



FACULTY OF LAW

SCHOOL OF INTERNATIONAL STUDIES

**“INTERNATIONALIZATION STRATEGY OF
FINE-TUNED ENGLISH LTD. CO. THROUGH THE FRANCHISE MODEL”**

GRADUATION THESIS PRIOR TO OBTAINING A BACHELOR DEGREE IN
INTERNATIONAL STUDIES WITH A BILINGUAL MINOR IN FOREIGN TRADE

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CUENCA, ECUADOR

2017

DEDICATION

I dedicate this work to my family, specially my parents
for supporting me in every stage of my life,
for encouraging me to grow personal and professionally,
for teaching me the values that I now practice,
for motivating me to fight for what I aspire to, and
for being my source of inspiration and my role model.

Stefany Ludeña.

DEDICATION

This degree is dedicated to:

God- my Guide, my Everything, without whom this dream could not have come true.

My parents- Kelvyn and Jakeline for being the main pillars of my life and for their constant and unconditional support throughout my university career.

My siblings- Andrea and Kelvyn for always being with me and accompanying me in every step of my life, until I attain my dreams.

My grannies- to be happy to see my professional goals fulfilled.

My teachers- for giving me their knowledge and imparting me with values that will stay with me for my entire life.

Priscila Mora.

ACKNOWLEDGEMENTS

We thank our alma mater, the University of Azuay, and the professors of the School of International Studies for the knowledge imparted for our professional development.

To Fine-Tuned English Language Institute for facilitating the necessary information, and for its interest in this project to be carried out successfully.

To Dr. Claudia Campoverde, our thesis director, for her orientation, her unconditional help and her trust in our capacity to elaborate this graduation work.

To Mgs. Antonio Torres, for his assessment, collaboration and moral support, not only in the elaboration of this thesis, but also along our university studies.

To Ing. Xavier Ortega, Ing. Marco Antonio Ríos, and to Mgs. Ximena April for their contributions and helpful suggestions.

To the representatives and advisers of public organisms, and educational institutions, for cooperating with their important interviews.

To all who contributed to the successful culmination of our graduation work.

Stefany Ludeña and Priscila Mora.

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ABSTRACT

This thesis is an internationalization project to be carried out at *Fine-Tuned English Language Institute* through the creation of a franchise model. The company under study is an English institute with 24 years of experience located in Ecuador, headquartered in the city of Loja, with centers in both Catamayo and Zamora. This thesis defines the business model of the company, presents a schematic outline of the guidelines for the creation of its operating manuals and the strategies for establishing the economic benefits and the legal conditions necessary for the operation of future franchises. Finally, it develops a market study in two specific departments of Peru, Piura and Tumbes, with the objective of choosing the best place to position its first international franchise.

CHAPTER I FRANCHISE OVERVIEW

1.1. Background

The background of the franchise system dates back to the Middle Ages but not in the way in which we relate the term 'franchise' at present. At that time, "*cities with letters from ruling authorities had special privileges that guaranteed certain freedoms or autonomy for them (such as the permanent exoneration of paying tributes to the king or lord of the region) or to their citizens (e.g. Right to free traffic)*" (Marzorati, Franchising, 2001). Another background of the Middle Ages, although in rudimentary form, relates to the authorizations granted by the Catholic Church to certain feudal lords to collect taxes in specific lands. After retaining a part of the collected money, they sent it to the Church. At present, this former action resembles concessions of public power (Marzorati, Derecho de los Negocios Internacionales, 2003).

On the other hand, the franchise with a greater legal and economic relationship between individuals began in the United States around 1862. This is when *Singer Sewing Machine Company*, in its eagerness to expand the distribution of its sewing machines, created a network of concessionaires by granting franchises to independent merchants from whom it received a share for the right to distribute its products. Later in 1898, *General Motors* also opted for this method of distributing vehicles manufactured by them. At approximately the same time, in 1899 *Coca-Cola* began to grant new franchises to bottle its product (Marzorati, Franchising, 2001). Analyzing the aforementioned, until that time franchises were used only as a distribution approach in which there was not necessarily transference of the knowledge of the company in terms of production.

However, "it was only at the beginning of the twentieth century, that the true development of commercial franchising as a method for the expansion of business enterprises occurred when other automobile manufacturers established or expanded their distribution networks through franchises granted to distributed traders throughout the United States" (Marzorati, Derecho de los Negocios Internacionales, 2003). Later, multiple companies from fast food restaurants to oil companies followed suit. It was only after the Second World War that franchises had a great expansion with the business format of franchising systems by granting facility to

obtain financing from a Federal Government, the Small Business Administration (Marzorati, Franchising, 2001).

Currently, this system of commercial expansion is the reason for the success of large companies around the world. A great example of this is *Subway IP Incorporated*, which is the franchisor with the largest number of franchisees at approximately 44,809 restaurants in 112 countries (Subway, s.a.).

According to Barcadillo, in South America during the late seventies and early eighties, Brazil was the first country to implement the franchise system when they observed the success of franchising in the United States. This encouraged the creation of their own franchises, to promote a developing economy. Considering its close relationship with the United States, Mexico demanded economic and legislative changes so that foreign brands could be consolidated. Later Argentina, Chile, Colombia, Ecuador and Venezuela integrated this phenomenon.

In the case of Ecuador, the importation of well-known brands began with *Martinizing*, which was the first franchise that came to Ecuador in the 1970s (Donoso & Calle, 2007).

"The franchises with the greatest expansion are those that belong to service companies, medical assistance, education, telecommunications and lastly meals. This sector is where more franchises have been developed. However, the sectors in which the national franchise has been developed can be defined as food, pharmaceutical, shoemaking, delicatessens, copying and reprography centers. In addition, it is worth emphasizing the leadership by foreign investors who have promoted brands such as Disensa, Persian Yogurt, Sweet & Coffee and Familia Eljuri" (Vera & Rivadeneira, 2010).

1.2. Definitions and Concepts

1.2.1. Entrance fee

"An entrance fee is the amount of money that will never be given back and that the Franchisee must pay to join the chain and do so for each of the franchises that are granted even if they are from the same franchising center" (Burgos Pavon & Fernández Iglesias, 2010).

1.2.2. Advertising fee

This refers to the financial contributions by the franchisee to the advertising and marketing campaign carried out by the franchisor and which will contribute to benefit the entire chain equally. This fee does not have a fixed value since it depends on the degree of insertion that each factory or production center has in the market in which it operates, although it is generally between 4% and 6% of the monthly sales of the franchisee (Burgos Pavon & Fernández Iglesias, 2010).

1.2.3. Franchisor

This term refers to the individual(s) or organizations that own a brand or service and provides the franchisees with a system of operations and marketing so that they can develop the business agreed upon in a previously standardized way common to all of them. In return franchisees shall pay the royalties and margins contractually agreed upon (Guisado Tato, 2002).

1.2.4. Franchisee

This term refers to the individual or organization that pays the franchisor an initial fee and royalties *"for obtaining the right to be part of the system created by the corresponding franchisor"* (Guisado Tato, 2002) and, in this way, *"is granted the application and use of the brand with administrative and operational support for the business to function properly"* (Dí Costanzo, Vilalta, & Cárdenas, 1997).

1.2.5. Franchise and Franchise Agreement

In 2002, the *International Institute for the Unification of Private Law*¹ approved the *Franchise Model Disclosure Law*, which defines franchising as follows:

"Franchise is the right granted by a party (the franchisor) that authorizes another requiring party (the franchisee), in exchange for direct or indirect financial compensation, to engage in the business of selling goods or services on its own behalf under the system designated by the franchisor"

¹ UNIDROIT

which includes know-how and assistance. It also recommends in considerable part the manner in how the franchised business has to be operated. This includes significant and continuing operational control by the franchisor, and is substantially associated with a trademark, service mark, trade name or logotype designated by the franchisor."

Marzorati in *Franchising* defines the franchise as:

"A written agreement in which the grantor, generally referred to as "Franchisor" offers individually to many borrowers who form a distribution system of their production to sell or distribute goods or render services exclusively, a system for developing a business. It creates a relationship of attendance of the grantor to the franchisee on a permanent basis under a trademark, trade name under the control of the franchisor and in accordance with a method, system or plan pre-established by the latter, in accordance with the payment of a fee and other benefits."

According to Dr. Manuel Posso Zumárraga, a franchise refers to *"buying the experience that a company has and doing the same, under a set of pre-established rules that claim the business will last a long time, be consolidated or grow with online branches."*

Cevallos in turn explains that:

"Franchising is a mechanism of commercial distribution carried out by independent companies through a pyramid organization based on a legal relationship of a contractual nature. This includes the transmission of know-how, licensing and use of a trademark, technical assistance, and accounting under the control of the grantor and in accordance with guidelines predetermined by them, in consideration of which the Franchisee pays a fee and other benefits."

Therefore, we can conclude that franchising is a strategy of expanding a company that is based on products or services which includes the transfer of know-how and the authorization of brand use through manuals and methods to ensure the standardization of the business model is applied. This is established through a written contract that determines the conditions for the franchisor and the franchisee

and that the royalties or financial benefits which must be paid for the right to sell or market the products or services of the franchisor.

1.2.6. Know-How

Know-how is the most important element that is transmitted when selling a franchise, since it is a key element of commercial success. Know-how refers to the set of empirical knowledge that the franchisor owns which is the same that is obtained through the experience at the head of a business. The know-how of the franchisor should be prone to normalization or standardization. In a franchise, know-how is transmitted through manuals, franchise training and technical assistance (Díez de Castro & Galán González, 1998). This set of knowledge, skills and information can be considered secret and are essential to make certain processes practical (Guisado Tato, 2002).

1.2.7. Brand

The *Organic Code of the Social Economy of Knowledge, Creativity and Innovation*, in its article 359, defines a brand as: "*any sign that is suitable to distinguish products or services in the market. Signs that are susceptible of graphic representation may be registered as trademarks. The nature of the product or service to which a trademark is to be applied shall in no case be an obstacle to its registration.*"

1.2.8. Manual

"The franchise manuals collect, in writing, the knowledge about the organizational structures, the techniques of merchandising, the financial and accounting plans, etc." (Díez de Castro & Galán González, 1998). That is, a manual is an instructional book that describes how the business should be operated, how the product should be manufactured or made, how it should be offered to the customer, how the premises and advertising should be, and how employees should be trained, among other things.

1.2.9. License

It can be very easy to confuse the franchise and license definitions due to the similarity of their concept. Unlike franchising, a license is an agreement in which the

licensee acquires the right to use a small part of the functions that the contract business entails (i.e. the license concerns only a specific part of the corresponding chain). In addition, in license agreements, the licensee exercises little or no control over the licensee's operations (Guisado Tato, 2002).

"A license may be limited to specific products or fields of activity (so-called "field of use restriction "). In this case, the licensor will retain the right to exploit the know-how directly or through other licensees for other products or in other fields of activity" (International Institute for the Unification of Private Law, 2005).

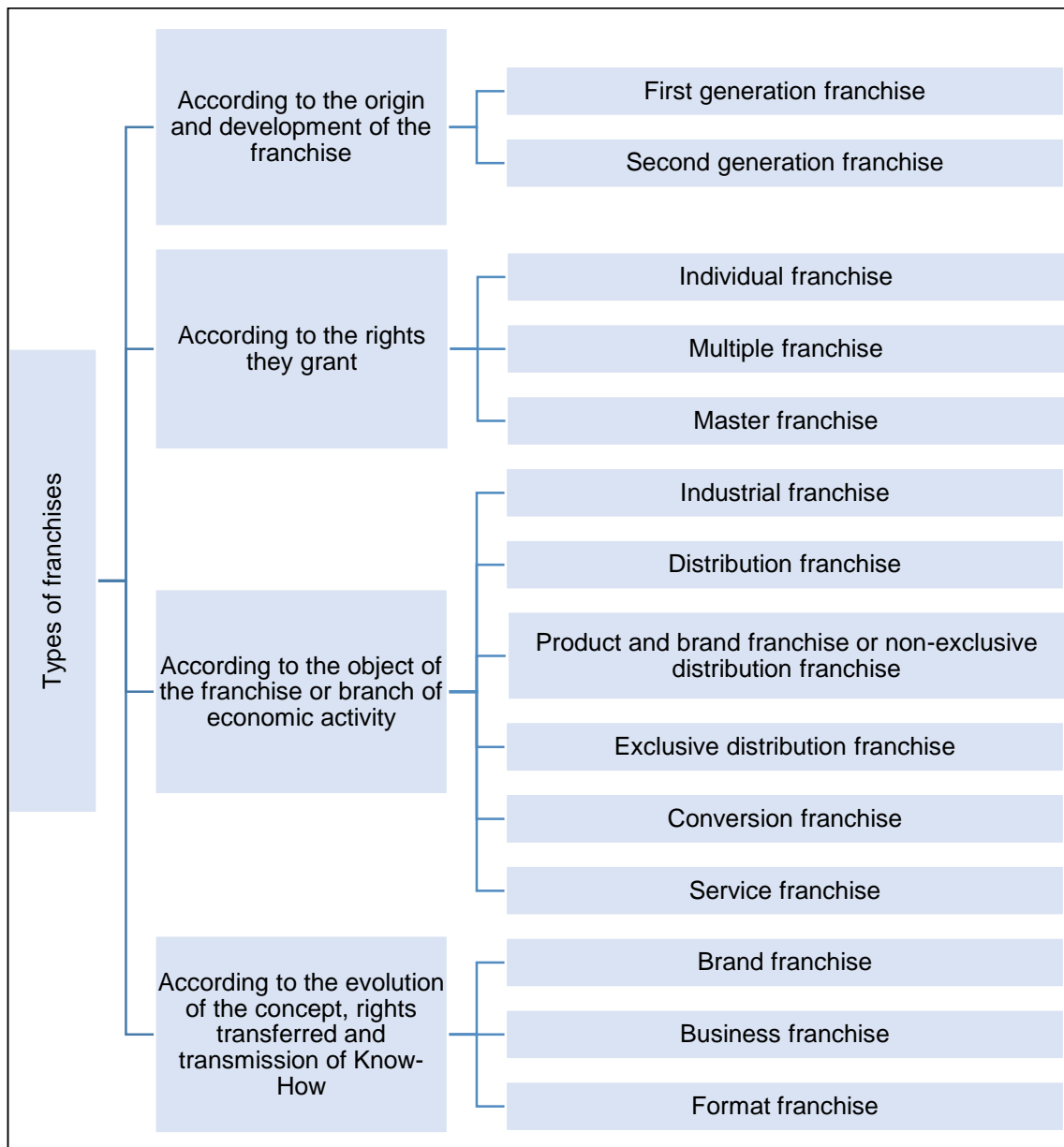
1.2.10. Royalties

The royalties are payments that the franchisor makes to the franchisee for the right to sell or market products and/or services. It is the way the franchisor continually earns income from the franchises. These payments are usually set as percentage of gross sales of the franchisee or they can be a fixed fee (Dí Costanzo, Vilalta, & Cárdenas, 1997).

1.3. Types of Franchises

As per the different bibliographical sources consulted, there is no uniform classification of the types of franchises. This classification will depend on the origin of the franchise and the development of the franchise, the rights granted, the purpose of the franchise or branch of economic activity, the evolution of the concept, the rights transferred and the transmission of know- How. (See Figure 1).

Figure 1 Types of franchises



Source: Authors compilation based on Díez de Castro y Galán González, 1998; Dí Costanzo, Vilalta, y Cárdenas, 1997; Burgos Pavon y Fernández Iglesias, 2010;

Díez de Castro and Galán González present the classification of franchises **according to the origin and development of the franchise** and distinguish two types:

1. First generation franchise: this refers to the first franchises that were put into operation. The basic elements franchised were brands and products. It is a concept of franchise identified as a transaction under some type of license.

2. Second generation franchise: corresponds to an evolution and development of this commercial form. The franchises are new franchises of format incorporated brands, products and know-how (i.e. the complete business concept). At the same time, the relationships between franchisor and franchisee are more formalized than in the first-generation franchise.

According to the rights granted, Kuesta mentions three types:

1. Individual franchise: is a concession by the owner of a master franchise or by the initial franchisee to an individual investor for the operation of a single establishment in a certain area.

2. Multiple franchise: refers to a type of contract whereby the rights to open several establishments in a geographical area delimited to a single franchisee are ceded. This franchise is obliged to operate all of them without being able to transfer the acquired rights to a third party.

3. Master franchise: this is the franchisor's consent to the use of its brand and know-how to a franchisee so that the Franchisee can exploit them in a wide geographic region through its own products or by delivering multiple or individual sub-franchises.

"The master franchise, also known as the main franchise (...) is one of the forms most used by companies in international expansion. It is often awarded to a normal franchisee who has successfully opened new markets. Other times, the franchisor agrees with a franchisee that the franchisee is the one that supplies it in a certain new market" (Díez de Castro & Galán González, 1998).

In the same way, Kuesta presents the classification **according the object of the franchise or branch of economic activity:**

1. Industrial franchise: this form of franchise is characterized by the franchisee establishing and operating an industrial company under the technological concepts, advice, brand and training that the franchisor permits the franchisee. *"The franchisor gives its franchisees technology, procedures and methods as well as the raw material necessary for the manufacture of a given product and brand name"* (Burgos

Pavon & Fernández Iglesias, 2010). Also, "the franchisor and franchisee are manufacturers. The franchisee, in addition to the production, generally becomes the exclusive distributor of the product in the territory granted" (Díez de Castro & Galán González, 1998).

2. Distribution franchise: this concerns the franchisor's concession of products that it manufactures and/or brands to its franchisees in exchange for higher royalties or purchase prices. Its basic characteristics are concentrated in the development of products or services rather than on the operation of the business. The franchisee is given more freedom, but at the same time has less operational input. Díez de Castro and Galán González note that in the franchises of distribution there are two modalities: the first in which the franchisor is a manufacturer and the retail franchisee, also called integrated or production franchise. The second is where the franchisor is a wholesaler and the franchisee a retailer. This represents the distribution franchise itself.

3. Product and brand franchise or non-exclusive distribution franchise: this refers to the authorization of the franchisor to the franchisee to use the brand together with the sale of certain products and/or the provision of certain services which are generally supplied by the same Franchisor through their license. In this case, there is no territorial or product exclusivity. The quality and the amount of support provided by the franchisor are minimal, although there are some requirements. In *Development of the Franchise System*, it is stated that "in this type of franchise, the name and the product does not change so that the consumer can easily identify them (...) The *Singer Sewing Machine Company* is generally identified as the first franchise of products."

4. Exclusive distribution franchise: this is an exclusive channel for the distribution of the products or services of the franchise through a network of stores that work with the brand of the Franchisor on the product.

5. Conversion Franchise: This type identifies a group of companies, agencies, and existing stores in a unique format. The purpose is to unite their marketing efforts by maintaining a unique facade and promotes sales through mass advertising programs and systematizing the quality of service offered to the consumer. The book *Desarrollo del Sistema de Franquicias*, also contributes to the concept of this type of franchises:

"Conversion franchises are the product of business format franchises. In fact, they have all the same characteristics, but differ in their origin. Conversion franchises are businesses in operation that were independent and can be converted to the franchise business format. They emerged in the United States in the seventies. This type of franchise is successful because the franchisee has experience in the field and protection under a brand that is beneficial because marketing expenses are diversified and communication networks are established to allow one to upgrade at low cost and even acquire a new power of purchase when joining to the other units converted."

On the other hand, in the classification according to Díez de Castro and Galán González, in the **franchise of services**, the contribution of the franchisor is basically the *know-how*. *"The franchise of services is revealed as the most original and authentic application of franchise application since generally there is no product to sell. (...) so they need excellent marketing, constant innovation and a great capacity for growth to occupy the market quickly."*

According to the evolution of the franchising concept, the rights transferred and transmission of know-how, the franchise is classified into:

1. Brand Franchise: In this type of franchise, the franchisor only grants the rights of use of a trademark, design and/or industrial drawing to the franchisee for a predetermined financial amount, and only once. In the case of a temporary design a one-time payment or royalties will be paid.

2. Business franchise: it corresponds to the franchise in which the assignment of the brand and the transfer of operation of the business is granted. However, the assessment does not extend over time, nor is the depth of knowledge transferred.

In *Desarrollo del Sistema de Franquicias*, it is mentioned that business format franchises are widely known. Large companies such as *Dunkin Donuts* and *Kentucky Fried Chicken* fit this model. These types of franchises *"are constituted as an operating system to market either a product or service that, coupled with a trademark, identifies all parts of the system. The basic elements of this format of franchises are the trademark, royalties and the provision of services and/or products."*

3. Format franchise: consists of the franchisee receiving a complete guide to operate the business through manuals, advertising support as well as assistance by the franchisor in finding the right place for the installation of the business. Assistance is also available in the purchase of equipment and adequate sourcing of raw materials or products, training and training of personnel. This assistance is extended during the existence of the franchise agreement.

1.4. The franchise package

The franchise package, also known in the United States as a Package Deal or as a Blue Print in the United Kingdom, refers to the set of documents describing the experience and know-how of the franchisor as well as the rights and obligations of the franchisor and franchisee. The manuals will constitute the essential element to transmit the knowledge of the franchisor to the franchisee. Therefore, the franchise package has a double mission. Firstly, it acts as an element of transmission of the know-how and secondly, as a formative element of the franchisee (Díez de Castro & Galán González, 1998). "*Although it is extremely difficult to specify what the content of the franchise package should be, we believe it could be grouped into the following sections: information dossier, legal documents, operating manual(s), budget plan and training methods*" (Díez de Castro & Galán González, 1998).

1.5. Types of manuals

The manuals of a company franchise are indispensable to guarantee success in all the franchised units, since they are fundamental to assuring the standardization of the products and/or services of this franchise. In addition, by being clear about the franchise's operational processes, a good relationship with the franchisee is promoted, since knowing the business guidelines will allow all involved to know exactly how to handle situations and what are known as the "rules of the game." In this way the franchisee may meet all the pre-established conditions.

Also, since the manuals are a type of guide, staff training is much easier to standardize when presented in a structured way which in turn saves time and money when training staff. It is very important to take into account that the manuals of a franchise may be different from those of another since they vary according to the type of product and service offered by a company and its business model.

"The preparation of the manuals is based on the documentation of the processes required to implement sets of activities in the prototype unit to be franchised. (...) The policy of the company, as well as its system of secrets and values must be reflected in the preparation of the manuals, whose purpose is to disseminate them through a franchise system" (Dí Costanzo, Vilalta, & Cárdenas, 1997).

In addition, it must be considered that the manuals are not only delivered to the franchisee by the franchisor. In the case of the master franchise, the sub-franchisor operates as a franchisee and it also operates as a franchisor against its sub-franchisees. Therefore the sub-franchisor must be provided with all the information it needs as well as the manuals to operate as a franchisor (International Institute for the Unification of Private Law, 2005). Among the different types of manuals there are:

The operations manual

It describes the procedures and materials used to ensure the success of the franchise. It must be detailed and reliable to solve any problems that the franchise unit may face and must cover the essential aspects of the administration, legality and function of the franchise system. In addition, it must be dynamic and accept changes that generate new clients, better financial results and that can improve the franchise (Dí Costanzo, Vilalta, & Cárdenas, 1997).

The training manual

First it is important to know that there are two types of training in a franchised unit. The first offers formal training when one acquires the franchise and the second continuous training when the business is underway. Therefore, the training manual should be designed according to the specific characteristics of the franchise but should generally contain information on basic operations training, accounting, administration, employee training, architectural plans and specifications, criteria for selecting the point of sale, control of inventory and purchases, advertising and sales promotion, legal aspects, insurance, and equipment and maintenance (Dí Costanzo, Vilalta, & Cárdenas, 1997).

Quality control manual

This manual helps the franchisor to maintain standards of product quality, service performance and presentation of the location. The general areas to be covered by

this guide are the physical appearance of the franchised unit, adherence to operational procedures and compliance with of quality control standards and employee presentation. In addition, it should include the form of evaluation that will be carried out by the field staff, explaining what will be evaluated and how the information will be processed so that there is a good relationship between the franchisor and the franchisee (Dí Costanzo, Vilalta, & Cárdenas, 1997).

Marketing manual

This manual consists of a description of the business in which the franchisee wants to enter and the orientation towards the client. It must convey the general market philosophy of the franchisor, packaging detail, labeling and services to the client. It is very important to describe the position of the business in the franchise system and in the face of competition, market segmentation and consumer groups towards which the franchise is oriented as well as the marketing mix: price, product, distribution and promotion and the activities that must be carried out in each one (Dí Costanzo, Vilalta, & Cárdenas, 1997).

Corporate image manual

This is a document that defines and normalizes the patterns of design and application of the different visual elements that define the corporate identity of a company so as to establish a graphic homogenization and facilitate the characterization of said identity in order to achieve business objectives (Burgos Pavon & Fernández Iglesias, 2010). It is important that the manual includes information and instructions regarding the correct use of the logo and the brand in general, the type of typography and color versions accepted, instructions regarding the external and internal image of the logo and the physical location description, that is to say the facade, the furniture, decorative elements, among others.

1.6. Advantages of the franchise system

There are many advantages as well as disadvantages for the person who offers and for the one who acquires the franchise. According to the book *Desarrollo de Franquicias* by Dí Costanzo, Vilalta and Cárdenas, there are a number of advantages.

1.6.1. Advantages for the franchisor

Directed and controlled business expansion

The administrative resources that the franchisor has can be addressed to improve the product or service, rather than solve problems that may occur in franchised units, which are in most cases resolved by their owners, not the franchise.

Permanent income through royalties

The royalties ensure that the franchisor receives constant income from the franchised units. The franchisor must ensure that all of them are successful for this income to be for outstanding development, and not only to comply with the payment.

Greater knowledge or dissemination of the concept, product or service developed originally.

The franchised product or service creates an image of security, permanence and prestige within a market and which drives the development of more franchised units.

Possibility of rapid growth and market penetration

It is much easier to enter a market with franchises that are already recognized by customers. In addition, it is also easier to open new franchises using funds from the franchisees, than opening branches alone throughout the country.

Profits in the short and long term

The franchiser receives income at the time of selling the franchise, as well as periodic income from royalties that result in a profitable business.

1.6.2. Advantages for the franchisee

Recognition of the brand in the market

Since the franchisee enters the market with a brand that is previously known.

Recognition of the product's attributes

Considering the features of the product or service provided are already known, customers will not hesitate to go to any of the franchised units, because they know that the quality will meet their expectations.

Reduced risk of entering into a new business

Entering to a new market through a franchise reduces the uncertainty of knowing if the business will have success, because it is known that the business is proven and its results show a greater chance of success.

Permanent support and consultancy

The experience of the franchisor enriches the franchise's proven reliability, becoming one of the biggest advantages for the franchisee

Globalized advertising efforts between franchisees and the main franchise

Uniformity of the product or service

The franchisor ensures the uniformity of the product and the service to be provided through the operation and service manuals. This provides knowledge in the management of the business, how to sell the product or service and the training on technical and operating elements for the success of the business.

1.6.3. Economic advantages

Growth of the economy

The economy in general has improved due to the constant increase of the number of franchises in the world. These have turned into the fundamental prop in the maintenance and development of the commercial sector (Díez de Castro & Galán González, 1998).

Price reduction

The franchised networks enable the franchisor to purchase large amounts of products to distribute to its franchisees, making possible to enjoy economies of scale prices, lower costs and to achieve reduced sale prices to clients, in quality/price relation (Díez de Castro & Galán González, 1998).

Birth of new businesses

The franchiser companies usually set a rhythm of annual growth, which is translated in the opening of new branches, constituting new companies (Díez de Castro & Galán González, 1998).

Franchises contribute to the modernization of the commercial structures of a country

Their system is a modern form of trade that benefits all members of the distribution channel: manufacturers, wholesalers, retailers and brokers. In this way it helps to modernize the commercial structures of the places in which it operates (Díez de Castro & Galán González, 1998).

1.6.4. Social advantages

Franchises create stable companies

Usually companies in the franchise system have a much higher survival rate than other forms of trade, since a previously proven business system is marketed. This creates companies that enjoy greater stability (Díez de Castro & Galán González, 1998).

Provides employment

Due to the fact that more stable companies are created, they generate more work opportunities for the people in the franchise área (Díez de Castro & Galán González, 1998).

It allows access for people without experience to their first employment

The franchisor provides its own franchisees operative manuals as well as necessary training for new employees to operate the franchise (Díez de Castro & Galán González, 1998).

It promotes research and development

A franchised company, in order to be successful, must be a pioneer in the research and development of new products or services and offer products of the highest quality to its franchisees (Díez de Castro & Galán González, 1998).

1.7. Disadvantages of the franchise system

One of the main disadvantages that may arise is when a good relationship between the franchisor and franchisee does not exist, that is to say, the existence of strong disagreements. This is because the main success lies in the existence of good channels of communication between the two parties to transmit the experience of the business and in the same way receive feedback from the processes carried out (Dí Costanzo, Vilalta, & Cárdenas, 1997). In the book *Desarrollo de Franquicias* the following disadvantages are mentioned:

1.7.1. Disadvantages for the franchisor

Possibility of loss of control over the activities carried out by the franchisee

While operating a franchise many of the decisions remain in the hands of the franchisee. In addition, the franchisor cannot control the prices of the products; they can suggest, but not impose them. Moreover, the franchisor cannot control the total quality of the product or service. Although franchisor could sell the raw materials or products, the franchisees are not always in obligation to buy. However, they will be more likely to succeed if they follow the quality standards imposed by the franchisor.

Finally, it becomes difficult to control the personnel that operate the franchised units, since it cannot be provided by the franchisor. Therefore, there is no assurance that the business will operate in a secure way. In Ecuador, since outsourcing is banned, franchisees cannot have trained personnel hired later in the franchised units, according to the Constitutional Mandate 8 of the Constitutional Assembly.

Multiplication of the business's risks in case of failure of one of the franchised units

In case one of the franchised units is not successful, the franchisor runs the risk of being sued. However, this type of inconvenience can be avoided if the contract sets out clearly all the possible realities. It also must determine actual figures for profits.

Use of own resources to boost the start of franchised units

To promote the business model, a large investment by the franchisor is required, starting from the establishment of the pilot business and up to the development of operational manuals, training of staff, and registration of the brand, among many others.

The risk of generating a competitor

Due to the extensive body of knowledge imparted to the franchisee and the impulse provided to the franchised units, they might want to become independent and operate by themselves in the future. This could not only bring competition problems, it could also lead to legal problems since the franchisor did not transmit its experience in the business and its know-how only to be owned by others for their own benefit.

1.7.2. Disadvantages for the franchisees

Acquiring a franchised business franchisee brings many advantages and, at the same time, it can bring some disadvantages for the franchisees since they lose the freedom to run their business and have to follow previously established rules and standards. According to the book *Desarrollo del Sistema de Franquicias*, the disadvantages of the system for the franchisees are the following:

Permanent payments to the franchisor

The franchisees must pay royalties constantly and permanently. These reduce the percentage of net earnings, considering part of the work carried out by the franchisee must go to the franchise. This is different from a business owned by the same person who gets 100% of the profits.

Constant and meticulous adherence to the standards set by the franchisor and lack of independence

This does not allow the franchisees to have unfettered freedom to run their business since all the processes and operation details are specified and developed in the manuals and which the franchisee is obliged to obey.

Surveillance

The franchisor should ensure the proper functioning of the franchised units. He should give continuous follow-up with the management of the franchise, which in many cases is interpreted by franchisees as surveillance, creating a kind of discomfort (Dí Costanzo, Vilalta, & Cárdenas, 1997).

1.8. Factors to consider in order to internationalize a franchise

Cultural, social and even legal differences that exist amongst different countries create the need to consider transcendental factors when thinking about the international expansion of a franchise. The countries of the franchisor and the franchisee may be similar or different in aspects such as:

a. Language

It is common that in a franchise system, the language is different both in the country of the franchisor and of the franchisee; or if it were of the same language certain words or phrases may have a different interpretation. It is therefore necessary to

emphasize that the franchise contract must be developed or drafted in an understandable language for both parties to avoid future confusion. Karla Cordero in *El contrato de franquicia mercantil internacional y su aplicación en el Ecuador (2013)* affirms that the importance of translating the contract is not only for the understanding of the parties but also to comply with the technical formalities required in each country. The manuals, the slogan and in some cases the motto should also be translated.

b. Currency

Although in the majority of cases the payments required for the establishment and operation of the franchise are made in the currency of the franchisor, the currency to be used should be specified to prevent further complications (Cordero K. , 2013).

c. Brand protection

It is necessary to bear in mind what international agreements and to what norms on intellectual property the host country of the franchise has adhered to. This is necessary in order to consider the adequate process at the time of the registration of the brand in the corresponding public entity of that country (Cordero K. , 2013).

d. Conflict resolution

Considering that a franchise contract can be national or international, the law that will regulate such contract must be specified in case there is any type of conflict (Cordero K. , 2013).

e. Adaptation of the franchise agreement to the rules of the host country:

The most important are those that regulate aspects such as leasing, tax laws with regard to shipment of products, property ownership, as well as laws on monopoly and disloyal competition (Cordero K. , 2013).

1.9. General obligations of the franchisor and the franchisee

The model of commercial expansion through franchise is not in itself a business, but a special system of trade association that adapts to almost all sectors of activity (Muñiz, 2016), like education or trade sector, also restaurants, construction, etc. For this adaptation to happen, it is necessary to know what the obligations of each party are within the franchise, both of the franchisor and the franchisee. If what each party must comply is clear, the franchise might be much more successful.

1.9.1. General obligations of the franchisor

The franchisor must have a brand, product or service duly registered and introduced on the market with proven success and that can be easily transmissible (Muñiz, 2016). In addition, the know-how of the franchise should be transmitted through training and permanent assistance to the franchisee. The franchisor must also be aware of monitoring, internal communication, research and support services.

It is necessary to consider infrastructure to provide a quality service. The name must be recognized locally and, if possible, nationally and internationally. At the same time, the franchisor must be continually informed of the latest developments at the technical and marketing level of the brand's promotion and publicity. This will assist in requiring franchisees to apply successes to each one of the franchises.

It is necessary to establish a properly balanced contract between the parties where specific steps, clauses and rules to be followed are clearly defined. The franchisor must establish the corresponding operative manuals which must communicate all the necessary processes that can guarantee the franchise's success. It is also important that the franchisor carry out an appropriate franchisee selection. In conclusion, in the words of Osvaldo Marzorati, the franchisor must provide the products and/or services of the franchise, train the franchisee, offer him permanent assistance, that is to say to undertake completely a commitment with its franchisees. (Marzorati, Franchising, 2001)

1.9.2. General obligations of the franchisees

As a first step the person or legal entity that wants to acquire a franchise must understand in depth the franchise system and adapt to the corporate philosophy. The franchisees must pay the entrance fee, which means they must have economic solvency to face such an investment and to purchase or lease a property, cover set up and implementation expenses, and to be able to offer a quality infrastructure. Furthermore, they must have the professional capacity to carry out the requirements of the business to be franchised while counting with a trained team (Muñiz, 2016).

Another obligation is to use the trading system provided by the franchisor while always respecting the instructions in regard to the use of the brand, price, image and quality of the product or service, as well as the guidelines established in the

contract and in the operational manuals. The franchisees must also have a healthy relationship with the franchisor, based on respect and trust to solve or assume any problems that may arise (Muñiz, 2016).

The franchisees must possess the necessary qualities to operate a franchise, such as loyalty, ethics, perseverance, entrepreneurship and effective communication. In addition, they must know that their ability to operate the business determines the franchise's success. Therefore, the franchisor must choose carefully who will lead the future of the business (Muñiz, 2016).

1.10. National and international franchise legislation

1.10.1. National legislation

"In Ecuadorian legislation a franchise is a commercial contract that is innominate. This means it has no regulation or a name within the legislation. These types of contracts have been generated because of needs that retailers have, and therefore often depend on their consent or on their private interest, with the only limitation that agreements or contracts are not contrary to public order, and do not have an illicit objective" (Cordero J. C., 2016).

The franchise contract is quite common within the business scope. However, it is a contract that has no legal basis because its characteristics are not detailed, since these depend on the agreement between the parties (Cordero J. C., 2016).

In opinion of Dr. Juan Carlos Cordero, professor of the University of the Azuay:

"There is no such legislation, since it could threaten the very nature of the franchise contract. Such contracts are used because they are attractive for merchants, since they do not limit their capacity to discern the real interests in a given business, which is why the merchant has and sets its own rules. In this case the contract is a figure of mercantile law, recognized in our legislation but under the principle of party autonomy."

As for the necessary legal requisites to establish a franchise in Ecuador, these depend on what the franchise consists of. For example, if the use of the brand is granted, the legal requisite is that the franchisor is the holder of the brand. Another

type of legal requisite can be, for example, that the product or service that is offered to clients fulfills the established parameters. Therefore, the legal requisites will depend on what the franchisor wants to negotiate in the franchise contract (Cordero J. C., 2016).

However, there are several regulatory bodies such as the Civil Code, the Labor Code and the Commerce Code, which contain certain dispositions related in some way to franchises contracts. Also, the Organic Code of the Social Economy of Knowledge, Creativity and Innovation (Código Orgánico de la Economía Social de los Conocimientos, Creatividad e Innovación) contains dispositions respecting brands, patents, trade names and unfair competition, among other things.

Commerce Code

The Commercial Code regulates the mercantile activities system in general, Article 1 expresses:

Art. 1. "The Commerce Code governs the obligations of traders in their business operations, and the acts and trade contracts, although they are executed by non-traders."

This article includes the types of contracts denominated franchises, which are complemented by the Art. 5 and Art. 6 of the same Code.

Art. 5. "In cases that are not specially resolved by this Code, the dispositions of the Civil Code will be applied."

Art. 6. "Any person who, according to the dispositions of the Civil Code, has the capacity to contract, also has to exercise trade."

Civil Code - Fourth Book

The Civil Code of Ecuador, in one of its books, regulates contracts in general, referring to agreements of obligations of the parties and to the legal capacity of persons whether they are individual or legal entities

Art. 1454. *"Contract or convention is an act by which a party accepts to another to give, do or not do something to another party. Each part can be one or many people."*

Art. 1460. *"Each contract should distinguish the things that are its essence, the ones that are its nature, and the purely accidental. A contract's essence, is these things without it has no effect, or it degenerates into another different contract. A contract's nature is the thing that, not being essential, is understood to belong to it, without the need for a special clause. The incidental parts of a contract are those that neither essentially nor naturally belong to it, and that are added by means of special clauses."*

Art. 1588. *"Any contract is law to the parties."*

Labour code

This Code regulates the activities of work, article 1 expresses: *"the precepts of this Code regulate relationships between employee and workers and apply to practices and conditions of work."*

Organic Code of the Social Economy of Knowledge, Creativity and Innovation²

This Code was published in the Official Registry No. 899, on December 9, 2016, repealing the previous Intellectual Property Law, about its 3rd disposition established.

"The Ecuadorian Institute of Intellectual Property, as well as all the institutionality created by the Intellectual Property Law, published in the Supplement to Official Registry 426 of December 28, 2006, will exist by means of the corresponding Executive Decree, until a new national authority is created with the responsibility for of intellectual rights, responsible for the regulation, management and control of intellectual rights and traditional knowledge, belonging to the Executive Function and attached to the Secretariat of Higher Education, Science, Technology and Innovation, in a term that may not exceed 90 days as of the effectiveness of this Code."

