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*“Feasibility study for the importation and commercialization of sustainable Spanish fashion in the city of Cuenca”*

**Graduation work prior to obtaining Bachelor’s degree in International Studies  
with bilingual Mention in Foreign Trade**

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## **DEDICATION**

Without a doubt, all this work and my years of study are dedicated to my family for giving me unconditional support at all times.

To my father Manuel for being a great example of perseverance and improvement; he is an excellent professional who has always shown me that success is achieved with effort. With immense affection, I dedicate this research work to my mother María Elena for motivating me every day, and for being one of the people I most admire in the world because of her strength and infinite love. A light, joy and happiness in my life, my brother Juan Manuel, for teaching me that the magic of dreams exists if you risk living them with your heart.

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## **ABSTRACT**

This research work evaluates the feasibility of starting a sustainable fashion business for women in the city of Cuenca, Ecuador. The project begins with a diagnosis of the environment of the company Lucia Palacios S.A. Later on it will carry out a market study, a technical analysis and a financial investigation to determine if it is profitable to import ecological fashion from Spain to sell in the city. Due to the negative social and environmental impacts generated by the textile industry, plus the excessive consumption of fast fashion around the world, the company has decided to use mechanisms that help protect the planet. To offer a different shopping alternative in the future, this study has focused on discovering the consumer preferences in fashion. Lucia Palacios S.A. with this project seeks to raise awareness about the origin, production and materials used for the manufacture of clothing.

**Keywords:** feasibility, sustainable fashion, import, commercialization, Cuenca.

## RESUMEN

El presente trabajo de investigación evalúa la factibilidad de poner en marcha un negocio de prendas de vestir femeninas, de moda sostenible en la ciudad de Cuenca, Ecuador. A partir del desarrollo de un diagnóstico situacional de la empresa Lucia Palacios S.A. se procederá a realizar un estudio de mercado, un análisis técnico y una investigación financiera para determinar si es rentable importar moda ecológica desde España para comercializarla en la ciudad. Debido a la problemática social y ambiental que genera la industria textil por el consumo excesivo de moda rápida alrededor del mundo, la empresa ha decidido dar un giro al negocio y utilizar mecanismos para el cuidado del entorno. Para ofrecer en un futuro una alternativa diferente de compra, este estudio se ha enfocado en descubrir gustos y preferencias de los usuarios en la moda. Lucia Palacios S.A. con este proyecto busca generar conciencia sobre el origen, producción y materiales utilizados para la fabricación de la ropa.

**Palabras clave:** factibilidad, moda sostenible, importación, comercialización, Cuenca.

## INTRODUCTION

In recent years, the fashion industry has experienced a revolution due to the behavior of people by the excessive consumption of clothing that is perceived around the world. According to data sent by the UN Conference on Trade and Development (UNCTAD), in 2019 it was reported that the fashion industry is the second most polluting on the planet. Its environmental cost in carbon emissions is higher than the international air and maritime transport industry (Villemain, 2019). The aftermath of being fashionable wearing garments produced at very low costs, unleash a wide range of negative effects on the social, economic and environmental framework.

Consumerism in the textile industry worldwide produces a number of very serious social consequences for those who work manufacturing clothes in this sector. Attires produced in under-resourced places like Bangladesh, Vietnam, Cambodia and India, can be found in the popular fashion stores most visited by young people and adults in the world. People who work manufacturing this type of clothing are children, women, and the elderly; due to their conditions based on social class, racial or availability of resources they are exploited for work. In poor countries there is no fair wage or decent working conditions for this segment of the population.

Sustainable fashion is part of the thought of “slow fashion”, a term established for the first time in 2007 by Kate Fletcher to contrast the system that today dominates the textile industry: fast fashion. Fast fashion is characterized by massively producing, distributing and selling cheap garments. This technique seeks to reduce the life cycle of the product to increase the speed of design, production and delivery. This practice has allowed that millions of new styles are available to the user in fashion stores every week (Satyendra and Bhat, 2014).

Contrastingly, sustainable fashion is associated with good standards and fair working conditions for staff. A sustainable business model manufactures with organic raw materials and ecological supplies. It seeks to minimize the use of toxic colorants, as well as the generation of waste and by-products including packaging (Henninger, 2015). Sustainable fashion is determined by the production of garments and consumer behavior in their wear and post-wear phase. This philosophy fosters a conception of social responsibility and care for the environment in the consumer. What should be done with used garments, how to improve their conservation, recycling policies and garment donation channels; all these issues are part of the propagation of this movement.

The World Commission on Environment and Development (WCED) in 1987 established that developing in a sustainable way is to guarantee the satisfaction of present needs, without compromising the possibilities of future generations (World Commission on Environment and Development, 1987). By virtue of the fact that people are more and more sensitive to environmental problems, the company Lucia Palacios S.A. has seen as a business opportunity to use mechanisms to care for the environment. This company has decided to launch a feasibility study for the import and commercialization of sustainable Spanish fashion in the city of Cuenca. The effect that this project seeks to generate is to promote consumer awareness about the origin, production and materials used in the garments they wear.

For this study it will be necessary to know the perception of the market of Cuenca regarding sustainable fashion, as well as the possibility of importing and commercializing these garments in the city. In order to offer a different purchase alternative in the future, it will be essential to consider the evaluations of potential customers in order to adapt the business to the pleasures and preferences of users. The project assesses the feasibility of starting a women's clothing business and sustainable fashion, based on the development of a diagnosis of the company's environment, a market, technical and financial analysis.

Chapter 1 will evaluate the environment of the company in order to identify those factors that may have an impact on the results. With a clear perspective, Lucia Palacios S.A. will be able to choose the environment that is most favorable to achieve its objectives. The analysis of the macro-environment made it easier to know the external political, economic, social, environmental and technological factors that could interfere the development of the company's activities. The study of the micro-environment will focus on examining uncontrolled variables that are of great impact on the company, such as the market, competitors, suppliers, stakeholders and consumers. To conclude the chapter, an internal analysis of the company will be carried out in order to examine its resources, skills and competencies.

A market research will be developed in chapter 2; this will allow to know in advance the results that the project could generate. To be aware of the concerns and interests of the target audience will be of great help for the company to develop strategies that meet their requirements. It is important that Lucia Palacios S.A. considers the current market structure of the city of Cuenca to define the situation it would face with this new fashion project. The market study will present a research design that will consider antecedents, the problem approach and objectives; it will be supported by interviews, a sampling plan, pilot tests and fieldwork. Data collection will be obtained through surveys that will be sent to a segment of the target market.

Chapter 3, referring to the technical study of the project, will verify its viability through the design of import and commercialization processes for sustainable fashion. This study will allow the company Lucia Palacios S.A. to know an approximation of the amount that it must invest to transport its products from Spain to Ecuador. The reengineering of the project will determine the legal processes that must be carried out for the nationalization of the merchandise. The technical import requirements will be evaluated based on the sustainable fashion products that the company wishes to import. The calculation of loose cargo will allow estimating the import volume of the cargo in the international freight, later a pre-settlement of tariffs will be detailed to consider the costs that this operation would imply. The size of the project will be defined by variables such as the market, raw materials, financing, and available technology.

Finally, in chapter 4 a financial analysis of the company Lucia Palacios S.A. will be developed with the aim of checking the availability of resources it has for the execution of the project. For this analysis, some scenarios will be proposed with different budget policies for purchases, cash and credit sales; it will be determined which is the most beneficial environment for the company according to the annual variable increase. Based on the available capital, the financing of the project will be evaluated, and if necessary, the company will apply for a bank loan considering the conditions of the repayment of the debt. The calculation of the net present value and the internal rate of return will be made based on the data of the cash outflow to inform about the viability of the project. The Statement of Comprehensive Income will indicate the profit margin, while the Statement of Financial Position will show the accumulated profits considering the total figures of assets, liabilities and equity that the company Lucia Palacios S.A. has.

## **CHAPTER 1: DIAGNOSIS OF THE CURRENT SITUATION OF THE COMPANY LUCIA PALACIOS S.A.**

### **1. Introduction to the chapter**

First of all, in order to establish effective strategies that contribute to the correct development of a company, its environment must be studied. Analyzing what surrounds an organization allows to identify factors of different nature that can affect or influence its results. Organizations are not self-sufficient, they live from permanent exchange with the social forces that make up the external environment (Arano et al, 2013).

The company cannot control the factors of its environment, but it can choose the conditions that are more favorable to achieve its objectives. A factor can be considered a strategic aspect when it has an impact on the present or future of the company.

In this first chapter, an analysis of the macro environment of the company Lucia Palacios S.A. will be carried out to determine the external components that affect the business. Related political factors are trade agreements, bills, political risks due to changes in government jurisdiction. Regarding the economic part, the variables will evaluate the current and future situation of the economy in general, such as inflation figures, GDP, exchange rate index (Eurozone) and PPP of Ecuadorians. Social factors will demonstrate the relationship that exists between cultural development of sustainable fashion, and changes in fashion styles, consumption levels, and consumer habits. Reducing the environmental impact is a business duty today, studying new production technologies contributes to reduce the effects of climate change in the future.

The study of the micro environment will focus on analyzing a series of uncontrolled variables, but with great impact on the company such as market, competitors, suppliers, stakeholders and consumers. In this section, some Ecuadorian companies which market sustainable fashion will be studied in order to better understand the

competition. Since this study seeks to import sustainable Spanish fashion, it is relevant to know future suppliers and groups outside the company that would be interested in developing the project. Defining the current profile of the consumer will allow the company to better know and understand its customers.

Finally, an internal analysis of the company Lucia Palacios S.A. company will be carried out to find out its resources, skills and competences. Examining the organization will allow identifying strengths and weaknesses that contribute to the development of strategic plans that generate optimal results.

### **1.1 Environment Analysis**

To propose efficient strategies that allow us to meet the objectives of a company, it is important to carry out an analysis of the current situation of the environment. This study will guide the firm to make better decisions that are oriented to the selected market. A suitable positioning must be established according to the particular situation of each company (Martinez and Milla, 2012).

Its main function is to analyze the internal and external contexts in which the organization operates. The micro environment refers to that framework that considers nearby uncontrolled variables that generally affect the activity of the company such as competitors, market, suppliers, and stakeholders. This study determines what forces have a direct impact on its final product or service. On the other hand, the macro environment studies factors that, despite being external to an organization, have an influence on its development, but also in other sectors of society; these can be political, economic, social, environmental. This analysis allows the company to create good strategic planning to face threats and take advantage of opportunities (Martinez and Milla, 2012).



### **1.1.1 Analysis of the macro-environment**

#### **1.1.2 Political factors**

They are all government activities and political conditions that can affect the development of a company in the future. The laws and regulations of a state can benefit or harm the interests of an organization. This section will analyze the political system of regulations in force in Ecuador for imports, trade agreements, government forecasts, discussion of laws related to international trade in goods.

#### Trade Agreement between the European Union and Ecuador

The signing of this commercial agreement entered into force on January 1, 2017. Its objective is to strengthen trade and investment between both parties with the purpose that commercial relations become more privileged. This agreement opens the trade of goods, services, public purchases and investments. From the beginning, a schedule was set for the reduction of tariffs for a period of eight years. The gradual reduction of tariffs depends on the type of product, and the general idea is that people can access Ecuadorian or European goods at an affordable price. The diversification of products in the market has caused consumers to become more demanding with the product they consume, with more options to choose from and at very competitive prices; companies have been forced to work on quality (Delegation of the European Union in Ecuador, 2017).

Since 2017, Ecuador's trade balance has had positive changes due to the surplus generated in non-oil exports. According to the economic report of the Central Bank of Ecuador, exports between January and June 2020, exceeded by 9.2% those reached in the same period 2019. In the case of imports, the figure corresponding to consumer goods decreased by 22.6%. Due to the tariff preferences that exist with the European Union, most non-oil exports and imports come from and go to that market (Central Bank of Ecuador, 2020).

### National Customs System for imports in Ecuador

Importing is the action of entering foreign merchandise into a country complying with the formalities and obligations that the national system requires. In Ecuador, any natural or legal person that has been registered as an importer in the ECUAPASS system may request an import procedure. The National Customs Service requires prior control documents and supporting documents for proper clearance of merchandise, which are published in Art. 72 and 73 of Title V of the Organic Law of production, trade and investment (*COPCI*, by its acronym in Spanish). Transport documents, commercial invoices and certificates of origin can be requested from the importer at the time of the merchandise inspection. The national system has established an analysis of profiles at risk to determine the channel through which the merchandise will be inspected (National Customs Service of Ecuador, 2017).

In 2019 alone, SENAE seized around 529,000 textile units, a figure that places this sector as second among the most smuggled items in the country. The sale of foreign products at very low prices creates an environment of unfair competition, imports that pay taxes are severely affected. In the case of textiles, the biggest tax evasion occurred at airports where travelers arrived with merchandise to later resell it. The unfair competitive advantage that the smuggler acquires is that the buyer always prefers the best offer. SENAE in the fight against smuggling registered more than \$27 million of apprehensions in 2019 (National Customs Service of Ecuador, 2020).

### Political risks in government jurisdiction

Ecuador's political dynamics is characterized by a complex situation regarding what could happen in the 2021 presidential elections. The targeted elimination of fuel subsidies triggered a fiscal crisis in the Lenin Moreno government. There is talk about the possible creation of a strategic alliance between the right-wing forces, namely, the Christian Social Party (*PSC*, by its acronym in Spanish) and the political movement Creating Opportunities (*CREO*) headed by Guillermo Lasso; this is the most visible option to reach the presidency. The indigenous movement, after having gained prominence in the protests of October 2019, has selected the prefect of Azuay, Yaku

Pérez, as a candidate for the presidency. On the other hand, the *correísmo* line is concentrated in the UNES party headed by Andrés Arauz, a 35 year-old economist who planned to reach Carondelet along with the former president Rafael Correa. The sentence against him for eight years in prison, prevented Correa from holding positions of popular election (Fuentes, 2020).

There is a conjuncture between the economic crisis and the health crisis due to COVID-19, they are two dimensions that affect the oncoming political processes. The fiscal cash deficit has worsened, revenues were reduced and the requirements of the health, social protection and security sectors increased. For some, the pandemic facilitated the fiscal adjustment program when the government renegotiated debt and financing with the IMF (Echeverría, 2020).

The pandemic also aggravated social deterioration by increasing unemployment and underemployment rates. The institutionalized corruption that occurred in this emergency is also a challenge that the 2021 presidential candidates must respond to. In an ideological differentiation of left and right wing, a scenario of polarization can be observed. Yaku Pérez appears with options to attract sectors of the indigenous movement and environmental demands. From the right wing there is a commitment to reactivate the private sector, Guillermo Lasso has achieved great acceptance by stating that he seeks to reduce taxes and state debt in order to increase productivity with employment in the private sector. Undoubtedly, this last candidate would be the best option to administer Ecuador from the presidency, his ideology to reactivate the country's economy would benefit the commercial sector of imports and exports.

#### Bill of Organic Law for the prevention of smuggling and customs fraud of merchandise

The bill for the prevention of smuggling and customs fraud was presented in April 2020 by the assemblyman Héctor Muñoz Alarcón. The main reason is because these criminal acts pose a risk to national security, formal employment, tax collection and social development. The distortion of market dynamics causes marketers to compete in unequal conditions, affecting sustainability. In Ecuador, the figure for the collection

of undeclared taxes in 2018 represented close to USD 400 million annually according to the National Customs Service. The objective of this law is to strengthen control mechanisms to combat wrong customs practices (Alarcon, 2020).

The law emphasizes as a preventive measure the monitoring of supply chains; the importing company must support with valid information which are its suppliers, manufacturers, clients, and transport that it uses in order to demonstrate the legality of its operations. According to the Anti-Smuggling Alliance (*ALAC*, by its acronym in Spanish), fraud in the textile sector moves about 150 billion dollars annually in Latin America (Alarcon, 2020). The approval of this law would allow companies like Lucia Palacios to compete in a fairer price market. A better control of merchandise in customs will guarantee the circulation of original products, not falsified. For companies that comply with tax processes, it is an incentive that there are laws to sanction those who do not. To fight against smuggling is to support the proper development of the national industry and commerce.

### **1.1.3 Economic Factors**

Economic factors are variables that evaluate the current and future situation of the economy in general. They include all the important trends that can help or hinder the company in achieving its goals. The forecasts and statistics studied will generate better decision-making in the future. They have a profound effect on the functioning of each of the organizations and their performance.

#### Annual Inflation

According to the latest economic publications made by the Central Bank of Ecuador in July 2020, they pointed out that annual inflation in the consumer price index (CPI) had a negative variation compared to the previous year. This indicator presented minus 0.54% as a result. The analysis focused on groupings of goods and services showed that clothing and footwear had the lowest variation in the general price index. Ecuador in the month of December, 2019 was one of the countries that registered the lowest inflation in the Latin American region. The countries most affected by this indicator were Argentina, Uruguay and Mexico (Central Bank of Ecuador, 2020).

### Gross Domestic Product (GDP)

Since COVID-19 arrived, the Gross Domestic Product of Ecuador in 2020 decreased 12.4% compared to the second quarter of 2019 according to the Central Bank. The fall in the economy represents one of the worst figures recorded in recent years. The deterioration in several productive sectors and the decrease in public spending seriously affected the stock market, especially in April when it took place the strongest confinement. With the negative performance of the construction sector, investment decreased considerably. Exports of goods and services decreased by 15.7% although there were sectors with positive balances such as bananas, shrimp and coffee. Despite the fact that imports are lower than in 2019, the impact of the pandemic on the Ecuadorian economy is very aggravating. The crisis required the country to negotiate with the International Monetary Fund a financial credit for 6.5 billion dollars to deal the emergency (Central Bank of Ecuador, 2020).

Due to confinement, the performance of industries in Ecuador had a negative variation that has left the country one of the worst crises. Among the main consequences is the decrease in people's purchasing power; with less money in circulation, luxury products turn out to be the worst hit. In the absence of hourly hiring or outsourcing, the unemployment figure increased and according to the Minister of Labor, Andrés Isch, the loss was 410,000 jobs between March and September 2020 (National Institute of Statistics and Censuses, 2020). The lack of liquidity in companies due to the paralysis of their functions has also caused negative effects on banking activity. Because of the high risk it represents, loans were reduced resulting in a banking recession.

