPASS FAQ's, http://www.aduana.gob.ec/archivos/Ecuapass/faqs_ECUAPASS.pdf

⁴² Municipal Patents Tax, www.cuenca.gov.ec/rentasenlinea/?q=page_patentes
(visited on January 11th, 2015)

representative's ID and voting certificate, the document stating the designation of the company's legal representative, a copy of the company's RUC and a receipt of the company's property tax payment.

2.3.3 Optional elements for Homme Ellegant

Besides the mandatory requirements needed to create a company, there are also optional requirements. As the first optional requirement, we went to the Ecuadorian Institute of Intellectual Property (IPEI) and asked if our company's name "Homme Ellegant" had been registered by any natural or legal person before, since it was not we registered the name and our corporate image at IPEI. This is to protect our business name and corporate image in the market because in the future we plan to have new sales methods such as retail sales through several outlets nationwide.

To do this, we must submit a form, which can be found at www.propiedadintelectual.gob.ec, to IPEI. After we send the form, the Ecuadorian Institute of Intellectual Property will make sure there are no limitations such as other companies having a similar name or image or a name or image that make reference to Homme Ellegant. The company's image has not yet been determined, but it will also be protected to avoid it from being used without any previous authorization. IPEI will set the date and the time to inform the company if the name has been registered or if there are any limitations.⁴³ IPEI will verify that the company name is not being used by someone else, that it is not registered in the country or anywhere else in the world.⁴⁴

In case there are no restrictions IPEI will register the new company name and image after we pay \$116 at Banco del Pacifico. Finally, we must send the payment receipt to IPEI. It is worth noting that for a trading company like Homme

⁴³ Instituto Ecuatoriano de Propiedad Intelectual, www.propiedadintelectual.gob.ec

⁴⁴ http://www.elcomercio.com.ec/negocios/claves-montar-negocio-propio_0_299970048.html.

Ellegant, it is not mandatory to register its name or image in IEPI. However, we consider it necessary and prudent to protect our name and image.

Apart from protecting our company name and image at IEPI, we will become a member of Cuenca's Chamber of Commerce. We will therefore have to present a request form along with the company's basic information, such as the name of its owners. The cost of becoming a member depends on the type and size of the company. Despite becoming a member of the Chamber of Commerce is not mandatory, Homme Ellegant would like to become a member because of the benefits it provides.

Some of these benefits are all the continuous courses and training sessions it provides for its members; the courses are sometimes free or have special costs for its members. Cuenca's Chamber of Commerce also provides institutional agreements with chambers of commerce nationwide, with the Centro de Mediación y Arbitraje del Azuay, and internationally, with Spain's Chamber of Commerce. Other benefit are that it grants loans of up to twenty thousand dollars that can be paid in 36 months, it provides legal advice in areas such as intellectual property, labor laws and business advice.

Additionally, the company's partners think that it is important to be part of the Chamber of Commerce because since the company is an importer, it can get advice and support during a negotiation process with international suppliers such as the Chamber's project titled "Negotiating with China", where companies get integral assistance during the negotiation process with Chinese suppliers.

CHAPTER III

IMPORTATION AND PROFITABILITY PROCESS

3.1 Introduction.

In this third chapter, the whole textile importation process for Homme Elegant shall be investigated. Here we shall analyze, on one hand, the taxes, tariffs, and documentation required as established by Corporación Aduanera del Ecuador. We shall also analyze other important importation aspects, such as the transportation type, etc. On the other hand, Homme Elegant's potential providers according to their products will also be analyzed, their prices and quality. In the same manner, logistics, consulting, transport and international business companies. Finally we shall analyze the existing types of risks within the importation process, the importance complete insurance, the customs procedures and transportation from Guayaquil until its final destination in Cuenca.

Finally, in this chapter the average profitability that the importing company Homme Elegant will benefit from taking into account the cost of the merchandise at the place of purchase, the importation cost and the tariffs will be reviewed.

3.2 Tariff items, taxes and tariff restrictions

Imports and exports all around the world have regulations, requirements, restrictions and taxes laid upon them by the entity that controls customs for the country of origin in some cases, but always in the country of destination. The norms established by the governments vary according to the reality of each country's economy. In the specific case of Ecuador, there are norms established by Corporación Aduanera (CAE), Comité de Comercio Exterior (COMEX) and Servicio de Rentas Internas (SRI).

In the first place, it is fundamental to know that the Corporación Aduanera del Ecuador classifies imports according to their objective. This classification system is known as importation regimes. According to the Código Orgánico de la Producción, Comercio e Inversiones (COPCI) (Production, Commerce and Investment Organization Code), there are seven importation regimes. For Homme Elegant, the importation regime for consumers that is described in chapter seven, section one, article 147 of said code stating:

"The customs regime by which merchandise imported from abroad or from a Special Economical Development Zone can circulate freely in the customs territory, with the objective of remaining here in a definitive manner, after the payment of importation rights and taxes, surcharges and penalties, when applicable, and the compliance with customs formalities and obligations."⁴⁵

Additionally, COPCI in its second chapter, article 108, establishes that customs must charge "tariff rights or tariffs, special taxes established in the organic and ordinary laws that are related to the entrance and exit of merchandise and finally rates for the customs services on all products that will enter the country" ⁴⁶ To realize this charge, Customs of Ecuador is governed by a product classification by categories, known as partidas arancelarias (tariff items). Each tariff item is divided into tariff sub items, which is a more minute breakdown of every type of product.

According to the World Customs Organization, "the tariff sub items is a unique code belonging to the Harmonized System of Codification and Designation of Merchandise, that allows all merchandise to be classified using a 10 digit registry"⁴⁷. The main utility of the tariff items and sub items is to facilitate the

⁴⁵ Código de Orgánico de la Producción, Comercio en Inversiones, Capítulo IV, artículo 147.

⁴⁶ Código de Orgánico de la Producción, Comercio en Inversiones, Capítulo II, artículo 108.

⁴⁷ Comercio Exterior, Cámara de Comercio de Guayaquil
<http://www.lacamara.org/website/images/faq/asesoriacomercioexterior.pdf>,
Consultada el 05/febrero/2014.

registry of the international business transactions and designate the importation tax for every product that enters the country.⁴⁸

All merchandise corresponding to international commerce, is subject to tariff classification, be it according to its function, origin, that is to say its material or its components and to the General Rules of the World Customs Organization (OMA). In addition, the Andean

Community of Nations (CAN), structured a naming system called NANDINA, that encompasses the products that are exported among the countries members to this organization.⁴⁹

At the moment an importation is done, it is essential to correctly designate the sub item that corresponds to each merchandise. There are cases in which owing to the nature of the product and the description of the items that Customs offers, classification can get complicated and this can cause obstacles in the customs clearance process. This complete procedure is done by a customs entrenched agent that must hire the company to perform the nationalization of the merchandise. In case of confusion, it is also possible to go to the Chambers of Commerce of the different cities in the country, in our case the Ecuadorian – American Chamber of Commerce of Cuenca, that gives free council on all types of importation procedures.