Article 89 *"Intellectual property rights include mainly copyright and related rights, industrial property and plant varieties."*

² INGENIOS (Spanish Acronym)

According to the interview made to the Regional Deputy Director of Cuenca of the Ecuadorian Institute of Intellectual Property³, Dr. Susana Vásquez. The institute is not responsible for the subject of franchising.

“Basically IEPI has just the attribution in the registration of the franchise agreement, since it should include a clause on the licensing of the use of trademark; or in addition, if some type of industrial secret were alluded, since it follows a different process in our legislation its protection. In that sense, in the IEPI there is no obligation to register the contract, since it is optional to be done by the franchisee or the franchisor. In order to register the contract, a copy (of the contract) must be presented, the fee must be paid, and a form must be filled out. The legal effects arise from the registration of this contract and it has the objective of providing security and marketing against third parties.”

In addition, Dr. Vásquez was able to explain the difference between copyright and patent in our legislation: "The patent is registered for the protection of innovations from the technological and scientific point of view in our country. In other legal systems software is also patented, for example, but in our country it is just registered through copyright."

In this way, in the case of teaching procedures or methodologies, they should not be registered as a patent but through copyright. "It is possible to request the recognition of the rights on teaching procedures or methodologies at any time, because those rights do not expire or prescribe" (Vásquez S. , 2016).

Moreover, in relation to marks Art. 359, mentions that:

“(...) among others, the following signs may constitute trademarks:

- 1. The words or combination of words.*
- 2. Images, figures, symbols, graphics, logos, monograms, portraits, labels, emblems and shields.*
- 3. Sounds, smells and tastes.*
- 4. Letters and numbers.*
- 5. A color delimited by a shape or a combination of colors.*
- 6. The shape of the products, their packaging or wrapping.*

³ IEPI (Spanish acronym).

7. *The reliefs and textures perceptible by the sense of touch.*
8. *Animations, gestures and sequences of movements.*
9. *Holograms and*
10. *Any combination of the signs or means indicated in the previous sections.”*

Art. 415:

“A trade name means any sign that identifies a person or business establishment in the exercise of its economic activity and distinguishes it from others that perform identical or similar activities. A person or business may have more than one business name. A trade name, among others, may be a company name, corporate name or other designation registered in a register of persons or companies. The commercial names are independent of the denominations or business activities of the corporation, both being able to coexist.”

With the Organic Code of Social Knowledge, Creativity and Innovation Economy “Ingenios”, the process of registration of trademarks does not change, because it is replicating what is established in international treaties, specifically Decision 486, which deals with the common regime on intellectual property of the Andean Community. What this Code does is perfect certain details or inaccuracies that maybe have existed in the Law of Intellectual Property (Vásquez S. , 2016).

In conclusion, considering that the law has to keep abreast of the evolution of society to meet its needs, it is better that there is no detailed regulation in terms of franchising so that the advance ment of the law is not limited in the trade area considering that society and its needs are constantly changing. Therefore, it is positive that franchising companies have freedom of to establish the conditions they deem necessary according to their business model.

1.10.2. International Legislation

Commercial and international expansions are the main objectives of franchise contract. It is very important to know the existing legislation about franchises at international level. Considering, there are no conventions, treaties, or international laws directly related to franchises that regulate the majority of countries as they exist in other matters and that it is not possible to establish a single model franchise

agreement for the great diversity of types of franchises and business models, there is a need to unify the basic principles on franchising as a trading system.

The International Institute for the Unification of Private Law recognizes the growing role of franchising in a large number of national economies and the need for balanced information between the parties in the franchise agreement to improve economic and social interests and the further considerations that national legislators want to adapt the proposed provisions for the legislative procedures of each State. For those reasons, it created the Model Law on the Disclosure of Information in Relation to Franchising and its Explanatory Report as an example that is not mandatory for national legislators, but as an instrument intended to be a recommendation for States that have decided to adopt an specific legislation on this subject (International Institute for the Unification of Private Law, 2007).

It should be noted that the UNIDROIT institute is made up of 65 Member States, most of them from Europe. In America, its members include Argentina, Bolivia, Brazil, Canada, Chile, Colombia, Cuba, Mexico, Nicaragua, Paraguay, United States, Uruguay and Venezuela (International Institute for the Unification of Private Law, 2007).

Article 1 of the aforementioned law specifies that this law applies to franchises, and this must be granted or renewed for the operation of one or more business activities franchised in the territory of the State that adopts it. The explanatory report of the Model Law states the following:

“The law applies to franchises operating in the national territory of the State that adopts it, whether there are national or foreign origin. It is not intended to regulate franchises from a country that has adopted the Model Law and is operated in a country that has not adopted it, or to franchises whose only link with the State adopting the Model Law is the fact that it is the place where the agreement was signed.”

Article 6 of the mentioned law refers to the information that must be disclosed in the information document that the franchisor must provide to the franchisee. This includes the following.

- Trademarks, trade names or similar, under which the franchisor exercises or intends to conduct business in the State where the potential franchisee will develop its activity.
- A description of the franchise and the business experience of the franchisor and franchisee affiliates.
- Any insolvency proceedings, bankruptcy, or any other comparable procedure that has affected the franchisor and its affiliate in the previous five years and the judicial summonses in the matter.
- The total number of franchisees and establishments owned by the franchisor.
- Information on the franchisor's intellectual property rights that will be delivered to the franchisee, and in particular to trademarks, patents, copyrights, and computer programs.
- Information on goods and/or services that the franchisee must purchase or lease, indicating whether any of them must be purchased or leased to the franchisor, its affiliates, or a supplier designated by the franchisor.
- Financial issues, including an estimate of the total amount of the initial investment of the potential franchisee, the financing offered or negotiated by the franchisor and the financial statements of the franchisor.
- The duration and conditions of the renewal of the franchise.
- A description of the initial and the continuing training programs.
- The extent of the exclusive rights to be granted.
- The conditions under which the franchisee may terminate the franchise agreement and the effects of such termination.
- Limitations imposed to the franchisee.
- The initial franchise fee, and other fees and any other payments as well.

Also, considering the importance of trademarks in relation to the franchise in terms of the application for international registration, one of the requirements to be able to perform it is that the brand for which the international registration is requested is registered first at the national level. Applications for international registration are made at the industrial property office of the country of origin. It is this office that will forward the application to the International Bureau of the World Intellectual Property Organization after verifying and certifying that the brand is registered at the national trademark, registered in the name of the applicant and that the goods and/or services listed in the international application are covered by the national

registration. It is important to emphasize that the international registration takes effect only in those countries for which explicit protection has been requested (International Institute for the Unification of Private Law, 2005).

Dr. Susana Vásquez emphasizes that "there is not yet a system of international registration of trademarks worldwide; the registration is eminently territorial. When a trademark needs to be registered in the countries in which franchisors are interested, an application must be filed in each of them." This leads to the conclusion that it is not enough to carry out a single registration of trademark to have it secured in all the countries worldwide; the process is independent in each country.

In relation to agreements related to intellectual property that have influence at the moment of franchising a business or acquiring a franchise, there is the Paris Convention for the Protection of Industrial Property of 1835, of which Ecuador has been a member since 1999.

This Convention requires each of its country parties to grant nationals of other member countries the same treatment as it gives to its own nationals. One of the benefits of the Paris Convention is the right of priority according to which protection may be requested in all other member countries with an ordinary application of an industrial property right filed in one of the member countries. In the case of trademarks, the period of time within which subsequent applications must be made is six months maximum (International Institute for the Unification of Private Law, 2005).

At the level of the Andean Community, there is Decision 486 on the Common Regime on Industrial Property, which also refers to Article 2 to grant treatment no less favorable than that accorded to its own nationals for other members countries nationals of the Andean Community, World Trade Organization and the Paris Convention for the Protection of Industrial Property.

In general, Decision 486 also refers to rules related to industrial property such as patents, licenses, trademarks, trade slogans, industrial secrets, collective marks, geographical indications, unfair competition, the right of priority, among others; which can be applied specifically in the Andean Community that is also based on the Paris Convention on Industrial Property.

Therefore, if an Ecuadorian franchise has an interest in registering its brand in neighboring countries such as Peru and Colombia, its Ecuadorian application can be enforced in each of these countries, as established in Decision 486. This claims the right of priority, which allows the applicant to be considered as the first person to register that brand. However, there is a procedure that has to be followed and subjected to the legislation of each country; in this case, would be similar to the rules contained in the Andean Decision that unifies to a certain extent the applicable legislation in all the countries of the Andean Community. However, each country is sovereign in relation to the application of its legislation (Vásquez S. , 2016).

In the same context, it is important to mention the Madrid Agreement Concerning the International Registration of Brands.

“The Madrid System of international registration of brand is governed by the Madrid Agreement, adopted in 1891, and the Protocol concerning to that Agreement, adopted in 1989. The system allows protecting a brand in a great number of countries by obtaining an International Registration which takes effect in each of the Contracting Parties which have been designated” (World Intellectual Property Organization, s.a.).

“In accordance with the Madrid Agreement, nationals of countries party to the Agreement are entitled to apply for international registration. Similarly, nationals of countries not party to the Madrid Agreement, but part of the Paris Convention who have their domicile or an effective and serious industrial or commercial establishment in a country party to the Madrid Agreement, are placed in an equal position with nationals of countries part of the Madrid Agreement” (International Institute for the Unification of Private Law, 2005).

Therefore, if an Ecuadorian franchise would like to register its trademark internationally under this Agreement and this franchise has a commercial or industrial establishment in one of the countries party to the Agreement, it could do so since it is part of the Paris Convention as well.

Dr. Vásquez confirmed this interpretation and said that it is an application for trademark registration, but not directly registration. She also mentioned that "the

European Union has a different system to that of the Andean Community, since they have a Community Trademark System. In addition to the national trademark, they have the possibility to register within the European Union, since the Madrid Agreement is in force in this political community.”

The International Classification of Goods and Services for the Registration of Brands, also known as the "Nice Classification", is mandatory for the national registration of brand in countries party to the Nice Agreement and for the international registration of brands carried out by the International Bureau of WIPO under the Madrid Agreement. Ecuador is not part of the Nice Agreement, however if it is part of the countries that use the aforementioned Classification since November 2011 (Assembly of the Nice Union, 2016).

In this context, since the purpose of present thesis is to establish a franchise of an educational institution, the registration of its brand corresponding to the Nice Classification would be done according to class 41.

“Class 41: includes mainly services provided by persons or institutions for the development of the mental faculties of persons or animals, as well as services designed to amuse or entertain.

This class includes the following.

- *All services related to the education of persons or the dressage and training of animals.*
- *Services whose main purposes are recreation, amusement and entertainment of people.*
- *Services for public presentations of works of fine arts or literature related only to cultural or educational purposes” (Assembly of the Nice Union, 2016).*

On the other hand, there is Decision 291, which refers to the Common Regime for the Treatment of Foreign Capitals and Trademarks, Patents, Licenses and Royalties. In chapter IV, paragraph 14 this decision establishes that for the purposes of registering contracts on the transfer of external technology, trademarks or patents, all member countries must ensure that such contracts do not contain the following.

- a. *“Clauses under which the supply of technology or the use of a trademark carries an obligation of the host country or enterprise, to acquire, from a particular source: capital goods, intermediate products, raw materials or other technologies or to use permanently personnel designated by the company provider of technology.*
- b. *Clauses according to which the company that sells technology or the grantor of the use of a trademark, reserves the right to set the prices of sale or resale of the products that are elaborated centered on the respective technology.*
- c. *Clauses that contain restrictions regarding the volume and structure of production.*
- d. *Clauses prohibiting the use of competing technologies.*
- e. *Clauses establishing total or partial purchase options in favor of the technology supplier.*
- f. *Clauses that oblige the technology buyer to transfer to the supplier, inventions or improvements that are obtained by virtue of the use of said technology.*
- g. *Clauses requiring the payment of royalties to patent or trademark holders, for unused or expired patents or trademarks.*
- h. *Other clauses having equivalent effect.*

Except in exceptional cases properly qualified by the competent national body of the receiving country, clauses prohibiting or limiting in any way the export of products made on the basis of the respective technology shall not be permitted. In no case shall clauses of this nature be accepted regarding the sub regional trade or export of similar products to third countries.”

Finally, when seeking a solution of problems between franchisors and franchisees, national and international associations have been used to develop codes of conduct to pursue the balance of parties through declarations of good intentions of the franchisors (Díez de Castro & Galán González, 1998).

One of the most important and complete codes of ethics that of is the International Franchise Association, which applies to franchisors or franchisees in the United States. The five sections that form this Code establish criteria for the functioning of the association, conflict resolution procedures, moral principles and standards of conduct, which includes information to be provided, principles of good faith and

cooperation among members the rights of the parties, the conditions of supply of resources, among other aspects (Díez de Castro & Galán González, 1998).

Alternatively, the Code of Ethics of the European Franchise Federation is a treaty of good customs and conduct among the users of the franchise system in Europe in all its operations or forms, with the exception of the master franchise. One of the most relevant aspects of this Code is that it establishes behavioral guidelines to protect the truthfulness and objectivity of all advertising and information generated for the franchise, even after the franchisees are selected, and during the term of the contract. At the same time, it establishes the minimum content of obligations, the rights at the time of expiration and the conditions of renewal of the contract, the transfer of the business to a third party and payments to be made by the franchisee, among others (Díez de Castro & Galán González, 1998).

Finally, there are other codes also related to franchises which have less relevance, including the Code of the French Federation of the Franchise, the Code of the Belgian Association of Franchising, the Code of the British Franchise Association, the Code of the Japan Franchise Association and the Code of Association in general.

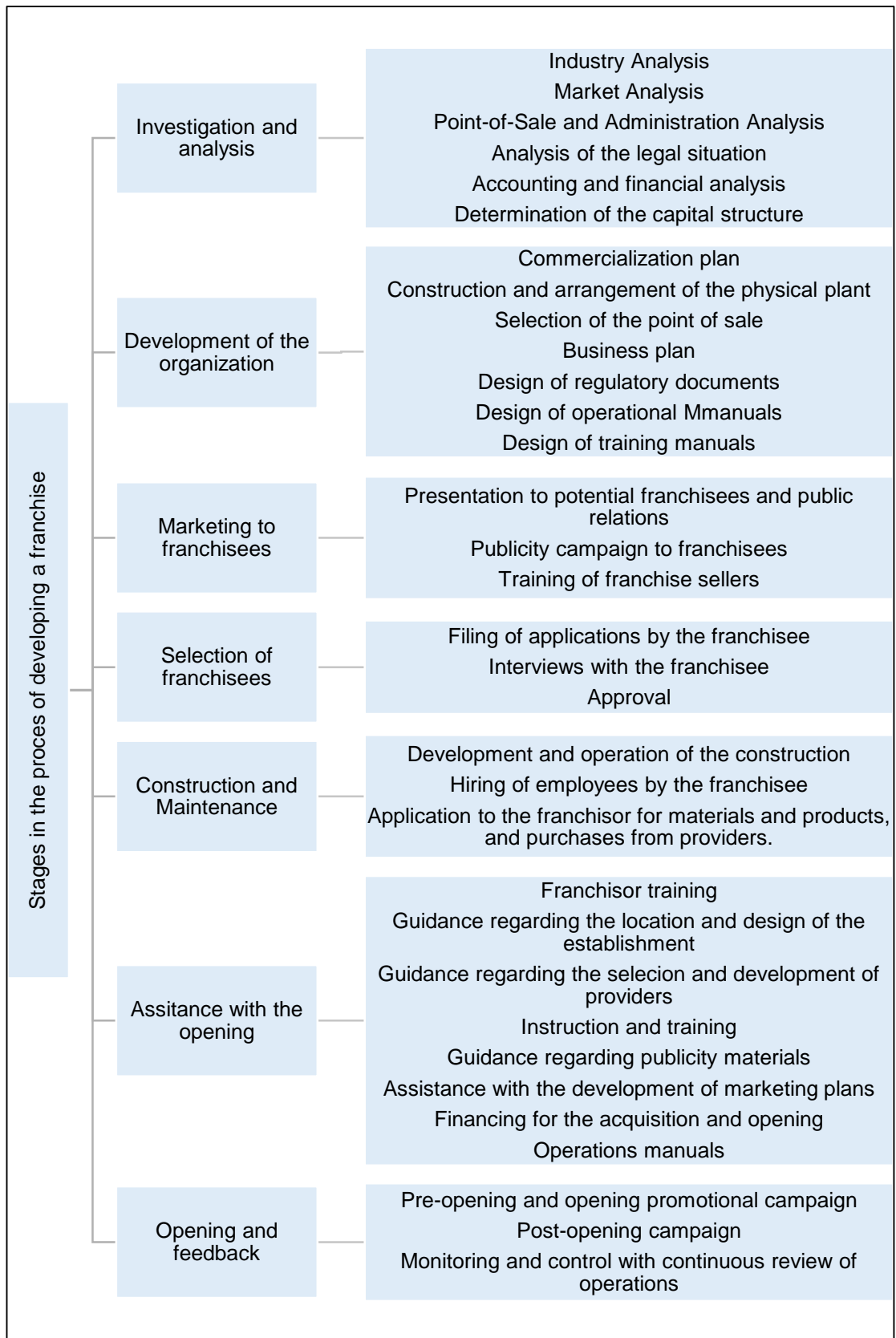
CHAPTER II BUSINESS MODEL OF FINE-TUNED ENGLISH TO ESTABLISH ITS FRANCHISE

2.1. Methodology for the Creation of the Franchise System

In order for a franchise to succeed, the potential franchisor needs to clearly understand the process of creation of a franchise, so that it can be established in a correct, legal manner with the best possible franchisees who will replicate his business success.

In the book *Desarrollo del Sistema de Franquicias (Development of the Franchise System)*, the stages of the franchise development processes are clearly established. They suggest a series of activities which allow the continuous and orderly expansion of the franchise model.

Figure 2 Stages of the process of development of franchises.



Source: Personal compilation based on the book *Desarrollo de Franquicias*

The steps mentioned in the previous figure have been considered as an ideal guide for the process that Fine-Tuned English should utilize in order to create its franchise system and to internationalize its business model.

Investigation and analysis

In this preliminary stage a superficial study should be undertaken of the internal and external conditions which the business must confront as it constructs a franchise. Included among the indicators which must be analyzed, and corresponding with the steps in this stage indicated in Figure 2 are analysis of Ecuadorian legislation, accounting and financial analysis (including sales averages, average investment in the points of sale, financial ratios, calculation of royalties and utility) and analysis of market potential, among others.

Development of the organization

The activities of this stage constitute the basic nucleus of the business to be franchised, since its success depends upon them. They should include aspects such as commercialization plans, which in turn contain promotional plans and a market analysis of the places where the franchise might be commercialized, as well as the selection of an appropriate location for the franchise, as determined by the affluence of its clients, the development of the business plan, and the creation of regulatory documents and manuals.

Marketing to franchisees

In this stage, the complete image of the franchise should be displayed in order to attract franchisees. This is based on the presentation of the franchise package, investment requirements and franchisee profile, as well as campaigns in trade magazines, flyers, trade shows and conventions, among others.

Selection of franchisees

This stage is critical. If the selection is correct, the franchise is able to develop rapidly. For this reason, the basic information of potential franchisees must be carefully scrutinized. It is also important that the franchisees account for the necessary economic resources for the investment. When the candidates fulfill the requirements and pass the personal interview, the assignment of territories must be analyzed prior to signing the contract.

Construction and maintenance

During this stage, concurrently with the construction or selection of the site where the establishment will be located, the franchisees should be provided with training which enables them to hire the necessary personnel and then begin to make purchases from authorized providers.

Assistance with the opening

The opening is a very important moment in the franchisor-franchisee relationship, since it is the point at which their joint business comes into being. Therefore, the transmission of the characteristic concepts of the franchise is necessary, along with the location of the establishment based on demand projections and market potential, besides pertinent consultation and training.

Opening and feedback

In this step, a correct design for the publicity campaign must be carried out before the opening and throughout the life of the franchise. A promotional plan must also be developed, without forgetting about the system of supervision and support for the franchisee.

2.2. Franchise package of Fine-Tuned English Ltd. Co.

The franchise package will contain an informative dossier in which the business will be introduced along with the services it offers. In addition it will demonstrate its evolution throughout its experience. It will also contain manuals, training methods, investment budget and the franchise contract.

This was presented as a proposal to the General Director and the Manager of the enterprise; pertinent changes were made along with the authors in order to tailor it as closely as possible to the reality of the Institution. In this way, the following information was approved to be developed in order to establish the Fine-Tuned English franchise.

2.2.1. Informative dossier (Introduction of the franchise)

Fine-Tuned English Ltd. Co. has demonstrated in over than two decades of experience that its teaching methods have the necessary acceptance to expand its educational services to the national and international level.

2.2.1.1 History of Fine-Tuned English Ltd. Co.

According to its archives, Fine-Tuned English Language Institute was legally and officially constituted in the city of Loja, on November 4, 1992. Its functioning was authorized by the Ministry of Education and Culture through Ministry Resolution 034-SD-DINEPP of January 7, 1993, currently regulated by the Norms and Resolutions of the Technical Secretary of the National System of Qualification and Professional Training, based on Resolution SO-03-003-2016 of July 15, 2016, published in Official Registry 837 of September 9, 2016. The developers and promoters of this educational institution are two professionals in the field of English Education: Dr. Saula Aguilar de Ludeña and Mr. Edgar Iván Abad Villavicencio.

Fine-Tuned English Language Institute is the pioneer institution in driving English learning in the city of Loja. With the objective of resolving the pedagogical, didactic and linguistic deficiencies observed in the great majority of the primary and secondary educational centers, and as a part of its process of growth and evolution, it broadened its field of action to the city of Catamayo in the provincial level and to the province of Zamora Chinchipe in the national level. It offers courses for children, teens and adults, without neglecting to project to other cantons, cities and countries in the future.

By virtue of its serious and innovative labor, Fine-Tuned English has gained credibility and the confidence of the citizens of Loja to such a degree that it has seen an exponential growth in its student population. This has inspired this educational establishment to continue improving itself in order to contribute to the advance of education, science, and culture of Loja and all of its zone of influence.

2.2.1.2. Company Mission

The mission of Fine-Tuned English Language Institute is to offer an efficient and effective service in the teaching and learning of the English language. This is achieved through the continuous improvement of the linguistic, pedagogical and technological process in order to optimize the development of competencies, skills and cognitive, cultural and personal abilities with the goal of fostering self-improvement and human achievement (Fine-Tuned English Ltd. Co., s.a.).

2.2.1.3. Company vision

Fine-Tuned English Language Institute, in the context of the knowledge-based society, globalization, the scientific-technical revolutions of the 21st century, the cultural changes and emergent values, is an educational center with provincial, national and international influence. It has a participative leadership and a new organizational concept to meet growing societal and educational demands with regard to the teaching and learning of the English language, centered on a student who learns through interchange, richness and intercultural experiences, with a recognized efficacy and efficiency (Fine-Tuned English Ltd. Co., s.a.).

2.2.1.4. Company Values

Fine-Tuned English seeks to continue reciprocating the support of the citizens and the interest manifested by its students in learning English. This approach demonstrates the credibility of the institute and its responsibility for guaranteeing ongoing professional training of its teachers. It fosters stability and good working conditions among all of its employees. It also demonstrates its honesty in administering its resources in a legal and transparent manner, with the goal of securing the trust of its clients. Finally, offering a quality service begins with correct management of times and schedules in order to carry out projects or complete deliveries, for which reason punctuality is encouraged. (Fine-Tuned English Ltd. Co., s.a.).

2.2.1.5. Services offered

Fine-Tuned English is dedicated primarily to the teaching of the English language and related services. These are detailed as follows:

- English courses for international communication for children, youth and adults.
- English for auditory, communicative, and motor development (children 3-5 years old).
- Student exchange programs with the USA and Canada.
- Preparation for the international Cambridge ESOL exams.
- Intensive courses for travelers and professionals.
- Spanish classes for professionals.

- Remedial and Vacation courses.
- Conversation club.

It also grants:

- Scholarships for the best students.
- Certificates of Completion at each level, endorsed by the Ministry of Education and Culture.
- Certificates of Proficiency in English.

2.2.1.6. Facilities

Fine-Tuned English Loja

The primary institute is located on Macará Street between Miguel Riofrío and Rocafuerte. It has eighty-seven employees and twenty-four years of experience.

Fine-Tuned Catamayo

This satellite school can be found at 24 de Mayo Avenue 08-21 and Juan Montalvo. It has eight employees and has been functioning for nine years.

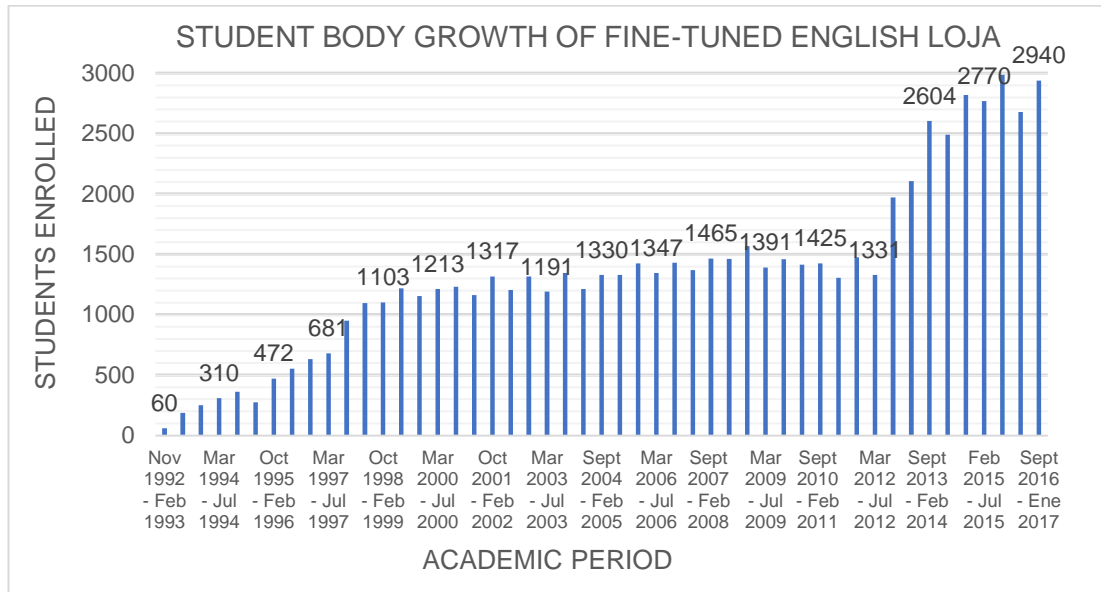
Fine-Tuned Zamora

This second satellite school is found on García Moreno Street near Pasaje 12 de Febrero, has ten employees and has been in business for seven years.

2.2.1.7. Evolution of the Institution

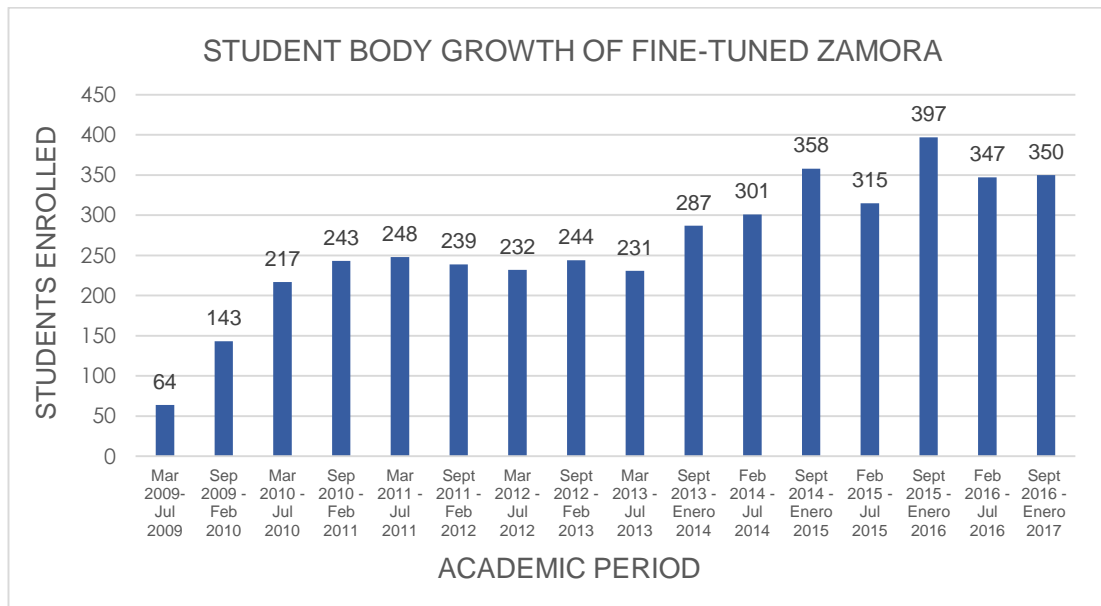
Appendix 3 contains detailed information about the growth of the student body at the three centers, which is represented in Figure 3.

Figure 3 Student body growth of Fine-Tuned English Loja



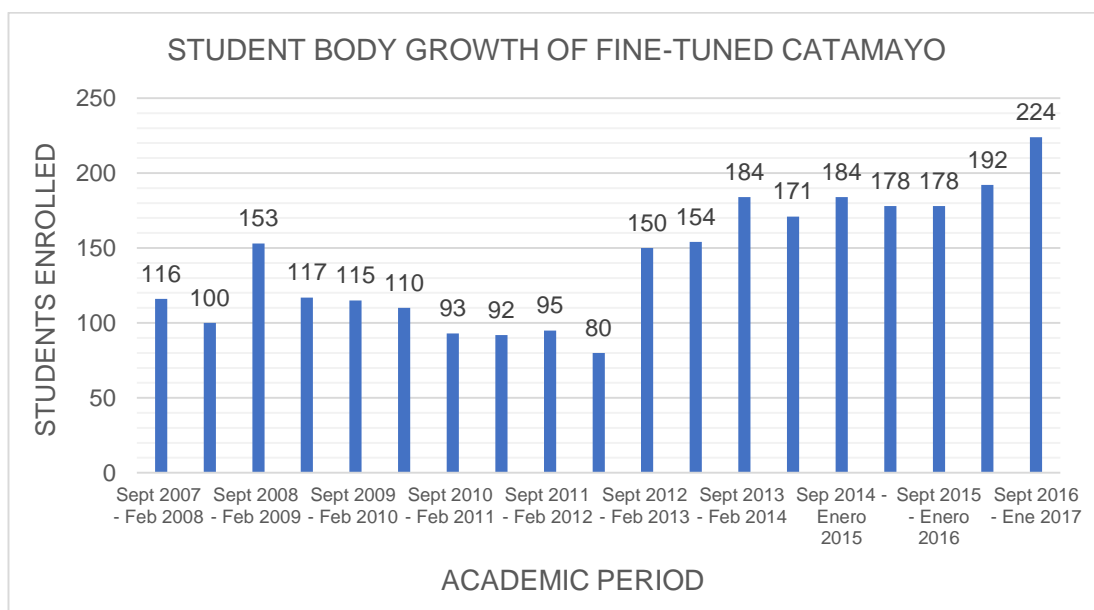
Source: Personal compilation based on the company’s archives.

Figure 4 Student body growth of Fine-Tuned Zamora



Source: Personal compilation based on the company’s archives.

Figure 5 Student body growth of Fine-Tune Catamayo



Source: Personal compilation based on the company's archives.

As shown in the previous figures, there is usually a reduction in the quantity of students registered in the academic period beginning in the first months of the year, which regularly begins in January or February. On the other hand, the center with the highest growth rate is the site in the city of Loja, which has more years of experience and is located in a bigger city, compared to the other two establishments. For their part, the Zamora and Catamayo sites have increased their student numbers, although at a slower rate than the main branch of the Institute.

These two establishments have served as pilot centers to test the reception of this business model and English teaching method in other locations. The experience in the aforementioned centers served the institute in improving the method and adapting it to other markets where the study of English is not very common among the inhabitants.

An analysis of the data presented in the diagrams also yields insights into how this business model has been developing in different locations, demonstrating at the same time that, in spite of the fact that not all of the centers have grown at the same speed, they have succeeded in maintaining stability in their markets, passing the point of equilibrium.

It can be argued that the Fine Tuned English centers show a stable growth trajectory, thereby proving that it is in fact a sustainable business, tested, and therefore suitable for its national and international expansion.

2.2.2. General Characteristics of the Manuals

Due to a confidentiality agreement between the authors of this thesis and the company about which it is being written, the manuals below will be presented in outline form, and not developed in depth.

2.2.2.1. Human Resources Management Manual

a. Introduction

The management of human talent is a process in which every one of the people who make up the organization is considered so they fulfill their functions in the best possible way, to achieve the goals of the organization.

The human resources management manual will explain the organizational structure and model. At the same time it will incorporate a description of the role of each of the positions comprising each department of the company. As well, it illustrates the roles and functions that the personnel should accomplish and the manner of in which their performance will be evaluated. Therefore, this manual will offer the franchisees the general guidelines that should be considered when hiring staff for the establishments.

b. Objectives

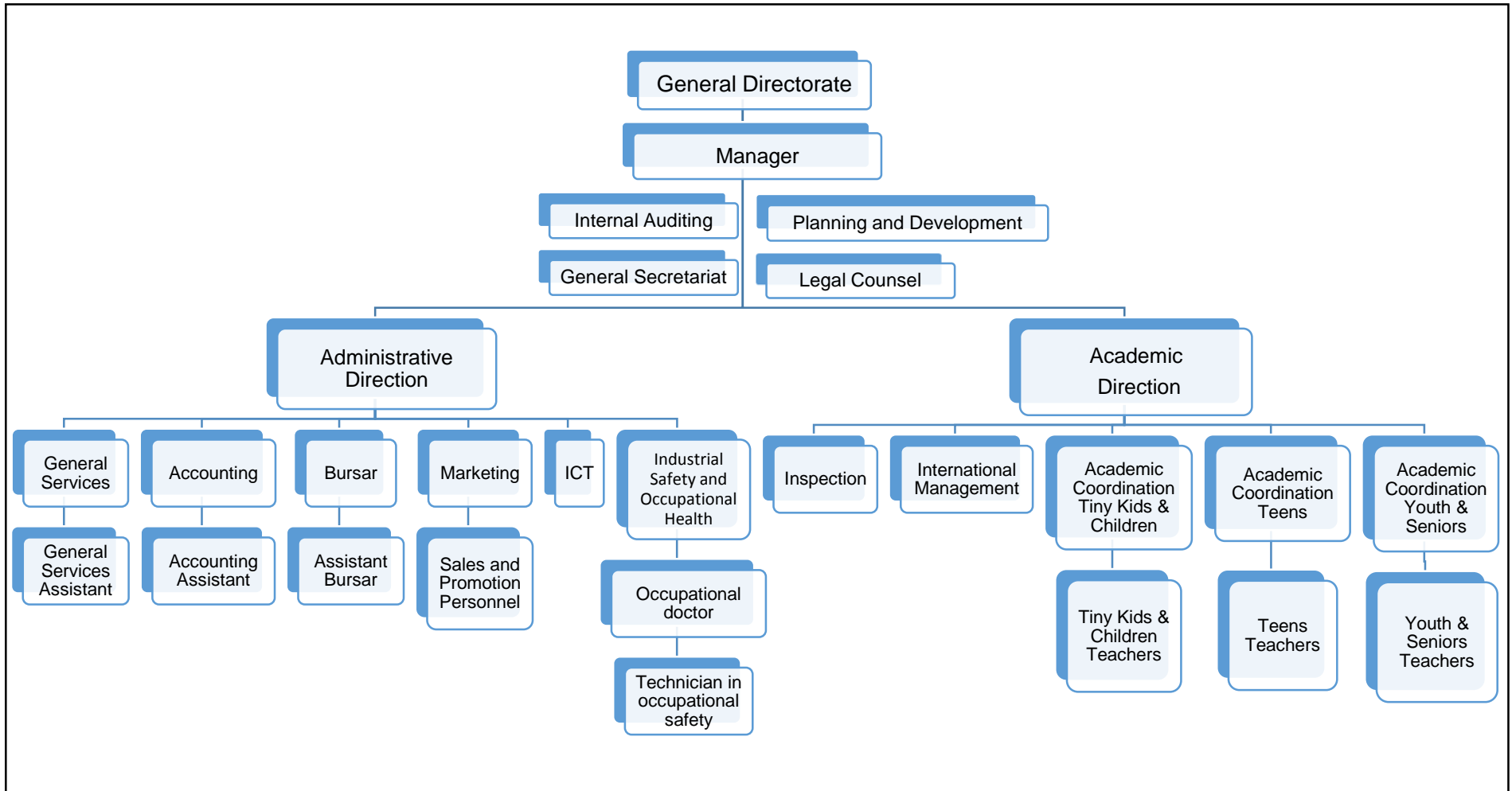
These define the organizational structure of the business known as Fine-Tuned English Ltd. Co. and establish a tool which will serve as a guide for the administration and control of the different functions of the human capital.

c. Legal reference

- I. Technical Standards of the Registry of Professional Training Operators (Norma Técnica de Registro de Operadores de Capacitación Profesional).
- II. Company Law.
- III. Labor Code.
- IV. Civil Code.

d. Organizational Structure

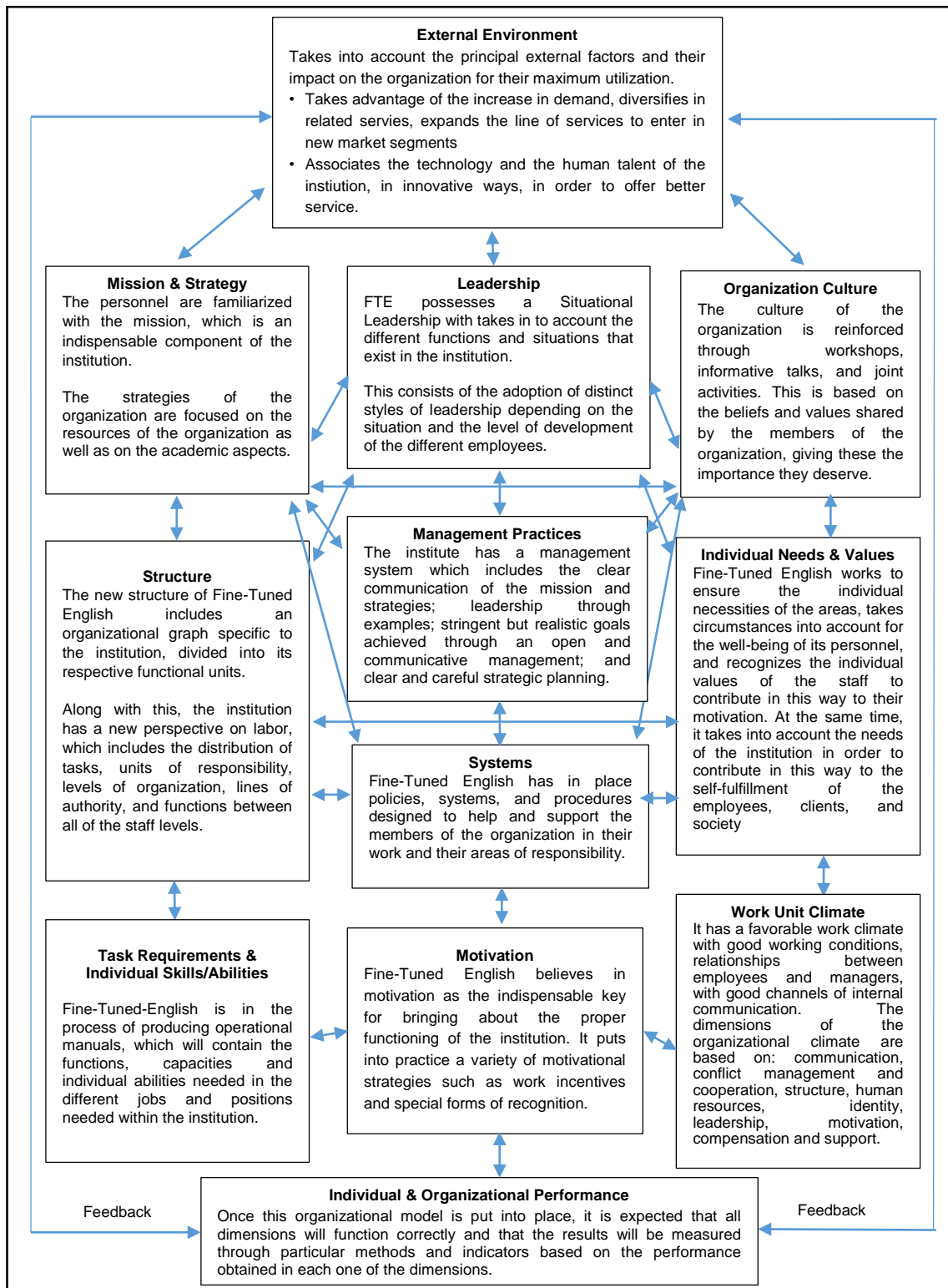
Figure 6 Organizational Chart of the Institute



Source: Personal compilation based on the company’s archives.

e. Organizational Model

Figure 7 Burke- Litwin Organizational Model of Fine-Tuned English Ltd. Co.



