



University of Azuay

Law Faculty

School of International Studies

Analysis of supplier expansion and import processes of the Radharani Company

**Graduation Work prior to obtaining the degree in International Studies - Bilingual
Mention in Foreign Trade**

Author: Kalindi Batallas Jervez

Tutor: Eng. Antonio Torres

Cuenca, Ecuador

2016

Acknowledgments

I want to thank all the people who have given me their help and support to write this thesis and to pursue this degree. To my professors who have had the patience to strengthen my knowledge which will help me for a lifetime. To my thesis tutor who, besides being my guide and giving me fundamental support for the development of this graduation work, has become a great friend to me as well. I thank my parents for teaching me to never give up, for trusting me and my effort, and for motivating and supporting me unconditionally. Finally, thanks to all my classmates with whom I have shared the best college moments and who have been a vital support for four long years of study.

Abstract

Through this project, the author analyzes the potential opportunities to increase the Radharani Company's suppliers, and the wood furniture import process from India to Ecuador. After analyzing the Company and its business management, this work states the reasons for Radharani to have new suppliers, which are selected through research of the Indian market and its investment opportunities, as well as some legal requirements that must be fulfilled. A suitable import process is described, so that the Radharani Company can improve its negotiations and marketing processes by minimizing costs and accelerating the delivery of the products to the final port.

Table of Contents

Acknowledgments	ii
Abstract	iii
Table of Contents	iv
Images Index	v
Charts Index	vi
Graphs Index	vi
Illustrations Index.....	vi
Introduction	7
Chapter I. Analysis of Radharani Company	8
1.1 Introduction	8
1.2 Operation and Description of the Company's Business.....	8
1.3 Sales and products	9
1.3.1 Categorization of Products.....	10
1.3.2 Sales	19
1.4 Finances and Profitability	24
1.5 Market and Competition	26
1.5.1 Competition	28
1.6 Logistics	29
1.7 Administrative Organization	32
1.8 Current problems of the Company	33
1.9 Conclusions from Chapter I.....	34
Chapter II. Identification of Suppliers.....	35
2.1 Introduction	35
2.2 Businesses in India.....	35
2.3 Requirements of Standards and Certificates	38
2.4 Searching Suppliers.....	40
2.5 Selection and Evaluation of the Suppliers that meet the requirements	44
2.6 Conclusions from Chapter II.....	47
Chapter III. Importation Process	48
3.1 Introduction	48
3.2 Process for licenses, permits, and import requirements	48
3.2.1 Pre-shipment Certificates	50
3.3 Negotiation and Importation Processes.....	52
3.4 Possible Import Costs.....	55

3.5 Conclusions from Chapter III.....	57
Final Conclusions	58
Recommendations	60
References	62
Glossary of Terms.....	65
Annexes	66
2. Merchandise INEN Certificate.....	67
3. Merchandise Certificate of Origin	68
4. Merchandise Fumigation Certificate.....	69

Images Index

• Image 1. Carved Wood and Bronze Crate.....	11
• Image 2. Carved Wood Room Divider.....	11
• Image 3. Wooden Nepalese Windows.....	12
• Image 4. Wood dressers painted with bronze.....	12
• Image 5. Wood dressers painted with bronze.....	12
• Image 6. Wood and Bronze tables.....	13
• Image 7. Carved Wood Panels.....	13
• Image 8. Carved doors made of Antique Wood.....	13
• Image 9. Wood and Bronze Furniture.....	14
• Image 10. Glass Mosaic Lamps.....	14
• Image 11. Metal, bronze, and glass lamps.....	14
• Image 12. Hindu Gods Sphinxes made of Bronze.....	15
• Image 13. Hindu Gods Sphinxes made of Bronze.....	15
• Image 14. Bronze, Wood and Glass Ornaments.....	16
• Image 15. Bronze, Wood and Glass Ornaments.....	16
• Image 16. Carpets made of silk thread.....	17
• Image 17. Embroidered Tapestries.....	17
• Image 18. Embroidered <i>Pashminas</i> , shawls and saris.....	18
• Image 19. Meditation Accessories and Yoga Books.....	18

Charts Index

• Chart 1. Total Radharani Sales Between 2010-2015.....	19
• Chart 2. Sales by products line between November 2014 and December 2015.....	22
• Chart 3. Radharani`s Financial Chart.....	24
• Chart 4. Sample of the distribution of the sample population, 2011 – 2012.....	26
• Chart 5. List of Radharani´s potential suppliers.....	40
• Chart 6. Quantitative and Qualitative Analysis of Potential Suppliers.....	43
• Chart 7. Subheading Report.....	47
• Chart 8. Importation Costs.....	54

Graphs Index

• Graph 1. Total Radharani Sales Between 2010-2015.....	20
• Graph 2. Sales by products line between November 2014 and December 2015.....	23
• Graph 3. Monthly average income and expenses according to the geographic area.....	26

Illustrations Index

• Illustration 1. Logistics flow Chart.....	28
• Illustration 2. Organization Chart.....	31
• Illustration 3. Logistics Flow Chart.....	51
• Illustration 4. Logistics Flow Chart.....	52

Introduction

The following analysis has been carried out to seek new suppliers for the Radharani imports Company, and to indicate the necessary process to import wood furniture to Ecuador. Since this Company has been in the market for more than ten years importing products from India, Nepal and Thailand, it is necessary to update its supplier's portfolio to revitalize the company and to have it focus on improving its performance, business relationships, and customers/market service.

Foreign trade has helped countries to develop and expand their markets significantly. Countries do not have enough resources to fully fulfill their people's needs, and thus, the theory of specialization and competitive advantages arises. According to David Ricardo, countries seek to produce and export to the rest of the world those goods they produce more efficiently and import other goods they are not as efficient at. Currently, through international negotiations and agreements, countries are creating strong trading relationships to exchange their products for each country's part of this agreement to meet its needs. The financial crisis that has emerged over the years has complicated the market and the volume of international trading. Such market and international trading has also been affected by the high unemployment rate, slow economic growth, increase in foreign debt, variation in oil prices, and the lack of confidence in left and right governments. This has led some countries to set measures to protect their domestic production by increasing trading barriers such as taxes. (Hill, Charles, 2011)

The current Ecuadorian president has implemented restrictions on products that come from abroad in order to protect Ecuador's domestic industry, to prevent capital outflows, and to make people want to buy national goods. Also, through these measures the government tries to stabilize the current economic crisis caused by falling oil prices. This has affected several import companies because of the new higher costs to import goods and the need to seek new suppliers that meet the government's quality standards.

Chapter I. Analysis of Radharani Company

1.1 Introduction

This chapter states the Company's background, the way it works, the products it sells, the public it sells to, its logistics process for purchasing, transporting and marketing its products. It is very important to show the Company's sales and financial charts to display its product's performance on the market, and its profits. With this information the readers will understand this business and its current problems better.

1.2 Operation and Description of the Company's Business

Radharani is located in Cuenca, on the base floor of "El Vergel" Shopping, in Manuel J Calle and Alfonso Cordero streets. It has been operating for 12 years since 2003. Its name refers to a goddess of India who represents the inner strength of God.

This Company imports home decor items, clothing, and beauty accessories which come mainly from India and other Asian countries such as Thailand, Nepal, and Tibet. When the Company was first launched its imports were made entirely under the trading term *Less-than-Container-Load* (LCL) through sea and air freight. Some of the items being brought were wood and bronze ornaments, carpets, mosaic-glass lamps, and traditional costumes of India, among other items.

During the first six years since the company started operating it remained doing small and informal operations as it did not carry out major purchases. Over the years it started growing very successfully, and because of its good performance and experience it became the first and only company to sell Indian products in Cuenca market. In 2009, in order to improve and expand its inventory, the owners made

their first import of a container full of hand-made wooden furniture, which was very original and with exclusive designs. Since then, the people in charge of the business started doing new negotiations and contacting new suppliers who would offer high quality different products. These products were highly sought after in Cuenca which motivated the Company to continue importing wooden furniture and other items.

Since 2010, Radharani along with the Embassy of India have carried out cultural and food fairs in Quito and Guayaquil. During these fairs the goods of the Company are exhibited and sold successfully; thus, the CEO of the Company has considered opening new branches in the cities mentioned above. It should be taken into account that the Company does not currently have direct competition. However, because of the current problems that the company is going through, which will be stated in the following pages, its plans of having new national branches have been suspended until new importation options are found.

Since the owners of Radharani have been traveling to India for the last 15 years, the Embassy of India in Colombia with concurrency in Ecuador has chosen Radharani as one of the main guests to attend several fairs of Indian producers and exporters of handicrafts, textiles and wooden furniture, in order to maintain and extend their trading relations as well as to improve their imports.

1.3 Sales and Products

Over the years Radharani has increased its sales and its customers have demanded new products and new orders at a national level, thus the company has increased and diversified its portfolio.

Radharani offers several different products featured with unique designs. All of these are handmade and imported from the best craftsmen in the world. This exclusiveness is what makes Radharani stand out from the competition.

1.3.1 Categorization of Products

There is a wide portfolio of products offered by Radharani. These will be shown in the following images which displays the high quality and uniqueness of these products.

- Wood Furniture
 - Crates
 - Room dividers
 - Carved Doors
 - Carved Panels
 - Tables
 - Nepalese Windows



