



University of Azuay

Faculty of law

School of International Studies

**INTERNACIONALIZATION PLAN FOR THE
TOQUILLERAS ASSOCIATION “PADRE RAFAEL
GONZALEZ” OF THE BIBLIAN CANTON**

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Authors:

Mario Novillo Valdivieso; María Piedad Silva Neira

Director:

Ing. María Inés Acosta Urigüen

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DEDICATION

“A journey of a thousand miles begins with a single step”

I dedicate this graduation work to my mother Marina, my sisters Corina y Soledad, who have unconditionally slaughtered part of their time, work and sacrifice so that I could fulfill this goal. To my brother Alan for his companionship and moral support along this journey *called*. Finally, to you dad, Mario Novillo Cueva, who despite your departure from this earthly world, has been a source of inspiration day after day to accomplish an objective you had prepared for me.

Mario Alejandro Novillo Valdivieso

“I can do everything with Christ who strengthens me”

Intellectual, work and family challenges are part of people's daily lives, we are born with this predisposition; however, there is a challenge that tests us every second: to be good human beings. Therefore, I want to dedicate this thesis to Almighty God my father, to Jesus my best friend and teacher, to the Virgin Mary my mother and to all the beings of light who guide me on my path. It was hard I admit, because this thesis is not only an effort of months, but a long university journey where I had to define who I am and where I am going. Today I hope to go out to life as an excellent professional, but above all, as a good person, with God's blessing. Amen.

María Piedad Silva Neira

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ABSTRACT

The Biblian canton, located in the province of Cañar, keeps an ancestral knowledge that has been preserved over time thanks to the work of the craftswomen of that canton: the weaving of toquilla straw hats. Through an Association, the artisans have managed to export sporadically to the European market. However, there are still barriers to overcome so that the product can be competitive in the target market. This is why this project is based on the collection and analysis of data from the Padre Rafael Gonzalez Cooperative of Artisan Production, with the aim of directing its production and marketing towards the international market.

To this end, an empirical-analytical method was used, which took data about the macro and micro environment of the Cooperative, adjusting the productive and social reality of the same towards a series of logical possibilities for its export and internationalization. Therefore, within this work we will find both theories and fundamental bases for understanding the processes of internationalization, as well as a series of strategies adapted to the reality of the cooperative, so that the Bibilak brand can be positioned in the international market. In addition, the costs of exports were determined along with the respective projection up to five years; the financial indicators TIR and VAN were used for the economic evaluation of the project.

Finally, conclusions were obtained from this work with regard to the decision to internationalize the Association under the Bibilak brand.

Keywords: Biblian, supply chain, internacionalización, marketing, toquilla straw hats.

RESUMEN

El cantón Biblián ubicado en la provincia de Cañar, guarda un conocimiento ancestral que se ha conservado a lo largo del tiempo gracias al trabajo de las artesanas de dicho cantón: el tejido de sombreros de paja toquilla. Por medio de una Asociación, las artesanas han conseguido realizar exportaciones esporáneas al mercado europeo, sin embargo, aún existen barreras que superar para que el producto pueda ser competitivo en el mercado objetivo. Es por ello que el presente trabajo de titulación se basa en la recopilación y análisis de datos de la Cooperativa de Producción Artesanal Padre Rafael González, con el objetivo de dirigir su producción y comercialización hacia el mercado internacional.

Para ello, se utilizó un método empírico-analítico, el cual se tomó datos acerca del macro entorno y el micro entorno de la Cooperativa, ajustando la realidad productiva y social de la misma hacia una serie de posibilidades lógicas para su exportación e internacionalización. Por tanto, dentro de este trabajo se encontrarán tanto teorías y bases fundamentales para comprender los procesos de internacionalización, así como, una serie de estrategias acopladas a la realidad de la cooperativa, para que la marca Bibilak pueda posicionarse en el mercado internacional. Adicionalmente, se determinaron los costos de la exportación junto con las respectivas proyecciones a cinco años; para la evaluación económica del proyecto se emplearon los indicadores financieros TIR y VAN.

Finalmente, se presentan las conclusiones obtenidas de este trabajo en cuanto a la decisión de internacionalización de la Asociación bajo la marca Bibilak.

Palabras clave: Biblián, cadena de suministros, internacionalización, marketing, sombreros de paja toquilla,

CHAPTER 1

1. THEORETICAL BASIS TO THE INTERNATIONALIZATION OF TOQUILLA PRODUCTS

Introduction

The current economic context of nowadays is characterized by the increasing globalization and international business activity, since the different sectors of the local market such as agriculture, manufacturing, and service supplier companies reflect a greater linkage with the markets of other countries. Now it is no longer conceived the of world as a set of separated nations by geographical or cultural barriers, but as a sphere more interconnected due to the integration processes and economic blocks formation. Nonetheless, this dynamic has its roots from the Chrematistic theory, considered as the first one to explain trade relations among nations, until the most present theories such as Porter's.

The present chapter aims to approach the conceptual framework about the theories of foreign trade and competitiveness that start with the theory of the absolute advantage of Smith, since the publication of the book "*The wealth of nations*", different authors were developing and discovering complex forms of international trade. Later, it is addressed the theories of internationalization which pretend to explain how and why an enterprise decides to develop activities out of its original geographical area. Finally, it is analyzed the regulatory bodies in force focused on the craft activity, as a fundamental part of knowledge to exercise economical activities of any business.

1.1. Foreign trade theories and competitiveness

"The nation's foreign trade must be oriented towards internal supply and the consolidation and diversification of import and export markets, in order to achieve fair and equitable terms of trade" (Perón, 1952). National efforts are focused on maintaining a balance on its trade balance by having a huge volume of exports and a balanced percentage of imports. However, the commercial process has not been the same through

the years and has had a constant evolution; for this reason, our aim is to present a compilation and analysis of international commerce theories with the purpose of linking them to Ecuadorian national reality in the following chapters.

To start this description, we must consider the two main commercial currents in economic and commercial doctrine: traditional and modern theories. The first ones, are focus on explaining how the commercial phenomena is produced, find its causes, the influence and the participation of the countries considering some factors that could create competitive advantages in the international market. On the other hand, neo-theories analyze the international market not only as a preterminate system, but as market of imperfect skills, that has not relation with the endowments of each country, but with the opportunity of a healthy and well-balanced competence that guarantees a wide variety of goods and services (Blanco, 2011).

The two main renowned characters of the classical theories are Adam Smith y David Ricardo with their postulates about absolute and comparative advantages, respectively. Smith at the end of XVIII century sought to demonstrate the different benefits derived from free trade, for this, he needed to show a model in which each country had to specialize in the production of certain goods, with the objective of making their production more efficient, and acquire an absolute and productive commercial advantage. At the moment of the specialization, the country would take the post of certain exports and would only need to import those goods in which it has an absolute disadvantage (Blanco, 2011).

This postulate was based on liberal economic theories and were sustained on market self-regulation, because if a country contributes significantly to the trade of certain good, the others would look for new merchandises in which they could specialize. Smith in his book *The Wealth of Nations*, 1776, mentioned that by implementing these principles, global welfare was guaranteed, because the production of goods would be more efficient with the reduction of certain cost and this, would supply international demand. In addition, Smith thought that the advantage of a country was classified in natural and acquired; the first one refers to climatic conditions, the possession of natural resources or huge quantities of workforce; but the second consist on the technology that were developed by

a country for the production of a certain good that would make it distinguishable from its competitors. (Daniels, Radebaugh, & Sullivan, 2013)

However, this theory did not consider the monopolization of the market as a problem for free competition, not even the hypothetical case in which, a nation would not have had enough factor for specialization, causing an isolation from international trade. In face of these, David Ricardo presents new sections based on Smith's assumptions. So, at the beginning of 19th century, comparative advantage theory was presented as a novelty, which answered the assumption of absolute disadvantage.

Ricardo stated that if a country did not possess an absolute advantage in any good, then an analysis of relative cost must be made, because, it could still produce a good which its production meets minimum efficiency standards. With this, he pretended to demonstrate that was not enough a specialization per good, per country, because, even if the country had an absolute advantage to produce both goods, it would be more convenient to import the good whose production is less efficient. For this, is essential to analyze the cost of one good in the terms of the other, allowing a more benefic exchange among countries. (Steinberg, 2004)

Ricardo's law of comparative advantage can be summarized as: "the least efficient nation should be specialized in the production and export of the good in which its absolute disadvantage is inferior. This is the good in which the country has a comparative advantage. On the other hand, the country must import the good in which its absolute disadvantage is superior, so that, the good in which it has a comparative disadvantage" (Blanco, 2011). With this comparison of cost, the nations will be benefit from international commerce, since they will be able to acquire more quantities of goods with the same quantity of labor.

Unfortunately, Ricardo's theory received many criticisms because it showed a model that according to doctrinaires¹, had unrealistic assumptions: two countries, two types of goods, just one factor of production (labor force), homogeneous production

¹ Someone who is specialize in doctrine more than in its practical application. In this case, the doctrinaires that we take into account are those specialists in economic and/or commercial theories.

conditions, similar economic and political conditions, among others. Also, it was criticized that comparative advantage can be explained in terms of the economic theory of opportunity cost and that solutions to international trade should then, be defined by the frontier of production possibilities. This did not satisfy the integral and holistic explanation of international trade. (Blanco, 2011)

In response to these dissatisfactions Heckscher and Ohlin (H-O) in the early 20th century developed the theory of endowment factors determined by: the amount of land, labor and capital that a country could possess; thus "the country that is abundant in certain factor exports the good whose production is intensive in that factor" (Krugman, Obstfeld, & Melitz, 2012, p. 91). Contrary to Ricardo's theory, H-O asserts that the international context is determined by these differences between countries in factor endowment, some are endowed with many factors, which helps to explain why there are asymmetries in the costs of a factor, so when the factor is abundant, it is cheaper to produce a good (Hill, 2011).

By having a wider context in terms of production and cost efficiency, the theory of international values was developed, which not only contemplated trade in terms of production but also, in terms of international trade facilities. This theory is developed by Mill based on the economic assumptions of the law of supply and demand, and describes how the determination of the prices of the goods that a country produces is a determining factor while identifying the distribution of trade profits. (Steinberg, 2004)

Mill explained that the international demand equation could determine that, by having export products defined at a certain price in the market, they could manage to cover total imports and even generate a surplus² in the trade balance. This would lead to a balance in the international market as it would increase healthy competition between buyers and sellers. This introduces the importance of competition to promote a balance between supply and demand, and also determines the need to promote beneficial conditions for trade, with less taxes, tariffs and other protectionist measures that only

² Quantity measured in economic terms where income is greater than expenditure, in this case, more exports than imports.

isolate countries from the dynamics of the international market. (Steinberg, 2004)

At the end of the 20th century, economic and trade experts stressed that trade is more complex and that comparative, factor and value theories are not complementary to each other and therefore do not provide a solution to the dynamics of a heterogeneous market. As a consequence, the theory of competitiveness began to be developed, which initially focused on explaining that the success of a nation was to mix its factor endowments in production with its importance in the dynamics of trade, and thus, generate bases to promote competitiveness in the market (Valencia & Ortiz, 2014).

Among the most important representatives of competitiveness we find Michael Porter, who developed a new theory called the Diamond Model that is based on the causes of productivity, considered as the only variable to measure the competitiveness of a country. According to this author, four factors must be considered to define the competitive environment in which companies are developed: factor conditions, demand conditions, related sectors, strategy and company rivalry. Additionally, Porter says that there are two other variables that influence the national diamond, such as fortuitous events and the government; it is necessary to note that the effect of one attribute depends on the others, so, by only having a favorable demand condition will not produce a competitive advantage unless the rivalry between companies increase in order to make them react in a different way. (Buendía, 2013; Hill, 2011)

According to this theory, there are two factors that are invisible to the first face economy power: chance and government. With these additional factors, it is possible to modified the national environment to allow companies to enter in a process of training so they can be ready for international competition. In order to make this first stage works and create a balanced coexistence among trading nations, it is essential to take into account human resources, physical resources, knowledge resources, capital resources and infrastructure, in order to empower them and generate a competitive advantage (Valencia & Ortiz, 2014).

But this competitiveness does not take into account the framework of imperfect competition, which rises to two types of competitiveness models, monopoly competition

and oligopoly (reciprocal dumping³) (Blanco, 2011).

The monopoly model was developed by Krugman, and economies of scale were widely considered in order to explain intra-industry trade, based on an indispensable assumption for competitiveness: consumer preferences. Here, an individual company is responsible for producing a variety of products with certain differentiating characteristics from the competition, taking over the market and acquiring the power to determine the market price in that sector (Blanco, 2011).

"If two similar countries, each with a monopolistically competitive production sector, open up to trade, then the companies that produce a single variety of a product (e.g. a car model) can supply a wider market (domestic market and meet the demand of some foreign consumers who want that kind of model) and reduce their average costs". (Blanco, 2011). Therefore, under this model, companies can produce more quantities to take advantage of their economies of scale, and consumers gain choice capacities within a given sector and pay a cheaper price by increasing supply (competition).

On the other hand, oligopoly or dumping models take as a premise the discrimination of international practice of uncontrolled prices, where a company or nation sets a lower price for export goods in relation to domestic ones. However, this model takes very complex assumptions since it takes into consideration the different types of companies, whether they are SMEs, exporters, importers, service companies, assembly companies, among others. Therefore, this model created the need to create trade models that take into account business differences, which are in the process of being improved (Blanco, 2011).

These theories, whether classical or modern, seek to analyze the dynamics of trade in order to provide competitive and specialized models for nations and the market to fluctuate in a way that could benefit to all its actors. It is clear that no theory covers all aspects of trade, economics, logistics and competitiveness; therefore, partnerships, strategies and regular analysis are required to achieve long-term economic benefits.

³ Dumping is generally a situation of international price discrimination: the price of a product, when it is sold in the importing country, is lower than the price at which that product is sold in the market of the exporting country (Organización Mundial del Comercio, 2019).

Countries need to understand the importance of adaptation and implementation of holistic tactics to deal with the actors involved in the exchange of international goods. For this, it is essential to acquire skills and establish macroeconomic goals that strengthen domestic productive sectors, so that these in turn become part of each nation's trade portfolio.

1.2. Internationalization theories: Economic approach, as process, and SMEs

The international trade driven by the phenomenon of globalization began formally in the decade of 1950 after the second world war ended. This current trade interchange dynamic among countries, that has endured the evolution of different economic concepts from Adam Smith to the most contemporary such as Friedman's, they argue that power and wealth of states is generated by the economic potential of their enterprises, comparative advantages and the free markets in which they perform. Therefore, international trade interchange is one of the ways to increase economic growth and the productivity level through the creation of global markets, this being the major motivation for business from all over the world to reconsider their production and commercialization processes to an international scale. (Rueda Galvis, 2008)

Thus, internationalization of business can be defined as a dynamic process part of the corporative strategy with the aim of achieving growth by means of geographic diversification to the international level, it uses a long lasting evolutive process that affects gradually to the chain value activities and organizational structure of the company, it implies an increasing use of material resources as the capacities of human resources in the international context, so it achieves parallel to increase the knowledge about the target market. Internationalization might be understood as a complex and interesting form of business development, inasmuch as in several occasions it becomes in the phenomenon of multinationalization. (Villareal Larrinaga, 2005)

To analyze if an enterprise should be part of the internationalization process, below are presented the main advantages that lead the company to be committed with the foreign market, as well as the disadvantages of this process:

➤ *Advantages*

- To take advantage of the total productive capacity, which sometimes exceeds the need and demand of the local market.
- Economies of scale, the expansion of markets increases the usage level of idle resources for production.
- Easier and fast access to new technologies that allow to modernize the productive plant.
- To equilibrate the sales level when there exist critic situations in the domestic market or the local demand is reduced.
- To eliminate the cultural conditioner in the target country, since customers tend to buy local products due to nationalism.
- Access to international credit with preferential interest rates, therefore, companies have access to better funding sources

➤ *Disadvantages*

- Increase of the company vulnerability due to the emergence of greater competition.
- Lower unit profit margin when more bidders concur in the market.
- Upgrade necessity and constant adaptation to products design and acquisition of technologies.
- Existence of difficulties because of tariff and non-tariff barriers imposed by some countries.
- Increase of dependency on the productive, comercial, technical, administrative and financial environment that occurs in the international level.
- Acceleration of obsolescence as a result to technological development, fashion, appearance of new concepts, and so on. (Lerma Kirchner & Márquez Castro, 2010)

So, a company that wants to internationalize and take advantage of the benefits the global market grants it is exposed to all the risks mentioned above; nonetheless, these can be reduce at minimum if the company adopts a strategy or a long-term consistent model. It is therefore, that scholars in this field have developed theories about internationalization that aim to explain this phenomenon from several perspectives related with the global flow

of goods and services that affects to markets, in which more business, especially SMEs that are increasingly being incorporated.

The internationalization theories are classified in three perspectives: economic, as a process, and SMEs internationalization oriented. From an economic perspective, this phenomenon has its roots in the classical theories of international trade, which approach was the specialization on production of goods and services, some authors that worked on this conception were Adam Smith and David Ricard, previously analyzed. Nonetheless, a most contemporary vision from this perspective includes theories that explain the reasons why a company expands internationally and under what conditions is determined the optimal localization of its operations. (Cardozo, Chavarro, & Ramírez, 2007)

One of these is the *Monopolistic advantage theory developed by* Kindleberger and Hymer, who suggests that companies should possess an exclusive competitive advantage either in production, technology, management style, organization, access to credit or products diversification in order to begin productive operations abroad and compete with local business, that despite of having a higher knowledge of their own market, they are forced to take over the cost of developing any of the advantages mentioned above, so they will not be able to compete with the foreign enterprise. (Cardozo, Chavarro, & Ramírez, 2007)

On the other hand, the *Internationalization Theory* studied by Buckley and Casson at the end of the 70s, it focuses on the processes on intermediate tangible or intangible product transactions (ex.: know-how) within the international enterprises, they are organized by hierarchies instead of being determined by the market forces. For that they should fulfill two conditions: the first one related with unit costs to produce in the national market and export abroad; and the second one is to evaluate whether is more efficient to sell or cede the knowledge to foreign companies, that is to say, this condition is based on the concept of transaction cost. (Cardozo, Chavarro, & Ramírez, 2007)

A third theory from the economic perspective is *The Dunning's Eclectic Paradigm* related with the existence of multinational enterprises. This author explains that the decision of entering in international markets through direct investment must be based on four conditions: the first is to possess own advantages already established or advantages

associated to the idea of being multinational such as the operative flexibility or the ability to take advantage of geographical differences or even government interventions; second, once it possess those advantages, it would be more convenient to exploit them by itself rather than rent them from other companies; third, the enterprise should localize its factories abroad based on the specific factor conditions such as resources, quality, productivity, transportation costs and cultural differences; fourth, the enterprise that perform an investment abroad must be in accordance with the long term strategy. (Cardozo, Chavarro, & Ramírez, 2007)

From the perspective as a process, it has been developed theories that understand internationalization as a mechanism of incremental learning as a result of experience accumulation and the increase of resources invested in the foreign market. Within this theory it stands *The Uppsala Model* from the Nordic school, this theory indicates that the company will increase gradually its resources in a country according it goes acquiring experience in the activities it performs in that market, this process will be developed in a serie of stages that imply every time a greater grade of complexity. (Cardozo, Chavarro, & Ramírez, 2007)

Depending of the author, it can be described more or less stages of growth, but generally it is divided in four that constitute the “establishment chain”, and as it can be shown below, each of these stages represent a greater degree of international involvement in the target country. The stages are: 1) sporadic or irregular export activities; 2) exportation through independent representatives; 3) the establishment of a branch office in the foreign country; and, 4) the establishment of productive headquarters in the foreign country. (Trujillo, Rodríguez, Guzmán, & Becerra, 2006)

It is worth to highlight that this process proposed by Johanson and Vahne during the 70s, it took place when there was little interconnection in the world, thus enterprises began to internationalize with their products in the domestic markets and then at the international context throughout decisions in order to know and gain experience in the external market (Nova Caldas, 2016).

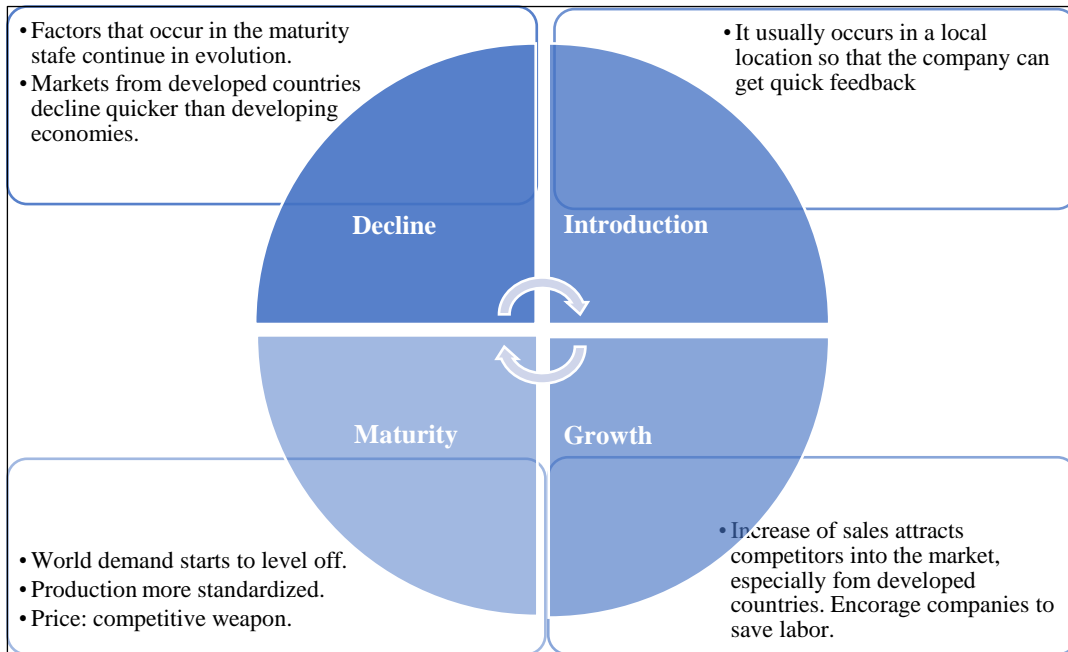
Likewise, these authors considered that the knowledge about the market and the commitment within it, these were the essential elements for a higher share in the

international market; and therefore, the basic hypothesis of this model was that the lack of knowledge about the foreign market was the main obstacle to develop international operations. However, this knowledge cannot be obtained officially, but it depends on the accumulated experience. In addition, it is introduced the concept of “psychological distance”, understood as the external access towards a market or country psychologically more proximate to the one of origin, once the experience is gained, the enterprise will be able consider other factors such as the size of the market, conditions and global economic opportunities. (Trujillo, Rodríguez, Guzmán, & Becerra, 2006)

Other models that integrate this category are the *Innovation Model* and the *Vernon's product life-cycle Model*. The first one, developed in the United States parallel to the Scandinavian model, points out that internationalization is a process of business innovation fundamental for SMEs. The link between internationalization and innovation are developed in the limits imposed in the market and the internal capacity of the company to perform at uncertainty conditions. This model proposes the following stages of development: 1) domestic market; 2) pre-exporter; 3) experimental exporter; 4) active exporter; y 5) compromised exported. (Cardozo, Chavarro, & Ramírez, 2007)

On the other hand, Vernon tries to combine the classical theories of international trade with the perspective of individual behaviour of companies, so that he introduced other aspects as innovation, the effects of scale economy and the uncertainty of international business. With the product life-cycle approach (illustration 1), the author explains that the firsts value activities are made at the beginning in the country of origin, in a later stage of this cycle, the products begins to be sold in other countries as a result of a combination of the productive advantages and innovation in the country of origin. As far as the product reaches a higher degree of maturity and standardization, the competitive advantages of the productive firm changes until they are related with the ability to reduce production costs. (Trujillo, Rodríguez, Guzmán, & Becerra, 2006)

Illustration 1 Stages of the product life-cycle



Made by: Novillo, Silva
Source: Daniels, Radebaugh & Sullivan, 2013

In third place, there are the theories to SMEs internationalization, the most prominent is the *Born Global firms'* theory, which approach is based on the idea that internationalization it is not a lineal process neither unidirectional. As definition, born global firms are those that have adventure to act abroad shortly after been created, thus denying the continuity elements that characterize the slow and gradual traditional approach. One explanation of this theory is the incorporation of small enterprises into networks (personal, institutional or commercial), into agreements of business cooperation and the high use of ICT's. This model involves an economic, political and social aspect, inasmuch as it increases the efficiency of international markets turning them into more competitive; additionally, to knowledge transfer, employment generation, client search abroad, these firms help to develop new skills in entrepreneurs in the face of challenges in the international arena. (Brenes Leiva & León Darder, 2008; Nova Caldas, 2016)

In relation to the features of born global firms, these are small and medium young enterprises that emerge in the high technology field as well as in the traditional field, in the first one they make intensive application of knowledge and imitation of technologies;

while in the second one, technology is not necessary to produce goods and services. Unlike conventional SMEs, its strategic approach focused on accessing to a global market since the moment the company was born or in a closer period to this. The common denominator of born global firms are the limitations of financial, labor, equipment and plant resources due to its short age and size. At a marketing level they possess limitations to collect and interpret accurately the market information; in the production area, they possess a little variety of products or generally they depend of only one product; nevertheless, as they have a simple and flexible organizational structure it becomes an advantage where they can handle a small volume of operations. (Brenes Leiva & León Darder, 2008)

Global entrepreneurship does not guarantee success to any company, so that it has been developed a series of elements in order to born global enterprises can sustain themselves in the market for a long term. Oviatt and McDougall present four of them: in the first place, is the capacity to internalize any transaction; second, it is necessary the use of alternative structures of resources through licenses, franchises or networks structures; in third place, it must identify an opportunity in the foreign market; and forth, is to take advantage of the only vital company's resources. Another way to settle in international markets is by Joint-administration structures, in other words, directives come with an agreement to create a hybrid structure either of licenses, franchises, patents, etc., in order to receive mutual support with the aim of developing their business. (Brenes Leiva & León Darder, 2008)

With regard to market selection and the entry mode of born global firms, this is a process as a result of taking advantage of opportunities from the global market; some enterprises lack an established routine to select target markets and the evaluation is made individually depending on the level of acquired knowledge or provided by the networks of which they take part. In other cases, the market selection is influenced by factors like the psychological distance, target sector or trends of the industry; on the other hand, authors such as Burgel and Murray point out that the modes of entrance are rather competitive, since the size of the market and the own opportunities that a country offers, results more attractive than the psychological distance. When talking about the entrance mode, this can be by means of direct exports, licenses or direct investment, this last one

implies to effectuate transactions of high control for the business. (Brenes Leiva & León Darder, 2008)

As it can be shown, the new approach of born global firms is a paradigm that generates a variety of critics to the Uppsala model of internationalization that has been the prevailing one in the last decades, questioning its validity and even it seems to announce its decadence, inasmuch as there is a higher number of young enterprises in the process of insertion into the foreign market that do not follow such lineal and gradual model. Below it is presented a comparative table between the Uppsala model and the theory of born global firms.

Table 1 Comparison between the traditional model and Born Global Firms

Attribute	Uppsala Model	Born Global Firms
Motivation to internationalization	Reactive	Proactive
	Sporadic orders	Global market niche
	Administration little interested	Committed administration.
	Production costs	Active search of new markets
International objectives	Survival and growth	Exploit comparative advantages
	Increasing volumen of sales	Quick insertion on global segments
	Take advantage of scale economies	Advantage of being the first
	Expand the product life-cycle	Ensure clients
Pattern of international expansion	Domestic expansion first	Concurrent
	Markets culturally close	Focused on “lead” markets
	Target markets less sophisticated	Clients´ followers
	Little evidence of network use	Strong use of networks
Pace	Gradual	Faster
	Slow internationalization	Accelerated internationalization
	One market at a time	Export to large number of markets
	Adaptation of products	Develop of a global product
Distribution method	Conventional	Flexible
	Use of agents or distributors	Use of agents or distributors
	Direct to clients	Direct sale to clients
	Creation of subsidiaries	Licensing
International strategy	Ad-hoc y opportunist	International expansion of networks

Made by: Novillo, Silva
Source: Brenes Leiva & León Darder, 2008

Based on the analyzed and According to Canals (1997) it can be distinguished four main types of international companies, which also explain the stages of this process, whose development implies a higher degree of development. These four types are mentioned in the following matrix (illustration 2):

Illustration 2 Main types of international companies

Export business It is the first stage and the international activity is pasive and consistent. Two characteristics: export from the origin countryand concentration of activities in that country.	Multinational business It emerges in the 19th century and it pretends to exploit a competitive advantage by diversifying its activities in several countries. The objective of this company is to reproduce almost exactly in each foreign subsidiary.
Transnational business It consists of combining economic efficiency with adaptation in local markets, that is to say, it is characterized by a high flexibility to transmit to the whole organization the experiences and innovations that result in other countries.	Global business They began to appear in the 80's and are characterized by the strong weight of their operations such as purchasing, production, research in their own country or in a few countries. It is necessary to develop the capacity to adapt in each market.

