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STUDY OF FEASIBILITY IN THE CREATION OF A COMPANY OF MARKETING
AND EXPORT STRATEGY OF FOOTWEAR IN GUALACEO

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

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DEDICATION

I dedicate this project to God for giving me the strength and wisdom needed to finish my studies and for successfully concluding my professional training.

To my parents for being my constant support in every stage of my life, they have always given me such an emotional hand and encouraged me to continue with these objectives.

To my son, who is the reason that I am pursuing these objectives and my key to succeeding, with whom I have shared in these few years of his life the best moments. He is that magical light in every day of my life.

To my sister, brother-in-law and nephew, who have been present in every successful and difficult moment of my life to give me that spirited and sincere advice to move forward.

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I thank my God for being present every day of my life, because although I do not see him I feel his great mercy and protection.

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ABSTRACT

This thesis project has been elaborated after having seen the necessity to diversify the production of footwear in Gualaceo due to the existing over supply at the present time.

Many shoes companies in Gualaceo have invested in training to improve their productive standard in order to be more efficient in production volumes, also they want to show into new models to the fashion trends because this production sector has had a boom and it has merged in recent years. Considering the great importance that international trade represents in the development of the economy of a country, it will be necessary to analyze and study the internal and external factors in order to create a company that exports footwear from Gualaceo; this company will be called KANTUTA.

INTRODUCTION

For generations, Gualaceo has based its economic activity on crafts like macanas, embroidery, woven sweaters, hats and footwear. After having gone through a major crisis, in which many businesses went bankrupt due to excessive income of footwear from China at a very low price, footwear managed to blunt again with the help of the National Government. The policies used towards national production and the time of training to the footwear producers by government institutions on the restriction on imports, allowed the footwear sector to regain its importance in the earnings and economic development of the town.

The safeguards imposed by the actual government had a big revival by encouraging the artisans to go back to their jobs and invest in significant production. A total turn was given, the existing businesses of footwear were growing increasingly, and the production improved in considerable volume by providing an opportunity for other producers to find another opportunity to venture with the production in their micro-workshops.

Previous research carried out around the footwear sector (to know the volumes of production in Gualaceo) has made visible that there is an opportunity to create a company that can identify an international and potential market place as to publicize the product outside the country. It is known the importance of diversifying the economic activity of a country through foreign trade. We have a product that contains characteristics like quality and design and it can compete outside our country. Most of the footwear producers sell their product to local stores, and it results in some unfair competition which prevents from the opportunity to expand the product; that means, if

the producers could have a company which requested large volumes, it will be the responsible of exporting and thus they will have the opportunity to improve the economy to invest in better technology, training to the employees, and other factors that benefit the development of the town.

For this reason, the proposal of this research is to create an exporter company that will be called KANTUTA, and its objective will be to distribute the handmade products from Gualaceo at a national and international level. Thus we can get international places with the same quality as ours.

After having an analysis of economic, political, social and cultural aspects in Latin America, we can identify which country is the best option to offer our footwear. We have identified that the country with the best trading opportunities and possibilities for our product is Chile. In the study we found that, in terms of sale prices of footwear to people, the cheapest price is \$65; and the per capita consumption is 5.5 annual pairs of shoes for each Chilean woman. It could benefit to export to this country because the prices are reachable to pay for the consumers.

We have analyzed in detail the Chilean woman as to know how she behaves in her environment, and it allowed us to get involved as a company at the moment of delivering products with new designs which will accomplish the requirements and needs of our customers. Most of the Chilean women are professional, financially independent, therefore they care about their image and they have complete freedom to decide the purchases that they want, so we have a great opportunity to develop in this market.

The technical analysis, financial and projections give us as a result that the implementation of this exporter footwear company from Gualaceo would succeed in the market. This way we would contribute to stimulate the economy due to the commercialization of footwear by encouraging our producers to continue making trades in this sector; thus they can generate more employments since it is a process of continuous improvement.

The flow of cash would be more real and the percentage of profit that could be obtained for each sale is very profitable, and thus we just need to send a minimum of 380 pairs monthly to support the company, that means that it is a short amount if we compare with the capacity of production that our artisans have today, so the request will be fulfilled without any inconvenient.

Finally, the project concludes giving us a better idea of creating an exporter company of footwear in Gualaceo since it is viable having attraction at the international market. The idea of this business will encourage the local production, stimulating to the footwear producers to improve and generate more sources of work, and thus earnings and profits will serve to support the company.

1.1 INTRODUCTION

One of the determinant factors at the moment of making a study of feasibility for creating a company is the study of the market. In this process the given information will be analyzed and gathered, and it will be determined whether or not a possibility that a company can be viable and successful at the moment of its creation.

Identifying which is an international potential market for our company, we should investigate the supply and demand of the goods that we want to present.

At a first instance, we will carry out quantities research to the footwear producers in Gualaceo through surveys. With the results of this investigation, we could identify what kind of footwear we are going to offer in the international market, and it also allows us to know the capacity of the existing production in the town.

Based on geographic, economic, political, social and cultural aspects, we could divide our market and to continue choosing the best country to export our footwear. Once we have identified our potential market, we will focus on studying carefully that market by knowing which guidelines or requirements we have to follow to carry out successfully the project.

1.2 DIVISION AND SAMPLING

To obtain this data in the study of the market, we will put into practice the method of direct research; we give surveys to the footwear producers in Gualaceo.

SAMPLE SIZE CALCULATION

Data provided by GREMIO PRIMERO DE MAYO in Gualaceo.

Number of members: 40

Formula used

Fórmula empleada

$$n = \frac{n_o}{1 + \frac{n_o}{N}} \quad \text{donde:} \quad n_o = p^*(1-p)^* \left(\frac{z(1-\frac{\alpha}{2})}{d} \right)^2$$

Replacing the data for a 96% and taking into account an error margin of 0,05%, the feasibility and opening by active members registered in GREMIO PRIMERO DE MAYO, we have the following results.

SAMPLING CALCULATION

Chart 1

N [tamaño del universo]	40		Escriba aquí el tamaño del universo
p [probabilidad de ocurrencia]	0,5		Escriba aquí el valor de p

			<div style="border: 1px solid black; padding: 5px;"> <p style="text-align: center;">Fórmula empleada</p> $n = \frac{n_o}{1 + \frac{n_o}{N}} \quad \text{donde:} \quad n_o = p^*(1-p)^* \left(\frac{z(1-\frac{\alpha}{2})}{d} \right)^2$ </div>
--	--	--	---

Matriz de Tamaños muestrales para un universo de 40 con una p de 0,5										
Nivel de Confianza	d [error máximo de estimación]									
	10,0%	9,0%	8,0%	7,0%	6,0%	5,0%	4,0%	3,0%	2,0%	1,0%
90%	25	27	29	31	33	35	37	38	39	40
95%	28	30	32	33	35	36	38	39	39	40
97%	30	31	33	34	36	37	38	39	39	40
99%	32	33	35	36	37	38	39	40	40	40

(PRODUCERS OF FOOTWEAR, 2015, s.f)

We have a sampling of 40 surveys that are going to be applied to each member.

QUESTIONNAIRE DESIGN

The consultation method was applied to the active members of footwear in Gremio Primero de Mayo.

SURVEY SHEET

RESEARCH STUDY OF PERCENTAGES OF IMPORTS AND EXPORTS OF FOOTWEAR IN GUALACEO IN THE PERIOD 2010-2014

Thanks for collaborating in the present study of the production of footwear. I am a student of the Azuay University in the career of Foreign Trade. This survey is to determine the productive environmental elements such as: imports, exports, provision of production materials, production and sales volume, commercialization, packaging and training demands; in the different areas of footwear production.

Chart 2

1. INFORMATION DATA			
Respondent name:	_____	Company name:	_____

Address: _____			
Phone:	_____	Cell phone:	_____
_____		Town:	_____
e-mail: _____		Web page: _____	
2. ADMINISTRATIVE DATA			

2.1 Company size				
Big _____	Medium _____	Small _____	Others _____	

2.2 What is the operating time of the company?				

2.3 Is your company or shop affiliated with or belonging to a trade union or a public or private institution?				
Yes _____ No _____				
Specify which one: _____				

2.3 How do you consider your company?				
Formal (it has all the legal requirements) _____				
Informal (the requirements are in process) _____				

3. PRODUCTION: RAW MATERIAL				
3.1 How do you acquire the material for the production of footwear?				
Imported by yourself _____ From third parties _____ Purchase to factories _____				
Other forms of acquisition _____ Specify which one _____				

3.2 What is the origin of the materials that you use to make footwear?				
Percentage:				
Imported _____% National _____%				

3.3 If you make imports or purchase imported raw material, specify which materials you acquire.
Capellada Synthetic _____ Synthetic lining _____ Natural leather _____
Template material _____ Shoe sole _____ Shoe ornaments _____
Locksmith's shop _____ high heel shoes _____ platforms _____
Textiles _____ Others _____
4. Production Volumes
IMPACT OF TARIFF BARRIERS IN THE PERIOD 2010-2014
4.1 Monthly number of pairs that you produced before the application of tariff barriers in 2010-2014 _____
4.2 Monthly number of pairs that you produced after the application of barriers in 2010-2014 _____
5. Human resources
5.1 How many people have worked in the administrative area in your company before 2009?
1-5 _____ 6-10 _____
5.2 How many people have worked in the production area in your company before 2009?

List: _____

5.3 How many people work in the administrative area today?

1-5 _____ 6-10 _____

5.4 How many people work in the production area today?

List: _____

6. Fashion Trend

6.1 Class of manufactured shoes:

Children _____ Girls _____ Casual shoes for men _____ Men's boots _____

Women's low shoes _____ Women's booty _____ Orthopedic shoes _____

Sandals for women _____ Women's boots _____ Casual shoes for boys and girls _____ High heel shoes for women _____ Sports shoes _____

Low shoes for man _____ Women's platforms _____ Sports shoes for men _____ Men's booty _____ Working shoes for women _____

Work shoes _____

Other kind of footwear _____

6.2 What is the time that you use for innovating the models of footwear?

6.3 What kind of shoes that you made is the best selling in the market?

Children _____ Girls _____ Casual shoes for men _____ Men's boots _____
Women's low shoes _____ Women's booty _____ Orthopedic shoes _____
Sandals for women _____ Women's boots _____ Casual shoes for boys and girls _____ High heel shoes for women _____ Sports shoes _____
Low shoes for man _____ Women's platforms _____ Sports shoes for men _____ Men's booty _____ Working shoes for women _____
Work shoes _____
Other kind of footwear _____
7. Quality Standards
7. 1 Size European _____ American _____ National _____
7. 2 Do you use quality standards?
Yes _____ No _____
List _____
7. 2 Do you use industrial safety standards?
Yes _____ No _____
7.3 Do you promote ecological material to manufacture the footwear?
Yes _____ No _____

8. Sales			
8.1 Mark with an X the distribution of the market that you have.			
Market	Greater amount	Considerable amount	fewer
Local			
Cantonal			
Regional			
National			
International			
8.2 If you provided footwear in international markets, what kind of footwear would you sell?			
Children _____	Girls _____	Casual shoes for men _____	Men's boots ____
Women's low shoes _____	Women's booty _____	Orthopedic shoes__	
Sandals for women _____	Women's boots _____	Casual shoes for boys and girls _____	High heel shoes for women _____
Sports shoes ____			
Low shoes for man _____	Women's platforms _____	Sports shoes for men _____	Men's booty _____
Working shoes for women _____			
Work shoes _____			
8.3 If you have an international market, what are the factors that would cause higher or lesser volumes of exports?			

Less	Higher
Tariff measures _____ _____	Government support
Capacity of the smallest company _____	High capacity business _____
Insufficient financial capacity _____ _____	Stable financial capacity
No labeled certification _____	Labeled certification _____
Other causes for lower exports _____	
Other causes for increasing exports _____	
8.4 How has the tariff measures affected on imports of footwear and material of textiles?	
Positive	Negative
Fair prices _____	High prices _____
Time delivery of materials _____	Delay in delivery _____
Return and exchange of materials _____	No returns or exchange _____
Replacement of material _____	Delay in replacing material _____
Increased production _____	Decreased production _____
Other positive causes _____	
Other negative causes _____	

1.2.1 DESCRIPTION OF THE PRODUCT

Basically, the company of footwear in Gualaceo will be responsible for buying and selling the footwear worldwide that means it will be the intermediary between producers and external customers. Thereby, we will make know that this footwear is made in Azuay province with every single requirements and parameters to adjust as in quality as in variety.

After statistical data obtained by direct research, the types of footwear that are sought as follows platforms, high heels, low lady shoes or ballerinas; and the percentage of sales for each type of footwear is 29%.

TYPE OF FOOTWEAR, THE BEST SELLERS

Graph 1



1. Low lady shoes
2. Women's booty
3. Lady Sandals
4. Women's boots

5. Women's platforms
6. High heel shoes for women
7. Working shoes for women
8. Casual
9. Work shoes
10. Others

(FOOTWEAR PRODUCERS 2015)

Taking into account the percentages of sales of footwear in Gualaceo represented in the corresponding graph, we will seek to reach the international

Market with three models of shoes that are:

Low lady shoes (doll shoes or ballerinas)

Platforms (variety of designs)

High heel shoes (variety in designs)

These are going to be our main export, sale and marketing product, which means, we will focus on the design and they must be avant-garde and high quality to provide to our customers abroad; with this strategy, we can cover the requirements and needs

1.3 ANALYSYS OF THE SECTOR

The footwear in Gualaceo has grown enormously and gradually, thus the importance of government measures aimed to improve the productive matrix and encourage the national consumption. Such increase represents 40% in the last years. For this reason, the creation of a company is practical and appropriate to engage it in the international market.

First of all, this company pretends to take the attention of internal domestic customers, and then it analyzes and finds an international market to export our

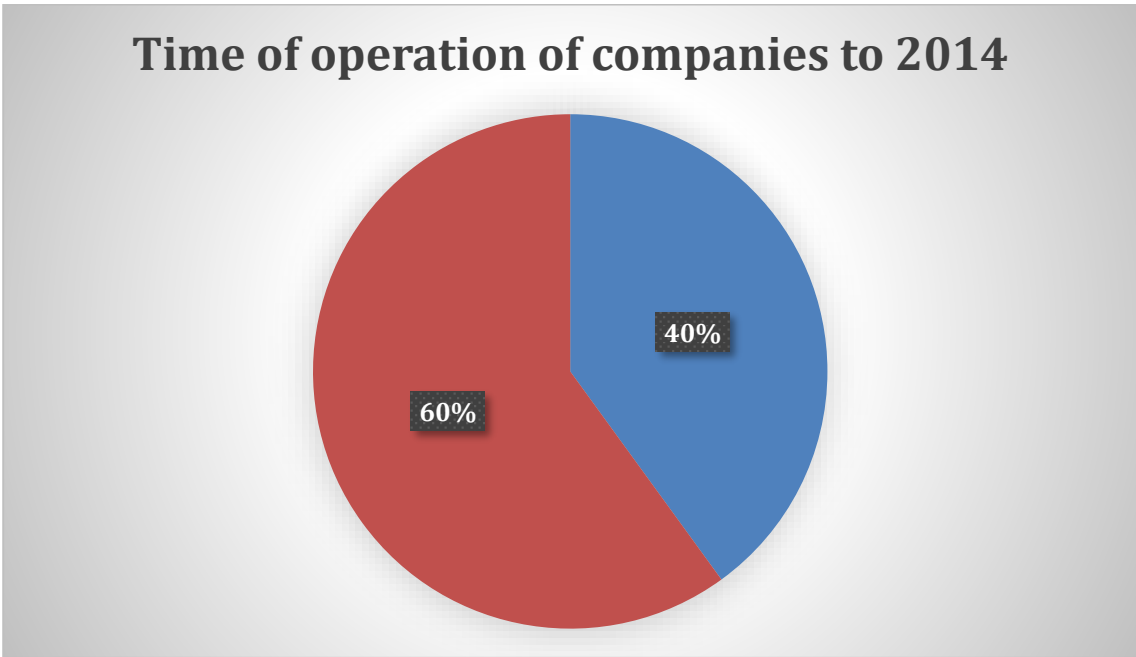
footwear with quality and modern designs that fit the needs and likes of some potential customers.

In 2009 new producers of footwear, formally and informally, have emerged and they have provided a great amount of products in the market.

Graph 2

Time of operation of companies in 2014

1- 5 YEARS 60%
MORE THAN 6 YEARS 40%



(FOOTWEAR PRODUCERS 2015)

As you can observe in this graph, 40% of all existing shoe producers today in Gualaceo appeared in the last 5 years, which means, that it has generated a surplus, providing a strong growth for this sector; and it is appropriate to look for an international

market to diversify the national production since the volumes of production have increased remarkably, saturating the local market.