In the case of the products Homme Elegant imports, textiles for the men's market, they are coded under the sub item 5407 for synthetic textiles and under the item 60 in the case of knitted textiles. Under these tariff items and under all tariff items,

⁴⁸ Comercio Exterior, Cámara de Comercio de Guayaquil
<http://www.lacamara.org/website/images/faq/asesoriacomercioexterior.pdf>,
Consultada el 05/febrero/2014.

⁴⁹ Arancel Nacional Integrado, Asociación de Industriales Textiles del Ecuador,
<http://www.aite.com.ec/comercio-exterior/arancel-nacional.html> , Consultada el
18/febrero/2015

that is to say all products that are imported to Ecuador, the State establishes a tariff, known as ADVALOREM.⁵⁰

According to the System of Information on International Business Dictionary (SICE), belonging to the Organization of American States (OEA), the Advalorem tariff is:

“A tariff that is imposed in terms of a percentage on the value of the merchandise. For example, 5% tariff means that the importation tariff is 5% of the cost of the merchandise in question.”⁵¹

In the case of textiles for Homme Elegant, this tariff is 20% on the total cost of the purchase in its country of origin, that is to say, the total price on the invoices, plus the price of the freight or international transport and finally the price of the insurance. In international business this value is known as CIF (Cost, Insurance and Freight).

After the ADVALOREM tariff, it is mandatory to pay a tax of 0.50% of the CIF value, that is called Infancy Development Fund (FODINFA). This is a mandatory contribution on all importations, without exception. In addition to this value, taxes are applied as safeguard measures decreed by the Government. A safeguard is a measure that, for a determined time, regulates or restricts the importation of merchandise that directly compete with national products with only one aim: to fortify this product's industry or to incentivize national producers.

Currently, in our country a safeguard measure is in force that applies to a large quantity of products that come from various countries. Starting on Wednesday, March 11th, 2015, there was established a safeguard on over 2900 products,

⁵⁰ Administrador de Nomenclatura y Características de Mercancías, Aduana del Ecuador, http://portal.aduana.gob.ec/ipt_server/ipt_flex/ipt_arancel.jsp, Consultada el 18/febrero/2015


⁵¹ Diccionario de Términos de Comercio, Aranceles y Medidas no Arancelarias. http://www.sice.oas.org/dictionary/TNTM_s.asp

which ranges from a 5% to a 45% increment on the existing tariff for a period of 15 months. On textiles, the established tariff is of 5%, which is why now, the percentage to pay for the importation of textiles from Panama is 25% and on Colombian and Peruvian products it is of 5%.

Finally, you must pay the Aggregate Value Tax that the Internal Revenue Service has established. All products imported under the importation regime for consumers, is obligated to pay 12% on a taxable basis that is derived of the sum of the CIF importation value (Cost, Insurance and Freight) plus the ADVALOREM and FODINFA values.

Following we can observe a liquidation of textile importation from Colon, Panama, done in February of 2015, where we can observe the cost to be paid for the aforementioned taxes, Advalorem, Fodinfra, Safeguards and the Aggregate Value Tax:

Graphic No. 6 Example of liquidation of textile importation



REPUBLICA DEL ECUADOR
DECLARACION ADUANERA DE IMPORTACION

Consulta de detalle de la declaración

Número de DAU	028-2015-10-00118442		
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Información de general

Aduana	GUAYAQUIL - MARITIMO	Código de régimen	IMPORTACION A CONSUMO
Tipo de despacho	DESPACHO NORMAL	Número de despacho	
Tipo de pago	N		

Información de Importador

Nombre	[REDACTED]	Número de	[REDACTED]
Ciudad	CUENCA	Teléfono	
Dirección	[REDACTED]		
Ciu	VENTA AL POR MAYOR DE OTROS PRODUCTOS		

Información del declarante

Apellidos / nombres	[REDACTED]	Número de	RUC
Código del declarante	01908246		
Dirección	JAIME ROLDOS 480 Y HUAYNA CAPAC		

Información de carga

País de procedencia	PANAMA	Codigo de endoso	SIN ENDOSE - DOC DE IDENTIDAD EN DOC DE
Beneficiario del giro	[REDACTED]	Número de carga	CEC2015CNIU541890640001
Documento de transporte	COE3005690		

[Comun]

Valor en aduana

Fob	37535.44	Felte	663
Seguro	174.76	Ajustes	0
Otros ajustes	0	Valor en aduana	38373.2
Items declarados	84	Peso neto (kilos)	5148
Cantidad de unidades físicas	38285	Cantidad de unidades comerciales	38285
Total en tributos	13415.27		

[Item]

Firma del Contribuyente

1 de hoja /13 total de

NARDO DOSITEO
GONZALEZ
CABRERA

Enteado digitalizado por NARDO DOSITEO GONZALEZ CABRERA
Ministerio de Economía y Finanzas
BANCO CENTRAL DEL ECUADOR
AUTENTICIDAD DE CERTIFICACION DE INFORMACION FISCAL, JURIDICA, Y ADMINISTRATIVA

Declarante

3.3 Homme Elegant's providers.

As was mentioned in the first chapter, the textile market at an international level is very large and varied. There are all kinds of producers of cloths and for every segment of the market, with different prices and qualities. For the market that Homme Elegant will be managing, which is the men's segment, there are several important producers around the world, with China as the principal producer, followed by Taiwan, Pakistan, India, Thaliand and others.

In China we will find all kinds of textiles, to supply Homme Elegant, for every market niche. In China there are cottons, poly cottons and linens for shirts, linens and cashmeres for pants and suits, cloths and synthetics for coats and jackets, cloth for covers, fleece and cotton for sweaters, among many other fabrics. Having practically all the necessary products for Homme Elegant, China is the ideal destination to search for providers and import merchandise, but taking into account that Homme Elegant is a company that has recently initiated its commercial activities, its buying power becomes a limiting factor since these factories have minimum purchase requirements on its orders.

This is because the Chinese textile factories establish volumes per product to be eligible to special pricing, these amounts are high, generally 10 pieces per color. That is to say, if you plan on importing gabardine for pants, you must order 10 pieces per color, which makes the purchase difficult, since in one gabardine for pants and suits a noteworthy gamma of colors is necessary. You must have black, two shades of blue, navy blue and dark blue, two shades of beige, kaki, two or three shades of grey, burgundy and dark Green. That is to say, approximately 12 colors, which when multiplied by 10 pieces per color, are 120. This reduces the possibility of having a broad and varied portfolio.

It is possible to obtain textiles in lesser quantities, but not directly from a factory, rather from middlemen, which means a higher price per meter of cloth. This is why initially we discard the importation of textiles from China or any other Asian country, since it is not convenient to buy big quantities of a single product when you don't have a high purchasing power. This is why, initially, for Homme Elegant, the potential providers are within the American continent.

As producing countries we have Colombia, Peru, Brazil, Chile and Argentina. In all of these countries you can find textile factories with products for the men's segment of the market, and as principal distributors we can count on providers from the Free Zone of Colon, Panama, who are bulk providers at an international

level of Chinese, Pakistani, Taiwanese and Indian textiles, among textiles from other Asian countries.