Made by: Novillo, Silva
Source: Araya Leandro, 2009

1.3. Legal framework in force

In every project it is necessary to consider the legal aspect in which it is developed, since it regulates the action of the Cooperative with the employees, in the society and in the fiscal activity. To this end, it has been considered five regulatory bodies, which establish the rights that craft activities have, as well as the obligations that a legal entity must fulfill before the State, as well as the responsibility and measures that the State must take to promote the successful development of the business sector.

1.3.1. Constitution of Ecuador

According to the kelsenian pyramid, the Constitution is the highest law of a State and from which all other laws are derived, in Title VI of the current Carta Magna addresses the Development Regime which, as stated in article 275, is the organized group of systems: economic, political, socio-cultural and environmental, that in a sustainable and dynamic way guarantee the achievement of good living. One of the objectives of this regime is to constitute a fair, productive, democratic and sustainable system based on the equal distribution of the benefits that accompany development, means of production and the creation of decent and stable jobs. In the frame of the economic policy, this will have

as a primary goal to promote national productivity and competitiveness, increase scientific and technological knowledge, as well as the entrance into the world economy. (Constitutional Assembly, 2008)

Based on this norm, it can be said that the handcraft production of toquilla Straw hats in the Biblian Canton takes part on the social and cultural system indispensable to reach economic development in the region, since the practice of traditional weaving generalized in the area of the Austro and part of the coast has been transmitted from generation to generation, in addition to being recognized as Intangible Cultural Heritage of Humanity by UNESCO since December 2012⁴.

To complement the protection of craft sector, the Constitution in Section Seven related to trade policy, article 306 points out that the promotion of environmentally responsible exports, especially those that generate greater added value and employment, without excluding small and medium producers of the sector in study. Later on, in Title VII, Art. 348 it is established that the State will finance and support all types of public education, whether they are fiscal, artisanal or communitarian under the same conditions. (Constitutional Assembly, 2008)

1.3.2. National Development Plan “Toda una vida”

The National Development Plan of the current government refers to the artisan sector in Axis 2 related to the Economy at the Service of Society, considering that the national economy is always at the service of the population under the interaction of three subsystems: public, private, and popular and solidarity. In this Axis, objectives 4, 5 and 6 are described below. (SENPLADES, 2017)

Based on the fact that the financial economic system is essential for all people to have the facility to access to local resources and become key actors in the generation of national wealth, it was designed objective 4: *to consolidate the sustainability of the economic, social and solidarity system and to strengthen dollarization*. To this end, policies have been designed such as directing economic resources towards the productive

⁴ Taken from: <https://www.turismo.gob.ec/sombrero-de-paja-toquilla-es-patrimonio-cultural-inmaterial-de-la-humanidad/>

sector, through the promotion of alternative sources of long-term financing and investment with the articulation of all financial levels. (SENPLADES, 2017)

A key concept that is included in these policies is that of the popular and solidarity economy, understood as a form of economic organization, where its members, individually or collectively, organize themselves and develop productive processes, exchange or consumption of goods and services, commercialization, financing, in order to satisfy their primary needs and generate income⁵. Thus, another of the actions is precisely to increase the added value in contracting with the guarantee of greater participation of MSMEs and those that are part of the popular and solidarity-based economy. Furthermore, with fair trade, the regulation of monopolistic practices, the deconcentration of power, it will be promoted competition in the market to improve the quality of products for the benefit of consumers. (SENPLADES, 2017)

In objective 5, it is pretended to promote productivity in order to achieve sustainable economic growth that enables all actors in the economy to develop equitably on the basis of equal opportunities. It is recognized that productive transformation should be inclusive, in other words, that it must not only meet economic needs, but also ensure social and environmental responsibility in enterprises, whether they are large, small or micro. It is therefore that a State policy to increase productivity and value added by creating or granting differentiated incentives to the production sector, whose output satisfy domestic demand and diversifies the country's exportable supply. (SENPLADES, 2017)

Finally, objective 6 is more directed towards the development of productive capacities to achieve food sovereignty and rural development; nonetheless, it is emphasized on various aspects such as decent employment, the elimination of forms of work in precarious conditions, fair trade, pluralistic participation focused on gender and organizations of peoples, communities, nationalities and communes in the adequate management of resources and environmental services, all of this applies in a generalized way to artisans and MSMEs, especially in the rural sector. (SENPLADES, 2017)

1.3.3. Law of defense of artisan

⁵ Taken from: <https://www.seps.gob.ec/interna?conoce-la-eps>

This law published in the Official Register in 1998 covers the protection of artisans in any of their branches of labor, be it arts, crafts or services; with the aim of making their rights effective either individually or collectively with the use of trade union or guild figures. In its Article 2 states that a craft activity shall be considered to be that "practiced manually for the transformation of raw materials for the production of goods and services, with or without the aid of machines, equipment or tools". (Law of defense of artisan, 2008)

This regulatory body, apart from regulating the situation of the National Board for the Defense of Craftsmen, its powers, rights and obligations, seeks to serve as a legal instrument applicable in national courts when problems concerning this minority group arise. Additionally, it is in charge of regulating the economic funds of this institution, with the goal of providing support to programs or projects destined to the productive activities and integral development of these groups. Article 11 explains that within its priorities are: "the training of the artisan class and their trade organizations, the promotion of fairs, exhibitions and competitions at national and international levels, in accordance with the goals and objectives established in the National Plan for Artisan Development". (Law of defense of artisan, 2008)

1.3.4. Environmental legislation

The environmental legislation is protected in Ecuador by the environmental management law, which seeks to establish policy guidelines and environmental protection. With this, it establishes the principles that must be complied with by the public and private sectors in the frameworks of cooperation, recycling and use of sustainable environmental technologies. An important part of these guidelines is related to the correct use of renewable resources and no renewable to protect the natural heritage of Ecuador. (Environmental Management Law, 2004)

Within this legislative framework, micro, small and medium enterprises must direct their productive efforts to fulfill with the guidelines of the "Sumak Kawsay", sustainable development, and the national and international environmental objectives. To ensure this, the competent authority will carry out periodic environmental impact assessments of production activities, as well as environmental monitoring of such activities. Additionally, producers might have Access to any mechanism of social participation to denounce,

control or demand transparency of procedures in national territory, as well as be the beneficiaries of training and information dissemination related to the improvement of their productive activities. (Environmental Management Law, 2004)

1.3.5. Code of labor

This legal instrument seeks to regulate the relations between employers and workers according to its article 1 but considering the different national and international regulations focused on working conditions, human rights, working hours and decent conditions. In the framework of SMEs, it is essential to fulfill with the conditions established in this code, since part of their subsistence depends on the good treatment of workers and the cooperation between the different actors involved in the productive activity (Code of labor, 2012)

It should be taken into account that, regardless of the natural or legal figure present in the employment sector, there is the figure of inalienability of rights, which guarantees minimum working conditions for the common maximum in the society. These minimum conditions guarantee healthy power relations within the productive activity, especially between craftsmen and workers who correspond to the artisan sector. To this end, it is of the great significance to sign contracts between the parties with the aim of establishing the working conditions, remuneration, distribution of working hours and obligations of the parties. (Code of labor, 2012)

Conclusion

As it could be addressed in this chapter, there several theories about trade, competitiveness, business and internationalization. Each one evolves according to new necessities of markets and enterprises, with the aim of understanding the commercial dynamic, new trends of purchasing, logistic processes of foreign trade, the methodologies used in the development of quality strategies and service, among others.

It is important to mention, that neither of these theories cannot explain by its own the dynamic of the international market and the participation of enterprises in this environment, therefore, for this research work it is necessary to take several of them as a theoretical basis, in order to adapt the microenterprise reality to the global environment.

Another aspect to highlight is that the internal law which will allow the association of "toquilleras" to work in a legal and legitimate way in the Ecuadorian territory, taking into account the facilities that the law of defense of the artisan and the code of work offer to the existence and operation of these artisan unions.

CHAPTER 2

2. HISTORY AND ANALYSIS OF THE “PADRE RAFAEL GONZALEZ” ASSOCIATION

Introduction

Within this chapter it will be presented a holistic vision of the Biblian canton in its social and economic-productive axes, with the aim of analyzing the statistical variables and understanding how the Padre Rafael Gonzalez Production Cooperative was formed and what has been the impact and influence of the indicators within the members of this association. With this information, we will proceed to present a SWOT and exportable supply analysis, which will provide a broad perspective of the cooperative in order to carry out the third chapter regarding the integral export plan.

2.1. General data of the Biblian canton

The defined territory that today encompasses the Biblian canton was populated even before the Christian era. In fact, it is considered that in this area since the 19th century existed a sedentary population; according to researcher Jijón y Caamaño, he refers to the 'Tuncahuan' culture in his book *The Inter-Andean and Western Ecuador*, which initially populated the province of Chimborazo and later expanded into the provinces of Cañar and Azuay between 500 B.C. and 500 A.D, this first example justifies the fact that man lived in this territory years before the 9th century. (Biblian Municipal Government, 2017)

On the other hand, with the Inca invasion, they named the inhabitants settled on the riverbanks as 'Burgaymayus'. Within this same context, in the first years of the Spanish conquest from 1562 to 1613, the first 14 families that populated that area began to arrive. It is worth mentioning that Biblian was built in a *tambo*⁶ as part of the Inca Trail to unite Cuzco and Quito. During the Colonial period and the first century as a Republic, Biblian maintained this quality as an obligatory passage for merchants and travelers who transported goods from North to South. (Biblian Municipal Government, 2017)

⁶ During the Incan period, it was called a *tambo* those shelters that were found on the routes of the Inca messengers.

Biblian was granted a canton category on August 1, 1944, during the second presidency of Dr. José María Velasco Ibarra, by the Decree of Creation it was recognized its evident development, since it possessed industrial, mining, agricultural and livestock wealth. Then, considering that it is a fundamental duty of the Political Power to support the improvement of the peoples by granting them the corresponding legal administrative status according to their geographical, ethnic and economic characteristics, and therefore by having the necessary legal means, its cantonization was granted, which marks the beginning of a new economic and politically independent stage. The Decree establishes that the parish of Biblian will be the cantonal head, and that the municipality will be in charge of creating the other parishes with the communes of Nazon, Cazhicay and Turupamba. (Cañar Provincial Government, 2011)

Table 2 General Data of the Biblian canton

Location:	It is located in the southern part of the Sierra region, Province of Cañar, 7 km from Azogues.
Weather:	<ul style="list-style-type: none"> • 79,4% High Mountain Equatorial⁷: upper and middle parts of Nazon, Jerusalem and Biblian. • 20,59% Equatorial Semi-wet Mesothermic⁸: lower parts of the above parishes, also in Turupamba and Sageo. • 0,01% Snowy⁹: upper part of Nazon.
Limits:	North: Cañar South: Azogues, Deleg and Cuenca East: Cañar and Azogues West: Cañar
Area:	232,72 km ² equivalent to 23.200 hectares.
Territorial division:	It is divided in 5 parishes: one urban that is the cantonal head and 4 rurals: Nazon, San Francisco de Sageo, Turupamba y Jerusalem. (illustration 3)
Population:	20.817 inhabitants: 9.193 are men (44,1%) and 11.624 are women (55,8%)

Made by: Novillo, Silva

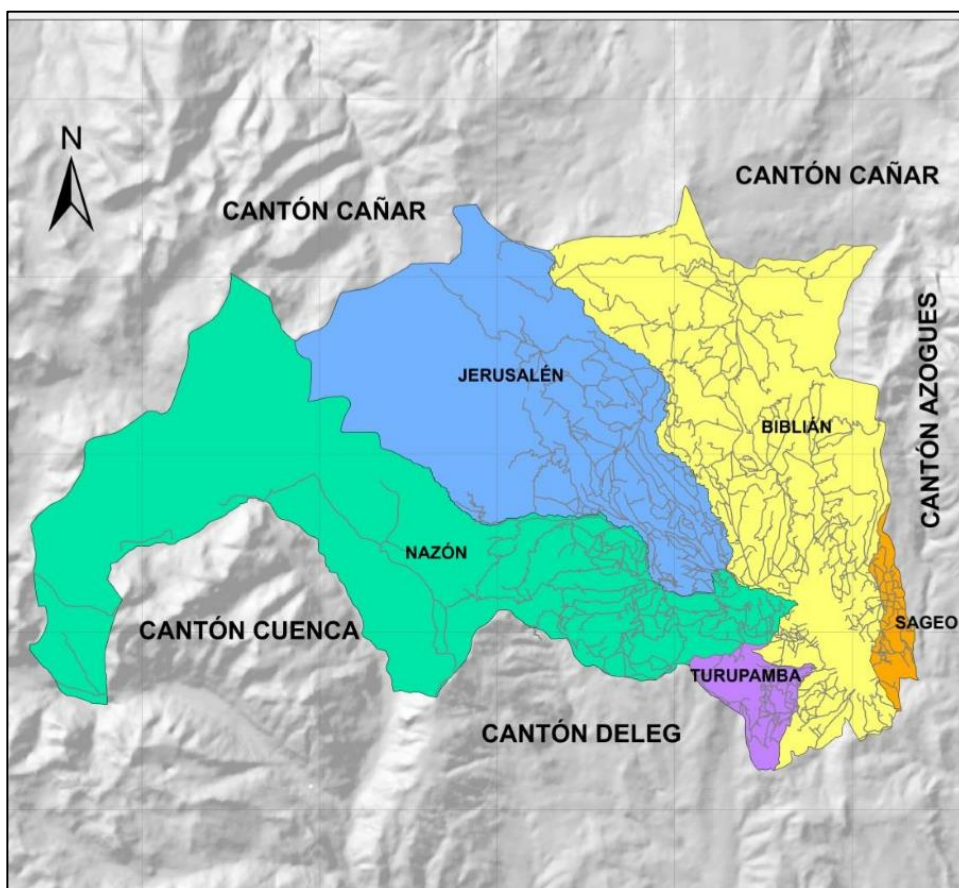
Source: Plan de Desarrollo y ordenamiento territorial 2014-2019

⁷ This weather is located at an altitude between 3000 y 3200 masl, the average temperature is less than 12°C.

⁸ Weather of greater frequency in the inter-Andean zone at an altitude of 3000 y 3200 masl with a temperature between 12°C and 20°C.

⁹ It stands out in cold land and paramos above 3500 y 4000 masl.

Illustration 3 Political division of the Biblian canton



Source: Development and Land Management Plan 2014-2019

2.1.1. Qualitative analysis of the canton

2.1.1.1. Political situation and assistance from GAD of Biblián to artisans

Within the legal framework and juridical structure of Ecuador, the Constitution is seen as the supreme norm that regulates the legal, territorial and social order of the country. It states that the application of norms will be: "The Constitution; international treaties and agreements; organic laws; ordinary laws; regional norms and district ordinances; decrees and regulations; ordinances; agreements and resolutions; and other acts and decisions of the public authorities" (Organization of American States, 2008).

Based on this, the Decentralized Autonomous Governments of each canton can adjust the political, economic and social realities of their territories according to decrees, regulations or ordinances issued in the current or previous periods. In the case of Biblián, Mayor Guillermo Espinoza, who is in his second term of government, has dedicated his

municipal management to supporting the craft sector and the economic development of the most vulnerable.

In an interview for this project with Estefania Crespo, a specialist from the municipality of Biblián, it was possible to see that the main work of this entity is technical-financial assistance; the GAD is mainly responsible for paying the rent for the space where it currently operates, providing strategic alliances with universities, private and international entities and facilitating the process of exporting toquilla. According to official documents from the municipality of Biblián, \$28,352 USD are allocated annually to the Padre Rafael Gonzalez Cooperative project, with the Provincial Government of Cañar being its largest donor with a total of \$15,000 USD (Crespo, 2019).

Another of the most important axes that Biblián seeks to strengthen is the model of popular and solidarity economy, to this end, they launched the announcement of a massive purchase of high quality toquilla straw hats that meet national and international demand specifications. "This process, in addition to promoting the toquilla straw weaving, is a boost to the local and provincial economy. (Cañar Televisión S.A. , 2017). With all this process, the municipality encouraged the development of this activity in the long term, because with the incentive that there is a high demand, the small artisans were helped to continue producing with hope for the future.

Thanks to the political, economic and social support of the GAD of Biblián, the Father Rafael González Cooperative has been able to acquire an image and positioning at a national level. Currently, it has the support of Fons Valencia, the Cañari People's Association and the Cañar Provincial Government, thus rescuing the mission of helping vulnerable groups in society.

2.1.1.2. Current status of toquilleras regardin to gender

For the development of this part, it was held a focus group in which 25 artisans attended. Previously, it was designed a semi-structured questionnaire to learn about the economic and social reality that artisans experience in their daily lives, as well as their role within the family and in the community. On the other hand, also interested to know the perception of craftswomen regarding the support given by the Local Government as part of its public policies for local economic development, furthermore, they were asked

questions related to the economic activity they carry out, if it generates the expected benefits or if they still perceive a certain degree of exploitation by buyers in the market. The results are described below.

To begin with, most of the artisans expressed that from the age of five or six they began to work with toquilla straw and it was their grandparents, uncles, and relatives in general who taught them to weave, the main reason for them to dedicate themselves to this activity was economic necessity. Currently, most of the participants in this work are women, however, in past decades, men also worked in weaving, some of them for reasons of migration or because the selling price was low, they dedicated to other jobs, leaving this activity to women.

The artisans feel that they are not always valued for their time and dedication to weaving toquilla straw hats, there are times that people buy from them, however in other times they return to home with the hats. Most of the artisans consider this is not a safe job with the guarantee of working and being able of selling all weeks, additionally they maintain that the payment is not fair. Nonetheless, according to María Santacruz (61 years old) “this is a safe work since the age of my grandparents because it was the daily sustenance for us”, therefore, even if the job is good or bad paid, this helped them to generate incomes to acquire at least one item in the market. Parallel to the artisan work, the craftswomen also work in agriculture, livestock, animal husbandry, household maintenance, so they are not only dedicated to weaving in toquilla.

At this point it is convenient to know what the support of the major has been in the craft sector. Thus, the participants could express that thanks to the encouragement by the highest administrative authority of the canton, they could come together and socialize the project of creating an association of craftswomen, but there was a degree of skepticism in the side of the toquilleras due to past experiences, despite this and with the hope that more orders will be placed, the Cooperative was formed, now the price per hat went up to \$10 compared to the \$3 or \$4 they received before. Likewise, the DAG helps them with administrative and export processes. However, they believe that there is a lack of coordination on the side of the managers, since oftentimes they do not have the money and buy from the artisans.

Another key aspect from this research is migration, which is perceived by most as negative because it does not often help the family, but rather divides it. They emphasize that the United States is not for all, many people go away and forget. In reference to the product process, there is a group of artisans that only weave and sell the hat in raw, another group instead they process it by machines and then sell it finished. The artisans calculate that it takes two or three days to make a hat. Zoila adds: “in general we earn between \$20 and \$25 working until 11 pm, but with \$25 we cannot support a family”. The current price of the hat is still not fair, because they have to consider other costs such as the price of the straw, labor, time, dyeing, etc.

Now, equally they were asked if they had any knowledge about large export companies from Cuenca such as *Homero Ortega* as this is the same sector in which they operate. Almost all of them responded that they do not know or have not heard of them, however a few know that those companies have started earlier and have all the working material, likewise they realized that prices were so high, that is to say the real value they can generate by selling abroad. With the exports carried out lately they did receive the corresponding values, but to begin with the project they had to acquire credits, and with the interest they spent most of the utility.

Finally, they were asked regarding the work environment, the participants stated that by nature this work is uncomfortable, it causes them body aches because of the position in which they work. The weaving is done on stools because it is more uncomfortable in chairs. That is why they all want more support from GAD, at least to get a well-paid price, as well as other types of help in the area of health, education, workshops to learn how to manage the economic, financial and administrative area of the Cooperative. A palpable problem of this research is that the current generations do not want to learn how to weave in toquilla straw, especially the children of the migrants.

2.1.1.3. Social-economic description of families in the Biblian canton

In order to analyze this area, education, housing, economically active population and migration indices will be taken into account.

According to the 2010 census, Biblian has a population that is mostly made up of children (0 to 10 years old), representing 35.6% of the total population; on the other hand,

young people moving on to adulthood (12 to 17 years old) represent 6.2% of the population. The youth-adult population of working age (18 to 35 years old) represented 12.1%, followed by 22.8% of the elderly population (55 to 80 years old). As such, the economically active population of Biblián corresponds to 48.5 per cent of the population, since in the canton the economic contribution and work is done up to an advanced age (National Institute of Statistics and Censuses, 2010).

Biblián represents 9.2% of the total population of Cañar, among them 10.3% of men in the canton suffer from illiteracy and the average school life is 7.1 years, so many do not have advanced studies. On the other hand, 18.6 per cent of women in Biblián can neither read nor write and some have only been able to complete the first year of primary school (National Secretariat for Planning and Development, 2014). This figure is representative of the women's sector within the Association of Weavers, since when the focus groups were held, information was collected that the craftwomen working there had left their studies at an early age, in order to work in the fields, such as livestock and agriculture.

People in the canton live in different types of housing. According to the 2010 census, about nine thousand families live in private households collectively, that means. a multiple family (cousins, grandparents, aunts, uncles, grandchildren) share one house. Another nine thousand live in borrowed or rented homes maintained by remittances from abroad, but only five thousand homes have remained intact and have not suffered any breakdowns of the family nucleus (National Institute of Statistics and Censuses, 2010).

Another important fact about the economic and social situation of Biblián is the rate of migration of its inhabitants abroad. According to the population pyramid of Cañar and as mentioned in the previous paragraphs, there is an extreme gap between the existence of abundant child and elderly population, which exemplifies the migration situation of the province. According to a study conducted by UNICEF, around six thousand people left the canton until 2006 to migrate abroad, causing physical separation of family members, since most children have one or two parents abroad, leaving the children in the care of a family member, most commonly their grandparents (UNICEF Observatory on the Rights of Children and Adolescents, 2008).

2.1.1.4. Main productive activities

The economic sustenance of the Biblian canton is based on the performance of present productive activities considered as traditional, such as the production of milk and livestock in greater proportion, and minority are agriculture, forestry and fishing. These activities concentrate 44,9% of the total population. Based on the data of the EAP (Economically Active Population), follows the manufacturing industry, the construction industry, and mining activities such as the production of Mangan marble and Saint Louis charcoal, in addition, in recent years the flower industry has been developed, especially those cultivated in Burgay that are exported to the United States and Europe. (GAD Municipal de Biblián, 2014; MAGAP & SIGTIERRAS, 2015)

When analyzing these activities by economic sector, it can be established that 45% of the cantonal EAP is concentrated in the primary sector activities, with the parishes of Nazon, Jerusalem and Turupamba being prominently oriented towards agricultural activities with percentages above 50%. Then this is followed by the tertiary or service with 38.2% of the population located mainly in the parishes of Biblian and Sageo. Finally, only 16.8% of the EAP is dedicated to the secondary sector or transformation of raw materials, here the small industry and crafts stand out. Another key factor to consider in the economy of the canton is that due to the growth of the urban area, social changes and the increase of migration rates, have made remittances occupy a prominent place in the local economy and not longer only traditional activities. (Biblian Municipal Government, 2014)

The following table lists in greater detail all the Economic-Productive activities of the canton with the population participation in each activity:

Table 3 Main economic activities of the Biblian canton

No.	Economic activity	Participation % of the population
1	Agriculture, livestock, forestry and fisheries	44,90
2	Manufacturing industry	9,14
3	Wholesale and retail trade	8,86
4	Construction	7,33
5	Non declared	6,34
6	Transport and storage	4,51
7	Public administration and defense	3,51
8	Teaching	3,23
9	New worker	2,81
10	Activities of households as employers	1,71
11	Human health care	1,54
12	Accommodation and Catering	1,41
13	Other service	1,09
14	Professional, scientific and technical activities	0,76
15	Administrative and support service activities	0,63
16	Financial activities and insurance	0,60
17	Information and communication	0,55
18	Water distribution, sewerage and waste management	0,44
19	Art, entertainment, and recreation	0,26
20	Supply of gas, steam, electricity and air conditioning	0,25
21	Mining and quarrying	0,11
22	Organizational activities and extraterritorial bodies	0,02
	Total	100,00

Made by: Novillo, Silva

Source: Development and Land Management Plan 2014-2019

2.2. “Padre Rafael Gonzalez” Cooperative

2.2.1. Backgrounds

In the canton of Biblian is practiced in a cultural manner the weaving of the toquilla straw hats from an early age, that is why the Decentralized Autonomous Government of this canton took the initiative to support and contribute to the improvement of the quality of life of the city's craftswomen and their families. In 2015 several craftswomen decided to form the Cooperative "Padre Rafael González" with the support of the municipality, strengthening the productive, organizational and social ties of the members. This initiative allowed the craftswomen to create a collection center where they could all sell their

products at a fairer price than the market price, as well as market them under a collective brand that would give them prestige and positioning during national and international commercialization (Quizhpi, 2018).

2.2.2. Creation and purpose

The Assembly to constitute the Padre Rafael Gonzalez Cooperative was held on August 27 of 2015 to which the concerned participants went to conform the Directive bodies according to what was established in the Organic Law of Popular and Solidary Economy (LOEPS) and its respective Regulatory paper. Subsequently, upon request to grant legal status submitted to the Superintendence of Popular and Solidarity Economy, in October 2015 the Zone 6 Intendant approved the Statute of the Padre Rafael González Craft Production Cooperative "COOPROPARAGO" through Resolution *SEPS-ROEPS-2015-900863*. As for the object, according to Article 3 of the mentioned statute, the social object of the Cooperative will be the artisan production in general. .

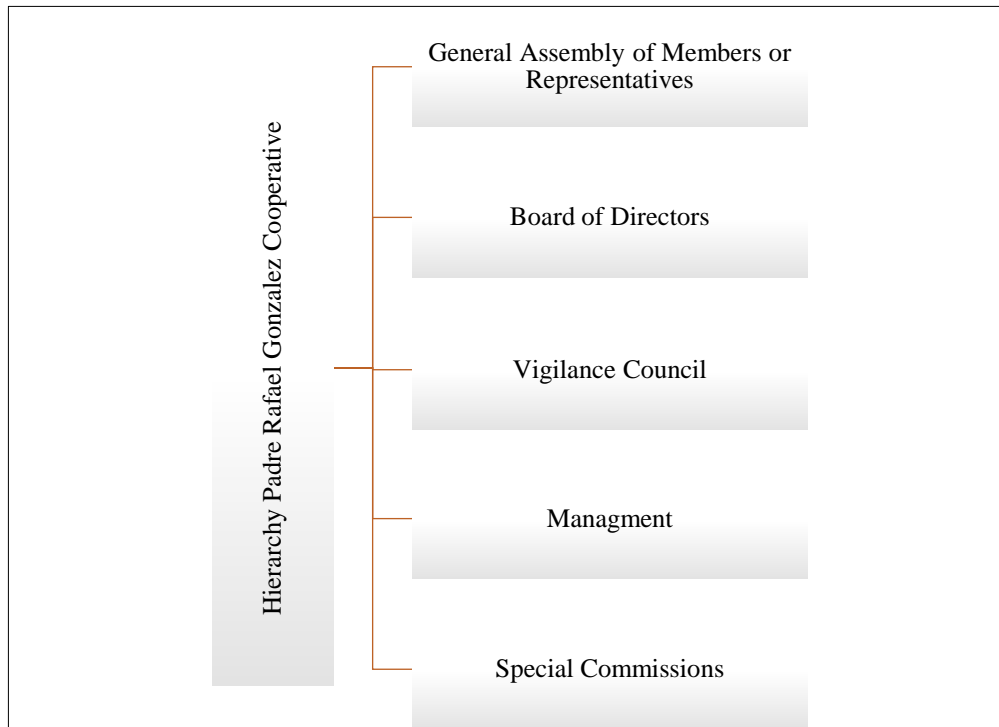
2.2.3. Current situation

2.2.3.1. Analysis of the legal structure

The Cooperativa Padre Rafael González was established in 2015 under a Constituent Assembly under the supervision of Lorena Paola Cazar Almache, zone 6th Intendant. The legal personality was granted by the Resolution SEPS-IGP-2015-050 of the Superintendence of Popular and Solidarity Economy, which established it as a Society with Limited liability, this means, the responsibility of the partners is limited to the capital they contribute to the entity (Statute of the Cooperative of Artisan Production Padre Rafaél González, "COOPROPARAGO", 2015).