### Eurozone bilateral real exchange rate index (BRERI)

From 2014 to July 2020, the weighted average index of the real effective exchange rate of the Eurozone depreciated by 2.51%. The Eurozone had higher inflation than the Ecuadorian economy, and during this time the appreciation of the Euro against the dollar was -1.76% (Central Bank of Ecuador, 2020).

#### GDP per Capita, PPP at current international prices

The Purchasing Power Parity (PPP) in relation to GDP per Capita according to the 2019 data presented by the World Bank, Ecuador had a figure that kept growing of \$11,846,781 (World Bank, 2019). Due to the serious economic situation generated by COVID-19, this figure is expected to decrease by 2020. There is a direct relationship between the purchasing power of the average Ecuadorian and the unemployment rate, since the PPP declines as the lack of income increases. A direct consequence is that people are unwilling to spend on luxury goods.

#### **1.1.4 Social Factors**

The social factors that affect the environment of a company are represented by the cultural influences of the time, trends at the level of consumption, fashion tastes, and customs. The fashion sector has achieved great evolution during the last decade; more and more companies around the world are joining in to generate and promote a sustainable awareness.

#### Development of fast fashion in Ecuador

Fast fashion is characterized by massively producing, distributing and selling cheap garments. This technique seeks to reduce the life cycle of the product to increase the speed of design, production, delivery. The garments are inspired by the latest catwalk trends, and this is why these trends are those preferred among young people. With the arrival of the Inditex group to Ecuador in 2012, the availability of places that offered fast fashion increased considerably. Brands like Zara, Bershka, Oysho, Stradivarius, and Pull and Bear were opened in the country less than ten years ago; today they have thirteen establishments in the cities of Quito and Guayaquil due to its great reception. Inditex operates in the American territory with more than 791 stores in the region (Cantini, 2018).

## Evolution of Sustainable Fashion

Fashion from its beginnings was presented as a symbol of identity in which the lifestyle of a society could be determined. The variety of styles and preferences in the garments symbolize how human beings can express themselves freely. In 2007, Kate Fletcher used the term slow fashion to refer to a type of fashion that included caring for the environment and conscious production. Slow fashion supports a philosophy of responsible consumption considering the availability of resources, fair trade and the durability of the garments. It induces traceability, which allows the consumer to find out who, where and under what conditions their clothes were made.

## Sustainable trends around the world

Environmental awareness is a trend that is booming in the fashion industry. More and more brands are producing and marketing responsibly. Spain, despite being a leader in fast fashion, has developed events and constantly encourages the application of sustainable innovation techniques. In 2014, the First Sustainable Fashion Show in Barcelona took place, subsequently BCN Ethical Fashion Fest was created, an event that seeks to sensitize society through workshops and conferences. Around the world there are several events that foster this ideology such as Helsinki Fashion Week (Finland), Neonyt Fashion Show (Germany), Eco Fashion Week (Australia), Nakshi Fashion Week (England).

The priority to create the best product at the lowest possible price ceased to be an achievement for brands when consumers began to reassess their interests. Principles such as authenticity, transparency, sustainability are factors that completely change the way of selling. A study carried out by the North American second-hand company Thred Up shows that, according to figures from the Global Data Market: Sizing and Grow Estimates, 43% of consumers in the US plan to support sustainable brands during the next 5 years. The negative social effect left by the pandemic has caused a change in the mind of the consumer, who is starting to consider health and caring for the planet as the most important factors (Global Data Market: Sizing and Grow, 2020).

## Green Latin America

The Green Latin America Awards is one of the most relevant sustainability festivals in the world. Every year it recognizes and gives visibility to more than 450 social and environmental projects in the region. The projects are divided into categories aligned with the 2030 Sustainable Development Goals; some of them are responsible production and consumption, solid waste management, human development, sustainable finance, and water care (Green Latin America Awards, 2017).

### **1.1.5 Technological Factors**

They are those that are related to scientific advances. These are resources linked to new technologies, level of connectivity, available networks that ease the work of a company. An optimal use of digital media allows to save time and costs, improves production processes, and guarantees better customer service.

#### Technological innovations in production processes

Technology is presented as a solution to environmental problems due to its capacity for innovation. The challenge of the textile industry to move towards a sustainable fashion is based on adopting technology, materials, and processes that have a minimal impact on the planet. Anke Domaske in Germany demonstrates the creation of a biodegradable fabric based on milk protein, in which she uses just half a gallon of water to produce one kilogram of textile; cotton takes 10,000 liters. Ecoalf is another company that encourages reuse, in its production process they recycle PET plastic bottles to make coats, vests, bags and wallets (Preta Troquer, 2017).

#### Uses of Big Data

Big Data is a tool that contains a large volume of data and that has been very useful for companies in the textile sector. By using this tool it has been possible to determine



fashion tastes and consumption habits of potential customers, thus facilitating the creation of the desired product. Big Data is undoubtedly an instrument that helps the diversification and organization of garments; stores can display their stock considering their geographical area.

An example is the Swedish group H&M, which in 2019 launched a clothing line in Berlin that based its design on the trends that users of the city were looking for on the Internet. The data was collected from cookies that follow the pattern of consumers when they surf the internet. The company saves transportation costs, avoids storage and unnecessary overproduction by employing this tool. The data series is managed based on silhouettes, preferred colors, materials and patterns. The references are extracted from the users by their geolocation, thus allowing to match their likes and preferences (Dominguez, 2019).

#### Platforms for the purchase of sustainable fashion

Ethical Time became the first platform to buy sustainable fashion in Spain. The app includes more than 300 online stores and it is available throughout Europe (Phillips, 2019). This space allows the consumer to choose companies according to their likes that are responsible in social, labor and environmental terms. Zalando, the most famous online sales platform in Germany, incorporated its Zing brand with a sustainable label. In the search filters they have also included a section called "sustainable" which identifies certified garments.

#### **1.1.6 Environmental Factors**

They are directly related to the preservation and care of the environment. Elements related to environmental legislation, climate change, natural risks, recycling levels and possible regulatory changes in this area are analyzed. From these factors may depend if the organization remains competitive and functional within a market.

### Recycling in fashion

The textile industry is known as the second most polluting in the world because more than 100 million new garments are consumed each year. More and more designers join the trend of recycling in fashion. Ángeles López from Ecuador collects scraps from textile factories to make her casual clothing brand “Charana” (Perdomo, 2019). The recycling processes to fade, create chemicals and pigments from elaborated garments require several hours of work, which is why the garments also require a consumer with high purchasing power.

### Ecuador's environmental policy

Efficient policies around environmental sustainability is of great importance for Ecuador due to its ecological and cultural diversity. The government in its environmental restoration planning has considered the principles of equality, citizen participation, territoriality, inter-sectoral cooperation and rights of nature as criteria that lead towards sustainable development. To promote a system of identity and environmental awareness, the government proposed that by 2021 they should be highlighted issues such as environmental education, promotion of projects for the care of the planet, natural resource management, renewable energy management, technology innovation (Ministry of the Environment, 2017).

## **1.2 Analysis of the micro-environment**

### **1.2.1 Market**

Since sustainability became an international trend, consumers in the fashion market have also chosen to support an environmental awareness. In Ecuador it has been a great challenge to generate a culture of responsible consumption, there is still a sector that prefers price over concept and product quality. In 2019, the global consumer trends presented by the international market research firm Euromonitor highlighted the conscious consumer seeking a plastic-free world (El Comercio, 2019).

The 20th century was the time of economic growth, but today in the 21st century our mission as a society is to transform production and consumption systems. Sustainable Ecuador is an event created with the aim of bringing together the most important companies in the country to sign a commitment to the 2030 Agenda and the 17 Sustainable Development Goals (SDG). Organized by the Ecuadorian Network Global Compact and the Ecuadorian United Nations System, it seeks to create a space to gather interest groups with playful and original activities (Novoa, 2019). The four fields of opportunities that must be addressed by entrepreneurs are cities, energy and materials, food and agriculture, health and well-being.

### Market size

The textile industry in Ecuador is considered a very dynamic sector because its number has increased during the last 5 years. Average spending on clothing and fashion has increased by 7.2% according to a study by the Euromonitor consulting firm. The company revealed that the total expenditure of Ecuadorians on clothes went from 3.12 billion dollars in 2013, to 3.35 billion until the end of 2018. Among the differentiating factors for the purchase of clothing, price and quality stand out (Capuano, 2017).

### Demand level

There is a growing trend of consumers choosing to shop online. The use of electronic money represents a saving of time with the advantage that any payment can be done from anywhere. 80% of e-commerce sales are related to clothing, shoes, and electronics. With the entry into force of the multi-party agreement between Ecuador and the European Union, garments imported from the EU will have an annual tariff reduction from 17% to zero. Only in the first year of the treaty, exports from Spain to Ecuador grew by 56% (Capuano, 2017).

### 1.2.2 Competition

- ❖ *Direct competition:* Ecuadorian local brands that offer sustainable fashion and market the same or similar products.

*Table 1 Direct competition brands*

Paqocha	Ecuadorian company that creates alpaca wool garments along with artisan communities that live in the highlands of the country. It preserves indigenous culture by supporting the work of peasant women spinners and weavers. The fiber used is 100% organic.
Inga Alpaca	Ecuadorian clothing brand that uses the wool of Andean animals as raw material to produce textile fibers and clothing. Its production includes women weavers who live in the south and the outskirts of Quito.
Adriana Ramírez	Ecuadorian designer with great success in recent years for making garments from recycled materials. Her creations combine natural fibers and encourage the reuse of garments to reduce environmental footprint. She assists to national and international contests with her garments.
Taarach	Ecuadorian brand inspired by the folklore and cultural richness of indigenous people. Its designer, Mireya Gómez de la Torre, makes haute couture belts focusing on <i>Otavaleña</i> clothing. Her creations are based on textile traditions and handmade techniques.

Source: Paqocha, Inga Alpaca, Adriana Ramírez y Taarach official websites.

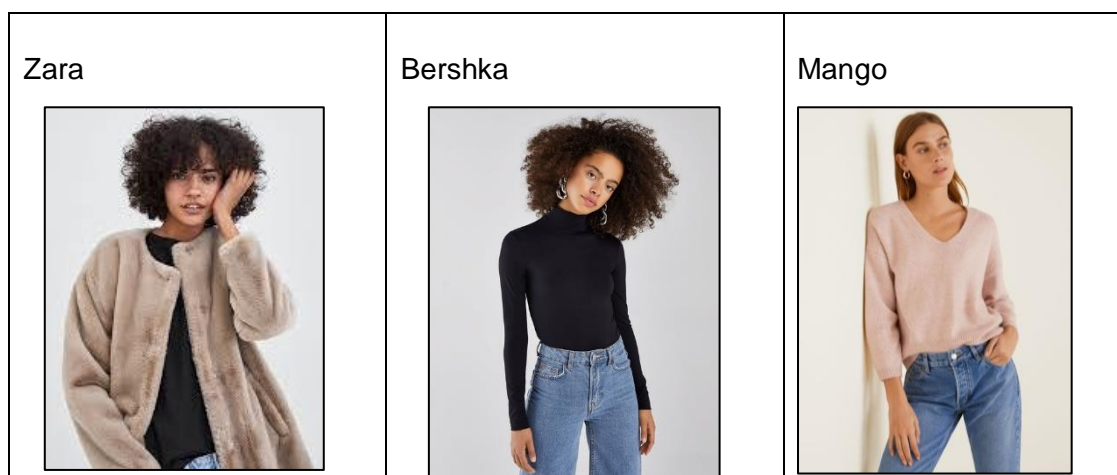
- ❖ *Indirect competition:* local modern brands that do not operate in a sustainable way. They are preferred by consumers because they satisfy other needs such as low prices, and expendable garments.

*Table 2 Indirect competition brands*

Zara	Inditex group brand with great acceptance and consumption in Ecuador for its wide range of designs. International fashion trends can be found at its stores at affordable prices to satisfy those who like to dress according the season. Its quality and prices are of a medium nature, their target are young people who like distinguished dress.
Bershka	Inditex group brand with a very diverse range of products. It offers women's casual clothing, dresses, sporting goods, footwear, and makeup at very competitive prices. Its target is young people who like to wear an urban style.
Mango	Mango's online store, a brand of Spanish origin, is one of the most important in the fashion sector. Its online platform allows you to appreciate models, sizes, colors and styles of clothing to buy from anywhere. It offers a wide variety of accessories to complement the garments; it proposes sober but modern designs. Their prices are intermediate.

Source: Own elaboration.

*Figure 1 Indirect competition illustrations*



Source: MNG, Bershka and Zara official websites for Ecuador.  
Made by Daniela Soria V.

## Competitor analysis

### *Paqocha*



Paqocha is an Ecuadorian company that produces clothing made with fibers of animal origin. An entrepreneurship that merges all the alpaca communities of the Ecuadorian Sierra. Its products are intended for use in cold climates and winter seasons. This company is expert on the making of coats, hats, cardigans, gloves and scarves; their prices vary between \$50 and \$200 depending on the garment. Paqocha is a firm that was created in 2005, since then it has grown by selling its products directly at its stores and, national and international fairs. It has offices in European countries such as France, Germany, and Switzerland; in Ecuador this company is established in the city of Quito. Paqocha designs have participated in events such as the Ethical Fashion Show in Paris, Ecochich Fashion Show in Geneva, Basel and Singapore. The main means of promotion through social networks of this company is its Facebook page that is used to share posts about fashion, news of sustainable production, and strategic alliances.

*Figure 2 Poncho made from  
natural fibers*



Source: Paqocha official website for Ecuador.

*Taarach*



It is an Ecuadorian brand inspired by the folklore, culture and passion of its indigenous peoples. Its creator and designer, Mireya Gómez de la Torre, offers as its main product the traditional girdle of the native communities transformed into haute couture belts. The price range that the brand manages varies between \$300 and \$100, it has several options in designs, colors, embroidery and sizes. Taarach is a company with an international vision, it is based in Panama with its fashion atelier, but its products are available on its website and Amazon.com for immediate purchase in the United States. The Designers Society is the opportunity for a physical store in the city of Quito to purchase products in Ecuador.

The most relevant way of promotion of this brand is through social media such as Facebook and Instagram, with its @taarach\_desing account. A socially responsible company that seeks to achieve the development of its producers through an alliance with the One 1 One Foundation. The economic contribution provided by the brand keeps it present at events to support indigenous communities in the Ecuadorian Sierra.

*Figure 3 Belt with Andean embroidery*



Source: Taarach official website.

### *Inga Alpaca*



It is a firm of Ecuadorian origin that uses the wool of Andean animals as a raw material to make its products. Offers textiles such as ponchos, scarves, vests, gloves; cold weather garments that are on trend for kids, teens and adults. Accessories such as purses and wallets decorated with Andean fabrics are also promoted. Their prices vary between \$30 and \$250 depending on the type of article. Since its inception, Inga Alpaca has determined as distribution channels stores that sell artisan products such as The Designers Society, Artik Concept Store, galleries in hotels and airports in the city of Quito and Guayaquil. Its exports are directed to the US with a minimum of 200 pieces per year (Líderes Magazine, 2017). Its commercial accounts on Facebook and Instagram are the main means to promote its products, the brand uses these spaces to generate digital catalogs with real photos of its products. Inga Alpaca is also made known at fairs such as El Grand Bazaar in Cumbayá.

*Figure 4 Organic alpaca  
wool hat from the Andes*



Source: Inga Alpaca official website.



*Adriana Ramírez*



A distinguished designer from Imbabura makes her garments with recycling techniques, embroidery, textile painting; she works under the concept of ethical fashion. Her creations are guided by the sustainable philosophy, she seeks to combine haute couture garments with Andean embroidery to reflect the concepts of creativity that exist in Ecuador. This artist manufactures all kinds of garments according to the customer budget and requirements. In the case of previously made casual garments, their prices range from \$60 to \$180. This designer uses Facebook and Instagram platforms to sell her products and send them to different places in Ecuador. Adriana promotes her creations through national fairs such as Expo Moda, participates in international catwalks and gives conferences on trends such as recycling in the textile industry.

*Figure 5 Sustainable fashion runway Sao Paulo, Brazil 2018*



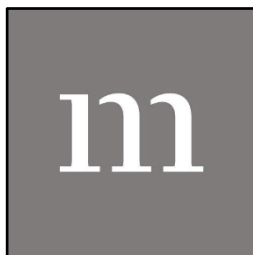
Source: El Comercio Journal Official website.

### 1.2.3 Suppliers

Spain is a potential fashion industry highly recognized internationally for presenting originality in its designs, quality, and good prices. Without a doubt, Spanish fast fashion brands are the ones that have contributed the most to the growth of this sector. In 2015, the members of the Association of Fashion Creators of Spain (*ACME*, by its acronym in Spanish) reported that the country produced 8.9 million garments and accessories every year (S Moda España, 2017).

The fashion industry has ceased to function as an exclusively aesthetic objective. In Spain there are dozens of brands that demonstrate ethical and sustainable values, show that this fashion is accessible and that they can comply with international catwalk trends. The objective suppliers are those whose garments support the care of the environment, guarantee the rights of their workers and use organic materials. Some Spanish brands that can be highlighted because they meet the distinguished style and good quality are Malota, Cortana, Yellow and Stone, Ternua, BROC & BROCH, Bohodot, Bugambilia.

*Malota*



Malota is a Spanish company that was born in 2017 with the idea of creating a unique and revolutionary concept in timeless fashion. María Céspedes Olmo is its founder; she asserts that her garments reflect feminine liberation and a rebellion that imposes effortless elegance (Malota, 2020). Its values reflect attention to detail and integrity, its objective is to be sustainable over time by taking care of the quality of its products and production processes. Malota is available exclusively through its website and in retail stores. Women of all ages in the world can enjoy comfortable and relaxed cuts.

