Analysis of the Purchase and Import process of Decorative Products in Polyresin from China (Subheading: 39269090), Case of study: Francis Importadora Co. Ltd.

GRADUATE THESIS PRIOR TO OBTAINING A BILINGUAL BACHELOR DEGREE IN INTERNATIONAL STUDIES, MINOR IN FOREIGN TRADE

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Cuenca, Ecuador
2017
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ABSTRACT

The main objective of this Project is to define, create and establish and import management system for *Francis ImportadoraCía. Ltda.*, a company dedicated to the distribution and sale of home decoration products. This study aims to sustain the reasons why it is a good idea to import, and the benefits it brings; demonstrating that this is the best option in order to optimize resources and generate greater profit. The model was implemented in the company, as the process was developed; therefore, the information presented is real.
INTRODUCTION

The intention of the analysis about imports is to emphasize the reasons why managing this topic inside a company is totally important. It is necessary to know the reasons why the organization seeks to import products, instead of buying them in the same country in order to supply the company’s warehouses, for example: to acquire comfortable prices for customers and consumers.

There is no self-supporting country, resources are distributed irregularly and differences between human capacities vary according to the nation and its needs. International trade is able to satisfy populations, as well as promoting unity and achieving commercial, political, social and cultural development among states. (Peña, 2009).

Since ancient times, those who are engaged to commerce have always sought to be the best choice. Specialization and focus in some areas have been a great impetus for many improvements. However, important philosophers such as Smith, Ricardo and Heckscher-Ohlin developed the idea, suggesting an inter-country exchange and pointing the benefits for international trade.

Therefore, for a company to focus its efforts on foreign trade, it is important to analyze whether it meets the necessary requirements to import. If the main reasons why it seeks to purchase products from abroad are clear, it must analyze logistics strategies and the most important, to know if the product that will be brought has the necessary characteristics to invest and fulfill all the needed steps in the destination (Ecuador).
CHAPTER 1: ANALYSIS OF THE CONCEPTUAL FRAMEWORK OF IMPORTS MANAGEMENT IN A COMPANY

1.1 International Trade

Starting from the idea that a single country cannot produce everything, it generates enough reasons to accept that foreign trade is defined as “the exchange of economic goods between the inhabitants of two or more nations, so as to give rise to exports from one country (exports) and receipts of merchandise (imports) from another (Peña, 2009, p.5).

The global exchange is what moves the economy and the whole world; it generates improvements in society every day. As Hill specifies in one of his texts: “free trade stimulates economic growth and raises living standards beyond borders” (Hill 2011, p.154). International trade motivates the specialization and development of the countries in the most suitable area for each one, this way the production becomes efficient and the exchange flows in an appropriate way.

However, the existence of opposing ideologies is unavoidable, each one of them is defended under the theory that they are limitations of work; forces that do not allow the exploitation of all the capacities of the country, seeking for self sufficiency, total development and closing borders; without considering that denying new possibilities to a society, they are only retarding the economic growth and advantages over other countries.

While all thinkers say that international trade is positive for nations, many people disagree on the consequences that government policies cause. In the era of mercantilism, government intervention was considered totally necessary, it was thought that this control impulse imports and exports. Overtime theories changed, philosophers of the time defended “the free trade”; International business did not depend on the regulations imposed by the government to seek a balance (Hill, 2011).
Despite of the theories proposed by different scholars of foreign trade, the world of international business is nowadays based on trade policies. Representatives of different governments suggest measures to protect specialized products of their countries and to control the system of imports and exports in order to produce profits and benefits for them and the government.

National protection is a characteristic that for years has been an excuse for several governments; many duties have been created to protect the local industry. In some cases, it was not the best option, as happened with the steel industry in March 2002, when the US government decided to set an ad valorem tax of 8 to 30% and the consequences were not as good as they expected. The local market could not satisfy the necessities of an entire population and prices rose rapidly. (Hill, 2011, p.191)

In the mid-twentieth century, international trade improved its numbers; the growth of manufactured products was due to internationalization and free trade. As conditions improved, some governments established tariffs to limit this activity. However, in 1947 the General Agreement on Trade and Tariffs (GATT), the current WTO, was created to restrict the establishment of unilateral measures to impede trade (Turmo, 2006).

The key to these international organizations, such as the GATT, was to look for the largest number of countries that decide to join the Agreement, which has reached a membership of 149 affiliates. These states are part of the WTO today. All of the countries that are part of the World Trade Organization are governed by a set of rules that consolidate tariffs; that is why measures are established through negotiation rounds, so that international business flows naturally and there is clear tariff liberalization.
1.2 Imports

Internationally, the best ways to carry out an economic activity are imports and exports. These two activities connect the world and cut distances among countries, sometimes even creating better political environments between states.

According to the information published on the Ecuadorian customs website, imports are defined as the action of entering merchandise into the country, so that formalities and certain customs obligations are fulfilled, in which the customs regime is considered (SENAE). The main reason to realize this activity is because no country is capable of producing everything, it will always be necessary to supply the domestic market with foreign goods or services.

Import, is an activity as important as export; it can be mentioned that both are actions that concern many governments, as these level the trade balance. Every country will always try to keep a balance in surplus, meaning that the export values exceed imports. This is the main reason why nations often establish measures to restrict international trade and free performance.

Countries relate to each other at their convenience, they analyze and study the international community, looking for the best opportunities and resources for their nation. After certain studies, different agreements are signed, each of which is negotiated for a point that benefits both parties. Generally to identify the benefits to the needs of the population, international treaties are a complicated topic in the international politics, therefore, these do not satisfy all of the citizens but at least find points that advantages the majority.

- Generalities of trading with China (ambience and methods)

When analyzing and carrying out a study about the benefits that can be caused when negotiating with China, it may look simple and ideal, however there are certain complications that often do not allow the process to develop quickly. Even if these are not solved, they might cause big problems.
1.2.1 Schedules:
Definitely, the negotiations part of the process is a fairly complicated issue, from the moment of purchasing, time is an important element. There are deadlines for submission of documents or payment in each stage of the procedure; it is important to mention that China and Ecuador have a time difference of 13 hours, what makes business more complicated. In many occasions people need to wait many days to be able to communicate with suppliers or even to work outside office hours to address important issues. Several processes must be done in advance, in order to avoid unnecessary setbacks and expenses.

1.2.1.2 Language:
When negotiating with some companies, the communication can become a bit complicated; there are Chinese exporters who do not handle their sales with translators for Latin America, this is why some Ecuadorian companies hire trained staff for this type of work. In the case of Francis Importadora, the language is not a problem, documents and letters were sent in Spanish, as well as the dollar exchange rate of the invoice values.

1.2.1.3 Production Quantity:
Buying in a country that is characterized by its number of factories and mass selling, became a challenge for the company. However, quantities were previously analyzed, considering that they had to risk, after verifying the productivity and acceptance that can have the purchase in the middle.

Francis Importadora, in its first purchase abroad, decided to import a 20 ft container. Although internal studies show that the costs are very good, it is important that the minimum quantities that the company requires at the time of sale should be considered.
1.2.1.4 Product (Anexxed A)

In China there are huge factories and “maquiladoras” that distribute their products worldwide; the production is not focused on certain countries but on all buyers and potential consumers. Although in many cases “Chinese” products have been stereotyped as poor quality products, it is important to explain that this is not the case.

