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Gualaceo”

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Authors:

Grace Estefanía García Villa

Candice Adriana Maurat Guaraca

Director: Matías Abad Merchán Eng.

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## **Dedication**

To my rock, my guide, my angel.

My mother, Susana Villa de Garcia.

**Grace E. Garcia**

To my guardians, my parents and my sister.

And to my best friends Paz, Kathy and Carlos.

**Adriana Maurat.**

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## **Resumen**

Partiendo de la necesidad de un levantamiento de datos en torno a la productividad del área en estudio y con base en numerosas teorías de comercio exterior e internacionalización de empresas; esta investigación pretende conocer la oferta exportable actual del cantón Gualaceo. Por lo que se realiza una evaluación de los sectores productivos del cantón, así como de cada una de las PYMES que lo integran. Con tal propósito, se recopilan y analizan datos secundarios, disponibles en fuentes oficiales; y datos primarios, obtenidos a través de investigaciones de campo. Al cabo, se logra construir un diagnóstico, en primera instancia individual y luego colectiva -por sector productivo- de la oferta exportable presente de Gualaceo. Con ello, se aspira contribuir con una base sólida de información para finiquitar la primera fase del *Programa de Internacionalización de PYMES del Azuay*.

## **Abstract**

Starting with the need for a data survey about the productivity of the area under study and based on numerous theories of foreign trade and business internationalization, this research has, as its aim, to identify the current exportable production of the city of Gualaceo. Therefore, an evaluation of the productive sectors of the city were carried out, as well as each one of the SMEs that integrate it. For this purpose, secondary data available from official sources and primary data obtained through field research were collected and analyzed. Subsequently, it was possible to construct a diagnosis, at first individual and then collective, by the productive sector of the present exportable supply of Gualaceo. With this, we attempt to contribute with a solid base of information to finalize the first phase of the Program of Internationalization of SMEs in Azuay.

## **Introduction**

The main object of this research is to determine the current exportable products of Gualaceo, Ecuador. In order to do so, an analysis of qualitative and quantitative primary data was necessary, which was primarily carried out during field studies done so at the stated area of the Santa Bárbara River. In addition, the most relevant SMEs of each production sector were taken as the basis for this analysis, taking into consideration the external and internal environment of the productive options.

Exportable offer is a group of products that comply with high standards and come from a mass production, or those traditional and autonomous products of a specific area that have the potential to be brought into international markets because of their unique and attractive features. Taking this general concept into account, this work presents a synthesis of the products that possess such peculiarities which allow them to form part of the exportable goods from the province of Gualaceo.

The methodology to be followed began with a general analysis of subjects regarding the environment and the productivity of the zone, continuing with secondary data found in books, guides, state publications, official websites etc. Then, primary data was compiled throughout interviews with representatives of the various productive sectors in order to identify relationships between actors within their productive practices. The small and medium-sized enterprises that constitute these productive sectors were to be identified. The information resulting from their commercial operation was observed individually thanks to the application of an export audit which allowed an internal and external analysis of the institutions. Finally, the most relevant information of each company was cross referenced, taking into account key external factors with the purpose of identifying the current situation of the company in addition to suggesting strategies for internationalization.

This process has been divided into four chapters. First chapter is a reference framework on foreign trade theories, theories of internationalization, and theories of SMEs, which

serves as a methodological guide for the analysis of each company and society. In addition, in order to understand and identify the companies with the greatest potential, the theories oriented to the internationalization of SMEs are reviewed in depth.

In the second chapter, the most relevant aspects of the area, geography, economy, demography, sociocultural environment, infrastructure, etc. are recognized to analyze and learn more about the general environment of the area under study.

In the third chapter, the field research is presented starting from the division of productive sectors, differentiating between micro, small, medium and large companies. In this way, only the SMEs to be examined are outlined with the export audit tool.

Finally, the fourth chapter contains the results of the audits, which are examined through the application of SWOT and cross SWOT analysis for each company studied. This was done with the objective of proposing strategies to improve the current state of each SME, this being one scope of this arduous investigation.

Furthermore, this work is relevant because it requires the sectors with the highest productivity and also clearly identifies small and medium-sized companies with the greatest export potential.

This project is of the utmost importance since it represents a research foundation that contributes both to academics and society. In addition, it constitutes a solid base of information for the development of future plans with local and international vision such as concluding the first phase of the Internationalization Program for SMEs of Azuay. This is a project of national interest led by the Ministry of Foreign Trade and Investment through the Institute of Promotion of Exports and Investments, PROECUADOR in collaboration with the Universidad del Azuay.

## **CHAPTER I**

### **Theory basis**

#### **1.1 Introduction**

Today's theories of internationalization are the result of previous studies of the evolution, at different times, of the theories on foreign trade. Therefore, revising the work of relevant authors in the field such as Thomas Mun, David Hume, Adam Smith, David Ricardo, etc. is essential when it comes to studying the internationalization of both products and SMEs.

It is also important to acquire further theories aimed to explain internationalization, either from an economic or process perspective, as well as those latest modern theories specifically aimed at small and medium-sized companies interested in foreign markets.

#### **1.2 Foreign trade theories**

In making a retrospective of the most relevant studies that have allowed us to conceive foreign trade as it is known today, it is clear that one of its pillars is mercantilism, an economic system extended during the 16th and 17th centuries, which was hope to encourage exports and discourage imports. A century later, the theory of absolute advantage was developed by the Scottish philosopher Adam Smith, who defended the idea that unrestricted trade is beneficial for countries, thus opening up the discussion with respect to the self-regulation of the market. Following this study, two theories arose. On the first is the theory of comparative advantage proposed by the economist David Ricardo, which proposes that a country should specialize in those goods that can be manufactured more efficiently in relation to productivity and labor and acquire from other countries those goods that are not produced efficiently in their own country. The second theory appeared in the twentieth century with the creation of Eli Heckscher and Bertil Ohlin, who perfected the work of David Ricardo by proffering that the comparative advantage is the product of the differences in the endowment of factors and the costs relative to them.

### **1.2.1 Mercantilism**

The theory of mercantilism was the first theory that tried to explain international trade. Proposed the idea that gold and silver were the fundamental pillars of the wealth of nations since they were the first means of exchange for trade between countries and so were essential for the its growth. In this context, it is understood that a country received gold and silver with each export of goods while their importation represented an output of these precious metals.

One of the main philosophers of mercantilism was Thomas Mun, an English merchant, who contributed to the theory of mercantilism by arguing that the most favorable thing for a country was to maintain a trade surplus; in other words, to export more than it imported. Therefore, the country would accumulate gold and silver thus increasing its wealth, prestige and power. (Hill, 2011)

Another thought leader, whose contribution may not be very recognized, was Antonio Serra, an Italian economist. In 1613, he contributed to mercantilism by showing that a country had the possibility of owning money in abundance even if it had no mines within its borders, thus encouraging export growth, which was indispensable for obtaining a favorable trade balance (Perrotta, 2013). Serra explained how the deficit in the balance of payments was the main reason for the monetary shortage, but not the exchange rate (ibid). Another one of the biggest contributions of mercantilism was the trade balance. The surplus in the trade balance was very important; however, traders also saw fit to import goods from Asia since they could resell that merchandise on the European market with significant gains.

Sometime later, in 1752, Scottish economist/philosopher David Hume, found a significant flaw in the mercantilist doctrine. According to his criterion, the fact that a country has surpluses in the trade balance with respect to another would mean the increase in gold entries, which would increase the domestic supply of money by producing inflation. Whereas, for the other country, the opposite would occur because the shortage of money would cause a general drop in prices and would force it to import in smaller quantities. At the same time, the surplus country would opt to import more because of low prices,



resulting in the investment of the results of the trade balances of both countries. This would indicate that in the long run, none of these countries could maintain a stable trade balance surplus or accumulate wealth leaving incongruencies in the theory of mercantilism.

Because mercantilism is a theory that discourages imports, several scholars have encouraged the imposition of tariff and non-tariff barriers, urging government intervention in trade relations through the promulgation of protectionist policies. What was raised was the limitation of imports through quotas and tariffs and the subsidy of exports so that they motivated a zero-sum game; that is, a business relationship in which there must necessarily be a winning country and losing one.

What foreign trade scholars considered erroneous was subsequently revised by other philosophers to demonstrate that trade is a positive-sum game in which all countries benefit.

### **1.2.2 Absolute Advantage Theory**

Due to the inconsistencies in the premise that trade is a zero-sum game, mercantilist theory was severely criticized by authors such as Adam Smith, a major Scottish classical economist and defender of open markets. In his book, *The Wealth of Nations* of 1776, Smith explains how, thanks to free trade, nations can specialize in those goods whose production is most economical, and that the differences in costs, given by the production of inputs, govern the international product movement. Thus, Smith introduced the idea of natural and acquired advantages, the first being those having to do with the endowment of resources because of the geographical location of the nations such as climate, earth, water resources or mineral richness. The second are related to the skills and techniques of human resources. In the case that a country has one of these advantages in the manufacturing of a product, this would cause its production costs to be lower compared to those of its trading partner thus being more competitive. For Smith, the cost of production was linked to the theory of the value of the work, assuming that the work was the only factor of production and was homogeneous; the price of a product depended solely on the amount of work

needed for its production; in other words, if country A for example, needs five hours to produce a good and country B requires seven hours to produce the same good it would mean that the production cost of country A is lower compared to its trading partner, country B; Smith called this an absolute advantage.

In other words, having an absolute advantage is simply the power to manufacture a unit of product with less work than the other nation. Then, in a trade relationship between two countries with two products, each nation had to specialize in the production of that in which it had an absolute advantage and, through international trade, import products in which it had an absolute cost disadvantage (Carbaugh, 2009, p. 30).

According to Smith, as each country uses its resources more efficiently there is a larger production from which the world could benefit through foreign trade; however, so that the world can take advantage of specialization, every nation should have a product in which manufactory is absolutely more efficient than its trading partner. But this was not always a given, since the same nation could have an absolute cost advantage in the two goods produced by both nations; in such cases, international trade would not be necessary in accordance with the theory of absolute advantage.

### **1.2.3 Comparative advantage theory**

In 1817, David Ricardo, adding to the theory of the absolute advantage, developed his own hypothesis in which he concluded that there was no international trade if a country had an absolute advantage in the production of all the goods. He said that free international trade generated benefits for all the countries involved as they invest capital and work in what was most lucrative for them but proposed that the guide to be able to carry out a proper international specialization was its comparative advantage. According to the author, the absolute costs of production are not relevant but rather the relative costs.

The comparative advantage and the absolute advantage give rise to specialization as the main tool for countries to obtain greater benefits; that is to say, countries must produce and export those products that are produced efficiently and whose production costs are relatively lower compared to the rest of the world. Thus, they will have to import those

products in which production is somewhat deficient and the production cost is higher compared to the rest of the world, so that it would be importing a good that requires less work for the country that developed it than for the country that buys it (Hill, 2011).

However, the difference between the absolute advantage and the comparative advantage is that, to make the decision on which product to manufacture, the opportunity cost should be taken into account. This refers to what is left to produce to obtain another good, it being basically a choice that countries must make to determine what good they need in which to specialize (Krugman & Obstfeld, 2006). In other words, the opportunity cost of producing a good in terms of good B, is the number of units that one ceases to produce from product B by using the resources available to produce a unit of product A. With this, the country would be earmarking its resources to what it best knows how to do, and at the same time reducing the possibility of losses in a production in which it is not efficient.

One of the advantages of the opportunity cost is that countries will always have a comparative advantage in at least one product compared to another country so that there will be no situation in which a country corner the production of all products, thus ensuring international trade, product availability, and increased earnings in product exchange.

#### **1.2.4 Heckscher-Ohlin theory**

Swedish economists Eli Heckscher (1919) and Bertil Ohlin (1933) proposed a new explanation for David Ricardo's theory. They affirmed that the comparative advantage is the result of the diversity of factors of production that each country has; that is, the set of resources such as land, capital and labor, which they denominated as the factor of endowment (Ohlin cited in Hill, 2011, p. 167).

Each country has different production resources; consequently, the costs of these vary in each nation. Therefore, the more abundant a factor, the cheaper it is. The theory Heckscher and Ohlin establish that the countries will export more of those goods that come from the cultivation of their soil, because these take advantage of this factor, and they will import goods that are made with the factors that it does not possess or that are scarce in its country (Hill, 2011). In other words, a country with abundant arable land will export agricultural products; on the contrary, a country with a large amount of labor will

export finished products because it is the most abundant factor and therefore will offer benefits. This theory intends to clarify the international trade scheme, arguing that this is determined by differences in the endowment of factors, but not by differences in productivity, as stated by David Ricardo.

### **1.3 Theories of internationalization**

Due to globalization, economists and researchers have focused their studies on identifying the various reasons that companies and economies have for internationalization, all with the aim of offering a global interpretation of the functioning of international trade in goods and services. However, the fact that it has not been possible to devise a single model that explains the totality of this phenomenon has led to the need to explain the internationalization of companies individually.

This study divides into two perspectives the approximations capable of achieving a higher level of interpretation of the behavior of the SMEs on their way towards external markets. On the one hand, internationalization is analyzed from an economic perspective founded on the theory of industrial organization, the theory of internalization, Dunning's eclectic paradigm and the theory of competitive advantage. On the other hand, there is internationalization from a process perspective that covers the life cycle theory of the product, the Scandinavian model or Uppsala model, the innovation model and the systematic planning model.

#### **1.3.1 Internationalization from an economic perspective.**

##### **1.3.1.1 Theory of industrial organization.**

The authors of this theory, Charles P. Kindleberger (1969) and Stephen Hymen (1976), propose that companies must possess some kind of exclusive competitive advantage whether in production, technology, organization, marketing, financing, or in the diversification of their products, so that they can have their productive facilities in another country (Cardozo, Chavarro, & Ramírez, 2007). As a result, the foreign companies become more competitive with respect to the local companies, although these are already established and know the market, resulting in local companies feeling unable to compete

with foreign corporations because they do not have an exclusive advantage. Furthermore, it is important to note that the advantage must be specific in such a way that it can be transferable or that it contains sufficient durability and magnitude to be able to face the competition (Rialp quoted in Cardozo, Chavarro, & Ramírez, 2007, p. 6). This theory has a monopolistic approach because it shows that companies that decide to internationalize must have a competitive advantage that allows them to have exclusivity in the chosen market. Hymen (1976) examined the different areas that can provide a company with a competitive advantage, as well as market structures that concentrate higher foreign production, given that when a company possesses an exclusive advantage market structure, failures may occur.

#### **1.3.1.2 Theory of internationalization**

Beginning with the fact that there are multiple imperfections in the markets, the theory of internationalization introduced by Buckley and Casson (1976) tries to explain why the transactions of intermediate products between countries are organized by hierarchies and are not determined by the forces of the markets or the transaction costs.

In this sense, the main assumption is that the international growth of companies became the alternative to the market to create value activities beyond national borders. However, according to the authors, there are two conditions that must be fulfilled in order for a company to decide to invest in expanding its borders. The first is to ensure that there are advantages in moving the activities to another country. That is, when comparing all the costs related to producing in the local market to later export with the costs of directly producing in the destination country, it should be more economical and profitable for the company to locate the production in the foreign country (ibid.). The latter is more efficient for the company is to organize and transfer its activities abroad rather than to sell or assign those activities to a company already established in the destination country. Here is where the concept of transaction costs that Buckley and Casson agree with are classified as conflicts arising from the bilateral concentration of power, delays in carrying out different activities chained by the market, difficulty in setting the price for a transfer of technology and aspects related to the international market come alive (ibid.).

Likewise, Buckley and Casson surmise in their book, "The Future of Multinational Enterprise" (1976), that there are four groups of important factors when making the decision to internationalize an organization, which are factors of the industry such as the type of product and market, factors of the region such as social and geographical attributes associated with the market, factors of the nation such as international political and fiscal relations, and factors of the company such as upper management skills when internationalizing (Cited in Escolano Asensi & Belso Martínez, 2003 ).

In this way, the central idea proposed by the theory of internationalization is that "the benefits of internalization arise from the avoidance of costs associated with imperfections in external markets and will involve the creation of a multinational company to the extent that it may be carried out beyond national borders "(Cardozo, Chavarro, & Ramírez, 2007, p.7). However, the biggest failure of this theory is essentially the need to eliminate intermediate steps in the gradual international expansion of the organization (Durán and Úbeda, 1997, Leonidou and Katsikeas, 1996 cited in Escolano Asensi & Belso Martínez, 2003) .

### **1.3.1.3 The eclectic paradigm (Dunning, 1979 and 1981)**

John H. Dunning, in his works explaining changing patterns of international production and in defense of The Eclectic Theory (1979) and International Production and the Multinational Enterprise (1981), submitted the Eclectic Paradigm. This was a theory that integrated the existing contributions on the theory of industrial organization, to the theory of transaction costs, location and international trade, so that together with their own studies they could explain, in a general way, the phenomenon of internationalization (Cardozo, Chavarro, & Ramírez, 2007, Escolano Asensi & Belso Martínez, 2003).

In summary, Dunning has concluded that the decision to outsource a company's operations to international markets is made in a rational manner, based on an in-depth analysis of the costs versus the advantages of producing abroad (Cardozo, Chavarro, & Ramírez, 2007).

In this way, and very similar to what was proposed by Buckley and Casson, Dunning's eclectic paradigm ensures that there are four factors that will define the ability of companies to make the decision to internationalize their operations.

First, the company must have a competitive advantage in the foreign country since generally there are property rights or intangible assets, for example, the value of a recognized brand. (Cardozo, Chavarro, & Ramírez, 2007; Escolano Asensi & Belso Martínez, 2003).

Second, it must be decided if it is more profitable for the results of the company to exploit that competitive advantage when internationalizing its operations or if it is more profitable to cede it through a license to other companies in the market, or even sell it (Escolano Asensi & Belso Martínez, 2003).

Third, it must be determined if it is more lucrative for the company to exploit their advantage through direct operations in the foreign market, such as locating production plants or simply through direct export (ibid.). "The attractiveness of locations in terms of their endowment of non-transferable factors along their borders ... price, quality, factor productivity, transport costs, international communications, artificial barriers to trade, infra-structures of the countries of destination and ideological and cultural differences, among others "(Cardozo, Chavarro, & Ramírez, 2007).

Fourth, the long-term strategy of companies is fundamental to guide the activities conducted at both operational and managerial levels; therefore, for a company to decide to make foreign direct investment, such a decision must coincide with the long-term strategy that has been established for the organization (ibid.).

While the intention was to create a holistic understanding of the subject, Dunning dedicated his studies almost exclusively to direct foreign investment which prevented him from achieving the global vision he was looking for (Escolano Asensi & Belso Martínez, 2003). According to the renowned Spanish economist, José Antonio Alonso Rodríguez (1994), this theory has limitations, since it has a notorious bias towards direct foreign investment and also only considers large companies that have greater capacity to establish themselves in the markets internationally. That is why this theory is very limited when applied to the reality of small and medium enterprises (Cited in Escolano Asensi & Belso Martínez, 2003).

#### **1.3.1.4 Theory of competitive advantage**

In his 1990 work, Michael Porter determined why some countries are more successful than others in the field of international competition. He considered the Heckscher-Ohlin Theory and the Comparative Advantage Theory for his study but established that both offer an explanation of only one side of the situation. (Hill, 2011)

Similarly, within its theory are other elements that must also be taken into account for the creation of national competitive advantage which are: factor endowment, conditions of demand, support and related sectors and strategy, structure and rivalry of the companies. To these factors is added an important variable that is the role of the government, thus forming the well-known Porter diamond.

-Facilities.

Based on the Heckscher-Ohlin theory, Porter analyzed the characteristics of the factors of production and indicated that competitiveness in international markets lies not only in the costs of productive factors, but also in their cost-effectiveness. For this, he classified the productive factors into two-basic and advanced-. It is basic to understand factors such as the fact that those resources come from nature. Those that exist to a lesser and a greater degree are capital and unskilled labor. The advanced factors refer to those that are not found naturally such as skilled labor, the educational system, the communication system and scientific infrastructure (Cardozo, Chavarro, & Ramírez, 2007, p. 6).

-Conditions of the Demand.

The author highlighted the role of domestic demand in the development of competitive advantage, given that, if local consumers are demanding, companies will have to meet the requirements of the same with the best offer. In this way, companies will focus on developing innovative products in compliance with quality standards and, above all, in anticipating the needs of customers thereby directly influencing the international competitiveness of companies (Hill, 2011, p. 175).



-Reinforced and supportive sectors.

Another important element is the presence of suppliers or related sectors that compete in the international area. The benefits of investing in advanced production factors for related sectors and support is that they can be expanded to other sectors which leads to the acquisition of an international competitive position. Porter says that one of the advantageous consequences of this element is that the industries of a country can be grouped into related categories and thus they can exchange knowledge, achieving benefits for all the companies involved (ibid).

-Strategy, Structure and Rivalry of Companies.

Competition is considered a threat; however, Porter has said that the greater the increase in rivalry in the same sector, the greater the need to innovate. The presence of strong competitors in the market means that weak companies do not stagnate but rather look for new markets. The author has established two important points. Firstly, that countries have different administrative ideologies that promote or hinder the development of a competitive advantage; that is, certain sectors develop more than others. Secondly, there is a solid association between internal rivalry and the creation of competitive advantage since rivalry pressures industries to look for ways to improve their efficiency in a way that makes them more competitive (Cardozo, Chavarro, & Ramírez, 2007, p. 6).

Likewise, the role of the government is a factor of great relevance for the development of national competitive advantage given that it is the body in charge of providing support to the production sectors. In this context, the government can invest in the advanced and specialized productive factors thus fostering national research and so competition tends to increase the level of innovation. (ibid.)

### **1.3.2 Internationalization from the Process Perspective**

#### **1.3.2.1 The product life cycle theory**

Raymond Vernon published his work *International Investment and International Trade in the Product Cycle* (1966), in which he proposed the theory of the life cycle of the product. To this end, it introduced elements such as product innovation, uncertainty in international

exchange and the effects of economies of scale thus creating a link "between the perspective of internationalization based on the country, supported by the theory of international trade, and the based on the company, typical of the theory of international investment "(Cited in Cardozo, Chavarro, & Ramírez, 2007).

This theory is based on the reflection that, during the Twentieth century, most of the new inventions in the world were designed by North American companies so they were produced and sold first in that market. Vernon explained this by pointing out that U.S. companies had a high incentive to create new and innovative products due to the wealth and size of the market which pointed to a very attractive potential demand. Thus, Vernon's theory established that companies make foreign direct investment (FDI) in certain phases of the life cycle of the product they introduce.

### **Phase 1. Introduction of the product**

Although the fact that a U.S. company that invented a product that sold well within its borders did not require the product to be manufactured exclusively in that country because it could be manufactured in another nation and imported, it was undeniable that the vast majority of innovations were manufactured first in the United States. This was because of two considerations. First, the directors believed that it was safer to have production facilities and senior centers to prevent potential problems arising from the uncertainty and risks of introducing new products in a market; second, the fact that the demand for innovative products did not depend on the price but on the novelty in their use or application, goods could be sold at high prices, thus eliminating the need for companies to look for locations with lower production costs (Cardozo, Chavarro, & Ramírez, 2007; Hill, 2011).

These considerations lead to the first value-added activities based on the creation of new products to be made in the country of origin of the company because in this stage the product was offered only in the domestic market, close to its innovation activities.

However, Vernon points out that in the first phase of the life cycle of a new product, despite the fact that demand is growing rapidly in the US market, in other advanced countries it is limited only to elite groups due to purchasing power. It is precisely as a result of this limited initial demand in other advanced countries that whose companies find it more convenient to import the new product from the United States instead of producing it themselves.

### **Phase 2. Product growth**

As time goes by, new products gain recognition and acceptance so that demand expands both in the national country and in other advanced countries where demand was previously limited to specific groups. Consequently, to the producers in those other advanced countries it was already convenient for them to produce the article to satisfy their local demand. In addition, the American companies' pioneers in the manufacture of a product saw an opportunity to put production plants in those countries where the demand had grown; that is, the companies "invest in other advanced countries when the demand in these grows enough to sustain local production "(Quoted in Hill, 2011, p.235).

### **Phase 3. Maturity of the product**

Likewise, the competitive advantages of production companies change as the product reaches a certain degree of maturity and standardization since the price becomes the main competitive weapon. This leads companies to seek to preserve the quality intact while producing at the lowest possible costs and to create strategic business relationships (Cardozo, Chavarro, & Ramírez, 2007, p.12). Therefore, the possibility of export by the United States is limited due to the extra costs that this operation generates on the price of the product. On the other hand, new established producers in advanced countries where the labor costs are higher than in the United States are in a position to export to that country (ibid., p 169).

### **Phase 4. Decline**

As expected, cost pressures do not stop because competition always finds a way to offer products at a cheaper price. In this case, that competition is usually located in developing

countries where it is even cheaper to produce the articles due to Small or nonexistent state regulation regarding work and commerce, low raw material costs and the increasing imposition of tariff barriers in advanced countries. It is then that the cycle by which the United States has lost its advantage over other advanced countries is repeated since developing countries acquire an advantage of production over advanced countries. Thus, the headquarters of world production has passed from the United States to other advanced countries and then to developing countries. As a result of these changes in trends in the global trade order, the country that introduced the product to the world, the United States, has gone from being the main producer and exporter of the article to importing it on a small scale, with production concentrated in the cheapest locations abroad (ibid).

Indeed, Vernon illustrates that "companies invest in another country when demand supports local production, and also invest in cheaper places like developing countries, when cost pressures intensify. However, it does not explain why it is profitable for a company to carry out FDI on those occasions instead of continuing to export from its parent company or granting a license to a company from the other country to manufacture its product "(ibid).

#### **1.3.2.2 The Scandinavian model or Uppsala model**

This model explains that internationalization is a gradual and evolutionary process and proposes a model with a series of stages that consists of: not exporting, exporting, establishing abroad and having an establishment of productive units in the foreign country, each one of which involves greater involvement of the company in international markets (Johanson and Wiedersheim-Paul, 1975, Johanson and Vahlne, 1977 cited in Escolano Asensi & Belso Martínez, 2003). In the first stage, the company does not perform any type of activity related to foreign trade; in the second stage, they begin to carry out sporadic export activities, which will eventually take them to the third stage, which is to develop its own network that will allow them to establish a branch in another country; finally, in the last phase, the company will be able to establish its factory abroad.

Another concept developed in this model is psychological distance or psychic distance which refers to the set of factors that hinder the flow of information between markets and companies; these can be linguistic, cultural, political or of development, among others (Johanson and Wiedersheim Paul, 1975 cited in Escolano Asensi & Belso Martínez, 2003). Therefore, companies will begin to interact with those markets that are closest psychically and will gradually make exchanges with more distant markets according to the psychic distance. Similarly, the authors propose three exceptions to this concept. First, when the company has a large amount of resources that reflect minor consequences; second, when the market conditions are stable and homogeneous; and finally, when the company has acquired sufficient experience regarding similar markets so that it can apply this experience in another market with the same characteristics (Escolano Asensi & Belso Martínez, 2003).

However, criticisms of this model highlight that it is somewhat complex to fully follow the orderly and progressive sequence proposed by the Scandinavian model, as well as having a bias towards the explanation of direct investment, not international trade (ibid.).

#### **1.3.2.3 The innovation model**

Similar to the Scandinavian model, Warren J. Bilkey and George Tesar wrote the book, “The Export Behavior of Smaller-sized Wisconsin Manufacturing Firms”, in 1977, in which they mentioned that internationalization is a process of business innovation focused on small and medium enterprises. What was intended with this scheme was to increase the international commitment of companies to make innovations through creative decisions based on the market and the internal capabilities of the company (Cardozo, Chavarro, & Ramírez, 2007). The model proposes the following stages to achieve the development of the international activity of a company. In the first place, the domestic market, where the company must focus on satisfying the needs of local consumers; then the pre-export that refers to the preparation carried out by a company in order to initiate export activities; subsequently, the experimental exporter, which alludes to the fact that the company eventually exports and at the same time acquires experience, taking it to the next stage that is an active exporter. In this phase, the company has greater knowledge

about exports since it does so constantly; finally, it becomes a committed exporter because it has a commitment in another country as a recognized and accepted supplier (ibid.).

What this model establishes is to follow the phases of the Scandinavian model but taking decisions oriented to obtain a production that has as a main focus a constant innovation.

#### **1.3.2.4 Systematic planning model**

There are several internationalization processes, but Franklin R. Root, in 1994, developed a procedure that consists of the following phases:

- Measurement of market opportunities: refers to the study of the possibilities offered by the market in relation to the expansion of the company abroad.
- Statement of objectives: It must be established the goals that the company wants to achieve in the short and long term.
- Selection of the mode of entry: refers to a previous investigation of the market that is intended to evaluate both good and bad aspects.
- Formulation of the marketing plan: the company must develop a project that reflects the ways in which it is intended to reach consumers.
- Execution: finally, the company carries out everything planned previously, taking control of it (cited in Cardozo, Chavarro, & Ramírez, 2007).

This model was developed based on previous studies in order to obtain better results. Critics say that it is a simple process, but that it covers all the required aspects.

### **1.4 Theories of SMEs**

#### **1.4.1 Small and medium enterprises (SMEs)**

With regard to the classification of SMEs, reference is made to Article 3 of Resolution 1260 of the Andean Community of Nations 2009, which deals with the Technical Provision for the Transmission of Statistical Data of SMEs of the Member Countries of the Andean Community, based on Art. 5 of Decision 702 of the Andean Community Commission of 2008. (See table 1)

**Table 1 Classification of SMEs according to the Andean Community**

Variables	GROUP A Strata I	GROUP B Strata II	GROUP C Strata III	GROUP D Strata IV
Current Personnel	1 – 9	10 – 49	50 – 99	100 – 199
Gross Annual Sales (US\$) *	≤ 100,000	100,001 – 1,000,000	– 1,000,001 – 2,000,000	– 2,000,001 – 5,000,000

(\*) Commercial margin for commercial companies.

The gross value of annual sales will prevail over the criterion of employed personnel.

Source: Andean Community of Nations (2009).

### **1.4.2 SMEs in Ecuador**

There is no established definition of what an SME is; however, the Internal Revenue Service of Ecuador (2017) defines it as "the group of small and medium enterprises that, according to their sales volume, social capital, amount of workers, and their level of production or assets present characteristics of this type of economic entities. " The types of economic activities that they carry out are the following:

- Wholesale and Retail.
- Agriculture, forestry and fishing.
- Manufacturing industries.
- Building.
- Transportation, storage, and communications.
- Real estate and services provided to companies.
- Community, social and personal services.

Similarly, it establishes the importance of SMEs, stating that they "are the basis of the country's social development both in production, in demand and buying of products or adding added value, so they are a fundamental actor in the generation of wealth and employment "(Internal Revenue Service, 2017).

#### **1.4.2.1 Characteristics**

The size of the company is defined by annual sales (V) and number of employed persons (P), for which the criterion of annual sales volume on the criterion of employed personnel is taken into account (CAN, 2009). (See table 2 and 3)

**Table 2 Classification of the company according to its characteristics**

Classification of companies	Volume in Annual Sales	Current Personnel
Large	V: \$ 5' 000,001 onwards. P: 200 onwards.	200 onwards
Medium B	V: \$ 2' 000,001 a \$ 5' 000,000. P: 100 - 199.	100 - 199
Medium A	V: \$ 1' 000.001 a \$ 2' 000,000. P: 50 - 99.	50 - 99
Small	V: \$ 100,001 a \$ 1' 000,000. P: 10 - 49	10 - 49
Microenterprise	V: < a \$ 100,000 P: 1 - 9.	1 - 9

Source: INEC National Institute of Statistics and Census.

**Table 3 Number of companies, employed personnel and sales according to company**

	Number of companies	Percentage	Affiliated Current personnel	Percentage	Total sales in millions of dollars	Percentage
Microenterprise	763,636	90.51%	1,119,985	38.13%	104,679	70.86%
Small Business	63,400	7.51%	727,273	24.76%	17,998	12.18%
Medium Business "A"	7,703	0.91%	577,529	19.66%	14,242	9.64%
Medium Business	5,143	0.61%	281,064	9.57%	9,229	6.25%
Large Business	3,863	0.46%	231,703	7.89%	1,582	1.07%
Total	843,745	100%	2.937,554	100%	147,730	100%

Source: Directory of Companies of the INEC, 2016.