Image 1. Carved Wood and Bronze Crate
Source: Radharani Company, 2016



Image 2. Carved Wood Room Divider
Source: Radharani Company, 2016

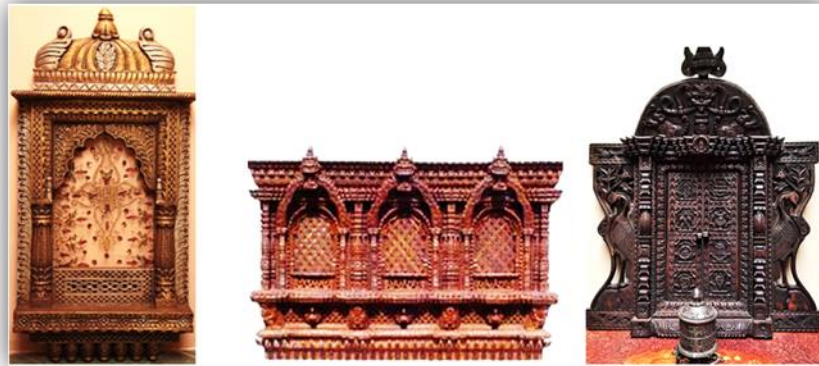


Image 3. Wooden Nepalese Windows
Source: Radharani Company, 2016

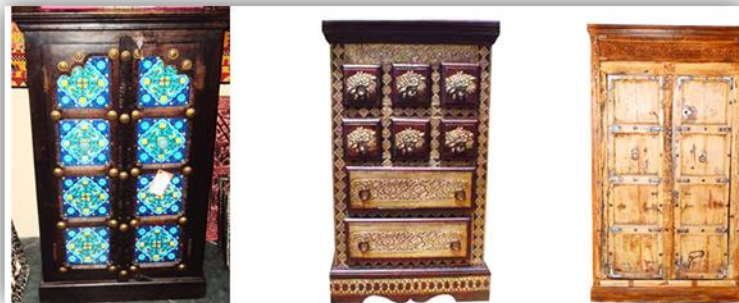


Image 4. Wood dressers painted with bronze
Source: Radharani Company, 2016



Image 5. Wood dressers painted with bronze
Source: Radharani Company, 2016



Image 6. Wood and Bronze tables

Source: Radharani Company, 2016



Image 7. Carved Wood Panels

Source: Radharani Company, 2016



Image 8. Carved doors made of Antique Wood

Source: Radharani Company, 2016



Image 9. Wood and Bronze Furniture
Source: Radharani Company, 2016

- Mosaic and Bronze Lamps



Image 10. Glass Mosaic Lamps
Source: Radharani Company, 2016

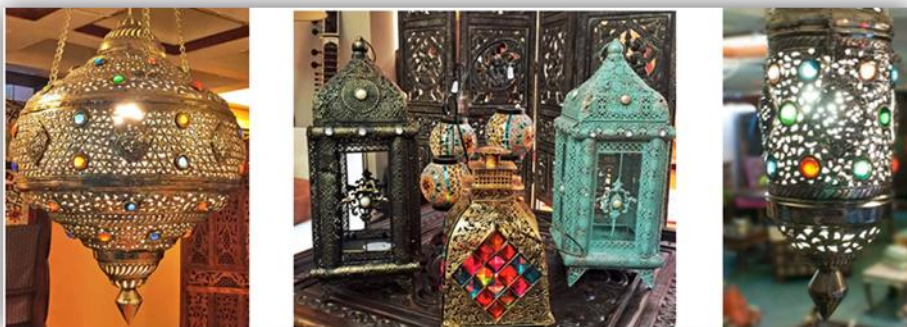


Image 11. Metal, bronze, and glass lamps
Source: Radharani Company, 2016

- Bronze Sphinxes



Image 12. Hindu Gods Sphinxes made of Bronze

Source: Radharani Company, 2016



Image 13. Hindu Gods Sphinxes made of Bronze

Source: Radharani Company, 2016

The bronze sphinxes symbolize Indian gods and demigods which according to Indian beliefs represent health, prosperity, fortune, devotion, knowledge, and learning. These are very attractive in the market because they are appreciated not only for being decorative goods but also for being useful for meditation and worship in order to receive protection and benefits.

- Bronze, Wood and Glass Ornaments
- Mobiles
- Oil and Silk paintings

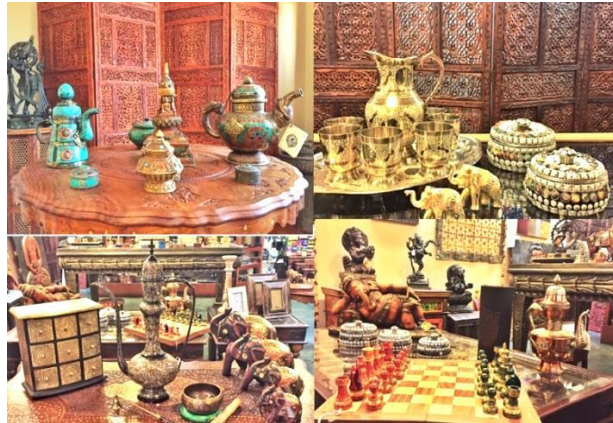


Image 14. Bronze, Wood and Glass Ornaments

Source: Radharani Company, 2016



Image 15. Bronze, Wood and Glass Ornaments

Source: Radharani Company, 2016

- Carpets



Image 16. Carpets made of silk thread

Source: Radharani Company, 2016

- Tapestries
- Tablecloths
- Cushions
- Bedcovers



Image 17. Embroidered Tapestries

Source: Radharani Company, 2016

- Pashminas
- Shawls
- Typical Indian Clothes
- Purses
- Jewellery and Accesories



Image 18. Embroidered *Pashminas*, shawls and saris

Source: Radharani Company, 2016

- Incense
- Essences
- Meditation Accessories
- Meditation Books



Image 19. Meditation Accessories and Yoga Books

Source: Radharani Company, 2016

Since all these products are handmade some of them have certain irregularities in the final embroideries, colors, and drafts, which should not be thought of as defects. These are unique creations and are not industrially produced nor previously designed. This products line is based on a rustic, antique and ethnic style. Each piece has its own painted, embroidered and carved story, made of wood from Asia and India, such as the sheesham, better known as teak, pink stick, and mango.

Currently, there are several people who, based on their experiences and interests, want to combine different styles and cultures for decoration. These people show great appreciation for these products and therefore the owners have tried to keep a varied and well selected inventory to characterize not only the culture and beauty of each piece but also the creativity and effort of Indian craftsmen.

1.3.2 Sales

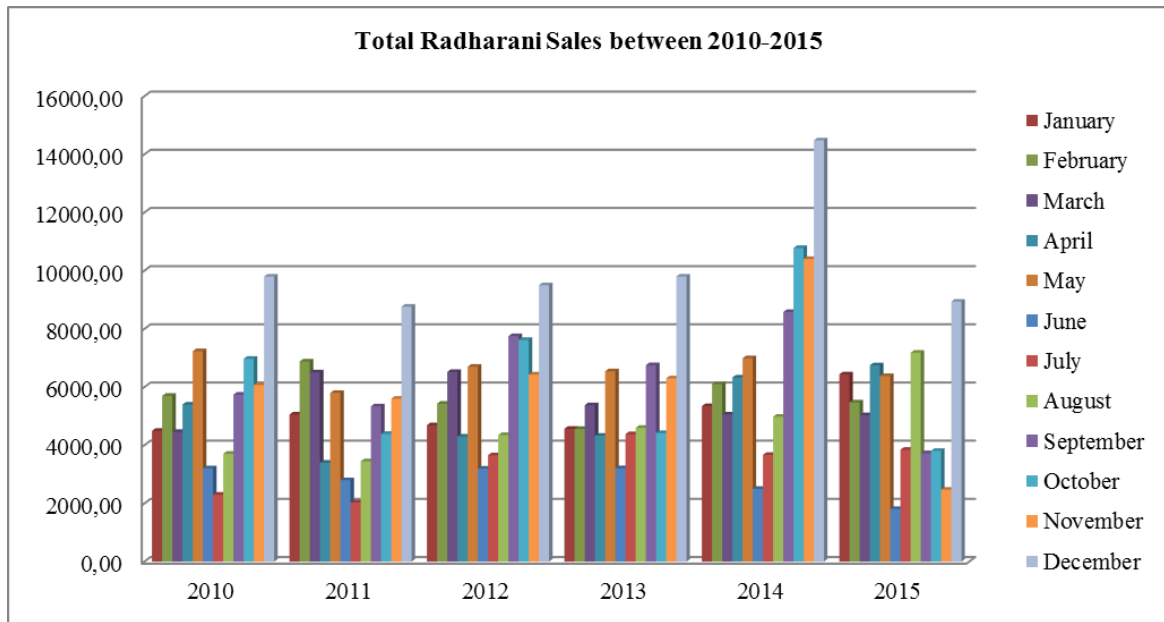
The annual and monthly sales of the company and the variation between 2010 and 2015 are analyzed below.

Total Radharani Sales between 2010-2015						
Month	2010	2011	2012	2013	2014	2015
January	4500.60	5060.35	4689.65	4567.87	5345.08	6437.13
February	5700.00	6880.45	5430.28	4560.00	6100.35	5472.63
March	4460.80	6507.40	6522.00	5376.87	5060.30	5032.20
April	5400.00	3400.76	4300.78	4329.76	6330.60	6750.77
May	7235.97	5800.32	6700.32	6542.20	6990.78	6380.54
June	3208.75	2800.60	3200.00	3210.80	2500.90	1811.38
July	2300.64	2030.68	3657.98	4380.43	3670.38	3846.00
August	3709.56	3450.78	4350.76	4600.50	4980.00	7181.17
September	5740.85	5337.80	7750.50	6754.30	8580.40	3727.28
October	6970.75	4390.23	7620.54	4420.87	10780.32	3809.04
November	6070.80	5600.47	6430.09	6300.65	10400.78	2472.98
December	9800.40	8765.30	9500.71	9800.76	14480.90	8938.06
TOTAL	65099.12	60025.14	70153.61	64845.01	85220.79	61859.18

Chart 1. Total Radharani sales between 2010-2015

Source: Radharani Company, 2016

Made by: Batallas, Kalindi



Graph 1. Total Radharani Sales Between 2010-2015

Source: Radharani Company, 2016

Made by: Batallas, Kalindi

From the chart and graph above it is concluded that the highest sales were made in 2010, 2012, and 2014. Sales were better these years because of the containers arrival. During the first three months, after the containers arrived, the company's sales were very high. Over the past five years the better sales have been made in December because of Christmas. The second highest revenues have been in May because of Mother's day festivities; and then, the months when the Company has offered new merchandise, September, October and November, and when the Company has been in Indian Cultural and Food Fairs.

In 2015 the business situation changed. Although the basic salary and other income sources in Ecuador were increased, these were not high enough for people to continue their lifestyle. The safeguards taxes, the foreign debt, the lack of industry, the political division, and the countless taxes that have emerged in recent months, have made the Ecuadorian crisis even more serious. Because of the reasons mentioned above, people have had to prioritize their consumption, leaving out the products that Radharani sells and affecting the Company.

The following analysis is based on data from the last import (2014) due to the lack of financial information from previous years, since the company started as a one-man business. Chart No. 2 shows the sales by products line between November 2014 and December 2015. According to this chart, the company's best-selling line is wooden furniture, such as room dividers, doors, and tables, among others. On the other hand, the line with the lowest sales is jewelry and accessories since there is a strong competition to market these items. Later, this study will show an analysis of the business line that generates the most profitability for the company.

According to this study, the sales performance of the wood line is the same as the Company's sales performance in December since the stock rotation and the income generated from these sales is better this month. However, such performance is not constant during the year. In May the company has pretty high sales, but wooden furniture is not what Radharani sells the most in that month. During May, the bestselling items are wood and bronze ornaments as well as jewelry and accessories. On the other hand, the product line with the highest rotation is incense, because these are very affordable and their lifespan is very short which generates constant sales.

