



UNIVERSITY OF AZUAY

FACULTY OF LEGAL SCIENCES

SCHOOL OF INTERNATIONAL STUDIES

**Purchase and marketing plan for Pure Bio Energy for the
city of Cuenca, Ecuador**

Graduation work to obtain the title of:

DEGREE IN INTERNATIONAL STUDIES, EXTERNAL TRADE MENTION

Author:

JOHAN CORNELIS VERHAGEN CABRERA

Director:

ING. JUAN CARLOS PAUTA ORTÍZ

Cuenca, Ecuador

2017

DEDICATION

For my Mother: Zoila

For being a reflection of overcoming in life and for your perseverance to never give up. Mother, thank you for the great love and affection that you give me every day and for accompanying me and supporting me every year of life and in every goal achieved.

For my Father: Willem

For your bravery and fighting heart, for never letting me take a step without your support, for always sharing your experiences with me and for those long trips in which I learn more and more about you. Father, you are the mentor of the great professional that I will be following your steps.

For my brothers: Jessica & Maurits

For every fight, smile, good and bad days we have shared, because every day that I was at your side was a day of learning. Siblings thank you for so many teachings and for all that will come.

For my dear niece: Victoria Sofia

That has come to this world to steal my heart and fill me with love with her sweetness. I will be supporting you in your joys and sorrows, in every decision you make and in every step you take, you will always have your uncle who will be taking care of you.

For my friends and family: Those who are and those who have left

For being a fundamental part of my training both university and personal. Thank you for the love and trust you have shown during so many years of friendship and for all times shared.

GRATITUDE

I thank the University of Azuay for all the knowledge acquired in these years of study that will help me to be a successful professional.

To my director, Ing. Juan Carlos Pauta Ortiz, for his help and guidance that helped me to complete this work successfully.

To all the colleagues and professors that were part of my university development during the years of study.

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ABSTRACT

Energy drinks have been advertised as being the energetic boost that people need before or after performing physical or mental activities. This marketing strategy has increased market share for energy drinks. However, there is no energy drink that does not have health consequences. Energy drinks currently sold in the Cuenca market have elements that in one way or another are harmful to the overall health of the human being. The demand for organic and natural products has grown year after year. Buyers are currently looking for healthy options for consumption. The city of Cuenca, Ecuador, has many people looking for this type of product, however, the local market does not have enough options to satisfy the demand.

INTRODUCTION

Since its inception, the exchange of goods was considered an ideal practice to meet personal needs by those who could not produce a particular product. This activity was carried out in places where the products were offered in exchange for other products or money, which later came to be known as markets. Their evolution reached a local, sectoral and national level until globalization gave rise to the international market.

Thanks to international markets, international trade or also known as "Imports and Exports" is generated, which is regulated by each global sovereignty administrator, who through international agreements has become standardized and has established regulations that must be fulfilled by those who carry these trade practices.

On the other hand, it is necessary to mention the importance of food products in our world today, whether these are healthy or unhealthy. Food products fulfill a specific function but can have harmful health effects. As a result, the consumption of healthy, natural products is becoming an increasing trend. This is especially true in the case of energy drinks, which although have become a product of high demand due to the energy it gives to consumers, they are also made with elements that are harmful to consumers' health, and there are very few healthy options available in the world market.

This study and thesis project is a proposal based on the process and import plan of the chosen product. In addition, it includes a comparative analysis with the competition and with Ecuadorian regulations, and also the trade process of this product in a national market is mentioned, which also projects its financial and market behavior for the next 5 years. As a result, this proposal refers to a collection of several chairs that were studied during the International Studies career in this prestigious institution and I hope that it can be used as a source for further studies for those who consider it necessary.

CHAPTER #1

INTRODUCTION, ANALYSIS OF THE ENVIRONMENT AND ENERGIZING BEVERAGES

"The word beverage refers to the common use of all types of liquids from drinking water to the most exotic liquid products, including natural and artificial liquids that are used for human consumption.

Although water is the drink recommended to fulfill the role of replacement of liquids, man-kind created different types of more complex drinks whose main objective was to add taste and pleasure to the drinking experience.

The most common beverages that humans have consumed throughout history are the different juices and liquids obtained from fruits, flavored waters, infusions and even those that contain liquor such as wine" (ABC, 2006).

1.1 Soft, Hydrating and Energizing Beverages worldwide and in Ecuador

1.1.1 Soft drinks

"The soda, soft or carbonated drink, is a flavored, effervescent (carbonated) drink without alcohol. These drinks are usually consumed cold since they are more refreshing this way and also to avoid the loss of carbon dioxide, which gives it its effervescent characteristics" (Gaseosa, 2005).

According to the Spanish Ministry of Agriculture and Fisheries, Food and Environment, in 1832, John Matthew was of great importance since he created a machine that mixed water with carbon-dioxide gas, as well as with any flavor desired. This invention made in New York promoted trade and offered alternative options to customers with the implementation of flavored carbonated waters, or better known today as sodas.

1.1.2 Hydrating Beverages

"They were created in the early sixties when a research team at the University of Florida headed by Dr. Robert Cade began to develop a drink that could quickly replenish body fluids and help prevent severe dehydration due to heat and physical effort.

In 1965, researchers began testing a special formula on some members of the University of Florida football team. This team was "The Gators," who suffered heavy losses of fluids during training and games. The test drink that the players drank came to be known as "Gatorade," named after the Gator team and the creator of the drink. This marked the beginning of the history of hydrating drinks in the world" (Guzman, Barreneche, & Martinez, n.d.).

1.1.3 Energy Drinks

"Energy drinks are considered alcoholic beverages that are usually carbonated and are basically composed of caffeine and carbohydrates, various sugars of different absorption speeds, plus other ingredients, such as amino acids, vitamins, minerals, plant extracts, accompanied by acidifying additives, preservatives, flavors, and artificial dyes" (Melgarejo, 2006).

1.1.3.1 Energizing or Stimulating Drink

"An energy drink is a beverage used to provide a high level of energy from carbohydrates to the body. This drink does not compensate for the loss of water and minerals due to physical activity. However, the term "energy" used in the name and description of some products, refers to a certain pharmacological effect of active substances and not to the caloric intake of nutrients, which creates confusion in consumers" (Nutrisalud, 2007).

"According to product developers, they are drinks that were created to "increase physical resistance, generate faster reaction-times and more concentration, increase mental alertness (to avoid sleep), provide a sense of well-being, stimulate metabolism and help eliminate substances harmful to the body." They are also used for sports purposes. Currently they are used to stay awake for entire days and nights so a person can be alert during the so-called "after party" (Ballistreri, 2008).

1.2 Effects of the use of energizing beverages on the human body

"A recent study carried out by experts from the University of Bonn (Germany), published in the journal of the Radiological Society of North America, points out that energy drinks with caffeine and taurine have, in the short term, a significant impact on the contractility of the heart. The research was carried out on 18 healthy volunteers who underwent a cardiac magnetic resonance one hour before and one hour after consuming a soft drink with taurine (400 mg per 100 ml) and caffeine (32 mg per 100 ml).

Although they did not find significant differences in heart rate, blood pressure or the amount of blood pumped by the left ventricle, experts advise that while new studies are being carried out, people with heart disorders should avoid their consumption, since changes in contractility could trigger arrhythmias.

Energy drinks are considered a real "source of energy" when some stimulation is needed, especially when a person feels tired and needs extra strength. In fact, these drinks are mostly consumed by students when they need to increase their concentration capacity. However, it should be noted that it is possible to improve concentration naturally, without using artificial stimulants. Yet the reality is that when the stimulating effects of these drinks go away, afterwards a rebound effect usually occurs and in the end the consumer feels more tired than before.

As many doctors and nutritionists have warned, these types of drinks tend to cause certain health risks, because they alter the functioning of the body and so they are not recommended for certain people. Energy drinks or stimulants cause risks, especially in people with certain health problems" (Arboix, 2015).

1.2.1 Main risks of drinking Energy Drinks

"Energy drinks are not recommended for people with cardiovascular problems, since they tend to stimulate the heart, which in certain cases can be a risk to a person's health. They also are not recommended for people with gastric problems, since they can suffer certain complications such as an upset stomach and digestive issues. People who suffer psychological problems should avoid the consumption of these drinks as well, since the stimulating effect can be in most cases counterproductive" (Pérez, 2015).

Many people many times also consume this product in an irresponsible manner, such as when they mix energy drinks with alcoholic beverages. This is dangerous since the energizer stimulates the heart, while the alcoholic beverage relaxes it and this creates in a very risky mixture for the human body. For this reason, it is never recommended to mix these two types of drinks.

Finally, both children and pregnant women should not consume these types of drinks since they can harm their health or put a women's pregnancy at risk.

1.2.2 Product consumption trends

"In recent years, energy drinks have also become trendy among athletes. It is estimated that half of sports players consume them regularly during training or before competing. However, its use is not without side effects, as experts from the Camilo José Cela University of Villanueva de la Cañada (Madrid) have demonstrated.

The study known as "The use of energy drinks in sports: the perception of ergogenicity and side effects in male and female athletes" followed elite athletes from various sports (football, rugby, tennis, basketball, volleyball, swimming, hockey and climbing) for four years. One group drank the equivalent of three cans of an energy drink before a sports competition while the other drank a placebo drink.

Although the results show that these energy/stimulant drinks improve sports performance between 3% and 7% (such as a swimmers' speed, a climbers' muscle power and strength, or precision in volleyball players, among others), according to the World Health Organization, they also cause undesirable effects. The study demonstrated that the group that consumed energy drinks suffered more from insomnia, nervousness and low-energy after competitions or games, effects traditionally related to the consumption of caffeinated beverages. The authors noted, as published in the British Journal of Nutrition, that there were no significant differences between the different genders, neither in the perception of the positive effects nor in that of the secondary effects.

The European Food Safety Authority (EFSA) published in 2013 a report that collects data on the consumption of energy drinks by population groups. The survey studied

more than 52,000 people from 16 Member States, selected to achieve adequate coverage of the population and different consumption patterns. Since there is no specific definition of what energy drinks are, it included drinks without alcohol, with caffeine, taurine and/or vitamins that are marketed for their potential stimulating and energizing effects" (Arboix, 2015).

The conclusions of this report are the following:

- "Adults (from 18 to 65 years old): 30% of those interviewed stated that they consume energy drinks. Of these, 12% were large consumers of 4-5 drinks per week (4.5 liters on average each month). 11% drank in a single session at least one liter.
- Adolescents (10 to 18 years old): 68% of the interviewees said they were consuming them regularly. 12% said they drank about seven liters per month, and another 12% consumed at least one liter in a single session.
- Children (from 3 to 10 years old): 18% of the interviewees were consumers of these drinks. Of these, 16% cited an average intake of 0.95 liters per week (about four liters per month).
- Mixed with alcohol: 56% of adults and 53% of adolescent consumers drank energy drinks mixed with alcohol.
- Associated with physical exercise: About 52% of adults and 41% of adolescents said they consumed energy drinks during physical activity" (Arboix, 2015).

On the other hand, this consumption trend is moving towards countries such as Ecuador, where the consumption of energy drinks is growing year after year, copying behaviors common in other more developed countries, which means that the demand increases while the supply is limited.

1.3 Pure Bio Energy Drink

According to the information provided by the manufacturer of Pure Bio Energy Drink, the product consists of an energy drink obtained from the organic juices of oranges, carrots, peaches, sugar cane, that are mixed with mineral water from the Austria Alps.

This beverage is made with natural products that provide high energy power without causing risks or side effects to the health of consumers.

Pure Bio Energy Drink is one of the most natural drinks that exist. It is an organic energizer that does not contain taurine (an ingredient that can be commonly found in energy drinks and that is produced synthetically and has negative effects on consumers' health), does not contain artificial flavors, preservatives or dyes. For this reason, it can be said that Pure Bio is the first Certified Bio energy drink or in other words, it is the first energy drink that is "natural as life itself".

The Energy of Pure Bio Energy Drink comes from a combination of natural caffeine (stimulant), sugar cane (energy carrier), and 10% fruit juice content. The caffeine found in Pure Bio Energy Drink is produced by organic coffee plants which is gentler on the stomach and has longer positive effects. On the contrary, all conventional energizers contain synthetic caffeine.

The organic sugar cane used is unrefined and contains minerals such as iron, magnesium, calcium, as well as vitamin B. The fruit juice used (8% orange, 2% carrot) provides the body with important and natural nutrients. Pure Bio's energy drink is less sweet than conventional energy drinks because of the fruit juice used (10% less sugar is needed). However, it has the same energetic effect characteristic of this type of drinks. The fruit juice makes it taste like a fruity soft drink, combined with the effects of a performance-enhancing energy drink.

1.3.1 The Brand

The brand that will be launched worldwide will not be changed since it is the original brand used and the only one established by the production company located in Austria known as "PURE BIO PRODUCTS." It will have the following slogan: "Energy that protects your life", which highlights the natural principles and characteristics of the product.

1.3.1.1 Pure Bio Energy Drink's Logo



Figure 1: Graphic slogan of Pure Bio Energy Drink

Source: Pure Bio Products Website

The logo includes the word "BIO" as a reference to taking care or protecting life, accompanied by the word "ENERGY". The colors used in the logo are green and orange which mean the following:

Green: Represents all the natural characteristics of the product, with "BIO" in white letters representing life.

Orange: Represents the energy obtained from the fruits used to make the drink.

Ant: It is the product's mascot. The ant raises the drink can in the logo which aims to show that with PURE BIO ENERGY DRINK this bug can lift up to more than 50 times its weight (common in ants), that is, this product gives energy and strength.

Star: The star within the word "BIO" refers to the fact that it is a TOP product, the best in the category, in other words, it is a "star" and high-quality energy drink.

1.4 Comparison of Energy Drinks

"Sports, energizing and nutraceutical drinks make up the functional drinks category, which is also part of the soft drinks category. Sports drinks in the United States are more than electrolytes for the consumer: they must provide energy, improve performance and build muscle. Therefore, the list of ingredients in sports drinks is now more

extensive, varied and complex. The sports drink market in the US includes 77 million users whose individual consumption is increasing, and is segmented by the intensity of the exercise, time of consumption, sex, age, etc. At the end of 2013, the retail sale of sports drinks reached US \$7.4 billion, with an annual growth of 6%. However, the number of drinks consumed fell to 5.4%, consumers of more than 8 drinks per month fell by 7% and those of 2 monthly drinks grew by 7%. Therefore, continuous innovation will be the engine of segment growth. It is expected that by 2017, retail sales in the US will reach \$9.3 billion.

In 2012, energy drinks and shots sold more than US \$12.5 billion. 78% corresponds to the sale of beverages, 18% to shots and the remaining 4% to mixed energy drinks.

The consumption of energy drinks in the US has grown at an average rate of 10.1% over the last 5 years and it is expected that by 2019, manufacturers will offer totally natural and organic energy drinks. Packaged Facts projects sales of beverages and energizing shots of \$21.5 billion in 2017, given the recovery of the economy, the expansion in retail distribution, and the high potential for the development of new products, which increases the volume of individual consumption. The lower sales growth of both categories is of concern (from 13% in value in 2012 to 4% in 2013), due to the incursion of beverages from other categories and the possible relationship between the consumption of energy drinks and deaths, which was published by the press in 2013 where doctors questioned the need to consume sports drinks.

From the retail sale described and projected, more than 99% will be produced locally, both for sports drinks and energy drinks.

The per capita consumption of sports drinks in the US during 2013 was 4.3 gallons, while the per capita consumption of energy drinks in the US during 2014 was 3.4 gallons. In the future, it can be determined that the per capita consumption of sports drinks is stable, growing due to product innovation, but on the other hand, it can decrease due to the competition of substitute products from other categories" (ProEcuador, 2015).

The projection of per capita consumption of energy drinks is growing.

Chart 1: Yearly US energy drink sales

Sales / Year	Year 2012	Year 2018
SPORT DRINKS	12.500,00	7.400,00
ENERGIZERS	9.300,00	21.500,00

Source: Pro Ecuador Website

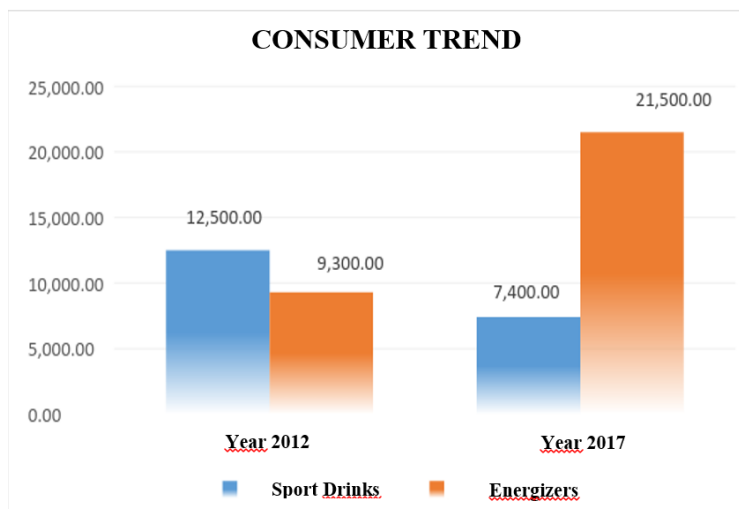


Figure 2: US energy drink consumption trend

Source: Pro- Ecuador Website

1.5 Segmentation and market variation

According to León, market segmentation consists in the division of the market into small homogeneous groups where a certain good or service can be offered. This division is possible only once the company has identified the consumers.

There are several types of market segmentation, which are the following:

- "Differentiated Strategy: here a different marketing mix should be developed for each of the target segments detected and a product adapted to the needs of each of these segments should be offered.

- Undifferentiated strategy: this type of segmentation considers satisfying different needs of each of the segments with a single commercial offer. To achieve this, the product is based on the common characteristics of the segments.
- Concentrated Strategy: this is the specialist's strategy, which concentrates its efforts on addressing one or a few segments in which there is a comparative advantage" (Leon, 2015).

When selling a product the following segmentations should be considered:

- Geographical Segmentation: Pure Bio Energy Drink will divide its market using a geographical segmentation and sell its product in the Ecuadorian territory, focusing mainly on the city of Cuenca.
- Demographic Segmentation: A demographic segmentation will be carried out, focusing on males and females between 18 and 45 years old. The same target of Red Bull will be considered, with the exception of age, since Pure Bio Energy Drink, being an organic product, without taurine, dyes and preservatives, is more attractive for adults over 34 years old. This is contrary to what the Red Bull study indicates, which was carried out by the students of the University of Palermo.

"It is an energizing drink that is aimed towards a young adult audience, with an average age of 18 to 34 years-old with a socio-economic level B (medium-high average), which is in constant physical and mental activity and requires a stimulant to excel in their activities" (Garrido, Alvarez, & Vásquez, 2015).

- Psychographic segmentation: In addition, this product focuses on people who live an active lifestyle and take care of their body by providing them with energy in an organic and healthy way.

- Behavioral Segmentation: Pure Bio Energy Drink also focuses on people who have an organic lifestyle since they know the health benefits of these products. The goal is that every day more people become aware and join the trend of the consumption of natural products as the best way to take care of consumer's well-being.

Additionally, when talking about market segmentation, it is important to mention the requirements that are needed to achieve efficient market segmentation. To establish a market and its variation, it is advisable to design or structure the study's market in order to determine the information needed that leads to the decision-making process. The goal is to reduce the possible risk of failure or to maximize the success of a product or service.

The factors that should be carried out include the following:

- a) Determine key decisions that must be made
- b) Determine the information necessary for decision-making
- c) Prepare a prototype report and check with the users
- d) Determine which studies are needed for the report
- e) Decide which questions will be made in order to obtain the data required in the report
- f) Determine if the questions have been previously answered
- g) Establish the sample
- h) Carry out the investigation
- i) Analyze the results
- j) Write the report

1.5.1. Target Market

According to the data provided by the market segmentation and based on the different types of segmentation studied, it can be said that the product is aimed at 18 to 45 year-olds, who care about their health and enjoy consuming natural products and/or energy drinks to increase their energy during their daytime activities as well as to build greater resistance and to be more alert during the night.

This differs from what the authors Garrido, Álvarez, & Vásconez suggest in their Practical Study of the Design and Communication of Red Bull, where they establish a target audience between 18 and 34 years-old. The target market of Pure Bio Energy Drink is larger because it is an organic product that does not contain taurine, artificial dyes or preservatives and it has less sugar, as well as several international certifications that guarantee its health benefits. This in turn increases the drink's consumption by an older audience and/or people interested in caring for their body who are not usually consumers of energy drinks and who consume products that are within the segment of organic products.

1.6 Analysis of the current situation of the energy drink market

"The potential market for energy drinks has an impact mainly as sports drinks, since the population is segmented by the level of income and lifestyle, which makes them part of the segment that is attracted to high-value sports drinks instead of water, and natural and non-natural drinks.