This cooperative, according to its constitutive document in the third title regarding the organization and government, direction, administration and control of this legal entity will be ruled under the following hierarchy:

Illustration 4 Administrative Hierarchy Padre Rafael Gonzalez Cooperative



Made by: Novillo, Silva
Source: Statute of the Cooperative of Artisan Production Padre Rafael Gonzalez

Additionally, under the rules established in the Statute, it is mentioned that in the General Assembly the representatives are elected for each section and they cannot hold the office for more than a period with possibility of a single re-reelection. However, this assembly does not designate the Manager or Legal Representative, this is an exclusive responsibility of the Board of Directors (Statute of the Cooperative of Artisan Production Padre Rafaél González, “COOPROPARAGO”, 2015).

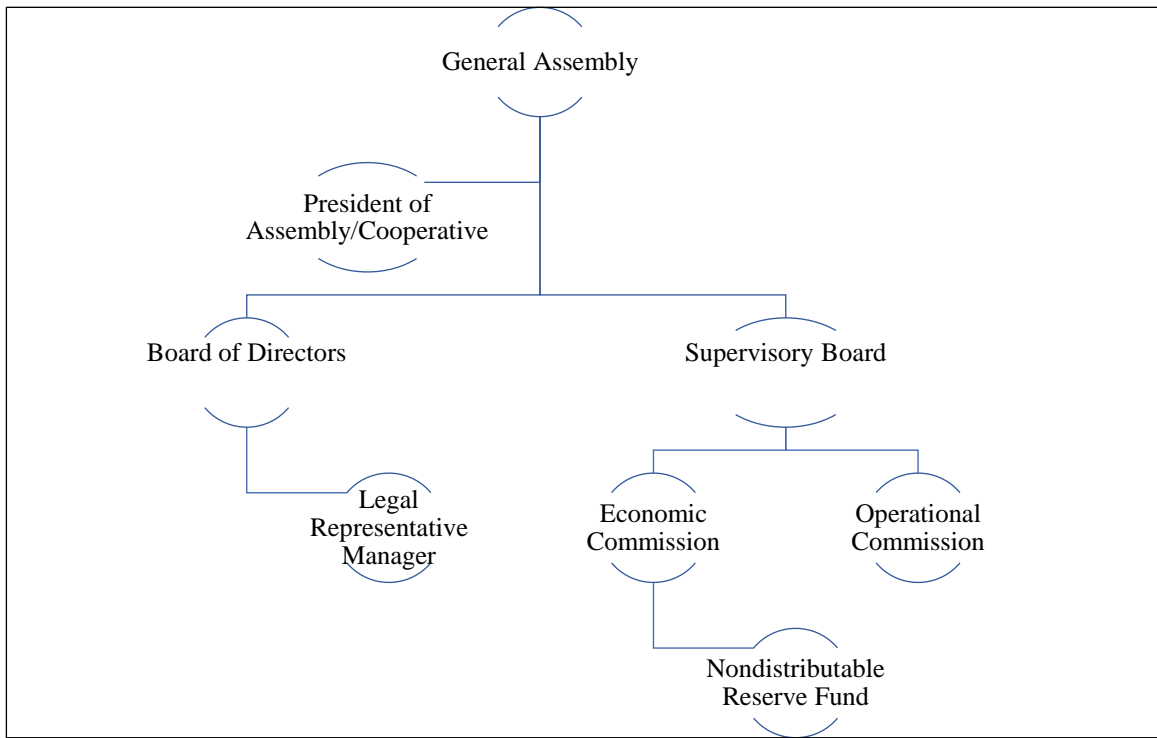
This Council, elaborated everything in relation to the annual operating plans, strategic plans, budget and goals of the cooperative; the ones that will be executed immediately after the approval of the General Assembly. Although the greatest power is the Assembly, the Council can omit the control of this body when it comes to the Manager duties and reports, transfer of contribution certificates, ordinary extraordinary fees for administrative or operational expenses and certain programs or training that they want to offer to the members of the cooperative (Statute of the Cooperative of Artisan Production Padre Rafaél González, “COOPROPARAGO”, 2015).

As regards strictly the Presidency of the cooperative, the person who assumes the position of President of the Board of Directors will immediately and without objection obtain the position of President of the Cooperative and of the General Assembly, becoming into the figure with highest rank of the association. Currently, the president of the Cooperative is Mrs. Fanny Tapia. On the other hand, the figure of Legal Representative is found in the 8th chapter which specifies the Manager's attributions. It is mentioned that this figure is under the Civil Right Code of Ecuador and the person must be affiliated in the Social Security, but without the implying of an express employment relationship within the cooperative, the currently manager is Lourdes Cardenas Romero (Statute of the Cooperative of Artisan Production Padre Rafaél González, "COOPROPARAGO", 2015).

Some of the legal loopholes that this Statute leaves is related to the salary of the artisans. Although, the cooperative has an Irreparable Reserve Found, this founds cannot be distributed among the members of the association, but the money will be strictly use for the operation of the cooperative. Although this initiative is under the "non-profit" parameter, the question remains as to who the money raised by the association is intended for, and the most important, what is the benefit that these artisans are really obtaining.

2.2.3.2. Flowchart of the organizational structure

Illustration 5 *Organizational Flowchart of the Padre Rafael Gonzalez Cooperative*



Made by: Novillo, Silva
Source: Statute of the Cooperative of Artisan Production Padre Rafael Gonzalez

2.2.3.3. TOWS analysis

To develop this section, we conducted an interview with Ms. Fanny Tapia, President and legal representative of the Cooperative Padre Rafael Gonzalez, with the aim to know the current situation of the craft association in terms of the exports made to the present date. This interview took place at the “Bibilak” Store in Biblian. Open questions were asked that allowed identify the challenges this association faces, whether they possess any kind of strategic alliance, as well as what the requirements or standards are that the products must fulfil in the foreign market.

In sum, Fanny commented that the first years of the association were the most difficult in terms of organization and logistics as in this collective center more than 150 craftswomen come to sell their toquilla products. Each artisan makes an average of three or four hats or products in toquilla, allowing the association to have an average production of 200 pieces. This, even though it has improved, it does not allow to satisfy the

international market demand at 100%, as it happens regularly in many cases a single purchase requires between 1500 or 2000 products.

With the results obtained, it has been possible to design a TOWS analysis that describes the main strengths, opportunities, weaknesses and threats that will make it possible to better explain what is happening inside the company by explaining strategic alliances, logistical and export weaknesses, issues regarding risks and sales channels, as well as the available and internationally competitive product portfolio.

The cross SWOT matrix is a tool that helps to formulate four types of strategies: the SO strategies that consist in using the company's strengths to maximize the Benefit from the opportunities; the ST strategies are based on using the strengths to mitigate the impact of the threats; on the other hand, WT strategies are defensive actions to alleviate weaknesses and avoid threats; lastly, WO strategies aimed to correct the weaknesses by taking advantage of the opportunities. (David, 2013)

TOWS Matrix	<p style="text-align: center;">Opportunities:</p> <ol style="list-style-type: none"> 1. Strong demand in international markets for toquilla products. 2. Strategic alliances with financial and public entities. 3. Foreign trade facilitation for small and medium enterprises. 4. Multilateral agreement with the European Union. 5. Buyers with high purchasing power to pay the real cost of the hat. 6. International recognition as Intangible Heritage of Humanity, which stimulates sales abroad. 	<p style="text-align: center;">Threats:</p> <ol style="list-style-type: none"> 1. Disminución de capital humano por temas de género, edad, migración, mortalidad. 2. Competition from producers in neighbouring cantons and large export companies. 3. International logistics barriers. 4. High levels of economic fluctuation at the country level. 5. Uncertainty of long-term municipal support. 6. High rate of variation in fashion trends per season
<p style="text-align: center;">Strengths:</p> <ol style="list-style-type: none"> 1. Strategic Alliance with Fons Valencia (machinery and equipment). 2. Financial and technical support from the Municipal GAD of Biblian 3. Wide portfolio of toquilla products. 4. Good quality control management at origin. 5. High positioning in international fairs. 6. Compliance with requirements according to market needs. 	<p style="text-align: center;">SO Strategies</p> <ol style="list-style-type: none"> 1. Take advantage of the GAD funding to expand into other international markets (S2, O1). 2. Offer the products of toquilla in the target market through marketing (S3, O5) 	<p style="text-align: center;">ST Strategies</p> <ol style="list-style-type: none"> 1. Certify the quality of the products as a distinctive feature from the competitors (S4, T2) 2. Adapt the line of toquilla straw hats according to current fashion trends in destination (S6, T6)
<p style="text-align: center;">Weaknesses:</p> <ol style="list-style-type: none"> 1. Low level of monthly production. 2. Strong dependence on service intermediaries 3. Lack of human talent specialized in weaving “superfine” hat. 4. Insufficient financial resources. 5. Few distribution-sales channels and lack of an international business plan. 6. Lack of transfer of artisanal knowledge to the current generations. 7. Lack of delimitation of competences between the members of the association. 	<p style="text-align: center;">WO Strategies</p> <ol style="list-style-type: none"> 1. Establish strategic alliances with other association from the sector to fulfil the client volume requirement. (W1, W3, O1) 2. Redesign the website so that international purchases can be made through that platform (W5, O2, O3). 	<p style="text-align: center;">WT Strategies</p> <ol style="list-style-type: none"> 1. To establish mutually beneficial agreements with logistics service providers (W2, T3)

2.2.3.4. Analysis of the product portfolio

By definition, a product is a good or service as a result of the human work aimed to be commercialized either in the local market or abroad. A product possesses several features that are encompassed in tangible, such as physical and chemical properties, quality, packaging, design, shape, price; and intangible as the brand, graphic expressions, service, the image that the product generates in consumers or the image of the company. These elements are only generic, as they depend on the type of product that is being offered, but in general terms, the concept of product is more focused on the necessities that satisfy in people. (Pérez & Pérez Martínez de Ubago, 2006)

On the other hand, a company does not usually depend on a single product, but rather has a portfolio, which is the set of goods and services offered by the company, this can be made up of for one or multiple lines of products. In contrast, a line of products is a group of homogenic products that relate each other to form part of the same category. To analyze the product portfolio of a company, it must be considered other concepts such as range, length, depth and consistency. The *range* defines the number of lines of products que the company possess; the *length* represents the total number of goods manufactured or sold on the market; the *depth* is measured by variations in model, size, and shape of each product that makes up a line; and the *consistency* is the existing ratio between the different product lines in terms of manufacturing methods, price, consumer purchasing, distribution points, among others¹⁰.

Based on what has been explained above, we can detail the product portfolio of the Coperative Padre Rafael Gonzalez, which is formed by three product lines: hats, bags, and handicrafts in general made up from toquilla straw (table 4), which also constitutes the range of the portfolio. To determine the depth, it is necessary to know the number of variants and models of each line, so, in the first one, there are around 20 variants in terms of color, finish, adornments and design for a male and female public, among these the models that stand out are: Classic Breeze, Natural Breeze, Danilo Hat, Tabaco Hat, Rossy Hat, Pamela Hat, Pink Floral, Violet Floral, among others. In the second line, six types of

¹⁰ Taken from: <https://economipedia.com/definiciones/cartera-de-productos.html>
















bags are woven that differ in color and design; in the third line, it is made crafts such as toys, jewelry, handles and home decorations.

Regarding the length of the product portfolio and taking as a reference the most sold product: the toquilla straw hats, from 170 to 200 hats are produced per week among all the artisans. Finally, in terms of consistency, it can be considered that there is a fairly close relationship among all the production lines, as they use the same inputs, target the same market and the distribution channels do not differ.

From this analysis it is possible to study the strategic participation of the Cooperative in the market, because by having a great range means that the company does not depend on a single product, but that it can serve and adapt to other different markets, on the other hand, the consistency helps to reinforce the position of the company in the artisan sector of products made from toquilla, however it attends to several areas of the same one, as it is the one of the bags and crafts. Another aspect to consider is that the lines of products are so important that they come to condition the form of organization of all the company, precisely one of these forms is the division by products, that is to say, each line works like an organizational unit that is granted the status of Strategic Unit of Business (SUB). (Serrano Gómez & Serrano Domínguez, 2005)

Within the Padre Rafael Gonzalez Cooperative are delimited the productive units of each line, as example, there are artisans dedicated only to production of bags , there is another group that works to the part of crafts and jewelry, another group weaves the hats until a raw finish, to later process them in machinery and offer the finished hat.

Table 4 Product portfolio of the Padre Rafael Gonzalez Cooperative

Línes of products		
Line 1: Hats	Line 2: Bags	Line 3: Crafts in general
		
		
		
		
		

Made by: Novillo, Silva
Source: Tienda "Bibilak"

2.2.3.4.1. Exportable offer

Now, not all products offered by a company in the domestic market have the potential to be exported, so it is necessary to identify those goods for which there is a desire or a need in the target market, or have some competitive advantage over other options in that market. Thus, in order to determine the exportable supply, these two questions must be answered: What product or service can be exported? What are the attributes of such product that will determine success in export? (Lerma Kirchner & Márquez Castro, 2010)

To answer the first question, it is essential to study the regulations applicable in the target market, and to analyze whether the product to be exported is in accordance with the needs and wishes of consumers; furthermore, the product would be competing for having a certain special attribute, such as being hand-woven and the quality of the product. With respect to the second question, it is suitable to distinguish the advantages and disadvantages of the product's structure to determine whether or not it is necessary to make changes to it in order to achieve greater market acceptance. To this end, the research starts by finding out which factors are involved in the decision of the buyers, and by examining whether the product meets these characteristics compared to products from the competence. (Lerma Kirchner & Márquez Castro, 2010)

Additionally, the export offer of a company not only seeks to ensure the quantities requested by the clients or satisfy the requirements of the target audience, but it is also related with the economic capacity, financial and management. Taking into account the availability of the product, once the product to be exported has been selected, the Cooperative must define the available volume, which can be offered in a stable and continuous way. With regards to economic and financial capacity, the organization should have the necessary resources to carry out the export process either with its own funds or through external financing. In terms of management, this consists of developing an export culture with clear long-term objectives. (Valero Córdoba, Rodenes, & Rueda, 2016)

The selected product for the exportable offer is the toquilla straw hat, since it is the most demanded product in the European market based on the export volume made previously, and because it is the product most sold in international fairs either for its

physical qualities that allow protection from the sun in the summer season, or because of fashion to complement any type of outfit. The Cooperative has the necessary resources thanks to the support from the GAD Municipal of Biblian. However, its weak point relies on the availability of the product. Although they can produce up to 200 hats per week, an order must be placed months in advance to cover an order of approximately 1500 hats.

Illustration 6 *Exportable offer of the “Padre Rafael Gonzalez” Cooperative*



Made by: Novillo, Silva
Source: Tienda “Bibilak”

Conclusion

In this chapter it was analyzed important aspects that will serve as a basis to elaborate the exportation plan based on the volume that the cooperative can produce in a reasonable time to fulfil with the client expectations. Also, it was addressed the social aspect of this project, in this way we were able to know the true reality that artisans face when working in this kind of job, and even though they are not well paid they still continue to weave in toquilla as an income for the sustenance of their families.

It ought to be recognized that the Cooperative faces several internal problems such as the lack of specialized labor, scarce resources to acquire the hats from the artisans, they do not have the knowledge to run the association, and the high logistic costs that constitute a barrier to internationalize its products. Therefore, the result of this analysis will be used to implement the strategies proposed in order to obtain a greater profit in future exports.

CHAPTER 3

3. EXPORT PROPOSAL

Introduction

This chapter presents the proposal of the integral export plan for the Padre Rafael Gonzalez Cooperative and aims to analyze the productive, marketing and financial area to verify if the export of toquilla straw hats is viable in the long term. For this purpose, an analysis of productivity, market segmentation or target audience was carried out, and with this, the export plan was developed taking into account the tariff and non-tariff barriers of the international market.

3.1. Integral strategic plan for exportation

According to Olegario Llamazares, an export plan is an essential element for any organization that wishes to position itself in foreign markets. The purpose of this plan is to establish answers to questions that arise in the development of the international strategy such as the way of entrance to these markets, which of them has the greatest potential, and what resources are needed to meet sales targets. An export plan is structured in sequential stages that involve international trade operations, starting from the export diagnosis, followed by the selection of markets, and then choosing the most appropriate form of entry, then it is indispensable to present an international offer and a communication policy, and finally to present an economic plan. (Llamazares, 2014)

3.1.1. Production area

The role of this area is to transform inputs, such as raw materials, labor, capital, machinery and facilities, into goods and services. According to the author Roger Schroeder, the management of the production area is composed of five decision blocks: processes, capacity, inventory, labor force and quality. In addition, the activities of this department are those that represent most of the human talent and organizational capital, so if it is not properly managed, high production costs are incurred; in this way, the production and operations tasks can be used as a competitiveness tool within the company's strategy. (David, 2013)

3.1.1.1. Michael Porter's value chain

The concept of value chain was proposed by Michael Porter at the end of the 80s, it starts from the premise that every company is a set of discrete activities to carry out the business that happens within the company's environment. In this way, the value chain is defined as the action of coordinating all the linked activities that the company carries out to design, produce, market, distribute and support a product or its product portfolio. This process starts from the conception of the idea or research stage until obtaining the raw materials for its transformation, as well as the control of logistics and the application of marketing. (Daniels, Radebaugh, & Sullivan, 2013)

The value chain is constituted by two basic elements: the primary and support activities. The primary activities reflect the main functions of the business and they are necessary because they provide the output that the client expects, among these are:

- **Design:** determines the characteristics, aesthetics and purpose of the product.
- **Inbound logistics:** is constituted by the activities of reception, storage, material handling and inventory.
- **Operations:** is the process of transforming the raw materials into the finished product, organizing the supply chains, configuring the manufacturing location and optimizing the manufacturing process.
- **Outbound logistics:** consists in the distribution of the finished good, first in a space for the storage of finished goods to be later transferred by delivery vehicles to the distribution points, it is directly related to the reception of orders and delivery scheduling.
- **Marketing:** covers packaging design, defining the brand to inform consumers about the product.

In contrast, the secondary or support activities are those that do not directly participate in the production process, but they are necessary for the achievement of primary activities, to each support activity there is a primary activity and takes place along the chain. These activities are:

- **Service:** is the set of support facilities for post-sale customer assistance.

- **Materials and equipment:** are the management and control of the supply, storage and transportation of the inputs and equipment necessary for processing operations.
- **Human resources:** is composed of the labor force and is responsible for hiring, motivating and rewarding employees.
- **Systems and solutions:** are the monitoring and integration of ICTs for information processing.
- **Infrastructure:** is the administration of the accounting, financial, legal, security and quality control areas carried out by the enterprises. (Daniels, Radebaugh, & Sullivan, 2013)

Another element to consider is the *Margin*, which measures the difference between the total value achieved and the total costs incurred by the company to carry out the activities that create value. It is based on the assumption that this value must exceed the costs accumulated during the production process. When performing a value chain analysis, a general scheme will be provided that allows for an orderly representation of any company's activities and its position with respect to the competition, it also provides a procedure for defining the actions aimed at developing a competitive advantage. (Quintero & Sánchez, 2006)

When talking about the value chain analysis (VCA), this is a process by which an organization determines the cost of its activities from the process of purchasing the raw materials to the manufacturing and marketing of the product. The objective of the VCA is to identify the low-cost advantages or disadvantages in the chain, since each element of the chain can affect the other elements in a positive or negative way; in this way it allows the company to establish its strengths and weaknesses in comparison with the value chain of its competitors. (David, 2013)

To implement the VCA, it starts by dividing the company's operations into specific processes, this first step consists of defining the activities that create value products. Then a cost must be assigned to each activity individually in terms of time and money, finally this data is transformed into information that allows distinguishing the strengths and weaknesses in costs that can produce a competitive advantage or disadvantage based on

financial indicators such as profitability and asset rotation. This tool is of vital importance when the organization seeks to analyze whether its prices and production costs are competitive. (Morillo 2005; David, 2013)

In the activities of the value chain there is a set of factors that have an effect on the costs or the value generated, these are the cost generators and value generators or activity drivers. Regarding to the former, the usual cause of cost is the volume of production; however, there are other causal factors that can be grouped into *structural*, or related to the economic structure of the company such as the level of investment, technological capacity and the range of its product portfolio; and of *execution*, which are the organization's abilities to carry out its operations successfully, among these are team commitment, quality management, and relationships with suppliers and customers. From the strategic point of view, it is convenient to have to manage the greatest amount of cost causes, because in this way it will have a greater possibility of competing by controlling costs or generating differentiation. (Morillo, 2005)

On the other hand, the value generators are based on pointing out the reasons why it is made one or several activities considering that the company develops those that only generate value and eliminates those that do not generate value. Two types of value drivers can be distinguished: for the customer and for the company. In relation to the client there is the response time to orders or quotations, innovation, meeting satisfaction, and the different forms of payment available. In contrast, the value drivers for the company are in function of the value for the investors, within these we can mention the strategic alliances, expansion to new markets, increase of the productive capacity and elaboration of new products. (Morillo, 2005)

After analyzing the value chain, a strategy must be chosen that will allow the company to fulfill its mission. Porter points out that these basic strategies should be formulated on the basis of competitive advantage, so the author identifies three major possible tactics for dealing with the competition. First, cost leadership, that is, the ability to offer lower prices; second, differentiation or achieving greater performance in some customer requirement to give a distinctive quality from other products; and third, the concentration of one or several market segments without the pretension of addressing the

total market, this strategy involves the above points, but only in the selected segment. (Quintero & Sánchez, 2006)

In order to determine the value chain of the Padre Rafael Gonzalez Cooperative, an interview was conducted with Ms. Marta Lema, vice president of the Association, who explained in depth the production process of the toquilla straw hat, from the moment the raw materials are received until the hat is placed in the store. Then, based on the information gathered, the value chain for the production and commercialization of BIBILAK brand hats is presented below.

Illustration 7 Value chain of the Padre Rafael Gonzalez Cooperative



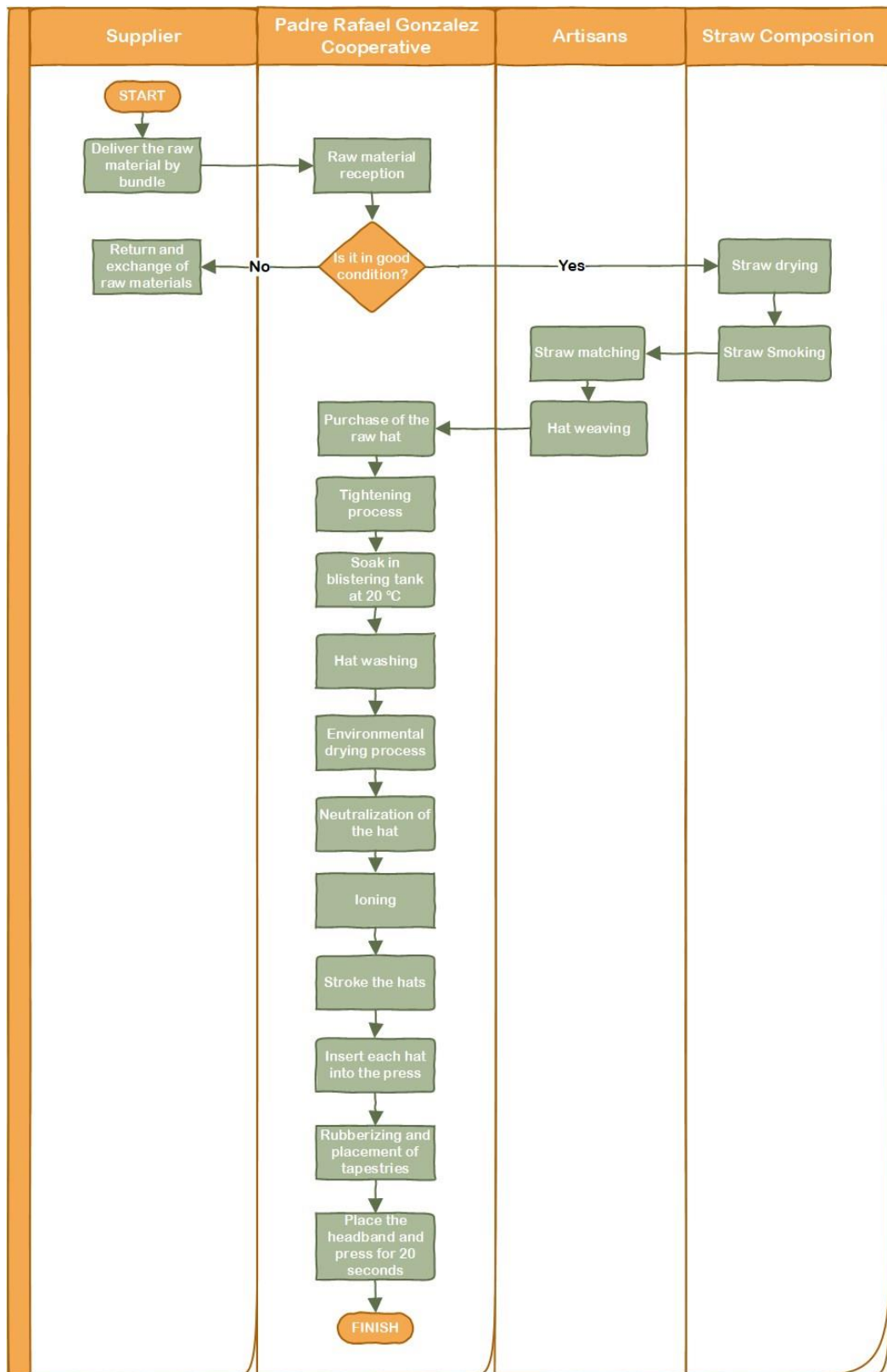
Made by: Novillo, Silva

3.1.1.2. Flow chart of the production process

The toquilla straw hat weaving process is the result of an ancestral knowledge that has been transmitted from generation to generation with the use of different techniques and resources proceeding from nature. In illustration 8 is shown a flow chart that represents the processes by stages of hat making along with the materials or tools used by the Cooperative. For a better understanding of the activity diagram, it is necessary to describe some of these processes:

- **Tightening:** this phase consists of tightening the trimmings or finishes of the hat so that the fabric does not open. The artisans adjust and cut the straws.
- **Softening:** this process is made through the use of an electric machine that fulfills the functions of: softening the hat fabric, it gives shine to the finish and levels the hat weave. It can process 40 dozen a day.
- **Shaping:** this activity is performed with a machine of Brazilian origin whose operation is based on water, electricity and gas. It replaces the manual work of the charcoal planks or wood lasts. In 20 to 30 seconds the shape and size of the hat is obtained.

Illustration 8 *Flow chart of the productive process*



Made by: Novillo, Silva

3.1.1.3. Supply Chain Management

The process of Supply Chain Management is one of the current tools of business logistics that seeks to cover all points of the productive area. This integrates the sections of planning, organization, implementation and control of activities related to obtaining, moving, storing, transforming and reusing materials and products that are indispensable for production (Arbós, 2012).

By integrating these functions, companies can acquire holistic information not only from the production section, but also from the logistics of suppliers, points of sale and distribution to final customers with the aim of optimizing and strengthening internal communication, negotiation and management skills. By improving the supply chain, companies acquire an essential competitive advantage, due to improved purchasing logistics and reduced supply prices, which is transformed into a better final price for retail sales with quality and satisfaction margins appropriate to the market (Goikolea, 2014).

Illustration 9 Supply Chain Management



Source : Entrepreneur
Taken from: Novillo, Silva

3.1.1.3.1. Purchasing logistics

One of the essential points in the company's integral logistics is the purchasing or procurement part. This section covers from the acquisition of raw materials, parts or pieces

needed to start production, with the establishment of contracts and selection of suppliers; the management of storage and inventory control, the start of the production process and the analysis of product rotation. In other words, this part of the logistics required for production is reduced to three points: purchasing, storage and inventory management (López, 2011).