Source: Personal compilation based on the company's archives.

f. Rules of Procedure

The Rules of Procedure of Fine-Tuned English Ltd. Co. were approved on February 23, 2015 through the Resolution for Approval of Internal Regulations MTD-DRTSP7-2015-1001-R2-JD of the Loja Regional Bureau of Work and Public Service. This contains provisions for entrance into the company, absences, licenses and vacations; remuneration, duties, medical examinations, obligations and prohibitions of the employees, penalties and grievances; and also, covers contract termination.

g. Health and Safety Regulations

The Occupational Health and Safety Regulation of Fine-Tuned English was approved by means of Memorandum MRL-DRTSPL-2014-2374 on June 4, 2014, according to the specifications established by the Law and the Ministry of Labor Relations. This Regulation has the objective to ensure health and safety at work. It seeks to protect the life and well-being of the people who work at the facilities, and to minimize the risks to the greatest extent possible. In the regulation, it is also stated that Fine-Tuned English should make use of human, economic and material resources to offer the best occupational health and safety conditions in its institution.

It contains the Institution's occupational health and labor safety policy, the security management system, risk prevention for vulnerable populations and specific to the work activities, prevention of major accidents, as well as safety signs, worker health monitoring, the registry and investigation of accidents and incidents as well as worker training and information in risk prevention.

h. Emergency Response Protocol

This protocol will describe the form of action of the Fine-Tuned English staff in cases of emergency within the establishment or outside of it when instructional activities are taking place. The following emergency cases will be considered:


- I. In case of accidents, collapses, or health disorders
- II. In case of public demonstrations
- III. Emergency evacuations

i. Duties by work position

With the purpose of standardizing the way in which the duties and requirements of the various work positions will be specified, so that the company and the franchisees

can rely on a single format at the point of hiring human talent, the following form will be used:

Table 1 Job description file for Fine-Tuned English Ltd. Co.

 FINE-TUNED ENGLISH LANGUAGE INSTITUTE			
Job description file			
Code	Position Name	Department	de plazas
Superiors	Subordinates	Schedule	Working Hours
Position Overview			
Degree			
Experience			
Training			
Proficiencies			
Other			
Observations			
Duties			

Source: Personal compilation based on the company's archives.

The file will be described according to the organizational diagram:

- I. General Directorate – Code 001
- II. Manager – Code 002
- III. Internal Auditing – Code 003
- IV. General Secretariat – Code 004
- V. Planning and Development – Code 005
- VI. Legal Counsel – Code 006
- VII. Administrative Director – Code 007
 - i. General Services – Code 0071

- 1. General Services Assistant - Code 00711
- ii. Accounting– Code 0072
 - 1. Accounting Assistant – Code 00721
- iii. Bursar – Code 0073
 - 1. Bursar Assitant – Code 00731
- iv. Marketing – Code 0074
 - 1. Sales and Promotion Personnel – Code 00741
- v. ICT – Code 0075
- vi. Industrial Safety and Occupational Health – Code 0076
 - 1. Occupational doctor – Code 00761
 - 2. Technician in occupational safety – Code 00762
- VIII. Academic Director – Code 008
 - i. Inspection – Code 0081
 - ii. International Management – Code 0082
 - iii. Academic Coordinators – Code 0083
 - iv. Teachers – Code 0084

j. Process of recruitment of international teachers

This will describe the process of recruitment of international teachers carried out by the Department of International Management.


k. Job announcement, interview, and personnel selection

The process of placing a job announcement will be described as well as the interview and selection of personnel in each area, according to the duties which they carry out, specifying the requirements and conditions necessary to be hired.

- I. Administrative personnel
- II. Academic personnel
- III. General services personnel

It will contain a job search model for each area and job position, along with the requirements for the selection of the personnel. A form for interviews will also be established with general questions for all the available positions and with specific questions for each one. The table below contains general questions for the interviews.

Table 2 Interview form for Fine-Tuned English Ltd. Co.

 FINE-TUNED ENGLISH LANGUAGE INSTITUTE	
Interview Form	
Date	
Interviewer Name	
Interviewer Position	
Interviewee Name	
Position Applied For	
Department	
Age	
Education Level	
How many years of experience do you have?	
What special training have you had?	
Current job:	
Are you available immediately?	
How well do you get along when working in groups?	
Why do you want to work for Fine-Tuned English?	
What do you have to offer to Fine-Tuned English?	
Observations	
Specific questions by department and position	

Source: Authors compilation.

I. Workplace integration program for new employees.

There will be an explanation of the general training in procedures to follow in the different areas:

- I. Administrative Personnel
- II. Academic Personnel
- III. General Services Personnel

It is also proposed to implement a new employee file, as shown in Table 3, to maintain an organized register of every employee that provides services to the institution.


m. Performance evaluation

According to the area in which the employee forms a part of the organizational scheme, different parameters will be taken into account for the evaluation of his or her performance. Furthermore, the requirements to obtain achievement awards will be described.

- I. Administrative Personnel
- II. Academic Personnel
- III. General Services Personnel


The use of the following evaluation files is suggested, as displayed below in Table 4 and Table 5.

Table 3 New employee file for Fine-Tuned English Ltd. Co.

 FINE-TUNED ENGLISH LANGUAGE INSTITUTE			
New employee file			
Job Code		Site	
Position			
Full Name			
Hire Date		Length of Contract	
Work Schedule			
Personal Data			
Birth Date		Age	
Nationality		ID Number	
Marital Status		Telephone	
Address		Cell Phone	
Email			
Allergies		Blood Type	
Emergency Contact		Relationship	
Emergency Phone Number		Emergency Cell Number	
Education and Training			
Degrees Obtained			
Accredited English Level			
Work Experience			
Job Title	Company	Dates Employed	Reference Contact
_____ Employee Signature		_____ Official Signature	


Source: Personal compilation based on the company's archives.

Table 4 Administrative personnel evaluation file for Fine-Tuned English Ltd. Co.

 FINE-TUNED ENGLISH LANGUAGE INSTITUTE			
Administrative personnel evaluation file			
Job Code	Full Legal Name	Position	Department
Specific function performed		Schedule	Working time
Attendance Summary			
	Score	(Mark one)	Total
100% attendance	5		
99% attendance	4		
98% attendance	3		
90-97% attendance	2		
_____% attendance	1		
Attendance Observations:			
Administrative Performance (5 maximum/always - 1 minimum/never)			
			SCORE
Treats students, teachers and parents with courtesy and respect			
Creates or facilitates a climate of trust			
Is articulate and communicates well			
Arrives at the workplace punctually			
Maintains a suitable personal appearance			
Is familiar with the company's internal regulations as they relate to his/her position in the company			
Works well as a team with all other personnel			
Offers clear and precise instructions			
Serves customers, including those from other areas			
Offers immediate solutions to any problem			
Uses his/her time wisely			
Contributes and supports ideas to strengthen the institution			
Constantly seeks further training in courses related to his/her area			
Observations			
Total			

Source: Personal compilation based on the company's archives.

Table 5 Educational staff evaluation file for Fine-Tuned English Ltd. Co.

 FINE-TUNED ENGLISH LANGUAGE INSTITUTE			
Educational staff evaluation file			
Job Code	Full Legal Name	Position	Department
Specific function performed		Schedule	Hours Worked
Attendance Summary			
	Score	(Mark one)	Total
100% attendance	5		
99% attendance	4		
98% attendance	3		
90-97% attendance	2		
_____% attendance	1		
Attendance Observations:			
Administrative performance (5 maximum/always - 1 minimum/never)			
			SCORE
Treats students, teachers and parents with courtesy and respect			
Creates or facilitates a climate of trust			
Is articulate and communicates well			
Arrives at the workplace punctually			
Maintains a suitable personal appearance			
Is familiar with the company's internal regulations as they relate to his/her position in the company			
Works well as a team with all other personnel			
Offers clear and precise instructions			
Serves customers, including those from other areas			
Offers immediate solutions to any problem			
Uses his/her time wisely			
Contributes and supports ideas to strengthen the institution			
Constantly seeks further training in courses related to his/her area			
SUBTOTAL			
Observations:			

Teaching performance (5 maximum/always - 1 minimum/never)	
	SCORE
Plans for classes beforehand.	
Demonstrates up-to-date understanding of the subject matter taught.	
Combines theory and practice at the point of instruction	
Teaches his/her classes with a methodical order (Introduction, development and conclusions)	
Easily responds to questions in class	
Develops learning projects with the students	
Employs diverse strategies for the accomplishment of learning	
Evaluates each phase of the process of teaching and learning	
Stimulates the student to achieve learning outcomes	
Uses diverse and accessible technology consistent with the learning session	
Sub-total	
Total	
Observations:	

Source: Authors compilation.

n. Achievement Awards

This will determine the requirements for administrative and academic staff to receive the following Awards:

- I. Michael Pickup Annual Distinguished Educator Award
- II. Best Employee of the Year Award

o. Employee Benefits

This will establish the benefits that the institution offers to its employees, such as for example, discounts in registration and monthly fees for their children to attend the center.

p. Social affairs commission.

This will explain the manner of organization for the employees of the Institute in carrying out events that contribute to the integration of all the staff and therefore to the improvement of the workplace climate.

q. Faculty meeting

This will describe the order and objectives to be met in the monthly meeting with all of the staff called the “faculty meeting”, which will take place on the last Saturday of every month.

2.2.2.2. Administrative-Financial Manual

a. Introduction

The Administrative-Financial Manual of Fine-Tuned English will describe the standard form for each of the administrative and financial processes which the Institute carries out. In addition, it will include clearly laid out elements of internal control, the international standards of financial information, the international accounting standards applicable to the entity, and the policies whereby the financial statements will be prepared. This manual aims to facilitate the franchisees’ comprehension and operation of the administrative and financial procedures, providing the methodologies, systems and necessary controls in recording and handling this information.

b. Objective of the manual

To establish a tool that will guide the management and control of administrative processes and explain the Fine-Tuned English methods for recording the origin and use of financial resources.

c. Legal references

- I. Constitution of the Republic of Ecuador.
- II. Technical Standard of Registration of Professional Training Operators (Norma Técnica de Registro de Operadores de Capacitación Profesional).
- III. Law of Companies.
- IV. Tributary Code.
- V. Labor Code.

d. Administrative processes

It will describe the most important administrative processes of the institution, which include:

- I. Enrollment process.
- I. Special discounts.
- II. Selection process of granted students.

e. Financial processes

It will explain how to carry out the following financial processes:

- I. Process of payment of goods and services.
- II. Process of return of petty cash.
- III. Process of cancellation of registrations and credit notes.

f. Internal control

Based on the internal control model COSO (Committee of Sponsoring Organizations) of the Treadway Commission, it will determine how to perform:

I. Control environment

The established rules, processes and structures that provide the basis for carrying out Internal Control through the organization, will be determined (Professional Council in Economic Sciences of Buenos Aires City, 2013).

II. Risks evaluation

The risk evaluation will explain the process to identify and analyze internal and external risks that affect the achievement of objectives of the entity (Professional Council in Economic Sciences of Buenos Aires City, 2013).

III. Control activities

Policies and procedures will be established to ensure that management can mitigate risks and achieve its objectives (Professional Council in Economic Sciences of Buenos Aires City, 2013).

IV. Information and Communication

It will identify the information requirements in the institution and explain the process to communicate the information to enable all staff to understand and execute their internal control responsibilities (Professional Council in Economic Sciences of Buenos Aires City, 2013).

V. Monitoring activities

It will specify how the concurrent or separate evaluations will be performed to determine if the internal control components are present and working (Professional Council in Economic Sciences of Buenos Aires City, 2013).

g. Accounts plan

The general balance accounts will be described.

- I. Assets.
- II. Liabilities.
- III. Equity.
- IV. Income.
- V. Expenses.

h. Accounting policies

It will refer to "the principles, bases, agreements, rules and specific procedures adopted by the entity in the elaboration and presentation of its financial statements" (International Financial Reporting Standard, 2012).

i. Financial sources

It will contain income from:

- I. Enrollments.
- II. Tuition.
- III. Placement testing.
- IV. Financial income.

j. Use of resources (expenditures)

It will detail the expenses for:

- I. Staff costs.
- II. Expenditure on goods and services.
- III. Investment and capital expenses.
- IV. Financial expenses.

k. Acquisitions regulation

This regulation will establish rules and procedures to be followed by Fine Tuned English to guide and visualize the acquisition of equipment, materials, services etc., to ensure that it is performed correctly and that these are of the highest quality.

I. Management of inventories and property, plant and equipment regulation

It will contain a set of tools for administrative management, in the management of the movable and immovable property owned by Fine-Tuned English. It will provide the specific tools and mechanisms that allow a permanent control of its assets, improving the quality of information flows, which, being timely and truthful, allow an efficient process of accountability.

m. Mobilization expenditure regulation

It will explain everything related to the payment of travel allowances of the administrative, academic and general services personnel of Fine-Tuned English, when the personnel must carry out activities in a place other than where they work.

n. Staff remuneration regulation

It will establish the rationality in the salaries received by Fine-Tuned English personnel, which are determined according to the daily activities and functions.

o. Accountable fund regulation

It will regulate and establish the rules and the use of the accountable fund so that it fulfills the purpose for which it is authorized, and thus allow a fast and efficient administrative management for the normal development of the activities. This fund will be used to pay for cash purchases of goods, services and other payments that are not foreseeable and can not be regularly paid by check (Fine-Tuned English Ltd. Co., s.a.).

2.2.2.3. Academic Management Manual

a. Introduction

This manual will contain Fine-Tuned English's academic procedures. The exact method of how to provide the service of education of English as foreign language, will be found. It is worth mentioning that the Institute's experience guarantees its quality. However, if, over the years, the academic coordinators make any changes, they should immediately inform the franchised units.

In order to certify the success of academic teaching methods, in the first months of 2016 customer surveys regarding the satisfaction with the service offered by Fine-Tuned English were conducted. The results showed that 56% of students are

satisfied and 43% are very satisfied. This indicator solidifies the quality of the service provided (Aguirre Montaña, 2016).

b. Objective of the manual

The aim of this manual is to standardize the English teaching method in the different levels that Fine-Tuned English Language Institute offers to its clients, as well as to promote the personal growth of people through the transmission of knowledge, skills and abilities of the English language.

c. English Proficiency

The level of English proficiency that students have at the end of the program that Fine-Tuned English offers will be indicated.

d. Programs modalities

It will detail the different modalities of the courses offered in the Institution.

- I. Regular courses
 - i. Monday to Friday.
 - ii. Saturdays.
- II. Intensive courses
 - i. Monday to Friday

e. Program's characteristics

It will describe all the programs offered by Fine-Tuned English, their age-based approach and the overall plan divided into levels.

- I. Tiny Kids program.
- II. Children program.
- III. Teens program.
- IV. Youth program.
- V. Seniors program.

f. Basic curriculum design

It will be divided into the five programs offered and at the same time the general content plan that will contain the syllables of each level will be specified.

- I. Tiny Kids program general content plan.
- II. Children program general content plan.
- III. Teens program general content plan.
- IV. Youth program general content plan.
- V. Seniors program general content plan.

g. Complementary learning activities

The complementary learning activities will be described, detailing the frequency, the type of activities that are carried out, the methodology and the modality of each one of them.

- I. Native Speaking Classes.
- II. Academic demonstrations.
- III. Tutorial classes.
- IV. Academic-cultural events.

h. Other educational services

The necessary conditions for these services to be offered by the institution will be explained.

- I. Conversation Club.
- II. Vacational courses.
- III. Student exchanges.
- IV. Preparation for international exams.

i. Placement process for new students with prior knowledge

It will describe the process and method of knowledge assessment for the placement of level upon entering the institution or when changing programs.

j. Attendance control process

This process carried out by the inspector, will detail the form of assistance control and the management of its system.

k. Absence justification process

It will specify the cases in which the absence justification is accepted and the necessary procedure to be followed.

I. Class planning model

It will contain the standardized form of class planning that must be followed by teachers, and the instructions to enter such planning into the institution's system.

m. Methodological approach for classes.

It will describe how classes should be taught by the teachers of each program.

n. Formative and summative evaluation system

It will define the form of formative evaluation, that is to say the evaluation throughout the learning process, highlighting the most important contents. It will also include the form of summative assessment, which is done at the end of the course to evaluate the results.

- I. Formative evaluation.
- II. Summative evaluation.

o. English proficiency certification

It will specify the requirements that students must meet to obtain their English proficiency certificate.

p. Merit awards

It will determine the requirements that students must meet in order to obtain the following merit distinctions.

- I. Fine-Tuned English Achievement Award.
- II. Medals for academic excellence.
- III. Medal of perseverance.

q. Quality supervision of programs process

It will describe the process of supervision that will guarantee the quality of the programs taught.

- I. Observation model for classes.
- II. Feedback model.
- III. Academic demonstrations and academic-cultural events model of evaluation

r. Fine-Tuned English Alumni

A survey model for alumni should be designed, in order to have a record of the influence of the knowledge acquired in their professional and personal life, and also to be able to form a job bank. It is suggested to include a form of incentive so that the information provided by the alumni is truthful and efficient.

2.2.2.4. Corporative Image Manual

Introduction

The Fine-Tuned English corporate image manual will contain the different components of the company's image its design and application, which will be displayed in the daily occurrence of the franchise. The objective of the manual is that the corporate identity of the company be uniform in all franchised centers.

This manual will be divided into three parts, which will explain the uniformity policies of Fine-Tuned English's distinctive signs and how they should be used in advertising. It will also describe how the infrastructure should be, and the image to be projected by employees in the establishments.

Objective of the manual

To create uniformity in the image of the company to maintain and expand the position of the brand nationally and internationally.

Part I

This section will refer to the correct use of the company name, logo, slogan, in the establishment, vehicles, documents, employee uniforms, advertising, etc.

- a. Fine-Tuned English logo
 - I. Its construction.
 - II. Production and use.
 - III. The parameterization of the logo.
- b. The brand.
- c. The brand's joints: horizontal and vertical.
- d. Typography.
- e. Colors and chromatic normalization.
 - I. Authorized color versions.
 - II. Unauthorized color versions.

- f. Stationery
 - I. Business cards.
 - II. Envelopes.
 - III. Letter paper.
 - IV. Documents in different standard sizes.
 - V. Printable elements in paper or cardboard.

Part II

It will describe the design and layout of the Fine-Tuned English franchise establishment, both internally and externally.

Exterior

- a. Showcases.
- b. Facade.
- c. Labels.
- d. Entrance.
- e. Cleaning and maintenance.

Interior

- a. Interior layout.
- b. Signage.
- c. Internal environment.
- d. Internal ordering.
- e. Space distribution.
 - I. Administrative.
 - II. Academic.
 - III. Common areas.
- f. Furniture
 - I. Tables.
 - II. Chairs.
 - III. Banks.
- g. Normalization of decorative elements in general.
- h. Cleaning and maintenance.

Part III

Since the image projected by the staff as part of the institution, reflects the image of the company, this part will establish the guidelines related to the uniforms of all personnel.

- a. Uniforms
 - I. Administratives.
 - II. Academics.
 - III. General services.

2.2.2.5. Marketing and Advertising Manual

a. Introduction

The marketing and advertising of Fine-Tuned English is focused on enhancing the growth of people through the transmission of knowledge, skills and abilities of the English language. It seeks to convey its mission and institutional values through spaces that reach the minds of potential customers. For Fine-Tuned English, its marketing and advertising is very important, therefore its franchisees should follow all the rules established in this manual. The marketing of the franchise should be very careful to follow the guidelines established, always caring for the corporate image and reputation that the Institution has earned.

It is important to note that compliance with this manual is mandatory, however it is up to each franchisee to perform marketing and advertising within its domestic market, the most convenient way, based in the cultural aspects of the place. As long as they do so regarding the forms and advertising space that pursue the same philosophy of Fine-Tuned English (Pallares, 2011).

b. Objective of the manual

This manual seeks to achieve customer responsiveness through the creation of the need to acquire service.

c. Service strategies

It will determine how the promotion of the English teaching service should be targeted so that it meets the needs and individual and organizational goals of the market to be reached.

d. Place strategies

It will establish the set of necessary actions to make the service known in the target market through specific marketing strategies.

e. Price strategies

Strategies will be explained to determine the price of both enrollement and tuition, which will depend on the socio-economic status of the country, the economic condition of potential students, royalties for the franchisor, market competition, the costs of the service (hours of work and material costs), and the fixed and variable costs of the institution.

In addition, the price should also be specified according to its perception and value by the consumers, noting that what they pay for enrollement and pension, is given by the value that the knowledge of English can bring them in their lifetime.

f. Promotion strategies

- I. Social media.
- II. Web page.
- III. Radio.
- IV. Press.

2.2.3. Training and assistance methods

One of the most important characteristics of the franchise system is the training and assistance that the franchisor takes on to provide to its franchisees, since it ensures the uniformity and quality of the products and services offered and thus the success of franchises.

Fine-Tuned English will provide assistance and training in 3 ways:

Informative-demonstrative meeting

- a. This meeting will take place in the main headquarters of the Institution, so that the potential franchisee can appreciate the quality of the service offered and the corporate image.
- b. In addition, training on the Fine-Tuned English franchise system will be provided.

- c. The candidate will be interviewed, to know his profile as a franchisee and in turn to resolve his doubts about any aspect of the franchise.

Pre-opening assistance

- a. Once the franchise agreement has been signed with the respective definition of the zone of exclusiveness, the initial training will be carried out in which the operating manuals will be provided.
- b. Virtual assistance will be offered in the selection of the academic coordinator, and training on his/her functions at the Institute in the city of Loja. (Travel allowances will run by the franchisee).
- c. The franchisee will be visited to verify that the image of the facilities is in accordance with what is established and to assist in the selection of teachers.
- d. Coordination on the training to use the accounting and academic system.
- e. Virtual consultancy in promotional activities will be offered by the marketing team of the company.

Continuous assistance

- a. The most important part of the continuing assistance will be reflected in updating of business manuals, as this is developed and improved, especially in the academic management manual.
- b. A pedagogical and didactic update will also be provided to the academic coordinators of the establishments, once a year, in August, at the main headquarters in the city of Loja, so that these in turn can train the teachers of the franchised center. (Travel allowances will run by the franchisee).
- c. In the same way, the proper control and supervision will be carried out through classes observation in the franchises, at least once per semester. (Travel allowances will run by the franchisee).
- d. Observations at academic demonstrations once a year. (Travel allowances will run by the franchisee).
- e. Standard advertising templates developed by the marketing department of the Institution. (Covered by the advertising fee paid by the franchisee).
- f. Support by telephone and electronic means as needed.

Annual convention

The annual convention of franchisees will have three principal objectives:

- a. Present reports of their experience and development.
- b. Receive orientations.
- c. To propose strategies of growth and development for the following year.

2.2.4. Budget plan

The franchise budget plan shows information on estimated revenues and expenditures to establish a Fine-Tuned English franchise. It is composed of the investment budget, the operating budget, the income projection and finally the estimated budget projection. The table below is a summary of the mentioned plan.

Table 6 Financial information of the Fine-Tuned English franchise

Financial information of the Fine-Tuned English franchise	
Initial fee	\$10,000.00
Renewal fee	\$6,000.00
Royalties	Year 1 - 3%
	Year 2 - 5%
	From year 3 3 - 7%
Advertising royalties	1%
Duration of the contract	10 años
Investment in the establishment	\$12,518.00
Pay-Back	3 years 6 months
TOTAL INITIAL INVESTMENT	\$22,518.00

Source: Authors.

2.2.4.1. Financial Assumptions

- a. The inflation rate used for the projection of operating expenses is 3.49% for "Year 2", based on estimates of the Central Bank for the year 2017, for "Year 3" and onwards. The same source's estimate was used for 2018, which is 3.35%.
- b. The increase in wages was made on a percentage point of the inflation estimates of each year, that is to say 4.35%.
- c. Tangible assets such as furniture and equipment and technological equipment depreciate 10% per year, while computing equipment depreciates 33.33% per year.
- d. The initial fee was considered an intangible asset, which will be amortized over a period of 10 years according to the duration of the contract, therefore 10% per year.

- e. The thirteenth, the fourteenth salary, and the employer's contribution were calculated in accordance with current labor laws in Ecuador.
- f. For the calculation of taxes to be paid, the Internal Revenue Service tax rate for companies of 22% was considered.
- g. For employee participation in the company's profits, 15% of the income before profit sharing was considered.
- h. Financing will be given by the investor, therefore no bank credit has been calculated, since it will depend on the economic situation of the investor and the country in which the franchise will be established.
- i. The discount rate used in the Net Present Value was obtained through the Minimum Expected Return Rate.

2.2.4.2. Initial investment budget

The initial investment budget is the amount of money needed to start the operations of a franchised unit. It is made up of the initial fee and the investment estimate for the set up of the establishment.

2.2.4.2.1. Initial fee

Because there is no specific formula for establishing the cost of a franchise's initial fee, how the franchise's value is set depends on each franchise and its business model. Fine-Tuned English set its initial fee by considering the franchise's selling costs, legal costs, and brand value.

Selling costs: resulting from the expenses of pre-opening assistance, and the cost of the franchise package.

Legal costs: determined by the costs to create the contract, of the necessary legal support, costs of the recognition of signatures in a notary and the costs of inscription of the contract in the Ecuadorian Institute of Intellectual Property.

Brand value: it is the value of the know-how, in this case the teaching method of the company, plus the positioning of the brand in the market. Therefore, it is an intangible and subjective value

Table 7 Fine-Tuned English’s franchise initial fee calculation

Fine-Tuned English’s franchise initial fee calculation*	
Selling costs	\$804.83
Legal costs	\$1,662.00
Brand value	\$7,533.17
TOTAL	\$10,000.00

Source: Authors compilation.

*For details of each cost in Table 7, see Appendix 5 on costs of the initial fee.

Fine-Tuned English determined that for the payment of the initial fee the franchisee is entitled to the following:

- a. Initial and informative-demonstrative meeting.
- b. Transmission of the know-how through the franchise package and assistance.
- c. Franchise package.
- d. Pre-opening assistance.
- e. Legal costs.

2.2.4.2.2. Estimate of investment to adequate the establishment

The corporate image of Fine-Tuned English must be the same in all franchised units. The institutes must have the specifications indicated in the corporate image manual, which includes both the external and internal description.

Table 8 below shows an investment estimate to set up an establishment consisting of three classrooms, two offices and three bathrooms, in US dollars, with approximate figures in Ecuador. This estimate does not consider leasing or acquisition costs of a place of business, and is subject to changes and variations depending on the country. Appendix 5 describes in detail the investment costs for the set up of the establishment.

Table 8 Estimate of investment to adecuate an establishment

Estimate of investment to adecuate an establishment	
Assets	Investment
Furniture (blackboards, desks, desks, chairs)	\$5,280.00
Exterior and interior labelling	\$900.00
Office supplies (Computers, filing cabinets, etc.)	\$2,228.00
Technological equipment (Projectors, screens, etc.)	\$2,550.00
Internal set up	\$1,560.00
TOTAL	\$12,518.00

Source: Personal compilation based on the company's archives.

The investment estimate for the set up of the establishment of a franchised unit base (\$ 12 518.00), plus the indicated value of the entry fee (\$ 10,000.00), would result in a total of \$ 22 518.00 as the initial investment budget.

2.2.4.3. Revenue Projection

The revenue projection was based on the approximate student growth that a Fine-Tuned English franchised unit would have. To estimate student growth, the average number of students with which the three institute centers were opened was taken into account to calculate a potential base number of students in a franchised unit. Then, to estimate the percentage of growth of the second period, the average number of students enrolled in that period of the three centers was taken. Finally, the historical percentage average growth of the institutes was analyzed, in order to obtain the potential percentage growth that the different franchised units could have.

As seen in Appendix 3, the Institute in Loja began its functions with 60 students, Catamayo did with 116, and Zamora with 64 students, resulting in an average of 80 students. In the second period, the center of Loja had a 210% growth, Catamayo had a decrease of 13.79%, and the center of Zamora had a growth of 123.44%. Thus, on average, the Fine-Tuned English centers in their second period grew 106.55%. For the projection will use a percentage below the average, which will be 100% considering a prudent scenario, taking into account the market differences that could exist.

For the growth of the other periods, the average percentage growth in the period from September to February of the three centers was 13.97%. As explained in the information dossier, in the evolution of the institution, it was concluded that the March-July period generally has a decrease of students. Consequently, the average of this decrease of the three centers, which is -1.06%, was used for the projection.

The growth and main revenue projection table shows the amount of money that the franchised unit will bill for enrollment and tuition according to the projected growth of students per year. The increase in prices was based on the projected estimate of the Consumer Price Index⁴, in the education sector which is 3% (Central Bank of Ecuador, 2015).

Table 9 Growth and main revenue projection

Growth and main revenue projection					
Students	Period	Rubro	Price increase percentage (3%)	Price	Quantity
80	03/07 period	Enrolment	-	\$33.00	\$2,640.00
80	03/07 period	Tuition	-	\$41.00	\$ 16,400.00
160	09/02 period	Enrolment	-	\$33.00	\$5,280.00
160	09/02 period	Tuition	-	\$41.00	\$ 39,360.00
TOTAL YEAR 1					\$ 63,680.00
158	03/07 period	Enrolment	\$ 33.99	\$34.00	\$5,372.00
158	03/07 period	Tuition	\$ 42.23	\$42.30	\$ 33,417.00
180	09/02 period	Enrolment	\$ 33.99	\$34.00	\$6,120.00
180	09/02 period	Tuition	\$ 42.23	\$42.30	\$ 45,684.00
TOTAL YEAR 2					\$ 90,593.00
178	03/07 period	Enrolment	\$ 35.02	\$35.10	\$6,247.80
178	03/07 period	Tuition	\$ 43.57	\$43.60	\$ 38,804.00
202	09/02 period	Enrolment	\$ 35.02	\$35.10	\$7,090.20
202	09/02 period	Tuition	\$ 43.57	\$43.60	\$ 52,843.20
TOTAL YEAR 3					\$104,985.20
199	03/07 period	Enrolment	\$ 36.15	\$36.20	\$7,203.80
199	03/07 period	Tuition	\$ 44.91	\$45.00	\$44,775.00
226	09/02 period	Enrolment	\$ 36.15	\$36.20	\$8,181.20
226	09/02 period	Tuition	\$ 44.91	\$45.00	\$ 61,020.00
TOTAL YEAR 4					\$121,180.00
223	03/07 period	Enrolment	\$ 37.29	\$37.30	\$8,317.90
223	03/07 period	Tuition	\$ 46.35	\$46.40	\$ 51,736.00
254	09/02 period	Enrolment	\$ 37.29	\$37.30	\$9,474.20
254	09/02 period	Tuition	\$ 46.35	\$46.40	\$ 70,713.60
TOTAL YEAR 5					\$140,241.70

Source: Authors compilation.

*The values of the final price to be charged were rounded to the next higher or lower number.

2.2.4.4. Fine-Tuned English franchise operating budget

The operating costs of a franchised unit are not fixed, since these vary according to the amount of monthly invoicing and the size of the establishment. Included in operating costs are royalties, advertising fees, payment for the use of the administrative-academic system, and the operating expenses of the center. In this

⁴ CPI

case, royalties, and advertising fees will be paid to the franchisor as a percentage of the billing. The payment for the use of the accounting and academic system will be a fixed amount depending on the needs of the center. All payments mentioned above must be made on a monthly basis.

2.2.4.4.1. Royalties

In order to determine the percentage of the billing to be charged for royalties, an analysis was conducted of the minimum amount necessary for the company to cover the continuous assistance to the franchised centers, receive a contribution for the use of the brand, and for the organization of the annual convention so the franchised unit maintains the quality of the offered service. Table 10 below shows a summary of the minimum items to be covered by royalties. (More details are provided in Appendix 6).

Table 10 Minimum royalties' calculation for the Fine-Tuned English franchise

Minimum royalties' calculation for the Fine-Tuned English franchise			
	Year 1	Year 2	Year 3 onwards
Continuous assistance	\$618.20	\$636.74	\$655.84
Right to operate using the brand	\$1,050.00	\$2,500.00	\$5,000.00
Contribution to annual convention	\$200.00	\$200.00	\$200.00
TOTAL ANNUAL ROYALTIES	\$1,868.20	\$3,336.74	\$5,855.84
TOTAL MONTHLY ROYALTIES	\$155.68	\$278.06	\$487.99

Source: Authors compilation.

In order to help the financial stability of its franchised units, Fine-Tuned English, determined that the percentage of royalties would be lower in the first two years of establishment. As seen in Table 10, in the first year the return will be 3%, in the second year of 5%, and from the third year it will be 7%.

A minimum amount was established to be received in case the billing amount is lower than projected. Determining a minimum amount is intended to promote the sustainability of the Fine-Tuned English franchise system. At the same time, it will serve to foster the development of the franchised units by having greater pressure to meet student growth projections.

The payment of royalties for the use of the Fine-Tuned English brand will serve to maintain the structure of support of the individual franchises, these will cover

- a. The right to operate using the Fine-Tuned English brand.
- b. Continuous assistance.*
- c. Contribution to the annual convention*.

*Detailed in the training and assistance methods.

Administrative-academic system

The administrative-academic system used in Fine-Tuned English Institutes is not owned by the company. Therefore, for the use of the system all the centers pay the system's owner an amount that depends on the necessary access the service. On average, it is estimated that a franchised center during the first years of opening must pay \$150 per month. This price may vary according to the contract with the system's owner.

2.2.4.4.2. Advertising fee

Likewise, an advertising fee will be charged. The fee will go to a fund destined to cover the advertising campaigns of the global image of the franchise. It will be administrated by the headquarters established in the city of Loja which owns the brand. This percentage will be 1% and will be used to cover

- a. Participation in corporate advertising.
- b. Standard advertising templates.
- c. Marketing strategies.
- d. Inclusion in web page, emails, social networks, use of web application and others, and
- e. Advertising and participation of the franchise in fairs.

2.2.4.4.3. Operation of the establishment

The operating expenses of a franchised unit will depend greatly on its capacity and location within the city and country in which it is located. Table 11 shows an estimate of a year's worth of expenses in Ecuador US dollars for the operation of a franchised center with 3 teachers, an administrator, a secretary and a concierge. This appreciation was based on the macroeconomic projections presented by the

Central Bank of Ecuador, whose CPI inflation until October 2016 was 3.66%. It also shows that inflation projections for 2017 will decrease to 3.49% and to 3.35% by 2018. This information was used to project both current expenditures, administrative expenses and personnel expenses.

Table 11 Projection of operating expenses of the establishment

Projection of operating expenses of the establishment					
	Year 1	Year 2	Year 3	Year 4	Year 5
Current expenses	\$9,398.00	\$9,725.99	\$10,051.81	\$10,388.55	\$10,736.56
Administrative expenses	\$860.00	\$ 890.01	\$919.83	\$950.64	\$982.49
Personnel expenses	\$45,732.33	\$47,785.72	\$49,864.39	\$52,033.49	\$54,296.95
TOTAL	\$55,990.33	\$58,401.72	\$60,836.03	\$63,372.69	\$66,016.01

Source: Personal compilation based on the company's archives.

2.2.4.5. Budget projection

To determine the profitability that an investor in a Fine-Tuned English franchise will obtain in a medium term of five years, the cash flow projection is presented in Table 12. The operational profit resulted from the total income, minus the total of expenses. Income before profit sharing is the result of the operational profit minus the depreciation of assets and the annual amortization of the initial fee.

The 15% corresponding to the distribution of profits to employees was deducted, resulting in the income before tax, from which 22% of income tax was deducted. This resulted in the net profit that a franchised unit in its first years of operation will have.

Table 12 Budget projection

Budget projection								
	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Total	References
Investment								
Initial fee	\$ 10,000.00	-	-	-	-	-	-	
Set up Expenses	\$ 12,518.00	-	-	-	-	-	-	
Income								
Total income		\$ 63,680.00	\$ 90,593.00	\$ 104,985.20	\$ 121,180.00	\$ 40,241.70	\$ 520,679.90	Appendix 3
Expenses								
Operating costs		\$ 55,990.33	\$ 8,401.72	\$ 60,836.03	\$ 63,372.69	\$ 6,016.01	\$ 304,616.78	Appendix 7
Royalties		\$ 1,910.40	\$ 4,529.65	\$ 7,348.96	\$ 8,482.60	\$ 9,816.92	\$ 32,088.53	% de la facturación
Advertising fee per period		\$ 636.80	\$ 905.93	\$ 1,049.85	\$ 1,211.80	\$ 1,402.42	\$ 5,206.80	% de la facturación
Administrative-academic system		\$ 1,800.00	\$ 1,860.30	\$ 1,922.62	\$ 1,987.03	\$ 2,053.59	\$ 9,623.54	
Total of expenses		\$ 60,337.53	\$ 5,697.60	\$ 71,157.47	\$ 75,054.11	\$ 9,288.93	\$ 351,535.65	

OPERATIONAL PROFIT		\$ 3,342.47	\$ 4,895.40	\$ 33,827.73	\$ 46,125.89	\$ 60,952.77	\$ 169,144.25	
Depreciation of assets		\$ 1,602.46	\$ 1,602.46	\$ 1,602.46	\$ 1,015.80	\$ 1,015.80	\$ 6,838.99	Appendix 8
Amortization of the initial fee		\$ 1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 5,000.00	Appendix 8
INCOME BEFORE PROFIT SHARING		\$ 740.00	\$ 22,292.94	\$ 31,225.27	\$ 44,110.09	\$ 58,936.97	\$ 157,305.26	
Distribution of profits to employees (15%)		\$ 111.00	\$ 3,343.94	\$ 4,683.79	\$ 6,616.51	\$ 8,840.54	\$ 23,595.79	
PROFIT BEFORE TAX		\$ 629.00	\$ 8,949.00	\$ 26,541.48	\$ 37,493.57	\$ 50,096.42	\$ 133,709.47	
Tax 22%		\$ 138.38	\$ 4,168.78	\$ 5,839.12	\$ 8,248.59	\$ 11,021.21	\$ 29,416.08	
NET PROFIT	\$ (22,518.00)	\$ 490.62	\$ 14,780.22	\$ 20,702.35	\$ 29,244.99	\$ 9,075.21	\$ 104,293.38	

Source: Authors' compilation.