Authors: García; Maurat

## 1.5 Theories oriented to the internationalization of SMEs

### 1.5.1 Theory of networks

Interpersonal interactions are an essential part of local commerce; therefore, it can be deduced that, inter-organizational interactions between local companies and their networks are one of the main facilitators of the global exchange of goods and services. This, as the opportunities that local companies receive to enter or benefit from foreign



markets come to these through the members of the information and exchange networks to which the companies belong (Cardozo, Chavarro, & Ramírez, 2007)

In particular, the theory of networks is based on the interaction between decision-makers and members of social networks to reduce the costs of seeking opportunities in foreign markets. Bearing in mind that, in general, people linked to the same social group know what as the rest of the group knows, it is understood that the exchange of information occurs rather through the bridge relationships that put people in different groups in contact social; it is due to this that students of social networks suggest that social groups have interference over competition by creating opportunities for certain people but not for all the members of the group (Granovetter, Rogers and Kincaid, Ellis cited in Sánchez, 2003).

On the other hand, authors such as Gould and Reid argue that foreign travel and immigration are essential factors when it comes to perceiving the potential of foreign markets (Cardozo, Chavarro, & Ramírez, 2007). It is therefore understood that social networks facilitate not only important connections abroad, but also allow to know and evaluate potential business partners.

In certain cultures, a social contact is usually necessary before establishing formal business relationships (Björkman and Kock, Thorelli cited in Sánchez, 2003). Aldrich and Zimmer (1986) and Weimann (1989) proposed that "having the possibility to take advantage of business opportunities depends on the size of the network and the diversity of it". It is evident then that it is easier for large companies to use in their favor the connections and ties established through the multiple networks to which they belong; while for small and medium-sized companies, which have nothing more than local networks, it is essential to make decisions such as attending trade fairs and using public aids to trade to create advantages abroad (Reid, Walters cited in Sánchez, 2003). The development of businesses through networks can mean the reduction of the dependence of their own resources for small businesses which will increase their willingness to internationalize by them, because companies usually need resources that are controlled by

other companies, which can be obtained according to their position within the network (Cardozo, Chavarro, & Ramírez, 2007).

However, authors have found several faults in relation to this theory. The relationships established in the network must be taken into account as determining factors in both in the decision to internationalize and not to do so, since the position in the network could facilitate internationalization as much as hinder it. Authors such as Chetty and Blakenburg have stated that the theory of networks fails to take into account external factors or uncontrollable variables that guide the company towards internationalization. For example, "local competition, an unexpected order and the governmental policies of the country of origin or destination "(Cited in Sánchez, 2003). Finally, it was found that the proposed model takes into account only the organizational relationships and leaves aside the relationships derived from the interaction of formal associations such as joint action groups, industrial clusters and others (Sánchez, 2003).

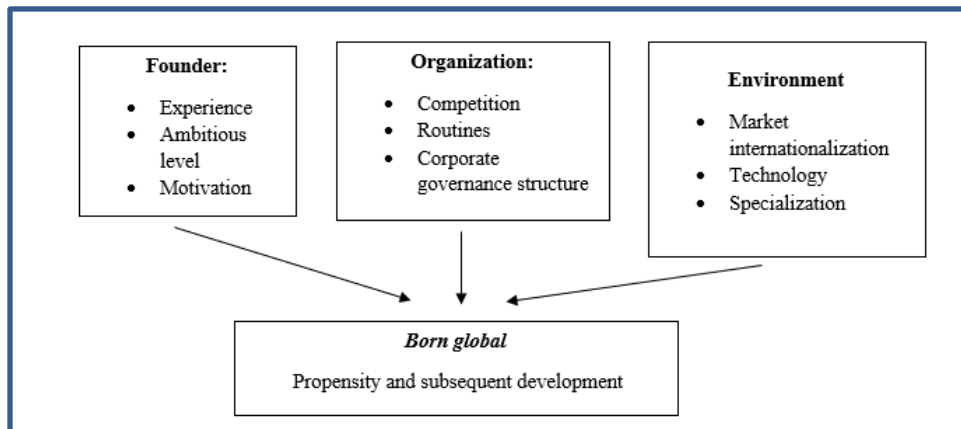
### **1.5.2 Born Global**

International companies that are determined by factors with a global focus, or that were internationalized in the first two years since their creation are known as born global. Madsen and Servais (1997) established three elements related to born global companies: market conditions, technological developments and human capabilities. These three elements have led to a decrease in the costs of the resources that are necessary to carry out international activities shortly after the creation of the company (Sánchez, 2003).

Madsen and Servais proposed a model that shows the functionality of born global companies, starting with the founder or entrepreneur that is the main element since with their experience they influence the development of this type of company. In addition, these companies are based on the investigation of possible interconnections with other companies, by analyzing the corporate governance structure, as well as the nature of the product and its competencies in order to determine if the company's offer can be demanded internationally (Madsen & Servais cited in Sánchez, 2003).

All the above is summarized in the following figure 1 proposed by Madsen and Servais (1997). The elements of born global companies model are the founder, the organization and the environment.

**Figure 1 Investigation model about *born globals***



Source: Sánchez, 2003

### 1.5.3 Approach of phases processes and life cycle

Chen H. and. Huang (2004) have proposed four forms of coherent internationalization for a company.

2. Service partnerships after the sale
3. Partnerships for the distribution of your products
4. Partnerships to develop products
5. Alliances to build retail distribution channels in global and local markets

Park S. and Bae Z. (2004) have argued that the growth models and the speed of change of successful new businesses are conditioned by the initial circumstances of the company, the entrepreneurial skills of managers and the degree of technological effort of the company. Also, it is stated that large companies tend to grow faster than medium-sized companies because of "the law of proportion effect."

### 1.5.4 Strategic approach

This perspective includes export activities and joint ventures and strategic alliances.

## **Exports**

Westhead, Wright and Ucbasaran (2002), indicated that microenterprises have a reactive export strategy, contrary to medium-sized companies. They also suggested the insertion of public management policies, and to call on politicians to take into account the personal characteristics of the main founders of businesses that seek to internationalize to offer support and assistance as part of a comprehensive country strategy

This may be due to the fact that micro-enterprises are conditioned by the option of a competitive model they choose to internationalize, which is usually different from the models used by exporting companies. (Wolf J. A., Pett T. L., 2000).

## **Joint ventures and strategic alliances**

For SMEs that have both limited and extensive knowledge of the market, joint ventures form the main entry strategy according to Kirby DA and Kaiser S., 2003. This is because for small companies it is easier to adopt a more flexible approach to the number of dimensions of internationalization, than for medium and large companies (Kalantaridis C., 2004). Also, Zahra S.A., 2003, deduced that the expansion strategy in family businesses is more secure when there is a firm decision to involve the family.

## **1.6 Conclusions**

Knowing the different theories that shape international trade and the reasons for the internationalization of the company was the fundamental basis for the subsequent analysis of productive units with potential to internationalize.

Productive SMEs constitute a fundamental unit in the Ecuadorian economy because they contribute to development and growth. Having clearly in mind the characteristics under which these companies are classified and the theories for the internationalization of their products will allow filtering and evaluating of their information under the appropriate criteria to achieve a reliable diagnosis of the current situation and exportable potential of each unit.

## CHAPTER II

### Environment and productive offer of the study area

#### 2.1. Introduction

Gualaceo is one of the most representative places of the province. Nationally it is recognized as “*Jardín del Azuay*” (The Garden of Province of Azuay). It is distinguished by its productive diversity, especially for its hand-made products, and for its delicious gastronomy; it also has beautiful tourist spots that are attractive to the local and foreign public. Thus, this chapter will analyze the most relevant areas of the city, using mostly the information of the Development Plan and Territorial Order created by the Municipal Autonomous Decentralized Government of Gualaceo in 2015, in order to present and understand the particularities of this place, its history, social environment and geography, among other aspects.

#### 2.2. History

Gualaceo is located in the province of Azuay. It is known for its cultural diversity, gastronomy and especially for its kind people. It had its mythical origin with the legend of the Guacamayas, consequently the Cañari tribe emerged, then the first ayllus or Inca conquerors and later the Spanish colonists. Its name comes from the Cañari word GUALASSEO, which is derived from GUAL that means Macaw though other historians define Gualaceo as “place where the river sleeps (Alcaldía de Gualaceo, 2017)”.

There is no information about its foundation, but some authors such as Max Arízaga in *Documents for the History of the Village of Gualaceo* and O. Encalada V. in *Azuayas Toponyms*, established that Gualaceo was founded by Sebastián de Benalcázar in the year of 1532.

However, years later, by authority of the Senate and House of Representatives of the Republic of Colombia meeting in the city of Bogotá on July 25, 1824, Gualaceo was founded as a city. In the first constitution of Ecuador, 1830, it is corroborated that the

Province of Azuay, with its capital Cuenca, was to be composed of the cities: Cuenca, Gualaceo, Cañar and Girón. (Gobierno Autónomo Descentralizado del Cantón Gualaceo, 2015)

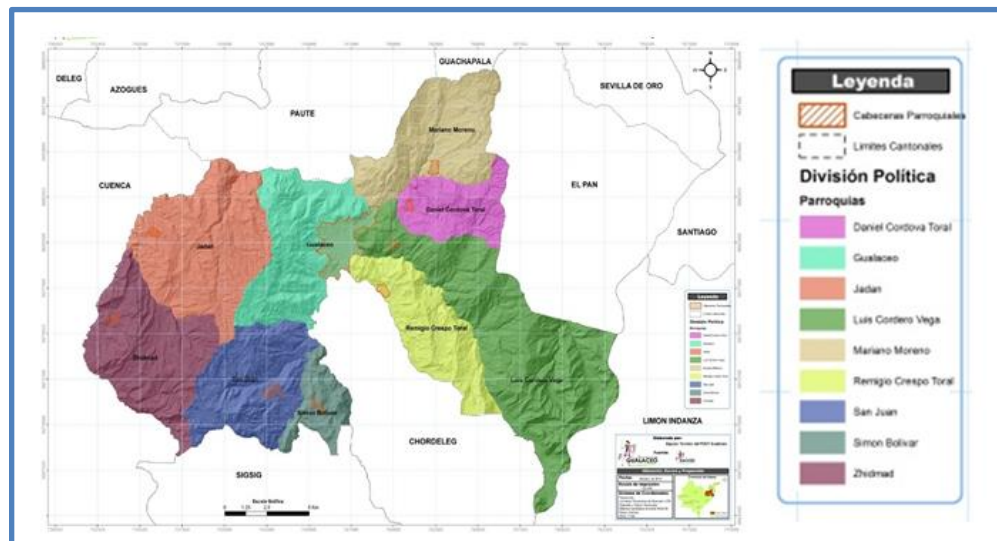
### 2.3. Geography

Gualaceo is a valley surrounded by mountainous areas and many water sources. The main ones are the Santa Bárbara River and the San Francisco River. It has an area of 345.48 km<sup>2</sup>. In the lower parts, the altitude reaches 2,100 meters while its highest altitude has an elevation of around 4,3 000 meters (ibid.). Its average temperature varies between 12. 5° C and 16. 5° C and sometimes reaches 15° C, with minimum temperatures below 3° C and with maximum values of 25° (ibid.).

It limits to the north are the cities of Paute and Guachapala, to the east with the cities El Pan and Limón Indanza (belonging to the province of Morona Santiago), to the south with Chordeleg and Sígfig, and to the west with the city of Cuenca.

Gualaceo is divided into nine parishes, of which the main one is Gualaceo. The others are described in Figure 2: Daniel Cordova Toral, Jadán, Luis Cordero Vega, Mariano Moreno, Remigio Crespo Toral, San Juan, Simón Bolívar and Zhidmad (ibid.).

**Figure 2 Political Division Map of the Gualaceo County**



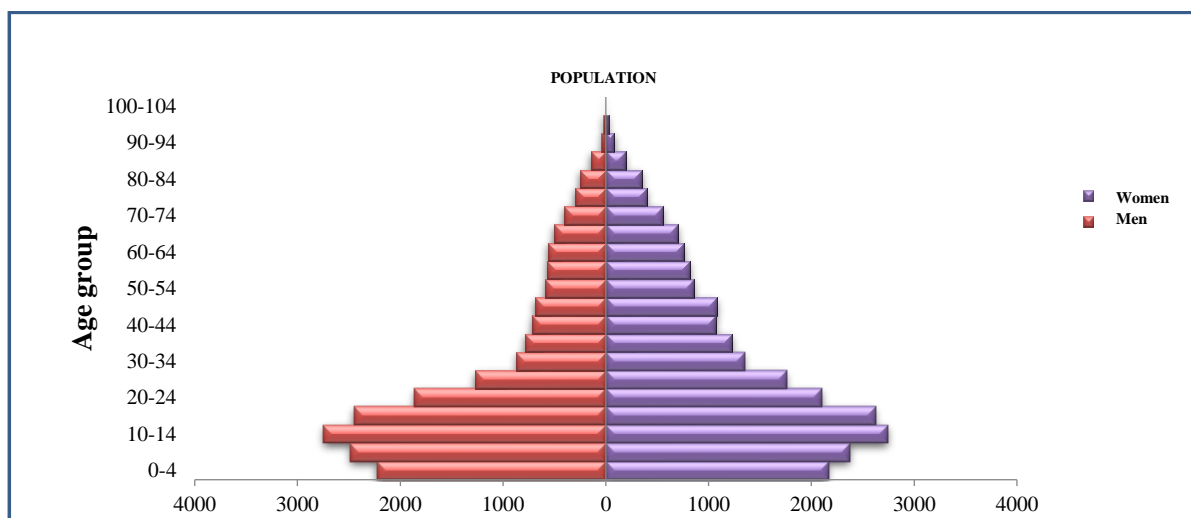
Source: PDOT of city of Gualaceo 2015

## 2.4. Demographics

Gualaceo's population, according to the census conducted in 2010, is 42,709 habitants, of which 19,481 are men and 23,228 women. Over thirty-two percent of the population resides in urban areas and the remaining 67.3% in rural areas.

The population structure of 2010 (See Figure 3) shows that the inhabitants under 20 years of age represents 46.37%, which means that there is a great concentration of young people. A Small over nine percent of the population is over 65 while 44.32% are between 20 and 65 (Autonomous Decentralized Government of Gualaceo Canton, 2015).

**Figure 3 Population Structure of Gualaceo by Sex and Age (Census 2010)**



Source: : Autonomous Decentralized Government of Gualaceo Canton, 2015

In terms of gender, the female population represents 54.39% while 45.61% is male (ibid.).

### 2.4.1. Population density

According to data obtained from the PDOT of Gualaceo, the city occupies 370.22 km<sup>2</sup> of the territory of the province of Azuay. There are 115 inhabitants per km<sup>2</sup>. (See Table 4)

**Table 4 Territorial Division of Gualaceo County**

Parrish of Gualaceo	Urban header: 1.81%
	Periphery city center: 10.66%
Daniel Córdova	6.54%,
Jadán	13.83%
Mariano Moreno	9.10%
Remigio Crespo	8.91%
San Juan	8.43%
Simón Bolívar	3.72%
Zhidmad	12.50%
Luis Cordero	24.50%

Source: PDOT of Gualaceo 2015.

Authors: García, Maurat.

#### **2.4.2. Illiteracy**

The 2010 census show that in Gualaceo there is a considerable percentage of illiterate people. Between the age of 15 and 29 there are 181 people who cannot read or write which represents 1.5% of 12,062 inhabitants in this age range; also between the age of 30 and 44, there is 5.1% illiteracy rates, which corresponds to 307 people for a total of 6,017. In the following categories, this figure increases, thus, between 45 and 64 years, 16.34% of the population is illiterate, while in those over 65 years the figure rises to 42.30%, this being the most representative category in this aspect. (Autonomous Decentralized Government of Gualaceo Canton, 2015)

The population of 15 years and over, represents 27,972 people, and just 3,137 people cannot read or write which means 11.21% of the total.

#### **2.5. Ethnic Groups**

In Gualaceo there are several ethnic groups. The most representative population is the group of *Kichwa de la sierra* with 734 inhabitants. It should be noted that due to its history, Gualaceo has an identification with the *Cañari* population. The data indicates that there are 1054 inhabitants of this ethnic groups (Autonomous Decentralized Government of Gualaceo Canton, 2015).



## **2.6. Poverty**

Based on the dissatisfaction of needs, and according to certain housing characteristics, the levels of extreme poverty of the population can be determined. Therefore, in relation to the UBN (Unsatisfied Basic Needs) index, in terms of gender, 67.6% of all men and 70.7% of all women living in Gualaceo have unsatisfied basic needs. In the same way, the percentage of men who reside in inadequate dwellings is 16.7% and in women 16.2% (Autonomous Decentralized Government of Gualaceo Canton, 2015).

## **2.7. Migratory movements**

Regarding migration, Gualaceo is one of the most affected zones by this global phenomenon. According to the 2010 census, a total of 2,647 people have migrated to other countries: 1,820 are men and 827 are women. The main destination is United States with 92.44% of total migrants, followed by Spain with only 3.89%. (Autonomous Decentralized Government of Gualaceo Canton, 2015)

The foremost reasons of migration are labor, education, and family union, but the main one is the seeking of new opportunities due to the complex situation that the country was going through between the years of 2000 and 2002 after the relevant event of dollarization.

So, many households were affected by the departure of their families leaving repercussions in the society. However, some families chose to start businesses or to join established ones such as footwear enterprises.

## **2.8. Economy**

### **2.8.1. Work and Employment**

According to the Development and Land Management Plan of Gualaceo for 2015, which is based on data from the last population census conducted in 2010 by INEC (Ecuadorian National Institute of Census, for its acronym in Spanish) the Economically Active Population (EAP) of the city is 17,516 people, which represents 41% of the total population. On the other hand, the Working-Age Population (WAP) is 33,460 inhabitants, that is, 78.34% of the total population. In regards to the Economically Employed

Population (EEP), a total of 16,515 people are registered who work in different branches of activity. (See Table 5)

Thus, 4,959 inhabitants, the largest number of EEP in the county, are engaged in activities of agriculture, forestry, hunting and fishing. Of those, 90.28% belong to the rural area while only 9.72% are in the urban area. However, the largest number of urban EEP is concentrated in the manufacturing industries with 1,448 inhabitants dedicated to this branch followed by 1,371 people engaged in wholesale and retail trade. Sectors such as construction, transportation and storage, teaching, and accommodation and meal service activities also occupy important positions in this list.

**Table 5 EEP by Activity Branch**

Employed population by branch of activity in the Gualaceo in 2010.	
Description	Total
Accommodation and meal service activities	500
Activities of human health care	179
Activities of households as employers	687
Activities of extraterritorial organizations and bodies	4
Administrative and support services activities	167
Financial and insurance activities	96
Real estate activities	16
Professional, scientific and technical activities	132
Public administration and defense	416
Agriculture, forestry, hunting and fishing	4,959
Arts, entertainment and recreation	29
Comercio al por mayor y menor	2,213
Construction	1,915
Water distribution, sewage and waste management	39
Education	457
Exploitation of mines and quarries	23
Industries manufacturers	3,464
Information and communication	107
Other activities of services	422
Supply of electricity, gas, steam and air conditioning	48
Transport and storage	642
Total	16,515

Source: Development plan and territorial ordering of the city of Gualaceo, 2015.

Authors: García; Maurat.

### **2.8.2. Economic sectors: primary, secondary, tertiary**

The relationship between the economic sectors and the EAP is a transcendental element to economically identify a territory, therefore, in the following section is presented a synthesis of this context applied to Gualaceo from information extracted from the Plan of Development and Territorial Planning of the said area.

#### **2.8.2. Primary Sector**

For this sector, the total WAP of the city is 33,460 inhabitants, which represents 78.34% of the total population while the EAP is 17,516 inhabitants, that is, 52.35% of the WAP. On the other hand, the total EEP is 4,982, made up of 4,959 inhabitants occupied in agriculture, livestock, forestry and fishing, and 23 people dedicated to the exploitation of mines and quarries.

#### **2.8.3. Secondary sector**

The EAP in the secondary sector and employs 3,473 people throughout the city. "The growth of the productive sector, especially in branches such as footwear, carpentry, metalworking, furniture, textiles, has been promoted essentially by private initiatives without a growth linked to the territory, land use and policies of urban and socioeconomic development that are institutional mandates that must be articulated." (GAD Municipal del Canton Gualaceo, 2015, p.114)

In addition, according to the same source and to the informative interviews with owners of productive companies in the urban area, it has been discovered that associative and institutional management has not generated favorable results in terms of productive development rather public policies originated in the central government have impacted this sector, especially the manufacture of footwear where quality practices and productivity have been improved thanks to protectionist tariff policies.

However, since 2015 the need to have an industrial zone has been a priority for the promotion of productive activity. Thus, due to the growth of urban space and the total

population, as well as the demand for services, which is the engine of economic development.

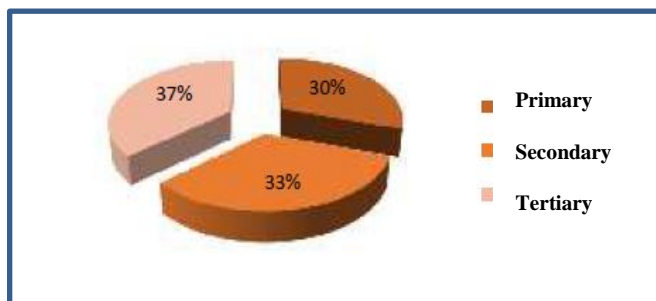
### **2.8.3.1. Tertiary sector**

This sector includes the branches of commerce and services. It is the sector with the largest amount of EEP at the municipal level, that is the most important economic sector due to the sum of labor and the added value it generates. However, it must be taken into consideration that the manufacturing sector is the one that promotes the development of commercial and service activities.

According to the census of 2010, trade of inputs and manufactured goods has grown significantly, with 2,213 inhabitants. In addition, the most featured services are financial, educational, public services, accommodation and food services.

In addition, the advancement of this sector has multiplied the flow of local, national and international tourists, which has also promoted the development of the infrastructure of tourist services such as lodging. (See Figure 4)

**Figure 4 Population occupied by economic sector in Gualaceo in 2010.**



Source: Development plan and territorial ordering of the city of Gualaceo, 2015

## **2.9. SMEs**

According to the database of the Internal Revenue Service (IRS), as of November 2017, the total of existing records for this city including the types of unique registry of taxpayers (URT) which are active, passive and suspended is 6,149 establishments.

However, by excluding from this number those establishments with suspended status that means that they have temporarily or permanently closed their doors. Thus, it is found that there is a total of 2,865 formally established companies, which add up to 3,333 commercial premises since several companies have more than one branch office there.

According to data from the CENEC 2010, compiled in the PDOT 2015, the income generated by the economic establishments registered in the city showed annual revenues of \$ 106,674,016.39 US dollars. Manufactures generated \$ 10,387,477.25 that signifies a participation of 10%; commerce \$ 51,105,840.60 or 48%; the services \$45,130,298.54 equivalent to 42%, and agriculture and livestock \$50,400.00 which shows a participation of 0.05%.

## **2.10. Productive Sector**

### **2.10.1. The agricultural and livestock sector**

#### **2.10.1.1. Permanent Crops**

The total production of these crops according to the National Agricultural Census (2012) was 103.21 metric tons (t), 76% of this production was destined for sale and 24% for the families of the producers. To date of the census there were 8,465 trees planted on an area of 26.05 hectares. In addition, it is important to mention that 79.54 tree of the 103.21 planted came from seven main products: avocado, *capulí*, *reina claudia*, peach, passion fruit, apple and tree tomato.

#### **2.10.1.2. Seasonal Corps.**

From the same source it is known that the total production of these crops was 277.46 tons, of which 53.82% was intended for sale and 46.18% for family consumption. These transitory crops occupy 1,734.86 of the planted hectares there. The main crops are dry beans, soft beans, tender bean, soft corn, and dry soft corn; these add up 217.87 tons of the 277.46 mentioned above. Regarding the yield of corn, it is the highest one, followed by soft dry corn, and the crop with the lowest yield is dry beans.

### **2.10.1.3. Livestock.**

As can be seen in Table 6, beef cattle are the most important for the livestock sector because of the number of animals registered, also, according to the Agricultural Census of 2000, in dairy production there are 4,931 cows that produce 13,255 liters of milk. On the other hand, guinea pigs also comprise a strong element in this sector.

It is important to mention that, depending on their species and breed, the predominant cattle per head in the Agricultural Production Units (UPA), is the creole in all cases.

**Table 6 Livestock in the Agricultural Production Units**

Type of Cattle	Number of UPA's	Head
Bovine	5,991	20,858
Porcine	5,768	12,370
Ovine	4,417	18,970
Guinea Pigs	6,959	98,027
Equine	963	1,236
Caprine	220	777

Source: Development plan and territorial ordering of the city of Gualaceo, 2015.

Authors: García; Maurat.

### **2.10.2. Handmade and industrial products**

According to data from the NEC (National Economic Census) 2010, there are 310 establishments dedicated to manufacturing activities among which stand out the establishments dedicated to bakery activities, footwear production, garment production, metalworking, furniture manufacturing and manufacture of concrete articles and pieces of joinery for housing.

#### **2.10.2.1. Footwear.**

The production of footwear in this area began in the 50s and was limited to production based on the piecework system, which is when the operators worked from home. Then, thanks to some ambitious entrepreneurs who created small workshops, they were consolidated as craft workshops. In the 90s, the production of footwear spread, but at the end of this decade there was a strong contraction due to downturn and political factors that

encouraged the importation of footwear in an illicit manner, which led to a strong crisis in this sector. As of the year 2000, this sector has faced problems related to the limitation in quantity and quality of raw material, technological delay and massive import of cheap shoes such as Chinese products. However, in 2009 protectionist barriers were imposed which affected the importation of footwear directly. Such barriers have been maintained since then, and have bolstered national production.

In 2001, there were 1,271 workshops/companies in the area, and in 2010 there were 1,770 which shows a growth of 4% per year, making this a very dynamic sector. "Technology and human resource qualifications have been identified as key factors of the industry; the companies that have managed these two factors have had a growth of 15% in production /sales" (MCPEC cited in GAD Municipal del Canton Gualaceo, 2015)

In fact, many of the footwear manufacturers possess the UHR (Unique Handicraft Registry) designation, promoted by the Ministry of Industries and Productivity, which allows access to several benefits such as the specialized technical assistance that allows improvement of the productive conditions, registration sanitary conditions, good practices of manufacturing, and knowledge of operations strategies, productivity, marketing, and business roundtables. These are several services offered by the Ministry of Industries in order to support the local productive sector. Among other benefits are exportation without tariffs, import of machinery that does not exist in the country, exemptions from payment of intellectual property and municipal patents (Ministry of Industries and Productivity, 2014). All this constitutes a support and encouragement for this industry that is evolving and that constitutes the most important productive activity in the region.

#### **2.10.2.2. Handcrafts**

The craft activity here is diverse for in Gualaceo there are more than 20 types of crafts that, in the past, had more social and cultural than economic weight. Over the years, products such as macanas, knits, embroidery, shoes, basketry, ceramics, pottery and wood have become important items in the city as well as the weaving of hats and utilitarian objects made of *paja toquilla*. On the other hand, the manufacture of furniture in carpentry

workshops is still very common and necessary due to the high demand from the local population.

#### **2.10.2.3. Panama hats**

In Gualaceo, straw hats, also known as Panama Hats, are mostly woven by artisan women, some of whom work full time, while others only dedicate certain hours of the day because they also carry out agricultural and livestock activities for their sustenance. It is known that there are weavers located in the community of Gañansol in the Simón Bolívar parish, where they are specialists in the elaboration of this hat; meanwhile in San Juan parish, there is the Bacpancel Community Tourism Association, which besides making hats are dedicated also to making jewelry, glasses, cup holders, napkin rings and other handicrafts with *toquilla* straw.

For the weaving of a fine hat, twelve buds of straw are needed, ten for one thickness or current, and eight or nine for the draft in order to make the fastest and most economical hat. In addition, for the preparation of this product, at least 25 steps are required (Palmas, 2016). It is important to know that the fineness of the hat is measured in degrees, the greater the fineness the greater the degree, and the price, as is logical, is determined by the quality and the degree of the manufactured hat (Ministry of Tourism, 2014).

#### **2.10.2.4. Macana**

The famous *macana* is made with the ancestral ikat weaving technique and it constitutes the most outstanding handicraft product of Gualaceo due to the complexity of its elaboration. The *macanería* that means, the art of weaving, is an ancestral knowledge that has been shared generation after generation and therefore has become a cultural heritage. Thus, this ancestral technique was declared an Intangible Cultural Heritage of Ecuador on June 24, 2015 by the Minister of Culture and Heritage.

The *macana* is very important for the Ecuadorian people and especially for Azuayos because it has a clear aesthetic and utilitarian intentionality. It is a fundamental garment of the *chola cuencana* clothing, giving it a high symbolic content, exclusivity and



authenticity with pre-Hispanic history through the complexity of the knowledge process and traditional *ikat* artisan technique.

Although in the past the *macana* was used exclusively as a *chal* or cloth, nowadays its use has been diversified to make scarves, capes, and even shoes. Each *macanero* strives to innovate the production of the *macana* either by implementing colors, designs or new models; there are even those who have begun to use the technique of *ikat* in sweaters and youth shirts.

The production of the *macana* is located mainly in Gualaceo, Bullcay and Bullzhún and it is estimated that there are forty *macaneros* distributed in these sectors. Due to the distinction and exclusivity of each *macana*, its creation is a long and laborious process--the time of elaboration of a common *macana* varies between four and seven days. However, there are *macanas* that by their designs and colors can take up to four months to weave. The time also depends on how many people work and the daily hours dedicated to this activity. In this way, families have found that, in spite of having inherited the looms and the skill of their ancestors, they are forced to carry out other productive activities during the day such as cultivating land or raising animals and dedicate themselves to the weaving only a reduced number of hours, this with the purpose of keeping alive the tradition of their parents and ancestors, rather than for a lucrative purpose. On the other hand, there are those artisans whose only productive activity is the weaving of *macanas*, therefore, they dedicate all day to this work thereby reducing the time of the production.

It is important to emphasize that the vast majority of *macaneros* work in their homes, with their families and they do not have facilities to sell their products, so they must go out to offer the *macanas* in craft markets and accept the price offered or simply lose the sale.

Only a few artisans have a workshop which they use as a place to exhibit and sell their products. Their biggest customers are foreign tourists who usually have no problem paying the price they ask. Moreover, artisans have the opportunity to sell their products at local fairs promoted by both the Municipality of Gualaceo and the Cantonal Organization of Artisans, which often opens the doors to new customers.

#### **2.10.2.5. Wood handicrafts**

The woodworkers of Gualaceo have begun to make handicrafts using wood. Some of them use the wood left over from the manufacture of furniture or they acquire material in order to produce products such as ornaments, office objects, mirrors, boxes, chests, among others.

The time it takes to make a product can be from one to three days though the reality is that it depends on the details they wish to implement since some are very rigorous because they are small objects so the finishes such as sanding and painted requires a few hours.

Generally, the artisans have their small workshop in their homes, the same ones that are located in the surrounding areas in places like Bullcay, Bullzhun, or Quimzhi. They produce based on demand or they make their crafts voluntarily as a result of their creativity since they always try to innovate to create different products. They take advantage of local and national fairs and exhibitions to show and sell their products so very few artisans have a place to sell.

Although there are not many people dedicated to producing wood crafts, each one tries to stand out with more elaborate products such as objects to place the cell phone or computer, etc.

#### **2.11. Conclusions**

Due to this remarkable social, economic, productive and territorial development, this has become a town of opportunities for both small producers and great companies. It is can be noted that manufacturing, commerce and tourist services are the engine of the economy in this area and, therefore, they constitute areas in constant development which can be used by any investor.

Different events cause constant changes in the areas of production and territorial organization, in addition phenomena such as migration and globalization affect cultural and ancestral practices, however, it is clear that in this place tradition and development merge.

In the productive field, it is observed that the main products of the sector constitute footwear and handicrafts, besides the cultivation of flowers, followed by work in wood and the raising of cattle.

In addition, there is a growing population in terms of age which is seen in a progressive residential population which indicates the existence of a high-quality workforce. However, the illiteracy rate with a reported 11.21% of the population is worrisome. The WAP suggests that education is a subject that must be worked on. For this reason, it is presumed that only a small percentage of the total population of working age would be able to provide administrative, technical or specialized labor.

## **CHAPTER III**

### **Production options for SMEs in Gualaceo**

#### **3.1. Introduction**

As detailed in the previous chapter, Gualaceo has a high productive capacity that has developed in several sectors, therefore, it is necessary to know how such productive sectors are composed to determine the importance of them in the study of export potential therein. Thus, this chapter contains a synthesis of the information gathering of secondary and primary sources of each sector in order to know the productive characteristics of Gualaceo in-depth. A description of the generalities of the productive sectors found in the study area, the detail of the actors involved in each sector, the relationship between them, the research methodology used, the content of informative interviews and audits is presented of exports made to those small and medium-sized companies that are relevant in each sector.

