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Marketing Plan for the export of green coffee from the Pillcocaja Agricultural Commercial Society to the European Union.

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Dedicated to:

To all the people who keep fighting for their dreams

Special thanks to

to my family JC, AM, MT, JD, NE, who are my absolute support,
to my AC, who has never let me give up
and to my two unconditional SW and FR,
without you I would not be where I am,
Thank you

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Resumen

Pillcocaja es una empresa ecuatoriana que se dedica a la producción de café premium y quiere colocar su producto en el mercado exterior. Por un lado, las condiciones climatológicas, el estado del suelo y del agua son óptimas, y permiten que la hacienda Pillcocaja produzca café gourmet de exportación. Por otro lado, la demanda por este tipo de cafés de especialidad en el mercado internacional aumenta constantemente. Es por esto que Pillcocaja busca introducir su producto en el mercado internacional, y a raíz de la firma del tratado Multipartes entre Ecuador y la Unión Europea se decidió optar por un país de este bloque comercial. También desea consolidar una marca a nivel mundial por la calidad de su café; para ello necesita construir una imagen por medio de una estrategia de marketing, entonces se propone realizar un plan de marketing para la exportación del café de Pillcocaja a un mercado de la Unión Europea. Dentro de este estudio se determinará qué mercado meta es óptimo para Pillcocaja y que estrategia debería optar para ingresar a dicho mercado.

Abstract

Pillcocaja is an Ecuadorian company that produces premium coffee and wants to place its product in the foreign market. On the one hand, the weather conditions, soil and water are exceptional, and allow the Pillcocaja farm to produce gourmet coffee for export. On the other hand, the demand for this type of specialty coffee in the international market is constantly increasing. This is why Pillcocaja seeks to introduce its product in the international market. Also, because Ecuador and the European Union signed an international commerce treaty, it was decided to opt for a country in this commercial block. Pillcocaja also wants to consolidate a strong brand known for its high-quality coffee; in order to achieve this goal, the company needs to build an image through a marketing strategy. That is why this research will develop a marketing plan for the export of Pillcocaja coffee to a European Union market. Within this study, it will be determined which target market is optimal for Pillcocaja and which strategy should Pillcocaja adopt to approach the selected market.

Introduction

Pillcocaja is a national company dedicated to the production of premium coffee that seeks to venture into the foreign market. The consumption of high-end coffees is a trend that is increasing. Each day new consumers are joining this market and are willing to pay more for better quality. Consuming coffee is no longer reduced to a daily routine habit, instead it has become a complete experience. Among the countries with the highest coffee consumption index are the United States, Germany and other European countries. However, since the "Multipartes" treaty between Ecuador and the European Union was signed, this market has become more attractive than the American market. The benefits of it will be analyzed in this research.

Also, Pillcocaja is located in a privileged area, where there are optimal characteristics for the cultivation of coffee. It is a mixture of the weather conditions, quality of the soil, height, humidity, light, among other things that make Pillcocaja a unique place. The farm aims to be worldwide recognized for the high quality of its coffee, and for that, it must build an image. This is why the following study proposes the development of an international marketing plan for the export of green coffee from Pillcocaja to the European Union.

The first chapter will be focused on foreign trade and it will be analyzed through a theoretical perspective. This will help lay the foundations to understand the dynamics of this phenomenon. Next, a revision of the Ecuadorian legislation of the "Organic Code of Production, Trade, and Investment (COPCI)" will be made, specifically Book IV. Internationally, it is necessary to mention the principles on which the World Trade Organization is based. At the end of the chapter, it will be detailed what is a marketing plan, how to execute it, and its main concepts.

In the second chapter, a complete internal analysis of the company will be carried out. From detailing the characteristics of the coffee, its specifications, properties, necessities and benefits; to analyzing its mission, vision, principles and objectives. This chapter will finish with a SWOT analysis of the Pillcocaja company.

Evaluations of the world coffee consumption rates, and world coffee consumption trends are necessary in chapter three because this will help to know if Pillcacaja's product meets the market's demand or not. There will also be a detailed analysis of the "Multipartes" Treaty between Ecuador and the European Union and how this document can be an advantage for Ecuadorian products. Finally, three EU countries will be selected as possible target markets for Pillcocaja's coffee. They will be studied thoroughly with a double entry pondered table and one of them will be chosen as the selected market to export the farm's coffee.

Finally, in the last chapter a marketing mix analysis will be held for the chosen market selected in chapter 3. This analysis will consist in reviewing and improving four aspects, which are: the product, prices, placement and promotion. The last point, the promotion, will be emphasized because a proposition on how to enter the selected market will be made. In addition, it will be structured the concrete proposal of marketing plan, that is mostly known as "action plan". The action plan should include what activities will be carried out, what time they take, and who will be responsible for each of them. Thus, making the action plan proposal a possible project to achieve.

CHAPTER 1. FOREIGN TRADE, THEORY

Introduction

To understand the dynamics of green coffee commerce, it is necessary to analyze the foreign commerce theory in general and the normative basis on which it is based. To this end, in this first chapter it will be explained the main postulates on foreign trade, which are what gave rise to the international exchange of goods and services, to the new theories of international trade. Among these theories stand out: the Adam Smith theory of the Absolute Advantage, the theory of the Comparative Advantage of David Ricardo, the theory of Heckscher and Ohlin, the Leontief Paradox, the model of Burestam Linder and the New Theories of International Trade (NTCI).

With an international trade environment already defined, it is possible to make a descriptive analysis of the Ecuadorian regulations regarding this issue. For this, a revision of the "Organic Code of Production, Trade and Investment (COPCI)" will be made, specifically Book IV, which refers to "Foreign Trade, its Control Bodies and Instruments", continuing with a brief analysis of the World Trade Organization and its principles. Also, trade agreements will be described and classified as tools to boost trade and describe which of them are current in Ecuador. The purpose of analyzing these regulatory bodies and the types of commercial agreements is to know how trade policy works in Ecuador today, and how it promotes exports for Ecuadorian products to foreign markets.

Finally, the main concepts of marketing will be reviewed because the Marketing Plan is the backbone of this work. What is sought is to propose an International Marketing Plan for the export of green coffee from the Pillcocaja company to a European Union market. To reach this proposal there are several stages that must be followed, and that are expected to be completed successfully throughout this investigation.

1.1 Classical theories of foreign trade

1.1.1 Contributions of Adam Smith and David Ricardo

International trade is the engine that drives the global economy. Adam Smith, father of modern economics, contributed greatly to this science by applying his theory of the division of labor to foreign trade. The success of Smith (1776) was to demonstrate that it was beneficial for each country to specialize in the product in which it has absolute advantage for its production, and later exchange these goods between countries (Cited in Gaytán, 2005, p. 81)

Additionally, it appears the theory of David Ricardo, whom is considered to be one of the founders of international trade theories. His theory advocates also in favor of specialization. However, he improves Smith's theory when talking about comparative advantage. The postulate of David Ricardo (1817) is that a country must import the good in which it is partially less efficient, and export the good in which it is relatively more efficient; but, if a country A is more efficient than B in the two products, it is also convenient for them to specialize in one and exchange (Cited in Gaytán, 2005, p.81). In other words, the Ricardian theory (1817) measures the efficiency based on the product per unit of work; therefore, Ricardo's model shows that absolute specialization is the most efficient decision for any of the 2 countries (Cited in Washes, 1977, p.177). His theory is explained in the following paragraphs with the classic examples of David Ricardo between Portugal and England with the production of wines and cloths.

Table 1 *Example of David Ricardo to explain the comparative advantage*

	Portugal	England
Wine (hours/wine unit)	80	120
Cloth (hours /cloth unit)	90	100

.

Source: Gonzáles, 2011, pg. 104

As can be seen, Portugal has an absolute advantage in producing the two goods, then according to Smith's theory with the absolute advantage, there would be room for international trade. Here is where the Ricardian theory (1817) of comparative advantage should be mentioned. It postulates that, although Portugal has an absolute advantage in both products, it has levels of comparative advantage, that is, it has different relative costs in the two countries. If Portugal is dedicated to produce only wine, and England only cloth the two countries win because Portugal gets for 1 wine unit, 1.2 units of cloth if it exchanges with England; instead of 0.88 cloth units if Portugal produces both goods. On the other hand, England obtains 1 cloth unit, and 1.12 units of wine instead of 0.83 units of wine if there is no trade with Portugal (Cited in González, 2011, page 104).

1.1.2 Contributions from Heckscher and Ohlin, and the Leontief Paradox

Another important theory that should be mentioned is that of Heckscher and Ohlin (1933). It consists in that the comparative advantages occur when a country A produces an X good, and for its elaboration uses resources that are abundant in that country. Therefore, the exports of a country would be inclined to the products "that use a high proportion of the abundant factors, and the import would be biased toward the goods that had a relatively high component of the scarce factors" (Cited in Lavados, 1977, p.178). However, HO's theory was refuted by Leontief in 1953, who showed empirically that the United States, one of the richest countries in capital goods and weak in labor, was importing capital-intensive goods and exporting workforce goods, that is, "US exports had less capital intensity than their imports" (Quoted in Gonzales, 2011, p.109), planting precisely the opposite of HO's theory, which was known as the Leontief paradox.

1.1.3 Model of Burenstam Linder

This theory is focused on domestic demand and its relationship with exports. Linder states that "the types and characteristics of manufactured goods consumed by a country are specific to its own industrial structure and its level of per capita income" (Lavados, 1977, page 189). That is, domestic production is what gives rise to manufacturing exports and adapts to the demands of the majority of consumers, while

imports are related to the demands or desires of the minority of consumers. For Linder, the central argument is that for a product to be exportable, it must be demanded first in the country itself; in his words "a particular good will not be produced under conditions of comparative advantage unless there is an internal market for that good at current international prices" (Linder cited in Lavados, 1977, p.190).

1.1.4 New Theories of International Trade (NTCI)

From the seventies to the present, the changing world of international trade gave way to new theories that try to explain its dynamics. Its authors seek to rethink certain scenarios or assumptions of the aforementioned classical theories. It is important to say that modern theories do not oppose the classical ones. They rather are a continuation to these theories. In the words of Guerrero, both the NTCI and the classical converge in the same approach, start from the same paradigm, complement each other and share certain limitations (Guerrero cited in Flores Ruiz, 2007, p.190). The NTCI are born from a basic question: how to explain trade between countries without comparative advantages? The answer is given through the analysis of theoretical foundations such as economies of scale, models of monopolistic competition, oligopolistic competition, and neo-technological theories, which will be detailed in the following points.

1.1.4.1 Scale economics

Economies of scale, monopolies, oligopolies, new technologies, among other economic models create what is known as "imperfect competition". According to Professor Carlos E. Rodríguez, imperfect competition is a middle ground between perfect competition and monopoly; and in which there is a direct "interrelation" between the companies. This is because companies are aware of what the rest do. They care about what their opponents do. Each one competes to excel in the industry and counteract the actions of the rest (Rodríguez, 2013, page 1).

An economy of scale refers to the ability of a company to produce more so that its production costs per unit are reduced, this being beneficial for consumers. Krugman

argues that, at higher production volumes, lower fixed costs will be obtained because "by doubling the inputs or resources of an industry, production will more than double, decreasing the cost per unit produced" (Krugman cited in Mayorga and Martinez, 2008, page 81). Classical theories contemplated an international trade of perfect competition. However, with economies of scale it is the opposite. The reason is that when mass production occurs, production costs decrease per unit, and large companies will undoubtedly have an advantage over small ones. To complement, Bajo states that:

> "While they are not yet an alternative to orthodox theory, they at least serve to introduce into the analysis to aspects that have been neglected by these theories, those that have contributed significantly to improving our knowledge of the determinants of commercial patterns" (Under cited in Flores Ruiz, 2007, page 58).

Other authors such as C.H. Chilton and the United Nations Industrial Development Organization (UNIDO) also strengthen this theory by arguing that as the size of the industry increased, the unit cost of the products decreased (Castro Tato & Portuondo Pichardo, 2009).

1.1.4.2 Monopolistic competition

Monopolistic models are in direct relation with the previous postulate of economies of scale because both are market models that create imperfect competition. In monopolistic competition "each company can differentiate its product from that of its rivals, and also assumes that each company takes the prices of its rivals as given, ignoring the effect of its own price on the prices of other companies" (Mayorga & Martínez , 2008, page 81). That is a "structure of the market in which there are many sellers that offer goods that are close substitutes but not perfect substitutes. In this type of market, each company can influence to a certain extent the price of its product "(Samuelson & Nordhaus, 2002, page 653).

According to Edward Chamberlain (1933), some peculiarities of monopolistic competition are:

• The existence of a significant number of buyers and sellers in the market
• The existence of similar but not identical products. Therefore, there are no perfect substitutes
• Ease of entry and exit from the market

According to some authors, monopolistic competition was derived from the capitalist system "that lead to the abandonment of free competition between producers and led the formation of monopolies, which are closely related to the ascending organic composition of capital" (Valenzuela Feijóo et al, 2015, p. 61). It is important to clarify that monopolistic competition and monopoly are not the same. In the monopolistic competition, as explained above, it can be observed a market model in which there are several sellers offering similar but not identical products, and as the products are different they have some control over the price. On the other hand, in a monopoly, there is a single company that produces a good, and therefore has absolute control over the price of that good (Guerrien, 1996, page 109).

1.1.4.3 Oligopolistic Competition

Another model of imperfect competition is the oligopolistic or oligopolies, which in this case, are synonyms. This competition is "a market structure characterized by the presence of few sellers or producers of a good or service, and multiplicity of buyers" (Rodríguez, 2013, page 7). The oligopolies do exist in the present. For example, the telephone companies in Ecuador, where there are only 3 or 4 companies at the most, (Claro, Movistar and CNT), that handle the entire communications market. Another clear example is the companies that provide services of cinemas (Multicines and CineMark) that, likewise, control this service.

It is necessary to review the distinction between two types of oligopolies, non-collusive or non-cooperative models and collusive or strategic behavior models. In the first case, there is no cooperation between the companies and each one looks after their own interest. On the other hand, in collusive models, companies cooperate with each other to optimize their benefits (Meléndez, 2012, page 8).

1.1.4.4 Neo-technological models

These models emphasize the importance that technology has had in international trade, giving comparative advantages both to products and to the production processes of said products (Flores Ruiz, 2007, page 57). According to Hugo Lavados, "The sequence of innovation and imitation will fundamentally affect the structure of exports" (Lavados, 1977, page 181). This is why the neo-technological models try to explain especially the trade of manufactured products.

There are two main postulates within the neo-technological theories, the Posner technology gap model, and the Vernon product cycle model. In the first model, time and innovation are emphasized since a country that enjoys a comparative advantage in its products, due to technology, will tend to export them to another country. As a result, international trade develops and expands even more. On the other hand, the second model refers to the phases that a product must follow to reach a standardization system (Bajo Rubio, 1996, page 19).

1.2 Normative analysis

Each country's legislation has its particularities and those characteristics influence directly in the international trade. That is why it is considered pertinent to review, in a general way, some aspects of the Ecuadorian legislation and some parts of the World Trade Organization of which Ecuador is a part.

1.2.1 Organic Code of Production, Trade and Investment (COPCI)

The Organic Code of Production, Trade and Investment hereinafter COPCI, came into force after its publication in the Official Gazette on December 29, 2010. This document seeks, as indicated in Chapter 3, to "regulate the production process in the stages of production, distribution, exchange, trade, consumption, management of externalities and productive investments oriented to the realization of Good Living" (COPCI, 2010). Likewise, it is described in the article 4 some of its purposes. Without intending to be exhaustive, only those relevant to this study will be mentioned:

c. Encourage national production, trade and sustainable consumption of goods and services, with social and environmental responsibility, as well as their commercialization and use of environmentally clean technologies and alternative energies;

d. Generate quality and dignified work and employment, that contribute to value all forms of work and comply with labor rights;

g. Encourage and regulate all forms of private investment in productive activities and services, socially desirable and environmentally acceptable;

m. Establish the fundamental principles and instruments of the international articulation of Ecuador's trade policy;

o. Promote and diversify exports;

p. Facilitate foreign trade operations;

t. Encourage and support industrial and scientific research, as well as innovation and technology transfer.

Each of these purposes are directly related to the subject of study. The Ecuadorian government has been seeking for many years to encourage national production to boost exports in order to position Ecuadorian products abroad. In addition, as described in the COPCI, the progress of the industry must be carried out with respect for the environment, as well as it must be a fair and dignified work for the citizens that leads to a sustainable development.

Later, in Book IV of Foreign Trade, its Control Bodies and Instruments, all the elements related to international trade are developed. This book is divided into the following Titles:

Title I - Institutionality Regarding Foreign Trade
Title II - Tariff and Non-Tariff Measures to Regulate Foreign Trade

Title III - Commercial Defense Measures
Title IV - Encouragement and Promotion of Exports

Of all the Titles of Book IV, Title IV of the Encouragement and Promotion of Exports is the one that most relates to the present study. Article 93 refers to the support that the government will give to production destined for export through some incentives such as:

> a. Access to programs of tariff preferences or other advantages, derived from mutually beneficial trade agreements for the signatory countries. They can be regional, bilateral or multilateral agreements, for products or services that comply with the applicable origin requirements, or that enjoy said benefits;
>
> b. Right to the total or partial conditioned return of taxes paid for the importation of raw materials and inputs incorporated into products that are exported, in accordance with the provisions of this Code;
>
> c. Right to benefit from special customs regimes, with suspension of the payment of customs duties and taxes on imports and applicable surcharges of a tax nature, of goods destined for export, in accordance with the provisions of Book V of this Code,
>
> d. Financial assistance or facilitation provided for in general or sectoral programs established in accordance with the national development program
>
> e. Assistance in areas of information, training, external promotion, market development, formation of consortia or unions of exporters and other actions in the field of export promotion, promoted by the national government; and,
>
> f. Right to access the incentives for productive investment foreseen in this Code and other pertinent norms.

With these incentives it can be seen that the Ecuadorian government has tried to encourage the national production of products destined for export, not only in a tax sense,

but also with mechanisms of financial assistance and computer assistance. Aware of the benefit of exports in the balance of payments for the country, several mechanisms have been developed to encourage foreign trade. Among them, trade agreements stand out as proposed by the incentive a. of Book IV, Title IV of the COPCI that will be detailed later in section 1.3.

1.2.2 The World Trade Organization (WTO)

The World Trade Organization hereinafter WTO is an international institution that is responsible for regulating and facilitating trade between countries to promote their development. In addition, its main objective is "to help producers of goods and services, exporters and importers to carry out their activities" (World Trade Organization, 2018). Ecuador is part of this organization since January 21, 1996. Some principles on which the WTO is based are:

Trade without discrimination: trade without discrimination refers to two basic principles of foreign trade, that of the most favored nation and that of national treatment. The first principle means that "countries cannot normally discriminate between their various trading partners" (World Trade Organization, 2018). In other words, if a preference is given to a country A, the same preference should be granted to the rest of the countries. This principle is of such importance that it was placed as the first article of the General Agreement on Tariffs and Trade (GATT); as the fourth in the Agreement on Aspects of Intellectual Property Rights Related to Trade (TRIPS); and as second in the General Agreement on Trade in Services (GATS).

The second principle refers to "imported goods and those produced in the country must receive the same treatment, at least after foreign goods have entered the market" (World Trade Organization, 2018). It is also very important since it is found in Article 3 of the GATT, Article 17 of the GATS and Article 3 of the TRIPS Agreement.

Freer trade: this objective refers to the gradual elimination of trade barriers. To this end, eight rounds of negotiations have been held in which mechanisms to reduce tariff

and non-tariff barriers to trade are discussed. The WTO is aware that these changes in foreign policy cannot be made overnight. Therefore allowing countries to carry out a "progressive liberalization" of their markets, which will allow them to adapt in a manner to free trade.

Predictability: this principle refers to not increasing more obstacles to trade. This is achieved through the commitment of the governments of each country to cooperate to provide stability and predictability to the international market. Also, governments must apply trade rules in the clearest and most transparent way, so "in many of the WTO Agreements governments are required to publicly disclose their policies and practices in the country or through notification to the WTO" (World Trade Organization, 2018).

Promoting fair competition: the WTO will always seek noble, fair and equitable trade. To this end, it has developed policies such as the Most Favored Nation, National Treatment, Anti-dumping policies, Subsidies policies, among others. In addition, it has elaborated several agreements with topics on agriculture, intellectual property and services.

1.3 Trade agreements as tools to facilitate trade

In accordance with the aforementioned theories, there are tools that strengthen international trade such as trade agreements that are an instrument "subscribed by two or more countries to agree on the granting of mutual tariff preferences and the reduction of non-tariff barriers to trade in goods and services" (Ministry of Economy and Finance Peru, 2018). Trade agreements are important to boost the economy because they are long-term strategies that seek to conquer new markets for local products, making them competitive abroad and allowing market expansion for companies. Also, countries have the need to trade to obtain a greater variety of products and services. Since no region produces everything, it needs to satisfy its own needs (Romero, 2006).

There are some types of trade agreements signed by Ecuador (Ministry of Foreign Trade and Investment, 2018) that must be reviewed:

1.3.1 Free Trade Agreements

Free Trade Agreements (FTAs) are international agreements between two or more countries that seek to establish common rules to regulate the flow of trade, both goods and services, from among those countries. Generally, an FTA is only associated with the reduction of tariffs for the parties; however, it is certainly broader because "they tend to incorporate rules in areas like: services, investment, intellectual property, trade defense mechanisms and, most importantly, dispute resolution" (Foreign Trade Information System) (SICE), 2003). Currently Ecuador is not part of any existing FTA.

1.3.2 Partial Scope Agreement

A Partial Scope Agreement (AAP) is a commercial agreement in which tariffs are released or reduced for a particular good or group of goods for the negotiating parties. This is why it is considered as a basic agreement, but it can be the "first stage in a process of greater long-term opening" (Ministry of Foreign Affairs, Chile, 2018). Currently, Ecuador has an AAP with Mexico, which entered into force in 1987; with Nicaragua, which came into force in 2017; and with El Salvador, which came into force in 2017 (Ministry of Foreign Trade and Investments, 2018).

1.3.3 Economic Complementation Agreement

An Economic Complementation Agreement (ACE) has a greater scope and openness than an APP because tariffs are generally released or reduced for all products (exceptions may exist); but it has a smaller scope than an FTA (Ministry of Foreign Affairs Chile, 2018). Their objective is "to promote the maximum use of production factors, stimulate economic complementation, ensure equitable conditions of competition, facilitate the competition of products to the international market, and promote the balanced and harmonious development of member countries" (Latin American Association of Integration (ALADI), 2016). At the moment, Ecuador has valid ACE with Cuba, which came into force in 2001; with MERCOSUR-CAN, which came

into force in 2005; with Chile, which came into force in 2010; and with Guatemala, which came into force in 2013 (Ministry of Foreign Trade and Investments, 2018).