2.2.4.6. Financial tools

For the calculation of the return on assets ratio and the net profitability ratio, the profit before tax from the budget projection was considered as net profit.

2.2.4.6.1. Return on total assets

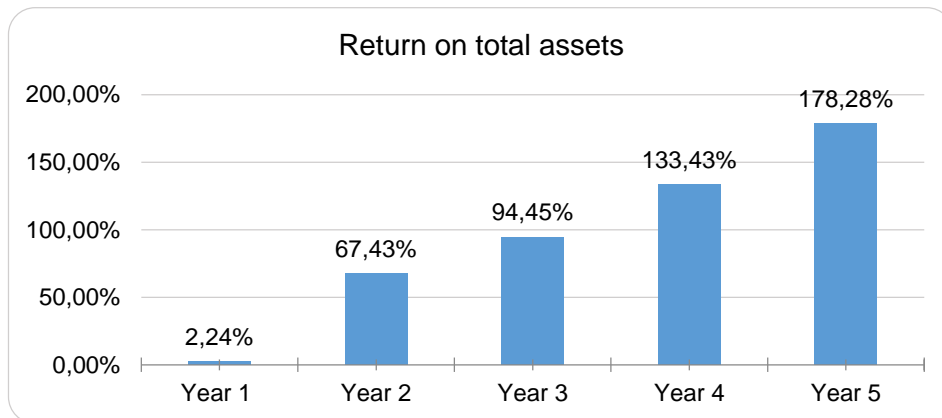
$$\frac{\text{Net profit}}{\text{Total assets}}$$

Table 13 Return on total assets

Return on total assets					
	Year 1	Year 2	Year 3	Year 4	Year 5
Net profit	\$490.62	\$14,780.22	\$20,702.35	\$29,244.99	\$39,075.21
Total assets	\$21,918.00	\$21,918.00	\$21,918.00	\$21,918.00	\$21,918.00
TOTAL	2.24%	67.43%	94.45%	133.43%	178.28%

Source: Authors compilation.

Figure 8 Return on total assets



Source: Authors' compilation.

This ratio allows an analysis of the effectiveness of assets to generate profits. The result expresses the percentage of the profits available for investors with regard to each dollar invested in assets. Therefore, in year one the gained profit after taxes, depreciation and distribution of profits will be 2.24%. It will continuously increase to 178.28% in year five.

2.2.4.6.2. Return on net sales

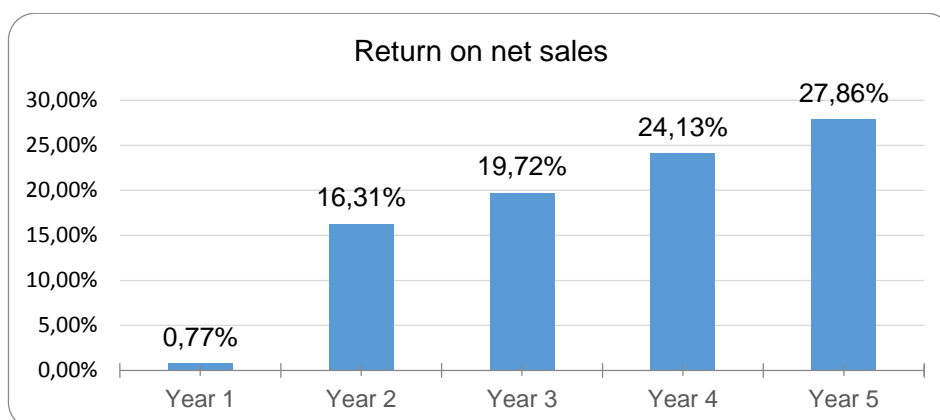
$$\frac{\text{Net profit}}{\text{Net sales}}$$

Table 14 Return on net sales

Return on net sales					
	Year 1	Year 2	Year 3	Year 4	Year 5
Net profit	\$490.62	\$14,780.22	\$20,702.35	\$29,244.99	\$39,075.21
Net sales	\$63,680.00	\$90,593.00	\$104,985.20	\$121,180.00	\$140,241.70
TOTAL	0.77%	16.31%	19.72%	24.13%	27.86%

Source: Authors' compilation.

Figure 9 Return on net sales



Source: Authors' compilation.

This indicator measures the profitability, after taxes, of all the activities of the company. This means that with every dollar sold in year one, 0.77% of profit will be generated; in year two, 16.31% will be obtained; in year three, 19.72%; in year four 24.13%; and, in year five, 27.86% of profit will be obtained.

2.2.4.6.3. Net Present Value⁵

The Net Present Value is a financial tool that measures the exchange value of money over the passage of time. Because of low inflation, a dollar today can buy less than a dollar a year ago (Rodriguez Salazar, s.a.). Federico Anzil defines the NPV as *"the sum of the discounted values of all the net flows of expected cash of the project, minus the value of the initial investment."* The NPV allows one to know,

⁵ NPV.

in terms of "a dollar today" the total value of a project which will be extended by several months or years, to determine if it is profitable. It is represented by the following formula:

$$NPV = -I_0 + \sum_{t=1}^n \frac{F_t}{(1+k)^t} = -I_0 + \frac{F_1}{(1+k)} + \frac{F_2}{(1+k)^2} + \dots + \frac{F_n}{(1+k)^n}$$

In the case of a franchisee unit of Fine-Tuned English, the values of the initial investment and the budget projection from each year are:

- Initial investment = \$ 22,518.00
- Net profit year 1= \$ 490.62
- Net profit year 2= \$ 14,780.22
- Net profit year 3= \$ 20,702.35
- Net profit year 4= \$ 29,244.99
- Net profit year 5= \$ 39,075.21

On the other hand, there are several ways to set the discount rate to be used for the analysis of the NPV of a project. "The most practical way is to use the rate of profitability of similar projects or of the sectoral activity" (Herrera García, 2008).

In accordance with the previously noted, it was decided to consider the Minimum Return Rate⁶. According to Mauritius Navarro Zeledón the MRR "*can be defined as: MRR = rate of inflation + prize to risk. (...) to calculate the prize to risk, return rates by sectors of the economy can be taken as reference*" (Navarro Zeledon, s.a.).

According to the latest information (2014) of the Superintendency of Companies, Securities and Insurances, the financial viability of the education sector was 27.25%. Meanwhile, the inflation rate according to the Central Bank of Ecuador in 2016 is 3.66%. Hence, in this case the MRR to be used as the discount rate in the NPV calculation is of 30.91%.

Replacing the NPV formula previously explained, it results in:

⁶ MRR

$$NPV = -22,518.00 + \frac{490.62}{(1 + 0.3091)} + \frac{14,780.22}{(1 + 0.3091)^2} + \frac{20,702.35}{(1 + 0.3091)^3} + \frac{29,244.99}{(1 + 0.3091)^4} + \frac{39,075.21}{(1 + 0.3091)^5}$$

$$NPV = -22,518.00 + 374.78 + 8,624.52 + 9,227.86 + 9,957.73 + 10,163.36$$

$$NPV = 15,830.25$$

For an investment to be profitable the NPV must be positive. In this case after analyzing the financial flows of each year, in its current value we can determine that the total value of the investment in five years, minus the initial investment, will be \$15,830.25. Consequently, it is possible to confirm the profitability for an investor interested in purchasing the Fine-Tuned English franchise.

2.2.4.6.4. Internal Rate of Return⁷

The IRR is the discount rate that a project has, and that allows the NPV to be at least equal to the investment. That is to say, it is the maximum interest rate to which it is possible to finance the project, without generating losses. It results from equalling the NPV formula to zero (Rodriguez Salazar, s.a.).

$$0 = -I_0 + \sum_{t=1}^n \frac{F_t}{(1+k)^t} = -I_0 + \frac{F_1}{(1+k)} + \frac{F_2}{(1+k)^2} + \dots + \frac{F_n}{(1+k)^n}$$

In the case of Fine-Tuned English, if we use the values obtained from the projected budget and equal to zero, this results in:

$$0 = -22518,00 + \frac{490.62}{(1+k)} + \frac{14,780.22}{(1+k)^2} + \frac{20,702.35}{(1+k)^3} + \frac{29,244.99}{(1+k)^4} + \frac{39,075.21}{(1+k)^5}$$

$$K (TIR) = 52.78 \%$$

The IRR of a Fine-Tuned English franchised unit is 52.78%, thus demonstrating the viability of the investment in this project.

⁷ IRR.

2.2.4.6.5. Break-even point

The break-even point is calculated using the following formula:

$$\frac{\text{Fixed costs}}{\text{Sale price}}$$

In this case, because it is an educational services company, the formula was adapted the following way:

$$\frac{\text{Total of annual expenses}}{\text{Value that each student pays per year}}$$

The total of annual expenses is result of the sum of the costs of operation of the establishment, royalties, advertising fee, and the administrative-academic system. While the second variable, is the result of the cost of the pension multiplied by 11 months of study, plus the cost of enrolling twice a year.

$$\frac{\$60\,337.53}{\$445.00} = 135.58 = 136$$

Thus, a franchised Fine-Tuned English unit, will cover its breakeven point in the first year with 136 students.

2.2.4.6.6. The dynamic or discounted Pay-Back

“It is the period of time or number of years that an investment needs so that the discounted value of the net cash flows are equal to the invested capital” (Anzil, 2006). To estimate the pay-back, first it is necessary to determine the NPV of the profit of the approximated years to recover the investment.

Net profit year 1= \$ 490.62

$$NPV \text{ year } 1 = \frac{490,62}{(1 + 0.3091)} = 374.78$$

Net profit year 2= \$ 14,780.22

$$NPV \text{ year } 2 = \frac{14,780.22}{(1 + 0.3091)^2} = 8,624.52$$

Net profit year 3= \$ 20,702.35

$$NPV \text{ year } 3 = \frac{20,702.35}{(1 + 0.3091)^3} = 9,227.86$$

Net profit year 4= \$ 29,244.99

$$NPV \text{ year } 4 = \frac{29,244.99}{(1 + 0.3091)^3} = 9,957.73$$

The dynamic payback is calculated with the following formula: $Payback = a + \frac{I_0 - b}{Ft}$

In the case of the Fine-Tuned English franchise:

- a is the number of the period immediately prior to recover the initial investment, that is to say, the year 3.
- I_0 is the initial investment in the project, \$ 22,518.00.
- b is the sum of the flows until the end of the period of "a", namely year 1 + year 2 + year 3: $374.78 + 8,624.52 + 9,227.86 = 18,227.17$
- Ft is the current value of the profit of the year in which it is to recover the investment, i.e. the profit year 4: 9,957.73

Therefore the pay-back of a Fine-Tuned English franchise would be:

$$\text{Pay - Back} = 3 \text{ years} + \frac{22,518 - 18,227.17}{9,957.73} = 3.43$$

Transformed to months, the period of recovery of the investment would be of 3 years and 6 months.

2.2.5. Franchise Contract

The contract (presented in Appendix 9) is based on the book *Práctica de la Franquicia*, and *La Franquicia, tratado práctico y jurídico*.

It contains sixteen clauses, which agree on:

1. Granting of the franchise.
2. Territorial exclusivity.
3. Payments.
4. Obligations of the franchisor and the franchisee.
5. Independence.

6. Know-how.
7. Establishment.
8. Training.
9. Communication.
10. Assistance.
11. No competition.
12. Duration.
13. Completion of the contract.
14. Renewal.
15. Termination.
16. Transfer of contract.

The contract will be useful when the Institute sells a franchise at the national level and at the international level as well. There are two fundamental differences between these contracts. The first would be the territorial exclusivity clause, which would specify the place that is granted the right of use of the brand and whether the franchise will be master or single. The second difference would refer to under which law the contract would fall. In the case of an international franchise, it must be noted very clearly.

It is important to consider that this model can be subject to changes and modifications. Fine-Tuned English can make as many types of franchise contracts as it considers appropriate, depending on the conditions of the market at the place where the franchises will be established, as well as the relationship franchiser-franchisee, among other things. That is to say, the same contract does not necessarily have to be the same for all franchisees.

2.3. Franchisee profile

Franchisees in a system of expansion such as a franchise are a key factor for its development and the maintenance of the image of the entire chain. Hence, selecting franchisees plays a very important role for the good operation of the franchise. This is why the profile of the franchisee must first be clearly established. The ideal profile of a Fine-Tuned English franchisee must include skills and capabilities as intelligence, vision of development, creativity, fidelity, flexibility, independence and at the same time cooperation, dynamism, responsibility, leadership, capacity to

direct subordinates, entrepreneurship, innovation capacity, strong decision-making skills, company discipline and sense of organization.

It should also be considered as a requirement that franchisees have wide experience in the management of a business. They should also have knowledge on pedagogy and areas related to language teaching. Another important factor is that the franchisees live in the place they want to open the establishment, considering they require greater knowledge of their local market's behavior, and to have a direct control over the administration.

The financial capacity of the possible franchisee must also be taken into account, since they must have sufficient financial resources to develop the business and its image. It is important to consider that the investment in a franchise should not only cover the initial fee, royalties, and other expenses to establish the center, but should also cover the necessary capital for the business to achieve its point of balance and then to exceed it to obtain benefits for the franchisees and to remain stable in time.

2.4. Acquisition process of the franchise

The process of acquisition of the Fine-Tuned English franchise will be carried out in the following steps:

1. Request for information and application

An application form will be used so that those interested in purchasing the Fine-Tuned English franchise can apply from the institution's website (see Table 15). The form must collect information of the possible franchisees based in what the institution seeks in a franchisee. For example, the motivation of the candidate, their educational level, their professional experience, their financial capacity, local availability for settlement and to establish the franchise as proprietors or in a partnership.

2. Contacting the potential franchisee

The potential franchisee will be contacted by telephone or Skype to discuss the most important aspects of the franchise Fine-Tuned English and schedule an appointment for an informative meeting-demonstration.

3. Informative-demonstrative meeting

It shall be carried out in accordance with the previously mentioned methods of training and assistance.

4. Contract signature

After reading the approved contract in detail and the initial fee and royalties are agreed on, both parties will proceed to sign.


5. Beginning of the creation of the establishment

This refers to proceeding with the legal requirements for the opening of the establishment, search for a location or its construction and set up, personnel selection, acquisition of furniture, and promotion of the Institute.

6. Opening of the establishment

Finally, the new Fine-Tuned English franchise will be inaugurated with the Institution's representatives, and with local and national press.

Table 15 Franchisee postulation form

 FINE-TUNED ENGLISH LANGUAGE INSTITUTE			
Franchisee postulation form			
Names		Surnames	
Birthdate		Nationality	
Country of residence		City	
Address		Post code	
Telephone		Cellphone	
Mail address		Skype ID	
Education level			
Current profession			
How did you find out about Fine-Tuned English?			
Where do you want to establish a Fine-Tuned English franchise?			
What are your expectations of buying a Fine-Tuned English franchise?			
What aspects of the Institute interest you most?			
Do you have experience working in a school like this?			
Have you managed a business? How long?			
Do you have experience in other franchises? For how long?			
What is your investment budget?			
How do you plan to finance your investment?			
Do you own a property where you can establish the franchise?			
Property surface			
Do you have any partners or investors to open of the franchise? To how many?			
Observations			

Source: Authors' compilation.

CHAPTER III POTENTIAL MARKETS FOR THE IMPLEMENTATION OF THE FINE-TUNED ENGLISH FRANCHISE

3.1. Justification

Ecuador and Peru have maintained bilateral relations for more than 5,000 years, even before its borders were demarcated. These cultural and commercial relations have been demonstrated through archaeological traces found principally in the Ecuadoran south and the Peruvian north. Later, *“with the Spanish conquest other exchanges arose with the current Ecuadoran southern area and Peruvian northerner, in which Loja was an important nucleus”* (“El Mercurio” newspaper, 2010). Religious bonds are motivated by the devotion to the “Virgen del Cisne”, to whom there are believers not only from the provinces of Loja, Azuay, Cañar, and Zamora, but also from the north-peruvian regions of Huancabamba, Sullana, Piura and Ayabaca (Idrovo & Gomis, 2009).

On the other hand, although neighboring conflicts existed between these two countries, at the present time bilateral relations are prosperous. The multiple current agreements are proof of this. One that stands out is the Peruvian-Ecuadorian Frontier Integration, Development and Neighborhood Wide Agreement. This urged the creation of the Binational Group of Promotion of Private Investment⁸, “whose target is to promote the investments from Peruviana and Ecuadoran businessmen or of third countries in binational or national projects located in the frontier regions” (Government of the Republic of Peru and of the Republic of the Ecuador, 1998).

At the same time, there is an Embassy and seven Peruvian Consulates in Ecuador, which are located in Quito, Guayaquil, Loja, Macará, El Oro, Salinas and Manta, being these last two Honorary Consulates. While in Peru, the Ecuadoran Embassy is located in Lima and the General Consulate in the Department of Tumbes.

Consequently, it is transcendental to stress the importance that the province of Loja has in the above mentioned bilateral relations, since it is the only province that has two General Consulates of Peru. It is also possible to appreciate their relevancy for the multiple commercial, social, cultural, academic and even sports activities that have developed for many years in the frontier regions.

⁸ GBPIP (Spanish acronym).

For the reasons earlier mentioned, Peru was chosen to be the first destination for the commercialization of the first international franchise of Fine-Tuned English. Additionally, the northern departments of Tumbes and Piura were chosen to be analyzed as potential markets due to the geographical proximity with the main head office of the Institute in the city of Loja. Tumbes was selected because the existing consular tie might facilitate the promotion of the franchise in this region. Piura was chosen due to the big influx of people because of the short distance from Loja.

3.2. Political, Economic, Social and Technological Analysis of Peru

General information

The Republic of Peru is located in the western part of South America. It borders to the north with Ecuador and Colombia, to the east with Brazil, to the southeast with Bolivia, and to the south with Chile. Its area encompasses 1'285,215.60 km². According to the World Bank, its population in 2015 was 31,376,670 people.

The Political Constitution of Peru was established on December 29, 1993 and it came into force on January 1, 1994. It established Peru as a democratic, unitary republic with separations of power. Three are exercised in the executive, legislative and judicial branches. The Constitution also establishes autonomous organisms for specific duties (Central Reserve Bank of Peru, 2016).

In the above mentioned Constitution, the Social Economy of Market is declared as the norm in the execution of the State policies where private initiative is free and the State assumes a regulatory role. "Peru is in a privileged situation of economic growth and political institutionalization and has started a strong policy of social inclusion and of progress of the living conditions of all its inhabitants" (Embassy of Peru in Spain, 2015).

Political Situation

According to the World Bank, Peru has a promising legal and political environment for financial inclusion (Peruvian News Agency, 2016). The current president is Pedro Pablo Kuczynski, who has a liberal tendency of center-right. His government plan focuses on four main axis which are the preservation of the security against crime, the fight against corruption, the recovery of the figures of growth and more social investments to reduce inequalities. Kuczynski believes in the "liberal state to provide equal opportunities for all" (CIDOB Foundation, 2016).

Economic Situation

Peru is a country in constant economic growth. In 2016, its economy was recorded as the fifth largest in Latin America. According to Thomas Helbling, chief of the division of the Department of Macroeconomic Studies of the IMF: "Peru is among the strongest countries of the region."

In 2015, Peru recorded a GDP of 189,111 million dollars according to the World Bank, which divided by its approximately 31 million inhabitants, gives as a result of a GDP per capita of \$5,726 in nominal value and a per capita GDP of \$12,194 in purchasing power parity (World Bank Group, 2016).

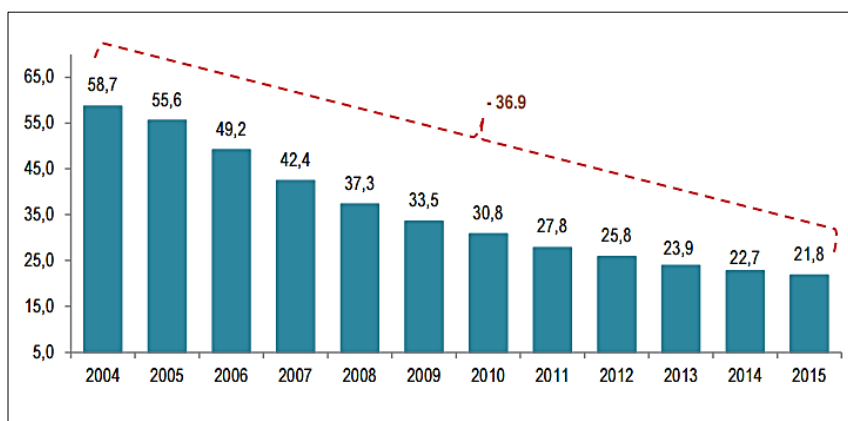
Latin America is undergoing a process of contraction in its growth rate, which is of -0.8% in 2016, compared with -0.5%, in 2015. However, based on the Economic Survey of Latin America and the Caribbean 2016, by the Economic Commission for Latin America and the Caribbean: "Peru would grow 3.9% this year, being the country with the second highest growth forecast only behind Bolivia, which will grow in 4.5%" ("Gestión" online newspaper, 2016).

As stated by the World Bank (2016), in the past ten years Peru registered an annual average growth rate of 5.9%, with a percentage of inflation remained relatively low, averaging 2.9%, thanks to "a favorable external context, prudent macroeconomic policies and structural reforms in various areas which converge to give rise to this scenario of high growth with low inflation."

As a result, the strong growth in employment and income led to a significant reduction in poverty levels. As figures 10 and 11 show, poverty fell from 58.7% in 2004 to 21.8% in 2015, namely, a 36.9% decline in eleven years. In the same period, extreme poverty fell from 16.4% to 4.1% according to the National Institute of Statistics and Informatics⁹ of Peru.

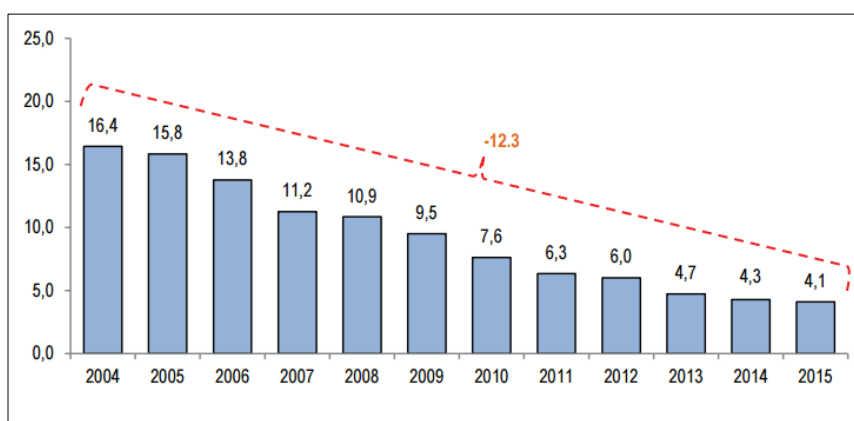
⁹ INEI (Spanish acronym).

Figure 10 Percentage of Peruvian population in situation of poverty 2004-2015.



Source: Perú: Síntesis Estadística 2016, by the National Institute of Statistics and Informatics.

Figure 11 Percentage of Peruvian population in situation of extreme poverty 2004-2015.



Source: Perú: Síntesis Estadística 2016, by the National Institute of Statistics and Informatics.

In the same way, the national production in the country is increasing. According to the latest economic report of the third quarter of 2016 submitted by the National Institute of Statistics and Informatics:

"The national production of Peru in October 2016 registered a growth of 2.12%, counting 87 months of continuous growth, determined by the favorable evolution of the majority of the productive sectors, highlighting the contribution of the mining and hydrocarbons sector, telecommunications, transport and storage."

Regarding entrepreneurship in new business according to the Global Entrepreneurship Monitor¹⁰, in a study of the London Business School and Babson College, the Total Early-Stage Entrepreneurial Activity index¹¹ 2015-2016 of Peru is 40.3%. This indicator shows that it is a country with a high rate of entrepreneurship, as the world average is only 21%.

Nevertheless, in Peru less than 38% of these entrepreneurs do so in sectors such as information and communication technologies, finance, health, education and services (ESAN connection, 2016).

Doing Business, is an indicator that provides an objective measurement of the regulations for doing business. Its study of 190 economies, classifies Peru in these global terms in place 54. According to this indicator, Peru places at 103 in regard to the ease of starting a business with the procedure taking 26 days approximately. In relation to the ease of obtaining credit, Peru places at 16, and in regard to the protection of minority investors, it ranks at 53.

Comparing this data with Ecuador, according to this indicator, the country is ranked at 114. On the possibility of opening a business, it places at 166 and the process takes 48.5 days. In addition, it placed at 101 to obtain credit. Regarding the protection of private investors, it placed at 118. These data show that Peru is in a better position as a country for doing business (DB World Bank Group, 2016).

Due to the indicators presented above and the great economic growth deployed in recent years, Peru is in a rush to attract much more investment in both the private and the public sector. In addition, according to the World Bank, the country will continue structural reforms that ensure the confidence of private investors (World Bank Group, 2016).

Social Development

Globally, consensus exists in pointing out that economic growth is necessary but not sufficient to reach social development. *“A society that does not achieve to attend to basic human needs, equip the citizens to improve their quality of life, to protect the environment and to offer opportunities to many of its citizens, cannot be considered*

¹⁰ GEM.

¹¹ TEA.

to be successful. Inclusive growth demands both the economic advance and the social one too” (Porter, 2015).

In Peru, this discussion is important if one takes into account that, as the Ministry of Development and Social Inclusion highlights, "despite having grown economically more than 73% between 2001 and 2010, the levels of development of the country have not increased in the same magnitude" (Seinfeld, 2016). To measure this relationship between the social and the economic welfare, with greater accuracy, the Social Progress Imperative Organization developed the Social Progress Index¹², as "a tool that allows rating the well-being of the people through a holistic and integrative approach." In 2015, this indicator positioned the Peru in place 55 of 133 countries, and in place 11 in Latin America, with a score of 67.23 (Social Progress Imperative, 2015).

At the same time, the Social Progress Imperative determined that effectively GDP and SPI have a positive relationship around the world. However, this is not general and does not necessarily mean that countries with large GDP per capita have a higher SPI. For example: Ecuador and Serbia have a slightly lower GDP per capita than Peru, but a slightly greater SPI (Green, 2015). Therefore, Peru must continue working to increase their economic development, and the social welfare of its inhabitants through policies focused on "increasing productivity, reducing inequalities and labor informality in order to achieve sustainable growth and improvement in social outcomes, to ensure that they have a positive correlation" (Organization for Cooperation and Economic Development, 2015); and at the same time, improve the quality of public services such as education, health and transport.

Technological situation

As for technology, Peru maintains its position at number 90 in the ranking of XV edition of the Global Report of Information Technology 2016, which evaluates the impact of information and communication technologies¹³ in the process of development and competitiveness of 143 countries. According to the World Economic Forum "the country turns out to be limited by the existing barriers in the educational system, that makes the preparation of the country difficult to make a good use of information technologies and also by the absence of efficacy of the

¹² SPI.

¹³ ICT.

legislative organs that delay the regulative environment for the ICT” (Industrial Development Center of the National Industries Society of Peru, 2016).

The current president of Peru Pedro Kuczynski affirms that ICTs have a big impact in the country as a fundamental part of the social development (Gil Mena, 2016). For this reason the Development of Science, Technology and Technological Innovation National Policy was approved on March, 2016. Its strategic targets are to promote the generation and transference of scientific and technical knowledge, to develop new incentives that stimulate and increase the ICTs activities, and to propitiate the generation of human capital properly qualified (National Council of Science, Technology and Technological Innovation, 2016).

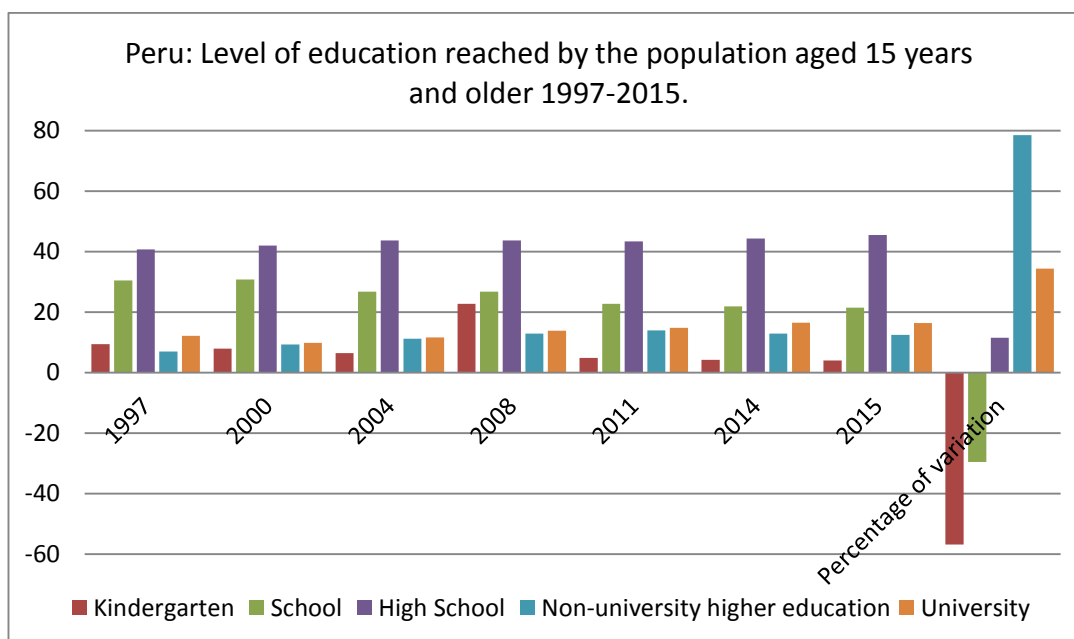
In this way, Peru was provided for the first time with a National Policy that allowed it to reach the country’s objectives, and improve the quality levels of the research and technological development centers. It was also able to generate quality information about the performance of the actors who shape the National System of Science, Technology and Technological Innovation; and to strengthen the ICTs institutionality in the country (National Council of Science, Technology and Technological Innovation, 2016).

Education

In Peru there is a proper educational system directed by the Ministry of Education. Every department is administered by the Regional Management of Education (Gerencia Regional de Educación); which possesses a Regional Direction of Education (Dirección Regional de Educación) for each department and Units of Local Educational Management (Unidades de Gestión Educativa Local) in accordance with the number of districts in most cases (Ministry of Education, 2016).

The education level has improved exceedingly, as the National Institute of Statistics and Informatics shows in Figure 12. In 2015, a much higher percentage of population had secondary studies (11.5 %), tertiary studies (78.6 %) and university studies (34.4 %) in the country, compared with 1997. Nevertheless, according to the Human Development Index of the United Nations, Peru (0.891) ranks 71 of quality of education on a global scale and in 7 in Latin America. Peru still lacks a lot to be in the first positions, which should be the goal of any country.

Figure 12 Peru: Level of education reached by the population aged 15 years and older 1997-2015.



Source: Perú: Síntesis Estadística 2016, elaborated by the National Institute of Statistics and Informatics.

The increase of investment in education in Peru is explained by the growth of the economy. According to the indicators of public investment in education from the World Bank, in this country such funding in 2012 reached 3.1% of its GDP, placing it at country number 99 out of 129. In 2016, investment in education grew to 3.7% of GDP, which placed to Peru at 84. Although this growth had a greater scope, the State's goal is to arrive to allocate 6% of the GDP. The Peruvian State has recognized that it needs to make a real commitment to education beyond of what the economic growth has allowed. The needs of the population of quality education are gigantic (Ñopo, 2016).

For all the above reasons and in order to increase the quality of education, the government now offers more incentives for education. For example the Scholarship18 (Beca18), to secondary school students of low incomes and with high academic achievements so they can pursue undergraduate studies. In addition, scholarships of the National Program of Scholarships and Educational Credit, which include access to programs totally financed in the 400 best universities in the world for high performing students. As well Teacher Vocation scholarships (Vocación

Maestro), encourage the study of teaching as a university career (British Consulate, 2015).

English Education

In this sense, with the purpose of strengthening English language learning in Peru, the new National Policy of Education, Learning and Use of the English Language - "Inglés puertas al mundo", was approved by means of Supreme Decree 012-2015-MINEDU. This policy is constituted in the main guiding instrument of the sectorial and institutional plans, programs, projects and other activities related to education, learning and use of the English language which the State entities are in charge of (Ministry of Education, 2016).

The objective of this policy is to *"ensure that more people in Peru develop bilingual communication skills to enter the global market, favoring their personal development and contributing to the productivity and competitiveness of the country"* (Becerra Gutiérrez, 2016). This program will be implemented gradually throughout the country, through the "Jornada Escolar Completa"¹⁴, which will be applied in public schools and high schools. According to Francisco Arce, chief of staff of the Regional Direction of Education of Piura, "the JEC aims to increase the hourly load of English in secondary education to 8 hours per week, and in primary to 5 hours weekly. It will also increase hours of physical education and art education."

The great limitation that has existed so far in the implementation of this new policy is that there are not enough trained English teachers. Therefore, in spite of the fact that the JEC has already been implemented in some secondary public units, the results have not reached the expected levels. For this reason, the State through the Ministry of Education¹⁵ is in the process of training English teachers through the virtual course "Improving my English" (Gamberini, 2016). In the same way, the program "Inglés puertas al mundo" offers exchange scholarships and internships to English-speaking countries to achieve the language improvement (Flores, 2017).

Moreover, the National Registry of English Teachers is open to be the official site of procurement of teachers of this language. It will serve to define how much is the real supply of trained teachers in the country to be able to obtain the necessary demand (Local Education Management Unit N° 07, 2017). Registration will be enabled until

¹⁴ JEC (Spanish acronym).

¹⁵ MINEDU (Spanish acronym).

June 30, 2017. The MINEDU is calling for registration to all English teachers and teachers who do not have the specialty. So far, the registry is not available for the Regional Directions of Education, according to Eugenio Flores, Director of Pedagogical Management of the Regional Direction of Piura.

Private English Education

The General Education Law of the Republic of Peru in its Article 21 stresses the duty as State to *“value the contribution of the private institutions that offer educational quality services”*, but at the same time *“exercise and promote a permanent process of supervision and evaluation of the quality and equity in all kinds of education.”*

At the same time the government of Peru approved the Law of Promotion of the Investment in Education in which “conditions and guarantees are established to promote investment in educational services, to help to modernize the educational system and extend the supply” (Congress of the Republic of Peru, 1996). That being said, the State is open to the establishment of educational centers of any level and type of education, any time these are credited by the Peruvian Institute of Evaluation, Accreditation and Educational Certification (Congress of the Republic of Peru, 2003).

As for Institutes that offer teaching service, there is a wide variety of centers or institutes of language teaching, being English the predominant one. Nonetheless, at general level there are two well known English centers in the Peruvian market. The North American Peruvian Cultural Institute (Instituto Cultural Peruano Norteamericano¹⁶), with more than 75 years of experience, is recognized as the biggest binational cultural center of Latin America and of the world. It has 14 national centers, of which six are in Lima, and eight are distributed in the north, center and south of the country (Peruvian North American Cultural Institute, 2016).

Another English teaching center of great recognition in Peru is the Peruvian British Cultural Association, better known as "El británico." This Institute has with 11 centres in Peru, the majority of which are in the region of Lima. It is authorized to administer international exams for professionals who wish to travel abroad and

¹⁶ ICPNA (Spanish acronym).

develop a career in the teaching of this language (Peruvian British Cultural Association, 2016).

Franchises

In Peru as in other Latin American countries, the franchise system is in the early stages of evolutionary development. According to the classification by Fernando Luque, Director of the Peruvian Chamber of Franchises, Peru is in the second evolutionary stage, which is characterized by the entry of recognized brands, and negotiations among large groups (Seijas, 2006). According to Front Consulting Peru's statistics, published on the Peruvian Chamber of Franchises' web site, until June 2015, the total number of franchises that operate in Peru were 426, of which 219 are national franchises (42%), at the same time there are 239 foreign franchises in Peru, which represent 58% of the total. From the national franchises, seven belong to the education sector, of whom two are institutes, three are high schools and two are academies (Peruvian Chamber of Franchises, 2015).

Peru is a franchise exporting country that has the presence of 18 franchise brands in 15 different countries. Chile is the country that has received Peruvian franchises the most, with a total of nine, followed by Ecuador with seven and Panama and the United States with six and five, respectively (Group "El Comercio", 2015). In 2016 the franchise sector presented an annual growth of 20 %, with 434 franchises total, of which 218 were national. By December, 2016 they invoiced more than 1.3 million dollars (Peruvian News Agency, 2016). According to the Exports Director of PROMPERÚ, Luis Torres Paz:

"Franchises in the Peru have grown at a rate of 20% per year in the past five years due to the Peruvian trade policy aimed at the signing of commercial agreements and conventions, in order to avoid the double tax imposition, with different economies and economic blocs. For 2017, a higher entry of international franchises to Peru is estimated" (Peruvian News Agency, 2016).

The prospects for growth that franchises in Peru have for 2017 are positive, and it is intended that the figures continue to grow so that the sector of franchises can become one of the great relating businesses to be taken into account by entrepreneurs and investors (Peruvian Chamber of Franchises, 2015).

Franchise legislation

As in Ecuador, in Peru there is no specific legislation to regulate the creation or implementation of franchises in its territory. It does not define the concept of franchise or establish the rights and obligations of the franchisor and franchisee. Ludeña Almeyda argues that Peru has a multiregulatory system, this means that:

“There are several norms or laws to which it is necessary to turn to so that as a whole they grant a legal support to these business formats. This is very important, because the aim in the managerial sector is the beginning of commercial operations with the juridical - economic implications that it implies. The opposite case is the autoregulative system, by means of which a special legislation is created for the exemption, as there are the countries of Brazil, Mexico, Spain.”

Nevertheless, there are norms that comprise in an indirect way the operation of franchises, which are related to intellectual property, brands, patents, royalties, foreign investment, and mercantile contracts. First of all there is the Political Constitution of Peru, which in the chapter of Economic Regime, establishes the following articles:

“The freedom of contracting guarantees that the parties may validly reach an agreement in accordance with the rules in force at the time of the contract. The terms of contract cannot be modified by laws or other provisions of any kind. Conflicts arising from the contractual relationship can only be resolved by arbitration or by the courts, according to the mechanisms of protection provided for in the contract or as referred to in the law.” Art. 62.