#### **3.2. Productive generalities of the canton**

Based on data provided by the Internal Revenue Service (SRI) the Municipal Autonomous Decentralized Government (GAD) and the Ministry of Agriculture and Livestock (MAG) in Gualaceo, there are a total of 2,865 Unified Taxpayer Registries (RUC, in Spanish), of which 457 are of productive in nature and therefore will be assessed individually in this chapter. Due to the size of the sector to be studied and the existence of multiple products in the area, the actors have been classified within the following sectors:

- Footwear industry
- Craft sector
- Agricultural and floriculture sector
- Livestock and poultry sector
- Industrial sector except footwear
- Mining sector

### **3.2.1. Footwear Sector**

Although it is a productive activity of the industrial type, it has been decided to provide a separate section to the footwear sector due to its high relevance there and the number of manufactures involved. According to information from the SRI, the largest number of footwear producers in Azuay is concentrated in Gualaceo, which makes this economic sector very important. From the same source it is known that there is a total of 225 companies legally constituted in the footwear sector and whose RUC is in active or passive state by succession of the owner. Among these, 122 records have been identified for shoe making, 15 for wholesale, 73 retail stores and 15 records for the sale of materials and supplies for the manufacture of footwear. However, it is also known that hundreds of artisans and informal workers work in this sector. Some of the main players in this sector are: Litargmode Cía. Ltda., Sherinas Factory, Calzado Ximena, Clasific, Classy Feet, Chicas, Fassioni, Pasi Shoes, Arecalza, Calzado Cesis, Modda Fine Shoes, Calzado Italia, Calzado Remar and Master Shoes.

### **3.2.2. Handcraft Sector**

Products such as macana, toquilla straw hat, fabrics and embroidery can be found in this sector. Thanks to sources such as the SRI and the Municipality of Gualaceo it is known that this sector is represented by 43 formal companies such as: Andy Arte, Blanquita Handicrafts, Milis Crafts, Mary's Embroidery, La Casa De La Macana, Maximoda & Jean Mar, and Good ceramics. There are also dozens of informal artisans.

### **3.2.3. Agricultural and Floral Sector**

The agricultural sector of Gualaceo produces mainly corn, vegetables and grains for local consumption and for sale to nearby cities. On the other hand, the floriculture sector is well recognized in the area by actors such as Ecuagenera, an important exporter of orchids. This sector is integrated by 31 registries among them: Plantations Flor de Gala, Islaplants Cía. Ltda. Community Production Company Agroartesanal Pagrán - Yamala, among others.

#### **3.2.4. Livestock and poultry sector**

In the livestock and poultry sector there are activities such as the breeding and reproduction of cattle, pigs, guinea pigs and hens. There are 83 business registries among which are Rancho los Sauces by Eudoro Martin Heredia Peláez, the Peasant Association of Production and Commercialization, Six of June, Pillco Poultry, and others.

#### **3.2.5. Industrial Sector – Except Footwear**

Here, all productive activities of an industrial nature have been located, with the exception of footwear, such as woodworking, glassmaking, the manufacture of garments, the preparation of packaged foods, etc. This sector has 171 companies registered in the SRI, some of the most important actors are the Embotelladora y Procesadora del Sur SA, Idearte Muebles, Mueblería su Estilo, the Casa del Vidrio Construcciones, CDC Sport, Metal Mecánica Ordoñez, the Lugmapamba block, Asociación Artesanoal Chicabonite del Agro, Lolita Chocolates and Natural Foods.

#### **3.2.6. Mining sector**

The mining sector generates sand, stone and small amounts of gold and is represented by 7 registered companies with the following legal permits: Nuevo Amanecer Association, Jorge Enrique Vera Street, Luis Adolfo Córdova Guzmán, Rómulo Orlando Idrovo Llanos, Luis Mario Moscoso Campoverde, Diego Ismael Sanisaca Berrezueta and Hugo Enrique Vázquez Galarza.

### **3.3. Methodology**

For the development of this chapter, a qualitative/quantitative interview method was used through the application of the export potential test or export/audit, created for the purposes of this study (See Appendix A) and based on the models provided by the Institute for the Promotion of Exports and Investments PROECUADOR and the Ministry of Industries and Productivity MIPRO.

The process is described here. First, a visit was made to the GAD of Gualaceo, the office of the Ministry of Agriculture and Livestock (MAG) in Gualaceo and the SRI offices in the city of Cuenca, where information was collected on the 457 productive companies in

the area. Information was collected in a database in the form of lists including the following information: RUC, company name, commercial name, type of taxpayer, address and economic activity.

Due to the great extensiveness of such listings, the next step was to classify each company within a category of SMEs: Micro, Small, Medium Type A, Medium Type B or Large; for this purpose, the RUC consultation tool offered by the SRI website was used, where one may find which type of SME has been officially declared by the RUC. However, in certain cases this data does not exist. It has even been pointed out that it was necessary to contact the companies for informational interviews in which information on sales and number of employees could be obtained, and thus classify them as a type of SME according to the CAN criteria (Table 2). Upon concluding this classification, it was found that in Gualaceo there are a total of 45 institutions relevant to the study of the productive potential of the city, a number comprised of: seventeen SMEs in the footwear sector (Table 7), nine micro-establishments and relevant associations in the artisan sector (Table 8), five companies in the agricultural and floriculture sector (Table 9), three other organizations in the livestock and poultry sector (Table 10), eleven SMEs belonging to the industrial sector except footwear (Table 11), and an association in the mining sector (Table 12).

**Tabla 7 SMEs of the footwear sector**

Business name	Tradename	RUC	Type of SME	Taxpayer	Activity
Álvarez Luzuriaga Iván Patricio	Chicas	0101655918001	Small	Individual	Manufacture of leather footwear.
Vázquez Coronel María Narcisa	Calzado Classic	0102722949001	Small	Individual	Manufacture of footwear made with textile material
Salinas Pozo Sonia Del Pilar	Calzado Gino Zanetti	0101757847001	Small	Individual	Manufacture of leather and synthetic footwear
Lituma Argudo Pedro Enrique	Fábrica De Calzado Fercalit	0103678058001	Small	Individual	Manufacture and wholesale and retail of footwear
Litarg Mode Cía. Ltda.	Litarg Mode	0190318923001	Medium	Legal Entity	Leather footwear manufacturing
Loja Zhicay Fernando Mauricio	Lofac Industria Del Calzado	0103911780001	Small	Individual	Leather footwear manufacturing

Sarmiento Molina Mónica Natalia	Scarpa – Burana	0104651021001	Small	Persona Natural	Footwear manufacturing
Cárdenas Orellana Jaime Agustín	Sherinas Factory	0102291234001	Not declared	Societal	Footwear manufacturing
Fajardo Pérez Narcisa De Jesús	Mi Lady	0104861471001	Small	Individual	Manufacture of footwear of any material
Cabrera Guaraca Grace Isabella	Bela	0105805212001	Micro	Individual	Footwear manufacturing
Peralta Ochoa Víctor Hugo		0100734748001	Small	Individual	Footwear manufacturing
Lituma Orellana Vicente Santiago	Taller de calzado	0100923150001	Micro	Individual	Footwear manufacturing artisanal
Llumiquire Iza Guillermo Hernán	La Tienda Del Calzado	1704479904001	Small	Individual	Wholesale footwear.
Argudo Lituma Pablo Daniel	Calzado Italia	0104296744001	Small	Individual	Wholesale and retail of footwear.
León Pérez Carlos Marcelo	Belissa	0101701688001	Small	Individual	Wholesale footwear.
Cabrera Guaraca Jhon Israel	Fassioni	0104194899001	Micro	Individual	Wholesale and retail of footwear.
Cooperativa De Producción Artesanal Del Calzado Primero De Mayo	Gremio 1ro de Mayo	0190300269001	Micro	Legal Entity	Manufacture of leather footwear (except orthopedic and asbestos or other textile material with no soles applied).

Source: Internal Revenue Service, 2017.

Authors: García; Maurat.

**Tabla 8 Manufacturers of the artisan sector**

Business name	Tradename	RUC	Type of SME	Taxpayer	Activity
Asociación de Mujeres Nuevo Amanecer		190155897001	Not declared	Legal Entity	Retail sale of souvenirs, souvenirs, handicrafts, etc.
Asociación Interprofesional de Artesanos de San Juan		190155307001	Not declared	Legal Entity	Manufacture of other textile articles: sacks or bags for packing goods, fabrics for electric blankets, etc.
Cooperativa Artesanal de Turismo	San Juan de Bacpancel	19038092001	Micro	Legal Entity	Handmade straw hats



Comunitario Bacpancel					
Cooperativa Cerámica Chordeleg Ltda.		190020975001	Not declared	Legal Entity	Manufacture of other chemical products n.c.p.
Cooperativa De Producción Artesanal Teje Mujeres	Teje Mujeres	190157172001	Not declared	Legal Entity	Manufacture of fabrics from the mixture of cotton, wool, linen, silk, etc., with other fibers.
Cooperativa de Producción Artesanal. Centro de Bordados Cuenca	Centro de Bordados Cuenca	190149897001	Not declared	Legal Entity	Activities of manufacturing, cutting, confection and embroidery of textiles.
Jiménez Ulloa José Gilberto	La casa de la Makana	102414851001	Micro	Individual	Manufacture of fabrics (cloth) or from mixtures of synthetic or artificial yarns.
Sebastián Guillen		Sin ruc		Non taxpayer	Informal weaver Macanas
Ulloa Rodas Elsa Piedad	Tejidos Ikat	102835022001	Micro	Individual	Manufacture of fabrics from blends or synthetic or artificial yarns.

Source: Servicio de Rentas Internas, 2017.

Authors: García; Maurat.

**Tabla 9 SMEs in the agricultural and floriculture sector**

Business Name	Tradename	RUC	Type of SME	Taxpayer	Activity
Asociación de Productores Agroecológicos del Aguarongo Mushuk Pakarina		190335283001	Not declared	Legal Entity	Activities of trade associations for the defense of the interests of their associates.
Empresa Comunitaria de Producción Agroartesanal Pagrán – Yamala		190331229001	Micro	Legal Entity	Growing broccoli, cabbage and cauliflower.
Flor de Gala Florgal Cía. Ltda.	Plantacione s Flor de Gala	190318230001	Medium	Legal Entity	Flower cultivation, including the production of cut flowers and buds.
Géneros Ecuatorianos Ecuagenera Cía. Ltda.	Ecuagenera	190147983001	Medium A	Legal Entity	Growing plants for ornamental purposes.
Islaplants Cía. Ltda.	Plantacione s la isla	190169294001	Medium A	Legal Entity	Flower cultivation, including the production of cut flowers and buds.

Source: Internal Revenue Service, 2017.

Authors: García; Maurat.

**Table 10 SMEs of the livestock and poultry sector**

Business Name	Tradename	RUC	Type of SME	Taxpayer	Activity
Asociación Campesina de Producción y Comercialización Seis de Junio.	Seis de Junio	0190340716001	Not declared	Legal Entity	Poultry breeding.
Asociación de Agricultores 24 de enero	24 de enero	0190344207001	Not declared	Legal Entity	Guinea pig breeding.
Asociación de Productores y Transformados Jadán	APT Jadán	0190338266001	Not declared	Legal Entity	Bird breeding.

Source:: Internal Revenue Service, 2017.

Authors: García; Maurat.

**Table 4 11 SMEs in the industrial sector except footwear**

Business Name	Tradename	RUC	Type of SME	Taxpayer	Activity
Asociación Artesanal Chicabonite del Agro	Asociación Chicabonite	190340945001	Micro	Legal Entity	Elaboration of fruit wines.
Asociación de Corte y Confección Seguidoras de María	Seguidoras de María	0190305678001	Not declared	Legal Entity	Manufacture of clothing
Bravo Peralta José Javier		0103770053001	Small	Individual	Systems engineering activities.
Bustos Orellana Graciela Inés	Diguca Hormisur	0103212668001	Small	Individual	Manufacture of blocks and paving stones
Carangui Luna Carlos Alberto		0300230059001	Small	Individual	Manufacture of bricks, floors and tiles
Castro Cedeño Andrés Eduardo	Idearte Muebles	01310211725001	Small	Individual	Manufacture of wooden furniture for the home
Embotelladora y Procesadora del Sur S.A. Emprosur	Emprosur	0190053636001	Small	Legal Entity	Preparation and distribution of soft drinks and non-carbonated drinks.

Gonzalo Hijos Cía. Ltda.	Guncay E	Gonzalo Guncay e hijos	0190349217001	Not declared	Legal Entity	Production, commercialization of construction materials.
Miguitama María	Malla Luis	Muebles Ideal	0700751688001	Small	Individual	Manufacture of wooden furniture and its parts.
Peñaherrera Carlos Javier	Rivera	Natural food	1717409724001	Small	Individual	Preparation of cereal grains and granola.
Ulloa y Otros, Rogelio	Alfonso		0190025470001	Micro	Legal Entity	Preparation of coffee products, tea, herbal infusions and the like.

Source: Internal Revenue Service, 2017.

Authors: García; Maurat.

**Table 12 SMEs in the mining sector**

Business Name	Tradename	RUC	Type of SME	Taxpayer	Activity
Asociación Nuevo Amanecer		0190161277001	Not declared	Legal Entity	Exploitation of gravel and sand pits.

Source: Internal Revenue Service, 2017.

Authors: García; Maurat.

Once this information was known, the next step was to contact the 45 institutions either by telephone or through short visits to learn a Small more about their operations. With this new information, it was possible to purge the database and select the institutions to be interviewed in-depth. For this purpose, aspects such as production levels, machinery and equipment available, location of the parent company, among other factors were taken into account. Thus, it was decided to exclude the in-depth interview for export audits from the following establishments:

- The Calzado Classic Company has a sales office in Gualaceo. However the administrative offices and the manufacturing plant are located in Chordeleg. For this reason, it was not selected for the export/audit interview. Similar is the case of the company La Tienda del Calzado, whose headquarters are located in the city of Cuenca and which has recently closed its doors located in Gualaceo.

- The factories Fercalit, Calzado Italia and Sherina's Factory as well as Mr. Víctor Peralta were contacted on several occasions; however, their administrative staff were not available to grant an interview so it was not possible to carry out the export/audit.
- The Cutting and Dressmaking Association Seguidoras de María, the Asociación de Mujeres Nuevo Amanecer and the Interprofessional Association of Artisans of San Juan are unions with a more than productive social purpose, for which they lack a main product. Their productive capacity is limited to as well as the quality of their products, so they are not attractive for this study.
- Cooperativa de Producción Artesanal Centro de Bordados Cuenca is an entity with headquarters in the city of Cuenca whose members extend to Gualaceo, however, the production goes to a collection center in Cuenca and from there it is exported to the United States and Europe, because this association already exports its products since its operational center is not located in Gualaceo. It was decided to exclude this association from this study.
- The Chicabonite Artisan Association of Agro dedicated to the production of wines closed its production late 2015 and at present its representatives are making the necessary processing to resume the productive activities of the association in the near future. However, Mr. Orlando Fernández representative of the entity decided not to grant the requested interview because he says that they are changing and updating statutes, regulations and production practices so he does not have clear information for an export audit at the moment.
- Association of Agroecological Producers of the Aguarongo Mushuk Pakarina and the Community Enterprise of Production Agroartesanal Pagrán - Yamala are associative entities formed by around ninety and fifty members respectively, where each one grows certain types of vegetables, that is, they do not have a main product with a high level of productivity and, therefore, were not selected for the export/audit process.
- Flor de Gala Florgal Cía. Ltda., Islaplants Cía. Ltda. and Ecuagenera Cía. Ltda. are medium-sized companies of the floriculture sector that are dedicated to the export of Gerbera, Matthiola incana, Gypsophila and Orchids to destinations such as the United

States and Europe. Despite being important SMEs that have greenhouses in the study area, they have not been taken into account for the next step because they are already in the export stage, in addition the parent companies are in the city of Cuenca; therefore, they are considered geographically outside the area of interest of the present study.

- The Peasant Association of Production and Marketing Sixth of June and the Association of Producers and Transformed Jadán were not interviewed because their main product - live chicken- is not authorized for export from Ecuador in accordance with Agrocalidad information.

- The following legal entities Natural Foods, Gonzalo Guncay E Hijos Cía. Ltda, Cooperativa Cerámica Chordeleg Ltda., Hormisur, and Carangui Luna Carlos Alberto are included in the industrial sector except footwear, however, they closed their doors so they were not part of the following stages of the study.

- Mr. Javier Peralta is the legal representative of an SME dedicated to systems engineering activities; however, the company's parent company is located in the city of Cuenca and the local office of Gualaceo is only a branch, so it was not interviewed for the export/audit.

- Asociación Nuevo Amanecer is an association with a social purpose that is dedicated to the exploitation of gravel pits and sand quarries for construction, and paving, excluding the metal sands. The entity was not audited due to the fact that, according to its representative, its production was very low so they only supply a small part of local demand and lack the necessary machinery and capital to improve its production level.

Finally, after this pre-selection, we proceeded to carry out 19 in-depth interviews and export/audits that are presented later.

It should be noted that in the case of Gualaceo, there was no support from the municipal authorities for the achievement of the field work. Rather, technical officers of the MAG offered their support for this research through accompaniment and transportation to organizations located in nearby inaccessible parishes such as San Juan and Luis Cordero.

### **3.4. Details of the sector and export/audit**

#### **3.4.1. Footwear sector**

After the filtering of data, it was determined that 212 of the 225 companies belonging to this sector are classified as micro-enterprises which are usually born from small family enterprises managed entirely by their owners, who are generally not affiliated with the Institute of Ecuadorian Social Security (IESS). This type of company does not usually hire employees, and if it does, it employs a person or two in the best of cases. Another characteristic of this group of companies is that they lack a brand with good positioning in the market and differentiation since the models and shoe designs are easily copied. On the other hand, 12 SMEs were distinguished and only one relevant association in the manufacture of footwear, whose interviews are presented later.

##### **3.4.1.1. Process of fabrication**

According to Mr. David Matailo, president of the *May 1st Shoemaker's Guild*, footwear manufacturing consists of nine stages that are described below:

2. Market analysis (constant)
  - 2.1. Identification of trends and fashions
3. Design (1 month)
  - 3.1. Design drawing
  - 3.2. Creation of collections
  - 3.3. Creation of technical sheets
4. Modeling (1 hour per dozen)
  - 4.1. Realization of a pattern for the necessary molds for the shoe
  - 4.2. Preparation of molds in cardboard or tin
5. Cut (1/2 hour per dozen)
  - 5.1. The material is cut according to the molds
6. Shaping (6 to 8 hours per dozen)
  - 6.1. Heating pieces

- 6.2. Edge forming
- 6.3. Fitting of hardware
- 6.4. Making the cut
- 7. Assembly (7 hours per dozen)
  - 7.1. Placement of buttresses and toecaps
  - 7.2. Assembly of the cut in the last
- 8. Planting (2 hours per dozen)
  - 8.1. Sticking sole
  - 8.2. Heel placement
- 9. Finishing (1/2 hour per dozen)
  - 9.1. Layout of templates
  - 9.2. Burning of threads
  - 9.3. Cleaning the shoe
- 10. Packing (1/4 hour per dozen)
  - 10.1. Labeled
  - 10.2. Packaged in individual cartons

It should be noted that it is essentially the factories that perform the first two productive stages, while the workshops copy those designs and models created in the factories or imported from abroad and begin the manufacturing process from stage number three - modeling.

#### **3.4.1.2. Chain of production**

Shoe production in Gualaceo can occur through three structures:

- Networks of informal workers
- Craft workshops
- Footwear factories

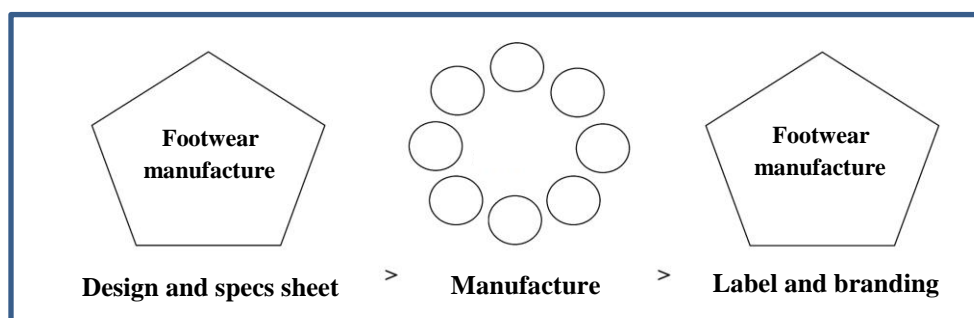
##### **3.4.1.2.1. Informal Networks of Laborers**

The footwear sector in canton of Gualaceo is mainly developed through production networks in which chains of workers are used. These usually work in their homes

performing specific stages of the production process and are paid according to the amount of work done.

The production through these networks of workers functions in the following way. The micro and small companies that have a RUC for the manufacture of footwear create the models and designs and elaborate a technical sheet that contains the specifications and characteristics of the desired shoe. Then, they deliver the designs and technical sheets to the different workers, specifying the number of pairs per size they want. Sometimes they provide certain specific materials necessary for manufacturing but in most cases this is not the case. From then on, the work is divided into stage. Each worker or labor networks carry out a stage of the process from his/ her house and, once finished, he/she hands over the intermediate product to the next worker to carry out the next stage, continuing until the shoe is finished. At the end of this chain the shoes are packed in individual cartons to be delivered to the manufacturer who placed the order. Finally, the manufacturer labels the shoes with the desired brand. In general, in this form of production, the entire process is done by hand, except for the equipment that requires a sewing machine that has an approximate price of \$1,500.00 to \$2,000.00.

**Figure 5 Shoe production chain**

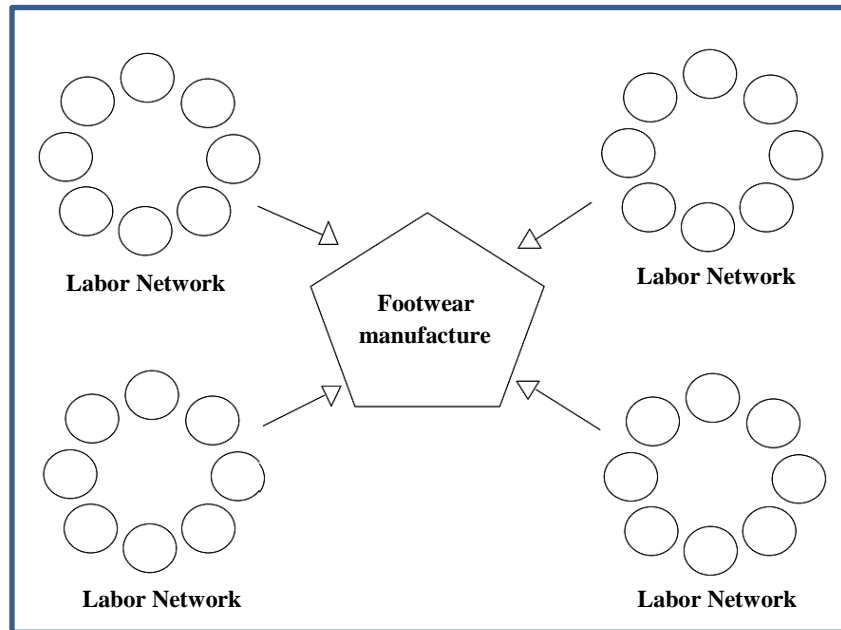


Authors: García; Maurat.

It is important to emphasize that an individual worker or labor network can take orders from several manufacturers (See Figure 7), just as a manufacturer can use several workers to supply his inventory (See Figure 6). This is why the workers do not appear as employees of footwear manufacturing companies. They do not have a steady salary but their income depends on the amount of orders placed on them.

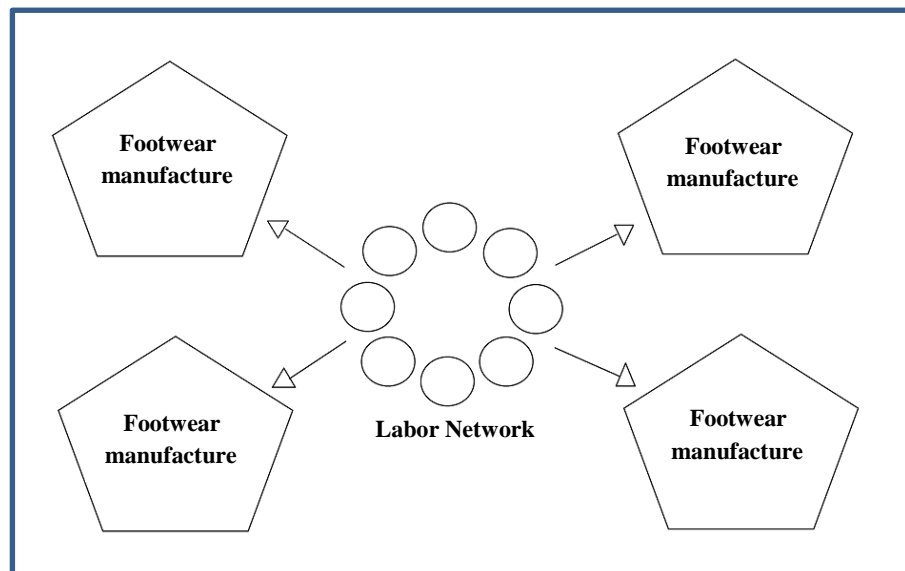


**Figure 6 Footwear manufacturers as collection centers**



Authors: García; Maurat.

**Figure 7 Informal workers as suppliers of multiple footwear manufacturers**



Authors: García; Maurat.

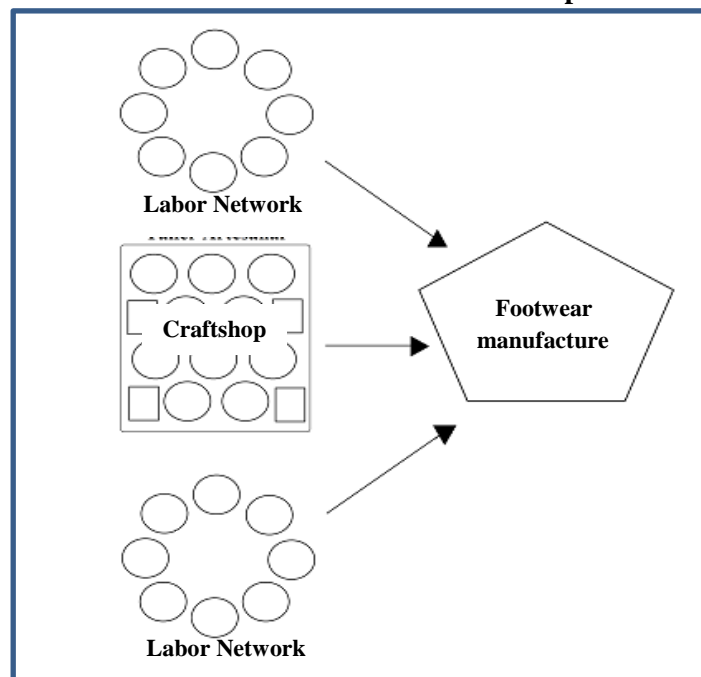
#### **3.4.1.2.2. Handcraft Workshops**

In a similar way, there are workshops with craft qualification work. In these places the different workers gather to perform the whole manufacturing process there. In the past,

the workers who worked in these workshops earned a fixed salary but today it is very unlikely to occur due to strong policies for worker and compulsory membership of social insurance by the employer plus paid overtime, etc. Because of this, the owners of the shops are more convenient to hire only one or two employees with fixed salary and pay for piece work and other workers when demand warrants it. For example, they remunerate a certain amount of money to a worker for each pair of shoes, another amount to another worker for each pair of templates that they cut, etc. Thus, the employer does not have an obligation bond with such seasonal workers and only resorts to them when it is deemed convenient. Craft workshops usually have the following machinery:

- One or two sewing machines valued between \$1,500.00 and \$2,000.00.
- A Doppler machine valued at \$ 2,500.00
- A press to glue valued at \$ 3,000.00

**Figure 8 Manufacturer as a collection center for several production lines**



Authors: García; Maurat.

### 3.4.1.2.3. Factories

On the other hand, there are shoe factories where all production activities are carried out from the purchase of raw material to the final assembly of the product. These factories are more developed and efficient productive units that have a mature business organization with departments and defined areas. The greatest fruits of these organizations come from supplying large wholesalers scattered throughout the country. However, they have a commercial wing by owning their own brand and warehouse, which serves both as a place of exhibition for potential wholesale customers, and for sale retail. This is the case of companies such as Litargmode, Sherinas Factory and Calzado Italia. In these companies almost all the processes are carried out with the use of machinery. They have several sewing machines, dusters and presses for gluing. In addition, they usually have top-end applicators valued at \$ 5,000, heel shapers valued at \$ 7,000, laser cutters valued at \$ 12,000 and drying ovens valued at \$ 5,500.

However, it is known that it is the craftsmen and workers who supply the local demand of the city because the large factories prefer to distribute to other cities in the country because of the volume of demand.

#### **3.4.1.3. Productive capacity**

In the production chain of this product, the bottleneck has always been the exterior sewing of the shoe, since it is the most difficult and laborious process in shoemaking. This is why not all workers are qualified to perform this task that which occupies approximately 50% of the production time. Therefore, the final finish is the determining factor in the productive capacity.

According to Mr. David Matailo, there are approximately one hundred footwear workshops, each of which has an average of three workers trained in the section of sewing shoes who work either from their homes or in the workshops. Each of these 300 shoe sewers complete an average of 84 pairs of shoes of medium difficulty in a 40-hour work week, that is, 17 pairs in an 8-hour day. This would indicate that the productive capacity between artisan workshops and informal workers - without counting the large footwear factories - is approximately 16,800 pairs of shoes per week. To that number should be added the 700 pairs a day produced by the Litargmode factory, an estimated 400 pairs a

day from the Calzado Italia factory, and 200 pairs a day produced at the Sherinas Factory, to wit, the sum of 6,500 pairs a week between these three factories.

By adding those amounts an estimated productive capacity can be determined. In this case, the total estimated productive capacity for shoe manufacturing is of 23,300 pairs of shoes per each 40-hour workweek. That is roughly 93,200 pairs per month.

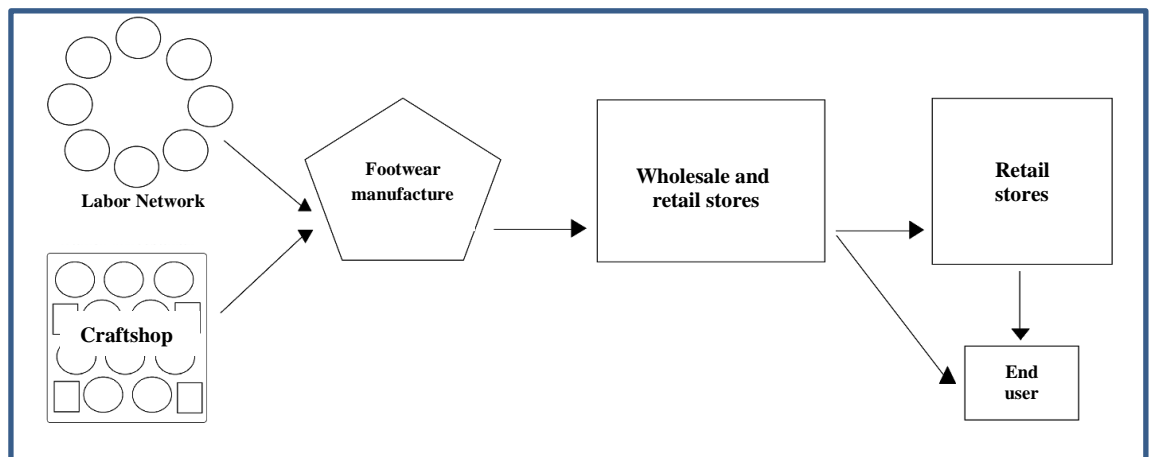
#### 3.4.1.4. Footwear marketing chain

There are two types of marketing chains for the footwear industry:

Type 1-. Through networks of informal workers and craft workshops.

- Artisans and informal workers produce footwear from orders requested by legally constituted manufacturers.
- Microenterprises registered for the manufacture of footwear: they design footwear, but they do not manufacture it, but rather they send them to workshops and workers, that is, they serve as collection centers for the production coming from workshops and informal workers.
- Companies registered for the wholesale and retail of footwear: they make specific orders to the manufacturing companies to sell to retailers and to the final consumer.
- Companies with RUC for the retail sale of footwear: they are supplied from the stock of the wholesalers and sold to the final consumer.