1.3.4 Multiparty Commercial Agreement

It is a commercial agreement between more than two parties to reduce or eliminate tariffs on their products and services and thus increase the commercial flow between the parties. In other words, it means an "asymmetric and gradual reduction of tariffs for the parties" (Steen, 2017). In the case of Ecuador, on January 1, 2017, this Trade Agreement with the European Union entered into force, which proposes not only the gradual reduction of tariffs but also "certain liberalization of services, national treatment in public purchases, a favorable framework to attract foreign investment, clear rules on intellectual property, among others "(Steen, 2017). It is worth mentioning that this Commercial Agreement will be analyzed deeply in Chapter 3.

Once having analyzed the types of international agreements, it is important to emphasize that it would be useless to have them if the products and services contemplated in the agreements cannot be promoted, publicized and communicated. This is where marketing comes into play. An issue that will be developed in detail in point 1.4.

1.4 Marketing

Marketing is one of the most developed disciplines in recent years. However, its definition has evolved over time. For this evolution, the definitions of the American Marketing Association will be taken, from here on A.M.A, which is a worldwide recognized community that is made up of individuals and associations that are experts in marketing (American Marketing Association, 2017).

A first concept is given in 1960 in which marketing is defined as "the performance of business activities that direct the flow of goods and services from the manufacturer to the consumer" (Lusch, 2007). It can be seen that this concept focuses only on the flow

and exchange of goods, that is, in the transaction itself, and it does not contemplate other activities for marketing.

Years later, in 1985, the basic definition of 1960 was extended to: "the process of planning and executing the concept, price, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and collective objectives" (Lusch, 2007). Here an idea of the marketing mix is introduced. Marketing is given more importance when it is recognized as a process and the term "services", not only products, is introduced.

In 2004, the AMA updates its definition to "the organization's function and the set of processes aimed to create, communicate and distribute value to customers and to manage customer relationships through procedures that benefit the organization and its groups of interest" (Lusch, 2007). In this definition, the term "exchange" is eliminated and the customer is given more importance. Also, customers satisfaction is expressed in order to create "relationships" of mutual interest. Likewise, marketing is considered as an integral process instead of an isolated department.

Finally, in 2013 the last definition of marketing is written, this being "the activity, set of institutions and processes to create, communicate, deliver and exchange offers that have value for consumers, customers, partners and society in general" (American Marketing Association, 2013). This text defines marketing as a holistic process, it no longer describes it as part of a company but explains it as a "set of institutions", that is, it considers marketing as an entity in itself. On the other hand, it maintains emphasis on creating valuable relationships with customers but introduces the terms "to society in general" which means marketing is not only for the benefit of the company.

To complement this definition, marketing expert Philip Kotler defines marketing in his book "Frequently asked questions about marketing" as "the science and art of exploring, creating and delivering value to meet the needs of a target market, and obtaining thus a utility" and adds that "Marketing identifies the unsatisfied needs and desires; define, measure and quantify the size of the identified market and the potential utility; it determines precisely which segments the company can best serve: designs and promotes the right products and services" (Kotler, 2012).

After this evolution in time on marketing concepts, it can be concluded that marketing is a philosophy that must be carried out in all parts of the process of a product, service, or idea, from its production to its sale. Marketing should focus on marketing mix strategies that are product, price, place and promotion, to meet the needs of the client and thus form profitable long-term relationships with them to reach the company's objectives. Marketing is an integral process that is so important that it must be intertwined with all the processes of a product or service and must always be oriented to the client to satisfy their desires and needs.

Marketing in general is an important discipline for companies because without it, undoubtedly, they will not reach their sales targets. Moreover, it would be impossible to imagine life without marketing. In such a competitive world, marketing is needed to publicize, differentiate, and inform about the products or services that exist in the market and thus distinguish them. Marketing is not a strategy that is only used in local matters, little by little it has conquered international territory. Today companies have their sights set on the international market and seek to expand their business boarders. This is where International Marketing takes place, a subject that will be detailed in section 1.5.

1.5 International marketing

International trade is a phenomenon that is booming today and directly affects not only large firms, but also the microeconomic level of each country. This is why it is necessary to know what is an international marketing strategy and how it can be exploited by a company to excel in the international market. According to Rosa Quiñones in her book “International Marketing”, international marketing is: “the set of tools and activities that combine to facilitate the exchange of tangible and intangible goods between demanders and suppliers internationally, grouping countries into regional economic blocks and Considering them as international markets with needs to satisfy” (Quiñones, 2012). Quiñones gives a fairly broad definition of international marketing and emphasizes the need to create commercial blocks to facilitate trade.

Another definition is proposed by Olegario Llamazares in his book "International Marketing", which he defines it as "the strategy that makes it possible to take better advantage of the opportunities presented by foreign markets and to face international competition" (Llamazares, 2016, page 7). This definition proposes to take advantage of the opportunities, that is, the needs of customers in the foreign market and find the best way to satisfy those needs, thus fighting competition because each company tries to be the best at satisfying them.

On the other hand, it is considered pertinent to mention briefly the steps that a company must follow to reach internationalization. According to the Master in marketing management, Juan Allende, a company must follow five steps (Allende):

a) First, it must be carefully analyzed if the company is in optimal conditions to internationalize.
b) Second, select the strategies on which the marketing plan will be based. Allende proposes two types of tactics, one common to the entire international marketing strategies, for example to choose a competitive advantage over the opponents; and the second, that is a specific strategy, such as the standardization of the product in order to be exported or the adaptation of the product to the international market.
c) Third, at this point the company must select what market it intends to enter, for that, it must define the form of entry and the product that will be exported. These two aspects need to be clear since they may vary from one market to another.
d) Fourth, the company must define its goals and objectives in each of the markets selected in the previous section. For this step it can be used a SWOT analysis to determine the Strengths, Opportunities, Weaknesses and Threats of the selected markets.
e) Fifth, the company must define its action plan or marketing plan to enter the selected market accurately. Because of the importance of the marketing plan for the study in question, it will be analyzed in detail in the following section.

1.6 International Marketing Plan

In today's commercially competitive world there is a number of possible businesses to potentialize. Some of these will succeed, and others will not. Fortunately,

there are tools that help minimize the risk of an investment, such as, an International Marketing Plan. According to the economist Olegario Llamazares, it is "the strategy that allows us to take better advantage of the opportunities presented by foreign markets and against international competition" (Llamazares, 2016, page 7). Vicente Ambrosio in his book "Step-by-Step Marketing Plan" adds that it is "a document that summarizes the planning of marketing" ... "which is a process of intense reasoning and coordination of people, financial and material resources whose main objective is the true satisfaction of the consumer" (Ambrosio, 2000, page 4). In other words, a marketing plan is a study that helps plan and coordinate the activities of a company to reach a stated goal, in order to help making decisions within a company.

For the purposes of this study, the methodology proposed by Llamazares will be used to develop the marketing plan, which is divided into four important steps that will be briefly detailed in the following section:

1. Analysis of the situation: it consists in analyzing if the company should or should not open to an international market. There are companies that choose to internationalize to expand their market, and there are others that are born only to achieve international markets, thus they are called born global. In this first stage, the environment in which the company develops will be analyzed, that is to say, an internal analysis of the company will have to be carried out, describing the technology used, productive capacity, product description, personnel, among other things. Complementing the internal analysis, an external analysis must be done, in which the situation of the company at an international level is detailed. To finish this stage, it is necessary to analyze the competition to have an idea of what the company will face at an international level. For the aforementioned analyzes, tools such as a SWOT analysis, PEST, Porter forces, or a BCG matrix can be used.

2. Choose a target market: it means to select which country has the optimal conditions to export the product / service. First, it is necessary to choose between a diversification or concentration strategy. Once this strategy has been defined, a number of countries can be selected, then an economic block, and then just one specific market.

3. Choose a form of entry: In this step it is analyzed the best way to reach the costumer. Once the entry form has been selected, a profile of the client or intermediary with which the product will be marketed will be made.

4. Application of marketing mix policies in the target market: it is to adapt the product / service to the target market requirements, that is, an analysis of the product, price, place and promotion.

The last points mentioned are known as the model of The 4 P's or Marketing Mix, which was developed by Jerome McCarthy, a professor at the University of Michigan in the United States at the end of the 50s. According to Ambrosio, the marketing mix is "the only one that is based on a structured thought with solid philosophical bases, centered on the simple but absolutely profound reality nature of the market" (Ambrosio, 2000, page 11).

An analysis of the 4 P's in the selected target market is an excellent tool for the company to decide how to approach this market. It is an analysis that covers the product, its characteristics, price, points of sale, and positioning strategies. To make the analysis of international marketing mix, the following books will be taken as a guide: Olegario Llamazares Marketing International; and Warren J. Keegan and Mark C. Green International Marketing.

1.7 Conclusions

This chapter aims to present a general panorama on foreign trade in order to understand, from a macro perspective, the topics to be treated in the following chapters. It considers necessary to make a theoretical analysis focusing first on the main theories of foreign trade that are those of Adam Smith and David Ricardo, continuing with Heckscher and Ohlin; Leontief; And Burestam Linder. Finally, it analyses the New Theories of International Trade and some economic models that have been developed today.

Chapter 1 stablishes the theoretical basis of international trade, and carries out a a revision of the COPCI, specifically Book IV, with which it is possible to see the field of action of international trade in Ecuador. This book details, the way all situations relating to foreign trade will proceed in Ecuador. It is important to mention that the Ecuadorian State has a great interest in promoting exports and making its products known to the whole world. The support is reflected in incentives, simplification of procedures, tax reductions, among other measures.

In the international area, chapter 1 analyses the WTO, which is the maximum representative of foreign trade. This organization is in charge of regulating international trade, promoting its development and ensuring good commercial practices. It considers that the WTO has a fundamental role in trade because it helps to continue its growing in a fair way. Ecuador has been part of this international organization since 1996, which demonstrates the country's commitment to promote good commercial practices and boost trade.

Next, it makes a description of the types of commercial agreements. Agreements are tools that facilitate trade because they are pacts, alliances or contracts between countries to improve international trade and to obtain mutual benefits. These tools allow states to negotiate the terms and conditions of international trade, thus giving it greater vitality and fluidity. In addition, trade agreements effectively contribute to the increase of international trade, as they are a clear example that countries need each other to improve their economies and obtain advantages, otherwise they would not sign trade agreements.

To conclude the chapter, it reviews two fundamental issues, the marketing and the international marketing plan. On the one hand, marketing is considered a science that must be applied comprehensively in a company and it is as important as any other department. It is more than just communicating or advertising the product. It is a holistic process that will help the company achieve its objectives. On the other hand, the international marketing plan is the core of this work because what is intended to do throughout the following chapters is to propose an international marketing plan for the export of green coffee from the Pillcocaja company to a European market.

The international marketing plan is a strategy to try to introduce a product to a specific market. In the next chapter the situation of the company will be analyzed, if Pillcocaja is or is not ready to export, then the possible target markets for Pillcocaja will be proposed. For this study three possible target markets will be selected. Once the target market has been chosen, the best form of entry will be determined. Finally, a marketing mix model for coffee in the selected country will be proposed.

CHAPTER 2. THE FARM, THE COMPANY, AND THE COFFEE

Introduction

This chapter will begin with a description of the history of coffee, its origins, and how this plant was introduced to Ecuador. There are countless varieties of coffee, each with its characteristics and particularities. For this study, just the Arabica variety will be considered since it is the one that grows in Pillcocaja. Later, an analysis of the coffee taxonomy will be carried out. The parts that compose it will be detailed in depth, being these: root, stem, branches, leaves, flower, and fruit. It is important to analyze these components since they make each variety unique.

The ideal conditions for planting coffee should also be reviewed, which is why height, temperature, humidity, rainfall, density, light, among other optimal factors for planting coffee will be described. Once the sowing conditions have been reviewed, the description of the coffee production comes next, from its sowing, until storage, which is where the coffee will be ready for export. To obtain a coffee of excellent quality, each process must be carried out thoroughly since the flavor, aroma, size, and texture will depend on each step. Every single stage of the process is equally important, and all must be accurately done to achieve an exquisite coffee.

Coffee has several benefits and properties that positively influence people's health. Thus, scientific research will be analyzed in order to prove this theory. For example, coffee improves performance and mood, speeds up digestion, and does not promote heart disease. Finally, a holistic analysis of the company will be done, first describing its history, mission, vision, values, and organization table. Afterwards, the productive capacity, costs and projections will be explained. To conclude the chapter, a SWOT analysis will be carried out in order to know the characteristics of the company, and the environment in which it operates.

2.1. Origin

2.1.1 History of Coffee Origins

There are some fantastic stories about the origin of coffee. The best known is the story in which a humble Ethiopian shepherd noticed an unusual behavior in his goats the moment they ingested the cherry of the coffee plant. Their goats jumped with energy and seemed more animated than normal (International Coffee Association, n.d). However, the story has not been proven, but what is known with certainty and empirical basis is that the origin of Arabica coffee was undoubtedly in Ethiopia, Africa, where it grew wild over the 1,500 m.a.s.l in the province of Kaffa, according to several sources (Cárdenas, 2007).

Properly speaking, the cultivation of coffee in Ethiopia dates to the beginning of the eighth century, and after it expanded to Yemen. Then to the Middle East around the fifteenth century (Anthony et al., 1999 cited in Cárdenas 2007). Between 1,600 – 1,700 the Dutch and Portuguese expanded it to their colonies. Large crops were formed, especially in Java and Indonesia (Alvarado & Rojas, 2007). The coffee was introduced to Europe by the Dutch when a Java coffee plant was sent to the botanical garden in Amsterdam. From there it spread to France, when the mayor of Amsterdam gave a plant of these to Louis XIV, who planted it in the Garden of Paris (Cárdenas, 2007).

The first introductions of coffee to America were carried out by the Europeans, who brought the fruit to their colonies. The Dutch brought it to Dutch Guyana, the French to Martinique Island and French Guyana, the English to Jamaica, and so it spread throughout the continent (Cárdenas, 2007).

2.1.2 Coffee in Ecuador

Coffee was introduced to Ecuador approximately in 1800 in the canton Jipijapa, in the province of Manabí specifically in Las Maravillas and El Mamey (Ministry of Agriculture and Livestock 1998 cited in the National Institute of Agricultural Research).

In this province the first coffee plantations were grown and it is where the first exports of the grain arose. Thus, in 1900, large quantities of coffee began to be exported, from the port of Manta mainly to Europe, reaching an export of approximately two million bags at the beginning of the nineties (National Intellectual Rights Service, 2014).

It is also important to mention that Ecuadorian coffee expanded to the provinces of: Manabí, Imbabura, Pichincha, Cotopaxi, Bolívar, Chimborazo, El Oro, Loja, Zamora, and Napo (National Institute of Agricultural Research, n.d.). However, there are two provinces with the highest coffee production, Manabí with 32% and Loja with 14%. Coffee is a trending activity and every day more people join this business. Today more than 67,500 families are engaged in coffee growing (Revista Líderes, 2016).

2.1.3 World coffee consumption

Coffee is one of the drinks with the highest consumption index worldwide (Cheung, 2018). The International Coffee Association, which is the most representative intergovernmental organization in the world regarding coffee, maintains that coffee consumption is increasing (International Coffee Organization, 2018). According to the Organization, in April 2018 exports reached 10.18 million of coffee bags, compared to 9.5 million reached in April 2017. Dimensioning this figure, global coffee production grew by 1.2% reaching 159.66 million bags in the period April 2017 - April 2018 (International Coffee Organization, 2018).

On the other hand, the tendency to consume special, gourmet or premium coffees has increased in recent years, especially in the United States and Europe. According to the National Coffee Association of the United States, in the USA in 1999, 9% of adults consumed gourmet coffee, while in 2017, 41% of adults consumed gourmet coffee. It is also important to mention that from 2016 to 2017 the Consumption grew 10% from 31% to 41% (Specialty Coffee Association, 2017). Also, the trend to consume gourmet coffee has increased in Europe. For example, coffee shops that offer specialty coffee grew by 9.1% from 2014 to 2015, due to a market of more demanding consumers who are willing to pay more for better coffee quality (European, Union, & European, n.d.)

2.2. Taxonomy of coffee

Coffee is a plant that belongs to the family of the Rubiaceae or Rubiáceas and to the Coffea genus. The plants of the Coffea genus are commonly known as coffee trees. They are characterized by shrubs or small trees between 1 to 6 meters high, with a commercial life of between 20 to 25 years. Its leaves are simple and grow in pairs, the flowers are white, small and hermaphroditic, and its fruit or drupe is red or yellow depending on the variety of the plant (Café de Colombia, 2010). Commercially, there are two types of coffee trees, Caffea Arabica and Caffea Robusta and each one has different varietals. For reasons of this study, only the Arabica species will be analyzed.

Table 2 – *Taxonomy of coffee*

Taxonomic classification of coffee cultivation	
Taxonomy	**Name**
Kingdom	Plantae
Division	Magnoliophyta
Sub-division	Angiospermae
Kind	Magnoliatea
Sub-kind	Asteridae
Order	Rubiales
Family	Rubiaceae
Genus	Coffea
Specie	Arabica, cenephora, liberica, etc

.

Source: Alvarado & Rojas pg. 1

2.2.1 The root

The root is one of the most important parts of the plant because it is the base for the growth and development of the coffee tree. It is the organ by means of which the coffee plant is nourished by absorbing water and minerals from the soil. In addition, it is the anchor that serves as a support so that it can grow correctly. The radical system of the Arabica Coffea belongs to a typical structure of an angiosperm plant, the same one that

"begin its development from a meristem located at the base of the hypocotyl of the embryo of the seed, which gives origin to the radicle or embryonic root". (Arcila et al., 2007). A coffee tree of approximately 6 to 9 years old has a very strong main root that penetrates the soil about 45 cm. Also, it has from 4 to 8 lateral roots with lengths that vary according to the type of lateral root to which it belongs. There are superficial lateral roots, sub-superficial lateral roots, and absorbent roots.

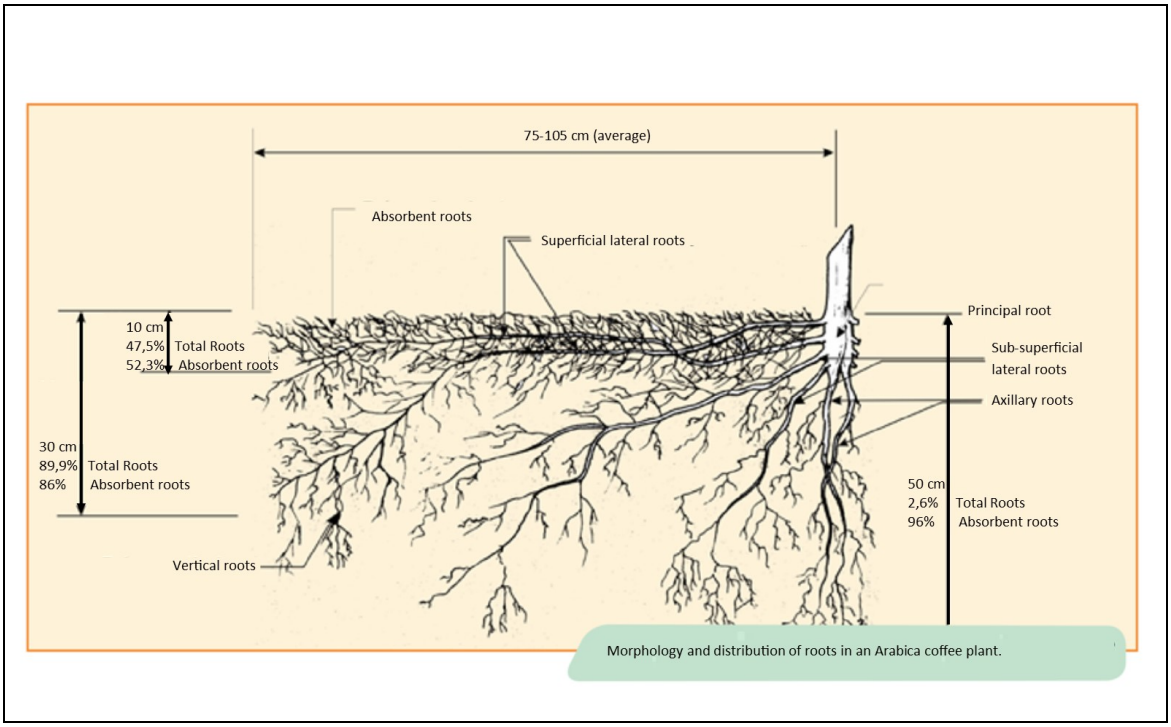


Figure 1 – *Root's Structure.* (Source: Arcila et al, pg 26)

2.2.2 Stem and branches

The morphology of the aerial part of the coffee tree is composed mainly of two types of outbreaks. First, orthotropic buds cause the plant to grow in height vertically, comprising the stem and the apical (terminal) buds of perpendicular growth; and second, the plagiotropic shoots, which comprise the lateral buds that cause the horizontal growth of the plant. There are two types of branches, the primary branches that arise from the nodes formed in the stem, and the secondary branches, which are formed from the nodes

in the primary branches. In turn, the secondary branches can originate tertiary branches (Arcila et al., 2007)

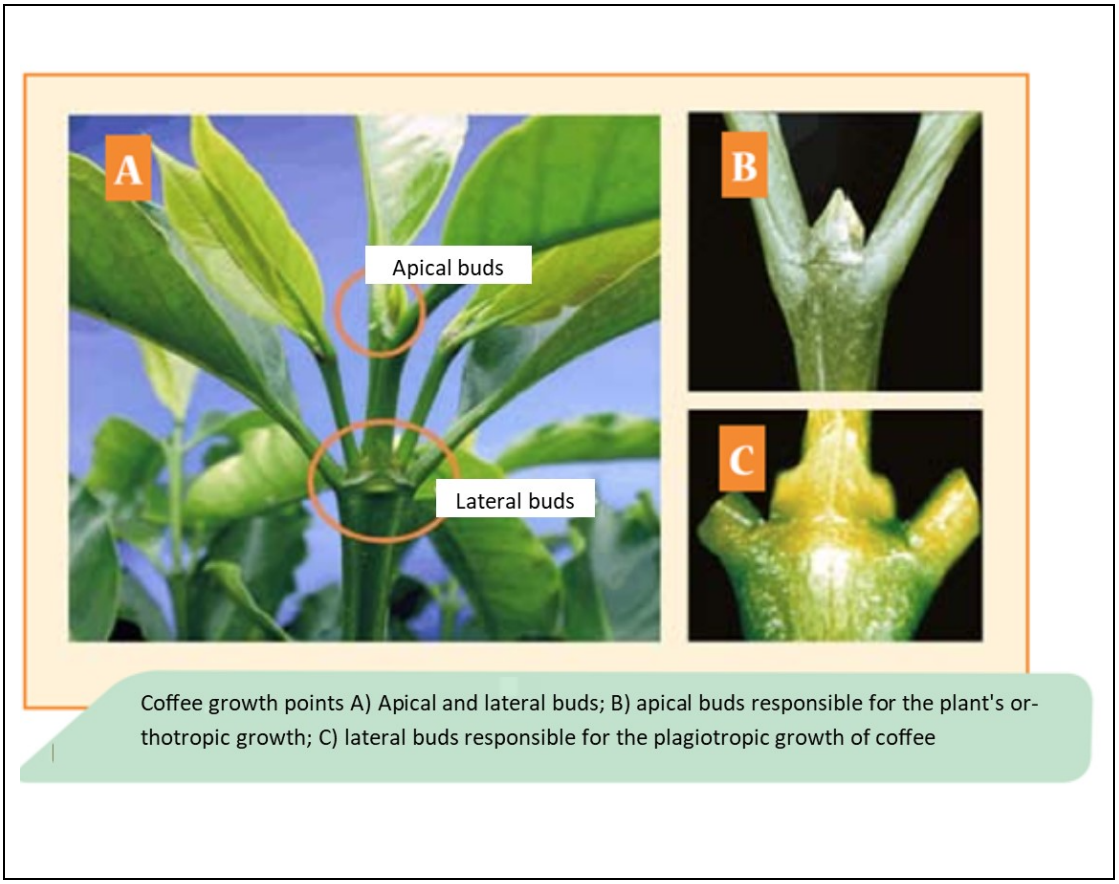


Figure 2 – *The branches of the plant.* (Source: Arcila et al, pg 31).