1.4 ANALYSIS OF THE MARKET

To start working in an international market, we will be taking into account a series of economic, political, commercial, social and cultural aspects that will allow us to identify the feasibility and the viability of the creation of a company to reach with our products; and thus they can be accepted, fulfilling requirements and needs of the market.

1.4.1 Definition of the objective

To define and identify our objective market, we will focus on a South American country, because the proximity will allow us significantly to reduce any margin of error presented in the part of transport and logistics of goods. Thus, it ensures that our products arrive in the agreed time, and it guarantees to our customers the fulfillment of the work.

Nowadays, the Ecuadorian government is focused in maintaining a good relationship with neighbor countries by signing trade agreements among Latin American countries to incentive the exchanges of goods. Moreover, it facilitates the entry of our products and there will not be problems with the requirements of export.

Therefore, it is important to analyze the preferences of the customers to determine the acceptance of our product in the market that we are going to sell it. A Latin American country makes it feasible because we share cultural homogeneity so the preferences will be similar to ours.

Graph 3

Map of South America



(RURAL TOURISM)

Ecuador has marketing treaties with several countries in South America, so we will focus on a country that has an economical activity in the year. Among the most prominent countries are Colombia, Peru, Bolivia, Venezuela and Chile (Foreign Trade). These countries will discuss their economy, culture and most important the per capita level of consumption of footwear per year; that is the sector that we want to see further acceptance of our product.

It is important to mention that according to a study by the BBVA (Ruiz, Juan Banco Bilbao Viscaya Argentaria, 2015), Latin America will grow, but the forecasts according to the reality of each country will be as follows:

Chart 3
 PIB Latin America IB LANTIN AMERICA
 Forecasts Growth in Latin America

PIB (% a/a)	2012	2013	2014e	2015*	2016*
Argentina	0.8	2.9	0.1	1.0	2.0
Brasil	1.0	2.5	0.1	0.6	1.8
Chile	5.4	4.1	1.8	3.1	3.9
Colombia	4.0	4.7	4.9	3.6	4.0
México	3.8	1.7	2.1	3.5	3.4
Paraguay	-1.2	14.4	3.8	4.2	4.2
Peru	6.0	5.8	2.4	4.8	5.6
Uruguay	3.7	4.4	3.4	2.9	3.0
Mercosur	1.2	2.4	-0.6	-0.1	1.3
Alianza del Pacifico	4.2	2.9	2.6	3.6	3.8
América Latina	2.5	2.6	0.8	1.5	2.4

Fuente: BBVA Research. *Previsiones

SOURCE: BBVA RESEARCH. FORECASTS
 (RUIZ, 2015)

In this chart we can compare and identify which country had stability and economic growth, despite some difficulties that have arisen not only in Latin America but around the world. The top three countries are Argentina, Brazil and Chile.

As we already have mentioned, Ecuador has signed agreements of different kinds with some South America countries, and it is important to analyze which of these countries will become our target market, for marketing and exporting the footwear from Gualaceo.

Graph 4

Colombia

The official currency in Colombia is the Colombian peso.



ECONOMIC SECTOR

Colombia is considered among one of the most developed emerging countries, and it is a country that has a big potential. Its economy is based on the production of products to export and the production of consumer goods for the internal merchandising. The activities are very different; they export products like coffee, cocoa, rice, banana, cotton, and yucca, among others. In the industrial sector, textiles, railcar, chemical and petrochemical, the industries are representative. (Colombia, s.f)

Footwear Sector

The footwear sector in Colombia is made up of companies that manufacture, import and export different types of footwear, including the athletic footwear, with a share close to 40% of the total national production followed by leather footwear in boots; boots for women, casual shoes for men and women, synthetic sandals and footwear for children.

The per capita consumption of women's footwear is 2.2 which shows that women's footwear consumed is less than in other Latin American countries.

In a statement issued by the president of Acicam, Luis Gustavo Flórez; footwear in Colombia is growing and looking for a further development, due to some implemented actions by the government, similar to those that are applied in the Ecuadorian government for the imports, where the producers have to pay a mixed tariff of 10% plus five dollars for every imported pair. Also, it is important to mention that Ecuador has already sold to Colombia more than 20 million dollars yearly. (PORTFOLIO, 2015)

Conclusion

After analyzing the Colombian situation, we can conclude that although the country has a stable economy – because of the diverse business activities – we must analyze the footwear sector in Colombia that we want to get. It will allow us to determine the prices; and it is going to be difficult to compete because in this country the situation is very similar to ours; so it seeks to implement actions that limit some footwear imports at low prices to increase the productive sector. For this reason, the Colombian producers of footwear require a tighter customs control at entry of goods, higher taxes, and thus our product will be more expensive but it makes more difficult for us to compete in terms of prices; so we are also limited of getting our product to this market.

PERU

Graph 5



(VALENZUELA, S.F)

The official currency in this country is the Peruvian sol.

Economic Sector

In recent years the Peruvian economy has had a remarkable level of growth

compared to other economies in the world, just comparing with China 159.

According to America magazine, the economy and the international monetary fund; in 2008 Peru had the second lowest inflation in the world after France, and therefore one of the strongest economies in this region. It has an index of high human development with a score of 0,737; in 2013 the rank was 82nd in the world. It is important to mention that Peru maintains good relationships with many countries, so it is a very representative country in the international setting.

Its economy is fundamentally based on agriculture, cattle, fishing, food and industry, beverages, textiles, chemistry, steel, construction materials, etc.

(Llanos, 2015)

Footwear Sector

In a statement issued by Peruvian news agency, Peru and Brazil seek to identify the production of Peruvian footwear, so in November 26th, 2015, Lima and Arequipa were held business conference. At such meetings, eight well-known Brazilian companies

introduce some new techniques to innovate the designs, in order to improve the production in that country. (Peruvian news agency, 2015). Respect the purchase or consumption of footwear; Peru has the lowest percentile in the region.

Although the Peruvian market manufactured 30 million pairs of shoes, the per capita consumption is the lowest in the region, because only two pairs of shoes, on average per year, are bought. Azaleia, a Brazilian company, says it. (Daily La Republica, 2012)

Conclusion

The Peruvian economy has had a big growth in recent years; however, there are two fundamental reasons for our company for not taking into account this country as a potential market. The first one is because of its currency; the exchange rate of the dollar to the Peruvian sol is very significant, so it is difficult to compete on price. Moreover, Peru has a very low rate in consumption of shoes; for this reason, mostly of shoe producers will find that very attractive businesses to export shoes are Chile, Colombia and others.

BOLIVIA

Graph 6



(NEW ECONOMY, 2014)

The official currency in Bolivia is the Bolivian peso.

Economic Sector

Bolivia's economy is based mainly on extracting and exporting minerals and natural gas, being well known worldwide. Also, they engage in automotive industry, beer and dairy products. (EA Bolivia, 2015)

Bolivia's PIB is the lowest in Latin America; it is considered one of the poorest countries in the region. The inequality and poverty still remains a latent problem in this country. The minimum salary is BS 1656,00. This is lower than Ecuador. (Minimum salary, 2015)

Footwear Sector

In a statement issued by Bolivia's economy in 2014, it could be considered a possibility to export footwear to this country, since it has not been engaged in the production of this product for many years. Bolivia is considered appropriate to import footwear rather than produce it due to excessive entry of goods mainly from China at a very low price. They are enormously difficult to compete. China, Brazil and Peru are the main exporters of footwear to Bolivia. (Bolivia's economy, 2014)

Conclusion

It is important to mention that although Ecuador has very similar political ideologies, we have to analyze the Bolivian market separately and there are two situations that it is necessary to consider. The first one is the economical situation because it is one of the poorest countries in Latin America and a risk to invest in. On the other hand, the minimum salary is around \$240, and it is difficult to export footwear at a very low price. China is the main exporter of footwear to Bolivia, and it is able to reduce significantly the selling prices by the capacity of the production that it has, but in this case, we used a traditional mechanism and it limits us.

VENEZUELA

Graph 7



(LINARES,2015)

The official currency in Venezuela is Bolivar.

Economic Sector

Venezuela’s economy relies on oil exports followed by mining, agriculture, industries like building materials, textiles, automobile parts, chemicals and drugs, etc.

In a report by the World Bank, it is said that oil represents 95% of Venezuela’s export economy. (World Bank, 2015). Venezuela’s economy

depends in a single product and it becomes difficult to invest because of the price of crude since if the price is low, the economy automatically becomes unbalanced.

Footwear Sector

In Venezuela, the producers of shoes are part of the Venezuelan Chamber of footwear and components. (CAVECAL) The national producers cover 80% of footwear consumption in this country, which have support from the state for the manufacturing carried out. It is worth mentioning that the annual consumption of footwear in Venezuela is 1.7 pairs of shoes. (EL MUNDO, Economías y Negocio, 2015)

Conclusion

After the investigation in Venezuela, we can see that it is not a potential market for our footwear, because its economy fluctuates a significant amount and everything is in relation to oil prices in the international market at any given time. Moreover, it is a country that does not share the ideology of a free market and prefers to produce products to satisfy the needs of its citizens and not have to import goods from any other country, because it involves a higher expense for them. For this reason, it is going to be difficult to reach them with our product, since we will have a series of restriction on the entry and consumption of the products.

CHILE

Graph 8



(CHILE SUSTAINABLE DEVELOPMENT)

The official currency in Chile is the Chilean Peso.

Economic Sector

Chile has had a big economical growth in the last decade. In 2003, the poverty rates have fallen from 25% to 8,8% in 2013. (World Bank)

This country is the leading exporter of copper worldwide, and later its economy has been affected by the low price of this mineral. Chile establishes policies to avoid destabilizing in its trade balance. (Santander Trade, 2016)

The Chilean economy is based on industry and services and it is seeking to leave that dependence on its principal product, copper, and focus on other economic sectors like agriculture, cattle, and services.

Its economic model used by the Ministry of Foreign Trades of the government of Chile is direct and stable and it has an opening to establish trade agreements with all countries around the world. In 2005-2009, Chile ranks first for doing business in Latin America; Economist Ranking Unit said it. (Ministry of Foreign trades, 2009)

Footwear Sector

Due to its improved economy, Chileans have an average of 5 pairs of shoes, per capita consumption, annually, which makes it one of the major consumers countries for footwear.

According to a study by María José Tapia, the Chilean import 89,7% in footwear and they produce a remaining 10,3%. With the economic strategy that they apply, free trade and the reduction of tariff barriers, there are many favorable possibilities to export footwear to this country. China is one of the leading footwear exporters, because it represents 84,9%, followed by Vietnam, Indonesia and Brazil. (TAPIA, 2014)

Conclusion

Chile is identified as a potential market for footwear. Also, its economical situation is stable and diversified; so the percentage of risk to invest is reduced significantly. Chile is a country that considers it important to maintain a free market with different countries around the world, thus eliminating any measures that would not allow in trade development. For this reason, it can be competitive in prices in the Chilean market, because the products do not pay additional amounts in the international trade, tariff, among others.

China and other Asian countries take the lead in terms of exporting the footwear to Chile; we can include a portion of the market since it is the main consumer country of footwear in Latin America. This reality is supported by amounts, so we are convinced that it can be very affordable and viable to compete. In a study of the footwear in Latin America, Chile is considered profitable and apt to introduce our product due to the high percentage of consumption. (LEDERPIEL, 2013)

According to the economic and demographic analysis of the per capita consumption of footwear in Latin American countries, the most optimal is Chile.

1.4.2 Substantiation of the Market

To identify the optimal place to export the footwear in the international market, we have to be very analytical, based on a real and comparative study among South American countries.

In the first instance, we have identified countries that have stability and economic development, because we are convinced that it is viable to invest. Chile is one of these countries, as shown by the results of studies done by the BBVA of Spain, and it is the South American country with the highest growth alongside Brazil and Argentina.

Moreover, the distance between Ecuador and Chile is favorable which can reduce the shipping costs and the error range for transporting and transferring goods; so the product price would be very affordable.

Chilean women are people who care a lot of their image; the women have a mass consumption of footwear and they always opt for avant-garde models, high quality, and a variety of designs and colors, so we are convinced that our product will be appreciated a lot.

With relation to the prices of our product, and them having their own currency, it allows that our prices are going to be competitive and we can have a considerable margin of profit.

The high-heel and platform shoes are models appreciated by Chilean women. 72% of women prefer high-heel shoes and, in a recent study, they have revealed that the Chilean women have also opted for low shoes just for comfort. (Puebla, 2016)

In Chile, the price of a pair of shoes is between 69.990 Chilean pesos that mean, \$ 102,67. It helps us because the standard selling price in an Ecuadorian store is \$38.99 USD.

That is the reason that Chile has been chosen as a country of Latin America to market the footwear from Gualaceo.

1.4.2.1 International Agreements

In recent years, the commercial relationship between Chile and Ecuador has deepened. It shows that the new Economic Complementation Agreement (ECA), # 65, was finished; annulling the previous ECA # 32, but it entered into force on 26 July 2010 in order to improve and facilitate the commercial transaction between these two countries. Moreover, this new agreement makes modifications in the rules of origin, and it maintains the same lists of exceptions from the previous agreement that cluster the tariff universe in 965. (Ministry of Foreign Trade Chile, 2015)

The Economic Complementation Agreement was signed between Chile and Ecuador on 20th December 1994. (ECA # 32). On 10th March 2008 was signed the new Economic Complementation Agreement # 65 and it enhanced # 32. The main objective is to establish an economic space between these two countries that allows for the free movement of goods, services and productive factors; additionally, the total liberation of tariffs and elimination of restrictions on imports. (Economic Complementation Agreement Ecuador- Chile, s.f)

ECONOMIC COMPLEMENTATION AGREEMENT # 65

CHILE – ECUADOR

Chapter 1

Initial Provisions

Article 1.1: OBJECTIVES

1. The parties agreed to establish this Economic Complementation Agreement according the dispositions of Montevideo Treaty in 1980, article XXIV, GAT 1994.
2. The objectives of this agreement are as follows:
 - a. Intensify the economic and trade relationship between Chile and Ecuador, and it encourages the expansion and the diversification of trade between them;
 - b. Remove barriers to trade and facilitate the movement of goods and services between the parties;
 - c. Promote conditions of fair competition between the parties;
 - d. Create effective procedures for the implementation and enforcements of this agreement to prevent and resolve disputes;
 - e. Establish guidelines between the parties, (regional and multilateral levels); it is to enhance and expand the benefits of the agreement.
 - f. Increase the opportunities of investment between the parties, and also to promote an intensive use of this market and strengthen the competitiveness in world trade.

3. The parties interpret and apply the provisions of this agreement according to the objectives set out in paragraph 2 and in accordance with the applicable rules of international laws. (ECONOMIC COMPLEMENTATION AGREEMENT ECUADOR- CHILE, s.f)

1.5 ANALYSIS OF THE REQUEST CHILE

Graph 9



(RADIO TOURISM, 2015)
GENERAL INFORMATION

LANGUAGE

Spanish is the official language and it is spoken by a majority of the population, although a small minority still speaks the

native language.

RELIGION

Around 97% of the population practices the Catholic religion. The Catholic Church has the greatest power in Chilean society, although it was officially destabilized in 1925. Other believers are Protestant Pentecostals and 1% Jews. A small minority practices the traditional religion of the first settlers of America.

CURRENCY

The official currency in Chile is the Chilean peso.

GEOGRAPHICAL SITUATION

Chile borders Peru to the North, the East with Bolivia and Argentina, the South with the South Pole and the West with the Pacific Ocean. Its total area is 6339 kilometers.

Chile also includes, in its territory, some islands and archipelagos placed to the South of the Continent.

PRINCIPAL CITIES

The capital of Chile is Santiago. Other important cities are Concepcion, Viña del Mar and Valaparaíso.

WEATHER

Due to the area of the country, in Chile there are many climates. In general, the ocean influences the temperatures. The northern region is desert; it is one of the driest areas in the world.

The winter is mild and the summer is relatively cold.

EDUCATION

The education in Chile is fundamentally based in the European system.

The government through the ministry of education administrates the education system.

93% of the population is literate; it is one of the highest in Latin America.

In Chile, the intense adult education crackdowns are conducted, as well as an extensive program of school and preschool education.

CULTURE

In Chile, there is a contrast between two cultures: a cosmopolitan culture in the urban population and a popular culture that has predominantly Spanish influence, but it contains araucaria roots. These influences are very marked in music and dances of Chile.

Chile has a big literary tradition; two Nobel prizes for literature, highlighted by Gabriela Mistral and Pablo Neruda, both of them are poets.