"A study conducted in 79 Whole Foods stores in California in 54 cities with a population of about 12 million inhabitants demonstrated that that at least 20% of this population represents the potential market for these types of drinks. Red Bull also presented results in which it considered that 38% of working adults between 25 to 49 years old consume at least one energy drink per week (survey conducted by Harris Interactive to 2,046 adults, between June 7th and 11th, 2013). Consequently, if California follows this consumption pattern, it could be affirmed that one-third of the population consumes energy drinks, especially those that live in the urban region.

As mentioned above, this type of sports drink is consumed before, during and after an exercise session, and can be bought from stores that retail the product in presentations that range from 250 ml to 1 liter. The frequency of purchase is mainly weekly, which is why it is considered as a product of the consumer's "grocery list" who also determines the brand that is bought. The tendency to buy natural products has generated a more notorious impact, including products consumed in the kitchen, drinks, desserts

and even personal care products that provide a mixture of attributes such as: the contribution of electrolytes + low in sugar + natural + protein + performance enhancers" (Arroyo, 2015).

1.7 Analysis, results and conclusions of the market study

To obtain the most realistic result possible of the market study, a sample of 100 people has been taken, of which 50 are consumers of energy drinks and 50 are non-consumers. Several results were obtained from this investigation, which are detailed below:

Who are the consumers of energy drinks?

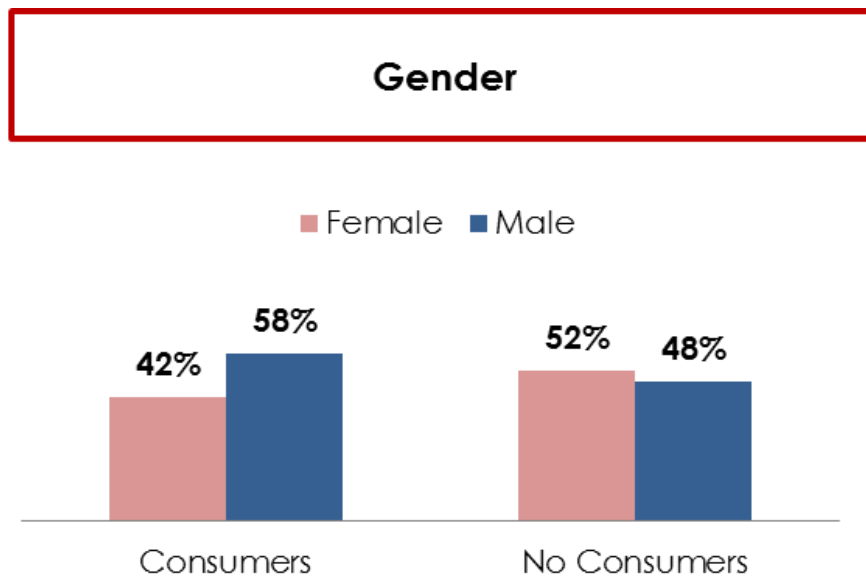


Figure 3: Percentage of Consumers and Non-Consumers by Gender of Energizing Drinks

The study of the sample demonstrated that in the case of consumers of energy drinks, there is a greater trend of consumption by the male gender, which is possibly due to the relation between this drink with extreme sports. In the case of non-consumers, it differs since there are more females that do not drink energy beverages due mainly to health factors.

Age range of our potential customers:

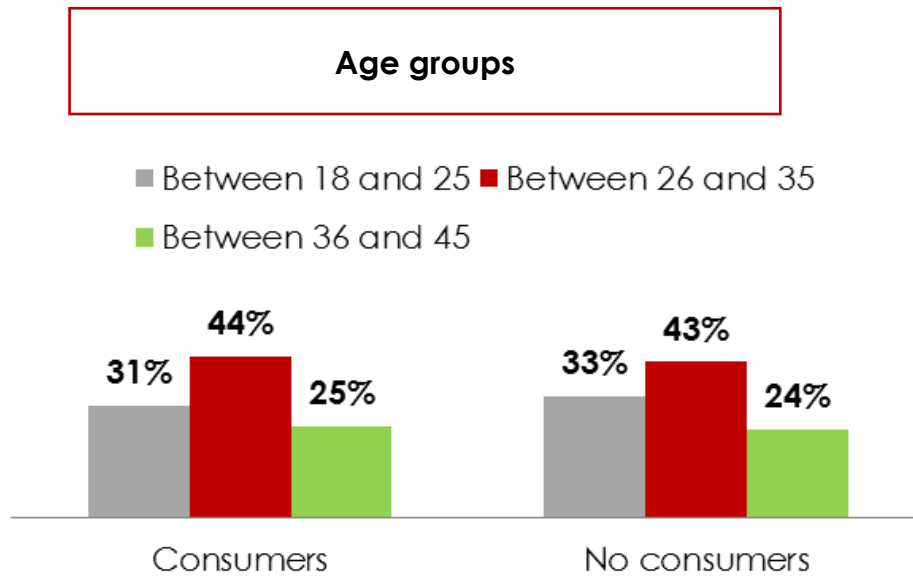


Figure 4: Age Range of Consumers and Potential Consumers of Energy Drinks

Within the segmentation carried out, it was determined that the strongest group of both consumers and non-consumers, is between 26 and 35 years of age and the percentages of the age groups between the 2 samples are very similar. Those who are consumers drink the product due to their origin of income and do not depend on third parties to obtain the product. This differs from the age group between 36 and 45 years-old, that although is a financially strong group, it is closer to the age group that is not our target audience.

Determine the reasons why some people do not consume energy drinks.

NO CONSUMERS: Why do not you consume energy drinks?

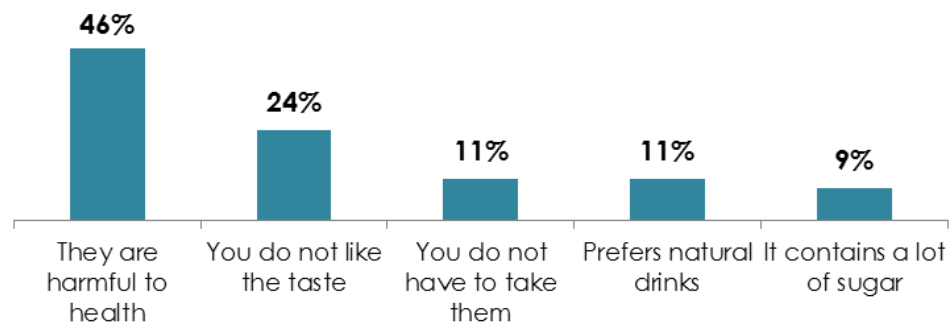


Figure 5: Reasons why people do not consume energy drinks

According to the results of the market study, it can be observed that 44% of non-consumers consider energy drinks as are harmful to their health, which is a potential attractive market for the Pure Bio Energy Drink brand, since the product is 100% natural. This factor allows the product to satisfy 11% of the segment that prefer natural drinks. Additionally, since the Pure Bio Energy Drink has less sugar than most energy beverages, it can be attractive for the 9% of non-consumers who do not buy these kinds of products because of their high sugar content.

This research also considered important to determine the frequency and the reason why the people interviewed consumed these types of beverages.

CONSUMERS: In what occasion do you consume Energy Drinks?

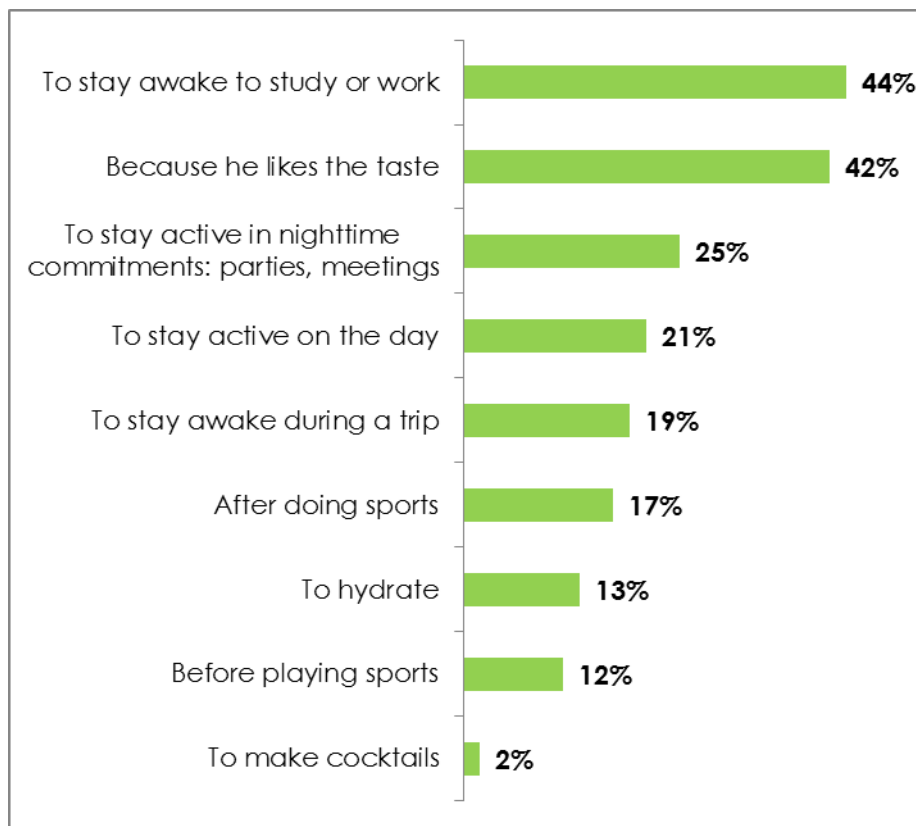


Figure 6: Respondents answers on the consumption of energy drinks

Several conclusions can be determined from the results of the reasons why energy drinks are consumed. A result of over 40% considers this type of drink as a way to help stay conscious or awake. Others consume the product for its flavor and an average 22% consider it as a stimulus in social gatherings or parties, during the day and for trips, while another group, made up of an average of 15%, consumes the beverage due to sports, whether before or after exercising for hydration and for the energy that it provides.

Determine the most attractive characteristics of the product for consumption

CONSUMERS: If you had to change something from energy drinks, what would it be?

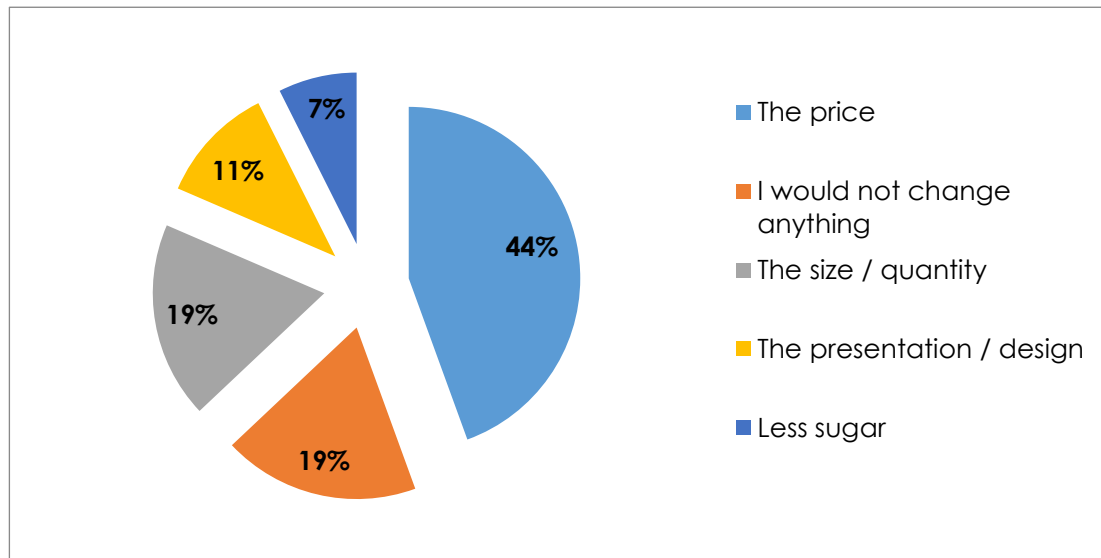


Figure 7: Changes that consumers would make in energy drinks

When studying Cuenca's energy drink consumers, it can be determined that 44% seek a healthy alternative, yet they continue to consume traditional energy drinks knowing that they are damaging to their health. 19% are satisfied with the energy products they have available for consumption. However, the size of energy drinks is a point of displeasure for consumers. While Pure Bio Energy Drink has a different design than the competition, this 11% of unsatisfied consumers may or may not like the new presentation, which is why it should not focus its efforts on this aspect of the product. Instead it should focus on the 7% of consumers who are interested in energy drinks with lower sugar content.

What is the maximum price consumers would pay for the market's most consumed energy drink brand?

CONSUMERS: Talking about the price of Red Bull, you would say that...

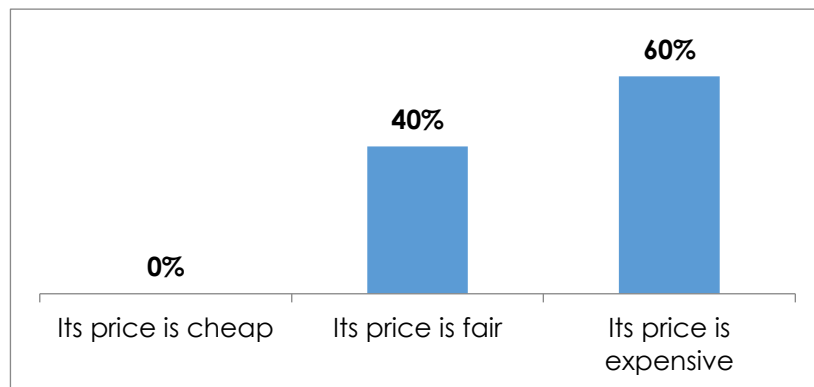


Figure 8: Level of satisfaction of Cuenca's market with the price of RedBull

In this case the price of the RedBull brand in the Cuenca market was taken as a point of reference. The results show that 60% of consumers consider the price of RedBull as expensive, 40% say it is fair, and nobody thinks it is underpriced. As a result, Pure Bio Energy Drink's hook strategy is to enter the market with a lower price than RedBull in order to gain a certain percentage of RedBull's clients who consider it to be an expensive product. This approach focuses on the presentation of Pure Bio Energy Drink's competitive advantages against the competition.

Establish a relationship or response from non-consumers to determine whether or not they would consider drinking this type of beverages in the future

NO CONSUMERS: Would you consider taking energy drinks in the future?

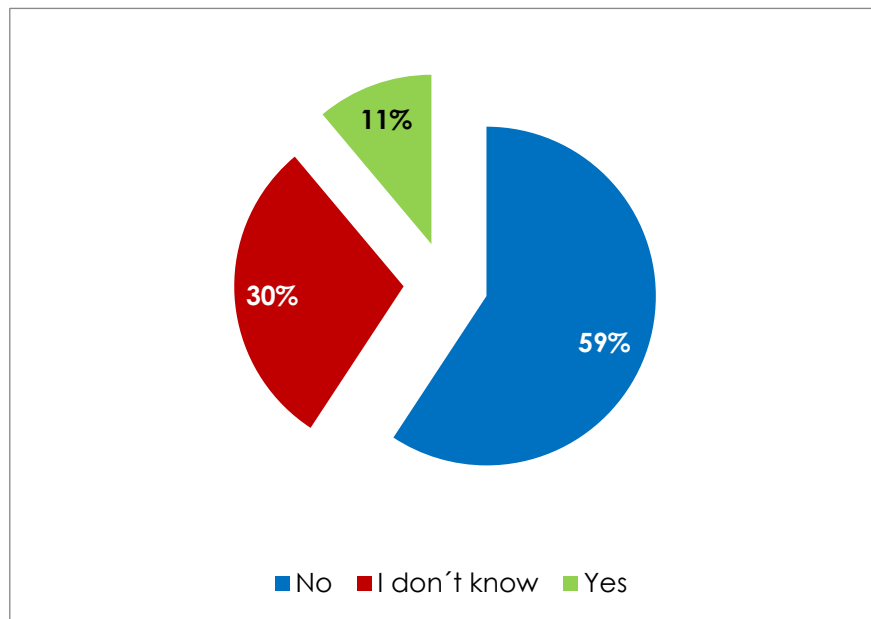


Figure 9: Answers of Non-Consumers of Energy Drinks on their possible future consumption

To analyze this graph it is important to consider the reasons why energy drinks are not being consumed by the non-consumers studied in the previous graph. It can be determined that these people do not buy this type of drinks because they consider them to be harmful to their health. If an organic option is offered, the 59% of the sample that is not willing to consume these drinks in the future could be reduced since before this option was not available in the market. The Pure Bio Energy Drink brand will focus on persuading this 30% of confused consumers and will also try to win over the 11% who assure that they would consume it.

The survey proposed the launching of a new European energy drink in the market that is 100% organic and ecological and contains: Natural mineral water, orange and carrot juice, peach extract, natural caffeine, organic sugar, and that is free of taurine.

Considering this idea of energy drink, you would say ...

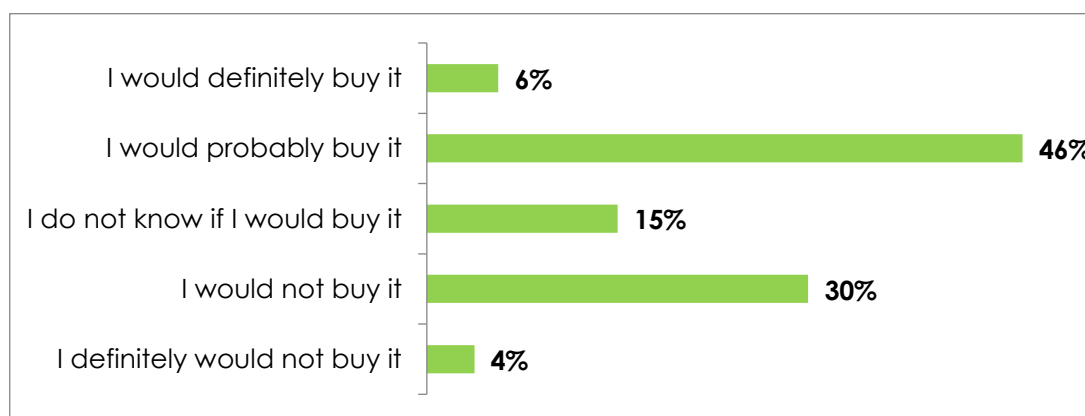


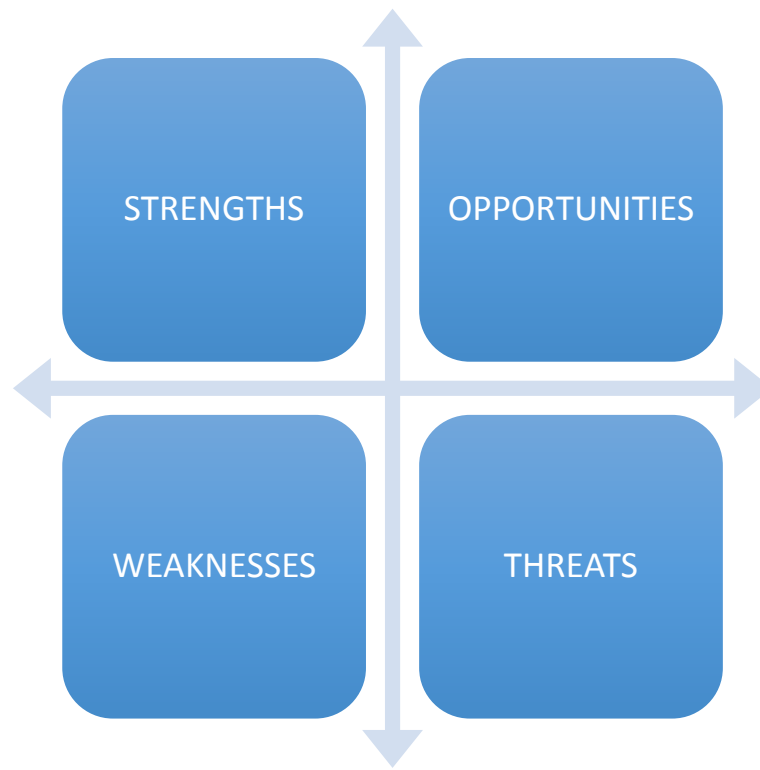
Figure 10: Reactions on the launch of Pure Bio Energy Drink in the Cuenca market

In the study conducted, it was determined that Pure Bio Energy Drink could be a very successful beverage in the local market, considering that 37% of consumers would buy it without thinking twice, and that due to its benefits and differentiating aspects with the competition, 48% of consumers who would probably buy the product could be convinced to buy it, as well as the remaining 12% who are not sure if they would purchase the product or not. In other words, only 4% of respondents would definitely not consume energy drinks.

On the other hand, non-consumers of energy drinks tend to keep rejecting this branch of beverages, although 61% of this group is uncertain about the Pure Bio Energy Drink brand since it is a new option available in the market. When carrying out the surveys, 6% of the respondents changed their opinion just by mentioning some benefits that this beverage offers and said that they would be willing to consume the product.