The knots, branches and leaves of the coffee tree are formed on the basis of the aforementioned buds. The number of branches, leaves, and height of the stem depend on weather conditions, water, sunlight, and soil minerals to which the plants are exposed (Cannell 1985 cited in Arcila et al 2007, pg. 32). A coffee plant begins to form its first pair of branches between its 7 and 8 months of life, and only when it is sown it will form the branches responsible for fruit production (Arcila et al 2001 cited in Arcila et al 2007, pg. 32).

2.2.3 The leaves

The leaves are essential organs for plants because they are responsible for carrying out 3 fundamental processes. The first is photosynthesis, which is the process by means of which the plant produces the hydrocarbon material necessary for its growth, that is, it is the way of feeding the plant kingdom (Rojo, 2014). The second, the breathing that consists in the use of part of the carbohydrates obtained in photosynthesis so that the plant grows and develops. Third, the transpiration that besides being the cooling system of the plant, is the means by which the excess water that was absorbed in by the roots is eliminated. In Arabica coffee, the leaves "are elliptical, slightly leathery, with the leaf and margins a little wavy, of a light green color when young and dark green when they complete their development" (Arcila et al., 2007). They are usually 12 to 24 cm long and 5 to 12 cm wide; however, the size of the leaf depends on the amount of shade or sunlight received by the coffee tree (Alvarado Soto & Rojas Cubero, 2007)

2.2.4 The Flower

The flowers are delicate structures that are formed by the calyx, the corolla, and the stamens. The chalice is shaped like a cup and is located above the ovary. Inside the calyx grows the corolla, which is a long tube that measures approximately 6 to 12mm. Connected to the corolla are the 5 stamens alternating with the petals (Alvarado Soto & Rojas Cubero, 2007). The flowering of coffee trees remains for a short time, and depends on the amount of moisture and water that is given to the plants, this process will be explained in detail in section 2.4.

2.2.5 The Cherry (fruit)

The fruit is a structure called drupe about 12-18mm long, 8-14mm wide and 7-10mm thick outside. It has a bright appearance, red or yellow depending on the species. Inside, it is composed of 3 parts: epidermis, pulp and two seeds (Alvarado Soto & Rojas Cubero, 2007).

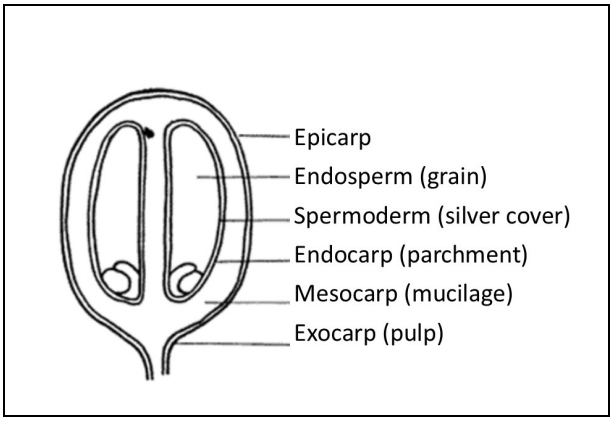


Figure *3* - *Structure of the coffee fruit.* (Source: Albaro Soto & Rojas Cubero)

2.3. Conditions for planting

2.3.1 Place

Unlike other types of coffee, Arabica is a tall coffee, which grows between 500 and 1,700 meters above sea level (Heredia, 2011) and is usually grown in steep places. The height is in direct relation with the temperature, which must be between 15 and 25 degrees. If the temperature is too low it causes chlorosis and the development of the coffee tree is paralyzed (Heredia, 2011) and if the temperature is too high, anomalies appear in the flowers and the harvest is committed (Red, 2014).

2.3.2 Humidity and Rainfall

As for the humidity, it is necessary for the seed to hydrate in order to initiate the process of germination; however, it cannot be more than 85% because it encourages the development of fungal diseases (Arcila et al., 2007). With regard to rainfalls, they should be between 1,000 mm and 2,200 mm per year (Red, 2014), and 120 mm per month. If they are less than 1,000 mm the growth of the plant stagnates, not only that year but also the next. If they are greater than 3,000 mm per year, the quality of the grain decreases, the phytosanitary control of the plantation is hampered (Heredia, 2011), and it potentiates

the appearance of diseases. The periods of rain and drought are vital for the coffee tree because their flowering depends on them. Interestingly, the plant needs a period of water deficit, either moderate 20-30 days or strong between 60-65 days per quarter for an adequate flowering (Ramírez B et al., 2011).

2.3.3 Planting density

Planting density refers to the distribution of plants in the field, that is, the number of plants that are sown per square meter (m^2). A correct distance between the coffee trees is vital because if they are distributed one next to the other, they compete for the nutrients of the soil, amount of light, and water, among other things. This does not allow the optimal development of any (Ramírez B et al., 2011). As the Arabica coffee is tall, it is recommended to sow the plants between 2.40 x 1.20 meters / 2.50 x 1.25 meters away (National Coffee Association, n.d.).

2.3.4 Sunlight and Shadow Regulation

The balance between exposure to sunlight and the need for shade are factors that will determine the correct development of the coffee tree. Sunlight is necessary for the assimilation of CO_2 which is, as in any other plant, its main nutrient. The, sunlight acts directly because it makes the stomata to open or close to capture CO_2. According to the agronomist Samuel Carmago de León, "at higher luminous intensity the stomata are closed thus limiting the absorption of CO_2 and at a lower intensity they open allowing the assimilation of CO_2" (National Coffee Association, n.d.). Therefore, if sunlight is hits directly on a coffee tree, the leaves of the periphery will have greater exposure to the sun, which will cause an irregular development of the plant. Thus, in order to achieve a complete performance of the plant, a correct percentage of sunlight and shade must be managed.

The shade is used as a filter to regulate the amount of sunlight that reaches the coffee plant, and to adjust the humidity, photosynthesis and respiration. The surrounding trees allow moisture to remain in the ground, protect the coffee plants from strong winds

and act as a protective shield against frost. The amount of shade recommended for Arabica coffee varies between 30% to 50% (National Coffee Association, n.d) According to a study carried out in Chocolá, Guatemala. It was observed that with this percentage of shade, coffee trees developed more height, a greater diameter of stem, and a homogeneous development of the leaves (National Coffee Association, n.d) In accordance with this study, Beer argues that if the shade exceeds 50%, it will have a direct negative effect on coffee production (Ramírez B et al., 2011).

2.3.5 Soil conditions

Soil conditions are fundamental for coffee because this will have a direct influence in whether the plant develops correctly, or not. It is recommended to select a soil of good depth, with slopes lower than 30% and that is loose, that is to say with a good drainage (Loli Figueroa, 2012). The black soils are the best for planting coffee because this color indicates a high percentage of organic matter. It is recommended that the soils for coffee plantations have rested for at least 10 years so that they have enough nutrients for the coffee trees to develop properly.

In addition, it is important to consider the permeability and porosity of the soil. Porosity is when the grains of soil come together and spaces are formed between them. Permeability means “the speed with which water and air circulate or move through the pores of the soil” (Loli Figueroa, 2012). For coffee, so-called “loam” soils with moderate permeability are recommended. It is also important to consider the level of Ph in the soil, because the level of Ph causes the “degree of activity of microorganisms that mineralize organic matter to make available most of the nutrients needed by plants” (Loli Figueroa, 2012), thus, the recommended Ph varies between 5.0 and 5.5.

2.4 Planting process

2.4.1 Sowing and growth

In order to carry out the planting of the coffee, besides considering all the elements previously exposed, other aspects such as the preparation of the land, calculation of the density of the sowing, and depth of the furrows need to be considered. First, the land must be prepared by clearing, which means removing bad weeds and cleaning the soil. Then a layout plan is made, in which it is determined where each plant will go. This refers to the density of sowing, which means "the number of plants per unit area of land" (Arcila et al., 2007). The plants should be planted at a certain distance depending on the size. In the case of Arabica coffee, which is of high size, it is recommended to make the furrows at 2.40m x 1.20m (National Coffee Association, n.d.), that means planting about 2,400 plants per hectare.

Likewise, the Federation of Coffee Growers of Colombia coincides with this number in its "Technological Guide for Cultivation" with 2,500 coffee trees per hectare (National Federation of Coffee Growers, 2006). Likewise, the shade level that the plants will have is developed in this guide. If the plantation already has endemic trees it is advisable to keep them, and plant the coffee trees at a prudent distance of approximately 12 meters.

A coffee plant takes approximately three years to bear its first fruits. To explain these three years, the development of a coffee tree can be divided into two phases: the stage of vegetative development, and phase of reproductive development (Arcila et al., 2007). The first goes from germination to the first flowering, that is, the growth of roots, branches, leaves, flowers, which takes approximately 11 months. The second stage starts from the first flowering until the ripening of the fruit (Arcila et al., 2007). Finally, it is important to mention that after the phases are completed for the first time, they occur simultaneously one after the other.

2.4.2 Harvest

The first flowers appear approximately after 3 years of being planted. Once the flowers dry their ovaries are transformed into drupes that will later become the coffee bean (Temis-Pérez, López Malo Vigil, & Sosa Morales, 2011). It is important to

emphasize that a uniform flowering is achieved through a process called "water stress" in which water is not given to the plants, and after a few weeks they are irrigated again. The coffee harvest occurs approximately 224 days after the coffee trees bloom. The harvesting process is done by hand. Only mature grains that have a bright red color and that are firm to the touch should be harvested from the branches. The rest should be left to mature (Temis-Pérez et al., 2011). If the semi-mature or over-ripe grains are harvested with the normal mature grains, they will affect the coffee quality, that is to say, grains of different degree of maturation cannot be mixed.

2.4.3 Coffee Processing

The coffee processing refers to the process of transformation of the harvested grains into the dry green coffee. The first part of this process consists in separating the coffee seed from the pulp or “mucilage” as it is known. This procedure can be done by three methods, dry processing, wet process, or semi-dry process. For reasons of this work, only the wet process will be analyzed, because it is the most frequently used in arabica-type coffee (Temis-Pérez et al., 2011). In the wet process a carefully selection of the ripe fruits is required to be deposited in large tanks filled with water in which the coffee beans with filling problems or small will float while the optimum ones will remain in the bottom of the tank (National Coffee Association, n.d).

Once this process of selection is finished, the coffee seed is separated from the mucilage. This process is done with a machine that “takes advantage of the lubricating quality of the mucilage of the coffee, so that by pressure they release the grains” (National Coffee Association, n.d.). Then there is the fermentation phase, where the grains are left in large tanks with water for 6 to 48 hours until the mucilage falls off. The next step is the washing, in which the seeds are thrown in a stream of water. Finally, it goes to the drying process in which there are a number of techniques. In this case, it will be considered only the natural drying, in which coffee is laid on beds and dried with the sun’s heat until humidity is reached between 10% and 11,5%. Coffee that reaches this percentage is known as “parchment coffee” and will be ready to be stored until export.

2.5 Properties and benefits

For many years the belief that coffee is a harmful drink for human health has been maintained; however, there are research and experiments that prove otherwise. This section seeks to expose the favorable health outcomes obtained by different authors through empirical experimentation. It should be noted that the investigations carried out are related to a moderate consumption of coffee. Its extreme use, as with any other product can cause negative effects.

2.5.1 Performance and mood

For several years, coffee has been considered as a source of energy for people. For many it is a habit to have a cup of coffee at breakfast because coffee awakens people and prepares them to be attentive for work. Indeed, they are right because, scientifically, it has been proven that drinking coffee improves performance, and increases alertness and efficiency when carrying out activities.

Dr. Basil A. Bättig, an oncology expert from the city of Zurich, Switzerland, conducted an experiment on 48 people that consisted of suppression of letters. To do this, he divided the 48 people into three groups, 16 of them were not given anything to drink, another 16 only hot water, and the rest were given decaffeinated coffee with a dose of caffeine of 300mg which means about 2 or 3 times what is contained in a normal cup of coffee (Institute for Scientific Information on Coffee, 1991). The results were surprising, says Dr. Bättig, because after the consumption of caffeine, it was noticeable an improvement in the performance of people, that is, an "increase in the fluidity and ease of processing of repetitive information" (Instituto para Scientific Information on Coffee, 1991).

Also, at the prestigious Boston University, Massachusetts Institute of Technology (MIT), another experiment was conducted by Dr. Harris Lieberman to learn about the effects of caffeine on humans. Different doses of caffeine were given to a sample of

people while others where only given a placebo. Then they were asked to respond to different tests. The result obtained was that, even in small doses, "caffeine substantially improves performance in tests of execution and monitoring and in tasks with specific reaction times" (Institute for Scientific Information on Coffee, 1991).

As for the state of mind, studies indicate that coffee is an excellent antidote against depression. In a study conducted by the School of Public Health of Harvard with a sample of 40,000 men and 150,000 women, it was determined that coffee is equivalent to a mild antidepressant (Fórum Café, 2015). Also, Professor Rodrigo Cunha, an expert in neuropharmacology, conducted an experiment that concluded that caffeine has the ability to block adenosine A2A receptors in brain cells, which are "molecules that are found in the outer membrane of cells and have the mission of transmitting messages to the interior, regulating important neurotransmitters such as glutamate or dopamine that regulates important activities such as humor" (Fórum Café, 2015). Therefore, it will act not only as a remedy for depression but as a preventive agent.

2.5.2 Coffee and digestion

Undoubtedly, coffee has positive effects on digestion. To prove it, the doctor, Eric Jéquier, from the University of Lausanne in Switzerland, published a study in the prestigious journal The American Journal of Clinical Nutrition (AJCN). This is the best journal in research on nutrition, digestion, obesity, and other issues. Dr. Jéquier, conducted a study to determine whether the consumption of coffee after the meal could influence or not in the metabolism and processing of ingested food.

Thus, the study was carried out in two groups of individuals; group A consisted of thin people within 15% of their optimal weight, and group B by obese people weighing more than 25% of their ideal weight (Institute for Scientific Information on Coffee, 1991). To begin the study, both groups waited 24 hours to eliminate any previous caffeine intake, and also, it was measured the metabolism in fasting conditions of each individual (Institute for Scientific Information on Coffee, 1991). Then the researchers provided normal coffee (with caffeine) and decaffeinated coffee to certain individuals. It was found that, in a period of 2 and a half hours, the metabolism of those who consumed normal

coffee increased by 12%, while those who consumed decaffeinated coffee metabolism increased only 5%. It is worth mentioning that the acceleration of metabolism occurred in both obese and thin individuals.

Another study conducted by López - García during 12 years in a sample of 18,417 men and 39,740 women, controlling caffeine levels every 2 or 4 years, gave as a result that individuals who consumed higher levels of caffeine "had lower body weight gain" (Capel et al., 2010). Likewise, the study of Dullo AG "Normal caffeine: influence on thermogenesis and daily energy expenditure in lean and post-obese human volunteers" reveals that caffeine can accelerate metabolism and contribute to weight control since it promotes thermogenesis (Dulloo & Geissler, 1989).

2.5.3 Heart diseases and coffee consumption

For several years cardiovascular diseases have been associated with coffee consumption. However, some studies have shown that coffee does not cause heart diseases. First, caffeine "does not induce or worsen the severity of ventricular arrhythmias and does not increase the risk of atrial fibrillation or flutter, except at very high doses" (Lozano, García, Tafalla, & Farré Albaladejo, 2007). Moreover, according to the Department of Health and Human Services of the United States, the National Institute of Health (NIH) coffee consumption can reduce not only the risks of carcinogenic diseases, but also respiratory diseases, and diabetes, among others. The results were published in the year 2012 in the New England Journal of Medicine. The study consisted of monitoring a sample of 400,000 people between 50 - 71 years old, from 1995 until death or until December 31st 2008.

Surprisingly, the study revealed that people who consumed between 3 and 4 cups of coffee a day had a 10% less risk of death. Therefore, PHD Neal Freedman, who was behind this study, stated that "the results of the study provide some assurance that coffee consumption does not adversely affect health" (National Instute of Health USA, 2012). In the same way, Dr. Enrique Galve, an expert in cardiology, argues that although caffeine temporarily increases heart rate and blood pressure slightly, there is no scientific basis

that prohibits a hypertensive person from drinking coffee in moderate doses, that is between 3-4 cups a day (Fundación Española del Corazón, n.d.).

2.6 Project justification through the company analysis

This section will provide an analysis of the Pillcocaja Commercial Agricultural Society, hereinafter Pillcocaja, to understand its structure, environment and characteristics. It is important to mention that the data that will be presented in the following points was provided by the company through several interviews with Pillcocaja executives and their technicians.

2.6.1 Company description

2.6.1.1 History

Pillcocaja Commercial Agricultural Society was established on January 9, 2008, in order to generate commercial and agricultural projects. It concentrates its activities in the Yunguilla Valley, Abdón Calderón parish of the Santa Isabel Canton of the Province of Azuay, located 75 km from the City of Cuenca. In its beginnings it was concentrated solely in the cultivation of sugarcane for the production of schnapps, which is known as "guarapo". This is the raw material for making cane liquor. The sales were destined to the prestigious Ecuadorean Liquor Store, Zhumir Distillery. Years later, in 2011 the sales of the Pillcocaja fell exponentially because their prices were no longer competitive in the market due to high production costs, weather conditions, topography, and labor, among other reasons. Thus, in 2013 it was finally decided to suspend the distillation of schnapps and agricultural activity was concentrated in the sale of sugarcane to artisanal producers of honeys and *panela*, an activity that was also in contraction.

In the search of other productive alternatives to implement in the farm, the same year, it was analyzed the possibility to cultivate special high-altitude coffee. It seemed an incredible opportunity since conditions offered by the micro-climate of the area are perfect for coffee growth and there is an increasing international demand for this type of

product. Thus, after several technical visits and studies of the composition of the soils, and climatic aspects, it was determined that it had exceptional conditions for the sowing and production of Arabica coffee varietals. Given this situation, an approach was made with Nestlé Ecuador SA, a company dedicated to the manufacture and marketing of food products. Coincidentally, Nestlé was interested in executing a project consisting of carrying out activities of study, analysis and testing in real production conditions of special coffee plants developed in its laboratories. From these negotiations the sowing of an experimental plot in an extension of five thousand meters was completed. It is worth mentioning that Nestlé made 17 experimental plots in all parts of the world, and Pillcocaja was one of the plots that yielded the best results.

Because of the excellent results of the plant's adaptation in their first year of growth, on the one hand, in 2013, 7 hectares of special high-altitude coffee were planted for commercial use; and on the other hand, a new project was proposed with Nestlé that consists in the production and sale of certified seed. However, for this study, only the first project that is the cultivation of tall coffee for commercialization will be analyzed.

2.6.1.2 The Administration

The Econ. Gustavo Landívar, legal representative and general manager of the company, has visited and maintained constant contact with the owners of Arabica coffee producing farms nationwide for 5 years. In the same way, he has been in contact with representatives of public and private organizations involved in the promotion of coffee growing in the country, mainly with the National Director of Coffee and Cocoa Projects of MAGAP, as well as organizations such as ANECAFE, ANECAP, CAFÉ QUITO who have mentioned their total support to the project.

Mr. Willam Ulloa, a Colombian technician expert in the cultivation of high-altitude Arabica coffee, makes at least 4 visits per year to the plantation. Within the farm there are two groups of agricultural workers. The ones that work full time that are in charge of the daily care of the plants, irrigation, weeding, control of growth, and cleaning. While the second group of agricultural workers are temporary. They are hired only at the time of harvest, which will be once or twice a year depending on the production. The

Supervisor of the coffee project is in charge of these two groups. In order to better understand the structure of the company, its organizational table will be presented in figure 4.

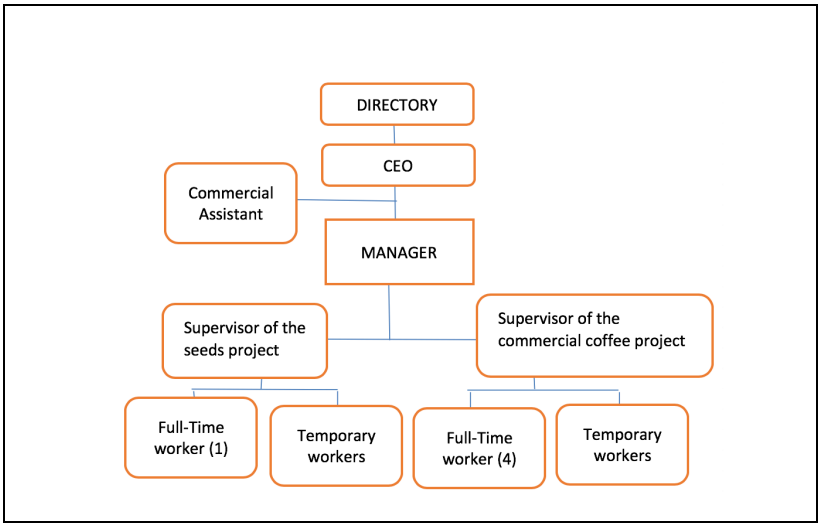


Figure 4 – *Organization table Pillcocaja (*Source: Pillcocaja Commercial Agricultural Society)

2.6.1.3 Business environment

Mission

We are an excellent quality coffee producing company located in the heart of the Yunguilla Valley, Cuenca, Ecuador. In our farm several components were merged accurately and formed a coffee worthy of being in the international market. Our production is always committed to the environment and with giving a fair job to our people.