1.5.1 Analysis of Consumer / Customer

Each Chilean, according to studies, buys on average 5,5 pairs of shoes per year.

In 2013, the footwear industry in the country moved to mere than \$ 1.7 million, equivalent to 75,2 million pairs of shoes (it includes shoes for men, women and kids).; it means, 55,27% are female footwear, and it shoes that each women bought about 4,6 pairs. (FEDECCAL F.G, 2014)

During the first semester in 2014, the Chilean footwear import grew to 8,06% compared to the same period of the last year; the per capita Chilean consumption is the biggest in Latin America. In any other Latin American country, the footwear is imported from China to Chile. 84% of the total number of shoes imported annually by the country comes from China. (ALVAREZ ROSSAT, 2014)

Chilean consumers have more purchasing power comparing to other Latin American countries, because they want to get high quality products. Chileans know their rights,

and they encourage companies to be very responsible with the products that they offer.
(ARANCIBIA MORENO, 2013)

In Chile, half of the female population works, so it is a market that offers great opportunities for those who want to export products to this country, with a great increase in the upper-middle class; and we can say that the quality is the main part to be welcomed in the Chilean market.

1.5.2 Measurement of the market

In 2014, the female population was the majority with 9.000.29 women (50,67%) versus 8.762.438 men (49,33%) (MACRO DATA, 2014)

According to INE from Chile indicates that 87% of women are adults, they are independent and they have their own job either in office or a professional service, which it makes them free to dispose their personal income on goods such as shoes and clothing. We can say that 60% of Chilean women choose to conceive a family; they prefer to enjoy their independence in ages between 35-39, and it benefits to offer the products.

In developed countries, the behavior is very similar in terms of population; nowadays women choose to prioritize their professional development, where they look to achieve greater participation in the labor market. In 2005, the birth rate of 0 – 4 represents 7.6%, and it is assumed that by 2050, it will be only 5,5%. (Ministry of Planning Chile, 2011)

It is essential for us to study and know about the behavior and idiosyncrasy of Chilean women since it will help us to have a better view of the market and also to

know what kind of products will reach this group of consumer to fulfill all their expectations.

POPULATION OF CHILE ESTIMATED BY GENDER AND SEX
ACCORDING TO AGE GROUP.

Chart 4

GRUPO DE EDAD	Población estimada al 30 de junio ¹		
	Ambos sexos	Hombres	Mujeres
TOTAL	17.094.275	8.461.327	8.632.948
0 a 4 años	1.248.325	635.810	612.515
5 a 9 años	1.237.497	630.053	607.444
10 a 14 años	1.328.935	676.215	652.720
15 a 19 años	1.488.317	756.626	731.691
20 a 24 años	1.462.346	741.731	720.615
25 a 29 años	1.320.741	667.792	652.949
30 a 34 años	1.169.556	588.124	581.432
35 a 39 años	1.236.191	618.163	618.028
40 a 44 años	1.231.974	613.175	618.799
45 a 49 años	1.249.164	618.588	630.576
50 a 54 años	1.072.667	527.804	544.863
55 a 59 años	835.126	406.235	428.891
60 a 64 años	671.677	320.361	351.316
65 a 69 años	539.279	249.712	289.567
70 a 74 años	389.319	173.101	216.218
75 a 79 años	295.148	122.538	172.610
80 años o más	318.013	115.299	202.714

RESOURCE: INE, CHILE, ESTIMATED POPULATION AND PROJECTIONS BY GENDER AND AGE, 1990-2020

1.5.3 Explanation of the Request

Chilean women are the biggest consumers of shoes in Latin America, which gives us an opportunity to expand our market since their requirements regard diversity, will be increasingly greater.

The Chilean women buy six pairs of shoes per year; they are the highest rate in Latin America that means they are more than the male citizens.

It is clothing that needs to have one model per season, at least; that is the thought of the Chilean women. In other countries of Latin America, the consumption is lower; Brazil buys five pairs of shoes per year; in Argentina buys two and Peru buys just one. According to research analyst Euro monitor, Chile is a market that has grown 10% in the last five years. (Data obtained by LAS CHILENAS Y LOS ZAPATOS)

In the first investigation on the subject, the following information was obtained:

- 65% of women spend about 21 thousand pesos (\$31.50 dollars), it is for a pair of shoes.
- 100% of women eye the shoes of men and women.
- Women are not interested in the men's opinion about shoes.
- 72% of Chilean women prefer high-heel shoes.
- Each woman has about 21 to 30 pairs of shoes.

1.5.4 Projection of the request

Chile is a population with the highest percentage of adults with a growth or birth rate of 0,3%, Chile having a population as mostly adults helps us to introduce our footwear, because they are economically active, with financial stability and could be willing to pay for the product at a fair and reasonable price. We have the capacity to manufacture the women's footwear because we work with 40 people and they can benefit with new models by the Chilean fashion. It would be interesting to project our cultural roots to the Chilean market without neglecting the quality and comfort in each.

Our company is going to focus on three kinds of footwear; the platforms, high-heeled shoes and low-heeled shoes, which are focused on to cover the request in a market of middle adult women. The high-heeled shoes with very classic models can be adjusted to the preferences of adult women. Our footwear will be very diverse in terms of designs, colors, and height in, which we are sure to cover a market with an average age of 18-40 years.

The adult population could be a disadvantage because as years go by, they are changing their styles and fashion; however, the Chilean population is mostly professionals they are obligated to take care of their physical appearance.

Chart 5

Total Population by sex and years at June 30th according to Ages 2015 - 2020

Cuadro 14f (continuación)
 CHILE: Población total por sexo y años calendario al 30 de junio,
 según edades simples. 2015 - 2020

SEXO Y EDAD	Población y Años						(Continúa)
	2015	2016	2017	2018	2019	2020	
MUJERES	9025953	9096559	9167169	9237778	9308388	9378995	

CHILE: RESOURCE: CHILE, INE: NATIONAL INSTITUTE (INE, CHILE s,f)
 STATICS OF CHILE (POPULATION ESTIMATED TILL 2020)

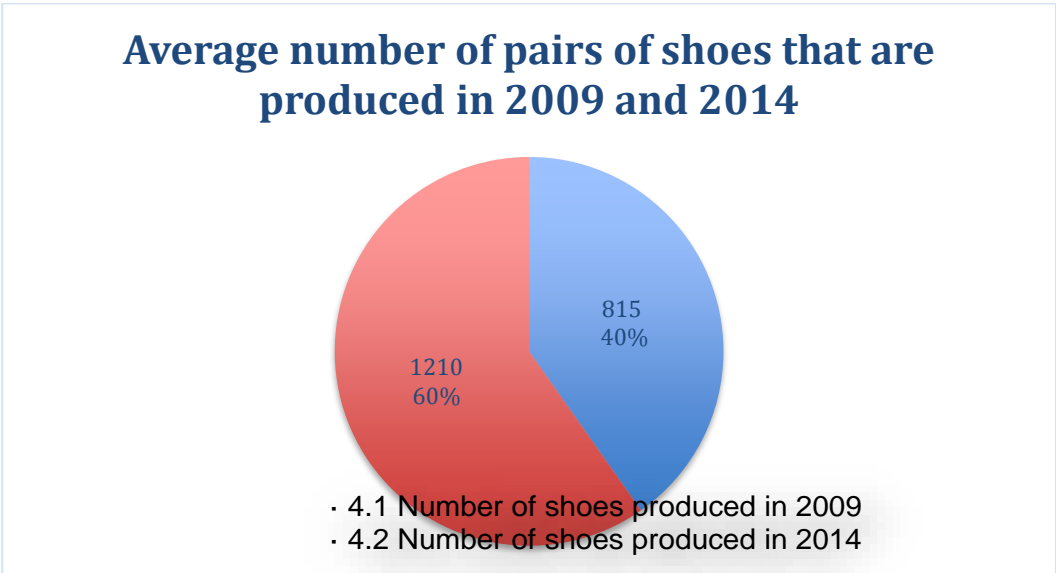
1.6 ANALYSIS OF THE OFFER

1.6.1 Volumes of the production of footwear in Gualaceo

According to the survey by the producers of footwear in Gualaceo, we have the following results:

Graph 10

Average Number of pairs of shoes that are produced in 2009 and 2014



(PRODUCERS OF FOOTWEAR, 2015)

In 2009, each producer of footwear manufactured an average of 815 pairs of shoes each month, which were distributed in the local market that means, in the shops of the city. It took two months for the producers to be asked for more shoes and that indicates a mass production of footwear in Gualaceo.

From 2010, these volumes of production increased due to various political and commercial changes that occurred to safeguard the production and to protect the

interests of those who were engaged in this activity. For 2010, the average volume of production has been increased to 1210 pairs of shoes each month, which were to be manufactured to satisfy the request from local stores and the rest of the province. This meant, that the footwear industry in the town grew in large volume both in the number of producers and the number of customers.

1.6.2 Projection of the Offer

According to the data obtained by the artisans of footwear “GREMIO PRIMERO DE MAYO” in Gualaceo, there are 40 active members and existing producers. Furthermore, in Chordeleg, “GREMIO 5 DE NOVIEMBRE”, inform us that there are 35 active members and producers of footwear in this area. Thus, we can conclude that we will have a total of 75 potential producers of footwear for our company.

In recent years, in Gualaceo, the number of producers of footwear has grown significantly and it is projected that the volumes of production in the coming years will continue growing as will the number of producers in the area. This is due to the existing requests for shoes and the number of trainings workshops that have been going through the government ministries and National Defense of the Artisan.

We can talk about another positive aspect of creating greater volumes of production. This is the case in the neighboring town of Chordeleg, which is a tourist destination of its jewelry in gold and silver, and many artisans have changed their product of merchandise for the opportunities that are offered in this sector.

Nowadays, the majority of footwear producers in the town have chosen to supplement their workshops with machines that help improve the volumes of production, optimizing the resources.

Also, it is important to mention that the producers of footwear in Gualaceo, seek to adjust to the needs and requirements of the consumers; in which the goal is not based just on providing comfort and quality, but also it has a wide range of models, designs and colors that accomplish the requirements implemented by international fashion at any given time.

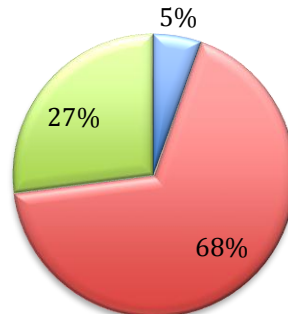
MIPRO (MINISTRY OF INDUSTRIES AND PRODUCTIVITY), in Ecuador, has implemented a series of strategies to promote and strengthen the footwear industry in the country. This ministry supports existing artisanal producers for Azuay and the rest of the country to improve the automation, the manufacturing processes and policies aimed at the quality of goods (MINISTRY OF INDUSTRIES AND PRODUCTIVITY, s.f). The artisans have a machine to optimize time so they can produce more pairs of shoes per day.

Graph 11

Classification of Companies for its Equipment

Classification of Companies for its Equipment

■ Industrial ■ Semi-Industrial ■ Artesanal



(FOOTWEAR PRODUCERS, 2015)

Analyzing this graph, we can see that there is still agreed difficulty in not being able to lift off in the sector because of machinery and technology; definitely, it delays the productive process. In Gualaceo, only 5% of companies have good technology and machinery, and it is wonder to achieve a production scale that allows us to reduce our costs dramatically. We should consider encouraging our producers to invest in specialized machinery.

1.7 ANALYSIS OF THE COMPETITION

1.7.1 Substitute goods and services

In recent years, the footwear sector has shown growth worldwide; and with the development of this sector, many countries have engaging in these activities; increasing the numbers of competitors and the demands by consumers emerging in a competitive market. The Chilean market is one of the biggest in South America, many artisans in Netherlands export to this country, but a significant country – in this regard – is China because it is leading in the exports of footwear in the last decade.

It is mentioned that in the third quarter of this year, another country that grew, due to exports to Chile, is Peru that increased its sales to 23.1 million.

The footwear is a personal and irreplaceable good according to the economy, so the demand for this product will be constant because of the highly demanded by users what makes it more favorable to this economic movement. Chile has a stable economy and it is suitable to the creation of irreplaceable personal-use property, which benefits countries suppliers of these products. The footwear is a good that will not stop being in demand. For women, the choice at the time of acquisition of such property will be on the comfort that it provides, the variety of models, colors, designs and the price. It is these three principal aspects that a buyer bases their decision on at the moment of acquiring this product and which we base our company on to provide footwear that meets the expectations of our consumers.

We talk about substitute goods when as a result of a rise in the price of one of them, an increase in consumption of demand of the other originates. This relationship of substitution may arise for technical reasons or due to consumer preferences (ECO-FINANCIAL, 2015). With this clear concept we can understand that the shoes cannot be replaced or substituted by another similar good that cover the same need and the difference prevails in consumer demands. For example, it is probable that in winter, the demand in boots or booties, is increased; while in summer, the consumption in slippers or platforms, will be increased. Our company will be extended to provide shoes that fit all these requirements, establishing parameters that allow us to identify the needs of our customers so that our sales do not have sudden or elastic changes.

Chile is a developed country and its economic activity is based more on mining and other services; rather than making footwear products for its population, although they themselves produce 11% of these goods.

1.7.2 National and Foreign Production

Chile is a developed country and its economic activity is based more on mining and other services; 11% of footwear represents in this sector, so it is not able to supply or cover the existing demand. For this reason, 89% of footwear is imported.

In Chile, the production of footwear as textiles has decreased consecutively since the decade of the 1980's and has been substituted by imports from other countries. The increase in imports is reflected by international trade agreements, where prices are very low for imported goods with a 0% tariff. (RUBIO BASARRATE, 2013)

According to the country's exporters association (ADEX), Chile imported a total of US \$ 6.2 million for the product, while Colombia and Ecuador totaled US \$4.4 million and US \$ 3.6 million, respectively.

The percentage of national production in Chile is 11% of the total and 89%are imports from other countries. China represents almost 80% of imports in Chile. Our main competition worldwide is China, as 80% of footwear imported by Chile comes from this country. (RUBIO BASARRATE, 2013)

There is a study on import from Chile in the output of footwear, gaiters and analogs articles. This information will allow us to identify and analyze our major competitors.

CHILEAN IMPORTS: FOOTWEAR GAITERS AND ANALOGS ARTICLES

Chart 6

Exporting Country	2010	2011	2012	2013	2014	2015
China	179.927.581	243.160.019	267.311.939	304.396.961	280.495.256	233.575.507
Hong Kong	87.224.986	95.945.692	113.495.803	125.913.427	125.981.317	95.122.508
Singapore	23.441.249	70.793.013	103.328.905	115.315.288	107.502.590	100.432.132
Netherlands	33.181.773	44.547.152	42.005.570	59.067.805	67.088.853	55.292.060
Taiwán	40.631.396	46.894.461	46.069.220	51.339.292	64.209.303	45.968.804
United States	35.316.500	30.373.220	36.769.832	50.263.294	54.319.447	45.563.116
Brazil	32.944.563	36.420.245	35.808.527	39.331.038	32.809.185	28.584.815
British Virgin Islands	10.095.980	14.644.613	15.841.976	20.957.378	19.199.589	16.927.787
Switzerland	7.657.101	13.915.285	16.804.980	19.649.180	18.203.251	18.402.750
Spain	6.409.702	8.138.195	12.042.393	14.212.710	12.467.523	10.664.337
Others	79.877.768	92.213.156	96.302.467	109.276.143	100.845.479	108.917.297
Total	536.708.599	697.045.050	785.781.611	909.722.516	883.121.793	759.451.113

(NOSIS TRADE, 2015)

Our major competitors are Asian countries, which will be analyzed in depth to understand their development in the Chilean market. Brazil and Peru will be also analyzed as major exporters as Latin America exporters of footwear.

CHINA

ECONOMIC CONTEXT

China is the second largest economy in the world, and the leading exporter of manufactured products on a large scale as it has higher reserve change. The global recession of 2009 has interrupted the steady pace of growth. In 2014, the country had a 7.4% declined in wealth; it is lowest level since 1990. (SANTANDER TRADE, 2016)

The sectors of manufacturing industry and construction contribute to almost half of China's PIB. China has become one of the favorite places to transfer global manufacturing units because of the low cost of labor, although its value is increasing. The economic growth has coincided with the development of a competitive manufacturing sector and oriented to the exportation of goods. Companies with foreign capital make more than half of Chinese exports. Their participation varies by sector: 60% for electronics to less than 20% for most intermediate goods. The state sector still contributes about 40% of PIB. (SANTANDER TRADE, 2016)

FOOTWEAR SUPPLIERS

After China, Vietnam is known as a supplier of leather footwear. Vietnam exports more than 580 million of pairs of shoes per year between leather production and synthetic production.