“National and foreign investment submit to the same conditions. (...)” Art. 63.

The Civil Code as juridical base with regard to contracts, obligations and juridical acts, in its Book VII named Sources of Obligations, article 1353 mentions that: *“all the contracts of private right, inclusive the nameless ones, remain submitted to the general rules contained in this section, except if they turn out to be incompatible with the particular rules of each contract.”*

Also related to franchises, there is Legislative Decree 823 concerning the Industrial Property Law. This rule would be useful for franchises that offer products that are in the categories in Article 3, which expresses the following:

“The protection recognized by this law lies on, among others, the constituent elements of industrial property that are detailed below:

- a. Patents of invention.*
- b. Certificates of protection.*
- c. Profitmodels.*
- d. Industrial designs.*
- e. Industrial secrets.*
- f. Trademarks for products and services.*
- g. Collective brands.*
- h. Certification brands.*
- i. Trade names.*
- j. Advertising slogans, and,*
- k. Appellations of origin.”*

Article 21 states: There is also the Legislative Decree 662, regarding the Regime of Legal Stability for Foreign Investment through the recognition of certain warranties.

“License contracts for the use of technology, patents, brands or other industrial property rights of foreign origin, as well as technical assistance, basic and detail engineering, management and franchise that stipulate the payment of royalties calculated on percentages of the net sales of a particular product or another system of calculation, are understood automatically registered with its single submission to the competent national agency, without limitation of amount or percentage of charge, as long as that they comply with the requirements in article 13 and in the last two paragraphs of article 14 of the Decision 291 of the Commission of the Cartagena Agreement.

Local companies that are considered as subsidiaries of foreign companies will be able to celebrate with their head office or other subsidiaries of the same, contracts stipulating the payment of royalties in the terms provided for in the present Legislative Decree, corresponding deduction of such payment

as expenditure for the purposes of the income tax. The royalty payments as referred to in this article shall be carried out after the payment of the tax law.”

As for the requisites established in Article 13 of the Decision 291 of the Commission of the Agreement of Cartagena, it is mentioned that:

“Technology import contracts shall contain provisions on the following matters:

- a. Identification of the parts, with express consignment of their nationality and domicile.
- b. Identification of the forms that covers the transference of the technology that is imported.
- c. Contractual value of each of the elements involved in the technology transfer.
- d. Determination of the term of validity.”

On the other hand, Article 14 of the same Decision stipulates that for effects of the register of contracts on external technology transfer, brands or patents, the Member Countries will be able to bear in mind that the above mentioned contracts do not contain certain clauses (see Chapter 1, international legislation). In the last two paragraphs, the above mentioned article establishes:

“With the exception of certain cases properly qualified by the Competent National Organism of the receiving country, clauses who prohibit or limit in anyway the exportation of the products elaborated based on the respective technology, will not be admitted. In no case clauses of this nature regarding subregional exchange or the exportation of products similar to third countries, will be admitted.”

Article 22 of the Legislative Decree 662 of the Regime of Legal Stability for Foreign Investment, is also very important for foreign investors since it establishes the following:

“Once contracts are registered before the Competent National Organism, they award the licensee or recipient the right to transfer abroad, in freely convertible currency, using the most favorable exchange rate at the moment

of realizing the exchange operation, royalties or agreed compensations, previous payment of taxes.”

In regard to supranational norms applicable in Peru, as well as in Ecuador, there are Decision 291, Decision 486 of the Cartagena Agreement, and the Paris Convention, mentioned above in Chapter 1.

In this context, the National Institute for the Defense of Competition and Protection of Intellectual Property¹⁷ exists in Peru. Among the faculties of INDECOPI, is to register foreign franchises in Peru. In the Legislative Decree 807, regarding faculties, rules and organization of INDECOPI, according to what was requested by the Cartagena Agreement, Article 56 establishes the following

“Contracts of foreign technology transfer referred to in Decision 291 of the Commission of the Cartagena Agreement are understood as registered with the registration of licenses for the use of distinctive signs before the Distinctive Signs Office of INDECOPI, with the registration of the license for the exploitation of patents or other rights of industrial property and the inclusion in the list of licenses for the use of technology, technical assistance, basic and detail engineering, management and franchise, of foreign origin before the Office of Inventions and New Technologies of the Institute in reference, accordingly.”

The information which must be attached to the request for registration for the "inclusion in the list of licenses for the use of technology, technical assistance, basic and detail engineering, management and franchise, and franchise of foreign origin", according to the Single Text of Administrative Procedures¹⁸ of INDECOPI approved by Supreme Decree 085-2010-PCM, is the following:

- a. *“Identification data, address and/or powers. In the case of legal persons, they shall indicate the Single Taxpayers Register.*
- b. *Indicate the type of transaction that is requested.*
- c. *A copy of the contract duly legalized and its translation, if any.*

¹⁷ INDECOPI (Spanish acronym).

¹⁸ TUPA (Spanish acronym).

- d. *Relation of patents, brands or other industrial property rights of the contract, indicating the number of the certificate or title, expiration date and name of the holder, if any.*”

In case of modification of the register the same information that was submitted to register shall be presented and also the number of resolution by which the register was made, shall be indicated. In the TUPA, it is noted that the competent authority to resolve both the register and the modification to the register of foreign franchises, is the Commission of Inventions and New Technologies.

Therefore, the process of registration of a foreign franchise in INDECOPI apparently is a simple procedure and of public utility. However, in the boom of the franchises in *El boom de las franquicias en el Perú Es tiempo de una regulación o aún no*, Ludeña Almeyda indicates that the registration of franchises in INDECOPI is voluntary or optional, it has no effect of information to third parties, generates insecurity for those interested in a franchise by not knowing whether it is a formal franchise or not, and that it does not allow statistical control over the evolution of the franchise sector, nor the percentage of participation of national and foreign brands.

3.3. Market research

3.3.1. Methodology of the investigation

First, the Critical Success Factors¹⁹ of Fine-Tuned English in Ecuador were analyzed. These refer to the features that allow a company to become successful in their business. They are those identifiable factors that will enable entrepreneurs to achieve the objectives of their business (Seinfeld, 2016). To be determined, a qualitative study was conducted through interviews, and surveys that have been developed previously in the institution and that form part of the company's files were analyzed.

Once the CSF were determined, they were studied in Tumbes and Piura. At the same time, an exploratory investigation was made in the Decentralized Office²⁰ of the Ministry of Foreign Affairs in Piura, the Consulate of Ecuador in Tumbes, Chambers of Commerce, the Regional Direction of Education, English institutes,

¹⁹ CSF.

²⁰ ODE (Spanish acronym).

and Universities with Language Centers in the mentioned departments. The problem of investigation in this case was to know which of the two departments have more CSF in common with the Institute in Ecuador, to be chosen as the market with major possibility of success.

3.3.2. Critical Success Factors of Fine-Tuned English

In the interview to Dr. Saula Aguilar, President of the Company and Academic Director of Fine-Tuned English, she said that the key to their competitive advantage lies in their professional seriousness and their pedagogical experience, which go together with the judicious selection of competent teachers and in the recruitment of foreign speaking native teachers. In addition, the use of innovative methodologies for specific English teaching, the use of new information and communication technologies. A relevant factor has also been that their services are offered at affordable costs, without neglecting the quality of education. At the same time, another big difference compared to the competition is the modern infrastructure, with the best technology. Consequently, the critical success factors to be considered were the following:

Teaching quality

The teaching quality of an educational center is supported by a good method, optimal pedagogical processes, and of qualified teachers to develop such methodology in the best way to offer a high quality service.

In accordance with surveys carried out to the teaching personnel of Fine-Tuned English by Karla Aguirre, 22% affirmed that the methods and procedures are always effective to complete their work activities, while 53% alleged that the above mentioned methods and procedures are almost always effective. Therefore, 75 % of teachers gave a positive evaluation to the methods and procedures used. On the other hand, as for the level of satisfaction of the students, 43% assured to be very satisfied by the offered service, and 56% was satisfied. This demonstrates that the quality of its education through the methodology of the Institution and the qualified teachers, is fulfilling the expectations of the students.

At the time of analysing the teaching quality in Peru, this CFS will be called availability of trained teachers, since the methodology to be used in any

establishment will be the same. Therefore, in another market it is critical to have teachers who can implement the established teaching model.

Infrastructure and Technology

The infrastructure of an educational institution has a great impact on the learning process. For this reason it is important that it be the most appropriate. Another differentiating factor of Fine-Tuned English is its infrastructure, which is large in size, in proportion to the number of students. In the city of Loja, it owns a 5 storey building with 45 classrooms, in Zamora it has a 2 storey building, with 7 enabled classrooms, and in Catamayo it does not own its centre, but it works in an establishment of 2 floors with 6 enabled classrooms.

With regard to technology, the institution has in its facilities wireless internet connection and interactive projectors in each classroom. In addition, it uses virtual platforms of teaching, and platforms of personal management, to facilitate the teaching methodologies and the learning and the scheduling control of the teaching staff. Consequently, the institution offers an attractive service to its clients.

In the mentioned investigations, 76% of the polled clients valued the appearance and good condition of the facilities as excellent, and 19% valued it as good, resulting in a 95% of positive feedback. Also, the equipment of the classrooms obtained an evaluation of excellent at 60% and an evaluation of good at 36%, resulting a 93% of positive assessment. As for technology rates, 62% of clients valued its use as excellent, and 32% as good, therefore 94% of students positively valued the use of technology (Aguirre Montaña, 2016).

Socioeconomic status

The socio-economic level refers to an indicator of the sociological and economic situation of a person, a family group, or a population at the national level in relation to a hierarchical social structure. *"In addition it is an important indicator in any population study; according to Gottfried, 1985 and Hauser, 1994 it includes three basic aspects: the economic income, educational level and occupation of parents"* (Vera & Vera, 2013).

The service offered by Fine-Tuned English is addressed to people of any social stratum and of all ages. The courses prices are affordable for any person that receives a basic wage (Aguilar, 2016). At the same time, Fine-Tuned English

considers the SES of the population as a very important factor, for that reason, it offers its clients the ease of monthly payments for the service.

As for the importance of the relation quality price, 58% of the polled clients qualified it as very important, and 30% qualified it as important (Aguirre Montaña, 2016). Therefore, it is possible to conclude that due to the purchasing power of the population, the price of the service is a substantial factor, since it must be accessible but always preserve quality.

Target market

The Institute offers its services to all the population from 3 years of age. On the other hand, according to the company's files in the last academic term September 2016- January 2017, its student population in the various programs offered was distributed in the following way: Tiny kids 7.44%; Children 22.95%; Teens 36.52%; Youth 26.39%; and Seniors 6.70%. It is necessary to stress that the above mentioned percentages have stayed constant especially in the last decade of operations. It can be concluded that the targeted market of Fine-Tuned English is wide by offering courses for all ages; however, customers are mainly adolescents and adults (62.91% of its clients); at the same time, students who attend the Children program represent a significant percentage at 22.95%.

Competitors

There are several educational centers that offer the service of English teaching in Loja and Zamora. To be able to conduct an analysis of the main competitors, comparative charts were developed. The English institutes were ordered according to the amount of students they have. Other factors that relate directly to the quality of their service and the acceptance they have in the market were also analyzed.

As shown in Table 16, all centers employ mostly local teachers who graduated from Universidad Técnica Particular de Loja²¹ and the National University of Loja²². The centers with international staff recruit through electronic means. According to Roos Sampayo, Academic Director of the Canadian House Center in Loja, competition between English institutes is strong, since on average a new English institute opens every 5 months, although they usually do not stay in the market for a long time.

²¹ UTPL (Spanish acronym).

²² UNL (Spanish acronym).

However, as can be analyzed in Table 16, Fine-Tuned English is by far the center that has the most years of experience and at the same time the one that has more students. As of the last academic period September 2016-January 2017, it is the leader of English teaching by possessing the 57.8% market share. It is necessary to stress that the surveys conducted by Karla Aguirre in 2016 to students of Fine-Tuned English in the city of Loja, underpin that 59% of customers determined their choice of education because of the experience of the Institute.

The main competition in the city of Loja is Canadian House Center with 800 students and 8 years of experience. The most important differentiating element of the above mentioned center is the large number of native teachers that it possesses. Another strong competitor is Washington English Institute, which is different because of a flexible and personalized methodology. It has 500 students and 8 years of experience. The most important third competitor is the Global Binational Center Quality English. In spite of its 4 years of operation, it has been well received with 450 students. Its main differentiating element is that it is the only specialized English center in the city where it is possible to take the TOEFL examination. Therefore, based on the market research, it is possible to expect continuous growth in the next few years.

On the other hand, the same investigation determined as indirect competition the language institutes of UNL and UTPL, since they offer English courses only for their students with the aim to fulfill the basic requirements of English learning in the academic programs offered.

As for Fine-Tuned Catamayo, it can be said that it is the only center that offers English teaching in the above mentioned location, since since so far there is no competition.

Table 16 English centers in Loja comparison

English centers in Loja comparison				
Institute	Fine-Tuned English	The Canadian House Center	Washington English Institute	Centro Binacional Global Quality English
Years of experience	24	8	8	4
Approximate students	3000	800	500	450
Market share	57.8%	15.4%	9.6%	8.7%
Local teachers	58	7	25	13
Foreign teachers	9	23	8	0
Administrative staff	21	15	10	3
Where they hire teachers from	UTPL, UNL, and international recruitment.	UTPL, UNL, and international recruitment.	UTPL, UNL, UCSG*.	Mostly from UTPL.
Modalities of courses	Regular and intensive courses for children, teens and adults.	Courses for all ages of one hour daily during 5 months, and courses of 2 hours during 2 months and a half, and Saturdays of 3 hours.	Courses for children and teens of one hour daily during 5 months and courses for adults of two hours during two months and a half.	Courses of a daily hour for 5 months and courses for TOEFL, they are the only ones that take the TOEFL in Loja.
Cost of the service	32 USD for enrolment, and 37 USD monthly, or 74 USD.	25 USD to enrol, 35 USD during 5 months, o 75 during 3 months.	20 USD for enrolment, and 250 USD, 325 USD, y 495 USD respectively.	35 USD monthly, and 30 USD for enrolment.

Institute	Brentwood Language Center	New York English Learning Center	English Speak-up Center	Easy English
Years of experience	2	3	12	6
Approximate students	200	100	80	60
Market share	3.9%	1.9%	1.5%	1.2%
Local teachers	13	1	4	4
Foreign teachers	0	3	1	1
Administrative staff	4	0	1	2
Where they hire teachers from	UTPL, UNL	From no university specifically.	UTPL, UNL	UTPL, UNL
Modalities of courses	Courses for children, teens and adults, of one hour or two daily, during 5 months	Courses for children, teens and adults, of one hour daily, during 5 months; or two daily during 2 months and a half; or Saturdays for 4 hours.	Courses for children, teens and adults, of one hour daily, during 5 months	Courses for children, teens and adults, of one hour daily, during 5 months; and vocational intensive courses.
Cost of the service	26 USD for enrolment, and 36 USD each month.	20 USD for enrolment and 25 USD monthly.	25 USD for enrolment and 35 USD monthly.	26 USD to enrol, and 35 USD monthly.

Source: Authors' compilation based on interviews (See Appendix 11).

*Universidad Católica Santiago de Guayaquil.

As can be seen in Table 17, Fine-Tuned Zamora has only one competitor. However, it does not represent a big competition since it does not have a large share of the market and is not a well known center by the population. Consequently, Fine-Tuned Zamora owns 92% of the market share. At the same time, Fine-Tuned Catamayo is the leader in its market. Nevertheless, it is the only institute that offers English courses.

Table 17 English centers in Zamora comparison

English centers in Zamora comparison		
Institute	Fine-Tuned Zamora	English Online Center Plus
Years of experience	7	1
Approximate students	350	30
Market share	92%	8%
Local teachers	7	1
Foreign teachers	1	1
Administrative staff	3	1
Where they hire teachers from	UTPL, UNL, and international recruitment.	From no university specifically.
Modalities of courses	Regular and intensive courses for children, teens and adults.	One hour daily courses during 5 months, for children, teens and adults, and private classes.
Cost of the service	37 USD monthly, or 74 USD, plus 32 USD to enrol.	35 USD monthly, 3 USD to enrol. 10 USD per hour (private classes).

Source: Authors' compilation based on investigation in the English centers.

3.3.3. Department of Piura market

3.3.3.1. General Information

The department of Piura is a region located in the north-west of Peru, its current area is of 35.892 km² and its population is one of the largest of Peru. According to the projections of 2016 of the National Institute of Statistics and Informatics, it has approximately 1'858.617 inhabitants, figure that represents a 7% of the total population of the country only after Lima and La Libertad. It is comprised of the following provinces: Piura, Ayabaca, Hauncabamba. Morropón, Paita, Sullana, Talara, Sechura (Educational Quality Statistics of the Ministry of Education, 2015).

The Gross Value Added²³ that Piura contributes to the National GVA, according to numbers of the INEI to the year 2015, is 3.9%. The main productive sector in this department is services, followed by mining, petroleum and manufacturing. Furthermore, the industrial prevailing industrial branches are fishery products, petroleum refining, oleine, agribusiness and cotton yarn. Piura has a regional government which promotes investment, and has been known for the US\$1,500 million in investments that it has received in what goes of the regime (Perú Económico S.A., 2015).

As for education in Piura the Strategic Plan of Compound Regional development of Piura 2013-2016 was implemented in 2013, which aims “to increase access of the population to the services of basic education, health, water, sanitation, electrification in quality and sufficient quantity” (Educational Quality Statistics of the Ministry of Education, 2015). Likewise, with the purpose of strengthening English learning in the public high schools of Piura, since 2016 the Ministry of Education implements the policy and National Plan “Inglés, puertas al mundo” (Tvperú.gob.pe, 2016).

3.3.3.2. Critical Success Factors of Piura

Availability of teachers

In Piura there is a big deficit of qualified teachers of English both at the level of private institutions, and public institutions. As stated by Eugenio Flores, Director of Pedagogical Management of the Regional Direction of Piura, the deficit in public educational units is almost 100%, i.e. they do not have teachers who have graduated as English teachers. Usually they have other professionals who have studied basic English and are going to teach in secondary school, and now that the *Jornada Escolar Completa* will be implemented in schools, the deficit will be even greater.

Especially in the city of Piura, only the University of Piura offers the program of Secondary Education, with specialty in English language in two modalities that are in-person from Monday until Friday and partially in-person the weekends. The in-person modality has been offered since 2008 and the partially in-person since 2003. Both have a duration of 5 years, split into 10 semesters. To graduate, students must have passed 210 credits and to take the First Certificate in English examination.

²³ GVA.

"The English Language Specialty forms professionals able to serve as English teachers in any public or private educational institution, universities and other education institutions, as well as in training programs and various projects relating to teaching-learning and application of foreign language" (University of Piura, 2016).

Ana Maria Vilela, Coordinator of the English program, says that the lack of teachers in the *English Language Specialty* is evident; it is therefore very difficult to recruit trained teachers for this program. *"There are many people who know English, but are not specialized teachers and therefore do not know the educational and teaching methodology required to teach a university class. However, we need to recruit staff of this category because there is no availability."* At the same time, native speaking teachers are limited; they are contacted through the Agreement of Support of Investigation and Teaching at the University of Piura, with the American Embassy.

Furthermore, the school has a greater acceptance in recent years, with more than 80 students enrolled in 2016. This has also grown with new incentives provided by the Government like the PRONABEC scholarship (Beca Vocación Maestro). However, due to the low acceptance that the program had in the first years, the number of graduates from the first class was approximately 50 people (Vilela, 2017).

On the other hand, Cesar Vallejo University offers a program related to foreign language teaching since 2006, called "Degree in Translation and Interpretation of English and French." Students are admitted without any language knowledge requirement and the amount of graduate students are very few. On average, there have been only 2 graduates per year. According to Eduardo Paz, Academic Director of the Language Center, "The program does not have great acceptance due to the idiosyncrasy of Peruvians who do not appreciate a professional translator and believe that work can be performed by any person who speaks or understands English."

According to the Director of the School of Translation and Interpretation, since this program does not have a great workforce, most translation graduates work as English teachers. Although they are not fully trained to manage this profession, the lack of English teachers has made that they generally lean to this branch.

Finally, although the ICPNA is not an Institute that trains English teachers, due to the deficit in this field, the Language Center of César Vallejo University, of the National University of Piura and even of the Regional Direction of Education, have had to resort to hire ICPNA graduates as teachers although they are not graduates in teaching, because the demand cannot be properly met with specialized English teachers.

Infrastructure and technology

Piura is provided with infrastructure formed by highways, four ports, airports, and a new freeway that facilitates communication of this department with other regions of the north of the country and of the south of the Ecuador. Human traffic is of approximately 4 millions annually (Department of Economic Studies of the Piura Division of the Central Reserve Bank of Peru, 2016).

Its 8,951 kilometers of roads and a fleet of 52,000 units make access to people and goods much easier. This is one of the reasons why it has become the third largest economy of the country. In addition, the four ports destined for export activities, and oil and minerals traffic, also contribute to the development of the sector's economy (Department of Economic Studies of the Piura Division of the Central Reserve Bank of Peru, 2016).

Regarding infrastructure in education in the province of Piura, the indicator of school establishments of basic education that are provided with three basic services, is 46.1%, compared with the national rate, which is 41.5% (Educational Quality Statistics of the Ministry of Education, 2015). On the other hand, concerning information and communication technologies related to the process of teaching-learning in Piura, in the case of primary school there has been a great advance in the percentage of schools with Internet access. Since 2014, 48.8% of schools have such services, which is above the national average which is 27.9%. Similarly, in secondary schools, in the same indicator Piura was at 65.5% in 2014, staying above the national average which is 52% (Educational Quality Statistics of the Ministry of Education, 2015).

Socioeconomic status

The Peruvian Association of Market Investigation Companies²⁴ regularly performs a study of the socio-economic status of the Peruvian population. This is calculated based on the National Survey of Households that INEI carries out to define poverty indicators. At the same time, the APEIM does not define the socioeconomic status of a person or household from their income; instead, it analyzes a group of variables (Peruvian Association of Market Investigation Companies, 2016). Table 18 explains the variables taken into account by the above-mentioned Association to evaluate the different socioeconomic status.

Table 18 Socioeconomic status evaluation

Socioeconomic status evaluation					
Variables	SES A (High/ Medium High)	SES B (Medium)	SES C (Medium Low)	SES D (Low)	SES E (Marginal)
Level of instruction of the family chief	Doctorate Diploma Postgraduate (master)	Complete university studies	Unfinished university Superior non graduate Incomplete Superior non graduate	High School	No studies Incomplete school School High School incomplete
Medical consultation	Doctor in Private Clinic	Doctor in office	Social Security / Armed Forces Hospital / Police Hospital	Health ministry hospital	Medical Post Hospital/ Pharmacy / Naturist
Average inhabitants	1 -2 people 3 – 4 people		5 – 6 people	7 – 8 people	9 and more people
Predominant material in floors	Parquet / Laminate / Marbel / Carpet	Ceramic / Wood Majolica / Tile / Mosaic	Polished cement Majolica / Tile / Mosaic	Unpolished cement	Dust / Sand
Rooms average	5 or more	4	3	2	1 - 0

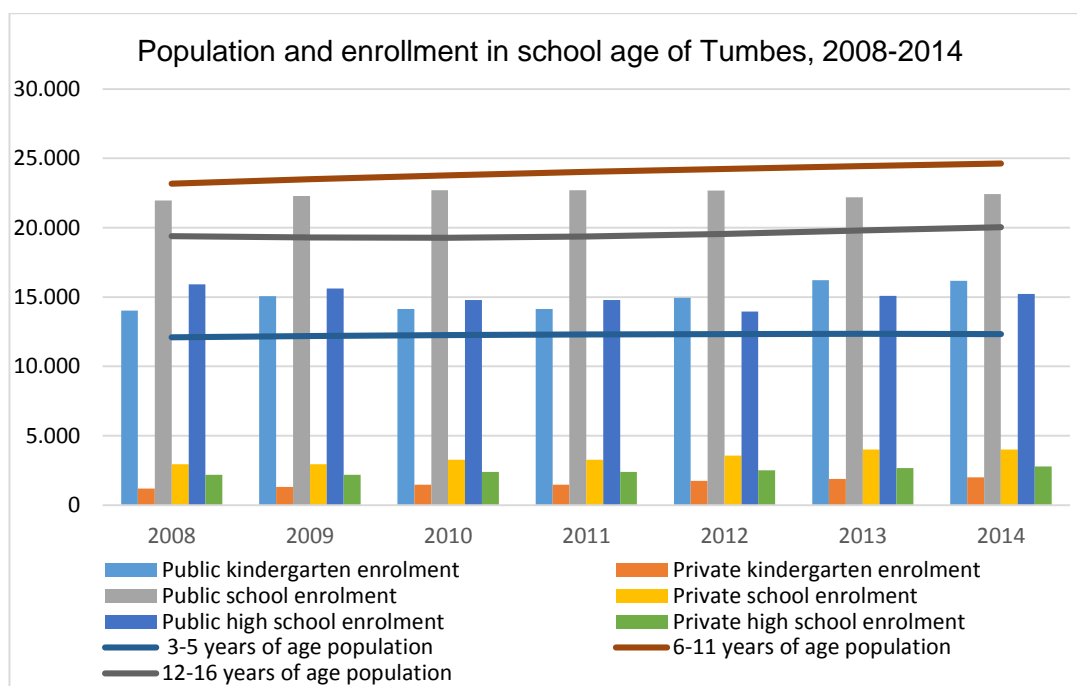
Source: *Evaluación del nivel socioeconómico: presentación de una escala adaptada en una población de Lambayeque.*

The social and economic study by the APEIM in the Department of Piura found as a result that in the urban population, the distribution by people in 2016 according to the socio-economic status is divided as follows: high/medium 8.9%; medium low 24.8%; low 34.7% and marginal 31.6%. On the other hand, since the purpose of this thesis is to determine the feasibility of the establishment of an educational Institute,

²⁴ APEIM (Spanish acronym).

it was decided to analyze the relationship between the socioeconomic status of the population and the number of children and adolescents who attend public and private schools.

Figure 13 Population and enrollment in school age of Piura, 2008-2014



Source: Educational Quality Statistics of the Ministry of Education, *Piura: ¿Cómo vamos en educación?* 2015.

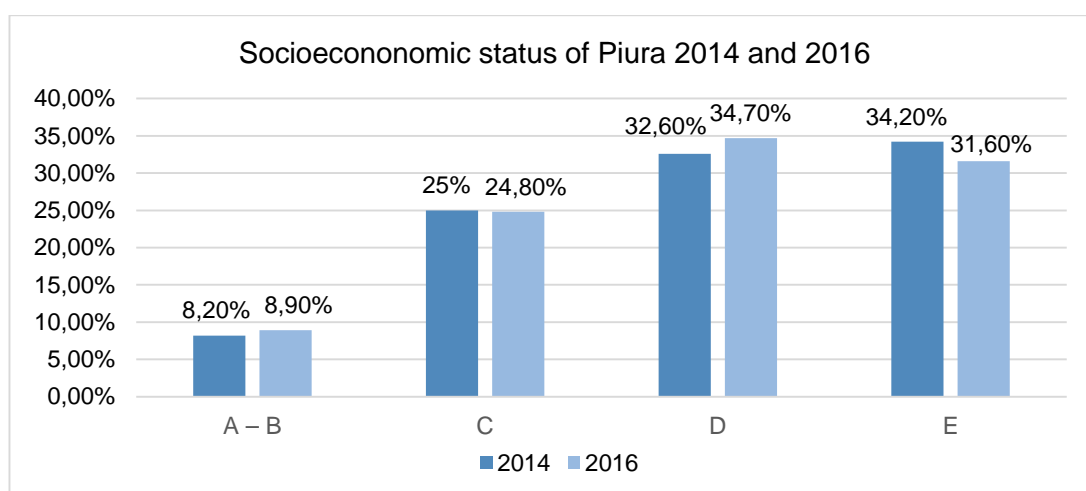
It can be concluded that some changes have existed regarding the elections of the type of education in Piura. A major demand exists for public education in the region. Nevertheless, having analyzed 6 years in study, registration in the public sector has decreased in kindergarten, schools and highschools, while at the same time preference for private education has grown.

"It can be assumed that a relatively more prosperous region, with less presence of poverty, will demand a higher quality education. (The perception that private education offers a better quality might be among the reasons for the growth of enrolment in non-State educational institutions, as it is the case of Piura)" (Educational Quality Statistics of the Ministry of Education, 2015).

At the same time, as is evident in Figure 14 presented below, the socioeconomic status of the population of Piura improved in some percentage points in almost all

socio-economic levels of 2016. For this reason, it can be inferred that the preference of the population for private education will also increase. This increase in the preference for private education has also influenced private investment in Piura. For example, one of the most important chains of private schools, Innova School, invested 9 million soles in their own educational facilities in Piura in 2015 (Department of Economic Studies of the Piura Division of the Central Reserve Bank of Peru, 2016).

Figure 14 Socioeconomic status of Piura 2014 and 2016



Source: Authors' compilation based on socioeconomic status studies made by the Peruvian Association of Market Investigation Companies.

Target market

Table 19 displays the approximate target market. The information presented is of 2016. The total market is the population of the whole of the department of Piura, which to date is 1'858.626 inhabitants. As potential market, the population of the district of Piura is taken into account. Considering the number of enrolments existing in the region, almost 50% are concentrated Piura and Sullana. In addition, 41.3% of educational institutions are also located in the same cities. (Educational Quality Statistics of the Ministry of Education, 2015).

Because of the lack of detailed current demographic information of the district of Piura a percentage of the total market in congruity with information of the Central Bank of Reservation of Peru was considered. It published that the capital is where 41.5 % of department's population concentrates, resulting in 771,330 inhabitants; whose population in socioeconomic status A, B and C, add up to 202,088 persons as objective market. Finally, as target market, the population in the above

mentioned socioeconomic levels between the age of 4 and 34 years was determined, which is 113,825 inhabitants.

Table 19 Target market of Piura 2016

Target market of Piura 2016					
	Total Market	Potential Market	Objective Market		Target Market
Age ranges	Piura Dpt.	Piura District 41.5%	SES A (High/ Medium High) y SES B (Medium) 6.8%	SES C (Medium low) 19.4%	Total
0	36,334	15,079	1,025	2,925	
1	36,286	15,059	1,024	2,921	
2	36,496	15,146	1,030	2,938	
3	36,716	15,237	1,036	2,956	
4	36,928	15,325	1,042	2,973	4,015
5-9	186,498	77,397	5,263	15,015	20,278
10-14	185,826	77,118	5,244	14,961	20,205
15-19	177,681	73,738	5,014	14,305	19,319
20-24	168,933	70,107	4,767	13,601	18,368
25-29	155,285	64,443	4,382	12,502	16,884
30-34	135,706	56,318	3,830	10,926	14,755
35-39	125,732	52,179	3,548	10,123	
40-44	115,508	47,936	3,260	9,300	
44-49	98,701	40,961	2,785	7,946	
50-54	83,743	34,753	2,363	6,742	
55-59	71,566	29,700	2,020	5,762	
60-64	57,797	23,986	1,631	4,653	
65-69	41,784	17,340	1,179	3,364	
70-74	29,799	12,367	841	2,399	
75-79	21,377	8,871	603	1,721	
80+	19,930	8,271	562	1,605	
TOTAL	1'858,626	771,330	52,450	149,638	113,825

Source: Authors' compilation based on the estimates and projections of total population by calendar years and simple ages, 1995-2025 by National Institute of Statistics and Informatics, and the Socioeconomic levels 2016 by the Peruvian Association of Markets Investigation Companies.

Competitors

In accordance with Table 20, the most important direct competition in Piura is the ICPNA, which has 4,000 students and thus 43.96% of the market share. It also offers a wide range of educational services and is able to recruit better English teachers by being part of a network of institutions with wide experience in Peru. In second place is the Language Center of the National University of Piura, which has approximately 3,500 students. However, it is important to note that 3,225 are students from the same University, who take courses as a requirement of their

studies. Moreover, most of their teachers are not specialised in English teaching, which decreases the quality of their service.

In third place is the Language Center of the University of Piura, which offers their services to 1300 students, of which 35% (455) are from the general public. However, it should be emphasized that the investigation revealed a better acceptance of the market in comparison with the center of the National University of Piura, in spite of the higher prices. On the other hand, the Institute I learn English Center, which with just 1 year of experience, is in constant growth and offers English courses for children and teens with an innovative methodology, and the use of technology. Finally, Sherwood English Center, in spite of having 17 years of experience and an interesting variety of services, has not managed to capture a large market share, with only 100 students.

Concerning indirect competition, both Cesar Vallejo University and the Private University Antenor Orrego have language centers; however, they offer the English teaching service only to the students of their universities. Both offer only the required levels for their students to meet the English requirements to obtain an intermediate level. In addition, another common point is the use of technology and methodology with a communicative approach. Nonetheless, as well as in the specialized English centers, they do not have enough trained staff for the English department of their institutions.

Table 20 Direct competition in Piura

Direct competition in Piura					
Institute	ICPNA	Centro de Idiomas Universidad Nacional de Piura	Centro de Idiomas de la Universidad de Piura	I learn English Center	Sherwood English Centre
Years of experience	25 in Piura, 78 in Peru	49	20	1	17 in international exams and 15 preparing people to study in the USA.
Approximate amount of students	4000 (january-march) 2500 (april-december)	3500 from which 175 are non-university students.	1300 (summer cycle) from which 455 are non-university students.	200	100
Market share	43.96%	38.46%	14.29%	2.20%	1.10%
Local teachers	40-50 in the summer. 25 regularly.	35	36	9	5
Native english speaking teachers	20%	0	4	0	2
Students per class	18	25	20-25	18	8
Teacher's profile for recruitment	They demand that they have passed international exams, and that they are graduated as teachers.	They request teachers to be bachelors in English or to be graduate in ICPNA. Nevertheless, they do recruit teachers by experience.	They require bachelors in English they do have teachers by experience.	They demand graduates of the faculty of education and that they have taken the FCE exam.	The local teachers are selected of a database and then they are trained by them.

Institute	ICPNA	Centro de Idiomas Universidad Nacional de Piura	Centro de Idiomas de la Universidad de Piura	I learn English Center	Sherwood English Centre
Ease to recruit teachers	It is very difficult because of the teachers' profile that they need.	It is not so complicated, because there are many young people who want to work, and they accept graduates of ICPNA. There are not many requirements to be English teachers.	It is very difficult because the English level of Piura is very low.	It is very difficult because of the teachers' profile that they look for.	It is very complicated, teachers do not usually invest in their training because of their low salaries. It is practically impossible to find teachers with levels equal to or greater than C1.
Courses modalities	They offer monthly regular courses of one hour and a half composed by three levels: basic, intermediate and advanced. Every level has 12 sublevels. They also offer a TOEFL preparation course	They offer three levels: Elementary, Pre Intermediate and Intermediate. Monday to Friday courses: intensive 2 months and half (3 hours) or regular 5 months (hour and a half daily). Saturdays and Sundays (5 hours) courses. All the modalities are of 150 hours.	They offer 2 programs: Junior for children aged 11 to 15 of 8 levels and the other for people 15 years and over of 6 levels. Intensive programmes of 2 hours and a half during two months, and regulars of 1 hour during four months. They offer a TOEFL preparation course of 10 months, three days a week.	Their program has 7 levels of a year each, of one hour and a half twice a week.	They offer 36 levels of 4 weeks, of 2 sessions of 90 min each. Their courses are for children and teens from 10 years old.
Cost of the service*	S/. 130 (38.46 USD) monthly. There is a discount with agreements with institutions. The book costs S/. 150 (45 USD) it must be purchased every four months.	University students: elementary level: S/. 320 (94.67 USD), pre-intermediate: S/. 370 (109.46 USD) and intermediate: S/. 420 (124.26 USD). Students in general: S/. 420 (124.26 USD) for any level.	Each level costs S/. 560 the whole cycle (165.68 USD). The cost of the book per cycle is S/. 155 (45.85 USD). Cost of TOEFL preparation is S/. 150 monthly (44.37 USD). Students in general S/. 10 more (2.98 USD).	S/. 160 monthly (47.33 USD)	Regular courses of 2 hours, 3 times a week. S/. 1620 during 9 months. (479.28 USD). Preparation for international exams during 9 months S/. 1665 (492.60 USD)

Institute	ICPNA	Centro de Idiomas Universidad Nacional de Piura	Centro de Idiomas de la Universidad de Piura	I learn English Center	Sherwood English Centre
Targeted socio-economic status	B and C levels, there is also a small percentage of level A.	B, C and D levels, since it is a public university.	A, B and C levels, considering it is a private university.	Level A.	Level A-B.
How the services' cost was determined	It was determined through market study. Prices differ from headquarters to headquarters, depending of the purchasing capacity of each sector.	They determined accessible costs with higher preference for students of the university.	Costs were determined after an investigation of the prices of the competition.	They did a market research to know the demand of level A.	They determined them based on a market research that they update every two years.
Methodology approach	They use 'Immersion Learning' methodology, in which the four English skills are enhanced through the use of the technology and laboratories.	The method used is The New "Cambridge English Course."	The methodology at low levels focuses on grammar and at high levels in the practical part.	They distribute students in small groups for better understanding, to be certified internationally each year.	They use the institution's own methodology, which is centered on the student.
Books used	World Link, Fundamentals, Top Notch, Summit. (Pearson Editorial).	Inside Out. (Macmillan Editorial).	Total English. (SBS Editorial).	Own material.	Own material designed in the institution.
Use of technology in clases	They use books with interactive CDs, online and offline platforms, classrooms equipped with televisions and audio.	They do have technology, but they have to implement more in some classrooms. They do not have enough budget.	They have a multimedia laboratory. All classrooms are implemented with audio and projectors.	Every student uses a laptop, they have projectors and Internet access.	All the classrooms are provided with interactive boards, they use language learning Chrome apps.

Institute	ICPNA	Centro de Idiomas Universidad Nacional de Piura	Centro de Idiomas de la Universidad de Piura	I learn English Center	Sherwood English Centre
Additional Information	There are subsidiaries of ICPNA that are disconnected from the central branch because they want to maintain their independence. The ICPNA has three headquarters certified by the CEA, Piura is not included.	From this year, the elementary level of English will be included in the subjects of the faculties.	They also offer English for Master's students, through a completely online Pearson program. It considers that ICPNA is direct competition.	Generally, their students take the FCE exam at the end of the seventh years.	They offer preparation for Cambridge exams in Piura and counseling for studies in the USA: preparation for SAT, TOEFL and IELTS.
Agreements	Agreement with the United States Embassy and several institutions, to obtain discount in monthly payments.	It does not have agreements.	Volunteer program with foreign universities, to bring exchange teachers of English language; with the: "Support to the Research and Teaching of the University of Piura" project.	It does not have agreements.	Agreement with the Peru Fullbright Commission and Education USA.

Source: Personal compilation based on technical visits. (See Appendix 12).

* Price in dollars, based on the exchange rate of January 11th, 2017 of the Central Reserve Bank of Peru, S / . 3.38.