Chinese manufacturing companies classify their production into five types of quality; although merchants from different parts of the world make their purchases by analyzing weight, material and price. Quality will always be an important factor; this can be analyzed from the shape of the product or little details. When buying, Francis Importadora not only examined these characteristics, but also followed quality standards that the country demands, to check if it is harmful to health or the environment.

1.2.1.5 Packing Quality

At the time of importing from China it should be considered that the trip will last around 30 days, if the weather changes and some products may be affected along the way. At the time of purchasing, manufacturers besides indicating the products and their varieties, they discuss about the packaging and the materials that will wrap the merchandise.

When making the purchase, the company established that it is necessary that the articles be accommodated in flex foam, also packaged inside honeycomb film, better known as bubble wrap, which serves as excellent protection for the fragile merchandise. The type of carton of the merchandise is also fundamental, even if lithographic boxes are preferred for this type of packing; corrugated cardboard is the ideal one, which besides being strong and the most suitable for imports and exports of polyresin products, it is positive for the environment.
1.3 Ecuadorian Customs Regimes

Customs regimes in the country are summarized in the customs treatments that are applied to the merchandise, which are also requested by the person who will declare, only if it is established in the current customs legislation. (Regulation to Book V, Title II of COPCI)

In this legislation there is an important classification: Import Regimes, Export Regimes and Other Regimes. However, due to the case study of the Francis Company, it will be analyzed only on imports.

1.3.1 Import Regimes

Establishing many import regimes allows people to choose the most convenient way to carry out their activities as an importer. However, it is important that people know and analyze the possibilities, before doing it. This can save a lot of time and money.

In Ecuador there are seven modalities to work, of which two are part of the Transformation Regimes and the other five are included in the Non-Transformation Regimes.

a. Transformation Regimes

Temporary Admission for Inward Processing

This regime allows the entering of merchandise that will be submitted to an improvement process in the Ecuadorian territory. The merchandise that will be transformed will be suspended from the payment of import duties, taxes and surcharges. (Book V, Tittle II COPCI, Art. 149)

Article 132 of the Regulation Book V, Tittle II of the COPCI establishes the requirements to comply the customs regime, required by the General Direction
of the National Customs Service of Ecuador. (Regulation to Book V, Tittle II COPCI, Art. 132)

**Transformation under customs control**

This regime allows the merchandise to enter to the country suspending the payment of taxes to foreign trade that subsequently will be modified. (Libro V, Título II COPCI, Art. 151).

During the time that the merchandise stays in the country, it must be located in the specified place to be processed. All operations must be carried out within the place qualified by the SENAE. (Regulation to Book V, Tittle II COPCI, Art. 153)

The excessive waste from the transformation processes may be destroyed, so that there is a total exemption from taxes on foreign trade. If the products are nationalized, all the corresponding taxes may be paid, otherwise these could be re-exported. (Regulation to Book V, Tittle II COPCI, Art. 157)

**b. Non-Transformation Regime**

**Temporary Admission to Re-Export in the same state**

This special regime is used to introduce goods intended to be used for a specific purpose, it has a total or partial suspension of import duties and taxes. (Book V, Title II of COPCI, Art. 148).

The merchandise must only be used for what was authorized and during the time previously determined, so it must be accompanied by the application for authorization of the scheme. (Regulation to Book V, Title II of COPCI, Art. 123).

**Re-Import in the Same State**

This customs regime allows imports for consumption to be exempted from duties and taxes on imports and other surcharges. It is important that the
District Director or his delegate authorize re-importation once the conditions established in the customs legislation are completed. (Book V, Title II of COPCI, Art. 153). The re-importation must be made within a year, counting from the date of shipment of the goods exported definitively. (Regulation to Book V, Title II of COPCI, Articles 121 and 139).

**Replacement with Duty Free**

This regime allows a free importation of duties, taxes and surcharges. To make an import under this regime, it is important that certain requirements are completed, including: that imported goods do not change in their condition; that has to be demonstrated that the products entering Ecuador under this regime are identical or similar to those imported for consumption. (Regulation to Book V, Title II of COPCI, Articles 139 and 140).

**Customs Deposits**

This customs regime is a special modality, because through this, the imported goods are stored for a certain time without the payment of duties and taxes and surcharges applicable. Deposits can be private or public. The private ones are exclusively for use by its owner, while the public may store merchandise from third parties (Regulation to Book V, Title II of COPCI, Art. 144).

**Import for Consumption**

The customs regime for consumption is a modality used for the final entry of goods into the country. In this way foreign goods or merchandise from a Special Economic Development Zone that arrives into Ecuador will be able to circulate freely in the territory, once all the corresponding tax obligations have been fulfilled. (Book V, Title II of COPCI, Art. 147)

For this case of study, the company *Francis Importadora* will use this import regime, known in practice as Regime 10. It is adapted to the processes
established by the Director General of the National Service of Customs of Ecuador, in order to be able to freely circulate the products in the country, without any inconvenience.

1.4 Requirements for Ecuadorian Imports

Any natural or juridical person, whether of Ecuadorian or foreign nationality residing in the country, may carry out import procedures. In order to import, certain established requirements must be met, such as:

1.4.1 Registration Process

- Previous procedure

Before initiating the import process, it is important to have a Registered Single Taxpayer Registry (RUC in Spanish), obtained from the Internal Revenue Service (SRI).

As it is already known, the RUC is an indispensable requirement to be able to exercise any economic activity in the country; it details what the company is dedicated to, its location and the person who represents it.
Graphic 1A: RUC
Source: Francis ImportadoraCo. Ltd.
REGISTRO UNICO DE CONTRIBUYENTES
SOCIEDADES

NUMERO RUC: 0190393283001
RAZÓN SOCIAL: COMFRANCIS II COMERCIAL FRANCIS, IMPORTACION Y
DISTRIBUCION CIA LTDA

ESTABLECIMIENTOS REGISTRADOS:

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<th>ABERTO</th>
<th>MATRIZ</th>
<th>FEC. INICIO ACT.</th>
<th>FEC. CIERRE</th>
<th>FEC. REINICIO</th>
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<td></td>
<td></td>
<td>13/06/2013</td>
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NOMBRE COMERCIAL: FRANCIS IMPORTADORA Y DISTRIBUIDORA

ACTIVIDADES ECONÓMICAS:
VENTA AL POR MAYOR DE ARTÍCULOS DE BAZAR EN GENERAL.
VENTA AL POR MENOR DE ARTÍCULOS DE BAZAR EN GENERAL.
VENTA AL POR MAYOR Y MENOR DE ARTEFACTOS ELECTRODOMESTICOS.

DIRECCIÓN ESTABLECIMIENTO:
Provincia: AZUAY Cantón: CUENCA Parroquia: MONAY Calle: GONZALEZ SUAREZ Número: S/N Referencia: A UNA CUADRA DEL GRAN AKI Telefono Trabajo: 072802310 Email: danielagcontreras95@gmail.com Celular: 0988448124

FIRMA DEL CONTRIBUYENTE

SERVICIO DE RENTAS INTERNAS

Declaro que los datos contenidos en este documento son exactos y verdaderos, por lo que asumo la responsabilidad legal que de ello se derive (Art. 87 Código Tributario, Art. 9 Ley del RUC y Art. 9 Reglamento para la Aplicación de la Ley del RUC).