India produces about 2 billion pairs of shoes per year; buy only 115 million are exported.

Even Vietnam and India combined constitute only a fraction of the large production capacity of footwear that China has.

China is a great exporter of footwear; they work to get a various designs of footwear for ladies and gentlemen. The automation of the manufacturing processes is essential in the production of footwear. China has achieved international possession and Chile is not exception, because of its low prices, (the Chinese footwear comes at an average price of \$6,56 which makes it very competitive) the quantity of exports is increasing. (FERRANDO, 2010)

Graph 12



(CCTV SPANISH, 2011)



(THE INTRANSIGENT, 2015)

Like China, Hong-Kong and Singapore have the same behavior in their economies, since they are countries that have managed to emerge in recent years, due to their growth in the industry of manufacturing goods. The low costs of labor and large-scale production means that their prices are very competitive in the international market. These countries have diversified their economy through large volumes of exports.

BRAZIL

According to a report by Santander Trade about Brazil and its economic-political context, it says that this country is the seventh largest world economy; however, in recent years, it has experienced an economic slowdown due to the lack of confidence of foreign investors and the stagnation of its internal consumption.

Brazil is a predominantly agricultural country, but it only represents 5,5% of PIB, it has the largest forest reserve worldwide so wood exports are significant. In addition, it manufactures textiles and footwear. (SANTANDER TRADE, 2016)

It is important to mention that although Asian countries will take the lead in the growth of the footwear industry worldwide, Brazil is still a prominent country, today. This country has 8.000 industries, generating about 350.000 jobs. 86% of its production is to cover its internal demand and 14% for export. 56,5% of Brazil's national production is represented by the production of plastic and rubber footwear, within which are flip-flops and sandals. (KVATERNIK MALAGON, 2014)

Graph 13



(EXPERIMENTAL MAGAZINE, 2012) (WHATS UP MAGAZINE, 2015)

PERU

The third quarter of the 2014, other country that grew because of the exports of footwear in Chile, Colombia and Ecuador, is Peru; and it has increased its sales significant. The Peruvian footwear imported by Chile totaled 6.2 million. (PERUVIAN NEWS AGENCY, 2014). In a report issued by the Association of Exporters of Peru, it was announced that the exported products are mostly leather, with very good quality and diversity of models. (PERUVIAN NEWS AGENCY, 2014)

Most production companies of footwear in Peru are microenterprises, which account for 96.7%. 3.2% are small companies and just 0,1% are medium and large companies. Lima has the largest number of companies that dedicates to the production of footwear (42,4%), Trujillo with 27,2%, Arequipa with 9,4% and Huancayo (Junin) with 3,5%. (PERUVIAN NEWS AGENCY, 2011)

Nowadays, in Peru there is a great deal of support for the producers of footwear, where they seek to encourage the efficient development of this sector, very similar to Ecuador. In Peru there is a great importance in the footwear sector where series of trainings to improve its productive matrix is being carried out. (MINISTRY OF PRODUCTION OF PERU, 2015)

Graph 14



(PERU 21, 2013)



(PERU 21, 2014)

1.7.3 Analysis of the market prices

If we analyze the sales prices of a product in a market, we can identify whether we can be competitive in terms of prices. If the price of my product as a company that I offer is within the parameters that the consumers are willing to pay for that product, then it is feasible to reach with my product to that market.

1.7.3.1 Analysis of Sale Prices of my product and competition

The prices in the international market are very different and they will be affordable according to the customer segment that we want to sell.

CHILE: DISTRIBUTION OF PRICES

There is a study done by the Embassy of Spain in Chile on the entire sector of textile and footwear in that country, which will help us significantly, to identify in what range sales prices will place us as a company and know what kind of market it is that we want to cover.

Chilean Distribution of the price of SHOES

Table 1

<u>CATEGORIES</u>	<u>DESCRIPTION</u>	<u>AMOUNT</u>
HIGH AND MEDIA-HIGH RANGE	Line of footwear of high sewing and designer	More than 100 USD
MEDIA RANGE	Line of footwear of medium priced	Between 100 and 50 USD
LOWER MIDDLE RANGE	Line of footwear medium-low price	50 and 20 USD
LOW RANGE	Line of economic footwear	Less than 20 USD

(RUBIO BASARRATE, 2013)

According to this graph of price distribution in Chile, we should be covering the existing demand in the medium-low class with our product having a sale price that is between \$ 25 and \$ 45.

To be in this range, we are conscious of the fact that the competition will be marked, since the higher percentage of imported footwear in Chile is found between these average prices. In this situation, our objective is to strategically place us in the market with high quality and designs. (CNN EXPANSION)

In the first three categories, the companies compete in design and quality. The next categories compete for price.

Analyzing the average prices of women's footwear in Chile, specifically in the models, that we- as a company - are going to offer, have the following results:

CHILE, DISTRIBUTION OF PRICES

Chile is the country with the highest per capita consumption of shoes in South America with a total of 5 pairs of shoes annually. So the flow of these products is circulated in the country, the exporting countries are several between them China, which has a very low costing product which causes prices to be appropriate and they are available to the economy.

The prices of footwear in Chile are as follows:

Currency: 1 USD = 686.025 Chilean peso

Distribution of the Prices for female shoes

Table 2

<u>DESCRIPTION</u>	<u>CHILEAN PESO</u>	<u>DOLLARS</u>
Ballerina's women's shoes	16.990	24.77
High-heeled shoes	19.9990	29.12
Heeled shoes closed	25.990	37.88
Platform shoes	27.993 – 69.650	40.88 – 101.96

TEXTILES FAIR, FOOTWEAR OF CHILE, 2014

These prices are very encouraging regarding as our currency is the dollar. We have a competitive advantage and positive encouragement for work, since our sale prices are in the range of Chilean consumer acceptances. The price, the Chileans as consumers are willing to pay for a pair of shoes with such characteristics, is also in our sale price.

Sales prices of Competition

As has been mentioned throughout this chapter, China is a country with a high percentage of exports of footwear to the Chilean market. According to studies in 2012, the average price of imported footwear was \$ 7.15 a pair. However, in these years consecutively, due to the demands from consumers; the price and quality in footwear have been rising. (RUBIO BASARRATE, 2013)

The Brazilian footwear that is exported to Chile is from very good quality, where purchasing criteria are met for consumers of upper-middle class, the average price for each pair is \$ 19.26. Brazilian brands with great recognition of quality are Via Uno, Carmen Steffens, Azaleia among others. (RUBIO BASARRATE, 2013)

All this information is complemented by the fact that today in Chile, there are citizens with a high academic level who have greater opportunities to develop in a job where their incomes will increase. They will have greater purchasing power, and increase the number of consumers and become more demanding about the quality of goods to obtain. This behavior helps us to know our customers and create products that adjust to the needs and requirements of our clients.

1.8 MARKETING STRATEGIES

1.8.1 Distribution Channels

Another key factor at the moment of making a study for the creation of a company is to analyze what distribution channels will be used to ship our product to the destination.

There are direct and indirect distribution channels, in our case the distribution channel that helps us is the direct distribution channel, so more filters exist to ship a final product to the hands of consumers which means more value in the selling price for the costs of transfer that it represents. For this reason, we are going to use direct and quick strategies for our consumer to get our products effectively. Our company will be focused in the marketing and exportation, it will take care of orders to footwear producers in the city of Gualaceo, according to the requirements and needs of our customers and that we wish to send to Chilean companies directly for sale in the country.

The decisions about the distribution channels or marketing are among the most important that the administration must take, so it directly affects all other marketing decisions.

So the distribution channel that we have is the direct where shoes are sold to marketing footwear companies in Chile.

After a considerable time in the Chilean market, we might think about the feasibility of creating a company in Chile that takes charge of distribution. For the moment, we do not see it appropriate to establish ourselves directly in the country for all formalities, procedures and requirements necessary for the operation of a company abroad.

Kantuta Shoes Company will have just one distribution channel; we will be direct exporters to other shops or marketing footwear chains in Chile, and then in a medium term we could have a distributor of footwear in this country.

Locating franchise in another country involves a series of steps that may be delayed and paying taxes for these permits are difficult to collect.

So we use the direct distribution channel to the buyer stores either by some of our web pages or online advertising media that we will be offering in the network.

1.8.2 Advertising Systems

Today, due to the great advances in technology, a position of very effective advertising channel is through the Internet on website and social networks like

Facebook, Twitter and Instagram among others that help us to advertise our footwear abroad. For this reason, having no physical contact with our customers, the integrated advertising system for our company will be through Internet.

A link will be created with the official website of the marketer and exporter of footwear, Mega Export Shoes, so that all national or foreign publics can access and see the products that we will be offering. Our page will present each shoe design of footwear that we have in the market in Gualaceo, the exclusivity and diversity of models will be strategically distributed through catalogs of seasonal collections to the right choice for our customers. It is also important to give discounts; offers that we will give to increase our demand and obtain the loyalty of consumers as well as discounts, offer and all kind of advertisements to help us to capture the attention of our possible customers.

The website will take the name of the company for an immediate identification by our customers abroad. It will be www.kantuta.com.ec

1.8.2.1 Idea of the Business



The idea of creating a footwear marketing and exporter company in Gualaceo comes from the needs to introduce a produce made of excellent quality from our producers to the international market. The sector of footwear in our country has significantly increased its production in the last few years due to the large existent demand inside our country, after having conducted a series of trainings for continuous improvement in quality and designs of footwear.

Nowadays, the foreign trade is a successful tool that allows us to exchange products, meeting needs and helping to improve the economy in the country. It is for this reason, that we believe we are able to export our footwear so that this activity is consolidated. Our company will be responsible for introducing the footwear from Gualaceo to other countries, where there is a clear approach to meeting the needs and requirements of our customers. This will greatly help to ensure that our producers are always refining their production techniques, and have sustainable and effective development in time.

1.8.3 Marketing Mix

1.8.3.1 Product Marketing

The KANTUTA Company will be responsible to advertise and reach the international market with a product of excellent quality; avant-garde that is always adjusting to the parameters and requirements of our customers. Nowadays, due to a large existing competition, we generate an added value in our footwear and we will design exclusive models where are also in the fabrics; embroidery, handcrafted macanas that are our own crafts from Gualaceo. Thus our product will be unique and the differentiation will allow us to be competitive in the country. The models will be in

constant rotation with preliminary analysis of the trends, there are a wide variety of models that allow us to supply to a large percentage of the Chilean market.

The Mega Export Shoes Company will focus on developing a balanced mix of products ensuring the distribution of the risk factor over several different products and increased competitiveness to always offer a new product to the customers.

1.8.3.2 Price Marketing

The selling price will depend on the costs of the entire production process, distribution of footwear and the profit percentage that is expected, without neglecting the resources that allow us to have a final product of excellent quality. The price that we set must be within the parameters of the customers of the market segment that we want to reach, that is, how many of them are willing to pay for a good with certain characteristics. Our product prices range from \$ 30 to \$ 70, covering the demand of the Chilean female population of a socioeconomic status that is medium-high level.

It is the survival of the company, and it will cover the costs and earn an expected profit with excellent quality products and they will be competitive in the market. These will depend on the costs of raw materials, labor cost taking into account the prices of the merchandise competition.

1.8.3.3 Place Marketing

After analyzing the large existing demand of footwear by Chilean females, our goal will be to reach many strategic places to help us to increase our sales. In Chile, geographically, most of the population is in the capital, so we are going to search for

selling companies in Santiago, Concepcion, Valparaiso, Viña del Mar, Antofagasta, La Serena, Punta Arenas, Valdivia, Iquique.

The product will reach the market through a distribution system and advertising. We have to take into account the image level, positioning, and product differentiation and sales level. It will especially take place in national and international stores, where we hope to reach the national stores, shopping centers, boutiques where the shoe is a complement to dress women for clothing.

1.8.3.4 Promotional Marketing

It is a fundamental strategy to get major volume in selling in a period of time, it is important in our situation to promote our product through the web site and networks, to not lose contact with our customers. KANTUTA do not have a shop to sell to the people in the international market, it should establish promotions focused according to the buying volumes of our merchants. A discount card for our customers who make their orders monthly could be a good promotion. The card will apply a percentage of 10% on all purchases regardless of their form of payment, either through bank transfers or credit cards.

The promotional strategy that works satisfactorily to spread a product in the market, is to share the publication through social networks and participate in a draw, in our case specifically, we draw a pair of shoes of a given current collection and so distribute our brand; this is an additional incentive that encourages our customers which will increase sales in a short term, the following promotions are as follows:

1. Holidays like Mother's Day, Christmas, New Year, and others will be given 20% of discount for purchasing in the national or international market. By buying a dozen shoes of the same model will have an extra free pair in size of consumer preference, this promotion applies to holidays and memorable dates above mentioned where the buying trends increases.

Instead in collections will apply a discount of 25% in the all purchase order or the current collection.

The margin profit for those who sell our products will be very attractive for those who can establish parameters that allow us to incorporate policies like "by buying a pair of shoes you can take another half price on Tuesdays", by buying two pairs of shoes, get one free".

2. By buying a pair of shoes, get another half price on Tuesdays, on holiday's months in the country that we want to export as in the case of Chile.
3. By buying two pairs of shoes, get a third pair at half price.

CHAPTER II TECHNICAL FEASIBILITY

2.1 INTRODUCTION

Before the creation of a company, we must analyze, in detail, what is the ability that we have for proper functioning of the company. This will allow us to establish policies, standards and strategies to correct business performance.

In the study of technical feasibility of the creation of the companies Mega Exporter and Marketing of footwear, the production volumes of the footwear producers in Gualaceo

who give us the merchandise that we request according to the customers demand in the international market will be analyzed. The micro producers and the capacity of production is crucial because if the amounts required are beyond our perspective, we must establish other alternative that allow us to cover the demand of the Austro area, who will be our direct supplier to export and to market footwear in large volumes. We will analyze what is the technology used by the most or our footwear producers for an effective and efficient production.

Since 2009, the production of footwear in Azuay is booming. There has been total support from public institutions for manufacturers to increase their production margin that will allow us to compete in an international market. Nowadays, there are a series of trainings for the footwear producers in the town for continuous improvement in the designs and the quality of the finished product. It is remarkable that many people visit Gualaceo in an effort to get quality shoes but with affordable prices; some manufacturers already have alliances or agreements with some big shoe factories in other provinces such as Guayaquil because the potential customers are from this part of Ecuador.

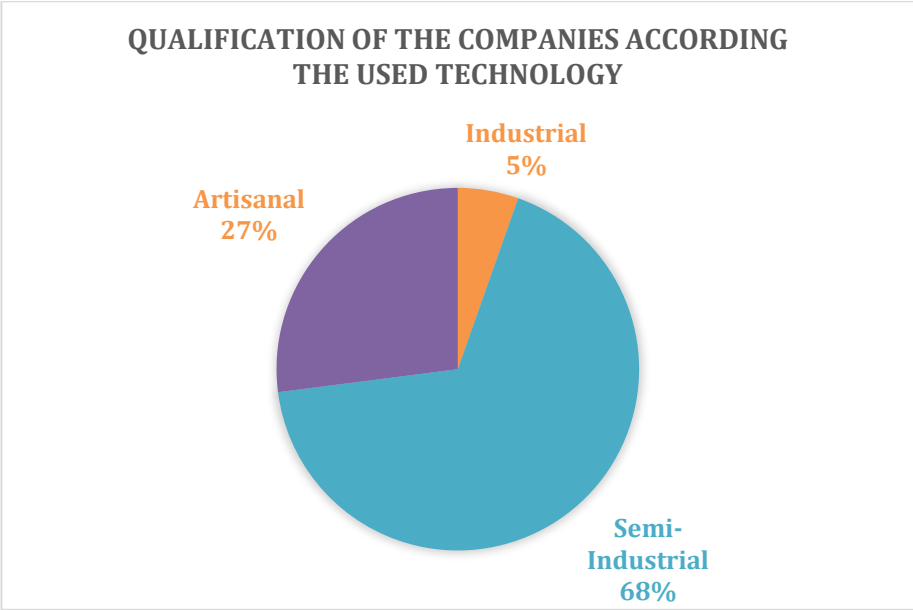
In the last years, Chordeleg has been producing footwear and it has a union with 35 members. All of these facts give us an advantage to our project because in the case of stock up with the local production, we can draw upon the footwear made in the neighboring town to accomplish every of the presented requirements in the market. We have a lot of micro producers that could be our possible suppliers, and thus our company at the moment to export the model and volume of the requested products will not be for carrying our the existing demand in the international merchandising.