**Figure 9 Marketing chain type 1**

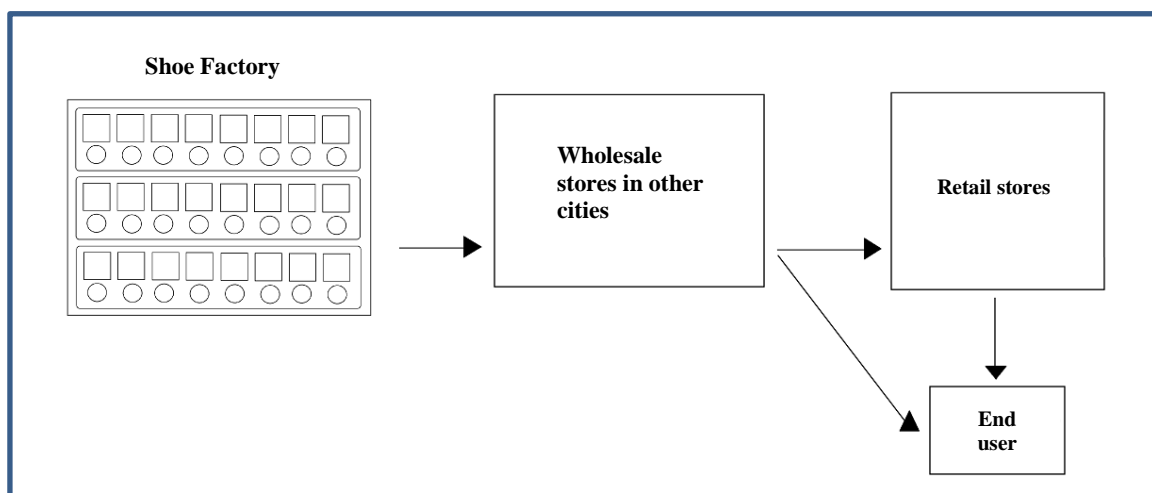


Authors: García; Maurat.

Type 2-. Through small and medium footwear factories:

The footwear factories have their own machinery and employees with a fixed salary and their production amounts to up to 1000 pairs a day in the case of Litargmode Cía. Ltda. It is due to its great productive capacity that the factories prefer to serve as distributors for the large wholesalers scattered throughout the country and not for the local commerce of Gualaceo.

**Figure 10 Marketing chain type 2**



Authors: García; Maurat.

#### **3.4.1.5. Support Sector**

Undoubtedly the most important support sector for the footwear sector is that of the stores of supplies and materials for the manufacture of footwear. This is a strategic sector because it provides heels, implants, insoles, mouth caps, buckles, closures, laces and everything necessary for the manufacture of shoes. According to an informative interview, it is known that the city is supplied mainly by Cuenca and Ambato distributors although these products usually come from countries such as Brazil, Colombia and Peru. The owner of one of these warehouses tells us that in the months of December to February there is very low availability of these products because they are the periods in which new collections and trends are created in the countries of origin, which is why production decreases and prices increase.

#### **3.4.1.6.        Associativity**

Regarding the associativity in the sector there is the *May 1st Shoemaker's Guild* currently considered mostly a social guild and not a productive type. Its initial objective was to provide support to the footwear craftsman with training courses in stamping, pressing, pressing, detailing and polish.

In an interview with Mr. Santiago Lituma, former vice president of the guild more than 15 years ago, he said that although the guild was never created in order to be a collection center for footwear production, several years ago there was an initiative to create a cooperative with the members of the guild in order to buy raw materials in large quantities and at low prices, to serve as a distributor of supplies and materials for all footwear producers unionized at the time. Initially it was a great success as they obtained great profits, part of which were used to build the guild building located in front of Simón Bolívar Park. However, Mr. Lituma says that, over the years because of and the different administrations in charge of the cooperative, things changed, and the input business collapsed to the point of total bankruptcy, leaving large losses and distrust among the partners.

#### **3.4.1.7.        Cooperativa Artesanal Primero de Mayo (Artisanal Cooperative May 1st)**

##### **3.4.1.7.1.     Profile**

This institution, also known as the Primero de Mayo Gremio, is the only existing footwear association in Gualaceo.

It started its activities in 1999 and consequently it became one of the most important associations of the area due to the advantageous activities it carried out such as: training with international exponents on topics such as footwear, product quality, and new machinery, among others. In addition, he gave each member a qualified artisan card which allowed the union members to benefit from the exemption from payment of the thirteenth, fourteenth and bill 0% as long as they did not exceed \$ 80,000 in capital. Thus, in its beginnings, the union had around fifty members. However, this number has drastically decreased mainly after a problem that arose in the city of Guayaquil four or five years ago when the associations began to charge exaggerated sums of money for the artisanal card,

which was the reason why the Defense Board of the National Artisan decided to repeal the law that required the presentation of said card for the process of artisanal qualification.

Currently partners are called to meetings but unfortunately not half of the active members attend because the guild does not offer any kind of benefit with regard to the footwear issue, therefore, there is disinterest from part of the members. The only advantage of belonging to this association at present is the free access to the events room located on the top floor of the guild's headquarters building.

A year ago, it offered the service of die-cutting and pressing, but the machines became obsolete and they chose to sell them. The money raised was used to pay taxes.

All these events have caused the association to lose its local recognition so that today it does not fulfill any relevant role in the canton. See Table 13 for a profile summary.

**Table 13 Profile of Artesanal Cooperative May 1<sup>st</sup>**

<b>RUC</b>	0190300269001
<b>Type of legal status</b>	Society
<b>Type of SME</b>	Micro
<b>Main product</b>	Footwear
<b>Location</b>	Gran Colombia S / N and Benigno Vásquez
<b>Contact person</b>	Mr. David Matailo
<b>Phone</b>	072255146
<b>Date of the interview</b>	October 5, 2017

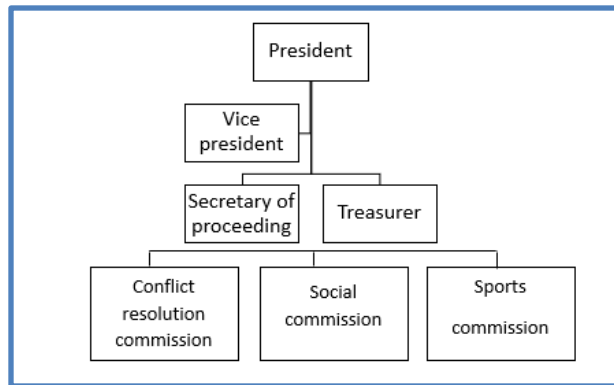
Authors: García; Maurat

#### **3.4.1.7.2. Business environment**

The association has 23 active members some of which are affiliated with the Institute of Social Security IESS by their own will or by their activities outside the union.

As established by law, this institution has regulations and rules that were registered in the bylaws at the time of its creation, however, they have not been reformed or updated, nor has its corporate organization chart (Figure 11). Even that, unfortunately, is not used for the administration of the cooperative, rather it was created for ethical reasons. Currently the president of this union is Mr. David Matailo and the vice president Mr. Pedro Lituma.

**Figure 11 Artisanal Cooperative May 1<sup>st</sup>'s business organization chart**



Source: Guild May 1st.

Authors: García; Maurat.

By constitution, mission and vision they were established. However, due to the dysfunctionality of the organization, no strategies have been developed to achieve them.

In terms of human resources, the union has a full-time secretary who has not been affiliated with the IESS yet.

### **Consolidation**

According to the president, the situation is quite unstable due to the lack of interest of the partners and the fact that the union does not fulfill any kind of function or provide any benefit to its members. It also recognizes that the guild of shoemakers of the city of Chordeg has better performance in the area of footwear since they even plan to buy raw materials abroad, something done by the Primero de Mayo union several years ago.

### **Promotional resources**

They do not have a website, only a page on the social network Facebook to which they do not give continuous maintenance. On the other hand, they have cards and presentation brochures developed in Spanish only.

#### **3.4.1.7.3. Product**



The members that make up this institution are dedicated to the manufacture and sale of women's shoes especially, however, the guild as such has no production whatsoever, nor does it function as a collection center for the individual production of the partners.

#### **3.4.1.7.4. Logistics**

It does not have any type of logistics activity.

#### **3.4.1.7.5. Foreign trade**

The association does not have qualified partners or employees to communicate in other languages or in foreign trade issues.

#### **3.4.1.7.6. Finance**

This guild keeps accounting records and contracts an external accountant for the monthly statement. In addition, it has a bank account in Banco Pichincha which is listed under the name of the legal representative of each period and does not currently have credit lines.

**Table 14 Export audit results for Artisanal Cooperative May 1st**

<b>Area</b>	<b>Punctuation</b>
BUSINESS ENVIRONMENT / 70	31
Administration (25)	12
Consolidation (20)	5
Promotional resources (25)	14
PRODUCT / 115	0
Development (40)	0
Characteristics (35)	0
Raw Material (15)	0
Availability (10)	0
Packaging (15)	0
LOGISTICS / 20	0
FOREIGN TRADE / 25	0
FINANCE / 20	5
TOTAL, EXPORAUDIT / 250	36

Authors: García; Maurat

#### **3.4.1.8 Interview with Engineer Lino Anguisaca , General Manager of *Litargmode* Limited Company**

Litargmode is a company dedicated to the manufacture of all types of footwear. Its main product being women's footwear. It has a retail store in Gualaceo and a factory located in Bullcay.

### 3.4.1.8. Profile

**Table 15 Profile of *Litargmode* Limited Company**

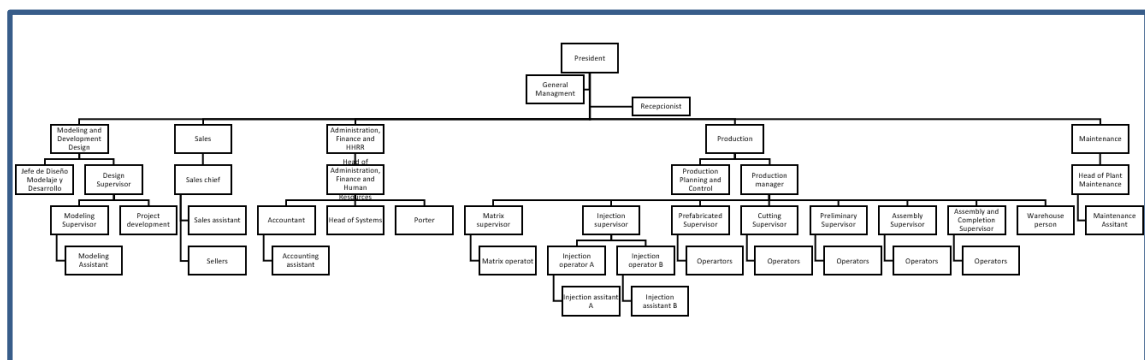
RUC	190318923001
Type of legal status	Society
Type of SME	Medium
Main product	Women's footwear
Location	Vía Gualaceo, Sector San Pedro de los Olivos, km 11.2
Contact person	Ing. Lino Anguisaca
Phone	07 2171692/07 2171115
Date of the interview	September 19, 2017

Authors: García; Maurat

### 3.4.1.8.2. Business environment

There is a functional business organization chart (Figure 12), in addition to medium and long-term objectives and strategies, but they do not have manuals or operating flow charts at the moment. In terms of human resources, they have 94 full-time employees affiliated with the IESS.

**Figure 12 Ligargmode business organization chart**



Source : Litargmode Cía. Ltda

Authors: García; Maurat.

## Consolidation

Mr. Anguisaca believes that Litargmode is well consolidated and positioned but understands that a company is never in a stable position because there will always be moments of expansion, stagnation and even contraction, all this for the long-term benefit of the institution.

It has clients scattered throughout a good part of the country, especially in Quito, Guayaquil and Cuenca. In addition, executives believe that the company has a good name and prestige in the national footwear sector. This company is part of the CAPIA (Chamber of the Small Industry of Azuay).

Litargmode considers that its main competition is footwear imports. In addition, they believe that their distinctive vis-à-vis other footwear factories is that they have a good business organization, excellent customer service and seriousness in terms of delivery times.

### **Promotional resources**

The company has its own brand registered in the IEPI as Litargmode. They have adequate internet in their facilities, also has a website and Facebook page, as well as business cards and brochures, all of them developed in Spanish only. It also has technical specifications of its products in Spanish.

#### **3.4.1.8.3 Product**

Its main product is women's footwear, although it makes all kinds of footwear. Anguisaca believes that in the footwear sector it is very difficult to achieve a certain degree of differentiation, as it is a product that can be copied very easily, or failing that, replaced by other similar models without problem.

Although Litargmode has its own brand, managers are aware that the brand has not been positioned as such among final consumers, but among the wholesale and retail marketers in the footwear sector.

The approximate cost of manufacturing a pair of shoes is around \$ 16, which covers costs, fixed costs, variable costs, labor, material and rejections. The average wholesale price is \$20.00.

## **Characteristics**

In Litargmode the product is processed from start to finish, importing the raw material and assembling the final product. The product is not bulky and its dimensions are usually 30x20x10 cm. It is not a fragile product and transport is quite easy because it does not need special conditions to preserve its condition. Despite not being a fragile product, they believe it is important to store it in a delicate way to avoid spoiling the merchandise.

## **Raw material**

The materials used in this factory are imported mainly from Brazil, and from Colombia on sporadic occasions. Anguisaca says that there are very good relationships with his suppliers and that he is highly satisfied with the quality of the raw material.

## **Availability**

The company manufactures around 700 pairs of shoes a day, although its productive capacity at the moment with the current conditions is 1,000 pairs a day. They have a capacity to react to extraordinary orders of 30%.

It is important to mention that if labor were increased to use all the available machinery, it would be possible to manufacture up to 1,500 pairs a day and if it were decided to increase machinery to occupy all the available physical space, production could be increased to 9,000 pairs a day.

## **Labeling and packaging**

The product is labeled with the brand and INEN labeling, which is a technical standard of mandatory requirement and packed in individual and collective cartons. In this case the product does not require a new packaging for export but rather a more elaborate labeling.

### **3.4.1.8.4. Logistics**

The company has direct sales executives. In terms of transport logistics, the company has its own trucks for the movement of merchandise.

### **3.4.1.8.5. Foreign trade**

The company does not have qualified personnel in other languages but they have an import department in which two people are employed and it is they who usually attend foreign trade trainings especially regarding changes in import regulations.

Regarding exports, Litargmode is not interested in taking its product abroad because its executives believe that it is better for them to put all their efforts into creating a quality product that satisfies the local market and, Small by Small, to reduce footwear imports. However, if you happen to export your product, they are aware that modifications would be needed in terms of lengths and sizes, depending on the market you want to enter and qualified labor to develop these tasks which creates which is difficult to find in the country.

The managers believe that they are not connected with entities or institutions that could help them in foreign trade. They have international suppliers but their customers are only national wholesalers.

#### **3.4.1.8.6. Finance**

The company is obliged to keep monthly accounting records. On the other hand, it has a bank account in the name of the institution and lines of credit in the medium and long term. It also has high eligibility for foreign trade credits.

**Table 16 Export Audit results *Litargmode Limited Company***

<b>Area</b>	<b>Punctuation</b>
BUSINESS ENVIRONMENT / 70	61
Administration (25)	25
Consolidation (20)	15
Promotional resources (25)	21
PRODUCT / 115	84
Development (40)	30
Characteristics (35)	20
Raw Material (15)	15
Availability (10)	10
Packaging (15)	9
LOGISTICS / 20	10
FOREIGN TRADE / 25	15
FINANCE / 20	20
TOTAL, EXPORAUDIT / 250	190

Authors: García; Maurat

### **3.4.1.9. Interview with Iván Patricio Álvarez, owner of *Calzado Chicas* (Girls Footwear)**

#### **3.4.1.9.1 Profile**

**Table 17 Profile of *Calzado Chicas***

RUC	0101655918001
Type of legal status	Individual
Type of SME	Small
Main product	Women's moccasin
Location	Gran Colombia S / N and Av. Los Cañaris
Contact person	Mr. Iván Álvarez
Phone	Mobile: 0995956257
Date of the interview	November 5, 2017

Authors: García; Maurat

#### **3.4.1.9.2. Business environment**

This workshop for the manufacture and wholesaling of women's shoes has nine full-time employees affiliated with the IESS. A business organization chart has not been created, as the company is managed solely by the owner. In addition, it does not have a commercial space for showcases or for retail sale.

#### **Consolidation**

Mr. Alvarez believes that the company is well positioned in the market, however, he admits that it has currently reduced its production due to the national economic crisis because it claims to have lost many customers due to the growing bankruptcy of businesses.

Their clients are footwear retailers or retailers that come mainly from the cities of Ambato and Cuenca.

#### **Promotional resources**

It has adequate internet in its facilities and also has the website [www.creacioneschicas.com](http://www.creacioneschicas.com), this being its main means of promotion. It also has business cards and brochures developed in Spanish.

Its registered trademark in the IEPI is *Calzado Mikaela*, which is included in the label and packaging of the product.

#### **3.4.1.9.3. Product**

Its main product is women's leather moccasin shoes.

In this workshop the product is manufactured from start to finish, so they have technical specifications of each model and design. The differentiation of this company is that here it exclusively produces loafers, shoes whose production is not very common in other factories. By dedicating itself to only one type of footwear, it can be said that this is a specialized company which allows it to create a product of excellent quality and at lower costs than the competition. The approximate cost of a pair of moccasin shoes is \$12.00, and the wholesale price is \$17.00.

#### **Characteristics**

The product is not bulky or fragile, and it is easy to transport and store so its distribution is quite simple through ground transportation services, in this case, interprovincial buses.

#### **Raw material**

The company acquires raw materials from Cuenca, Quito and Ambato, the owner believes that the material is of good quality, mainly from Ambato. In addition, he says that the raw material is highly available and it is supplied according to the orders it is getting and does not need to maintain inventories or reserves of material.

#### **Availability**

Its monthly production is 100 dozens, that is, five dozens daily. In the case of extraordinary orders, the owner says that he would have no problem accepting them because getting labor is not a problem for him. His reaction capacity in these cases amounts to up to 40%.

#### **Packaging and labeling**

Each pair of shoes is packed in a cardboard box and these, in turn, into collective cartons for wholesale. In addition, it has a label that describes the brand and INEN label.

#### **3.4.1.9.4. Logistics**

The contact with the clients is direct since it does not have sales agents. The negotiation and order are done either in person, by telephone or through the website. Its distribution chain is short, seller-land transport-buyer.

#### **3.4.1.9.5. Foreign trade**

The company does not have qualified personnel in foreign trade; therefore, it is unknown about the issues related to it. In addition, it does not attend training or maintain any kind of employment relationship with any foreign trade institution. Also, neither the owner nor the workers are trained to communicate in English or other languages.

#### **3.4.1.9.6. Finance**

The company is obliged to keep monthly accounts. On the other hand, there are bank accounts and personal lines of credit in Banco del Austro.

**Table 18 Export Audit results for *Calzado Chicas***

Authors: Maurat	Area	Punctuation	García;
	BUSINESS ENVIRONMENT / 70	42	
	Administration (25)	6	
	Consolidation (20)	20	
	Promotional resources (25)	16	
	PRODUCT / 115	78	
	Development (40)	26	
	Characteristics (35)	18	
	Raw Material (15)	15	
	Availability (10)	10	
	Packaging (15)	9	
	LOGISTICS / 20	6	
	FOREIGN TRADE / 25	0	
	FINANCE / 20	14	
	TOTAL, EXPORAUDIT / 250	140	

#### **3.4.1.10. Interview with Mrs. Bertha Guaraca, from the company *Fassioni***

Fassioni is a family business dedicated to the wholesale and retail sale of women's footwear and has a broad trajectory of thirty-two years.



#### **3.4.1.10.1. Profile**

**Table 19 Profile of *Fassioni***

RUC	0104194899001
Type of legal status	Individual
Type of producer	Micro
Main product	Women's casual shoe
Location	Luis Cordero 8-54 and Dávila Chica
Contact person	Mrs. Bertha Guaraca
Phone	Mobile: 0998605948
Date of the interview	October 5, 2017

Authors: García; Maurat

#### **3.4.1.10.2 Business environment**

This company does not have a business organization chart at the moment, nor objectives, strategies or established manuals, however, it is in the process of developing them with a view to exporting. In terms of human resources, it has a full-time employee dedicated to sales in the commercial premises, both she and the owner are affiliated in the IESS.

#### **Consolidation**

The representative of this company believes that the brand is well positioned in both the local and national markets, as it constantly sells its product to places like Quito, Guayaquil, Riobamba, Santo Domingo, Loja and Latacunga. In addition, Fassioni is part of the Chamber of Commerce of Cuenca.

#### **Promotional resources**

The most effective means, and the one that has taken the company to the position in which it is located is its page in the social network Facebook which is its main tool despite having a web page. In addition, it has business cards, but only in Spanish.

#### **3.4.1.10.3. Product**

Its main product is women's casual shoes. According to the interviewee, is characterized and differentiated by its quality and design, particularities which have led their product to stand out from the rest.

The company is dedicated solely to the sale of footwear but elaborates its designs to deliver them to the intermediary between it and the footwear workers. They do not have technical specifications of their products since it is the footwear manufacturers who make the chips.

The approximate cost of a pair of shoes is \$20.00; the retail price of \$39.00 and the wholesale price of \$28.00.

### **Characteristics**

The product is not bulky, nor very fragile, and it is stored in a cardboard box of dimensions 12x20x30. Their transport is not difficult, for large quantities they pack the individual cartons into a collective one and send their products to the whole country through the company Servientrega, with which they maintain an agreement.

### **Packaging and labeling**

The pairs of shoes are packed in individual cartons and bear the INEN label and the Fassioni brand. However, there are cases in which customers request to put their own brand which usually happens with wholesale customers.

#### **3.4.1.10.4. Logistics**

Although the long-term objective of this company is to export, they have not yet developed prices in terms other than EXW. Likewise, it does not have sales agents and its product has a somewhat complex marketing chain because Fassioni is the third player in this chain being the product manufactured by networks of informal workers who sell to a legal manufacturer who in turn sells to this wholesale company.

#### **3.4.1.10.5. Foreign trade**

Being a family business, the only bilingual person is Mrs. Guaraca's daughter. Likewise, they constantly attend training workshops given by PROECUADOR.

Regarding the modifications that the product would need to enter international markets, the company considers that there is no greater complication due to the fact that they have already sold their product to people who have taken the product abroad and they know that the final consumers are Latino customers so there are no problems in terms of sizes and costs. But in the case of making changes, they would not have any problem although they are aware that it would involve a heavy investment

#### **3.4.1.10.6. Finance**

The company has accounting in that it contracts an external accountant monthly. The bank accounts and lines of credit are in the name of the owner.

**Table 20 Export audit results for *Fassioni***

Area	Punctuation
BUSINESS ENVIRONMENT / 70	44
Administration (25)	10
Consolidation (20)	15
Promotional resources (25)	19
PRODUCT / 115	72
Development (40)	20
Characteristics (35)	18
Raw Material (15)	15
Availability (10)	10
Packaging (15)	9
LOGISTICS / 20	9
FOREIGN TRADE / 25	11
FINANCE / 20	14
TOTAL, EXPORAUDIT / 250	148

Authors: García; Maurat

#### **3.4.1.11. Interview with Mr. Fernando Lojano, owner of shoe manufacturing workshop *Lofac***

Lofac is a company dedicated to the manufacture and wholesale of women's footwear. It stands out in the sector due to its productive capacity, and the quality of its product. It is worth mentioning that the company does not have a commercial location, because it is focused solely on wholesale sales upon request.

##### **3.4.1.11.1. Profile**

**Table 21 Profile of *Lofac***

RUC	0103911780001
Type of legal status	Individual
Type of SME	Small
Main product	Women's casual shoe
Location	Av. Tres de Noviembre 2-76 and Av. Jaime Roldós
Contact person	Mr. Fernando Loja
Phone	Mobile: 0984635372
Date of the interview	October 19, 2017

Authors: García; Maurat.

#### **3.4.1.11.2. Business environment**

Lofac employs nine people currently, all of them legally affiliated with the IESS. Despite the number of employees, the company does not have a business organization chart.

Among the long-term objectives, Lofac seeks to grow both in size and sales and to gradually build a footwear plant so that in the short term while it plans to acquire new machinery.

#### **Consolidation**

According to Lojano, the company is constantly growing, and he is well known for in good part of the country due to the fact that he attends fairs every month in other cities of the country which has allowed him to increase his client portfolio, its largest clientele being in Quito, Ambato, Ibarra, and Guayaquil.

On the other hand, the owner is a member of the Primero de Mayo Footwear Association, although he says that the affiliation has not brought him any benefit.

#### **Promotional resources**

In its facilities, there is an adequate internet which allows them to communicate quickly and cheaply with its suppliers and customers. It also worries about constantly updating its profile on the social network Facebook since this is the only digital medium that allows it to promote the catalog of its new products as it does not have a web portal for the company.

In addition, it has business cards and brochures, developed in Spanish. This type of written advertising is the main tool to be known in other parts of the country.

#### **3.4.1.11.3. Product**

In this company, all types of women's casual shoes are manufactured under the *Ivanas* brand, registered in the IEPI. It also has technical sheets of each type of footwear that it produces. However, their product does not have any type of certification.

#### **Characteristics**

Footwear is not a fragile or bulky product, so it does not require delicate storage. The most outstanding factors of the footwear produced by this company are quality, design and comfort. In the owner's opinion, his clients feel satisfied with his product due to the comfort and durability of it.

#### **Raw material**

Lofac footwear supplies come mainly from local distributors, or failing that, suppliers in Ambato and Quito. Lojano says that he orders at least two weeks in advance and requests large amounts of supplies as his policy is to stock massively raw material to prevent the production process from stalling due to lack of supplies. Once the raw material is received, it is stored in its warehouse and every day it dispatches the necessary material for the scheduled production.

In terms of quality, the owner states that the soles of the shoe and studs are made of a very resistant and durable material but synthetic leather, which in itself is already a very delicate material, is sometimes not of good quality and it is costly to find quality national suppliers for this product.

#### **Availability**

Its weekly production is of 400 pairs, that is to say 1600 monthly so it is possible to emphasize that they only manufacture by request since they do not sell to retail. In the case of extraordinary orders, the owner states that he could not accept new orders outside of the planned ones because at the moment he does not have the necessary machinery.

#### **Productive process**

From the client's order, the manufacturing process begins with the digital design of the shoes, a task carried out by a specialized employee, then the designs are modeled with the

help of a digital program. Once the models are finished, they are printed and delivered to the dressers. They are part of the network of informal workers, that is, they do not appear as employees of this company, but work in their homes and then deliver the cuts to the Lofac facilities. With these sewn cuts the company employees continue with the assembly of the shoe and the placement of the plant and heel, to finally packing the product in individual cartons.

### **Cost**

The cost of producing a pair of women's casual shoes is approximately \$16.00, while the wholesale retail price is \$22.00.

**Table 22 Detail of costs of a pair of shoes in Lofac**

Detail	Cost
Workforce	\$5.00
Raw material	\$5.00
Fixed costs	\$6.00

Source: Lofac.

Authors: García; Maurat

### **Packaging and labeling**

Each pair of shoes is packed in a single cardboard box and these in turn are packed in a larger carton in which they fit 48 units. In addition, each shoe bears the label on which the brand and the INEN are registered.

#### **3.4.1.11.4. Logistics**

The sales are made directly since the customer contacts the company by phone, through Facebook, or in certain cases, by the visits that the owner makes to potential customers nationwide in order to offer their product. To send their product, he opts for land transport.

#### **3.4.1.11.5. Foreign trade**

The company does not have qualified personnel in foreign trade, therefore, they are uneducated about the issues related to it. In addition, he does not attend trainings or seminars. On the other hand, Lojano says he has very good working relationships with MIPRO, and CALTU, the Shoe Chamber of Tungurahua.

#### **3.4.1.11.6. Finance**

This company is obliged to keep monthly accounts. He has personal bank accounts in the name of Lojano, and also has a line of credit for business.

**Table 23 Export Audit results for *Lofac***

Area	Punctuation
BUSINESS ENVIRONMENT / 70	48
Administration (25)	13
Consolidation (20)	16
Promotional resources (25)	19
PRODUCT / 115	61
Development (40)	22
Characteristics (35)	18
Raw Material (15)	9
Availability (10)	3
Packaging (15)	9
LOGISTICS / 20	8
FOREIGN TRADE / 25	3
FINANCE / 20	14
TOTAL, EXPORAUDIT / 250	134

Authors: García; Maurat

#### **3.4.1.12. Interview with Mrs. Narcisa Fajardo, owner of *My Lady* shoe store**

Fajardo owns the commercial premises for ladies' footwear, *My Lady*, which has an artisanal qualification. This company is dedicated to the retail sale of women's footwear.

##### **3.4.1.12.1. Profile**

**Table 24 Profile of *My Lady***

RUC	0104861471001
Type of legal status	Individual
Type of SME	Small
Main product	Boots and boots for women
Location	Dávila Chica S / N and Luis Cordero
Contact person	Mrs. Narcisa Fajardo
Phone	n/a
Date of the interview	November 5, 2017

Authors: García; Maurat

#### **3.4.1.12.2 Business environment**

This company does not have employees, only hiring informally a person as a seller for the weekends. In addition, Fajardo is not affiliated with the IEES.

One of its medium-term objectives is to open a store in the city of Cuenca since most of its customers come from this city and also considers it an attractive market for their product. However, it does not have a well-established business planning or organization.

#### **Consolidation**

According to the owner, the business is in a stable position, although three years ago it stopped selling its product wholesale due to the existing competition in the canton.

In addition, Fajardo does not belong to any guild or association and says that she does not have any kind of relationship with public entities that support trade.

#### **Promotional resources**

The company has a small gallery of images of its products that is occasionally promoted through a Facebook page, this being the only means of digital advertising and also has business cards developed in Spanish only.

#### **3.4.1.12.3. Product**

Its main products are women's shoes and boots. The registered trademark in the IEPI for these products is *My Lady*. The product does not have technical specifications or certifications.

#### **Characteristics**

The product is not bulky or fragile, therefore, its storage is simple. In the owner's opinion, her footwear is quite affordable and she emphasizes that she constantly renews her models to differentiate herself from the rest.

#### **Raw material**

The raw material is acquired from the distributors of Gualaceo its suppliers being Colombian. Fajardo comments that during the December-February period, the availability of material is scarce, but considers that sourcing excess in advance is not the solution



because she runs the risk of not using all the material during that time, therefore, she opts to buy from other suppliers during that period, even at higher prices.

In terms of quality, she says that on several occasions she has received poor quality material but feels that she has gained experience to better choose her suppliers and the supplies she buys. In general, she considers that the inputs with which she works, which are of Colombian origin, are of good quality thus allowing her footwear to be durable.

### **Productive process**

Mrs. Fajardo is in charge of acquiring the raw material, later she delivers the supplies along with the design of the shoe to her two brothers, a dresser and a planter, who make shoes and charges per unit because they are informal workers.

### **Cost**

The retail price varies between \$2.006 and \$ 28.00. While the approximate cost of a pair of boots is \$16.00, of which \$6.00 corresponds to labor and \$10.00 are used in raw material.

### **Availability**

Each month it requests the manufacture of 156 pairs of shoes, that is to say 13 dozens weekly. He says he does not have a capacity to react to extraordinary orders since he usually does not accept orders but sells what he has on display.

### **Packaging and labeling**

Each shoe bears the label with their mark and the INEN label and is packed in individual white cartons.

#### **3.4.1.12.4. Logistics**

Its marketing chain is short, seller-final consumer and has no sales agents or agreements.

#### **3.4.1.12.5. Foreign trade**

The company does not have qualified personnel in two or more languages and additionally it does not know about the subject of foreign trade since its focus is local sales.

#### **3.4.1.12.6. Finance**

They keep monthly accounting records. In addition, she has personal savings accounts at Banco del Austro and the Alfonso Jaramillo Cooperative where she has requested loans for personal and business purposes.

**Table 25 Export Audit results for *My Lady***

Area	Punctuation
BUSINESS ENVIRONMENT / 70	23
Administration (25)	3
Consolidation (20)	8
Promotional resources (25)	12
PRODUCT / 115	52
Development (40)	14
Characteristics (35)	18
Raw Material (15)	11
Availability (10)	3
Packaging (15)	6
LOGISTICS / 20	3
FOREIGN TRADE / 25	0
FINANCE / 20	11
TOTAL, EXPORAUDIT / 250	89

Authors: García; Maurat

#### **3.4.1.13. Interview with Mónica Sarmiento, owner of the commercial premises**

##### ***Burana Y Scarpa***

Burana and Scarpa are dedicated solely to the retail sale of women's shoes.

##### **3.4.1.13.1. Profile**

**Table 26 Profile of *Burana***

RUC	0104651021001
Type of legal status	Individual
Type of SME	Small
Main product	Women's moccasin
Location	Luis Cordero 11-1 and Dávila Chica
Contact person	Mrs. Monica Sarmiento
Phone	
Date of the interview	November 5, 2017

Authors: García; Maurat

##### **3.4.1.13.2. Business environment**

This company, considered small by the volume of its sales, does not have an established business organization because it does not have employees and its owner is not offering

IESS coverage. Likewise, no short or medium-term goals or objectives or business planning have been established.