Within small companies it is a challenge to maintain control over the supply process, because the rotation of the product is not as wide and usually orders are placed for raw materials when the products are finished. In the case of the Padre Rafael González Cooperative, since it is not a business but a craft cooperative with the function of a collection centre, its logistical functions are limited to the will of the members and the orders that are placed over time. In order to be able to analyse and implement good supply logistics, data has been collected based on the following table:

Table 5 *Supplies logistics*

SUPPLY LOGISTICS ACTIVITIES	
SUPPLYING	STORAGE
Supply Planning	Storage layout
Purchases	Inventory management
Demand Management	Distribution of company areas
TRANSPORTATION	FINANCE
Internal	Raw Material
External	Staff
	Warehouse

Made by: Novillo, Silva
Source: Gestipolis

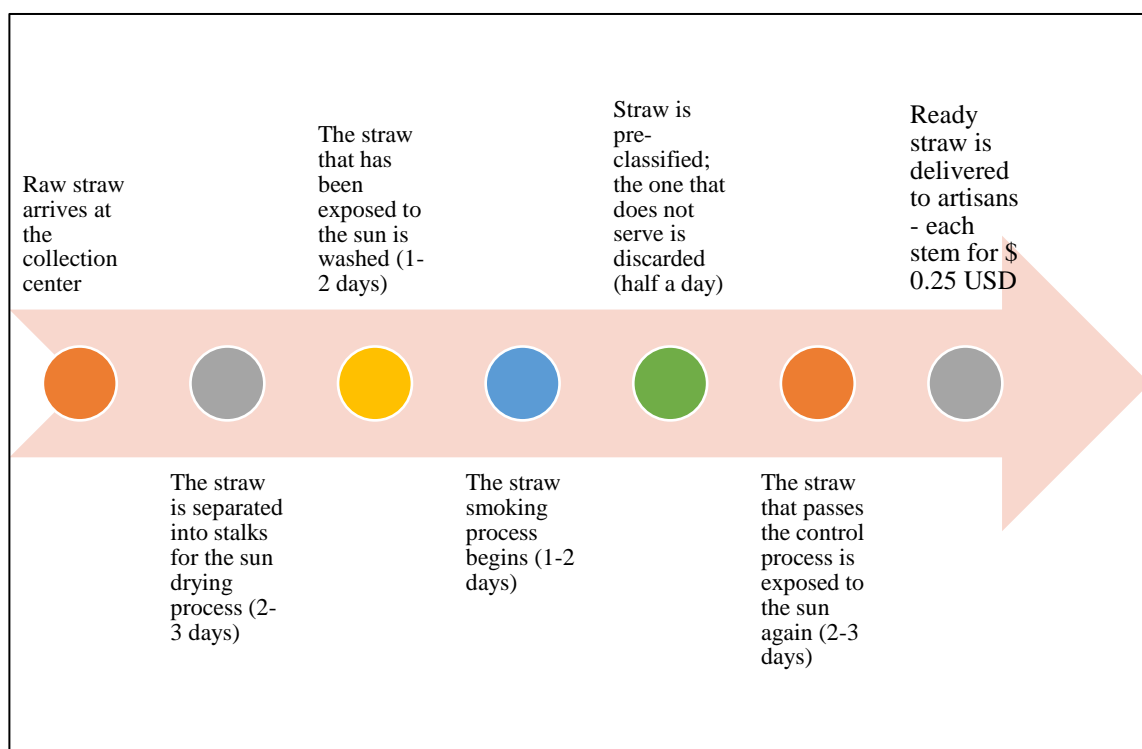
3.1.1.3.1.1. Raw material input

The initial supply process within the Padre Rafael Gonzalez Cooperative is carried out by Mrs. Gladys Vicuña, who is in charge of receiving the straw bales every month or every fifteen days depending on the orders. Every month the cooperative receives a 96-8 bundle of straw, that is, approximately 2700 stalks of raw straw. To ensure the supply and processing of the straw, Mrs. Gladys orders the straw in the last week of the month. She

is the only person who works every day at the collection center on a part-time basis, but since she is not a company worker, she does not receive any salary.

Although the raw straw arrives at the collection center in Biblián, the Cooperative does not pay the initial supplier, but Mrs. Gladys is responsible for selling the straw to the cooperative once the drying, smoking and bleaching process has been completed. The straw is sold to the members of the Cooperative at a price of \$0.25 USD per processed stem, this only on Thursdays of the month when the artisans meet to weave.

Illustration 10 Raw material reception process

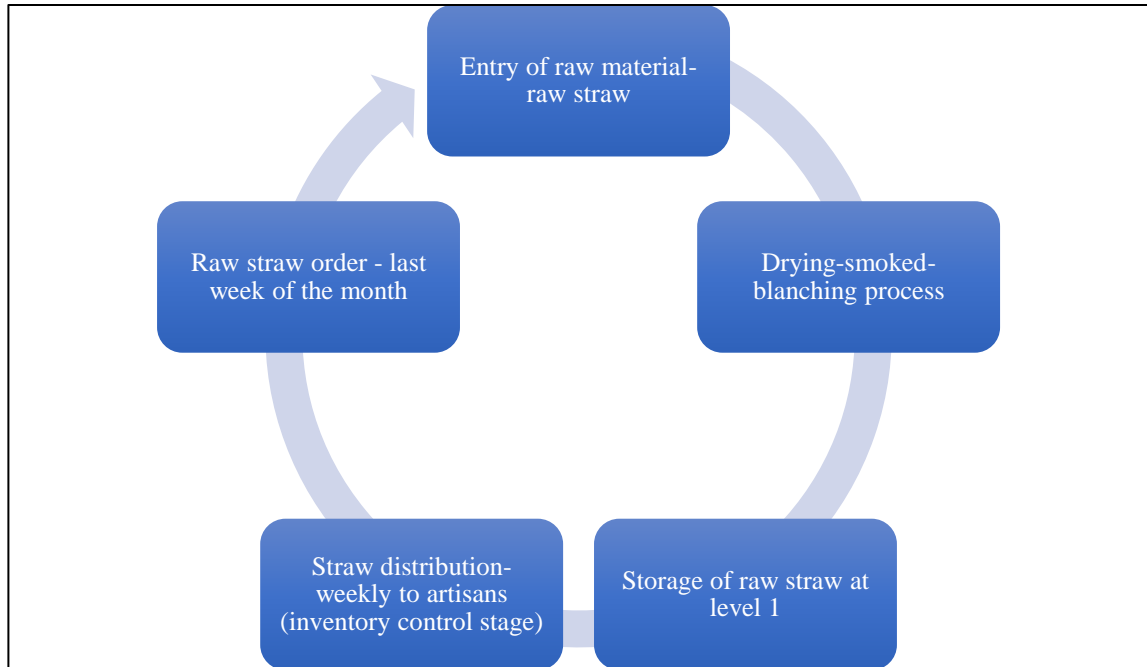


Made by: Novillo, Silva

3.1.1.3.1.2. Raw material stock and rotation

The collection center keeps the raw materials on the first level of its facilities and in its central courtyard to be distributed every Thursday to the artisan partners.

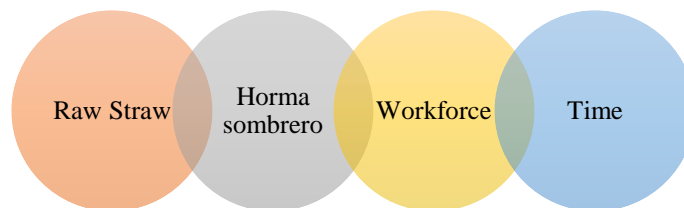
Illustration 11 Raw material stock and rotation



Made by: Novillo, Silva

3.1.1.3.1.3. Transformation process

The transformation process begins on Thursdays at the Padre Rafael González Cooperative when the weavers meet. The initial process begins with the raw straw and takes a day or two, depending on how fine the fabric is. This is to transform the straw into raw hat.



The working hours for weaving raw hats are half a day, as the craftswomen have different activities apart from weaving toquilla straw hats. The raw hat is made in the facilities of the collection center in Biblián, the artisans sit on wooden benches about 35 cm from the ground and begin their weaving activities. When they finish, the

administrative staff of the cooperative buys the hats from each of the members at a value of between \$7 USD to \$10.50 USD depending on the weaving and its fineness. The work of the artisans ends at this point.

Photograph 1 Weaving process



Taken by: Novillo, Silva

The second phase of the transformation process is carried out by certain members of the cooperative who have received previous training. To begin with, the raw hat is taken and then it is put through the *azocado* process, which consists of cutting the excess straw from the hat and then tightening the fabric. After this, the hats are stacked in dozens and these dozens are taken to the *soaking*¹¹ tanks where the hats are soaked for 15 minutes in water at a temperature of 20 degrees Celsius. Later, bleaching chemicals are added, this process takes four days per dozen. The hats are then removed from the tanks and subjected to a drying process for one day. At the end of the day, they are returned to the tanks for a wash and the process is repeated again.

Immediately, each hat is neutralized for half an hour and subjected to a washing and drying process for 2 or 3 days. After this, each hat goes to the *ironing machine*¹² for an average time of 10 minutes and consequently eight hats are grouped in the *potting*

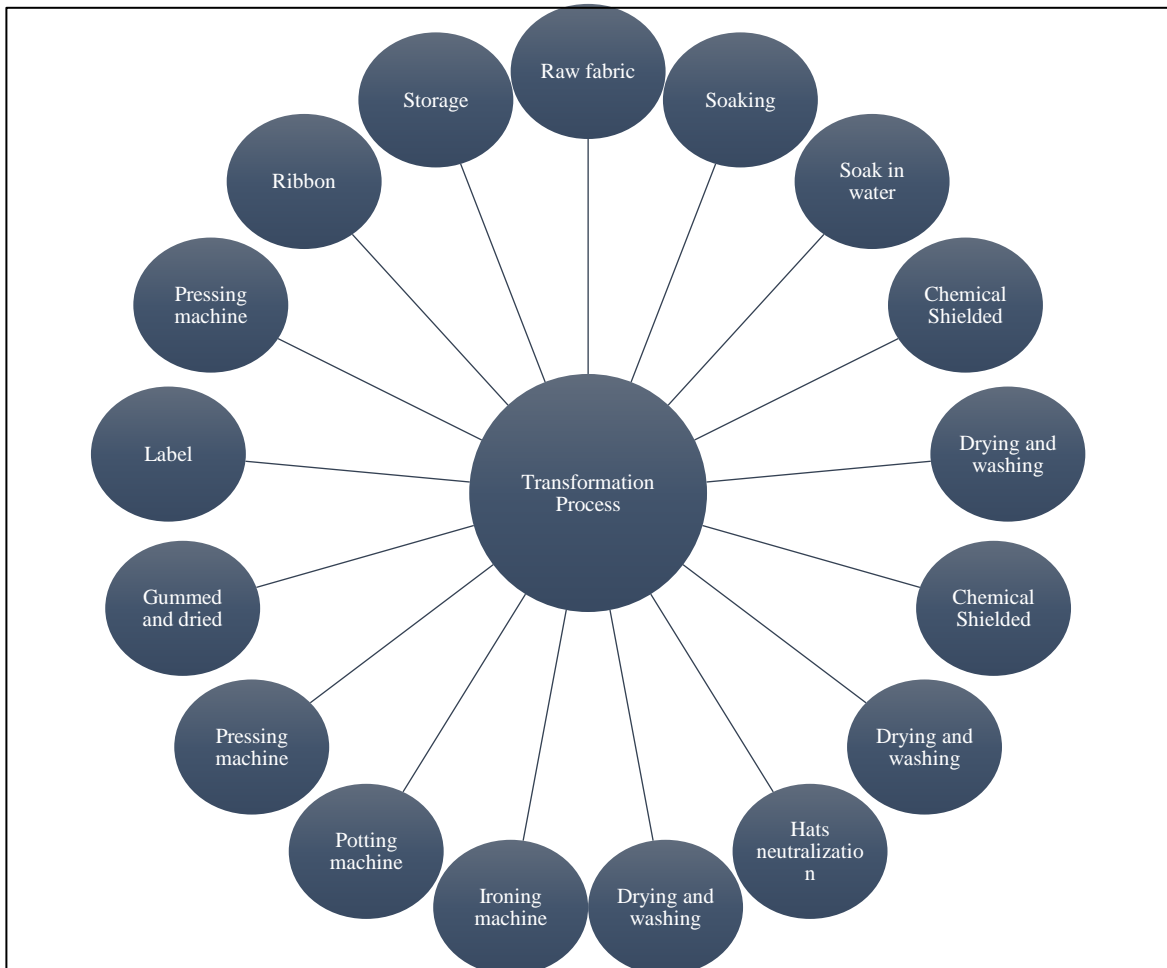
¹¹ Soaking: Process performed in aluminum tanks.

¹² Ironing machine: Equipment used to flatten the base of the toquilla straw hats.

*machine*¹³ for a time limit of 20 minutes After that, the *pressing machine*¹⁴ is used for 20 seconds per hat; at the end, each hat goes through a gumming and drying process for 30 minutes.

Finally, the *ribbon*¹⁵ with the official Bibilak brand label is placed on the hat, which takes 3 minutes per hat. Each hat is then placed back in the pressing machine and when it is taken off, it is stacked in dozens and the colored ribbons are placed. The finished hats are taken to Bibilak's shop as there are no stock warehouses for the finished products. With this, the transformation process ends.

Illustration 12 Transformation Process



Made by: Novillo, Silva

13 Potting machine: Equipment used to mold the shape of hats.
 14 Pressing machine: Equipment used to harden the shape of hats.
 15 Fabric band that is placed on the inside of the hats.

3.1.1.3.1.3.1. Volume and cost of production

The volume production is just the quantity of obtained product by a company in a determined period of time; the Padre Rafael Gonzalez Cooperative produces between 150 and 200 hats per week. This concept differs from the productive capacity, which refers to the maximum level of goods and services that can be manufactured in a given period of time¹⁶. For example, if all the artisans weave four hats per week, they would have a production capacity of 200 units; however, some weavers only produce between two and three hats, so the volume of production may vary per week.

In order to produce a certain number of hats, it must be incurred the so-called operating costs which are all the expenses necessary to keep a project, a production line or an equipment running. Production costs have two contradictory characteristics, the first is that to produce goods must be spent, that is to generate a cost, while the second is to keep costs as low as possible and eliminate unnecessary expenses, but this does not mean eliminating costs indiscriminately¹⁷.

The costs of production can be classified in several groups, among these we have:

- **Variable costs:** are directly related to the volume of production, e.g. raw materials.
- **Fixed costs:** are costs that remain constant regardless of the volume of production.
- **Direct costs:** are directly attributed to the project and immediately affect the definition of the price of the good or service, e.g. transport.
- **Indirect costs:** influence the production process in a general way of one or several products, so they cannot be assigned to a single product without considering some assignment criteria, e.g., hiring of indirect labor. (Lledó, 2013)

In table 6 it is presented a summary the classification of production costs.

¹⁶ Taken from: <http://diccionarioempresarial.wolterskluwer.es>

¹⁷ Taken from: <http://www.fao.org/3/v8490s/v8490s06.htm#TopOfPage>

Table 6 Classification of costs of production

Variable costs	Raw material
	Direct labor
	Monitoring
	Maintenance
	Services
	Supplies
	Duties and patents
	Packaging
Fixed costs	Indirect costs:
	Investment costs:
	- Depreciation
	- Taxes
	- Insurance
	- Financing
- Other taxes	
General expenses:	
- Research and development	
- Public relations	
- Accounting	
- Legal assistance	
Administration costs	
Marketing costs	

Made by: Novillo, Silva
Source: FAO.org

The operating costs of the Padre Rafael Gonzalez Cooperative are shown in the following table according to the data provided by the Municipal GAD, which are accounted for from January 1, 2018 to October 30, 2019.

Table 7 Operating costs of the Padre Rafael Gonzalez Cooperative

Production costs:		
- Services		\$ 44. 643,29
- Inputs		
- Labor		
- Packaging		
Marketing costs:		\$ 4.783,94
- Fair travel expenses	\$ 1.237,46	
- Attention in store	\$ 3.400	
- Cleaning supplies for the store	\$ 146,48	
Administration expenses:		\$ 8.199,18
- Office expenses	\$ 491,58	
- Other expenses	\$ 7707,6	

Made by: Novillo, Silva
Source: Juan Carlos Guamán, GAD Biblián

3.1.1.3.2. Sales logistics

The term logistics is often associated with the distribution of finished products; however, this is only a partial perception of what logistics involves, since it is responsible for managing the flow of goods and services from the purchase of inputs at the point of origin to the delivery of the finished product at the selected distribution location. That is why we speak of a *logistics system* composed of supply logistics, plant logistics, and distribution logistics (Monterroso, 2000). This section focuses on the latter.

Physical distribution logistics, or also called marketing logistics, involves planning, executing and controlling the physical flow of products from points of origin to places of sale to meet customer requirements and obtain profitability. Marketing logistics does not only include an outbound distribution, but also inbound distribution, in other words it is to move materials to the location of manufacture, and reverse distribution when moving damaged or returned products from consumers or distributors. Therefore, it can be established that sales logistics is part of supply chain management. (Kotler & Armstrong, 2007)

One of the main functions of the sales logistics is transportation, the choice of carriers is crucial for a company as it affects the final price, delivery performance and the conditions in which the product arrives at its destination. There are five ways to send finished goods either to warehouses, distributors and customers: truck, rail, waterway, ducts and air, additional is the internet as an alternative way for digital products. Companies can also opt for intermodal transport, understood as the combination of two or more means of transport. (Kotler & Armstrong, 2007)

We use the terms: *piggyback* to the use of rail and truck; *fishyback* is the combination of aquatic and truck transportation;; *trainship* to refer to water and rail transportation; *airtruck* is the use of air and land transportation (Kotler & Armstrong, 2007). The aspects to consider when choosing a mode of transport depending on the product are among speed, reliability, availability and costs. Table 8 compares the modes of transportation mentioned.

Table 8 Transport modalities for goods

Land	Waterway	Air transport	Rail	Ducts
- Flexibility in terms of routes and schedules - Faster than the railroad. - Suitable for transporting goods over short distances	- It transports large quantities of goods. - Cost is very low for large, non-perishable products. - Slow transport	- High load rates. - Speed of travel to distant places.	- Less expensive to transport huge amounts of bulk cargo.	- More specialized way to transport products from natural sources

Made by: Novillo, Silva
Source: Kotler P. & Armstrong G.

The toquilla straw hat, since it is not a perishable good, could be transported by ship in addition to being an economic mode in comparison to air transport, however, there is a risk that the climatic conditions will end up affecting the product, so it is more convenient to opt for air transport, despite being the most expensive mode, the customer can have the product in the shortest time possible, and it can opt for land transport for shipments at national level, always taking into account that the purpose of logistics is to have the right product at the right time and place.

3.1.1.3.2.1. Stock of processed product

The storage and inventory management are also major functions of logistics. The first one has the function of compensating the differences between production cycles and consumption, in this way it ensures that products are available when customers want to buy them. A company has to identify how many, what types and where these warehouses will be located, for this purpose warehouses or distribution centers are used with the capacity to receive goods from other centers, take orders and deliver the product as promptly as possible. (Kotler & Armstrong, 2007)

The inventory also influences on customer satisfaction, the key is to maintain a balance of stock, between an excessive and one of insufficient inventory. The former tends to have a higher cost for the business, and the latter puts at risk not having enough products for clients. (Kotler & Armstrong, 2007). The Padre Rafael Gonzalez Cooperative does not have a warehouse to store the finished hats, those are taken directly from the collection center to the physical store, where they are store and control the stock.

Photograph 2 *Bibilak Store: storage centre for the finished product*



Taken by: Novillo, Silva

3.1.1.3.2.2. Quality control: PDCA cycle

The PHVA model is a business management tool that takes care of maximizing the acceptable quality standards within the company or business. It is based on the premise of continuous improvement with the aim of constantly evolving and renewing quality to excel in the competitive market. For the management model to work, four fundamental stages must be followed: Plan, Do, Check and Act. (IsoTools, 2020)

Quality is a decisive factor for the customer to choose one product or another. This concept can be very confusing since it is based on various individual criteria of people according to the function the good or service perform. Thus, quality can be analyzed from different perspectives to understand the role it plays within business processes. Firstly, there is the judgmental perspective. This notion is the most common, as quality is considered to be synonymous with excellence or superiority; however, this idea lacks objectivity as standards of excellence vary considerably among individuals. (Evans & Lindsay, 2008)

The second perspective refers to the product, from a measurable variable it can be determined that two or more products have different quality when they differ in the quantity of any attribute of the product, for example, in the case of toquilla straw hats it is measured according to the number of knots per square centimeter. Therefore, a higher

level of product characteristics is equivalent to a higher quality. In third place, there is the consumer-based perspective, which starts from the premise that quality is determined according to customer requirements, in other words, it is defined by how well a good or service performs its function. (Evans & Lindsay, 2008)

Another approach to define quality is value based or the relation between satisfaction and price. From this standpoint, it can be said that a product has optimal quality when it meets the same functionality and is marketed at a lower price than its competition. Finally, quality can also be seen from the manufacturing perspective, and is nothing more than the desirable result of the production part in complying with the specifications, that is, with the objectives and permitted tolerances established by those in charge of the design of goods; however, it does not make sense to produce within the established guidelines, if the product does not reflect the attributes that the customer deems important. (Evans & Lindsay, 2008)

In this section it is necessary to emphasize that the conceptual perspectives mentioned in the previous paragraphs can be organized into two categories: objective and subjective quality. The former is derived from a comparison between a standard and the performance of measurable characteristics with engineering or technological instruments that describe the technical excellence of a product's properties, and is independent of the person who performs the measurement or the purchaser. On the other hand, subjective quality is based on people's perception and judgment, so this category starts from the concept of quality as satisfaction of the final customer's needs. (Camisón, Cruz, & González, 2006)

There is no doubt that the consumer is the force that drives the production of goods and services, they look at quality from a transcendent point of view or based on the product, that is why it is said a product has high quality when it satisfies or exceeds customer expectations. Now, within the value chain, individuals perceive quality depending on the position they occupy within it; thus, during the production stage, the parameters of design, size, shape, finish, tolerances, dimensions, etc., are intended to be met, but when the product is taken to the distribution points, it is essential to see quality

based on the user offering after-sales services that are part of the product, and therefore promotes the customer-manufacturer relationship. (Evans & Lindsay, 2008)

With regard to the subject of study, the artisans of the Father Rafael Gonzalez Cooperative are highly qualified to evaluate the quality of the hats made by the members, since they constantly receive training workshops in several areas of artisan production. Fany Tapia, president of the Association, explains that the way of evaluating the quality or how fine a hat is, depends on the number of fibers, in addition, the craftwomen are in charge of verifying the finish and the dimensions of the brim comply with the specifications. The hats with 13 fibers per inch are the standard category and are sold nationally at about \$ 30, on the other hand, the extra fine hats can have up to 40 fibers per inch, and are around \$ 2000¹⁸.

- **Proposal to improve quality in the production process According to the PDCA cycle**

From the concept of product as the result of a process, or also, of a set of correlative activities that transform inputs into outputs, in this case, the entries correspond to the inputs used, and the outputs are the finished hat. The resultant of each stage of the productive process, can become an input element for the next sub-process, for example, the straw enters in bundles to the collection center, which after being treated to a process of drying and smoking, comes out ready to be matched, this would become the input component for the craftwomen and continue with the process of hand-weaving.

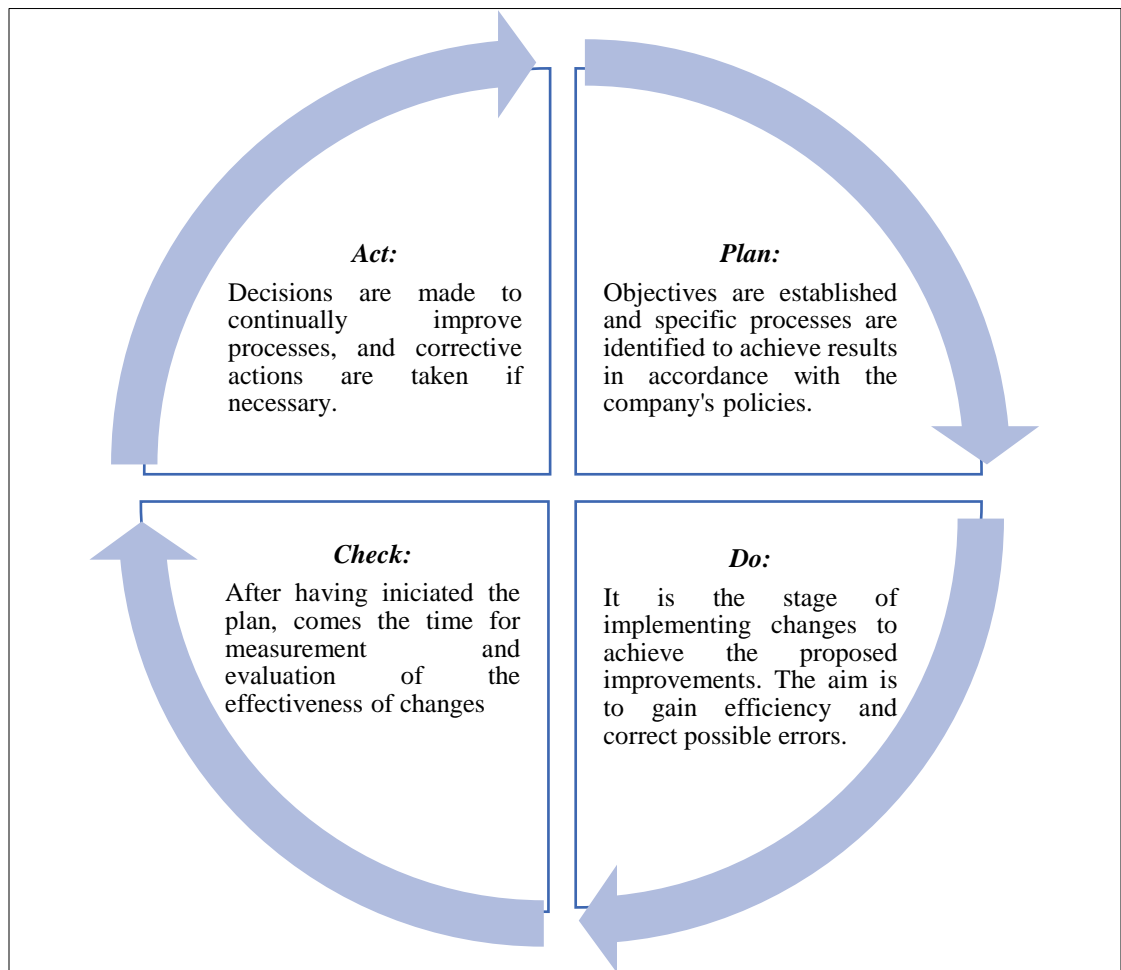
That is why establishing a methodology for the control of the processes carried out within the Cooperative can contribute to minimize the mistakes, therefore, it can result in an improvement in the quality of the hat. The PHVA or PDCA cycle, by its initials in English Plan, Do, Check, Act, is a management tool of dynamic and flexible character that allows to improve in a continuous way the quality in any process that is carried out within an organization, this approach was initially proposed by Shewhart in 1939, however, it was Deming who introduced this concept in the 50's in Japan and became known as the *Deming Cycle*. (Camisón, Cruz, & González, 2006)

¹⁸ Taken from: <https://www.revistalideres.ec/lideres/elaboracion-sombrero-paja-toquilla-100.html>

The fundamental idea of this technique is that the improvement comes from the application of knowledge either based on engineering, management or the way of carrying out a process to facilitate the work, make it more accurate, in less time, at lower cost, more secure or exceed customer requirements. Deming's cycle is focused on both short-term continuous improvement and long-term organizational learning. (Evans & Lindsay, 2008)

The cycle consists of subdividing the work between management, operators and inspectors, and consists of four stages (illustration 13). First, the management studies the current situation of the company to elaborate an improvement plan, then the operators execute the plan, after that the inspectors verify if the objectives described in the planning stage were reached, finally the management analyzes results, and if the expected results were reached, the method is standardized, if not, corrective actions are developed. (Camisón, Cruz, & González, 2006)

Illustration 13 Stages of the PDCA cycle



Made by: Novillo, Silva
Source: ISOTools.org

In continuation, it is described with more detail the stages of the PDCA cycle:

a) Plan:

1. Define beginning, ending and what the process does.
2. Process description, it includes key tasks to be taken place, se incluye las tareas clave a realizarse, sequence of steps, participants, equipment used and the material.
3. Description of participants; internal clients and suppliers
4. Define client's expectations.
5. Determine available historical data about the performance of processes.
6. Describe the problems related to the process.