According to what was analyzed in the first chapter, Colombia and Peru are the most favorable producing countries in our search for Homme Elegant's providers. This is due to the nearness of the countries and their products' competitive pricing.

3.3.1. Importations from Colombia.

In Colombia's case, we must differentiate between products that are obtainable within our country, since there are factories that have offices, warehouses, and salespeople in Ecuador. This is the case of Lafayette S.A., Pat Primo S.A., Sajador S. A., STX S.A. and Protela. These companies will be Homme Elegant's providers, since they have a policy of searching for and maintaining wholesale clients. But in this thesis project, we shall look for direct importation products. In Colombia we have a textile producer that fits into what we are looking for to import, this producer is Fabricato, which does not have offices nor distribution logistics in Ecuador.

Fabricato is a textile factory specialized in the manufacture of cloths for pants, in the case of gabardines, twill and driles in different compositions and thicknesses for the manufacturing of pants, denim or indigo for the manufacturing of jeans, be they casual or for work for men. On top of this, Fabricato has an large array of inner linings and pellones that are used for the making of shirts, pants, suits and jackets. These inner linings and pellones are indispensable for the manufacture of such clothing.

It can be concluded that from the Colombian market, we should work with the textile factories that have direct distribution in Ecuador, and only should we work with Fabricato for direct importation from Colombia, since among the aforementioned factories and the last one that we shall work with, we are able

to obtain a broad, necessary stock of high quality that is competitive for the portfolio of products that Homme Elegant will offer. The textiles to be imported along with their cost is the following:

Table No.3 Products to be imported from Colombia

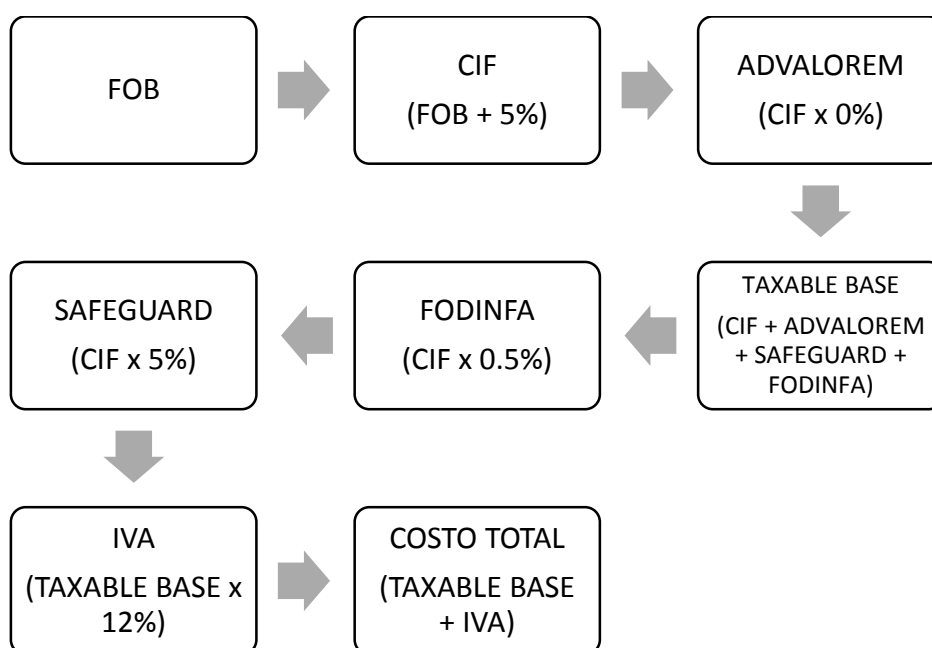
PRODUCTS FROM COLOMBIA

PRODUCT	FOB PRICE (USD) PER METER
INNER LININGS FOR JACKETS	1,60
TEMPO GABARDINE	3,00
PELLON FOR SHIRTS	0,70
PELLON FOR PANTS	0,85

This is the provisional list of products to be imported from Colombia, since the products may vary according to the existing offer available at the provider's visit. The prices in the previous chart are prices obtained through query to the aforementioned providers. These referential prices are Free on Board, to which we have to calculate and add the transportation cost, the Advalorem tax, the safeguard, FODINFA to obtain the destination cost and finally calculate the Agregate Value.

The following chart indicates a costing map for the products to be imported from Colombia. The values that are indicated here are those which are in force currently for the importation of textiles under the sub items 5407 and 60 from said country to Ecuador. This costing map helps us to obtain the cost in the product's place of origin.

Graph No. 7 Costing map from Colombia.



As a result of the application of this costing map for the products to be imported from Colombia, the same products which are described in table 2.0, we obtain the following results:

Table No. 4 Final cost products from Colombia

FINAL COST PRODUCTS FROM COLOMBIA

PRODUCT	FOB	CIF	SUB TOTAL	AD VALOREM	SAFE GUARD	FOD INFA	TAXABLE BASE	IVA	TOTAL COST
JACKET INNER LINING	1,60	0,08	1,68	0,00	0,08	0,01	1,77	0,21	1,99
TEMPO GABARDINE	3,00	0,15	3,15	0,00	0,16	0,02	3,32	0,40	3,72
SHIRT PELLON	0,70	0,04	0,74	0,00	0,04	0,00	0,78	0,09	0,87
PANT PELLON	0,85	0,04	0,89	0,00	0,04	0,00	0,94	0,11	1,05

3.3.2 Importations from Peru

In Peru's case, we have two textile producers which are Busatex S.A. and Textiles San Jacinto, which have been in the textile market for over fifty years and are the most recognizable factories in Peru. These producers are ideal for Homme Elegant, since they offer products for the market niche that our company will manage. Busatex is a factory that specializes in the production of textiles for shirts in the composition of 100% cotton, poli cotton, 100% polyester and microfiber, besides textiles for pants, shorts and jackets. Aside from having an excellent product portfolio, which is one hundred percent convenient and attractive for Homme Elegant, its prices are competitive and there is no Ecuadorian production that can compete with these products, as far as price and design are concerned.

Textiles San Jacinto, which is also located in the city of Lima, is a factory that has a product portfolio that includes textiles that are very attractive for Homme Elegant. For example, poplin and dobbys for shirts, drilles, corduroy and denim for men's casual pants, bermudas, coats and jackets. It also offers covers and taffetas for the making of men's suits. With an large and interesting portfolio, this is a convenient company to negotiate with and import their products, since they are products that do not appear among what is offered nationally.