2.2 Qualification of Producers of footwear in Gualaceo as possible Suppliers

In the survey conducted for a marketing study, the results were as follows:

Qualification of the Companies according the used technology

Graph 15



(PRODUCERS OF FOOTWEAR, 2015)

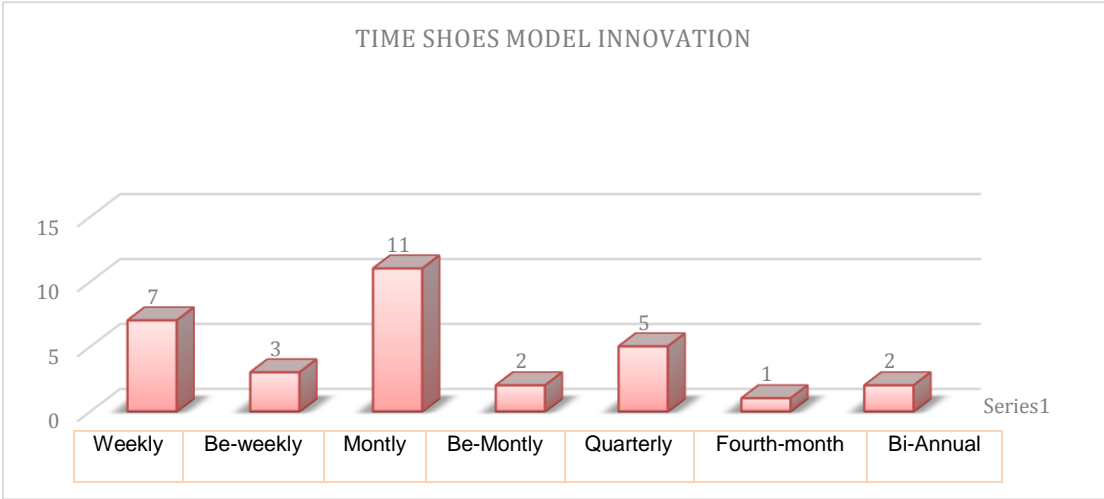
2.2.1 Type of Industries

With the study of the footwear producers in the city of Gualaceo, the results show that the highest percentage of producers have a semi-industrial technology employed. This allows covering the needs of customers at any time.

2.2.2 Innovation Time

Time Shoes Model Innovation

Graph 16



(FOOTWEAR PRODUCERS, 2015)

According to this graph, most of the producers establish a time margin parallel to a month for the creation of a new model of shoes. This shows that footwear production is constantly changing and evolving, so today the fashion and trends are renewed more regularly. The shoe manufacturers recognize the importance of being always innovators so that their sales increase and meet the preferences of their customers.

The marketing company will be responsible for creating the shoe collections based on trends, fashion comfort and quality, and it will work with producers to meet requirements of our customer and ensure that they are accomplished satisfactorily. Most producers have the same pattern at the time of manufacture and production, so it will not be difficult to fulfill orders. The average time of designs that are in the “Gualaceño” market is a month. This means that new products must be created as soon as possible.

The market in Gualaceo is very exigible, despite the fact that the number of producers of footwear are many, the copy of the designs is very rotary, and if a producer wants to have success with an own model, they must market in a big quantity and in a shorter time because its competence will offer the same product in a given time.

2.2.3 Study of Production Volumes of Footwear

With the research made in the market study, we can see that the number of volumes of pairs of manufactured shoes has grown at 815 pairs per month. Today, the producers manufacture 1210 pairs per month. It is important to mention that these pairs are the standard number that they produce; however, in the case of having a great demand, it is possible to increase the production. In the research, also note that there are significantly large orders in dates like Mother's Day, Christmas and New Year's among others.

We can also talk about a big increase of 33% relating to the production, and there is the ability for shoemaking to continue increasing, this will fill the minimum percentage of merchandise needed to export.

Average in Annual Footwear Production in 2009 – 2014

Graph 17



(FOOTWEAR PRODUCERS, 2015)

In 2004, the volume of production increased due to the existing demand, generating a higher volume of production.

2.2.4 Analysis of the Achieved Results and Qualified Suppliers or Selected

After research conducted on existing footwear producers in Gualaceo, we have achieved the list of highly qualified companies and total capacity for being a supplier of quality footwear.

Producers of Selected Footwear in Gualaceo

Table 3

OWNER MANAGER	COMPANY	CITY	CATEGORY	MONTHLY PRODUCTION
MR. VICTOR AREVALO	ARECALZA	GUALACEO	SEMI- INDUSTRIAL	1200
MR. ABRHAM CABRERA	DETEICO	GUALACEO	SEMI- INDUSTRIAL	1200
MR. FERNANDO LOJA	LOFAC	GUALACEO	SEMI- INDUSTRIAL	2000
MR VICTOR ZHICAY	AIDITA	GUALACEO	SEMI- INDUSTRIAL	800
MR ENRIQUE CABRERA	ZAMODI	GUALACEO	SEMI- INDUSTRIAL	1500
MR JORGE ARGUDO	ITALIA	GUALACEO	SEMI- INDUSTRIAL	2000
MR BENJAMIN LITUMA	LITARGMODE	GUALACEO	INDUSTRIAL	12000
MR JUAN CARLOS VILLA	VECALZA	GUALACEO	SEMI- INDUSTRIAL	1000
MR SANTIAGO LITUMA	GINOZANETI	GUALACEO	SEMI- INDUSTRIAL	1200
MRS ILDA ALVAREZ	CASSY FYT	GUALACEO	SEMI- INDUSTRIAL	1500
MRS MARIA VILLAVICENCIO	MAXI MODA	GUALACEO	SEMI- INDUSTRIAL	1000
MR ROLANDO LOJA	ZONA LEX	GUALACEO	SEMI- INDUSTRIAL	800
MR IVAN VILLA	LUXE	GUALACEO	SEMI- INDUSTRIAL	2500
MR GUILLERMO PEREZ	COSITAS BELLAS	GUALACEO / BULZHUN	SEMI- INDUSTRIAL	800

MR JORGE	ELITE	CHORDELEG	SEMI-	3000
VAZQUEZ			INDUSTRIAL	
MR PEDRO	FERCALIT	GUALACEO	SEMI-	800
LITUMA			INDUSTRIAL	

(FOOTWEAR PRODUCERS, 2015)

These footwear producers in Gualaceo and Chordeleg have been selected according to the market research conducted to know the volumes and capacity of existing production for each of these companies and also to know what their preparation technique is, in which we can have a lineal production with volumes that can compete internationally.

2.3 Legal Structure of the Company

2.3.1 Registration of the Company in the Superintendent of Companies

ELECTRONICALLY INCORPORATION AND REGISTRATION OF COMPANIES
SIMPLIFIED PROCESS

We will use the computer system of the Superintendent of Companies and Values, for the simplified process of constitution of companies, which will be accessed through the institutional web, and it must be opened to all users in a permanent and continuous way.

The constitution and registration of companies by the simplified system of the constitution requires that the capital would be paid just in cash by electronically way and that the companies are not part of the values of the merchandising.

PASSWORD

The Superintendent of Companies and Values will facilitate an option in the institutional web where the users can register and create a personal password to access to the computer system and perform the simplified process of incorporation and registration electronically.

PEOPLE THAT ARE INVOLVED IN THE PROCESS

1. REQUESTING USER: Set of shareholders or founding members; the requesting user is the responsible for entering the system with accurate and necessary information to generate and complete the process, and who should incorporate the qualifying documents.
2. Superintendent of Companies and Values
3. Notaries: it must collect the signatures of the grantors, representatives or agents, and it must incorporate clauses required by law, so they will have to sign later by electronically in the digitalized version and continuing the process in the computer system of the Superintendent of Companies and Values;

4. Commercial Register: it also includes the property registrars to perform functions of keeping the books of the commercial register in those towns where there is no official registers.
5. Internal Taxes Service: this process will be responsible to generate the single register of taxpayers.

PROCESS

REQUESTING USER

1. Enter the system (SCED) with your username and password.
2. Select the name reservation approved for the company to constitute.
3. Fill the form "Application for constitution Company" in the system.
4. Attach dematerialized documents.
5. Select the Notary of your preference from the list of active notaries.

The system consults to the table of tariffs of national business registration system (SNRM) and judiciary council shoes the values to pay by notary and registry services and the terms and conditions by electronically process.

6. If you do not agree with the terms and conditions, the process ends.
7. If you agree with the terms and conditions, the process stars in the Superintendent of Companies and Values system. (SCED)
8. Assign a number of procedures.
9. Generate preforms in which are the values for the registry services.
10. Notify to the requesting user by mail, the information of the selected notary, the values that has to pay for the notary and registration services, the number of processing generated and the bank where the payment is made.

11. Once the bank performs the consultation of values online, it refers the information of the values for getting to the bank.

12. Make payment for notary and registry services.

SUPERINTENDENT OF COMPANIES AND VALUES

13. Verify if the payment is done.

14. If the payment is done, notify by mail to the notary and or call to the web service to the commercial register.

NOTARY

15. Enter to the system (SCED)

16. Check the information entered by the requesting user; it must coincide with the attached qualifying documents.

17. If there are observations, it must record them in the system and return the process to the requesting user to end with the process or correct the observations and submit the process to the notary.

18. Assign date and time of appointment to sign the document and designations; and the system notifies through the user email to go personally to sign the relevant documents.

Meanwhile, the bank should transmit online the information of the collections made.

19. The user goes to the appointment with the notary at the given day and time. In the case that the user does not present on the appointed day, the notary may assign a new appointment. If the user does not present on the second call, the notary ends the process.

20. The notary enters to the system to collect handwritten or electronic signatures of the members or shareholders and directors, and also the documents of designations dematerialized.

21. Attach dematerialized documents and sign electronically the document and the designation.

SUPERINTENDENT OF COMPANIES AND VALUES

22. Notify through the user's mail the generation of the document and designations.

23. Send information of the document and designations to the National System of Commercial Register.

COMMERCIAL REGISTER

24. Enter to the national system of the commercial register. (SNRM)

25. Recover the information of the relevant procedure.

26. Verify the payment of the procedure.

The electronic and dematerialized constitution emits information and documents signed in an electronically way.

27. Enter the number of pre-printed invoice.

28. Select the payment from and print the invoice.

29. SNRM generates automatically the number of repertoire and assign to the official auditor.

30. The official auditor verifies that the processing documents accomplish with the applicable regulations.

31. Review the books to ensure that there is no other evidence to prevent the current registration, and it assigns automatically the process to the designated enroller.
32. The enroller checks the information of the process, and he entered by the official auditor to determine if it is correct and complete.
33. If there are causes to refuse the registration; it must register such refusal.
34. If there are no causes to refuse the registrations, generate number of registration and print the relevant reasons and the proceedings of the generated inscriptions.
35. The commercial register enters the National System of Commercial Register and it signs as physical and as electronic the proceedings, the reasons and the marginalization, if it is applicable.

DINARDAP- NATIONAL SYSTEM OF COMMERCIAL REGISTER

36. Send the reason of registration or the negative signed electronically and the relevant data to the system of electronic constitution.

SUPERINTENDENT OF COMPANIES AND VALUES

37. If registration is refuse, the invoices will be sent by courier form Ecuador to addresses defined for this purpose.
38. Notify the user and the notary through email about the negative of the registration and the end of the process.
39. If the documents were registered, notify to the relevant municipality by mail about the inscription made.
40. Generate the file number for the company.

41. Send information of the company to the internal tax service.

INTERNAL TAX SERVICE

42. Validate the received information.

43. Generate the RUC (Single taxpayer registration) number for the company.

44. Send the STR number to the system of electronic constitution.

SUPERINTENDENT OF COMPANIES AND VALUES

45. Register the single taxpayer registration number assigned to the company.

46. Record information of the process in the database of the company registration.

47. Notify the end of the process of the constitution to all participants, which means, requesting user, notary, commercial register and internal tax service.

48. Notify the end of the process of constitution to the areas of company registration and control of the Superintendent of Companies and Values.

SWORN STATEMENT

It is a contract within the constitution and it must contain a sworn statement; it indicates that the members or shareholders deposit the social capital of the company in a banking institution in the name of it. (SUPERINTENDENT OF COMPANIES, VALUES AND INSURANCE, 2015)

COSTS

The use of the computer platform of the Superintendent of Companies and Values is free for the constitution and registration of companies, by an electronically simplified process. However, the requesting user must cancel the values that are caused by the notary and registry services, payments made to the institutions that are involved in the

process, using tariffs or duties laid down by laws or other general application.
(SUPERINTENDENT OF COMPANIES, VALUES, AND INSURANCE, 2015)

BANK CONTROL

In accordance with the reform to the law of companies and regulations, the companies that are successful in using the simplified process of incorporation and registrations electronically should be subject to the monitoring and control of the Superintendent of Companies and Values, it is an ability that will be exercised after its entry in the register of companies of this organization.

For this reason, the company must present the applicable documents that justify the correct integration of the social capital such as the initial statements of the financial position, deposit slip and journal entry; these documents have to be submitted within 30 days after the registration of the document in the commercial register with the risk of financial penalties that apply or adapt to causal intervention or cancellation of commercial register in the law of companies.

2.3.2 Obtaining the Registration of Single Taxpayer

SOCIETIES

- FORM 01A and 01B
- Articles of incorporation and signature of the legal representative or withholding agent.
- Submit the original and provide a copy of the identification card of the legal representative or withholding agent.

- Submit the original of valid voting certificate of the legal representative or withholding agent.
- Provide a copy of a document that certifies the official taxpayer's address. (Basic service bill) (SRI, 2016)

2.3.3 Registration as a SENA's Exporter

CORPORATE REQUIREMENTS

1. You have registered as an exporter in the information system.
2. Link to the web page <http://www.mipro.gov.ec> (attach a print of the electronic record)
3. A certified copy of the articles of incorporation of the company in the commercial register.
4. A copy of the legal representative and the copy of the identification card.
5. Copy of the identification card of the authorized declarant that will perform the import procedures.
6. Copy of the valid single taxpayer registration.
7. List of products to be exported.
8. Environmental license given by the Ministry of Environment.
9. Certificate of not having enforceable debts to the Internal Revenue Service.
10. Submit the report of the exports made with the sworn statement trimestral – March, June, September and December – in the available form for this purpose.
11. Obtain the certificate of digital signature given by the following entities:
 - Central Bank: <http://www.eci.bce.ec/web/guest>
 - Security Data: <http://www.securitydata.net.ec/>

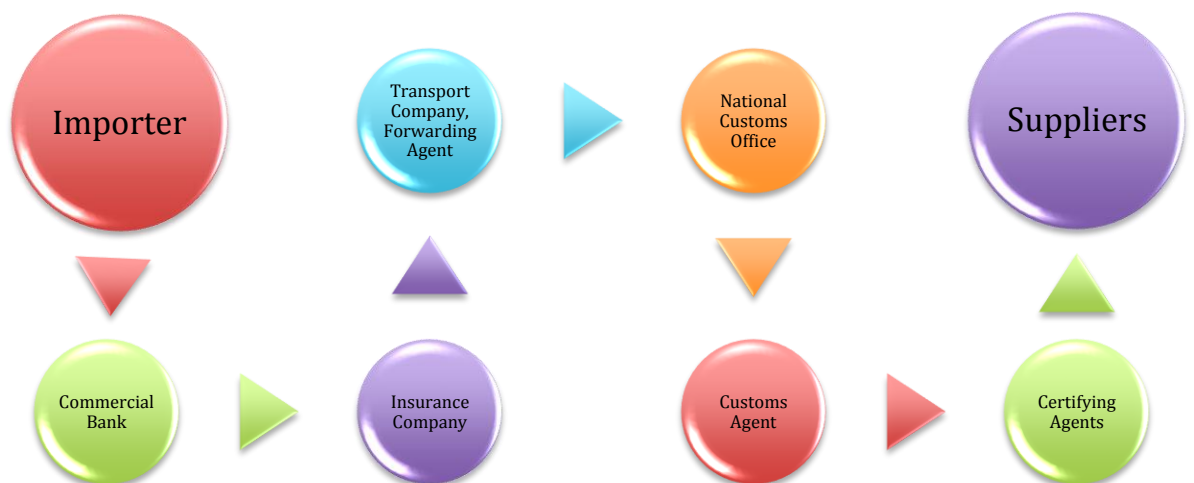
12. Register as an exporter in Ecuapass <http://ecuapas.aduana.gob.ec/> , and they can do the following things:

- Update data based
- Create user and password
- Accept user policies
- Register the electronic signature

(ADUANA DEL ECUADOR, 2016)

Agencies that are involved in an Operating of Export

Graph 18



(PRO ECUADOR, 2015)

2.3.4 Operating Permission to create the Company

REQUIREMENTS TO CONSTITUTE A COMPANY

LIMITED LIABILITY COMPANIES

REQUIREMENTS:

NAME: the company can consist of a corporate name. The general secretarial office of the Superintendence of Companies must approve it.