Vision

Position the Pillcocaja coffee as a leader in the international market, always standing out for its unparalleled quality, flavor, aroma, and freshness.

Values

Pillcocaja has four fundamental pillars that are:

- Quality. It is a parameter that must be fulfilled comprehensively in each of the stages of the coffee production chain in order to reach perfection. We will always seek to apply continuous improvement processes to constantly meet the high expectations of our customers.
- Teamwork. We will achieve excellent coffee only if all people work together towards the same goal. Teamwork is the key to our excellence.
- Passion. It is the engine that moves our people to produce the best coffee.
- Commitment. We have the responsibility to always maintain the quality of our coffee, and to be committed to our customers, our people, and the environment.

2.6.1.4 Project features

The first requirement to make way for any agricultural project is to perform a physical assessment of the environment to validate that the conditions of the soil, water, climate, among other factors, are optimal for the proper development of the project. Thus, Pillcocaja conducted several studies: a soil fertility analysis, and a macro and micro elements analysis in which values of Nitrogen, Phosphorus, Zinc, Copper, Iron, Manganese, Potassium, Calcium, Magnesium, Sulfur, and Organic matter were analyzed. Then a study of texture and structure was made. This one analyzed the level of density of the ground, and the percentage of oxygen, sand, silt, and clay on it. Then, the height at which the farm was located and the characteristics of the climate were verified. These analyzes are detailed on Appendix A. The results of the soil analysis, climate analysis and height were totally favorable. With this background, Pillcocaja decides to start the project of planting coffee for export.

The project of the sowing specialty coffee in Pillcocaja is the backbone project of the present study. Pillcocaja has 7 hectares of special high-altitude coffee sown in 2014, which are distributed as follows:

Table 3 – *Varieties sown per hectare*

Varieties sown in Pillcocaja		
Variety	Hectare	Number of plants
Arabica	5	10,750
Pacamara	1	2,150
Bourbon	0.5	1,075
Hybrid F1	0.1	1,000
Total	7	14,975

.

Source: Pillcocaja Commercial Agricultural Society

It can be observed that the predominant variety on the farm is the "Arabica", since 5 hectares of this type are planted, with a total of 10,750 plants. This is why the present study will be based on it. The varieties Pacamara, Bourbon, Hybrid F1, were planted simply experimentally, but not with a commercial purpose yet.

2.6.1.5 Project costs

To calculate the initial investment of the Pillcocaja project for commercial coffee, it will be considered the unit value of each plant, the holes making process, and the fertilization supplies needed. The process of making holes for the plants consists in elaborating the hollows, and sowing the plants. Regarding the irrigation system, Pillcocaja started with manual irrigation, however, it is recommended to have a technified irrigation system.

Table 4 – *Initial investment of the project*

Initial investment of the project			
Motive	Unit value	Quantity	Total
Plants	0.3	10,750	3,225
Holes	0.8	10,750	8,600
Fertilization	0.12	10,750	1,290
TOTAL			13,115

.

Source: Pillcocaja Commercial Agricultural Society

Months later a second investment was made in which the following reasons stand out: the processing coffee structure, machinery (pulper), dryer structure, irrigation system, marketing, administration, and temporary labor that is detailed in table 5.

Table 5 – *Second Investment for the project*

Second investment of the project		
Motive	Net cost	Net cost + IVA
Machinery	1,690	1,690
Processing coffee structure	6,281.52	6,766.89
Dryer	3,006.9	3,294.76
Irrigation	897.78	1,003.38
Supplies	80	89.6
Commercialization	1,337.76	1,485.68
Administration	1,017.42	1,127.9
Temporary labor	3,166.48	3,584.47

TOTAL	17,477.86	19,042.68

Source: Pillcocaja Commercial Agricultural Society

Regarding the coffee plants, the duration of a coffee plant can be extended for 14 years or more, depending on the treatment that is given to the plants. The fourth year is the one that is supposed to give the best crop because it is the year in which the plant is stabilized. Also, once the coffee is obtained in parchment, it is cataloged in two types, coffee A and coffee B. Coffee A is destined to be exported, and type B coffee is destined for local consumption. It is expected that at least 80% of the production will be type A. In 2016, the first harvest occurred, with a productive capacity of 16%, representing approximately 2,000 kg of coffee. Based on this year, the Pillcocaja company has projected the estimated level of profits and production for the next 5 years:

Table 6 – *Projections in Kg and Dollars for the next 5 years*

Projections in Kg and Dollars for the next 5 years							
Coffee types	U	2017	2018	2019	2020	2021	2022
Coffee A	Kg	1,634.40	5,436.00	9,612.00	9,828.00	10,044.00	10,044.00
Coffee B	Kg	408.60	1,359.00	2,403.00	2,457.00	2,511.00	2,511.00
Total kg	Kg	**2,043.00**	**6,795.00**	**12,015.00**	**12,285.00**	**12,555.00**	**12,555.00**
45 kg sack	U	45.40	151.00	267.00	273.00	279.00	279.00
Coffee A	$	14,382.72	47,836.80	84,585.60	86,486.40	88,387.20	88,387.20
Coffee B	$	2,157.41	7,175.52	12,687.84	12,972.96	13,258.08	13,258.08
Total income	$	**16,540.13**	**55,012.32**	**97,273.44**	**99,459.36**	**101,645.28**	**101,645.28**

Source: Pillcocaja Commercial Agricultural Society

The total value of the investments was approximately $ 32,157.68 to start up the coffee farm and according to the projections made in table 6 it can be said that it is

expected to recover the investment after four years and obtain profits in the 5th year of the harvest because it must be remembered that coffee plantations give their first harvest after 3 years of what was sown.

2.6.1.6 Contests

The first harvest of 2016 participated in the most important national contest in Ecuador that is the "Golden Cup". The Golden Cup is a contest organized by the National Association of Coffee Exporters (ANECAFÉ) and the Institute for Promotion of Exports and Investments (Pro Ecuador) with the objective of promoting coffee exports by rewarding the best harvest of the year. It takes place since 2007, the contest is attended by international judges, from countries such as South Korea, United States, Italy, Vietnam, Denmark among others. More than 100 coffee growers from all over the country come together in this contest, and prepared all year for this event. According to the Ministry of Foreign Trade, Ecuadorian coffee is the seventh non-oil export product in the country, and has been sold in more than 33 countries, representing a significant product for Ecuador's exports (Ministry of Foreign Trade and Investment, 2016b).

To choose a winner, the judges score the participating coffee lots according to different criteria such as fragrance, aroma, flavor, residual taste, acidity, body, uniformity, sweetness, and balance. The combination of all these aspects gives a score to each coffee lot (Duque, 2014). An example of how a coffee is given a cup score will be hown in figure 5.

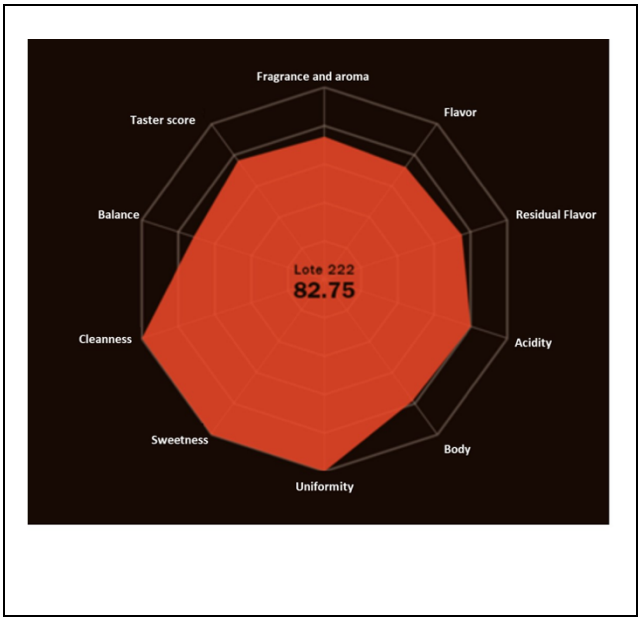


Figure 5 – *Example of scoring parameters according to the SCCA.* (Source: Duque, 2014)

The score that is given to a coffee works as a filter to separate a type A coffee from a type B. When a coffee exceeds 80 points in cup score it becomes a "special coffee". According to the Specialty Coffee Association of America SCAA, a special coffee is the one that in its green state has no defects, no cracks, or stains, but distinctive signs, perfect size and good characteristics that allow it to exceed the standards of the SCAA reaching more than 80 points (Rhinehart, 2009). Likewise, when a coffee exceeds 90 points it is known as "champagne coffee" or "golden coffee" which means that it is of an excellent quality, and that it has a great opportunity to sell itself in an international market of extremely demanding customers that are willing to pay high prices for this coffee.

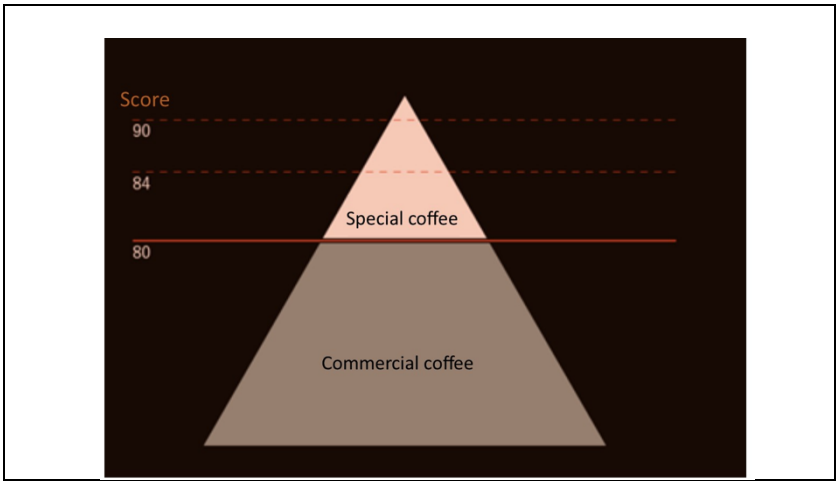


Figure 6 – *Score difference between commercial coffee and specialty coffee*. (Source: Duque, 2014)

Until 2016, no Ecuadorian coffee had surpassed the score of 90 points in the Golden Cup competition and generally, the featured coffees belonged to the provinces of Loja, Zamora Chinchipe, Pichincha, and Chimborazo, but never to Azuay. In 2016, Pillcocaja decided to participate inexperienced with its first crop, and to everyone's surprise Pillcocaja reached the second place with a cup score of 90.3. With this result, Pillcocaja puts the province of Azuay on the map as a potential coffee producer, and is consecrated as a producer of champagne coffee in Ecuador. In addition, it shows that the coffee that is being produced on the farm is of excellent quality and has potential for the international market. Table 7 shows the first four positions of the contest. It is noted the name of Gustavo Landívar, general manager of Pillcocaja located in the second position with 90.3.

Table 7 – *Top 4 in the Golden Cup contest 2016*

GOLDEN CUP CONTEST TOP 10 - 2016

POSITION	PRODUCER	PROVINCE	CANTON	PHONE	VARIETY	ALTITUDE	SCORE
1	**SERVIO PARDO**	**Loja**	**Calvas**	**0998796938**	**Caturra**	**1900**	**90,45**
2	GUSTAVO LANDIVAR	Azuay	Santa Isabel	0994466440	Tipica	1700	90,30
3	ROBERTO VÁSCONEZ	Chimborazo	Pallatanga	0997969974	Bourbon	1700	88,60
4	JORGE GUAGALA ALMEIDA	Imbabura	Urcuqui	0999385622	Caturra-castillo	2100	87,20

Concurso Taza dorada 2016

Source: ANECAFÉ, 2016

In the year 2017, due to the instability of the climate on the farm, a high cup score was not obtained in the contest. However, the farm reached 87.05 points, remaining within the top 10 of the best Ecuadorian coffees. It is important to mention that in 2017 no coffee scored 90 points, which means there was not champagne coffee that year. The next contest to be held will be in October of this year, in which the farm expects to recover its score over 90 points and get a better position than the previous year.

Table 8 – *Top 10 in the Golden Cup 2017 contest*

GOLDEN CUP CONTEST – TOP 10 2017

Samborondón, 05 de Octubre - UEES

POSITION	PRODUCER / ASSOCIATION	PROVINCE	CANTON	PHONE	VARIETY	ALTITUDE	QQ.	CODE	SCORE
1	COLON MERINO	Chimborazo	Pallatanga	0996627070	Bourbon	1700	8,00	TDA-050	89,50
2	JOSÉ JIMÉNEZ (PROCAFEQ)	Loja	Gonzanamá	0073025773	Hibrido	1750	12,00	TDA-009	89,20
3	HENRY GAIBOR COLOMA	Pichincha	Quito	0992320298	Typica	1300	6,00	TDA-005	88,65
4	OLINKA VÉLEZ RODRÍGUEZ	Loja	Sozoranga	0042655794	Bourbon	1300	15,00	TDA-049	88,20
5	JHONNATAN JUMBO VÉLEZ	Loja	Calvas	0994487404	Hibrido	1700-1800	12,00	TDA-017	88,00
6	JAIME PONCE ORTEGA	Pichincha	Quito	0960009923	Bourbon	1330	11,00	TDA-020	87,70
7	OLINKA VÉLEZ RODRÍGUEZ	Loja	Sozoranga	0983929682	Typica	1300	11,00	TDA-042	87,60
8	GUSTAVO LANDIVAR H.	Azuay	Santa Isabel	0994466440	Typica	1650	10,00	TDA-038	87,05
9	JOSÉ EMILIO GAIBOR	Pichincha	Quito	0998210791	Typica	1300	10,00	TDA-016	86,85
10	WILSON ROSERO CABRERA	Pichincha	Quito	0985595530	Bourbon	1350	15,00	TDA-048	86,50

Source: ANECAFÉ, 2017

2.6.2 SWOT Analysis

General aspects of the company have been analyzed such as its history, mission, vision, and productive capacity, among other factors. It is considered pertinent to carry out a SWOT analysis to know its Strengths / Weaknesses in the internal part of the company; and the Opportunities / Threats of the environment in which Pillcocaja is developed.

Strengths

- Excellent quality coffee
- Coffee with a minimum score of 87.05
- Having achieved a score of 90 points
- Being the only coffee producer in Azuay that has reached the mentioned scores
  Climate, soil, and water in optimal conditions for growing coffee

Opportunities

- The growing worldwide demand for green coffee
- Promotion of exports by the government
- A niche market willing to pay large amounts of money for green coffee of excellent quality
  Create a brand that represents Ecuador abroad

Weaknesses

- Inexperience in the coffee sector
- Harvest personnel without experience
- Brand not known internationally
  Dependence on climatological factors

Threats

- Foreign competition with more experience
- Competition that comes from coffee-growing countries such as Colombia, Costa Rica, Panama, etc.
- Economic crisis in the country
  Monopoly of brokers to prepare coffee for export

2.7 Conclusions

Chapter 2 makes a general description of the history of coffee, its origins, expansion, and trends in world consumption. The characteristics of an Arabica-type

coffee where analyzed in order to know, specifically, how this varietal is developed because each variety has its own particularities.

Also, details several studies where it is scientifically proven that consuming coffee in moderation is beneficial for health. For example, it improves performance, raises the mood, speeds up the metabolism, and does not cause heart diseases. Again, it highlights that these benefits occur in a moderate consumption of coffee, because excessive consumption of coffee, as with any other food, can have negative effects.

In the following section it makes a holistic analysis of the company, and analyzes both the internal dynamics and the external environment in which the company develops. It describes the costs of the Pillcocaja coffee project for export and its projections, concluding that if the total investment was about $ 32,157.68, it can be recovered according to the projections, by the fourth year and obtain profits in the fifth year after the harvest. It should be clarified that "green coffee" is one of the conditions in which coffee can be exported and that this green coffee can also have the category of *gourmet.*

From all the above, it concludes that Pillcocaja coffee undoubtedly meets the category of "gourmet" and "champagne" because of the scores reached in the contest. Also, that Pillcocaja coffee has great potential because of its second position in its first contest of the Golden Cup and for being in the top 10 the next year. It is a profitable project because the investment can be recovered by the fourth year, and have a revenue for then on for about 14 more years. Moreover, coffee is one of the most consumed beverages in the world, and that gourmet coffee is a growing trend of consumption specially in Europe. Therefore, it is pertinent and feasible to carry out an international marketing plan to introduce Pillcocaja coffee abroad. In the next chapter an analysis of possible markets where Pillcocaja coffee could be exported will be made.

CHAPTER 3. ANALYSIS OF POSSIBLE GOAL MARKETS

Introduction

This chapter will begin with a review of global consumption of green coffee both in dollars and in quantities and analyze the main world importers to then focus on the European Union due to the Multiparty treaty that presents several commercial advantages for Ecuador, especially in Farm products.

Within Europe it will be mentioned the new trend of consuming specialty coffees, and their increasing opening. Next, an analysis of coffee consumption in the European Union will be made in contrast to the characteristics offered by Pillcocaja coffee as gourmet coffee. Later, 3 possible European Union target markets will be selected for the export of Pillcocaja coffee with its respective justification, and the Multiparty agreement will be analyzed in detail, by detailing its structure, benefits, implications and the effects it has had in its first years of validity.

Finally, a thorough analysis of the three selected target markets will be carried out, the same one that consists of defining the market characteristics, market consumption trends, distribution channels, cubic capacity of the coffee bags in three types of containers, transport costs with a real quote from a shipping company and a SWOT analysis of the market. This analysis will be carried out of each target market. To finish, a weighted double entry table will be elaborated, by means of which one of the three selected target markets will be selected.

3.1. Consumption of green coffee

The great consumption of green coffee around the world is undeniable. Of the total imports of coffee in all its forms, whether ground, roasted, green, decaffeinated, among others, green coffee in 2017 corresponds to 83%. In other words, of the 8,297,569 imported tons of coffee, green coffee corresponds to 6,892,264 of these tons, and only 17% corresponds to the other coffee conditions (Trade Map Organization, 2017a). Green coffee complies with tariff heading 090111 with the description “Unroasted or

decaffeinated coffee" and the values presented next will be in thousands of US dollars. This item recorded the highest consumption of green coffee in the last 5 years in 2017 with a value of $ 20,840,292 shown in table 9 (Trade Map Organization, 2017b).

Table 9 – *List of countries importing green coffee*

List of importers of heading 090111 Unroasted or decaffeinated coffee (Unit: United States dollar thousands)			
Importers	Value imported in 2015	Value imported in 2016	Value imported in 2017
World	20,476,461	19,377,474	20,840,292
United States	4,826,276	4,576,023	4,910,264
Germany	2,766,876	2,715,408	2,807,312
Italy	1,546,180	1,421,692	1,538,363
Japan	1,476,537	1,307,530	1,319,037
Belgium	845,355	743,367	812,468
Glen	624,780	623,385	707,999
Spain	654,580	615,749	680,081
France	619,596	533,615	588,660
Switzerland	633,715	534,203	585,535
Netherlands	464,560	435,100	556,076

Source: Trade Map Organization, 2017

It should be noted that of the Top 10 importers of green coffee worldwide, 6 of them belong to the European Union, being these Germany, Italy, Belgium, Spain, France and the Netherlands. What represents that 60% of the largest consumers of green coffee are concentrated in the same economic block, which makes it attractive to be considered export destination of the aforementioned product. Although the United States is the largest consumer of green coffee, this study seeks to find new markets for Pillcocaja coffee, less saturated, and with greater possibility to expand. In addition, Ecuador and the European Union have strengthened their commercial ties by signing a "Multiparty

Commercial Agreement" that came into force on January 1, 2017, which represents a great advantage and a number of commercial benefits. The treaty will be detailed in depth in section 3.2.

Table 10 – *Importers of green coffee from the European Union*

List of importers of heading 090111 Unroasted or decaffeinated coffee (Unit: tons)			
Importers	Amount imported in 2015	Amount imported in 2015	Amount imported in 2015
World	6,701,990	7,064,675	6,892,264
European Union (EU 28) Aggregation	3,130,840	3,340,596	3,174,841
Germany	1,032,375	1,119,348	1,040,752
Italy	527,894	571,965	563,258
Belgium	275,608	284,997	271,955
Spain	258,807	262,965	250,340
France	212,724	207,664	201,785
Netherlands	153,918	159,497	186,340
UK	169,166	192,476	160,518

.

Source: Trade Map Organization, 2017

As shown in table 10, the European Union imports 3,174,841 tons of green coffee from the 6,892,264 tons that are imported worldwide, which means that in this block is concentrated nearly 50% of total imports of this type of coffee. It is important to mention that the European Union is made up of 28 members, among which the United Kingdom is still considered. Although it announced its exit from the block, it has not formally left and continues “to be a full member of the European Union, with all the corresponding rights and obligations” (European Union, 2018).

As it has already been mentioned, there is a tendency to consume coffee, not only green but gourmet, which is one of the characteristics of Pillcocaja coffee. According to the magazine "Fórum Café" today's consumers are much more demanding when buying this drink. They know the product and expect good quality of it. They do not want a coffee cup that just tastes amazing, but to tell a story behind it like a whole experience (Cuadros, 2015). Along with the growth in the demand for specialty coffees, specialty coffee shops have increased as well, for example in 2016 these coffee shops were the fastest growing category of restaurants in Europe (Wheeler, 2016). Gourmet coffee consumers are customers who are willing to pay a higher price for the quality and experience that this drink provides them. This is why it is a small niche, but with a great potential to exploit.

Pillcocaja is a coffee that offers that and much more. It is grown in the province of Azuay, near Cuenca, Ecuador in the heart of the Andes mountain system. The plantation's land has remained at rest for more than 70 years allowing the minerals of the soil to remain intact, and making the grains grown properly. In addition, Pillcocaja is a land surrounded by tropical fruits such as orange, papaya, lemon, and peach, among others. These tropical fruits influence in the coffee flavor resulting in a unique and exquisite grain. Also, it is irrigated with water that comes from the same mountain where the coffee is planted, which makes it one of the purest water sources in the region. Regarding to shadow, it grows under the shade of endemic trees called *faiques*. These are some of the many elements that make Pillcocaja a unique, different, and excellent coffee that has an extraordinary potential to satisfy the demands of the European market.