Busatex S.A. from Peru, through its commercial advisor in exports, Mr. Conrado Costa, has given us the following prices for textiles which Homme Elegant could import:

Table no. 5 Products to be imported from Peru

PRODUCTS OF PERU

PRODUCT	PRICE FOB (USB) PER METER
100% COTTON SHIRT	2,40
POLICOTTON SHIRT	2,00
NYLON FOR JACKETS	2,00

With the Free on Board price of the suggested merchandise selected for importation from Peru, we have to use the same pricing map that we used for Colombian products, that is to say the same values and percentages for every product, since being a member of the Andean Community of Nations, Peruvian products have the same benefits as Colombian products, and this at an Advalorem tax of zero. With this, we obtain the same costs at the destination:

Table No. 6 Final cost of products from Peru

FINAL COST PERUVIAN PRODUCTS

PRODUCT	FOB	CIF	SUB TOTAL	AD VALOREM	SAFE GUARD	FOD INFA	TAXAB LE BASE	IVA	TOTAL COST
100% COTTON SHIRT	1,60	0,08	1,68	0,00	0,08	0,01	1,77	0,21	1,99
POLICOTTON SHIRT	3,00	0,15	3,15	0,00	0,16	0,02	3,32	0,40	3,72
NYLON FOR JACKETS	0,70	0,04	0,74	0,00	0,04	0,00	0,78	0,09	0,87

3.3.3 Importations from Panama

As far as the Free Zone of Colon, Panama is the most attractive place to import any type of product for the whole American continent and for many countries outside of the American continent. It was created in the year 1948 with the objective of becoming a center for the stockpile and international distribution of products to the entire world, being the narrowest part of the American continent, it has 5 maritime ports and the Panama Canal which crosses the same point.⁵²

⁵² Historia, Zona Libre Colón, Panamá.

<http://www.zolicol.gob.pa/detalle.php?cid=1&sid=20&id=25> (consultada el 03 de febrero 2014).

For Homme Elegant, this free zone for business, where you can find over three thousand companies with all kinds of products, is a fundamental advantage. This is because here we find products made in the Asian continent, which cannot be directly imported from Asia by Homme Elegant for the aforementioned reasons. In the Free Zone, you can find several textile importation companies, with products that come from China, Taiwan, Korea, Singapur, Indonesia, Pakistan, India and others. In the case of Sinaktex, La Casa del Cacron, Textela S.A., Mapec, Mundo Textil, Textiles Internacionales, Visiontex and other companies that have products in line with the needs of Homme Elegant.

The majority of these textile importation and trading companies located in the Free Zone of Colon have commercial offices in Asia, from where all their business, merchandise programming and dispatches to the Free Zone of Colon, Panama are conducted. This is a great advantage for Homme Elegant, being that products made in Asia, especially in China, can be found or brought in by the importing and distribution companies of Colon, drastically reducing the volumes to be purchased, despite the fact that this shipping from the Factory to the Free Zone means a higher price per meter of cloth.

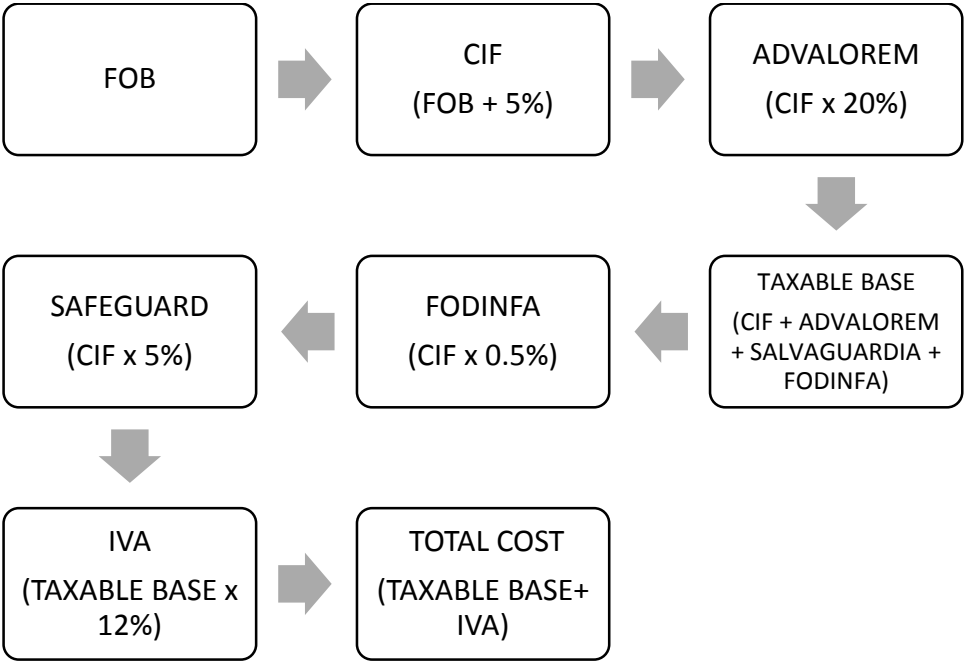
Table No. 7 Products to be imported from Panama

PRODUCTS OF PANAMA

PRODUCT	FOB PRICE (USD) PER METER
EGYPTIAN COTTON	1,20
STRETCH COTTON	1,60
PLAID SHIRTS	1,60
FANTASY CASHMERE WOOL	2,50
PLAIN CASHMERE WOOL	2,50
FANTASY CASHMERE RAYON	1,80
PLAIN CHASHMERE RAYON	2,00
CHINESE DACRON	0,80
LIGHT GABARDENE	1,25
HEAVY GABARDENE	1,70
TAFETA	0,30
DESIGNED TAFETA	0,60

In Panama's case the costing map varies according to the percentages that the Ecuadorian State establishes regarding tariffs, being that the Advalorem goes from zero to twenty percent. Next there is presented the costing map that applies to textiles to be imported from the Free Zone in Colon, Panama.

Graph No. 8. Costing map from Panama



With this costing map the following final costs for the textiles imported from Panama and each one of the specified items on this same graph is obtained.

Table No. 8 Final Cost Products from Panama

FINAL COST PRODUCTS FROM PANAMA

PRODUCT	FOB	CIF	SUBTOTAL	ADVALOREM	SAFEGUARD	FODINFA	TAXABLE BASE	IVA	TOTAL COST
EGYPTIAN COTTON	1,20	0,60	1,26	0,25	0,06	0,01	1,58	0,19	1,77
STRETCH COTTON	1,60	0,08	1,68	0,34	0,08	0,01	2,11	0,25	2,36
PLAID SHIRT	1,60	0,08	1,68	0,34	0,08	0,01	2,11	0,25	2,36
FANTASY WOOL CASHMERE	2,50	0,13	2,63	0,53	0,13	0,01	3,29	0,40	3,69
PLAIN WOOL CASHMERE	2,50	0,13	2,63	0,53	0,13	0,01	3,29	0,40	3,69
FANTASY RAYON CASHMERE	1,80	0,09	1,89	0,38	0,09	0,01	2,37	0,28	2,66
PLAIN RAYON CASHMERE	2,00	0,10	2,10	0,42	0,11	0,01	2,64	0,32	2,95
CHINESE DACRON	0,80	0,04	0,84	0,17	0,04	0,00	1,05	0,13	1,18
LIGHT GABARDENE	1,25	0,05	1,31	0,26	0,07	0,01	1,65	0,20	1,84
HEAVY GABARDINE	1,7	0,09	1,79	0,36	0,09	0,01	2,24	0,27	2,51
TAFETA	0,30	0,02	0,32	0,06	0,02	0,00	0,40	0,05	0,44
DESIGNED TAFETA	0,60	0,03	0,63	0,13	0,03	0,00	0,79	0,09	0,89