APPLICATION FOR APPROVAL: present to the Superintendent of Companies or its delegate three certified copies of the certificate of incorporation of the company to which must be attached the application signed by the attorney, because it requires the approval of the establishing contract.

MINIMUM AND MAXIMUM NUMBERS OF MEMBERS: the company will be established with two members – as minimum – or a maximum of fifteen, and if it would exceed this number, another kind of company must be created or it must be dissolved.

MINIMUM CAPITAL: the minimum capital that would deposit is \$ USA 400 dollars.

THE INDUSTRIAL CHAMBER OR SMALL INDUSTRY: if the company is going to engage in any industrial activity, it is necessary to obtain the membership to the respective industrial chamber or small industry.

THE ORIGIN OF THE INVESTMENT

If the constitution of the company employ individuals or legal foreign entities, it is essential to declare the type of investment made.

CHAPTER III

3.1 INTRODUCTION

In this chapter, we will do a financial analysis to interpret the sustainability of the exporter company of footwear. We will be taking into account every expense or creation and constitution of the company, and also the estimated income needed to get a steady rotation of money. We will use three stages to determine the percentage of financial profit that we are getting for a specific number of units sold abroad.

With the analysis of operational costs and expenses, we are going to seek a financial institution or bank that could finance the costs of construction, with a medium to long term plan, according to the scenarios and estimate costs.

Getting all of this information of costs, incomes and expenses could identify the feasibility of this business of marketing and exportation of footwear in Gualaceo to the Chilean market, identifying how many pairs of shoes we must sell to have the expected profit for this business.

3.2 Financial Structure of the Project

3.2.1 Investment Plan, Classification and Sources of Financing

This project will be financed with a percentage of the capital taken from the members of KANTUTA Company. On the other hand, we will see the possibility to

finance KANTUTA through a bank loan that will be more attractive and convenient for it. The choosing of the financial company will be in accordance with the analysis of the requirements, payment period and interest rate, that is being offered.

Financial Percentages

Table 4

Description	Percentage
Bank Credit	85%
Own Resources	15%
Total	100%

PROGRAM AND SCHEDULE OF INVESTMENTS

The program of investments is divided according to the expenses of the company followed by the expenses necessary to run the company.

Expenses of Constitution of Kantuta Company

Table 5

Legalization of the Company	\$
Expenses to create RUC	\$50,00
Expenses of the registration in the Superintendent of Companies	\$700.00
Trade Mark	\$350.00
Inscription in Customs (ECUAPAS)	\$100.00
Patent's expenses	\$100.00
Fire permission	\$20.00
Other expenses entries	\$1720.00

According to the investigations med of competent companies, the procedures for setting up a company require about \$1720.00

3.2.2 Quarterly Administrative Expenses

We have to establish with a lender institution a capital that must invest in KANTUTA Company. The credit will be paid every three months, for this reason, we need to know the value to pay and charge in that period of time.

Administrative Expenses

Table 6

DEPARTMENTS	NUMBER OF PEOPLE	PROFFESSINAL SERVICES	MONTHS	TOTAL FINANCING
GENERAL MANAGER	1	\$1000.00	3	\$3000
FOREIGN TRADE	1	700	3	2100
ACCOUNTANT	1	700	3	2100
SYSTEMS	1	600	3	1800
SALES	1	500	3	1500
PURCHASES	1	500	3	1500
SECRETARIES	1	450	3	1350
TOTAL	7	4450	3	13350

At the end of the year, the KANTUTA Company will spend \$53.400,00 on the salaries of its employees. Every three months, the company will spend \$13.350,00; it will help us to determine what must be the level of sales to deal with these values and to be prompt with administrative payments.

3.3. Billing Policies, Payments and Stocks

Expansion editor's, Vicente Tena, gives a clear concept of the management of receipts and payments. "The management of purchases and sales department is forecasting, control and reconciliation of cash receipts and payments on time from

customers. The optimal management should not depend on the circumstances, all anticipate possible tensions and study solutions to problems in advance” (EXPANSION, 2016)

It is important to make policies and conditions - for billing and payment- to be established for the proper performance of the company. The control should be very rigorous in order to not have delays for lack of liquidity when managing any activity, either by purchasing the shoes with our producers or in the sale and distribution of the product to the international market. The lack of control of collections can cause a number of drawbacks, such as our loss of credibility to our customers. On the other hand, the lack of time payments can decrease the confidence of the supplier or creditor in the company. So the mismanagement in receipts and payments will force us to seek solutions that involve financial expenses.

ANALYSIS FOR THE FOLLOWING POLICIES OG BILLING AND PAYMENT

The policy of charging to our customers abroad at the moment of ordering in the web page of the company will be 80% in cash. It will support with the transfer receipt and the 20% of the difference has to be paid in 30 days. On the other hand, the payments to suppliers will be 50% on cash, and 50% on credit.

KANTUTA does not keep stocks in inventories since the order will be made to suppliers according to prior sales; it will allow more liquidity to exist in the company because we will not have to worry of having production lag since it causes problems in the development of the company.

3.3.1 Prior Sale

Our company KANTUTA will have a web page in which will offer the season products, and to make the sale and use PAYPAL payment to ensure secure for potential customers.

3.4 PROGRAM OF PRODUCTION AND SALES

During the five years analyzed, this is the budget for purchases for the KANTUTA Company to determine its profitability. We have a financial analysis for the future of the company in the first five years after its creation as a reference. We have done three stages where we can identify which one is better at the moment of the purchase decision.

Shopping Budget

Table 7

INTERNATIONAL SHOPPING BUDGET

	Year 1	Year 2	Year 3	Year 4	Year 5
<i>Unit</i>	12000	12240	12484,8	12734	12989
<i>Purchase Price</i>	\$ 18,00	\$ 18,36	\$ 18,73	\$ 19,10	\$ 19,48
<i>Total</i>	\$ 216.000,00	\$ 224.726,40	\$ 233.805,35	\$ 243.251,08	\$ 253.078,43
<i>Total Purchase</i>	\$ 216.000,00	\$ 224.726,40	\$ 233.805,35	\$ 243.251,08	\$ 253.078,43
<p>This table shows a percentage increase of purchases of 2% annually. This establishes a policy charge of 70% cash and 30% credit.</p>					
	Year 1	Year 2	Year 3	Year 4	Year 5
<i>Unit</i>	12000	12300	12607,5	12923	13246

<i>Purchase Prices</i>	\$ 18,00	\$ 18,45	\$ 18,91	\$ 19,38	\$ 19,87
<i>Total</i>	\$ 216.000,00	\$ 226.935,00	\$ 238.423,58	\$ 250.493,78	\$ 263.175,03
<i>Total Purchase</i>	\$ 216.000,00	\$ 226.935,00	\$ 238.423,58	\$ 250.493,78	\$ 263.175,03

2.5% represents the increase of purchases annually; and this establishes a policy charge of 60% cash and 40% credit.

	Year 1	Year 2	Year 3	Year 4	Year 5
<i>Unit</i>	12000	12600	13230	13892	14586
<i>Purchase Price</i>	\$ 18,00	\$ 18,90	\$ 19,85	\$ 20,84	\$ 21,88
<i>Total</i>	\$ 216.000,00	\$ 238.140,00	\$ 262.549,35	\$ 289.460,66	\$ 319.130,38
<i>Total Purchases</i>	\$ 216.000,00	\$ 238.140,00	\$262.549,35	\$289.460,66	\$ 319.130,38

5% represents an increase of purchases annually. This establishes a policy charge of 50% cash and 50% credit.

Sales Budget

Table 8

INTERNATIONAL SHOPPING BUDGET

	Año 1	Año 2	Año 3	Año 4	Año 5
<i>Unit</i>	12000,00	12240	12485	12734	12989
<i>Sales Prices</i>	\$ 38,43	\$ 39,20	\$ 39,98	\$ 40,78	\$ 41,60
<i>Total</i>	\$ 461.171,88	\$ 479.803,22	\$ 499.187,27	\$ 519.354,44	\$ 540.336,36
<i>Total Sales</i>	\$ 461.171,88	\$ 479.803,22	\$ 499.187,27	\$ 519.354,44	\$ 540.336,36

2% represents an increase of sales annually.
This establishes a policy of payments of 80% cash and 20% credit

	Year 1	Year 2	Year 3	Year 4	Year 5
<i>Unit</i>	12000,00	12300	12608	12923	13569
<i>Sales Prices</i>	\$ 38,43	\$ 40,35	\$ 42,37	\$ 44,49	\$ 46,71
<i>Total</i>	\$461.171,88	\$ 496.336,24	\$ 534.181,87	\$ 574.913,24	\$ 633.841,85
<i>Total Sales</i>	\$461.171,88	\$ 496.336,24	\$ 534.181,87	\$ 574.913,24	\$ 633.841,85

2,5% represents the increase of sales. This establishes a policy of payments of 80% cash and 20% credit.

	Year 1	Year 2	Year 3	Year 4	Year 5
<i>Unit</i>	12000,00	12600	13230	13892	14586
<i>Sales Prices</i>	\$ 38,43	\$ 40,35	\$ 42,37	\$ 44,49	\$ 46,71

<i>Total</i>	\$	\$	\$	\$	\$
	461.171,88	508.442,00	560.557,30	618.014,43	681.360,90
Total	\$	\$	\$	\$	\$
Sales	461.171,88	508.442,00	560.557,30	618.014,43	681.360,90

5% represents annually the increase of purchase, and this establishes a policy of payments of 80% cash and 20% credit.

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KANTUTA Company does not have in stock merchandise because the production will be done according to the orders made by the customers of the Chilean market. They will be candidates for purchases and sales with a variation of the purchase price and sale price that will help us to determine the profitability of the company.

Administrative Expenses, Sales and Financial

The administrative costs will be the following:

Administrative Expenses per month

Table 9

DEPARTMENTS	Nº PEOPLE	SALARY
GENERAL MANAGER	1	\$ 1.000,00
FOREIGN TRADE	1	\$ 700,00
ACCOUNTANT	1	\$ 700,00
SYSTEMS	1	\$ 600,00
SALES	1	\$ 500,00
PURCHASES	1	\$ 500,00
SECRETARIES	1	\$ 450,00

TOTAL	7	\$ 4.450,00
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The main objective of the all staff who works in the company will be awareness of the company website and social networks to answer any question by our clients abroad. Moreover, it is important to make the new models of footwear known. This should be periodically launched to promote our product; and the orders by our customers should be effectively treated in the shortest possible time because the export and transfer process requires considerable time until arrival at the final destination.

3.5 Summary of Costs and Expenses

Table 10

ITEMS	TRIMESTRAL COST	MONTHLY COST
ADMINISTRATIVE EXPENSES	\$ 13.350,00	\$ 4.450,00
BASIC SERVICES EXPENSES	\$ 1.995,00	\$ 665,00
INCORPORATION EXPENSES CIA. LTDA.	\$ 1.720,00	\$ 1.720,00
EXPORT PRODUCTS	\$ 19.829,25	\$ 6.609,75
FREIGHT AND INSURANCE COSTS OF EXPORT	\$ 4.120,00	\$ 1.373,33
UNEXPECTED	\$ 4.000,00	\$ 1333,33
TOTAL	\$ 45.014,25	\$ 16.151,41

3.6 WORKING CAPITAL

Table 11

ITEMS	TRIMESTRAL COST
OFFICE EQUIPMENT	\$ 7.640,00
ADMINISTRATIVE EXPENSES	\$ 13.350,00
BASIC SERVICES EXPENSES	\$ 1.995,00
INCORPORATION EXPENSES CIA. LTDA.	\$ 1.720,00
EXPORT PRODUCTS	\$ 19.829,25
FREIGHT AND INSURANCE COSTS OF EXPORT	\$ 4.120,00
UNEXPECTED	\$ 4.000,00
TOTAL	\$ 52.654,25

We need an approximate amount of \$ 52.654,25 every three months for the proper development of the company KANTUTA.

3.7 PROJECT FINANCING

We will seek a lender company that gives us support in terms of agility and it approves the amount requested at a reasonable interest rate and that allows us to fulfill our objective of establishing the trading and exporting company from Gualaceo. After we have analyzed the companies nationwide; we considered that it is appropriate to get the tax credit to Nacional de Fomento Bank. This institution gives us a lot of facilities when it comes to investing in small companies that seek to improve the productive matrix and increase the trade inside and outside the country. Then we visualize the

amortization table with a requested capital of \$45.000 for the beginning of the economic activity of the company.

Table of debt Amortization

Table 12

TABLE OF AMORTIZATION			
BENEFICIARY	KANTUTA CIA.LTDA.		
AMOUNT	\$45.000,00	INTEREST	11,34%
PAYMENT PERIOD	20 QUARTERS		
GRACE PERIOD		PAYMENT FORM	QUARTERLY
START DATE	1 JANUARY 2016		
DIVIDEND			

PAYMENT N°	SALARY START	AMORTIZATION CAPITAL	INTEREST	TOTAL DIVIDEND	TRIMESTRAL INTEREST	CAPITAL
1	45.000,00	2.250,00	1.275,75	3.525,75		
2	42.750,00	2.250,00	1.211,96	3.461,96		
3	40.500,00	2.250,00	1.148,18	3.398,18		
4	38.250,00	2.250,00	1.084,39	3.334,39	4.720,28	9.000,00
5	36.000,00	2.250,00	1.020,60	3.270,60		
6	33.750,00	2.250,00	956,81	3.206,81		
7	31.500,00	2.250,00	893,03	3.143,03		
8	29.250,00	2.250,00	829,24	3.079,24	3.699,68	9.000,00
9	27.000,00	2.250,00	765,45	3.015,45		

10	24.750,00	2.250,00	701,66	2.951,66		
11	22.500,00	2.250,00	637,88	2.887,88		
12	20.250,00	2.250,00	574,09	2.824,09	2.679,08	9.000,00
13	18.000,00	2.250,00	510,30	2.760,30		
14	15.750,00	2.250,00	446,51	2.696,51		
15	13.500,00	2.250,00	382,73	2.632,73		
16	11.250,00	2.250,00	318,94	2.568,94	1.658,48	9.000,00
17	9.000,00	2.250,00	255,15	2.505,15		
18	6.750,00	2.250,00	191,36	2.441,36		
19	4.500,00	2.250,00	127,58	2.377,58		
20	2.250,00	2.250,00	63,79	2.313,79	637,88	9.000,00
TOTAL			13.395,38	58.395,38		

The credit payment is made in a quarterly way. We agree to this form of payment as the amount needed to be paid in a reasonable time for the company to have this money and not be late in payments. We talk about footwear export in large volumes, resources and expenses that the company has, they are high; and this is the reason to be always punctual in the payments.