7. Identify main causes of the problems and possible impacts on the process.
8. Develop potential solutions for the problems.
9. Select the most relevant solution

b) Do:

1. Make pilot studies to prove the impact of the solution.
2. Establish indicators.

c) Check:

1. Analyze results from the pilot study.
2. Determine if there was an improvement in the performance.
3. Identify other processes that can be necessary.

d) Act:

1. Select best solution.
2. Develop an implementation plan.
3. Standardize the solution.
4. Establish control methods for the performance of the process. (Evans & Lindsay, 2008)

Based on what has been studied, a continuous improvement plan can be formulated focused on the quality not only of the product but also of the service according to the PDCA methodology:

a) Plan: plan objectives

In this first stage are established the objectives to be obtained with the implementation of the proposal for the internationalization of the Cooperative.

- Improve efficiency levels in hat making.
- Increase the level of sales at 10%.
- Implement programs that improve the labor environment.

- Improve the productivity of the Cooperative through the standarization of processes.
- Concentrate efforts to satisfy client´s requirements.

b) Do: implementation of action plans

This stage describes the actions to be carried out together with the craftswomen and the technical staff of GAD Biblian in order to meet the objectives of the planning stage.

- Implementation of the 5s methodology
- Monitoring od quality controls
- Training plan: export procedures
- Monitoring of production costs
- Standardization of the final finishing processes

c) Check: measurement indicators

Part of this third stage is to establish the criteria for evaluating whether what was planned through the action plans was met. These indicators have a starting point which is the current situation of the Cooperative.

To verify if the tasks are being carried out as established in the first phase, it is necessary to have a person to supervise if everything in the work place is fulfilled according to the instructions, and to verify the results through a table with the indicators to be improved:

Table 9 PDCA cycle control indicators

Indicator	Starting point	Current state	Variation %	Observation
Production cost	\$ 62.796,29			
Productivity	2,5			
Total of production	1200 u			
Quantity of defective products	8 out of 100			
Perception of the labor environment	65% agree			

Made by: Novillo, Silva

d) Act: were the objectives fulfilled?

Two situations can occur: the first is if in the previous stage it is proven that there was indeed an increase in quality, the craftswomen perceive a better working environment or if more hats were produced with the same or less resources while maintaining quality, it means that what was planned has been fulfilled, and therefore the process should be standardized. The second situation is that, if any indicator has failed, the causes of the problem should be determined and corrected by a new Deming cycle.

3.1.1.3.2.3. Labelling

The label is an external component of the product that it serves several functions, first identifying the product or brand, also describing some product specifications such as who made it, where, when, what it contains, how it is used, and in some cases the safety measures, finally it is a visual means to attract potential consumers through attractive graphics (Kotler & Amstrong, 2007). At the international level, the label is one of the elements that has to be adapted according to the country that is being exported.

One of these reasons is language, the label must be written in the language of the local customer, in some countries it is mandatory to print the label in the official language of that country, in other cases, if the information is not very extensive, several languages can be used covering several countries. Another reason is legislation, which requires information about the country of origin, name of the manufacturer, weights, description, ingredients and description of chemicals used. The third reason is for communication, the label is a way to stimulate the purchase and inform the consumer about additional product certifications. (Llamazares, 2016)

For the toquilla straw hat to enter the European market it has to comply with some labelling requirements:

- Commercial name of the product.
- Name, company name or trademark and legal seat of the domicile of the producer or importer based in the UE.

- Country of origin, in case if it is located outside the EU there must be considered the use of substances or materials that are not harmful to people or the environment.
- Mention the materials used and the method of production
- Indications and if necessary, include precautions and destination of use. (Pro Ecuador, 2018)

Additionally, according to the European Community law No. 1007 from 2011 it is established that is the right of the consumer to know the product's components he is buying, and applies to all types of products: manufactured, semi-manufactured, raw, integrated, which are composed of textile fibres. The information contained on the label must be clear, indicating the veracity of the product and in the local language, it is necessary to detail the composition of the fibers with their percentage value, in addition to specifying the sizes in S, M, L, and any type of abbreviations are excluded except for international standardized codes. (Pro Ecuador, 2018)

Photograph 3 Bibilak brand label



Taken by: Novillo, Silva

3.1.1.3.2.4. Packaging

The packaging is a form of protection for the product during transport from the point of origin to the place of destination, it is made up of the container and the packaging. The container fulfills the function of containing and presenting the product. It can be primary when it is in direct contact with the product (photo 4), or secondary when it contains the container (photo 5). The packaging, on the other hand, is a physical or chemical means that protects the containers by safeguarding their integrity and quality.

In order to properly choose the packaging, the size and material must be taken into account. The size of the package depends on the level of income and frequency of purchase, so in developed economies where the flow of purchase is greater, it is advisable to increase the size of the boxes or the quantity of products per package. On the other hand, the material varies depending on the consumer's taste, so one can choose glass or metal, cardboard or plastic. In packaging, in contrast, although it is not perceived by the final consumer, it needs to be adapted according to the climate to which the goods are subjected and the length of the transit from one country to another. (Llamazares, 2016)

In the case of hats, they are packed in cardboard boxes with a foam band on the crown to prevent damage during transport. Approximately 20 hats can be placed in each box; the hats in turn are stacked and transported in solid canvas packages. The size of the boxes should not exceed three metres, that is to say the sum of the height, width and depth. (Pro Ecuador, 2018)

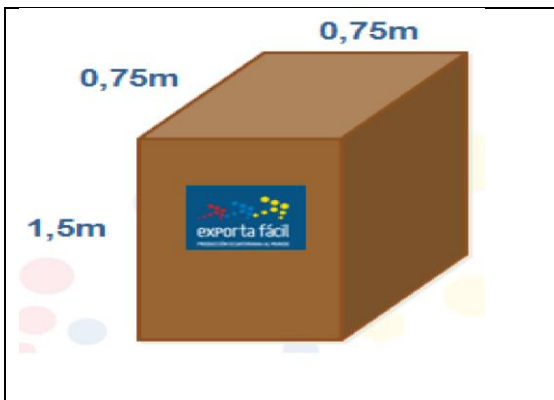
The secondary packaging in photograph 5 is suitable for transporting the hats as it can group several product units which facilitates handling, transport and storage. An important point to consider is that the weight of the box should not exceed the maximum weight allowed in the country of destination which is usually 30 kilograms (ProEcuador, 2017).

Photograph 4 Primary packaging of the Bibilak brand



Taken by: Novillo, Silva

Photograph 5 Secondary packaging for export



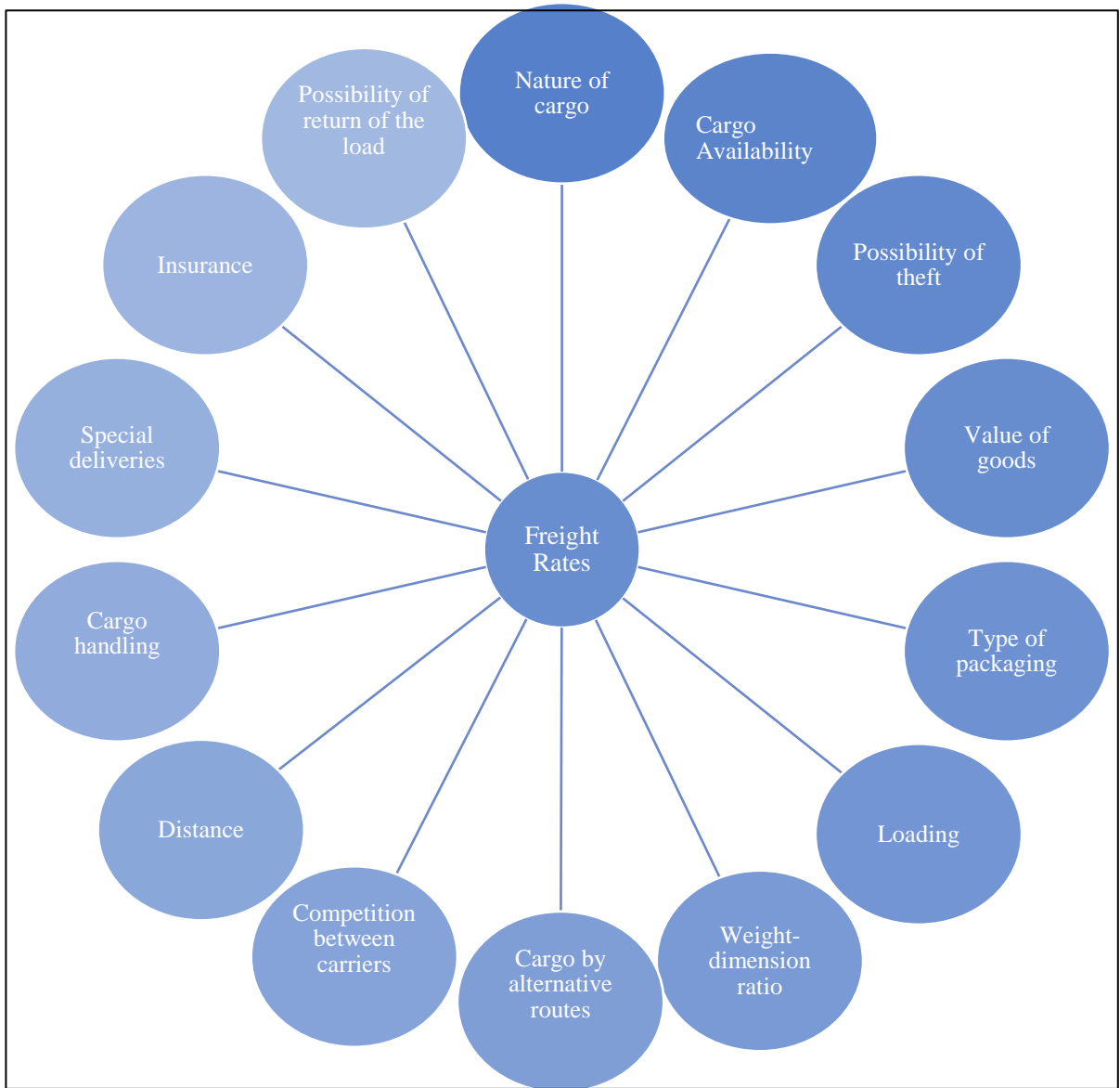
Source: Exportafácil.gov.ec

3.1.1.3.2.5. Transport and delivery

Transport is essential to the company as it integrates the basic functions of the company: procurement, production management and physical distribution. Both locally and internationally, it is required that transport be uninterrupted, fully planned and effective, capable of reducing costs. In previous pages we have discussed the different means of transport that a business can choose depending on the volume, type of product, distances to be covered and logistics costs.

In addition to the local transport that is needed to move the hats from Biblian to Cuenca, it is important to consider the cost of international freight towards the countries of the European Union. Lerma and Márquez (2010) summarize in the following illustration the factors that determine the international freight rates.

Illustration 14 Freight Rate Determinants



Made by: Novillo, Silva
Source: Lerma Alejandro & Márquez Enrique (2010), Trade and international marketing.

As for the delivery conditions, the seller has to consider some observations after having received the order. First, the final hat must be in good condition, demonstrate quality and have the label properly designed for the target market. Second, the agreed delivery terms with the specifications indicated either in model, size, fabric or color must be fulfilled as stated in the contract. Thirdly, the quantities required must be established in advance when a good is processed manually. (Pro Ecuador, 2018)

Regarding the term of delivery, this can vary due to several factors, as for the time it takes a craftswoman to weave a hat, depending on the volume of the order, it takes between 60 and 120 days to fulfill an order of 1200 hats, at this point appears the importance of maintaining good control of inventory so that product availability is not affected. To the time of production of the order it is necessary to add the time of transport by air, which is minimum in comparison to the transport by sea.

3.1.1.4. Productivity analysis

Productivity is a broad concept that relates what is produced or outputs and the resources or inputs used. Productivity implies improving the productive process, which translates into a favorable comparison between these two variables. Occasionally evaluating a company's productivity is problematic when external elements cause an increase or decrease in production. (Carro Paz & González Gómez, 2012)

If the price of toquilla straw drops it means a reduction in the cost of production, but the improvement in productivity is not due to the management decisions taken, but rather to this external factor. It is necessary to differentiate between physical productivity and value productivity, the former refers to the base unit applied to a specific industry or process; the latter results from the comparison with another company in the industrial sector whose differential value is revealed by the consumer through the price he pays for a good or service. (Colmenares, 2007)

There are two options to measure productivity Existen dos alternativas para medir la productividad: partial productivity and total productivity.

Partial productivity is the relation of the whole production in process and one of the resources used.

$$\text{Partial productivity} = \frac{\text{Total output}}{\text{One input}}$$

$$\text{Partial productivity} = \frac{200 \text{ hats}}{8 \text{ artisans}} = 2,5 \text{ hats/artisan}$$

On the other hand, total productivity involves all resources used in the process between the total of goods or services produced:

$\text{Total productivity} = \frac{\text{Total output}}{\text{Total input}}$
$\text{Total productivity} = \frac{\text{Goods and Services produced}}{\text{Labor force} + \text{Capital} + \text{Raw material} + \text{Others}}$

$$\text{Total productivity} = \frac{200 \text{ hats} * \text{Selling price} (\$35)}{\text{Costs of production (raw material} + \text{labor} + \text{services} + \text{other costs})}$$

$$\text{Total productivity} = \frac{\$7000}{\$2800} = 2,5$$

To calculate the partial productivity, the quantity produced in the week in total by all the craftswomen and a single entry was taken, which is the labor force, considering that 80 craftswomen work actively in the Cooperative. The result was that the Association produces around 2.5 hats per artisan. There would be an improvement in productivity if all 80 artisans produced a total of 4 hats per artisan, but not all of them spent 100% of their time weaving.

In the contrary, for the calculation of total productivity, it is convenient to work with homogeneous measurement units since more than one input component is being considered, for this case both inputs and outputs were converted to a monetary measure. Consequently, if the weekly volume produced of 200 hats is multiplied by the average market price of around \$35, the result is a value of \$7000, which is divided by the total sum of the operational cost that includes the items of raw materials, inputs, and others. The result is that producing one hat costs \$14, and since 200 hats are produced, the total cost of production is \$2800.

The result of total productivity is 2,5, as the more factors are evaluated, the more reliable the result will be, and if this index is constantly evaluated, it will be possible to

assess whether productivity has increased or decreased, depending on whether the result is higher or lower.

3.1.1.5. The Japanese 5's

Kaizen theory is a process of continuous improvement that is attributed to Japanese companies that implemented innovation and organizational standards during the 1990s. This is defined as "a pervasive mechanism of continuous activities, where the people involved play an explicit role, to identify and ensure impacts or improvements that contribute to organizational goals" (Dávila & Barraza, 2011). This process was divided into five blocks known as the 5S that seek to improve flow production, organization and structural improvement, visual control and time efficiency: Seiri, Seiton, Seiso, Seiketsu, Shitsuke.

The first S-Seiri best described as organization is a tool that seeks to eliminate from the work area everything that is not considered indispensable for production or administration operations; it seeks to eradicate what is not needed. To determine this within small and medium enterprises, it is essential to compare the unnecessary with those that imply extra costs, because everything that is not comparable to economic efficiency must be discarded (Arrieta, 2012).

The second S-Seiton, which means order, is a tool that should be used within companies to give 'everything its place' so that the elements of the organization are easily found and removed by the workers. For this, certain places are assigned to each object and they are labeled, so that all the operators can carry out their functions 'for each one'; that is, without having to ask for help for each process, since they all know the internal handling of the plant (Arrieta, 2012).

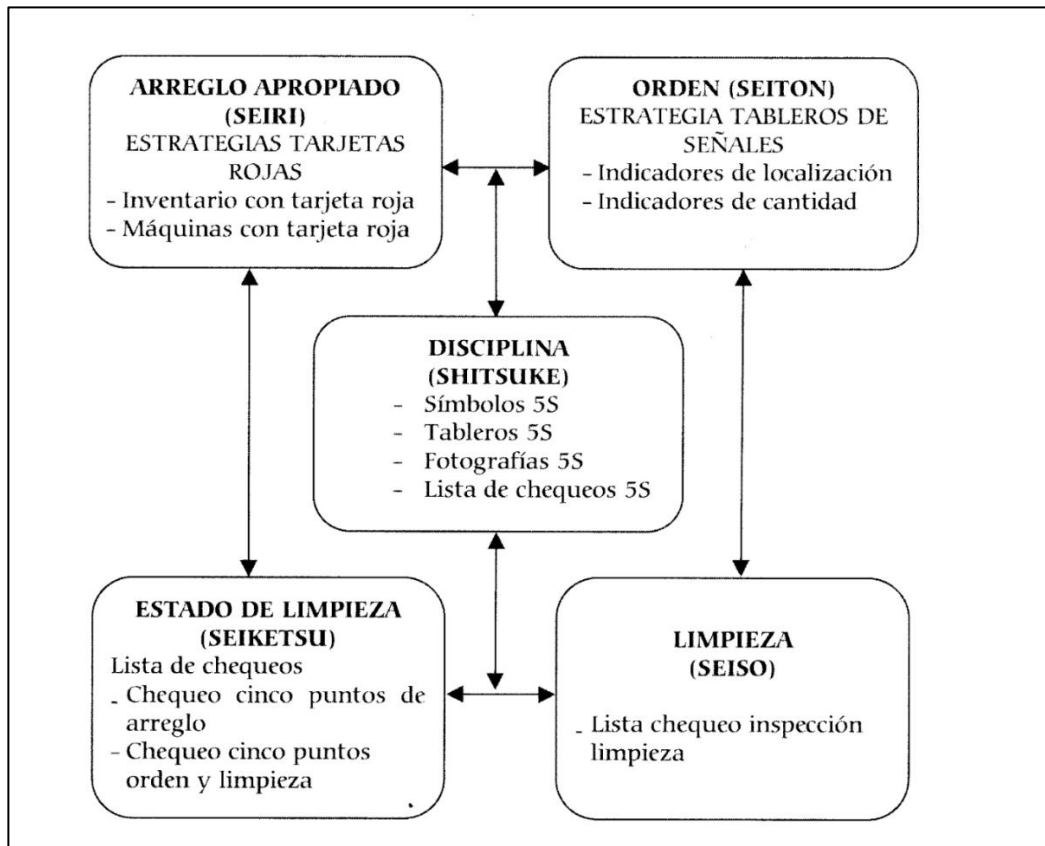
The third S-Seiso or cleaning is one of the fundamental pillars of the company, although it is linked to the domestic concept, within the organization it is referred to that there is no person who takes better care of things than those who use it constantly. Under this premise, cleaning and cleaning staff is not conceivable since the operators are responsible for the maintenance of their equipment; this translates into responsibility and commitment of workers to the company's assets (Arrieta, 2012).

The fourth S-Seiketsu known as standardization talks about how to implement the three previous S's in a prolonged manner. To do this, the company must proceed with certain actions or processes through technical instructions and schemes that allow operators to consult efficiently on any task in the plant, which must be divided into main and additional procedures in order to carry out continuous monitoring and take control and improvement actions (Dávila & Barraza, 2011).

The fifth and last S-Shitsuke is about discipline, which refers to maintaining and making a habit of the other tools presented by Kaizen with the purpose of improving the organization, since, several costs are reduced and the productive capacity is increased; in addition, all the business areas are used efficiently. Additionally, the company receives a great benefit by having a good maintenance of its equipment, thus surpassing its productive quality (Dávila & Barraza, 2011).

Therefore, the benefits of Japanese 5S are translated into: less waste of materials and money, improved safety and organization, long-term preservation of equipment, fewer defects and better quality, product diversification, increased trust within and with the company and, finally, significant corporate growth (Arrieta, 2012). For this to be possible, what is shown in the following illustration must be implemented.

Illustration 15 Visibility of Japanese 5S



Made by: Arrieta, Juan
Taken from: The 5S, Pillars of a Visual Factory

The implementation of these 5S is indispensable for the Cooperative Padre Rafael González, since, with these tools they will be able to strengthen the production in a better way, reducing costs and working in team. For this, it is necessary that a test implementation is carried out, starting with the supply and production area until reaching the administration. The artisan members of the cooperative should constantly carry out the first three S's with the help of an expert or facilitator, who will help them with the practical implementation, so that later the members can take charge of the organization, order and cleanliness with the objective that they commit themselves to devise plans, train themselves continuously and bring the cooperative out into the open.

3.1.1.5.1. Technical Sheet Model

In order to enable the Padre Rafael Gonzalez Cooperative to implement control and continuous improvement activities, we present below a model of a technical sheet that can be implemented in the different areas and activities of the Cooperative.

Table 10 5S Data Sheet

CONTROL DATA SHEET					
AREA					
SUPPLY		PRODUCTION		MANAGEMENT	
ACTIVITY				COMMENTS	
ORGANIZATION					
ORDER					
CLEANING					
STANDARDIZATION					
DISCIPLINE					
CONTROL					
WEEKLY		MONTHLY		HALF-YEARLY	
THERE IS FAILURES OR WASTE		YES		NO	
HAS IMPROVE THE ACTION TIME		YES		NO	
IT BECOMES MORE DIFFICULT TO PERFORM ACTIVITIES		YES		NO	
COMMENTS FROM THE AREA					
FULL NAME					
JOB TITLE					
DATE					
SIGNATURE					

Made by: Novillo, Silva.

3.1.2. Marketing area

Within this area, a marketing plan is expected to be carried out in order to determine the main consumers of the toquilla straw hats, as well as different strategies for entering foreign markets so that the Padre Rafel Gonzalez Cooperative can position itself with its Bibilak brand. This will not only benefit the women artisans economically, but will also encourage this group of women to continue with this ancestral activity.

3.1.2.1. Market research

A market study is a thorough analysis of the environment through different actions to know the market response, so that the company can perform its functions in the long term with the aim of meeting its organizational goals (Trenzano, 1997). In order to carry out this study for the Padre Rafael González Cooperative, it was first necessary to determine the target market for the study; as it was an internationalization plan, an international market had to be chosen to receive this type of product. The process of analysis will be explained in the following sections.

3.1.2.1.1. Market segmentation

Taking into account that the market is not homogeneous and is composed of millions of people, companies and institutions with different tastes, expectations, purchasing trends, culture, socio-economic level, etc. It has been decided to carry out this segmentation with the objective of finding a sector of consumers that give value to artisanal products: toquilla straw hats (Thompson, 2005).

To define the most suitable market for the sale of toquilla hats, data from the TradeMap platform has been used. Although there is no specific tariff heading for toquilla hats, they are exported under the international harmonized system with code 65.04 which refers to "hats and other headgear, plaited or made by assembling strips of any material" (TradeMap, 2020). Below is the list of countries from highest to lowest, which bought hats in 2018, in millions of USD.

Table 11 *Exportation of toquilla straw hats from Ecuador to the world million USD*

Hats exports million USD							
Importers	Exportation in 2014	Expoprtation in 2015	Exportation in 2016	Exportation in 2017	Exportation in 2018	Ammount in 5 years	Percentage
United States of America	1763	2036	2004	911	1565	8279	19,73%
Germany	1022	887	938	1266	1068	5181	12,35%
France	1163	979	1029	886	895	4952	11,80%
Spain	639	525	652	590	684	3090	7,36%
Japan	974	1400	1673	843	583	5473	13,04%
Panamá	395	202	189	277	382	1445	3,44%
United Kindom	423	677	526	432	370	2428	5,79%
Thailand	295	307	180	119	294	1195	2,85%
Australia	161	216	200	159	216	952	2,27%
China	26	24	21	75	148	294	0,70%
Italy	64	90	210	57	128	549	1,31%
Perú	23	61	111	161	104	460	1,10%
Switzerland	37	59	103	83	87	369	0,88%
South Korea	87	470	414	164	70	1205	2,87%
United Arab Emirates	164	205	47	66	65	547	1,30%
Total	7236	8138	8297	6089	6659	36419	86,79%
Ohers	1184	1192	1195	1119	853	5543	13,21%
World	8420	9330	9492	7208	7512	41962	100,00%

Taken from: TradeMap
Made by: Novillo, Silva

Table 12 Ecuadorian Hat Exports to the World - Unified Table

Hats exports millions USD		
Importing countries	Total five years	Percentage
European Union (Germany-France-Spain-Italy-Switzerland)	14141	33,70%
United States of America	8279	19,73%
Japan	5473	13,04%
Panamá	1445	3,44%
United Kingdom	2428	5,79%
Thailand	1195	2,85%
Australia	952	2,27%
China	294	0,70%
Perú	460	1,10%
South Korea	1205	2,87%
United Arab Emirates	547	1,30%
Total	36419	86,79%
Others	5543	13,21%
World	41962	100,00%

Taken from: TradeMap
Made by: Novillo, Silva

When analyzing this data, we can notice that, although the United States is the largest individual buyer until 2018 with 19.73%, there is a significant purchase trend by the members of the European Union: Germany, France, Spain, Italy and Switzerland, totaling 33.70% among all these members. Another important buyer is Japan with a percentage of 13.04% of the total USD in the last five years. The market selection matrix is based on this.

3.1.2.1.2. Market selection matrix

To be able to carry out the market selection matrix, it is essential to analyze the market in two sections, the first being a matrix with general selection indicators and the second being a weighted matrix with market selection criteria. These matrices are presented below:

Table 13 General data matrix

SEGMENTATION	DESCRIPTION	TENDENCY	PURCHASE VOLUME
European Union	Italy, Germany and Switzerland have a high purchasing power. They value handmade products and pay fair prices. They have a high purchase tendency in handcrafted products under the premise of Fair Trade and environmental responsibility	Increasing - Ascending	High level- Millions of USD Anually
Individuals	People with tastes about handcrafted products with a high purchasing power, general known as the final customer	Increasing in medium term	Individual purchases are not of high volume
Intermediaries-wholesalers	Business that help the distribution and commercialization of product within countries through stores or distribution to big markets	Increasing in the short term	High level- Millions of USD Anually

Made by: Novillo, Silva

The weighted matrix, on the other hand, will have political, economic, social and environmental criteria to be evaluated within three European Union member countries, which will be indispensable for analyzing the profile of the target market demand. For this purpose, a weighting of 1 to 5 is used, of which 1 means favorable conditions and 5 means less favorable ones.

Table 14 Weighted market selection matrix

Evaluation criteria	Italy	Switzerland	Germany
Political			
Transparency and corruption	2	1	2
Political Stability	2	1	2
Economics			
Economic Growth	2	4	2
Purchasing power Per Capita	2	1	1
Volume of Imports from Ecuador	2	4	2
Tariff and Non-tariff Barriers	1	1	1
Commercial Risks	2	3	2
Social			
Feasibility for doing business	2	4	3
Cultural proximity	3	4	3
Tastes and preferences	3	3	3
Environmental			
Empathy index with the environment	2	4	3
TOTAL	23	30	24

Made by: Novillo, Silva

3.1.2.1.3. Demand profile

In order to analyze the profile of the demand applied to the products of the Cooperative Padre Rafael González we have detailed the profile of two target audiences that may be potential buyers of the toquilla straw hats. These correspond to the European market and it is taken as a main premise that within Europe there is no production of toquilla straw hats from their initial stages, however, in Italy if you buy hats and hats in raw to make only the finishing and labeling. Although it is a good market, the idea of this

export plan is that the hats can leave Ecuador finished to Europe. For this reason, a profile of the natural end-consumer and of intermediaries or wholesalers will be detailed.

The first profile that is described is of natural people within the European Union, taking as a base, nationals of Italy and Germany, since the cooperative has made sales to people from this country in the past, so they are considered a good precedent of sale. The target demand segment is people aged 25-25 and 45 and over, from the middle, upper-middle and upper classes. The number of buyers in Central Europe has increased because this garment has been increasingly used and has gained a greater reputation within the market. "The Ecuadorian toquilla straw hat is very popular in the spring and summer seasons, seasons between April and September, characterized by high temperatures and days with more hours of sunshine in the year. Apart from protecting from the heat, its use is related to glamour and distinction for being considered an elegant and appreciated accessory in the fashion industry" (ProEcuador, 2019). As for the second profile chosen, it is taken into account that intermediaries or wholesale companies would be the most optimal to reach stores or small markets within Europe, additionally, they would have to be contacted at international fairs or facilitating entities such as Pro Ecuador or Chambers of Commerce of the countries.

3.1.2.2. International Marketing Mix

The marketing mix is a new concept linked to manage in an integrated way all areas of planning, organization and implementation of common marketing. These activities are focused to guarantee the marketing action cycle with the objective of achieving the goals and their respective strategies. Therefore, this controllable and measurable tool is the most efficient to satisfy the needs of the company, according to the target market (Soriano, 1991).