3.4. Negotiation terms with providers

In international commerce there is a group of ten universal rules and negotiation terms between buyer and seller known as Incoterms, created by the International Chamber of Commerce. Its objective is to facilitate and quicken the process of negotiations, to establish obligations and rights of each one of the parties. For this, it is fundamental that the form of negotiation is clearly stated in the

contract⁵³. The Incoterms established by the International Chamber of Commerce are:

Graph No. 9 Incoterms 2010

Incoterms 2010											
Modalidad de transporte	Mercancía acondicionada para su venta	La carga en el almacén del vendedor	Transporte interior en origen	Formalidades aduaneras de exportación	Gastos manipulación en origen	Transporte principal	El seguro de la mercancía	Gastos manipulación de destino	Formalidades aduaneras de importación	Transporte interior en destino	Entrega de la mercancía al comprador
EXW											
Polivalente											
FCA											
Polivalente											
FAS											
Marítimo											
FOB											
Marítimo											
CPT											
Polivalente											
CIP											
Polivalente											
CFR											
Marítimo											
CIF											
Marítimo											
DAT											
Polivalente											
DAP											
Polivalente											
DDP											
Polivalente											
© 2010 Cámara de Comercio Internacional CCI											
	Vendedor	Comprador	Vendedor / Comprador								

⁵⁴www.proecuador.goc.ec/exportadores/requisitos-para-exportar/incoterms/

As we can observe in the previous graph, each one of the ten Incoterms establishes responsibilities for each one of the parties, with the yellow markers establishing the responsibility of the seller, the grey markers that of the buyer, and

⁵³ Incoterms, Requisitos para exportar, www.proecuador.goc.ec/exportadores/requisitos-para-exportar/incoterms/, consultada el 20/febrero/2015.

⁵⁴ Incoterms, Requisitos para exportar, www.proecuador.goc.ec/exportadores/requisitos-para-exportar/incoterms/, consultada el 20/febrero/2015.

the bicolor markers that of either of the two, depending on the agreement reached. In the EXW all the responsibility of risk falls upon the buyer, since the buyer just takes on the responsibility of delivering the merchandise in their warehouses. Meanwhile, on the other extreme we have the DDP, that establishes all responsibility on the seller, where he has to deliver the merchandise at the buyer's facilities at the destination.

In the graph we can also observe that seven incoterms have the word "multimodal" under their acronym, this means that this applies to all types of international transport, be it air, land or sea. While the three that remain only apply for transport by sea, as are FAS (Free Alongside Ship), FOB (Free on Board) and CIF (Cost Insurance and Freight)"⁵⁵

The term that carries the greatest responsibility with the buyer is FAS. It implies that the provider leaves the merchandise at the port, but it's the buyer who is responsible for the boat's load. The FOB term determines that the provider runs with all the costs and is responsible for the merchandise until it is on the boat. Finally the CIF term establishes that the provider or seller runs with the expenses and assumes the responsibility of the merchandise until the port of destiny.

Homme Elegant will manage these three last Incoterms that apply to sea transport for negotiations with its providers in Panama and Peru. For this purpose it's necessary to highlight that the providers located in Lima and Colon generally negotiate with their clients in FOB or Free on Board terms.

For negotiations with Colombian factories, the most convenient term for both parties will be negotiated with each one of them. This will depend on the logistics that each provider offers. In Fabricato's case, it generally negotiates with its

⁵⁵ Incoterms, Requisitos para exportar, www.proecuador.gob.ec/exportadores/requisitos-para-exportar/incoterms/, consultada el 20/febrero/2015.

clients in CPT terms (Carriage Paid To) which means that the provider runs with all the costs of international transportation, but not with the insurance costs or CIP term (Carriage and Insurance Paid To), unlike CPT, it include the cost of insurance under the responsibility of the seller.⁵⁶

3.5 Transportation means according to the merchandise type and place of origin.

For the transportation of merchandise there are many options in the city and in the country, but due to the experience acquired up to the present, we have contacted the company Rolasa S.A., and have obtained very satisfactory results. Additionally we have hired another company dedicated to logistics services in international commerce, Farletza S.A. with whom we are in the process of negotiation to perform the logistic process for the importations on behalf of Almacenes Lira Cía. Ltda.

Rolasa S.A. and Farletza S.A. both have coverage in each of the aforementioned countries, Colombia, Peru and Panama but the services will be hired in Peru and Panama since in these countries the transportation service is accesible and secure due to their experience exporting their product.

From Colombia, due to the location of the factories from which we are going to import, it is recommendable to choose land transportation. In addition, the cost of the land freight constitutes saving money for Homme Elegant, due to the fact that the import leaves from Bogota to the port and from the port to Guayaquil. The route shall be divided in two stretches, Bogota – Tulcan being the first, going through Rumichaca customs, where the nationalization of the merchandise will take place. Finally, from Tulcan, the second stretch begins, Tulcan – Quito – Cuenca.

⁵⁶ Incoterms, Requisitos para exportar, www.proecuador.gob.ec/exportadores/requisitos-para-exportar/incoterms/, consultada el 20/febrero/2015.

For imports from Peru, taking into consideration the fact that all providers are located in Lima, a coastal city, it is always recommendable to transport the merchandise by sea, for which we shall hire the services of Rolasa or Farletza. All imports from Lima will depart from the port of Callao, located only minutes from the city of Lima.

The costs of transportation from the port of Callao to the port of Guayaquil are:

Table No. 9 Transportation Fees from Callao - Guayaquil

TRANSPORTATION FEES FROM CALLAO - GUAYAQUIL

CONTAINER	FREIGHT	LOCAL COSTS	TOTAL
20 FEET	300,00	600,00	900,00
40 FEET	400,00	600,00	1000,00
40 FEET HQ	400,00	600,00	1000,00

In the case of the imports that come from the Free Zone of Colon, Panama, where there are five sea ports equipped for all types of loads, the merchandise will always leave from the port of Manzanillo, since Roalza and Farletza generally work from and to said port. On this transportation route, the destination in Ecuador will always be the port of Guayaquil, where the nationalization of the merchandise will take place. After this the merchandise will go from Guayaquil to the city of Cuenca.

The fees from the port of Manzanillo in the Free Zone until Guayaquil are the following:

Table No. 10 Transport Fees Manzanillo – Guayaquil

TRANSPORT FEES MANZANILLO – GUAYAQUIL

CONTAINER	FREIGHT	LOCAL COSTS	TOTAL
20 FEET	500,00	600,00	1 100,00
40 FEET	600,00	600,00	1 200,00
40 FEET HQ	600,00	600,00	1 200,00

For the national transport of merchandise, that is to say, from Quito to Cuenca in the case of the importations from Colombia, and from Guayaquil to Cuenca in the case of the importations coming from Peru and Panama, there are different transportation options such as Transportes Ortiz or Transportes CITEP.


3.6 Hiring Insurance

In all importations there is a risk of damage of merchandise during its trip to its final destination, for this reason it is an international requisite to hire an insurance to cover potential damages or loss of merchandise. Generally the damages that are present in the merchandise that is transported as consolidated load, that is to say, that it is put along with other types of merchandise. The merchandise can get stained in the container due to the handling, contamination or mixing with other products, theft, among others.