3.8 CASH FLOW (BALANCE WITH AND WITHOUT FINANCING)

Comparative Cash Flow with Financing

Chart 7

KANTUTA							
COMPARATIVE STATEMENTS OF CASH FLOW							
(Expressed in Dolares)							
			YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
OPERATING ACTIVITIES							
Collection of customers			\$ 368.937,50	\$ 498.987,97	\$ 550.134,24	\$ 606.523,00	\$ 668.691,61
Other cash charges related to the activity							
Payments to suppliers			\$(108.000,00)	\$(227.070,00)	\$(250.344,68)	\$(276.005,00)	\$(304.295,52)
Payments of salaries and social benefits			\$ (53.400,00)	\$ (56.070,00)	\$ (58.873,50)	\$ (61.817,18)	\$ (64.908,03)
Tax payments			\$ (6.037,37)	\$ (9.469,41)	\$ (13.352,07)	\$ (18.177,21)	\$ (23.123,64)
Other payments related to the activity			\$ (157.611,00)	\$(165.491,55)	\$(173.766,13)	\$(182.454,43)	\$(191.577,16)
Cash from operating activities			\$ 43.889,13	\$ 40.887,01	\$ 53.797,86	\$ 68.069,18	\$ 84.787,26
FINANCING ACTIVITIES							
Obtained loan amortization			-9.000,00	-9.000,00	-9.000,00	-9.000,00	-9.000,00
Financial interest payments			-4720,275	-3699,675	-2679,075	-1658,475	-637,875
Cash and cash equivalents from financing activities			\$ (13.720,28)	\$ (12.699,68)	\$ (11.679,08)	\$ (10.658,48)	\$ (9.637,88)
Increase – decrease Net cash			\$ 30.168,86	\$ 28.187,34	\$ 42.118,79	\$ 57.410,70	\$ 75.149,39
Balance of cash at beginning of year			\$ 45.000,00	\$ 75.168,86	\$ 103.356,20	\$ 145.474,98	\$ 202.885,69
Result for exposure to inflation			\$ 30.168,86	\$ 28.187,34	\$ 42.118,79	\$ 57.410,70	\$ 75.149,39
Balance of cash at the end of the year			\$ 75.168,86	\$ 103.356,20	\$ 145.474,98	\$ 202.885,69	\$ 278.035,07

Chart 8

Cash Flow in dollars without Financing

Chart 9

KANTUTA						
COMPARATIVE STATEMENTS OF CASH FLOW WITHOUT FINANCING						
(Expressed in Dollars)						
	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	
OPERATING ACTIVITIES						
Collection of customers	\$368.937,50	\$498.987,97	\$550.134,24	\$606.523,00	\$668.691,61	
Other cash charges related to the activity						
Payments to suppliers	\$(108.000,00)	\$(227.070,00)	\$(250.344,68)	\$(276.005,00)	\$(304.295,52)	
Payments of salaries and social benefits	\$ (53.400,00)	\$ (56.070,00)	\$ (58.873,50)	\$ (61.817,18)	\$ (64.908,03)	
Tax payments	\$ (6.037,37)	\$ (9.469,41)	\$ (13.352,07)	\$ (18.177,21)	\$ (23.123,64)	
Other payments related to the activity	\$ (157.611,00)	\$(165.491,55)	\$(173.766,13)	\$(182.454,43)	\$(191.577,16)	
Cash from operating activities	\$ 43.889,13	\$ 40.887,01	\$ 53.797,86	\$ 68.069,18	\$ 84.787,26	
Increase – decrease Net cash	\$ 43.889,13	\$ 40.887,01	\$ 53.797,86	\$ 68.069,18	\$ 84.787,26	
Balance of cash at beginning of year	\$ 45.000,00	\$ 88.889,13	\$ 129.776,15	\$ 183.574,01	\$ 251.643,19	
Result for exposure to inflation	\$ 43.889,13	\$ 40.887,01	\$ 53.797,86	\$ 68.069,18	\$ 84.787,26	
Balance of cash at the end of the year	\$ 88.889,13	\$ 129.776,15	\$ 183.574,01	\$ 251.643,19	\$ 336.430,45	

KANTUTA's cash flow is greater if the company is provided with all investment without having to finance these amounts. It can be also said that the company improves its cash flow in the subsequent years since it has as a source of cash earnings in each year.

3.9 INCOME PROJECTION (PROJECTED SALES)

Three scenarios have been established to identify what should be the projected sales of the company for the following five years. In the first stage, 2% of the annual

sales increase (in units and price); in the second stage, 2,5% increases, and ultimately there was an increase of 5%.

After these analyses, we have considered that the objective of the company must be focused on having annual sales of increase of 5%.

International Sales Budget

Table 13

INTERNATIONAL SALES BUDGET					
	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
UNIT	12.000	12.600	13.230	13.892	14.586
SALES PRICE	\$38,43	\$40,35	\$42,37	\$44,49	\$46,71
TOTAL	\$461.171,88	\$508.442,00	\$560.557,30	\$618.014,43	\$681.360,90

3.10 PROFIT AND LOSS STATEMENT

KANTUTA

Statements of Economic Situation (EXPRESSED IN DOLLARS)

Chart 10

KANTUTA					
STATEMENTS OF INTEGRAL SITUATION (EXPRESSED IN DOLLARES)					
	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
SALES	\$461.171,88	\$508.557,30	\$560.557,30	\$618.014,43	\$681.360,90
SALES COST	\$216.000,00	\$238.140,00	\$262.549,35	\$289.460,66	\$319.130,38
GROSS PROFIT	\$245.171,88	\$270.302,00	\$298.007,95	\$328.553,77	\$362.230,53
ADMINISTRATIVE EXPENSES	\$53.400,00	\$56.070,00	\$58.873,50	\$61.817,18	\$64.908,03
SELLING EXPENSES	\$157.611,00	\$165.491,55	\$173.766,13	\$182.454,43	\$191.577,16

DEPRECIATIONS	\$1.998,00	\$1.998,00	\$1.998,00	-	-
OPERATION PROFIT	\$32.162,88	\$46.742,45	\$63.370,32	\$84.282,16	\$105.745,34
FINANCIAL EXPENSES	\$4.720,28	\$3.699,68	\$2.679,08	\$1.658,48	\$637,88
PRETAX PROFIT	\$27.442,60	\$43.042,77	\$60.691,25	\$82.623,68	\$105.107,46
TAXES 2%	\$6.037,37	\$9.469,41	\$13.352,07	\$18.177,21	\$23.123,64
NET PROFIT	\$21.405,23	\$33.573,36	\$47.399,17	\$64.446,47	\$81.983,82

The net profit margin considered in the statement of economic situation is 5% in the first year; after this year, the net profit is increasing gradually the next period according to the projections in sale. Then sales cost is most represented, as are the amounts for the expenses in sales and administration.

3.11 FINANCIAL STATEMENT

Statement of Financial Position

	INICIAL	AÑO 1	AÑO 2	AÑO 3	AÑO 4	AÑO 5
ACTIVE	\$52.640,00	\$173.045,23	\$208.688,59	\$259.232,44	\$328.134,57	\$415.953,25
CURRENT ACTIVE	\$45.000,00	\$167.403,23	\$205.044,59	\$257.586,44	\$326.488,57	\$414.307,25
Cash and cash equivalents	\$45.000,00	\$75.168,86	\$103.356,20	\$145.474,98	\$202.885,69	\$278.035,07
Debts to collect		\$92.234,38	\$101.688,40	\$112.111,46	\$123.602,89	\$136.272,18
Property, plant and equipment	\$7.640,00	\$5.642,00	\$3.644,00	\$1.646,00	\$1.646,00	\$1.646,00
Computer equipment	\$5.000,00	\$5.000,00	\$5.000,00	\$5.000,00	\$5.000,00	\$5.000,00
Furniture	\$2.640,00	\$2.640,00	\$2.640,00	\$2.640,00	\$2.640,00	\$2.640,00

Accumulated depreciation		\$(1.998,00)	\$(3.996,00)	\$(5.994,00)	\$(5.994,00)	\$(5.994,00)
LIABILITIES	\$45.000,00	\$144.000,00	\$146.070,00	\$149.274,68	\$153.730,33	\$159.565,19
liabilities in a short time		\$108.000,00	\$119.070,00	\$131.274,68	\$144.730,33	\$159.565,19
Loans from financial situations						
Debts to pay		\$108.000,00	\$119.070,00	\$131.274,68	\$144.730,33	\$159.565,19
Liabilities to long term	\$45.000,00	\$36.000,00	\$27.000,00	\$18.000,00	\$9.000,00	
Financial institutions	\$45.000,00	\$36.000,00	\$27.000,00	\$18.000,00	\$9.000,00	
PATRIMONY	\$7.640,00	\$29.045,23	\$62.618,59	\$109.957,77	\$174.404,24	\$256.388,07
Capital members	\$7.640,00	\$7.640,00	\$7.640,00	\$7.640,00	\$7.640,00	\$7.640,00
Net income		\$21.405,23	\$33.573,36	\$47.339,17	\$64.446,47	\$81.983,82
Retained earnings			\$21.405,23	\$54.978,59	\$102.317,77	\$166.764,24

According to the statement of the financial position projected for the Kantuta Company, we can say that account cash and equivalents represent the assets; it has a significant cash flow that are 50% of sales. A lot does not represent the plant and equipment for the company because the investment in this area is not bigger than the development of economic activities of the company.

The short term of the liabilities of the company consists of debts to pay which according to the payment policies are held by suppliers in the amount of 50% of sales. On the other hand, in the long term the liabilities are considered the finance of the loan with Nacional de Fomento Bank for an amount of 45.000,00; it is going to be paid back in the next 5 years on a quarterly way.

The net equity of the company is formed with the initial capital of the members for an amount of \$7.640,00 in the first period; and in the following years it increases due to retained earnings.

3.12 CONCLUSION

It is considered appropriate in this chapter to make an analysis of how the company is going to be established, identifying what incomes expenses and cost will be until the product arrives to the international destination. The capital that we need to legalize and to operate the company will be financed through a bank credit of 85% and 15% of our own funds; in this case the Nacional de Fomento Bank will give us the money due to its policies and requirements of the credit that favor us.

The initial capital will be funded (\$45.000) and it has to be cancelled at a rate of 11.34%, paid quarterly for five years.

The policies of collections and payments are clearly defined, and it is considered appropriate to use three scenarios where we can focus objectively on the best results. The international sales will be done through the web site of the company with the orders placed by our customers abroad. The policies of charge will be 80% cash and 20% on credit with a period of 30 days. Our objective will be to sell at the international market 12.000 pairs of shoes each year; it represents 5% of income annually. In other scenarios, we will establish a percentage of 2,5% and 2% respectively where there is also a small profit with an exception of the scenario that it was calculated of 2% and it allows us to identify an increase in the case that the company will not be profitable. 5% annual establishes the policies of charge and it represents 50% cash and 50% credit for a period of 30 days; likewise in the second scenario it has an increasing of

2% and it represents 60% cash and 40% credit. Finally, and the third scenario and increasing of 2%, that is a payment form of 70% cash and 30% credit. All of these are for the suppliers of footwear.

The capital of the work at the beginning of the economic activity of the company is approximately \$ 52.654,25, in which the value includes the legalization expenses, salary to employees, furniture and equipment the company needs, among others. This value is referent quarterly since the obligations with the company's credit will be cancelled during this period.

In the first year, the cash flow statement is \$ 75168,68. This indicates that the company KANTUTA will have cash to make all of these expenses and obligations with third.

Finally the analysis of the results where is reflected the loss or gain of the company. At the end of the year, we see a profit of \$ 21405,23 that is increasing consecutively every year in the period of five years.

All these analyses allow us to identify that the company will have profitability and sustainability in the course of its economic activity, and the project is effectively supported.

CHAPTER IV COMPARISON BETWEEN THE ACTUAL STATEMENT AND THE FUTURE STATE OF THE PROJECT

4.1 EVALUATION OF THE PROJECT

It is considered a considerable time of study for the future (5 years), to get an idea of how will be the company; and it helps us to establish policies and strategies to accomplish it successfully.

4.1.1 MAIN EVALUATION CRITERIA

The use of each of these criteria allows us the acceptance or rejection of the project discussed.

DISCOUNTED OF CASH FLOW (FED) OR METHOD OF THE PRESENT VALUE

It consists to determine if the present value (VA) of expected future cash flows, justifies the original disbursement (A). If the VA is bigger or equal to A the proposed project is accepted; otherwise, it is rejected. The VA calculates by the following expression

$$VA = \sum_{t=1}^n \frac{Qt}{(1+K)^t} + \frac{S}{(1+K)^N}$$

PRESENT NET VALUE

It consists to update the present value (the future cash flow) that generates the project but discounted at a certain interest rate (the rate discount) and it compares with the initial contribution of investment. As discount rate is normally used, the average cost of capital of the company makes the investment. If $VA > 0$; the project is profitable.

This method is considered more appropriate, at the time to analyze the profitability of a project. The formula to calculate this method is as follow:

$$VAN = -A + \sum_{t=1}^n \frac{Q_t}{(1+k)^t}$$

WHERE

A= down payment

Qt = cash flow in period τ

K= capital cost

N= useful life estimated for investment

INTERNAL RETURN RATE

Internal return rate (TIR) is a proportionately measure of the relative profitability of the project comparing to the profitability in absolute terms that the VAN provided. TIR accepts the projects that allow us to get an internal profitability, it is superior to the rate of discount appropriated for the company, which means, the cost of capital. This method presents more difficulties and it is less reliable than the previous one, so that is the reason that the VAN is used.

If $TIR > \text{rate discount } (r)$; the Project is accepted.

If $TIR < \text{rate discount } (r)$; the project is not accepted.

If the rate of discount gives to VAN project, it means zero.

$$-A + \sum_{t=1}^n \frac{Q_t}{(1+r)^t} = 0$$

Where

A= down payment

Qt= cash flow in the period t

R= rate or return

Benefit cost – Cost (b / c)

Comparing the based reasons, it is calculated as follows.

$$BC = \frac{VA}{A}$$

Where:

VA= present value

A= initial disbursement

The project must be accepted if B/C is higher than 1; on the other hand, if it less than 1, it must reject. So other costs from the original disbursement should be consider.

4.1.2 Break-even point

To calculate the balance, it is necessary to consider the fixed expenses, each month, which are taking into account for the company can carry out its work without making a profit. In this case, we would have to analyze how many pairs have to be exported to cover our administrative expenses and cost operating. We have to overcome that amount exported to cover the costs and perceive the gain for the company.

The sale price to the customer of each pair of shoes is based on the following conditions:

Fixed expenses:

- Administrative staff 4450.00 each month
- Depreciations 166.50 each month

Variable expenses

- Loans and interest to the bank 1573.43 each month
- Basic services 665.00 each month

COSTS- VOLUME-PRODUCT UTILITY

Fixed expenses

- Administrative staff 4450.00 monthly
- Depreciations 166,50 monthly

Variable expenses

- Loans and interest to the bank 1573.43 monthly
- Basic services 665.00 monthly

COTS – VOLUME – PRODUCT UTILITY

FIXED EXPENSE	\$4.616,50
VARIABLE EXPENSE	\$2.238,43
UNITS	178 MONTHLY PAIRS
UNIT PRICE VALUE	\$38,43

BREAKEVEN

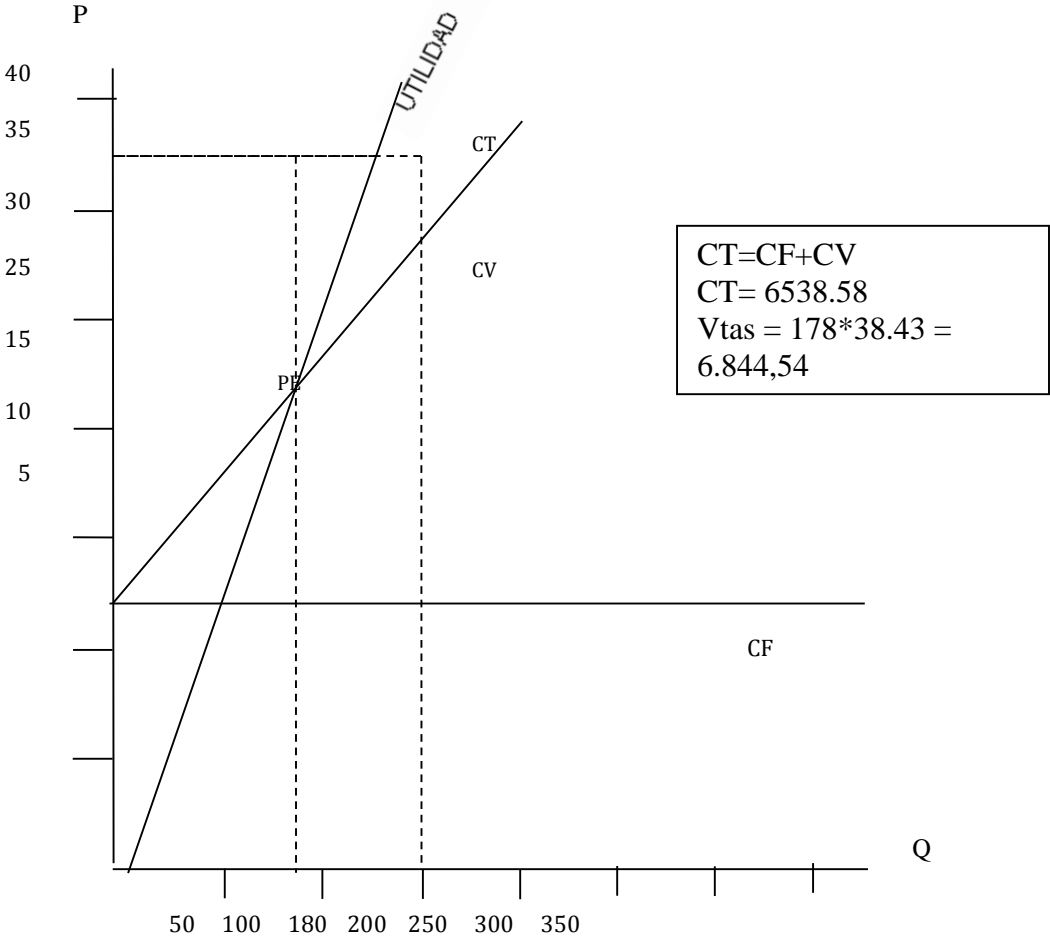
$$PE = \frac{CF}{1 - \frac{CV}{VENTA}}$$

$$PE = \frac{4616.50}{1 - \frac{2238.43}{6840.54}} = \frac{4616.50}{1 - 0,3272300140} = \frac{4616.50}{0.6727699859} = 6861.93$$

KANTUTA Company must keep sales volume of pairs each month of \$6861.63; this is for not having gain or loss in the accounting period. So the company must keep a volume of sales (local or export) over 180 or 200 pairs of women shoes in the market.