Usuario: CRBM020110 Lugar de emisión: CUENCA R.EMIGIO Fecha y hora: 06/10/2016 12:03:18

Graphic 1B: RUC
Source: Francis ImportadoraCo. Ltd.
Register as a Foreign Trade Operator (OCE):

To initiate import or export activities, it is important to register the company in the National Customs Service of Ecuador, in order to obtain such registration; the following steps must be considered:

a) Acquiring a Digital Certificate for electronic signature and authentication

The entity in charge of the qualification and emission of electronic signatures in the country is the Central Bank of Ecuador. However, despite the fact that the application forms are on their website, the management can be done in the Chamber of Commerce of Cuenca or in the Civil Registry. Therefore, the application for an Electronic Signature Certificate must be completed, and certain requirements must be presented, such as:

- Rucof the company
- Digitalized ID and voting identification
- Digitalized document of the designation of the charge or a labor certificate signed by the legal representative
- Authorized letter to continue the process, document that must be signed by the legal representative, in the case of companies. (Electronic Certification, BCE)
Graphic 2: Electronic Signature Register Form
Source: Central Bank of Ecuador
Once the documents have been delivered and payments made, the Central Bank of Ecuador will send two emails with important information. The first will notify the user that the documents have been received. After twenty-four hours, the same entity will notify if the company has been approved or rejected according to the documentation submitted.

Graphic 3: Notification of Data Entry
Source: E-Mail Francis ImportadoraCo. Ltd.

Graphic 4: Registration Approval
Source: E-Mail Francis ImportadoraCo. Ltd.
b) Register in the ECUAPASS webpage

El portal ECUAPASS es una plataforma virtual importante que permite que los operadores de comercio exterior realicen operaciones aduaneras de importación o exportación. Esta página fue creada para evitar el uso excesivo de papel; asegurar el control aduanero y facilitar el comercio; de igual manera para establecer la Ventanilla Única de Comercio Exterior (SENAE).

Once registered in the SENA portal, this entity will send an email confirming the data entered by the user; this also serves to notify and to communicate about the varieties and news of the Customs of Ecuador.

Graphic 5: Email Activation Notification
Source: E-Mail Francis ImportadoraCo. Ltd.
• Advice from an Authorized Customs Agent:

Following these steps, you can carry out the import operations. However it is important to get advice from an authorized customs agent. For more information about these specialized operators, customs have published on their website the list of them, in order to verify that their licenses are available. (SENAE).

1.4.2 Valuation of the Merchandise in Customs

The valuation of Customs is the most important part at the moment of the importation because some taxes that must be canceled when making the international purchase are calculated according to this process. The valuation of customs is basically the real value that was canceled by the goods, as long as there are no restrictions on the use of the merchandise by the buyer; when the sale does not depend on any condition, among other situations specified in Article 1 of the General Agreement on Tariffs and Trade 1994.

The Andean Community, recognizing that customs valuation is essential for international trade, made an Agreement on the valuation of the World Trade Organization, which serves as the basis for this customs determination. In agreeing the values, it must be taken into account that there are six methods, (Decision of Cartagena Agreement 571, Art. 3):

1. First Method: Transaction value of the imported goods.
3. Third Method: Transaction value of similar goods.
5. Fifth Method: Rebuilt value method.

It is easy to identify that certain methods are better for certain specifications than others; however, they should be applied in the established order. There is the possibility of reversing the order, if requested by the importer and approved by the Customs Administration (Decision of Cartagena Agreement 571, Art. 4).
There are important documents to execute the valuation, including the commercial invoice. This instrument is fundamental, as it reflects the actual price at which the buyer acquired the product; therefore the invoice must be an original and definitive document, by means of which the necessary information can be easily identified. In some cases, where the invoice is not detailed in Spanish, the attached translation must be required. (Decision of Cartagena Agreement 571, Art. 9)

Discounts or price reductions should also be taken into account in customs value determinations, since the actual payments of the importer must be known. However, it should be recognized that the discounts established are related to the imported merchandise; it also must be verified that the buyer is actually benefiting from the discount and that the budgets established from the beginning of the negotiation are fulfilled.

1.4.2.1 Expenses in the Customs Valuation

For customs valuation besides considering the price actually paid for the imported goods, other costs determined in Article 8 of the General Agreement on Tariffs and Trade 1994, are considered.

The first paragraph of the mentioned article also specifies those expenses that are included in the valuation of customs, as long as they are not included in the price paid or payable of the merchandise.

a) Commissions and brokerage expenses.
b) The cost of the packaging that the customs considers as part of the merchandise.
c) Packaging costs: labor and materials (General Agreement on Tariffs and Trade, Article 8).
Likewise, the third paragraph of the aforementioned article may also include certain costs in the value of customs:

a) The transportation costs of the imported merchandise, up to the port or place established.

b) The costs of loading, unloading and handling required during transportation.

c) The cost of insurance. (General Agreement on Tariffs and Trade, Article 8).

1.5 Ecuadorian Tariffs and Taxes on Foreign Trade

1.5.1 Customs Tax Regime

Tariffs are levies or taxes that are generally established on imports, since in Ecuador there are no tariffs on exports. These taxes are often established with the intention of protecting the domestic industry in certain products that could be found in the same country. (PROECUADOR)

The three types of existing tariffs are the following, of which others are derived:

- **Ad Valorem Tariff**: This is the percentage applied on the value of the goods and are established by the competent authority. (COPCI Regulation, Book V, Art. 2).

- **Specific Tariff**: Is the tariff established by the competent authority and is the fixed surcharge applied to certain conditions of the goods: weight, units, dimensions, volume, among others (COPCI Regulation, Book V, Art. 2)

- **Mixed tariff**: as established in the COPCI Regulation, Book V, Article 2, literal z; is a tariff established by the competent authority, which jointly applies ad valorem tariff duties and tariffs.

Besides the tariffs described, there are certain customs duties that should be paid when importing to Ecuador:
• **FODINFA:** It is an additional tax that must be paid at the time of making an import that is destined to be part of the Fund for Development for Children. The rate of this tax is 0.5% applied on the CIF value of imports. (ALADI).

### 1.5.2 Non-Tariff Tax Regime

• **ICE:** The Tax on Special Consumption is a tax applicable to the consumption of certain goods and services, both imported and domestic. Article 33 of the Law Reforming the Internal Tax Regime Law establishes all that corresponds to this tax. The value of this tax should be calculated on the retail price less VAT and ICE. (ALADI)

• **IVA:** This tax is applicable to the purchase and sale of goods or services. The general rate is 14% and in imports all must pay this tax, the same as is applicable on the CIF value, taxes, duties, fees, duties, surcharges and expenses established in the import declaration and related documents. (ALADI)

• **Safeguards:**

As described by the World Trade Organization, safeguards are an emergency measure when a country's trade balance indicates that imports outnumber exports, affecting production and some national markets. In the case of Ecuador, because it did not have its own currency, safeguards were established to avoid excessive capital outflows. These measures are contemplated in the "Book IV of the COPCI, denominated FOREIGN TRADE, ITS CONTROL AND INSTRUMENT ORGANS" and in the REGULATION IV, IN THE MATTER OF COMMERCIAL POLICY, ITS CONTROL AND INSTRUMENT ORGANS.

Safeguards have been a very controversial issue in the country at the time the Ministry of Foreign Trade approved Resolution No.011-2015, which was approved on March 11, 2015; The same one that detailed 2800 products with temporary tariff surtax (from 5% to 45%), in addition to the current tariffs. (COMEX, Resolution No.011-2015).
On January 21, 2016, the Resolution No. 001-2016, approved by COMEX, was adopted. This established the reduction of safeguards from 45% to 40%, which complied with the dismantling schedule. The Resolution in question came into force on January 31 of the same year. (COMEX, Resolution No. 001-2016).