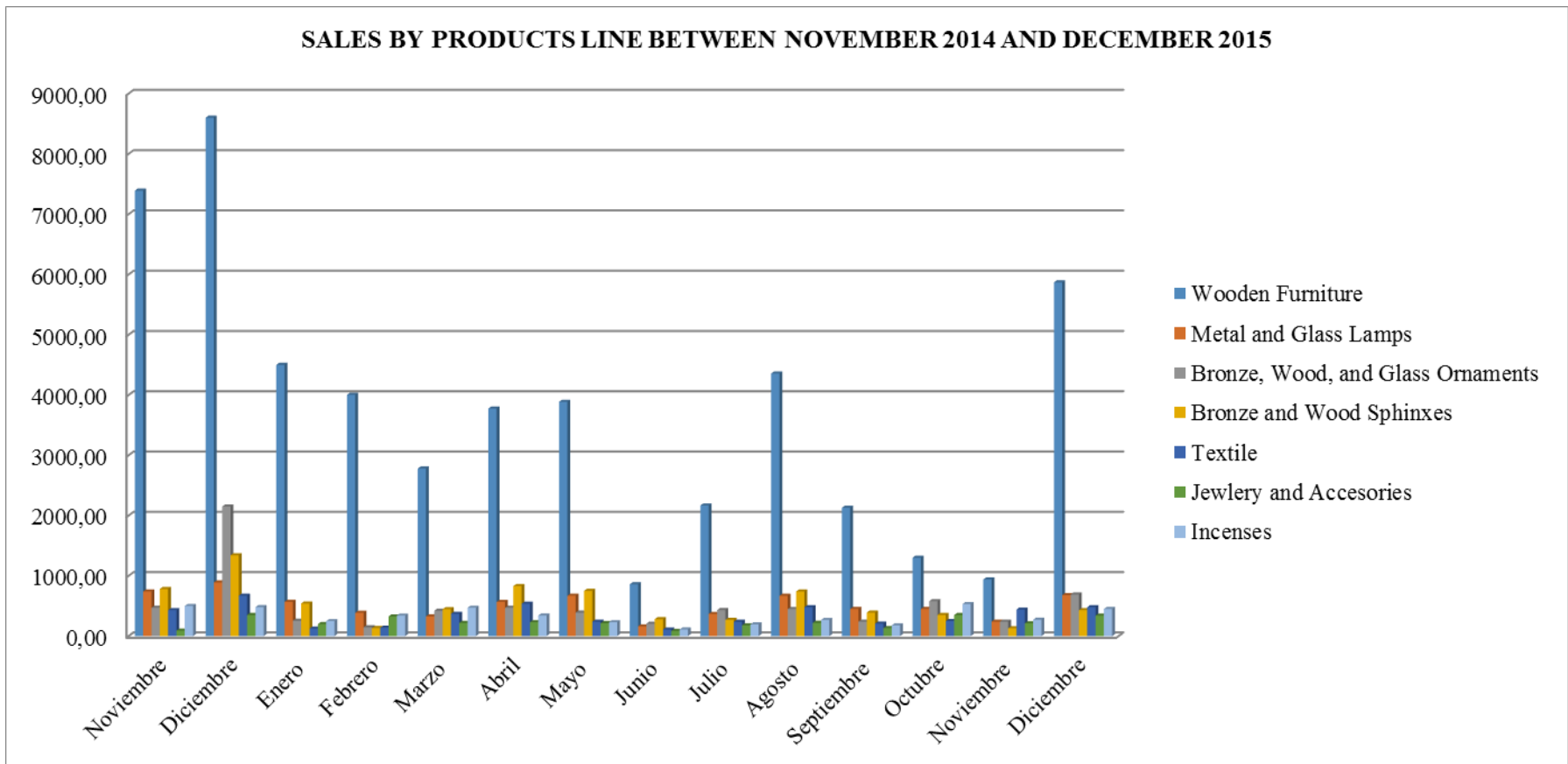
SALES BY PRODUCTS LINE BETWEEN NOVEMBER 2014 AND DECEMBER 2015

Product line	November	December	January	February	March	April	May	June	July	August	September	October	November	December
Wooden Furniture	7390.00	8600.00	4500.00	4002.00	2780.00	3775.00	3886.00	860.00	2167.00	4356.00	2130.00	1300.00	940.00	5868.00
Metal and Glass Lamps	740.00	890.00	569.00	387.00	327.00	567.00	670.00	161.00	367.00	669.00	450.00	450.00	240.00	680.00
Bronze, Wood, and Glass Ornaments	470.00	2150.00	255.00	145.00	421.00	470.00	390.00	205.00	432.00	449.00	240.00	579.00	240.00	690.00
Bronze and Wood Sphinxes	780.80	1340.10	540.00	134.00	446.00	830.00	750.00	280.00	270.00	740.00	390.00	350.00	130.00	430.00
Textile	430.20	670.30	125.00	139.23	370.00	538.00	239.00	109.00	238.00	479.00	207.00	250.00	440.00	480.00
Jewelry and Accessories	90.00	350.00	199.53	325.40	218.00	230.00	215.00	86.00	178.00	220.00	132.00	350.00	212.00	340.00
Incenses	500.50	480.50	248.60	340.00	470.20	340.77	230.54	110.38	194.00	268.17	178.28	530.04	270.98	450.06
Total	10400.78	14480.90	6437.13	5472.63	5032.20	6750.77	6380.54	1811.38	3846.00	7181.17	3727.28	3809.04	2472.98	8938.06

Chart 2. Sales by products line between November 2014 and December 2015

Source: Radharani Company, 2016

Made by: Batallas, Kalindi



Graph 2. Sales by products line between November 2014 and December 2015

Source: Radharani Company Data, 2016

Made By: Batallas, Kalindi

1.4 Finances and Profitability

The following chart analyzes the Company's financial data, net sales, sales costs representing investment and import costs, administrative expenses, and the net income between November 2014 to December 2015, which will determine if the company has gained or lost money.

Financial Chart November 2014 – December 2015	
Income	
Net Sales	86,740.86
Sales Costs	37,828.23
Gross Profit	48,912.63
Administrative Expenses	
Rent	11,760.00
Aliquots and Basic Services	2,040.00
Municipality and Fireman Permits	150.00
Wages	4,392.00
Sales Expenses	480.00
Operative Utility	30,090.63
Taxes	2,430.15
Net Profit	27,660.48

Chart 3. Radharani's Financial Chart

Source: Radharani Company, 2016

According to the information provided by Radharani, based in the data from November 2014 to December 2015, and referring to its last import, this analysis concludes with the following: comparing the Company's profits against its sales, the profit earning capacity of the Company is 34% of its sales. It should be taken into account that the company still has some items from the last import in stock, so the above mentioned percentage may vary over time. An advantage for Radharani is that the money for investments comes from the same company, so no liabilities are generated from the purchase of the items the company sells.

Regarding the analysis of the product line that generates the most profitability for the company, it can be said that:

- The wood furniture line generates from 57% to 68% of profitability. This has been calculated based on the cost of each product and the retail price for the consumer. These are the products that need better promotion. The company does not have an exact rotation control of its products, but the constant sales make it easy to understand how popular these products are in the domestic market.
- Another strong product line is wood ornaments, especially wooden elephants, which are very attractive in the market.
- The wood furniture is what allows the company to reinvest.
- Wood products, furniture, and ornaments, are considered the primary imports the company will focus on in the coming years.
- Even though last year (2015) the performance of the company decreased, the company has still been able to continue importing and selling its products. However, Radharani could improve certain aspects to generate higher income.

Considering these circumstances and knowing that the best-selling line, which naturally generates the highest profits, is wood furniture, the owners have decided to focus their search on new suppliers dedicated mainly to making these products, for them to later be who help the Company to develop a proper process for importation and marketing.

1.5 Market and Competition

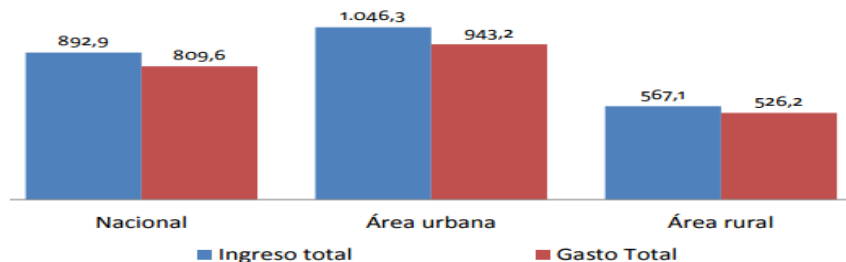
The target market of the Company is men and women from ages 25 up or on, due to their interest and demand for unique and exclusive products. They should have high discretionary income to be able to afford products imported from the East. Also, the target of Radharani is the middle and upper class of society. According to the latest National Survey of Income and Expenses (ENIGHUR) 2011- 2012, there are 112,014 people in the urban area of the city of Cuenca, which represents the total number people to whom the company is marketing.

The socioeconomic stratification survey, made by the INEC showed that most of the population in Ecuador is part of the middle class. Their monthly average income in the urban area is \$1,046.3 and their monthly average expense is \$943.2. More than 40% of their income is used for consumption.

Sample of the distribution of the chosen population , 2011 - 2012	
National	153.444
Urban	112.014
Rural	41.430

Chart 4. Sample of the distribution of the sample population, 2011 – 2012

Source: Socioeconomic stratification survey, INEC 2012



(Captions for the above graph from left to right, from top to bottom: -National –Urban Area –Rural Area – Total Income – Total expense)

Graph 3. Monthly average income and expenses according to the geographic area

Source: Socioeconomic stratification survey, INEC 2012

Additionally, it is important to note that in recent years a wide range of foreign retirees have moved to Cuenca and have been very interested in these products. For Radaharni, these people are considered potential customers. The decision to buy products from Radharani depends on the personality that customers have. Normally, these are people who are interested in acquiring indian items as well as meditation and yoga products. Radharani's customers normally like attractive and diverse high quality home decor which are exclusive, regardless the price.

1.5.1 Competition

Radharani has distinguished itself from the competition thanks to its exclusivity, good service, quality, and variety. This Company does not have direct competition; however, in recent years new shops from India, Pakistan and Turkey have opened. These are indirect competition since they do not have large product inventories, fine quality pieces, nor furniture. Their costs are much lower and are aimed at a middle and low social class market.

It is very important to note that, even though for now these shops are only indirect competition for Radharani, these stores could change their target market and expand its products portfolio at any time, which would generate greater competition. Therefore, Radharani must be alert and ready to react to any market change.

1.6 Logistics

Below is shown the logistics flow chart under which Radharani has been working for the past six years. This states the processes for purchasing, delivering, and marketing their products.