*Figure 6 Summer dresses 2020 collection*



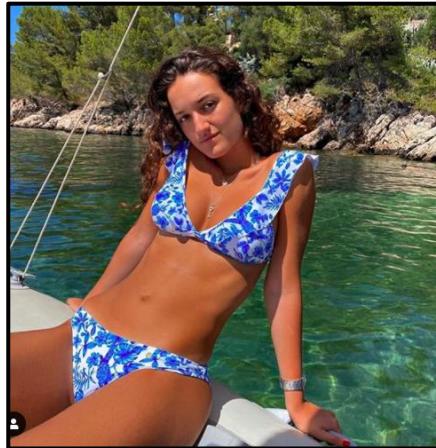
Source: Malota BCN official website.

### *Bohodot*



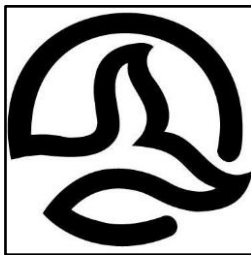
Peque de Fortuny and Cristina Torras are two Spanish women passionate about fashion; they founded Bohodot in 2012. This firm creates feminine garments with exclusive designs and high quality fabrics. Their swimsuits are made for young people with a bohemian spirit, lovers of freedom who seek to enjoy paradisiacal beaches. Comfort, quality, style and sensuality reflect each of its pieces. Bohodot is committed to using sustainable production processes, it works with fabrics that have the OEKO TEX STANDARD 100 certificate that guarantees the responsible use of chemicals. 50% of its fabrics come from recycled nylon obtained from bottles, fishing nets and plastic scraps. The wrapping of the products is made from cotton and recycled cardboard (Bohodot Barcelona, 2020).

*Figure 7 Swimsuit 2018  
collection*



Source: Bohodot Barcelona official website.

### *Ternua*



It was born in 1994 in Spain with the need to dress people with an adventurous soul and an outdoor spirit; those that seek to reconnect their essence with nature. During its existence, the brand has developed its own fabrics with organic cotton, it committed to using recycled feather and set itself the goal of completely eliminating PFCs (Fluorocarbons) from its products. Its philosophy is to offer innovation through unique and sustainable high quality designs. The production of its garments guarantees transparency in its commitment to caring for the planet; from its origin to its distribution the materials and processes are selected responsibly. "Returning to the earth what it has given us is a way of being and doing", the company is part of associations such as EOCA (European Outdoor Conservation Association) and WDC (Whale and Dolphin Conservation). Its symbol that contains the whale's tail represents the relationship of respect between the planet and people.

*Figure 8 Waterproof and breathable jacket free of PFCs*



Source: Ternua official website.

### **1.3 Stakeholders**

The main people interested in the execution of the project are the shareholders of the brand Lucia Palacios SA. The possibility of offering its clients a different fashion option with a social and environmental concept in the background would broaden its market share.

Among others, these are the stakeholders of the company:

- ❖ Chamber of Commerce of Cuenca (CCC): entity that offers legal advice, support in processes to obtain the digital signature and electronic invoicing. It support with workshops and training in the area of marketing, e-commerce.
- ❖ Chamber of Industries, Production and Employment (CIPEM): corporate union that groups together productive sectors to promote corporate social responsibility. They seek to generate good practices to achieve social welfare for their affiliates.
- ❖ Young Entrepreneurs Association (AJE, by its acronym in Spanish): its objective is to support young entrepreneurs in the city of Cuenca to materialize their projects and carry out activities that contribute to the growth of companies in the province.

- ❖ **Media:** includes the most widely read newspapers and magazines in Cuenca such as *El Tiempo* and *El Mercurio* journals. Television channels such as *ETV Telerama*, *Unión TV*, *Telecuenca*, *Ekos Magazine*; they would be interested in communicating to the city the opening of a boutique that sells sustainable European fashion and takes into account international catwalk trends.
- ❖ **Influencers:** Doménica Cobo Flándoli, social activist on issues of sustainability and support for women; Nicolás Muñoz, business lawyer who promotes entrepreneurship and Ecuadorian pride.

#### **1.4 Consumers**

The consumers of the brand Lucia Palacios SA are recognized by their likes to dress in fashion according international trends. They are demanding clients in terms of design and quality, always looking for products that give them differentiation. The exclusivity of this firm is undoubtedly the most important characteristic because it guarantees trust. Because the garments are intended for a segment of customers with a medium-high socioeconomic level, the brand has managed to generate a feeling of status. Buyers are willing to pay a high price for a fine, elegant and distinctive product. Customers' loyalty is reflected by the personalized advice they receive on each of their visits.

#### **1.5 Internal Analysis**

Lucia Palacios SA opened its fashion house more than 25 years ago in the city of Cuenca (1994). It started as a small business, but with the intention of becoming recognized in the women's fashion market, it was opened a store in *Mall del Río*, where it was for a period of 10 years. This transition allowed the firm to get clients from all over the country. Later, with more experience and capital, the company invested in their own boutique located on *Paucarbamba Ave. 3-52 "Las Chirimoyas"* Building, its only place of operation.

Lucía Palacios Espinoza and her daughter, María Elena Vásquez, are the founders of this business. In 2011 the brand bought Giuliani Vilela, a company created by Lucia's other daughter, Catalina, which trades footwear and 100% leather handbags imported from Brazil. The shares of this company are distributed as follows: 49% Lucía, 49% María Elena, and 2% Catalina. Currently, María Elena is the General Manager who is in charge of the administrative sector and foreign trade activities.

Over the years the company has worked with several suppliers from different countries such as the United States, Brazil, Spain, Portugal and Italy. Its ideals of exclusivity and elegance have allowed the firm to achieve great recognition in society. Due to the serious situation that the planet is going through because of pollution, the company has decided to bet on sustainable fashion. With this innovation, it intends to involve values such as responsible consumption, social justice, care for the environment and health protection by including toxic-free natural materials in its garments.

### 1.5.1 Product portfolio

*Table 3 Lucia Palacios' product portfolio*

Casual footwear - Formal footwear	They are made with 100% leather and are imported from Brazil and Portugal. They are the customer's favorites for guaranteeing comfort, distinction, elegance.
Handbags	They are made with 100% Brazilian and Spanish leather. They are available in different sizes, styles and colors.
Bridal gowns	They are imported from the United States and Spain, manufactured by well-known high-end firms. The company offers product exclusivity for the country.
Gala dresses and semi-formal outfits	Great diversity of outfits for gala events and receptions during the day. Elegant and exclusive designs imported from Spain, United States, Portugal.
Casual clothing	Pants, blouses, coats, fur capes, jackets, scarves, blazers. All the garments are imported, mostly fine and distinctive.

Source: Own elaboration.



Because the products have a high turnover, the company Lucia Palacios SA carries out four imports per year. Each product acquisition contains the international fashion trends for each season (spring, summer, autumn and winter). Additionally, the company offers its clients personalized advice at the time of purchase; after sales service with specialized seamstresses to fit the garments according to the needs of each person.

Figure 9 Lucia Palacios’ product portfolio



Source: Lucia Palacios Boutique  
Made by: Daniela Soria V.



### **1.5.2 Prices**

Throughout its operation years, the company has always chosen to offer its customers exclusive high-end products. Its imported garments of very fine fabrics guarantee the best quality. Lucia Palacios S.A. manages a high price range for its garments. The status that is generated among the buyers of the boutique is one of distinction. The ideology of the firm is not to offer discounts of any category due to the expensive product it sells. Prices vary depending on each garment and its manufacture. Examples according to the average value of prices:

- ❖ Blouses \$95
- ❖ Pants \$150
- ❖ Coats \$325
- ❖ Dresses \$500

### **1.5.3 Place (distribution)**

The distribution of the product is carried out only on the premises physically when the garment has been paid in full. Currently the company does not have an online sales platform; however, the photos of the garments that are uploaded to social media work as a product catalog for purchase at the store. There is the possibility of separating a product with a payment of 50% of the value of the garment. Changes or returns are not accepted once the merchandise is out of the store.

### **1.5.4 Promotion Communication**

Advertising is managed by the agency Imagine, which provides effective solutions according to the needs that arise. Its main way of promoting itself is through social media, advertising campaigns have allowed the company to generate greater interaction with customers and attract new followers. Its monthly budget for this category is \$1,500. Facebook and Instagram pages have approximately 7,000 followers.

### **1.5.5 Commercial Structure**

It is made up of three shareholders, two accountants, and an advertising marketing team. The company does not have extra personnel for sales. The remuneration system is fixed without commissions.

#### Monthly salaries

Shareholders: \$3,500

Accountants: \$500

Marketing Team: \$350

### **1.6 Chapter conclusions**

In this first chapter about the analysis of the environment of the company Lucia Palacios SA, factors that influence the results expected by the organization were identified. At the level of the macro environment, a political factor that generates uncertainty is the political risk in the country's jurisdiction due to the change of government in May 2021. Any modification in tariffs for foreign trade would directly affect the project. Considering economic forecasts will guide the company to make better decisions in the future.

It was evidenced that the fashion sector has evolved over the last decade and more and more companies are deciding to promote a sustainable culture. In Ecuador, the arrival of the Inditex group in 2012 influenced the increase in fast fashion consumption. The current challenge is to create a consumer culture based on sustainability. Technology with its capacity for innovation can be the solution to different environmental problems. Developing new production processes and using materials that have a minimal impact on the planet is the future of the textile industry.

Ecuador is a market where the differentiating factors for buying clothing are price and quality. Carrying out a marketing mix of the competition allowed us to compare products, prices, places of distribution and means of promotion that each company

handles. The opportunity to offer Cuenca society a different fashion option would involve various stakeholders. The chapter concludes with the internal analysis of the company Lucia Palacios SA, a section that was very useful to highlight some strengths and weaknesses. The quality of its garments and the elegance of its designs has marked the trajectory of this company as a fashion specialist.

## **CHAPTER 2: MARKET ANALYSIS**

### **2. Introduction to the chapter**

In this chapter, a market analysis will be carried out in order to know in advance the results that the research project could generate. Studying the market is necessary so that the company Lucia Palacios S.A is able know what its clients' interests and concerns are and to determine how their needs can be satisfied. Knowing about the different buying and selling situations generates that new commercial opportunities can be discovered.

Evaluating the current market structure in the city of Cuenca, will allow to know the situation that this new fashion project is facing. The commercial activity of the textile sector places sustainable fashion in a scenario where there are a large number of suppliers and demanders. Meeting the interests of customers is essential for a product to successfully enter the market. Within this project an individual consumer will be identified, who according to his/her beliefs, income level, lifestyle and attitudes will choose to buy the product. Customer segmentation will be carried out to determine a target audience that provides data and assertive information for this research.

The market analysis will present a research design that will consider background, problem approach, and objectives. This study will be supported by interviews with experts in the area, a sampling plan, pilot tests and fieldwork. The data analysis will be done after the surveys are completed, and a final report on it will be provided. Finally, the limitations and warnings that arose during the investigation will be announced.

## **2.1 What is a market analysis?**

The market is known as the meeting point between suppliers and demanders of a good or service. It is the space in which the interested parties agree what a project could generate when assessing the convenience of meeting a need. It contributes to the technical, financial and economic analysis of a company. Studying a market seeks to determine the quantity of goods or services that a population would acquire at a specified price (Córdoba, 2011).

One of the objectives of this analysis is to verify that there is an unsatisfied market and if it is feasible from an operational point of view to introduce a product. Listening to the opinions of potential customers allows to satisfy to a greater extent the needs they have as consumers; this would generate greater income in the long term as a result of a greater volume of sales. When companies analyze the different buying and selling opportunities in a given sector, they discover new business opportunities that may be key to their development in the future.

## **2.2 Market structure**

Sustainable fashion in the city of Cuenca, Ecuador; is located within a competitive market due to the existing number of emerging clothing stores and textile designers. In the social sphere, people feel comfortable wearing exclusive designs. Quality, price and brand are characteristics that symbolize a certain level of status.

The challenge for sustainable fashion to enter the market is to generate consumer awareness. Most of the stores in the city offer clothing at low costs, without any kind of environmental awareness. Designers make suits with fabrics that have chemicals and dyes that are harmful to the care of nature. There is no responsibility for textile recycling, many raw materials and accessories with which clothes are made in Ecuador are imported from countries with labor exploitation. According to economic figures presented by the Central Bank regarding consumer goods in imports, they

show that the textile garments that enter the country are mainly made in China, Bangladesh, Vietnam, India, Pakistan (Central Bank of Ecuador, 2020).

### **2.3 The product**

“Product is the realization of the good, anything that can be offered to satisfy a need or desire. It encompasses physical objects, services, people, places, organizations and ideas” (Mejía, 2010)

The product that is being studied to enter Cuenca market is sustainable clothing. Garments of all kinds such as pants, coats, blouses, cardigans, jackets, dresses made from raw materials that are responsible for caring for the environment. Each garment will have its story, the client will obtain information about the place of manufacture, who made it, how it was made and the processes that were used for its creation. This range of products is presented as a consumer conscious alternative; clients will be able to enjoy dressing elegant, distinguished and glamorous in a responsible way. The product aims to transmit values of respect, coexistence, equality, health, safety to its users, as well as motivating other people to join forces to solve global problems.

### 2.3.1 Product differentiation characteristics

*Figure 10 Eco-friendly sweatshirt*



- Organic cotton and recycled polyester blend fabric (from PET bottle waste)
- It is dyed from inedible agricultural residues (walnut shells, olives)
- PFC (toxic chemical compound) free garment
- It is made of bluesign fabrics and biodegradable materials.

(Merant Hoody W Sweatshirt, 2020)  
Source: Ternua official website.

This eco-friendly sweatshirt can be used in cold weather for wind protection. Ideal for outdoor activities, it is light and has good breathability with freedom of movement. Excellence in quality for a moderate price. It is considered a durable product of habitual consumption, for those who live in mountainous areas. Due to its technological improvement, it is sold to the public as a sustainable, aware and responsible garment for environmental deterioration. Within its life cycle this product is in the growth phase; it is already on the market, but people still do not know about it on a large scale. The company is trying to increase this garment distribution while keeping the same price and quality to increase sales.

*Figure 11 Sustainable dress*



- Effortless elegance, attention to detail and integrity, garment made by artisans.
- Controlled quality with ecological production processes.
- Clean fashion, supports sustainability and does not participate in the traditional times of sales.
- A relaxed fit made from organic fibers and recycled materials.

(Brazil silk dress, 2020)  
Source: Malota BCN official website.

This dress from the Spanish brand Malota BCN, which is considered one of the future suppliers, can be used for social outdoors engagements. It is designed for hot climates and is perfect to be worn at beach. Its colorful prints reflect the tropical and diverse culture that exists in Brazil, its theme makes it a unique and incomparable garment with maximum quality. It is a luxury end consumer product that shows elegance and freedom. Of sporadic consumption, it can be replaced by a similar product with non-organic fibers at a lower price. According the ideology of the brand, its garments are sold with a concept of responsibility and empathy towards those who produce them. The importance given to each of the products is maintained until the end of its existence, it is clean and personal fashion. Its life cycle reflects the growth stage, it is targeted for a segment of consumers with ecological ideologies and that promote fair work.

## **2.4 The customer**

The client is the objective for which a company works to satisfy his or her needs. Within this project an individual consumer is identified, who according to his or her beliefs, income level, lifestyle and attitudes will choose to buy the product. It is very important that the customer analyze the garment and identify the features that make



it a responsible item. Analyzing the customers allows us to identify the characteristics they are looking for to better meet their expectations.

#### **2.4.1 Customer segmentation**

Customer segmentation allows companies to better know their consumers because it handles more objective information. Allocating time and resources to this process brings a series of benefits in the future for better interaction with users. Defining a group of potential customers achieves that effective communication channels are used to capture the user's attention. The commercialization processes are used according to their needs (Contrí, 2008).

Now, a series of geographical, demographic, and consumer habits will be analyzed to determine the profile of the potential sustainable fashion customer in the city of Cuenca, Ecuador.

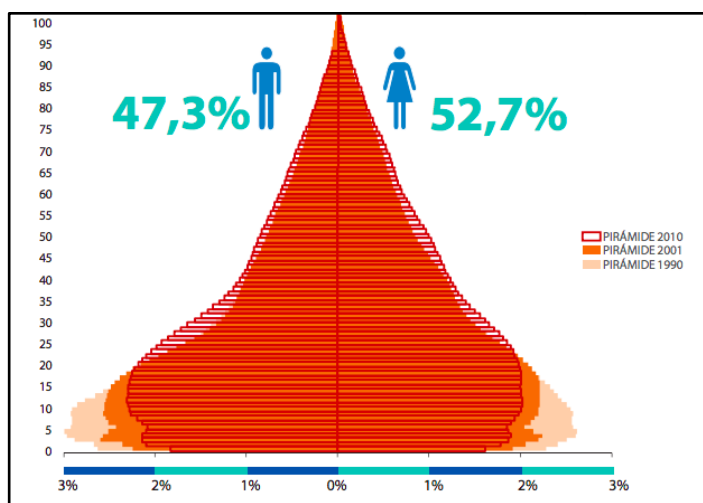
#### **2.4.2 Location**

Lucia Palacios SA is a company established in the city of Cuenca. For this project, the company has decided that the research will take place within this city because it will market the new products in its boutique located on Paucarbamba Ave.

#### **2.4.3 Population structure**

According to data from the National Institute of Statistics and Censuses (2010), Cuenca has a population of 603,269 inhabitants; 52.6% of the total are women compared to 47.4% who are men. It is the third most inhabited city in the country, the average age is 29 years and it has a growth rate of 1.9% per year (INEC, 2010). These data are beneficial for the project because Lucia Palacios' customers are women.

Figure 12 Cuenca population by gender



(Population structure, 2010)

Source: National Institute of Statistics and Censuses

#### 2.4.4 Cuenca population by age

In the province of Azuay, in relation to previous studies, there is a decrease in the younger age groups. 51.3% of people are concentrated in young ages with productive capacity (INEC, 2010). This data represents an advantage for the project because the company customers are young women. As these are products with a premium quality, it is important that people who seek to acquire them can generate income to satisfy their pleasures.