3.1.2.2.1. Product

The products of the Padre Rafael Gonzalez Cooperative are varied, so it is necessary to define a pilot test with one type of product, in this case, the toquilla straw hats. Due to the fact that the European market is more and more demanding and informed, it is

necessary to export fine finished hats of various sizes, colours and with extra finishes such as painted or embroidered.

3.1.2.2.2. Price

The Padre Rafael Gonzalez Cooperative's toquilla straw hats are under the Bibilak brand, which represents a group of craftswomen who under the premise of a popular and solidarity-based economy, work to provide for their families and their canton. Therefore, the price of these products must take into account the premise of Fair Trade, which represents the knowledge and dedication of the craftswomen. With this as a basis, the price measured in American dollars should be higher than the sales in local markets (\$30 USD), but competitive with the European market (\$60-\$80 USD); therefore, it is suggested a range of prices from \$55 USD for the simplest hats, to \$120 USD or more for the fine hats with embroidery or painted.

3.1.2.2.3. Place

The European market is a demanding and complicated market, so it is necessary to contact intermediaries or wholesalers who can facilitate sales in shops or markets. With their experience, the Bibilak brand will be able to make high volume and very frequent sales; however, it is necessary to apply other techniques to enter the European market as e-commerce, which will allow the company to reach end consumers not only in Europe but also in the world.

3.1.2.2.4. Promotion

The craftswomen of the Padre Rafael Gonzalez Cooperative are recommended that by better managing their production they can reduce not only operational but also administrative and logistical costs. By doing this, income and profits would increase allowing the company to strengthen its clients in the long term through promotional tools such as discounts or mini gifts for their purchases, holidays, birthdays and even seasons.

3.1.2.2.5. People

Maintaining customers in the long term is the main challenge of the Cooperative Padre Rafael Gonzalez, so it is necessary that the artisans make themselves known and

maintain a direct relationship with customers. As a suggestion, we propose videos that show the social and gender reality of the women members, with the objective of generating empathy with the final consumers, so that they will be clients not only of a brand, but of a group of empowered women who are trying to help their families.

3.1.2.2.6. Processes

Transparency and socialization of operational and administrative processes is a strategy that has strengthened trust in customers, which is why with the implementation of the Japanese 5s and other control tools with the PDCA cycle, the cooperative will show its customers its commitment and dedication to creating quality products with social responsibility. For this, it is essential to constantly share content of these processes on social networks and the website.

3.1.2.2.7. Positioning

There are different strategies for positioning in the market, either due to demographics, tastes and preferences or sympathy with the consumer. The most common positioning alternatives are, first, the one based on the product or service where the main attribute of the good stands out and represents a benefit for the client. The second is user-based positioning, commonly used by companies that offer products aimed at high segments, transmitting a message of exclusivity to users. (Llamazares, 2016)

The third alternative is based on competition when there is a situation in which there is a small number of competitors, in this case the promotional message is directed to another competitor. In this case, the Bibilak company must establish itself in the consumer's mind through its social situation, with the aim of creating an image of trust, help and society. This should be through media and advertising that convey the central idea.

In the latter, it is important to determine whether mass media will be used or *pull strategy*, that is to make the customer look for the product at the point of distribution through communication; or the *push strategy*, which tries to push the sale by communicating a commercial message that encourages the purchase of the product without their wishing to do so. On the other hand, there is offline and online

communication, examples of the first being traditional promotion through documentation, commercial trips, fairs, exhibitions, etc., on the contrary, the online includes the design of a web page, SEO positioning, blogs and social networks. (Llamazares, 2016)

3.1.2.3. Social responsibility and environment

These concepts are the rise of international trade and marketing, starting in the 1970s, the political and social environment focused all its attention on issues of equal opportunities, control of environmental pollution, preservation of natural resources, protection of workers and consumers. It is there when corporate social responsibility is born, understood as the obligation that businesses have with society, a socially responsible company is one that maximizes its positive effects and minimizes the negative effects caused to society and the environment. (Bateman & Snell, 2009)

Companies acquire more or less prestige according to their treatment with society and the environment. Europe as a target market has certain requirements and necessary certifications for products that guarantee that their production does not affect the environment or abuse people. For this reason, it is proposed that Bibilak socialize how his business model has improved the lives of several low-income artisans and how the production of toquilla straw hats is a model with low environmental impact and whose products are biodegradable, in addition to being a purely manual activity it does not produce large amounts of toxic waste for the environment unlike large industries.

It is erroneously believed that maximizing profits and social responsibility are two antagonistic poles that lead companies to make opposite decisions, however, for companies that carry out socially responsible actions they can develop a competitive advantage that produces long-term benefits by showing a better public image by participating in community projects. Businesses can benefit themselves and society by including social responsibility in management strategy, based on the recognition of society's problems in providing initiatives to solve those problems. (Bateman & Snell, 2009)

3.1.3. Export area

This section pretends to show the toquilla straw hats -Panama hats- export plan to the European market, for this, it will present important information about the requirements for exportation, logistics costs and sales expectations. In this part it will be described a favorable overview that allow to carry out an effective and efficient internationalization of the toquilla hats towards the european market and with the aim of not only selling a finished producto, but also an ancient culture of the Biblian canton artisans.

Having an export área within the Cooperative becomen crucial when the volumen of international sales increase, thus the staff of this area has the function of analyzing different markets, planning commercial visits and negotiating agreements with its customers and suppliers. Although the export area is a separate organizational unit, it works in accordance with the production, commercial and financial areas, in addition there is the involvement of public and private entities that provide support to act in benefit of exporters.

3.1.3.1. Data sheets of the product portfolio

The toquilla straw hat is the good to be exported, so through a technical data sheet indicates to the buyer in detail the main attributes of the product as well as the conditions and requirements necessary for it to be marketed worldwide according to the established tariff heading. This proposed data sheet for "Bibilak" brand toquilla straw hats was prepared according to the parameters described in a model data sheet from the INEC database.

Table 15 Technical data sheet for "Bibilak" toquilla straw hats

TEXTILE PRODUCT DATA SHEET	
Specific Product:	Toquilla straw hat
Commercial Nme:	Toquilla straw hats
CPC V.2 ¹⁹ Code:	28262.01.1
CIU 4.0 ²⁰ Code:	C1410.05
Tariff code:	6504.00.00.00
GENERAL PROPERTIES	
Description:	The toquilla straw hat is a traditional item hand woven by the artisans of the Padre Rafael Gonzalez Cooperative. It is also known as Panama Hat because of the relevance it had in the construction of the Panama Canal when President Roosevelt visited the site wearing it.
Applications:	Clothing used to cover the head
Magnitud:	Length
Unit of measure:	Centímetros
Commercial Presentation:	Toquilla straw hat for exhibition or wholesale and retail.
SPECIFIC PROPERTIES	
Weight:	Between 80 y 120 grams
Fabric/Ligament Type:	Hand-woven
TECHNICAL COMPOSITION PROPERTIES	
Materia prima básica	
Name:	Carludovica Palmata (Toquilla straw)
Percentage:	95%
Secondary Raw Material	
Name:	Headband, tapestry
Percentage:	5%
Marketing Guide	
Types of selling:	Wholesale and retail

Made by: Novillo, Silva.
Source: NEC Virtual Encyclopedia

3.1.3.2. Negotiation Framework

Within the negotiation context, it should be taken into account that Ecuador and the European Union consolidated, in 2017, a Multiparty Trade Agreement, which sets a precedent for bilateral relations that not only increases the flow of trade, exchange of knowledge, technology and innovation, but also, with its proposal of "win-win", seeks to

¹⁹ Central Product Classification: is a codification that identifies goods and services through a homogeneous, exhaustive and exclusive system of categories according to the physical properties that distinguish the products.

²⁰ International Standard Classification: system of classification through codes of economic activities according to production systems. It allows to identify at international level any economic activity.

create a framework of trade equality that allows the sustainable development of each of the parties (Delegación de la Unión Europea en Ecuador, 2017).

This trade agreement seeks long-term relief from tariffs between parties, as well as standard trade facilitating measures such as sanitary and phytosanitary regulations and conformity assessment mechanisms. This agreement seeks to increase Ecuador's traditional and non-traditional exports to the European Union, providing a stable and permanent legal framework over time to replace the bilateral treatment to which Ecuador was subject under the GSP²¹ in previous years.

With this, the entry of toquilla straw hats to the European market is simple, since, there are no tariff and/or non-tariff barriers to the entry of this type of product that are of a special characteristic, since, it only has to comply with the basic international regulations. This was corroborated with the information from Market Access Map about the requirements for exporting to Italy and Spain.

Illustration 16 Tariffs applied to exports of toquilla straw hats in the Italian market

Derechos de aduana ⓘ			
Por producto 6504000000 – Hats and other headgear, plaited or made by assembling strips of any material, whether or not lined or trimmed (excl. headgear for animals, and toy and carnival headgear) Exportado desde a Año arancelario: 2019 (HS Rev.2017) Fuente: ITC (Market Access Map)			
Régimen arancelario ⓘ	Arancel aplicado ⓘ	EAV ⓘ	Nota
MFN duties (Applied) ⓘ	0%	0%	
Remedios comerciales ⓘ			
Por producto 6504000000 – Hats and other headgear, plaited or made by assembling strips of any material, whether or not lined or trimmed (excl. headgear for animals, and toy and carnival headgear) Exportado desde a Fuente: ITC (Market Access Map)			
<i>Italia no aplica ningún remedio comercial en el producto seleccionado</i>			

Taken from: Market Access Map

²¹ GSP: General System of Preferences.

Illustration 17 Tariffs applied to exports of toquilla straw hats in the German market

Derechos de aduana ①			
Por producto 6504000000 – Hats and other headgear, plaited or made by assembling strips of any material, whether or not lined or trimmed (excl. headgear for animals, and toy and carnival headgear) Exportado desde Ecuador a Alemania Año arancelario: 2019 (HS Rev.2017) Fuente: ITC (Market Access Map)			
Régimen arancelario ①	Arancel aplicado ①	EAV ①	Nota
MFN duties (Applied) ③	0%	0%	
Remedios comerciales ①			
Por producto 6504000000 – Hats and other headgear, plaited or made by assembling strips of any material, whether or not lined or trimmed (excl. headgear for animals, and toy and carnival headgear) Exportado desde Ecuador a Alemania Fuente: ITC (Market Access Map)			
<i>Alemania no aplica ningún remedio comercial en el producto seleccionado</i>			

Taken from: Market Access Map

The necessary documents that must be attached to this export are: the commercial invoice, the packing list and the certification of origin (in case it applies). It is necessary to verify that the products entered in the packing list are specifically detailed and that they are included in the commercial invoice so that there are no problems when reviewing this documentation (Pro Ecuador, 2018).

In this part, it is also essential to determine the Incoterm in which the negotiation will take place. The international trade terms drafted by the ICC are used only in contracts for the sale of goods and establish a set of international rules that facilitate foreign trade between the parties, they allow the identification of obligations, transmission of risk, distribution of expenses and customs formalities. Incoterms are not law and do not determine the ownership of the goods, but are recommendations resulting from the international practice of countries. (INFOCIEX, 2013)

Incoterms began to be used since 1936 and over the years have had amendments or other terms have been added in 1953, 1967, 1976, 1980, 1990, 2000, 2010 and 2020, the latter update came into force from January 1 of this year, such updates occur by new business practices of countries, such as acceptance of electronic documents, use of multimodal transport or security issues in shipments. The Regulatory Body of the Incoterms recommends that when using the terms in the international sales contract, the

corresponding version should be indicated (ProMéxico, 2015). In illustration 18 is described the features of the incoterms in its late update.

Illustration 18 *Summary of Incoterms 2020*

EXW Ex Works	<ul style="list-style-type: none"> The seller makes the goods available to the buyer at his place of business. All costs are paid by the buyer.
FCA Free carrier	<ul style="list-style-type: none"> Versatile term, it can be used FCA Factory (local seller) or FCA Terminal (place designated by the buyer).
FAS Free alongside ship	<ul style="list-style-type: none"> Delivery is made in the country of origin when the seller delivers the cargo to the quay in the port. From then the buyer assumes the risks.
FOB Free on board	<ul style="list-style-type: none"> The seller delivers the goods into the warehouse of the ship contracted by the buyer, including loading, stowage and export dispatch.
CFR Cost and freight	<ul style="list-style-type: none"> Transport is at the expense of the seller, but the risks are taken by the buyer. Delivery occurs when the goods are placed on the ship.
CIF Cost, insurance and freight	<ul style="list-style-type: none"> Transportation and insurance are paid by the seller. Delivery is made when the goods are placed on board the ship.
CPT Carriage paid to	<ul style="list-style-type: none"> Transport is paid by the seller, but the buyer assumes the risk. Delivery occurs when it is given to the first carrier.
CIP Carriage and insurance paid to	<ul style="list-style-type: none"> The seller contracts for transport and insurance with maximum coverage in favour of the buyer, but it is the buyer who assumes the risks during the journey.
DAP Delivered at place	<ul style="list-style-type: none"> Delivery is made anywhere in the country of destination but always in the vehicle and not including import customs clearance. Responsibility is assumed by the seller.
DPU Delivered at named place, unloaded	<ul style="list-style-type: none"> Delivery is made at destination at the agreed place but obliges the seller to cover the costs of unloading.
DDP Delivered duty paid	<ul style="list-style-type: none"> Delivery is made anywhere in the country of destination, this incoterm includes the duties and taxes of the buyer's country.

Made by: Novillo, Silva.
Source: Diariodelexportador.com

With the publication of the Incoterms 2020, which have been in force since January 1, 2020, the 11 terms are maintained, although with some modifications. The first change is the replacement of the Incoterm DAT (Delivery in Terminal) by the DPU (Delivery in Place of Unloading), that is, now the goods can be delivered not only in a terminal or airport but also in an agreed place in the country of destination that has the infrastructure to unload goods from the mode of transport. (Llamazares, 2017)

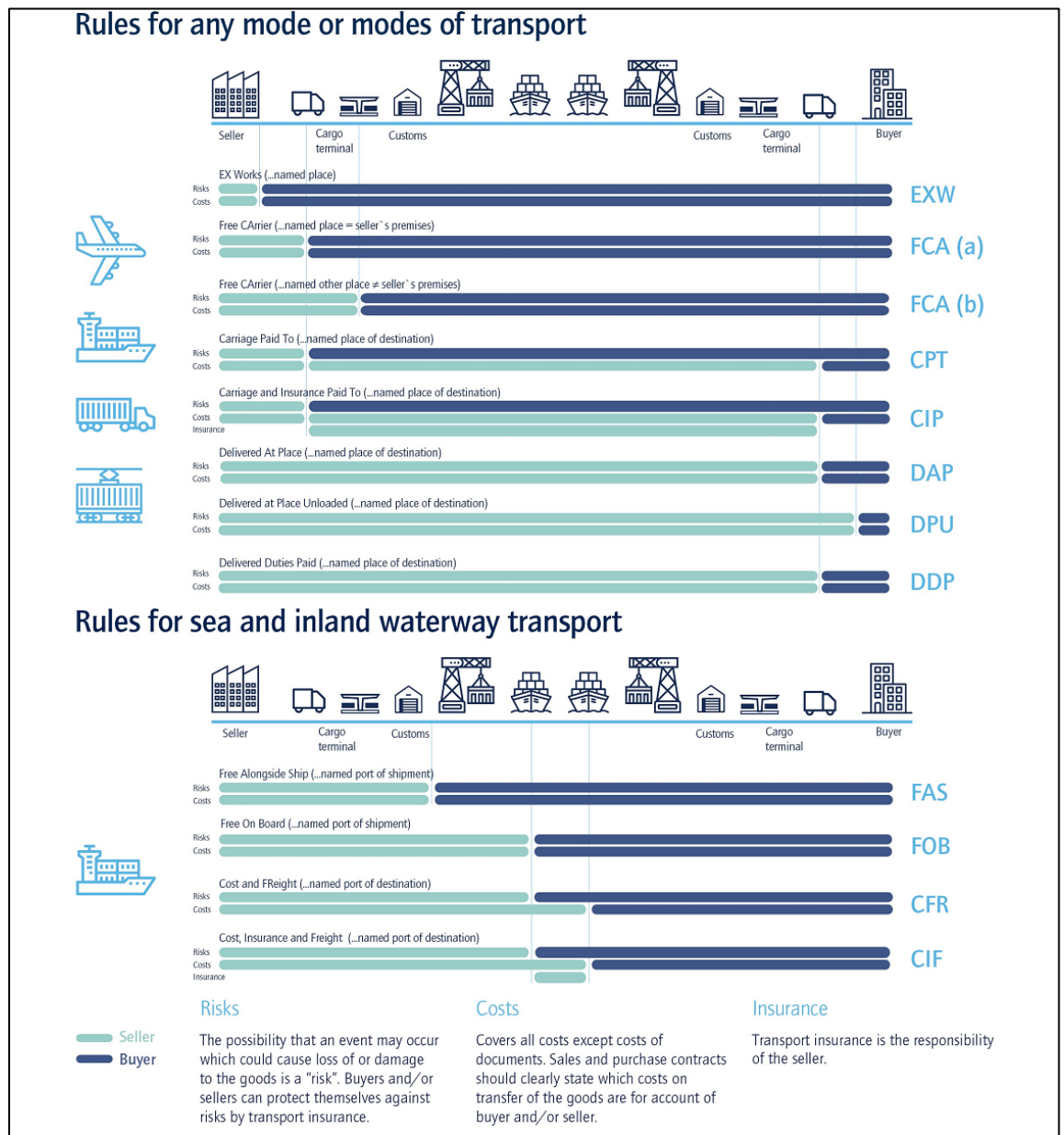
Additionally, the FCA Incoterm now allows the option for the carrier hired by the buyer to issue a B/L with the notation "on board" to indicate to the seller that the goods have been loaded onto the vessel and the credit can be paid to it. For CIP Incoterm, it is mandatory for the seller to take out transport insurance with comprehensive coverage against all risks of loss or damage in favour of the buyer. In contrast, in the CIF Incoterm the seller is only obliged to take out minimum coverage insurance according to clause C of the ICC²² London. (Llamazares, 2017)

Illustration 19 summarizes the rules of the 11 terms by indicating the responsibilities of both the seller and the buyer and when the risk is transferred. In the case of the toquilla straw hats, it is recommended that the negotiations be carried out on a CPT basis (carriage paid to) so that the craftswomen are in charge of managing the international logistics and that the insurance is covered by a third entity contracted by the seller.

Among the characteristics of this Incoterm are that the obligations of the seller to contract and pay for transport to the agreed place, must also take care of the process of dispatching the goods. The buyer for his part is responsible for the inherent risks that can occur from the time the seller delivers the goods to the first carrier, in addition to the charges for loading and unloading are paid by the importer. The Incoterm CPT can be used in a multimodal way, so the first carrier will be in charge of taking the hats from Biblián to the DHL offices in Cuenca to be later shipped to the destination country by air. During this journey, the buyer must take out insurance until the point of destination and take care of the import customs dispatch.

²² Institute Cargo Clauses. Clause C covers incidents such as fire, explosion, collision, capsizing, derailment, wave entrainment and salvage costs.

Illustration 19 Incoterms 2020 Rules



Source: Source: Kuehne + Nagel web page https://www.kn-portal.com/incoterms_2020/

3.1.3.3. Requirements for entering the target market

There are different international certifications that can be applied to the toquilla straw hats, although, the Cooperative Padre Rafael González could have obtained national certifications; it is indispensable to obtain certifications recognized worldwide. Among

the most popular and applicable to the artisan sectors we have Fair Trade, Ecolabel, CITES Certificate, etc.

The first certification commonly known as Fair Trade, is in charge of creating opportunities of cooperation between suppliers and consumers, allowing producers to have a fairer treatment in the market by paying a significant price on products, giving them better living conditions in the future. When a product carries this certification, it means that it has complied with all the requirements imposed by the certification and has created balanced conditions in commercial power relations (Pro Ecuador, 2013).

Illustration 20 Fair Trade Certification



Taken from: Pro Ecuador

The second one, called Ecolabel, is a European ecological certification and is in charge of marking those products whose environmental impact is not so high compared to traditional products. This has to be checked along the supply chain from the production of raw materials to the elaboration of the final product (Pro Ecuador, 2013).

Illustration 21 *Ecolabel Certification*



Taken from: Pro Ecuador

Finally, the CITES Certificate is an essential document as a non-tariff barrier for the goods to enter the target market. This document confirms that any transaction involving wild species, plants or products derived from them, is in accordance with the dispositions of the Convention on International Trade in Endangered Species of Wild Fauna and Flora. The Ministry of the Environment is the competent authority to issue this certificate and it must be in English, Spanish and/or French. For customs purposes it is required to present the original, a copy which will accompany the actual shipment. (ProEcuador, 2017)

3.1.3.4. International payment methods

There are currently about ten types of international payment instruments, each carrying a certain amount of risk for both the buyer and the seller. Choosing the most optimal one for each transaction or type of business will depend on what the parties are willing to give and take. With this premise, it has been analyzed that the Cooperative Father Rafael Gonzalez would benefit from instruments such as "payment in advance" because it would have the value of the goods before making the export. However, this method of payment is not widely used in international transactions (iContainers Inc., 2020).

Another payment instrument is the check or receivables such as bills of exchange or promissory notes that show a certain degree of security when collecting from the accounts by the time they are due (Lerma Kirchner & Márquez Castro, 2010). The documentary remittance against payment can be considered as an option to be used by the Credit Union since it is a very safe instrument since the ownership of the merchandise is not lost until

the moment of collection. The documentary remittance works in such a way that the exporter delivers to his bank the financial and commercial documents that prove the ownership of the merchandise that will be delivered to the importer once the latter confirms the payment.

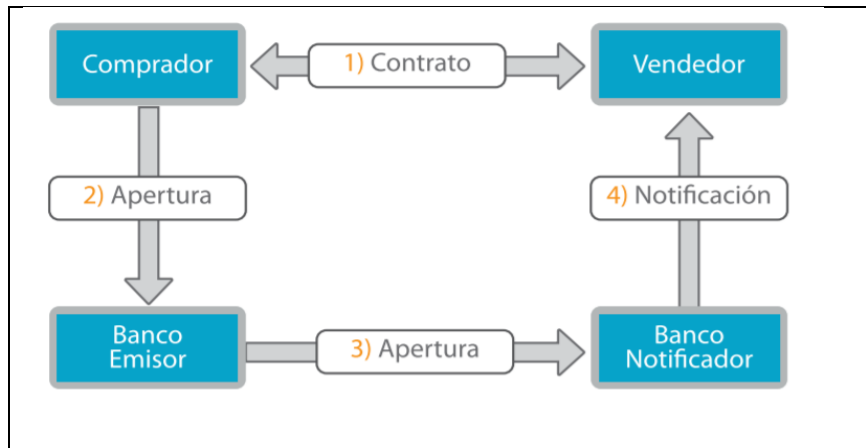
Another more secure option is the 'letter of credit', an international payment method in which the buyer's and seller's banks become intermediaries to create trust and commitment between the parties. In order for the banks to process the payment, it is necessary to establish the terms of the purchase and sale. To do this, the buyer sends the letter of credit to the seller so that the seller can verify that the necessary funds are available to make the sale. Payment is made once the goods are shipped. Figure 22 shows the process involved in issuing a letter of credit (iContainers Inc., 2020).

Among the advantages of the L/C are: first, compliance with the obligations established for both parties; second, the operation is convenient and easy since most of the work is done by the intermediary banks; third, both parties receive specialized advice and support from their banks; and fourth, it allows for timely payment by the seller. (Lerma Kirchner & Márquez Castro, 2010)

The following information is required to issue a bill of credit:

- Data of who requests (importer)
- Beneficiary data (exporter)
- Indicate if the bill of credit should be confirmed or not
- Way of notifying the exporter
- Total amount of credit
- Purchase conditions
- Place and expiration date
- Local requirements agreed between both parties
- Way to pay

Illustration 22 Process for opening a letter of credit



Taken from: ProEcuador

3.1.3.5. Requirements and procedures for the exportation

There are different ways of exporting within the Ecuadorian territory, either through an intermediate who does the paperwork or by the enterprise. It has to be keeping in mind the organisms that are part of the export operation: importer, commercial bank, insurance carrier, forwarder, customs services of each country, customs broker, certifying companies and suppliers. According to the current legislation, both nationals as well as foreigners residing in the country, natural or legal persons, can export (ProEcuador, 2017).

There are essential factors to carry out the exportation process including having an exporter RUC, having a customs broker, requesting for an electronic signature or token and owning the Ecuapass computer program. Once registered in the Customs System, the Sworn Declaration of Origin (SDO) is processed to subsequently obtain the Certificate of Origin. The last one, is essential to accede the tariff preferences for having a multi-party agreement with the European Union. For the elaboration of the SDO will be needed the following information:

- Identification of the company
- Product or goods description
- Customs competitiveness instruments used
- Foreign materials imported or purchased in the national market
- Factory cost of the finished product.
- Description of the production process

- Technical specifications of the product
- Product applications
- National Added Value
- Legal Representative

Once completed the above, the Customs Export Declaration must have to be filled out. According with the National Customs Service of Ecuador: “this is not a simple intention of shipment but a declaration that creates a legal link and obligations to comply with the National Customs Service of Ecuador by the exporter or bidder”:

The data that will be considered on the CED are:

- From the exporter or bidder
- Description of the product by item on the invoice
- Consignee data
- Cargo destination
- Quantities
- Weight; and more data related to the products

The digital documents that are attached along with the CED trough the ECUAPASS are:

- Original commercial Invoice. (see illustration 23)
- Packing list
- Prior authorizations (when the case warrants it).
- Electronic Certificate of Origin (when the case warrants it) (Servicio Nacional de Aduana del Ecuador, 2019).

These documents are checked at the Ecuadorian customs office and at the destination country customs office with the objective that the international transactions carried out between the buyer and the seller are legal and comply with the international requirements and standards.

After the negotiations stage and processing with the necessary documentation for the exportation have been completed, the shipment stage begins. The seller must accommodate the merchandise taking into account the type of packing appropriate for the

designated means of transportation (airplane). All the boxes to be sent need to be identified on the packing list¹ (see on the 24 illustration) where the exact quantity that each package contains and the type of packing are indicated. Additionally, the numbers and brands that identify each package needs to be clear. Once having the products ready, the carrier is contracted to proceed with the necessary documentation (ProMéxico, 2015).

Illustration 23 Example of a Commercial Invoice

EXPORTER Address: Telephone: E-mail:			TAX ID: INVOICE: Export market:	
Mr IMPORTER: Address: Attention: Invoice No.:			Contact: Our reference: Client No.: Purchase order No.:	
The goods have been sent in				
Packaging Dimensions: Gross weight: Net weight: Brands: Route: Country of origin			Date:	
			VALUE	
HS CODE	DESCRIPTION	QTY	UNIT	TOTAL
INCOTERM: <i>CPT</i>			TOTAL INVOICE:	

Made by: Novillo, Silva
Source: ProEcuador

Illustration 24 Sample Packing List

EXPORTER COMPANY LOGO				
EXPORTER ENTERPRISE				
Address: Calle Sur e Intersección				
Phone/Fax:.....+593-4-2597980				
E-mail:.....exportadora2@ecuador.com.ec				
CONSIGNEE INFORMATION				
Address:.... VII/ San Martin				
Phone/Fax:.....(11) 123-45678				
E-mail:.....smartin@gloriosa.com				
DESCRIPTION OF THE GOODS				
Box No.	Description of the Goods	Quantity	KILOS	
			NET	GROSS
001	MERCHADISE CLASS A	100 UNITS	50	70
002	MERCHANDISE CLASS C	200 UNITS	100	120
003	MERCHANDISE CLASS B	300 UNITS	150	170
TOTAL: 3 BOXES		600 UNITS	300	360
MARKS: NO MARKS				
PACKING: 3 PALLETS				
METHOD OF DISPATCHED: SEA				
INVOICE No: 001-002-000000XXXX				

Source: ProEcuador.

Translated by: Novillo, Silva

The carrier enterprise will issue the transportation document stating that the merchandise has been shipped in the current condition. The carrier assumes all the responsibility for the shipment and custody of it to the destination point according to the agree conditions between the parties. Depending on the means of transport used, a Bill of Lading (B/L Bill) will be issue if the transportation is by sea, Waybill if it is terrestrial, Rail Road Bill of Lading when transporting by rail and Air Waybill by air traffic. The terms of these documents must be the same as those of the bill of credit or the agreed way of payment (ProMéxico, 2015).