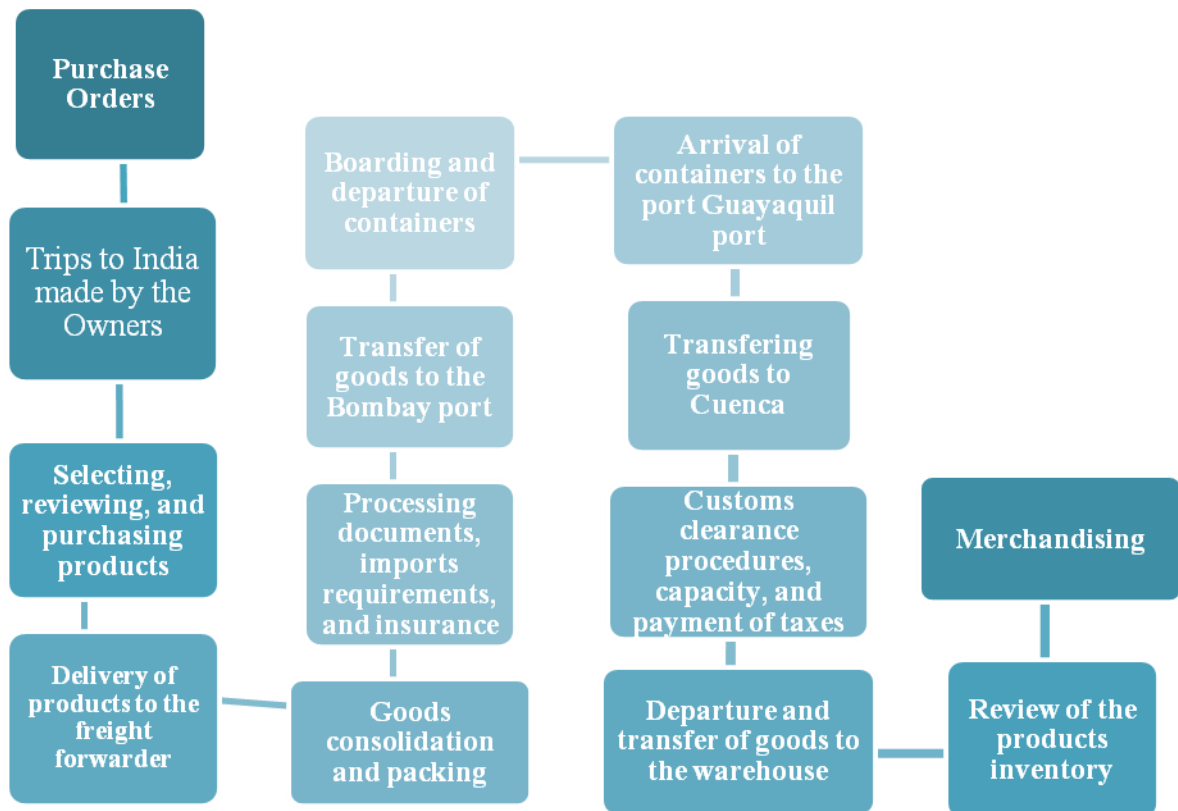


Illustration 1. Logistics flow chart

Source: Radharani Company

Made by: Batallas, Kalindi

The owners of Radharani have been traveling to India for over 15 years, which has been very beneficial to the company because, thanks to these trips, they know exactly how businesses in India are handled and where to find the best products and suppliers with reasonable costs.

Radharani's strategic business plan is based on placing orders from Ecuador according to the customers individual requirements. The owners travel to India once a year to select, review, and buy products and to make a subsequent shipment to Ecuador by sea. These purchases are made from different suppliers located in different parts of India, and even from informal markets, and from artisans workers, which makes certain costs lower.

The orders are delivered to a single supplier and consolidator agent who is located in the city of Delhi, and who is responsible for collecting and packing the goods, and for handling the exportation process, which includes the following:

- **Packing List:** Exact description, weight, and number of pieces contained in each box of the container
- **Commercial Invoice:** Cost, Insurance, and Freight (CIF). Terms and conditions for sale. Specifications, numbers, and photos of each item.
- **Certificate awarded by the Chamber of Commerce of India:** certificate of origin of Indian handicrafts, and wood, steel, marble, bronze, and aluminum products, issued by the Chamber of Commerce and Industry and the Federation of micro, small, and medium enterprises.
- **Insurance:** insurance policy that covers the transfer of goods from Delhi to Mumbai
- **Contract with the designated shipping company:** it is the bill of lading or shipment contract between the consignor and consignee, which describes the total number of packages to be shipped, its weight, its content, the ocean freight, and the final destination of the goods.
- **Transfer to the port of Bombay:** the load is transferred to the Nhava Sheva Port located in the city of Bombay – India. These expenses are paid by the supplier
- **Delivery of goods to the vessel:** the goods are delivered to the consignor or to the designated shipping company.
- **Shipping documents:** Certificates of origin, bill of lading, certificate of origin issued by the Chamber of Commerce of India, and fumigation certificate issued by the National Plant Protection Organization of the Government of India.

The payments of the procedures carried out in India, such as shipping freight, inland freight, and insurance, are fully paid in cash before the goods are shipped to Ecuador. The average value is \$ 2700. The shipping company and the supplier notify when the ship has left the Bombay port in order to do the bank transfer of the total value, which is part of the commercial invoice. This negotiation method is used because of two main reasons that should be highlighted: the Indian procedure for businesses, and the various negotiations the Company does.

The total bank transfer is done through a national bank which is responsible for sending the money to an intermediary bank located in the United States, and this, in turn, sends it to the beneficiary bank located in the city of Delhi.

It normally takes two months for the container to arrive in Guayaquil – Ecuador. It comes with a notice from the transportation logistic services for the payment of the administrative and goods manipulation costs, in addition to some fees and guarantees for mobilization and return of the container.

Subsequently, the container is transferred to Adapaustro, the customs in Cuenca, to nationalize the goods. Such nationalization includes the review of the commercial invoice, along with the tariffs of each item and each packing list. The physical inspection of goods and the payment of taxes on foreign trade, are made once the office has issued the liquidation. Finally, the bill issued by Adapaustro for storage and mobilization costs, is paid. Such mobilization is made for final clearance of the container. The service of the customs agent is paid through another invoice.

Once the goods have met all the requirements mentioned above, these are taken to the Company's cellar where, along with an agent of the hired insurance company, the goods are unpacked and checked to make sure everything is satisfactory. Then, the goods are transferred to the Radharani store and added to the inventory. Later, retail prices are assigned for the marketing to begin.

1.7 Administrative Organization

The Company has not developed good marketing, selling, accounting, and financing systems. Due to the traditional management style of the company, most tasks are in the owners hands. Since the flow of goods that the owners should handle is not very high, they do not consider it is essential to integrate management and operation systems since the decision making and management of the company is under a single person's charge: the manager. There are some external workers that have been hired, such as the accountant, for the procedures that a Natural Company should keep. A customs agent is hired once a year to import new goods.

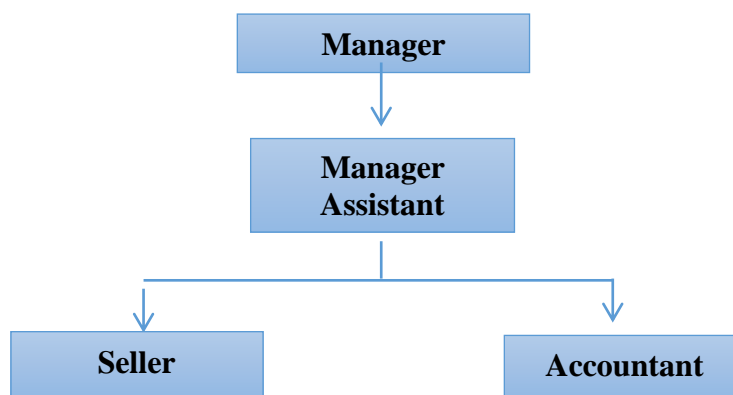


Illustration 2. Organization Chart

Source: Radharani Company

Made by: Batallas, Kalindi

1.8 Current problems of the Company

The Ecuadorian government, since 2011, has added to its Organic Code of Production, Trade and Investment, new quality standards and requirements that must be met for imports. The Ecuadorian Standards Institute, INEN, has made the Ecuadorian Technical Regulation, RTE INEN 104, "Furniture", to create a fair balance of interests between suppliers and consumers. This technical regulation establishes the requirements for importing furniture intended for domestic use, in order to prevent risks to the safety and lives of people and to the environment, and to prevent the wrong use of these products (INEN, 2011). Providers must demonstrate compliance with these standards through a certificate of conformity that includes dimensions, materials, structural features, and labeling, among others. This certificate must be issued by a certification body accredited by the Ecuadorian government.

Because of these requirements, it has become difficult to continue importing. This last year, it was not possible to get those certificates from the Indian suppliers since most of them do not subscribe to quality controls nor to the certification bodies accredited by Ecuador, because, as it was stated above, some of Radharani's suppliers have informal businesses.

However, there are some suppliers which do meet these quality standards, but to buy from them the investment is higher, which makes the final price for the customer higher too, because, to have quality certifications, the suppliers must be subscribed to government agencies and invest in their product's quality.

In 2015, the Ecuadorian government had a negative balance of payments because of the falling oil prices and the budget deficit. To compensate for this situation, the Government has applied the safeguard taxes law which increases the imported wooden furniture prices by 40%. Radharani has struggled to keep importing because its current suppliers do not have such certifications, plus the taxes to be paid to import products are very high. All this has stopped the company's imports. The last importation the company made was in 2014.

1.9 Conclusions from Chapter I

It is stated that the company has been constantly growing, and the last 5 years have generated high profits thanks to the several imports that have been made, which have led to the expansion of the Company's product line, based on the market's requirements. This chapter analyzed Radharani's history since it started and its main product lines for sales and profits.

The logistics and administration of the Company for purchasing, importing and marketing its products has been remarkably well organized, which has allowed it to continue importing annually without problems for the goods to enter the country. However, the Company could improve its business by finding new suppliers that meet the current requirements made by the Ecuadorian Government, and by making a plan to minimize the costs for mobilization, importation, and certification of products.

The financial charts show that, although the company does not have a very high income, it has been stable without any losses. Wood furniture is the company's best product line, it generates the highest incomes, and it is the focus of marketing efforts. Thanks to the popularity of the Radharani's products, and to the Company's competitive advantages that distinguish it from other businesses, Radharani has always recovered its investments.

The Company's business is good and profitable, but it is necessary to solve the current problem mentioned above to improve its business relationships and its customer service. The company must focus on finding new potential suppliers which meet the Government's requirements, and on optimizing its logistics process.

Chapter II. Identification of Suppliers

2.1 Introduction

This chapter states how businesses are carried out in India, for the reader to understand and analyze the conditions of the Indian market and investment opportunities. Furthermore, this chapter will show the requirements, standards, and certificates needed by the suppliers to export wood furniture to Ecuador. It will also show some potential suppliers who meet such requirements. Finally, the suitable suppliers will be selected for the import process.

2.2 Businesses in India

India is located in the southern part of Asia and has 1,252 million people according to the last census in 2011. Its GDP is \$ 1,012.00 billion which had a 7.2% growth rate during the 2003 and 2012 fiscal years.¹ According to the World Bank, using data up to 2013, its per capita GDP is \$1,498.87, and its per capita GNI rate is \$5,350. The country bears one of the largest economies in the world thanks to its rapid growth. Factors such as investment, infrastructure growth, services, and the several government reforms, have significantly helped India to have a fast development compared with other developing economies (Businesses in India, 2014). The Secretary of Economic Relations of the Ministry of Foreign Affairs of the Government of India, in the book "Businesses in India", has written that for the new global dynamics, India has taken the leading role in the economic scenario which during the two recent decades has aroused an immense interest among investors.

The cheap labor and the variety of goods and services produced in India, have brought several new businesses and companies to invest in the Country. Despite the Government's hard work and reforms to create an attractive business environment and to improve its market, the high Indian demographics, the territorial extension, its caste system, the unemployment and poverty, and the underclass working on the production and sale of products only through informal markets, should not be forgotten.

¹ Businesses in India, Division of Investment Promotion and Technology, Ministry of Foreign Affairs, Government of India, 2014

Informal markets are those that are not regulated nor protected, which are generally made up of workers, street vendors, and small manufacturers, among others. According to the organization of working women in India (SEWA), the informal markets in India account for over 90% of the labor and most workers are women. The informal markets generate 70% of the gross domestic product of India and produce more than 40% of the exports.