This is why, Homme Elegant should hire an insurance, which in this case will be Alianza Seguros, with whom we already have a business relationship through their work with Almacenes Lira Cía. Ltda. The fee that the aforementioned insurance company charges is a percentage premium according to the value of the insurance which is always the complete value on the purchase invoice, the place of origin and the transportation mode, which for Homme Elegant is by sea when it comes from Panama and Peru and by land when it comes from Colombia. The company charges a premium of 5% on the FOB value on the merchandise per imported container from the Free Zone of Colon in Panama.

The following is an invoice for this listing, where all the values to be paid are shown in detail.

Graph No. 10 Insurance Company Invoice



ALIANZA
COMPAÑIA DE SEGUROS Y REASEGUROS S.A.

R.U.C. 1790551350001

FACTURA

No. 001 - 021 - 000000452

NUMERO DE AUTORIZACION
1802201509222317905513500012977354690


FECHA Y HORA 2015-02-18T09:22:23.471-05:00

DE AUTORIZACION

AMBIENTE PRODUCCION

EMISION NORMAL

CLAVE DE ACCESO



1802201501179055135000120010210000004521234567813

ALIANZA C. DE SEGUROS Y REASEGUROS S.A.

Dir Matriz: AV. DE LOS GRANADOS E11-67 Y LAS HIEDRAS

Dir Sucursal: AV. DE LOS GRANADOS E11-67 Y LAS HIEDRAS

Contribuyente Especial Nro. 5368

OBLIGADO A LLEVAR CONTABILIDAD SI

Identificación Social / Nombre y Apellidos [REDACTED]

Emisión: 18/02/2015

RUC: [REDACTED]

Guía Remisión:

Cod. Principal	Cod. Auxiliar	Cant.	Descripción	Detalle Adicional	Detalle Adicional	Detalle Adicional	Precio Unitario	Descuento	Precio Total
04-0201	Contrib.	1.00	Contrib.Seg.Social Camp				0.87	0.00	0.87
04-0201	Derecho	1.00	Derechos Emisión				0.45	0.00	0.45
04-0201	Prima	1.00	Prima				174.76	0.00	174.76
04-0201	Imp. Su	1.00	Imp. Super Bancos				6.12	0.00	6.12

INFORMACION ADICIONAL

Agente IQ

Forma de Pago AL CONTADO

Don: ANTONIO BORRERO 10-68 Y LAMAR

Teléfono: 831997

Ramo: 04 **Poliza:** 201350 **Anexo:** 8791070 **APLIC** **Monto:** 38835.44

Cod.Cliente: 6056 **Email:** jadn@rolasa.com

DSALAZAR

SUBTOTAL 12%	182.20
SUBTOTAL 0%	0.00
SUBTOTAL No sujeto de IVA	0.00
SUBTOTAL SIN IMPUESTOS	182.20
DESCUENTO	0.00
ICE	0.00
IVA 12%	21.85
PROPIA	0.00
VALOR TOTAL	204.05

REPRESENTACION IMPRESA DE DOCUMENTO ELECTRONICO (RIDE)

3.7 Customs entrenched agent

For all the importation procedures for the nationalization of merchandise, it's necessary to hire the services of an entrenched customs agent, who will be in charge of all the procedures, such as the physical capacity, the control of the weight, presenting documents at customs, among others. Customs of Ecuador defines it as "the natural or legal person whose license empowers him to

habitually and on behalf of a third party do the procedures to dispatch merchandise".⁵⁷

There are entrenched customs agents all around the country who are qualified and authorized by Customs of Ecuador. Homme Elegant will hire the services of Nardo Gonzalez of the city of Cuenca. We shall now show in detail an current invoice for his services as an entrenched customs agent.

Graph No. 11 Invoice of the Entrenched Customs Agent.

GONZÁLEZ CABRERA NARDO DOSITEO AGENTE NACIONAL DE ADUANAS DIREC.: JAIME ROLDÓS 4-80 Y HUAYNACÁPAC TELF.: 286-9699 TELEFAX: 286-2318 CEL.: 0999 959055 CUENCA - ECUADOR R.U.C. 0300443090001 AUT. S.R.I. 1116306024		TRAMIAUSTRAL FACTURA 001-001- N° 0010703 OBLIGADO A LLEVAR CONTABILIDAD	
Fecha: Cuenca, Marzo 06 del 2015		RUC./CI.: 0190052311001	
Señor(es): [REDACTED]		Telf.: [REDACTED]	
Dirección: [REDACTED]			
CANT.	DESCRIPCION	V. UNIT.	V. TOTAL
1	TRAMITE EN LA ADUANA DE GUAYAQUIL POR NACIONALIZACION DE MERCADERIA TELAS CON HILADOS DE COLORES DESDE PANAMA SEGÚN DAU No 028-2015-10-00118442 GASTOS: FORMULARIOS, FOTOCOPIAS, MO- VILIZACION. ETC		250,00
Según la ley de régimen Tributario las retenciones se recibirán hasta 5 días desde la fecha de la factura, caso contrario deberá cancelar el Valor Total.		SUB-TOTAL \$	250,00
		DESCUENTO \$	0,00
		I.V.A. 0 % \$	0,00
		I.V.A. 12 % \$	30,00
		VALOR TOTAL \$	280,00
Firma Cliente [REDACTED]		Firma Responsable [REDACTED]	
NOTA: Al Cancelar con cheque sirvase girar a nombre de NARDO GONZALEZ			
<small> Trazo y Firma FLOR SEGUNDO DANIEL - TOMÁS ORDÓÑEZ Y PRESIDENTE CORDOVA - TELF 2834-434 - R.U.C. 0601155773001 - AUT. 1847 FECHA DE EMISIÓN: 26 - 01 - 2015 / FECHA DE CADUCIDAD: 26 - 01 - 2016 / N°. 000010651 - 000011150 </small>			

⁵⁷ Norma técnica para operativizar el código orgánico de la producción, comercio e inversiones, en lo referente a los Agentes de Aduana, CAE, 23/marzo/2015.

3.8. Profitability

Finally, after developing the whole process of constitution, to globally investigate the process for performing an importation, it is indispensable to analyze whether the business that is going to be implemented has the minimum required profitability so that the company reaches its point of balance and can go on through time. For this we need to know all the costs of the company, which is comprised of the fixed costs and the variable costs. After calculating all the expenses that the company will incur in, it is possible to arrive at a necessary minimum that the company needs to function. Next, on top of determining an estimated amount for the fixed and variable expenses for the company, we shall also arrive at an initial investment amount for the its functioning.

After obtaining a calculation of all the expenses that Homme Elegant will have, we must calculate the commercialization prices of the textiles to be imported, to arrive at a gross utility estimate and be able to determine a minimum amount of sales needed for the company to begin to be profitable for its partners and be able to continue acquiring merchandise and not go out of stock.