After the shipment stage, it is time to regularize the CED at SENAE and obtain the definite CED through an electronic registration that ends the process for definitive exportation. For the CED to obtain the identification of “regularized”, there is a period of 30 days after doing the shipment. (ProEcuador, 2017). In order to carry out the documental process for exportation, the hiring of a forwarding agent is optional, according to the 0140 SENAE Resolution, the minimum fee that the forwarding agent will receive for processing any export regime will be set by mutual agreement between the parties.

Once the merchandise arrives to its destination, customs clearance is carried out in accordance with the EU legislation. Depending on the incoterm used, this process will be carried out by the exporter or the importer. For example, if it was negotiated under the DDP term, it will be the seller who is responsible for assuming the costs of customs clearance of the merchandise. The territory of the EU is a single customs territory, this means, there are no tariff barriers between member countries and a common tariff is applied to the imported products. After customs duties are paid at the first customs control point, foreign product will be able to move freely in the territory without any subsequent customs control²³.

A very important aspect in every foreign trade transaction is the destination of the products that enters and leaves the country under a customs regime, which for each of them must comply with different formalities according to the objective that will receive and its way of exporting and importing. Thus, customs regimes in Ecuador are a set of operations related to a specific customs destination according to the declaration presented by the exporter or importer. The customs regimes in Ecuador are regulated by the Organic Code of Production, Trade and Investment (COPCI in Spanish) and the Regulation to its V Book. Illustration 25 presents the classification of these regimes.

For the exportation of toquilla straw hats, the merchandise has to be done into the regime⁴⁰ of definitive exportation since this regimen allows the definite exit from the Ecuadorian territory or from a ZEDE. The departure of the declared merchandise must be

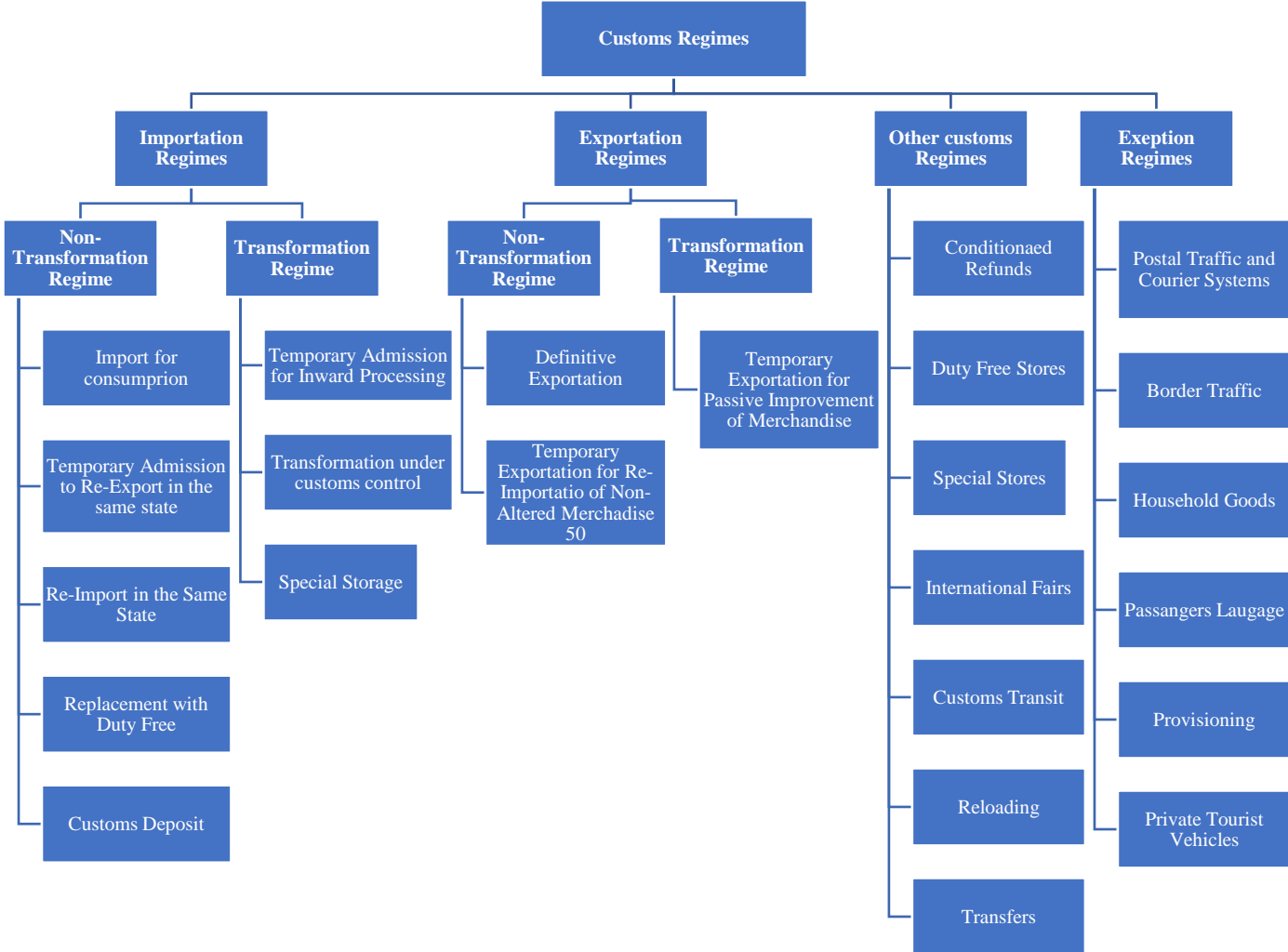
²³ Source:

https://trade.ec.europa.eu/tradehelp/es/myexport#?product=6504000000&partner=EC&reporter=IT#EU_EnvironmentProtection%23Introduction&tab=100

within 30 days after the CED has been accepted, and only the merchandise that are cover in the CED duly presented to the customs authority may be exported (Regulation to the V Book of the Organic Code of Production, Commerce and Investments, 2013).

Another regime that will be used for the exportation is the regimen of fast courier which is an exception regime in which documents and merchandises can be dispatched with the simplification of the customs formalities. The carrier of the merchandise or products will be carried out by a public or private operator authorized by customs, and the company that carries out this activity will have the same responsibilities and obligations as a customs forwarding regarding the process of filling the CED. About customs control, it will be exercised on the international postal shipments (Regulation to the V Book of the Organic Code of Production, Commerce and Investments, 2013)

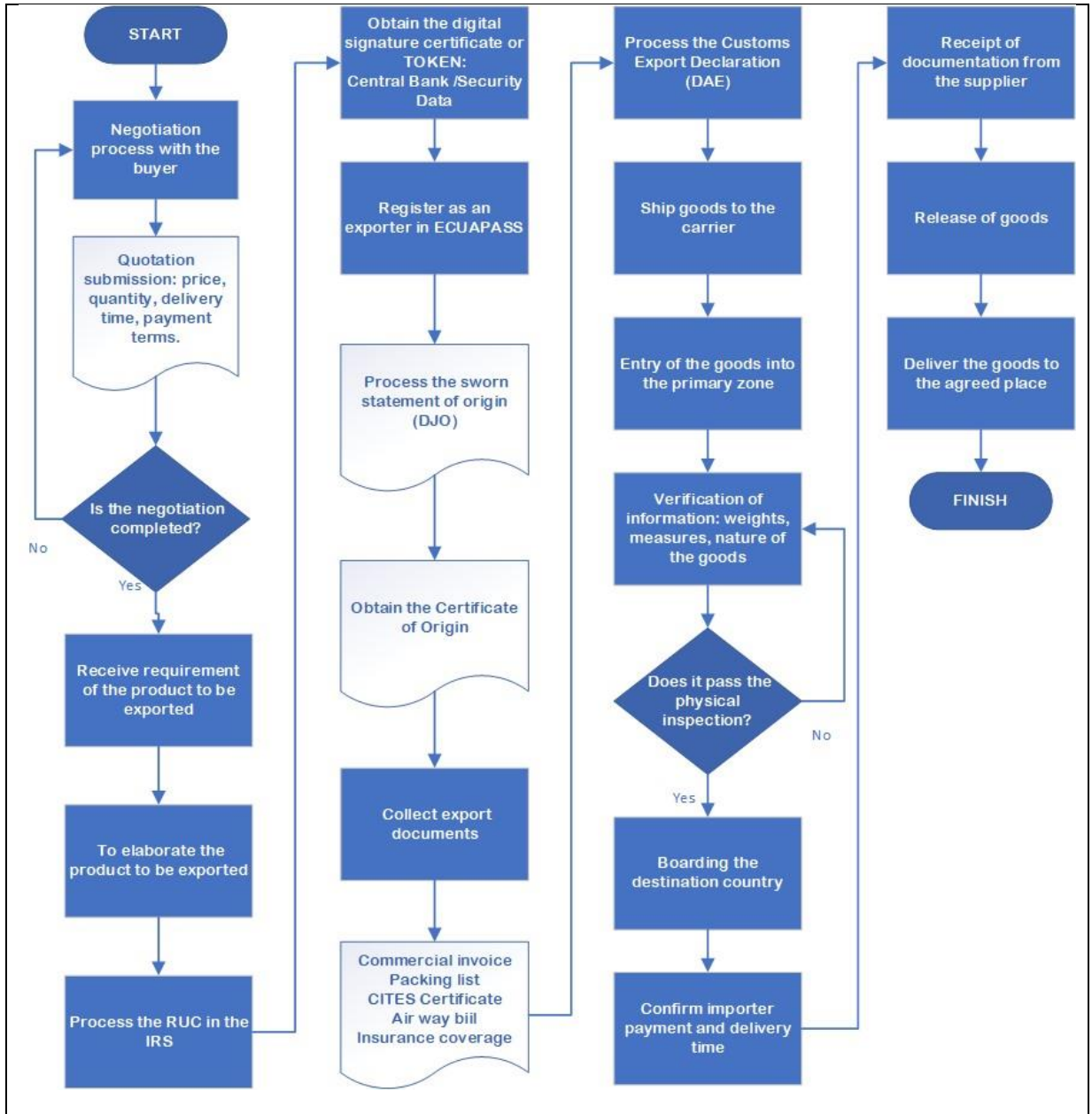
Illustration 25 Customs regimes according to the regulations in force



Made by: Novillo, Silva
Source: COPCI

3.1.3.6. Export process flowchart

Illustration 26 Export process flowchart



Made by: Novillo, Silva.

3.1.4. Financial area

The finance area in a company is responsible for making three important decisions: investment or capital budgeting, which consists of allocating the necessary resources to projects; financing, which determines the most convenient channels for the company to

gather the required amount; and the dividend decision, which includes issues such as the percentage of profits paid to shareholders. Depending on the financial condition of the business, its competitive position can be determined. (David, 2013)

By knowing data such as the company's level of debt, working capital, profitability, cash flow and funds, strategies can be effectively formulated. This section shows numerically all the costs associated with the internationalization plan, as well as the evaluation of the project's profitability.

3.1.4.1. Statement of financial position

The Statement of Financial Position is an accounting tool that shows the resources available to the company or entity, showing its available assets and its internal or external sources of financing at a given date. With its analysis, the economic situation of the company, its liquidity and profitability can be determined (Sources, 2017).

The Padre Rafael González Cooperative handles its accounting through the Biblián GAD and its accountant in charge is Mr. Juan Carlos Guamán, who has specified that the cooperative did not keep technical accounting before 2019 because the member craftswomen, due to their social situation, do not have financial knowledge. Therefore, the information presented below corresponds to the two semesters of the year 2019 and at present we have more financial information

Table 16 Statement of financial position - First half 2019

COOPERATIVA DE PRODUCCION ARTESANAL PADRE RAFAEL GONZALEZ					
ESTADO DE SITUACION FINANCIERA AL 15 DE JUNIO DE 2019					
ACTIVO			PASIVO		
ACTIVO CIRCULANTE			PASIVO A CORTO PLAZO		
CAJA		0	CUENTAS POR PAGAR		1768.95
BANCOS		986.08	PASIVO A LARGO PLAZO		
INVENTARIOS		38400	PRESTAMO BANCARIO		13610
CUENTAS POR COBRAR		1341.1	TOTAL PASIVO		
TOTAL ACTIVO CIRCULANTE		40727.18	PATRIMONIO		27848.23
ACTIVO FIJO			UTILIDAD DEL EJERCICIO		9926.28
MUEBLES Y ENSERES		2500	PATRIMONIO NETO		
TOTAL ACTIVO FIJO		2500	TOTAL PASIVO + PATRIMONIO		43227.18
TOTAL DE ACTIVO			43227.18		

_____ ING. JUAN CARLOS GUAMAN GUZMAN CONTADOR	_____ SRA. ZOILA CHIMBORAZO GERENTE
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Made by: Guamán, Carlos

Table 17 Statement of Financial Position-Second Half of 2019

COOPERATIVA DE PRODUCCIÓN ARTESANAL PADRE RAFAEL GONZALEZ			
ESTADO DE SITUACIÓN FINANCIERA			
DEL 16 DE JUNIO AL 30 DE OCTUBRE DE 2019			
ACTIVO			
CIRCULANTE			
DISPONIBLE			
CAJA		228.75	
BANCOS		1032.38	
EXIGIBLE			1261.13
CUENTAS POR COBRAR		7112.72	
IMPUESTO A LA RENTA ACREDITABLE		8.06	
REALIZABLE			7120.78
INVENTARIOS			30000
FIJO			
MUEBLES Y ENSERES			2500
TOTAL ACTIVO			40881.91
MENOS			
PASIVO			
CUENTAS POR PAGAR CORTO PLAZO		360	
CUENTAS POR PAGAR LARGO PLAZO		11751.58	
TOTAL PASIVO			12111.58
PATRIMONIO			
UTILIDAD DEL EJERCICIO		1050.88	
UTILIDAD EJERCICIOS ANTERIORES		25219.45	
CAPITAL SOCIAL		2500	
TOTAL PATRIMONIO			28770.33

Made by: Guamán, Carlos

Financially, it is necessary for companies, entities or institutions to maintain an order and transparency in their daily operations in order to be able to analyze their liquidity and profitability statements at the end of the accounting period in greater depth. In the case of Father Rafael Gonzalez Cooperative, since it does not have much information about economic movements, nor does it have real information about its inventories or production costs; it is not possible to give a true analysis of what its current situation is. However, it is necessary that within the items presented in the statements such as: furniture and fixtures, assets, inventories, it is specified to which these accounting items correspond and how they have been handled, in order to be able to analyze if there is a profit or loss during the accounting period.

In addition, it would be important to include in the Statement of Financial Position items relating to the support received by the cooperative from the GAD of Biblián and Fons Valencia, as well as the value of its machinery and other assets that are available for their respective valuation, depreciation and amortization.

3.1.4.1. Statement of comprehensive income

"The Income Statement is a financial statement that presents the operations of an entity during an accounting period, by appropriately matching its revenues with relative costs and expenses, to determine net profit or loss, as well as comprehensive income for the year" (Digital Communities for Higher Education Learning, 2018). The following are the Income Statements of the Father Rafael González Cooperative for the two semesters of the year 2019

Table 18 Statement of comprehensive income-first semester 2019

ESTADO DE RESULTADOS						
DEL 01 DE ENERO DEL 2018 AL 15 DE JUNIO DEL 2019						
INGRESOS						66232.69
VENTAS TIENDA					29823.69	
EXPORTACIONES					36409	
COSTO DE PRODUCTOS VENDIDOS						44643.29
UTILIDAD EN OPERACIÓN						21589.4
GASTOS DE VENTAS						
VIATICOS PARA FERIAS					1237.46	
ATENCION EN LA TIENDA					3400	
MATERILES DE ASEO PARA TIENDA					146.48	
TOTAL GASTO DE VENTA						4783.94
GASTOS ADMINISTRATIVOS						
GASTOS DE OFICINA					491.58	
GASTOS VARIOS					7707.6	
TOTAL GASTOS ADMINISTRATIVOS						8199.18
UTILIDAD NETA OPERACIONAL						8606.28
INGRESOS NO OPEARCIONALES						
APORTES SOCIOS					1320	
TOTAL INGRESOS NO OPEARCIONALES						1320
UTILIDAD DEL EJERCICIO						9926.28

<hr/> ING. JUAN CARLOS GUAMAN GUZMAN CONTADOR	<hr/> SRA. ZOILA CHIMBORAZO GERENTE
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Made by: Guamán, Carlos

Table 19 Statement of comprehensive income-second semester 2019

COOPERATIVA DE PRODUCCIÓN ARTESANAL PADRE RAFAEL GONZALEZ						
ESTADO DE RESULTADOS						
DEL 16 DE JUNIO DEL 2019 AL 30 DE OCTUBRE DEL 2019						
INGRESOS						22273.39
VENTAS TIENDA					19356.39	
VENTAS DE LA PAJA					2917	
COSTO DE PRODUCTOS VENDIDOS						18153
UTILIDAD EN OPERACIÓN						4120.39
GASTOS DE VENTAS						
VIATICOS PARA FERIAS					590	
ATENCION EN LA TIENDA					800	
MATERILES DE ASEO PARA TIENDA					51.32	
TOTAL GASTO DE VENTA						1441.32
GASTOS ADMINISTRATIVOS						
GASTOS DE OFICINA					9.95	
GASTOS VARIOS					797.29	
GASTOS FINANCIERO					937.65	
TOTAL GASTOS ADMINISTRATIVOS						1744.89
UTILIDAD NETA OPERACIONAL						934.18
INGRESOS NO OPEARCIONALES						
OTROS INGRESOS					116.7	
TOTAL INGRESOS NO OPEARCIONALES						116.7
UTILIDAD DEL EJERCICIO						1050.88

<hr/> ING. JUAN CARLOS GUAMAN GUZMAN CONTADOR	<hr/> SRA. ZOILA CHIMBORAZO GERENTE
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Made by: Guamán, Carlos

As mentioned before, a daily accountability must be carried out with the objective of analyzing if there exist any flaw within the financial movements. It is necessary that the Cooperative Padre Rafael González keep a daily book of their cash movements inside the store with the invoices of expenses and the real state of the bank account availability. With this the cooperative will be able to improve its financial statements and begin a self-sustaining projection in the short term.

3.1.4.2. Cash flow

Table 20 Cash Flow Chart

Detail	Base Year	Tentative projection				
	2019	2020	2021	2022	2023	2024
i. Operational income	\$ 88.506,08	\$90.276,20	\$ 92.533,11	\$ 95.309,10	\$ 98.644,92	\$ 102.590,72
Store sales	\$ 49.180,08	\$50.163,68	\$ 51.417,77	\$ 52.960,31	\$ 54.813,92	\$ 57.006,47
Export sales	\$ 36.409,00	\$37.137,18	\$ 38.065,61	\$ 39.207,58	\$ 40.579,84	\$ 42.203,04
Straw sales	\$ 2.917,00	\$ 2.975,34	\$ 3.049,72	\$ 3.141,22	\$ 3.251,16	\$ 3.381,20
ii. Operating expenses	\$ 78.965,62	\$80.544,93	\$ 82.558,56	\$ 85.035,31	\$ 88.011,55	\$ 91.532,01
Production Costs Sold	\$ 62.796,29	\$64.052,22	\$ 65.653,52	\$ 67.623,13	\$ 69.989,94	\$ 72.789,53
Administrative Expenses	\$ 9.944,07	\$10.142,95	\$ 10.396,53	\$ 10.708,42	\$ 11.083,22	\$ 11.526,54
Sales expenses	\$ 6.225,26	\$ 6.349,77	\$ 6.508,51	\$ 6.703,76	\$ 6.938,40	\$ 7.215,93
Operational flow (i-ii)	\$ 9.540,46	\$ 9.731,27	\$ 9.974,55	\$ 10.273,79	\$ 10.633,37	\$ 11.058,70
iii. Non-operating income	\$ -17.430,00	-	-	-	-	-
Shareholders' contribution	\$ -3.820,00	-	-	-	-	-
Loans	\$ -13.610,00	-	-	-	-	-
iv. Non-operating expenses	\$ -30.361,58	-	-	-	-	-
Fixed Assets Investments	\$ -5.000,00	-	-	-	-	-
Investments Deferred Assets	\$ -25.361,58	-	-	-	-	-
Cash flow	\$ -38.251,12	\$ 9.731,27	\$ 9.974,55	\$ 10.273,79	\$ 10.633,37	\$ 11.058,70

Made by: Novillo, Silva
Taken from: Padre Rafael Gonzalez Cooperative

The cash flow works as a financial tool that allows to see the financial liquidity that the company will have in a predetermined horizon. Because, there is not enough accounting information, this flow is expected an annual growth of the 0,05% in the best conditions inside and outside the enterprise.

3.1.4.3. Costs and expenses of the comprehensive export plan

In order to confirm whether the export plan will be viable in the medium term, it is necessary to make an economic and financial analysis of all the costs and expenses involved in these operations. To this end, data based on assumptions of fixed and variable costs necessary for the export activities will be presented.

Table 21 Costs and expenses of the comprehensive export plan

COSTS AND EXPENSES OF THE INTEGRAL EXPORT PLAN			
Detail	Anual Values	Unforeseen Costs (*10%)	Total
Variables			
Direct Production	\$23.506,08	\$2.350,61	\$25.856,69
Indirect Production	\$194,80	\$19,48	\$214,28
Sales and exportation	\$5.078,93	\$507,89	\$5.586,82
Internal Logistics	\$3.576,00	\$357,60	\$3.933,60
International logistics	\$10.989,79	\$1.098,98	\$12.088,77
Fijos			
Administrative expenses	\$18.941,40	\$1.894,14	\$20.835,54
Maketing expenses	\$367,20	\$36,72	\$403,92
Total	\$62.654,20	\$6.265,42	\$68.919,62

Made by: Novillo, Silva

The different fixed and variable costs are explained in detail in each of the following items.

3.1.4.3.1. Variables

These costs are those that vary according to the activities carried out by the company, generally derived from the costs per unit produced over a period of time. If these costs are greater

than the fixed costs, the company will not have significant losses. Several of these costs are for raw materials, packing and packaging, labor, sales commissions, among others.

3.1.4.3.1.1. Production

Those who are linked to the production of toquilla straw hats from the purchase of raw materials until the product is ready for final sale.

3.1.4.3.1.1.1. Direct

Table 22 Direct production cost

DIRECT PRODUCTION COSTS													
	January	February	March	April	May	June	July	August	September	October	November	December	Total
Raw straw	\$ 405	\$ 415	\$ 420	\$ 405	\$ 415	\$ 420	\$ 405	\$ 415	\$ 420	\$ 405	\$ 415	\$ 420	\$ 4960
Ecrú hat	\$ 1122,5	\$ 1095	\$ 1810	\$ 1122,5	\$ 1095	\$ 1810	\$ 1810	\$ 1095	\$ 1122,5	\$ 1810	\$ 1095	\$ 1122,5	\$ 16110
Chemicals	\$ 14	\$ 12	\$ 14	\$ 12	\$ 14	\$ 12	\$ 14	\$ 12	\$ 14	\$ 12	\$ 14	\$ 12	\$ 156
Processing	\$ 114,75	\$ 115,25	\$ 114,75	\$ 115,25	\$ 114,75	\$ 115,25	\$ 114,75	\$ 115,25	\$ 114,75	\$ 115,25	\$ 114,75	\$ 115,25	\$ 1380
Maintenance	\$ 83,34	\$ 83,34	\$ 83,34	\$ 83,34	\$ 83,34	\$ 83,34	\$ 83,34	\$ 83,34	\$ 83,34	\$ 83,34	\$ 83,34	\$ 83,34	\$ 1000,08
Total	\$1739,59	\$1720,59	\$2442,09	\$1738,09	\$1722,09	\$2440,59	\$2427,09	\$ 1720,59	\$ 1754,59	\$2425,59	\$ 1722,09	\$ 1753,09	\$ 23606,08

Made by: Novillo, Silva

The costs of raw hats are divided in four price categories from \$7.50 to \$10.50 assuming that between the months of the year the quantities of hats are purchased in a varied way according to their prices and with the possibility that in some months can be sell more than others.

The chemical values correspond to values given in interviews by the artisans who stated that the processed chemicals were purchased per month and that an average of \$12 to \$ 14 per month will be spent for all the hats, making the cost per unit variable between \$ 0.14 and \$ 0.12, assuming that a base of 100 hats is produced monthly, these may vary between 80 to 120 hats.

The processed value refers to the labor invested in the elaboration of toquilla straw hats, this work is carried out by the artisans of the cooperative and they are generally paid significantly for these tasks, ranging from \$ 12 to \$ 15 depending on the fineness of the weaving; which is awarded per dozens of elaborate hats, this according to interviews made to the artisans in previous months.

The maintenance fee refers to the reparation that must be done to the cooperative's machines every six months, which, despite not being included in the financial statements, should not exceed \$500 every six months for the total machinery and equipment that this company owns.

3.1.4.3.1.1.2. Indirect

Table 23 Indirect production costs

INDIRECT PRODUCTION COSTS													
Detail	January	February	March	April	May	June	July	August	September	October	November	December	Total
Packing*20	\$ 5,5	\$ 5,75	\$ 5,5	\$ 5,75	\$ 5,5	\$ 5,75	\$ 5,5	\$ 5,75	\$ 5,5	\$ 5,75	\$ 5,5	\$ 5,75	\$ 67,5
Wrap	\$ 2,4	\$ 2,4	\$ 2,4	\$ 2,4	\$ 2,4	\$ 2,4	\$ 2,4	\$ 2,4	\$ 2,4	\$ 2,4	\$ 2,4	\$ 2,4	\$ 28,8
Labelled	\$ 8	\$ 6	\$ 8	\$ 6	\$ 8	\$ 6	\$ 8	\$ 6	\$ 8	\$ 6	\$ 8	\$ 6	\$ 84
Municipal patent	\$ 14,5	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 14,5
Total	\$ 30,4	\$ 14,15	\$ 15,9	\$14,15	\$ 15,9	\$ 14,15	\$ 15,9	14,15	\$ 15,9	\$ 14,15	\$ 15,9	\$ 14,15	\$ 194,8

Made by: Novillo, Silva

In the packaging section, the values refer to boxes of product for exportation. In every box 20 hats are stacked in, assuming that the export boxes have a wholesale cost of \$ 2.75; already with image design, a referential calculation is made in which an average of 30% to 40% of monthly production is exported, in the best commercial event; that is, between 30 to 40 hats.

The packaging part refers to the wrapping of the box with either packing tape or stretch plastic, it is estimated that approximately 5 large size rolls are needed for 30 boxes, which would serve to complete the year of exportation. The cost per roll of plastic is \$ 5.75 per unit.

The labeling section will cover the costs of marking export products, as it is speculated that only 30% or 40% of production will be exported, it is considered that only the items of this be included in the export cost plan, on understanding that they may vary according to the units sold. It is estimated that the value per label will not exceed \$ 0.20 including labor.

The municipal patent is a permission granted to the company to be able to sell the products and that guarantees that no other entity will be able to sell them under the same trade name or brand, this patent has an approximate cost of \$ 14.50 per year.

3.1.4.3.1.2. Sales and export expenses

The Cooperative Padre Rafael Gonzalez has within its financial statements sales expenses, either for expenses in the store or travel expenses for the fairs, understood by these items as commissions for sales, mobilization, stand assembly, among others. Generally speaking, these are the most important and significant items, as they represent an important channel of income and positioning for the Bibilak brand.

Table 24 Sales and Export Expenses

SALES AND EXPORTS EXPENSES			
Detail	Annual Values	Unforeseen Costs 3%	Total
Travel expenses for fairs	\$ 1.800	54	\$ 1.854
Sales commissions at fairs	\$ 250	7,5	\$ 257,5
Commissions sale in the store	\$ 500	15	\$ 515
Broker	\$ 2.316	69,48	\$ 2.385,48
Token	\$ 65	1,95	\$ 66,95
Total	\$ 4.931	147,93	\$ 5.078,93

Made by: Novillo, Silva

3.1.4.3.1.3. Logistics

3.1.4.3.1.3.1. Internal

Table 25 Internal Logistics Costs

INTERNAL LOGISTICS COSTS			
Detail	Annual Values	Unforeseen Costs *20%	Total
Stock e inventarios	\$ 2.500	500	\$ 3000
Transporte y distribución	\$ 280	56	\$ 336
Desperdicios	\$ 200	40	\$ 240
Total	\$ 2.980	596	\$ 3576

Made by: Novillo, Silva

The value of costs for stock and inventories refers to the expenses that will be held in the warehouse, either for the raw material or for the processed product. The cooperative manages warehouses for these items at the collection center, so the cost of the inventories translates into the value of the products in relation to the cost per lease of the warehouse.