1.8 SWOT Analysis of Pure Bio Energy Drink

Chart 2: SWOT Analysis of Pure Bio Energy Drink



1.8.1 Strengths

- High profit margin in points of sale
 - It is credited as the brand with greater sales in comparison to that of the competition.
 - It is a natural product
 - It is a product without added sugars (medium sugar level)
-
- The product is a natural energizer with a high nutritional and energy content without side effects that could affect the health of the consumer.
 - The great benefits that the consumption of Pure Bio Energy Drink has in comparison to products that produce secondary health effects due to the use of taurine and silymarin.
 - It is a product that has obtained several awards worldwide, such as:

- ✓ VeganOK Certificate
- ✓ Kosher Certificate
- ✓ JAS
- ✓ USDA Organic
- ✓ NON-GMO
- ✓ FREE Gluten



Figure 11: List of International Certifications obtained by Pure Bio Energy Drink

Source: Pure Bio Products

1.8.2 Opportunities

- It is an organic product.
- Unique in the energy drinks market.
- It is an imported product.
- It is certified worldwide.
- There has been an increase in the consumption of products of natural origin.
- There is great habit of consumption and potential demand of energy drinks in the local market.
- Little existing competition of natural energy drinks based on organic products.
- It is a drink that has a high impact worldwide because it is considered fresh and natural.

1.8.3 Weaknesses

- It does not have an established distribution chain
- It has a high P.V.P. (\$ 2.99)
- Low advertising budget
- Poor investment capacity
- As non-producers of the product, the local Company does not have the Know-How of the energy drink.
- Offering a new product whose raw material has no greater diffusion above its consumption benefits.
- Failing to currently offer a variety of products.

1.8.4 Threats

- It is a family business.
- Change of Government Policies.
- Not a well-known product.
- Import taxes.
- Society has an unhealthy perception of energy drinks.
- Strong positioning of other brands in the market.
- The strong positioning of other brands of traditional energy drinks, such as RedBull, Monster, V220.
- The position of the Ecuadorian Government in promoting products of national production and tariffs for imports.
- International perception of political, legal and economic instability, affecting investment in the local market.

1.9 Michael Porter's Forces

"The competitive strategy is a field of great interest for managers and is fundamentally based on a deep knowledge of the industrial sectors, trade and service, its competitors and environment. However, until the 1980s, it has offered few complete analytical methods to obtain it."

Michael Porter identified five forces that are widely used today by companies for strategic planning, these forces are essential to measure the long-term profitability of a market and include:

1. Threat of new competitors: The market or the segment can be considered attractive or not depending on whether the market's entry barriers are easy or difficult to cross by new companies who can arrive with new resources and capabilities to seize a portion of the market.
2. Rivalry among competitors: it will be more difficult for a corporation to compete in a market or in one of its segments where competitors are very well positioned, are numerous and have high fixed costs, since they will constantly be faced with price wars, aggressive advertising campaigns, promotions and the entry of new products.
3. Suppliers' negotiation power: A market or market segment will not be attractive if suppliers are very well organized, have strong resources and can impose their price conditions and order size (even more so with supplies that do not have substitutes or are scarce and have a high price). Another unattractive aspect for a market is when the supplier strategically decides to integrate and dominates the distribution channels or places where a product is distributed.
4. Buying power of customers: A market or segment will not be attractive when customers are very well organized and the product has many substitutes, is not very differentiated or has a low cost for the customer. This allows the product to become a substitute at an equal or at a lower cost. The growing demands of large buyers are focused on the reduction of prices, higher quality products and better services, and therefore, a corporation will see its profit margins affected. The situation worsens if buyers decide to integrate backwards and, for example, acquire their suppliers or produce their own inputs.
5. Threat of substitute products: A market or segment is not attractive if there are real or potential substitute products that are more technologically advanced, or can penetrate at lower prices, reducing the industry's profit margins.

1.10 Competitive Forces

To determine the competitive forces of Pure Bio Energy Drink, it is necessary to first identify the competition. For this reason, the following chart has been created to demonstrate the market share of each of the strongest brands and their strengths.

Chart 3: Competitors of Energy Drinks in the Ecuadorian Market Chart

COMPETITOR	VITAL COMPETITION	SEGMENTS SERVED	VALUE PROPOSAL	MARKET SHARE
V220	DISTRIBUTION / PRICE / ADVERTISING	MASSES	PRICE	55%
RED BULL	MARKETING / TARGETING	TRANSPORTATION / PARTY	PRESENTATION AND MARKETING	25%
440	ELJURI GROUP / COVERAGE	NOT SPECIFIC	PRICE	5%
VIVE 100	PROMOTION	MASSES	PRICE	5%
CICLON	UNIDENTIFIED	SPECIFIC SEGMENTS	PRESENTATION	3%
OTROS	UNIDENTIFIED	UNIDENTIFIED	UNIDENTIFIED	7%

Based on the information obtained in Chart 14, it could be analyzed that although Pure Bio Energy Drink is not a product that has millions of dollars for advertising, as does RedBull, or is a product of mass production with a low price like others of the competition, has its attributes that make it unique in the Cuenca market, which is its differentiating factor to other brands.

Pure Bio Energy Drink is a European natural drink, without dyes or preservatives, and is an organic product with a fruit flavor, among other qualities that offer consumers a better performance in their daily activities. Since it is an organic energy drink, has a medium sugar-level, and does not contain artificial flavors or taurine, Pure Bio is an exclusive product in the market that highly valued by people who care about their health and who want to stay in shape, which makes this a unique option in the city's market.

1.10.1 Competitors Analysis

- The strongest competitor of the category is V220 since the company occupies more than half of the energy drink market share. Its price ranges between \$1.00 and \$1.25 and it is a product that can be purchased by any segment of the market because of its price and the quantity of product that is offered. For this reason, it is available in almost all the points of sale in the country, from neighborhood stores to the largest supermarkets in Ecuador. One of the negative points of V220 is its low investment in marketing and advertising.
- Red Bull is another competitor that stands out in this category. Its success is based on marketing and global advertising that manages this brand, which creates in the consumer a certain identification with the product and at the same time offers a feeling of higher social status when consuming it. Red Bull is not a product that competes for price but rather for popularity. The price of this energy drink in the Cuenca market is between \$2.50 and \$3.00 and because of the brand's popularity achieved thanks to advertising, it can be found in 80% of points of sale in Ecuador.
- 440 Energy Drink is a product created to steal market share from V220. The marketing idea of the product is based on its name, being twice the amount of V220. This product has not been able to compete with the leader of the category but has managed to have its share in the market with a low investment in product advertising. The strong aspect of this product is its price (\$ 1.00) and its presence in points of sale due to the good distribution system that they drive.

- Vive 100 is a product of the brand Quala, a company of international prestige that is quickly entering the Ecuadorian market. The advantage of this product is the mass publicity that they use through the different means of communication, including radio and television media. It is an energy beverage made with guarana and tea extract and it is promoted as a natural energizer, although it has no certification to support this claim. Due to its price and scope it is considered as a mass product, although its rotation has not reached the level expected.
- Cyclone Energy Drink is an energy drink that does not dominate more than 3% of the Ecuadorian market. This brand has distribution problems and it is not a mass product but rather a niche since it is not found in the main points of sale and it is a very inconsistent product in the market due to the fact that it is not always available. It is a product that does not advertise, so it is expected that it will gradually lose its participation in the local market.
- The remaining 7% of the market share is divided among the different energy drinks in Ecuador available in the city of Cuenca. These companies do not yet have an identified market segment or a real value proposal, which is why this percentage is divided into several products of this branch.

CHAPTER #2

IMPORTATION

Importation is the legitimate transport of national goods and services exported by a country, intended for use or consumption within another country.

Imports can be any product or service received within the border of a State for commercial purposes and is generally carried out under specific conditions, such as delivery times, product characteristics, payment methods and others (Central Bank of Ecuador, 2010).

On the other hand, Ecuadorian Customs defines consumption importation as the nationalization of foreign merchandise that enters the country for its free disposal, use or final consumption, in exchange for a payment through documents called payment instruments.

2.1 International Negotiation

"International negotiation is an exchange that is established between parties from different countries and, therefore, that operate in different markets. These agreements, that are increasingly frequent in a globalized world with evolving emerging economies, have a series of specific characteristics that differentiate them from national or regional negotiations" (EAE, 2017).

"All negotiations are carried out with instruments or means of payment. Instruments or means of payment are the tools used by the agents of an economy to transfer money in exchange for goods or services. They play a very important role in a contract for the sale of goods and services because it is the way in which the transaction becomes truly effective" (Banco Central del Ecuador, 2010).

The choice of the tool or means of payment depends mainly on:

1. Knowledge and mutual trust between the buyer and the seller.
2. The existing legal regulations in both countries.

The most common types of international negotiation are:

- The international sale of a good or a service
- Agreements through an intermediary,
- Strategic alliances



Figure 12: International Sales Contract Diagram

Source: Pro-Ecuador Website

2.1.1. Negotiation with the European Community

While it is true that Ecuador has established an agreement with the European community, which is already in operation in neighboring countries such as Peru and Colombia, this treaty fulfills a long-term process which is not clear on the subject of energy drinks. For this reason, this trade agreement has not been taken into account in this thesis project. Depending on how this issue is made clear, it will be possible to implement the treaty to the import analysis of the product.

2.2 Negotiation Process

"Negotiation, therefore, is considered a necessity of the human being, because by not having total control of events, it is not always in his power to achieve what he wants or needs and so he looks for means to achieve what he wants from others..." (López, 2012).

Marley and Stephenson (1977) describe negotiation as a process of commutative interaction in which two or more parties attempt to resolve a conflict of interest, using dialogue and discussion, discarding violence as a method of action and moving towards a gradual approach through mutual concessions.

Desaunay (1984) mentions that "Negotiating is doing business, in other words, exchanging and bargaining. This supposes that each part wants what the other possesses, but, evidently, at the lowest possible price. Additionally, it supposes that a satisfaction (to obtain what is desired) and a dissatisfaction (to give what one possesses) occurs at the same time. On the other hand, negotiations occur only when each part wants to obtain something at the expense of the other, which is a trap that is feared, and in which one wants to make the other fall."

On the other hand, Monsalve (1988) concludes that: "Negotiation is a process and a technique by which two or more parties construct an agreement. The parties begin by discussing the matter in which they have interests, which generates varied reactions among them. The reasons that guide each negotiator generate behaviors that are often expressed in verbal proposals. This exchange causes parties to develop intense desires to control the issue that concerns them."

Personally, I think that negotiation is the ability of two or more people to reach an agreement, create an exchange action and meet their needs.

2.3 The Import Process to Ecuador

The negotiation process is divided into International and National imports. Within each division, the necessary requirements to comply with each of the import types can be identified.

2.3.1 Internacional Imports

"Incoterms are rules that have become an essential part of the everyday language of international trade. Incoterms have been incorporated into contracts for the sale of products throughout the world and provide standards and serve as a guide to importers, exporters, lawyers, transporters, insurers and students of international trade.

The ICC (International Chamber of Commerce) has been in charge since 1936 (with revisions in 1953, 1980, 1990, 2000 and 2010) of the elaboration and updating of these terms, in accordance with the changes that international trade has had. Currently, Incoterms 2010 (as of January 1st, 2011) are being applied. They are determined privately between the negotiating parties and are included in international sales contracts and commercial invoices.

Incoterms are the international commercial terms that define and clearly distribute the obligations, expenses and risks of international transport and insurance between the exporter and the importer. These terms are recognized as international standards by the customs authorities. In other words, INCOTERMS describe the moment in which the responsibility of the merchandise is transferred from the seller (manufacturer or not) to the buyer (whether it is the end user or not)" (ProEcuador, 2015).

There are 11 Incoterms, of which 7 can be used for any mode of transportation and 4 are applicable only for maritime transport. They are also divided into 4 categories: E, F, C and D.

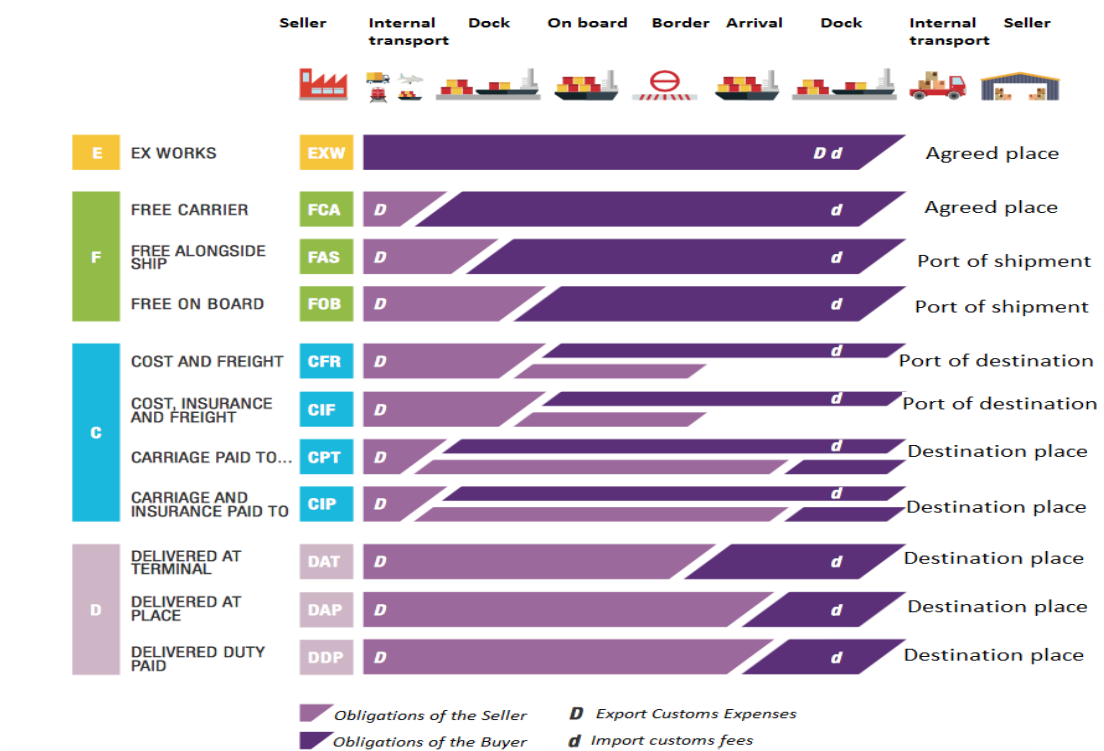


Figure 13: Graphic Explanation of the Incoterms

Source: Pro Ecuador Website

"Ex Works: The seller puts the goods at the disposal of the buyer in their facilities: factory, warehouse, warehouse, etc. All the expenses from that moment on are paid by the buyer. This INCOTERM can be used with any type of transport or with a combination of them (known as multimodal transport).

FCA (Free Carrier): Free Carrier is when the seller agrees to deliver the goods at an agreed point within the country of origin (the place agreed on is usually related to the spaces of the carrier). It takes care of the costs until the merchandise is located at the agreed point, such as customs in the country of origin, among others. The INCOTERM FCA can be used with any type of transport, however it is little used.

CPT (Carriage Paid To): Transportation paid to (agreed place of destination), the seller is responsible for all costs, including the main transport, until the goods reach the agreed point in the country of destination. The risk is transferred to the buyer at the time of delivery of the goods to the carrier within the country of origin (Ministry of Agriculture of Colombia, 2016).

CIP (Carriage and Insurance Paid To): Carriage and insurance paid to (agreed place of destination). The seller is responsible for all costs, including the main transport and insurance, until the goods reach the agreed point in the country of destination. The risk is transferred to the buyer at the time of delivery of the goods to the carrier within the country of origin. Although the insurance has been contracted by the seller, the beneficiary of the insurance is the buyer.

DAT (Delivered at Terminal): Delivered at terminal (port of agreed destination). The seller is responsible for all costs, including the main transport and insurance (which is not mandatory), until the merchandise is placed in the defined terminal. The seller also assumes the risks until this point.

DAP (Delivered at Place): Delivered at place (named place of destination), the seller is responsible for all costs, including the main transportation and insurance (which is not mandatory) but not the costs associated with the importation, until the merchandise is made available to the buyer in a vehicle ready to be unloaded. The seller also assumes the risks until then.

DDP (Delivered Duty Paid): Delivered Duty Paid (agreed place of destination), the seller pays all the expenses until leaving the goods at the agreed point in the country

of destination. The buyer does not carry out any process. The import customs charges are assumed by the seller.

FAS (Free Alongside Ship): Free alongside Ship (agreed cargo port). The seller delivers the goods at the agreed dock of the agreed cargo port or in other words, next to the ship. The INCOTERM FAS is typical of bulk cargo or a large cargo because it is deposited in specialized port terminals, which are located in the dock. The seller is responsible for the management and costs of the customs of the country of origin.

FOB (Free On Board): Free On Board is when the seller delivers the goods on the ship. The seller hires the transport, but its cost is assumed by the buyer. INCOTERM FOB is one of the most used in international trade. It must be used for general cargo (drums, coils, containers, etc.) of merchandise.

CFR (Cost and Freight): Cost and Freight- The seller is responsible for all costs, including the main transport, until the merchandise arrives at the destination port. The risk is transferred to the buyer at the moment that the goods are loaded on the ship in the country of origin. It must be used for general cargo, which is not transported in containers and it is not appropriate for bulk cargo.

CIF (Cost, Insurance and Freight): Cost, Insurance and Freight- The seller is responsible for all costs, including the main transport and insurance, until the goods arrive at the port of destination agreed on. Although the insurance has been contracted by the seller, the beneficiary of the insurance is the buyer, which is transferred at the time the goods are on board the ship at the port of embarkation. The INCOTERM CIF, is one of the most used in international trade because the conditions of a CIF price are those that mark the customs value of a product that is imported" (Corporación Colombia Internacional, n.d.).

The INCOTERMS to be used depends on the negotiations carried out with the supplier. In the case of PURE BIO ENRGY DRINK, the unit value of the product has been negotiated with the Incoterm Free on Board (FOB).

2.3.2 National Imports

According to the Ecuadorian Customs Website, these are the national requirements.

- Importers Registration (Prerequisite)
- Registration in the different Ministries depending imported (Prerequisite)
- List of Prohibited Products (Specific Requirement)
- Knowledge of Standards and Technical Regulations (Specific Requirement)
- Customs declaration and customs clearance of the goods (Specific Requirement)

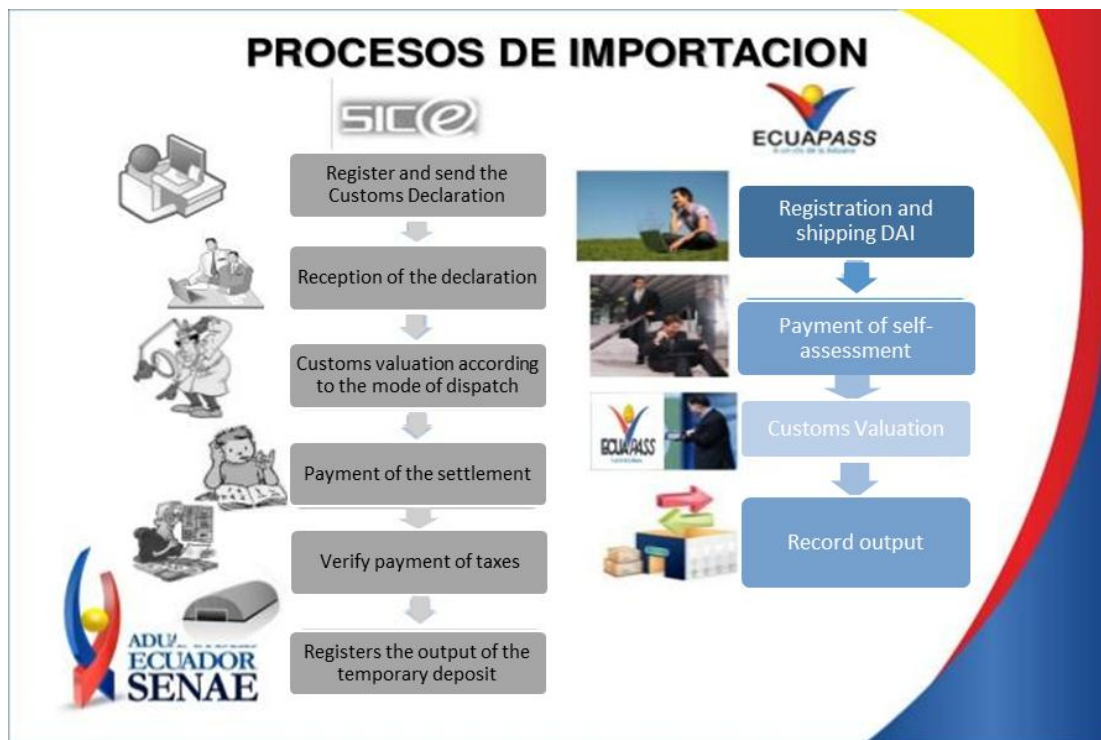


Figure 14: Import process to Ecuador

Source: Central Bank of Ecuador Website

On its website, the Central Bank of Ecuador establishes the following requirements to import into Ecuador.