Once the economic block to which Pillcocaja coffee might be exported is selected, three countries from it must be chosen to convert them into possible target markets. Among all the countries of the European Union, Germany, France and Spain were selected. The first country mentioned was selected because it is the largest consumer of green coffee in the EU, with 1,040,752 tons of green coffee imported in 2017, compared to 3,174,841 tons imported by the 28 EU countries. This means that 33% of all the green coffee imports of the EU belongs to one country, Germany. Also, a study conducted by Nespresso in Germany, through CN St Gallen "The Refresh Company", showed that approximately 59.7% of Germans cannot start their day without a cup of coffee and that about 50% are willing to pay more money for better quality coffee (Nespresso, 2013).

Second, France was selected as one of the largest and most solid markets in the European Union that has a niche for green coffee. France has around 67 million inhabitants in 2017 according to the World Bank and is the third coffee consumer country in the EU (CBI, 2017). In addition, it is one of the markets with greater awareness and appreciation for specialty coffee. French consumers value coffee characteristics such as aroma, taste and especially the origin of coffee. In fact, last year there was a 30% growth in sales in specialty coffees specifically due to their origin (Briot, 2017). Also, the French Coffee Committee issued a report in which there was an increase in the number of coffee shops selling specialty coffee, 850 in 2010 and 1,060 in 2017 (Comité Français du Café, 2018).

The third country selected was Spain. Spain is also a great coffee consumer country in the EU as it imported a total of 250,340 tons in 2017 (Trade Map Organization, 2017a). Coffee in Spain has become a habit of daily consumption since it is consumed by 70% of Spaniards between 18 and 64 years of age (Café Novell, 2017). Moreover, it was considered the cultural affinity that Ecuador and Spain have, for example, sharing the same language, closeness in certain customs, and the great flow of Ecuadorian emigrants living in Spain. This cultural proximity to the Basque country represents a reduction of non-tariff barriers for the introduction of Pillcocaja coffee in Spain.

3.2. Trade Agreements Ecuador - European Union

As discussed in Chapter 1, trade agreements are tools that facilitate trade between countries contributing to their economic development. To date, the Multiparty Trade Agreement is the only trade agreement in force between Ecuador and the European Union. After several rounds of negotiations that concluded in 2014, on November 11, 2016, the then Vice President of the Republic, Jorge Glas, signed on behalf of Ecuador the Protocol of Accession of Ecuador to the Multiparty Trade Agreement with the European Union and entered in effect on January 1, 2017.

The Economic Commission for Latin America and the Caribbean (ECLAC) conducted a study based on projections, and concluded that with the Multiparty

Agreement, Ecuador's GDP should increase by 0.10%, consumption by 0.15%, exports 0.11%, and the investment 0.13% per year, as will be shown in table 11.

Table 11 – *Projections by ECLAC in the economy of Ecuador*

Ecuador: effects of the different scenarios modeled on the main macroeconomic variables without changing the productive matrix 2015-2020

Scenarios	Description	Consumption	Investment	Exports	Imports	GDP
1	Loss of the Generalized System of Preferences (GSP +)	-0,29	-0,43	-0,17	-0,45	-0,20
2	Loss of the GSP + and adhesion to MERCOSUR	-0,56	-0,87	-0,96	-0,89	-0,55
3	Agreement between the European Union and Ecuador	0,15	0,13	0,11	0,20	0,10
4	Agreement with the European Union and adhesion to MERCOSUR	-0,06	-0,22	-0,51	-0,13	-0,17

Source: ECLAC

The Agreement offers Ecuador the possibility of entering a market with approximately 514 million inhabitants with tariff preferences, and in many cases without any tariff. "The agreement ensures the immediate liberalization of 99.7% of Ecuador's historical exportable offer in agricultural products and 100% of Ecuadorian industrial products" (Ministry of Foreign Trade and Investment, 2016a). Between the products that enter without tariff to EU stands out cocoa, roses, palmetto, vegetables, coffee, among others, what makes them extremely competitive, and beneficial to Ecuadorian farmers (Ministry of Commerce Exterior, 2014). It can be seen that the Multiparty Agreement seeks to boost exports of non-oil goods from Ecuador, and thus increase its participation in the country's trade balance. In addition, the Agreement deals with other issues besides tariff preferences that benefits Ecuador as well. The agreement is structured as follows:

1. Introduction to the Commercial Agreement
2. General provisions
3. Market access
4. Technical barriers to trade
5. Sanitary and phytosanitary measures

6. Commercial defense instruments
7. Services, investments, and free movement of capital
8. Competition
9. Public procurement
10. Rules of origin
11. Intellectual property
12. Geographical indications
13. Trade and sustainable development
14. Settlement of disputes and institutional matters
15. Other agreements of the European Union in Latin America and the world

To date, the Multiparty Agreement has been in force for approximately one and a half years and reflects a generally positive impact on the country's economy. According to the EU diplomatic representative in Ecuador, Marianne Van Steen trade flows have increased by 20%, and argues that business opportunities can be further exploited. For example, there are programs to promote the development of MSMEs (micro, medium and small companies) in which they plan to invest more than 10 million dollars (El Universo, 2018).

As for coffee, there is an evident increase in exports from Ecuador in the last 3 years towards the European Union. In 2015 and 2016, $946,000 and $1,653,000 were exported respectively; however, in 2017, $ 2,836,000 exported with the current commercial agreement, which allows us to conclude that there was a 72% growth between 2016 and 2017, as will be shown in table 12 (Trade Map Organization, 2017). In addition, as shown in table 13, green coffee went from representing 9,3% of exports from Ecuador to the EU in 2016, to represent 16,8% in 2017. This shows that there has indeed been an increase in Ecuadorian green coffee exports to the EU since the signing of the Treaty.

Table 12 – *Annual exports from Ecuador to the European Union*

List of importing markets for the European Union (EU 28) for the product 090111 Unroasted or decaffeinated coffee, exported by Ecuador. (Unit: thousands of US dollars)			
Importers	Value exported in 2015	Value exported in 2016	Value exported in 2017
World	18,085	17,853	16,882
European Union (EU 28) Aggregation	946	1,653	2,836
France	348	368	1,146
Germany	418	1,000	1,059
Belgium	21	0	507
UK	111	162	87
Italy	0	0	28

.

Source: Trade Map Organization, 2018.

Table 13 – *Share in percentage value of green coffee in exports from Ecuador to the EU*

List of importing markets for the European Union (EU 28) for the product 090111 Unroasted or decaffeinated coffee, exported by Ecuador. (Unity: %)			
Importers	Share in value in the exports of the reporting country, % in 2015	Share in value in the exports of the reporting country, % in 2016	Share in value in the exports of the reporting country, % in 2017
World	100	100	100
European Union (EU 28) Aggregation	5.2	9.3	16.8
France	1.9	2.1	6.8

Germany	2.3	5.6	6.3
Belgium	0.1	0	3
UK	0.6	0.9	0.5
Italy	0	0	0.2

.

Source: Trade Map Organization, 2018.

Next, the markets of the selected countries will be analyzed in depth: Germany, France and Spain.

3.3. German Market analysis

3.3.1 Market Characteristics

The German market is one of the largest markets for coffee; in fact, it is the second importer after the United States with 1,121,596 tons, of which 1,040,752 were green coffee in 2017, representing 92% of total coffee imports (Trade Map Organization, 2017). In Germany, coffee is consumed more than water and even beer, in 2016 the per capita consumption of beer was 106 liters (Llorca, 2017), while coffee was 162 liters as shown in figure 7 (Deutscher Kaffeeverband, 2016), which means that per capita consumption is extremely high.

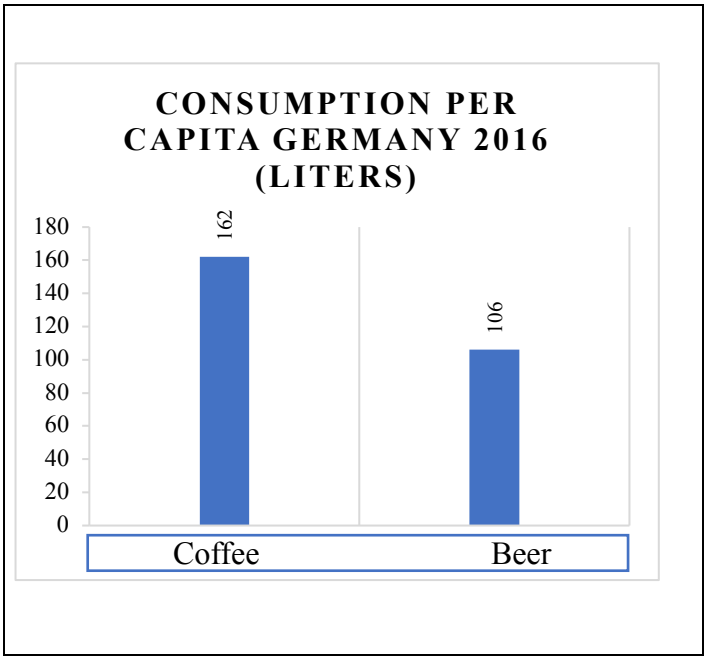


Figure 7 - *Consumption per capita in Germany 2016 (liters).* (Source: Adapted based on Llorca & Deutscher Kaffeeverband)

In addition, Germany has two crucial ports where coffee is imported, the port of Bremen and the port of Hamburg, which serve as a bridge not only for domestic consumption but to re-export the grain to neighboring countries. Coffee is re-exported to countries such as Hungary, Netherlands, France, Italy, Poland and Austria. Of the 1,040,752 tons imported from green coffee, 203,555 tons were re-exported (Trade Map Organization, 2017). With these values it can be argued that Germany, besides being a great importer of green coffee, is a strategic center from which the grain is re-exported to the rest of Europe, making it a mature market and a valuable distribution channel.

In terms of consumption preferences by geographical location, North Rhine-Westphalia, Bayern and Baden-Württemberg are the regions with the highest consumption rate in coffee; thus, in Bayer, a consumption of ground, instant and special preparations predominate, while in Baden-Württemberg, individual portions and special mixtures are preferred (ProEcuador, 2015).

As for exports from Ecuador to Germany, in the last 3 years a growing trend in export values has been handled. In 2015, $ 418 were exported (in thousands of dollars),

$ 1,000 in 2016 and $ 1,059 in 2017. On the other hand, as shown in table 14, of the top 5 of the largest suppliers of green coffee for Germany, 3 of them are Latin American countries, being Brazil, Colombia, and Peru, two of them are the Ecuador boarders. This allows to argue that the geographic and climatological conditions to develop the best coffee in the world are found in Latin America and therefore Ecuador can potentiate its coffee industry taking advantage of these characteristics.

Table 14 – *Main suppliers of green coffee for Germany*

List of suppliers for the product 090111 Unroasted coffee or decaffeinated coffee, for Germany (Unit: US $ thousands)			
Exporters	Value exported in 2015	Value exported in 2016	Value exported in 2017
World	2,766,876	2,715,408	2,807,312
Brazil	968,776	899,836	862,287
Viet Nam	432,861	522,626	516,022
Honduras	285,723	247,879	317,584
Colombia	200,538	198,107	182,865
Peru	173,878	171,469	159,865

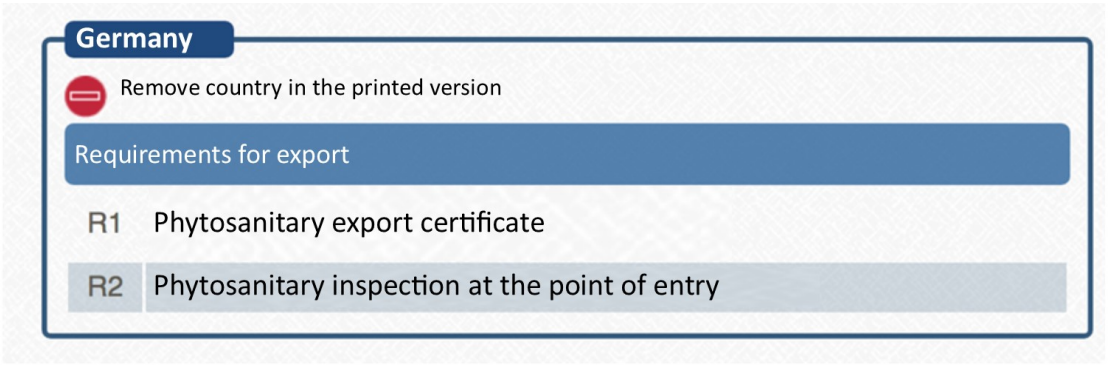
.

Source: Trade Map Organization, 2017

To export coffee from Ecuador to Germany, the entrance tariff is 0% thanks to the Multiparty Agreement; however, there is a local tax called VAT that means Value Added Tax, which is what in Ecuador is known as IVA, *Impuesto al Valor Agregado*, that taxes green coffee and many other products. Germany has a VAT of 7% over consumer goods (European Commission, 2018b). According to the "Agency for Regulation and Control of Phyto and Zoo-sanitary of Ecuador" known as *Agrocalidad*, to export green coffee to Germany two main requirements are needed as shown in table 15. The first is to have the "Phytosanitary Certificate of Exportation" and the second is, to make a "Phytosanitary Inspection at the point of entry" (Agrocalidad, 2018). In addition to these specific

requirements for Germany, there are other non-tariff barriers to enter the European market that will be reviewed in detail in chapter 4 once the target market has been selected.

Table 15 – *Requirements to export green coffee from Ecuador to Germany*



Source: Agrocalidad, 2018

3.3.2 German consumer trends

The increase in the consumption of gourmet coffee is due to the fact that German consumers are becoming more knowledgeable about the subject and becoming very demanding when consuming this drink. A German consumer seeks quality, taste, excellence, exclusivity, and above all, a history behind the coffee cup. According to the study Trends beim Kaffee-Genuss 2017 translated as "Coffee Consumption Trends 2017" reveals that 92% of Germans consider coffee as an essential drink. The greatest number of coffee consumers is found in the group of people aged 46 and over, of which 83% consume coffee daily; followed by this group are consumers aged 36-45, of which 80% consume coffee daily (Aral Corporation, 2017).

In addition, in the same study it is concluded that 65% of coffee drinkers in 2016 consider that freshness is "very" important at the time of consumption, raising 10 points in this category in relation to the previous survey in 2014 where the 55 % considered freshness very important; the remaining 32% considers it important and only 3% consider it unimportant as shown in figure 8. It is significant to clarify that "freshness" refers to coffee prepared with whole roasted and ground beans that instant. Only 8% of Germans

consume instant coffee, thus there is a marked preference for coffee beans (Aral Corporation, 2017).

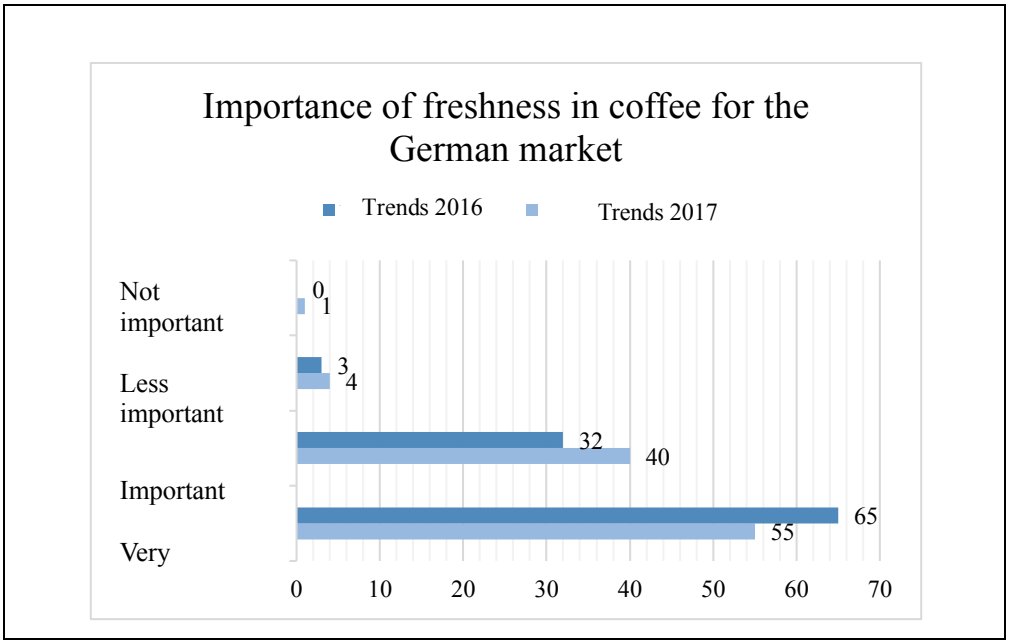


Figure 8– *Importance of freshness in coffee for the German market.* (Source: Adapted based on data from Aral Corporation, 2017).

Another study conducted by Nespresso reveals that 59.9% of German coffee consumers cannot start their day without this beverage, and that 28.9% consider that a business is better developed if people drink coffee (Nespresso, 2013). As it can be seen with these studies, the consumer has become more demanding in terms of quality, one of the reasons may be the abundant access to sources of information either online or by other means. Today's consumer is well informed, and knows about coffee so much that coffee consumption trends have increased, especially those of gourmet coffee.

3.3.3 Green coffee distribution channels in Germany

According to Pro-Ecuador, there are three types of distribution channels for the commercialization of green coffee that depend on its quality and use that is given to the grain, these are: industrial coffee, sustainable coffees and gourmet coffees. The first class,

industrial coffee, is the one that is destined for mass consumption, where green coffee of average quality is imported by companies such as Nestlé, Tchibo, Jacobs. These companies are responsible for roasting, grinding or processing to supply supermarkets or retail companies where the product is offered to the consumers, this process is shown in figure 9. A bag of industrial green coffee, in FOB price, ranges from $ 60 - $ 120 maximum (ProEcuador, 2015).

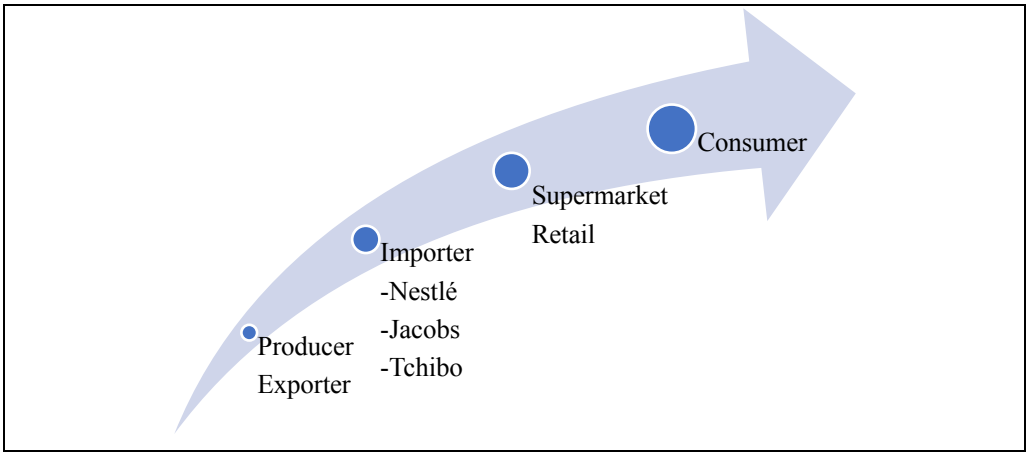


Figure 9 – *Distribution channel of industrial green coffee in Germany.* (Source: Adapted based on Pro Ecuador, 2015).

The second class, sustainable coffees, is a category that has an increasing demand in Germany. They are those that are commercialized by small importers, then the small importers sell the coffee to specialized stores, and these stores will sell to the final consumer as shown in figure 10. In this case, large volumes are not handled just small quantities, but at a higher price than the previous distribution channel, for example, a green type sustainable coffee bag can cost between $ 180 - $ 280 depending on how many certificates the company has, what is its origin and its cup score (ProEcuador, 2015). In addition, it is important to mention that in this type of green coffee certificates are highly valued, for instance FairTrade, HACCP, GLOBALG.A.P. Certification of Origin, among others.

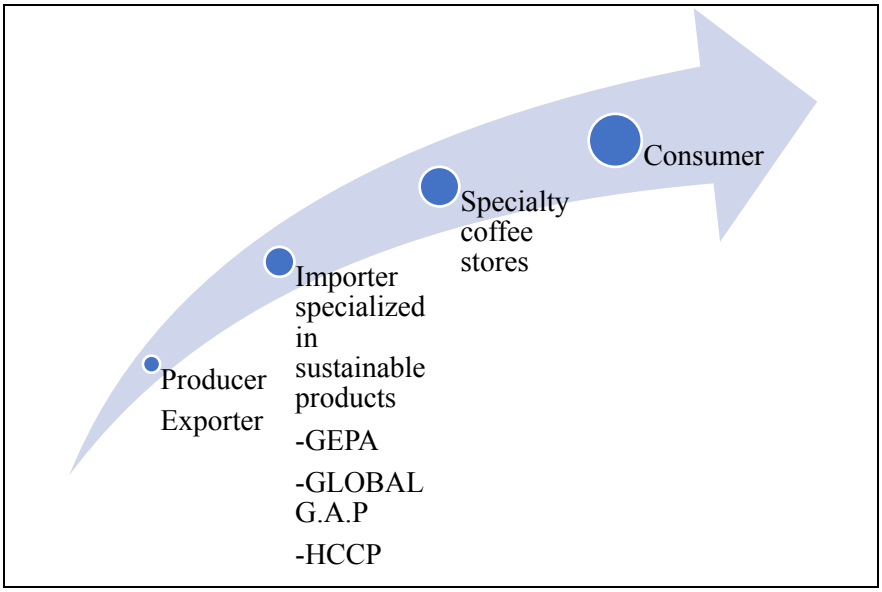


Figure 10 - *Sustainable green coffee distribution channel in Germany.* (Source: Adapted based on data from Pro Ecuador)

The last type of distribution channel is that of gourmet coffees in which the lower volumes of imports are handled. It is purchased directly by small toasters that sell it in their own coffee shops, through online portals or directly to specific customers (ProEcuador, 2015). This type of coffee is of the highest quality and is extremely sought in the German market. In addition, this distribution model turns out to be the most convenient in terms of cost / utility since coffee is purchased directly from producers, which ensures its quality, and the importers themselves sell it in their own stores or in their online webpages. Thus, reaching the consumer through fewer intermediaries in the distribution chain as shown in figure 11. Gourmet type coffees are characterized especially by their high cup score, which means they have scores that exceed 85 points. A coffee bag of Gourmet green coffee can cost approximately $ 350 and more (ProEcuador, 2015).