Table 4 Cuenca population by age

Rango de edad	2001	%	2010	%
De 95 y más años	1.419	0,2%	736	0,1%
De 90 a 94 años	2.003	0,3%	1.916	0,3%
De 85 a 89 años	3.545	0,6%	4.348	0,6%
De 80 a 84 años	6.038	1,0%	7.494	1,1%
De 75 a 79 años	8.469	1,4%	9.963	1,4%
De 70 a 74 años	10.951	1,8%	13.682	1,9%
De 65 a 69 años	13.226	2,2%	17.696	2,5%
De 60 a 64 años	15.887	2,6%	20.762	2,9%
De 55 a 59 años	17.819	3,0%	24.272	3,4%
De 50 a 54 años	22.522	3,8%	28.624	4,0%
De 45 a 49 años	24.280	4,0%	33.917	4,8%
De 40 a 44 años	29.971	5,0%	36.718	5,2%
De 35 a 39 años	33.679	5,6%	42.087	5,9%
De 30 a 34 años	37.626	6,3%	48.898	6,9%
De 25 a 29 años	42.558	7,1%	60.764	8,5%
De 20 a 24 años	56.725	9,5%	69.231	9,7%
De 15 a 19 años	66.631	11,1%	74.653	10,5%
De 10 a 14 años	69.892	11,7%	75.507	10,6%
De 5 a 9 años	68.748	11,5%	72.122	10,1%
De 0 a 4 años	67.557	11,3%	68.737	9,7%
Total	599.546	100,0%	712.127	100,0%

(Population structure, 2010)

Source: National Institute of Statistics and Censuses

#### 2.4.5 Socioeconomic Level

The National Institute of Statistics and Censuses (*INEC*, by its acronym in Spanish) in 2011 conducted a survey to measure the Socioeconomic Level Stratification in urban households in Quito, Guayaquil, Cuenca, Ambato and Machala; this survey was carried out in order to identify the relevant socioeconomic groups and their characteristics. The dimensions that were taken into account for this study were: housing, education, economy, goods, technology, and consumption habits. They were divided into five socioeconomic groups to reflect the variables by strata.

*Table 5 Stratification by socioeconomic level*

Level A	<ul style="list-style-type: none"> <li>❖ 1.9% of the investigated population is found at this level.</li> <li>❖ More than 80% of households have up to two vehicles for exclusive use.</li> <li>❖ Members of high-income households buy their clothes in shopping malls.</li> <li>❖ The heads of the household work as scientific professionals, intellectuals, managers, members of the executive branch and legislative bodies.</li> </ul>
Level B	<ul style="list-style-type: none"> <li>❖ They represent 11.2% of the investigated population.</li> <li>❖ On average, households have a vehicle for exclusive use.</li> <li>❖ Most of the people in these households buy clothes in shopping malls.</li> <li>❖ The 26% of heads of the household work as mid-level professionals, scientists, intellectuals, technicians.</li> </ul>
Level C+	<ul style="list-style-type: none"> <li>❖ They represent 22.8% of the investigated population.</li> <li>❖ 21% of this population have a laptop.</li> <li>❖ 39% of households have internet service.</li> <li>❖ The heads of the household work as tradesmen, service workers, and machine installation operators.</li> </ul>
Level C-	<ul style="list-style-type: none"> <li>❖ They represent 49.3% of the investigated population.</li> <li>❖ On average they have one color television</li> <li>❖ 14% of households buy most of their clothing in shopping malls.</li> <li>❖ The heads of the household work as service providers, merchants, and some are inactive.</li> </ul>
Level D	<ul style="list-style-type: none"> <li>❖ They represent 14.9% of the investigated population.</li> <li>❖ Less than 43% have a refrigerator and a range with oven.</li> <li>❖ 9% of households use the internet.</li> <li>❖ The heads of the household are unskilled workers, traders, machine operators and some are inactive.</li> </ul>

Source: National Institute of Statistics and Censuses 2011  
Made by: Daniela Soria V.

#### 2.4.6 Structure of current monthly monetary consumption expenditure

The 2011-2012 National Income and Expenditure Survey (*ENIGHUR*, by its acronym in Spanish) carried out by the INEC, aimed to know the structure of the household budget according to different origins. In order to support the change in the consumer price index (CPI), these data were evaluated based on demographic and socioeconomic characteristics. According to the household spending section, the consumption of clothing and footwear is in fourth place, textile clothing represents 7.90% of total spending, which means that people consider this sector as important. This data is an advantage for the project because at the moment that people are willing to buy new garments, the merchandise would achieve an effective turnover.

*Table 6 Structure of current expenditure*

Divisiones	Gasto Corriente mensual (en dólares)	%
Alimentos y bebidas no alcohólicas	584.496.341	24,40
Transporte	349.497.442	14,60
Bienes y servicios diversos	236.381.682	9,90
Prendas de vestir y calzado	190.265.816	7,90
Restaurantes y hoteles	184.727.177	7,70
Salud	179.090.620	7,50
Alojamiento, agua, electricidad, gas y otros combustibles	177.342.239	7,40
Muebles, artículos para el hogar y para la conservación ordinaria del hogar	142.065.518	5,90
Comunicaciones	118.734.692	5,00
Recreación y cultura	109.284.976	4,60
Educación	104.381.478	4,40
Bebidas alcohólicas, tabaco y estupefacientes	17.303.834	0,70
<b>Gasto de Consumo del hogar</b>	<b>2.393.571.816</b>	<b>100,00</b>

(Structure of current monthly monetary consumption expenditure, 2011)

Source: National Institute of Statistics and Censuses

## **2.5 Design of market research to measure the feasibility of importing and subsequently marketing sustainable Spanish fashion in the market of Cuenca**

### **2.5.1 Executive summary**

This study aims to determine the feasibility and acceptance of sustainable Spanish fashion in the market of Cuenca. The idea is to market this type of clothing in the future, so it is essential to evaluate the consumption habits of people in the city. Knowing how young women think and act regarding fashion will help us to quantify those who would be willing to buy. Obtaining information on the type of garment they would like, the price they would pay and the style they would use, will help the company Lucia Palacios SA to meet the requirements of its potential buyers.

This research will be carried out based on online surveys that will be sent to a female audience in the city of Cuenca, aged between 25 to 60 years, from a medium-high income socio-economic stratum. Data will be obtained from this segment of people to analyze and reach conclusions.

### **2.5.2 Background**

- Sustainable fashion is born from the growth and uncontrolled consumption of fast fashion; garments motivated by very low prices that generate great pollution.
- The constant change of fashion trends worldwide means that clothes are manufactured for temporary use, in this way consumers feel the desire to buy new garments.
- With the arrival of the Inditex group to Ecuador in 2012, the consumption of fast fashion in society spread without generating awareness of the social and environmental impact that this clothing produces.

- People are not aware of what it means to wear ecological clothing; they do not know either about the processes that must be carried out to recycle textiles.
- Ecuador has a type of consumer who prefers price over quality.

### **2.5.3 Definition of the problem and research objectives**

The consumption of fast fashion in Ecuador represents a big problem because people are not aware of its socio-environmental consequences. People who work manufacturing fast fashion are generally children, women and the elderly; they are exploited for work in poor countries by multinational companies. The garments produced in places with insufficient resources such as Bangladesh and Vietnam, are found in the most visited fashion stores in the country such as Zara, Bershka, Pull and Bear, Mango.

Due to the fact that there are not many establishments that market this type of clothing, it is necessary to know the perception of the Cuenca market regarding sustainable fashion. This will allow Lucia Palacios S.A to adapt the business to the likes and preferences of the users.

Objectives:

- To verify if the public to whom the project is aimed knows about sustainable fashion.
- To analyze the reasons why the public chooses to consume fast fashion.
- To determine the price range that customers would be willing to pay for a sustainable garment.
- To determine the preferences that potential consumers have to carry out their purchase.

- To know if people are aware of textile recycling processes.

#### **2.5.4 Problem approach**

The planet is experiencing an environmental crisis because of an economic system that is based on maximum production and consumption. According to Dupleich, the unlimited exploitation of resources that generates good financial development as a benefit is unsustainable. As a consequence, ideas have arisen that support the responsible use of resources for the improvement of environments. Sustainable refers to meeting current needs without compromising the possibilities of future generations (Dupleich, 2013).

The commercialization of fast fashion by multinational companies has led society towards accelerated consumerism. It is necessary to rethink a strategy that uses materials with minimal impact, easy decomposition, good quality, and free of harmful chemicals (Colorado, 2018). According to the article “Why fashion can be eco-fashion” fashion at a moderate price can be sustainable, the objective is to offer products with an added value that allows the customer to be part of a circular economy. New production technologies are aimed at conserving water, soil, air and the animal kingdom (Goldfingle, 2011)

The textile recycling policy offers collections of clothing made with waste: from other textiles, natural fibers, plastics and plants. Brands like H&M have launched waste collection programs that are based on simple steps, including reuse and recycle (CESGIR, 2017). Paying a very low price for new garments creates a feeling in the consumer that the product is disposable. The problem with fast fashion textiles is that they are not biodegradable.

#### **2.5.5 Interviews with experts in the area**

An interview was conducted with the manager of the company Lucia Palacios SA, in which it was possible to know important details of the brand and its operation.



María Elena Vásquez, the firm's main representative, explained that its growth and development in recent years is due to the diversification of products imported from European countries. She thinks that the keys to achieving the success and positioning of the brand are the exclusivity, elegance and quality of its garments.

María Elena describes Lucia Palacios' clients as people who like to dress well: they are very elegant women, distinguished people who are passionate about fashion. The representative announced the changes that the company has made to contribute to the environment, such as electronic invoicing and the use of packaging made from fabric. Considering the sustainability trend, she explained that one of her most important criteria for selecting suppliers is by making sure that they apply the philosophy of fair trade. One of the reasons why the brand does not offer discounts or promotions is due to the ethics of consumerism; its members are aware that this is one of the most polluting episodes in the world.

It was also asked about the reasons that motivated the company to seek a line of ecological products, its manager explained that as a firm they seek to generate awareness so that people prefer products with minimal environmental impact.

#### **2.5.6 Research design: exploratory, descriptive or causal**

##### **❖ Type of information to be obtained**

Regarding the proposed research, the information will be qualitative (opinions, perceptions, uses) and quantitative (prices, frequency of purchase).

##### **❖ Questionnaire application method**

The questionnaire will be applied through the Google Forms digital platform. The link will be sent to a group of women in the city of Cuenca between 25 and 60 years old, from a socio-economic stratum of medium-high income. Since this group is defined as the potential consumers, it would be the most suitable to contribute to the resolution of this project.

### ❖ **Scaling Techniques**

The questionnaire will use ordinal scales (Likert) and nominal scales.

### ❖ **Nature of the Questionnaire**

The questionnaire is made up of structured questions that present an alternative answer in different formats. There are multiple choice, dichotomous, and scale questions. The questionnaire consists of 10 questions that will help us determine the knowledge of the potential public about sustainable fashion and define their perceptions. At the end of the survey there is a filter question that will help us measure whether people would really be interested in investing in this type of fashion. The approximate time it will take for the respondent to answer the questions is between 2:30 and 3 minutes.

### ❖ **Pretest**

A pretest was carried out with the participation of 14 people, who reported that there was clarity and good structure in the questions. At the beginning, the survey included the principles pursued by sustainable fashion, however, the questionnaire did not contain a clear definition of this topic in order to clarify doubts to people who did not know about it. Before proceeding to ask the final question of whether people would be willing to invest in this type of clothing in the future, a short description of what sustainable fashion involves was added.

### ❖ **Sampling plan and sample size**

For the elaboration of the sampling plan, the total population of women residing in the city of Cuenca (52.60%) was considered as the main figure. Because Lucia Palacios is a company that sells clothing aimed at a young audience and ladies who enjoy wearing elegant garments, it was established that the closest segment by age range are women between 25 and 60 years old. As they are high quality, exclusive and imported garments, the socio-economic level of people is fundamental because the price of the products that the company sells is high.

According to a report presented by the National Institute of Statistics and Censuses, the Socioeconomic Level in households in Ecuador is categorized into five strata from level A to level D; being A and B those who live in better conditions (INEC, 2011). With this last variable, the total number of women residing in the city of Cuenca with an age range between 25 and 60 years, who have a medium-high socio-economic level is 16,087 people. To determine the sample size, it was used the total target population at a confidence level of 95%, with a margin of error of 10%; the final result was 96 people.

*Table 7 Target population segmentation*

Market segmentation		
Cuenca population		603,269
Female population	52.60%	317,319.49
Population aged between 25 and 60	38.70%	122,802.64
Socioeconomic level		
Level A	1.90%	2,333.250239
Level B	11.20%	13,753.89615
<b>Total population</b>		<b>16,087.14639</b>

Made by: Daniela Soria V.

Source: National Institute of Statistics and Censuses.

*Figure 13 Calculation of the sample size*

### Calculate your sample size

Population Size ⓘ

Confidence Level (%) ⓘ

Margin of Error (%) ⓘ

16087

95 ▼

10

Sample size

96

Made by: Daniela Soria V.

Source: Survey Monkey Sample Size Calculator

### ❖ Fieldwork

Data collection was carried out through digital surveys by Google. These surveys were sent to the women who are part of the target audience segmentation.

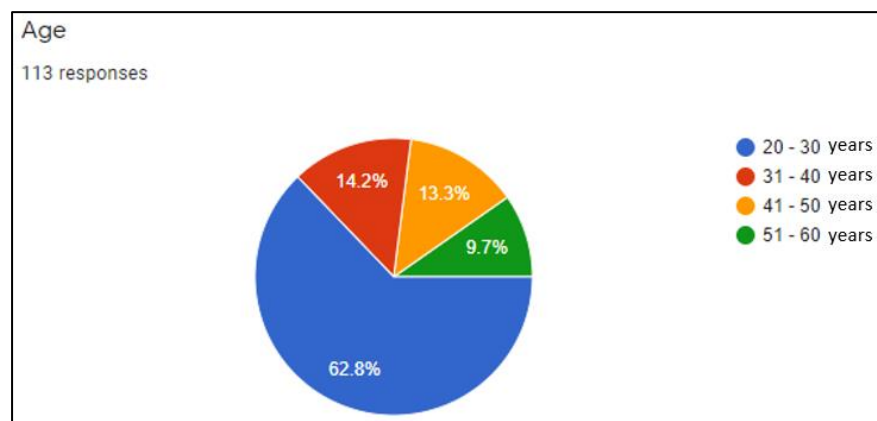
### ❖ Analysis of data

A univariate analysis of the data was performed to describe one variable at a time. The results were interpreted based on the responses of the participants. In the first instance, it was analyzed the knowledge that people have about sustainable fashion and its consumption. Subsequently, it was examined criteria that influence the time of purchase, the labeling of the garments, and the price range that customers are willing to pay for an ecological garment. Finally, a clarification of what sustainable fashion implies was provided, and it was studied how willing people are to invest in sustainable fashion in the future.

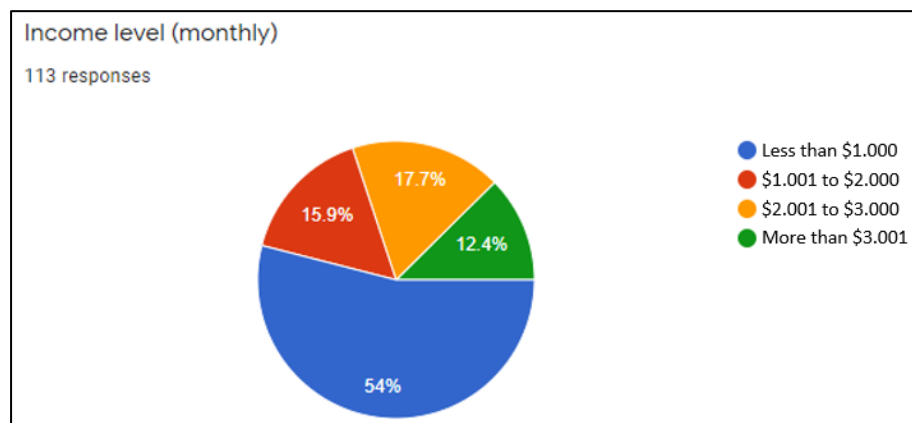
### ❖ Results

For this study, 96 women were surveyed and the following results were obtained:

*Figure 14 Age range of the participants*



*Figure 15 Income level of the participants*



*Figure 16 City of residence*

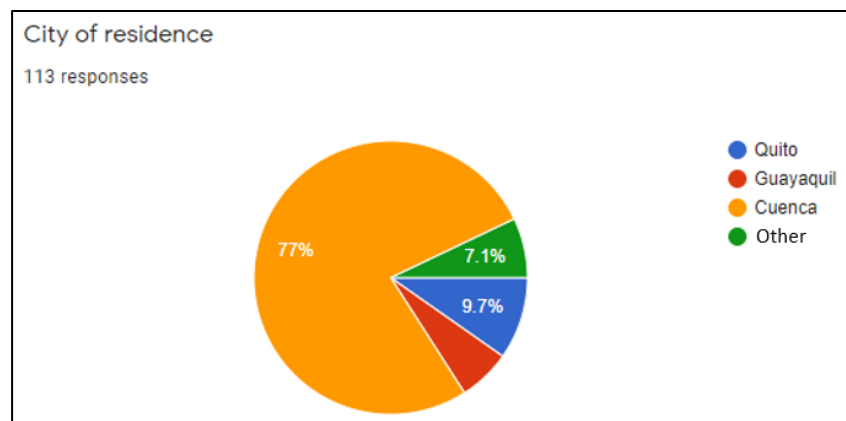


Figure 17 Level of knowledge about ecological and responsible fashion

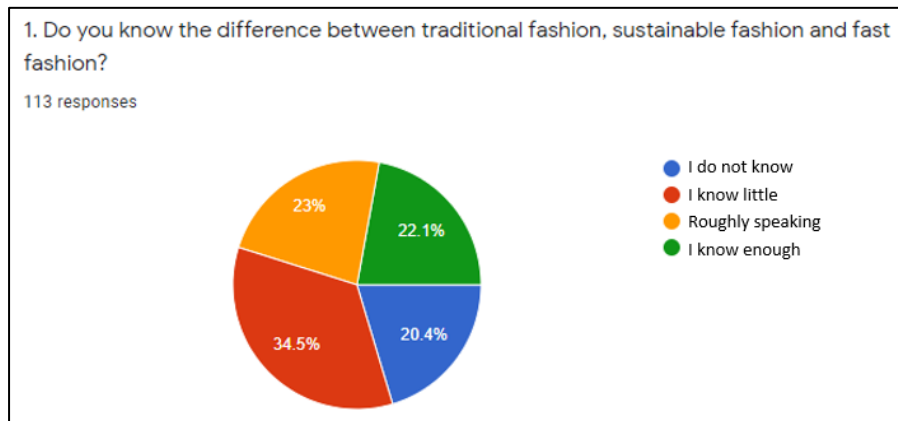


Figure 18 Consumption of ecological clothing

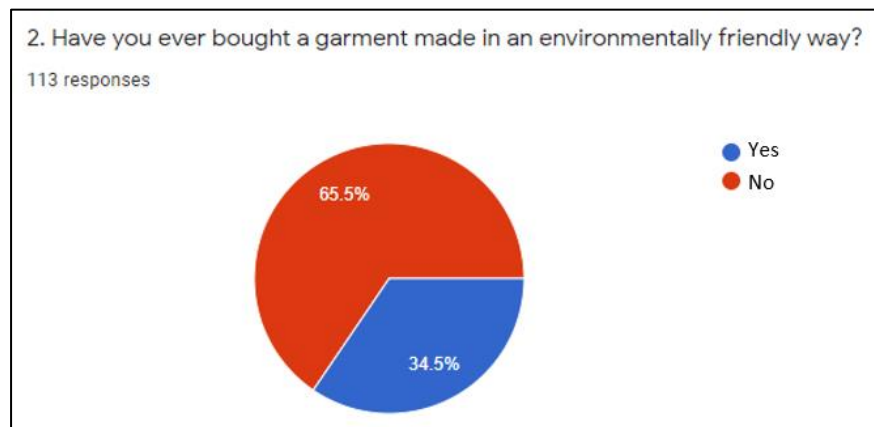


Figure 19 Thoughts against sustainable fashion

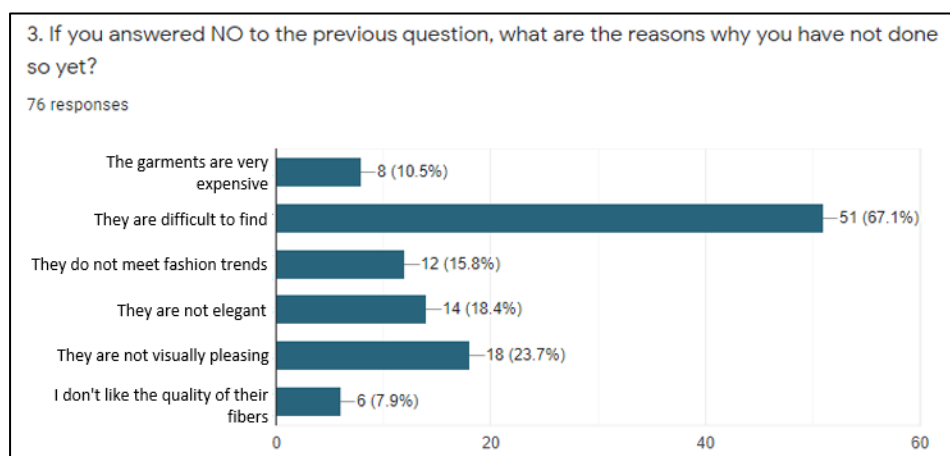


Figure 20 Place where people buy clothing

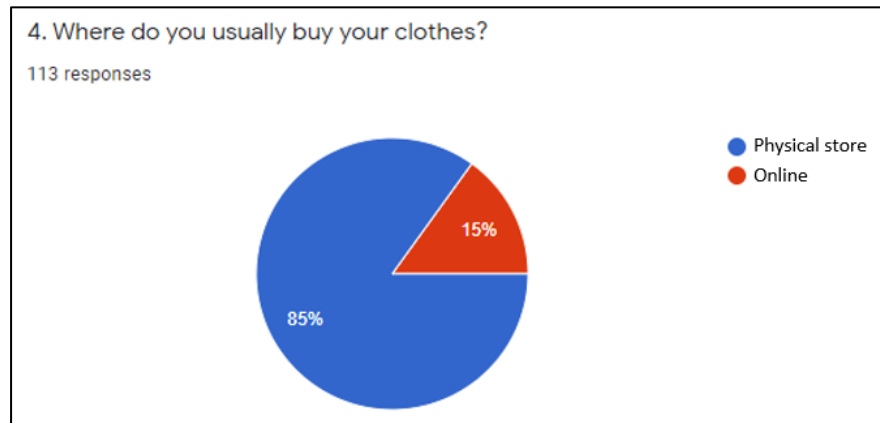


Figure 21 Influential purchase criteria

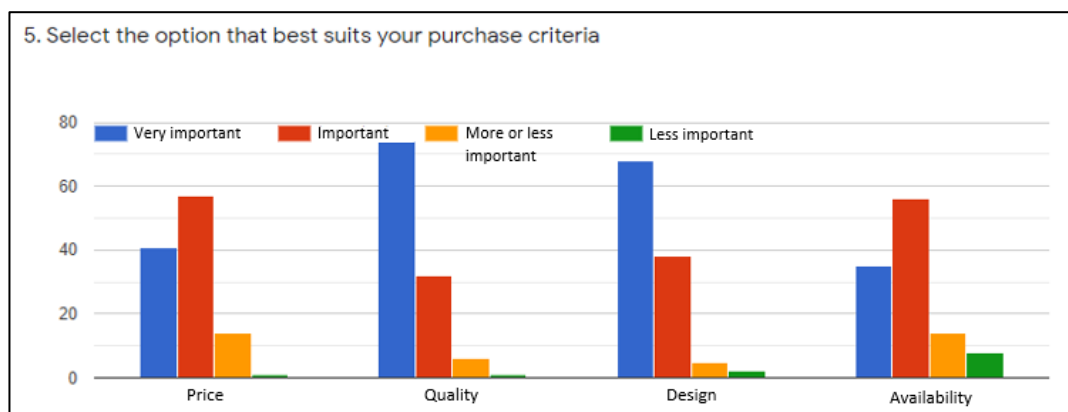
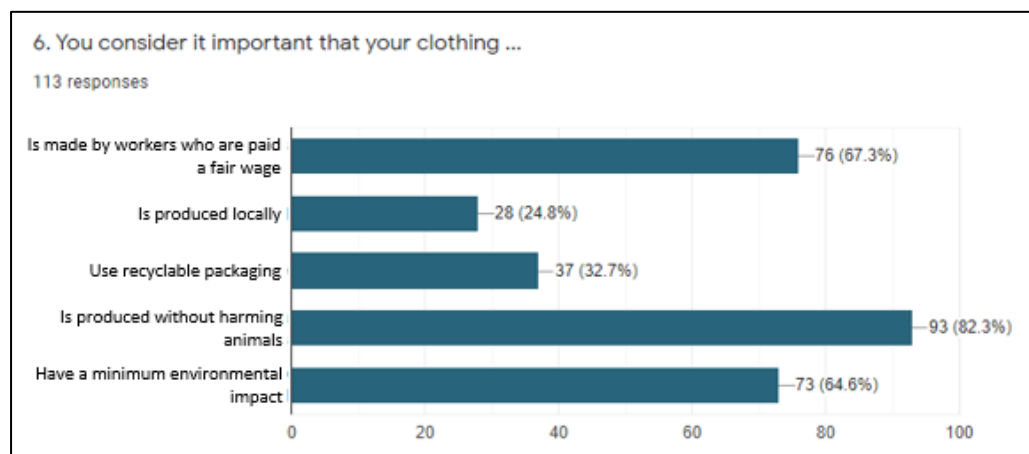
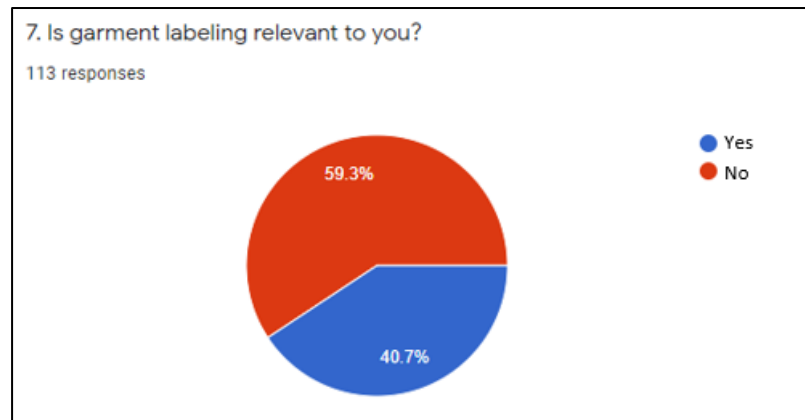


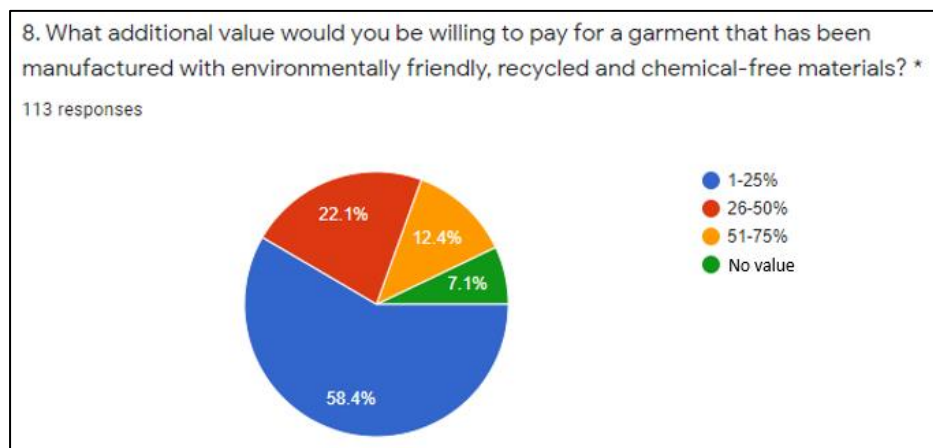
Figure 22 Relevance in garment labeling



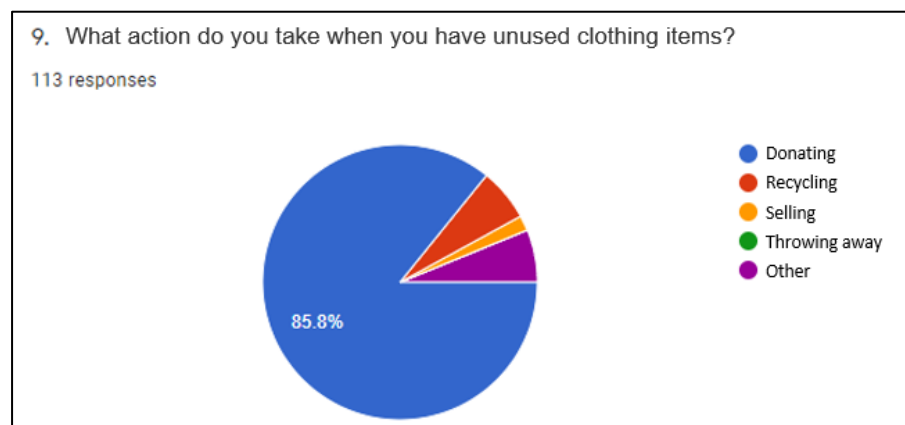
*Figure 23 Important variables for choosing a garment*



*Figure 24 An additional value*

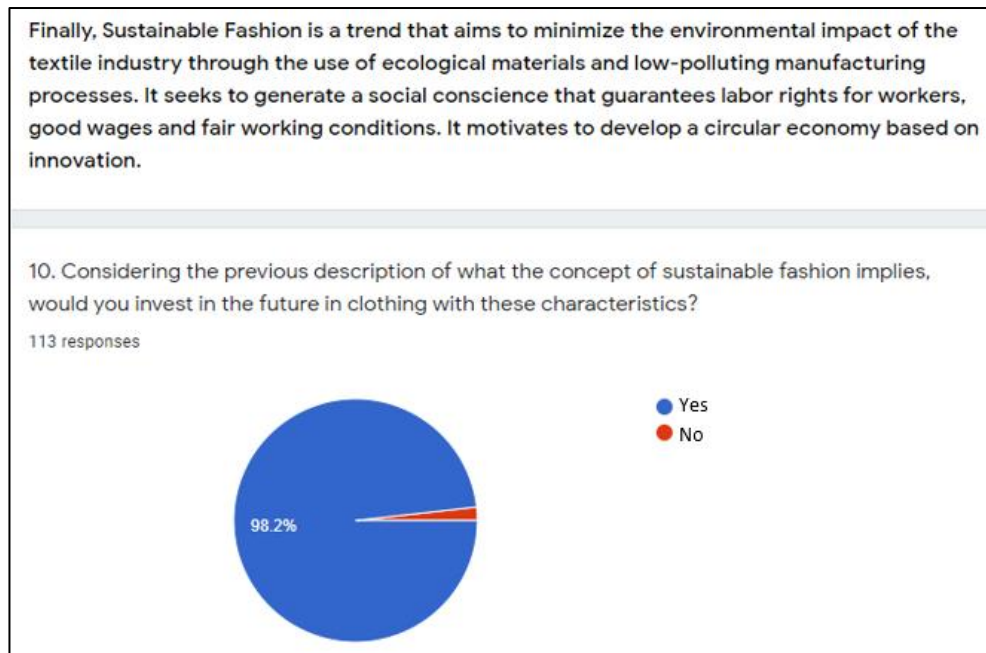


*Figure 25 About unused clothing*





*Figure 26 Willingness to invest in sustainable fashion*



The survey was conducted with a target group of women with an average age range between 20 and 60 years. Lucia Palacios' clients usually have a medium-high purchasing power, so based on their income, we were able to measure some of their preferences. The first question evaluated the level of instruction of the people on traditional fashion, fast fashion and sustainable fashion; it was evidenced that the level of knowledge is very low because 54.9% of the people do not know about the subject, or know very little. Around 65.5% of them have never bought organic clothing. They argue that the main reason is that it is difficult to find them.

Due to the spread of e-commerce and online sales in recent years, it was considered to ask about the place where people buy their products; 85% of the people surveyed still buy their clothes in physical stores. The most influential criteria in the customer's purchase decision were evaluated and it was possible to highlight that quality and design are the most important for them. Among the most significant variables that people consider when choosing a garment is its production free of damage to the animal kingdom and its manufacture with minimal environmental impact.

Although for most people the labeling on the garments is not relevant, people would be willing to pay up to 25% of additional value for the price of an ecological product. It was also studied what action people take when they have unused clothing; 85.8% choose to donate their items and very few to recycle them. Finally, before asking if people would be willing to invest in sustainable clothing, it was provided an explanatory description of what this new trend implies in the field of materials, manufacturing processes and working conditions for workers. As a final result, 98.2% of those surveyed are willing to invest in this type of clothing in the future.

## **2.6 Limitations and warnings**

This research project did not have any cost because it has not been required to contract additional services to obtain information. One of the limitations was getting people of different ages to take the survey, however, the required sample size was met and the results were obtained.

## **2.7 Chapter conclusions**

In this chapter it was possible to determine some characteristics of the dissatisfied fashion market in the city of Cuenca. Regarding the social sphere, people from this city enjoy wearing exclusive and elegant designs. The main challenge of sustainable fashion is to generate consumer awareness. The differentiating characteristics of the sustainable product that Lucia Palacios S.A. intends to publicize as part of its new ecological line, are the ones that will give the company a competitive advantage over other establishments.

The market analysis was essential to know the interests and preferences of potential consumers. The study, which included women of different ages, resulted in a very low level of instruction on sustainable trends. People are used to fast fashion consumption because there is no social awareness of the environmental impact generated by the textile industry. It was determined that Ecuador still has a traditional culture of consumption in physical stores; the criteria that most influence people's purchasing decisions are quality and design. Production free of damage to the animal kingdom

and manufacturing with minimal environmental impact, are the variables that consumers support the most to distinguish their garments.

Although the majority of society does not practice recycling acts with textiles and has never bought ecological clothing either; they are very interested to learn more about this trend. When explaining in a descriptive way that sustainable fashion includes low-polluting materials, manufacturing processes with minimal impact and protection of workers' labor rights, 98% of the women who participated in the research would be willing to invest in this type of clothing in the future.

## **CHAPTER 3: TECHNICAL STUDY OF THE PROJECT**

### **3. Introduction to the chapter**

In this chapter, a technical study of the project will be carried out to verify its viability through the design of import and commercialization processes for sustainable fashion. This study will allow the company Lucia Palacios SA know an approximation of the amount it must invest to transport its products from Spain to Ecuador. It is important that the company knows the procedures that must be carried out, along with the current regulations applicable to the items to achieve success at this stage. The results to be obtained will be subject to the proper management of these activities.

The reengineering of the project will develop the legal processes that must be carried out for the nationalization of the merchandise. The documents and taxes required by the National Customs Service of Ecuador for foreign trade activities will be evaluated. The technical requirements will be presented according to the products that the company wishes to nationalize. A loose cargo calculation will be carried out to estimate the import volume in international freight, as well as a pre-settlement will be detailed to consider the costs of this operation.

The size of the project will depend on some variables that will help to determine it. The location of the project as a strategic point for the commercialization of the products will be studied. Finally, the human resources necessary for its proper functioning will be considered.

#### **3.1 What is a technical study?**

A technical study aims to verify the viability of the project through the calculation of costs, investments and benefits derived from its engineering. It seeks to determine the optimal characteristics of resources to ensure that the production of a good or

service is efficient and effective. The technological alternatives that can be implemented in the project should be analyzed for their effect on the development of the company in the future (Sapag, 2011).