1. Contract between the Originator and the Beneficiary
2. Request of Originator and Issuing Bank
3. Issuance of the Letter of Credit between Confirming Bank and Issuing Bank

4. Beneficiary and Confirming Bank - Notifies and Confirms
5. Shipment of Goods: Beneficiary to Originator
6. Sending documents from the Beneficiary to the Confirmed Bank
7. Confirmed Bank Payment to Beneficiary
8. Sending of documents between the Confirming Bank and the Issuing Bank
9. Delivery of Documents from the Issuing Bank to the Originator
10. Withdrawal of Merchandise

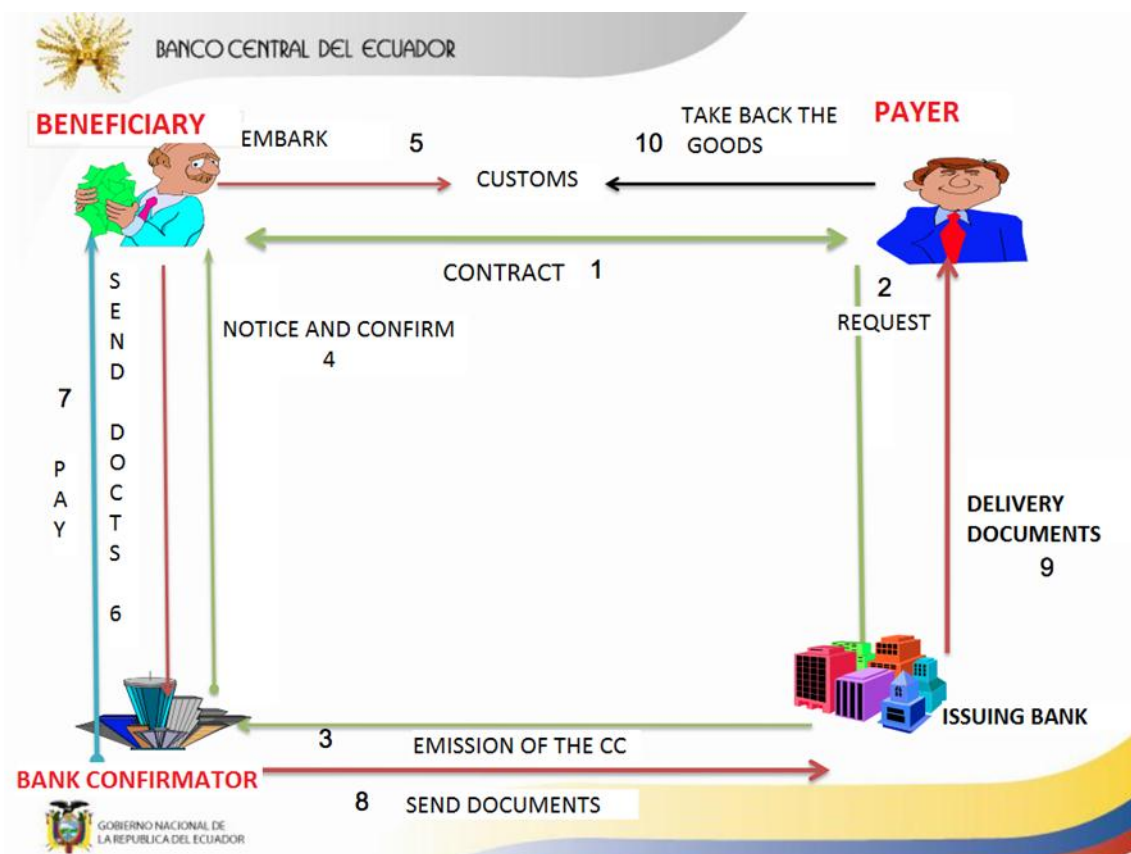


Figure 15: Import process to Ecuador

Source: Central Bank of Ecuador Website

2.3.3 Other Procedures

To carry out the importation process, it is necessary to comply with the Customs Law, that include two types of requirements:

- Previous requirements
- Specific requirements

2.3.3.1 Previous Requirements:

"All natural and legal persons must have a General Taxpayers' Registry, should be in an active status with authorization to issue sales receipts and referral guides, be on the white list of the database of the Internal Revenue Service, which will indicate that the legal entity is up to date with its obligations at the time of the Tax State Consultation. Imports of small postal parcels, personal effects of travelers, household items, coffins containing dead bodies or human remains, unaccompanied baggage, those given Immunity by the Law, Privileges and Diplomatic Franchises and, orthopedic vehicles or equipment classified for the disabled for personal use should be excluded from these requirements.

Additionally, for the registration of users in the Ecuapass System of the National Customs Service of Ecuador (Senae) and to carry out foreign trade operations, any foreign trade operator must have a personal digital certificate valid for the electronic signature and for their authentication, which must be acquired in HSM (Hardware Security Module) token storage devices for the secure storage of said devices. These certificates must be obtained depending on each case with can include the following types: a natural or physical person (for people who work for their own account or for a natural person, that is, they do not operate a company) and a legal person or a legal representative or member of the company.

Those considered importers must comply with the guidelines for subscribing the form of the Andean Value Declaration (DAV). This data is obtained from the data entered and transmitted in the same Import Customs Declaration (DAI). To create a declaration in the name of a third party, the customs agent must carry out a mandate contract with the other part by means of a simple private instrument, under which the third party is delegated to sign the DAV in the name, account and risk of the importer" (SENAE , 2017).

2.3.3.2 Other Requirements or Specific Registries

Depending on the type of product imported, prerequisites are required for each type of merchandise. In the case of an energy drink, the sanitary registration of the product

granted by the National Agency for Health Regulation, Control and Surveillance (ARCSA) is essential for the import process.

"A Sanitary Registration is necessary for processed foods, food additives, medicines in general, nutraceutical products, biological products, processed natural products for medicinal use, pesticides for domestic and industrial use, manufactured in the national territory or abroad, for the import, export, commercialization, dispensing and sale including those received in donation, in the Ministry of Public Health (National Institute of Hygiene and Tropical Medicine Leopoldo Izquieta Pérez). It supports the implementation of an agile system of Registry and Control post-registration that protects the health and consumer economy, while covering the demand of the industry" (SENAE, 2017).

2.4 Import Regimes, Ecuadorian Regulations

"The constant evolution of international trade, managed mainly by the World Trade Organization (WTO), brings together the vast majority of countries in the world and promotes the reformation or the introduction of different laws, decrees, resolutions and regulations in order to be able to continue eliminating trade barriers globally" (Regulation to COPCI, 2010).

"For this reason, in Ecuador, through the Ecuadorian Customs Corporation, a proposal to reform the regulations on how to conduct international trade, known as the Organic Law of Customs (LOA), was presented to the National Assembly. It was discussed on three occasions between November and December 2010, and was finally approved and published in the Official Registry No. 351, on December 29th of the same year, with the following text:

"That in the Official Registry Supplement No. 351 of December 29, 2010, the Organic Code of Production, Trade and Investment (COPCI) was published; That of the derogatory disposition of the mentioned legal body, expressly repeals the Organic Law of Customs; That the Organic Code of Production, Trade and Investment, is content of a new customs regulation; That it is necessary to adapt the Ecuadorian legal system, so that it complies with the new Production Code; and therefore be able to apply the current customs regulations; and, the faculties and attributions conferred by article 147

number 5 of the Constitution of the Republic of Ecuador" (Regulation to COPCI, 2010).

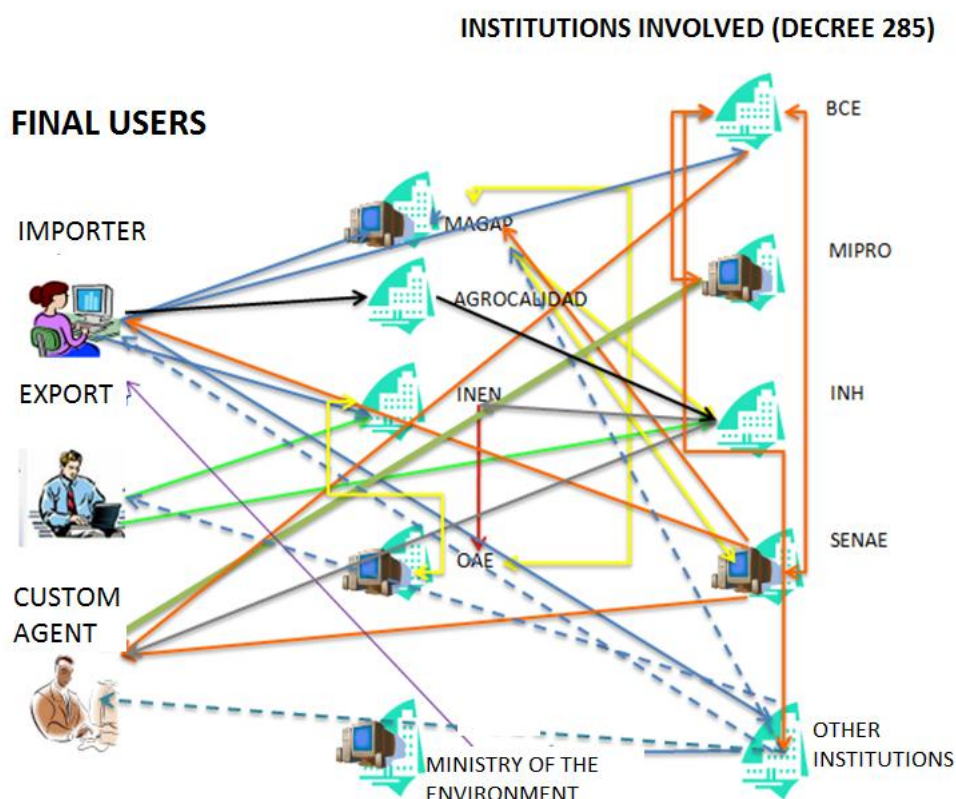


Figure 16: Institutions involved in import and export processes

Source: Central Bank of Ecuador Website

Decree: REGULATION TO THE TITLE OF THE CUSTOMS FACILITATION FOR TRADE, OF BOOK V OF THE ORGANIC CODE OF PRODUCTION, COMMERCE AND INVESTMENTS. "... The Organic Code of Production, Commerce and Investment COPCI was emitted, in order to ensure a regulatory framework in relation to commercial activities; these regulations were published in 2011 respectively.

According to the Code of Production, Trade and Investment (COPCI) in Article VIII, it classifies import regimes into two main groups:

- Non-Transformation Regimes
- Transformation Regimes

Consider in each of them several subcategories, which include:

- Non-Transformation Regimes

In this regime the merchandise circulates in the local market in the same state as it arrives, however once the sale is made to the user, and when it becomes private property, the manufacturer or owner will have the power to transform it.

Within these Regimes are:

Art. 120: Consumption Imports

The type of imports under this regime implies that once the merchandise is nationalized (once the customs tax obligation is satisfied), it can circulate freely through the local market until the sale is made, regardless of whether it is retail or wholesale.

The sanctions derived from the dispatch process will be substantiated and imposed according to the procedure established for this purpose, including Article 180 of the Organic Code of Production, Trade and Investment.

Pure Bio Energy Drink is a drink which would benefit from the non-transformation regime and would be based on article 120, which refers to imports for consumption.

Regulations in force:

1. Resolution No. SENAE-DGN-2013-0120-RE "Requirements to import into the processing regime under customs control", of April 16, 2013, published in the R.O. No. 946 of May 3, 2013.
2. Resolution of the Board of the CAE No. 3-2009-R5 - Bulletin 259-2009 (Industrial Customs Warehouse)
3. Resolution No. SENAE-DGN-2015-0121-RE "Reform to resolution 1-2003-R2" signed on February 21, 2015.

Regulations for payment and monetary transfers abroad

The legal regulation that empowers the Central Bank of Ecuador to make transfers abroad and provide international banking services to public entities is the LAW ON THE MONETARY REGIME AND THE STATE BANK.

Art. 30. "The government and other entities and companies of the public sector, of any kind, must make the charges and payments abroad in accordance with the norms dictated by the Bank's Board of Directors."

Art. 42. "It is the responsibility of the Central Bank of Ecuador to acquire the foreign currency and service the debt or the payments that the Government of the Republic and the entities and companies of the public sector must make abroad for any reason..."

Art. 75. "The Central Bank of Ecuador deposits public sector funds. Therefore, the government of the Republic, its dependencies, other entities and companies of the public sector of any kind, must get the approval of the Central Bank of Ecuador for all the charges and payments that they have to make, as well as all the banking operations that require the public service, in accordance with the resolutions adopted by the Board..."

2.5 Import Process and Logistics to Ecuador

"It is the process of planning, implementing and controlling an efficient and effective flow of products and/or services and information related to them, from the point of origin, to the point of consumption, in order to meet the needs of the client at the lowest possible cost" (Mendoza, 2010).

2.5.1 Instruments or means of payment issued by the Central Bank of Ecuador

Article 1, Section I (Payment of Imports), Chapter III (Currency Transactions of Public Sector Institutions), Title One (Exchange Market), Book II (Exchange Policy), sustains that the payment of imports from the Public Sector will be made through the BCE, within the terms established in the respective contract by bank transfer or irrevocable letter of credit, which the Central Bank of Ecuador will grant up to 100 percent of the CPT or CFR value, after depositing the corresponding counter value.

2.5.2 Organizations linked to the Import Process

- SENA (National Customs Service of Ecuador)
- COMEX (Foreign Trade Committee)
- INEN (Ecuadorian Standardization Service)
- BCE (Central Bank of Ecuador)

2.5.2.1 SENA E (National Customs Service of Ecuador)

"The National Customs Service of Ecuador is a state-owned company, autonomous and modern, service-oriented. It is an active part of national and international activities, is a facilitator of Foreign Trade, with a high professional, technical and technological level. The National Customs Service of Ecuador is constantly innovating and improving processes, with the aim of providing the best quality service to the user" (SENAE, 2017).

Art. 1.- Scope of Application.- This law regulates the legal relations between the State and the people who operate in the international traffic of merchandise within the customs territory. Merchandise is the tangible personal property of any kind.

All that is not expressly addressed in this law is regulated by the rules of the Tax Code and other general and special laws shall apply.

Art. 4.- Customs.- Customs is a public service that is mainly responsible for the surveillance and control of the entry and exit of persons, goods and means of transportation through the borders and customs areas of the Republic; the determination and collection of tax obligations generated; the resolution of the claims, resources, requests and consultations of the interested parties; and, the prevention, prosecution and punishment of customs offenses. Customs services include the storage, verification, valuation, appraisal, liquidation, tax collection and the control and surveillance of merchandise entered under the special customs regimes.

"The customs services may be provided by the private sector, through any of the modalities established in the Law on State Modernization, Privatizations and Public Services Provision by the Private Initiative" (SENAE, 2017).

Customs' Attributions

The powers and duties of the current Ecuadorian Customs, according to the COPCI regulations in comparison to what the LOA established are presented in the three tables below.

Chart 4: Difference of attributions between the LOA and the COPCI

Attributions	LOA	COPCI
a. Monitor people, goods and means of transportation in the primary and secondary zones;	Yes	Yes
b. Inspect and confiscate merchandise, goods and transportation means, for control purposes. When an infringement of the law is presumed in relation to the entry and exit of goods from the customs territory, a request to the Prosecution must be made to search the merchandise;	Yes	Yes
c. Inspect and apprehend people, and place them under the orders of the competent authority, in any case of flagrante delicto;	Yes	Yes
d. Carry out investigations, in coordination with the Public Prosecutor, when customs offenses are presumed, which is when it may carry out all the actions determined by the Regulations;	Yes	Yes
e. Exercise a coercive action of any credit in favor of the National Customs Service of Ecuador, directly or by delegation;	Yes	Yes

Source: SENAE Website

Chart 5: Difference of attributions between the LOA and the COPCI

Attributions	LOA	COPCI
f. Coordinate their activities with other entities or agencies of the State or abroad, request information from them, and provide them, in relation to the entry and exit of goods, means of transportation and people in Ecuadorian territory, as well as the economic activities of the Ecuadorian people. Regarding the information provided or received by the National Customs Service of Ecuador, the recipient will keep the same position as the person or entity responsible for said information;	No	Yes
g. Request from the National Police, in the form and frequency that the National Customs Service of Ecuador establishes, the list of persons entering and leaving the country. The National Police will be obliged to grant this list;	No	Yes
h. Be a part of criminal proceedings in which facts are investigated, resulting in the commission of customs offenses;	No	Yes

Source: SENAE Website

Chart 6: Difference of attributions between the LOA and the COPCI

Attributions	LOA	COPCI
i. Regulate customs operations derived from the development of international trade and customs procedures even when they are not expressly determined in this Code or its regulations;	No	Yes
j. Collaborate in the control of the unauthorized exit of works of art considered to be artistic, cultural and archaeological heritage ; and, of wild flora and fauna species in the primary and secondary zones;	Yes	Yes
k. Collaborate in the control of the illicit traffic of narcotic, psychotropic and precursor substances, weapons, ammunition and explosives, in the primary and secondary zones;	Yes	Yes
l. and, the others indicated by the Law.		

Source: SENAE Website

2.5.2.2 COMEX

"The Foreign Trade Committee (COMEX) is the body that approves national public policies on trade policy; it is a collegial body of public cross-sector nature, responsible for the regulation of all matters and processes related to this matter" (COMEX, 2017).

Executive Decree No. 25 restructures the Foreign Trade Committee (COMEX) and defines as members the holders or delegates of the following entities:

1. Ministry of Foreign Trade, the person who presides over it;
2. Ministry of Agriculture, Livestock, Aquaculture and Fisheries;
3. Ministry of Industries and Productivity;
4. Ministry of Economy and Finance;
5. National Secretary of Planning and Development

Additionally, the following entities will be part of the COMEX, with voice, but without right to vote:

1. Coordinating Ministry of Production, Employment and Competitiveness;
2. Coordinating Ministry of Economic Policy;
3. National Customs Service of Ecuador and,
4. The other institutions determined by the President of the Republic by Executive Decree.

2.5.2.3 INEN

"The entity that controls standardization, certification and metrology is INEN. Among its functions is the control of the standardization of national or foreign goods and service produced imported and marketed in the country, and apply the provisions of the Law of the Ecuadorian Quality System" (INEN, 2017).

"INEN is the official agency of the Republic of Ecuador for standardization, certification and metrology. It is an entity that works with the Ministry of Foreign Trade, Industrialization, Fisheries and Competitiveness, MICIP.

"The INEN-1 certificate is required for the importation of products subject to standards and technical regulations when the total of the import is greater than \$2,000, except in the case of textiles, apparel and footwear, which will not be subject to said value limitation. Prior to import and/or commercialization, respectively, domestic products or products manufactured abroad that appear in the "List of Goods Subject to Control", and that are subject to compliance with technical regulations, must demonstrate compliance through a certificate of conformity issued by a duly accredited and recognized conformity assessment body.

Importation goods included in the List of Goods Subject to Control must obtain the certificate of recognition (Form INEN-1) prior to importation; this document will be required along with the customs declaration and in turn, it will be controlled by the Ecuadorian Customs Corporation (CAE)" (INEN, 2017).

To obtain the certificate of recognition (Form INEN-1), the importer or consignee must submit to the INEN any of the documents listed in the following alternatives:

- a) Certificate of Conformity of the product or inspection certificate, issued in the country of origin or boarding by accredited bodies, whose accreditation is recognized by the Ecuadorian Accreditation Body (OAE), which certifies compliance with Ecuadorian Technical Regulations (RTE INEN) or Compulsory Ecuadorian Technical Standard (NTE INEN).
- b) Certificate of conformity of the product or inspection certificate, issued in the country of origin or boarding by accredited bodies, whose accreditation is recognized by the OAE, certifying compliance with international product standards or mandatory technical regulations, equivalent to the regulation Ecuadorian Technician or Compulsory Ecuadorian Technical Norm.
- c) Declaration of conformity of the manufacturer, according to the format established in numeral 6.1 of ISO 17050-1 that is currently in force, in the case of companies registered with ISO 9001 Quality System Certification issued by a duly accredited certification body and whose accreditation is recognized by the OAE" (INEN, 2017).

2.5.2.4 Central Bank of Ecuador

"It is a public financial institution, constituted as a monetary authority, which mints coins and issues legal money, and which maintains the country's international reserves. It can also have liabilities in the form of demand deposits or reserves from other deposit societies and also from the general government" (Banco Central del Ecuador, 2010).

Since the dollarization and through Executive Decree No. 1589 of 2001, the new Organic Statute of the Institution was issued, stating that its mission is:

"To promote and contribute to the economic stability of the country, tending to its development, for which it must: monitor the macroeconomic program; contribute to the design of policies and strategies for the development of the nation; and, to execute the monetary regime of the Republic, which involves administering the payment system, investing the reserve of free availability, and acting as depositary of public funds and as fiscal and financial agent of the State" (Central Bank of Ecuador, 2010).

In the Ecuadorian case, the Central Bank of Ecuador has the power to only issue coins or bank notes.