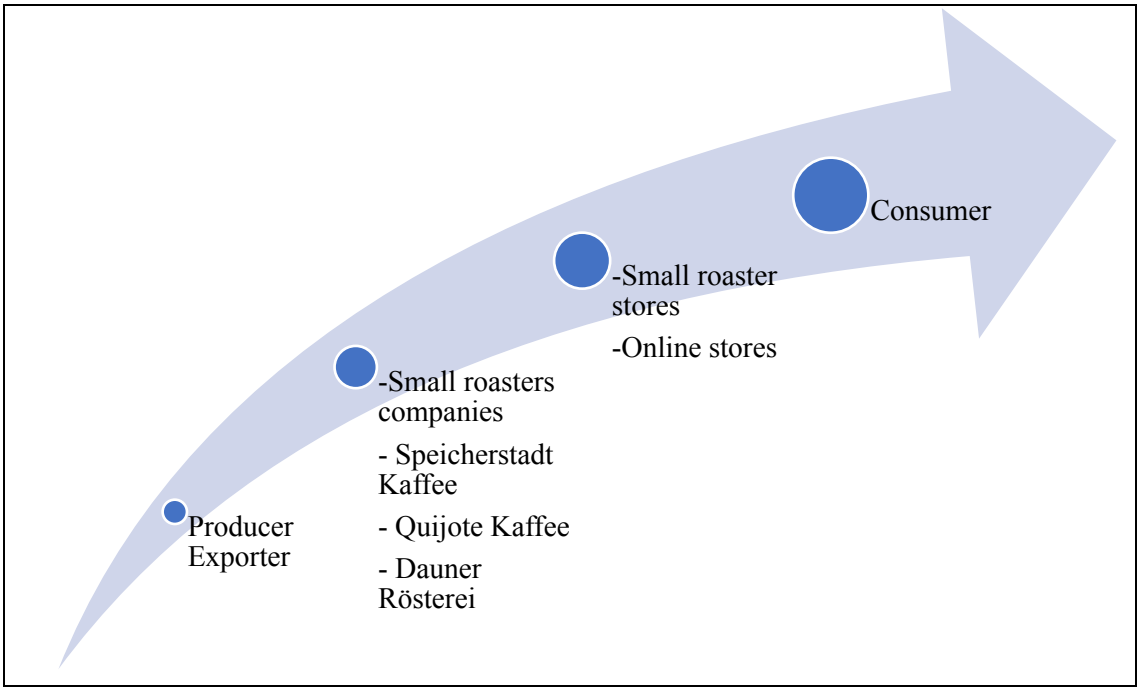


Figure 11 - *Gourmet green coffee distribution channel in Germany.* (Source: Adapted based on data from Pro Ecuador).

Of the three types of distribution channels in Germany, Pillcocaja should be focused on the third one, the gourmet coffee distribution channel. Pillcocaja has all the organoleptic characteristics to fit into this distribution chain since this business model is not about quantity but about quality, and in Germany there is a market willing to pay more for better quality. In fact, Pillcocaja has had offers to sell bags of green coffee between $440 - $500 depending on the cup score of each. Through this channel the sale can occur in two ways, on one hand the green coffee is sold in Ecuador and the importer takes care of all the paperwork to import it; and on the other hand, Pillcocaja handles all export procedures and sells directly to small buyers in the destination country. In case the sale is made by the second method explained in the previous line, Pillcocaja should consider:

3.3.4 Cubic measurement of coffee bags in containers of 20 ", 40" and 40HC

A quote was requested from the shipping company CMA CGM to transport green coffee from the port of Guayaquil, Ecuador to Rotterdam, Germany to know an approximate

cost of transporting the grain. To do this, a cubic calculation was made based on the measurements of a coffee bag that is 110cm long, 65cm wide and 20cm deep, as shown in table 16.

Table *16* - *Dimensions of a coffee bag*

Dimensions of a coffee bag		
Long	110	cm
Width	65	cm
Depth	20	cm
Total	143,000	cm^3
	0.143	m^3

Source: Adapted based on Pillcocaja's information 2018.

Table 17 – *Cubic measurement and total cost of transportation of coffee bags*

Cubic measurement of Pillcocaja coffee bags for export to Germany			
	20"	40"	40HC
Max Tons	18	20	20
# max bags by weight	300.00	333.33	333.33
# bags max by volume	232,17	473,4	534.27
Total cost per container	$ 1,620.99	$ 2.325,99	$ 2,325.99
Unit cost per bag of coffee	$ 6,982	$ 6.978	$ 6,978

Selected capacity

Source: Adapted based on Pillcocaja's information 2018.

Once the measurements of the coffee bag were obtained, the cubing was carried out. The first step was to obtain the cubic volume of the bag by multiplying the 3 dimensions, long, width and depth. The result obtained was 143,000cm^3 as shown in table 16 and transformed to m^3 0.143m^3. From the division of the cubic capacity of each container to the cubic volume of a coffee bag, the maximum capacity of coffee bags in a 20" container is 232 bags, in one of 40" is 473 bags and in one of 40HC is 534 bags as shown in table 17. However, another factor must be considered, the weight. Each bag of coffee has a weight of 60kg, transformed to tons would be 0.06 tons; The maximum capacity of the containers of 20", 40" and 40HC is 18, 20, and 20 tons respectively. From the division of the maximum weight capacity for the unit weight of the coffee bag, it is obtained that, by weight, a 20" container can be filled with 300 bags, one of 40" by 333 bags and one of 40HC, by 333 bags as well.

Once the capacity calculations of the containers by weight and volume have been made, these two criteria are contrasted and the smallest quantity is selected from among the 2, since the lowest value is the limit capacity for either the weight or the volume. For example, in table 17 a 20" container has a maximum capacity by weight of 300 units, and by volume of 232 units, therefore, 232 units must be selected because this value limits the other value. With the same reasoning, a container of 40" can transport 333 units and one of 40HC also 333 units.

3.3.5 Transportation costs

As for the monetary value of the transport, the calculation was made based on the quotation of costs that the shipping company CMA CGM sent. There are some fixed costs, and others that vary by the nature of the container as shown in tables 18 and 19.

Table 18 - *Fixed transportation costs of the CMA CGM shipping company from Guayaquil to Rotterdam*

CHARGE REASON	TYPE	QUANTITY
Export documentation	By BL	$ 65.00
Container handling	By Cntr	$ 135.00

Administration	By Cntr	$ 65.00
Seal	By Cntr	$ 15.00
Total Fixed Costs		$ 280.00

Source: Adapted based on data from CMA CGM, 2018

Table 19 - *Costs of transport by shipping company CMA CGM Guayaquil to Rotterdam*

Price quote shipping company CMA CGM			
Line N °	787		
Validity	05-Jul-2018 / 30-Sep-2018		
Loading port	GUAYAQUIL		
Discharge port	ROTTERDAM		
Commodity	FAK LISA (UPA)		
Max weight (without tare)	20ST=18.00 tons, 40ST=20.00 tons, 40HC=20.00 tons		
Route	ECGYE / COBUN / BEANR, GUACO / WCC		
Rate offered			
Description of charges	**20ST**	**40ST**	**40HC**
Containers			
Fee per container	USD 800.00	USD 1,400.00	USD 1,400.00
Included			
Fuel cost (BSC)	-	-	-
Container Inspection	-	-	-
Ocean Carrier-Intl Ship & port	-	-	-
Subject to			
Surcharge for emergency fuel, EB	USD 55.00	USD 110.00	USD 110.00

Surcharge for lack of sulfur	USD 50.00	USD 100.00	USD 100.00
THC destination	USD 245.99	USD 245.99	USD 245.99
THC origin	USD 165.00	USD 165.00	USD 165.00
B/L charge			
Surcharge for export declaration	USD 25.00	USD 25.00	USD 25.00
Fixed costs	USD 280.00	USD 280.00	USD 280.00
ESTIMATED TOTAL	**USD 1,620.99**	**USD 2,325.99**	**USD 2,325.99**

Source: Adapted based on data from CMA CGM, 2018

On the one hand, as shown in table 19, the cost of a 20" container is $ 1,620.99 for 232 bags, which represents a $6.98 cost per unit. On the other hand, both a 40" container and a 40HC container cost $ 2,325.99, loading 333 bags with a unit price of $ 6.97 per bag. With these data it is concluded that the cost between the 3 containers does not have much difference, so the decision of which container to choose depends in large part on the amount of production available for export. For reasons of this study it will be assumed that Pillcocaja has the productive capacity to fill the 20"container, and with these values a comparison will be made in terms of costs with the other two markets, France and Spain.

3.3.6 SWOT analysis of the German market

Strengths

- It is the second largest importer of green coffee after the United States, with 1,121,596 tons in 2017.

- Mature and stable market for green coffee
- Germans have an annual per capita coffee consumption of 3 or 4 cups a day, standing in front of water or beer
- About 50% of Germans are willing to pay more for better quality coffee
- 92% of Germans consider coffee as an essential drink
- Knowledgeable consumers about coffee
- Higher consumption of coffee beans (31%) than soluble coffee (8%)

Opportunities

- Improvement of trade relations between Ecuador and the European Union by signing the Multiparty Treaty.
- Tariff preferences with a 0% entry fee
- Increase in green coffee consumption of 3% from 2016 to 2017

Weaknesses

- Strong competition experienced companies in the gourmet coffee market
- Great market offer of gourmet coffee brands
- Pillcocaja inexperience in the international market
  Extremely demanding consumers

Threats

- End of the Multiparty Treaty between Ecuador and the EU
- Local VAT of 7% on green coffee, which raises its pvp (retail price).

3.4 French market analysis

3.4.1 Market Characteristics

France represents a mature and solid market for the export of coffee. In fact, coffee consumption in France is significant. According to Trade Map, in 2017, 201,785 tons of green coffee were imported, reaching an import of 36,445 more tons than Russia, a country that represents, in size, 31 times the area of France and approximately three times it's the population (Comparea Organization, 2018). The consumption per capita is approximately 2.5 cups of coffee a day and around 64.8% of the French are ready to

acquire better quality coffee, regardless of its higher cost (Revista Néorestauration quoted in Proecuador, 2018).

Similarly, an investigation carried out by the prestigious market research firm "Statista" shows that the total coffee market generated $ 2.22 billion dollars in 2018, which means that every year a Frenchman spends $ 33.45 in coffee; in addition, it is expected to reach $ 2,311 million in 2021, that is, a growth of 0.07%, as shown in figure 12.

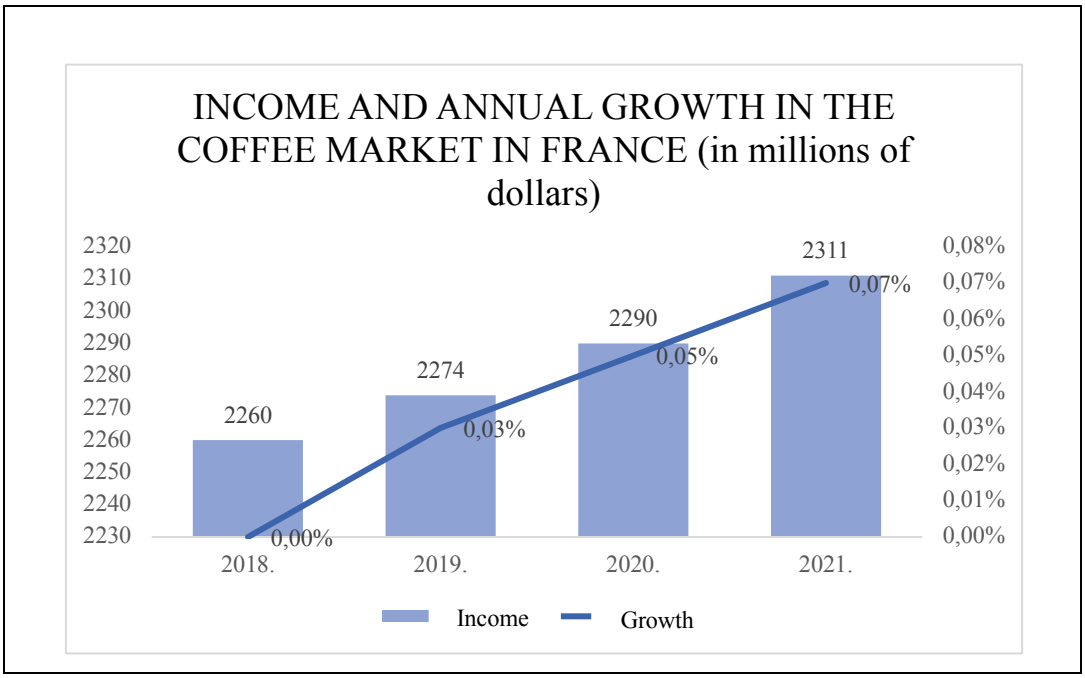


Figure 12 – *Revenue and annual growth in the French coffee market*. (Source: Adapted based on data from Statista, 2018).

The French market is a demanding when it comes to coffee, it is estimated that in 2017 sales of special coffees increased by 30% (CBI, 2017) as people want coffees with excellent grain quality. Unlike Germany, France re-exports very little of the coffee it imports, barely re-exports 5,378 tons from the 201,785. From this it can be concluded that only 2.6% is re-exported and 97.4% of coffee imports are destined for domestic consumption. The main port of France, where most of the green coffee enters, is Le Havre port, located on the Seine River (CBI, 2017). There are also more than 800 companies that roast coffee all around France and they sell it to specialty stores. These roasters are

located mainly in Ile-de-France, Provence-Alpes-Côte-D'Azur, Rhône-Alpes, Aquitaine, among others. (ProEcuador, 2014).

Table 20 – *Green coffee trade between Ecuador and France*

Product code	Product description	Ecuador exports to France (thousands of US dollars)		
		Value in 2015	Value in 2016	Value in 2017
90111	Unroasted or decaffeinated coffee	348	368	1,146
		Ecuador exports to France (tons)		
		Amount in 2015	Amount in 2016	Amount in 2017
		102	93	214

.

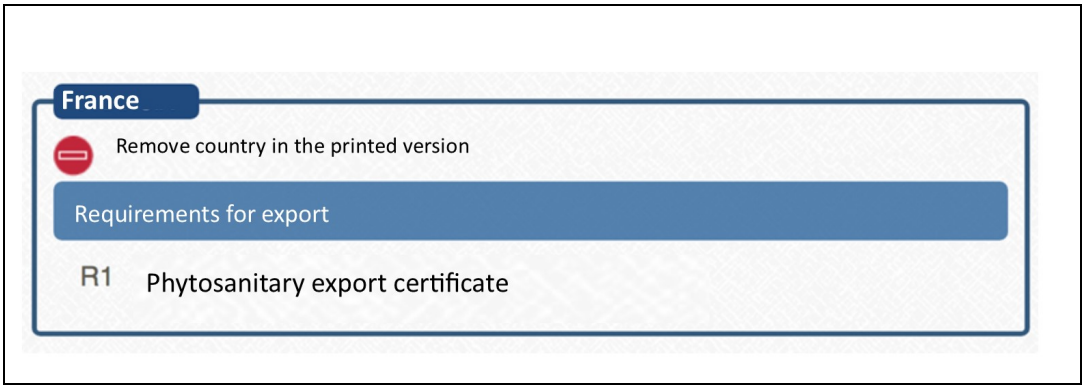
Source: Adapted based on data from Trade Map Organization, 2018.

Table 20 shows the trade between Ecuador and France. It can be seen that in 2016, 93 tons were exported, this is an equivalent to $ 368,000, while in 2017, 214 tons were exported, an equivalent to $ 1,146,000; therefore, in quantity there was a growth of 130% and in price a growth of 211%. When analyzing these data, it is evident that exports to France have grown exponentially. In terms of its main green coffee suppliers stand out: Brazil, from which France imports 54,129 tons, Vietnam 41,231 tons, Honduras 17,656 tons, from all the suppliers list, Ecuador is ranked 34 (Trade Map Organization, 2018).

Ecuador benefits from the Multiparty Agreement by entering the French market with a 0% tariff, however a local tax called VAT, Value Added Tax on consumer products is applied, the amount of the surcharge depends on the nature of the consumer good and can reach up to a surcharge of 20%. Nevertheless, green coffee corresponds to a surcharge of 5.5% (European Commission, 2018a). Also, as shown in table 21, according to

Agrocalidad, the only specific requirement for France is the "Phytosanitary Export Certificate".

Table 21 - *Requirements for the export of green coffee from Ecuador to France*



Source: Agrocalidad, 2018.

3.4.2 Consumer trends in France

The French consumer is a very demanding customer, and with a high level of knowledge regarding coffee. French consumers are increasingly looking for exclusivity in their specialty coffee or terroir coffee as they are known in France. In fact, there was a 30% increase in sales of this type of beverage in 2017 (Briot, 2017). Specialty coffees are no longer consumed only in Paris, the capital, instead, their consumption has spread all over France. There are well-known stores in most French regions, for example: in Strasbourg, "Café Bretelles"; Bordeaux, "Black list"; Nantes, "Sugar Blue"; Lyon, "La Boîte à Café"; among other places (Brones, 2018).

These coffee shops are certainly popular since an average French consumer spends between 10% to 20% of his/her salary in non-alcoholic beverages where the coffee drinks are contemplated. In addition, the segment with the highest consumption of coffee is people aged 40 and over, young people prefer drinks with a higher percentage of sugar (ProEcuador, 2014). An average of 85% of French people consume coffee daily, of this percentage the consumption per hour is distributed as follows, 80% in the morning, 35% in the mid-morning break, 75% after lunch, and a 45% in the mid-afternoon break (ProEcuador, 2014).

Additionally, France has a strong support to contests of expositions that promote the knowledge and culture of this type of coffee. In fact, the Specialty Coffee Association France, organics every year an event called *Les Championnats du Café*, that means The Coffee Championships where specific subject competences are carried out, for example, "Latte Art", "Cup Tasters Coffee in Good Spirits", "Brewer's Cup and Roasting" take place there (Specialty Coffee Association France, 2018). In addition to competitions there are several courses on coffee, the most recognized are those taught by the famous coffee roasters: Café Mokxa and Lomi (CBI, 2017). It is important to mention that in France there is also a large increase in coffee consumption in capsules.

This is the new fashion that is growing by leaps and bounds, from 2014 to 2016 the country's sales increased from 29% to 32% (European Coffee Federation, 2017). In this area, Nestlé dominates the market with a participation of 85%, because until 2014 Nespresso machines only worked with capsules of the brand itself. However, that same year due to an antitrust law Nestlé agreed with the French authorities to allow the machines to work with capsules of other brands which opened the market for other brands such as Café Royal, Illy Café, Lavazza, among others (France Television, 2017).

3.4.3 Green coffee distribution channels in France

The distribution channels in France are divided into almost two sectors, coffee destined for home consumption, and coffee destined for consumption outside the home, as shown in figure 13. Importers sell the coffee to intermediaries, who in turn sell to one of the 2 sectors aforementioned. In the case of coffee for home consumption, coffee is sold to hypermarkets, supermarkets, Nesspreso stores or to specialized stores that have online portals. In the second case, coffee for consumption outside home is sold to coffee shops, restaurants, hotels, among others (ProEcuador, 2014).

Pillcocaja should focus on both consumption at home and consumption outside home. In the first case it would fit only in the sale to specialized stores that sell to customers through its online portals, and in the second case it will fit all, coffee shops,

hotels and restaurants. It must be remembered that Pillcocaja is a specialty and gourmet coffee, which is not intended for mass consumption. According to a study carried out by Pro Ecuador, the main buyers of this type of coffee in the French market are Ethical Coffee Company, Ethicable, Lobodis, Molongo, Café Meo, and Alter Eco (ProEcuador, 2014).

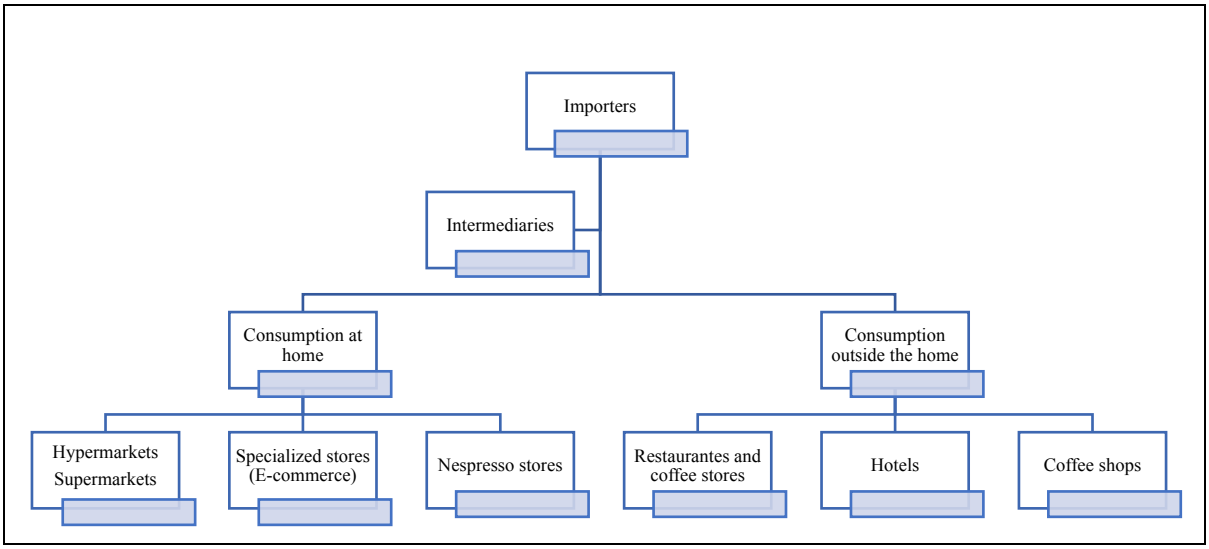


Figure 13– *Distribution channels of the coffee market in France.* (Source: Pro Ecuador).

In fact, in the online sales portal of Lobodis it can be found specialty coffee beans from Bolivia and Nicaragua selling at a price of € 15, which is approximately $ 17.5 (Lobodis, 2018). These are neighboring countries for Ecuador indicating that the market for this coffee is promising and it is totally possible. In addition, these coffees in Central and South America have the same high prices as coffees in Ethiopia or Sumatra, which are countries with a lot of experience, tradition and coffee management.

Figure 14 – *Specialty coffees for sale on the Lobodis portal. (*Source: Adapted based on data from Lobodis, 2018).

3.4.4 Cubic measurement of coffee bags in containers of 20", 40" and 40HC

Since the same number of bags of coffee and the same containers will be used, the information provided in point 3.3.3 will be used to calculate transportation costs to France.

3.4.5 Transportation costs

Transportation costs vary according to the coffee final destination. If Pillcocaja exports directly the following table 22 should be analyzed. It shows the transport of coffee beans from Guayaquil to the port of Le Havre. This table shows that the approximate the unit cost is $ 7.85 in a 20" container, and $ 7.58 for both, a 40" and 40 HC containers.