### **Consolidation**

The owner opines that her company is in a stable position, however, stresses that the current economic situation in the country has caused sales to decrease significantly. She also mentions that although the city is known for its footwear, the sector is abandoned as it does not receive support from the authorities. She believes that what is needed is greater publicity for the region and its products.

Being a retail company, it does not have clients scattered throughout the country, its sales are due to the visits of tourists and their local customers.

### **Promotional resources**

It does not have internet in its facilities, nor does it have a website or social networks because she thinks that they are means that allow the competition to copy their models so it chooses to sell through the WhatsApp mobile application. It has business cards, printed only in Spanish.

#### **3.4.1.13.3. Product**

The main product of the company is women's moccasin shoes. The footwear does not have any type of certification, nor has it developed technical specifications. In addition, the brand is not registered in the IEPI.

### **Characteristics**

Footwear is not a fragile or bulky product, so it does not require delicate storage. The most outstanding factors of the footwear, in the opinion of the proprietor, are quality, design and comfort. She mentions that, when there is high competition in the sector, what she tries to do is change small details that make her product different from the rest, such as the plant, the laces, among others.

### **Raw material**

With regard to details of footwear such as ribbons, laces or others, the owner acquires them on the premises in Gualaceo or in the city of Cuenca. The rest of materials processed by the workers who make the shoe, who generally buy in Gualaceo.

### **Productive process**

The company delivers orders, with the details of the shoe it requires, to two workers who work in their respective homes, that is, they are informal workers. Then, in a maximum time of eight days, deliver the order and receive payment for the work done.

### **Cost**

The cost of producing a pair of moccasin shoes is \$18.00, and the retail price is \$ 30.

### **Packaging and labeling**

Each pair of shoes is only labeled with INEN certification since it does not have a trademark and it is then packed in a white cardboard box.

#### **3.4.1.13.4. Logistics**

The sale is direct, seller-final consumer, does not work with selling agents.

#### **3.4.1.13.5. Foreign trade**

The company does not have qualified personnel in foreign trade, therefore, it is unknown about the issues related to it. In addition, the owner does not attend training on the subject.

#### **3.4.1.13.6. Finance**

The company is obliged to keep monthly accounts. In addition, the bank account at the Austro Bank is in the name of the owner but not the company. It does not have lines of credit.

**Table 27 Export Audit results for *Burana***

Area	Punctuation
BUSINESS ENVIRONMENT / 70	12
Administration (25)	0

Consolidation (20)	6
Promotional resources (25)	6
PRODUCT / 115	36
Development (40)	3
Characteristics (35)	18
Raw Material (15)	9
Availability (10)	3
Packaging (15)	6
LOGISTICS / 20	3
FOREIGN TRADE / 25	0
FINANCE / 20	11
TOTAL, EXPORAUDIT / 250	65

Authors: García; Maurat

#### **3.4.1.14. Interview with the Designer Grace Cabrera, owner of the micro-company *Bela***

Grace Cabrera is dedicated to the manufacture and marketing of women's footwear. It has a commercial space in the city of Cuenca and, in Gualaceo.

##### **3.4.1.14.1. Profile**

**Table 28 Profile of *Bella***

RUC	0105805212001
Type of legal status	Individual
Type of producer	Micro
Main product	Women's footwear
Location	Dávila Chica and Luis Cordero
Contact person	Grace Cabrera
Phone	Mobile: 0987826113
Date of the interview	October 5, 2017

Authors: García; Maurat

##### **3.4.1.14.2. Business environment**

The business is managed only by the owner who is affiliated with the IESS but does not have employees. However, it has long-term goals and strategies since what it aspires to is exporting its product. In addition, *Bela* owns the RUA (Unique craft registry).

## **Consolidation**

Designer Grace Cabrera believes that her business is still in the process of growth, as there are still details that should be improved. However, she believes that his company has a good reputation and is known by a good part of the province. Their clients are scattered throughout Quito, Guayaquil and Cuenca.

The company does not belong to any guild or association but maintains good working relationships with PROECUADOR.

## **Promotional resources**

*Bela*, besides being the commercial name of the company is the registered trademark in the IEPI. It has adequate internet to manage Facebook and Instagram social networks, which are the main tools to promote your footwear. In addition, he has developed brochures and business cards in Spanish.

### **3.4.1.14.3 Product**

Its main product is women's dress shoes. Their specialization is personalized orders, exclusive footwear, such as the design and manufacture of a pair of bridal shoes to suit the client. Although the company considers that it has good characteristics such as quality, it currently does not have any certification.

On competitiveness, it considers that it does not have direct competition in the production of personalized shoes, but in the production by series, that is, by dozens of the same shoe model.

## **Characteristics**

In terms of quality and design, the company is constantly innovating so that its footwear can be differentiated from the rest, for example, the shoe platform has a heart figure, and this feature is also registered in the IEPI. Also, he is currently carrying out a design project for new tacos, and for this he is working in conjunction with a footwear factory in Madrid, Spain.

As it is a brand that intends to export its product, it is aware that modifications should be made to lasts and sizes, since the international market has different characteristics.

### **Raw material**

For orders in dozens the workers are in charge of acquiring the raw material, but when it comes to personalized orders, the owner is in charge of delivering the specific material to said workers.

### **Productive process**

The company does not have its own factory but works with workers to whom it gives the designs and technical specifications of the footwear and pays them for each order. Then, it is the workers who make the shoes and deliver the order in individual cardboard boxes. Once the orders are received, the *Bela* brand and INEN are added.

### **Cost**

The cost of a specialized pair of shoes varies between \$24.00 and \$30.00; and the sale price can be from \$ 45.00 to \$ 75.00.

### **Availability**

The monthly production is 100 pairs of custom shoes and 300 pairs in series. If there are extraordinary orders, the maximum that could be produced in a month, with the number of workers with whom he currently works, would be 200 pairs in personalized shoes, that is, 100 more pairs and in shoes per series up to 500 pairs.

### **Packaging and labeling**

The shoes for sale to the public are delivered in a cardboard box and in a plastic sleeve. And for deliveries of custom footwear, it is packed in a cloth cover that serves to better preserve the shoe. For wholesale, pack the boxes in a large carton and pack it with transparent tape.

#### **3.4.1.14.4. Logistics**

For domestic shipments the best means of transport is land and they specifically work with the company Servientrega with whom it has an agreement. It does not have sales agents, since it believes that the most optimal thing today is to work via internet.

#### **3.4.1.14.5. Foreign trade**

Designer Cabrera is bilingual because she speaks Spanish and English but is not qualified in foreign trade although she attends the training offered by PROECUADOR. She has not developed prices in INCOTERMS (International commercial terms), but she is aware of them and hopes to do so later.

Currently it can be said that its suppliers are internationalizing, since as mentioned above, it is working with a Spanish company.

#### **3.4.1.14.6. Finance**

The company is not required to keep accounts. In addition, it does not have a bank account in the name of the company, but only a personal account, under which it has a line of credit.

**Table 29 Export Audit results for *Bella***

<b>Area</b>	<b>Punctuation</b>
BUSINESS ENVIRONMENT / 70	44
Administration (25)	10
Consolidation (20)	13
Promotional resources (25)	21
PRODUCT / 115	80
Development (40)	28
Characteristics (35)	18
Raw Material (15)	15
Availability (10)	10
Packaging (15)	9
LOGISTICS / 20	15
FOREIGN TRADE / 25	11
FINANCE / 20	18
TOTAL, EXPORAUDIT / 250	168

Authors: García; Maurat



#### **3.4.1.15. Interview with Ms. Sonia Salinas, owner of *Gino Zanetti***

Gino Zanetti is a wholesale and retail company of women's and men's footwear made from natural and synthetic leather.

##### **3.4.1.15.1. Profile**

**Table 30 Profile of *Gino Zanetti***

RUC	0101757847001
Type of legal status	Individual
Type of SME	Small
Main product	Women's casual shoes
Location	Dávila Chica 9-39 and Luis Ríos Rodríguez
Contact person	Ms. Sonia Salinas
Phone	2255833
Date of the interview	September 20, 2017

Authors: García; Maurat

##### **3.4.1.15.2. Business environment**

This company employs four people as salespersons. Of these, two are duly affiliated with social security and the other two are part-time employees without affiliation. In addition, it does not have a business organization chart, manuals, regulations or statutes, nor do they have objectives or strategies established in the medium or short term.

##### **Consolidation**

Ms. Salinas believes that her company is in a stable position and has a good reputation and prestige at the local level. Most of its clientele is from the city of Quito, although they also come from Cuenca and Loja. At the moment it does not belong to any guild or association.

##### **Promotional resources**

In this sense, the company remains at the forefront of marketing techniques through social media such as Facebook, Instagram and Twitter. In addition, it has an interactive web portal where customers can buy their products online. Gino Zanetti, in addition to being

the commercial name, is the footwear brand, which is registered in the IEPI. It also has business cards in Spanish.

#### **3.4.1.15.3. Product**

Its main product is casual shoes for women, producing secondary products in shoes for men and children.

The product does not have certifications. This is sold in individual carton packs and sealed bags of the company and in bulk wholesale cartons, plus the shoes are labeled with the brand and INEN labels.

#### **3.4.1.15.4. Logistics**

The company sends merchandise to other cities in the country through Servientrega, on the other hand, it does not have a mature commercial distribution but its local sales in Gualaceo and its website serve as a gallery of its products for sale both at wholesale as well as retail.

#### **3.4.1.15.5. Foreign trade**

In this regard, the company does not have qualified personnel in foreign trade issues, however, Salinas tells us that her son is studying in this branch and also dominates the English language. On the other hand, he says he has very good relations with institutions such as the Municipality of Gualaceo and PROECUADOR.

#### **3.4.1.15.6. Finance**

This entity has monthly accounting due to its qualification as a small company because of its volume of its sales. Regarding banking and credit issues, Salinas preferred to keep the information private.

**Table 31 Export Audit results for *Gino Zanetti***

<b>Area</b>	<b>Punctuation</b>
BUSINESS ENVIRONMENT / 70	50
Administration (25)	10
Consolidation (20)	15
Promotional resources (25)	25
PRODUCT / 115	81
Development (40)	23

Characteristics (35)	18
Raw Material (15)	15
Availability (10)	10
Packaging (15)	15
LOGISTICS / 20	20
FOREIGN TRADE / 25	20
FINANCE / 20	3
TOTAL, EXPORAUDIT / 250	174

Authors: García; Maurat

#### **3.4.1.16. Interview with Mr. Marcelo León, owner of *Belissa***

Belissa is a small company dedicated to the retail sale of women's footwear. It is located at the intersection of Dávila Chica and Luis Cordero streets.

##### **3.4.1.16.1. Profile**

**Table 32 Profile of *Belissa***

RUC	0101701688001
Type of legal status	Individual
Type of SME	Small
Main product	Women's footwear
Location	Mr. Marcelo León
Contact person	Dávila Chica S / N Luis Cordero
Phone	2256144
Date of the interview	October 25, 2017

Authors: García; Maurat

##### **3.4.1.16.2. Business environment**

The company has an employee dedicated to sales on the commercial premises. There is no business organization chart as it is a family business and does not have manuals or flowcharts. What he plans in the future is to open another commercial establishment or expand the one he owns; however, it is not a concrete plan.

## **Consolidation**

The owner comments that his sales have been affected due to the closure of the El Descanso-Gualaceo road as the influx of tourists has decreased noticeably. However, he thinks that his business is well positioned in the market since people look for his brand due to the quality of the footwear.

The main focus is retail, so it does not have wholesale customers. Likewise, León does not belong to any guild or association since he is not interested in associating with others.

## **Promotional resources**

The registered trademark in the IEPI is *Belissa*. The company has adequate internet in its facilities but it does not have a website or social networks because in the owner's opinion they are a means for the competition to copy their designs. It has business cards but only in Spanish.

### **3.4.1.16.3. Product**

Its main product is women's casual shoes.

## **Characteristics**

It is not a bulky or heavy product but its storage requires some care to preserve its quality especially natural leather shoes to avoid scratches.

## **Cost**

The cost of a pair of synthetic leather shoes is around \$20.00 and the retail price is \$30.00. On the other hand, the cost of a pair of shoes made of natural leather is about \$30.00 and the sale price of around \$45.00.

## **Packaging and labeling**

Each shoe bears the INEN label and the *Belissa* brand. It is packed in a cardboard box and delivered in a plastic sleeve personalized with the company's brand and contact information.

#### **3.4.1.16.4. Logistics**

The company has only commercial premises, therefore, its marketing chain is: final seller-consumer.

#### **3.4.1.16.5. Foreign trade**

*Belissa* does not have qualified personnel in foreign trade. Therefore, it does not know about issues related to it. In addition, it does not attend training or maintain any kind of employment relationship with any foreign trade institution.

#### **3.4.1.16.6. Finance**

The company is not obliged to keep accounts and so only presents the monthly statement before the SRI. The owner owns a bank account and line of credit at the Banco de Guayaquil.

**Table 33 Export Audit results for *Belissa***

Area	Punctuation
BUSINESS ENVIRONMENT / 70	26
Administration (25)	6
Consolidation (20)	9
Promotional resources (25)	11
PRODUCT / 115	65
Development (40)	20
Characteristics (35)	18
Raw Material (15)	15
Availability (10)	3
Packaging (15)	9
LOGISTICS / 20	8
FOREIGN TRADE / 25	0
FINANCE / 20	20
TOTAL, EXPORAUDIT / 250	119

Authors: García; Maurat

#### **3.4.17. Interview with Mr. Santiago Lituma, owner of a shoe workshop**

Mr. Santiago Lituma is the owner of a small factory of footwear, located on Calle 9 de Octubre S / N and Circunvalación. Its product is destined mainly to the retail sale in the commercial premises of his wife located in the same corner.

#### **3.4.1.17.1. Profile**

**Table 34 Santiago Lituma's workshop profile**

RUC	0100923150001
Type of legal status	Individual
Type of producer	Micro
Main product	Women's footwear
Location	Av. October 9 S / N and Circunvalación
Contact person	Mr. Santiago Lituma
Phone	Mobile: 0983452778
Date of the interview	October 10, 2017

Authors: García; Maurat

#### **3.4.1.17.2. Business environment**

The company has two employees legally affiliated to the IESS. The owner says that if he needs labor, he chooses to hire two or three people for a few days but this is occasional. There is no business organization chart because it is a small business.

#### **Consolidation**

The owner feels that his production has decreased noticeably which is the reason why the company is not totally consolidated. In addition, it does not have clients from other places since it only produces for the local retail store. Lituma belongs to the First of May Guild but mentions that the association does not fulfill any function in helping the shoemakers of Gualaceo.

#### **Promotional resources**

The company manufactures for certain brands but does not have its own brand. Within its facilities, it has Internet, but it does not have social networks or any other means to help advertise its product.

#### **3.4.1.17.3. Product**

Its main product is footwear for women. It does not have technical specifications or certifications. The owner opines that his footwear is of excellent quality and has exclusive designs.

### **Raw material**

Lituma says that the raw material with which he works is of Chinese origin and that he acquires this material from large distributors located in Quito and Guayaquil who obtain the merchandise in Colombia. In addition, he mentions that on extraordinary occasions he has preferred to negotiate directly with Colombian suppliers and has made purchases without intermediaries since he has repeatedly traveled to Bogotá for business purposes. So, he maintains good relations with them. In emergency situations, he buys material in local stores.

The approximate cost of a pair of women's shoes is \$16.00, of which \$10.00 corresponds to material and the remaining \$6.00 to labor. The sale price is \$18.00.

### **Characteristics**

The product is not bulky or fragile, so its distribution is easy. It also only makes local sales so it uses its own vehicle to transport the shoes.

### **Availability**

The shoe shop has a die cutter, three sewing machines and a cutting bender. Daily production is two dozen pairs. In the case of extraordinary orders, the owner mentions that he would hire, informally, more workers since with the machinery he owns, up to 10 people could work.

### **Packaging and labeling**

Each pair of shoes is packed in a cardboard box and each shoe bears the INEN label where the craftsman's name appears.

#### **3.4.1.17.4. Logistics**

The contact with customers is direct, their main buyers are local wholesalers. Its distribution chain is short, seller-wholesaler.

#### **3.4.1.17.5. Foreign trade**

The company does not have qualified personnel in foreign trade. In addition, it does not attend training or maintain any kind of employment relationship with any foreign trade institution.

For the moment, its suppliers are internationalizing since some of its raw material suppliers are Colombian.

#### **3.4.1.17.6. Finance**

The company keeps accounting records. In addition, bank accounts and lines of credit are in the owner's name.

**Table 35 Export Audit results for Santiago Lituma workshop**

<b>Area</b>	<b>Punctuation</b>
BUSINESS ENVIRONMENT / 70	12
Administration (25)	3
Consolidation (20)	6
Promotional resources (25)	3
PRODUCT / 115	57
Development (40)	11
Characteristics (35)	18
Raw Material (15)	13
Availability (10)	6
Packaging (15)	9
LOGISTICS / 20	6
FOREIGN TRADE / 25	0
FINANCE / 20	11
TOTAL, EXPORAUDIT / 250	86

Authors: García; Maurat

### **3.4.2. Craft sector**

#### **3.4.2.1 Interview with Mrs. Digna Zapatanga, president of the Bacpancel Community Tourism Craft Association**

##### **3.4.2.1.1. Profile**



**Table 36 Profile of Bacpancel Community Tourism Craft Association**

<b>RUC</b>	<b>019038092001</b>
<b>Type of legal status</b>	Society
<b>Type of producer</b>	Micro
<b>Main product</b>	Straw Hats Toquilla
<b>Location</b>	San Juan -2.96985611, -78.82995685
<b>Contact person</b>	Ms. Digna Zapatanga
<b>Phone</b>	Cell phone: 0986821817
<b>Date of the interview</b>	October 4, 2017

Authors: García; Maurat

#### **3.4.2.1.2. Business environment**

This association, beyond receiving foreign tourists interested in community tourism is dedicated to the development of handicrafts, especially hats and jewelry straw.

As for the tourist service, the association has established an agreement with a travel agency in the city of Cuenca for the sale of community tours of a duration of eight to 15 days with destination being the San Juan parish. This tour includes:

- Transportation from Cuenca to the community of Bacpanzel in San Juan and the stay in a hostel located in downtown San Juan,
- A guide/translator,
- The visit to the Artisan Association where you can see the whole process of making straw hats among other handicrafts, and
- The experience of witnessing the daily life of the inhabitants of the sector. In this sense, members of the association divide their responsibilities between tourists and take turns showing the various daily activities they carry out, such as sowing and harvesting, raising animals, housework and others.

Each month the association receives around 10 to 20 tourists, which make up the main clientele for the association. Zapatanga says that it is usually tourists who place orders once they return to their places of residence then "they send us orders for their business there and we send them by mail from Ecuador, recently, we send 150 hats to Italy".

On the other hand, regarding the productive activity of the association, it can be said that the straw hat has become its main product for two years. For its preparation the association buys the raw material, straw, in large quantities. It prepares and sells it to its members at a price lower than that of the retailers allowing them to have lower production costs. It is worth mentioning that the association serves as a collection center for the country hats that the members weave which is where the finishes are given.

That is to say, the association buys the country hats from the members for a standard price in relation to the quality of the hat, however, because these artisans have been wearing hats for only a short time, the quality of the hats is only between 0 and 3. Table 14 shows the internal prices managed by the association.

**Table 37 Cost of a toquilla straw hat according to its grade**

Grade	Cost for association
0	\$6.00
1	\$7.00
2	\$8.00
2.5	\$9.00
3	\$10.00

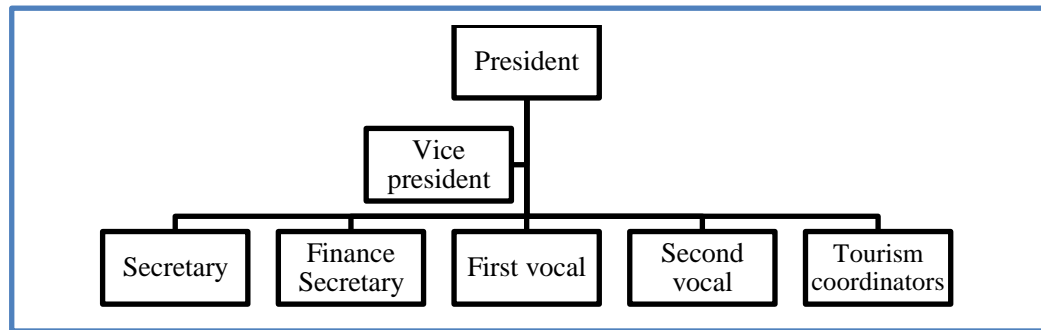
Source: Bacpancel Community Tourism Association.

Authors: García; Maurat

### **Administrative**

Formed as a legal entity in 2012, it currently has 30 active members without social insurance enrollment. This association has developed a mission and vision as well as rules and internal rules. all of which are stated in the statutes of the organization, and they also have a fully functional organizational chart that can be seen in the following figure.

**Figure 13 Business organization chart of the Bacpancel Community Tourism Association**



Source: Bacpancel Community Tourism Association.

Authors: García; Maurat

### **Consolidation**

Zapatanga believes that the association is well consolidated and in a stable position in the parish of San Juan. She says she has clients in Cuenca, Guayaquil, and Quito and even sent their product to the European continent on several occasions.

Its main competition is the Maria Auxiliadora Association in the village of Sígsig which it recognizes as much more developed because it already exports hats and toquilla straw articles.

### **Promotional resources**

Currently they are in the process of registering in the IEPI the brand 'Sombreras de Paja Toquilla Bacpancel' and have developed business cards in the Spanish and French languages, due to the fact that the majority of tourists that visit them come from France. However, the association does not have an adequate internet nor a website or social network.

#### **3.4.2.1.3. Product**

Although the members make and sell ornaments and jewelry made from toquilla straw, their main product is the finished toquilla straw hat from grades zero to three, which are woven individually in the homes of the members who weave the hat in the facilities of the association, where it is processed based on chemicals and the finishes are given.

## Raw material

The raw material *Carludovica Palmata*, commonly known as *toquilla straw* is purchased in bulk from suppliers in the province of Santa Elena who come to sell the product in Gualaceo.

Each package costs \$350.00 and contains 3,200 stalks of green straw that have to be prepared for them to be able to weave. For this, the stems are put to dry with sulfur in a dark wooden room during the one night, then they remove the straw, they wash it and dry it for the day, repeat this process for three nights and the straw is suitable for weaving. Here, it should be noted that one of the benefits that members receive is that they can buy the stalk of straw ready to weave, at 25 cents, while in other places it has a price of 35 cents. Because straw orders take around 15 days to arrive in Gualaceo, the association sees it convenient to always have a stock of straw in its warehouse in case there is a shortage of the product.

Other necessary supplies for hat making are: sulfur, hydrogen peroxide, tripoli<sup>1</sup>, and sodium sulfite<sup>2</sup>, which are easy to obtain because they are sold in several chemical distributors for industry in Gualaceo and Cuenca.

## Productive process

First, the members buy the raw material in the association and they dedicate themselves to weaving in their homes. Before starting to weave, they must break the straw and choose only the flexible threads of equal thickness; although the average time needed to weave a hat of grade three is 10 hours, the artisans usually take two to three days to do so, since they dedicate their time to other household activities. Once the weaving of the hat is done, the artisan takes it to the association to be finished. There, the first step is bleaching.

Although the toquilla straw hat has several color tones, the best known are the 'natural' and the 'white'. To give it the white color characteristic of *Panama Hat*, it must spend several days in chemicals. As is logical this process is done by dozens and not per unit, so for eight dozen hats are mixed 80 liters of water, 20 liters of hydrogen peroxide and six

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<sup>1</sup> It is a silicic acid in crystalline state. Geologically it is a silica SiO<sub>2</sub>, derived either from the decomposition or alteration of the limestone. <http://www.tierrasindustrialeshyd.com/tripoli.html>

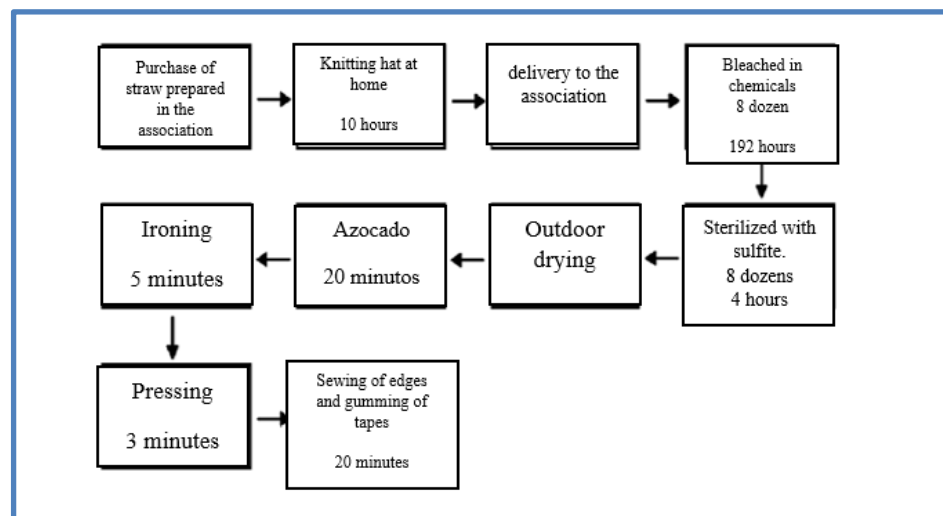
<sup>2</sup> Mineral or organic salt of sulfurous acid. Sulfites are used as antioxidants in the food industry. <https://boletinagrario.com/ap-6,sulfito,199.html>

pounds of tripoli in a metal tank with a temperature regulator keeping the mix at 40 ° C during the day and 50 ° C at night. Hats should remain in the mix for eight days. On the other hand, if you want to make hats of natural color it is necessary to leave the hats in the same solution only for 24 hours. Keep in mind that, 40 liters of hydrogen peroxide have a value of \$80.00 and 90 pounds of tripoli has a cost of \$25.00.

Then it is necessary to neutralize the hats of the chemicals used for bleaching so the hats should be immersed in a mixture of water and sulfite for four hours. For eight dozen hats they use 50 liters of water and two tablespoons of sulfite. Afterwards the hats should be allowed to dry in the sun for two days.

Once the dyeing process is completed, the loose strands of the hat are stretched to tighten the fabric and cut, this is called azocado and takes an average time of 20 minutes per hat. Then, the hat brim should be ironed with charcoal irons for five minutes; once this is done, the hat must go to the pressing machine to give it the desired model which takes approximately 40 seconds but it must be done three times; finally, the edges are sewn and the strands are glued, which takes another 20 minutes. That is, it will take approximately 50 minutes to completely finish a hat once bleached. See Figure 14 for flowchart.

**Figure 14 Flowchart for making straw hat**



Source: Bacpancel Community Tourism Association.

Authors: García; Maurat

## Characteristics

The external dimensions of the product are approximately 30 cm long and wide x 15 cm high; the internal dimension or diameter in centimeters will be equal to the size of the hat that goes from 54 to 62 inches.

This product is highly fragile because the straw is delicate. However, their transport is quite simple because they are packed in rectangular cartons and can be transported by any means of transport.

Hats do not need modifications to be exported, however, Zapatanga admits that they lack a lot of training and resources before they can export their product because the only reason that their hats have arrived abroad is due to purchases or requests from tourists who visit them. In addition, the product offered by the association does not have any type of certification at the moment.

## Cost

The cost of a finished grade three hat is \$15.00, the detail of the costs per unit is explained in table 15.

**Table 38 Cost detail for Grade 3 hat**

Detail	cost
Buy the hat from the artisan	\$10.00
Payment to craftswoman for completing the association	\$2.00
Cost of materials for finished	\$3.00

Source: Bacpancel Community Tourism Association.

Authors: García; Maurat

The prices of sale to the public vary: for a national tourist the price is of \$20.00 EXW, whereas for a foreign tourist the price is \$25.00 EXW.

## Availability

The productive capacity is 200 white hats or 500 natural hats per month. In the case of white hats, their ability to react to extraordinary orders is null, however, they could make up to 200 additional natural hats.

At the national level, the straw hat is not considered a seasonal product, however, it is for European tourists due to the seasons.

### **Packaging and labeling**

For retail sale, the hat is sold in a plastic bag, but for wholesale, they are stacked on top of each other by putting a helmet between every five units and placing them in long cardboard boxes with a capacity of up to 70 hats.

The hat goes with a label that contains the label in process *Straw Hats Bacpancel Toquilla* and size.

#### **3.4.2.1.4. Logistics**

The members are not aware of the INCOTERMS, so they have not developed prices in these terms, but it is established that the sale price to foreigners of \$25.00 is EXW.

They have not developed a distribution channel for the product, but they have an exhibition and sale space in the downtown area of San Juan. It is worth mentioning that when they have orders for foreign countries they go to the Postal System of Ecuador for the shipments, the buyer being responsible for all the expenses.

#### **3.4.2.1.5. Foreign trade**

The association does not have qualified personnel in other languages to communicate with tourists so they do it through the translators who always accompany them. Nor do they have trained partners in foreign trade, and they have not attended workshops or trainings on this subject.

Zapatanga emphasizes that the association has very good relations with the Parochial Government and the Municipality of Gualaceo which help them with the promotion and attraction of tourists, and the Ministry of Agriculture and Livestock that provides monthly training to the members on issues of agro-ecological crops.

#### **3.1.1.1.6. Finance**

The organization is obliged to keep monthly accounting, for the realization of this procedure pays an external accountant.

In addition, the organization has a checking account in the 'Cooperativa Jardín Azuayo' under the name of the association. At the moment the partners do not see it convenient to resort to bank loans, but they know that they could obtain one since they always receive calls from savings and credit cooperatives.

**Table 39 Export Audit results for Bacpancel Community Tourism Association**

Area	Punctuation
BUSINESS ENVIRONMENT / 70	52
Administration (25)	21
Consolidation (20)	18
Promotional resources (25)	13
PRODUCT / 115	70
Development (40)	23
Characteristics (35)	24
Raw Material (15)	11
Availability (10)	3
Packaging (15)	9
LOGISTICS / 20	5
FOREIGN TRADE / 25	15
FINANCE / 20	11
TOTAL, EXPORAUDIT / 250	153

Authors: García; Maurat

#### **3.4.2.2. Interview with Mr. Sebastián Guillén, informal macanero.**

##### **3.4.2.2.1. Profile**

**Table 40 Sebastian Gullen craftsman profile**

RUC	Without RUC
Type of legal status	Does not apply
Type of producer	Micro
Main product	Macana
Location	Via Gualaceo. Sector San Pedro de los Olivos
Contact person	Mr. Sebastian Guillen
Phone	Mobile: 0998732054
Date of the interview	September 19, 2017

Authors: García; Maurat



#### **3.4.2.2.2. Environment**

Mr. Sebastian Guillen is one of the 40 informal macaneros (shawl makers) that exist in Gualaceo, that is, he does not have a RUC, nor is he affiliated with social security. Basically, he dedicates himself to weaving the macana with the enthusiasm of keeping the ancestral knowledge that his parents taught him alive.

#### **3.4.2.2.3. Product**

Its main product is the macana as a scarf or shawl, but they also ship ponchos with the macanas they weave.

Although Mr. Guillen is weaving together with his mother, his production is quite low since both dedicate only sporadic hours to this activity, this being due to the fact that they also work in the fields and in the home in order to support his family. Weaving provides very small income to this family. The few "macanas" that they make take them to different places in artisanal markets such as *La Casa de la Mujer* in the city of Cuenca, where they sell them for retail. Because the size of their production is not representative, they do not have any other option than to accept \$25.00 to \$35.00 depending on the garment—a value almost equal to the time and material invested. They have also had the opportunity to take their product to local fairs held by the City Artisan Board in conjunction with the Municipality of Gualaceo, where they achieve higher profits because they sell directly to the final consumer, usually tourists.

They make the macanas from start to finish with the weaving tools they inherited from their ancestors, however, the purchase of the raw material (threads and dyes) is made through a relative or friend who has a RUC and who can get the supplies wholesale to lower the price.

The approximate time it takes to make a macana is three or four days, therefore, they may only produce between five and seven of them per month. However, when they have an extraordinary order they consolidate their production with those of other family members or friends who weave and thus can satisfy their orders. The production is stored in a large cardboard container, which they use to bring their product to Cuenca. These macanas do not carry any label or packaging.

Its cost of production is around \$30.00 per macana, considering the inputs and the time invested and the sale price is \$35.00; in the case of ponchos the cost is \$35.00 and the sale price is \$40.00, therefore, its utility is very low.

Finally, Guillén expresses his desire that the association of macaneros that is being formed become formalized as he believes that this would increase his sales and he could spend more time in the making of macanas of which he is passionate.