2.5.2.4.1 International Banking Services

Among one of the most important services of the Central Bank of Ecuador is:

- To provide banking services and international operations to the public sector and the financial system, which includes imports and exports: which indicates that:
 - The BCE facilitates the payment of imports from the public sector through letters of credit payable in any country in the world.
- It issue letters of credit for the payment of imports of goods and services of the public sector, and for this it carries out:
 - Bank transfers
 - Credit letters

2.5.2.4.2 Bank Transfers

"It is a direct payment order made by a person or entity (payer), to a bank (BCE issuer) to pay a third party (beneficiary) a certain amount of money, for a good or service.

As established in Article 1, Section I (Payment of Imports), Chapter III (Currency Transactions of Public Sector Institutions), First Title (Exchange Market), Book II (Exchange Policy) of the Codification of Regulations of the BCE, to make a bank transfer, a copy of the customs declaration, commercial invoice and transport document must be presented, prior to the requirements that the form must meet to request transfers abroad, including:

- a) Amount
- b) Currency
- c) Name of the Beneficiary's Account
- d) City and Country of the Beneficiary
- e) Account number or IBAN
- f) Beneficiary Bank
- g) SWIFT Code OR ABA of the Beneficiary Bank
- h) Payment Concept
- i) Liability Signatures" (Central Bank of Ecuador, 2010).

2.5.2.4.3 Credit Letters

"It is the commitment assumed by a bank (Issuer - BCE), on behalf of its importing client (Originator - public entity), to pay the seller (Exporter) a certain amount against the delivery of certain previously agreed documentation" (Central Bank of Ecuador, 2010).

a) **Benefits**

According to the Produbanco Ecuadorian Bank entity, these are the benefits of the use of Letters of Credit:

- Facilitates and supports the management of an international sale, offering the possibility of better managing the implicit risks.
- Guarantees timely payment, after compliance with the terms and conditions.

- Enables financing, obtaining payment terms when importing or advancing funds from an export.
- It is a powerful tool to mitigate commercial risks.

b) Requirements

Likewise, Produbanco indicates that the requirements for obtaining a Letter of Credit are:

- Contract to issue a Letter of Credit (2 originals)
- Copy of the policy and transport insurance application
- Original Transportation Insurance Endorsement in favor of Produbanco S.A.
- Copy of Prior Application or Public Commercial Deposit, in case the merchandise applies this type of customs regime
- Copy of the order note or proforma invoice
- Letter of import declaration.
- Letter Resolution 1083, co-debtor
- Letter Law 81, authorization of costs (it is signed only once)
- Declaration of noninvolvement.

Parties Involved

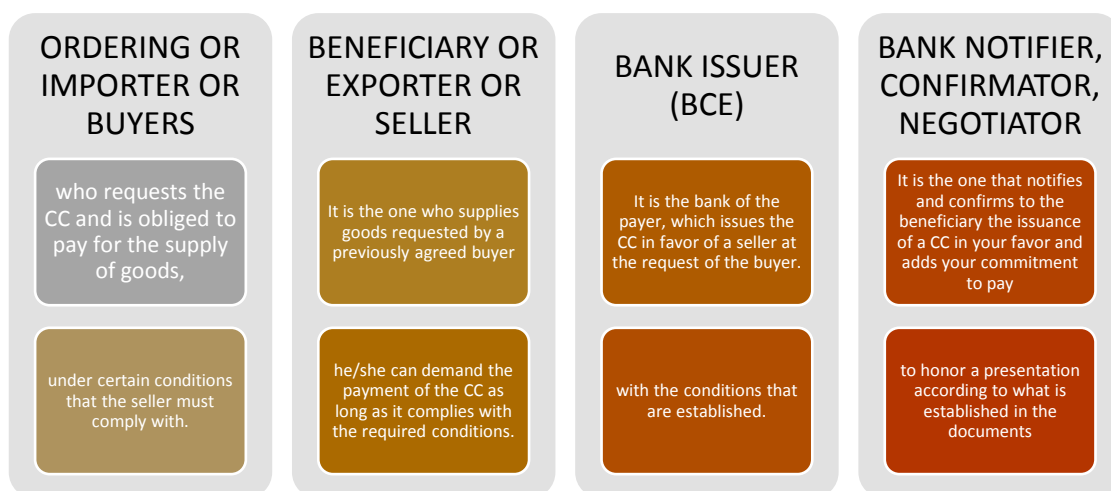


Figure 17: Operation of the Letters of Credit

Source: Foreign Trade Community

"Originator or importer or buyer: Is who requests the opening of the letter of credit and is obliged to pay for the supply of goods or services, under certain conditions that must be met by the seller.

Beneficiary or exporter or seller: Is who supplies merchandise or services requested by a previously agreed buyer and can demand the payment of the letter of credit as long as it complies with the established conditions.

Issuing Bank (Central Bank of Ecuador): It is the bank of the payer, which issues the letter of credit in favor of a seller at the request of the buyer, with the conditions that it establishes.

Confirming Bank, Notifier or Negotiator: It is the one that notifies and confirms to the beneficiary the issuance of a letter of credit in his favor and ensures the commitment to pay, in order to honor a presentation in accordance with the documents" (Banco Central del Ecuador, 2010).

The negotiation with the supplier of Pure Bio Energy Drink has been made with a bank transfer, since it generates greater security in the supplier. The letter of credit has never been discarded but for the first purchases, a bank transfer will be used.

2.5.3 Import Logistics to Ecuador

"Logistics is an administrative, operational, commercial and financial function that includes all the activities necessary for the strategic management of the flow and storage of raw materials, components, stocks in process and finished products; in such a way that they are in the right amount, in the right way, in the right place, at the correct cost and at the right time" (Thompson, 2007).

"International logistics has become one of the key sectors in the current global economic environment and it is usually a determining factor when it comes to paying for a product because of the savings it can generate. Due to the importance of this activity in international economic globalization, new technologies and support for industrial activity have been developed, which means that a suitable international logistics infrastructure is an essential element for the positioning of any country in the international economic landscape.

The logistics sector is located within what we could call tertiary activities, acting as support for other economic sectors. The productive transformation agenda of Ecuador and the Production Code have given special importance to the transport and logistics activities that allow to boost the productive sector and increase its competitiveness. The country has had several advances in the development and optimization of this infrastructure. Currently, becoming part of a growing sector such as logistics has great advantages for the investor..." (ProEcuador, 2013).

In order to carry out international logistics there are different means of transport, which are:

- Air Transport
 - Air Freight
- Maritime transport
- Ground transport
- Railway transport
- Multimodal transport

Air Transport

"High speed, greater frequency of services and accessibility are the main characteristic advantages of air transport. The existence on an international level of aircrafts of different characteristics such as freighters or mixed airplanes, make this a means of transportation available on a large scale.

Although the disadvantage of this mode of transportation is that the tariffs are comparatively higher than with other modes, there are mitigating factors such as lower costs of packaging, deposit, handling, insurance, internal transport and even lower stock requirements, with the incidence of lost profits and interest on immobilized capital, which reduces the price for many products" (ProEcuador, 2013).

Air Freight

"Air freight is the price that the user pays for transporting the goods by air from an airport of origin to another destination. Although the air transport contract concluded by the airline with the user covers the shipping from the reception of the cargo of the sender or shipper in the terminal designated by the airline in the place of origin until

its delivery to the recipient or consignee in the terminal designated by the airline at the destination, airfreight only covers the flight of the aircraft.

The person who must assume the cost of the freight is determined by the contract that the parties negotiate. This person can be the seller or the buyer. Additional charges include other costs incurred by the user under the air transport contract, until the cargo is placed in the aircraft hold in the airport of origin or until it withdraws from the airport of destination. These are included either in the air waybill itself or separately, by the airline or its agents or by the airport service providers themselves (freight forwarder, terminal, etc.).

There could also be other expenses on behalf of the user, for example storage costs in the terminal. In the event that the user does not expressly designate the storage terminal where the cargo must be held, the airline will designate said storage terminal whose costs will be covered by the user.

If the user carries their cargo directly to the airline, the airline determines the air freight. However, if the user decides to use a cargo agent, then the cargo agent must make the calculations to determine the air freight to be charged.

The calculation of the air freight can be made according to the gross weight of the shipment or its volume. If the calculation is made by weight, the gross weight must be rounded to the kilo or half kilo higher" (ProEcuador, 2013).

Maritime Transport

"The main advantage of this means of transportation is the possibility of moving large volumes of merchandise, both bulk liquid, solid and gases, at an accessible price, which is called economy of scale.

Another positive aspect of this type of transport is the ease of transfer of shipments of great volume or weight. Among its disadvantages is that the routes are limited because the ship can only move between ports or appropriate docking sites. Other disadvantages include the transport delays, the requirement of special maneuvering or maneuvering equipment, etc. Moreover, the invention of the container modified, in a certain way, the balance between the advantages and disadvantages of this mode of transport, making it more flexible and appropriate for the movement of certain types of cargo, both in quantity and quality" (ProEcuador, 2013).

Ground Transport

"Although any other mode of transport is most commonly used for the greater part of the shipping process, practically in all logistics processes ground transportation will be used, at least as a complement.

Two types of ground transportation include: road and railway transport. As it is not subject to fixed routes, the availability of storage when using land transport can be adapted to the needs of the cargo. Since it is flexible to the shipments needs, a balanced result between speed and economy can be obtained. There is a wide variety of trucks that adapt to the needs required by the cargo, such as refrigerators, bulk carriers, cages, tanks, special transports (carts), etc.

Meanwhile, railway transport is easily adaptable to the movement of large volumes of goods, over long distances, with a better cost ratio per kilometer than trucks are.

The set structure of the railways is undoubtedly one of the disadvantages of this mode of transport, although it is facilitated by the multimodal transport that complements the shipping process with a truck. In the transport of international cargo between bordering countries, door-to-door delivery by land is very widespread with services of great operational ease. In the case of Ecuador, its border transit with neighboring countries to the north and south is mostly by land through roads and highways" (ProEcuador, 2013).

Railway Transport

"In Ecuador, Ferrocarriles del Ecuador (Ecuador Railways) is responsible for the management of the country's rail network, which has a total length of 965.5 km, of which only 300.1 km are operational. In Ecuador this mode is used exclusively for tourism which is why it is not taken into consideration for foreign trade" (ProEcuador, 2013).

Multimodal Transport

"Multimodal transport is the articulation between different modes of transport, in order to carry out the operations of transshipment of materials and merchandise (including containers, pallets or similar articles used for cargo consolidation) more quickly and efficiently" (ProEcuador, 2013).

"With this mode it is necessary to use more than one type of transport to ship the merchandise more quickly and efficiently from its place of origin to its final destination, but using a single transport contract.

The different transport alternatives in Ecuadorian territory must be considered according to the origin and destination of the merchandise, however the most used at the international level continues to be maritime transport" (ProEcuador, 2013).

Once the different modes of transport have been analyzed, it can be concluded that Pure Bio Energy Drink should implement air or maritime transport. Although both types of transport can be used to ship goods from country to country, after comparing the costs of these modes, it can be determined that using maritime transportation is cheaper. The mode of transport that truly fits the needs of this energy beverage is the multimodal transport, since the cargo is received by land transfer from Vienna, Austria to the Port of Hamburg, Germany and later embarks by maritime transport for its transfer to the Port of Guayaquil. Once customs processes are cleared, the product proceeds its voyage to the city of Cuenca for its commercialization.

2.5.4 Cargo

Definition and Types of Cargo

"Cargo or freight, from the point of view of transport, is a set of goods or merchandise protected by an appropriate packaging that facilitates its shipment. There is a great diversity of products susceptible to shipment and commercialization. In order to guarantee proper handling, the cargo is classified into 2 main types: general and bulk" (ProEcuador, 2015).

General Cargo:

"This term applies to any type of merchandise in general, that when being packed or unpacked, can be treated as a unit. The general cargo is transported in packages whose shape, weight and dimensions conform to the characteristics of said packages" (ProEcuador, 2015).

Bulk Cargo:

"Bulk cargo is generally transported in large quantities, whether in tanks or silos. Both types are mobilized by pumps, funnels and other mechanical elements. They do not need packing or unit packaging" (ProEcuador, 2015).

Nature of the Cargo

"Dangerous cargo: It is a commodity that, if not treated properly, can put human life and the environment at risk. Dangerous cargo is characterized by having explosive, combustible, oxidizing, poisonous, radioactive or corrosive properties. Depending on its degree of danger, the United Nations Organization (UN) classifies it into nine types:

- ❖ Explosives
- ❖ Gases
- ❖ Flammable liquids
- ❖ Flammable solids
- ❖ Oxidizing substances and organic peroxides
- ❖ Toxic substances and infectious substances
- ❖ Radioactive material
- ❖ Corrosive substances
- ❖ Various substances and dangerous objects" (Cóndor, 2013).

Perishable Cargo: "A certain number of products, especially food products, suffer a normal degradation in their physical, chemical and microbiological characteristics with the passage of time and the conditions of the environment. In most cases, certain means of preservation, such as temperature control, are required to maintain their original characteristics of taste, smell, color, etc. Thanks to this, they are kept in good condition during the movement between the producer and the consumer. Some perishable products include fruits and vegetables, meat and its derivatives, fish and seafood, dairy products, fresh flowers, among others" (Cóndor, 2013).

Fragile Cargo: "Due to its special characteristics, every fragile cargo operation must be carried out with extreme care, including packaging, handling and transportation. The nature and intensity of the risks to which the products are subject during the entire logistics chain, from the place of origin to the place of destination, have different levels

of incidence and decisively influence the way they are packed. The size, shape and thickness of the outer packaging can considerably increase the risks" (Cóndor, 2013).

2.5.5 The Packaging

"Packaging refers to all products that are used to protect, contain, manipulate and present the final product, these being composed of raw materials to finished products. The type of material used depends on the product, the type of transport (land, air or sea) and the final destination" (ProEcuador, 2015).

2.5.5.1 Types of Packaging

Primary packaging: Also includes sale packaging, is the one that is in direct contact with the final product.

The packaging must contain key information such as the name of the product, brand, weight, variety, producer and country of origin. Also, perishable products must include the production date and the expiration date. Some products warn about their degree of toxicity, form of handling and storage conditions.

Secondary packaging: It is an external complement that can contain the primary packaging or allows the grouping of several packages. It simplifies distribution and storage. Second level packaging includes cardboard boxes, crates, baskets, trays and boxes with holes (lugs), among others. These must arrange the units in a neat manner and the product must fit into the box or container used, taking advantage of its dimensions in the best way possible. The boxes must be marked indicating the number of units, their maximum resistance when stacking them, the brand of the product and its basic characteristics.

Tertiary packaging: This packaging groups primary or secondary packages, facilitating their shipping and handling.

The materials are selected according to the provisions of the product, without omitting costs, buyer specifications, international standards, resistance, freight and environmental considerations. Among the most used packaging are wooden boxes, cardboard boxes, pallets, containers, barrels, drums, crates (cages), sacks, bales, bullets, plastic liners, cans" (ProEcuador, 2015).

Pure Bio Energy Drink has an aluminum packaging duly processed in which the energy liquid rests, the packaging is in the shape of a tin can with a content of 250 ml, it also has an easy open tin can lid for the convenience of the customers. This package manages an easy product handling as well as a convenient transportation mode. It uses tertiary packaging since the primary packaging goes inside a secondary packaging that is a cardboard box that is wrapped in plastic and contains 24 cans.

2.5.6 Labeling

According to the Ecuadorian Technical Standard NTE INEN 1334-1, which addresses the Labeling of Food Products for Human Consumption, all packaged products intended for sale to the public must have their respective label or direct printing on the container where it will indicate if the product is high, medium or low in sugar, salt, or fat. The respective percentages will be evaluated by a laboratory authorized by this entity.

Pure Bio Energy Drink, being an energy drink for human consumption, complies with these Ecuadorian regulations. The negotiation with the supplier includes the printing of the nutritional traffic light and its dietary content. After the respective analysis, it was determined that the traffic light of Pure Bio Energy Drink would be the following:

MED
SUGAR

LOW
SALT

does not contain GREASE

LABEL FOR ECUADOR

PURE BIO ENERGY DRINK

Net Content: 250 ml

Ingredients: Natural mineral water, organic sugar, organic zahanahoria juice concentrate, caberbono dioxide, organic orange extract, citric acid acidifier, natural caffeine flavoring, antioxidant ascorbic acid, stabilizer of locust bean gum, natural peach flavoring.

Warning: Drink not recommended for children, pregnant women, people sensitive to caffeine.

Manufactured by: BIO PURE PRODUCTS, HERBERCKSTRASSE -

Imported by: BIOSTORE S.A., Cuenca - Ecuador, SAN. REG.: 9549INHCAE0713

ELAB DATE: SEE PACKAGE

EXP DATE: SEE PACKAGE

LOT: SEE PACKAGE

Nutritional Information	
Size per serving: 100 ml Servings per container: 2 approx	
Amount per proportion Energy: (140 calories) 629 kJ	
	% daily values
Total fat 0 g	0%
Cholesterol 0 mg	0%
Sodium 84 mg	4%
Carbohydrates 0 g	3%
Protein 1 g	2%
The daily percentages are based on a diet of 8880 kJ (2000 calories)	

Figure 18: Pure Bio Energy Drink Label for Ecuador

2.5.7 Containers

"A container is a transport equipment in the form of a large crate, tank, mobile tank or other similar elements. It is a cargo container for air, sea or waterway transport, land transport and multimodal transport. It is a large package that facilitates the transport of cargo and their dimensions are standardized to facilitate their handling.

The abbreviation TEU (Twenty-foot Equivalent Unit) represents the capacity measurement unit of maritime transport in containers. A TEU is the load capacity of a standard 20-foot container. Apart from the 20-foot container, which is computed as a TEU, there are other sizes and types of containers, with the most frequent being a 40 foot container equivalent to 2 TEU or 1 FEU (Forty-foot Equivalent Unit).

The most common way to refer to the number of containers that a terminal receives or that a vessel manages is the unit of measurement TEU, if the container is 40 feet it is counted as 2 TEUS" (ProEcuador, 2015).

2.5.7.1 Classification by measurements

The most commonly used containers in Ecuadorian foreign trade are 20 feet, 40 feet and 40 feet HC (high cube) containers. Its measurements are shown in the following chart:


Ocean Container Dimensions				
STANDARD 20'				
	INSIDE LENGTH	19'4"	5.89 m	
	INSIDE WIDTH	7'8"	2.33 m	
	INSIDE HEIGHT	7'10"	2.38 m	
	DOOR WIDTH	7'8"	2.33 m	
	DOOR HEIGHT	7'6"	2.28 m	
	CAPACITY	1,172 ft³	33.18 m³	
	TARE WEIGHT	4,916 lb	2,229 kg	
	MAX. CARGO	47,999 lb	21,727 kg	
STANDARD 40'		HIGH CUBE 40'		
INSIDE LENGTH	39'5"	12.01 m	39'5"	12.01 m
INSIDE WIDTH	7'8"	2.33 m	7'8"	2.33 m
INSIDE HEIGHT	7'10"	2.38 m	8'10"	2.69 m
DOOR WIDTH	7'8"	2.33 m	7'8"	2.33 m
DOOR HEIGHT	7'6"	2.28 m	8'5"	2.56 m
CAPACITY	2,390 ft³	67.67 m³	2,694 ft³	76.28 m³
TARE WEIGHT	8,160 lb	3,701 kg	8,750 lb	3,968 kg
MAX. CARGO	59,040 lb	26,780 kg	58,450 lb	26,512 kg

Figure 19: Container Types and Measurements

Source: International Logistics Guide

2.5.7.2 Container Classification

Dry

"The dry container is the standard means of transport of basic construction, made of steel, without a cooling or ventilation system. This container is the most commonly used container in the world market. The measurements include 20', 40', 40' HC (high cube) and 45'" (ProEcuador, 2015).

Refrigerated

"Refrigerated containers transport merchandise as well as food products or products that need to be in a low temperature" (ProEcuador, 2015).

Insulated Conair

"Insulated Containers, which measure 20' and 40', are designed for loads that require consistent temperatures or temperatures below the freezing. Its walls are covered with polyurethane foam to provide maximum insulation" (ProEcuador, 2015).

Ventilated

"The ventilated container only comes in a 20' presentation and has been designed for specific loads that cannot undergo abrupt changes in temperature, due to its moisture level" (ProEcuador, 2015).

Bulk Carrier

"A bulk carrier is usually extracted from the exporter's silo in trucks to the vessel, the port of discharge and at the end to the consignee, which exposes the cargo to losses and damages" (ProEcuador, 2015).

Open Top

"Open top containers were developed for certain loads that cannot enter through the containers door. The open top container is built in two basic dimensions: 20' and 40'" (ProEcuador, 2015).

Flat Rack

"Flat rack are designed for loads with irregular edges and with dimensions that extend beyond the internal measurements of the containers. The types of flat rack containers

are 20 'and 40'. They can have foldable front panels or it can come without side panels (platform), which helps when using this container with irregular loads" (ProEcuador, 2015).