3.8.1 Fixed costs, variables and initial investment.

The fixed costs of a company are those that are not susceptible to change within a period, for example the salaries of employees. For example, the warehouse workers of the company will receive a salary of 364 dollars a month according to what the Government stipulates, and that is a fixed amount for the whole year until a new increment to the basic salary is resolved. In the following chart the fixed monthly costs that Homme Elegant will incur in are detailed:

Table No. 11 Estimated fixed monthly costs

FIXED MONTHLY COSTS

ITEM	COST (USD)
ADMINISTRATION SALARY	2464
SALES SALARY	1620
RENT	1250
CORPORATIVE CELL PHONE PLAN	120
INTERNET	30
TOTAL	5484

In the previous table the company's fixed monthly costs were detailed under the categories administration salary and sales salary, which is the sum of the salaries, including Manager, Accountant, Sales Manager and Assistant in the case of administration and the warehouse workers and Sales Agents in the case of Sales. We also have the category of rent, which reflects an average price for the renting of a warehouse in the area of Totoracocha, in the center of the city on Lamar and Luis Cordero streets and in the Industrial Park of Cuenca. The items for Corporative Cell Phone Plan and internet, which are necessary tools for the functioning and performance of the members of the company.

The variable costs constitute those costs that are subject to variations within a period of time, in this case every month, such as are the following examples:

Table No. 12 Estimated variable monthly costs.

VARIABLE MONTHLY COSTS

ITEM	COST
OFFICE SUPPLIES	150
WATER, ELECTRICITY, TELEPHONE	100
COMMISSIONS	1000
TRANSPORTION	200
VARIOUS	400
TOTAL	1850

Within the variable costs of the company there are the items: office supplies, that comprise all of the stationary and others, also there is water, electricity and telephone, which are items that vary from month to month, we also have the commissions to be paid to the Salespeople, which is also a variable amount since this completely depends on the performance of each Sales Agent. The item for transportation also depends on monthly sales. The last item we have is the various category, which represents any other expense which is sporadic or non permanent.

As far as the initial investment for the implementation of Homme Elegant, all the necessary expenditures to constitute the company are included, obtaining permits and licenses and all the adjustments to the facilities where the company will be located, such as offices, warehouses, the technology and accounting systems, among others that are indispensable for an optimal performance.

Table No. 13 Estimated Initial Investment.

INITIAL INVESTMENT

ITEM	COST
SALES AND ACCOUNTING SYSTEMS	8000
COMPUTERS	2500
OFFICE SUPPLIES	2500
WAREHOUSE IMPLEMENTS	2500
SALES TOOLS	1200
CONSTITUTION, REGISTERS, LICENSES	2000
TOTAL	18700

In the previous table we can observe the items that represent the creation of the company, such as are the constitution, the implementation of the offices, for example desks and shelves, of the warehouse that need structures to house the merchandise. We will also need an accounting system which is indispensable for

the correct management of accounts and information, for which computers and tablets and cell phones for the sales staff will also be needed.

After developing these estimated fixed and variable costs for the company, we find that the minimum necessary amount that the company needs to cover the costs is 7350 dollars, while for implementing the company as such we will need approximately 20,000 dollars, this is without taking into account the merchandise that must be bought for its commercialization.

The money for the implementation of the business will be obtained through the contribution that each partner of the company will contribute, as was explained in chapter two, with a total of 20,000 for initial investment.

3.8.2. Destination of capital

The contribution of the partners of the company, which amounts to thirty thousand dollars each, which gives us a total of one hundred and twenty thousand dollars, will be destined in its totality to the growth of the company, and which will be used in the following manner:

Table No. 14 Destination of capital.

DESTINATION OF CAPITAL

SOCIAL CAPITAL	120000
INITIAL INVESTMENT FOR IMPLEMENTATION	-20000
FIRST CONTRIBUTION	-80000
OPERATING COSTS (FIRST 3 MONTHS)	-22500
BALANCE	-2500

The contribution of the partners or capital will be destined towards the initial investment for the constitution and implementation of the textile importing company Homme Elegant with a value of approximately \$20,000, for the first importation a value of \$80,000, and to cover the operating costs during the first

three months of business. With this the balance at the end of the first trimester would be that of \$(-2500). This amount could vary if there is a savings in the items of implementation and operating costs; if this is not the case we shall apply to the financial sector for a short term loan unless the partners make a new contribution of capital.

3.8.3 Estimated sales and gross utilities.

To cover the operating costs for the company such as initial investment, it is necessary to have a minimum level of sales, for this we need merchandise, which can have a maximum FOB cost of 60,000 dollars, since this will be covered by the initial partner investment and must be paid in full, since providers do not give out credit to a new client on the first purchase. This initial purchase will be made in any of the three, or simultaneously in the three aforementioned destinations for importing, Peru, Colombia and Panama.

In this same chapter a price estimation was obtained for imported merchandise from the different countries, obtained from the sellers within the different factories, through a quote or a bill. From these prices the sale price of each of the articles must be established. For this we shall classify three prices, which will differentiate from each other through the form of payment, which are 30 day credits, 30, 60 day credits, and finally 30, 60 and 90 day credit. In consequence, there will be three prices that correspond to each payment form. Next we present a price table according to each one of them:

Table No. 15 Sales price per payment form

PRODUCT	TOTAL COST	30 DAY CREDIT	30 AND 60 DAY CREDIT	30-60-90 DAY CREDIT
EGYPTIAN COTTON	1,77	2,21	2,29	2,37
STRETCH COTTON	2,36	2,95	3,06	3,16
100% COTTON SHIRT	2,98	3,72	3,85	3,99
POLYCOTTON SHIRT	2,48	3,10	3,21	3,32
PLAID SHIRT	2,36	2,95	3,06	3,16
FANTASY WOOL CASHMERE	3,69	4,61	4,78	4,94
PLAIN WOOL CASHMERE	3,69	4,61	4,78	4,94
FANTASY RAYON CASHMERE	2,66	3,32	3,44	3,56
PLAIN RAYON CASHMERE	2,95	3,69	3,82	3,95
CHINESE DACRON	1,18	1,48	1,53	1,58
INNER LINING FOR JACKETS	1,99	2,48	2,57	2,66
LIGHT GABARDENE	1,84	2,31	2,39	2,47
HEAVY GABARDENE	2,51	3,14	3,25	3,36
TEMPO GABARDENE	3,72	4,65	4,82	4,98
NYLON FOR JACKETS	2,48	3,10	3,21	3,32
PELLON FOR JACKETS	0,87	1,09	1,12	1,16
PELLON FOR PANTS	1,05	1,32	1,37	1,41
TAFETA	0,44	0,55	0,57	0,59
TAFETA WITH DESIGN	0,89	1,11	1,15	1,19

On this table we have detailed the total cost included IVA to the merchandise already in the Homme Elegant's warehouse in the city of Cuenca. These prices may vary in case the cost of importation or the taxes are modified. As we can

observe, the price of all the textiles at 30 days have 40% of gross utility, while at 30 and 60 days we see an increment of 5% and at 30, 60 and 90 days we see an increment of 10%.

Their prices are very competitive since within the national market on many occasions we can find similar quality textiles at similar or higher prices. This doesn't mean that a variation in the gross utility percentages can't happen, since interesting business opportunities can always pop up or there may be competitor's products at a more convenient price for the consumer.