In April 2016, a resolution was published that sought to implement a safeguards dismantling schedule. Therefore, Resolution No.006-2016 establishes a table indicating the reduction of tariffs to be paid until June 2017.

<table>
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<td>16,7%</td>
<td>8,3%</td>
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<tr>
<td>40%</td>
<td>26,7%</td>
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</table>

Graphic 6: Safeguards Dismantling Schedule
Source: COMEX, Resolution No. 006-2016

On September 6, 2016, the Foreign Trade Committee published Resolution No.021-2016, which specified the reduction of the surcharge from 40% to 35%; From 25% to 15% and the maintenance of the original 15% at the same value. The decision came into effect on October 26 of the same year. (COMEX, Resolution No.021-2016).

Likewise, this Resolution seeks to replace the table of Article 2 of Resolution No.006-2016, adopted by the full COMEX, by the following:

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Graphic 7: Safeguards Dismantling Schedule
Source: COMEX, Resolution No. 021-2016
1.6 Logistics as part of Foreign Trade

Today, trade has incorporated new costs that in the past were not as important as they are now. As international markets opened their borders, key aspects were taken into account, and increased competition between companies accelerated the development of logistics strategies to improve prices and meet customer needs in terms of time and quality.

Logistics is one of the most important elements of business, according to a study carried out, analyzing an administrative area has shown that transport accounts for between 60% and 80% of every dollar sold by the company, which shows that this aspect is essential in commercial competitiveness (Ballou, 2004). In many cases, trade blocs have considered logistical systems to be an important aspect of the negotiations, since reducing these costs can improve the economic systems and conditions of member countries. Taking into account the transport routes is fundamental; Today several states have improved mobility systems with the aim of improving routes to markets and that products and services reach their destination safely and generate facilities for traders (Zamora and Rendón, 2013).

The supply chain is not limited to the path of the merchandise to the first customer, but encompasses the whole process of buying and selling the products to the consumer. It is important to think about the extended chain of supplies and correct those problems so that the cost of the product does not affect the promotion and guarantee of the company or manufacturer.

In many markets and companies, we have already heard about logistics management. However, we must analyze each of the parts that make up the logistics, although it is considered as a single element, it includes three important strategies: Location, inventory and transportation. The location strategy is based mainly on the location of the points of supply; designate the right places where there are not so many logistical problems that hinder the process or the costs to make them considered competitive. The supply process is extremely important in a company, the investment is not acceptable without
having carried out the necessary studies, therefore it should be considered the suppliers and all the items that mean to transfer the merchandise from the moment of purchase to the plant, Ports, direct customers and consumers, so that the total costs can be compared and the lowest ones selected in order to obtain the maximum utility (Ballou, 2004).

Inventory decisions consist of knowing the rotation of stored products, taking into account the changes and variations from the moment of entry to the point of departure. Inventory control can become a very useful way to avoid wasted time and money. The transport strategy is perhaps considered essential because without this one can not make decisions about the inventory and the quantities to be imported, just as if the transport is too expensive or risky, the distances can change to facilitate the process (Ballou, 2004).

Global trends indicate that by the year 2050, at least 50% of the Gross Global Product will belong to global trade (Universidad Michoacana de San Nicolás de Hidalgo, 2013). The trade blocs continue to facilitate their relationships and the reinforcement of technology; Actions that attract large private and global capitals and improve trade openness. Logistic strategies have improved continuously, as we are a country open to world trade through treaties, so we must take advantage of these advantages and open our market, find new competitive methods and above all generate import strategies that improve the conditions of companies.

As stated in the Organic Code of Production, Trade and Investment (COPCI), foreign trade must be facilitated by rapid, simplified, expedited and electronic customs processes, which seek to secure the logistics chain, in order to Productivity and national competitiveness (National Assembly, 2010). However, many Ecuadorian laws are not in favor of the importer, as several companies consider it a long and even delayed process, which has its repercussions on prices and promotion of companies, thus creating competitive difficulties with other countries.
1.5.1 International Transport

Often international purchases can be beneficial to reduce costs of some products; however it is important to consider that despite the low prices of goods, international logistics is essential in foreign trade.

In order to determine the logistics processes, it is important to take into account factors such as: distance, documentation, diversity and customers that demand. Any of the five existing means of transport can be used after analyzing them. In Ecuador, the most used international ways of transport are air, sea and land. According to the distance can be determined which is the most used, the water transport is the mostly used, the terrestrial also has enough demand. China, being a producer country, is one of the largest distributors in the world, which is why they are highly qualified and have proven to be highly competitive in international shipping and road transport (Zamora Torres, 2013).

Markets like India and China are interesting bidders of opportunities in different areas such as food, clothing and other products that benefit the whole world. The main reasons why countries put a lot of interest in these places is because of the opportunity they offer to contract raw materials and other components; the advantages are because of the hand labor and; the existence of favorable tax legislation (McGraw-Hill, 2007).

Therefore, after some comparative analysis of purchases, it was concluded that these will be made directly from China, as the main factories of polyresin are in this country and the specialized logistics that they have, is a feature that favors the company.

1.5.2 Inland Destination Transport

Most of the times, companies get the best international logistics systems; however, there are also transportation difficulties within the same country. It is important to analyze each of these aspects before executing an import, because the lower the costs, the better the gains.
Ecuador, is a country with two large customs ports located in Guayaquil and Manta, so if imports are made from other cities in the country, internal transportation is really important. According to the practice, Ecuadorian businessmen have two options to transport the merchandise internally; Send the goods by air or land.

In some cases the internal logistics are too expensive, so it is important to compare and consider an important aspect: Is it still better to import, instead of buying from a national supplier? This answer is quite complicated, because not only prices are compared, but also the rotation of inventory and the variety of products in the national market. Internal logistics can often complicate conditions for the company and force it to make decisions that may be critical to the company and its economy.

1.7 Polyresin

Nowadays decoration has become essential in people's lives, themes such as popular trends and fengshui to give life to spaces, has motivated different people to drive the design business. The specialization of different people in this area has allowed the market to grow as well as the variety of products, which has also made customers more demanding, who seek more accurately to meet their needs their likes.

Francis Importadora is one of the Ecuadorian companies that have looked for the way to find the right market in the country, arriving at this one with decoration products, manufactured with polyresin. This is a product similar to porcelain, offers a very wide portfolio of different decorative pieces, so the company is constantly looking for new products that are not easily found in all locations in the country.

The material of the goods selected for importation is important, since it can imitate various surfaces such as metal, bronze, wood, among others, which in some cases require additional permits or fees when entering the country.
1.7.1 Tariff Item

The tariff heading used for the import of polyresin products is 3926400000. According to the description set out in ECUAPASS (Graphic8), the subheading is described as: statuettes and other objects of adornment.

Graphic 8: Tariff Item
Source: ECUAPASS

1.7.2 Photos (ANNEXED B)

Among the products of different colors and shapes, with details that imitate other types of materials, there are different brands well known in the market, such as Montefiori and Santini, two Italian collections that have a lot of fame and prestige in the world.
CHAPTER 2: DEFINITION OF THE BACKGROUND AND CURRENT SITUATION OF THE COMPANY

Introduction

Although the intention of the project is to improve supply systems and seek for improvement methods, analyzing the internal and external environment, it is important to know more about the company and its background; to analyze all the factors that were part of its development, to reach to the current situation. Also, it is fundamental to study the principles and policies that compose it, because these characteristics establish the company.