A properly defined production process allows to determine the requirements of physical works, equipment, useful life, and human and material resources that must be quantified monetarily for their correct projections. The results obtained will allow to know an estimation of the cost of the initial investment and operations. In the project engineering stage, the aspects to be analyzed correspond to the garment import and commercialization processes. The amount of available resources and the amount of products necessary to supply the demand will be studied. The steps to follow to carry out these activities will be detailed (Sapag, 2011).

### **3.2 Project engineering**

In this project, the company Lucia Palacios will carry out a research to import sustainable Spanish fashion, for which some technical aspects for the legalization and commercialization of clothing in Ecuador will be analyzed. In this section, the steps to be followed for the importation of the merchandise will be detailed in accordance with the current national regulations issued by the National Customs Service of the country.

#### **3.2.1 Import processes**

To proceed with customs clearance procedures, the Republic of Ecuador requires the advice and service of an Agent accredited by the country's National Customs Service. The customs import declaration must be transmitted to the institution in a period not exceeding fifteen days prior to the arrival of the transport, and up to thirty days after its arrival. Goods that do not meet this deadline can be considered involuntarily abandoned as established in article 142 of the Organic Code of Production, Trade and Investments (National Customs Service of Ecuador, 2017).

The prior control documents and supporting documents will constitute the basis of the information of the Customs Declaration, they must be presented in their original version. The company Lucia Palacios SA for foreign trade procedures works together with the customs agent Mauro Vintimilla, who lives in the city of Cuenca; he is responsible for the legalization of the merchandise. According to the regulations established in Title V of the Organic Code of Production, Trade and Investments (*COPCI*, by its acronym in Spanish), among the documents requested to certify an import are the following:

- ❖ Transport documents
- ❖ Commercial invoices that prove transactions
- ❖ Certificates of origin
- ❖ Documents that *SENAE* or the foreign trade regulatory body deems necessary

For merchandise to be dispatched, the selection of the inspection method is carried out according to the risk profile implemented by *SENAE*. Lucia Palacios SA is a company that has been working with legally imported garments for more than fifteen years. The company is aware of the processes that must be carried out for the project under study to successfully complete this stage.

### **3.2.2 Taxes on foreign trade**

In Ecuador, to determine the amount to be paid for taxes on foreign trade, it is necessary to know the tariff nomenclature of the Harmonized System for that product. The specific Subheading of the product to be imported will define the costs. The company Lucia Palacios SA would import its garments from the European Union; as for political factors, there is no restriction to legalize ecological clothing, there are not quotas for this type of products neither.

The National Customs Service of Ecuador considers the following taxes valid for all foreign trade activities that are registered in its territory.

- **AD-VALOREM:** established in percentage according to the type of merchandise, it is applied on the sum of Cost, Insurance and Freight (tax base).
- **FODINFA:** the development fund for childhood (*FODINFA*, by its acronym in Spanish) is applied with 0.5% on the tax base of the import.
- **ICE:** special consumption tax (*ICE*, by its acronym in Spanish) varies according to the good or service, it is represented in percentages.
- **IVA:** value added tax (*IVA*, by its acronym in Spanish) corresponds to 12% on the tax base + AD-VALOREM + FONDINFA + ICE (National Customs Service of Ecuador, 2017).

Legal basis on which the Customs of Ecuador is based:

- Organic Code of Production, Trade and Investments O. R. 351 of December 29, 2010.
- Regulation to the title of Customs Facilitation for Trade, of Title V of *COPCI* - Executive Decree No. 1343, dated March 13, 2017.
- Resolutions of the Foreign Trade Committee (National Customs Service of Ecuador, 2017).

### Example

Description of the Subheading: "Women's or girls' dresses of artificial fibres, knitted or crocheted (excl. petticoats)"

*Table 8 Tariffs of Subheading 61.04.44.00*

<b>Subheading:</b> 61.04.44.00.
<b>Ad valorem tariff:</b> 10% on the tax base
<b>Specific tariff:</b> 5,5% net weight
<b>Fodinfra:</b> 0,5% on the tax base
<b>IVA:</b> 12% on the tax base
<b>Percentage of release:</b> there is no tariffs release for the import for consumption regime

Source: ECUAPASS System, of the National Customs Service of Ecuador.  
Made by: Daniela Soria V.

*Figure 27 Dress made with sustainable materials*



Source: Malota BCN official website



### 3.2.3 Customs Regimes

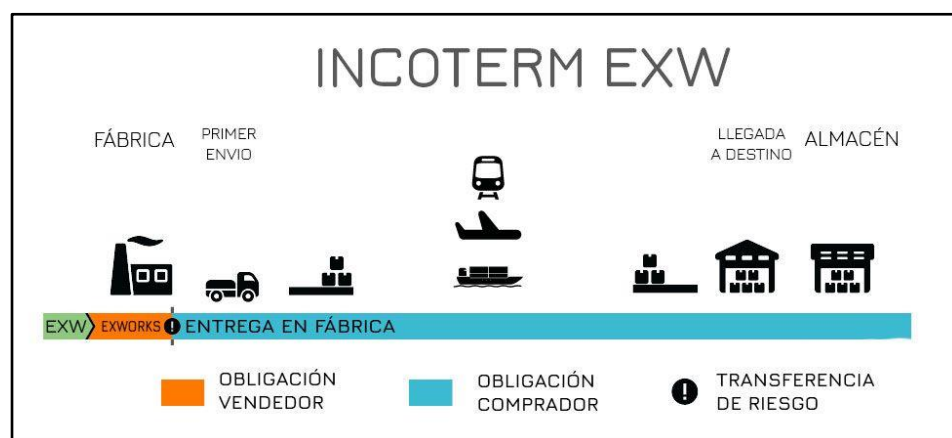
#### Import for consumption (Regime 10)

Because the company Lucia Palacios SA sells garments and clothing accessories coming from abroad, the merchandise would enter the country through Regime 10 - Import for consumption. This condition allows the merchandise to remain permanently in the territory and to circulate freely once the customs tax obligation has been paid Art. 120 (Organic Code of Production, Trade and Investments, 2010)

### 3.2.4 Trading Incoterm

The Incoterm with which Lucia Palacios SA negotiates its merchandise abroad is Ex Works. In this contract, the seller is only responsible for making the packaged products available to the Ecuadorian company in its own warehouses. The purchasing company is the one who assumes all the costs of import, transport, international insurance and storage of the cargo. Once the garments leave the establishment, all responsibility lies with the buyer (Ceballos, 2019).

*Figure 28 International sale contract*



Source: National Institute of Foreign Trade and Customs of Mexico

### 3.3 Technical requirements






#### 3.3.1 Label

According to the Ecuadorian Technical Regulation RTE INEN 013 on labeling of textiles, clothing, footwear and related accessories, there is a series of guidelines that allow the verification of imported goods subject to control during physical inspection. The National Council of Quality requires a certificate of recognition (INEN-1 form) for each import (National Customs Service of Ecuador, 2008).

As part of the label (permanently attached) there must be graphics, legible and indelible information. Since Lucia Palacios SA would import its products from Spain, the information on the label would not need to be translated; Customs requires all the information to be in Spanish. The company's brand and logo must be included on it (National Customs Service of Ecuador, 2008). Regarding the technical label of the product, it must present the following information:

- 1) Company Name: Lucia Palacios S.A.
- 2) Country of origin: Spain
- 3) Size number: *Small, Medium, Large, Extra Large*
- 4) Percentage of fibers used: polyester, rayon, cotton, nylon, etc. In the case of being recycled fibers, the percentage of them will be indicated as "Unknown Fibers".

Figure 29 Basic labeling symbols

	SÍMBOLOS GRÁFICOS	PROCESO
B A S I C O S		LAVADO
		BLANQUEADO EN BASE A CLORO
		PLANCHADO
		LAVADO EN SECO
		SECADO A MAQUINA

Source: National Customs Service of Ecuador, 2008.

Figure 30 Label Lucia Palacios S.A.



Source: Lucia Palacios S.A. archive.

### 3.3.2 Packaging

The cargo that will be imported from Spain by the company Lucia Palacios SA would keep a plastic wrap as the primary packaging of its garments. Each garment would be accommodated in the packaging in such a way that it is

protected from all possible damages that may arise in the transport of the cargo. The merchandise for this procedure does not require having a secondary packaging; the garments would be placed directly in the packaging: a cardboard box. The dimensions of this package are: 100 cm high, 120 cm long and 80 cm wide. The number of packages per pallet would depend on the volume of the import. Because merchandise would be transported by air freight, there is no need to fill a container.

### **3.3.3 Loose cargo for air freight**

Loose cargo within the context of international logistics reflects individual goods that have been shipped as parcel units or boxes. Calculating the loose cargo of an import allows to know the amount of products that can fit inside a package, according to the capacity of the box and the weight of the item. Because Lucia Palacios is a company that sells fashion, her preferred means of importing is by air due to its speed. A loose cargo for air freight will be calculated, considering the dimensions of the aforementioned packaging (100 cm high x 120 cm long x 80 cm wide).

According to the information provided by the company Lucia Palacios SA, data processing will be carried out to know the total number of trench coats that an import would have.

*Figure 31 Spanish trench coat  
made with recycled materials*



Source: ECOALF official website for Spain

*Table 9 Loose cargo calculation for air freight*

<b>Number of trench coats per package</b>	43
<b>Average weight per garment</b>	1.4 kg
<b>Total weight of garments per package</b>	60.2 kg
<b>Packing box weight</b>	4.25 kg
<b>Total packing weight</b>	64.45 kg
<b>Packaging per pallet floor</b>	1
<b>Packing floors per pallet</b>	2
<b>Total packages per pallet</b>	2
<b>Average of imported garments</b>	160
<b>Number of packages</b>	4
<b>Number of pallets</b>	2

Source: Own elaboration.

Regarding the calculation of loose cargo for air freight, it is important to mention that in cargo planes, the pallets are placed directly on the floor of the aircraft; this is a big difference with maritime transport because it always needs to have a container. If the average number of trench coats that the company imports would be 160, it would need 4 cardboard packages to transport its cargo. These would be placed on two pallets, with two floors each.

### **3.3.4 International transport**

#### **❖ Type of transport**

Multimodal transport: This is the name given to the international transport of goods that is carried out using two or more means. The means of transport used by Lucia Palacios for her imports will be described below. First of all, the company uses land transportation to take cargo from its suppliers' warehouses to the airport. Secondly, the cargo is shipped from the European Union to Ecuador through air transport in a cargo aircraft. The process continues when the imported items arrive in Guayaquil, after receiving the necessary controls, they are transferred by land transportation to the city of Cuenca.

#### **❖ Using the electronic lock**

The Ecuadorian Customs, in order to establish a control and security mechanism for cargo monitoring, proposed a series of electronic devices to favor a geo-referenced inspection system. Due to the fact that procedures and processes of customs clearance of the company's merchandise are carried out in the city of Cuenca, Lucia Palacios SA has the obligation to contract the satellite padlock service to transport the cargo from the city of Guayaquil.

The physical security device is placed in the cargo units under customs control to guarantee the integrity of the merchandise. This mechanism records all closings and openings experienced by the cargo. It also allows to know the real-time location of the transport unit during its route through the national territory (National Customs Service of Ecuador, 2012).

### ❖ International insurance policy

The company Lucia Palacios, in order to protect its merchandise during importation, has decided to contract an international insurance policy in a private way. *Seguros Alianza S.A.* is the insurance company that is responsible for covering the risks that may arise during the process of transporting the merchandise from Spain to the city of Cuenca in Ecuador, where the company is located. The price of international freight for the transporting the merchandise is \$2,100 US dollars.

#### 3.3.5 Pre-settlement

a) Variables to take into account:

- Incoterm (International Commercial Terms): rules of voluntary acceptance by the parties in an international sales contract.
- EXW: Ex Works. Incoterm rule in which the seller firm fulfills its delivery obligation when the merchandise has been made available to the buyer at seller's establishment (factory, warehouse).
- Pallet: platform that is used as a base to support the packing boxes; its structure is designed to facilitate the transportation of the merchandise.
- Loose cargo: Sometimes referred as “Less than Container Load” (LCL). It refers to cargo shipments that are not enough to fill a standard container.

Table 10 Import pre-settlement

IMPORT PRE-SETTLEMENT			
<b>IMPORTER:</b> Lucia Palacios S.A. <b>PRODUCT:</b> Trench coats made with ecological materials <b>TARIFF HEADING:</b> 62.02.13.00 <b>FOB:</b> EXW: (160x155.00) <span style="float: right;">\$24,800.000</span> <b>Quantity:</b> (1x160) <b>COUNTRY OF ORIGIN:</b> Spain			
COSTS DETAIL			
CONCEPT	PERCENTAGE	COST	OBSERVATIONS
<b>COST OF MERCHANDISE:</b>		\$ 24,800.000	
<b>INTERNAL FREIGHT</b>		\$ 475.00	
<b>COMMISSION</b>		\$ 500.00	125 Euros per supplier
<b>TOTAL FOB</b>		\$ 25,775.00	
<b>INTERNATIONAL FREIGHT</b>			
International freight		\$ 2,100.00	It covers the entire transaction Cargo air craft
THC		\$ -	
Local costs in Ecuador			
<b>TOTAL COST OF INTERNATIONAL FREIGHT</b>		\$ 2,100.00	
<b>INSURANCE</b>			
Insurance policy		\$ 137.99	It covers the entire transaction According to the last import: 146.50EU - \$175.80 USD
<b>COSTS IN ECUADOR</b>			
Foreign currency outflow tax (ISD by its acronym in Spanish)	5%	\$ 1,240.00	
Bank Commission		\$ 40.00	
Cargo storage	Gye + Cuenca Warehouses	\$ 560.00	INARPI (280 +280)
Nationalization		\$ 500.00	
Transportation Gye - Cue		\$ 320.00	
<b>TOTAL EXPENSES IN ECUADOR</b>		\$ 2,660.00	
<b>CIF Value:</b>		\$ 28,012.99	
<b>CUSTOMS TAXES</b>			
Ad valorem	10.00%	\$ 2,801.30	
Specific Tariff	5.50%	\$ 1,540.71	
Fodinya	0.5%	\$ 14.01	
Safeguard	0.0%	\$ -	
Value added tax (IVA by its acronym in Spanish)	12.00%	\$ 3,699.40	
<b>TOTAL TAXES</b>		\$ 8,055.42	
<b>TOTAL IMPORT EXPENSES</b>		\$ 38,728.41	
<b>TOTAL COST OF IMPORT</b>		\$ 35,029.01	
* TO CALCULATE THE UNIT COST OF THE PRODUCT, IVA MUST NOT BE INCLUDED			
\$ 218.93	Unit Cost of the Trench coat		

Source: Lucia Palacios S.A. archive.



### 3.3.6 Tariff Heading

Trench coats made with ecological materials belong to tariff subheading 62.02.13.00, to which correspond "women's or girls' overcoats, raincoats, car coats, capes, cloaks and similar articles, of man-made fibres, excluding knitted or crocheted" (Trade Map, 2019). It is considered a man-made fiber trench coat because it is made from natural, animal or vegetable raw materials. The garment made with 100% recycled polyester, does not warp, is lightweight and absorbs less moisture.

The tariff classification of this heading presents the following values:

*Table 11 Tariffs of trench coats subheading*

<b>Subheading:</b> 62.02.13.00
<b>Ad valorem tariff:</b> 10% on the tax base
<b>Specific tariff:</b> 5.5% net weight
<b>Fodinfra:</b> 0.5% on the tax base
<b>IVA:</b> 12% on the tax base
<b>Percentage of release:</b> there is no tariffs release for the import for consumption regime

Source: ECUAPASS System, of the National Customs Service of Ecuador.

Made by: Daniela Soria V.

### 3.3.7 International payment methods

Considering the financial situation of the company, for Lucia Palacios SA it is convenient a budget scenario for international purchases that achieves at least an annual increase of 5%. According to the accounting department, to finance this project the company would use two methods of payment for its suppliers. The first installment would be paid with credit card at the time of making the physical purchase of the

merchandise in Spain, and the second installment would be made through a bank transfer when the merchandise is ready to be dispatched to Ecuador.

### **3.4 Project size**

The size of the project will be determined based on the capacity for importing and marketing the garments. The importance of defining this dimension is manifested in the level of investments and costs that the company Lucia Palacios SA could have. The decision on project size will determine the level of operation. The capacity of the project is determined by the number and volume of imports that the company can carry out each year, depending on its level of sales (Córdoba, 2012). As observed in Chapter 2 about the Market Analysis, there is an acceptance of 98% of potential consumers towards sustainable fashion garments.

Factors that determine the size of the project:

❖ Size and market:

The target market to whom the project will be directed will be female population between 25 and 60 years old from the city of Cuenca, who belong to a socio-economic stratum of medium-high income. With 98% acceptance of sustainable fashion from potential consumers, the company must continue working with advertising campaigns and constant updating of its social networks to improve its position in the market.

❖ Size and raw materials:

To supply the needs of its customers, Lucia Palacios SA carries out an import for each season of the year (every 3 months). This allows the company to have the new fashion trends in stock and to have a high products turnover. The quantity of products that is imported is considered for this period of time.

❖ Size and financing:

In Chapter 4, through a Financial Analysis, it will be possible to verify that the business of the new sustainable fashion line is profitable for the company, according to its balance sheets and availability of resources to execute the project.

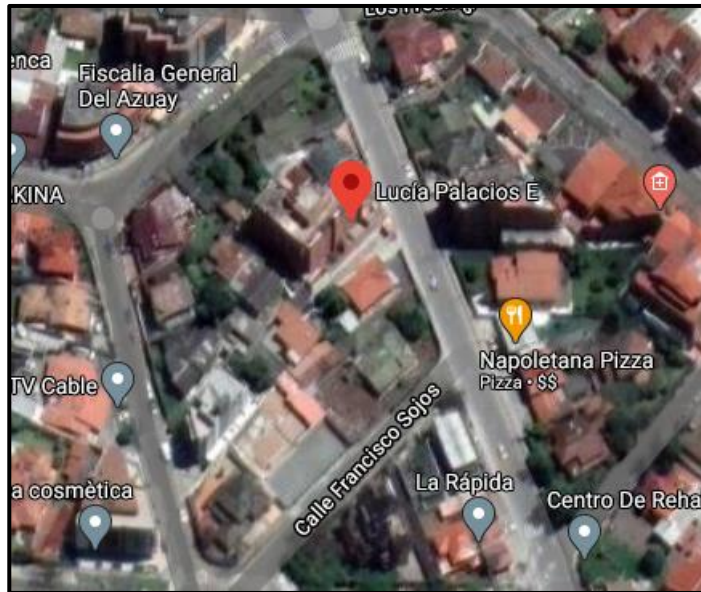
❖ Size and technology:

The company's Software System is designed to process the new items that arrive at the boutique through an inventory. The security system consists of alarms that are easily adapted to the incoming merchandise. The control system through cameras covers the entire Lucia Palacios boutique where the merchandise would be located.