3.3.4. Department of Tumbes market

3.3.4.1. General information

The department of Tumbes is located on the north-western end of the Peruvian coast. It limits to the north with Ecuador and the Pacific Ocean, to the east with Ecuador, to the south with Piura and to the west with the Pacific Ocean. Tumbes has a territorial surface of 4,669 Km², and it is formed by three provinces: Tumbes, Zarumilla and with Contralmirante Villar being its capital the city of Tumbes (Department of Economic Studies of the Division Piura, 2016). According to INEI's projections for 2016, the department of Tumbes has a population of 240 590 inhabitants approximately.

The productive activity of the department of Tumbes is mainly based on commerce, which is promoted by the border exchange with Ecuador, especially with the town of Aguas Verdes. The extraction of oil, gas and minerals also represents an important commodity in the economy of Tumbes, together with agriculture focused on rice and bananas and manufacturing related to primary processing, and tourism (Department of Economic Studies of the Division Piura, 2016).

3.3.4.2. Critical Success Factors in Tumbes

Availability of trained teachers

As in Piura, the educational situation in the area of English in the public sector presents many difficulties and limitations. And the private education sector is not better since there is no University that produces English teachers. Also the technical visit to the town of Tumbes revealed a lack of interest in learning the English language, which explains at the same time the large deficit of teachers specialized in the area. In the words of the Consular Agent of Ecuador in Tumbes, Jaime Bejarano:

"In general the level of English in schools is low; there are no native teachers, I think that it is why there are no university students who wish to study English. People who want to study English choose to travel to Piura or other cities in Peru... The level of Tumbes is quite low in all directions, especially in the cultural field."

There is the Higher Pedagogical Public Institute “Jose Antonio Encinas” (Instituto de Educación Superior Pedagógico Público José Antonio Encinas), which functions as a non-university higher education center. It trains initial, primary and secondary education professionals, with specialization in computer science, physical education, and English. However, the reception of English specialization is very low so they do not even have fixed schedules nor established costs of the initial courses, due to the fluctuating and insufficient demand (Costa, 2017).

For this reason, the offer of teachers specialized in English is practically non-existent. Consequently, the English language teaching staff is usually made up of teachers from other areas and even people who have a basic knowledge of English, but do not have a Bachelor of Education degree. The few existing English teachers have been produced at universities in Trujillo, Chiclayo and Piura.

Infrastructure and technology

“Tumbes has 940 kilometers of roads, with predominance of neighboring roads (54.9 percent of the total) and with a percentage of 23.1 percent paved. On the other hand, the automotive fleet consists of 3 415 units. The airport “CAP. FAP Pedro Canga Rodríguez” is located in the district of Tumbes, 8.5 km from the capital city, being the main gateway to the northern Peruvian beaches such as Punta Sal and Zorritos” (Department of Economic Studies of the Division Piura, 2016).

In terms of educational infrastructure, there is an indicator that measures the percentage of basic education schools that have three basic services: drinking water, sewage and electricity. In the province of Tumbes, in 2014, basic education schools with the three basic services increased to 76.3%, above the national value that is 41.5% (Educational Quality Statistics of the Ministry of Education, 2015)

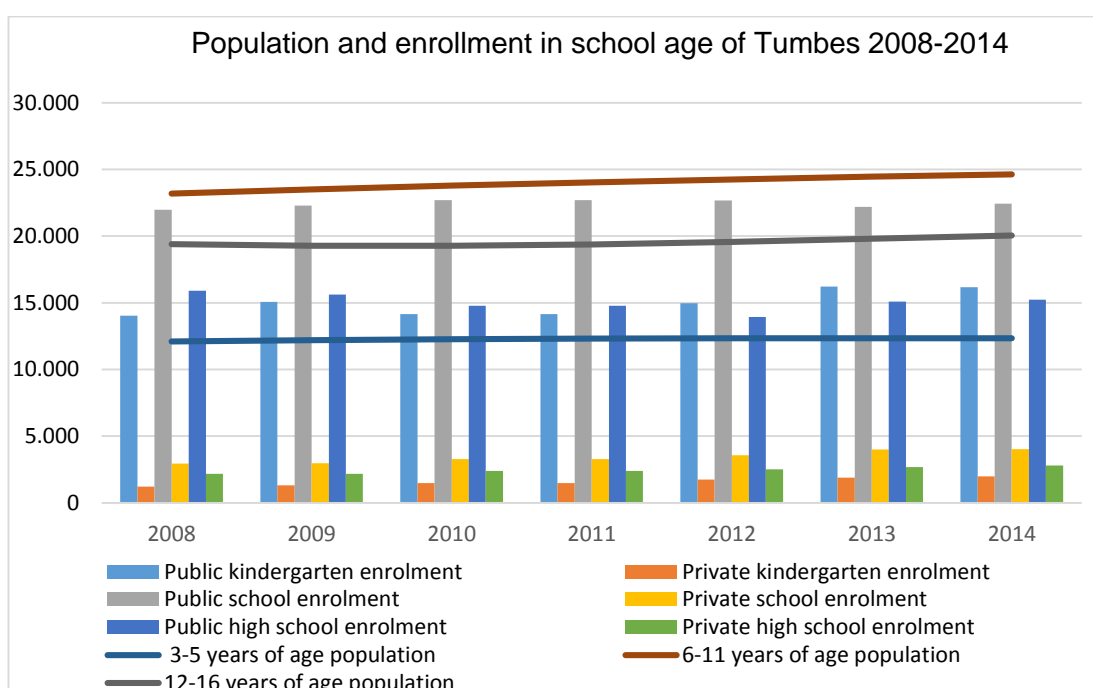
In regard to information and communication technologies, according to Educational Quality Statistics of the Ministry of Education, in the department of Tumbes there was a great increase and improvement of internet access in schools and high schools, as a result in the province of Tumbes in 2014, 71 % of primary schools had internet access, an indicator which is higher than the national average of 27.9%. In secondary level, the 75.9% of establishments had access to information and

communication technologies in Tumbes, compared to the national percentage of 52% (Educational Quality Statistics of the Ministry of Education, 2015).

Socioeconomic level

The APEIM in the social and economic study of 2016 determined that 7.9% of the total urban and rural population in the department of Tumbes belongs to the high, medium high and medium socioeconomic level, 22.8% to the medium low level, 37.3% to the low level and finally 32.1% to the marginal level. At the same time, regarding the relationship between the socioeconomic level and the number of students enrolled in primary and secondary education in Tumbes, the information up to 2014, compiled by the Educational Quality Statistics Unit of the Ministry of Education of Peru, is the following:

Figure 15 Population and enrolment in school-age of Tumbes, 2008 – 2014.



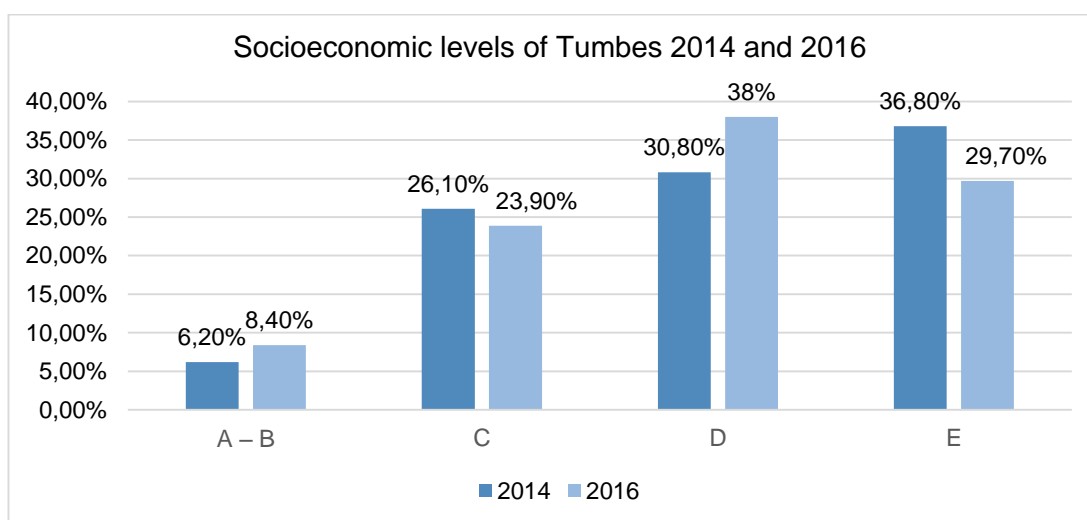
Source: Educational Quality Statistics of the Ministry of Education, *Tumbes: ¿Cómo vamos en educación?*

The figure presented shows that public enrollments at all educational levels have the largest proportion. However, at the same time, private enrollments at all levels have presented increases that are higher than public enrollments in the six years analyzed.

When comparing the socioeconomic levels of 2014 with those of 2016 (Figure 16), we conclude that the population of Tumbes has improved socioeconomic levels,

even the marginal socioeconomic level decreased by almost 5 percentage points. As a consequence, it can be inferred that, as the levels of students enrolled in private educational institutions from 2008 to 2014 increased significantly, along with socioeconomic levels, the tendency for increased preference for private educational centers is likely to continue.

Figure 16 Socioeconomic levels of Tumbes 2014 and 2016



Source: Authors' compilation based on studies of economic levels made by the Peruvian Association of Market Investigation Companies.

Target market

Table 20 shows the approximate target market in Tumbes. It presents information from 2016, corresponding to the demographic projection of the INEI by age ranges. The total market is the population of the entire department of Tumbes, which in 2016 was approximately 240,590 inhabitants. As potential market, it was considered the population of the district of Tumbes because, according to the Educational Quality Statistics of the Ministry of Education, it gathers more than 60 percent of the students at all educational levels, with the exception of university students.

In the absence of current demographic information of this district, 47% of the total market was considered, according to information released from the Department of Economic Studies of the Piura Branch, which reported that the district of Tumbes houses the mentioned percentage of total inhabitants of the entire department, which results in 113,077 inhabitants. Of the total population, the socioeconomic levels A, B and C (high / medium high, medium and medium low) were taken into account as the target market; resulting 34,715 people. Finally, a target market goal

was established that the population in such levels socio-economic in the ranges of age from 4 to 34 years, which totals 18,807 inhabitants.

Table 21 Target market of Tumbes 2016

Target market of Tumbes 2016					
	Total Market	Potential Market	Objetive Market		Target Market
Age Ranges	Tumbes Department	Tumbes District 47%	SES A (High/ Medium high) y SES B (Medium) 7.9%	SES C (Medium Low) 22.8%	Total
0	3,971	1,866	147	426	
1	3,976	1,869	148	426	
2	4,005	1,882	149	429	
3	4,033	1,896	150	432	
4	4,062	1,909	151	435	586
5-9	20,724	9,740	769	2,221	2,990
10-14	20,438	9,606	759	2,190	2,949
15-19	20,305	9,543	754	2,176	2,930
20-24	19,965	9,384	741	2,139	2,881
25-29	22,540	10,594	837	2,415	3,252
30-34	22,307	10,484	828	2,390	3,219
35-39	21,876	10,282	812	2,344	
40-44	18,110	8,512	672	1,941	
44-49	14,615	6,869	543	1,566	
50-54	11,834	5,562	439	1,268	
55-59	9,260	4,352	344	992	
60-64	6,962	3,272	258	746	
65-69	4,680	2,200	174	502	
70-74	3,101	1,457	115	332	
75-79	2,066	9,71	77	221	
80+	1,760	827	65	189	
TOTAL	240,590	113,077	8,933	25,782	18,807

Source: Authors' compilation based on the estimates and projections of total population by calendar years and simple ages, 1995-2025, elaborated by the National Institute of Statistics and Informatics, and the Socioeconomic Levels of 2016 of the Peruvian Association of Market Investigation Companies.

Competitors

Tumbes does not present significant competition since there is only one non-university center specialized in teaching English, the Peruvian North American Cultural Institute. It has just been established in Tumbes with scarcely 125 students, of whom 100 are scholarship students by the government. Therefore, it has had little acceptance in the market. However, the largest competition in Tumbes is the Language Center of the National University of Tumbes, which has 19 years of experience. Although it is the institute with the largest market share (40%), it should

be noted that 60% of its students are university students who enroll in the center to be able to meet their English requirements. In addition, Los Àngels de Chimbote Catholic University, also offers English courses to the general public, but as Table 22 shows, of its 175 students, only 2.28% are students from outside the university.

Therefore, in general, Tumbes does not have a large number of centers where a quality English language education can be accessed. However, this is due to several factors such as the lack of demand for English courses, the lack of trained teachers of English and universities that train them, the poor methodology used in these courses, and even the low purchasing power of the population.

At the same time, as indirect competition in Tumbes there is Alas Peruanas University, which requires its students to study English and for that reason includes the subject in the curriculum of all the programs it offers, with a minimum of 1 level in the career of Stomatology and a maximum of 8 levels in the career of International Business and Administration. Although they do not offer separate English courses to the general public, it is considered an indirect competition since all their students must attend English classes. Therefore, it may be interesting for students to study English at a language institute and only take a proficiency exam at their university. Currently, approximately 1,350 people study in the University Alas Peruvian Branch Piura, which has 10 years of experience.

Table 22 Direct competition in Tumbes

Direct competition in Tumbes			
Institute	Language Center of the National University of Tumbes	ICPNA	Los Angeles de Chimbote Catholic University Language Center
Years of experience	19	5 months in Tumbes, 78 in Perú.	3 years as a language center, and 10 years as a branch of the University.
Approximate amount of students	200	125 (100 are from PRONABEC Scholarship).	175
Market share	40%	25%	35%
Local teachers	6	2	5
Native English speaking teachers	2	0	0
Students per class	20 – 25	25	20
Teacher´s profile for recruitment	Graduates with a bachelor in English. However, because of the need they also hire teachers formed by experience.	They demand that they have passed international exams, and to have a bachelor's degree in teaching.	They demand a bachelor's degree in teaching, also hire teachers formed by experience.
Where they hire teachers from	Foreigners come for cultural exchange agreements. Some of the local teachers studied in Trujillo.	Their teachers come from ICPNA of Chiclayo.	They are from Tumbes, usually teachers but from other areas of education.

Institute	Language Center of the National University of Tumbes	ICPNA	Los Angeles de Chimbote Catholic University Language Center
Courses modalities	There are three levels: Basic (12 cycles of one month), Intermediate (8 cycles of one month) and Advanced (8 cycles of one month).	Regular courses of 1.5 hours composed by three levels: basic, intermediate and advanced, each level has 12 sub-levels, which last 15 days of classes and 3 days of final evaluations TOEFL preparatory courses are given as well.	Offer 2 basic levels and 2 intermediate levels. In summer, the courses are intensive 12 hours a week. Also offer courses on weekends.
Cost of the service*	Students of the NUT: 60 S /. (\$17.75 USD). General public: 100 S /. (\$29.58 USD)	150 S /. (\$44.47 USD) monthly. 30 S /. (\$8.87 USD) registration	Registration: S/. 50 (\$14.80 USD), monthly regular courses: S/. 100 (\$29.58 USD) monthly intensive courses: S/. 200 (\$59.16 USD)
Monthly cost of a regular course	100 S/. (\$29.58 USD)	150 S/. (\$44.47 USD)	100 S/. (\$29.58 USD)
Targeted socio-economic status	Levels B, C and D, for being a public university.	Levels B, C and D (PRONABEC students) there is also a small percentage of level A.	Levels A, B and C.
How the services' cost was determined	Affordable costs with higher preference in the own university students.	It was determined through a market study of the purchasing power of the city of Tumbes. Prices are higher in Tumbes than in Piura due to the lower number of students.	The costs are determined after an investigation of the prices charged by the competition.

Institute	Language Center of the National University of Tumbes	ICPNA	Los Angeles de Chimbote Catholic University Language Center
Books used	Pioneer (MM Publications).	World Link, Fundamentals, Top Notch, Summit. (Editorial Pearson).	English ID (Richmond).
Use of technology in classes	Yes, they have technology, but it has still to be implemented in some classrooms. They are adapting more classrooms to be able to offer more courses.	Yes, books with interactive CDs, online and offline platforms and classrooms equipped with TV and audio.	All rooms are implemented with audio and projectors.
Demand growth	Demand has grown from approximately 70 students per month to 200.	The demand is growing. They still don't have many non-scholarship students.	It has not grown much. They mostly teach their university students to meet the requirements.
Additional information	Also offer courses of French and Portuguese. 40% of the English students are not students of the university.	-	The reception of external students is not very large. Currently they just have 4 students, approximately, from outside the University.
Agreement	Agreement to bring in foreign teachers.	Agreement with the United States Embassy and several institutions to obtain discount in payments.	Does not have agreements

Source: Authors' compilation based on technical visits. (See Appendix 12).

* (Price in dollars, based on the exchange rate of January 11th, 2017 of Central Reserve Bank of Peru, S / 3.38)

3.4. Election of Department

The five Critical Success Factors analyzed sum a weighted total of 100 points. Each one was graded on a scale of 1 to 10, with 10 being the optimal score. Each CSF received a weighting percentage according to the importance they would have when establishing a franchised center.

The availability of teachers has a rating of 30 point over 100. It is the most important CSF because it guarantees that the methodology of the institute is given correctly. Therefore, allows to maintain the quality of teaching which is on of the main characteristic of the Institute. This CSF was valued 1/10 in Tumbes, since the number of teachers specialized in English is practically non-existent, in contrast to Piura where there are better possibilities of getting English teachers. However, there were only few universities that trained teachers in the area; for this reason Piura obtained a score of 6/10.

Infrastructure and technology have a value of 15/100. Both Tumbes and Piura have indicators in public education higher than the national average. Although Tumbes has higher percentages than Piura, in the technical visit to the two cities it was observed that in general the infrastructure and access to technology is better in Piura than in Tumbes. However, to rate that FCE, in accordance with the data presented by the Educational Quality Statistics of the Ministry of Education, Tumbes was rated 8/10, while Piura had 6/10.

The socioeconomic level of the population is valued at 15/100. Piura received a rating of 8/10 compared to Tumbes, which receive 6/10, because in Piura there are a higher percentage of inhabitants within socioeconomic levels A, B and C.

In the weighting of 100 points, a value of 25 was given to the target market compared to the 15 given to competition, because even if in one place there is not a strong competition and the target market is a small portion of population, it will be more difficult to reach the equilibrium point necessary for the profitability of the institute. Then, if there is more competition in a place, but the population is larger in quantity, there may be the necessary number of the students. For this reason, Tumbes obtained a valuation of 4/10 in the target market factor and Piura 10/10 by owning the largest target market. As for the competition, Tumbes has a rating of 7/10 for not presenting a large number of centers that teach the English language,

unlike Piura, which was valued with 2 points out of 10 for possessing large number of students.

Finally, as can be seen in Table 23, in general Piura has higher scores among all CSF, which adds up to 67/100. In contrast Tumbes obtained a total of 44.5/100. Therefore, the department elected for presenting the best factors necessary for success to be the destination of the first international Fine-Tuned English franchise is Piura.

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Table 23 Comparative table of the CSF in Tumbes and Piura

Comparative table of the CSF in Tumbes and Piura									
Critical Success Factor	%/100	Tumbes		Assigned Value /10	Weighting percentage	Piura		Assigned Value /10	Weighting percentage
Availability of trained teachers	30	Higher Pedagogical Public Institute “Jose Antonio Encinas”, specialization in English.		1	3	University of Piura Teaching Degree with Specialization in English Language; César Vallejo University degree in Translation and Interpretation of English and French		6	18
Infrastructure and Technology	15	Basic education schools with the three basic services: District of Tumbes 76.3%. (National Value 41.5%)		8	12	Basic education schools with the three basic services: District of Piura 46.1%. (National Value 41.5%)		6	9
		Schools with Internet access in the District of Tumbes in school 71%; in high school 75.9%. (Primary National Value 27.9% Secondary National Value 52%)				Schools with Internet access in the District of Piura in school 48.8%; in high school 65.5%. (Primary National Value 27.9% Secondary National Value 52%)			
Socioeconomic Level	15	SEL A- B	8.4 %	6	9	SEL A- B	8.9 %	8	12
		SEL C	23.9 %			SEL C	24.8 %		
		SEL D	38 %			SEL D	34.7 %		
		SEL E	29.7 %			SEL E	31.6 %		
		Tendency to increase preference for private schools.				Tendency to increase preference for private schools.			
Target market	25	18,807		4	10	113,825		10	25

Critical Success Factor	%/100	Tumbes	Assigned Value /10	Weighting percentage	Piura	Assigned Value /10	Weighting percentage
Competition	15	Direct Competition: ICPNA, National University of Tumbes Language Center, Los Angeles de Chimbote Catholic University. Indirect Competition: Alas Peruanas University.	7	10.5	Direct Competition: ICPNA, Piura University Language Center, Piura National University, I Learn English Institute, Sherwood English Center. Indirect Competition: César Vallejo University Language Center, Alas Peruanas University.	2	3
TOTAL	100			44.5			67

Source: Authors' compilation based on interviews conducted in Tumbes and Piura (See Appendix 12).

3.5. Strategy to commercialize the franchise

Once established, the franchise can be promoted through State media such as the Embassy and the Ecuadorian Consulate in Peru and which offer a direct and official link with the Chambers of Commerce and Production in Peru. According to the Consular Agent of Ecuador in Tumbes, Jaime Bejarano, the spaces promoted by the Consulate could be accessed as business exchanges in which business roundtables are subsequently held between entrepreneurs and investors from the departments of Amazonas, San Martin, Cajamarca, Piura, Tumbes, Libertad and Arequipa, and the border provinces of Ecuador. The call for these business exchanges is made through the Embassies, Regional Directorates of the departments, commerce and media delegates of Pro-Ecuador (Bejarano, 2017).

As this project focuses precisely on the border region between Ecuador and Peru, another strategy would be the contact with the Binational Group for the Promotion of Private Investment, which is part of the Binational Plan of Development of the Border Region of the Broad Peruvian-Ecuadorian Border Integration, Development and Neighborhood Agreement. According to Dr. Andrea Andrade, a former adviser to the Chapter Ecuador Binational Development Plan for the Border Region, for a project to be promoted by this group, the owner must first contact the Binational Plan to be invited to join the directory or meetings that are held and in this space to promote and seek private investors, after the review of the project has been done in a binational way, The promotion that the Group is likely to make to the project will depend on the analysis of its importance and feasibility (Andrade, 2017).

Another way to promote the franchise to achieve its commercialization would be to contact directly with private organizations, such as the National Federation of Chambers of Commerce of Ecuador, the Chamber of Commerce of Loja, the Ecuadorian Franchise Association, the Chamber of Commerce and Production of Piura, the National Chamber of Commerce, Production, Tourism and Services of Peru, and the Peruvian Chamber of Franchises. Also, contact the Chamber of Commerce of Lima, specifically with the Center for the Development of Franchises, to participate in the “Expo and International Business Roundtable” held annually, in order to promote the franchise, not only in Piura but also with investors all over Peru.

CHAPTER IV CONCLUSIONS AND RECOMMENDATIONS

4.1. Conclusions

The franchise system mainly involves the transmission of experience of an organization through know-how and continuous assistance to bring success to the franchisee by acquiring a proven business model. It combines the entrepreneurial spirit of the franchisee with the knowledge of the franchisor, which guarantees its early positioning in the market. Nowadays, it has become one of the most common strategies of entrepreneurship and investment because it is a system of commercial expansion that is internationally recognized due to its standard procedures, profitability, lower chances of failure and ability to bring benefits to both parts.

The international legal scope of the franchises presents norms that regulate the operation of this business formula only in a general way. This does not limit the advancement of the franchise-related laws, especially in the commercial area, taking into account that society and its needs are constantly changing. As for Ecuadorian legislation, there is also no exhaustive development on the subject of franchising, which is beneficial for franchisor companies as they have the freedom to establish the conditions they consider necessary according to their business model. Currently, the only law that regulates certain aspects directly related to franchising is the Code of Social Economy of Knowledge, Creativity and Innovation.

Ecuador and Latin America have not developed many locally-own franchises. Most of the existing franchises are owned by foreigners who have entered Latin American markets. However, rather than being a limitation, this is an opportunity to drive the growth and expansion of local franchises which can be as successful as other international franchises.

Fine-Tuned English is a feasible institution to be franchised. It owes its success to its educational trajectory and its proven teaching methodology, which can be replicated and adapted to international markets. Furthermore, franchises in the educational field have had a meager development, and specifically in Ecuador, where there are no franchises related to education. In this case, Fine-Tuned English would be the pioneer Ecuadorian educational franchise in expanding its services nationally and internationally through this modality. Therefore, it can achieve a great

reception especially in Latin American countries since the existing cultural similarities would facilitate the tropicalization²⁵ of its business model.

A Fine-Tuned English franchise would be a profitable business from its first year of establishment since, as verified in the budget plan, with an approximate investment of \$ 22,518.00 would be recovered over a period of 3 years and 6 months. A net present value of \$ 15,830.25 can be obtained, and as internal rate of return of 52.78%, which demonstrates the feasibility of investing in this project. It must be emphasized that this profitability may differ according to the market where a new institute is installed and that its success will depend very much on the administration of the investor, the way it is managed the income and expenses and the publicity that its produced to make the brand known in the market to attract more students and therefore higher incomes.

Finally, due to the prosperous bilateral relations with Peru, its great openness to foreign investment and to its increasing acceptance of international franchises, this appears to be a propitious market for the internationalization of Fine-Tuned English. After conducting the market research comparing the Critical Success Factors of the English institute in the departments of Tumbes and Piura, the last one was chosen as the ideal site for the first Fine-Tuned English franchise unit.

4.2. Recommendations

Before establishing a franchise, it is necessary to clearly know the obligations and benefits that the type of franchise entails to ensure the good relation between the parties and their success, thereby fulfilling the expectations of the franchisee and the franchiser as well. For this reason it is important to be considered that there are many types of franchises, and therefore many types of business models.

For a franchise to have the greatest chances of success, they could also “tropicalize” or adapt certain characteristics of the business to the needs, preferences and customs of local customers. At the same time, franchise manuals must be developed in the most explicit and detailed way possible for optimal understanding, comprehension and application in the franchise unit.

²⁵ Tropicalization refereing to diversification and adaptation of certain characteristics of the business to the needs, preferences and customs of local customers

In regard to the legal field, it is recommended that franchises, and in this case the franchise developed in this thesis, properly register: their brand, operating manuals, commercial name, commercial slogan, contract, and any other document that should be registered and protected, by the current legal regulations. In addition, the company should seek advice from franchise specialists, as well as legal advice in order to avoid any legal vacuum in the franchise agreement that could lead to inconveniences between the parties or even the termination of the contract.

On the other hand, it is recommended that before becoming a franchisee, the company strengthen the teaching methodology of its business model through the creation of their own teaching materials exclusive to the institution. This would be a great differentiator from other institutes of English who, in the great majority, do not own material. In addition, it could be accredited with the CEA (The Commission on English Language Program Accreditation), which is an international recognized program; that endorses the institutes and universities that teach English at national and international level. This accreditation would give the company greater national and international recognition by ensuring the excellence of its teaching methodology.

In the same way, it is recommended the company to go to the Ecuadorian Franchise Association and to national centers that promote the export of services such as the Undersecretariat of Commerce and Services of the Ministry of Industries and Productivity, which are directly related to the development of this type of business.

The first step to internationalize a brand is to generate local and national recognition. Fine-Tuned English must expand nationally first in order to achieve a better reputation and therefore, international positioning. In addition to this, it must be establish a solid franchise expansion plan since, if there is no controlled growth, it can result in the failure of the franchise. Consequently, excessive growth must be avoided in order to have a good control of the franchised units, because this form of commercial development would be a new experience and with new employees. Finally, a well-defined profile of the future franchisee must be established to ensure the uniformity of the franchise in all its areas and, above all, the quality of the service provided.

It is also recommended this kind of expansion be carried out at the beginning through the individual franchise modality so that in the future, and with a greater

number of franchised units, the masters mode can be offered since it requires greater responsibility and investment as well.

Similarly, another way for the franchise to be known nationally and internationally, and be attractive to investors is through its promotion at franchise fairs, conventions or annual meetings of franchise chambers. Budgetary and financial plans presented are adapted to different economies in which the franchise will be offered. In addition, franchised units should join the main chambers of commerce in their respective countries and enter into agreements with local universities, institutions and companies that could help the franchise enter a new market.

Finally, although in thesis the chosen destination for the first international franchised unit of Fine-Tuned English was Piura, it is highly recommended to do more research in other districts like Lima, Trujillo, Arequipa, and Chiclayo, where the business model could be more successful. These regions have larger populations and more facilities to achieve optimum critical success factors, especially the availability of specialized teachers in English language, which is paramount to ensuring the quality of teaching.

APPENDICES

Appendix 1: Interview with Dr. Susana Vázquez, Regional Deputy Director of the Ecuadorian Institute of Intellectual Property.

1. Are there Ecuadorian franchises of education?

I do not know if there are specifically entities or companies that dedicate themselves to education. Fundamentally, I know that there are some in the commercial field, mainly food processing and sales services, which are the most popular. I know just a couple in Ecuador because the use of the franchise is not widespread here.

2. What are the necessary steps to establish a franchise in Ecuador?

The IEPI does not have competence for the subject of franchising. Basically, its competence is in the registration of the franchise contract because it must include in this contract a clause about the licensing about the use of the mark. If it were alluded to some type of industrial secret that may also be registered in the IEPI, since a different process in our legislation protects the industrial secret as well. In this sense, in fact, there is no obligation in the IEPI, this contract is optional for the franchisee or the franchisee to provide legal certainty.

3. What is the process of registering the franchise contract?

You must submit a copy of the contract, pay the fee and that way you register or join the institution. A form has to be filled in which the institution is requested to carry out this registration, which, as I repeat, is voluntary, because the legal effects arise from the registration of this contract. It is done in order to provide security and publicity against third parties.

4. If Fine-Tuned English has their brand registered, what else do they need to register to become a franchisee?

It is recommended that part of copyright protection in everything that is educational inputs. For example, if there is a methodology of its own, the development of this methodology can be protected by copyright, which constitutes a presumption in favor of who appears to our offices, claiming to be an author and have developed a methodology for teaching-learning, in this case English. Books, manuals, catalogs, advertising material and everything that serves to justify the positioning of the brand which identifies the educational entity should be registered. All this can be done through a copyright recognition. It is suitable whenever the franchise is going to be

opened or will be expanded, Third parties may use this methodology without citing the source and infringe a copyright to the detriment of the people who are in charge of the institution.

5. At present, the institute does not have its own books, so could it register the teaching methodology process as a patent?

No, it would be by copyright. The patent is for the protection of innovations from the technological-scientific point of view in our country, because in other legal systems patents are for example software, but in Ecuador it is registered through copyright.

- **We had that confusion, because we understood the patent as the record of a process or a method.**

What happens is that the patent protects new procedures but not this type of procedures or teaching methodologies. It seems that if you work with a methodology not your own but perhaps another educational entity, you may not meet the subject of the franchise. There is a conditioning in the case of copyright, which has to be original because if we are talking about works not new. Since those subjects in general already exist, the idea would be to teach English, and there is the difference, for that development methodologies, programs , plans, even projects, etc.

- Even if the Institute was a pioneer in establishing this method of teaching because it has a long trajectory, there are some academies that have something similar because they have copied certain methods of teaching programs in general.**

This should indeed be taken into consideration if they were pioneers, and developed a methodology of their own. It is possible to request the recognition of copyright on its development at any time because that does not expire, does not prescribe. Even that will be one of the letters that the institute could present at the time to achieve that feasibility of becoming a franchise.

- **In the future the Institute plans to create its own books once it has registered the copyright of its methodology. Would a new procedure have to be carried out to register the new books with the methodology, or would the copyright of the books be registered separately?**

It would have to be register only the books, because it is necessary to differentiate these two. The first protection would be of the methodology, if at that time, there are not existing books but they are working on it and, later the books are edited with own content, there would be a second certificate of authorship on the books. If they are progressing with new products that the institute or the entity will have, it will have to be protecting the copyright of them.

- **Is it necessary to have books to franchise? Can the institute do it with the books that it is currently using?**

It would be ideal to develop your own material because that gives a stronger image to the company that is franchising, because somehow what is being sold is a method of its own, which goes hand in hand with material of its own. So that if it is done or developed its own method, it will be objectified in a work such as a book, a catalog, a manual, a workbook, videos, audiovisual material, etc. So if you have that kind of material, ideally it should be your own, because somehow that gives a strength and security to the person who is acquiring a franchise.

I just remembered one that I did not know it was a franchise. It has been a short time here in Cuenca. It is called "Helen Doron", which is an English institute. I understand it is a franchise and it is the only such case I know in the city of Cuenca. I do not know in the country, maybe "Wall Street" also is a franchise. I have no direct knowledge about that.

Then, somehow it gives more confidence and security to the possible investors who are going to acquire a franchise the fact that the mark is obviously registered in a territorial way. For example, one in Ecuador, has its own methodology, its own material, which are somehow certain requirements, which will be observed by the possible franchisee to be able to acquire it. Obviously it would be fundamental the results, surveys and assessments made to the students. It seems to be important as a franchise to have your own material. It may influence your decision to acquire one. That is something that characterizes you and better position that product or service in the market.

- **If Fine-Tuned English created their own books, could they be sold in the same institution and also in the franchised units?**

Yes, because if they are authors, which is a conditioning, they are supposed to have as franchisors to be the suppliers of those books. There comes a little dilemma that if that constitutes a monopoly or abuse of market power. It is debatable, but basically the doctrine has been inclined towards the position of Being a contract in which I am adhering to the conditions that the franchisor puts me, I willingly accepted those conditions. So, what can be monitored is not abuse on prices, but the fact that you have to acquire the material of the franchisor is logical. It is about guaranteeing the model of education. Even if I am paying a high price, I will have an almost immediate or direct revenue of it.

Obviously there have been practical cases where the franchisee goes and buys from someone who seeks to pirate the books. There is no way to pirate books. In the contract there must be an expressed clause stating that the material will be purchased solely and exclusively from the franchisor, which cannot be possible is an abuse in terms of prices.

The franchisor can estimate how much he or she can sell the books. There have been practical cases in which the franchisor unfortunately begins to abuse in terms of price or suddenly the book is poor quality or no longer printed in one place but in another. These cases can be given, but for that there exists legal tools to demand in terms of the franchisee's obligation to give a quality product. Because it has been pay an entrance fee- a royalty that gives the franchisee the right to demand quality also in terms of the material or raw material that will be used for the business. These cases would be at the time of having its own books. But for the moment as you do not have them, you cannot require franchisees to buy directly; they should go to the book's distributor.

The issue is that the one who generally provides the raw material for the production of a product, the formula, the secret ingredient and the recipe, is the franchisor who supervises that the service is being performed normally. Since these are his obligations and also his right to make an inspection. He may deem it appropriate to establish a sanctions regime if goals are not being met. You must establish an audit to assure the quality of the service that is franchised. Therefore, it is fundamental that if it already has its own inputs, they must be protected by copyright.

6. How is the international classification of trademarks carried out in Ecuador?

There is still no international system of trademark registration, registration is eminently territorial. When you need to register a trademark or want to register one in each of the countries in which you have interest, you have to file an application in each country. Now we are subscribers to some international agreements and part of the Andean Community, in those there is the figure of the right of priority, by virtue of which we have six months in the case of trademarks, to be considered the first person to have applied in the For example, the Andean Community.

So if I have interest in neighboring countries Peru and Colombia, I can assert my Ecuadorian request in each of these countries to be considered by the Agreement 486 on Intellectual Property, this is the so-called right of priority that allows me to be considered the first person to register the mark. However, I have to follow a procedure and subject to the legislation in each of the countries, which in this case are similar by the Andean Decision, which unifies in some way the law or applicable law in each country, nevertheless each one is sovereign in relation to the application of its right. Therefore the registration cannot be done in a unique way, but the request must be made since the process is the same in the case of patents. Because, it results illogical to think that with a single presentation I have patented my service in all countries, the procedure is independent in each country.

7. Considering the Madrid Agreement Concerning the International Registration of Marks, which mentions that “nationals of countries not part of the Madrid Agreement, but part of the Paris Convention, having their domicile on and serious industrial or commercial establishment in a country, part of the Madrid Agreement, are placed in an equal position with the nationals of countries part of the Madrid Agreement.” Is it possible for and Ecuadorian franchise to register its commercial or industrial trade mark internationally under the Madrid Agreement in one of the countries part of the Agreement, since Ecuador is a part of the Paris Convention?

Yes, but I repeat, it is a request. For example, in Spain, you are an equal member of the Madrid Agreement and you can logically make an international trademark application. They have a different system than the Andean Community, because they have a community trademark system. In addition, to the national trade mark,

there is the possibility to register within the European Community, since this Agreement is in force in that Community.

As a suggestion: Is the project of an International nature only or is it planned to start nationally? The project should start nationally and then project internationally, it would understand that even to make a test franchise should start a first nationally, because this is the dynamics and structure that brands and franchises naturally follow. In the case of the brands, they begin first to be known in a community way, then nationally, then regionally and then internationally. In other words, the previous phases should be fulfilled first, although it is not obligatory. It must be determined how many stakeholder applications you have in order to see the feasibility of the franchise.

8. If the Code of Ingenuities comes into force, since it is currently in the second review, will it change the processes of registration of trademarks, licences and the procedures of the IEPI?

The process does not change, because somehow we are replicating what the international treaties, for instance Decision 486. What is done is to refine certain details and inaccuracies that possibly meet the current standard, but in general it does the same for the subjects of trademark registration, contract registration and subsequent contracts (license clauses); it does not change anything.

9. If Code of Ingenuities is contemplated, will that have to do with franchising?

No, the IEPI and in this case the Code of Ingenuities are not competent for the subject of franchising, only specifically with the subject of the registration of the contract when it has a license to use a trademark against third parties.

10. Do you think there should be legislation regarding franchises?

Yes, there should be national legislation on the subject of franchising.

Appendix 2: Interview with Doctor Juan Carlos Cordero, Professor at the University of Azuay

1. Is there any specific legislation for franchises in the Republic of Ecuador?

The franchise is a mercantile contract that is unnamed. This means that it does not have a regulation, nor a proper name within the legislation. Rather, such contracts have been generated in the face of the needs of traders, as the basis of many legal institutions that have arisen from commercial law, which is perhaps one of the branches of law that more tries to satisfy the needs of traders. Therefore, it often depends solely on their consent or private interest, with the only limitation that the agreements or contracts are not contrary to public order or have no illicit object.

The franchise agreement is very common within the business environment, but it is a contract that has no legal basis. It is understood as legal support that it is not detailed in terms of its characteristics based on the agreement between the parties.

There is no such legislation because I think it would undermine the very nature of the franchise contract. The franchise agreement is so used because it is an attractive type of contract for the trader since it is not so limited in terms of its ability to discern what are the real interests he has in a particular business. That is why the merchant has its own rules. In this case the contract is a figure of commercial law, recognized within our legislation, but under the principle of autonomy of the parties.

2. Do you think it is necessary to establish specific legislation in Ecuador regarding franchises?

In my opinion, no, since the law has to go along with the evolution of society to be able to meet their needs. In the mercantile sphere, the limits placed by the State are very small, so it is more beneficial that there no exists detailed regulation, because that would limit the advance of the law especially in the mercantile area. It is not good that everything is typified because society and its needs change constantly.