The approach of this chapter is the analysis of the conditions and the way the company develops its activities in the market, knowing the internal and external factors that allow it.

2.1 History of the Company

Francis ImportadoraCo. Ltd., can be considered a company that was born as the continuation of an earlier entrepreneurship; “Comercial Francis”. This company started its activities on February 1, 1991. The owners are a couple of entrepreneurs, Claudio Contreras and his wife Nelly Solíz. The beginnings of Comercial Francis were hard; they started their activities in a small place in the center of the city of Cuenca, focused on the sale of bazaar products to the final consumer. Although the less rigorous economic and labor conditions facilitated the development and made possible its growth; there were daily problems that made some seasons difficult. The lack of seriousness of some suppliers that considered it was a small company, damaged merchandise, inflation, among other difficulties, was the headache of the owners. However, every problem faced was a lesson and an important step to improve.
Since the beginning, it was a clear objective to increase the variety of products, in order to reach different market segments and achieve expansion. After six years of experience in the city, it was possible to reach the decoration market, which made it the strongest and the most especialliced area.

Daily work and the positive results helped to get bank loans and suppliers companies’ confidence. Orders became bigger and the payment conditions easier. Customers were no longer just final consumers; the company started a wholesale distribution in the city, which eventually expanded to different cities in the country. There were some supply problems at the time the company grew, so the administration looked for new suppliers and products to make the company available to satisfy the needs of customers, especially in the seasons of greatest demand. Results were satisfactory; the company expanded its market lines, so it was impossible not to get new customers.

Years later, considering that the conditions were positive and the excellent sales figures were marked year by year, the option of opening a new company, with new partners and a different administration, was studied. The main idea was to reach more customers and let the company grow. This is how Francis ImportadoraCo. Ltd., the organization formed by the contribution of four partners, which opened its doors on August 13, 2013.

Supplying a business is a tricky subject. However, the national purchase has been the main option to start. In spite of the great openness it has had from suppliers, the company's management has analyzed certain purchasing factors, so it concluded to start import activities due to the considerable price difference between the products provided by companies in China.

Francis Importadora seeks to offer exclusive products at low costs, so it is why they focus on finding the best options for its customers. Because of it, this year the company wants to begin with the direct importation of the main showcase products, things made of polyresin. This way the enterprise could become stronger for the competition and the condition will improve.
2.2 Mission

We are a company committed to the marketing and distribution of decorative items for all home environments, with the premise of providing the best shopping experience to our customers through a personalized service, variety, quality and design of all our items.

2.3 Vision

Become a leader company at the national level in the distribution and marketing of home decoration products; always committed with our job and providing the best service to our customers.

2.4 Market

Francis Importadorais a company that had focused in an especific market which has the next characteristics:

- Social level: middle-upper class.
- Incomes: minimum of two unified basic salaries.
- Mostly 23 years and older, concerned about the decoration of their home.
- Small and medium commercial premises located in the city of Cuenca and around the country, which are dedicated to the wholesale and retail sale of decoration and bazaar items.
- Event organizers and people specializing in the decoration of homes.

Although there are certain general characteristics for all of the clients in the company, it is important to mention that there are two large groups that classify our market:
a) Wholesale Customers:

Wholesale customers are those that are characterized by being a group of merchants who buy the merchandise to re-sell it, which is why they have a different price. The idea of setting another price is to protect them from the end customers, because most of them are the ones that reach the end customers and also generate profit for themselves.

To be a wholesale customer it is important to accomplish some requirements established by the company, so that it makes it difficult for anyone to buy at the marked price with a certain difference. In addition, the company maintains the policy of notifying them first.

b) Final Consumers:

The group of ‘final consumers’ represent the 75% of customers of the company; people in this group purchase the merchandise with the purpose of using the products. Francis has a wide range of sales and exhibition for them, as well as discounts and promotions that work to keep them with the brand and achieve a bigger sales market.
2.5 Hierarchical Organization

Chart 1: Hierarchical organization
Source: Francis Importadora
Made by: Contreras Daniela
2.6 Business Values

Values are important characteristics for the good functioning and performance of the company; sometimes values differentiate the organization and motivate customers to prefer. These characteristics can make the consumer loyal to the organization.

The values that characterize Francis Importadora are:

- **Responsability:**

Responsibility is the key to the progress of the company, this value is fundamental to work without problems, nor limitations. It is important to be responsible both with our customers and our suppliers, not forgetting the partners, who also deserve reports on time. To consider responsibility as a primary value in a company is fundamental, because this is the way to gain the trust and confidence of those who contact with it.

- **Compromise:**

In a market where everyday competition is a challenge, the company is always looking for the loyalty of its customers for any of its competitive advantages, so being committed with the customer is fundamental. It generates confidence in the market and brand new standards with some difficulty for those competing companies.

- **Quality:**

Quality has been considered a value focused directly on the product that is provided. However, the company also seeks to provide a quality service, that let people feel at ease with the environment of the company and to feel a different and interesting experience.
• **Continuous Development:**

Continuous development inside the company is demonstrated through constant analysis and improvement, the secret is to use key strategies that seek the sustainability of the company in a long term, this way the organization is not the only one that benefit, but also the staff.

**2.7 Products**

Francis Importadora is a company dedicated to the marketing and distribution of home decoration products. Each of the products and services offered look for the enhancement of environments. Focusing on the improvement of different spaces, it shows the variety of the company, because although there is no specific classification, the following groups of products could be mentioned:

- Glassware
- Toy Store
- School
- Lamps
- Decoration in polyresin
- Wood decoration
- Christmas Items
- Gardening
- Picture Frames
- Religious
- Small Appliances
2.8 Competitors

Cuenca is characterized by being a city surrounded by enterprising people, everyday it is confirmed, there are many small businesses dedicated to the line of bazaar looking for a space in the market, many of them have already caused some impact and keep expanding.
However, there is an specific group of companies that are characterized by their size, capacity and market interests similar to those that Francis Importadora has, some of the most important competitors are:

- Comercial Solis
- Coral Hipermercados- Decoración de hogar
- Comercial Gaby
- Lujo y Confort
- Mega Tienda Santa Cecilia- Decoración de hogar
- Super Stock
- Sukasa

It can be mentioned that these are the main competing companies in the city; each one is dedicated to the import and distribution of products similar to those that Francis commercializes.

Although small companies can be considered competitors, there is a chance that they can also be customers. Some of them are wholesale customers, so they have a different price to resell their products and to reach the markets that Francis Importadoras can not.

2.9 Suppliers

This is fundamental in the development of the project; most of the suppliers of the company are national. Although the prices are differentiated by the years of work and the fulfillment of payments in the lines of credit; prices are not as convenient as they were if the merchandise were imported directly by the company.
Despite of the conditions and the current laws, applicable to imports in the country, opportunities are better if the merchandise is purchased abroad. Due to prices and variety, the best option is to travel to China, because of the existence of several business fairs with different companies that facilitate contact with big factories and industrial groups interested in doing international business. The objective is to create a relationship to import and get access to discounts for amounts and high quantities.

The last two years have been negative for the company, since March 2015, the implementation of safeguards, the supply process in the company changed; some costs that were not predicted, increased in the budget planned at the beginning of the year and also the crisis that hits the country today has altered the conditions of the inhabitants.