Tanks

"These containers are used to transport items such as wine, beer, milk, edible oils, lubricants, natural resins, plasticity, synthetic latex and other chemicals classified by IMO (dangerous and non-hazardous). They are available in 20 'and 40' presentations" (ProEcuador, 2015).

Open Side:

"It's the same as the Dry Van container, its biggest feature being that is open on one of its sides. It is used for loads of larger dimensions in length that cannot be loaded through the container door" (ProEcuador, 2015).

Energy drinks are products that do not need refrigeration for their transfer and, for this reason, the refrigerated container is not necessary when importing the product. Pure Bio Energy Drink is transported in a dry container and its measurements will depend on the importer.

2.5.8 Security in the Logistics chain

"The human being is the weakest link in security in the supply chain, and because of this, a series of measures have been created that are used to mitigate their effects in business, ranging from container seals, armed custodians, RFID tags, (radio frequency identification) and GPS (global positioning system). These have some interesting features that allow the determination of the exact location of a good or means of transport and are used in containers, pallets, boxes, etc. The security of the supply chain faces all kinds of attacks by individuals, whether through forgery, contraband or robbery" (ProEcuador, 2015).

The security of the Pure Bio Energy Drink logistics chain goes hand in hand with the signing of the contract with the shipping company. In other words, the best security systems at the best price must be negotiated with the shipping company. In this way, it is unnecessary to buy an extra system. On the other hand, the supplier will be re-

sponsible for the acquisition of its own security system until the arrival of the merchandise at the port of shipment because the negotiation has been carried out under the FOB Incoterm.

2.6 Custom Taxes

"The customs tax is a tax levied on the basis of the value of the imported merchandise, by means of a percentage on the taxable basis on the CIF value, or currently known as "Customs Value" (COPCI, 2011).

To determine the Customs Value, the following values must also be considered:

- Seller's Invoice Value
- Merchandise Insurance Value
- Freight value

"Once the customs value has been determined, taxes that are required must be calculated, including:

Tariffs: These are taxes on foreign trade established by the competent authority and must be in percentages applied to the value of the merchandise (COPCI).

FODINFA: It is a tax that is administered by INFA, its current value is 0.5% that is applied on the tax base of the import

VAT: Equivalent to 12% of the Value Added Tax, it is obtained from the sum of the previously calculated Customs Value plus the taxes that must be considered according to the item.

ICE: Special consumption tax, the percentage of this tax varies depending on the import merchandise.

In accordance with the Organic Law of Customs and Tax Equity, public sector entities are exempt from the payment of:

- a. Customs duties
- b. Tariff safeguards
- c. Payment of 5% of the Tax on the Remittance of Currencies.

Knowing the exact import process would represent the savings of intermediation costs, in the event that public entities can directly import the goods that are not produced in the country" (COPCI, 2011).

2.7 Customization of Merchandise

The process of customs clearance or nationalization of imported merchandise begins at the moment in which the merchandise arrives at its destination port, at which time the Customs Agent has all the necessary documentation to process the exit of the merchandise.

The documents that the importer must deliver to the Customs Agent include:

- Original Commercial Invoice
- Packing List
- Bill of lading (Airway Bill)

2.7.1 Original Commercial Invoice

"They are documents previously authorized by the Internal Revenue Service (IRS), which support transactions made by taxpayers in the transfer of goods or for the provision of services or the performance of other transactions subject to taxes, except for the documents issued by the institutions of the State that provide administrative services and in the cases of workers who are in a dependency relationship.

The lack of authorized documents or the incomplete or false issuance of them constitute fraud cases that will be punished in accordance with the Tax Code.

The issuance of sales receipts, withholding vouchers and complementary documents is subject to a validity period depending on the users tax behavior. It must be noted that it is necessary to keep the sales, retention and complementary documents on file for seven years" (IRS, 2012).

2.7.2 Packing List

"The packing list is a document that allows participants of foreign trade to identify the merchandise. For this, a detailed packaging list is necessary that matches what is indicated on the invoice.

This list guarantees to the importer or exporter that during the transfer of the merchandise there is a document available that identifies the complete shipment. Thanks to this, if there is an error in the shipment the complaint can be made to the insurance company" (INCEA, 2015).

PACKING LIST
STAN'S SOFTWARE
www.StansTrains.com
 Sammamish, WA 98075
 (425) 555-1212

SOLD TO My Customer 200 Main Street Great City, WA 98000 (206) 555-1212	SHIP TO My Customer 200 Main Street Great City, WA 98000 (206) 555-1212
--	--

P.O. # Verbal - George S. INVOICE # 501
 TERMS: Net 30 DATE: 6/16/2007

QTY	ITEM	PRICE/PER	EXT.
5	Handy Converter for Model Railroaders CD		
4	Fast Clocks CD		
2	Simple Inventory Printer CD		
4	Waybill Master CD		
TOTAL INVOICE			

Figure 20: Packing List Example

Source: INCEA

"The packing list must clearly contain: The exact quantity of the items included in each of the boxes, packages, or within the type of packaging used. The numbers, brands and/or symbols that identify the goods" (INCEA, 2015).

2.7.3 Bill of Lading/Airway Bill

"It is a cargo receipt or a contract for transportation between the shipper and the ocean carrier. It may be also used as a property instrument, which can be bought, sold or traded while the goods are in transit. When used in this way, this must be a negotiable document known as "Order Bill of Lading" (LiderCargo, 2017).

"The BL represents the owner's power over the load, in addition to fulfilling primary functions of Foreign Trade and complying with the contract of transportation. This document can also be transferred to a third party through a letter of credit" (Meza, 2014).

"The Bill of Lading issued by the maritime agent proves the reception of goods on board of a vessel to be shipped from a point of departure to a point of destination. It specifies the information of the exported or imported goods and it is a contract or a voucher between the exporter and importer with the maritime carrier. It fulfills three functions:

- a) the transport contract
- b) the cargo receipt to board the merchandise
- c) the representative title of the merchandise, through which the legitimate beneficiary of the merchandise can sell it, give it as a pledge or as a guarantee.

It gives a legitimate character to the process, which allows the holder to demand compliance with the benefits stated in the document and incorporates a right that is attached to the title. Its exercise is conditioned to the sample and delivery of the document" (Meza, 2014).

"These documents must be entered by the Customs Agent into the Ecuapass Customs System to generate the Customs Import Declaration (DAI). This information must be reviewed by the importer to confirm the information, at which time the Customs Agent proceeds to give the approval to proceed with the transfer of the DAI to customs. If there are no observations or changes necessary, the unique number of import and validation is generated to continue with the procedure. This number will be used to identify the procedure in customs and after that, the type of inspection of the merchandise detailed in the DAI will be assigned, and these can be:

Physical Inspection: it is a physical inspection of the detailed or declared merchandise.

Document Inspection: It is a revision of the import documents based on what is entered in the DAI.

Automatic Inspection: This occurs when the importer has the advantage of not having to go through the physical and documentary inspection, and so the process is closed.

After carrying out the assigned inspection, customs authorizes the exit of the merchandise, so it is necessary to coordinate this process between the Customs Agent, the shipping line or the respective Forwarder, who is a carrier in charge of moving the merchandise and delivering the exit pass to the carrier, who can mobilize the cargo" (Meza, 2014).

2.8 Landed Cost

The landed cost of the merchandise includes defining all the costs related to the import of the product to the place of final destination. These can include the purchase costs, national and international transportation, insurance, handling, customs, taxes and tariffs, administrative expenses and operations, etc.

"To sum up, the landed value of a product is the sum of all the costs of a product to the point where it generates income, typically the store or the point of sale" (Logistec Magazine, 2012).

In order to carry out a Landed Costing and obtain a real value of the product, it is necessary to take into account the Additional Import Expenses. Additional import expenses are considered to be those that are not covered under normal importation costs, but must be considered when importing, including:

- Banking Expenses: Tax on the exit of ISD currencies, corresponding to 5% of the value to be transferred.
- Dispatch expenses: They are the fees of the customs agent, inspections, local mobilization to its destination, among others.
- Storage: The amount that must be paid for the storage of the merchandise at the port.
- Administrative and Operational Expenses: Expenses considered for salaries, wages, leases and operating expenses.

In Chapter 3, Charts 7, 8 and 12 demonstrate an analysis of the import costs of Pure Bio Energy Drink, and thanks to this, it has been possible to determine the cost of the product in the city of Cuenca, Ecuador.

CHAPTER #3

MARKET STUDY

Definition:

Market research is the identification, collection, analysis and dissemination of systematic and objective information in order to improve decision-making related to the identification and solution of problems and marketing opportunities (Malhotra, 2008).

"Market research is the function that links the consumer, the customer and the public with the seller through information. It is used to identify and define opportunities and marketing problems, generate, refine and evaluate marketing actions, monitor their development and improve their understanding as a process" (American Marketing Association, 2010).

"Market research is a key element in the field of marketing information, linking the consumer, customers and the public with the marketing professional, through the information used to identify and define problems and marketing opportunities: generate, refine and evaluate marketing actions, improve the understanding of marketing as a process and the means through which specific marketing actions can be more effective" (AEDEMO, 2014).

3.1 Economic and Financial Study.

Chart 5: Purchases and Sales Projection for the initial year

DISTRIBUTOR		COST	
\$	1,98	\$	1,22

PROJECTION OF SALES IN UNITS	
SELLS	2018
January	2.692,80
February	2.217,60
March	2.376,00
April	3.009,60
May	2.217,60
June	2.376,00
July	2.534,40
August	2.376,00
September	2.692,80
October	2.217,60
November	3.643,20
December	3.326,40
TOTAL	31.680,00

PROJECTION SALES IN DOLLARS	
SELLS	2018
January	\$ 5.331,74
February	\$ 4.390,85
March	\$ 4.704,48
April	\$ 5.959,01
May	\$ 4.390,85
June	\$ 4.704,48
July	\$ 5.018,11
August	\$ 4.704,48
September	\$ 5.331,74
October	\$ 4.390,85
November	\$ 7.213,54
December	\$ 6.586,27
TOTAL	\$ 62.726,40

PURCHASES IN DOLLARS	
PURE BIO PURCHASES	2018
January	\$ 3.285,22
February	\$ 2.705,47
March	\$ 2.898,72
April	\$ 3.671,71
May	\$ 2.705,47
June	\$ 2.898,72
July	\$ 3.091,97
August	\$ 2.898,72
September	\$ 3.285,22
October	\$ 2.705,47
November	\$ 4.444,70
December	\$ 4.058,21
TOTAL	\$ 38.649,60

A 20-foot container has the capacity to ship 31,680 units of Pure Bio Energy Drink. Regarding the monthly sales of energy drinks according to the data provided by different sources (service stations, supermarkets, pharmacies, etc.), it has been possible to determine the percentage of sales of these beverages in each of the respective months. It can be concluded that the consumption of energy drink per month is very stable since it remains between 7% and 9% in most months.

The months that differ from this data are April, November and December. In April there was an upward trend with a percentage of 9.5% of the sales of the 31,680 imported units, November was the month that represented the highest percentage of sales (11.5%), undoubtedly due to the festivities of Cuenca, in which the purchase of energy drinks for different uses increases. For this same reason, in December the sales percentage exceeded the normal averages with 10.5% of the total units.

If the unit sales projection is multiplied by the Distributor Sale Price (PVD) which is \$1.98, the result is the monthly sales income. Also, by multiplying the number of units sold with the product cost (\$1.22), the purchase value of Pure Bio Energy Drink per month can be obtained.

In order to determine the yearly or monthly profit, the total sales in dollars of each month must be subtracted from the total monthly purchases of Pure Bio Energy Drink. For example, the gross profit from the sale of the first 20-foot container is \$24,076.80. This means that for each unit sold, the import profit is 62.2295% or \$0.76 cents per can.

Chart 6: Statement of Profits and Losses for the year 2018

		2018
Sales		\$ 62.726,40
Total sales		\$ 62.726,40
(-) Inventory Cost		\$ 38.649,60
Gross profit		\$ 24.076,80
(-) administrative expenses		\$ 20.373,62
(-) financial expenses		\$ 60,00
Profit before taxes		\$ 3.643,18
(-) 15% workers	15,00%	\$ 546,48
Utility before Income Tax		3.096,70
(-) 22% imp. Rent	22,00%	\$ 681,27
NET PROFIT		\$ 2.415,43

To conclude the Economic and Financial study, it is important to mention the Income Statement of the year 2018. For this data all of the company's income, expenses and taxes are considered. The Net Profit of the company is a total of \$2,415.43 in the first year of its activities. Each of these values can be found detailed in the tables presented below with the respective explanation of the annual projections.

3.2 Projected import costs and expenses

To carry out the tax liquidation, the following points have been taken into account.

CIF: FOB, Freight and Insurance

Tariffs: Advalorem (30%) and Specific (0%).

Taxes: Fodinfra (0.5%), Safeguards (0%), ICE (25%), VAT (12%), Currency Outflow (5%)

* The percentage of duties and taxes varies depending on the imported product.

Local Expenses: National Freight (Guayaquil - Cuenca), Port Services, Customs Agent, National Transportation Insurance, Port Operations, Deconsolidation of the Goods, Satellite Padlock.

Bank Expenses: This category considers the fees that banks charge for the transfer of money abroad

Trade mark rights: Fixed value paid to the supplier for the use of the brand.

To the value of the CIF, Tariffs and Taxes it is necessary to add local expenses, bank charges and the value paid by the Trademark Law to obtain the real value of the liquidation of the import. Once said value is determined, it must be divided by the total number of units to obtain the unit cost of Pure Bio Energy Drink in the city of Cuenca.

Chart 7: Taxes Liquidation of Pure Bio Energy Drink

Value of the Product in Euros	€ 11.162,20
Mark Right in Euros	€ 9.147,60
Quotation of the Euro	\$1,10

DETAIL		
No. UNITS		31680
FOB		\$ 12.278,42
FREIGHT		\$ 2.549,00
INSURANCE		\$ 220,00
TOTAL CIF		\$ 15.047,42
CUSTOMS DUTY		
AD VALOREM	30%	\$ 4.514,23
SPECIFIC TARIFF	0%	-
TOTAL ARANCELES		\$ 4.514,23
TAXES		
FDI	0,5%	\$ 75,24
SAFEGUARD	0%	\$ -
CURRENCY EXIT TAX	5%	\$ 1.117,04
ICE	25%	\$ 3.761,86
VAT	12%	\$ 1.805,69
TOTAL TAXES		\$ 6.759,82
% REAL TAXES		74,92%
IMPORT EXPENSES UNTIL THE GUAYAQUIL PORT		\$ 26.321,47

Chart 8: National Import Expenses

NATIONAL IMPORT EXPENSES	
NATIONAL FREIGHT	\$ 600,00
CONTECON	\$ 271,90
CUSTOMS AGENT	\$ 500,00
TRANSPORTATION INSURANCE	\$ 52,45
TRANSOCEANICA + THC	\$ 105,00
DISCONSOLIDATION	\$ 424,40
SATELLITE PADLOCK	\$ 40,00
INEN	\$ 247,00
TOTAL NATIONAL EXPENDITURE	\$ 2.240,75

MARK RIGHT IN DOLLARS	\$ 10.062,36
TOTAL VALUE OF IMPORT	\$ 38.624,58

* The price of the euro is based on the information provided by the Central Bank of Ecuador, obtaining an average price from January 2016 until August 1, 2017.

AVERAGE	1,1016123	1,10158	1,10158	1,10158
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Figure 21: Comparison between the Euro and the Dollar in the last twenty months

Source: Central Bank of Ecuador

3.3 Projected administrative and marketing expenses

Chart 9: Monthly projection of the Administrative Expenses for the Sale of Pure Bio Energy Drink for the year 2018

Expenses	January	February	March	April	May	June	July	August	September	October	November	December	TOTAL
Administrative and sales expenses													
WAGES AND SALARIES	\$ 1,340,78	\$ 1,340,78	\$ 1,340,78	\$ 1,340,78	\$ 1,340,78	\$ 1,340,78	\$ 1,340,78	\$ 1,340,78	\$ 1,340,78	\$ 1,340,78	\$ 1,340,78	\$ 1,340,78	\$ 16,089,30
BASIC SERVICES	\$ 25,00	\$ 25,00	\$ 25,00	\$ 25,00	\$ 25,00	\$ 25,00	\$ 25,00	\$ 25,00	\$ 25,00	\$ 25,00	\$ 25,00	\$ 25,00	\$ 300,00
RENT	\$ 30,00	\$ 30,00	\$ 30,00	\$ 30,00	\$ 30,00	\$ 30,00	\$ 30,00	\$ 30,00	\$ 30,00	\$ 30,00	\$ 30,00	\$ 30,00	\$ 360,00
0,5% ADMINISTRATIVE EXPENSES (% / Sales)	\$ 30,80	\$ 25,36	\$ 27,18	\$ 34,42	\$ 25,36	\$ 27,18	\$ 28,99	\$ 27,18	\$ 30,80	\$ 25,36	\$ 41,67	\$ 39,65	\$ 363,94
2,5% SPENDING ADVERTISING (% / Sales)	\$ 153,99	\$ 126,82	\$ 135,88	\$ 172,11	\$ 126,82	\$ 135,88	\$ 144,94	\$ 135,88	\$ 153,99	\$ 126,82	\$ 208,35	\$ 190,23	\$ 1,811,70
MOBILIZATION	\$ 100,00	\$ 100,00	\$ 100,00	\$ 100,00	\$ 100,00	\$ 100,00	\$ 100,00	\$ 100,00	\$ 100,00	\$ 100,00	\$ 100,00	\$ 100,00	\$ 1,200,00
DEPRECIATIONS	\$ 20,72	\$ 20,72	\$ 20,72	\$ 20,72	\$ 20,72	\$ 20,72	\$ 20,72	\$ 20,72	\$ 20,72	\$ 20,72	\$ 20,72	\$ 20,72	\$ 248,68
Total administrative and sales expenses	\$ 1,701,29	\$ 1,668,68	\$ 1,679,55	\$ 1,723,03	\$ 1,668,68	\$ 1,679,55	\$ 1,690,42	\$ 1,679,55	\$ 1,701,29	\$ 1,668,68	\$ 1,766,51	\$ 1,746,37	\$ 20,373,62
Financial expenses													
BANK FEES	\$ 5,00	\$ 5,00	\$ 5,00	\$ 5,00	\$ 5,00	\$ 5,00	\$ 5,00	\$ 5,00	\$ 5,00	\$ 5,00	\$ 5,00	\$ 5,00	\$ 60,00
Total financial expenses	\$ 5,00	\$ 5,00	\$ 5,00	\$ 5,00	\$ 5,00	\$ 5,00	\$ 5,00	\$ 5,00	\$ 5,00	\$ 5,00	\$ 5,00	\$ 5,00	\$ 60,00
Total annual expenses	\$ 1,706,29	\$ 1,673,68	\$ 1,684,55	\$ 1,728,03	\$ 1,673,68	\$ 1,684,55	\$ 1,695,42	\$ 1,684,55	\$ 1,706,29	\$ 1,673,68	\$ 1,771,51	\$ 1,751,37	\$ 20,433,62

The budget of expenses is divided into two tables, the monthly expenses of the first year (2018) and the 5-year projection of annual expenses. First the monthly expenses will be analyzed. It is clear that it can be divided into two branches: administrative and selling expenses and financial expenses.

Within the first branch the salaries are considered, which is explained in the Human Resources chart. Since the company owns its own premises, the company's lease value is of \$360.00 per year, which is the amount needed for any type of maintenance required. Other important company expenses include water, electricity and telephone services. Since it is a small office, it has been determined that the total monthly expense will not exceed \$25.00.

Once the value of all administrative and sales operations is established, it is necessary to add 0.5% extra on the value of sales for any unexpected or extra expense such as cell phone expenses. By having this small percentage available, the company has a spending margin of up to \$363.94 in 2018.

As explained in the Marketing budget, 2.5% of the value of sales will be assigned to meet the advertising expenses, which are very necessary for the company and also one of the fundamental tools when negotiating with the customers. The budget will vary depending on the company sales. For example in 2018, depending on the sales projection, \$1,811.70 will be available, a value that must be managed monthly to promote social networks, participate in events, conduct taste tests, etc.

Product mobilization is fundamental to be able to make sales. For this, an agreement has been reached with the seller to pay \$50.00 for the lease of the seller's car and the remaining \$50.00 will be spent on gasoline. This is a strategy that the company has decided to make to reduce vehicle maintenance costs until it is able to acquire its own means of transport.

Depreciations are deductible general expenses imposed by the IRS, which are already explained in the depreciation table and which in the case of Pure Bio Energy Drink, represent an annual value of \$248.68 for the three assets that the company owns: a telephone, a printer and a computer.

Once the administrative and sales issue has been addressed, it is important to analyze the financial expenses. For this, a monthly value of \$5.00 per month has been assigned which cover expenses of account statements, transfers, returned checks, cost of the checkbook, etc. In the future, account statements will be carried out electronically to avoid these expenses.