3. What are the legal requirements to establish a franchise in Ecuador?

It depends on the type of franchise. For example: if the use of the mark is given, the legal requirement is for the franchisor to be the owner of the mark. Therefore, the legal requirements will depend on what we want to negotiate within the franchise.

Another type of legal requirement can also be set in the contract. For example, to meet the parameters of excellence that you want to give to the product or service that is offered to the customers.

4. What would be an optimal strategy to establish royalties?

As mentioned previously, this is not typified. The franchise can be very diverse in terms of royalties. It may be that the franchisor wants to reserve 10% of the royalties, but it may also be the case that he does not want royalties. For example to open a market, but with the condition that the following franchises of the market in that place are opened by the franchisor.

Therefore, the way of establishing the royalties will already depend on the risk, the confidence, and the needs of each party.

5. If the Institute has a main office which is Fine Tuned English Limited Company and two branches called Fine-Tuned Catamayo and Fine-Tuned Zamora and both are “de facto societies”, the question is: if these two companies become franchises of the company of Loja, in what status would they remain?

We have to be clear that the franchise is a contract. This does not give us the quality of being or to stop being a natural person to pursue an economic activity as a legal person. The franchise is simply the conditions that the franchisor and the franchisee have agreed upon. In other words, who grants the franchise and who will work on the service of the franchise he obtained. This means that the limited company can grant the franchise to a natural person without any problem.

These new companies do not have the same name. They have the right to use that trade name. That is completely different things. It has been that if we have an English language center that has a name and is given to a company that already has the name, it is billed with the name of the company that acquires the franchise, but with the characteristics and agreements under which the Franchise was purchased.

For example here in Cuenca Sports Planet that is of the Graitman Group, those who have the possibility to use the name of the franchise and all the know-how of that business, because that model of restaurant chain it is franchised. Then they are totally different things.

Consequently, the contract can be concluded either with a natural person or a legal entity as long as they meet the requirements set by the franchisor. It may also be the case that the franchisor grants the franchisee as first condition to be a limited company, either for ensuring compliance with conditions, royalties or for reasons of greater security in general. In this case, the franchisor seeks to negotiate with a single person, who is the legal representative. It will always depend on the conditions that are established in the contract.

6. At the time of becoming a franchise, who pays taxes?

At the time of paying taxes, each of the franchised units is taken as different people. They are individuals, whether natural or legal, who pay all of their taxes.

7. If monopoly and outsourcing are prohibited in Ecuador, if Fine-Tuned English Institute produces its own texts, could they be sold by the institute itself?

Texts can be sold within the Institute if you have copyrights on them. The rules of regulation and control of market power are only relevant in relation to the issue of which competition may be affected. If the books are not legally owned, then they cannot be sold. It is part of the free will that can have the economic operators inside a market, without affecting the competition.

For example, in case that the Ministry of Education establishes that public schools can only buy LNS books, which represent more than 60% of the market; this case would be a monopoly. The characteristics of books should be established so they can be done for any publisher. But if in this case of the Institute of English, it does not represent 1% of the national market, therefore would not be a problem.

8. The purpose of this thesis is to support the national and international expansion of the company. Do you possibly know the type of legislation related to franchises that currently exists in Peru?

No, since this is an unnamed contract, there are no specific rules. The parties can determine which legal order they will be subject to. Most of the time the franchisor makes the decisions. If he decides to enter into another country where the rules are less stringent, another contract may be made with decisions that will comply with the rules of the country of the franchisee. You can make as many different contracts as the number of franchisees you have, even at the national level. Each will depend

on the needs that exist, and also on the type of the target market, its size, the socio-economic situation, etc.

There are whole books that refer to the franchise agreement, or thesis, that develop the contracts as: elements, characteristics, object and more. But you will not find a rule that describes them.

9. Is there legislation on franchising in other countries?

Yes, for example exists in Spain, but this is very general and wide, contains certain requirements and elements in a very basic way. Because, if the requirements of contracts are delineated, with the nature of this kind of contracts, these become less attractive to the people who are going to deliver the work of generations in favor of other generations.

10. What is your suggestion regarding the term that the franchise contract should have?

Many of the times it depends on the investment, which should be sufficient to recover the same and obtain profitability. It also depends on the conditions, costs, types of royalties, project analysis, profitability studies, marketing, and competition in the market. However, in the end, everything always will depend on the will of the parties.

Appendix 3: Growth of Students of Fine-Tuned English Centers

3.1. Growth of Students of Fine-Tuned English Loja

Growth of Students of Fine-Tuned English Loja				
Academic Period	Students Enrolled	Percentage Growth	Percentage Growth Period 1	Percentage Growth I Period 2
Nov 1992 - Feb 1993	60			
Feb 1993 - Jul 1993	186	210.00%		
Oct 1993 - Feb 1994	250	34.41%	34.41%	
Mar 1994 - Jul 1994	310	24.00%		24.00%
Oct 1994 - Feb 1995	363	17.10%	17.10%	
Mar 1995 - Jul 1995	275	-24.24%		-24.24%
Oct 1995 - Feb 1996	472	71.64%	71.64%	
Mar 1995 - Jul 1996	554	17.37%		17.37%
Oct 1996 - Feb 1997	632	14.08%	14.08%	
Mar 1997 - Jul 1997	681	7.75%		7.75%
Oct 1997 - Feb 1998	950	39.50%	39.50%	
Mar 1998 - Jul 1998	1,097	15.47%		15.47%
Oct 1998 - Feb 1999	1,103	0.55%	0.55%	
Mar 1999 - Jul 1999	1,219	10.52%		10.52%
Oct 1999 - Feb 2000	1,155	-5.25%	-5.25%	
Mar 2000 - Jul 2000	1,213	5.02%		5.02%
Oct 2000 - Feb 2001	1,231	1.48%	1.48%	
Mar 2001 - Jul 2001	1,162	-5.61%		-5.61%
Oct 2001 - Feb 2002	1,317	13.34%	13.34%	
Mar 2002 - Jul 2002	1,206	-8.43%		-8.43%
Oct 2002 - Feb 2003	1,317	9.20%	9.20%	
Mar 2003 - Jul 2003	1,191	-9.57%		-9.57%
Oct 2003 - Feb 2004	1,346	13.01%	13.01%	
Mar 2004 - Jul 2004	1,213	-9.88%		-9.88%
Sep 2004 - Feb 2005	1,330	9.65%	9.65%	
Mar 2005 - Jul 2005	1,329	-0.08%		-0.08%
Sep 2005 - Feb 2006	1,426	7.30%	7.30%	
Mar 2006 - Jul 2006	1,347	-5.54%		-5.54%
Sep 2006 - Feb 2007	1,431	6.24%	6.24%	
Mar 2007 - Jul 2007	1,370	-4.26%		-4.26%
Sep 2007 - Feb 2008	1,465	6.93%	6.93%	
Mar 2008 - Jul 2008	1,463	-0.14%		-0.14%
Sep 2008 - Feb 2009	1,568	7.18%	7.18%	
Mar 2009 - Jul 2009	1,391	-11.29%		-11.29%
Sep 2009 - Feb 2010	1,460	4.96%	4.96%	
Mar 2010 - Jul 2010	1,414	-3.15%		-3.15%
Sep 2010 - Feb 2011	1,425	0.78%	0.78%	
Mar 2011 - Jul 2011	1,307	-8.28%		-8.28%

Academic Period	Students Enrolled	Percentage Growth	Percentage Growth Period 1	Percentage Growth Period 2
Sep 2011 - Feb 2012	1,477	13.01%	13.01%	
Mar 2012 - Jul 2012	1,331	-9.88%		-9.88%
Sep 2012 - Feb 2013	1,971	48.08%	48.08%	
Mar 2013 - Jul 2013	2,108	6.95%		6.95%
Sep 2013 - Feb 2014	2,604	23.53%	23.53%	
Feb 2014 - Jul 2014	2,492	-4.30%		-4.30%
Sep 2014 - Jan 2015	2,821	13.20%	13.20%	
Feb 2015 - Jul 2015	2,770	-1.81%		-1.81%
Sep 2015 - Jan 2016	2,986	7.80%	7.80%	
Feb 2016 - Jul 2016	2,679	-10.28%		-10.28%
Sep 2016 - Ene 2017	2,940	9.74%	9.74%	
Average Percentage Growth		11.41%	15.31%	-1.29%

Source: Personal compilation based on the company's archives

3.2. Growth of Students of Fine-Tuned Catamayo

Growth of Students of Fine-Tuned Catamayo				
Academic Period	Students Enrolled	Percentage Growth	Percentage Growth Period 1	Percentage Growth Period 2
Sep 2007 - Feb 2008	116			
Mar 2008 - Jul 2008	100	-13.79%		
Sep 2008 - Feb 2009	153	53.00%		
Mar 2009 - Jul 2009	117	-23.53%		-23.53%
Sep 2009 - Feb 2010	115	-1.71%	-1.71%	
Mar 2010 - Jul 2010	110	-4.35%		-4.35%
Sep 2010 - Feb 2011	93	-15.45%	-15.45%	
Mar 2011 - Jul 2011	92	-1.08%		-1.08%
Sep 2011 - Feb 2012	95	3.26%	3.26%	
Mar 2012 - Jul 2012	80	-15.79%		-15.79%
Sep 2012 - Feb 2013	150	87.50%	87.50%	
Mar 2013 - Jul 2013	154	2.67%		2.67%
Sep 2013 - Feb 2014	184	19.48%	19.48%	
Feb 2014 - Jul 2014	171	-7.07%		-7.07%
Sep 2014 - Jan 2015	184	7.60%	7.60%	
Feb 2015 - Jul 2015	178	-3.26%		-3.26%
Sep 2015 - Jan 2016	178	0.00%	0.00%	
Feb 2016 - Jul 2016	192	7.87%		7.87%
Sep 2016 - Ene 2017	224	16.67%	16.67%	
Average Percentage Growth		6.22%	14.67%	-5.57%

Source: Personal compilation based on the company's archives.

3.3. Growth of Students of Fine-Tuned Zamora

Growth of Students of Fine-Tuned Zamora				
Academic Period	Students Enrolled	Percentage Growth	Percentage Growth Period 1	Percentage Growth Period 2
Mar 2009- Jul 2009	64			
Sep 2009 - Feb 2010	143	123.44%		
Mar 2010 - Jul 2010	217	51.75%		51.75%
Sep 2010 - Feb 2011	243	11.98%	11.98%	
Mar 2011 - Jul 2011	248	2.06%		2.06%
Sep 2011 - Feb 2012	239	-3.63%	-3.63%	
Mar 2012 - Jul 2012	232	-2.93%		-2.93%
Sep 2012 - Feb 2013	244	5.17%	5.17%	
Mar 2013 - Jul 2013	231	-5.33%		-5.33%
Sep 2013 - Jan 2014	287	24.24%	24.24%	
Feb 2014 - Jul 2014	301	4.88%		4.88%
Sep 2014 - Jan 2015	358	18.94%	18.94%	
Feb 2015 - Jul 2015	315	-12.01%		-12.01%
Sep 2015 - Jan 2016	397	26.03%	26.03%	
Feb 2016 - Jul 2016	347	-12.59%		-12.59%
Sep 2016 - Jan 2017	350	0.86%	0.86%	
Average Percentage Growth		15.52%	11.94%	3.69%

Source: Personal compilation based on the company's archives.

Appendix 4: Initial fee costs

Initial Fee				
Selling costs				
Expenses of Pre-opening assistance				
Activity	Responsible	Hours	Cost/ Hour	Total Costs
Initial training and delivery of manuals	Accountant	16	4.83	\$ 77.20
	Auditor	4	14.28	\$ 57.12
	Academic coordinator	8	7.70	\$ 61.60
	Coord. Dept. Marketing	4	7.11	\$ 28.44
	Manager	6	9.46	\$ 56.76
Virtual assistance in the selection of the academic coordinator, and his/her functions training in Loja. (Travel expenses will be borne by the franchisee.)	Academic Coordinator of each Program	16	7.70	\$123.20
Visits to franchisee to verify the image of the installations and the assistance in the selection of teachers. (Travel expenses will be borne by the franchisee.)	Academic Director	8	31.02	\$248.16
Coordinate the training of the handling of the accounting and academic system.	Administrative Director	1	31.02	\$ 31.02
Virtual consultancy in pre-opening promotional activities by the marketing team of the company.	Marketing department	3	7.11	\$ 21.33
Total Expenses of Pre-opening assistance				\$704.83
Cost of the Franchise Package				
Informative dossier, manuals, training methods, investment budget.				\$100.00
Total Cost of the Franchise Package				\$100.00
Total Selling costs (Expenses of Pre-opening assistance + Cost of the Franchise Package)				\$804.83
Legal Costs				
Cost of inscription of the contract in the Ecuadorian Institute of Intellectual Property.				\$12.00
Cost of lawyer's fees				\$1,500.00
Cost of the recognition of signatures (notary)				\$150.00
Total Legal Costs				\$1,662.00
Brand Value				\$7,533.17
TOTAL FRANCHISE INITIAL FEE (Selling costs + Legal costs+ Brand value)				\$10,000.00

Source: Authors' compilation.

Appendix 5: Estimate of investment to set up the establishment

Estimate of investment to adequate the establishment				
Set up of the stablishment		Quantity	Unit Price	Total
Furniture	Boards		\$ 100.00	\$300.00
	Writing desks	54	\$35.00	\$1,890.00
	Administrative desks	2	\$ 180.00	\$360.00
	Desks	3	\$ 120.00	\$360.00
	Office's chairs	2	\$ 130.00	\$260.00
	Teacher's chairs	3	\$60.00	\$180.00
	Student's chairs	54	\$20.00	\$1,080.00
	Waiting Chairs	3	\$ 130.00	\$390.00
	Poster boards	1	\$ 150.00	\$150.00
	Filing Cabinets	1	\$ 150.00	\$150.00
	Bookstore	1	\$ 160.00	\$160.00
				TOTAL
Labeling	Exterior	1	\$ 700.00	\$700.00
	Interior		\$ 200.00	\$200.00
				TOTAL
Office supplies	Cabinets	8	\$6.00	\$48.00
	Computers	2	\$ 680.00	\$1,360.00
	Printers	1	\$ 400.00	\$400.00
	Phones	2	\$50.00	\$100.00
	Others		\$ 320.00	\$320.00
				TOTAL
Technological equipments	Projectors	3	\$ 750.00	\$2,250.00
	Classroom's speakers	3	\$ 100.00	\$300.00
				TOTAL
Internal building	Painting		\$ 600.00	\$600.00
	Bathroom Accessories	3	\$ 130.00	\$390.00
	FTE Decoration	10	\$12.00	\$120.00
	Lamps classroom	6	\$15.00	\$90.00
	Lamps	6	\$30.00	\$180.00
	Watches	5	\$20.00	\$100.00
	Baseboards	1	\$40.00	\$40.00
	Trash cans	8	\$5.00	\$40.00
			TOTAL	\$1,560.00
TOTAL INVESTMENT				\$12,518.00

Source: Authors' compilation based on the company's archives.

Appendix 6: Minimum royalties calculations

Minimum royalties calculations						
Continuous assistance				Total Cost		
Activity	Responsible	Hours	Cost/ Hour	Year 1	Year 2	Year 3
Update of business manuals	Coord. Marketing Department	6	\$7.11	\$42.66	\$43.94	\$45.26
Review for the approval of local advertising campaigns of franchisees.	Coord. Marketing Department	12	\$7.11	\$85.32	\$87.88	\$90.52
Didactic-pedagogical update to the academic coordinators of the franchise establishments once a year. (Travel expenses will be borne by the franchisee.)	Trainers	25	\$8.00	\$ 200.00	\$206.00	\$212.18
Observation of classes in the franchises, at least once per semester.* (Travel expenses will be borne by the franchisee.)	Academic coordinator	16	\$7.70	\$123.20	\$126.90	\$130.70
Observations of the academic demonstrations once a year. (Travel expenses will be borne by the franchisee.)	Academic coordinator	8	\$7.70	\$61.60	\$63.45	\$65.35

Activity	Responsible	Hours	Cost/ Hour	Year 1	Year 2	Year 3
Support by telephone and electronic media.	Accountant	1	\$4.83	\$4.83	\$4.97	\$5.12
	Auditor	1	\$14.28	\$14.28	\$14.71	\$15.15
	Academic coordinator	1	\$7.70	\$7.70	\$7.93	\$8.17
	Coord. Marketing Department	1	\$7.11	\$7.11	\$7.32	\$7.54
	Manager	1	\$9.46	\$9.46	\$9.74	\$10.04
	Academic Director	1	\$31.02	\$31.02	\$31.95	\$32.91
	Administrative Director	1	\$31.02	\$31.02	\$31.95	\$32.91
Total Continuous assistance				\$618.20	\$636.74	\$655.84
Right to operate using the brand				\$1,050.00	\$2,500.00	\$5,000.00
Contribution to annual convention				\$200.00	\$200.00	\$ 200.00
TOTAL ANNUAL ROYALTIES				\$1,868.20	\$3,336.74	\$ 5,855.84
TOTAL MONTHLY ROYALTIES				\$155.68	\$278.06	\$487.99

Source: Authors' compilation.

* Royalties cover a maximum of 8 hours of observation, after 9 hours the costs must be covered by the franchisee (7.70 per hour).

Appendix 7: Projection of operating expenses of the establishment

Projection of operating expenses of the establishment				
		YEAR 1	YEAR 2	YEAR 3
Current expenses				
Rent		6,000	6,209.40	6,426.11
Light		276	285.63	295.60
Water		50	51.75	53.55
Phone		252	260.79	269.90
Internet		420	434.66	449.83
Advertising		2,400	2,483.76	2,570.44
Subtotal current expenses		9,398	9,725.99	10,065.43
Administrative expenses				
Office supplies		360	372.56	385.04
Cleaning supplies		500	517.45	534.78
Subtotal Administrative Expenses		860	890.01	919.83
Personnel expenses				
Salary	Administrative staff (6h/d)	7,548.00	7,811.43	8,073.11
	Teacher (5h/d)	6,186.96	6,402.88	6,617.38
	Teacher (5h/d)	6,186.96	6,402.88	6,617.38
	Teacher (5h/d)	6,186.96	6,402.88	6,617.38
	Secretary (8h/d)	5,936.28	6,143.46	6,349.26
	Concierge (8h/d)	4392	4,545.28	4,697.55
	Subtotal	36,437.16	37,708.82	38,972.06
Thirteenth salary	Administrative staff	629.00	650.95	672.76
	Teacher	515.58	533.57	551.45
	Teacher	515.58	533.57	551.45
	Teacher	515.58	533.57	551.45
	Secretary	494.69	511.95	529.11
	Concierge	366.00	378.77	391.46
	Subtotal	3,036.43	3,142.40	3,247.67
Fourteenth salary	Administrative staff	366.00	378.77	391.46
	Teacher	366.00	378.77	391.46
	Teacher	366.00	378.77	391.46
	Teacher	366.00	378.77	391.46
	Secretary	366.00	378.77	391.46
	Concierge	366.00	378.77	391.46
	Subtotal	2,196	2,272.64	2,348.77
Employer contribution	Administrative staff	841.60	870.97	900.15
	Teacher	689.85	713.92	737.84
	Teacher	689.85	713.92	737.84
	Teacher	689.85	713.92	737.84
	Secretary	661.90	685.00	707.94
	Concierge	489.71	506.80	523.78
	Subtotal	4,062.74	4,204.53	4,345.38
Subtotal Personnel Expenses		45,732.33	47,328.39	48,913.89
TOTAL		55,990.33	57,944.40	59,899.15

Source: Authors' compilation based on the company's archives.

Appendix 8: Depreciation and amortization of assets

Depreciation and amortization of assets										
	Total Price	% de Dep./ Am.	Depreciación Anual	Year 1	Year 2	Year 3	Year 4	Year 5	Total depreciation	Carrying value
TANGIBLE ASSETS										
Furniture and appliances										
Administrative desks	\$360.00	10%	\$36.00	\$ 36.00	\$ 36.00	\$36.00	\$36.00	\$36.00	\$ 180.00	\$180.00
Poster boards	\$150.00	10%	\$15.00	\$ 15.00	\$ 15.00	\$15.00	\$15.00	\$15.00	\$75.00	\$75.00
Cabinets	\$150.00	10%	\$15.00	\$ 15.00	\$ 15.00	\$15.00	\$15.00	\$15.00	\$75.00	\$75.00
Bookcase	\$160.00	10%	\$16.00	\$ 16.00	\$ 16.00	\$16.00	\$16.00	\$16.00	\$80.00	\$80.00
Waiting Chairs	\$390.00	10%	\$39.00	\$ 39.00	\$ 39.00	\$39.00	\$39.00	\$39.00	\$ 195.00	\$195.00
Office Chairs	\$260.00	10%	\$26.00	\$ 26.00	\$ 26.00	\$26.00	\$26.00	\$26.00	\$ 130.00	\$130.00
Student chairs	\$1,080.00	10%	\$ 108.00	\$108.00	\$ 108.00	\$108.00	\$108.00	\$ 108.00	\$ 540.00	\$540.00
Teachers chairs	\$180.00	10%	\$18.00	\$ 18.00	\$ 18.00	\$18.00	\$18.00	\$18.00	\$90.00	\$90.00
Classroom desks	\$360.00	10%	\$36.00	\$ 36.00	\$ 36.00	\$36.00	\$36.00	\$36.00	\$ 180.00	\$180.00
Desks	\$1,890.00	10%	\$ 189.00	\$189.00	\$ 189.00	\$189.00	\$189.00	\$ 189.00	\$ 945.00	\$945.00
Boards	\$300.00	10%	\$30.00	\$ 30.00	\$ 30.00	\$30.00	\$30.00	\$30.00	\$ 150.00	\$150.00
Labeling	\$900.00	10%	\$90.00	\$ 90.00	\$ 90.00	\$90.00	\$90.00	\$90.00	\$ 450.00	\$50.00
Cabinets	\$48.00	10%	\$4.80	\$ 4.80	\$4.80	\$ 4.80	\$ 4.80	\$4.80	\$24.00	\$24.00
Phones	\$100.00	10%	\$10.00	\$ 10.00	\$ 10.00	\$10.00	\$10.00	\$10.00	\$50.00	\$50.00
Bathroom Accessories	\$390.00	10%	\$39.00	\$ 39.00	\$ 39.00	\$39.00	\$39.00	\$39.00	\$ 195.00	\$195.00
FTE Decoration	\$120.00	10%	\$12.00	\$ 12.00	\$ 12.00	\$12.00	\$12.00	\$12.00	\$60.00	\$60.00

Furniture and appliances										
Classroom lamps	\$90.00	10%	\$9.00	\$ 9.00	\$9.00	\$ 9.00	\$ 9.00	\$ 9.00	\$45.00	\$45.00
Lamps	\$180.00	10%	\$18.00	\$ 18.00	\$ 18.00	\$18.00	\$18.00	\$18.00	\$90.00	\$90.00
Watches	\$100.00	10%	\$10.00	\$ 10.00	\$ 10.00	\$10.00	\$10.00	\$10.00	\$50.00	\$50.00
Baseboards	\$40.00	10%	\$4.00	\$ 4.00	\$4.00	\$ 4.00	\$ 4.00	\$4.00	\$20.00	\$20.00
Trash cans	\$40.00	10%	\$4.00	\$ 4.00	\$4.00	\$ 4.00	\$ 4.00	\$4.00	\$20.00	\$20.00
Others	\$320.00	10%	\$32.00	\$ 32.00	\$ 32.00	\$32.00	\$32.00	\$32.00	\$ 160.00	\$160.00
Technological equipment										
Projectors	\$2,250.00	10%	\$ 225.00	\$225.00	\$ 225.00	\$225.00	\$225.00	\$ 225.00	\$1,125.00	\$1,125.00
Classroom speakers	\$300.00	10%	\$30.00	\$ 30.00	\$ 30.00	\$30.00	\$30.00	\$30.00	\$ 150.00	\$ 150.00
Computer equipment										
Computers	\$1,360.00	33.3%	\$ 453.33	\$453.33	\$ 453.33	\$453.33			\$1,360.00	\$0.00
Printers	\$400.00	33.3%	\$ 133.33	\$133.33	\$ 133.33	\$133.33			\$ 400.00	\$0.00
TOTAL TANGIBLE ASSETS	\$11,918.00	TOTAL DEPRECIACIÓN	\$1,602.46	\$1,602.46	\$1,602.46	\$1,602.46	\$1,015.80	\$1,015.80	\$6,838.99	\$5,079.01
INTANGIBLE ASSETS										
Initial fee of the Franchise	\$10,000.00	10%	\$1,000.00	\$1,000.00	\$1,000.00	\$1,000.00	\$1,000.00	\$1,000.00	\$5,000.00	\$5,000.00
TOTAL INTANGIBLE ASSETS	\$10,000.00	TOTAL AMORTIZACIÓN	\$1,000.00	\$1,000.00	\$1,000.00	\$1,000.00	\$1,000.00	\$1,000.00	\$5,000.00	\$5,000.00
TOTAL ASSETS	\$21,918.00	TOTAL D Y A	\$2,602.46	\$2,602.46	\$2,602.46	\$2,602.46	\$2,015.80	\$2,015.80	\$11,838.99	\$10,079.01

Source: Authors' compilation.

Appendix 9: Franchise Contract

This franchise contract is celebrated in (place, day, month, year) between Fine-Tuned English Cia.Ltda with the address being in the city of Loja, Ecuador. In use with legal authority and with faculties for this permission which will be specified as the Franchiser and (name of person), (personal data in the case of being a natural person or corresponding data to the legal representative in the case of being a legal entity); which from this point on be shall be named "Franchiser." They will be mutually recognized with the sufficient capacity to celebrate the present franchise contract in order to establish the franchised institute Fine-Tuned English which will be located in (place), and with that end in mind:

MANIFEST:

- I. That the Franchiser is the owner of the title of (inscription of the brand in the office of the Ecuadorian Institute of Intellectual Property) the brand Institute Fine-Tuned English Language Cia .Ltd and of the knowledge needed to commercialize the offered services.
- II. That the Franchiser has developed a commercial method of the following services:
 - a. English courses for international communication directed to children, teenagers and adults.
 - b. English for the audio, communication and motor development.
 - c. International exchange programs with the USA and Canada.
 - d. Exam preparation for Cambridge ESOL: KET, PET y FCE.
 - e. Intensive courses for travelers and teachers.
 - f. Spanish classes for foreigners.
 - g. Leveling and break courses.
 - h. Conversation Club.
- III. The method developed by the Franchiser takes into account the commerce of services defined by the processes that can be found in the operational manuals, the same that are composed by: the manual on the management of human resources; manual of academic activity; manual on the administrative and financial fields; manual on corporative image; and, finally the marketing and publicity manual.
- IV. The know-how of the Franchiser is the result of proven experience and put into practice with vigor and fidelity.

- V. That the franchise has been selected by the Franchiser to form part of a web of commerce in the form and condition that will later be stipulated.
- VI. The Franchiser acquires the franchise with the intention of exploiting the business based on what methods specified by the Franchiser.
- VII. The franchisee recognizes the necessity, to the benefit of the Franchiser, for other Franchisers and their clients to maintain a high quality level of the offered services.
- VIII. The franchise declares complete awareness of the effectiveness of the learning methods, the value of the brand, the importance of its assignment, and their notoriety, etc.
- IX. The franchise recognizes the time necessary to reflect and recommend on the seriousness of the accounts, amongst other things.
- X. In its virtue, recognizing the capacity to force in its representations in which the present contract of franchisee in following the upcoming stipulations:

CLAUSE I: CONCESSION OF THE FRANCHISE

- a. The concession of the present franchise does not take for granted the representation or agency of the Franchiser. Likewise, neither shall the association, society nor reciprocate participate in the economic results of each party. In consequence, under no circumstances can there be confusion, compensation or deviation of the economic responsibilities different from the ones that have been previously treated.
- b. The Franchiser names (person name) as their franchisee for which they allow the use of distinctive signs of their property (brand, establishment, commercial name, logo, etc.) inscribed with (brand code) in the Ecuadorian Institute of Intellectual Property and their corresponding know-how applied in the operative manuals, the same which form part of the franchise packet. They are integrated to the franchisee and signed by both parties of the contract with the goal of its use an exclusive way in the services of the business.
- c. The Franchiser authorizes the franchisee to use the brand and its symbols only in relation with the already agreed establishment stipulations. It is to be used following the instructions established in the manual in regard to the corporate image and to avoid

modification, suppression or hiding any content, not even the signs, fonts or formats.

- d. The Franchisee is forced to proceed with the commercial use of the already mentioned distinctive brand signs as well as the authorizations or licenses that are legally established.
- e. The Franchisee recognizes that the brand and its distinctive symbols of the franchise are exclusively the property of the Franchiser and that they have no right to use them outside the stipulated conditions established in the present contract.

CLAUSE II: TERRITORIAL EXCLUSIVITY

- a. The Franchisee can only exploit the business in the location of (place) and in the established commercial site that is located in the streets (direction). Any change to the location, structure or decoration of the locality must be made with the consent both verbally and in writing by the Franchiser.
- b. The Franchisee may only relocate the establishment under written authorization of the Franchiser. When a new location is found and ready to operate, the old location must immediately shut down.
- c. The rights of the Franchisee that were discussed by the Franchiser do not have any other value apart from the mentioned points of sale and not for a third party.
- d. The Franchiser agrees to not authorize any other establishment in the territorial location of the Franchisee.
- e. When the service needs, conditions of exploitations, judicial context or the economic environment recommend the opening of a second franchise in the exclusive zone; the Franchiser can inform the Franchisee of its intention to create a second establishment in the exclusive zone.
- f. The Franchisee will dispose a time frame of 1 to 3 months from the moment of its notification of their right to open a second establishment.
- g. The Franchisee has the obligation to tell the Franchiser of all misrepresentations by its competition in its exclusive territory.yt

CLAUSE III: PAYMENTS

- a. In consideration to said appointment and authorization to forgo their activities and a franchise and their services and manuals received, the same pays to the present Franchiser the amount of \$10,000.00 USD as an entry payment- the sum that the Franchiser confirms to be paid at total satisfaction and making the present document the payment card.
- b. The entry payment will be retained by the Franchiser whatever the outcome of the contract. Under no circumstances can the Franchisee demand a refund.
- c. The Franchisee obliges itself to pay the Franchiser the following: 3% of its monthly billings during the first year of running of the establishment; 5% of their monthly billings during the second year of service: and 7% from the third year forward of service. The said amount will be deposited on the twentieth day of each month into the checking account ____ of the ___ bank or by sending by mail or email made by the Franchisee of the according documentation of the volume of sales.
- d. The Franchisee is obliged to pay for the right to operate using the Fine Tuned English brand, for the continued assistant received by the Franchisee and contributions for the realization of the annual convention.
- e. The Franchisee is obliged to the payment to the Franchiser of 1% of the total monthly billings in publicity contributions, adjoined with the benefit payments.
- f. The Franchisee will pay said amount in order to participate in the corporative publicity as well as marketing strategies, receiving of standard publicity templates, to be included in the official website, email accounts, social media accounts, in the mobile application and for all publicity and participation in the franchise fairs.
- g. The Franchiser will annually present a report to the Franchisee of the usage of the indicated sums.
- h. The Franchisee must sign a new contract with all the mentioned implications, especially the financial ones that can result for every new establishment created.

CLAUSE IV: OBLIGATIONS FOR THE FRANCHISER AND THE FRANCHISEE

The Franchiser commits to:

- a. Maintain the brand, commercial name, establishments label, commercial motto, etc.
- b. Publicity for the corporation to reinforce the global image of the brand.
- c. Not to consent in an abusive form the sales that could influence the brand image. The sale price established by the Franchiser is an indicative one and can be taken as a suggested price point.
- d. By giving the necessary assistance, both in the pre-opening of the establishment, continued assistance that may be requested by the Franchisee during the validity of the contract and through the realization of the annual franchise fair.
- e. To respect the assigned zone to the exclusivity to the Franchisee.

The franchisee commits to the following:

- a. Equipping itself exclusively with the Franchiser or the providers that the same indicate for the startup and functioning of its establishment during the validity of the present contract.
- b. Following the instructions of the Franchiser on the use of the distinctive signs as well as the administrative management and academic management of the establishment and all that may form part of the know-how of the franchise, described in the first clause of the contract.
- c. Maintaining the secret of how much information on the know-how that is transmitted by the Franchiser.
- d. Offering the educative services based upon the instructions established by the Franchiser, recognizing its confidential character and reserve, also compromising itself to not divulge or apply confidential information to other private businesses.
- e. Following through loyally and punctually to its working, state and commercial obligations.
- f. Only and exclusively use the distinctive signs for the activities described and approved in the present contract by the franchise; that are: commercial name, logo type, company motto, etc.
- g. Respecting and collaborating always to defend the prestige and image of the franchise in the general public domain.
- h. Maintaining under strict secrecy all information facilitated in the manuals and all knowledge given by the Franchiser, without the contents reaching the

hands of non-approved third parties and, as such, all information must be maintained confidentially.

- i. Place their sale prices, and adopt themselves to the local conditions of their market and that of their competitors in the measures possible; following the price policies established in the Franchisers indications, all with previous oral and written authorization.

CLAUSE V: INDEPENDENCE

- a. Both parts formally and solemnly declare that the Franchisee is a company (or businessperson) independent of the Franchiser and by that the sole responsibility before third party intervention in the management of their business of the exclusive property, the usage of the distinctive signs of the brand by its own nature in the franchise contract, without this implying responsibility by the Franchiser to any third-party entities.
- b. The Franchisee, in its quality of independent commercial business, is the sole responsibility in the activities of the business and assumes all the risks that come with this. They cannot compromise the participation of the Franchiser in the management of their activities.
- c. The Franchisee must pay all the expenses, taxes, rates, fallouts and brokerages that may come from non-fulfillment or termination of the present contract.
- d. The Franchisee is completely responsible for the business. The Franchiser is not responsible of the acts made by the Franchisee, its employers or physical people that assure the management of the business.

CLAUSE VI: KNOW-HOW

- a. For the present contract, know-how is understood as the total of empiric knowledge that is possessed by the Franchiser and that are transmitted through manuals, the formation and the assistance of the franchise.
- b. The Franchiser will communicate to the Franchisee the innovations that will be effected by the know-how.
- c. The Franchisee will provide regular updates of its methods, when deemed necessary.
- d. The Franchisee recognizes its responsibility to learn everything that is necessary to exercise its new activity from the Franchiser.

- e. The Franchisee commits to respect, scrupulously, the confidentiality of the contract, the franchise net income and the documents that have been received and the results.
- f. The Franchisee must make their personal sign a confidentiality clause combined with a penal clause on the know-how, as well as a no competition clause for a duration of 20 years.
- g. The Franchisee commits to communicate to the Franchiser all technical or management improvements of their establishment that can be incorporated to the know-how. The Franchisee cannot claim any right on the application of the stipulated ideas.

CLAUSE VII: ESTABLISHMENT

- a. The Franchisee gives a certificate of conformity that will be issued by the Franchiser in the pre-opening visit to the establishment, for the opening of the business.
- b. The Franchisee must continuously maintain the interiors and exteriors of their establishments in an attractive and clean manner.
- c. The Franchisee commits to change the establishment when the Franchiser chooses to do so, whenever it's deemed necessary.

CLAUSE VIII: TRAINING AND ASSISTANCE

- a. The Franchiser commits to give the Franchisee the necessary information in order to uphold the needed duties required for commerce.
- b. The Franchisee commits to follow all training courses that the Franchiser deems necessary.
- d. The Franchisee accepts that the Franchiser shall make the necessary training for its personnel and submit the controls to the Franchiser so the knowledge may be tested and that their proper application can be checked.
- c. If the Franchisee or its personnel do not assist in the formation meetings or perfecting meetings, the contract may be annulled by the Franchiser and the Franchisee will be responsible of the indemnifications that may result with this decision, such as the selection of a new Franchisee.
- e. The Franchiser commits to give assistance before the opening in the following ways:

- I. The Franchisee will pay any expenses made with the initial formation. The Franchisee must cover all expenses of the opening.
- II. The Franchisee will pay all initial training costs for the academic coordinators about their functions in the principal locality in the city of Loja. The Franchisee must cover all attendant costs.
- III. The Franchiser will make regular visits to the Franchisee to verify the image of the establishments and to offer assistance in the selection of teachers. The Franchisee must cover all attendant costs.
- IV. The Franchiser will coordinate training for the accountant and academic management.
- V. The Franchiser will give virtual assistance in promotional activities for pre-opening, which will be done by the marketing team of the company.
- f. The Franchiser will assist the Franchisee in the opening of the establishment.
- g. The Franchiser commits to offering constant assistance to the Franchisee during the period of duration of the establishment, in the following ways:
 - I. The Franchiser commits to offer a didactic-pedagogic update to the academic coordinators of the establishments once a year, in the principal establishment in the city of Loja. All attendant costs must be paid by the Franchisee.
 - II. The Franchiser will make observations in the Franchisee classes, at least once per semester. The Franchisee must cover all attendant costs.
 - III. The Franchiser will make observations of the academic demonstrations once a year. The Franchisee must cover all attendant costs.
 - IV. The Franchiser will offer support through telephone and electronic devices when deemed necessary.
- h. The Franchisee is obliged to submit to oversight by the Franchiser, given them full collaboration and assistance, and freely offering up all needed information.
- i. The franchisor commits to keep the Franchisee regularly updated on all franchise know-how.
- j. The number of visits by the Franchiser to the franchise will be determined by the Franchiser.

CLAUSE IX: MARKETING AND PUBLICITY

- a. The Franchiser commits to making general corporate publicity of the product and the distinctive signs of the same with the goal of upholding the brand image and recognition.
- b. The Franchisee must participate actively in all the promotional actions made by the Franchiser. They may also make their own local publicity campaign in agreement with the Franchiser.
- c. The Franchisee is obliged to spend on publicity and following the instructions of the Marketing and Publicity manual.
- d. The Franchisee commits to formally benefit its clientele of the proposed promotional sales stated by the franchise.
- e. The Franchisee commits to petition for the approval of the Franchiser for all publicity or promotional actions that are intended to be made in their points of sales.

CLAUSE X: NON- COMPETITION

- a. During the duration of the contract and during the period of 20 years after its validity, no matter what the cause of finalization of the same, the Franchisee commits to not manage, have or participate in, directly or indirectly, any identical business or analogical characteristics to which it is objectified to the franchise, in any establishment.
- b. The Franchisee commits to not reveal any confidential information related to the franchise.
- c. The Franchisee must safeguard professional secrets during the period of the contract up until its expiration. In particular, they will not be able to reveal or reproduce the content know-how, manuals, etc. that are exclusive property of the Franchiser.

CLAUSE XI: DURATION

- a. The present contract will have a duration of ten years from the point of its validity.

CLAUSE XII: FINALIZATION OF THE CONTRACT

- a. When the contract is terminated, the Franchisee must immediately stop the use and sale of their services, as well as remove from the establishment all distinctive signs, brand, logo types, complementary material, etc.; that may have direct or indirect reference to Fine-Tuned English Cia.Ltda.