Break – Even Point

Graph 19



4.1.3 FINANCIAL INDEX

4.1.3.1 LIQUIDITY

Chart 11

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Current ratio (liquidity)	1,55	1,72	1,96	2,26	2,60
Working capital	\$59.403,23	\$85.974,59	\$126.311,77	\$181.758,24	\$254.742,07
Test (treasury)	1,55	1,72	1,96	2,26	2,60

CURRENT RATIO

For the first year, KANTUTA Company will have to support with 1.55 for each dollar of active obligation. The next years, the company has to increase its capacity to make the obligations in short term; and in the last year (five), the company will have to support each dollar of obligation.

WORKING CAPITAL

Once the company cancels its total current obligation in the first period \$59.403,23, it will remain and make the obligations rise in the normal development of its economic activity. So the working capital of the company increases in a significant way in the following periods.

TEST

The company is able to answer its present obligations just with its cash and equivalents, and its accounts to pay. Also, the company does not have a stock in inventories. In this particular case, the company would be in conditions to cover its debts and obligations with 1.55 equal to the present since we don not have merchandise to reflect in the inventories.

4.1.3.2 RETURN LINE (VAN, TIR, ROE, AND ROA)

Analysis of Profitability

Chart 12

Analysis of Rentability					
	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
NET INCOME	\$21.405,23	\$33.573,36	\$47.339,17	\$64.446,47	\$81.983,82
NET TURNOVER (SALES)	\$461.171,88	\$508.442,00	\$560.557,30	\$618.014,43	\$681.360,90
GROSS MARGIN	53%	53%	53%	53%	53%
OPERATING MARGIN	7%	9%	11%	14%	16%
NET MARGIN (INCOME SALES)	5%	7%	8%	10%	12%
ASSET ROTATION (GLOBAL INCOME)	2,67	2,44	2,16	1,88	1,64
ROA	12%	16%	18%	20%	20%
BORROWING MULTIPLE	5,96	3,33	2,36	1,88	1,62
ROE	74%	54%	43%	37%	32%

NET ACTUAL VALUE



**NET ACTUAL
VALUE (VAN) \$112.318,86**



**75% INTERNAL RATE OF
RETURN (TIR)**

This analysis reflects the profitability of KANTUTA Company. 75% represents an internal return that helps us to determine that the creation of the company is very successful.

In the second analysis, 2,5% increased the sales and the results were as follows:

Analysis of Profitability

Chart 13

Analysis of Rentability					
	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
NET INCOME	\$ 18.934,19	\$ 30.399,73	\$ 43.113,40	\$ 58.750,68	\$ 86.093,09
NET TURNOVER (SALES)	\$ 461.171,88	\$ 496.336,24	\$ 534.181,87	\$574.913,24	\$ 633.841,85
GROSS MARGIN	53%	54%	55%	56%	58%
OPERATING MARGIN	6%	9%	11%	13%	18%
NET MARGIN (INCOME SALES)	4%	6%	8%	10%	14%
ASSET ROTATION (GLOBAL INCOME)	3,00	2,76	2,45	2,11	1,78
ROA	12%	17%	20%	22%	24%
BORROWING MULTIPLE	5,79	3,15	2,18	1,72	1,45
ROE	71%	53%	43%	37%	35%



Net Actual Value \$ 82062,83
(VAN)



52% Internal Rate of Return
(TIR)

In the third analysis, 2% is a reference of an annual increase in sales. 70% is in cash and 30% on credit. In this part, we see that it is not available because it will not have the profitability in the business.

Analysis of profitability

Chart 14

Analysis of Rentability					
	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
NET INCOME	\$18.934,19	\$19.226,69	\$19.419,84	\$21.064,11	\$21.034,16
NET TURNOVER (SALES)	\$461.171,88	\$479.803,22	\$499.187,27	\$519.354,44	\$540.336,36
GROSS MARGIN	53%	53%	53%	53%	53%
OPERATING MARGIN	6%	6%	6%	6%	5%
NET MARGIN (INCOME SALES)	4%	4%	4%	4%	4%
ASSET ROTATION (GLOBAL INCOME)	3,48	3,30	3,15	3,00	2,87
ROA	14%	13%	12%	12%	11%
BORROWING MULTIPLE	4,98	3,17	2,43	2,01	1,75
ROE	71%	42%	30%	24%	20%



NET ACTUAL VALUE (VAN) (\$13.877,13)



INTERNAL RATE OF RETURN (TIR) 0%

GROSS MARGIN: 53% reached the gross margin. This means that it generated a profit of 0.53 cents for every dollar sold. The gross margin remains in this percentage because the projections of sales have an increase of 5% in incomes and costs.

NET MARGIN: 5% represents the net margin in the first period, and it reached 12% in the fifth year. This is because the financial and operating expenses are gradually reduced in relation to sales.

ROE AND ROA: the company has a good rotation of its activities. ROA rises to 12% and it will increase in the following years. So Kantuta's debt finishes because it generates 74% of ROE and it allows generating a profit of 0.74 cents for every dollar that is invested by members. The ROE in the company reduces considerably in the next years due the patrimony is increasing by the accumulated earnings.

INTERNAL RATE OF RETURN: TIR has a percentage of 75%; it indicates that the project is profitable in terms of sales volume maintaining reduces of the internal rate.

NET PRESENT VALUE: VAN is \$112.318,86, it indicates that the project supports the minimum rate required. (9,95% was used to calculate)

4.1.3.3 EFFICIENCY

Management Analysis

Chart 15

MANAGEMENT ANALYSIS

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
DAYS OF PAYMENT TO SUPPLIERS	183	183	183	183	183
DAYS TO CHARGE TO CUSTOMERS	73	73	73	73	73
ROTATION OF TREASURY	134	165	204	249	300

The loan recovery in the project is 73 days; while the days to pay to the suppliers are 183. With this analysis, we can say that the rotation treasury is high since we recover the portfolio in less time than we would have to pay the obligations with the suppliers.

4.1.3.4 LEVERAGE

Chart 16

LEVERAGE INDEX					
	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Total Leverage	4,96	2,33	1,36	0,88	0,62
Short Term Leverage	3,72	1,90	1,19	0,83	0,62
Total Financial Leverage	1,24	0,43	0,16	0,05	0,00

LEVERAGE: In the first period, the external liabilities have a participation of 4.96 respecting to the patrimony of the company; while the current liabilities, in this case, suppliers have a participation of 3,72, and the financial institutions have a participation of 1,24 respecting to the patrimony.

4.1.3.5 ROTATION

Chart 17

ROTATION INDEX					
	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Fixed Actives Rotation	60,36	66,55	73,37	80,89	89,18
Total Actives Rotation	2,67	2,44	2,16	1,88	1,64
Working Capital Rotation	7,76	5,91	4,44	3,40	2,67

There is no analysis in an inventory of rotation because the company does not handle a stock of itself since the sales are in a direct way through the orders with its suppliers and with customers through pre-sales.

60.36 timers refer to the fixed assets and it is increasing in the subsequent periods, it maintains high because the investment in fixed assets is minimum for the project; 2,67 is the rotation of the total assets and we could interpret it is sold for each invested money in fixed assets. In the first year, the capital rotation of the company supports 7.76.

4.1.4 ASSETS COMPOSITION

Chart 18

PROPERTY, PLANT AND EQUIPMENT			
QUANTITY	DESCRIPTION	UNIT COST	TOTAL COST
Computer equipment			
7	Desktop	\$ 650,00	\$ 4.550,00
3	Printers	\$ 150,00	\$ 450,00
Office furniture			
7	Desks	\$ 150,00	\$ 1.050,00
7	Executive chairs	\$ 120,00	\$ 840,00
10	Waiting chairs	\$ 45,00	\$ 450,00
3	Cabinets	\$ 100,00	\$ 300,00
Total		\$1.215,00	\$7.640,00

The fixed assets of the company are composed just for computer equipment for a value of \$5000,00, and office furniture for \$2640,00. That is that the company would need to invest in equipment to develop its economic activity in a normal way.

4.2 COST-BENEFIT ANALYSIS

Chart 19

Discount Rate	9,95%					
BENEFITS	\$540.75	\$596.18	\$657.29	\$724.66	\$798.94	\$2.298.68
	5,01	2,40	1,09	3,43	1,43	3.21
COSTS	\$513.73	\$556.10	\$602.35	\$651.32	\$706.51	\$2.113.09
	2,85	1,66	5,96	6,02	2,31	6.17
Benefit/Cost Relation						1,09

The relation cost-benefit is 1.09, which is in benefit for each \$1.00 in the cost; the discount rate is 9,95%, which is superior to the financing cost rate.

As you can see the relation benefit/cost is bigger than 1, for this reason, the project is considered.

4.3. IMPACT OF INVESTMENT PROJECT

4.3.1 ADDED VALUE

These are the additional values that the product acquires after a productive process.

Chart 20

ADDED VALUE	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Added Value	\$461.171,88	\$508.442,00	\$560.557,30	\$618.014,43	\$681.360,90
(-)Shopping to third	\$439.766,65	\$474.868,63	\$513.218,13	\$553.567,95	\$599.377,08
Total Added Value	\$21.405,23	\$33.573,36	\$47.339,17	\$64.446,47	\$81.983,82

4.3.2 GENERATION OF CURRENCIES AND EMPLOYMENT

GENERATION OF CURRENCES: most of the supplies to make the footwear are imported, so will be considered a percentage of 75%. The generation of currencies per year is presented in the following chart.

Chart 21

GENERATION OF CURRENCIES	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
INCOMES OF CURRENCIES					
Sales of Exported Footwear	\$461.171,88	\$508.442,00	\$560.557,30	\$618.014,43	\$681.360,90
EGRESO DE DIVISAS					
Compras Insumos Importados	\$162.000,00	\$178.605,00	\$196.912,01	\$217.095,49	\$239.347,78
Total de Divisas Generadas.	\$299.171,88	\$329.837,00	\$363.645,29	\$400.918,93	\$442.013,12

4.3.3 GENERATION OF EMPLOYMENT

KANTUTA Company generates employment in a direct and indirect way.

Generation Employment

<u>GENERATION OF EMPLOYMENT</u>	Year 1	Year 2	Year 3	Year 4	Year 5
NUMBER OF PLACES OF EMPLOYMENT					
Direct employment	7,00	7,00	8,00	8,00	10,00
Indirect employment	10,00	10,00	12,00	12,00	14,00

Total number of place of employment	17,00	17,00	20,00	20,00	24,00
<u>INCOMES GENERATED</u>	Year 1	Year 2	Year 3	Year 4	Year 5
NUMBER OF PLACES OF EMPLOYMENT					
Direct employment	\$ 53.400,00	\$ 56.070,00	\$ 58.873,50	\$ 61.817,18	\$ 64.908,03
Indirect employment	\$ 42.480,00	\$ 42.480,00	\$ 50.976,00	\$ 50.976,00	\$ 59.472,00
Total income generated	\$ 95.880,00	\$ 98.550,00	\$ 109.849,50	\$ 112.793,18	\$ 124.380,03

4.4 CONCLUSION

In this chapter made a comparative study to identify which will be the situation of the company in the future. Also, se use some formulas to have a clear view of the company and its economy by establishing objectives in the sales levels. All of these applied formulas give us positive results, that is, it is profitable start up business. It reflects the capacity that if will have the company to accomplish with its obligations; in this case is 1,55. The working capital is \$59.403,23 in the first year, and this amount increases to \$254.742,07 in the fifth year.

Each month, 178 pairs of shoes have a value of \$38,43, which means that the company will have a profit after 179 pairs of shoes. And we can say it is successful for KANTUTA. 5% of the annual increases in the sales are 75%, and a net value of

\$112.318,86; it is a positive result to undertake the creation of the marketing and export company of footwear.

With all these analyses and results, the idea of a business is a good alternative to show the footwear from Gualaceo to abroad, and it helps us to diversify the economy of the town and the country.

CONCLUSION

In the period 2009-2015; 35% of the production in Gualaceo increases after the study in which productive factors, financial, marketing agreements, trends and fashion have been considered. So 5% is the projection for a future production. 19% represents the products that are bestsellers in the female footwear (platforms, high-heeled and low shoes). It will help us to focus in the production of our without neglecting other footwear that offer to the Chilean market.

Moreover, we consider that the innovations of the designs are renewed each month; 35% of the producers consider that the innovation must be done in this period. It allows us to have a competitive advantage in fashion trend at the national level; also, it is considered a positive advantage for the internal merchandise but a disadvantage at international level since the time in sales can be different in relation to our country. 17% represents the acceptance in the province of Azuay, and 30% at national.

An analysis of shipping cost was made to different continents to determine the advantages and disadvantages of exports from the origin footwear country to potential customers in selling and it gave us a result that a country in the same continent of Ecuador result more economical and it makes sure the sales for the following factors: freight cost and insurance, and tariffs to pay by customers.

In the analysis of a potential Latin American country, as a customer, it has made a macroeconomic study, considering the following factor: per capita consumption, economic situation, and cultural consumption and trade agreements among countries. Colombia, Peru, Brazil, Chile and Mexico were analyzed and the most optimum country was Chile for the following reasons:

- Chile has a stable economy, and its policies are going to have agreements with different countries around the world to interchange products since the Chilean customers are very demanding in terms of quality on the products they buy.
- Chile's consumption is the biggest in Latin America with 5,5 pairs, the tendency of wearing high-heels shoes, platforms and ballerinas makes Chile a great consumer.

In the analysis of costs of production to export, \$38,43 dollars is the values of the product with freight charges, insurance and formalities which adding a profit of 8% gives a sale price of \$41.7; that is very attractive price for the Chilean market because it will sell in a Chilean shop for \$65 dollars.

We need a capital of \$52.654,32 dollars to eject this project and to invest of the legal constitution of the company, financial salaries, equipment and suppliers of office, and basic services. Also, we have to give a good image to the company through the web page, that gives us all kind of information and allow us to make direct contact with the customers and update promotions through social networks, etc.

The name for the company is KANTUTA, and the main objective is to advertise the footwear from Gualaceo to the international market, we will focus on internal (producers) and external (customers) customer's satisfaction; and we will ensure the quality in each of our exporter of goods, and innovate the designs in the fashion world.

With all these analyses, we can conclude that the KANTUTA's creation is viable and it will have a positive impact in the economy. It is a new innovating idea that is seeking the Gualaceño footwear in the international market. Latin American countries

like Peru, Colombia and Brazil have taken advantage of these opportunities abroad and we are able to compete in this part.

RECOMMENDATIONS

We must take into account the following activities:

- If you do not have a good reception of the footwear in the Chilean market, you must take strategies that allow you to identify the reason for which the female Chilean does not buy the products. KANTUTA must have a designer who travels to the country to know the trend by consumers and get information that allow you to fulfill with the requirements and needs.
- The capital that the company has to legal constitute and exercise its economic activities is \$58.000.00, so we recommend to do an investigation of interest rate in different financial institutions, and government entities that contributes and facilitates loans for this type of investment. Government entities like MIPRO and SEPS, are entities that facilitate and enable the documents of constitutions of companies and it is responsible to seek a bank entity to finance the productive project for a better development in the society.
- Furthermore, we recommend being always aware of the courses and workshops to improve the footwear that some government institutions give to

the producers in Gualaceo, and they are always perfecting their production and they will be recognized abroad by the quality, comfort and designs.

- Also, Kantuta must establish standards and purchasing policies with producers and suppliers to maintain a good relation trade. It is necessary to implement quality, labor, social and environmental responsibility in every exported product to have loyalty in the consumers.
- The company has to get a company that offers all guarantees against possible disasters. Moreover, Kantuta has to look for a trading company of footwear in Chile that fulfill with the charges policies.
- The staff that led the company KANTUTA must be prepared and known every single goal to get benefits. They have to create a brand, logo and slogan for the shoes to be easily recognized for the customers at national and international market; and thus, we can take position in the market.
- Finally, Kantuta would focus in fulfilling with these recommendations and the proposal of the creation of the company would be successful.

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