### **3.4.1 Project location**

The project will be located in the city of Cuenca, Ecuador at Lucia Palacios Boutique facilities, located on Paurcarbamba Ave. 3-52 and Francisco Sojos St. The company has 295 m<sup>2</sup> for its facilities where the sales department, accounting, foreign trade, administration are located, besides the necessary space for the storage of products. The location of the premises near the center of the city is ideal for the commercial area in which it is located. The boutique has four parking spaces available for the convenience of its customers. The calm environment with which the customer can buy is an advantage to motivate her return.

*Figure 32 Geographical location Lucia Palacios Boutique*



Source: Google Maps Satellite View.

### **3.4.2 Availability of human resources**

For the importation and commercialization of clothing, the project will require trained personnel to develop the work required in the most optimal way. The functions that would need to be covered will be detailed below.

#### **❖ Importations area**

For those operations related to the foreign trade area, a customs agent will be required. Mauro Vintimilla is a customs agent accredited by SENA, he has already worked for the company some years and will be the person in charge of organizing the tariff classification, legislation, valuation of merchandise and procedures for customs clearance of cargo. He will advise the company throughout the process of importing the merchandise.

#### ❖ Sales area

For the commercialization of the garments, we will work with personnel who have knowledge in the areas of administration, accounting and sales. Because the project is a new clothing line to be implemented in the boutique, there is no need to hire additional staff for these operations. The company will work with people previously affiliated with Lucia Palacios SA and in the case of being necessary it will be opened a vacancy in the future.

#### ❖ Advertising and Digital Marketing area

Considering that the new clothing line that is part of this project is novel due to its concept and manufacturing processes, Lucia Palacios SA must place great emphasis on promoting it. Publicize special characteristics such as manufacturing materials, manufacturing processes, recycling trends and support for fair work; it will undoubtedly generate a positive impact on people. Arousing the curiosity of how sustainable fashion looks like will create an interest in people to visit the boutique. One suggestion for the company is to launch a campaign with the concept of ethical fashion and environmental care to introduce its new products. This investment will get people's attention to learn about the brand.

### **3.5 Chapter conclusions**

It can be concluded that the Technical Study of the project for importing Spanish sustainable fashion to Ecuador, was useful to estimate the international logistics processes for the acquisition of the merchandise. Considering Title V of the Organic Code of Production, Trade and Investments (*COPCI*), the foreign trade taxes that have to be paid for importing the garments were evaluated. Once the tariff heading was identified, it was possible to observe the payment percentages required by each tax for the nationalization of the cargo.

When analyzing the technical requirements, it was possible to verify some requirements that garments must meet to be imported. With the calculation of loose cargo for air freight, it was possible to estimate the number of pallets and packaging that the company would need to transport its merchandise according to the volume of imports. The detail of the pre-settlement was essential for the company to consider the costs that it would take to carry out an import of this type of clothing. With this calculation, it was also possible to determine what the unit cost per garment would be once the cargo is nationalized. The size of the project was defined by the market to which this type of clothing is targeted, raw materials, technology available in the company and methods of financing.

The location of the project found it strategic the place where Lucia Palacios Boutique is placed due to its proximity to the center of the city and benefits for the customers such as parking. When evaluating the availability of human resources, it was concluded that the company has the necessary personnel for the activities of imports, advertising and marketing; at the moment it does not need to hire additional services.

## CHAPTER 4: FINANCIAL ANALYSIS OF THE PROJECT

### 4. Introduction to the chapter

A financial analysis of the company Lucia Palacios SA will be carried out in this chapter. It will be presented the resources that the company has to carry out the project, through some accounting tables. First, three scenarios will be proposed with different budget policies for cash purchases and sales, plus a percentage on credit. These scenarios will have a variable annual increase of 2%, 2.5% and 5% respectively. An analysis of the data will be carried out and the policy that is most convenient for the company will be defined.

For this analysis, the company was asked for some accounting data to have an overview of the monthly administrative expenses, as well as its working capital. To finance the project, the possibility of requesting a bank loan from *Banco del Pichincha* will be evaluated; from which actual figures on the repayment of the debt will be presented to make a decision. A calculation will be made with the cash outflow variables in which the calculations of the Net Present Value and the Internal Rate of Return will inform about the viability of the project.

Finally, the profit margin for the year will be obtained through a Statement of Comprehensive Income, which will also be represented by a five-year sales projection. This analysis will conclude with the elaboration of a Statement of Financial Position that will give us as a result the accumulated profits considering the figures of total assets, liabilities and equity that the company Lucia Palacios SA has.

#### 4.1 Budgets for international purchases

Three scenarios with different budget policies for international purchases will be presented below. The percentage that the company would pay in cash and on credit varies according to the annual percentage increase; it will be analyzed which of them is the most convenient for the company.

*Table 12 First scenario budget for international purchases*

First Scenario 70% cash 30% credit						
Column1	Year 1	Year 2	Year 3	Year 4	Year 5	
Unit	12000.00	12240.00	12484.80	12734.50	12989.19	
Purchase Price	25.00	25.50	26.01	26.53	27.06	
Total Purchases	300000.00	312120.00	324729.65	337848.73	351497.81	
This table shows an increase of 2% per year						

*Table 13 Second scenario budget for international purchases*

Second Scenario 60% cash 40% credit						
Column1	Year 1	Year 2	Year 3	Year 4	Year 5	
Unit	12000.00	12300.00	12607.50	12922.69	13245.75	
Purchase Price	25.00	25.63	26.27	26.92	27.60	
Total Purchases	300000.00	315187.50	331143.87	347908.03	365520.87	
This table shows an increase of 2.5% per year						

*Table 14 Third scenario budget for international purchases*

Third Scenario 50% cash 50% credit						
Column1	Year 1	Year 2	Year 3	Year 4	Year 5	
Unit	12000.00	12600.00	13230.00	13891.50	14586.08	
Purchase Price	25.00	26.25	27.56	28.94	30.39	
Total Purchases	300000.00	330750.00	364651.88	402028.69	443236.63	
This table shows an increase of 5% per year						

Source: Own elaboration.



## 4.2 Budget for international sales

Budgets for sales will be detailed below with the different variations of policies according to the increase of 2%, 2.5% and 5% with respect to the annual growth.

*Table 15 First Sales Scenario*

First scenario in sales with a payment policy 80% cash and 20% on credit					
	Year 1	Year 2	Year 3	Year 4	Year 5
Unit	12000.00	12240.00	12484.80	12734.50	12989.19
Sale Price	48.86	49.84	50.83	51.85	52.89
Total Sales	586320.00	610007.33	634651.62	660291.55	686967.33
This table shows an increase of 2% per year					

*Table 16 Second Sales Scenario*

Second scenario in sales with a payment policy 80% cash and 20% on credit					
	Year 1	Year 2	Year 3	Year 4	Year 5
Unit	12000.00	12300.00	12607.50	12922.69	13245.75
Sale Price	48.86	50.08	51.33	52.62	53.93
Total Sales	586320.00	616002.45	647187.57	679951.44	714373.99
This table shows an increase of 2.5% per year					

*Table 17 Third Sales Scenario*

Third scenario in sales with a payment policy 80% cash and 20% on credit					
	Year 1	Year 2	Year 3	Year 4	Year 5
Unit	12000.00	12600.00	13230.00	13891.50	14586.08
Sale Price	48.86	51.30	53.87	56.56	59.39
Total Sales	586320.00	646417.80	712675.62	785724.88	866261.68
This table shows an increase of 5% per year					

Source: Own elaboration.

Regarding previous budgets, the company Lucia Palacios SA makes imports of merchandise quarterly to contribute with the turnover and diversity of its product portfolio. Through the variation of the purchase and sale price, the profitability of the firm will be determined. Through this analysis it has been considered that the objective of this company must be focused on an increase of 5% annual sales; that is, the last table above.

### 4.3 Administrative expenses

In the table presented below, the administrative expenses of the company regarding the payment of salaries will be detailed.

*Table 18 Administrative expenses*

Monthly administrative expenses			
Lucia Palacios SA			
Departaments	Number of pe	Salaries	Column 1
General Manager	1	\$2,000	223
Foreign Trade	1	\$1,500	167.25
Accountant	1	\$1,200	133.8
ICT (Head of Information Safety)	1	\$850	94.775
Sales	1	\$595	66.3425
Purchasing	1	\$595	66.3425
Customer service	1	\$450	50.175
<b>Total</b>	<b>7</b>	<b>\$7,190</b>	<b>801.685</b>
<b>Annual administrative expenses</b>			<b>105520.44</b>

Source: Lucia Palacios S.A. archive.

It is important for the company that this staff does their job correctly and responsibly. They must be attentive to social networks to answer any doubts that customers from all over the country have. The policy of the company is to publicize the new clothing models, the central idea is that customers are served in the shortest possible time. With personalized advice, the company's strategy is that the products come out of stock in the shortest possible time.

### 4.4 Summary of costs and expenses

In the following tables, the costs and expenses of the company are detailed monthly and quarterly to proceed with the analysis.

Table 19 Summary of costs and expenses

Summary of costs and expenses		
Lucia Palacios SA		
Summary of costs	Quarterly costs	Monthly costs
Administrative expenses	\$26,380	\$8,793.37
Basic services expenses	\$1,800	\$600
Freight and insurance expenses	\$3,200.16	\$1,067
Payment of taxes on foreign trade	\$23,945.75	\$7,981.92
<b>Total</b>	<b>\$55,326</b>	<b>\$18,442</b>

Table 20 Working capital

Working capital	
Lucia Palacios SA	
Accounts	Quarterly cost
Payment to suppliers	\$50,000.00
Office equipment	\$5,000
Administrative expenses	\$26,380
Basic services expenses	\$1,800
Freight and insurance expenses	\$3,200
Payment of taxes	\$23,945.75
<b>Total</b>	<b>\$110,326</b>

Source: Lucia Palacios S.A. archive.

For a proper running of the business, the company Lucia Palacios SA needs \$110,326 approximately every three months. With this figure the firm could cover the expenses and costs required to carry out its businesses satisfactorily.

#### 4.5 Project financing

For project financing, the possibility of requesting a bank loan to *Banco del Pichincha* will be evaluated because it is the entity where the company has its accounts. The information corresponding to the loan is detailed below.

Table 21 Information about the bank loan

Project financing			
Lucia Palacios SA			
Debt amortization table			
Beneficiary	Lucia Palacios SA		
Amount	45000	Interest rate	11.34%
Payment deadline	20 quarters	Payment method	quarterly
Grace period	0		
Start date	August 1, 2020		
Dividend	2250		
Initial investment	-45000		
Annual rate	7%		
Discount	12%		

Table 22 Debt amortization

Payment No.	Initial balance	Amortization of capital	Interest	Total dividend	Quarterly	
					interest	capital
1	45000	2250	1275.75	3525.75		
2	42750	2250	1211.96	3461.96		
3	40500	2250	1148.18	3398.18		
4	38250	2250	1084.39	3334.39	4720.28	9000
5	36000	2250	1020.6	3270.6		
6	33750	2250	956.81	3206.81		
7	31500	2250	893.03	3143.03		
8	29250	2250	829.24	3079.24	3699.68	9000
9	27000	2250	765.45	3015.45		
10	24750	2250	701.66	2951.66		
11	22500	2250	637.88	2887.88		
12	20250	2250	574.09	2824.09	2679.08	9000
13	18000	2250	510.3	2760.3		
14	15750	2250	446.51	2696.51		
15	13500	2250	382.73	2632.73		
16	11250	2250	318.94	2568.94	1658.48	9000
17	9000	2250	255.15	2505.15		
18	6750	2250	191.36	2441.36		
19	4500	2250	127.58	2377.58		
20	2250	2250	63.79	2313.79	637.88	9000
TOTAL			13395.4	58395.4		

Source: Banco del Pichincha

Author: Own assessment.

The payment of the credit will be made to Banco del Pichincha on a quarterly basis, the collection process from our clients is not immediate; so the bank will be asked for this reasonable time to always be punctual in the payment of installments.

## 4.6 Comparative Cash Flow with and without financing

The following tables detail the cash flows corresponding to company data to check if it is necessary to request the aforementioned bank loan.

*Table 23 Cash flow with financing*

Cash Flow Compared to Financing Lucia Palacios SA Cash Flow Statement Expressed in US dollars						
	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
<b>Operation Activities</b>						
Income						
Cash sales		\$ 469,056.00	\$ 517,134.24	\$ 570,140.50	\$ 628,579.90	\$ 693,009.34
Credit sales		\$ -	\$ 117,264.00	\$ 129,283.56	\$ 142,535.12	\$ 157,144.98
<b>Total Income</b>		<b>\$ 469,056.00</b>	<b>\$ 634,398.24</b>	<b>\$ 699,424.06</b>	<b>\$ 771,115.03</b>	<b>\$ 850,154.32</b>
Payment to Suppliers (I)		\$ 150,000.00	\$ 315,375.00	\$ 347,700.94	\$ 383,340.28	\$ 422,632.66
Payment of salaries and social benefits		\$ 86,280.00	\$ 88,005.60	\$ 89,765.71	\$ 91,561.03	\$ 93,392.25
Administrative expenses		\$ 105,520.44	\$ 107,630.85	\$ 109,783.47	\$ 111,979.14	\$ 114,218.72
Tax payment and foreign trade activities		\$ 108,583.64	\$ 110,755.31	\$ 112,970.42	\$ 115,229.83	\$ 117,534.42
Other payments related to the activity		\$ 600.00	\$ 612.00	\$ 624.24	\$ 636.72	\$ 649.46
<b>Total Expenses</b>		<b>\$ 450,984.08</b>	<b>\$ 622,378.76</b>	<b>\$ 660,844.77</b>	<b>\$ 702,747.00</b>	<b>\$ 748,427.51</b>
<b>TOTAL OPERATING ACTIVITIES</b>		<b>\$ 18,071.92</b>	<b>\$ 12,019.48</b>	<b>\$ 38,579.29</b>	<b>\$ 68,368.03</b>	<b>\$ 101,726.81</b>
<b>Financing activities</b>						
Loan received		\$ 45,000.00	\$ -	\$ -	\$ -	\$ -
Loan amortization		\$ 9,000.00	\$ 9,000.00	\$ 9,000.00	\$ 9,000.00	\$ 9,000.00
Payment of financial interest		\$ 13,720.28	\$ 12,699.68	\$ 11,679.08	\$ 10,658.48	\$ 9,637.88
<b>TOTAL FINANCING ACTIVITIES</b>		<b>\$ 67,720.28</b>	<b>\$ 21,699.68</b>	<b>\$ 20,679.08</b>	<b>\$ 19,658.48</b>	<b>\$ 18,637.88</b>
<b>Net increase (decrease) in cash</b>		<b>\$ 85,792.20</b>	<b>\$ 33,719.16</b>	<b>\$ 59,258.37</b>	<b>\$ 88,026.51</b>	<b>\$ 120,364.69</b>
Beginning cash balance		\$ -	\$ 85,792.20	\$ 119,511.36	\$ 178,769.72	\$ 266,796.23
<b>Ending cash balance</b>	<b>\$ -450,000.00</b>	<b>\$ 85,792.20</b>	<b>\$ 119,511.36</b>	<b>\$ 178,769.72</b>	<b>\$ 266,796.23</b>	<b>\$ 387,160.92</b>

Source: Lucia Palacios S.A. Archive.

Author: Own assessment.

Table 24 Collection system

Third scenario in sales with a payment policy of 80% cash and 20% on credit						
	Year 1	Year 2	Year 3	Year 4	Year 5	
Unit	12000.00	12600.00	13230.00	13891.50	14586.08	
Sale Price	48.86	51.30	53.87	56.56	59.39	
Total Sales	586320.00	646417.80	712675.62	785724.88	866261.68	
This table shows an increase of 5% per year						
Collection						
Cash collections	\$ 469,056.00	\$ 517,134.24	\$ 570,140.50	\$ 628,579.90	\$ 693,009.34	
Credit collections	\$ 117,264.00	\$ 129,283.56	\$ 142,535.12	\$ 157,144.98	\$ 173,252.34	
	\$ 586,320.00	\$ 646,417.80	\$ 712,675.62	\$ 785,724.88	\$ 866,261.68	
Annual collections	\$ 469,056.00	\$ 634,398.24	\$ 699,424.06	\$ 771,115.03	\$ 850,154.32	\$ 173,252.34

Table 25 Suppliers payment system

Third scenario purchases 50% cash 50% credit						
Column1	Year 1	Year 2	Year 3	Year 4	Year 5	
Unit	12000.00	12600.00	13230.00	13891.50	14586.08	
Purchase Price	25.00	26.25	27.56	28.94	30.39	
Total Purchases	\$ 300,000.00	\$ 330,750.00	\$ 364,651.88	\$ 402,028.69	\$ 443,236.63	
This table shows an increase of 5% per year						
Company payments to suppliers 50% cash and 50% credit						
						0
Payment to suppliers	\$ 150,000.00	\$ 165,375.00	\$ 182,325.94	\$ 201,014.35	\$ 221,618.32	
Next year	\$ 150,000.00	\$ 165,375.00	\$ 182,325.94	\$ 201,014.35	\$ 221,618.32	
	\$ 300,000.00	\$ 330,750.00	\$ 364,651.88	\$ 402,028.69	\$ 443,236.63	
Annual collections	\$ 150,000.00	\$ 315,375.00	\$ 347,700.94	\$ 383,340.28	\$ 422,632.66	\$ 221,618.32

Table 26 Profitability indicators

Profitability indicators		
NVP	\$1,138,357.99	Viable
IRR	27%	Viable
Annual expense growth	2%	

Author: Own assessment.