Since these informal markets do not conform with any regulations, they sell their products at very low costs, so buyers prefer to purchase from them. According to the buyers, it is better to buy directly from informal workers since it is cheaper than buying from intermediaries who double or triple the value of the product. Although these “informal” products are currently in several new markets, it still continues to be an informal and imperfect system since they do not have adequate protection and documentation systems.

"Formal" firms for manufacturing crafts and services hire workers who belong to the lowest social castes of India to cut costs. These workers receive very low wages, and sometimes they do not even get any kind of economic remuneration because of their social class. Outside of India this would be considered exploitation of the working class.

It is very complicated to regulate such a market in the country with the largest population in the world and a different and complicated culture. However, some NGOs and the Government of India are working to achieve stability and to organize the Indian markets and their internal structure, especially for the sectors that generate the largest revenues.

To attract more investors and exporters India has had to deal with some aspects of its market. The International Trade Commission of the United States, in the document “Trade and Investment Policies in India - 2014 – 2015”, stated that the government of India has worked to improve the way it treats trading and investment barriers such as, tariffs, customs, content and transparency of local and international requirements for exportation and importation, and the standards and technical regulations.

These changes have benefited Radharani. For several years the Company purchased mainly from informal markets which made the importing process difficult, because such suppliers did not meet the rules and contents that were in effect at the time, and did not have conformity certificates to present. Today, thanks to the changes and updates that the Indian market has made, some suppliers now comply with all rules and regulations required by the Government of India and by other International Trading Organizations.

2.3 Requirements of Standards and Certificates

The Ecuadorian government requires compliance with certain requirements to import wood furniture. This is stated in the customs tariff system of Ecuador, Chapter 94, and tariff number 9403600000, "other wooden furniture". When looking for new suppliers, Radharani needs them to have all these certificates, for the products to be able to enter Ecuador.

Certificate of Origin: it shows criteria and principles to determine the nationality of the product. The rules of origin are the requirements that a product must meet to be considered as originating in a specific place or area, which determines its border marketing and exemption from taxes. (Ministry of Foreign Trade of Ecuador, 2013).

The primary objective of the rules of origin is to prevent third countries from capturing tariff preferences that have not been negotiated previously, that is to say a third country taking advantage of trading agreements it has not negotiated. As explained by the Ministry of Foreign Trade of Ecuador, the certificate of origin is a trading policy instrument to apply preferential rights for imports, allocation of tariff quotas, and disclosure of trade statistics.

Certificate of conformity of quality: it represents the conformity of the product, issued by a certification body accredited or designated in the country, whose accreditation is recognized by the Accreditation Service of Ecuador, designated as established by the Law of the Ecuadorian Quality System. (INEN 104, 2013)

Importers must submit the certificate of conformity according to the options mentioned below. The first and second certificates do not have a specific format given that these are not currently in effect. However, certificate number 3 does have a format issued by the INEN, which is attached in the annexes section.

1. Certificate of Conformity of product according to the 1b Certification Scheme (by batch) established in the 17067 ISO / IEC Standard, issued by a Certification Body.
2. Certificate of Conformity of Product according to the 5 Certification Scheme, established in the 17067 ISO / IEC Standard, issued by a Certification Body. It should also have the Operations Registration.

3. First Part Certificate of Conformity according to the 17050-1 Standard NTE INEN ISO / IEC, duly authenticated by the competent authority. It should have the following information:

- a) Test reports issued by an accredited laboratory recognized by the SAE, demonstrating the product's conformity with the Technical Regulations.
- b) Report of the testing of products, performed in the manufacturer's laboratory, demonstrating the product's conformity with the Technical Regulations. This report should be duly legalized by the head of the laboratory.

This certificate states the conformity of products in accordance with all the specifications and requirements. This is to ensure the products' quality, measurements, stability, strength, good finishings, and the correct use of materials. The document must be in accordance with the labeling information, such as the manufacturer's name or trademark, date of manufacturing, type, color, and country of origin. The 104 INEN standard and the format of the certificate that should be submitted are attached in the annex section. These documents have been published by the Ecuadorian Quality System.

2.4 Searching Suppliers

Craftsmanship is very important for the Indian culture. All these products are designed and molded by hand based on the unique creativity of each artisan. The Government of India and its Ministry of Arts and Culture has regulated some aspects of the Indian market. This has resulted in the implementation of organizations and artisan corporations that help factories and modern industries to progress. In turn, such factories and industries try to do away with some problems such as unemployment, labor abuses, and poverty. These corporations are located in several states of India where the biggest producers of wood and bronze handicrafts and textiles are.

Some of the major states of India where most wooden furniture suppliers are, are described below. Since these are affiliated with NGOs they do meet the production, certification, and marketing requirements.

- **Odisha:** Better known as Orissa until 2014. It is located on the east coast of India, and it is very popular because of its magical craftsmen who work manually. These craftsmen's houses are home to amazing art factories where products with unique designs that maintain the Indian traditions are made. According to the General Directorate of Handicraft Industries of Odisha, there are over one hundred thousand artisans scattered throughout the state. For this reason, the Government of Odisha established a corporation, which helps marketing, exporting, and promoting these products that belong to more than 22,000 artisans. (General Directorate of Artisanal Industries from Odisha, 2012)
- **Gujarat** is located on the west side of India. It is one of the most industrialized states in the country and has access to 42 seaports. According to the book "India in Business", Gujarat has skilled labor and great natural resources, especially teakwood. This is why its wood sector is very broad and reaches very high quality. It is also considered the main state for carved wood. All its temples and buildings have carved facades, so its craftsmen have great experience to design and create their products.
- **Jodhpur:** this city is located northwest of India in the state of Rajasthan. It is one of the most visited cities in the north of the country because of its tourist attractions and

thanks to the variety and unique styles that the artisan sector offers. This city is home to the major producers and exporters of wooden furniture and rugs.

- **Jammu and Kashmir:** This State is located in the northern part of India. It is mainly dedicated to floral horticulture, tourism, wood handicrafts, and textiles. Its industrial policies have encouraged production and the creation of businesses. There, the operations costs are low compared to other states of India (India in Business, 2014). Kashmir has very skilled artisans and designers of wood and textile products. Its Persian, Chinese and Mediterranean influences are widely used in their arts, which makes their products different.

After analyzing these States, the Company has found some suppliers. They all carry out their production process within their home states and then directly, or through some intermediaries, their products are sent to bigger cities such as Bombay, Delhi, and Calcutta, to be exhibited in local markets or in international fairs for Indian handicrafts, which are organized from time to time in some places around the country. These fairs are made by both, the Government of India and artisans organizations, who annually invite the international importers to go to India to negotiate and invest.

Chart 5 shows a list of some potential Radharani suppliers. These are chosen based on the States analysis shown above, its branches for trading, the products they offer, and the Indian agencies they are subscribed to. After analyzing these suppliers it has been found that most of them are in the north of the country where most wooden furniture is made and where people are engaged in wood carving from a very early age. This makes it easier for Radharani to find its best suppliers.

Even though these companies do not make all the products that Radharani sells, they do make wood furniture, which is the focus of this thesis since this is the bestselling product of the company. The information obtained for this analysis comes mainly from the documents the owners of the Company have since they have attended several craft fairs in India, where they have had the opportunity to meet suppliers. The company has not worked with these suppliers previously because it used to work with a single supplier and used to do most of its purchases from informal markets.

List of Radharani's potential Suppliers				
Name of the Company	City	Branches	Products	Organizations they are affiliated to
Indian Handicrafts	Jodhpur	Delhi - Bombay	-Carved wooden and bronze furniture _Mosaic Lamps	_Government of India _Art and Culture Ministry of India
Arts & Crafts House	Udaipur-Gujarat	Delhi	_Wood and Bronze furniture _Textile	Government of Gujarat
Anwasha Tribal Arts & Crafts	Odisha	Delhi- Calcuta	_Wood and Stone furniture _Textile	Directorate of Craft Industries of Odisha
Orissa Arts & Crafts	Odisha	Delhi	_Wood and Bronze Furniture _Indian crafts made of wood, bronze, glass and stone. _Mosaic Glass Lamps _Textile _Jewelry	_Government of India _ Art and Culture Ministry of India -Directorate of Craft Industries of Odisha _ Handicrafts Cooperative Society of the State of Odisha (UTHALIKA)

Rajasthali Handicrafts	Jodhpur	Delhi- Bombay	_Wood Furniture _Ceramics _Textile	_Government of India _ Art and Culture Ministry of India _ Rajasthan's small industries corporation
Handmade Kashmir	Srinagar-Kashmir	Delhi	_Wooden Furniture _Textile _ paper mache, wood, and cloth handicrafts.	Commissioned Ministry for the Development of Handicrafts and Textiles, of Jammu and Kashmir

Chart 5. List of Radharani's potential suppliers

Source: Radharani's Data, web page of the Indian Embassy in Colombia, Indian Ministry of Arts and Culture, Indian Chamber of Commerce, Federation of Chambers of Commerce and Industry of India (FICCI), Federation of Indian export organizations

Made by: Batallas, Kalindi

2.5 Selection and Evaluation of the Suppliers that meet the requirements

After analyzing locations and strategic suppliers of wood furniture, it is necessary to state the conditions that these suppliers must meet, according to Radharani, to produce, market and purchase these products. Radharani imports these products once a year, so the suppliers must be sufficiently prepared to produce before the order is placed and to deliver them on time. On the other hand, Radharani looks for responsible suppliers who are committed with their work and have the experience to negotiate and to have high quality final products.

The suppliers must know the exportation process and should be able to get the certification and documentation. The payment is made in two parts; once it is proved that the goods are as chosen by Radharani, the first payment is made. The second payment is made when the goods leave from the shipping port to Ecuador. If it is proved that the merchandise does not have good quality, the company proceeds to ask the supplier for a change or for a refund, depending on what is more convenient for Radharani. The suppliers should be ready to undertake inconveniences and to solve them immediately, such as new orders, last minute product changes, or new requirements.

Quantitative and Qualitative Analysis of Potential Suppliers													
Requirements	Importance for Radharani	Suppliers											
		Indian Handicrafts		Arts & Crafts House		Anwesha Tribal Arts & Crafts		Orissa Arts & Crafts		Rajasthali Handicrafts		Handmade Kashmir	
Affiliation to Government Agencies	10	10	100	9	90	9	90	10	100	10	100	10	100
Production System	9	8	72	7	63	7	63	10	90	8	72	9	81
Products Quality	10	8	80	7	70	6	60	9	90	7	70	9	90
Responsibility	10	8	80	8	80	8	80	9	90	7	70	8	80
Knowledge about foreign trade	8	8	64	6	48	7	56	10	80	8	64	9	72
Financial Capability	8	7	56	7	56	6	48	9	72	7	56	9	72
Agility	9	8	72	6	54	6	54	9	81	8	72	9	81
TOTAL		524		461		451		603		504		576	
Qualifying Order		3		5		6		1		4		2	

Chart 6. Quantitative and Qualitative Analysis of Potential Suppliers

Source: Radharani's Data, web page of the Indian Embassy in Colombia, Indian Ministry of Arts and Culture, Indian Chamber of Commerce, Federation of Chambers of Commerce and Industry of India (FICCI), Federation of Indian export organizations.