**Table 41 Export Audit results for Sebastian Guillen**

Area	Punctuation
BUSINESS ENVIRONMENT / 70	3
Administration (25)	0
Consolidation (20)	3
Promotional resources (25)	0
PRODUCT / 115	53
Development (40)	19
Characteristics (35)	25
Raw Material (15)	6
Availability (10)	3
Packaging (15)	0
LOGISTICS / 20	3
FOREIGN TRADE / 25	5
FINANCE / 20	0
TOTAL, EXPORAUDIT / 250	64

Authors: García; Maurat

#### **3.4.2.3. Interview with Mr. José Jiménez, owner of the *Makana House Museum***

Mr. Jiménez and his wife have been dedicated to macanas for more than 30 years their product is characterized by being made entirely of natural materials as well as their complex designs.

The Jiménez family is considered to be the most representative within the macana sector since they have created the *Makana House Museum*, the only museum where the complete macana process can be observed from ancestral spinning techniques, dyeing and weaving of this fine product.

This museum is also a center of exhibition and sale for the products based on macana made by Jiménez, his wife and their four children and is located in the sector of Bullcay at the entrance of Gualaceo.

#### **3.4.2.3.1. Profile**

**Table 42 Profile of *Makana House Museum***

RUC	0102414851001
Type of legal status	Individual
Type of producer	Micro
Main product	Macana
Location	Via Gualaceo. Sector San Pedro de los Olivos
Contact person	Mr. José Jiménez
Phone	Mobile: 0987778220/0995699163
Date of the interview	October 5, 2017

Authors: García; Maurat

#### **3.4.2.3.2. Business environment**

This business has an artisanal qualification. It is a family business that has no employees and whose production is the result of the full-time work of Mr. Jiménez and his wife, and the occasional help of their four children; It should be noted that none of them is affiliated with social or peasant insurance. In addition, this company has not developed a mission, a vision, objectives or organizational chart.

#### **Consolidation**

The company is not in a stable position since the current economic situation is very volatile. He also says that the landslide which occurred in the sector of Tahual has affected its sales because the passage to Gualaceo closes at nine in the morning at five in the afternoon. He would like this situation to be solved at once.

According to the owners, the business of the macanas has declined considerably in recent years, so much so that they have even considered not producing such a garment. They say that about 25 years ago the business was so fruitful that they had to buy from the smaller producers to be able to meet the demand. They also say that 95% of their production is

sold to foreign tourists who come to visit the museum and only 5% is sold to local residents or Cuenca, Quito, or Guayaquil.

On the other hand, Jiménez is a member of the 'Association of Hand Weaving', however, states that this no longer works as before due to the decline in sales.

### **Promotional resources**

They have the brand *Casa Museo de la Makana*, although it has not been registered in the IEPI. In addition, it has adequate internet in its facilities and has a Facebook page. As far as written advertising only has business cards in Spanish.

#### **3.4.2.3.3. Product**

Its main product is the macana or shawl, on the basis of which it orders other secondary products such as wallets, shoes, wallets and other accessories.

### **Raw material**

Their macanas are distinguished for being made with 100% natural materials and supplies, preserving the ancestral weaving and dyeing techniques. They make the colors for the dyes from plants and fruits. And, they use pure cotton thread, but consider that the Ecuadorian thread is of very low quality and high price.

### **Productive process**

In the House of the Makana, the entire production process is carried out from start to finish. Mr. Jiménez tells us that the production of a single macana is a long and laborious process for which the participation of several hands is necessary and, in this process, a clear division of labor can be distinguished. Thus, the preparation of the fiber, the dye, the warping, the tying, the dyeing, the untwisting, the making of the fringe and the starching are women's tasks, while the preparation of the warp in the loom and the fabric are male tasks requiring greater physical strength. It should be noted that in this craft workshop, they do not have technical specifications of the product.

## **Characteristics**

The macana is not a bulky product. Its dimensions are 70 cm wide by 140 cm long, nor is it fragile because it is folded and stored in cartons. However, it is important to take care of the product at the time of storage so that it does not remain in direct contact with the sun for a long time or in humidity.

The macana does not need modifications to be sold in international markets but it could be considered a seasonal product depending on the country of destination. It is an artisanal product that has high traditional value but does not have any type of certification.

## **Cost**

The approximate cost of manufacturing a macana is \$ 25.00, and the retail price is \$35.00 EXW.

## **Availability**

At the moment the company elaborates around 30 macanas each month, although it could make up to 45 macanas with more help from his children. The production time of a shawl is usually three days and, depending on the design and size, it can even take four months. He considers the informal macaneros as their main competition.

## **Packaging and labeling**

Each tag is marked with the brand, the '*hand-made*' label and the museum phone number. It is delivered in plastic bags. Garments made from the macana are sold in more striking packages of recycled material with a logo, brand and legend "product made in Ecuador 100% natural, 100% handmade, ancestral technique".

### **3.4.2.3.4. Logistics**

The macana is sold with an EXW price and have not seen the need to develop prices in other INCOTERMS. Likewise, distribution channels have not been foreseen, nor are there sales agents; everything produced is exhibited in the store within the museum.

### **3.4.2.3.5. Foreign trade**

The Jiménez family does not have bilingual or qualified members in foreign trade within their family. However, they have good relations with institutions such as the Municipality of Gualaceo and the Prefecture of Azuay that help them promote their product and their museum in the tourism sector.

#### **3.4.2.3.6. Finance**

Due to its artisanal qualification, the company must report its accounts every six months for which they pay an external accounting assistant. He does not have a bank account in the name of the business, only a personal checking account with which he has made small credits several times.

**Table 43 Export Audit results for *Macana house museum***

Area	Punctuation
BUSINESS ENVIRONMENT / 70	33
Administration (25)	3
Consolidation (20)	16
Promotional resources (25)	14
PRODUCT / 115	74
Development (40)	24
Characteristics (35)	28
Raw Material (15)	13
Availability (10)	3
Packaging (15)	6
LOGISTICS / 20	0
FOREIGN TRADE / 25	6
FINANCE / 20	15
TOTAL, EXPORAUDIT / 250	128

Authors: García; Maurat

#### **3.4.2.4. Interview with Ms. Elsa Ulloa, owner of *Tejidos Ikat***

Fabrics Tejidos Ikat is a craft company that is dedicated to the manufacture of ponchos, scarves, shawls, capes and shoes from the traditional macana fabric.

##### **3.4.2.4.1. Profile**

**Table 44 Profile of *Tejidos Ikat***

RUC	0102835022001
Type of legal status	Individual
P type roductor	Micro
Product p ain	Macana
Location	Via Gualaceo. Sector San Pedro de los Olivos
Contact person	Mr. Piedad Ulloa
Phone	Mobile: 0998668174
Date of the interview	September 19, 2017

Authors: García; Maurat

#### **3.4.2.4.2 Business environment**

Mrs. Elsa Piedad Ulloa Rodas directly employs six members of her family who, at the moment, have only voluntary peasant insurance.

Being a family business, she has not developed any type of business, manual or organizational flow chart, likewise she has not developed goals or long - term strategies.

#### **Consolidation**

They do not consider the company to be in a consolidated position because they see it more as a family business. However, Ikat has a commercial outlet in Bullcay and another in the center of the city of Cuenca and they also have several clients in Quito. This company does not belong to any artisan association or association and its owners do not know of the existence of any export association in that sector.

#### **Promotional resources**

In Ikat they have adequate internet service and they have a Facebook page, however, they have not tried to create a website or experiment in other social networks. The company has registered the brand ' Ikat ' in the IEPI, and has also developed technical product sheets, brochures and business cards in Spanish and English.

#### 3.4.2.4.3. Product

The main product of this traditional company are the ponchos and macana shawls which are made from start to finish in his workshop in Bullcay, where the preparation, dyeing and weaving takes place of the macana that can be sold as well or used to make ponchos, scarves, layers and even shoes.

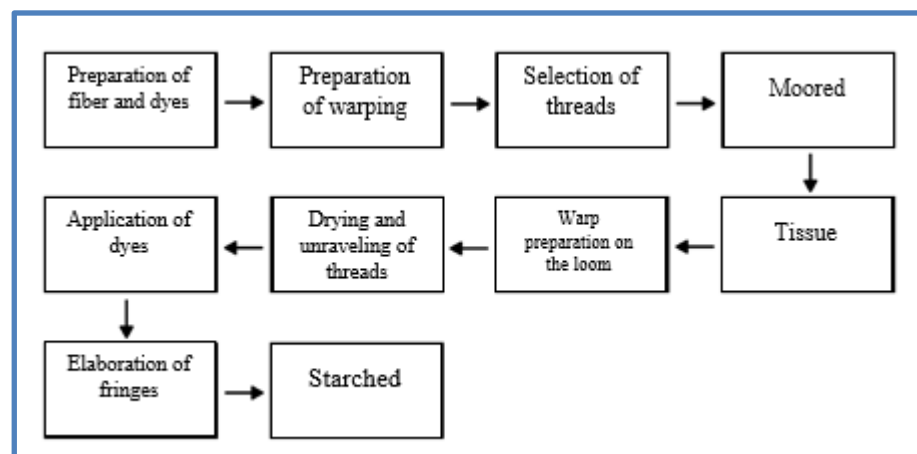
#### Raw material

As for the materials needed for weaving, Ulloa inherited looms from her family, but buys the yarn and dyes from distributors either in Gualaceo or Cuenca and the availability of this raw material is very high.

#### Productive process

The process begins with the preparation of the fiber and the dye, then the warping, followed by the selection of the threads that are then tied with plastic thread to form the designs after which the dye (s) is applied; once the dye is dry, the threads are untied. Then, the warp is prepared in the loom to proceed to weave and after two or three days dedicated to the fabric, the fringe is finally made and the starch is made for the macana. See Figure 15 for flowchart.

**Figure 15 Flow chart for the preparation of batons**



Source: Ikat Fabrics.

Authors: García; Maurat.



## **Characteristics**

The macana is not a bulky or fragile product, its transport is simple and does not need special conditions for storage. In addition, it can be introduced to foreign markets without major modifications other than the size of the garments. Ulloa says that the main hallmark of her product is the traditional and cultural value of the macana, whose elaboration preserves ancestral and historical knowledge and values. In comparison with the rest of the macana weavers, she says that her distinction is the great variety of colors they offer. This is not a seasonal product because of its light and comfortable weight. It is worth mentioning that the company does not have any certification at the moment.

## **Cost**

In general, the cost of manufacturing a macana is approximately \$23.00 and its sale price varies between \$38.00 and \$45.00 EXW.

## **Availability**

Ikat has a monthly productive capacity of approximately 100 shawls, 50 ponchos and 80 scarves apart from shoes, capes, and other articles of clothing. A macana takes an average processing time of 24 hours or three working days. The distribution channel used for orders to other cities is Servientrega and the chain of product commercialization is through its commercial premises and craft fairs.

## **Packaging and labeling**

The product has simple labeling and a suitable packaging has not been developed for it so, for now, it is simply sold in plastic bags and does not carry any kind of packaging.

### **3.4.2.4.4. Logistics**

In terms of logistics, the company does not have a mature commercial distribution and has not believed it necessary to develop prices in INCOTERMS, nor has a medium or chain been determined for the distribution of the product.

#### **3.4.2.4.5. Foreign trade**

Similarly, when it comes to foreign trade, the company does not have qualified personnel on the subject nor does it have good relations with institutions that could help in this regard.

#### **3.4.2.4.6. Finance**

Ikat has a craft qualification for what it declares before the SRI every six months through an external accountant. She does not have bank accounts or lines of credit in the name of the company but Ms. Ulloa usually uses her personal bank account for things related to her business.

**Table 45 Export Audit results for *Tejidos Ikat***

<b>Area</b>	<b>Punctuation</b>
BUSINESS ENVIRONMENT / 70	44
Administration (25)	6
Consolidation (20)	15
Promotional resources (25)	23
PRODUCT / 115	93
Development (40)	35
Characteristics (35)	26
Raw Material (15)	13
Availability (10)	10
Packaging (15)	9
LOGISTICS / 20	6
FOREIGN TRADE / 25	0
FINANCE / 20	14
TOTAL, EXPORAUDIT / 250	157

Authors: García; Maurat

#### **3.4.2.5. Interview with Ms. María Mui, Representative of the Artisanal Cooperative *Teje Mujeres***

##### **3.4.2.5.1. Profile**

The Cooperativa Artesanal Teje Mujeres is an organization created to support women who are dedicated to knitting and serves as a collection center for the individual production of

the members. The organization was born in 1992 having 25 years as a de facto organization and 20 years of legal life as a cooperative. See Table 46.

**Table 46 Profile of Artisanal Cooperative Teje Mujeres**

RUC	0190157172001
Type of legal status	Society
P type producer	Undeclared
Product plan	Christmas socks
Location	Av. November 3 2-11 and Eugenio Espejo
Contact person	Ms. María Muy
Phone	07 2255245/0998940442
Date of the interview	October 4, 2017

Authors: García; Maurat

#### **3.4.2.5.2. Business environment**

This entity began with the aim of organizing all women involved in fabrics, sporadically at that time, and whose product was not evaluated locally and even less well known abroad.

Thus, in 1992, 35 women met with the objective of exporting woolen fabrics and in 1995 became the first exporter of knitted fabric. From there, the Teje Mujeres Cooperative has been exporting its strongest market to several European countries as well as to the United States. There are currently 28 legal members that are part of this cooperative who work in conjunction with 37 other artisans. This cooperative serves as a collection center for the production of a total of 65 women knitters.

At this time, the main export product for the association is the decorative Christmas stocking. The business of the cooperative is to provide this Christmas product to stores abroad that work with the Fair-Trade certification, because they have obtained this certification for their products.

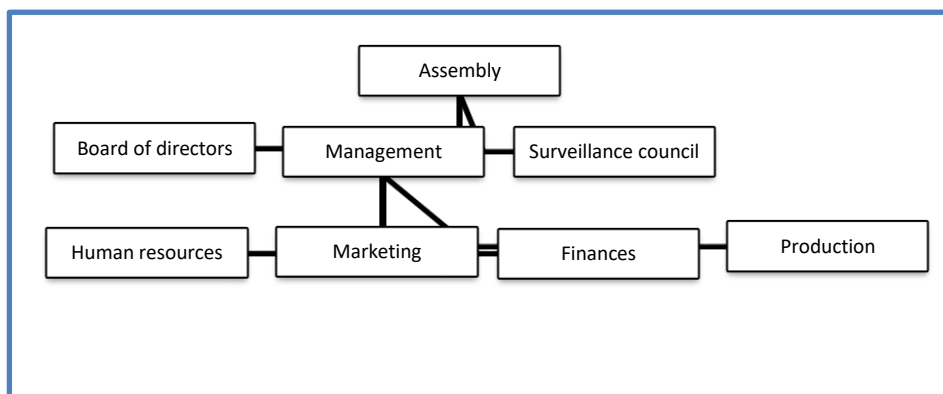
As a financial fact, it is known that by the end of 2016 the cooperative registered sales of approximately \$ 65,000, resulting from the sale of 6,547 knitted garments. With this

background, the goal for 2017 is to reach \$ 80,000 in sales which has almost already been achieved in October.

However, Maria Muy is concerned because, according to her, there is a high demand for the product but, unfortunately, the cooperative must face several obstacles to export. On the one hand, the productive capacity of the cooperative is limited due to the short time that artisans dedicate to this activity so that sometimes the cooperative is forced to reject important orders. On the other hand, she says that the country is not competitive enough in terms of raw material because, according to her, Bolivia and Peru have better quality wool at a lower price. Knowing this, the cooperative took the initiative to import raw materials from Peru, but due to high taxes, the result was expensive tariff barriers which made their products lose their international competitiveness.

On the issue of social security, although most members do not have any insurance, there are several that are affiliated under rural social security. In addition, five of the members have administrative positions in the cooperative and are listed as employees of the cooperative, for which they are affiliated to the IESS and earn a fixed salary. See Figure 16.

**Figure 16 Flowchart *Teje Mujeres***



Source: Cooperativa Artesanal Teje Mujeres.

Authors: García; Maurat.

In addition to having a functional organization (Figure 16) the association works with manuals, regulations and statutes. On the other hand, it has a mission, vision, general and

specific objectives, and well-defined short and long-term strategies, all of which are available to the public through its website. To ensure compliance with the established objectives and deadlines, the cooperative is managed through an annual operating plan, quarterly evaluations and monthly planning.

### **Consolidation**

Muy believes that Teje Mujeres is already in a stable and consolidated position, however, she knows that innovation and constant change are paramount to success in order to adapt to the demands of the market. The institution has customers who own famous galleries and art centers in the cities of Cuenca and Quito, but the vast majority of its production is exported to European countries and the United States.

Despite having a good reputation in the field of embroidery and weaving this craft, she says that in Gualaceo and surrounding areas there is not a great value on these items which is why the cooperative focuses on exporting its products and not in the local sale.

### **Promotional resources**

Teje Mujeres has an interactive web page developed in Spanish and English ([www.tejemujeres.com](http://www.tejemujeres.com)), and is present in social networks such as Facebook, Twitter and Instagram, for which it has adequate internet within its facilities. They have widely promoted their brand *Teje mujeres* and are currently in the process of registering their new logo which is already in use in their products and packaging. They also have business cards in Spanish as well as English and wish to create brochures and leaflets in the near future.

#### **3.4.2.5.3. Product**

The main product of the institution is the christmas sock. They also offer other Christmas decorations, children's and adult clothing, accessories, pillows and blankets.

## Raw Materials

The only necessary raw material for the knitting of Christmas stockings is wool yarn. For its acquisition the cooperative has suppliers from Salinas de Guaranda with *Fare Trade* certification, who send the material to the cooperative.

## Production Process

Craftswomen members of this cooperative perform the weaving process from start to finish in their homes and have product data sheets to ensure that the quality and design among all knitters is maintained. It really is a fairly simple process because besides the tissue does not involve additional steps for finished. The average weaving time is an average is eight hours.

## Characteristics

The Christmas stocking is a product both lightweight and malleable so it is not considered bulky, fragile or difficult to transport. In any case, the only care this products needs is while in storage to prevent moisture or moths. On the other hand, it is a global product created specifically for international markets so you do not need modifications for export to other continents. It has a high degree of differentiation by having the *Fare Trade* certification, being a product that is 100% natural, high quality and traditional values throughout the world.

## Cost and price

The average total cost of production of a Christmas stocking is \$ 9.50, distributed according to Table 16. The EXW sale price is \$15.00.

**Table 47 Detail of costs of a Christmas stocking**

Detail	cost
Raw material	\$ 3.00
Force	\$ 2.75
Indirect costs	\$ 2.50

Fixed costs	\$ 1.75
-------------	---------

Source: Cooperativa Artesanal Teje Mujeres.

Authors: García; Maurat.

### **Availability**

The current productive capacity that the cooperative weaves is 800 Christmas stocking per month though they have a capacity to react to extraordinary orders of up to 1200 in a month. Although this article is a seasonal product, it has developed cooperative agreements with its customers to begin supplying the product beginning in the first months of the year to avoid the backlog at year end.

### **Packaging and labeling**

The product carries the label of the cooperative with the brand and logo of Teje Mujeres, however, it depends on the customer for the export, as there are those who provide their own labels.

For the unit sale, the cooperative has cardboard paper bags with the brand and logo of the company. And for the wholesale sale, the merchandise is simply packed in large cartons.

#### **3.4.2.5.4 Logistics**

The cooperative has not developed prices in other INCOTERMS for foreign trade. For export, it has an agreement with a company in the city of Cuenca in charge of international air transport, and these expenses are covered by the customer. On the other hand, Teje Mujeres does not have sales agents.

#### **3.4.2.5.5. Foreign trade**

Within the cooperative, the manager is the only person trained in foreign trade issues and in the English language, however, the person in the marketing area has also attended several trainings sessions on international trade issues. Muy says that the cooperative has very good relations with PROECUADOR.

### 3.4.2.5.6. Finance

On this subject the cooperative keeps monthly accounting records. In addition, she owns a bank account in the name of the organization and has applied for loans in the short term.

**Table 48 Export Audit results for Teje Mujeres**

Area	Punctuation
BUSINESS ENVIRONMENT / 70	70
Administration (25)	25
Consolidation (20)	20
Promotional resources (25)	25
PRODUCT / 115	83
Development (40)	38
Characteristics (35)	18
Raw Material (15)	13
Availability (10)	8
Packaging (15)	9
LOGISTICS / 20	15
FOREIGN TRADE / 25	18
FINANCE / 20	20
TOTAL, EXPORAUDIT / 250	209

Authors: García; Maurat

### 3.4.3. Livestock and poultry sector

#### 3.4.3.1 Interview with Mrs. Carmen Guartazaca, Vice President of the Agricultural Family Production Association *Sowing Hopes for a Good Life*.

The main activity of this association is the breeding and sale of guinea pigs prepared for roasting. It does not have its own installation so for meetings they choose to go to the home of a member. All partners are from Luis Cordero Parish, Gulag.

#### 3.1.2.1.1. Profile

**Table 49 Profile of *Sowing Hopes for a Good Life***

RUC	0190415058001
Type of legal status	Society
P type producer	Micro
Product plan	Guinea Pigs



Location	Parish Luis Cordero, Gulag
Contact person	Mrs. Carmen Guartazaca
Phone	0984935056
Date of the interview	November 25 of 2017

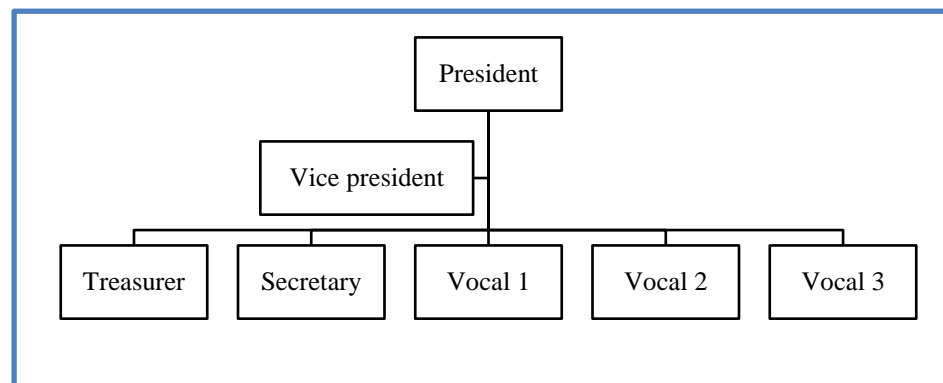
Authors: García; Maurat

### 3.4.3.1.2. Bussines environment

The association has 19 partners, who, on their own, have peasant insurance. There is a functional organizational chart (Figure 17). In addition, it has statutes but not manuals or flowcharts.

Within their long-term objectives, they seek to open a restaurant in Gualaceo, in order to obtain greater profits.

**Figure 17 Business organization chart of Sowing Hopes for a Good Life**



Source: Sowing Hope for a Good Life Association, 2017

Authors: García; Maurat.

### Consolidation

Mrs. Carmen Guartazaca, feels that being an association created two years ago, there are flaws within it; the biggest obstacle at the moment is the lack of commitment on the part of the partners which is why she believes that the association is in the process of growing.

Currently, its main point of sale is the city of Cuenca as the owners of Cuenca restaurants or grills are its main customers. In addition, they sell to Gualaceo and the rest of their parishes.

As for competition, she says that there are small groups dedicated to the same activity, however, the sales of these are minor compared with their association.

### **Promotional resources**

The association does not have a brand. In addition, it does not have social networks or a website. They are made known due to the recommendations of their clients. They also do not have business cards or brochures.

#### **3.4.3.1.3. Product**

The main selling product is guinea pig. Each partner takes care of raising their animals and all the expenses that this implies. Once the guinea pig is three months old and weighs 3 pounds, it is ready for sale. In the case of not meeting these requirements, the animal will be returned to the member.

Every 15 days, between six and nine people meet to prepare the guinea pigs. In the first place, the guinea pigs are gutted so that they can remove the viscera, then they are seasoned and left to rest for one or two hours. After this time, they arrange them in trays and deliver them to their customers. In addition, in certain cases they sell roasted guinea pigs but, only on request.

The cost of a guinea pig is approximately \$7.00, and the selling price of \$10.00.

### **Characteristics**

The length of a guinea pig can vary between 28 and 32 centimeters. It is not fragile, but it does require a delicate treatment. This is a product that has constant rotation, however, on holidays such as Christmas or Carnival there is fairly high demand.

### **Availability**

Its monthly sale varies between 300 and 350 guinea pigs depending on the time of year. In the case of extraordinary orders, they have no problem in employing extra people known in the industry as neighbors or relatives.

### **Packaging and labeling**

There is no type of labeling, nor is there packaging. The delivery of guinea pigs is done in trays or pans.

#### **3.4.3.1.4. Logistics**

Contact with customers is direct, by telephone. The means of transport used by is by land, specifically taxis.

Its distribution chain is short, seller-land transport - buyer.

#### **3.4.3.1.5. Foreign trade**

The association does not have qualified personnel in foreign trade, therefore, they are unaware of issues related to it. In addition, they do not attend training or maintain any kind of employment relationship with any foreign trade institution. Likewise, none of the partners are able to communicate in English or any other foreign language.

#### **3.4.3.1.6. Finance**

The association carries accounting records, also has a savings account in the name of the same in the Cooperative Jardín Azuayo.

**Table 50 Export Audit results for Sowing Hope for a Good Life Association**

<b>Area</b>	<b>Punctuation</b>
BUSINESS ENVIRONMENT / 70	25
Administration (25)	14
Consolidation (20)	11
Promotional resources (25)	0
PRODUCT / 115	64
Development (40)	21
Characteristics (35)	19
Raw Material (15)	15
Availability (10)	6
Packaging (15)	3
LOGISTICS / 20	6
FOREIGN TRADE / 25	0
FINANCE / 20	8
TOTAL, EXPORAUDIT / 250	103

Authors: García; Maurat

#### **3.4.4. Industrial sector (except footwear)**

##### **3.1.3.1. Interview with Mrs. Esther Miguitama, Manager of *Idearte Muebles***

#### **3.4.4.1. Profile**

Idearte is a factory for wooden furniture for the home that began its work in 2009. The main office is in Gualaceo but is also has commercial premises in Santa Elena, Naranjal and Cañar. See Table 51.

**Table 51 Profile of *Idearte Muebles***

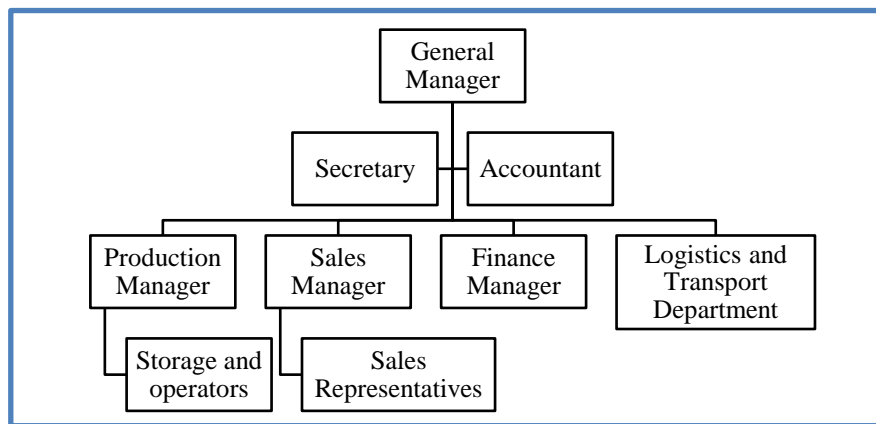
RUC	1310211725001
Type of legal status	Individual
Type of SME	Small
Product plan	Closet
Location	Bullcay S / N
Contact person	Mrs. Esther Miguitama
Phone	072255221
Date of the interview	November 24, 2017

Authors: García; Maurat

#### 3.4.4.1.1 Business environment

They have a functional organization chart (see figure 18), has no manuals or flowcharts, but does have mission and vision statements set out as goals and long-term strategies. Among these is expanding the brand and opening more commercial premises nationally. As for the work force, the company has 17 employees and all are affiliated in the IESS.

**Figure 18 Idearte Furniture business organization chart**



Source: Idearte Furniture

Authors: García; Maurat

#### Consolidation

According to the manager, the company is in a stable and consolidated position because it has managed to expand nationally and has great recognition and prestige in the economic

environment. Within its client portfolio, the most potential are in Guayaquil, La Troncal, Riobamba, and Loja.

### **Promotional resources**

In its facilities, it shares the internet with another company. Idearte handles Facebook and Instagram accounts, also has a website, [www. ideartemuebles.com](http://www.ideartemuebles.com). It also has business cards and brochures developed only in Spanish.

#### **3.4.4.1.3. Product**

Its main product is the clothes closet and among the secondary are the dressers.

The elaboration of the operations starts with the production order that is delivered to the warehouse. This department is in charge of the delivery of the wood and other materials to the workers. In the manufacturing area, the workers start with cutting wood according to the requested design then proceed to sanding and lacquering the wood and allowing it to dry. This first part of the process requires two to three days. Subsequently, the pieces are joined, with nails and glue, finally, the last step is the finishing. All of this, in a time of two to three days. During this time, 14 dressers are made.

The approximate cost of a closet is around \$ 325.00, the retail price is \$ 420.00 and the wholesale price is \$375.00.

### **Characteristics**

The product has measures of 2 mts. by 1.5 mts, so it requires special care when transporting it.

### **Raw material**

The raw material is obtained from the coastal region, specifically Troncal and Naranjal. He has good relations with his suppliers since they own the premises in said places. In the manager's opinion, the raw material is of excellent quality, this being the main characteristic of its product.

### **Availability**

The monthly production is 56 closets. This amount varies depending on the season, since there are occasions when demand increases, however, there is no problem in acquiring extraordinary orders since the company has the necessary machinery and labor.

### **Labeling and packaging**

The product bears the brand and it is packed with plastic and there is no container due to the size of the product. To be able to transport it nationally, they are accommodated in trucks with all the possible care.

#### **3.4.4.1.4. Logistics**

The product is transported in trucks from the parent company to the different branches or to the final consumer.

#### **3.4.4.1.5. Foreign trade**

The company does not have qualified personnel in foreign trade, so it does not know about the subject. In addition, it does not attend training or maintain any kind of employment relationship with any foreign trade institution.

#### **3.4.4.1.6. Finance**

The company is obliged to keep accounts, has a bank account and lines of credit in Banco del Pichincha. According to the manager, the company is eligible to access credits for foreign trade.

**Table 52 Export Audit results for Idearte Muebles**

<b>Area</b>	<b>Punctuation</b>
BUSINESS ENVIRONMENT / 70	55
Administration (25)	23
Consolidation (20)	15
Promotional resources (25)	17
PRODUCT / 115	66
Development (40)	28
Characteristics (35)	6
Raw Material (15)	13
Availability (10)	10

Packaging (15)	9
LOGISTICS / 20	10
FOREIGN TRADE / 25	0
FINANCE / 20	20
TOTAL, EXPORAUDIT / 250	151

Authors: García; Maurat

#### 3.4.4.2. Interview with Mrs. Narcisa Orellana Herrera, Owner Manager of *Ideal Furniture*

##### 3.4.4.2.1. Profile

Muebles Ideal is a company dedicated to the manufacture of wooden furniture since 1981. Its establishment is located in the Bullcay sector and its sales premises in Av. Jaime Roldós and Antonio Delgado. See Table 53.

**Table 53 Profile of *Ideal Furniture***

RUC	0700751688001
Type of legal status	Individual
Type of SME	Small
Product plan	Beds
Location	Bullcay S / N
Contact person	Mrs. Narcisa Orellana Herrera
Phone	072255221
Date of the interview	November 24, 2017

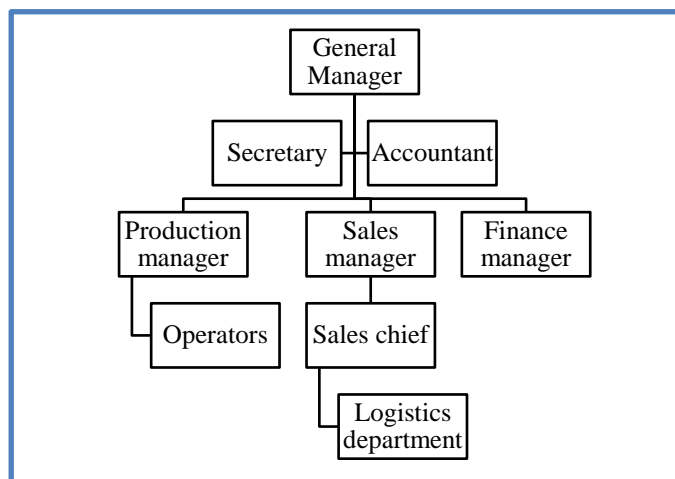
Authors: García; Maurat

##### 3.4.4.2.2. Business environment

The company has a functional organization chart (see Figure 19) and does not work with manuals or flowcharts. It has clearly established a vision and mission, as well as strategies to fulfill its objective of positioning the brand at the national level.