Table 27 Cash flow without financing

Flujo de efectivo sin financiamiento						
Lucia Palacios SA						
Estado de Flujo de Efectivo						
Expresado en dólares						
	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Operation Activities						
Income						
Cash sales		\$ 469,056.00	\$ 517,134.24	\$ 570,140.50	\$ 628,579.90	\$ 693,009.34
Credit sales		\$ -	\$ 117,264.00	\$ 129,283.56	\$ 142,535.12	\$ 157,144.98
Total Income		\$ 469,056.00	\$ 634,398.24	\$ 699,424.06	\$ 771,115.03	\$ 850,154.32
Payment to Suppliers ( )		\$150,000.00	\$315,375.00	\$347,700.94	\$383,340.28	\$422,632.66
Payment of salaries and social benefits		\$86,280.00	\$88,005.60	\$89,765.71	\$91,561.03	\$93,392.25
Administrative expenses		\$105,520.44	\$107,630.85	\$109,783.47	\$111,979.14	\$114,218.72
Tax payment and foreign trade activities		\$108,583.64	\$110,755.31	\$112,970.42	\$115,229.83	\$117,534.42
Other payments related to the activity		\$600.00	\$612.00	\$624.24	\$636.72	\$649.46
Total Expenses		\$450,984.08	\$622,378.76	\$660,844.77	\$702,747.00	\$748,427.51
TOTAL OPERATING ACTIVITIES		\$18,071.92	\$12,019.48	\$38,579.29	\$68,368.03	\$101,726.81
Net increase (decrease) in cash		\$18,071.92	\$12,019.48	\$38,579.29	\$68,368.03	\$101,726.81
Beginning cash balance			\$18,071.92	\$129,776.15	\$183,564.01	\$251,643.19
Ending cash balance	\$ -450,000.00	\$18,071.92	\$30,091.40	\$168,355.44	\$251,932.04	\$353,370.00

Source: Own assessment.

The cash flows of Lucia Palacios SA show that for better project financing and capital recovery, the loan should be requested from Banco del Pichincha. The amounts of payment to suppliers and collections to clients according to the policies set out in the selected scenarios were detailed in the investment activities. To finance this project, the company will use an initial capital of US \$450,000 to cover the operations of the project. It can be seen that the cash balance at the end of the year increases, and that the figures of the Internal Rate of Return along with the figures of the Net Present Value, show viability for the business.

#### 4.7 Statement of Comprehensive Income

The table below performs the accounting calculations necessary to obtain the annual net profit.

Table 28 Statement of Comprehensive Income

Lucia Palacios SA					
Statement of Comprehensive Income					
US DOLLARS					
<b>Accounts</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>
Sales	\$586,320.00	\$646,417.80	\$712,675.62	\$785,724.88	\$866,261.68
Sales cost	\$300,000.00	\$330,750.00	\$364,651.88	\$402,028.69	\$443,236.63
<b>Gross income</b>	<b>\$286,320.00</b>	<b>\$315,667.80</b>	<b>\$348,023.75</b>	<b>\$383,696.18</b>	<b>\$423,025.04</b>
Administrative expenses	\$105,520.44	\$88,005.60	\$89,765.71	\$91,561.03	\$93,392.25
Selling expenses	\$600.00	\$612.00	\$624.24	\$636.72	\$649.46
Depreciation	\$800.00	\$1,600.00	\$2,400.00	\$3,200.00	\$4,000.00
<b>Operating income</b>	<b>\$179,399.56</b>	<b>\$226,250.20</b>	<b>\$256,033.80</b>	<b>\$289,098.43</b>	<b>\$325,783.34</b>
Financial expenses	\$4,720.28	\$3,699.68	\$2,679.08	\$1,658.48	\$637.88
Earnings before taxes	\$174,679.28	\$222,550.52	\$253,354.72	\$287,439.95	\$325,145.46
Tax 25%	\$43,669.82	\$55,637.63	\$63,338.68	\$71,859.99	\$81,286.36
<b>Net income</b>	<b>\$131,009.46</b>	<b>\$166,912.89</b>	<b>\$190,016.04</b>	<b>\$215,579.96</b>	<b>\$243,859.09</b>

Source: Own assessment.

The annual profit margin or net income in the Statement of Comprehensive Income in the first year is \$131,009.46 US dollars. As it can be seen, in the following years the value increases positively. It can also be seen that the most representative amounts of this calculation are Administrative Expenses and Selling Expenses.

#### 4.8 Statement of Financial Position

To finalize the financial analysis of the project, the values belonging to the total assets, total liabilities and equity owned by the company Lucia Palacios SA will be detailed in the following statement. Accumulated income will be obtained from these data.



Table 29 Statement of Financial Position

Lucia Palacios SA						
Statement of Financial Position						
US DOLLARS						
<b>Accounts</b>		<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>
<b>Assets</b>						
<b>Current Assets</b>						
Cash and cash equivalents	\$450,000.00	\$85,792.20	\$119,511.36	\$178,769.72	\$266,796.23	\$387,160.92
Inventory of Goods		\$356,033.26	\$370,733.03	\$381,799.25	\$438,338.17	\$489,356.44
Accounts receivable		\$117,264.00	\$129,283.56	\$142,535.12	\$157,144.98	\$173,252.34
<b>TOTAL CURRENT ASSETS</b>	<b>\$450,000.00</b>	<b>\$559,089.46</b>	<b>\$619,527.95</b>	<b>\$703,104.10</b>	<b>\$862,279.38</b>	<b>\$1,049,769.69</b>
<b>Fixed Assets</b>						
<b>Property, office and equipment</b>						
Computer equipment	\$3,000.00	\$3,000.00	\$3,000.00	\$3,000.00	\$3,000.00	\$3,000.00
Office furniture	\$2,000.00	\$2,000.00	\$2,000.00	\$2,000.00	\$2,000.00	\$2,000.00
Accumulated depreciation		-\$800.00	-\$1,600.00	-\$2,400.00	-\$3,200.00	-\$4,000.00
<b>TOTAL FIXED ASSETS</b>	<b>\$5,000.00</b>	<b>\$4,200.00</b>	<b>\$3,400.00</b>	<b>\$2,600.00</b>	<b>\$1,800.00</b>	<b>\$1,000.00</b>
<b>TOTAL ASSETS</b>	<b>\$455,000.00</b>	<b>\$563,289.46</b>	<b>\$622,927.95</b>	<b>\$705,704.10</b>	<b>\$864,079.38</b>	<b>\$1,050,769.69</b>
<b>LIABILITIES</b>						
<b>Current liabilities</b>						
<b>Loans from Financial Institutions</b>						
Accounts payable		\$86,280.00	\$88,005.60	\$89,765.71	\$91,561.03	\$93,392.25
<b>TOTAL CURRENT LIABILITIES</b>		<b>\$86,280.00</b>	<b>\$88,005.60</b>	<b>\$89,765.71</b>	<b>\$91,561.03</b>	<b>\$93,392.25</b>
<b>Non-current liabilities</b>						
Financial institutions	\$45,000.00	\$36,000.00	\$27,000.00	\$18,000.00	\$9,000.00	\$0.00
Shareholders loans	\$400,000.00	\$300,000.00	\$200,000.00	\$100,000.00	\$50,000.00	\$0.00
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>\$445,000.00</b>	<b>\$336,000.00</b>	<b>\$227,000.00</b>	<b>\$118,000.00</b>	<b>\$59,000.00</b>	<b>\$0.00</b>
<b>TOTAL LIABILITIES</b>	<b>\$445,000.00</b>	<b>\$422,280.00</b>	<b>\$315,005.60</b>	<b>\$207,765.71</b>	<b>\$150,561.03</b>	<b>\$93,392.25</b>
<b>Equity</b>						
Contributed capital	\$10,000.00	\$10,000.00	\$10,000.00	\$10,000.00	\$10,000.00	\$10,000.00
Profit for the year	\$0.00	\$131,009.46	\$166,912.89	\$190,016.04	\$215,579.96	\$243,859.09
<b>Accumulated income</b>			<b>\$131,009.46</b>	<b>\$297,922.35</b>	<b>\$487,938.39</b>	<b>\$703,518.35</b>

Source: Own elaboration.

Regarding the Statement of Financial Position of Lucia Palacios SA, it is clearly seen that assets are represented by cash accounts, accounts receivable and inventory of goods. The property, office and equipment is not very representative because the investment in this area is not greater due to the economic activity of the company. Current liabilities are made up of accounts payable that, according to the policies of this company, maintain 50% of credit sales granted to its suppliers. On the other hand, non-current liabilities are financed by loans from shareholders to purchase merchandise and an amount of \$45,000 granted by Banco del Pichincha, which will be maintained on a quarterly basis; this can be verified in the gradual amortization table. The equity of the company is constituted by the capital contributed by the shareholders in the amount of \$10,000.

#### **4.9 Chapter conclusions**

Through this research it has been determined that the company Lucia Palacios SA should finance its importing activities with a bank loan plus some own funds. The loan will be made through Banco del Pichincha, which provides the credit requirements that favor this company. The initial capital financed will be \$45,000 with an interest rate of 11.34% that will be paid quarterly during 5 years. This quarterly payment has been considered in order to allow this company meeting the obligations that it will have in its beginnings. When analyzing the purchase and sales budget, it has been seen that the best scenario is a 5% annual increase with a collection policy of 80% in cash and 20% on credit. The initial investment amount is \$-450,000.00, and as it can be seen, there is a positive growth trend that will provide adequate capacity for the operation of the business. The calculation of the Internal Rate of Return shows that the business is viable with 27%.

The Cash Flow Statement reflects \$85,792.20 for the first year, which shows that the company Lucia Palacios SA will have liquidity to meet its expenses and obligations with third parties. Finally, the Comprehensive Income Statement of this company indicates that a profitability of \$131,009.46 will be obtained in the first year, which will have gradual increases during a period of 5 years. Once the annual sales target is met according to projections, a representative amount for this statement is administrative expenses.

All this analysis has allowed us to identify that the company Lucia Palacios SA will generate profitability and sustainability in the development of this economic activity and that this project is clearly profitable.

## **GENERAL CONCLUSIONS**

The excessive consumption of clothing around the world has caused serious social and environmental impacts; it has also revolutionized consumers' mind in terms of their habits and customs for being fashionable. Undoubtedly, those who are most affected in the fast fashion sector are the people who work in factories: children, young minors, women and the elderly. Due to their social or racial conditions, these people do not receive a fair salary or experience a decent work environment. The objective of producing fast fashion for the market is to distribute and commercialize cheap garments in a massive way. The speed of their design does not generate quality, they have little durability and thus they have to be replaced in the short term; this situation triggers terrible effects on the environment.

Sustainable fashion, which is associated with good production standards, is a business model that manufactures with organic raw materials and ecological inputs. It minimizes the use of toxic colorants and the generation of waste. It has been analyzed that the habitual consumer who believes in this philosophy is socially responsible with the use and post-use of the garments; caring for the environment is always a priority. Through this study, Lucia Palacios SA seeks to contribute to environmental problems by marketing sustainable clothing. One of its objectives is to encourage a social awareness of consumption that evaluates the origin, materials and forms of production of garments.

Currently in the city of Cuenca there is not a large number of stores that offer ecological clothing. To determine the feasibility of importing this type of clothing it was essential to consider the assessments of potential customers. Through this project, the company will be able to offer in the future a different purchase alternative adapted to the styles and preferences of the users. The feasibility of the project could be verified through a diagnosis of the company, and market, technical and financial analyses.

This research consisted of elaborating and developing a proposal for a viable operating model to solve the requirements of social groups. Carrying out a situational diagnosis of the company at the beginning was very important to know how it was depending on the environment. Different factors that could have an influence on the results of this operation were identified; at the macro level a political factor that generates big uncertainty is the political risks in the jurisdiction of the country due to the change of government in May 2021. Any modification in tariffs would directly affect the project. Technology is presented as an effective solution to environmental problems due to its capacity for innovation in the manufacturing processes of garments with recycled materials.

It was determined that in Ecuador the differentiating factors for the purchase of clothing are price and quality. Analyzing the future suppliers of Lucia Palacios SA was essential to know their style and business philosophy. The opportunity to provide Cuenca's society with this different fashion option involves various stakeholders such as environmentalists, business associations, the media and social activists. The internal analysis of Lucia Palacios SA revealed some strengths and weaknesses. It was observed that due to the quality of its products, personal advice, and a wide portfolio of fashion items, the company has positioned itself in the market with great recognition.

Based on the market analysis, it was determined that people in the city of Cuenca like to wear exclusive and elegant designs that are fashionable. It was discovered that there is an unsatisfied market of people looking for options to dress while being environmental responsible. The research carried out on the target audience was essential to evaluate knowledge, consumption habits and behaviors that people have about sustainable fashion. The fieldwork, which included the participation of women of different ages, resulted in a very low level of instruction on sustainable trends. There is not yet a general social awareness about the environmental impact caused by the textile industry.

An important finding that arose while developing this research was to realize that Ecuador still has a traditional culture of buying in physical stores. The experience of visiting the store, seeing the product, analyzing the quality, style and price of the

garment, hugely influences purchase decision. Based on the responses obtained in the surveys, it was determined that consumer preferences include practices that free the animal kingdom from harm, along with the manufacture of garments with minimal environmental impact. Although the vast majority of people surveyed have never bought an ecological garment, 98% of those who participated in the research would be willing to invest in this type of clothing in the future.

In the technical analysis for the importation of sustainable Spanish fashion to Ecuador, the international logistics processes that the company would have to meet to acquire the merchandise were established. When identifying an item that would correspond to the type of clothing that the company wants to import, it was observed that there is no tariff release or minimization of taxes for sustainable garments. Regarding legal processes and taxes, it can be concluded that there is no motivation from the government to promote the consumption of these items. With the calculation of loose cargo for air freight, it was possible to estimate the number of pallets and packaging that the company would need to transport its merchandise according to the volume of imports. The detail of the pre-settlement was essential to consider import expenses and unit cost of the product once the cargo is nationalized.

Because the project seeks to implement a new fashion line, when evaluating the availability of resources, it was confirmed that the company does not need to hire additional personnel to meet the objectives. Job vacancies in the fashion, import, advertising, marketing, and selling sectors are filled.

To evaluate the financial viability of the project, it was carried out a diagnosis of the available capital that the company has to execute this project. Based on different scenarios, it was determined that the most convenient one for the purchasing sector includes a policy of 50% in cash and 50% on credit. In the case of sales, the proposal that best suits the company is a payment policy with 80% in cash and 20% on credit, which allows an effective recovery of capital. In order to finance international purchases, the project requires requesting a loan from Banco del Pichincha for \$45,000 that will be paid quarterly during 5 years. Debt amortization reflects a payment amount of \$2,225 plus interest every three months.

Through cash flow, it was observed that the cash balance at the end of the year gradually increased over the five years that were calculated. The initial investment of the project that covers the company's operation and financing activities will be \$450,000 US dollars. With the results of this statement, the Internal Rate of Return shows a figure of 27%, which indicates viability in the project. The Statement of Comprehensive Income shows a net profit margin of \$131,009.46 for year 1, the most representative amounts in this projection are administrative expenses and selling expenses.

Finally, the Statement of Financial Position has shown that assets are represented by cash accounts, accounts receivable and inventory. The property, office and equipment are not very representative due to the activity carried out by the company. The non-current liabilities are financed by the loan that will be requested to Banco del Pichincha and other loans from the shareholders to buy merchandise. The equity of the company is made up of capital that has been contributed by the shareholders of \$ 10,000. All this analysis has made it possible to identify that the project is profitable and that Lucia Palacios SA has the economic capacity to develop it.

## **RECOMMENDATIONS**

After having concluded this investigation process, it has been considered necessary to make the following recommendations to the company Lucia Palacios SA in order to contribute positively to the development of the project.

### **1. Considering new measures adopted for the foreign trade sector.**

Because in May 2021 the country will experience a change of governmental jurisdiction; it is recommended that the company be vigilant in case the new government adopts new policies for imports. A change in tariffs or technical requirements for merchandise entering from abroad depends on the economic ideology of the new president and would directly influence the development of this project.

### **2. Researching technologies that decompose damaged or unused garments for textile recycling.**

In order to continue with the ecological cycle of the garments in their post-use phase, it is recommended that Lucia Palacios SA researches about technologies to promote textile recycling. Several famous fashion stores around the world practice it to create new fibers, make new garments and this way avoid waste.

### **3. Sharing interesting information about its new clothing line.**

The company should take advantage of the arrival of new merchandise to publicize eye-catching information about its new clothing line. Making people aware of the origin, manufacturing processes, and materials used to make clothes would have a great impact on society as it is an innovative fashion trend. Motivating people to contribute to the environment would generate a positive response from consumers and environmentalists.

#### **4. Working with the media, business associations and social activists.**

People need to know the negative social and environmental impact that excessive consumption of fast fashion generates. Providing data, showing evidence and generating an atmosphere of awareness would be effective in creating an information campaign on this topic. Currently in social networks and Facebook groups, it is common to sell clothing at very low prices. The selling of fast fashion increases every day because buyers are not aware of the damage that the textile industry generates.

#### **5. Investing in a conspicuous and eye-catching space for displaying clothing.**

To capture the attention of people who visit the boutique with this new line of clothing, it is recommended to adapt a space that make the garments look visibly incredible. As the market analysis showed, Ecuador is still a very traditional market in which people enjoy the experience of physically seeing clothing. Investing in an online store at the moment is not the best option; instead, the company should allocate a sector of its store to decorate and display sustainable fashion in an eye-catching way.

#### **6. Asking for government support to encourage the consumption of organic items.**

In the technical analysis of the project, it was observed that there is no motivation regarding the release of tariffs or benefits for marketing organic products; the taxes that have to be paid are the same as for garments manufactured without social responsibility. It is recommended to encourage the creation of more government policies to support ecological products. In this way, new entrepreneurs and businesses would also be motivated to pursue this ideology of contributing to caring for the environment.



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