With an estimate of the company's costs, the initial value of the merchandise, we can project an estimate of the gross utility to be obtained and the minimum amount necessary to reach a balance. For this reason, on an importation valued at \$60,000 at an FOB price, which would render an estimated \$80,000 at the company's warehouse inventory cost and realizing that 100% of the merchandise will not be sold, with a margin of 5% that will not be sold, we will obtain an approximate gross utility of \$30400, which means approximately three months of operation and functioning costs. In the following chart we can observe the minimum sales required with the initial importation to cover all the company's costs and recover the importation money to perform a new importation at the same value, that is to say sixty thousand dollars FOB and approximately eighty thousand dollars at Homme Elegant's warehouse.

Table No. 16 Gross utility for the first importation

FIRST IMPORTATION (3 months)	
MERCHANDISE COST	80000
95% SALES	76000
UTILITY (45%)	30400
TOTAL EARNINGS	106400
TOTAL EXPENSES	-22050
BALANCE	84350

With the numbers on the previous table we have a total income of \$106400 USD, derived from a sale of 95% of the merchandise in stock (\$76000), a cost-price sales margin of 40% (\$30400), which after subtracting the costs for the trimester we are left with a favorable balance of \$84350 USD, of which eighty thousand is reinvested in the purchase of merchandise, with the expectation of obtaining the same results as the first importation.

If the performance of the first trimester is maintained through the following trimesters, an interesting remainder will be accumulated that will result in profits, which can be reinvested to broaden the business. In the following table we can see an example of what we have mentioned:

Table No. 17 Gross utility second and third importation.

2nd IMPORTATION (3 MONTHS)

PREVIOUS BALANCE	84350
2ND IMPORTATION COST	80000
SALE 95%	76000
UTILITY (40%)	30400
TOTAL INCOME	110750
TOTAL EXPENSES	-22050
BALANCE	88700

3th IMPORTATION (3 MONTHS)

PREVIOUS BALANCE	88700
2ND IMPORTATION COST	80000
SALE 95%	76000
UTILITY (40%)	30400
TOTAL INCOME	115100
TOTAL EXPENSES	-22050
BALANCE	93050

Thus, the three months rotation time for the inventory is optimum for the company, this implies that we cover three months of operating costs with the gross utilities and that we receive new merchandise in the same time lapse, in this way we shall maintain the warehouse stocked at all times and not have any trouble in covering the costs of the company. This would result in a favorable trimester balance of \$4350.

We can observe here how the trimester balance of \$4350 gradually rises and at the end of the second trimester, that is to say, with the sale of the second importation, this amount doubles and becomes \$8700. In the same way, in the event of accomplishing this projection, by the end of the third trimester, that is to say, with the sale of the third importation, we will have a value of \$1305 and a fixed inventory of approximately \$12000 in the warehouse since it is estimated that a 5% of each importation will not be sold. With this favorable balance we can cover the initial projected deficit of the partner's contribution.

It is worth mentioning that the credit given to clients isn't contemplated in this projection, which is why during the first six months it's necessary to have a financial support that covers said credit, thus, part of the partner's money must cover this, if not we must seek for a loan within the financial system or ask for a larger contribution from the partners.

If everything goes this way the company will start covering their costs and to reflect a surplus starting from the first trimester, which at the beginning will be small, but being a new company, we can consider it generous. It is important to take into consideration that the scene can change or have a different performance to what has been stated in this chapter, but this is the minimum that the company requires.

As a conclusion, we can observe that with this projection, which has been based upon personal experience and on research of the merchandise prices, operating costs and other items, we understand clearly that after the first year of commercialization the company will reach its point of balance and become a profitable project for the Leon Ordonez siblings, partners of the Homme Elegant company.

CONCLUSIONS

The present graduation project had the objective of developing the process for the implementation of the textile importing company called Homme Elegant, that cover constitution and budget aspects, commercial needs, product analysis, markets, logistics and profitability.

The company will commercialize textiles that will be directed toward satisfying the men's textile market needs of the city of Cuenca, the province of Azuay and the southern part of the country. The motivation for embarking on this project is based on the experience or daily contact with my current job as Sales Manager for Almacenes Lira Cía. Ltda.

For this we briefly analyzed the international and national textile market, especially the segment of the market that this company is geared to. After analyzing and researching the reality of the textile market at a world level, at a regional level and the current situation of all the textile segment of our country and southern region, the need to offer an alternative of quality and innovation to tailors, stylists and factories dedicated to the design and manufacture of clothing for men was determined.

It is thus that we investigated all the legal, commercial and tax requirements of the institutions of control, governmental as much private. As a consequence, the siblings Maria Angelica, Maria Gabriela, Maria Antonia and Genaro Leon Ordoñez will invest in this project conforming a limited company with a capital of \$120000 USD.

Additionally, a tentative structure for the company was established as far as its staff and functions to be performed, aside from the necessary costs and investment for the implementation of the business.

After complying with that part of the investigation, in the third chapter we searched for the best options in the international markets to provide Homme Elegant with textiles, reaching the conclusion that Panama, Peru and Colombia are the best destinies due to their distance, minimum required amounts for purchase, ease of access for negotiating, prices variety and product quality.

Then we analyzed the whole logistic process of importation, from the negotiation with the provider to the reception of the product in the company's warehouse in Cuenca. All the international process of transportation, insurance, buyer-seller negotiation terms, nationalization process for the merchandise and national logistics were researched. We determined that for Panama we shall negotiate under FOB conditions and from Colombia it will depend on the provider. We shall hire Rolaza or Farletza for international transportation, the company Alianza de Seguros to insure the merchandise, Mr. Nardo Gonzalez as Entrenched Customs Agent and the transportation company CITEP for the internal transportation for the containers.

Finally, we developed a small profitability research for the company, where approximately \$80,000 from the partner's investment will be dedicated to the importation of merchandise, \$20,000 to the whole process of constitution of the company and the refurbishing of the place of business, and the remaining \$20,000 will be to cover the operation and managing costs during the first months of the company's commercial activities, taking into consideration that sales will be on credit from thirty to ninety days, which implies, under the best circumstances, earnings starting after 60 days of initiating commercial activities.

An estimated sales trimester of 95% of the total inventory was projected, that comes to \$76,000, with a gross utility of 40% that signifies \$30,400. We will receive a new importation every three months for the same approximate value as the previous importation, for which the total income received of \$106,400 is reduced to \$26,400, value that covers the company's operating costs, that comes to

around \$22050 for three months. If this projection is reached, the company will have a trimester surplus of \$4350.

Which brings us to the conclusion that the constitution and implementation of the textile importation company Homme Elegant, upon reaching its projections, will become an interesting project for its investors in the long term, being that in under a year it will reach its point of equilibrium. However, the projected utilities for the first two years aren't very important owing to the fact that there are four partners and the results must be divided among four, besides, to benefit the growth of this company the reinvestment of these utilities will be necessary.

It is important to consider that the stage that was set for this project can vary, since the actual sales can take longer than three months, which implies that covering the company's operating and management costs might not be achieved, but taking into consideration the vast amount of experience in the textile business by all four partners, who for over twenty-five years have worked in textile commercialization, and my own experience and business relationships with clients throughout the region and the country, projected sales will be achieved.

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