Regarding its human resources, it has 12 employees who are legally affiliated to the IESS.

**Figure 19 Business organization chart of Muebles Ideal**



Source: Ideal Furniture.

Authors: García, Maurat.

### **Consolidation**

Narcisa Orellana believes that her company is consolidated and in a stable position because it has branches in La Libertad, located in Santa Elena, in Montecristi-Manabí and in Gualaceo. She also believes that his brand is very well positioned in the market, especially in the coastal region of the country.

### **Promotional resources**

The company has a website, [www.mueblesideal.com.ec](http://www.mueblesideal.com.ec), as well as a Facebook and Instagram profile; In addition, it has business cards and brochures, all of them developed only in Spanish.

#### **3.4.4.2.3. Product**

The main product of this company is the double bed, whose production is carried out by series of 12 units. Each series includes the following process. First the production order is delivered to the warehouse so that consequently the required materials are dispatched. Once the request is received, the operators begin with the manufacture of the beds.

Subsequently, the wood is cleaned to remove grease and dust then, the measurements are drawn on the planks since several pieces of wood with different sizes are needed to



structure the bed. With these measures the wood is cut and sanded. This first stage requires two to three days. Once the pieces are obtained, the corresponding perforations are made to place the bolts which can take six hours. Thereafter, in a maximum time of eight hours, the wood is dyed and left to dry and then a waterproofing varnish is applied. Finally, the bed is assembled, the sides, the footboard and the backboard with bolts and nails are joined.

The approximate production time of a dozen beds varies in six and seven days; and the approximate cost of a bed is \$ 300 while the retail price is \$ 350.

### **Characteristics**

Although the final product, that is to say the assembled bed, can have dimensions up to 220cm x 180cm x 90cm, to be transported, all the pieces are packed occupying a space of 90cm x 30cm x 220cm. On the other hand, the product needs to be well packed to avoid scratches or bumps in the wood, so it has a certain degree of fragility. It is also a product whose weight can vary between 130 to 250 pounds depending on the type of wood used.

### **Raw material**

The raw material is obtained mainly from La Libertad, located in the province of Santa Elena. It should be noted that according to the manager the raw material is of excellent quality.

### **Availability**

The monthly production is 48 beds, and increases depending on the demand, therefore, the company has no complication in accepting extraordinary orders because it has the necessary machinery and equipment to face eventualities.

### **Labeling and packaging**

The product bears the name and it is packed with plastic, there is no container due to the size of the product. In order to transport it nationally, they are accommodated in trucks using cardboard and Styrofoam.

#### **3.4.4.2.4. Logistics**

The product is carried nationally company trucks whether to the final consumer or the various outlets.

#### **3.4.4.2.5. Foreign Trade**

The company does not have qualified personnel in foreign trade, so it does not know about the subject. In addition, it does not attend training or maintain any kind of employment relationship with any foreign trade institution. Also, it should be noted that both its suppliers and buyers are local.

#### **3.4.4.2.6. Finance**

The company is obliged to keep accounts, has a bank account and lines of credit in the Banco de Guayaquil. According to the manager, the company is eligible to access credits for foreign trade.

**Table 54 Export Audit results for Ideal furniture**

<b>Area</b>	<b>Punctuation</b>
BUSINESS ENVIRONMENT / 70	49
Administration (25)	20
Consolidation (20)	15
Promotional resources (25)	14
PRODUCT / 115	72
Development (40)	28
Characteristics (35)	12
Raw Material (15)	13
Availability (10)	10
Packaging (15)	9
LOGISTICS / 20	6
FOREIGN TRADE / 25	0
FINANCE / 20	20
TOTAL, EXPORAUDIT / 250	147

Authors: García, Maurat.

### **3.5. Conclusions**

Gualaceo's productive diversity is the engine of its economy and has made this one of the most attractive districts of the province in economic terms, thanks to its nationally recognized products.

Starting with the footwear industry, manufacturers and sellers from Gualaceo strive to deliver a quality product with unique designs because they know that this market is one of the most attractive. However, despite their efforts they lament the Small support provided by the municipal and parochial authorities. On the other hand, they have notoriously highly rivaled traders, which does not allow the flow of information for proper collection of goods, or the exchange of knowledge to achieve better production practices. Also, the dysfunctionality of the sole footwear guild and local competitiveness have made the cobblers lose interest in association. It also highlights the fact that the largest company in the sector, Litargmode, has no interest in international trade.

Another attractive market of the area is the artisanal sector with works made by hand and which are very appreciated both by locals and foreigners. Currently, there is a large number of artisans who get very Small profit for their work. In some cases, they do not generate any profit which makes them look for other sources of money and have to contend with arduous days of work. It is worth mentioning that there are no SMEs in the artisan sector, so the study had to be based on several of the most representative actors of the sector.

Regarding the agricultural and livestock sectors, there are sections mostly occupied by micro companies which receive very Small support and advice so their techniques and ways of working are outdated and their production is not representative if it is to compete internationally. This, with the exception of the three important floriculture companies, whose export items are known, is very important for the economy of the city.

Within the industrial sector, except for footwear and despite having more than one hundred and fifty formal enterprises, there are only a few family companies dedicated to woodworking. However, there are several branches located in certain parts of the country.

It is also noteworthy that, in general, SMEs that have been part of this study do not have functional websites for foreign trade purposes. The most used advertising media are social network applications and instant messaging Facebook and WhatsApp. In addition, there is great resistance in terms of the public communication of image galleries and technical specifications of the products.

Finally, the number of companies that work together with public institutions is very limited and there is also a lot of ignorance on the part of owners and employees about the existence of trade support institutions as PROECUADOR or MIPRO. It is also stressed that the common thread among the SMEs interviewed is that they ignore issues of foreign trade and very few have qualified personnel to communicate in two or more languages. In the best case, it is business owners or one of their relatives who have basic knowledge of the English language.

## **CHAPTER IV**

### **Diagnosis of the exportable products of SMEs of the city of Gualaceo**

#### **4.1. Introduction**

Once the interviews were carried out and the business, production, commercial and financial details of each of the selected entities are clear, it was possible to complete the diagnosis of the productive and exportable potential of the area under study. For this purpose, in this chapter the cross-SWOT and SWOT analysis matrix of the entities under analysis is carried out which will help determine the potential of each productive unit taking into account its internal environment and the surrounding environment and information necessary for the suggestion of action strategies devised through the CAME management.

#### **4.2. Theoretical basis**

##### **4.2.1. SWOT**

The SWOT analysis is a useful tool in operational planning since it allows one to visualize and synthesize the current state of the company by identifying the opportunities and threats coming from the external environment as well as the strengths and weaknesses within the company. (Vargas Vargas, 2014)

##### **1) Analysis of the external environment**

This is composed of threats and opportunities which, according to Vargas, are the external environment which generates circumstances that companies can capitalize on as opportunities, as well as threats that must be faced, therefore, before these events, managers must be vigilant, since changes in demographic, economic, legal, socio-cultural, technological and / or environmental type, which could positively or negatively affect the company.

## 2) Analysis of the internal environment

The internal analysis allows for the identifying of the main strengths and weaknesses of the organization. These refer to the capacity, quality and quantity of available resources, also taking into account essential actors such as suppliers, intermediaries and competition. (Vargas Vargas, 2014)

**Figure 20 SWOT Matrix**

	Strengths (F) Make list of strengths	Weaknesses (D) Make list of weaknesses
Opportunities (O) Make list of opportunities	Strategies (FO) MAX-MAX strategies Use of strengths to take advantage of opportunities	Strategies (DO) Strategies MIN - MAX Overcome weaknesses by taking advantage of opportunities
Threats (A) Make threats list	Strategies (FA) Strategies MAX - MIN With the use of strengths, threats are avoided	Strategies (DA) MIN-MIN Strategies Minimize weaknesses

Source: Vargas, Samuel 2014.

### 4.2.2. SWOT crossed and CAME management

To complete the development of the SWOT, we proceeded to establish strategies through the cross analysis of the data described in the matrix through an independent analysis of the quadrants, as indicated in figure 20. (Vargas Vargas, 2014)

After having developed the SWOT, the CAME analysis is applied, a diagnostic tool that is used to define the type of strategy that must be established, that is, it is a complementary method. Its initials correspond to the initials of correcting, coping, maintaining and exploiting. (Frances Martín, 2013)

- Correct the weaknesses
- Face threats
- Keep the strengths
- Explore / Exploit opportunities

The types of strategies that are obtained after performing an independent analysis are those described below.

- Defensive strategies: when they produce threats from the environment, the company's strengths are used to confront them.
- Offensive strategies: when opportunities arise in the environment, they are related to the strengths of the company.
- Survival strategies: the information of the threats of the environment is crossed with the weaknesses of the company.
- Reorientation strategies: they are generated when the company is weak in an environment of opportunities. (Martinez Pedros & Milla Gutiérrez, 2012)

### 4.3. Analysis and Diagnosis

#### 4.3.1. Footwear industry

##### 4.3.1.1. Cooperativa de arte artesanal de calzado 'Primero de Mayo'

**Table 55 SWOT Analysis for Primero de Mayo Association**

Strengths	Weaknesses
F1. It is the first and only footwear association in the canton. F2 It has its own building. F3 History and recognition in the canton.	D1. Your membership is limited. D2. Lack of incentives to adhere. D3. Lack of interest of managers. D4. There is no consolidation or stockpiling of any kind. D5 Lack of advertising and <i>marketing</i> . D6. Lack of human resources trained in trade issues. D7. Lack of trained personnel to achieve efficient negotiation with possible suppliers of raw material.
Opportunities	Threats
O1. High interest by national wholesalers for shoes in this area. O2 Presence of national and international footwear expo fairs. O3. Shoemakers interested in finding quality national suppliers. O4. Low availability of qualified technical personnel for the mechanized production of footwear.	A1. The Shoemaker's Guild of the Chordeleg canton is strengthening and gaining more prestige at the national level. A2. Low interest by cobblers to join. A3. Contraction of the sector due to footwear imports.

**Table 56 Cross-SWOT Analysis for Primero de Mayo Association**

	Strengths	Weaknesses
Opportunities	-Management and articulation of expo footwear fairs taking advantage of the own infrastructure to promote the productive offer of the partners. (F2, O1, O2.)	-Manage alliances with training centers and technical shoe training. (D2, D6, O4.) Manage alliances with direct importers of raw material and serve as distributors to partners. (D2, O3)
Threats	-Management of a marketing plan that takes advantage of the history and reputation of Gremio promoting associativity as an essential element for the development of the footwear sector. (F3, A1.)	-Management of training and support on issues of customs regulations and trade. (D1, D2, A2, A3.)

Authors: García; Maurat

#### 4.3.1.1.1. Strategies

- Manage alliances with training centers and technical training in shoemaking. In order to provide this service to the members of the guild every so often teaching new techniques in the cutting, assembly and finishing of shoes this being an incentive for shoemakers in the sector to consider joining.
- Manage alliances with direct importers and distributors of raw materials in order to serve as an exclusive distribution center for guild members, accessing quality inputs at low costs and thus generating income for the association.

#### 4.3.1.2. Shoe factory *Litargmode Limited Company*

**Table 57 SWOT Analysis for *Litargmode Limited Company***

Strengths	Weaknesses
F1. Lower production costs in relation to the competition, due to production in scale. F2 High availability of human resources. F3 Extensive facilities with space for the insertion of new production lines. F4 Mature business organization (departments and areas) F5 It has a department of foreign trade. F6 Eligibility for foreign trade credits. F7 Mechanized processes. F8 It has direct sales executives.	D1. The managers have no interest in exporting. D2. The packaging and labeling are not suitable for foreign trade. D3. It does not have qualified personnel in other languages. D4. The product does not have certifications. D5 It does not have good relations with institutions related to foreign trade. D6. Minimum investment in advertising plans. D7. Global advertising tools developed only in Spanish (social networks and web portal).



F9 Own distribution channels. F10 Direct import of the raw material. F11 Ability to react to extraordinary requests. F12. Brand well positioned at the level of national wholesalers.	D8. It does not provide online shopping service.
Opportunities	Threats
O1. The product is cheaper compared to imported footwear due to foreign trade taxes. O2 It has no local competition in terms of production volumes. O3. Strategic location in a recognized corner for footwear. O4. Government entities such as PROECUADOR seek to encourage the export of products from SMEs. O5 Expo national and international footwear fairs promoted by public and private actors. O6 At present the great part of the commerce is developed through Internet. O7 Acquisition of technology. O8. Main competitors have Small technified. production systems and none have a very high share compared to the rest. O9 Option to commercial credit lines.	A1. Foreign trade taxes increase the price of raw materials. A2. Lack of national suppliers of quality raw materials. A3. There is a culture of consumption biased against the foreign product. A4. High number of local competitors in the sector. TO 5. Impact of Chinese imports A6. Low availability of skilled labor in the use of technology in the canton. A7. Electronic commerce is a vital tool for internationalization. A8. Inadequate image and presentation can be a reason for rejection in the insertion of a product into new markets

Authors: García; Maurat

**Table 58 Cross-SWOT Analysis for *Litargmode Limited Company***

	Strengths	Weaknesses
Opportunities	<ul style="list-style-type: none"> <li>-Invest in research and development to stay at the forefront of mechanized production processes and take advantage of the benefits of being innovative. (F7, O2, O7, O8.)</li> <li>-Create offers aimed at recurring customers. (F12, O2, O5.)</li> <li>-Export of the product to new markets. (F1, F2, F3, F4, G5, F6, F7, F10, F11, O5, O9.)</li> <li>-Promote the training and specialization of sales executives and establish incentives for achievements. (F8, A3, A5.)</li> </ul>	<ul style="list-style-type: none"> <li>-Update the content of virtual advertising media in other languages to take advantage of this marketing tool. (D7, O6.)</li> <li>-Award to national and international fairs promoted by public and private entities in order to publicize the product through written advertising. (D1, D5, D6, O4, O5.)</li> <li>-Implement new marketing techniques, taking advantage of the strategic location of the company, the preference of consumers for the footwear of Gualaceo and the growth of the sector. (D7, O3, O6.)</li> </ul>

	-To acquire new machinery to increase production lines. (F2, F3, F6, F7, O2, O7, O8, O9.)	
Threats	-Train key employees to strengthen their knowledge in strategies to optimize production processes (F1, F2, F7, A6.) -Form alliances with your suppliers to keep controlled the supply and price of the raw material. (F10, A1, A2, A5.)	-Implement the online orders and purchases service. (D8, A7.) -Implement marketing strategies in social networks to attract new customers (D6, D7, A7.) -Manage marketing plan to create packaging and labeling suitable for international markets. (D2, A8.)

Authors: García; Maurat

#### 4.3.1.2.1. Strategies

- Make an investment in advertising aimed at the recognition of the brand and its footwear collections. This should be done by connecting the marketing and advertising area with a company specialized in these services in order to optimize resources and ensure fairness in the application. It is important to invest a significant amount in this process as it is one of the primary operations to establish the marketing strategy and achieve the desired results. There should also be scheduled impactful advertising campaigns on dates before festivities and other high demand times, such as Christmas or return to school.
- Consider export as a medium or long-term objective. Through re-equipment, increase of production lines and training of key personnel to optimize processes, the productive offer of this company, considering the size of its facilities and the possibility of access to commercial credits, could be extended to a capacity of 9,000 pairs of shoes per day. Also, reducing costs for production in scale this being a very attractive offer for internationalization. In addition, this company has key strengths that would help in the insertion of the product to foreign markets.

#### 4.3.1.3. Footwear workshop *Chicas*

**Table 59 SWOT Analysis for *Calzado Chicas***

Strengths	Weaknesses
F1. Experience in the footwear market. F2 Well-equipped workshop. F3 It has a web platform.	D1. It does not have a commercial place. D2. Small use and maintenance of the web portal.

F5 The footwear brand is registered in the IEPI. F6 It has technical data sheets of the product. F7 Specialized production in one type of shoes. F8 Inputs and materials of good quality. F9 Ability to react to extraordinary requests.	D3. It does not have qualified personnel in foreign trade. D4. Lack of agreements with land transport. D5 Absence of long-term strategic planning.
Opportunities	Threats
O1. Low local competition in the production of loafer shoes. O2 National exhibitions of products from SMEs. O3. Bank loans for business investments. O4. Professional experts in foreign trade. O5 Business incentives by public and private actors.	A1. Imports of shoes from China. A2. Unstable economic environment. A3. Production of moccasin footwear by informal shoemakers. A4. <i>Online</i> sale of footwear.

Authors: García; Maurat

**Table 60 Cross-SWOT Analysis for *Calzado Chicas***

	Strengths	Weaknesses
Opportunities	Venture into new national markets. (F1, O1) Take advantage of the characteristics of the product to increase the sale of the same in the different exhibitions. (F7, F8, O2) Improve the use of the virtual platform so that the product achieves mass promotion. (F3, O3)	Establish a shop that helps the shoe exhibition. (D1, O3) Optimize and give constant maintenance to the web page. (D2, O3) Invest in new knowledge that can help increase sales. (D3, O4) Establish relationships with institutions that provide business assistance. (D5, O5)
Threats	Benefit from experience to face current problems. (F1, A2) Optimize production in order to reduce costs. (F7, A1) Take advantage of the benefits of the materials used to promote the product. (F8, A3)	Maintain and update the web portal continuously. (D2, A4) Develop medium and long-term planning in order to prevent external situations from affecting sales. (D5, A2)

Authors: García; Maurat

#### 4.3.1.3.1. Strategies

- Use the most important features of the product such as quality and/or comfort, to promote the product on the virtual platform. In addition, add a tab that highlights the history of the company in order to show the public their years of experience in the market.

- Likewise, the productive processes should be optimized by investing in new machinery or training on new methods or processes to improve the skills of the workers.
- Enable a showroom so that the commercial activity generates greater profitability thus creating a new way to obtain income.

#### 4.3.1.4. Footwear wholesaler *Fassioni*

**Table 61 SWOT Analysis for *Fassioni***

Strengths	Weaknesses
F1. Long trajectory and experience. F2 Wholesale and retail. F3 Registered trademark F4 Good management of social network Facebook. F5 Agreements with Servientrega for logistic services. F6 They have a large and modern exhibition space. F7 Brand recognized and positioned locally. F8 Part of the Chamber of Commerce of Cuenca	D1. Weak business organization D2. They are not manufacturers, only marketers. D3. Lack of trained human resources in foreign trade. D4. Weak management of your website as an electronic commerce tool. D5 Minimal investment in advertising and marketing plans.
Opportunities	Threats
O1. Nowadays, a large part of the commerce is carried out through the internet. O2 Government entities such as PROECUADOR seek to encourage the export of products from SMEs. O3. Social networks as a global <i>marketing</i> instrument. O4. Expo national and international fairs managed by public and private organizations. O5 Gualaceo footwear is highly demanded by local consumers.	A1. Your suppliers depend on informal providers. A2. High competition among marketers. A3. Footwear imported from Colombia, Brazil and the US is more welcomed by the final consumer. A4. Footwear imported from China is cheaper. TO 5. Main competitors have purchase services and online orders.

Authors: García; Maurat

**Table 62 Cross-SWOT Analysis for *Fassioni***

	Strengths	Weaknesses
Opportunities	- Participate in national and international fairs to connect with new clients (F2, F3, F6, F7, F8, O4, O5.)	-Promote the product through the web portal and social networks. (D4, O3) -Implement new marketing techniques, taking advantage of the strategic location of the company, the preference of

		consumers for the footwear of Gualaceo and the growth of the sector. (D5, O5.) Participate in national and international fairs to publicize the product. (D5, O4.)
Threats	- Invest in a redesign of the web portal implementing the option of online purchases and manage a plan to promote it nationally and internationally, taking advantage of the interest of government entities in the internationalization of SMEs. (O1, O2, O3, A5.)	-Fix medium and long-term goals and objectives on which the annual operational plans can be sustained. (D1, A2.)

Authors: García; Maurat

#### 4.3.1.4.1. Strategies

- Manage an efficient marketing plan focused on promoting the qualities of the product in the target market through the use of social networks in a correct and continuous manner, creating interest on the part of potential customers and identification of the brand.

#### 4.3.1.5. Shoe manufacturing workshop Lofac

**Table 63 SWOT Analysis for Lofac**

Strengths	Weaknesses
F1. Good brand positioning at local and national level. F2 Well defined short and long-term objectives and strategies. F3 Constant business growth. F4 Effective promotion strategies. F5 Registered trademark F6 Technical specifications of the products. F7 Quality raw material. F8 Production on demand reduces risks of overproduction. F9 Processes digitized by 30%. F10 Good labor relations with public and private institutions.	D1. It does not have commercial premises. D2. Null organizational chart. D3. It does not have a web page. D4. The product does not have certifications. D5 The company does not carry out the manufacturing process in its entirety, therefore, it depends on informal workers for shoe repair. D6. Working with informal workers involves risks for the company. D7. Lack of agreements with land transport companies. D8. It does not have qualified personnel in foreign trade.
Opportunities	Threats
O1. Participation in local and national exhibitions of products from SMEs. O2 Labor links with MIPRO and CALTU.	A1. Very high competition in the sector. A2. Footwear imported from China, sold at a lower price.

O3. Location of the company in a tourist location and attractive for footwear.	A3. Foreign trade taxes increase the price of raw materials.
O4. Possibility of entering new markets.	A4. Few national suppliers of quality raw material.
O5 Bank loans for business investments.	TO 5. National economic instability.
O6 High demand for wholesale footwear.	A6. Competition that performs the manufacturing process in its entirety in less time.
O7 Professional experts in foreign trade.	

Authors: García; Maurat

**Table 64 Cross-SWOT Analysis for Lofac**

	Strengths	Weaknesses
Opportunities	<p>Take advantage of the recognition of the brand in expo fairs. (F1, O1)</p> <p>Exploit new markets (F1, F3, O4)</p> <p>Promote the product according to its main characteristics. (F4, F7, F9, O3)</p> <p>Stay at the forefront with new technologies that optimize processes. (F9, O5)</p> <p>Benefit from incentives and job offers from external institutions. (F10, O2)</p>	<p>Establish some commercial premises in the production facilities. (D1, O3)</p> <p>Improve the internal organization of the company to provide a better service. (D2, O3, O6)</p> <p>Create a web portal (D3, O4)</p> <p>Negotiate with transportation companies to reduce their costs. (D7, O4)</p> <p>Invest in training on foreign trade for future planning. (D8, O7)</p>
Threats	<p>Optimize production processes by maintaining or decreasing costs. (F1, F4, F7, F9, A1, A2)</p> <p>Request assistance on import issues of raw material. (F10, A3)</p>	<p>Identify obstacles or frequent errors, which become bottlenecks, in order to reduce production times. (D5, D6, A6)</p> <p>Obtain agreements with transport companies to reduce product delivery times. (D7, A6)</p>

Authors: García; Maurat

#### **4.3.1.5.1. Strategies**

- Create a web portal where a gallery of the new products catalog is published frequently, in this way, the weekly visits to other provinces would be reduced as well as the expenses involved thus obtaining time and resources to dedicate it to other activities of the company.
- Establish agreements with land transport companies will help reduce costs and provide a complete service to customers, so they feel satisfied with the service obtained.

#### **4.3.1.6. Footwear marketer *My Lady***

**Table 65 SWOT Analysis for *My Lady***

Strengths	Weaknesses
F1. Long-term objectives defined. F2 Promotion of their products through social networks. F3 Range of shoe designs. F4 Affordable footwear	D1. It does not have an established planning or organization. D2. The product does not have technical specifications or certifications. D3. Does not have the capacity to react to extraordinary requests. D4. It does not have qualified personnel in two or more languages and / or foreign trade.
Opportunities	Threats
O1. National exhibitions of products from SMEs promoted by government actors. O2 Bank loans for business investments. O3. Incentives and business assistance by public and private actors. O4. Location of the company in a tourist and attractive place due to footwear.	A1. High competition for retail shoe sales in the canton. A2. Lack of suppliers of good quality raw material. A3. Imports of shoes from China. A4. Unstable economic environment.

Authors: García; Maurat

**Table 66 Cross-SWOT Analysis for *My Lady***

	Strengths	Weaknesses
Opportunities	Take advantage of bank loans to meet the established goals. (F1, O2) Increase the advertising campaign in social networks, investing in advertising on Facebook or others. (F2, O4) Attend fairs to promote the product. (F3, F4, O1)	Go to institutions that assist SMEs in production issues in order to increase the value of the product, as well as in other issues that are unknown. (D1, D2, O3)
Threats	Make promotions every so often to attract the attention of both frequent customers and tourists who frequent the place. (F3, F4, A1) Maintain prices without neglecting the quality of the product. (F3, F4, A3)	Develop a plan that allows to organize the company in a better way, so that methods are established to face possible situations. (D1, A4) Improve the characteristics of the product to make it more attractive in the market. (D2, A1)

Authors: García; Maurat

#### **4.3.1.6.1. Strategies**

- Negotiate with new suppliers in order to diversify the obtaining of raw material thus avoiding to monopolize this service and, at the same time, avoiding times of scarcity that hinder production.

Increase the value of the product, investing in the purchase of materials of good quality and improving the finishes of the footwear and in this way, comfort will be provided to the customers.

#### 4.3.1.7. Footwear marketer *Burana* and *Scarpa*

**Table 67 SWOT Analysis for *Burana* and *Scarpa***

Strengths	Weaknesses
F1. Exclusive footwear designs. F2 He has developed differentiation strategies in his products. F3 It has 2 commercial premises in the Gualaceo canton.	D1. There are no established short and long term objectives. D2. It does not have any type of promotion tools. D3. It does not have a brand. D4. No has qualified personnel in foreign trade
Opportunities	Threats
O1. National exhibitions of products from SMEs promoted by government actors. O2 Bank loans for business investments. O3. Possibility of entering new markets. O4. <i>Online</i> sale of footwear.	A1. National economic situation. A2. Small support from municipal authorities. A3. High competition for retail shoe sales in the canton. A4. Imports of shoes from China.

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**Table 68 Cross-SWOT Analysis for *Burana* and *Scarpa***

	Strengths	Weaknesses
Opportunities	-Attend expo organized fairs in the canton or in other places of the country to publicize the product and start new alliances with potential buyers. (F1, F2, O1, O3) -Locate a commercial place in another potential and attractive place that allows to increase sales. (F3, O2, O3)	-Establish a medium and long-term organizational plan to establish a clearer vision of the company. (D1 O3) -Implement a profile of the company in a social network or create a web portal. (D2 O4)
Threats	-Maintain and / or improve differentiation strategies. (F1, F2, A3) -Implement attractive and innovative promotions in commercial premises. (F3, A1)	-Develop a sales plan that deals with circumstances such as the decrease in demand. (D1, A1) -Innovate promotion methods with the use of new technologies to attract new customers. (D2, A3) -Create a brand and logo for your footwear. (D3, A3)

Authors: García; Maurat



#### 4.3.1.7.1. Strategies

- Develop a reengineering plan where new methods are established to increase sales such as the implementation of a profile on Facebook or the creation of a website where exclusive designs are promoted with their respective brand and company logo. Likewise, it is necessary to consider relocating one of the sales venues because in this way it will venture into new markets and attract new customers; it will also diversify the investment risk.

#### 4.3.1.8. Micro footwear manufacturing company *Bela*

**Table 69 SWOT Analysis for *Bela***

Strengths	Weaknesses
F1. Craft qualification. F2 It has RUA. F3 Qualified owner in fashion design. F4 Customized products and series. F5 You look towards export. F6 Trademark registered in the IEPI. F7 High reaction capacity to extraordinary orders. F8 Qualified in online trade issues. F9 Qualified in English language. F10 Personalized service. F11 Consulting and design service. F12. Attention in a local fashion design of the city of Cuenca, in addition to a recognized shoe store in Gualaceo.	D1. Weak business organization D2. No manufacturer depends on informal suppliers. D3. Low consolidation D5 Low availability of merchandise. D6. It is not qualified in foreign trade issues. D7. Low presence in social networks. D8. Does not have order service or online purchases. D9. Low investment in advertising and image.
Opportunities	Threats
O1. There is no local competition in terms of custom shoes. O2 Good working relationships with PROECUADOR. O3. Minimum competition in personalized advisory and design services. O4. Government entities such as PRO ECUADOR seek to promote the export of products from SMEs. O5 Social networks as a global <i>marketing</i> instrument. O6 Expo national and international fairs managed by public and private organizations.	A1. Product requires modifications for export. A2. High number of competitors. A3. Imported footwear is more welcomed by the final consumer. A4. Main competitors have purchase services and online orders. TO 5. Impact on Chinese imports. A6. Small participation and recognition of the brand. A7. Most renowned and recognized competition in the footwear sector.

O7 Gualaceo footwear is highly demanded by local consumers.	
O8. Nowadays, a large part of the commerce is carried out through the internet.	

Authors: García; Maurat

**Table 70 Cross-SWOT Analysis for *Bela***

	Strengths	Weaknesses
Opportunities	<p>-Manage marketing plan taking advantage of the strategic location of the company in the footwear headquarters Gualaceo and the design site of Cuenca and personalized services that distinguish it from the competition. (F4, F10, F11, O1, O3, O7.)</p> <p>-Assist training provided by PROECUADOR so that future decision making is aimed at favoring and preparing the company for export in the medium or long term. (F1, F2, F3, F5, F6, F8, F9)</p>	<p>- Be more active and recurrent in terms of their social networks, also providing a more personalized service through this means of communication and promotion. (D7, D9, O5, O8))</p>
Threats	<p>-To take advantage of the fact of providing personalized service to attract customers who demand exclusive products. (F11, F12, A3)</p>	<p>-Establish a strategy regarding quality that promotes confidence and recognition. (D1, D3, A7)</p> <p>-Idea a marketing strategy to make the brand known in the target market (D9, A6, A7)</p>

Authors: García; Maurat

#### **4.3.1.8.1. Strategies**

- Management of an online advertising plan that is aimed at linking the product and the exclusivity of services with the *Bela* brand, creating brand recognition and generating interest in the personalized services it provides. This strategy can be managed in such a way that social media is used as a sales tool and not just advertising.

#### **4.3.1.9. Footwear wholesaler Gino Zanetti**

**Table 71 SWOT Analysis for Gino Zanetti**

Strengths	Weaknesses
<p>F1. Excellent management of social networks and web pages as advertising tools and electronic commerce.</p> <p>F2 Renown and prestige at the level of national wholesalers.</p> <p>F3 Registered and well-positioned brand.</p> <p>F4 Agreements with Servientrega for logistic services.</p> <p>F5 High quality in natural leather footwear.</p> <p>F6 External packaging (plastic bag) personalized with the brand of the company serves as an advertising medium.</p> <p>F7 Sponsors of beauty events.</p>	<p>D1. Weak business organization</p> <p>D2. They are not manufacturers, only marketers.</p> <p>D3. Unawareness of foreign trade issues by owners.</p> <p>D4. Small interest towards internationalization by the owner.</p> <p>D5 Lack of planning in the medium and long term.</p>
Opportunities	Threats
<p>O1. Good relationship with public institutions to promote exports.</p> <p>O2 High interest in footwear in this area by wholesalers and consumers throughout the country.</p> <p>O3. Electronic commerce as an instrument towards internationalization.</p> <p>O4. Demanding fashion and brands markets.</p> <p>O5 Expo national and international fairs managed by public and private organizations.</p>	<p>A1. High competitiveness among marketers in the sector.</p> <p>A2. Footwear imported from China is sold at lower prices.</p> <p>A3. Footwear imported from Colombia, Brazil and the USA is more welcomed by local consumers despite having the same or higher price.</p> <p>A4. High number of wholesale competitors.</p>

Authors: García; Maurat

**Table 72 Cross-SWOT Analysis for Gino Zanetti**

	Strengths	Weaknesses
Opportunities	- Take advantage of the good use of web tools as an instrument towards the internationalization of the product. (F1, O3.)	<p>-Implement new marketing techniques, taking advantage of the strategic location of the company, the preference of consumers for the footwear of Gualaceo and the growth of the sector. (A1, A2, O2, O4.)</p> <p>-Participate in national and international fairs to connect with new clients. (O1, O2, O3)</p>
Threats	-To take advantage of the good name of the company and the brand to position the products based on quality and prestige in	Set medium and long-term goals and objectives on which the annual

	new regions of the country. (F2, F3, F5, F7, O2, O4)	operational plans can be sustained. (D1, D5, A1, A4)
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Authors: García; Maurat

#### 4.3.1.9.1. Strategies

- Intensify the promotion of the website of the company, manage attractive offers for consumers from abroad in order to position the brand and the website and thus open the way to the internationalization of the product starting with orders through its web portal.
- Deliver a quality product with a proportional price and create popularity in other markets thanks to the characteristics of a good product.