The cost of transportation and distribution refers to the internal transportation from Biblián to Guayaquil, to send the boxes of toquilla hats abroad, either to the European Union or another country. By a quotation made in several national transport companies such as Jetro, TransSierra, among others, it was detected that the shipment of the boxes would have an average cost of \$4.75 to \$6. Therefore, in costs the transport with the

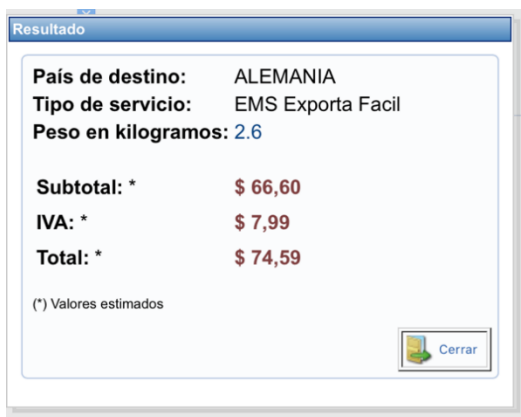
expressed export assumption, should not be invested more than \$280 per year, this value is an approximation, however, if exports increase, this value will do it equal.

The item of waste refers to the amount of raw material or products that are not used or do not meet the international quality standards required to enter the European market. Based on the premise that the artisans of the Padre Rafael González Cooperative have received constant training in production and quality control from experts at the University of Azuay and Fons Valencia, then we can assume that production waste will not exceed 10% of the total production, so the values are reflected in the table.

3.1.4.3.1.3.2. Internacional

In order to analyze the costs of international logistics, it was taken into account that hat box exports, since they are not in large volume, could be carried out under the accelerated courier regime with companies such as DHL or Correos del Ecuador. For this research work, a quote was taken from the national company Correos del Ecuador under its Exporta Fácil program, designed for SMEs. The following images show two types of services: Certificate and EMS. In this case, due to the nature of the product, the standard EMS service will be used, which has the same shipping cost to all European Union countries, depending on the weight of the shipment.

Photograph 6 *Easy Export Program EMS model*



Taken from: Correos del Ecuador

Photograph 7 Certificate- Easy Export Program



Taken from: Correos del Ecuador

Therefore, with this information it was possible to elaborate a table with assumed costs of the international logistics, emphasizing the shipping costs, the costs are calculated under a premise of minimum exports.

Table 26 International logistics costs

INTERNATIONAL LOGISTICS COSTS				
Detail	Unit Value	Annual Values	Unforeseen Costs *20%	Total
Box weight 2,6 kg	\$74,59	\$1.790,16	\$358,03	\$2.148,19
Freight	\$100,00	\$2.400,00	\$480,00	\$2.880,00
Broker	\$193,00	\$4.632,00	\$926,40	\$5.558,40
Internal Transportation	\$14,00	\$336,00	\$67,20	\$403,20
FOB cost before profit		\$9.158,16	\$1.831,63	\$10.989,79

Elaborado por: Novillo, Silva

The item of weight per box of 2.6 kg was calculated based on the packaging given above with dimensions of the boxes of 0.75mx0.75mx1.5m stacking 20 hats per box. Additionally, a base freight of \$100 USD has been calculated for each shipment and under

the premise of sending two boxes per month, the calculations established in table 9 are made.

The value of Customs Agent and internal transport is calculated for each foreign trade transaction and these values represent those that would be present in quotations or commercial invoices in FOB type negotiations.

3.1.4.3.2. Fixed

Fixed costs are those that are maintained over time regardless of the level of production or sales, for example, workers' salaries, the internet that pays the same each month, among others. For this work of titling it has been decided to divide the fixed costs in administrative and marketing, understanding that the values imposed are based on assumptions and do not constitute the present reality of the Cooperative Father Rafael Gonzalez.

3.1.4.3.2.1. Administrative

Table 27 *Fixed administrative expenses*

FIXED ADMINISTRATIVE EXPENSES			
Detail	Anual Values	Unforeseen Costs 2%	Total
Office materials	\$ 80	1,6	\$ 81,6
Cleaning materials	\$ 250	5	\$ 255
Office Equipment and Furniture	\$ 1.200	24	\$ 1.224
Basic Services	\$ 600	12	\$ 612
Internet	\$ 240	4,8	\$ 244,8
Administrative Salaries (*3)	\$ 16.200	324	\$ 16524
Total	\$ 18.570	371,4	\$ 18941,4

Made by: Novillo, Silva

The expenses for office materials are based on the assumption that the cooperative needs basic materials such as pens, highlighters, accounting books and sheets of paper;

both for the shop and for the factory, in order to carry out internal activities in a more organized manner. No more than \$80 per year will be needed to get started.

The cleaning supplies will serve to maintain the quality, order and cleanliness necessary to comply with the Japanese 5s. Because the collection center comprises large areas and the store is kept in constant cleanliness, it is believed that the annual cleaning cost should not exceed \$250 USD.

Since it is expected that the cooperative will be able to become independent and start its activities independently, it will need basic equipment to carry out its administration such as: computers, desks, chairs, among others. It is understood that this is a heavy expense at the beginning but that it will last for 3 to 5 years depending on maintenance.

The salary item is to cover the general manager, an accounting technician and a sales and export technician, assuming they earn a salary not exceeding \$420 per month.

3.1.4.3.2.2. Marketing

Marketing expenses refer within this plan to the expenses that will be incurred to promote the Bibilak brand within the digital market, e-commerce. To do this, it will be necessary to improve the web page that is already in place and to enable online payments in order to increase sales. Additionally, in order to position the brand at a national and international level, it is necessary to carry out a strong campaign on social networks showing the social side of the cooperative.

Table 28 *Fixed marketing costs*

FIXED MARKETING COSTS			
Detail	Annual Values	Unforeseen Costs 2%	Total
Web Page	\$ 120	2,4	\$ 122,4
Social Networks	\$ 240	4,8	\$ 244,8
Total	\$ 360	7,2	\$ 367,2

Made by: Novillo, Silva

3.1.4.4. Costs projection

From the concept that money loses value over time and inflationary rates directly influence the costs of production, sales and exports. That is why through a projection to 5 years it will be possible to analyze from the financial and accounting point of view how the Cooperative will develop in a certain future; with this we can foresee possible profits or losses of the plan. For the calculation of the projections, the inflation for January 2020 will be taken as a reference point, which according to data from the INEC was 0,23%²⁴, and it is also assumed that this percentage is constant over time.

Additionally, to calculate the income of the labor force, the maximum amount that an artisan can produce in a week was considered, which are 4 raw hats, which are sold at a price of \$10.50, therefore, the annual result of direct labor per artisan is \$ 2,016.00.

²⁴ Taken from: https://www.ecuadorencifras.gob.ec/documentos/web-inec/Inflacion/2020/Enero-2020/Boletin_tecnico_01-2020-IPC.pdf

Table 29 Projection of production costs: direct and indirect

Detail	Year 1	Year 2	Year 3	Year 4	Year 5
DIRECT COSTS					
Raw Material	\$ 23.506,08	\$ 23.560,14	\$ 23.614,33	\$ 23.668,65	\$ 23.723,08
Direct labor	\$ 2.016,00	\$ 2.020,64	\$ 2.025,28	\$ 2.029,94	\$ 2.034,61
Packaging	\$ 180,30	\$ 180,71	\$ 181,13	\$ 181,55	\$ 181,96
Services	\$ 600,00	\$ 601,38	\$ 602,76	\$ 604,15	\$ 605,54
Sub-total	\$ 26.302,38	\$ 26.362,88	\$ 26.423,51	\$ 26.484,28	\$ 26.545,20
INDIRECT COSTS					
Maintenance	\$ 1.000,08	\$ 1.002,38	\$ 1.004,69	\$ 1.007,00	\$ 1.009,31
Marketing Costs	\$ 367,20	\$ 368,04	\$ 368,89	\$ 369,74	\$ 370,59
Administrative salaries	\$ 16.200,00	\$ 16.237,26	\$ 16.274,61	\$ 16.312,04	\$ 16.349,55
Administrative Costs	\$ 1.770,00	\$ 1.774,07	\$ 1.778,15	\$ 1.782,24	\$ 1.786,34
Taxes and patent	\$ 14,50	\$ 14,53	\$ 14,57	\$ 14,60	\$ 14,63
Sub-total	\$ 18.351,70	\$ 18.393,91	\$ 18.436,21	\$ 18.478,62	\$ 18.521,12
TOTAL COSTS DIRECT AND INDIRECT	\$ 44.654,08	\$ 44.756,78	\$ 44.859,72	\$ 44.962,90	\$ 45.066,32

Made by: Novillo, Silva.

Table 30 Projection of Costs and Expenses of the International Export Plan

Detail	Year 1	Year 2	Year 3	Year 4	Year 5
FIXED COSTS					
Administrative expenses	\$ 18.941,40	\$ 18.984,97	\$ 19.028,63	\$ 19.072,40	\$ 19.116,26
Marketing expenses	\$ 367,20	\$ 368,04	\$ 368,89	\$ 369,74	\$ 370,59
Sub-total	\$ 19.308,60	\$ 19.353,01	\$ 19.397,52	\$ 19.442,14	\$ 19.486,85
VARIABLE COSTS					
Direct production	\$ 23.506,08	\$ 23.560,14	\$ 23.614,33	\$ 23.668,65	\$ 23.723,08
Indirect production	\$ 194,80	\$ 195,25	\$ 195,70	\$ 196,15	\$ 196,60
Sales and export	\$ 5.078,93	\$ 5.090,61	\$ 5.102,32	\$ 5.114,06	\$ 5.125,82
Internal logistics	\$ 3.576,00	\$ 3.584,22	\$ 3.592,47	\$ 3.600,73	\$ 3.609,01
International logistics	\$ 10.989,79	\$ 11.015,07	\$ 11.040,40	\$ 11.065,80	\$ 11.091,25
Sub-total	\$ 43.345,60	\$ 43.445,30	\$ 43.545,22	\$ 43.645,38	\$ 43.745,76
TOTAL FIXED AND VARIABLE COSTS	\$ 62.654,20	\$ 62.798,31	\$ 62.942,74	\$ 63.087,51	\$ 63.232,61

Made by: Novillo, Silva.

3.1.4.5. Sales projection

To estimate the amount of sales that the Cooperative will have in a five-year period, we will start with the analysis of already existing data according to the 2019 records. The projection of sales will be expressed both in monetary terms and in units, for the projection of units, we will work under the assumption that the Cooperative will export 1,200 hats per quarter, which is the exact amount of time it takes for the artisans to produce that quantity, therefore, 4,800 hats would be exported annually.

To calculate the percentage of variation it is necessary to examine how the international market has been behaving in the last 6 years, that is why based on the Trademap data from 2013 to 2018 the variation of exports from Ecuador to the ten main markets that export the toquilla straw hat was calculated taking as a base the year 2013, in this way it can be seen in table 28 that in 2015 and 2017 were the years that mostly decreased the export of hats.

Table 31 Percentage change in exports of toquilla straw hats to main destination markets, period 2013-2018

Importers	2013	2014	2015	2016	2017	2018	Average variation
United States of America	100,00%	43,92%	15,48%	-1,57%	-54,54%	71,79%	15,02%
Germany	100,00%	68,09%	-13,21%	5,75%	34,97%	-15,64%	15,99%
France	100,00%	18,07%	-15,82%	5,11%	-13,90%	1,02%	-1,10%
Spain	100,00%	51,06%	-17,84%	24,19%	-9,51%	15,93%	12,77%
Japan	100,00%	21,75%	43,74%	19,50%	-49,61%	-30,84%	0,91%
Panama	100,00%	17,56%	-48,86%	-6,44%	46,56%	37,91%	9,35%
United Kingdom	100,00%	171,15%	60,05%	-22,30%	-17,87%	-14,35%	35,33%
Thailand	100,00%	35,32%	4,07%	-41,37%	-33,89%	147,06%	22,24%
Australia	100,00%	65,98%	34,16%	-7,41%	-20,50%	35,85%	21,62%
China	100,00%	-	-7,69%	-12,50%	257,14%	97,33%	83,57%

Made by: Novillo, Silva.
Source: Trademap.

Taking Spain as a reference market, it can be seen that exports during that period had a variation of 12.77% considering the reduction of exports in the year 2015 and 2017, however, this is a positive rate that means the constant purchase of this product by European countries. Then, to build the projection of international sales, an annual increase of 12% will be considered under the assumption that this percentage will remain constant throughout the five years, while for the projection of local sales will be considered the percentage of inflation to January 2020 mentioned above.

Table 32 Projection of international sales per units

Detail	Year 1	Year 2	Year 3	Year 4	Year 5
Volume of exported toquilla straw hats	\$ 4.800	\$ 5.376	\$ 6.021	\$ 6.744	\$ 7.553

Made by: Novillo, Silva.

Table 33 Projection of local and international sales in monetary values

Detail	Year 1	Year 2	Year 3	Year 4	Year 5
LOCAL SALES INCOME					
Store sales	\$ 49.180,08	\$ 49.293,19	\$ 49.406,57	\$ 49.520,20	\$ 49.634,10
Straw sales	\$ 2.917,00	\$ 2.923,71	\$ 2.930,43	\$ 2.937,17	\$ 2.943,93
Sub-total	\$ 52.097,08	\$ 52.216,90	\$ 52.337,00	\$ 52.457,38	\$ 52.578,03
INCOME FROM INTERNATIONAL SALES					
Export sales	\$ 36.409,00	\$ 40.778,08	\$ 45.671,45	\$ 51.152,02	\$ 57.290,27
TOTAL SALES	\$ 88.506,08	\$ 92.994,98	\$ 98.008,45	\$103.609,40	\$109.868,30

Made by: Novillo, Silva.

3.1.4.1. Project financing

The current internationalization plan can obtain funds from several sources, first it is the support from the Municipal GAD, second, there is the international support agreement with Fons Valencia, and thirdly there is the financing with a bank. The first two options are a great help for the craftswomen to acquire experience and knowledge of the market at the beginning, however, a point will be reached where the Cooperative becomes financially profitable and can be self-sustaining.

The third option is to opt for a credit in a public or private entity according to the needs of the project. For example, the National Finance Corporation (NFC) provides financing from \$ 50,000 to \$ 25 million, some of the requirements to access this type of credit is to present the balance sheets, statement of comprehensive income, projected cash flow, investment plan, financing schemes, prices, costs and other documentation. The interest rate imposed by the NFC varies according to the segment of the credit, in this case, being an SME, the rate would be around 8.25%. (Zapata Mora, 2018)

Another example is the loans offered by Produbanco's Minority Banking for entrepreneurs or SMEs and adapted to their needs. The same bank provides immediate assessment, advises and structures the financing plan to provide solutions in regards to the amounts, terms and conditions of payment. Among the requirements to access a loan in this entity, is to have a solid legal structure, updated data from the RUC and not to owe the SRI; the time of cancellation can be up to 18 months for businesses, or up to 5 years in the purchase of fixed assets (Zapata Mora, 2018).

When acquiring external financing, it is necessary to take into account the ways in which the debt will be covered considering a supposed payment term of five years. The first way is the payment of capital and interest at the end of the five years using the future value formula " $F=C(1+i)^n$ ", where n represents the number of periods required to repay the loan. The second way is to pay the interest at the end of each year and all the capital at the end of the fifth year. The third way to cover a loan is to pay equal amounts at the end of each year for all five years. The fourth way is by paying the interest and a proportionate share of the amount, for example, may be 20%, at the end of each year for the five years. (Baca Urbina, 2010)

In applying the described in previous paragraphs to the case of the Padre Rafael Gonzalez Cooperative and assuming that it is desired to obtain funds through a bank loan to cover the amount of \$ 68,919.62 that it costs to carry out the comprehensive export plan, the data to be used for this case are a reference interest rate²⁵ of 9.19% and a payment period of five years. Considering the first form of payment by future value, we would have the following

$$F=C(1+i)^n$$

$$F= \$ 68.919,62*(1+0,0919)^5$$

$$F= \$ 106.968,82$$

The Cooperative would have to pay at the end of the five years a total amount of \$106,968.82 including interest and the borrowed capital. However, if a payment form is chosen where interest is paid at the end of each year and the final amount is paid at the fifth year, the payment schedule would look as shown below:

Table 34 Payment of the debt over a period of 5 years

Year	Interest rate	End of year payment	Debt after payment
0			\$ 68.919,62
1	\$ 6.333,71	\$ 6.333,71	\$ 68.919,62
2	\$ 6.333,71	\$ 6.333,71	\$ 68.919,62
3	\$ 6.333,71	\$ 6.333,71	\$ 68.919,62
4	\$ 6.333,71	\$ 6.333,71	\$ 68.919,62
5	\$ 6.333,71	\$ 75.253,33	0

Made by: Novillo, Silva

These methods of payment are only options that the Cooperative can find when applying for a loan at any financial institution, the ways to cover the debt will depend on each bank's policies.

3.1.4.2. Indicators of evaluation

In previous pages it was reviewed all aspects related to the economical information that is needed to carry out the internationalization of the Padre Rafael Gonzalez

²⁵ Reference rate of Ecuador Central Bank for the public, private, popular and solidarity financial sector until February 2020

Cooperative, with this data the project can be evaluated based on the projected benefits, the results of the following indicators will be associated with the decision to invest or not in the export plan. The economic evaluation part constitutes the final stage of the feasibility analysis through the use of two ratios that measure the profitability of the investment: the net present value and the internal rate of return.

3.1.4.2.1. NPV

The net present value is the value in monetary unit resulting from subtracting the sum of all net cash flows from the initial investment. This is equivalent to comparing all expected gains against all expenditures of money invested to generate such gains. In order to accept a project, revenues must be higher than cash outflows, therefore, the result of the NPV will be greater than zero. The calculation of this index requires the use of the TMAR or minimum acceptable rate of return, which is calculated taking into account the inflationary effects plus a percentage called risk reward for investing the money in a certain project. For the evaluation of a project with a five-year horizon, this rate is valid during that period. (Baca Urbina, 2010)

The TMAR is calculated with the formula:

$TMAR = i + f + i * f$; where i is the risk prize and f the inflation, for the purposes of this work i will be considered as the rate that banks offer per an investment, which is 9,19%, and the inflation until January of 2020 was about 0,23%. We will work under the assumption that this data remains constant over time

$$TMAR = 0,0919 + 0,0023 + (0,0919 * 0,0023)$$

$$TMAR = 0,094 = \mathbf{9,44\%}$$

The NPV defined in the previous paragraph is described algebraically by the formula:

$NPV = - \text{initial investment} + \frac{FN1}{(1+k)} + \frac{FN2}{(1+k)^2} + \dots + \frac{FNn}{(1+k)^n}$

Where FN = Net Cash flow; k= minimum rate of return (TMAR).

3.1.4.2.2. IRR

The internal rate of return is the discount rate whose function is to make NPV equal to zero. The IRR allows to know what the real value of the return on money is for the investment. It is called this way because it starts from the premise that the money earned year after year is reinvested in its entirety. To analyze the result of the IRR, that is to say, whether the project will be accepted or not, if it is greater than the TMAR, the investment can be accepted, since if the expected return of the Cooperative is greater than the fixed minimum it means that the project is economically profitable (Baca Urbina, 2010).

Algebraically the calculation of the IRR is made from the NPV formula, with the difference that the variable to be resolved is the minimum rate of return (k), due to the complexity to solve a fifth level equation, the calculation through of Excel was chosen, which is summarized in table 35, and for the elaboration of this table the data of the projected cash flow before analyzed was used.

When analyzing table 35 it can be deduced that the project is economically viable since the resulting NPV is \$ 1.263,32, which is a positive alue and higher than zero. In regards to the IRR, it can be seen that the return will be 11%, which exceeds the value of the TMAR by approximately two percentage points

Table 35 Calculation of NPV and IRR

Detail	Base year	2020	2021	2022	2023	2024
FNE	\$ -38.251,12	\$ 9.731,27	\$ 9.974,55	\$ 10.273,79	\$ 10.633,37	\$ 11.058,70
TMAR 9,44%		\$ 8.891,88	\$ 8.328,01	\$ 7.837,95	\$ 7.412,53	\$ 7.044,07
NPV	\$ 1.263,32					
IRR	11%					

Made by: Novillo, Silva.

3.1.4.3. Equilibrium point

The equilibrium point analysis is necessary in every project because it measures the level of production where the income from sales is equal to the sum of all fixed and variable costs, in other words, it studies the relationship between all costs and income. The great utility of this technique is the possibility of being able to easily calculate the minimum point of production with which the Cooperative must operate in order not to incur losses, however, the equilibrium point is not a tool to evaluate the profitability of the investment. (Baca Urbina, 2010)

To determine the quantity of equilibrium, where the revenue equals zero, the following formula can be applied:

$$Q = \frac{CF}{P - CV}$$

Another way to calculate the point of equilibrium is in monetary terms, that is to determine the necessary volume of sales to avoid incurring losses and profits, the following formula can be used:

$$\text{Equilibrium point (volumen of sales)} = \frac{CF}{1 - \frac{CV \text{ (totals)}}{P*Q}}$$

Where, Q= quantity; CF= fixed costs; P= price; CV= variable costs, y P*Q= Total sales.

Based on the following table and applying the above formulas the result is the following:

FIXED COST	\$ 19.308,60
UNITARY SELLING PRICE	\$ 35,00
UNITARY VARIABLE COST	\$ 14,00
TOTAL SALES	\$ 49.180,08
TOTAL VARIABLE COSTS	\$ 23.700,88

$$Q = \frac{CF}{P - CV}$$

$$Q = \frac{\$ 19.308,60}{\$ 35,00 - \$ 14,00}$$

$$Q = 919 \text{ uni}$$

$$\text{Sales volume} = \frac{CF}{1 - \frac{CV}{P*Q}}$$

$$\text{Sales volume} = \frac{\$ 19.308,60}{1 - \frac{\$ 23.700,88}{\$ 49.180,08}}$$

$$\text{Sales volume} = \$ 37.269,55$$

According to these results, the conclusion is that the Association needs to produce 919 hats minimum so that their revenue would be zero and will not incur in profits or losses, or otherwise reach a volume of sales of \$ 37,269.55 in order to cover with fixed and variable costs. However, as reflected in the financial statements, the Cooperative in 2019 has exceeded this level of sales.

Conclusion

After having analyzed the Padre Rafael Gonzalez Cooperative and its levels of productivity and financial capacity to sustain itself in the long term, it has been proven that the cooperative has the capacity to begin with an export project in small proportions and that by improving areas of supply and logistics these export levels could be increased progressively over time, this will allow greater sales and therefore that the Decentralized Autonomous Government of Biblián to become an auditor of the activities of the cooperative and to change its figure of solidarity support, making this project a success story for other artisan production projects.

CHAPTER 4

4. CONCLUSIONS Y RECOMMENDATIONS

4.1. Conclusions

To end this degree work, will proceeded to present the conclusions of the analysis done on the other chapters.

- Within the first chapter, the premise of the global market versus the national production was presented. Using different theories of international trade and internationalization, it was noted that, although Ecuador possess bases for the exportation of goods, it is necessary to employ, improve and innovate marketing strategies in the different productive sectors. Taking as a case of study presented about the products elaborated by the Cooperative of Artisan Production Padre Rafael Gonzáles, it could be denoted that there is a precarious application of international models of merchandise management and commercialization, since most logistical, commercial or administrative procedures are carried out under the premise of "how can it be done", instead of "good work". This can be understood to a degree as it is a productive sector in a country considered to be developing, of which the largest percentage of the productive portfolio is comprised of SMEs, which in practice do not contain international models within their comprehensive management plan of innovation or production such as the 'Vernon life cycle' or the 'Uppsala model'.

Additionally, it is concluded that Ecuador is one of the few Latin American countries whose legal content is so broad and organized that it provides the protection of the rights of small artisan producers, as well as, the promotion of commercial and productive activities of their small and medium-sized enterprises.

- While analyzing the second chapter about the reality of the cantón Biblian it was concluded that there are two big challenges directly related with the canton's political power: the social-gender and productive situation. When taking the Cooperative Padre Rafael Gonzalez as a case study, it was noted that it was an

artisan cooperative of essentially female labor and that its life support came from the City hall. After several interviews and gathering of information, it was concluded that the situation of women, not only of the canton, but also in the cooperative, represented a serious gender reality: elderly women in charge of various infants with low incomes and with varied productive activities such as livestock, agriculture and weaving.

On the other hand, the support of the Biblián GAD has been indispensable for the development of the artisan's activities, as, without the initiative presented to the development of the artisan's cooperative under the premise of popular and solidarity economy, the artisans of the cooperative would not have been able to consolidate a big workforce efficient enough to change themselves in an exporting SME. Additionally, it was concluded that, although the Padre Rafael Gonzales Cooperative was a brilliant support for the artisan sector, this does not perform its administrative, productive and control functions, according to its statutes, as a result of the lack of technician knowledge from the members of the cooperative.

- Finally, the last chapter comprises several analysis sections: production, marketing and the exportation area. It could be concluded that regarding the production levels and logistics of supply and sales, the cooperative does not have a system of costs reduction or production analysis. Therefore, the logistic is handled in a rudimentary way and is wasted a large monetary amount in this area. In addition, being a brand still on development does not have a clear objective of seals or positioning objective, despite having a big historical transaction within the country and with other countries at the European Union such as Italy. Another important factor which has to be considered is the financial one. This area is the most indispensable for the cooperative since this controls the incomes and outcomes of capital. In this part, it was concluded that in spite the cooperative has a short accountable life (from 2019), there are certain shortcomings in terms of financial statement and results, as certain items are not well specified to develop an in-depth analysis of the real situation of the cooperative. However, while working with economic and financial assumptions based on the already existing states, we were

able to conclude that, despite having a large volume of capital in costs and expenses, the cooperative with the current volume sales will create high income levels over what it was expected, that is why its sustainability in a long term will be viable. This we can see on the table 32, in which demonstrates the cooperative's net incomes levels reaching \$25,000 USD annually. Showing that the artisan model of production is success and the support of the Biblian GAD can be omitted in the short term.

Table 36 *Incomes minus Costs and Spendings*

Padre Rafael González Cooperative	
Revenue year 2019	\$88,506.08
Assumptions in Costs and Expenses	\$63,232.61
Distribution net values	\$25,273.47

Made by: Novillo, Silva

4.2. Recommendations

In this section will be presented certain theoretical recommendations that could be applied to the reality of the Cooperative of Production Padre Rafael Gonzalez based on the analysis and conclusion present above of each chapter in the current degree project.

- After concluding the first chapter, inside Ecuador it does not exist the habit of applying theories of commercialization and internationalization in regards most of its portfolio of SMESs enterprises. It can be said that as part of the academic contribution that can be presented within the text, it is necessary to comply these different competitive models previously presented seeking to specialize, adapt and apply different tools and strategies to the productive sector of the nations. This would allow the management of integral tactics of commercialization in the global market starting with an efficient and effective

reality regarding the flow of Ecuadorian goods and services in the global market.

- Another important aspect that was analyzed in the current text corresponds to the chapter 2 in which it was concluded that the main challenges of the canton and the cooperative correspond the productive and gender situation. For this, it is indispensable that the Padre Rafael Gonzalez Cooperative includes in its annual strategic goals improvement in the productivity. This can be done through the acquisitions of new equipment, improvements in the human resources area, training, among others. Likewise, new ways to improve the social situations of its members so that not to only the payment for their services is fairer, but also thinking of new ways to support their family and economic situation. This can be done through strategic alliances with organism or organization related to the minority groups, such as these elderly women with low life conditions.
- Having drawn the respective conclusion for the third chapter, it is relevant to mention the need of improving the logistic and productive system of the cooperative. This trough the adequate use of technology for the process that can be carried out with the help of an expert. Additionally, it is essential to begin a more transparent and systematic accounting, where the economic items are designated specifically for certain activities to avoid confusion of capital flows.

Regarding the issue of the market analysis and export opportunities, it should be mentioned that although the exportation is possible, this would be in a minimum scale and with the risk of not prospering in the international market because there exists the probability of not being able to satisfy the high standards. Also, it is necessary to stablished a positioning strategy within that market, so that the social, economic and cultural factor will not be discredited by larger competitors such as Homero Ortega.

- Finally, it can be said that the Cooperative of Artisan Production Padre Gonzalez has an export potential, since it has quality hats to enter the world market. However, in order to make this a constant activity it is necessary for them to an arduous process of adding more technology, with the aim of systematizing and complying with the international quality standards and norms.

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