Made by: Batallas, Kalindi

Based on the Company's requirements, the owners have selected three companies because of their good reports and international business background. The first chosen company is *Orissa Arts & Crafts* which is located in Orisha with a branch in Delhi. This Company offers a variety of products such as, carved wood and bronze furniture, typical Indian handicrafts made of bronze, glass and stone, lamps, textiles and jewelry. It is supported by the Government of India, the Ministry of Arts and Culture of India, the Directorate of Craft Industries of Odisha, and the Handicrafts Cooperative Society of the State of Odisha (UTHALIKA). This company was chosen because of its location since the best wood finishings are made in the state of Orisha. *Orissa Arts & Crafts* has a broad products portfolio with high quality. It is subscribed to institutions that certify its products and business.

The second selected Company is "*Handmade Kashmir*", which is located in the State of Jammu and Kashmir, in the city of Srinagar. Its main products are wooden furniture, textiles, mache paper, wood and chub handicrafts. Even though it does not have a large range of products, its Kashmir handicrafts are very exotic, unique, and popular in the Cuenca market. Paper mache is produced only in this State. This is an ancient technique used to make various wooden objects. This company also has a branch in the city of Delhi and is subscribed to some institutions that certify its products' quality, manufacturing, and marketing.

The third company is *Indian Handicrafts* located in the city of Jodhpur. It offers carved wooden furniture and mosaic lamps. This Company is recognized by the Government of India and the Ministry of Art and Culture of India. It has branches in Delhi and Mumbai, which is good for businesses. However, *Indian Handicrafts*, according to some analysis and references, is smaller than the two previous companies, but will be considered for businesses if the other two companies cannot fulfill Radharani's needs.

Given that these are formal companies which meet all the operating rules and are supported by government agencies in India, their prices are higher than informal businesses. However, these prices are not unreachable since these are not very developed companies but micro or small businesses. The fact that the three companies have branches in the capital of Delhi benefits the owners of Radharani. Delhi is the administrative focus of India and the most important trading center in India. There, it is easier to establish banking, transportation, and security contacts, for importation and payment processes. In addition, it has a developed infrastructure and proper operation railways and roads which connect different parts of India.

These suppliers have been chosen by Radharani for the new importation of wood furniture because of the aspects mentioned above. However, Radharani must be very careful to prevent mishaps or to solve them immediately, to avoid problems regarding certification, documentation, and sales.

2.6 Conclusions from Chapter II

Throughout this chapter the Indian basic data, its demography, economics, market, social issues, and business management, have been analyzed. Thanks to the market and economic changes implemented by the Government of India, Radharani has been able to find companies or suppliers that comply with legal formalities required by the Government and the Chamber of Indian Industries, to guarantee and certify the products quality and origin.

This chapter also showed the certificates required by the Ecuadorian government to import wood furniture, which are a prerequisite to select new suppliers. These requirements are based on principles to determine the products nationality, and the quality conformity. This should be done in India and must be recognized by the Ecuadorian Accreditation Service (SAE).

Some of the major Indian states known for their production of wooden furniture and Indian handicrafts, were also stated in this previous chapter: Odisha, Gujarat, Jammu – Kashmir, and Jodhpur, which are on the north side of the country. Then, some manufacturers located in these states were analyzed. Based on the conditions established by the Radharani owners for the suppliers selection, the following three major companies were chosen: *Orissa Arts & Crafts*, *Handmade Indian Kashmir*, and *Handicrafts*. They were selected because they meet all the above requirements and are expected to perform the most appropriate negotiations and importation processes.

Chapter III. Importation Process

3.1 Introduction

This chapter includes the wood furniture importation process, from India to Ecuador. It describes the process prior to the importation, the processing of documentation and licenses, permits, and other procedure requirements. It includes a logistics flow chart which will help the reader understand the process and the costs generated since the new order is placed until the goods are delivered in Ecuador. This chapter has been written based on the newly selected suppliers described in Chapter II.

3.2 Process for licenses, permits, and import requirements

Before importing the goods, the importer must have a TOKEN certification, or an electronic signature, to register itself as an importer in the Ecuapass System and in the Customs of Ecuador. For this, the importing Company should submit all the documents and requirements for approval. According to the Central Bank of Ecuador, the TOKEN is a set of data in electronic form consigned in a data message, attached or logically associated, which can be used to identify the signature holder and to indicate that he/she approves and recognizes the information contained in the data message. Once the electronic signature is obtained, a digital certificate is issued, and it contains:

- Identification of the Information Certification Body
- The data of who the certificate belongs to, which should allow its location and identification
- Issuance and expiry dates of the Certificate
- The unique serial number that identifies the certificate
- Public Password of the Certificate Holder

The Radharani's owners are natural people so, once a year, they must renew their electronic signature in the authorized institutions, the Central Bank, and the Data Security Company.

For renewal they should have the following information:

- RUC (Taxpayer's Register)
- Identity Card
- Water, electricity, telephone payment forms

Having done what is stated above, the tariff for "wooden furniture" should be checked to determine the requirements and restrictions to import these products. The wood furniture tariff is under the 9403 heading, entitled "Other wooden furniture and parts" and 9403.60.00 subheading, "other wooden furniture". For wood furniture it is necessary to have the certificate of origin of the goods, and the INEN quality certificate of conformity. The current fixed taxes for wooden furniture are: safeguard taxes: 40%, ad valorem: 30%, fodinfa: 0.5%, and the value-added tax: 12%. It should be noted that the safeguard tax was 45%, but given the market circumstances this has been reduced and it is expected to be even lower through this year.

<u>Tariff Description</u>	
94.03	Other Wood Furniture and Parts
9403.60.00	Other Wood Furniture
<u>Authorizations and Restrictions:</u>	
Certificate of Origin	
INEN certificate of conformity	
<u>Fixed Taxes</u>	
SAFEGUARD	40%
ADVALOREM	30%
FODINFA	0.5%
VALUE-ADDED TAX	12%

Chart 7. Subheading Report
Source: Ecuapass, Customs of Ecuador
Made by: Batallas, Kalindi

3.2.1 Pre-shipment Certificates

The formats for pre-shipment certificates such as certificate of origin, quality, and fumigation of merchandise, are attached to the annexes section.

To process the certificate of origin, the exporter must be affiliated with the Chamber of Commerce and Industry of India which, along with the Federation of Small and Medium Enterprises in India, issues this certificate. This should be attached to the annexes, and should include the following information:

- Certification Number
- Name of the Exporter and Consignee
- Date of issuance
- Transportation Characteristics
- Shipping Port
- Discharge Port and Final Destination
- Number of Certified Pieces
- Description and Material of Products
- Number of Commercial Invoice
- Total CIF value (dollars)
- Signature and Stamp of certification of the Chamber of Commerce and Industry of India, the Federation of Small and Medium Enterprises of India, and the supplier.

The supplier is responsible for the issuance of this certificate. The supplier itself should make sure all the data is correctly detailed. An original copy of this certificate should be attached to the other documents required for the importation.

To obtain the INEN Certificate of Conformity, the following process should be performed:

The certification form is sent to the supplier located in India. If such supplier's products meet the characteristics described in the "INEN 104" regulations of the Ecuadorian Quality System, it should fill the form in with its products information. Then, this format

should be sent to the consignees to carry out the review, approval, and certification of the Ecuadorian Accreditation Service (SAE). This document must be submitted along with the other certificates, for approval to enter Ecuador, and for the release of the merchandise. According to the INEN standards, all products must contain a specific label to describe the following information:

- Name of Manufacturer
- Date of Manufacturing
- Type and color of each product
- Country of Origin
- The material of the label which should be self-adhesive and visible
- It should be all in Spanish (if other languages are wanted they can also be included)

For the shipment, the shipping company requires a certificate of fumigation of goods which certifies that all the products and packages have been fumigated according to suitable processes that meet the phytosanitary regulations of the exporting country. This certificate must be issued and approved by the National Plant Protection Organization of the Government of India, and the supplier is responsible for the issuance. This should have the following information:

- Type and quantity of the products
- Number and date of the commercial invoice
- Container number
- Shipping Port
- Destination Country and Port
- Supplier and Consignee Data
- Fumigation details: name, place and dosage
- Details of the packages and wood fumigation
- Stamp and signature of the National Plant Protection Organization of the Government of India

Once all these documents and requirements have been obtained, the logistical process to import from the port of shipment to the final destination can be performed.

3.3 Negotiation and Importation Processes

The wooden furniture new orders are normally placed three months before the goods are shipped, for suppliers to be able to manufacture the products according to the established specifications and requirements. Upon notice that the products are finished, the Radharani owners travel to India to check the merchandise, buy it, and to do the paperwork to have the goods sent to Ecuador. The orders will be placed only with the three previously selected suppliers who will be responsible for the issuance of all importation requirements.

The negotiation is done under the FOB international trading term (Free on Board), 2010 incoterm price. The seller is responsible for the mobilization, transportation, and delivery of goods to the shipping port. The seller should also deliver the bill of lading, the certificate of origin issued by the Chamber of Commerce of India, the certificate of conformity of quality, and the fumigation certificate issued by the National Plant Protection Organization of the Government of India. Once all products are properly packaged, the goods are transferred to the Nava Sheva port, located in the city of Bombay, where the shipment is made. Half of the total invoice value is paid after checking if the goods are in proper conditions, and the other half is paid when the goods leave the port to Ecuador.

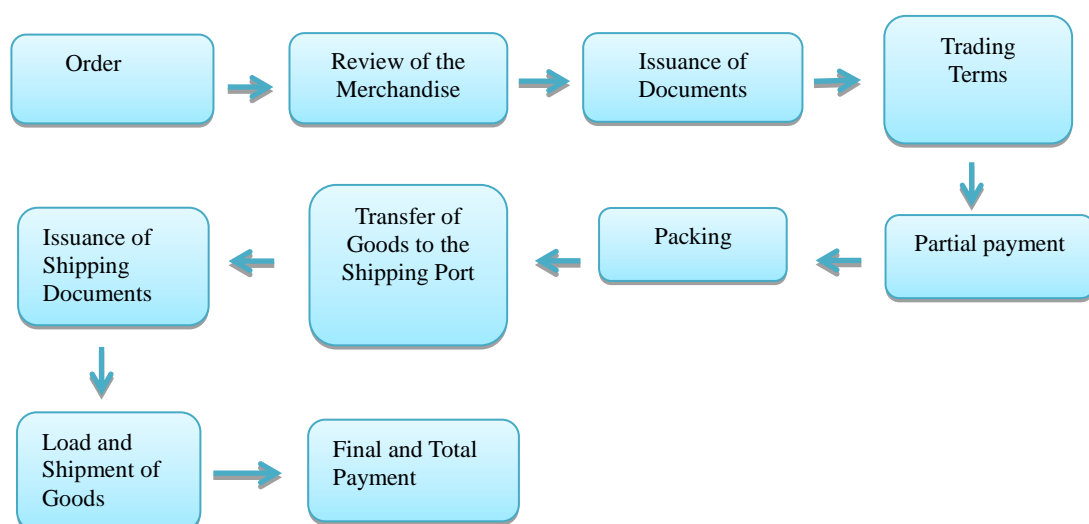


Illustration 3. Logistics Flow Chart

Source: Radharani Company

Made By: Batallas, Kalindi

The *Siati Group Company* has been hired to perform the importation process from the shipping port in India to the final destination in Cuenca-Ecuador. Siati Group lets the suppliers know the method for transportation and the selected shipping company, according to a previous agreement with the Radharani's owners. The chosen shipping company is Hamburg Sud, and it will take 55 days by direct route before the merchandise arrives in Ecuador.