The total expenses of the company analyzed in 2018 equal a total of \$20,433.62. To this value it is necessary to add \$38,649.60, which is the cost of the product, and subtract the respective values for tax payments to obtain the profit. This operation is performed in the Statement of Profits and Losses.

Considering the annual inflation average of 10% and based on the rise of the Unified Basic Salary from 2014 to the date, the inflation of annual expenses was obtained until 2023, since in general, the prices of the products increase, according to the increase of

wages and salaries. In Chart 11, the analysis of the growth of the Unified Basic Salary in Ecuador in the last 3 years will be explained.

3.3.1 Budget and HR Expenses

Chart 10: Monthly projection of Expenses in Human Resources for the Sales of Pure Bio Energy Drink

CARGO	MESES	SALARIO POR MES	9,45%	11,15%	0,50%	0,50%	XIII salario	XIV salario	vacaciones	FONDO DE RESERVA ANUAL	beneficios legales por año	por recibir	costo total por año	costo mensual
			IESS aporte de empleado	IESS PATRONAL	IECE ANUAL	SECAP ANUAL	anual	anual	salario	salario		mensual	por empleado	
Gerente General/ Administrador	12	\$ 450,00	\$ 42,53	\$ 50,18	\$ 27,00	\$ 27,00	\$ 450,00	\$ 375,00	\$ 225,00	\$ 450,00	\$ 2.156,10	\$ 407,48	\$ 7.045,80	\$ 587,15
Contador	12	\$ 187,50	\$ 17,72	\$ 20,91	\$ 11,25	\$ 11,25	\$ 187,50	\$ 375,00	\$ 93,75	\$ 187,50	\$ 1.117,13	\$ 169,78	\$ 3.154,50	\$ 262,88
Vendedor	12	\$ 375,00	\$ 35,44	\$ 41,81	\$ 22,50	\$ 22,50	\$ 375,00	\$ 375,00	\$ 187,50	\$ 375,00	\$ 1.814,25	\$ 339,56	\$ 5.889,00	\$ 490,75
TOTAL												\$ 16.089,30	\$ 1.340,78	

In the search of business success and with the objective of not exceeding expenses, it has been decided to hire three employees. One employee will be in charge of the management and administration of the company that simultaneously fulfills secretarial tasks within the office. Also, the manager will be responsible for closing large negotiations with customers. An accountant with a part-time contract will also be hired, who will be responsible for the financial and accounting issues of the company. Finally, a seller, who should be the engine of the company, will also be hired since the person responsible for this position generates the company's income. In the early stages of the company, these three employees must complement each other and work together as a team in order to achieve the company's objectives. From the salary of each employee, the personal contribution to the IESS must be subtracted, which must be multiplied by 12 (months of the year) and the annual legal benefits must be added as well. As a result, the managers' salary will be \$7,045.80, the accountant will receive \$3,154.50 and the seller will earn a total of \$5,889.00. In other words, the monthly cost of each one of the employees is not the salary agreed on, but rather it is slightly higher. Management: \$587.15, Accounting: \$262.88 and Sales: \$490.75.

To determine the 5 year projection, an inflation in salaries of 10% per year has been considered, which was calculated by taking an average of the inflation of the last 5 years according to the variation of the Unified Basic Salary of the year 2014 to the date. This figure has been calculated based on the following table with information obtained from the Metro Ecuador website.

Chart 11: Growth of the Unified Basic Salary in Ecuador

YEAR	UBW	INCREASE
2014	\$ 340,00	10%
2015	\$ 354,00	6%
2016	\$ 366,00	2%
2017	\$ 375,00	0%

Each year the growth is compared to the year 2017, where it can be determined that the year with the greatest variation reported is 2014, with 10%.

It is estimated that over the years the company will obtain more and more participation in the Cuenca market and increase in sales, which would lead to a growth in personnel.

3.4 Determining the product cost

To determine the unit cost of Pure Bio Energy Drink, the total import value must be divided by the number of imported units to city of Cuenca.

Chart 12: Unit Cost Calculation of Pure Bio Energy Drink

TOTAL VALUE OF IMPORT	\$ 38.624,58
No. UNITS	31680
UNIT VALUE OF THE PRODUCT IN ECUADOR	\$ 1,22

After carrying out this division, it has been determined that the unit value is \$1.22. Pure Bio Energy Drink comes packaged in boxes of 24 units. Therefore, the cost of the product per box would be \$29.28.

3.4.1 Price

Once the cost of Pure Bio Energy Drink has been determined, it is necessary to establish the sale price of the product by analyzing different factors among which the following objectives should try to be achieved:

- Achieve the maximum profit possible.
- Have a wide margin of profit for when it is necessary to lower the price of the product in order to continue competing in the market.
- Respect the maximum margin suggested by the distributors (35%).
- Having a competitive price that will successfully position the product in the market.
- Establish a price that is affordable for potential consumers and that meets their expectations and levels of satisfaction.

3.4.2 Variables for price selection

To determine the price, the following factors were evaluated:

- Unit import cost.
- Profit margin offered to the distributor to boost the level of sales.
- Profit margin of the importer.
- Price of transport from the warehouses to the point of sale or to the point of distribution.
- Financial and administrative prices.
- Return on investment
- Establish the sale price of the direct competitor (Red Bull), which is the one that most resembles the Pure Bio Energy Drink product.
- Competitive advantages of Pure Bio Energy Drink vs. the products available in the market.
- Provision of the price suggested by the product's manufacturer.

3.4.3 Pure Bio Energy Drink Price Analysis

Once all the factors that influence the price of the product have been evaluated, it was determined that it will cost \$1.98 for the distributor (price without VAT) and the PVP (Price of Sale to the Public) price is of \$2.99. Negotiating at this price, the company would be giving the highest percentage of utility required by large chain stores (35%).

Although the results of the surveys gave as a preferential price of \$1.00 to \$1.50, this company cannot sell the product at that price because it would generate a loss, and as is common knowledge, consumers always prefer to pay the lowest price for any product, whether it is a quality good or not.

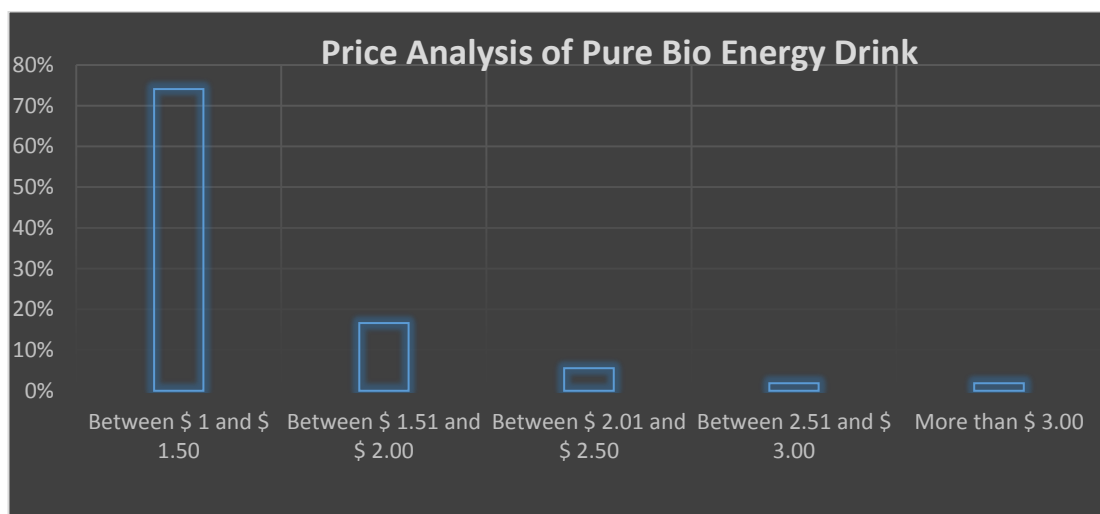


Figure 22: Result of the Market Study on the Price of Pure Bio Energy Drink

On the other hand, the price set meets the objectives of achieving profitability and it provides an interesting margin for the distributor and is also convenient for the consumer, as it is a product that is 100% organic and unique in its branch.

3.5 Distribution

"The distribution of the product refers to the way in which the products are distributed to the place or point of sale where they will be available, will be offered or sold to consumers; as well as the selection of these places or points of sale" (CreceNegocios, 2012).

The distribution is divided into two channels: the direct channel that refers to the direct sale to the final consumer of a good or service; and the indirect channel that is handled through intermediaries.

In the case of Pure Bio Energy Drink, the distribution channel that will be implemented is the indirect channel.

3.5.1 Market Coverage Strategy

According to the results of the market study obtained through the surveys in the marketing plan, it has been determined that the selective distribution strategy will be used, which is explained below.

3.5.2 Selective Distribution Strategy Definition

With this strategy, only certain distributors will be able to sell Pure Bio Energy Drink. However, since it is a niche product, it is impossible to carry out an intensive distribution. In case the company decides to carry out the intensive distribution strategies, the product would not have rotation in the points of sale that do not belong to the target of the product.

Based on the surveys, consumers prefer that the product be available in supermarkets (self-services-modern channel), which facilitates the distribution of the product since these companies generally buy large quantities of the product. Also, once the product is sold in these supermarkets, the brand wins recognition which generates an important penetration in the market.

Being a niche product, it was determined that the product will be sold mainly through large distributors such as the Difare Companies (Pharmacy's and Cruz Azul); GPF Corporation (Fybeca, Sana Sana and Okidoki); Favorita Corporation (Supermaxi, Megamaxi, Akí, Gran Akí, Mega Akí, Kywi and Mega Kywi); Medicity Pharmacies; Almacenes Juan Eljuri (Taberna, Bodegón del Zorro); Coral Hypermarkets, among others. In addition, the product will also be available in small companies such as service stations, local supermarkets such as Patricia, Gran Sol and many more, which in turn play a very important role in extending the distribution chain.

3.5.3 Relationship and Negotiation Strategy with the Distributor

The company will apply a sales strategy based on the relationship and negotiation with the distributor known as "Pull." Its purpose is to push sales, generating interest with the exposure of the brand in the chosen channels to convince the target customers so that they can demand the product from the points of sale (creating demand) and in turn, the distributor requests larger quantities of Pure Bio Energy Drink. The main objective of this strategy is to strengthen the negotiation capacity in the channel.

3.5.4 Steps for Negotiating with the Distributor

The following list established the steps for negotiating with the distributor/s for the product:

1. Schedule an appointment
2. Present the product
3. Provide the documents of the product and of the company (Copy of the RUC, nominations of the company, the Identity Card of the legal representative of the company, Sanitary Registry of the product, and other requirements of the distributor).
4. Provide a copy of the market study
5. Discuss the Retail Price (P.V.P.)
6. Show that the Expiration Date, Certifications and Sanitary Registration are printed on the can.
7. Decide on advertising themes and product promotions
8. Stipulate product profit margin
9. Analyze monthly sales projections.
10. Agree on purchase conditions: terms, deliveries and returns
11. Sign a business agreement

As previously mentioned in the definition of Selective Distribution Strategies, this strategy will be applied in order to reach both large and small distributors that are very important to achieve an interesting participation in the Cuenca market, always taking into account that it is a niche product that could not be sold in neighborhood stores for

example. According to demographic segmentation, the points of sale of large and small distributors should be directed towards the target market of Pure Bio Energy Drink.

By using the selective distribution model, the company can offer personalized attention to customers, comply with the tastings and promotions offered and also, it can take advantage of the product's advertising material.

Once the product is sold within the chains and points of sales previously mentioned, weekly visits to the distribution channels will be made in order to ensure the security of the space on the store shelf and in the refrigerated section occupied by the product. This is because it is very common for the competition to place its product in "front" of the rest or hide the competition's products from the view of the consumer so that they choose only their products. It is also very important to have direct contact with the staff at the point of sale, as this can gain the trust of the client and can help to acquire better spaces to display the product. Also, this direct contact can help to train the people in charge of sales in the sales points so that they serve as direct sellers and product recommenders.

The person in charge of visiting the points of sale will be in charge of handling correct size of stock of product, so that the consumers never has to go without Pure Bio Energy Drink in their preferred location and thus, the company will not make the same mistake as the competition in reference to being inconsistent with the distribution of the product.

3.6 Marketing

Chart 13: Monthly Marketing Budget to Promote Pure Bio Energy Drink

Expenses	January	February	March	April	May	June	July	August	September	October	November	December	TOTAL
Administrative and sales expenses													
WAGES AND SALARIES	\$ 1.340,78	\$ 1.340,78	\$ 1.340,78	\$ 1.340,78	\$ 1.340,78	\$ 1.340,78	\$ 1.340,78	\$ 1.340,78	\$ 1.340,78	\$ 1.340,78	\$ 1.340,78	\$ 1.340,78	\$ 16.089,30
BASIC SERVICES	\$ 25,00	\$ 25,00	\$ 25,00	\$ 25,00	\$ 25,00	\$ 25,00	\$ 25,00	\$ 25,00	\$ 25,00	\$ 25,00	\$ 25,00	\$ 25,00	\$ 300,00
RENT	\$ 30,00	\$ 30,00	\$ 30,00	\$ 30,00	\$ 30,00	\$ 30,00	\$ 30,00	\$ 30,00	\$ 30,00	\$ 30,00	\$ 30,00	\$ 30,00	\$ 360,00
0,5% ADMINISTRATIVE EXPENSES (% / Sales)	\$ 30,80	\$ 25,36	\$ 27,18	\$ 34,42	\$ 25,36	\$ 27,18	\$ 28,99	\$ 27,18	\$ 30,80	\$ 25,36	\$ 41,67	\$ 39,65	\$ 363,94
2,5% SPENDING ADVERTISING (% / Sales)	\$ 153,99	\$ 126,82	\$ 135,88	\$ 172,11	\$ 126,82	\$ 135,88	\$ 144,94	\$ 135,88	\$ 153,99	\$ 126,82	\$ 208,35	\$ 190,23	\$ 1.811,70
MOBILIZATION	\$ 100,00	\$ 100,00	\$ 100,00	\$ 100,00	\$ 100,00	\$ 100,00	\$ 100,00	\$ 100,00	\$ 100,00	\$ 100,00	\$ 100,00	\$ 100,00	\$ 1.200,00
DEPRECIATIONS	\$ 20,72	\$ 20,72	\$ 20,72	\$ 20,72	\$ 20,72	\$ 20,72	\$ 20,72	\$ 20,72	\$ 20,72	\$ 20,72	\$ 20,72	\$ 20,72	\$ 248,68
Total administrative and sales expenses	\$ 1.701,29	\$ 1.668,68	\$ 1.679,55	\$ 1.723,03	\$ 1.668,68	\$ 1.679,55	\$ 1.690,42	\$ 1.679,55	\$ 1.701,29	\$ 1.668,68	\$ 1.766,51	\$ 1.746,37	\$ 20.373,62
Financial expenses													
BANK FEES	\$ 5,00	\$ 5,00	\$ 5,00	\$ 5,00	\$ 5,00	\$ 5,00	\$ 5,00	\$ 5,00	\$ 5,00	\$ 5,00	\$ 5,00	\$ 5,00	\$ 60,00
Total financial expenses	\$ 5,00	\$ 5,00	\$ 5,00	\$ 5,00	\$ 5,00	\$ 5,00	\$ 5,00	\$ 5,00	\$ 5,00	\$ 5,00	\$ 5,00	\$ 5,00	\$ 60,00
Total annual expenses	\$ 1.706,29	\$ 1.673,68	\$ 1.684,55	\$ 1.728,03	\$ 1.673,68	\$ 1.684,55	\$ 1.695,42	\$ 1.684,55	\$ 1.706,29	\$ 1.673,68	\$ 1.771,51	\$ 1.751,37	\$ 20.433,62

As explained in the Expense Budget chart, the company has designated 2.5% of sales to carry out marketing and publicity activities, such as taste tests, participation in events, sponsorships, social networks, presence in the main radio stations of Cuenca on important dates for the city, etc. The estimated annual budget is \$1,811.70. It must be taken into account that this value may increase or decrease depending on the units sold per year.

This value should be divided between the twelve months of the year. Yet, this distribution should not be the same for every month since there will be certain months such as November, where a greater amount of resources will be used for advertising and marketing due to the city's festivities that are celebrated in this month.

The marketing plan will be carried out in the same way as it has been negotiated with the distributor in other countries in which Pure Bio Energy Drink has been sold, and it has the purpose of fulfilling the following objectives:

- Position "Pure Bio Energy Drink" as one of the leading energy drinks in the market with the greatest consumer preference.
- Promote the benefits the organic components of this natural energizer, and in turn, advertise the product's lack of harmful ingredients commonly found in other energy drinks. It is also important to promote the drink's healthy and natural characteristics, achieving a differentiation from its competitors.

The product's promotion strategies that will be carried out are the following:

- Set up stands at major local, sporting and social events
- Establish taste tests and brand activations in the main points of sale in times of greater influx of people, preferably on holidays.
- Agree on discounts and promotions with the main pharmacies in the city such as FYBECA, Cruz Azul, Medicity, etc .; as well as in stores, supermarkets and gas stations such as Supermaxi, Coral Hypermarkets, Almacenes Juan Eljuri, among others.
- The company will also promote the product on the radio with the PURE BIO ENERGY DRINK jingle. This will be carried out with a previous analysis of the media plan to determine through which radio the company can have a better impact, according to the target market.
- Banners and advertising posters will be placed in gymnasiums and sports centers, as well as in gas stations and other points of sale where consumers and non-consumers of energy drinks can become aware of PURE BIO ENERGY DRINK, test the effectiveness of the product and feel the difference.
- PURE BIO ENERGY DRINK will also be promoted through the flyer plan in places where there is a large concentration of people, and most of all the target audience of the drink, such as shopping centers, service stations, offices, universities, schools, gyms, crossfits, extreme sports events, etc.
- Advertising will be done through the Facebook page of the product in order to attract followers, and will let them know of any promotions, contests and prizes that the company will offer.

3.6.1 Initial Investment for Marketing and Advertising Chart

In this next part a quote from Wasabí Communication and Advertising will be presented.

Chart 14: Social Media Management Quote

Description	Quantity	Unit value	Total Value
Monthly Premium Plan: • 15 Posts Facebook • 15 Posts instagram • 4 GIFS • 2 Promotional videos (Tips)	1	\$250	\$250
Outdoor promotional photos (pack of 20) -Edition -Production	1	\$100	\$100
BTL activations in strategic locations -Promotion in networks -Concept -Design of the Material -Coverage	1	\$100	\$100

Source: Wasabi Communication & Advertising

This and other quotes may be negotiated based on the company's monthly advertising budget. The negotiation can involve changes in the initial package offered by the advertising company. For example, instead of 15 posts, two videos, and 4 GIFs, the company can ask for 10 posts, 1 video, and 2 GIFs. In this way, the monthly budget assigned to promote the product varies based on the company's possibilities.