2.10 SWOT Analysis

INTERNAL ANALYSIS

Weaknesses
- In many cases mass purchases have become a problem, as the market is subject to different changes, both in the tastes of the customers and in the prices of the suppliers.
- Advertising is fundamental to reach to a large part of the market. However during the years of existence, this issue has not been prioritized and advertising campaigns have been weak.
- Having domestic suppliers does not provide competitive pricing.
- Low rotation of products in some months of the year, several warehouses were empty due to the lack of inventory of suppliers.
- Weak portfolio movement of the company due to the lack of imports from suppliers, so purchases were not made to suppliers.
Strengths

- Being an open company to the public has generated liquidity, sales are made in cash and thus facilitate reinvestment to the company.
- The location of the company is important, being located in a commercial area outside the historical center of the city has been the reason for clients to find comfort and calm for the attention.
- Logistics and distribution channels have been quite efficient, although the purchases are national, good relations with transport companies and tariffs that benefit the value of the product must be maintained.
- Disposition of an operating system with control tools and accounting movement that facilitate the processes and avoid the loss of time.
- Variety and exclusivity in certain product lines; the company maintains the policy of "variety, not quantity", the company is characterized by having different products, generally exclusive and cheap, that attract customers and consumers.

EXTERNAL ANALYSIS

Threats

- The lack of political security in the Ecuadorian laws has hindered commerce, causing fear in the environment and reducing investments.
- Domestic suppliers reduce credit conditions, due to the country's complicated liquidity situation.
- Buying in the country could be a risky decision; products are having a little rotation and variability, despite of the companies decrease in their international purchases.
- There is some rivalry among traders at the moment of pricing, stronger companies can reduce profits to sell faster.
Oportunities

- Analyzing that the largest companies in the country are importing less, motivates Francis Importadora to start importing, in order to vary the merchandise.
- Imports in the country have notably reduced, so that different shipping companies, warehousing, among others, linked to import processes, have reduced their prices to motivate traders.
- When importing different goods, fair prices can be established and also the profit needed to make the company profitable. People is no longer looking for their favorite place, they are searching for new places with different products.
- Social networks and internet are issues that can not be ignored today, the publicity and opportunities that these mechanisms provide are the key to improve sales and making the company popular.

Conclusion

Francis Importadora was born as an undertaking of a couple, who were dedicated to the sale of bazaar products to the final consumer. Although the situation was not always in good for them and the economic conditions of the country were not the best every year, they knew how to get ahead. Today they have more than seven product lines in their company and they are well possessed in the city, being a strong competition for many companies.

Twenty-two years later, the company is still well received by consumers. The experience of the company guarantees the solidity, seriousness and business intelligence by which it performs its functions. The recognition of each of these qualities has been given to its customers, who are the main reason why the company today seeks to expand and start importing, in order to offer better options and prices to its consumers.
CHAPTER 3: ANALYSIS OF THE PROCESS OF PURCHASE AND IMPORT OF DECORATIVE PRODUCTS IN POLYRESIN FROM CHINA

1. SUPPLIERS ANALYSIS

SUPPLIERS AND INTERMEDIATES IN CHINA → PURCHASE ORDER → INVOICE

2. INTERNATIONAL TRANSPORTATION

DOCUMENTS OF TRANSPORT

Maritime → Bill of Lading

INSURANCE DOCUMENT

Art. 110 COPCI

CARGO DOCUMENT

Art. 31 RG COPCI

RECRUITMENT OF WAREHOUSE IN GYE

Gráfico 15

3. NATIONAL TRANSPORTATION

The merchandise is transported to the warehouse in Cuenca

The merchandise is stored in Cuenca
4. CUSTOMS AGENT PROCEDURE

NATIONALIZATION of the Merchandise

It is necessary through an “AFORADOR”

5. DAI VALUE DECLARATION

Declaration of the imported merchandise in front of the SENAE

Declaration
Sub-heading: 3926400000

6. PAYMENT OF THE GENERATED TAXES

The DAI generates the tax settlement

Graphic 19

7. ANALYSIS OF COSTS, TAXES AND EXPENSES

Analysis of the figures needed to import

Determination of the total utility and investment

Chart 2: Process Chart
Author: Daniela Contreras
3.1 Supplier Analysis

The board of partners met and requested to make a purchase of a 20-foot container. The main reason is that the investment is quite high and because it is the first import managed by the company in a country where conditions are complicated and taxes are quite high, first it seeks to know if customers and consumers are interested and prefer imported products.

Two executives traveled to China in August 2016, in order to schedule three containers. Before the trip they concluded that buying directly from a production company was not a simple matter, since each demanded quantities of manufacture that the company is not ready to import.

Therefore, it was decided to attend to some fairs where different merchandise would be found and the most important, where it could be bought in quantities accessible to the company, without risking investments that could harm it. That is the reason why, it was decided to work through an intermediary company, who will be in charge of making the purchase and then sending the merchandise, under a single and consolidated order.

3.1.1 Suppliers and Intermediaries in China

Business in China, were made through an intermediary company, which despite having translators to facilitate the purchase process, also supported us in the merchandise mobilization phase and exporting to Ecuador.

The company Color TreeToy Co. Ltd. is a company specialized in logistics services; therefore, they are the ones who accompanied us from the moment of the purchase, to the intermediation between the payment and the cargo of the merchandise.

There was important to work this way, because they visited fairs and goods were acquired from different small producers, so that Color TreeToy could purchase the products later and carry out a single export charge. While this
process involves certain commissions for the intermediary company, it is a simpler and more convenient process for Francis. Otherwise full containers from certain producers in China should be loaded, but this would not allow us to have the variety that characterizes Francis.

3.1.2 Purchase Order

After the business visit in China, it is important to communicate with the company with whom the merchandise will be consolidated. This decision is much simpler, because it is preferable to communicate with a single intermediary, than with several providers.

The purchase order must be made early. According to Francis's import schedule, it was done in the first week of October 2016, so that the merchandise notification can be received in the warehouse during the next two weeks.

Una vez recibida la notificación de la empresa, junto con la nota de pedido original y los productos que serían facturados, se procede a la siguiente etapa, que es liberar la mercancía embarcada en el puerto de China.
Once received the notification of the company, the original order note and the products that would be invoiced, it is proceed to the next stage, which is to release the goods shipped in the port of China.

3.1.3 The Invoice

The invoice is a fundamental document in the purchase process, detailing the information of both the supplier and the buyer is extremely important in several processes that are requested at the time of the importation. Graphic 9 details the purchase invoice made on October 16, 2016, which was requested in dollars, to facilitate the procedures.
Likewise, important data is detailed such as costs and rates of internal transportation and local charges, which are considered before arriving at the port and being shipped, are detailed in the lower part.
# COLOR TREE TOY CO., LTD.

**GUOMAO MANSION, OFFICE 225 CHOUZHOU NORTH ROAD 999, YIWU ZHEJIANG CHINA**

**INVOICE**

---

**COM FRANCIS II COMERCIAL FRANCIS, LTDA.**

**IMPORTACION Y DISTRIBUCION CIA.**

**GUADALUPE CONTRERAS SOLIZ DIRECCI**

**ON: GONZALEZ SUAREZ S/N Y YARUQUI**

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**Terms of Payment:** T/T
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**HANDLE FEE**
- LOCAL CHARGE
- FREIGHT CHARGE

**TOTAL**

BL NO.: COSU 6125888520
CONTAINER & SEAL NO.: CSLU 10814424501946
NINGBO, CHINA-GUAYAQUIL, ECUADOR

---

**For and on behalf of**
COLOR TREE TOY CO. LTD.

Signature(s)

---

Graphic 9: Original Purchase Invoice  
Source: Francis ImportadoraCo. Ltd.
3.2 Internacional Transportation

International logistics is important, it should not only be considered as a simple way to transport, because mostly the variability of cost depends on it.