The final destination port is in Guayaquil. Once the notice of arrival of goods is made the documents for the following procedures are delivered. According to the Customs of Ecuador, the documents must be submitted through a customs agent. The documents are customs declaration, commercial invoice, packing list, bill of lading, certificates of origin and quality, the Andean Value Statement (DAV), and other documents that customs might consider necessary at that time, for electronic, physical, or documentary verification of the origin, nature, quantity, value, weight, measure, and tariff classification of the goods.²

Once submitted all the documents and the taxes on foreign trade are paid, customs determines the channel for the checking of goods which can be automatic, non-intrusive, documentary, or physical. Once the goods have been checked by customs, and if everything is alright, the National Customs Service of Ecuador will issue a liquidation for the payment of taxes and the final release of the merchandise (SENAE, 2016). Then, the goods are transferred to the Radharani's warehouses in Cuenca to be unpacked and marketed.

² COPCI, Organic Code of Production, Trade and Investment, Art. 140.- Review

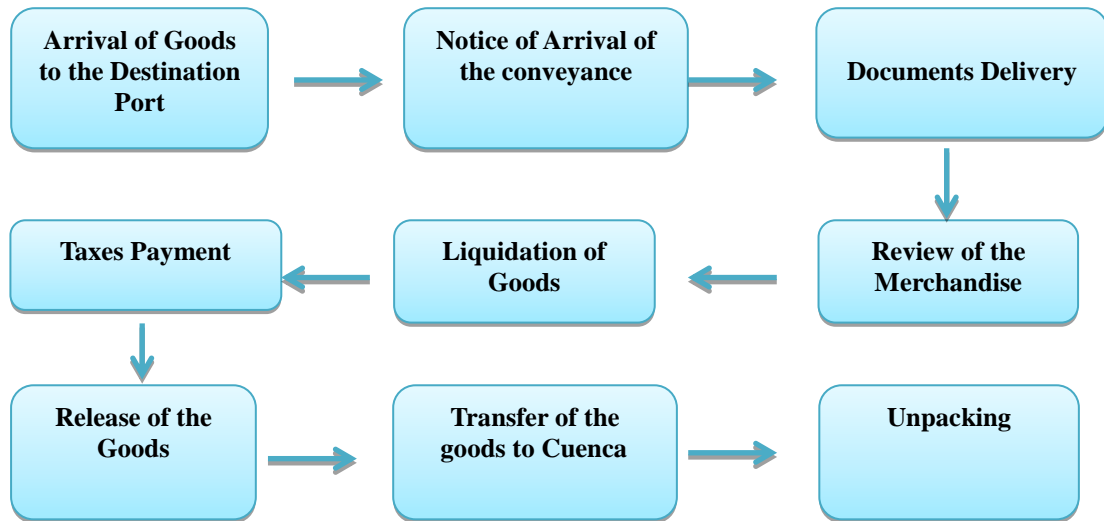


Illustration 4. Logistics Flow Chart

Source: Radharani Company, Customs of Ecuador, Siati Group Logistics

Made by: Batallas, Kalindi

3.4 Possible Import Costs

As it can be seen in Chart No. 7, Radharani is going to invest \$20,000 in different styles of wood furniture, and will import them to Ecuador in a 20 feet container, through sea transportation. The products will be purchased from the three suppliers selected and mentioned above, and the negotiation term will be FOB. The cost to be paid to the person who will conduct the business in India is \$3,500, which includes airfare, food and lodging. For the issuance of the INEN certification and the document that allows Radharani to import, \$129.00 are needed. For the Siat Group Company services, the total cost is \$2,486.9, which include freight costs, local costs, costs of nationalization, and internal transport.

The taxes to be paid according to the tariff description for wooden furniture are calculated based on the total commercial invoice CIF price: \$8,470.80 for safeguards, \$6,353.10 for advalorem, \$105.89 for Fondinfa, and \$4,332.81 for the 12% of the value added tax calculated from the CIF value plus the total taxes. By adding the Radharani's investment plus the import costs, the final cost is \$4,5578.11. Once the goods are added to the Radharani's inventory system, this cost will be prorated to each product according to the percentage of its value to determine the retail price.

It should be noted that the costs may vary depending on the investment made by the company, and on other unexpected issues such as, shipment problems, arrival problems, nationalization, changes in the trading policies of the two countries, implementation of new taxes, and restrictions on wood products, among others.

FOB Investment	20,000.00
Traveling Expenses	3,500.00
Issuance of Import Requirements	
Registration of the Importer (TOKEN)	29.00
INEN Certification	100.00
Importation Costs	
Freight	977.00
Values in the Final Destiny After CIF	1,509.51
Insurance 0,01%	200.00
Total CIF	21,177.00
Taxes on the Merchandise	
40% Safeguard	8,470.80
30% Advalorem	6,353.10
0.5% Fodinfra	105.89
12% Value Added Tax	4,332.81
Total Taxes	19,262.6
Total Importation Costs	45,578.11

Chart 8. Importation Costs

Source: Radharani Company, Logistics Company “Siati Group”

Made By: Batallas, Kalindi

3.5 Conclusions from Chapter III

Through chapter three the correct procedure to get licenses has been analyzed, including permits, and the requirements prior to importation, which authenticate and recognize the owners of the company as importers, and their products as suitable to be imported and admitted in Ecuador. This chapter stated the wood furniture tariffs, the authorizations, restrictions, and taxes to be paid once the products are in Ecuador.

Subsequently, this chapter describes the process before the importation, the importation process itself, and the customs clearance process, from the time the negotiation with the supplier is performed, until the merchandise reaches its final destination, Cuenca - Ecuador. According to the trading term, FOB, the suppliers are responsible for the issuance of the necessary import documents, for the packaging, for the transfer of goods to the shipping port, and for the delivery of the merchandise to the shipping company. Siat Group is in charge of shipping the goods by sea to Ecuador, of doing the customs clearance, and of transporting them to Cuenca.

The importation costs were based on the Radharani Company's data and on the quote sent by the Logistics Services Company, Siat Group. The investment in wooden furniture was calculated based on the following costs: travel expenses, freight, export taxes, administrative shipping costs, loading, issuance of accompanying documents, customs process, and local mobilization of goods, among other unexpected expenses.

Final Conclusions

After analyzing this project, "Analysis about the supplier's expansion, and import processes, of the Radharani Company", as final conclusion it can be said that this study has stated the history of the company, its business performance, the way this business works, and the products Radharani sells. Based on the sales and financial charts, this work gave as result information about Radharani's growth, total revenue, best selling products, and profits. It was found that wood furniture generates the most profits and at the same time are the best sold products. For this reason, they are the main products marketed by the company.

The logistics and administration of the company have been properly managed, thus Radharani has had a remarkable growth and expansion of its imported products lines. On the other hand, the company has faced some problems due to the new restrictions and requirements on wood furniture, so it has been necessary to look for new suppliers which can get the quality and origin certificates to make the import process smoother. This study also has showed how businesses in India are managed, Indian market conditions, and investment opportunities.

India is characterized by its traditional culture, high levels of poverty, and large population. Most people in India belong to the lowest class. The low class in India is in charge of production and manufacturing of several craft products. Most markets are made of informal workers and homeless vendors, which are not regulated or recognized by the government or other public bodies in India. For this reason it has been very complicated for former suppliers to obtain the necessary certificates for importation, such as quality and origin certificates. These informal suppliers had no contact with organizations that authenticate the characteristics of the products for the issuance of the documentation.

Despite these drawbacks, India is one of the largest economies in the world, and thanks to the increasing investments and international trading happening in this country, the Government has seen the need to solve and improve the market by, for example, helping businesses know the local and international requirements for exports and imports, and the regulations for exporting companies.

This has made it easier for Radharani to find new suppliers. After analyzing the major States of India, where the largest production of wood furniture takes place, it was easier to find new suppliers that are currently subscribed to, and endorsed by, the Government and other artisan institutions.

After knowing all the requirements to be met by the suppliers of the Radharani Company, both legal and professional, the owners have selected three manufacturers and exporters of wood furniture, which fulfill the requirements to export these products to Ecuador where these will be put on the market. These companies are responsible for their business and for getting the documents that certify the quality and origin of their products, in order to meet the Ecuadorian importation standards.

After mentioning the selected wood furniture suppliers, this thesis described the procedures prior to the imports. These include obtaining licenses, permits, and other documentation. Subsequently, the negotiation process between the company and its suppliers was described, including the documentation needed for the goods to enter Ecuador. First the merchandise is delivered to the shipping port in Bombay - India, and then it is transferred to the Guayaquil Port in Ecuador, where the process of customs clearance, nationalization, and liquidation is performed.

The importation costs were calculated according to the following information: the negotiation terms, Radharani's budget to invest, and the quotation sent by the Siat Group, the company in charge of containerization, transport, customs procedures, and mobilization of the goods to Cuenca. The taxes to be paid according to the tariff description for wood furniture if it is more than 70% of the total value of the commercial invoice. These taxes must be paid for the liquidation and release of the goods. The goods are then sent to Radharani's warehouses in Cuenca, to be unpacked, reviewed, inventoried, and marketed.

After doing this analysis, it is concluded that Radharani can continue to import wood furniture from India without inconvenience and negotiate with the newly selected suppliers, who facilitate all the documents for the import process. It should be taken into account that the current taxes to import wood furniture make the retail prices higher. However, because of the popularity these products have in the Cuenca market, the company will continue to import these products.

Recommendations

Having concluded this analysis, some recommendations for the Radharani Company should be made. These are based on some important factors, which will surely help the Company to improve its business, knowing that since it started the way its business is performed has not changed. Even though the company has had significant growth and its products have been largely accepted in the market, there are some aspects that can be improved.

Radharani needs better management and leadership to focus its key objectives and to strengthen the business. There should be an accounting system to keep the records, annual financial charts, investment costs, purchases, sales, and profits, which are necessary to assess the performance of the Company. In addition, it would be necessary to implement a database with the Company's customer information to register their purchases, in order to provide them with a better service.

On the other hand, although its products portfolio is broad and diversified, there are some products that do not generate much profit and do not sell well, such as jewelry and textiles. For this reason, the company should focus on importing wood furniture and ornaments, which are better sold and do not have direct competition in the market. In India, there is a high range of different styles of handicrafts, which makes it easier for Radharani to constantly update its products portfolio according to the needs and demands of its customers.