#### 4.3.1.10. Footwear marketer *Belissa*

**Table 73 SWOT Analysis for Belissa**

Strengths	Weaknesses
F1. Trademark registered in the IEPI with good positioning in the local market. F2 High quality in natural leather footwear. F3 High distinctive design with respect to the competition, always at the forefront of new trends. F4 External packaging (plastic bag) customized with the brand of the company. F5 It has exclusive providers.	D1. Retail sale only. D2. Weak business organization D3. Small interest in internationalization. D4. Lack of planning in the medium and long term. D5 No activity on social networks. D6. Ignorance and disinterest in electronic commerce tools. D7. Minimum investment in advertising. D8. They do not have annual or long-term planning. D9. Owners resistant to online advertising media and use of social networks.
Opportunities	Threats
O1. High interest in footwear in this area by consumers across the country. O3. Electronic commerce as an instrument towards internationalization. O4. Demanding fashion and brands markets. O5 Expo national and international fairs managed by public and private organizations.	A1. The competition takes advantage in issues of electronic commerce and online advertising tools. A2. Closure of passage in the sector of Tuhual harms sales because tourism cannot enter. A3. Footwear imported from Colombia, Brazil and the US is more welcomed by the final consumer.

Authors: García; Maurat

**Table 74 Cross-SWOT Analysis for Belissa**

	Strengths	Weaknesses
Opportunities	-Forming strategic alliances with its suppliers to maintain the quality strategy and thus ensure trust and recognition (F2, F5, O1, and O4.)	-Management of a web portal that introduces the online sales service in order to reach more consumers around the country. (D1, D5, D8, A2.)
Threats	-Manage an advertising plan that takes advantage of the factors of quality, prestige and innovation in trends and shows the benefits of this footwear versus the imported (F2, F3, F5, A3.)	-Idea a marketing strategy with the use of social networks and on-line tools to advertise the brand and new trends in the target market. (D5, D6, D7, D9, A1.)

Authors: García; Maurat

#### 4.3.1.10.1. Strategies

- Manage a marketing plan that is based on the values of quality and design exclusivity offered by this company.
- It is recommended to create social networks and the optimal management of them and it is important to be active in networks such as Facebook and Instagram to publicize all the new designs and models and you can also generate offers or discount coupons for customers who know about the merchandise by these means online.

#### 4.3.1.11. Shoe workshop of Mr. Santiago Lituma

**Table 75 SWOT Analysis for Mr. Santiago Lituma**

Strengths	Weaknesses
F1. Quality of the finished product.	D1. There is no business organization.
F2 Distinctive in designs.	D2. Low consolidation
F3 Craft qualification	D3. It does not have any type of promotion resource.
F4 Exclusive supplier of the Gino Zanetti brand.	D4. Does not know about foreign trade issues.
Opportunities	Threats
O1. Many marketers in the area interested in finding quality suppliers.	A1. High number of competitors with the same characteristics
O2 High availability of labor.	A2. The competition takes advantage in issues of electronic commerce and online advertising tools.
O3. Marketers seek to have exclusive suppliers.	A3. Impact on Chinese imports.
O3. Demand from wholesalers throughout the country.	

Authors: García; Maurat

**Table 76 Cross-SWOT Analysis for Mr. Santiago Lituma**

	Strengths	Weaknesses
Opportunities	Manage alliance with main client to ensure management of a fixed percentage of production. (F4, O3.)	Publicize your product through an advertising plan through electronic means and online to contact new customers throughout the country. (D2, D3, O3.)
Threats	Attend expo handicraft fairs in order to connect with new customers. (F4, A1.)	Promote your footwear with an emphasis on quality and design, thus separating your product from the Chinese import product and creating trust from the customer. (D2, D3, A3.)

Authors: García; Maurat

#### 4.3.1.11.1. Strategies

- Attend expo-fairs of handcrafted footwear in order to connect with new clients and generate confidence by delivering a product of innovative quality in design and model, and thus create lasting business relationships.

#### 4.3.2. Craft sector

##### 4.3.2.1. Artistic Community Tourism Association Bacpancel

**Table 77 SWOT Analysis for Artistic Community Tourism Association Bacpancel**

Strengths	Weaknesses
F1. Production collection. F2 Investment in machinery for the finishing of hats. F3 Tissue workshops to ensure quality and uniformity in the product. F4 Purchase and preparation of raw material wholesale to reduce costs. F5 Product does not require modifications for international markets. F6 Alliance with tourist services companies to publicize the community tourism packages with this association. F6 Significant number of partners motivated to improve and promote the development of the organization.	D1. Weak business organization D2. Degree of product quality is low (0 to 3). D3. Very long productive process. D4. Lack of certifications that add value and prestige to the product. D5 Packaging and labeling inadequate for international markets. D6. Low reaction capacity to extraordinary orders. D7. Lack of qualified human resources in foreign trade and languages. D8. It does not have a web portal or presence in social networks. D9. Small experience in the market D10 Small time dedicated to the specialization in hats, low expertise. D11. Minimal investment in advertising and marketing.
Opportunities	Threats

O1. Very attractive product internationally with traditional value. O2 Good relations with public entities. O3. Export promotion entities interested in boosting artisanal products with traditional value. O4. Direct reception of tourists. O5 Low interest bank loans for commercial investments. O6 Product recognized internationally. O7 Public entities offer periodic trainings and seminars on topics of finance, business administration. O8. International interest for this product with fair trade certification.	A1. Export associations of neighboring cantons. A2. Lack of regular clients, depend on tourists who make isolated purchases. A3. Seasonal product in international markets. A4. The weather stations of foreign markets prevent the introduction of the product year running. TO 5. Hats of low grade of fabric. A6. Competence of other cantons with greater expertise produce hats of high grade and quality. A7. Social networks and web portals are a basic tool for advertising any product and brand. A8. Location difficult to access and isolated from the city.
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Authors: García; Maurat

**Table 78 Cross-SWOT Analysis for Artistic Community Tourism Association Bacancel**

	Strengths	Weaknesses
Opportunities	-To take advantage of the interest of public bodies for the management of entities dedicated to the collection and production of this type of product. (A1, O3.)	-Manage the market strategy and make the most of the reception of tourists. (F6, D8, D11.) - Strengthen the administrative area and clearly establish the organization chart and functions. (D1, D4, O7.) -Get quality certifications (D4, O8.)
Threats	-Manage alliances with raw material suppliers to ensure quality, price and availability. (F4, A8.)	-Promote the training and specialization of all members and establish incentives for achievements. (D10, A5, A6.) -Implement a marketing strategy in social networks to attract new customers. (D8, D11, A7)

Authors: García; Maurat

#### 4.3.2.1.1. Strategies

- Strengthen the administrative area so that the organization chart is clearly established, work positions are better defined for the completion of the product and function manuals for all participating partners in the reception of tourists.
- The company should promote the training and specialization of all the partners dedicated to the weaving of hats and establish incentives for achievements in terms of productive capacity.

- Manage an advertising strategy aimed at creating and maintaining a positive presence in the most important social networks such as Facebook, Twitter and Instagram, customers use these online tools to find suppliers and they use it to make themselves known. Bearing in mind that the association is in frequent contact with tourists from all over the world, it is necessary that after leaving they have a simple means of communication with their hosts, which will lead to possible commercial relations since tourists already know about identify the product. On the other hand, this strategy allows the promotion and global diffusion of the product and the tourist services offered by this association.

#### 4.3.2.2. Mr. Sebastián Guillén, informal macanero

**Table 79 SWOT Analysis for Mr. Sebastián Guillén**

Strengths	Weaknesses
F1. Traditional and ancestral value. F2 Quality. F3 Millenary technique. F4 Desire to associate.	D1. Lack of certifications that add value and prestige to the product. D2. Null business organization. D3. Informal actor D4. It does not know suppliers. D5 It has no clients, it resorts to the sale in an informal and sporadic manner. D6. It is not associated or organized. D7. It is dedicated to tissue as a secondary activity.
Opportunities	Threats
O1. Non-seasonal product. O2 Product does not need modifications for international markets. O3. Great demand for products with traditional and ancestral value in other countries. O4. Openness in the global market for this type of product. O5 Motivation on the part of the GAD to create an association of macaneros. O6 Management of craft fairs.	A1. He is an informal actor. A2. It can not benefit from tourism because it does not have a place of sale. A3. Potential clients do not know of its existence.

Authors: García; Maurat



**Table 80 Cross-SWOT Analysis for Mr. Sebastián Guillén**

	Strengths	Weaknesses
Opportunities	-To promote the idea of associativity among other informal macaneros. (F4, O5)	-To copy the production with relatives and other macaneros in the same situation to form a more significant offer and to be able to serve as suppliers to shops and handicraft sellers. (D3, D5, D7, O4)
Threats	-Assist training on entrepreneurship and leadership to become an active actor in the proposal of associativity. (F4, O5.)	-Contact with exclusive craft shops that demand low quantities of product. (F1, F2, F3, A3) -Award to craft fairs to expose and make known their product to potential customers, in addition to benefiting from the tourist influx of the fair.

Authors: García; Maurat

#### 4.3.2.2.1. Strategies

- Attend the handicraft fairs promoted by the Municipal GAD in order to contact potential permanent customers such as owners of local craft sales and have the opportunity to exhibit their product to tourists who are most interested in these types of products.

#### 4.3.2.3. House Museum of Makana

**Table 81 SWOT Analysis for House Museum of Makana**

Strengths	Weaknesses
F1. Raw material of natural origin. F2 Prestige and recognition at the national level. F3 Variety of products derived from its main product. F4 Traditional and ancestral value. F5 Light product, not bulky and easy to transport. F6 High specialization in the product. F7 Sponsors of this ancestral technique in the canton. F8 Cooperation with municipal entities for the promotion of this product through the sponsorship of beauty contests, cultural events, among others.	D1. Lack of certifications that add value and prestige to the product. D2. Null business organization. D3. Mark not registered in the IEPI. D4. Long production time. D4. Lack of qualified personnel in foreign trade issues. D5 Lack of qualified personnel in other languages. D6. Low productivity. D7. It closed its web portal. D8. Low presence in social networks.
Opportunities	Threats
O1. Product does not need modifications for international markets.	A1. Delay occurred in Tahual prevents entry of tourism.

O2 Non-seasonal product. O3. Good relations with entities promoting exports. O4. High international demand for products with ancestral value. O5 High demand for products with fair trade certifications. O6 Motivation on the part of informal macaneros for the formation of an artisan association of macaneros.	A2. Informal macaneros constitute the main competition in prices. A3. Other formal competitors with greater productive capacity.
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Authors: García; Maurat

**Table 82 Cross-SWOT Analysis for House Museum of Makana**

	Strengths	Weaknesses
Opportunities	-Award to the export promotion fairs managed by the government and private entities (F7, F8, O3, O4) -Maintain and / or improve differentiation strategies. (F1, F3, F6, O1, O4, O5.)	- Obtain quality certifications (D1, O4, and O5.) -Request assistance in foreign trade issues. (D4, D5, O3.)
Threats	-To take advantage of relations with public and private institutions to promote quality and specialization in the manufacture of macana and generate added value to the product, orienting the sale by quality factor on the price (F6, F7, F8, A2)	- Provide full-time work to family members who spend most of their time in this activity in order to increase production and meet demand. (D2, A3.)

Authors: García; Maurat

#### **4.3.2.3.1. Strategies**

- Manage the necessary procedures to obtain the fair-trade certification which will provide greater prestige and recognition and generate added value for internationalization.
- Create a marketing strategy that takes advantage of the cooperation of the company with national agencies in the sponsorship of beauty contests, thus creating trustworthiness and positioning to the brand.
- Promote the product by its values in terms of quality both in processes and in the raw material, to position the product for quality over price.

#### **4.3.2.4. Ikat Fabrics**

**Table 83 SWOT Analysis for *Ikat Fabrics***

Strengths	Weaknesses
F1. Account with sale place in the city of Cuenca F2 Traditional and ancestral value F3 Light product, not bulky and easy to transport. F3 Variety of products derived from the main product. F4 High productivity F5 Trademark registered in the IEPI. F6 Advertising written in Spanish and English. F7 High specialization	D1. Lack of certifications that add value and prestige to the product. D2. Weak business organization D3. Long production time. D4. Lack of qualified personnel in foreign trade issues. D5 Lack of qualified personnel in other languages. D6. Packaging not suitable for export.
Opportunities	Threats
O1. Non-seasonal product. O2 Product does not need modifications for international markets. O3. High availability of raw material. O4. High international demand for products with ancestral value. O5 High demand for products with fair trade certifications. O6 Quality management certification bodies. O7 National exhibitions of products from SMEs. O8. Support to SMEs by public actors. O9 Professional experts on issues related to foreign trade.	A1. Delay occurred in Tahual prevents entry of tourism. A2. Informal macaneros constitute the main competition in prices. A3. They do not maintain good relations with trade promotion and export entities. A4. Informal competition to associate.

Authors: García; Maurat

**Table 84 Cross-SWOT Analysis for *Ikat Fabrics***

	Strengths	Weaknesses
Opportunities	Exploit relationships with new clients in the national and international market. (F1, O2) Obtain quality certifications. (F4, O4) Participate in training programs, in order to improve skills. (F4, O6) Attend fairs to exhibit the products. (F2, F3, F4, O5)	Participate in quality certifications with different national institutions. (D1, O4) Request assistance in foreign trade issues. (D4, D5, O7)
Threats	Take advantage of commercial premises located in Cuenca to promote the product. (F1, A1)	Give greater value to the product to differentiate it from the rest. (D1, A2) Optimize production processes. (D3, A2)

	Maintain or reduce costs without neglecting the quality of the product. (F3, F4, A2)	
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Authors: García; Maurat

#### 4.3.2.4.1. Strategies

- Develop a marketing plan that involves the creation of a web platform in Spanish and English and promoting the club and its derivatives, taking advantage of the innovative and exclusive designs that are offered and in this way the product is globally known.
- Also, exploit the benefits of owning two stores, in Bullcay and Cuenca, implementing greater publicity in the profile of Facebook, which is the most optimal way to reach the minds of consumers.

#### 4.3.2.5. *Teje mujeres*

**Table 85 SWOT Analysis for *Teje Mujeres***

Strengths	Weaknesses
F1. Variety of products. F2 It works as a production collection center. F3 Purchase of raw material wholesale and distribution to artisans. F4 It has fair trade certification. F5 Efficient sales strategies F6 Mature business organization. F7 Good use of promotion tools. F8 Good brand positioning F9 Registered trademark F10 It has technical specifications of the product. F11 The main product does not need modifications for international markets. F12. Good relations with international clients. F13 He owns <i>know how</i> in all the productive processes. F14. He has negotiated with international suppliers.	D1. Small knowledge about foreign trade. D2. Productive capacity limited to the time available to artisans. D3. It has no capacity to react to extraordinary orders. D4 It does not have alliances with air or land transport. D5 There are no strategies that support eventualities that could affect the business. D6. Commercial space Small known and badly located.
Opportunities	Threats
O1. Consumers demand products with fair trade certification. O2 Possibility of entering new foreign markets. O3. Bank loans for business investments. O4. Low local competition	A1. National raw material is not competitive in quality with respect to price. A2. Tariff barriers prevent the importation of better quality raw material. A3. Instability in air transport in the city of Cuenca.

O5 National exhibitions of products from SMEs. O6 Fabrics have great appeal in international markets. O7 Good working relationships with PROECUADOR. O8. Strategic location due to the tourist attraction of the canton.	A4. Current economic situation of the country. TO 5. Unknown brand by final consumer in the market to which it is exported.
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Authors: García; Maurat

**Table 86 Cross-SWOT Analysis for *Teje mujeres***

	Strengths	Weaknesses
Opportunities	-Explore relationships with new clients in the national and international market. (O2, F11) -Get quality certifications. (O3, F10, F6) -Participate in training programs, in order to improve skills. (O1, F2) Maximize the efficiency of processes. (O4, F13) -Maintain and intensify training for administrative staff to strengthen their knowledge in strategies to optimize purchases, production processes and increase sales. (F6, O4.)	-Request training programs related to foreign trade issues. (O7, D1) -Create new incentives that motivate members to make more product. (F5, D3) -Negotiate directly with transportation companies to provide a better service. (F12, D4) Increase advertising promotion considering the location of the premises. (D6, O8.)
Threats	-Initiate negotiations with known and new raw material suppliers, in order to identify the best options. (A1, A2, F14) -Idear a marketing strategy to make the brand known in the target market. (F1, F4, F7, F9, F14, A5.)	-Develop a plan that prevents third-party circumstances from hindering planned international sales. (A3, D5) -To face and maintain the prices of the products. (A4, D5)

Authors: García; Maurat

#### 4.3.2.5.1. Strategies

- Increase the value of the product with quality certifications because this is important to enter new markets due to foreign demands.
- Negotiate agreements with local and international transport companies, since most of the demand corresponds to foreign buyers, this will reduce costs and attract new customers.
- Invest in more frequent trainings to motivate the members to optimize their work applying new techniques that allow obtaining better results.

### 4.3.3. Livestock and poultry sector

#### 4.3.3.1. Farming Family Farming Association Sowing Hopes for a Good Life.

**Table 87 SWOT Analysis for Association Sowing Hopes for a Good**

Strengths	Weaknesses
F1. Stable organization of the association. F2 Long-term objectives defined. F3 Keeps accounting records and has a savings account in the name of the association. F4 Experience in animal husbandry	D1. It does not have its own facilities. D2. Small experience in the market. D3. Lack of commitment on the part of the partners. D4. It does not have a brand. D5 It does not use innovative promotion methods. D6. Lack of agreements with means of land transport. D7. It does not have qualified personnel in foreign trade. D8. Low investment in production processes. D9. Lack of quality certifications D10 Ignorance of international food safety standards.
Opportunities	Threats
O1. Low competition in the sector. O2 Support to small associations by public actors. O3. Bank loans for business investments. O4. Food safety management certification bodies.	A1. Loss of market due to lack of product certifications. A2. Concern for the environment

Authors: García; Maurat

**Table 88 Cross-SWOT Analysis for Association Sowing Hopes for a Good Life**

	Strengths	Weaknesses
Opportunities	-Establish strategies that help fulfill objectives. (F2, O1) -Request assistance in issues of food safety management. (F2, O2)	-Request support in the most notorious flaws of the association. (D3, D4, D5, O2) -Invest in brand creation and agreements with means of land transport. (D5, D6, O3) -Optimize processes by investing in inputs or machinery that helps reduce production times. (D8, O2) -Participate in quality certifications with different national institutions. (D9, O4)
Threats	-Identify errors to establish new methods of production and sales to face eventualities. (F1, F4)	-Get certifications to attract potential buyers and keep customers constant. (D9, A1, A2)

Authors: García; Maurat

#### 4.3.3.1.1. Strategies

- Prepare a training plan for the partners, in food safety issues since they do not currently have a fixed establishment and also do not work with a process manual. In this way the partners will acquire new knowledge that will allow them to optimize their productive chain providing their clients with a reliable and quality service.
- In the same way, an operational plan should be implemented that encourages the partners to comply with the acquired commitment, such as increasing the payment to each member.

#### 4.3.4. Industrial sector (except footwear)

##### 4.3.4.1. Idearte Furniture

**Table 89 SWOT Analysis for Idearte Furniture**

Strengths	Weaknesses
F1. Positioning in the local market. F2 Lower production costs in relation to the competition, due to production in scale. F3 High availability of human resources. F4 Extensive facilities with space for the insertion of new production lines. F5 Mature business organization. F6 Complete manufacturing process. F7 Constant administration and maintenance of social networks and the web portal. F8 Ability to react to extraordinary requests. F9 Own distribution channels. F10 Mature logistics. F11 Eligibility for foreign trade credits. F12. Branches in several cities of the country.	D1. The packaging and labeling are not suitable for foreign trade. D2. It does not have qualified personnel in other languages. D3. Ignorance of issues related to foreign trade. D4. Lack of technical data sheets of the product. D5 Advertising material developed only in Spanish. D6. Does not maintain any kind of employment relationship with any foreign trade institution. D7. Lack of quality certifications and good manufacturing practices.
Opportunities	Threats
O1. Possibility of entering new markets. O2 National exhibitions of products from SMEs promoted by government actors. O3. Bank loans for business investments. O4. Low local competition in wood products. O5 Quality management certification bodies. O6 Professional experts in foreign trade.	A1. Share facilities with another lumber company. A2. Unstable national economic situation. A3. Loss of market due to the lack of certifications that guarantee the quality and origin of the raw material. A4. Logging companies from neighboring cantons impose innovative designs. TO 5. Demanding customers. A6. Concern for the environment

Authors: García; Maurat

**Table 90 Cross-SWOT Analysis for Idearte Furniture**

	Strengths	Weaknesses
Opportunities	<ul style="list-style-type: none"> <li>-Benefit from the characteristics of the products, to promote in other markets. (F1, F2, O1)</li> <li>-To take advantage of the space available for the implementation of new machinery. (F4, O3)</li> <li>-Increase advertising on social networks. Add new interactive tools on the website that help users to learn more about the products. (F7, O1)</li> <li>-Incursion on issues of foreign trade for future projects. (F11, O6)</li> <li>-By means of the branches to capture new market niches. (F12, O1)</li> </ul>	<ul style="list-style-type: none"> <li>-Request assistance to experts to improve details that can increase the value of the product. (D1, D2, D3, O6)</li> <li>-Innovate advertising by developing it in other languages. (D5, O6)</li> <li>-Participate in quality certifications with different national institutions. (O7, D7)</li> </ul>
Threats	<ul style="list-style-type: none"> <li>-Correct and improve strategies, according to what happened in the time of economic instability, to face possible similar situations. (F5, A2)</li> <li>-Improve and invest in the design area for the creation of exclusive designs. (F6, A4)</li> </ul>	<ul style="list-style-type: none"> <li>-Get certifications to attract potential buyers and maintain the client portfolio. (D7, A3, A5, A6)</li> <li>-Increase the value of the product. (D4, D7, A5)</li> </ul>

Authors: García; Maurat

#### **4.3.4.1.1. Strategies**

- Manage and improve the marketing plan with the purpose of correcting errors and establishing new promotions considering the shortcomings of the previous ones, informing the clients of the scope of the company thanks to the existing branches in the country as well as their services door to door transport.
- Invest in new tools that help improve the design stage, such as acquiring digital programs or training employees on related topics, in this way the company would impose new furniture models of its authorship.
- Process quality certifications, to increase the value of the product, generating trustworthiness.



#### 4.3.4.2. Ideal Furniture

**Table 91 SWOT Analysis for Ideal Furniture**

Strengths	Weaknesses
F1. Experience in the market for 37 years. F2 Availability of human resources. F3 Craftsmen with experience in furniture manufacturing. F4 Web portal as a massive means of advertising. F5 Variety of raw material. F6 Good positioning of the brand both local and national. F7 Ability to react to extraordinary requests. F8 Own distribution channels. F9 Mature logistics. F10 Eligibility for foreign trade credits. F11 Branches in several cities of the country, offer various advantages for the company. F12. Continuous improvement in processes.	D1. Does not work with manuals or flowcharts. D2. The packaging and labeling are not suitable for foreign trade. D3. Does not have qualified personnel in foreign trade D4. Does not maintain any kind of employment relationship with any foreign trade institution. D5 Lack of quality certifications and good manufacturing practices. D6. Ignorance of issues related to foreign trade.
Opportunities	Threats
O1. Recognition in the national market. O2 National exhibitions of products from SMEs promoted by government actors. O3. Bank loans for business investments. O4. Low local competition in wood products. O5 Training in various production topics provided by recognized public and private institutions. O6 Professional experts in foreign trade. O7 Possibility of entering new markets. O8. Quality management certification bodies.	A1. Share facilities with another wood company. A2. Unstable economic situation in the country. A3. Loss of market due to the lack of certifications that guarantee the quality and origin of the raw material. A4. Demanding customers. TO 5. Logging companies from neighboring cantons impose innovative designs. A6. Global concern for the environment.

Authors: García; Maurat

**Table 92 Cross-SWOT Analysis for Ideal Furniture**

	Strengths	Weaknesses
Opportunities	-Develop new methods to introduce the product into new market niches. (F1, F6, O1) Invest in training programs for personnel. (F2, F3, O6)	-Optimize production processes. (D1, O5, O7) -Request assistance to experts in foreign trade issues to improve details that can increase the value of the product. (D2, D3, D6, O5, O8)

	-Promote the products in the web portal and in social networks to publicize the brand in a massive way. (F4, F6, O5) -Optimize and make more efficient logistics and distribution processes to provide a better service. (F8, F9, O4)	-Participate in quality certifications with different national institutions. (D5, O8)
Threats	-Identify obstacles and errors to establish new methods of production and sales, to face eventualities. (F1, F6, F7, A2) -Invest in the design area. (F3, F12, A4, A5)	-Get certifications to attract potential buyers and keep customers constant. (D5, A3, A6) -Increase the value of the product. (D1, D5, A4)

Authors: García; Maurat

#### 4.3.4.2.1. Strategies

- Improve the advertising plan with the help of the web portal, including interactive tools, giving the user the option to create their own design according to their tastes and preferences.
- Due to environmental concerns, the company could manage an internal operative plan in which the product and process certification is included, since extensive experience in the market has managed to eliminate bottlenecks, therefore, the productive processes they have improved gradually. Once the plan has been drawn up, coordinate with the certifiers to begin the process.

#### 4.4. Conclusions

In conclusion to this chapter, it is indicated that there are several common elements among the SMEs interviewed. In the first place, most of the companies do not develop any type of operational or strategic planning in the medium or long term. Therefore, they do not have plans or guides for purchases, sales, advertising or financing, which generates instability in the company and uncertainty in decision making. It is also clear that neither entrepreneurs nor employees attend operational, technical or administrative training which would generate *know-how* to implement or improve processes and procedures. In repeated cases, it is evident that the investment is conceived as a supply of merchandise or machinery only and training of human resources does not include. Such factors cause most enterprises to lack good business organization or human resources in which to support the growth of the company.

It should also be mentioned that the relationship between public institutions and entrepreneurs is very poor which has resulted in an inconsistent link between them. Also, the number of companies that have trained personnel in foreign languages or foreign trade issues is minimal, which is an obstacle to export.

### **Export audit traffic light summary**

The following section details the classification of the companies consulted according to the position suggested by the authors for the *PROECUADOR Route for the Exporter* which "uses a service signaling methodology that consists of locating the users in red, yellow and green. The red traffic light for companies at the entrepreneur level, the yellow traffic light for companies at the level of export potential and the green traffic light applies to export companies. "(PROECUADOR, 2015). The position on the list is directly related to the probabilities of export.

#### Exporter (Green Light)

- Cooperativa de Producción Artesanal Teje Mujeres

#### Exporting potential (Yellow Light)

- Litargmode Cía. Ltda.
- Ikat Fabrics
- Gino Zanetti
- Lofac
- Ideal Furniture
- Idearte Furniture

#### Entrepreneur: (Red Light)

- Farming Family Farming Association Sowing Hopes for a Good Life.
- House of the Makana
- Fassioni
- Burana-Scarpa
- Belissa
- Bela

- Footwear Girls
- Artistic Community Tourism Association Bacpancel
- My Lady
- May First Guild
- Santiago Lituma
- Sebastian Guillen

## **CONCLUSIONS AND RECOMMENDATIONS**

Firstly, we observe that the business culture is not ready for associative processes such as in the footwear sector. There is great mistrust and corporate selfishness so the exchange of information and knowledge is practically nil thus generating competition with rival companies that slows productive development.

Likewise, it is emphasized that the productive and commercial relations in the footwear sector and the artisanal sector are quite complex due to the existence of a strong informal productive sector which today is the main basis of the formal productive system. That is why the description of the relationships between artisans and the organization of productive chains is a fundamental part of this study. In addition, it can be concluded that SMEs constitute the fundamental pillar of the economic system of the region since they occupy a high percentage of the economically active population.

There is also a misunderstanding of the concept of export by entrepreneurs and administrators in associations. They believe that the purchase by foreign tourists or foreign residents is to export.

They also do not understand that social networks not only facilitate important connections abroad, but also enable one to know and evaluate potential partners due to commercial online networks that can be generated due to easy access and free Internet browsing.

Finally, it has been found that Gualaceo has an exportable array of the following products:

- Orchids and spring flowers
- Casual women's shoes
- Knitwear
- Macana fabrics
- Wooden beds

Also, in the footwear sector, Litargmode Cía. Ltda. is the most important company within the exportable goods of the city, thanks to factors such as its production volume and its

mechanized processes that constitute an important offer at the country level. In addition, it has a mature business organization that allows a harmony between operational and administrative decisions, strategic planning which is another benefit since it keeps the organization focused on meeting medium and long-term goals. This company has the basic productive, administrative, financial and operational characteristics for internationalization. However, a change of perspective towards the idea of internationalization on the part of the managers of this company is indispensable since it shows resistance in this matter.

On the other hand, in the footwear sector, an estimated total productive capacity of 23,300 pairs of shoes per week is observed. This amount of supply constitutes an attractive number to compete internationally, however, associativity is recommended in order to unify processes and consolidate production to be able to respond to orders of high volumes.

In the artisanal sector, it is necessary to consolidate companies or, failing that, create well-structured associations that serve as centers of collection and distribution of the individual artisanal production of informal workers. This way, it will be possible to manage the obtaining of certifications that give greater value to the product besides providing the necessary technical files to ensure the uniformity in the productive processes. On the other hand, the consolidation of efforts and capital will allow the creation of an optimal marketing plan to position the product through online media and open the doors to international markets.

In the agricultural and floriculture sector, it is known that there are three flower export companies that are part of the existing export supply prior to this study. There are no new companies with exportable offer in this sector.

In the industrial sector except for footwear there are two logging companies considered part of the exportable goods due to high production volumes and product features. There is a solid business organization, which is a key element for internationalization.

In the mining sector there is no exportable supply.

## **Recommendations**

There is no clear and updated database issued by local institutions on productive and commercial institutions of the city, so a database should be created because this information is of high importance for public knowledge.

Entities such as the Municipal GAD could provide greater support and facilities regarding access to information for researchers seeking to conduct field studies in this area. In this case, there was very Small collaboration on the part of said organization which caused delays in the achievement of the investigation.

It is recommended to strengthen the regional communication and publicity plan in order to position the local products, its culture, and other attractions through online media to international markets for local businesses.

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## Appendices

### Appendix A. Test Export audit

<u>PROFILE</u>				
Company name				
RUC				
Type of legal status				
Type of SME				
Main product				
Location				
Contact person				
Phone				
Date of the interview				
<u>BUSINESS ENVIRONMENT</u> (70)				
Administration (25)		No (0)	Basic (3)	Functional (5)
Business organization chart				
Manuals or flowcharts				
Mission and established vision				
Long-term goals and strategies				
Human Resources				
Consolidation (20)		No (0)	In process (3)	High (5)
Stable and consolidated position				
Clients dispersed throughout a good part of the country				
Renown and prestige in the economic environment				
Agreed or associated				
Promotional resources (25)		No (0)	Medium (3)	Suitable / Languages (5)
Internet				
Gallery of product images				
Social networks and web page				
Business cards				
Brochures or booklets				
<u>PRODUCT</u> (115)				
Development (40)		Under 0)	Medium (3)	High (5)
Degree of processing				
Degree of differentiation				
Traditional or ancestral value				
		No (0)	Basic (3)	Complete (5)
Brand				
Technical sheets				
Certifications				
Development of costs				

Development of prices				
Characteristics (35)		High (0)	Medium (3)	Low (5)
Volume				
Fragility				
Difficulty of transportation				
Delicate storage				
Modifications for international markets				
Seasonality				
Production time				
Raw Material (15)		Under 0)	Medium (3)	High (5)
Availability of raw material				
Relationship with suppliers				
Quality				
Availability (10)		Under 0)	Average (3)	High (5)
Productive capacity				
Ability to react to extraordinary requests				
Packaging (15)		No (0)	Basic (3)	Suitable COMEX (5)
Labeled				
Container				
Packaging				
<u>LOGISTICS</u> (20)		No (0)	Basic (3)	Adequate (5)
Prices in INCOTERMS				
Commercial distribution				
Short marketing chain				
Agreements with logistics service companies				
<u>FOREIGN TRADE</u> (25)		No (0)	Basic (3)	Adequate (5)
Qualified staff in languages				
Qualified personnel in foreign trade				
Relationship with institutions related to foreign trade				
Internationalization of clients or suppliers				
Knowledge of exporting association in its sector				
<u>FINANCIAL</u> (20)		No (0)	Basic (3)	Adequate (5)
Accounting record				
Bank accounts				
Credit lines				
Eligibility for foreign trade credits				
<u>TOTAL EXPORAUDIT</u> (250)				