Table 22 – *Transportation costs by shipping CMA CGM Guayaquil to Le HAVRE*

Quote provided by CMA CGM shipping company	
Line N °	572
Validity	01-Jul-2018 / 30-Sep-2018
loading port	GUAYAQUIL
discharge port	LE HAVRE
Commodity	FAK LISA (UPA)

Max weight (without tare)	20ST=18.00 tons, 40ST=20.00 tons, 40HC=20.00 tons		
Route	ECGYE / COBUN / FRLEH, GUACO / WCC		
Rate offered			
Description of charges	**20ST**	**40ST**	**40HC**
Containers			
Fee per container	USD 800.00	USD 1,400.00	USD 1,400.00
Included			
Fuel cost (BSC)	-	-	-
Container Inspection	-	-	-
Ocean Carrier-Intl Ship & port	-	-	-
Subject to			
Surcharge for emergency fuel, EB	USD 55.00	USD 110.00	USD 110.00
Surcharge for lack of sulfur	USD 50.00	USD 100.00	USD 100.00
Dangerous merchandise	USD 174.09	USD 174.09	USD 174.09
THC destination	USD 246.04	USD 246.04	USD 246.04
THC origin	USD 191.49	USD 191.49	USD 191.49
B/L charges			
Surcharge for export declaration	USD 25.00	USD 25.00	USD 25.00
Fixed costs	USD 280.00	USD 280.00	USD 280.00
ESTIMATED TOTAL	**USD 1,821.62**	**USD 2,526.62**	**USD 2,526.62**
Unit cost per bag	USD 7.85	USD 7.58	USD 7.58

Source: Adapted based on data from CMA CGM

As mentioned above, assuming that Pillcocaja has the capacity to fill a 20" container compared to Germany, transport to France is approximately $ 200.63 more expensive, and a difference of $ 0.87 cents per unit. If Pillcocaja had the capacity to fill a container of 40" it would be convenient, because it would be exported101 units more than in the 20" and would present a saving of $ 0.27 cents per unit.

3.4.6 SWOT analysis of the French market

Strengths

- Solid market, 201,785 tons of green coffee were imported
- Imports more coffee than Russia, a country that is 31 times bigger
- 64.8% of French people are willing to buy better quality coffee, regardless of whether its cost is higher
- 2.5 cups per capita daily consumption
- It is estimated that in 2017 sales of specialty coffees would increase by 30%
- In the year 2016, 93 tons were exported, equivalent to $ 368,000, while in the year 2017, 214 tons were exported, equivalent to $ 1,146,000; therefore, in quantity there was a growth of 130% and in price a growth of 211%
- Expert roasters throughout France

Opportunities

- Projected growth in the coffee market in a 0.07% by 2021, generating $ 2.3 million
- Signing of the Multiparty Agreement that allows green coffee to enter with a 0% tariff
- Promotion of competitions and exhibitions on different areas of coffee
- Opening of different courses offered by experts such as Mokxa Café and Lombi endorsed by the SCAF (Specialty Coffee Association France).

Weaknesses

- Only 2.6% of green coffee imports are re-exported and 97.4% of imports are destined for domestic consumption
- Extremely demanding consumers
- Strong competition with consolidated brands such as Nestlé, Illy, Lombi among others

Threats

- End of the Multiparty Treaty between Ecuador and the EU
- VAT internal tax of 5.5%

3.5 Analysis of the Spanish market

3.5.1 Characteristics of the Spanish market

Spain is not far behind in terms of coffee imports. According to Trade Map in 2017, a total of 250,340 tons corresponding to $ 680,081 (thousands of dollars) were imported. It is interesting to note that there is a decrease of -5% in the imports amount from 2016 to 2017, from 262,965 tons to 250,340 tons respectively, but there is a 10% growth in the monetary values of the imports, going from $ 615,749 (thousands of dollars) to $ 680,081 (thousands of dollars) (Trade Map Organization, 2017). This means that even if the imports amount have decreased, coffee prices have increased and people are willing to pay more for good coffee.

According to the latest report from the Spanish Coffee Federation (FEC), the average consumption per capita of Spaniards is 4kg per year, ranking above the United Kingdom and Ireland (Spanish Coffee Federation, 2013a). Another study conducted by a prestigious coffee chain located in Barcelona, "Cafés Novell" shows that the average coffee consumption of a Spaniard is 2.2 cups per day, if this number is multiplied for 365 days of the year it will result in 800 cups of coffee per year per person (Cafés Novell cited in Indisa, 2017). In addition, the same study reveals that the age range in which more coffee is consumed is between 45 - 54 years old with 93; and then 35 to 44 and 55 - 64 years old with 89%. The study also reveals that the preferred place for coffee consumption is at home with 61% and that the preferred time for consumption is breakfast with 76%.

In contrast to this study, the geographic location of the demand is distributed almost equally throughout Spain. Figure 15 shows that the region with the highest consumption level is *Castilla de la Mancha* with 90%, followed by *Andalucía, La Rioja, Galicia* and *Madrid* with 89%; then *Valencia* with 87%; *Aragon, Islas Canarias* and *Cataluña* with 86%; *Asturias* with 85%; *Extramadura, Murcia* and *País Vasco*, with 84%; *Navarra* with 82%; *Castilla de León* with 80%; and finally, *Cantabria* and *Baleares* with 76% and 75% respectively (Information, Coffee and Health Center (CICAS) cited in ProEcuador, 2017). Thus, it can be observed that there is a very high consumption

where the lowest consumption index is the *Baleares* region with 75%, which is still a high consumption rate.

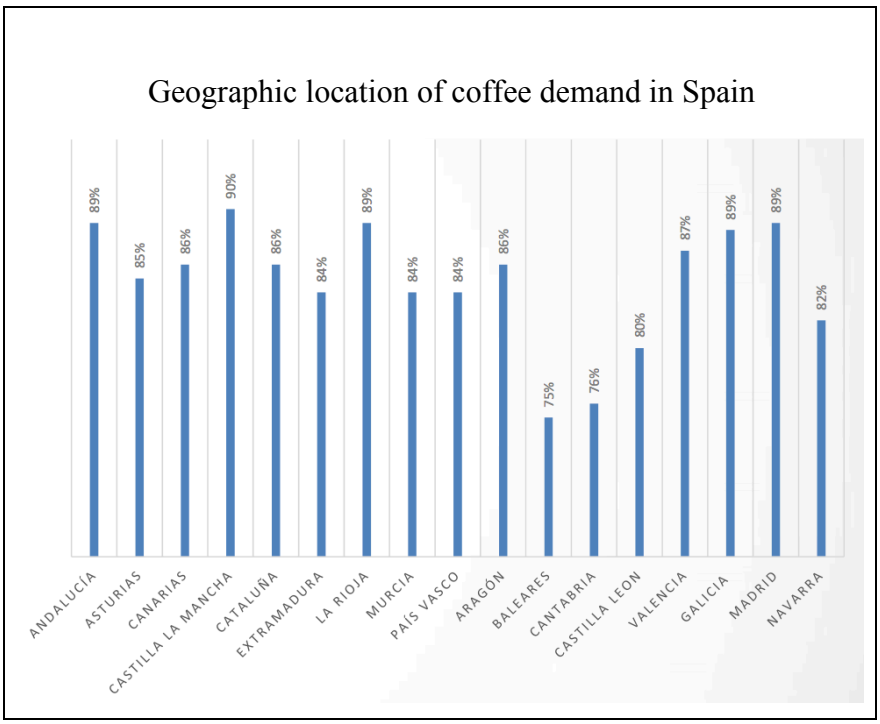


Figure 15- *Geographic location of coffee demand in Spain*. (Source: CICAS).

Regarding tariff barriers, since Spain is part of the European Union, with the Multiparty Agreement, Ecuador exports coffee with a 0% tariff. However, it must pay 10% of the internal tax called VAT, which makes the product more expensive for the final customer (European Commission, 2018a). Regarding non-tariff barriers, according to *Agrocalidad*, the requirement to export green coffee to Spain is to present a "Phytosanitary Certificate of Exportation" (Agrocalidad, 2018).

It should be noted that Spain is the only coffee producer in Europe. Their coffee is grown in the Valley of Agaete. However, the production of this coffee is minimal. Only approximately 2,500 kg of coffee are grown per year, which in bags of 45 kg, would be 55 bags of coffee per year (Chillida, 2017). By having such a small production, it turns it into a gourmet coffee, thus becoming a direct competitor for Pillcocaja's coffee. Nonetheless, these quantities would not even supply a small town in Spain, then the import of coffee from other parts of the world is still necessary.

3.5.2 Consumer trends in Spain

Spaniards consume coffee as a habit in their daily routine. According to the latest report of the Spanish Coffee Federation "Habits of Coffee Consumption in Spain" Spaniards prefer to consume coffee in the morning with 63% of which 44% take it with milk. Then 67% of Spaniards surveyed consume coffee because they like it, 17% consume it out of habit and just 11% drink coffee because it helps them stay awake. In addition, for the Spanish people, the consumption of coffee is a purely social act, since 78% affirmed that they consume a cup of coffee with their co-workers, relatives or friends; that is to say in company, while only 22% said that they consume coffee alone. However, only 2 out of 10 cups consumed outside the home are from specialty coffees, which shows in a certain way that Spain is not yet a market fully open to premium coffees. It is rather a market that is starting and expanding (Federación Española del Café, 2013b).

Specialty coffees are venturing into Spain unlike other EU countries. The Specialty Coffee Association (SCA) has its origins in London in 1998. It was created to promote the culture of specialty coffees. Regarding Spain, it was not until 2008 that the Official Specialty Coffee Association Spain (SCAE) was created, which leads to conclude that their interest on this coffee type is recent in comparison with other countries. SCAE has sought to promote coffee culture through the organization of events and by training professional tasters and baristas all over Spain (Specialty Coffee Association Spain, 2018).

Thus, there are already several places where gourmet coffees can be tasted, likewise, several specialized places where coffee can be toasted throughout the Basque Country. They are located mainly in Madrid and Barcelona, which are metropolitan cities, places where people are willing to pay more for the quality of coffee. Some of the places that stand out to consume specialty coffee in Barcelona are "Café El Magnífico", "Nomad Coffee" and "Onna Coffee"; in Madrid, "Hola Coffee", "Pum Pum Café" and "Ruda Café" (Carceller, 2018).

3.5.3 Green coffee distribution channels in Spain

Spain is a country that prefers to consume its coffee at home, then at the time of buying they prefer to choose cheaper coffees that can be found in hypermarkets or supermarkets. Distribution channels in Spain are divided into two as shown in figure 16:

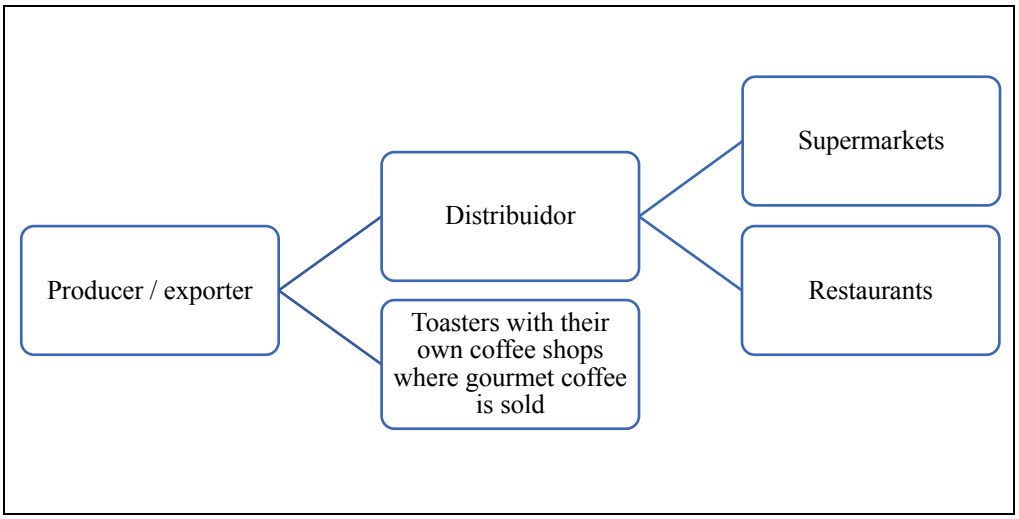


Figure 16 – *Model of coffee distribution channels in Spain.* (Source: Adapted based on data from Pro Ecuador).

Figure 16 shows that in terms of gourmet coffee, specialized toasters, prefer to buy coffee directly from the exporter or from the small producers because in this way they ensure quality. Also, the gourmet coffee market is not developed as in other countries, indeed, just 2 of every 10 Spaniards consumes a cup of gourmet coffee.

3.5.4 Cubic measurement of coffee bags in containers of 20", 40" and 40HC

Since it will be managed the same number of coffee bags and containers, the information provided in point 3.3.3 will be used to calculate transportation costs to Spain.

3.5.5 Transportation costs

In the case of Spain, the transport was quoted to three different ports, that of Algeciras, Barcelona and Valencia. The transport costs are the same for the 3 ports. However, it is considered that the port of Valencia is the most suitable since it is the most

important in Spain, the main port of the Mediterranean and the 5th in Europe (Moldtrans Group, 2018). As shown in table 23, the unit cost for the 20" container is $ 7.39, this value is 0.40 cents more expensive than Germany, and 0,46 cents cheaper than France. As for the container of 40" the unit cost for Spain is $ 6.81, this value is $0.16 cents cheaper than Germany and $0.77 cheaper than France.

Table 23 - *Costs of transportation by CMA CGM Guayaquil to Algeciras, Barcelona, and Valencia*

Shipping company quote CMA CGM			
Line N °	579 / 586 / 593		
Validity	01-Jul-2018 / 30-Sep-2018		
loading port	GUAYAQUIL		
discharge port	ALGECIRAS / BARCELONA / VALENCIA		
Commodity	FAK LISA (UPA)		
Max weight (without tare)	20ST=18.00 tons, 40ST=20.00 tons, 40HC=20.00 tons		
Route	ECGYE / COBUN / FRLEH, GUACO / WCC		
Rate offered			
Description of charges	**20ST**	**40ST**	**40HC**
Containers			
Fee per container	USD 1,000.00	USD 1,500.00	USD 1,500.00
Included			
Fuel cost (BSC)	-	-	-
Ocean Carrier-Intl Ship & port	-	-	-
Subject to			
Surcharge for emergency fuel,	USD 55.00	USD 110.00	USD 110.00
THC destination	USD 191.00	USD 191.00	USD 191.00

THC origin	USD 165.00	UD 165.00	USD 165.00
B / L charges			
Surcharge for export declaration	USD 25.00	USD 25.00	USD 25.00
Fixed costs	USD 280.00	USD 280.00	USD 280.00
ESTIMATED TOTAL	**USD 1,716.00**	**USD 2,271.00**	**USD 2,271.00**
Unit cost	USD 7.39	USD 6.81	USD 6.81

Source: Adapted based on CMA CGM

Looking at table 23, it can be concluded that if Pillcocaja had the capacity to fill a 40" container. It would be advisable to opt for this option because although it is $ 555 more expensive in the transportation cost, it would export 101 additional units, and lower the unit cost to $0.58 cents.

3.5.6 SWOT analysis of the Spanish market

Strengths

- An average Spaniard consumes 2.2 cups of coffee per day, which is a high consumption of coffee
- Expert roasters throughout Spain
- Opening specialty coffee shops
- Although the amount of imported coffee decreased, the coffee price went up
- The Spanish language is common for Ecuador and Spain.

Opportunities

- Promotion of the coffee culture by institutions such as Specialty Coffee Association Spain through the organization of workshops and competitions
- Signing of the Multiparty Agreement that allows green coffee to enter with a 0% tariff

- Growing and unsaturated gourmet coffee market

Weaknesses

- Only 2 out of 10 cups consumed outside the home are gourmet coffee
- Spain is a producer of gourmet coffee

Threats

- End of the Multiparty Treaty between Ecuador and the EU
- Internal tax VAT of 10%

3.6 Conclusions

To conclude this chapter, a weighted analysis will be carried out in which different aspects of the 3 countries will be evaluated in order to choose which county is the optimal to develop de marketing plan to export Pillcocaja coffee. To perform the weighted analysis, three groups of criteria were selected, and each of them was formed with different types of parameters to evaluate each country according to its characteristics. Each parameter was given a percentage of importance over 100 because some aspects are more relevant than others when selecting the target market.

This is shown in table 24, the main criteria are: first commercial criteria, within which are four parameters: value in imports 2017 ($), amount imported 2017 (u), place in the world ranking of importers, and place in the world ranking of exporters; second economic criteria, with the following parameters: transportation costs, tariff barriers, non-tariff barriers, and internal taxes; finally, the market characteristics: gourmet coffee consumption trend, frequency of coffee consumption, potential market, and quantity of gourmet coffee shops.

Table 24– *Evaluation criteria of the selected countries*

Commercial criteria	
Value in imports 2017 ($)	12%
Amount imported 2017 (u)	5%
Positioned in the world ranking of importers	15%
Position in the world ranking of exporters	2%
Total	**34%**

Economic criteria	
Transportation costs	15%
Tariff barriers	5%
Non-tariff barriers	5%
Internal taxes	8%
Total	**33,0%**

Characteristics of the market	
Consumption trend of gourmet coffee	16%
Frequency of coffee consumption	10%
Potential market	2%
Amount of gourmet coffee shops	5%
Total	**33%**

Source: Adapted based on a weighted SWOT analysis

The weight given to each parameter is in accordance with the level of importance they have for the company when selecting the target market. It is also important to emphasize that adding the percentage of the parameters equals 100%. Once these parameters have been set and it has been stablished how much do each one weight, another table is drawn up containing the assessment guidelines for each parameter that will serve as a guide to give a score on them based on each of the market's performance and information. This information will be on table 25.

Table 25– *Guidelines for the assessment of established criteria*

Commercial criteria	EVALUATION GUIDELINES				
	20	40	60	80	100
Value in imports 2017 ($)	Very low	Low	Average	high	Very high
Amount imported 2017 (u)	none	Little	Regular	A lot	Abundant
Positioned in the world ranking of importers	Appalling	Low	Regular	Good	Excellent
Position in the world ranking of exporters	Excellent	Good	Regular	Low	Appalling

Economic criteria	20	40	60	80	100
Transportation costs	Very low	Low	Average	high	Very high
Customs barriers	Abundant	A lot	Regular	Little	none
No duty barriers	Abundant	A lot	Regular	Little	none
Internal taxes	Abundant	A lot	Regular	Little	none

Market Characteristics	20	40	60	80	100
Consumption trend of gourmet coffee	Very low	Low	Average	high	Very high
Frequency of coffee consumption	Very low	Low	Average	high	Very high
Potential market	Very low	Low	Average	high	Very high
Amount of gourmet coffee shops	Very low	Low	Average	high	Very high

Source: Adapted based on evaluation guidelines

With this score, each of the selected countries, Germany, France and Spain, is processed and evaluated with the highest assessment guidelines. The assessment was

made based on the in-depth research carried out throughout this chapter, the details of each country's score are detailed in the following table 26:

Table 26 – *Evaluation of selected markets based on the assessment guidelines*

MARKETS EVALUATION			
Commercial criteria	GERMANY	FRANCE	SPAIN
Value in imports 2017 ($)	100	60	80
Amount imported 2017 (u)	100	60	80
Positioned in the world ranking of importers	100	60	80
Position in the world ranking of exporters	100	100	60
Economic criteria	GERMANY	FRANCE	SPAIN
Transportation costs	60	20	40
Tariff barriers	100	100	100
Non-tariff barriers	60	80	80
Internal taxes	60	80	40
Characteristics of the market	GERMANY	FRANCE	SPAIN
Consumption trend of gourmet coffee	100	80	60
Coffee consumption frequency	100	80	80
Potential market	80	80	80
Amount of gourmet coffee shops	80	80	60

Source: Adapted based on previews analysis made to the target markets.

As it can be seen in table 26, Germany is the country that has imported the most in 2017, both in terms of value and quantity. Regarding the position in the world ranking of green coffee importers, according to Trade Map, Germany is the second greater

importer after the United States, Spain is the seventh and France is the eighth. Regarding the world ranking of exporters, it was important to know if these countries produced coffee locally, as this represents a barrier to the entry of a foreign coffee such as Pillcocaja. After the investigation it was concluded that neither France nor Germany produce coffee. However, Spain does have a local production of coffee, which despite being small is direct competition for Pillcocaja coffee because being a small production, makes it gourmet.

Concerning the economic criteria, in transport costs if the 20" container is considered, the best option is Germany, followed by Spain and finally France. In tariff barriers, the three countries have the same advantage since coffee enters with a tariff of 0% due to the Multiparty Treaty; but in non-tariff barriers it slightly varies. Germany has two restrictions while Spain and France only one. In the last point of the economic criteria, the three countries have the VAT internal tax, but have a different percentage. France charges coffee with 5.5%, Germany with 7% and Spain with 10%.

In market characteristics, Germany is the country that has the greatest tendency to consume gourmet coffee, followed by France and Spain respectively. In terms of coffee consumption in general, Germany also leads, however, followed by Spain and then France, unlike the previous parameter. In the third point, it is considered that the three countries are potentially a good destination to export green coffee, since it is a market that is in constant development and growth. The last point of this criteria refers to the number of gourmet coffee shops which is again led by Germany, followed by France, and then Spain.

Table 27 – *Results of the weighted analysis of the selected countries*

RESULTS	Commercial criteria	Economic criteria	Market Characteristics	TOTAL	POSITION
Germany	34.00	21.80	31.60	87.40	1
France	21.20	18.40	26.40	66.00	3
Spain	26.80	18.20	22.20	67.20	2

Source: Adapted based on tables 24, 25, 26.

When obtaining a score over 100 from each parameter based on the parameter assessment table, the next step was to multiply the value of each parameter by the percentage of importance that was made in table 24. Then add all the parameters of each group of criteria to obtain a weighted value. Finally, a sum of each weighted value of the group of criteria is obtained and a final result over 100 is reached for each country. The summary is shown in table 27, which shows that the best country to export Pillcocaja coffee is Germany with a total score of 87.4, followed by Spain with 67.20 and finally France with 66,0. Therefore, Germany will be the target market selected and on which an action plan will be made in the next chapter.

CHAPTER 4. ANALYSIS OF THE EXPORT PROCESS TO THE SELECTED MARKET

Introduction

After conducting a thorough analysis of the possible target markets, Germany, France, and Spain it was determined that Germany is the ideal market for the export of green coffee from Pillcocaja. This is because Germany obtained a score of 87.4 in the weighted SWOT analysis against France with 67.2 and Spain with 66.0. The mentioned analysis included a series of parameters that evaluated holistically each market in different aspects. Moreover, there were also exposed the benefits and particularities that Pillcocaja coffee offers in order to find a market that fits its characteristics.