For 12 years the company has remained importing most of its products from India and only a very small number of products have come from other nearby countries like Thailand and Nepal. However, there are other countries that manufacture similar products and that are closer to Ecuador which makes the importation costs cheaper, such as Turkey and Morocco. These will be taken into account for future negotiations.

Radharani is very popular in Cuenca, Quito, and Guayaquil, thanks to the fairs it has attended, but it is still necessary to create an appropriate marketing plan to help the company reach new customers and markets, and to increase its sales, knowing that its store is not even located in a visible area. Some exotic Indian products are very popular in Guayaquil which is considered to be a quite consumerist city, so it could be a very good city for the Company to extend to.

The logistics handled by Radharani has been very organized, but there are some issues that could be changed to generate higher profits. The orders are placed three months before the actual purchase, and one of the owners of Radharani has to travel to India to verify the characteristics of the goods before these are sent to Ecuador. This generates an extra cost, so it would be more convenient to work with responsible and professional suppliers. The order would be placed from Ecuador and the suppliers would take care of the documentation, so the owners would not have to travel to India for each import. This would reduce costs which could lead to the placement of more orders per year.

In previous years, when the goods arrived in Guayaquil, these used to be immediately sent to the customs dealership in Cuenca, Adapaastro, where the processes for nationalization, goods checking, and liquidation were made. Adapaastro used to charge extra costs for its service and storage, which is now avoided by doing all these processes in Guayaquil and transferring the goods to Cuenca once they have been liquidated. Better options to minimize costs and to have higher profits should be sought.

The new taxes that the government has implemented such as 40% for safeguards and 30% for ad valorem, are extremely high, which means that the investment cost is much higher than it was in previous years. Although it is not prohibited to import wood products, the high taxes are a major threat to many companies, so several imports are paralyzed. Radharani should wait until mid or late 2016 to perform its next import, since it is speculated that the safeguards will be withdrawn then.

The last recommendation for Radharani is to pay attention to any new import resolutions and requirements that may arise from the Ministry of Foreign Trade and the Customs of Ecuador, in order to immediately solve any inconvenience that may arise to import and market its products.

References

Hill, Charles, “Negocios Internacionales”, *Competencia en el mercado global*. Mexico, McGraw Hill, eight edition, 2011

Daniels, John D; Radebaugh, Lee H. y Sullivan, Daniel P. “Negocios Internacionales”, Mexico, Pearson Education, 14th edition, 2013

Balanko-Dickson, Greg, “Como preparar un plan de negocios exitoso”, Mexico, McGraw Hill, 1st edition, 2008

INEN, Servicio Ecuatoriano de Normalización, *REGLAMENTO TÉCNICO ECUATORIANO RTE INEN 104 “MUEBLES”*, 2011, last date of review: February 25th, 2016, <http://www.normalizacion.gob.ec/wp-content/uploads/downloads/2014/08/RTE-104.pdf>

SAE, Servicio de Acreditación Ecuatoriano, *Organismos de certificación acreditados*, last date of review, February 26th, 2016, <http://www.acreditacion.gob.ec/>

COPCI, Código Orgánico de la Producción, Comercio e Inversión, Art. 140.- Aforo, <http://www.scpm.gob.ec/wp-content/uploads/2013/03/C%C3%B3digo-Org%C3%A1nico-de-la-Producci%C3%B3n-Comercio-e-Inversi%C3%B3n.pdf>

Ministerio de Comercio Exterior, Resoluciones del Comex 2016, last date of review: February 27th, 2016, <http://www.comercioexterior.gob.ec/comex/>

SENAE, Servicio Nacional de Aduana del Ecuador, *Para Importar*, last date of review, March 1st, 2016, http://www.aduana.gob.ec/pro/to_import.action

INEC, Instituto Nacional de Estadística y Censo, *Encuesta nacional de ingresos y gastos de los hogares urbanos y rurales*, last date of review: January 25th, 2016, <http://www.ecuadorencifras.gob.ec/encuesta-nacional-de-ingresos-y-gastos-de-los-hogares-urbanos-y-rurales/>

INEC, Instituto Nacional de Estadística y Censo, *Encuesta de estratificación del nivel socioeconómico*, last date of review: January 25th, 2016
<http://www.ecuadorencifras.gob.ec/encuesta-de-estratificacion-del-nivel-socioeconomico/>

India en los Negocios, *División de Promoción de Inversión y Tecnología*, Ministerio de Asuntos Exteriores, Gobierno de la India, 2014

Banco Mundial, *Indicadores del desarrollo mundial de la India*, last date of review: February 23, 2016, <http://datos.bancomundial.org/pais/india>

SEWA, Self Employed Women's Association of India, *SEWA Annual Report 2013*, last date of review: February 23, 2016 http://www.sewa.org/pdf/Sewa_Annual_Report.pdf

Ministerio de Comercio Exterior, *Normativas de origen*, last date of review: February 24th, 2016, <http://www.comercioexterior.gob.ec/normativa-de-origen/>

India.gov.in, National Portal of India, *Art & Culture Handicrafts*, last date of review: February 28th, 2016, <https://india.gov.in/topics/art-culture/handicrafts>

Uthaliika, Orissa State Co-operative Handicrafts Corporation, *Crafts of Orissa*, last date of review: February 28, 2016, <http://www.utkalika.co.in/ViewPanel/Organization.aspx>

FICCI, Federation of Indian Chambers of Commerce and Industry, last date of review: March 1st, 2016, <http://www.ficci.com/ficci-international.asp>

Indian Chamber of Commerce, *International Business and Export Services*, last date of review: march 2nd, 2016, <http://www.indianchamber.org/international-business-and-export-services/>

FIEO, Federation of Indian Export Organizations, *Search and Establish Contact with Indian Exporters*, last date of review: March 2nd, 2016, https://www.fieo.org/searchProducts_fieo_search.php?searchTypeProducts=1&stype=Like&searchStringProducts=wood&x=0&y=0

Banco Central del Ecuador, Certificación electrónica, last date of Review: March 6th, 2016,
<https://www.eci.bce.ec/preguntas-frecuentes>

SENAE, Servicio Nacional de Aduana del Ecuador, Ecuapass, *Adm. de nomenclaturas y características de mercancía*, last date of review: March 6th, 2016,
http://ecuapass.aduana.gob.ec/ipt_server/ipt_flex/ipt_arancel.jsp

Glossary of Terms


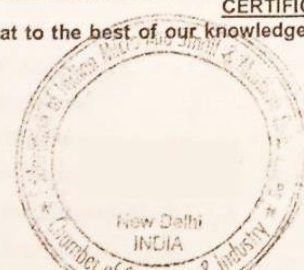

- **LCL:** Less container load, container with merchandise that is grouped, from different loaders
- **CIF:** Cost, insurance and freight. Cost of the merchandise + freight + insurance
- **FOB:** Free on board. The seller is responsible for the packaging, transport, and insurance of the merchandise until the goods are in the shipping port.
- **Bill of lading:** Contract between the consignor and consignee of the goods.
- **TOKEN:** Hardware device to record information and to have access to the electronic services and processes.
- **Ecuapass:** Ecuador customs system which allows all Foreign Trade Operators to perform their import and export customs operations.

Annexes






1. Ecuadorian Technical Regulation, Rte Inen 104, "Furniture", 2011

2. Merchandise INEN Certificate

3. Merchandise Certificate of Origin

CERTIFICATE OF ORIGIN (Non Preferential)				
Exporter		No.		
Consignee		Chamber of Commerce & Industry Recognized by Ministry of Commerce & Industry Govt. of India		
Notify Party		 Federation of Indian Micro and Small & Medium Enterprises B-4/161, Safdarjung Enclave, New Delhi - 110029 Tel. : 26187948, 26109470, 26712064 E-mail : info@fisme.org.in Web address : http://www.fisme.org.in		
Pre-Carriage by	Place of Receipt by Pre-Carrier			
Vessel / Flight No.	Port of Loading			
Port of Discharge	Final Destination			
Marks & Nos./ Container No.	No. & Kind of Pkgs.	Description of Goods	Quantity	Value
				TOTAL C.I.F VALUE IN USD
				It is hereby certified that goods Are of Indian Origin
INVOICE NO :- DATED :- I.E.C. NO.			Signature of Exporter	
CERTIFICATION It is hereby certified that to the best of our knowledge and belief the above mentioned goods are of Indian origin.				
		 Secy. General / Joint Secretary Deputy Secretary Federation of Indian Micro and Small & Medium Enterprises (FISME) New Delhi		
Date :				

4. Merchandise Fumigation Certificate

		PEST MORTEM (INDIA) PRIVATE LIMITED (Approved by National Plant Protection Organization, Government of India) R-9, Pul Pehladpur, Mehroli Badarpur Road, New Delhi-110 044.	
FUMIGATION CERTIFICATE			
S.No.		Certificate Number :	
Dte. PPQS Regd., No : 014/MB/ DATED :		Date of issue :	
This is to certify that the following regulated articles have been fumigated according to the appropriate procedures to conform to the current phytosanitary regulations of the importing country :			
Details of goods Description of goods :			
Quantity declared :			
Distinguishing marks :			
Consignment link / container number :			
Port & country of loading : INDIA		Country of destination : GUAYAQUIL	
Name of the vessel : BY SEA		Port of entry : ECUADOR	
Name & address of consignor /Exporter :			
Declared name & address of consignee :			
Details of treatment Name of fumigant : METHYL BROMIDE Place of Fumigation : ICD/TKD/NEW DELHI Dosage of fumigant (gms/cu.mt.) : 48 GMS/M3 Fumigation performed in container Container pressure test conducted Container has 200 mm. free air space at top of container In transit fumigation -Needs ventilation at port of discharge Container has been ventilated to below 5 ppm v/v Methyl bromide Wrapping and Timber Has the commodity been fumigated prior to lacquering, varnishing, painting or wrapping Has plastic wrapping been used in the consignment ? * If yes, has the Consignment been fumigated prior to wrapping ? * Or has the plastic wrapping been slashed, opened, or perforated in accordance with the wrapping and perforation Standard ? Is the timber in this consignment less than 200 mm. thick in one dimension and correctly spaced every 200 mm. in height ?			
		Date of fumigation : 28/06/2014 Duration of Fumigation(hrs): 24 HOURS Minimum air temperature(Deg.cent) :29	
		NA YES NO YES NA YES	
Additional declaration 1. This certificate is valid only if the above Goods are shipped within 21 days from date of fumigation. Wood Packaging material has been separately fumigated			
I declare that these details are true & correct and the fumigation has been carried out in accordance with the NSPM-12			
Signature & Name of Accredited Fumigation Operator DPPQS Accreditation No. AFAS Accreditation No. Endorsed by Specified PPQ official (in case of non-accredited agency) Signature		Mr. DHYAN SINGH 014010705 Name Accreditation No.	
			
			
Regd. Office : G2 Sunder Tower, T.J.Road, Sewree (West), Mumbai-400 015. Tel.: 2414 7425 / 2412 7935 / 2415 5248 Fax : 91-22-2415 0261 Gram : Pestmort, E-mail : pestmort@bom3.vsnl.net.in Web site : www.pestmortem.com No financial liability attaches to or is assumed by the certifying company, its Directors or Representatives in respect to this certificate.			