In many cases the shipping companies set the cost of their freight according to the season. The imports and exports reported; the type of container that is required and the time it takes for the container to reach its destination.

Francis had to make a decision in this situation, considering that the season that was approaching was excellent for the trade: Christmas. In order to load the merchandise in the port, an analysis of the shipping costs was made, prioritizing the most recommended, FARLETZA S.A. Same that presented a proforma (Graphic 10). However, due to the suggestion of our supplier, it was contracted a different shipping company with lower costs and very well known in the market.
Cuenca, 20 de septiembre de 2016

Estimado(a)
CLAUDIO CONTRERAS
Ciudad:-

Atención: Sr. CLAUDIO CONTRERAS

De mis consideraciones:

Por medio de la presente, nos es grato poner a su disposición nuestras tarifas para carga FCL-FCL, en términos FOB, con destino a GUAYAQUIL, ECUADOR.

**FLETE MARITIMO:**

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**GASTOS LOCALES EN DESTINO:**

| VISTA BUENO FCL | $ 89.29 BL | APLICA IVA |
| HANDLEING POR CONTENEDOR | $ 237.36 CONTENEDOR | APLICA IVA |
| THC | $ 150.00 CONTENEDOR | NO APLICA IVA |

Subtotal flete: $1,450.00

Subtotal gastos locales en destino (Inc. IVA): $1,972.38

**TOTAL DE LA OFERTA:** $1,972.38 (Inc. IVA)

**NOTAS ADICIONALES:**

* Tarifas all in.
* Exención de garantías.
* Tarifas válidas para carga general, apilable, no peligrosa ni con sobredimensión.
* El tipo de cambio a ser utilizado será el del día del arribo/facturación del embarque. Tipo de cambio utilizado en oferta es estimado.
* Crédito pre aprobado de 30 días.
* Tarifa válida hasta 02/10/2016.
* Salida semanal.
* 30-35 días de tránsito.
* 30 días libres de demora.

Agradezco la atención brindada, esperando nuestra propuesta sea de su total agrado.

Quedamos atentos a sus futuras instrucciones.

Atentamente,

Source: Francis ImportadoraCo. Ltd.
DELPAC S.A. is a shipping company which gave way to the first import of the company Francis Importadora (Graphic11A, 11B), due to the difference in costs; the total freight was $1,339.39, plus additional costs to Reach the port and THC expenses, totaling $1,747.73; While the price of the other shipping company was $1,972.38.

Graphic 11A: Shipping Company DELPACInvoice
Source: Francis ImportadoraCo. Ltd.
### Graphic11B: Shipping Company DELPAC Invoice

Source: Francis ImportadoraCo. Ltd.
3.2.1 Transportation Documents

The COPCI refers to transport documents as instruments that materialize an agreement of wills between the user and the Transport Operator. This document establishes its obligations; one party must transport the cargo from the origin to a destined place; while the other one must pay the price determined in the freight. Air transport documents are called Master Airwaybill (Master Airwaybill). International Mail and Postal companies generate Daughter Air Guides or calls HouseAirwaybill (Glossary of General Terms ECUAPASS).

3.2.1.1 Maritime Document: Bill of Lading

The Shipping Lines or International Freight Agents generate a document different from the other types of transport; this one is known as Master Bill of Lading. (Glossary of General Terms ECUAPASS).

The Master of the Bill of Lading, as mentioned above is a transport document used for maritime mobilization; this instrument must contain data of who loads and who will receive the merchandise. It is also important to include information of the ports of departure and arrival, as well as the detail of how many boxes were shipped and a small description of what they contain. In simple terms, BL is the “maritime freight”.

In the case of Francis Importadora, once the merchandise was shipped and listed in the port of Ningbo, the maritime freight called Bill of Lading (Graphic 12A, 12B) was generated. This document was important at the time the container arrived to the port of Guayaquil.

This was essential because it allowed to check the number of boxes and imported merchandise, as well as analyzes what it contains, in order to avoid problems in the future, such as the entry of prohibited or illegal products.
Graphic 12A: Bill of Lading Francis Importadora
Source: Francis Importadora Co. Ltd.
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3.2.2 Insurance Document

Due to the known system of operation of insurers, the contract of the policy must be made before the vessel in which the container is located, departing port. (Graphic 13)

In order to generate an insurance document it is essential to present all the requested documentation, including the Bill of Lading (BL), the invoice issued and all the requirements arranged by the insurance company. Article 110 of the COPCI establishes that the value of transport insurance is also part of the taxable base when calculating the payment of taxes. Therefore, it is important to cancel the value of the document that is declared, even if it is not presented.

The National Customs Service of Ecuador has the authority to make subsequent revisions of the policy, so in case the presumptive value canceled is less than the established value, a rectification of taxes must be made without prejudice to any sanction. (Regulation to Book V, Title II of COPCI, Articles 74-77).
Graphic 13: Insurance Invoice
Source: Francis Importadora
3.2.3 Cargo Document

The Regulation the COPCI, Book V defines the cargo document as a physical or electronic document that contains information about the way of transport, quantity, weight and identification of the merchandise; the same that must be presented by the international carrier or its operator when entering or leaving the country to customs.

In the case of maritime imports, the cargo document must be presented 6 hours before the merchandise arrives to the nearest ports and 48 hours for the others. (Regulation Book V of the COPCI, Art.31).

Article 33 of the COPCI Regulation details the elements that are part of the cargo document; these are (Graph 14A and 14B):

- Identification of the transport and the carrier
- Place of departure and destination
- Date of departure and arrival of the merchandise
- Full information of bills of lading, guides or bills of lading, as the case may be
- For maritime transport cases, cargo unit identification
- Quantity of bulk or bulk goods
- Weight and generic identification of goods
- In case of a consolidated load, it must be detailed. And also the transport document number.
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Graphic 14A: Cargo Document Francis Importadora
Source: Francis Importadora
Graphic 14B: Cargo Document Francis Importadora
Source: Francis Importadora
3.2.4 Recruitment of Warehouse in Guayaquil

Once the container arrives at the port, the requested documents are presented and it is necessary to mobilize the cargo to an authorized warehouse. In the real business case, the container that arrived in the first days of December was transferred and stored in the warehouse of CONTECON Guayaquil S.A; place where the mandatory weighing established by the SENAE was carried out. The weighing is necessary because it must be demonstrated that what is detailed in the documents is real.

The company CONTECON also gives place to the inspection, process that in the case of Francis was physical; the National Service of Customs of Ecuador is the agency that arranges the activities that would be realized in the inspections, according to the rules and policies of the Institution. (CONTECON).

In the practical case of the company, the nationalization took place in Cuenca that is why after the inspections seals were placed after and the withdrawal order was generated.
**CONTECON Invoice**

Source: Francis Importadora

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<tr>
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**SUBTOTAL** 273,42

**IVA 0%**

IVA 14% 38,38

**TOTAL US$** 311,7

Analis/ Factorador
3.3 National Transportation

3.3.1 Departure of the goods from the port to the warehouses in Cuenca

When the authorization for the container to leave the warehouse in Guayaquil is ready, the transport must also be delegated to fulfill these functions.