CLAUSE XIII: RENOVATION

- a. When the contract has expired, if the Franchisee has satisfied the terms and conditions of the same, they can renovate it with a period of 10 years, under the same conditions, making an entry payment of renovation of 8000 USD.
- b. The Franchisee must inform the Franchiser of their desire to renew the written contract no earlier than 6 months from the date of expiration.
- c. Once the contract is finalized and the Franchisee decides to renovate it, will have to pay the cost of star-up again, also having to sign a new contract that can have terms and conditions that may differ from the ones on the previous contract.

CLAUSE XIV: RECESSION

This contract will result in recession for the right of either party under any of the following circumstances:

- a. The non-compliance by either of the parties of any part of the obligations assumed by the formalization of this contract.
- b. Presentation or judicial solicitation, by either party, the supposed illegal actions of payment or debt.
- c. The delay of payment made by the Franchisee to the Franchiser of all the pre- payments established in this contract, for a period over 45 days starting from the reception of the corresponding receipt made by the Franchiser to the Franchisee.
- d. The disrespect of the Franchisee should they divulge the secret content of the manuals or know-how given by the Franchiser.
- e. The cessation of payments, debt or cessation on the Franchisee business.
- f. The trespassing or cessation of the Franchisee without authorization of the Franchiser.

- g. The eviction of the Franchisee from its space of work, for late payment of lease or for any other cause.
- h. The false remission of receipts or the committing of fraud by the Franchisee.
- i. The non-authorized use of the installations by the Franchisee.
- j. In the case of sub-clauses: a, e, l of this clause, depending on the severity of the noncompliance of certain criteria there will be an immediate cessation of the contract, or if the Franchisee should receive a sanction, with a limit of two sanctions and this being the cause of termination of the contract.
- k. In case of the Franchisee being the party to cause the termination of the contract, they must immediately stop using the franchise's distinctive signs and will proceed to return to the Franchiser all manuals and any other documents received, not having under this any right to act for the devolution of the initial payment.
- l. If any of the previous terms are violated they will signify the termination of the contract and also violate the local laws, these laws will also be cause of termination, the same that will prevail to the exposed violating customs.

CLAUSE XV: TERMINATION OF THE CONTRACT

- a. The rights and obligations can be transmitted to the heirs of the Franchisee if they accept writing all previous conditions presented.
- b. The Franchisee can sell their franchise and liberate itself of its obligations, except those referring to the noncompetition, if they :
 - I. Are authorized by the Franchiser
 - II. The buyer has enough capital
 - III. The buyer has good references and qualifications that will allow them to access the program of formation of the Franchiser.
 - IV. The debts of the Franchisee are extinguished.
 - V. The new Franchisee gives the Franchiser the sum of 2000 USD for the formalities of transference and formation costs.

CONTRACT SIGNATORIES

- a. The present contract has a mercantile nature, basing itself by that disposed in its own clauses and what has been stated in the same, by the dispositions of the Code of Commerce, the organic code of social economy of

knowledge, creativity and innovation, the civil code and all other applicable norms.

- b. This contract will have validity once registered by the Institute of Intellectual Property, in the case of Ecuador, and in the equivalent institute or organization in the case of an out-of-country address of the unit Franchisee.
- c. This contract includes *intuit personae*, which means, according to the signatory of the same, whose personal qualities constitute for the Franchiser the existential reason to sign the present contract.
- d. For all things relevant to the interpretation and noncompliance of the contract, both parties of the contract renounce all jurisdictions and submit themselves to the courts and tribunals of ____ (or in case a pact to the submission to arbitration: the intervening parties will settle that all litigation, discrepancy, issue or claim that comes as a result of the execution or interpretation of the present contract or any related to it, directly or indirectly, shall be resolved immediately by arbitration of right in the frame of ____). In the same matter both parties make their compromise of fulfilling the arbitration award that shall be dictated.
- e. The Franchisee will not be able to give their derived rights of this contract to a third party actor without previous written and oral consent and authorization of the Franchiser. Eventually they will be able to ask for a possible contractual subrogation in the supposed death of the physical Franchisee in favor of their spouse or one of their descendent.
- f. The Franchisee may not transfer, assign or in any way relocate the rights and obligations assumed in this contract, without the consent of the franchisor.
- g. The franchisor reserves the right to assign its rights and obligations under this contract to a third party of its free choice, but in the event that it chooses to exercise said power, it will be obliged to communicate in writing to the Franchisee, leaving the new franchisor Subrogated In all the rights and contractual obligations of the previous franchisor.

As evidence off all the stated beforehand, both parties reaffirm their commitment and subscribe this original instrument as well as the two copies, on the day _____ of the month _____ in the year_____.

Franchisor signature

Franchisee signature

Appendix 10: Interview to with Saula Aguilar, President of the Company, and Academic Director of Fine-Tuned English.

1. What motivated you to offer English courses in the city of Loja, and later in Zamora and Catamayo?

In 1992, English Academies existed in Loja and the demand for learning this language was growing significantly. The level of English with which students graduated was very low and the classes in the educative establishments were focused only to grammar and translation. In this context, Fine-Tuned English was born as a valid alternative to the deficiency of English study programs in the schools and colleges of that time.

Our greatest motivation was in providing an educational service with quality and warmth. Our educational model offered an international communication approach and used audio and video as a technological resource. The learning groups were of eight students per class, which facilitated the inter-learning and personalized the teaching; giving more time to each student for the constant practice of the language. We started with 60 students on November 4th, 1992, and after three months we had to change our location because of the high student demand. Currently, we have almost 3000 students in our center of the city of Loja.

Subsequently, based on the good results obtained in Loja, we received the request of several parents who requested the opening of an English language center in both Catamayo and Zamora. That is why we started in Catamayo and then in Zamora, motivated by a great desire to offer this kind of educative service.

2. What factors do you consider to be the reason for the institute's success?

The key to our competitive advantage lies in the successful selection of competent teachers and the hiring of native-speaking foreign teachers. It is worth emphasizing our permanent training of managers, teachers and administrative staff. In addition, it is important to highlight the organizational turns, policies, guidelines and criteria based on the current administration and institutional educational development.

The use of innovative teaching methodologies for teaching English, the use of new information and communication technologies, the use of up-to-date, appropriate and relevant texts and resources and the teaching work with small groups helped to increase the effectiveness and efficiency in the teaching of the English language. It

has also been an institutional policy from the outset to demonstrate to the parents the progress in learning the English language through academic demonstrations that take place at the end of each semester. In this way, the efficiency of our educational system is evident. At the same time, we have always tried to ensure that our services are affordable for all the local population, while ensuring that our clients receive an excellent education.

By virtue of a serious and refreshing work, Fine-Tuned English Language Institute, has earned the good faith, credibility and confidence of Loja inhabitants, to the point of determining an exponential growth of the student population. This commits our educational establishment to unceasing effort and enthusiasm. We strive to continually surpass our contributions to the advancement of education, science, culture and the arts of our city Loja and its area of influence.

3. What factors have influenced your positioning in Catamayo and Zamora?

The centers of Zamora and Catamayo are a replica of what is done in Loja. The only difference is in the infrastructures. In Loja we have our own building with 45 classrooms very well adapted with internet, audio system and projector. In Zamora, we have our own building too and although, the classrooms are smaller, they are equipped just like in Loja. In Catamayo the building is a bit old and rented. The centers of these two cities have been maintained thanks to the efficient work of their Coordinators and to the credibility we have of the parents.

3. How do you think your institute differs from others in the city?

I think the main difference is that we have a qualified teaching staff, which is in permanent training. We also have three academic advisors who help teachers and are always available to assist them in all pedagogical processes. Also, by professional ethics we are very clear with our academic offer. We explain to parents the length of our programs and emphasize that it is untrue that a person can achieve B2 in three or four months. Timely attendance and ongoing student work are required to assimilate classes and develop language skills from level to level. Another great difference is the modern, secure and state-of-the-art infrastructure that Fine-Tuned English has. In Loja there is no other Institute or Academy of English with the facilities that our building has. In short, the professional seriousness and our pedagogical experience is what makes the difference, since we can demonstrate it with reliable results.

5. To what market is the service offered by the Institute?

Actually the service we offer is aimed at people of all social strata and of all ages. Our monthly pension is affordable for anyone even if you have a basic salary. We receive children from 3 years of age, and students of basic education, high school and adults in general.

6. What strategies does your institute use to make its service meet the needs of its clients?

We have a marketing department that keeps announcements of what we do in social networks, does the promotion of courses before starting classes and is always aware that our Institution maintains its corporate image. In the academic part, which is the most important, we always try to get our students to learn and we are worried for each one of them, through phone calls to their parents, when they miss classes or if their performance is not appropriate. We give leveling classes in these cases, to give them the opportunity to continue the course and avoid desertion.

Finally, in each cycle of studies we organize academic events, such as fairs, competitions, exhibition of projects, open houses, academic demonstrations, festivals, etc. so the students can have the opportunity to demonstrate what has been learned and the parents can witness their linguistic advances.

7. What level of positioning do you think your institute has in the city?

Because of the response we have had in Loja, reflected in the number of students enrolling in each cycle. I can say that Fine-Tuned English is the pioneer institution in teaching English in Loja and in the whole region of Ecuador. We have remained in the leadership seat during these 24 consecutive years, and that commits us to continue working hard to keep us in the first place.

8. Which strategies do you use to stay competitive?

We have become a Cambridge International Exam Preparation Center, an administrator of the TOEFL Junior Exam Center. We have an agreement with The Language Company for a program of study and vacations in Orlando, and an agreement with Niagara Falls Language School in Canada for specific English courses. We attend conferences and congresses nationally and internationally to keep us at the vanguard of new methodologies and communication technologies.

Briefly, we do not worry much about what our competitors do. We do the best things possible and are always up to date to offer quality English education.

9. In which factors do you think the institute should work on the future?

In fact we have a very serious commitment to local citizenship and we must keep in the line of continuous improvement in the academic field. I think it is time for our Institute to enter into other languages. For example, offering classes in Portuguese and Mandarin could significantly improve our educational offer, as well as promote Spanish courses for foreigners so that Loja is visited more frequently.

On the other hand, we should work on the project of internationalization of our Institute through the sale of franchises. We could start selling franchises locally and then nationally, since for some occasions we have had that proposal. Also, apart from obtaining the endorsement by the SETEC, (secretary that accredits the functioning of education centers) in a national level, we should work to obtain an accreditation of international level.

Finally, we should carry out academic activities with greater impact, not only in the city of Loja but throughout the country, so that they know us in other places.

Thank you very much for the interview and I wish you a success in the development of this important thesis and in your professional performance.

Appendix 11: Interview questions for the institutes and language centers as direct and indirect competition in Loja and Zamora.

1. Do you offer English courses open to the general public? If not, why?
2. How many years of experience do your Institute / Language Center have?
3. How many students do you actually have?
4. How many local and foreign teachers do you have?
5. How many people are on the administrative staff?
6. Where do you mainly hire your teachers from?
7. Which modalities of courses do you offer?
8. How much is the cost of your service?

This interview model was used with the following people:

- Lic. Byron Carreño, Academic Director of Washington English Institute.
- Mg. Inés Torres, Academic Director of the Global Quality English Binational Center.
- Lic. Milton Ramos, Academic Director of the Institute Brentwood Language Center.
- Mg. Elizabeth Sánchez, Academic Director of the Institute English Speak-up Center.
- Mg. Alex Fernández, Academic Director of the Institute Easy English.
- Mg. Gloria Benstead, Academic Director of New York English Learning Center.
- Mg. Roos Sampayo, Academic Director Canadian House Center Insitute.

Appendix 12: Interview questions for the institutes and language centers as direct and indirect competition in Piura and Tumbes.

1. Do you offer English courses open to the general public? If not, why?
2. How many years of experience has your University, and your Language Center?
3. How many students do your Language Center have?
4. How many local and foreign teachers do you have?
5. How many people are part of the administrative staff?
6. How easy is it to get well trained English teachers?
7. Where do you mainly hire your teachers from?
9. Which modalities of courses do you offer?
10. How much is the cost of your service?
11. What approach has your methodology?
8. Do you use technology in your classes? Which kind of technology?
9. How many graduates do you have since the opening of the center? How many do you have per year?
10. How much money do you consider to be the maximum that the inhabitants of Piura/Tumbes are willing to pay for the different English courses?
11. To which socioeconomic level are your courses directed?
12. How did you determine that level and prices?
13. Do you believe that the demand for English has grown in recent years? Since when?

This interview model was used with the following people:

- Oswaldo Estrada, Academic Director of the Peruvian North American Cultural Institute.
- Dr. Sandra Garrido, Administrator of the Language Center of the University of Piura.
- Dr. María Jiménez, Director of the Language Center of the National University of Piura.
- PhD. Gianfranco Catanzaro, Director of the Sherwood Language Centre
- Ing. Eduardo Paz, Coordinator of the Language Center of the Cesar Vallejo University.
- Dr. Gladys Peña, Academic Director of the Private University Antenor Orrego.
- Doris Bravo, Director of the Institute "I learn."

- Marita Candela, Director of the Language Center of Los Angeles de Chimbote Catholic University, Piura.
- Yuliana Guerrero, Director of ICPNA in Tumbes.
- Dr. Pablo Chumpitas, Academic Director of the Language Center National University of Tumbes.
- Lic. Cristina Preciado, Coordinator of the Language Center of Los Angeles de Chimbote Catholic University, Tumbes branch.
- Mg. Jean Carlos Sosa, Coordinator of Admissions, Alas Peruanas University.

Appendix 13: Documentation of site visits

Picture 1: Technical visit to the University of Piura.



Picture 2: Technical visit to the National University of Piura



Picture 3 Technical visit to César Vallejo University, Piura Branch.



Picture 4: Technical visit to the Private University Antenor Orrego, Piura Branch.



Picture 5: Technical visit to I learn English Center



Picture 6: Technical visit to Los Angeles de Chimbote Catholic University in Piura



Picture 7: Technical visit to the North American Peruvian Cultural Institute, in Tumbes.



Picture 8: Technical visit to the Language Center of the National University of Tumbes



Picture 9: Technical visit to Los Angeles de Chimbote Catholic University in Tumbes



Picture 10: Technical visit to “Alas Peruanas” University, Tumbes Branch.



Appendix 14: Interview with Ana María Vilela, Coordinator of Secondary Education, with specialty in English language career of the University of Piura.

1. Which modalities of the English program are offered?

It offers two modalities one from Monday to Friday and another on the weekends.

2. How long is the academic program?

The English program has a length of 5 years, split into 10 semesters. To graduate they request to have approved 210 credits and to take the FCE examination.

3. Since when does the University of Piura offer this program?

The presencial modality is offered since 2008 and the semipresencial since 2003

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4. How has the demand for the university program been since its opening?

At first it had an acceptable demand. However, in recent years it has grown a lot. We have great demand this year with 80 students.

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5. How much is the total enrollment of graduates since the program inception and where do they work after graduate?

The number of graduates from the first promotion was only 50 people approximately. The graduates mainly work on schools, universities or institutes, depends on the center that welcomes them.

6. How many teachers do you have?

Throughout the English career are about 40.

7. Do you have native speaking teachers?

Yes, we have volunteer teachers, native English speakers specializing in teaching English. They are contacted through the Agreement of Support of Investigation and Teaching at the University of Piura, with the American Embassy.

8. How easy or difficult is it to recruit English teachers?

It is very difficult to recruit trained teachers for this program, because there are many people who know English, but are not specialized teachers and therefore do not know the educational and teaching methodology required to teach a university class. However, we need to recruit staff of this category because there is no availability. I believe that the profile of teachers should include in addition to the degree in English language, international tests such as FCE or KAE and an exchange as it is very important for them to acquire fluency and correct pronunciation.

9. What is the teaching methodology used in the faculty?

The methodology is based on skills and practice.

10. Is there any incentive on the part of the national government to promote the study of bachelor's degree in the English language??

There is no direct incentive, however, indirectly there is an incentive provided by the Government like the PRONABEC scholarship, which is the master vocation scholarship for any specialization, in the current year we have 50 students with this scholarship in the specialization of English language.

Appendix 15: Interview with Mgs. Mercedes Vilca Aguilar, Director of the Degree in Translation and Interpretation of English and French of Cesar Vallejo University.

1. Since when does your university offer this program?

Cesar Vallejo University offers a career related to foreign language teaching since 2006, called "Degree in Translation and Interpretation of English and French."

2. What are the admission requirements?

Students are admitted without any language knowledge requirement.

3. How has the reception of the university program been?

The career does not have great reception due to the idiosyncrasy of Peruvians who do not appreciate a professional translator and believe that work can be performed by any person who speaks or understands English. In addition, most people in Piura believe that this degree is really easy or to become teacher, but they must understand that it is not only about learning both languages, but also having vast knowledge and a very high culture.

4. What is the professional performance of graduates?

Since this career does not have a great workforce, most translation graduates work as English teachers, since although they are not fully trained to manage this profession, the lack of English teachers has made that the generality lean to this branch.

5. How many students graduate per year?

The graduates are just a few, on average there have been only 2 graduates per year. It is due to the difficulty of the career, since there are many students at the beginning but at the end only few graduate.

Appendix 16: Interview with Mr. Francisco Arce Chief of the Human Resources department of the Regional Directorate of Education of the Piura Regional Government.

1. From which educational centers do English teachers come to for public educational units? Does the offer meet the demand?

With regard to English teachers, we are working with the Full School Day so that teachers are hired to work in groups, where a teacher accompanies a group of 6 schools just at the secondary level. At the primary level, more hours of English instruction are being included. For this reason, we have a lot of problems because there are no teachers with English education degree, or in any case the existing number of teachers is insufficient to cover the demand.

We have had problems in the JEC since the companions are not permanent, and only reinforce the work of the teacher. The teachers who teach these courses are not necessarily English teachers. They are teachers who have only followed a course or know some English. The reinforcement is just in the English area. Therefore, the biggest problem we have in this region is the lack of English teachers and initial teachers.

2. What are the minimum requirements that teachers must meet to be hired?

The minimum requirement is to have an education degree with specialization in English. Since there are not many specialized English teachers, the reinforcement was created as a way to improve that. These teachers go only 4 hours a week for the whole school, the hours they have in each school are not enough to meet the school's needs.

3. Where do your teachers come from?

Mostly from this region. As Regional Directorate of Education we have 12 UGELES, which are the Local Educational Management Units. The UGELES should be provincial, but has been in districts in some cases. The English teachers are mostly concentrated in the UGEL of Piura, which is reason why in the other UGELES there are still more difficulties to obtain teachers of English. Many of those working in Piura are graduates of ICPNA, and some of the National University. Of the UDEP there are not many since it is a private university; the graduates have other expectations.

4. What is the purpose of the JEC? Is it related to the program “English Doors to the World”?

The main goal is to increase English hours in secondary education to 8 hours a week, and in primary to 5 hours a week and to increase also hours of physical education and artistic education. JEC is related to the mentioned program, but is not yet implemented in the whole country. The JEC already started in 2014 with some schools and is gradually increasing to other schools each year.

5. Can any agreement be made between the State and the private sector to cover the lack of English teachers?

Yes, there should actually be more than an agreement. There also should be a commitment to English degree students to be assured of work after they graduate. But I suspect that there is also a lot of formalism in the acceptance of English as it the reason why it is not implemented immediately. For example, I want to create an English course but the authorization is not immediate and therefore there is no immediate response from the institutes as well.

6. Do you think it is necessary to have a private English language education besides of public education?

Yes, we do not really have English teachers, and when we want to hire, we have to appeal to everyone. We do not have the opportunity to choose better professionals, as teachers of English. We have to accept people with technical certificates but who do not know English well, but since there are no more, I cannot exclude them.

Teacher have their salaries according to the scale in what are they at, of which there are 8. In the first scale are the graduates of the first level, but when we do not have teachers we have to hire even high school graduates because there is such a deficit. And of 100% of teachers, 80% are in scale one. The other 20% maximum reach the sixth scale, in the eighth there are professionals with doctorates, but we have none of those. But there are people who already want to be trained to move up the salary range. For example the first scale earns 1200, the second 1600, and so on, with the eighth earning approximately 7000.

Appendix 17: Interview with Eng. Eugenio Flores Director of Pedagogical Management of the Regional Education Directorate of the of Piura's Regional Government.

1. How important is the subject of English for the Direction of Education?

Now it is more important because in the Full School Day program the teaching of English is prioritized with 5 hours a week, whereas before there were only 2. The big problem is that teachers, who must serve as companions of those who are in classrooms, do not have the profession or sufficient experience for that position. In some cases, the teachers have more knowledge of English than the companion.

2. How much is the deficit of English teachers?

It is almost 100%, that is, we do not have teachers who have the title of English teachers. We have professionals from other areas that have studied English, and will teach in high school. Now, even though we are going to extend the program to primary, we do not have teachers. For each of the classrooms that have 5 hours, for every 5 classrooms we need a teacher, and there are schools that have 50 classrooms so there are 10 teachers needed; it depends on the school. We have 1600 schools, which on average require 2 teachers per each school, and at secondary level we have 1700 schools, which means that we need 340 English language teachers. And now that we are going to increase to primary schools, we need 400 more teachers. Actually, as Piura region we have 170 schools that are already working with the JEC.

3. Do you have access to the register of English teachers, which is being promoted with the English program Doors to the World?

We do not have access to this register, since registrations are still open until June 30 of this year. This program can register teachers who have or do not have the specialty in English. I just know that in 2016, about 30 teachers from Piura went to an internship to the United States for 3 months, due the English program Doors to the World.

4. From which educational centers do English teachers come for public schools?

They often come from institutes such as ICPNA because the demand cannot be met properly with specialized teachers with an English education degree.

5. Do you believe that implementation of private English language education is necessary?

Yes, because there is a huge need for more certified institutions or centers in English teaching.

6. In order to be able to function here as a private English education institution, must the approval of any public institution be obtained?

It is a process that passes first by an evaluation of all indicators, which are several and depend on whether it is institute, a university or a school. They have to pass these indicators in order to be certified. For example, they require indicators of infrastructure, of teachers, and other requirements.

Appendix 18: Interview with Will Costa Benitez, Head of the Academic Unit of the “Jose Antonio Encinas” Superior Pedagogical Education Institute.

1. What programs or specializations do you offer as a Superior Pedagogical Institute?

We are a superior non-university education center that forges teachers in initial, primary and secondary education, in the specialties of computation, physical education, and English.

2. Does the Institute offer programs in the teaching of English?

Specifically no as a university career, we offer is a specialization in English.

3. Since what year have you been offering these specializations?

Since approximately 10 years ago.

4. What are the entry requirements?

To have studied teaching up to a fifth semester of University

5. How much time does the specialization take?

It takes approximately 3 years.

6. How has the reception been of the program?

Very low, not many people registered. We do not have the costs of the courses established even though they are already attending because the demand is very variable. That is why we allow them to attend and then regularize the enrollment requirements and pay the course.

7. What is the graduation record per year?

Two classes have graduated, approximately 30 each year.

Appendix 19: Interview with Jaime Bejarano Consular agent of the Ecuadorian consul at Tumbes- Peru.

1. How would you define Tumbes?

Tumbes is a place different from Piura. It is a small place with little commerce, but it has been characterized as being a transit place of commerce to Aguas Verdes. The region of Tumbes is agricultural and has coastal tourism. Tourism is growing a lot and in recent years there has been a greater flow of tourism especially Ecuadorians. The Ecuadorian consulate in Peru, Tumbes is promoting Ecuador in tourism. However, the number of Ecuadorians visiting Peru is higher; for example, last year there were more than 200,000 Ecuadorians who visited Peru and only 150,000 Peruvians to Ecuador. The Ecuadorians who come here are only tourism, while the Peruvians who visit our country do it more for work reasons, because they receive their payment in dollars.

2. Do you know the existence of an English language school or institute here in Tumbes?

Yes, there is an English center "La Catolica", located in the Pan American, which provides very basic English. Personally, I attended, but I can say that the teaching quality was very low. In addition, there is an English language center of the National University of Tumbes that I consider to be the best. There, my daughter is currently studying. In general the level of English in schools is low, there are no native teachers. I think that is why there are no university students wishing to study English. However, in recent years there has been an improvement in the level of English in some private schools which have a higher level of English than some other schools of the same. I think that people who want to study English choose to travel to Piura or other cities in Peru.

3. Do you think people in Tumbes will have the economic ability to attend an English course?

The parent can pay an average of \$ 35-40 for an English course. There is an English language center in which the enrollment costs 80 soles and pays 100 soles per month (That is an approximate of \$ 14.80 and \$ 29.60 respectively).

4. What do you think of the level of English in Peru and Tumbes?

Education in general is of low quality in Peru compared to Ecuador, but in private schools it is improving, especially education in English and in the exact sciences. The level of Tumbes is quite low in every sense.

5. What is the cultural aspect like in Tumbes?

In the cultural theme there is not much. It is a very backward region and the most neglected of Peru. It does not change, nor has any advances at all with the passage of the years. It is even a very dangerous place; there is not a large presence of foreigners as most go to Mancora. A characteristic of Peru is centralism. There things that only exist in Lima or in the provinces. Lima is the economic, administrative center, with its port. There are some provinces that stand out, but Tumbes has been the most neglected given the fact that before the Peace Agreement, there were no roads (they did not want connecting roads between Ecuador and Peru, in order to not allow the passage of the Ecuadorian troops). Rather since the peace agreement there has been the construction of roads and they are in better condition. The problem is that the rulers do not end their terms and there are too many fluctuations in the policies implemented.

On the other hand, Piura is different, it is the second most populated region of Peru and it has industry. It is a region so rich that it has a mountain range, ports, oil and in the last years there has been an agricultural and real estate boom. Piura has had a momentous change in the last five years.

6. Why was the Ecuadorian Consulate of Piura closed?

In 2013 an assessment and re-categorization of the Ecuadorian consular missions were carried out. Three embassies and 10 consulates were closed worldwide, including the Consulate of Piura. This categorization was based on economic values. While here in the consulate of Tumbes we made 30 visas per month, in Piura only 10 to 15 visas were made. However, I believe that in Piura it would be more important to have a consulate because there are more transcendental issues, mostly cross-border issues and bilateral meetings between authorities.

7. In general, how are the bilateral relations between Ecuador and Peru?

As the current president of Ecuador affirms, bilateral relations are in the best of times. In cross-border issues, since 2003, there have been seven twinning agreements between Ecuador and Peru, between different border cities. For

example in 2013, due to the great relationship between mayors of Loja and Piura, the "Piura-Loja Twinning Agreement" was signed, incorporating especially cultural, municipal administration and management issues such as solid waste, etc. This agreement has a term of 10 years and can be renewed. It consists of a mutual improvement in cultural, tourism, trade, social, education, fostering employment and other benefits. In addition, there are other civil society projects such as "Plant a tree in Loja and harvest water in Piura", etc.

Likewise, in Piura you can speak of Ecuadorian companies such as Dole (banana). There are terminals of international union that are the Union Cariamanga and Cooperativa Loja. Other companies are located in the port of Paita. The second most important port of Peru and belongs to Piura where we have Sumesa, breweries, etc. In Chiclayo, there are also Ecuadorian companies like Super Semería and Azuay transports. On the other hand, the Ecuadorian migration is small in Piura, but basically it is more qualified. They are entrepreneurs, professionals that are going to provide services such as real estate services, internet and telecommunications providers.

8. Is there any way the consulate can directly help investors with our project?

There are spaces where the consulate promotes business exchanges that often end up in business. Last year, the Tourism Promotion Campaign of Ecuador was held in Piura. It was a great success that we ended up in a business conference with businessmen from: Azuay, Loja, El Oro and the north regions of Peru such as Amazonas, San Martin, Cajamarca, Piura, Tumbes, Libertad and even Arequipa. The links are mostly the chambers of commerce of each place

9. Can the consulate be the link between our company and the chambers of commerce and investors?

This is a strictly private matter. Since the Consulate is the official representative of Ecuador, if we see the need to strengthen exchange, we can talk more about the subject, such as gastronomy, services, etc.

10. Is there any form of public convocation so that business people who are not members of a chamber, can learn about these fairs?

It is not necessary to be affiliated because these events are public. The call is made through the embassy Regional Directorate. Media in Lima has a delegate of Commerce and Pro-Ecuador in charge of contacting entrepreneurs. Massive and public meetings have already taken place, the same ones that are made of general knowledge from the public entities, the chambers, the specific regional governments in charge of diverse fields, means of communication, etc.

11. Do you consider that a Fine-Tuned English academy would be successful in Tumbes?

Tumbes rejects Ecuadorians a little. However, Piura is more welcoming and they are very attentive since there are stronger fraternal ties. They have a positive opinion of the Ecuadorian people. And culturally they have a more educated outlook. They are interested in education more than in Tumbes. In Tumbes, for example, we take samples of Ecuadorian cinema, national stories, art works, but the reception of the cultural theme is not very good due to the resentment that exists, especially for older people who still do not forget events of the wars such as the bombings that existed in 1941. That is to say Tumbes is less educated than, for example, Piura. There is no reception of Ecuadorian events because there is rejection by historical subjects. I believe that an English language center would not have a great reception for these reasons, but if they want to set up a company in this district they must follow the established regulations, regulate with an investor visa, etc.

Appendix 20: Interview with Lic. Emilio Silva, Administrative Public Servant of the Office of Exterior Relations of Piura.

1. How can we contact investors directly?

We, as ODE, do not hold a portfolio of investors for these types of programs.

2. How does ODE help international businesses enter the Peruvian market and how do they support them?

Once they have been incorporated as a company in the public sector, if the legal representative, for example, a foreigner through the ODE, then we can make use of bilateral agreements.

3. How does ODE promote the bilateral negotiations between Ecuador and Peru?

So far there was not much talk of the topic during the last binational Peru-Ecuador presidential meetings. The issue of immigration, human trafficking, border taxes, access, health, are being addressed for the time being.

4. How big is the influence on the bilateral relations of Binational Cross-Border Group?

This office belongs to and is created under the direction of the Border Development Directorate that office exists in Lima. The Peru-Ecuador Binational Plan, which includes the Ecuador chapter and the Peru chapter, has also had an influence on many issues. The minutes of the presidential meetings provide more information on this.

Appendix 21: Interview with Eng. Jorge Garcia, Coordinator of Exterior Commerce at the Chamber of Commerce and Production of Piura.

1. What are the requirements to be a member of the Chamber, and what services can be accessed by being a member?

It is necessary to fill out an application to know in which category the company is and depending on that it is associated, the minimum payment is 55 soles a month and maximum 250 for large companies. The affiliated companies have access to legal advice, accounting, foreign trade, information related to business turnover.

2. What are the bilateral relations like between the south of Ecuador and the north of Peru, with Piura specifically?

There is a good relationship, especially with existing trade agreements.

3. Is the bilateral trade of services between Ecuador and Peru promoted in any way?

More trade is promoted. In Piura specifically I do not know of any exchange of services.

4. How can we directly contact investors through the Chamber?

In the Chamber of Commerce, we provide information for the Chamber members. For entities outside the House, information is provided through a regular conduit, presenting a letter in secretariat and then referring to the corresponding area, if you have the information they require.

5. Do you believe that a franchise of an Institute of English Teaching (with 24 years of experience) would be successful here?

It would depend on their teaching format and methodology. Because it would have to compete with a company owned in this case in ICPNA, they would have to use good marketing strategies.

6. How does the Chamber help international companies enter the Peruvian market and how do they support them?

It helps them through its network of contacts so that the company can go and see if any of its associates are interested in the item that wants to promote. The chamber contacts them so that they can privately form an alliance.

In your case, you could write to the general manager, Carlos Sánchez Delgado. Perhaps an alliance could be made with the Chamber, so that English courses can be developed in the training rooms that exist in the Chamber, since we have the infrastructure. At present in the business center there are 2 classrooms with capacity for 70 people, 2 classrooms for 35 and one for 40 people who are developing master's degrees, diplomas and conferences. In this case it would be necessary to see the capacity necessary for what is aspired in the project, a meeting with our public relations representatives can be organized and other proposals can be analyzed as well.

Appendix 22: Interview with Eng. Jose Ruben Valdivieso, Specialized Technician of ProInversion Piura.

1. Do you know the number of international and national educational franchises in Peru?

No, specifically in the field of education I do not know. As for English institutes there is ICPNA, the British Institute. Although there is not one in Piura, they are in other regions. There are many institutes that have proliferated in the region which teach the English language. There are also the language institutes of universities such as the University of Piura, César Vallejo, Peruvian Wings, among others.

2. How many Ecuadorian companies operate in Peru, and especially in Piura?

In Piura we do not know. But in Peru we have Camargo Correa, which is in construction. In Piura there are branches of transport companies, but they are only terminals; Cooperativa Loja and Cariamanga, are not incorporated as companies here.

3. How does ProInversión help foreign investors?

According to the laws in Peru, investors are entitled to invest. As with any Peruvian citizen, the law is the same for all. The only requirement is to have a legal representative in Peru, then go to SUNAT, the National Superintendence of Tax Administration, to provide them with their unique taxpayer registration. Then they go to the SUNAR, which is the National Superintendence of Public Registries, to register the trademark of the company, then they have to process the license of operation in the Municipality. Then, there the other procedures of urban habilitation, of civil defense, that are requirements which must comply with any public service company.

4. How can we directly contact investors?

ProInversión is responsible for promoting impact investment projects at the national level, that is, the issue of concessions for ports, airports, roads, land terminals, etc. That is, we see the structuring and selection process of companies that are interested in investing. We are the special committee of the central government and we also advise subnational governments on the promotion of private enterprise in public infrastructure projects. So, as I see your project is a private-private investment, therefore as a pro-investment we cannot provide you with a portfolio of investors who are interested in a particular area. Perhaps you could find help in the Chamber of Commerce since it affiliates to all the companies that are in the region Piura. There they could help you to reach those who might be interested in investing in a franchise.

5. How much do companies pay in taxes? And how much do you pay for the distribution of profits? Is the workers' participation paid before or after paying taxes?

How much they pay tax will depend on how much they bill annually, that data can be investigated on the SUNAT website. And that is also determined by the categorization of the company.

6. Is there a minimum percentage of national workers that must exist in an international company?

The minimum number of national workers does not exist. You can come and form an advisory company for example, and you can hire whomever you want. The State does not tell you that, as a foreign company, you have to hire all Peruvians. It does not limit you in that sense. Of course you have to comply with all other formal requirements such as work visas for example. You have to be careful with the rules of work to not break the staffing issue, for example. If you do not comply with all that, you can proceed to be sanctioned, a temporary closure or a final closure.

7. How do you think English education is currently valued?

The language institutes in the region are growing. For example, in my case, I wanted to enroll my daughter in the UDEP and there were no vacancies. I went to register ICPNA and the schedules in the morning and in the evenings of 6 and at 8, and also in the evening they were already full. So there is a demand on the subject of languages, you realize only with that. Likewise, all university language institutes are open to the general public, but practically compose themselves by the university population.

8. How are bilateral relations in investment matters between Ecuador and Peru? Have these improved in recent years?

I think they are very good, the flow of people is increasing, and even now there are more Ecuadorians in Peru. Ecuador's private investment in Peru is also great. And needless to say, you go now to a mall and you find many Ecuadorians. And at the corporate levels this is also happening. Because Peru does not limit investment, there is no restriction for them to invest in Peru. They can come with the same educational characteristics of Ecuador and position themselves here. There are all the facilities to invest in Peru. This is now being done is to support the strengthening of the controlling body so that all companies comply with the regulations.

9. Do you believe that a franchise of an Institute of English Teaching (with 24 years of experience) would be successful here?

There are many franchises that are venturing. Here in Pro investment, they generally leave information. But I have not heard that it has taken off much. I think it depends on the strategy of promotion, advertising, because entering a market is complicated. The first steps of the company will be at a loss until it consolidates and has an audience. I do not know how many entrepreneurs are interested in taking the name of a company from Ecuador to promote it here, because there are language institutes. I believe that need is covered.

Appendix 23: Interview with Doc. Andrea Andrade, Ex Judicial Assessor of the Binational Plan Chapter of Ecuador.

1. What is the Binational Border Region Development Plan and how does it work?

The Binational Plan was born from the war of Ecuador and Peru as an international body of public law that is financed by the Ecuadorian State and the Peruvian as donations. In order to be able to execute the Binational Plan, the Binational Fund was created, which is the economic arm of the Plan. Each year the binational executive directorates are held in which the Binational Group for the Promotion of Private Investment is located. The fund they have is rotating the same with a single statute for the two countries, and each two years the executive secretariat is changed; currently it is in Peru.

2. What is the current situation of the Binational Plan?

Currently the Binational Plan is in an uncritical situation, because this plan when it was initiated was taken by the Foreign Ministry. After the inauguration of the Presidency of Rafael Correa that was changed so that the Binational Plan be applied by the National Secretariat of Planning and Development. The Binational Plan Peru Chapter is located in Lima and in Ecuador the current headquarters is Machala.

3. How does the Binational Group for the Promotion of Private Investment help or collaborate so that investors in the case of services can enter the Peruvian market?

In the area of private promotion, it is precisely for trade to exist between Ecuador and Peru, and so business can be brought to Ecuador and vice versa. In order for a project to be promoted by this group, it must first have a binational review once it has been established and in Ecuador, through an analysis of the possibility of this project being a source of commercial exchange.

4. How can the Binational Plan contribute to promoting our project in Peru?

You should contact the Binational Plan, the same ones that meet once a year in December, to be taken into account, to be invited and to be part of the directory of the meetings that are held and to make use of this space to be able to promote and seek private investors.

5. Has this group already done any form of promotion of investment of services in two countries?

Generally, the Group seeks to promote what is most done at the border, such as commerce, which is the area with the most investment support. However, the group is not interested in promoting services as an investment project, in this case the English Fine-Tuned Loja project. But for that, we must talk to the Binational Plan to achieve a direct contact with those in charge of the group.

6. How is the current situation of the Binational Plan?

In the Binational plan there has been a notable reduction in personnel, it seems to me that the intention of the current president is to maintain it as a small project and not as the international body that is embodied in the Binational Agreement. It is believed that it is because of the lack of resources necessary to maintain it. At the moment, I happen to be part of the Chancellery again. It is not known the decisions that this institution will take on this agreement for the next years.

7. What is the validity of the Binational Plan?

The project was originally planned for a duration of 10 years until 2008, then extended its validity for 5 years and in 2014 extended its validity by 10 more years.

8. Why is the Binational Group for the Promotion of Private Investment considered a financing mechanism, according to the Comprehensive Agreement?

In fact, who is actually considered as the financial mechanism is the Binational Fund, and the Binational Group is considered part of that Fund. Through the Binational Fund, the Binational Plan can raise funds to implement projects for the development of the border area. Then in this case the promotion that the Group probably makes in its project depends on the analysis of importance and feasibility that they do to know if they can support with the promotion. If there has been contact for example with the Chamber of Commerce, for example Loja and other Chambers of Commerce with the cantons of the border, and through them carry out the promotion of the projects to start business with Peru.

9. How can we contact the Group directly to carry out the respective analysis of the project?

You can do it through the Technical Office in Machala. Previously there was an office in Loja, but I'm not sure if it still exists. Because of the economic recession of

the public sector, it has been ordered to shut down many technical offices. The last person in charge of the Binational Plan in Zone 7 was Martha Salazar.

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