3.7 Projections

3.7.1 Purchases and Sales Projections

Chart 15: Purchase Projection of Pure Bio Energy Drink

PURCHASES	2018	2019	2020	2021	2022	2023
January	\$ 3.285,22	\$ 4.106,52	\$ 5.133,15	\$ 6.416,44	\$ 8.020,55	\$ 10.025,68
February	\$ 2.705,47	\$ 3.381,84	\$ 4.227,30	\$ 5.284,13	\$ 6.605,16	\$ 8.256,45
March	\$ 2.898,72	\$ 3.623,40	\$ 4.529,25	\$ 5.661,56	\$ 7.076,95	\$ 8.846,19
April	\$ 3.671,71	\$ 4.589,64	\$ 5.737,05	\$ 7.171,31	\$ 8.964,14	\$ 11.205,18
May	\$ 2.705,47	\$ 3.381,84	\$ 4.227,30	\$ 5.284,13	\$ 6.605,16	\$ 8.256,45
June	\$ 2.898,72	\$ 3.623,40	\$ 4.529,25	\$ 5.661,56	\$ 7.076,95	\$ 8.846,19
July	\$ 3.091,97	\$ 3.864,96	\$ 4.831,20	\$ 6.039,00	\$ 7.548,75	\$ 9.435,94
August	\$ 2.898,72	\$ 3.623,40	\$ 4.529,25	\$ 5.661,56	\$ 7.076,95	\$ 8.846,19
September	\$ 3.285,22	\$ 4.106,52	\$ 5.133,15	\$ 6.416,44	\$ 8.020,55	\$ 10.025,68
October	\$ 2.705,47	\$ 3.381,84	\$ 4.227,30	\$ 5.284,13	\$ 6.605,16	\$ 8.256,45
November	\$ 4.444,70	\$ 5.555,88	\$ 6.944,85	\$ 8.681,06	\$ 10.851,33	\$ 13.564,16
December	\$ 4.058,21	\$ 5.072,76	\$ 6.340,95	\$ 7.926,19	\$ 9.907,73	\$ 12.384,67
TOTAL	\$ 38.649,60	\$ 48.312,00	\$ 60.390,00	\$ 75.487,50	\$ 94.359,38	\$ 117.949,22

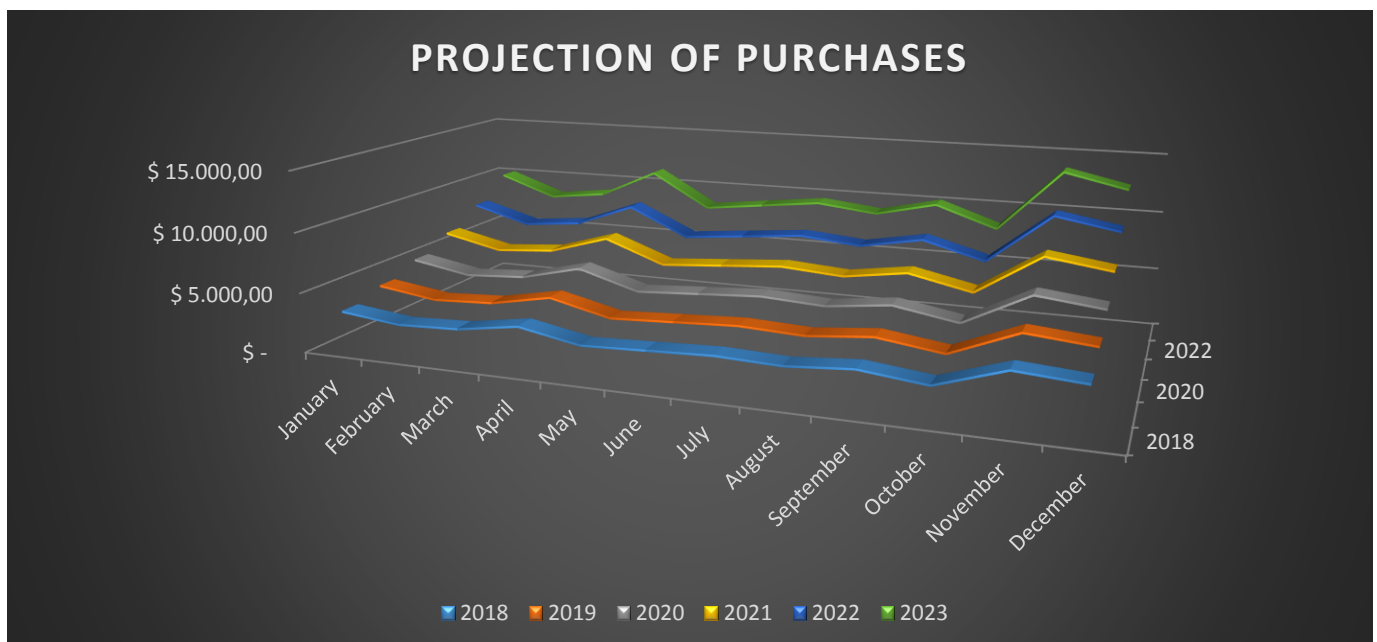


Figure 23: Purchase Projection Graph of Pure Bio Energy Drink

Chart 16: Sales Projection of Pure Bio Energy Drink

BUSINESS PROJECTION						1,25
<u>SELLS</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
January	\$ 5.331,74	\$ 6.664,68	\$ 8.330,85	\$ 10.413,56	\$ 13.016,95	\$ 16.271,19
February	\$ 4.390,85	\$ 5.488,56	\$ 6.860,70	\$ 8.575,88	\$ 10.719,84	\$ 13.399,80
March	\$ 4.704,48	\$ 5.880,60	\$ 7.350,75	\$ 9.188,44	\$ 11.485,55	\$ 14.356,93
April	\$ 5.959,01	\$ 7.448,76	\$ 9.310,95	\$ 11.638,69	\$ 14.548,36	\$ 18.185,45
May	\$ 4.390,85	\$ 5.488,56	\$ 6.860,70	\$ 8.575,88	\$ 10.719,84	\$ 13.399,80
June	\$ 4.704,48	\$ 5.880,60	\$ 7.350,75	\$ 9.188,44	\$ 11.485,55	\$ 14.356,93
July	\$ 5.018,11	\$ 6.272,64	\$ 7.840,80	\$ 9.801,00	\$ 12.251,25	\$ 15.314,06
August	\$ 4.704,48	\$ 5.880,60	\$ 7.350,75	\$ 9.188,44	\$ 11.485,55	\$ 14.356,93
September	\$ 5.331,74	\$ 6.664,68	\$ 8.330,85	\$ 10.413,56	\$ 13.016,95	\$ 16.271,19
October	\$ 4.390,85	\$ 5.488,56	\$ 6.860,70	\$ 8.575,88	\$ 10.719,84	\$ 13.399,80
November	\$ 7.213,54	\$ 9.016,92	\$ 11.271,15	\$ 14.088,94	\$ 17.611,17	\$ 22.013,96
December	\$ 6.586,27	\$ 8.232,84	\$ 10.291,05	\$ 12.863,81	\$ 16.079,77	\$ 20.099,71
TOTAL	\$ 62.726,40	\$ 78.408,00	\$ 98.010,00	\$ 122.512,50	\$ 153.140,63	\$ 191.425,78

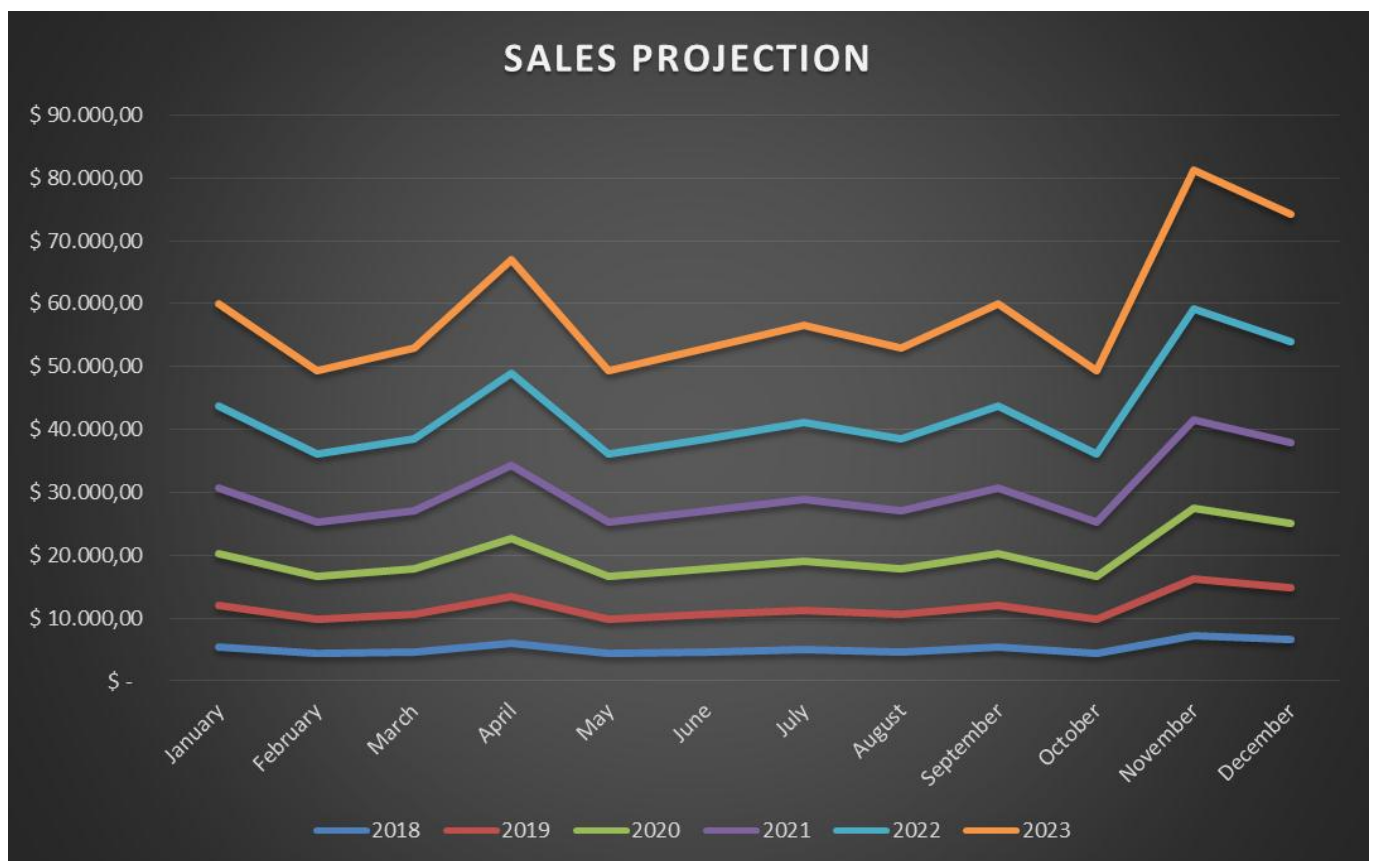


Figure 24: Sales Projection Graph of Pure Bio Energy Drink

According to the National Institute of Statistics and Census, the sales growth that energy drinks have had in Ecuador is 25% on average. "In February 2008, the food and beverages industry registered the highest index of economic activity during the period 2003 - 2008 (133.65), reaching a monthly variation of 14.9% and an annual variation of 25.08%" (Carrillo, 2009).

For this reason, it has been determined that the company will manage the same value of 25% per year with a 5-year projection. However, it should be noted that just as the sales of the product are 25%, the purchases would be the same percentage. For example, for the year 2019, the gross profit would be \$30,096.00 if this value is multiplied by the 25% projected profit for 2020, it will give the same result as subtracting Pure Bio Energy Drink sales minus purchases, \$ 37,620.00. The profit margin per product has not changed since it is still \$0.76 cents per unit. However, there are some variations with respect to the monthly sales projection table since each year the company manages more volume, which generates greater utility.

For this analysis, the population pyramid of the province of Azuay, carried out in the 2010 census in Ecuador, has also been taken into account. This pyramid shows that the largest number of people are in the 7 and 35 years-old age range, which is the target market of Pure Bio Energy Drink. In addition, as the younger part of the population gets older, the company has more and more possible clients since the widest part of the pyramid is its base. In this way, the company can easily justify its 25% growth.

3.7.2 Annual Expense Projections

Chart 17: Annual Expenditure Projection of Pure Bio Energy Drink

TOTAL ANNUAL EXPENSES		ANNUAL INFLATION 1,1				
Expenses	2018	2019	2020	2021	2022	2023
Administrative and sales expenses						
WAGES AND SALARIES	\$ 16.089,30	\$ 17.698,23	\$ 19.468,05	\$ 21.414,86	\$ 23.556,34	\$ 25.911,98
SERVICIOS BÁSICOS	\$ 300,00	\$ 300,00	\$ 300,00	\$ 300,00	\$ 300,00	\$ 330,00
RENT	\$ 360,00	\$ 396,00	\$ 435,60	\$ 479,16	\$ 527,08	\$ 579,78
ADMINISTRATIVE EXPENSES (% / Sales)	\$ 363,94	\$ 400,33	\$ 440,37	\$ 484,40	\$ 532,84	\$ 586,13
SPENDING ADVERTISING (% / Sales)	\$ 1.811,70	\$ 1.992,87	\$ 2.192,16	\$ 2.411,37	\$ 2.652,51	\$ 2.917,76
MOBILIZATION	\$ 1.200,00	\$ 1.320,00	\$ 1.452,00	\$ 1.597,20	\$ 1.756,92	\$ 1.932,61
DEPRECIATIONS	\$ 248,68	\$ 273,55	\$ 300,90	\$ 330,99	\$ 364,09	\$ 400,50
Total administrative and sales expenses	\$ 20.373,62	\$ 22.410,98	\$ 24.652,08	\$ 27.117,29	\$ 29.829,02	\$ 32.811,92
Financial expenses						
BANK FEES	\$ 60,00	\$ 66,00	\$ 72,60	\$ 79,86	\$ 87,85	\$ 96,63
Total financial expenses	\$ 60,00	\$ 66,00	\$ 72,60	\$ 79,86	\$ 87,85	\$ 96,63
Total annual expenses	\$ 20.433,62	\$ 22.476,98	\$ 24.724,68	\$ 27.197,15	\$ 29.916,86	\$ 32.908,55

Once the table of the company's 2018 monthly expenses has been explained, a projection of annual expenses up to the year 2023 has been prepared. To reach this projection, an annual inflation of 10% compared to the previous year was been considered, according to the growth of the Basic Salary Unified from 2014 to the present year.

3.7.3 Projections of the State of Profit and Loss

Chart 18: Profit and Loss Statement Projections

ANNUAL GROWTH		1,25									
PROJECTION OF THE STATEMENT OF LOSSES PURE BIO ENERGY DRINK TO 10 YEARS											
		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Sales		\$ 62.726,40	\$ 78.408,00	\$ 98.010,00	\$ 122.512,50	\$ 153.140,63	\$ 191.425,78	\$ 239.282,23	\$ 299.102,78	\$ 373.878,48	\$ 467.348,10
Total sales		\$ 62.726,40	\$ 78.408,00	\$ 98.010,00	\$ 122.512,50	\$ 153.140,63	\$ 191.425,78	\$ 239.282,23	\$ 299.102,78	\$ 373.878,48	\$ 467.348,10
(-) Inventory Cost		\$ 38.649,60	\$ 48.312,00	\$ 60.390,00	\$ 75.487,50	\$ 94.359,38	\$ 117.949,22	\$ 147.436,52	\$ 184.295,65	\$ 230.369,57	\$ 287.961,96
Gross profit		\$ 24.076,80	\$ 30.096,00	\$ 37.620,00	\$ 47.025,00	\$ 58.781,25	\$ 73.476,56	\$ 91.845,70	\$ 114.807,13	\$ 143.508,91	\$ 179.386,14
(-) administrative expenses		\$ 20.373,62	\$ 20.373,62	\$ 20.373,62	\$ 20.373,62	\$ 20.373,62	\$ 20.373,62	\$ 20.373,62	\$ 20.373,62	\$ 20.373,62	\$ 20.373,62
(-) financial expenses		\$ 60,00	\$ 75,00	\$ 93,75	\$ 117,19	\$ 146,48	\$ 183,11	\$ 228,88	\$ 286,10	\$ 357,63	\$ 447,03
Profit before taxes		\$ 3.643,18	\$ 9.722,38	\$ 17.246,38	\$ 26.651,38	\$ 38.407,63	\$ 53.102,94	\$ 71.472,08	\$ 94.433,51	\$ 123.135,29	\$ 159.012,52
(-) 15% workers	15,00%	\$ 546,48	\$ 1.458,36	\$ 2.586,96	\$ 3.997,71	\$ 5.761,14	\$ 7.965,44	\$ 10.720,81	\$ 14.165,03	\$ 18.470,29	\$ 23.851,88
Utility before Income Tax		3.096,70	8.264,02	14.659,42	22.653,67	32.646,49	45.137,50	60.751,27	80.268,48	104.665,00	135.160,64
(-) 22% imp. Rent	22,00%	\$ 681,27	\$ 2.138,92	\$ 3.794,20	\$ 5.863,30	\$ 8.449,68	\$ 11.682,65	\$ 15.723,86	\$ 20.775,37	\$ 27.089,76	\$ 34.982,75
NET PROFIT		\$ 2.415,43	\$ 6.125,10	\$ 10.865,22	\$ 16.790,37	\$ 24.196,81	\$ 33.454,85	\$ 45.027,41	\$ 59.493,11	\$ 77.575,23	\$ 100.177,89

"A Profit and Loss Statement measures the activity of a company over a period of time, which is usually a month, a quarter or a year (...). The Profit and Loss Statement basically indicates income, expenses, profits and losses" (Wells Fargo Bank, 2017).

To carry out the analysis of the Statement of Profit and Loss, the sales, based on the Sales Chart, of each year have been considered, as well as the cost of sales that would become the value that the company pays to acquire the Pure Bio Energy Drink product. If this first value is subtracted from the second one it equals a total value of \$2,415.43, which represents the gross profit of the first year. This gross profit must be subtracted from both the administrative expenses and the financial expenses explained in the Budget Table of Expenses, resulting in a profit of \$3,643.18 before taxes.

"Next, it is essential to consider the Labor Code, specifically article 97 that says: Art. 97.- Participation of workers in company profits. - The employer or company will recognize for the benefit of its workers the fifteen percent (15%) of liquid profits. This percentage will be distributed as follows: Ten percent (10%) will be divided among the workers of the company, without considering the yearly salary received by each employee. The remaining five percent (5%) will be given directly to the workers of the company, in proportion to their family responsibilities, which include their spouses or common-law partner, children under 18 and disabled people of any age.

The division will be made by the workers association of the company and in proportion to the number of these family responsibilities, duly accredited by the worker before the employer. If there is no association, the delivery of this percentage will be direct. Those who have not worked during the entire year will receive the proportionate part for such participations to the time of service. In private-law entities in which State institutions have a majority share of public resources, the provisions of the Organic Law of Civil Service and Administrative Career and Unification and Homologation of the Remunerations of the Public Sector will be followed" (Ministry of Labor, 2015).

In other words, from the profit value obtained before taxes, it is necessary to give 15% to the workers, which generates the company's total earnings. For example in the year 2018, the company's total profit is of \$546.48, which should be distributed among the 3 employees of the company according to the Human Resources Table.

"Once the utility before Income Tax has been calculated, the Organic Law of Internal Tax Regime (LORTI) states the following: Art. 37.- Taxable income obtained by companies incorporated in Ecuador, as well as by branches of foreign companies domiciled in the country and permanent establishments of non-domiciled foreign companies will apply the 22% rate on their tax base" (National Legal Directorate, 2015).

As a result, it is necessary to multiply the total earnings times the 22% of the income tax and the value obtained will be the Gross Profit of the Year, which totals \$2,415.43 for the first year of sales of Pure Bio Energy Drink.

As demonstrate in the Sales Table, an annual growth of 25% has been considered, that is, the Net Profit of each year is projected to grow that percentage compared to the previous year.

CONCLUSIONS

After carrying out the study presented with its respective analysis of the result obtained, the following conclusions have been reached:

1. The market of the city of Cuenca, which has been studied within the present investigation, shows the following characteristics:
 - a. It is a very competitive market in the category of beverages and even more in the subcategory of energy drinks, where there is great demand for beverages of this type.
 - b. The Cuenca market is limited by the age range of the public it serves, in addition to the fact that the product offer is quite extensive for consumers. However, in this market, it has been noted that the consumer does not manage to satisfy all of the consumer's needs at the time of choosing a drink of this type.
 - c. Through a market study, it has been determined that the reason for the non-consumption of energy drinks by a certain part of the population of Cuenca is because they consider that these products harm a person's health, have a high sugar content, or they simply prefer to consume natural drinks.
 - d. It has been concluded that Pure Bio Energy Drink is not a product of mass consumption, but rather a product of selective distribution. Therefore, it cannot be distributed in all of the city's stores since the product would not have the desired rotation. This is why the distribution channels chosen should be used to achieve a successful sale of the product. Pure Bio Energy Drink is a beverage that must be placed in the potential points of sale. According to market research, most consumers purchase this beverage to stay awake, for added energy before or after playing sports and even for mixtures with alcoholic beverages. This is why the company should consider offering the product in service stations found in the entrances and exits of the city, around sports centers and in places where alcoholic beverages are sold.
 - e. The demand for energy drinks with a tendency to focus on health care in the city of Cuenca is growing and based on the population pyramid of Azuay, it can be concluded that the highest concentration of people is within

the target market of Pure Bio Energy Drink, which can generate even more sales than the ones projected in this thesis project.

In conclusion, I believe that Pure Bio Energy Drink is a product that, due to its characteristics and diverse benefits, can compete directly with other large companies in this segment such as RedBull, V220, 440, Ciclon, Vive 100, among other brands with a share in the local market.

Once the data of the market study has been analyzed, it can be concluded that Pure Bio Energy Drink represents a product that meets and satisfies the requirements of the consumer in Cuenca. This is because it is a 100% organic energizer, which makes it more attractive compared to other related products found within the category of local energy drinks.

In reference to the import plan, I can conclude that for a satisfactory introduction of Pure Bio Energy Drink to the Cuenca market, a 20-foot container should be purchased, which has the capacity to transport 31,680 unit products, which will be sold throughout 2018.

The sales of new energy drinks in the market are close to the sales projection that has been established for Pure Bio Energy Drink within the first fiscal year. It was also possible to determine in the present investigation, that starting in the second year and for the years to come, the behavior of the consumption of energy drinks of the Cuenca market presents an annual growth of approximately 25% compared to the previous year. For this reason, it is recommended that from the second year a 40-foot container of the product should be imported and the stock maintained for the whole year.

Other important factors that must be considered are that both the price of the product and the import costs and tariffs are subject to change, as there are factors such as exchange rate variation, changes in import tariffs, increase or decrease in tariffs and taxes, or international treaties which can increase or reduce the price of the product.

There is great feasibility from the economic and financial perspectives for the distribution of Pure Bio Energy Drink in the city of Cuenca and even nationwide. The income considered for the sale of the product is higher compared to the expenses, which generates an attractive net profit for the investor as corroborated by the Profit and Loss Statement and the projections made in this study.

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