In this case, Francis hired a company of transport called "CITEP", a company that focuses on the container movement to the authorized warehouses of the city of Cuenca, until the merchandise is nationalized.
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**Invoice Details**

- **Cuenca, C**
- **Señor:**
- **Dirección:**
- **Señor de:**
- **RUC/CI:**
- **Gonzalez Suarez:**
- **Telf.:**

**Supplier:** Francis Importadora

---

Graphic 16A: CITEP Invoice

Source: Francis Importadora
Graphic 16B: Document of transport CITEP
Source: Francis Importadora

3.3.2 Storage Contract

ADAPAUSTRO S.A., is a company authorized and controlled by the National Customs Service of Ecuador, which storages merchandise that is not nationalized in the country. This company works with the SENAE to carry out inspections of imported goods, as well as controls that there are no alterations in both documents and products before the total payment of taxes.
The merchandise stays in ADAPAUSTRO's warehouses until the SENAE receives the Customs Declaration of Import, the Tax Declaration; and these are reviewed and paid, respectively. In the case of Francis Importadora, after the presentation of the documents, the inspection was carried out; because it was the first importation, so the physical inspection was practically mandatory.

Graphic 17A: Adapaustro S.A. Invoice
Source: Francis Importadora
### Graphic 17B: Adapaustro S.A. Invoice

Source: Francis Importadora
3.4 Customs Agent Procedure

3.4.1 Nationalization of the merchandise

When the SENAE inspections conclude, the person in charge is responsible to give to the warehouse exit permission. When the cargo is ready, ADAPAUSTRO is responsible for preparing the permissible document so that the merchandise reaches its destination.
Francis Importadora, contracted the services of the transport company CITEP, in order to mobilize the container to the warehouses of the company.

### 3.5 Declaration of Value of the Customs Import Declaration

The Customs Declaration is a fundamental document at the time of the nationalization of the imported goods, it is important to present this instrument before the goods are authorized. The Director or General Manager is the only one able to establish the procedures of this document.

The National Customs Service of Ecuador is the only organization capable of authorizing the release of goods without presenting the Customs Import Declaration; if it is established in the Organic Code of Production, Trade and Investment.

When importing war material, in the case of the Armed Forces, the presentation of the Customs Import Declaration is exempted (Book V, Title II of COPCI, Art. 139).

In the case of the company Francis, the customs declaration of import is a document prepared by the agent, who is fully qualified to carry it out. For this reason in Graphic 18, you can see a part of the extensive statement, where the subheading 3926400000, corresponding to figures of polyresin is detailed.
When generating the Import Customs Declaration the settlement is also issued, document that details the values to be paid for the total of the purchase abroad.

The DAI specifies all the information presented during the whole process, from the data of the company that loads, the importer, the declarant or agent, the detailed declaration of the cargo according to the invoice, and the taxes to be canceled so that the it can be nationalized.

In the Graphic 19 you can see how the values to be paid in the settlement of Francis Importadora Company are detailed; in this instrument each value is specified separately, stating that the total in taxes is $11,767.48.
**Consulta de detalle de la declaración**

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**Valores en aduana**

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**Firma del Contribuyente**

1 de hoja /9 total de hojas

**Firma del Dedasante**

---

Graphic 19: Import Customs Declaration Settlement
Source: Francis ImportadoraCo. Ltd.
3.7 Analysis of costs, taxes and expenses

The intention of Francis Importadora’s case of study was to demonstrate the advantages of starting a new method of sourcing, importing. Although the conditions today are complicated for those who use the mentioned method, due to the existence of new laws and tariffs; the following table shows the total expenses and how they are involved in the final price; As well as the benefits they provide to the company.

For the calculation of the CIF, the values determined in the invoice issued by the supplier were considered. Local recharges, freight rates, FOB (subtotal of the invoice), freight (because it was contracted by the supplier), plus the transport insurance policy agreed by the company Francis Importadora Co. Ltd. In the expenses are the taxes and duties calculated in the country when arriving at the port of Guayaquil. The tariff charged to the products imported by the company is: 25% tariff Ad Valorem; 35% in safeguards and 0.5% in FODINFA; these values are calculated from the CIF value.

The detailed foreign expenses contain commissions charged by the intermediary, which represents 5% of the subtotal of the merchandise sold.

The Foreign Currency Exit Tax (FCET) and transfer expenses are costs that the bank automatically retains, the bank is responsible for withholding the 5% established in the law, while the commission for the transfer is an intern certain rate.

Due to the merchandise being nationalized in Cuenca, it is transported to authorized warehouses previously contracted. Adapaustro S.A. Is the organization that supervises the container since it leaves the port to the inspection, first in Guayaquil and later in Cuenca. During this process, the transportation contracted in the Guayaquil-Cuenca route is considered. Once it is in the destination, the contracted Customs Agent and the SENAE inspect and nationalizes the merchandise. Local expenses also include the cost of tickets for those who traveled to China to complete the purchase process. However, this total cost of $ 1,500.00 has been divided for three planned containers.
## COSTS AND EXPENSES CALCULATION

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### TOTAL OF EXPENSES 8,549.19

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<tbody>
<tr>
<td>Foreign Currency Exit Tax</td>
<td>750.00</td>
</tr>
</tbody>
</table>

**TRANSFERENCE EXPENSES 219.90**
Francis Importadora is a decoration company in Cuenca with many years of experience; although the conditions have been favorable for a while, it is easy to recognize that competition became stronger. The company decided to start importing, which represents an important stage for the organization because of the advantages it brings, including the variety of products, prices reduction and to generate a strong competition in the market.

At the beginning the idea of buying in China seemed complicated and impossible; however the topic was carefully analyzed, what helped and allowed to develop every phase as fast as possible.
GENERAL CONCLUSIONS

To conclude this project it is important to emphasize that the processes and documents were not taken from an earlier research, but that each stage detailed in this document was experienced step by step, so that the information is real and reliable.

The case of study presented leads us to the following conclusions:

- Information sources that promote foreign trade do not contain the necessary material to engage in import-based trade; For that reason, it has been detailed step by step the necessary requirements and stages so that whoever is interested can understand that it is not a complex process and put it into practice.
- One of the characteristics that let the company to take advantage is that it has a past that has placed it in an important position for the competition, which demonstrates that starting to import is a good decision.
- In spite of the logistical expenses, taxes and tariffs that are considered when establishing prices; the costs in China do not concern the company at all.
- Although Francis Importadora took an important risk when they decided to import in a season where tariffs were one of the biggest expenses; it should be considered that in the following purchases this item has a tendency to decrease, which will positively influence future costs.
- When importing directly, a limit of profit is established between 30% and 40% depending on the product, because of the lack of variety in the market it is allowed to establish the most appropriate price for it.
- Providing the company with products purchased from domestic suppliers limits profit rates, as these companies usually also supply the competition and many important customers.

Although this was the first import of the company Francis Importadora Cía.Ltda., and there were no major difficulties, it is important to mention that each purchase is a different experience. Therefore, it should be taken into account
that it is important to carry out each stage in a correct and clear way, so that at the end you will not find any problems or drawbacks that could make you waste money or time

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ANNEXED MATERIAL

ANNEXED A

Packing in China
ANNEXED B

Photos of Polyresin Products

**Items in Polyresin**

![Polyresin Products](image)

Source: SantiniChristmas
Items in Francis Importadora

Source: Francis Importadora Co. Ltd.