Germany is one of the countries that consumes more coffee worldwide, being the second largest consumer after the United States. To understand the magnitude of consumption that Germany has, it can be said that the USA has a population of approximately 325.7 million inhabitants, while Germany has a population of 82.67 million inhabitants (World Bank, 2017), which means that Germany represents 25% of the population of the United States. However, Germany imported more than half of what the United States imported.

Germans have a high consumption rate of coffee per day. Indeed, the German market is a market that knows about coffee, appreciates its quality, and is willing to pay more to obtain a better product. That is why in this chapter it will be analyzed the way to enter to this market and which strategies to take. Then a marketing mix analysis will be carried out, consisting of a study on the product, price, place and promotion of Pillcocaja coffee in Germany, giving a special focus to the promotion, which is where the study will present a proposal to enter the German market. Finally, the action plan will be established, which is the concrete and real proposal of the activities that Pillcocaja must carry out. In this plan, each proposed activity will be detailed with delivery dates and a responsible so that the desired objectives can be obtained properly.

4.1. Form of entry to the foreign market

The form of entry to the selected country will depend on the business model of the company, and the dynamics of the product market. As explained above, Pillcocaja's business model does not aim to sell large quantities, but rather, it focuses on selling small quantities because of its high cost and exclusivity. In terms of market dynamics, several interviews with managers have been conducted to understand it. Thus, it can be concluded that the specialty coffee market works as will be explained in figure 17.

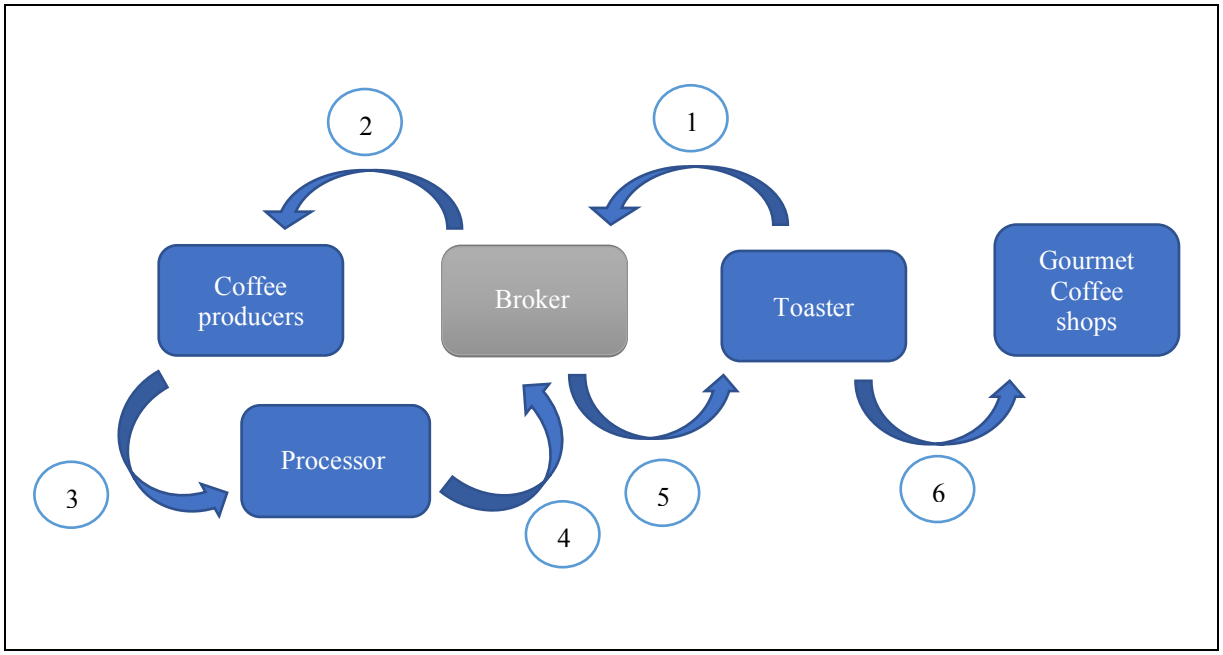


Figure 17 – *Gourmet green coffee added value chain.* (Source: Adapted based on Pillcocaja's information).

From figure 17 it can be deduced that the first step in the gourmet coffee added value chain is for the toaster to contact a commercial agent so that he looks for the type of coffee the toaster requested. Thus, commercial agents travel to different parts of the world in search of high-quality coffees. In the second step, the commercial agents attend to contests, fairs and visit farms of coffee producers to taste the coffee and if it is to their liking, they buy it. Once an agreement is reached, step 3 is performed. The producer delivers the agreed coffee bags to the coffee processors that are indicated by the agent. It

is worth explaining that the coffee processors are companies that verify that the grain to be exported is of the same quality that was offered to the commercial agent. They process it for export and deliver it to the agent, who takes care of the transportation to its final destination. In Ecuador there are only 4 processing companies, Caravela Coffee, Galletti Coffee, Fapecafe and Cafecom. In step 5, once the grain is delivered to the commercial agent at the destination, it sells the green coffee to the roasters, who toast it according to the specifications of the specialized coffee shops. Step 6, the gourmet coffee shops buy the coffee and offer it in their stores ready to be consumed.

For Pillcocaja the most important steps are: step 2 and step 3 the company only participates in these two steps. The commercial agent is the final customer of Pillcocaja, since he is the one who pays for the product. Generally, the payment is made once it has been delivered to the coffee processor and its quality is checked. With this explanation it is concluded that the form of entry into the German market is indirect because green coffee enters through intermediaries, in this case commercial agents.

This is the case for Pillcocaja, that can be seen as a local sale, since the commercial agents will be in charge of coordinating international transport and export procedures in the country of origin and import in the country of destination. This is why it is proposed that the entry form should concentrate on attracting commercial agents who have German roaster customers. In this way the agents can sell Pillcocaja coffee to the best roasters.

To get the attention of commercial agents, it is proposed to increase participation in coffee competitions and fairs because that is where they go to taste coffee. In addition, it is proposed to send samples of the coffee produced in Pillcocaja to several commercial agents in Germany so that they taste Pillcocaja's quality coffee and acquire it. The strategies of the image, presentation and information of the coffee will be detailed in the following point in the marketing mix strategies specifically in section 4.2.4.

4.2. Marketing-mix

4.2.1 Product

As explained above, Pillcocaja offers green coffee of the highest quality intended only for the international market, in the case of this study, Germany. When green coffee is going to be sold, there are different states in which it can be. The state depends on the negotiation that is made with the client or the requirements that the client has. The two states are in "parchment" or in "gold". Coffee parchment means that the coffee has already been dried, but that it retains a shell or parchment that protects the coffee inside as shown figure 18A; while coffee gold is the coffee that has already been trite, that is to say that the parchment layer has been removed as in figure 14B. This is important because at the moment of threshing the coffee loses its weight by approximately 20%, therefore, it is not the same to sell a 45Kg coffee bag of parchment coffee than a 45kg bag of gold coffee.

Figure 18 – *States of green coffee for sale.* (Source: Adapted based on Pillcocaja's pictures).

As for the presentation of the product, it is delivered to the commercial agent or to the processing company in jute bags with the company's brand engraved on it. The

image of the company is an isologo because it is composed of an image and text that are united as a single symbol because they do not work without one another. As shown in figure 19, the image of the center is a mountain, which was designed by Francisco Ramírez following the real silhouette of the Pillcocaja mountain, from which sun rays are born that symbolize the privilege that this place has. In the lower part is the name of the company "Pillcocaja" in striking letters, and under the name is the phrase "Premium Coffee". The colors that are used throughout the isologo are 2, an old gold that reflects quality, status, premium; and a black that reflects majesty, and distinction.

Figure 19– *Isologo Pillcocaja*. (Source: Elaborated by Francisco Ramírez, 2018).

4.2.2 Price

In the specialty coffee market there are no fixed prices. The price varies for different reasons such as, the coffee cup score, whether it is sold on parchment or in gold,

and how much the agent is willing to pay for the grain. The quality of the coffee, and therefore its cup score will be affected by weather factors that change from year to year. Coffee tastes different if in a given year it received more sun than in another year, or if it received more or less water, among other factors. The negotiation of specialty coffees generally starts from a proposal presented by the buyer and from there on negotiations are carried out until a price at which both buyer and seller agree.

However, Pillcocaja has a base price to sell its grain, a buyer cannot bid less than $ 400 per bag of 50kg in parchment, otherwise another buyer will be sought. It is also important to clarify that Pillcocaja is not responsible for international transport, so the price is not included in it. Pillcocaja sells its coffee under three International Trade Terms or Incoterms in English: ExWork (EXW), Free Carrier (FCA), and Free on Board (FOB) that will be explained in detail in section 4.2.3. Specifically, the Incoterms are norms or parameters of the obligations that the buyer and the seller have over the delivery of the goods (International Chamber of Commerce, 2010).

4.2.3 Place

The strategies of placement that correspond to Pillcocaja are limited to the sale of the grain under the three types of negotiation mentioned above. The first, EXW means that the seller only has the obligation to put the goods at the disposal of the buyer in his factory, and the buyer must take charge of taking the merchandise to the final destination, including international transportation costs. With FCA the seller has the obligation to take the goods to a point agreed with the buyer, being the responsibility of the seller the cost of this transfer, from the agreed point the buyer will take care of the international transport to its final destination. Finally, with FOB, the seller is responsible for the merchandise until it is placed on board the ship agreed in the sales contract, but it is the buyer who pays the international transport and takes the product to its final destination (International Chamber of Commerce, 2010).

4.2.4 Promotion

The promotion is one of the most important parts of this study because in point 4.1 it was selected as the way to enter the German market. An excellent promotion strategy is needed so that the product reaches the selected market and attracts commercial agents to the company. That is why it is proposed to address the promotion of the brand with three strategies: development of a website, participation in international and national coffee events, be these contests, fairs, or exhibitions; and to design a package of coffee samples to send to different commercial agents in Germany.

First, the creation of a web page has been necessary because the world of today is intertwined with technology and the internet. This is one of the best strategies that a company can have to promote a product. Customers look for web pages as a reference for products, and even to buy online. In the case of Pillcocaja, the website is considered as a platform for disseminating information and contacting customers. This is why the design of the web is presented as follows in figure 20, a single main page that is presented in Spanish and English and that is divided into several sections: history, mission, vision, objectives, contests, impact and contact. The web page will be distributed in such a way so that the client has an interaction with it since it has a structure of text and images that allow the client to know Pillcocaja without even having been in the farm. This is shown in figure 20, and the link to open the website is https://clowdie.wixsite.com/pillcocaja. The costs of the Pillcocaja webpage are detailed in table 28, which summarizes that the final investment for this tool will be $ 1,300.


ESPAÑOL ENGLISH
GO UP
HOME
PILLCOCAJA
HISTORY
PHILOSOPHY
AWARDS
IMPACT
CONTACT
GALERY
-PILLCOCAJA-
PREMIUM COFFEE


PILLCOCAJA
Coffee grown in a privileged area, PILLCOCAJA, a dreamland in the Ecuadorian Andes, jealously guarded and at rest for more than 70 years.
At the top of the mountains lies the semblance of this magical coffee at 1550 meters above sea level, sweet flavors and citrus fruits unique to this land were mixed.
Our coffee grows naturally under the shade of old native trees named and it feeds on natural springs that are formed in the high parts of the mountain.
All these elements merge in PILLCOCAJA to form a fruit of excellence, unique and worthy of being an Ecuadorian pride for the world.
GO UP
HOME
PILLCOCAJA
HISTORY
PHILOSOPHY
AWARDS
IMPACT
CONTACT
GALERY


GO UP
HOME
PILLCOCAJA
HISTORY
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HISTORY

Sociedad Agrícola Comercial Pillcocaja SA was established on January 9, 2008, in order to generate commercial and agricultural projects. It concentrates its activities in the Yunguilla Valley, located 75 km from the City of Cuenca. In its beginnings it was concentrated solely on the cultivation of sugarcane for the production of alchool, which is the raw material for making cane liquor.

Years later, in 2011 the sales of Pillcocaja fell exponentially because their prices were no longer competitive in the market due to high production costs, weather conditions, topography, labor, among other reasons. Thus, in 2013 it was finally decided to suspend the distillation of sugar cane.

In the search of other productive alternatives to implement in the farm, the production of high-quality coffee came along due to the incredible conditions offered by the micro climate of the area. Given this situation, an approach was made with Nestlé Ecuador S. A company that, coincidentally, was interested in executing a Project consisting of carrying out activities of study, analysis and testing -in real production conditions- special coffee plants developed in their laboratories. From these negotiations the sowing of an experimental plot in an extension of five thousand meters was completed.

Due to excellent results of adaptation of the Nestle plants in their first year of growth, in 2013, 7 hectares of special high-altitude coffee were planted for commercial use. Also, a new project was proposed to Nestlé that consists in the production and sale of certified seed.

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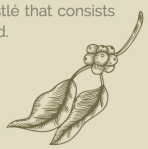


THE GOLDEN CUP

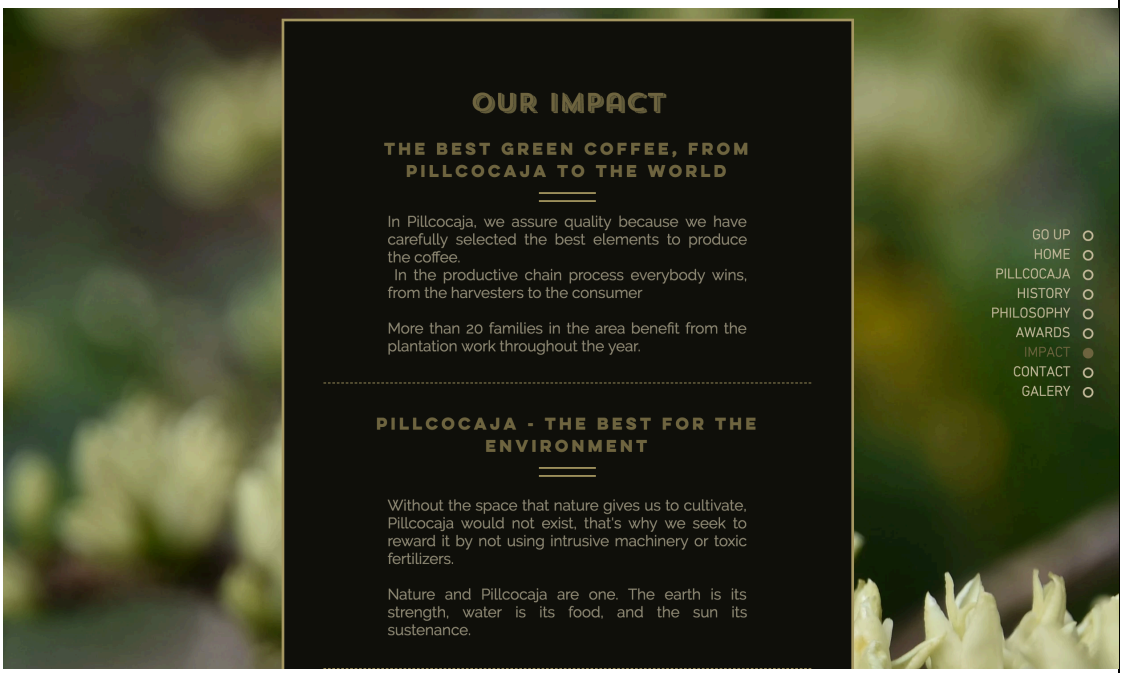
The Golden Cup is the most important event for coffee growers in Ecuador, where more than 100 participants meet, from which the best coffee harvest in Ecuador will be determined. The jury is conformed by international expert tasters. Also, at the end of the contest, besides rewarding the winners, an auction of the best lots of coffee takes place.

- 2016 - Tenth edition

Pillcocaja achieves a score of 90.3 obtaining the second position in the contest

- 2017 - Eleventh edition

Pillcocaja manages to stay within the top 10 with a score of 87.5



OUR IMPACT

THE BEST GREEN COFFEE, FROM PILLCOCAJA TO THE WORLD

In Pillcocaja, we assure quality because we have carefully selected the best elements to produce the coffee.
In the productive chain process everybody wins, from the harvesters to the consumer

More than 20 families in the area benefit from the plantation work throughout the year.

PILLCOCAJA - THE BEST FOR THE ENVIRONMENT

Without the space that nature gives us to cultivate, Pillcocaja would not exist, that's why we seek to reward it by not using intrusive machinery or toxic fertilizers.

Nature and Pillcocaja are one. The earth is its strength, water is its food, and the sun its sustenance.

PILLCOCAJA = INNOVATION

Pillcocaja is a company that is constantly looking to learn and improve. It is open to innovation, change and evolution always looking for the benefit for all who are part of this big family

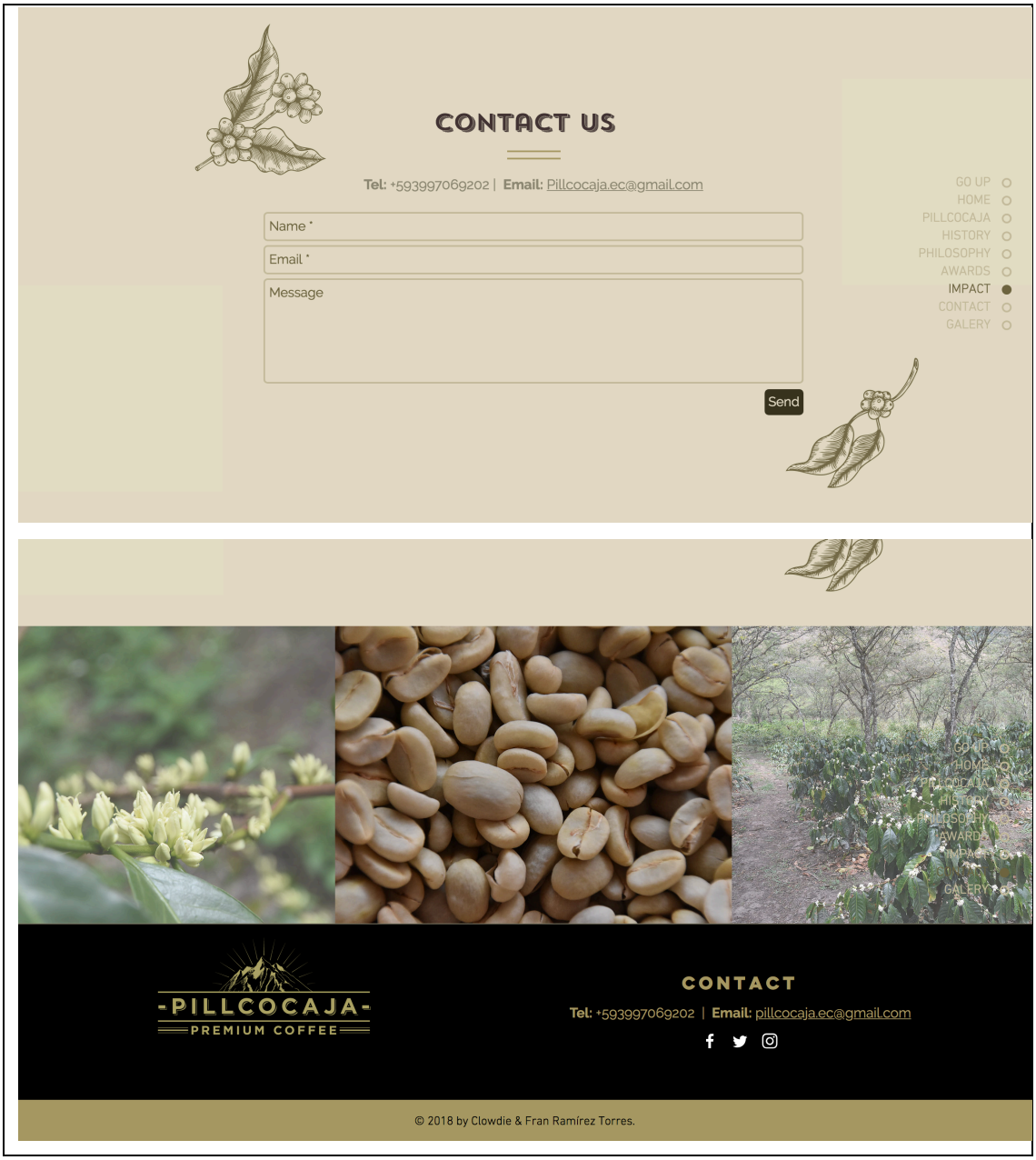


Figure 20– *Pillcocaja website*. (Source: Created by Sebastián Wiesner and Francisco Ramírez, 2018).

Table 28 – *Pillcocaja Website costs*

Pillcocaja Website costs	
Motive	Cost

Programmer and web designer	$ 1,100.00
Photography and video	$ 150.00
Texts redaction	$ 50.00
TOTAL	$ 1,300.00

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Source: Adapted bases on estimated prices, 2018

Second, the participation of Pillcocaja in coffee events is crucial for the brand because it is in these events where the product is disclosed, quality is checked, buyers are attracted and the prestige of the brand is built. There are numerous competitions and exhibitions around the world, however, it is proposed to participate in at least three throughout the year, in two international and one national. Among the most outstanding events that take place every year are: “Tea and Coffee World Cup”, “SCAE World of Coffee”, “The Golden Cup”, “The Cup of Excellence”, “Fispal Coffee Fair, “Latin American Coffee Summit”, “Trieste expresso Expo”, “Coffee Fest”, “Café Culture Show” among others.

Three of these events have been selected to participate: at the national level, “The Golden Cup”, which is held every October in a selected city of Ecuador, and where the best coffee harvest is chosen from among all Ecuadorian coffee producers. International experts attend this event as a jury, and at the end, the 10 first places are auctioned among the jury, the offers have reached over $ 2,000 per bag of 50kg. This event is a contest that, although it is in the national territory, is a key to stand out among the best coffee. An investment of $ 250 is estimated for this event.

In the international field it is recommended to participate in two events. The first called World of Coffee, which is an event organized by the Specialty Coffee Association of Europe every year in a different city in Europe. It is one of the largest and most important specialty coffee fairs where entrepreneurs, producers, baristas, coffee connoisseurs and others meet to promote their products and learn about coffee (World of

Coffee Organization, 2018). It is recommended to participate in this event because the 2019 headquarters will be in Berlin, Germany, which is presented as a unique opportunity to promote Pillcocaja coffee in this country. Surely this event will be attended by people from all over the world, but above all commercial agents with German clients. Approximately the cost of the stand is $ 2,430 and it is estimated a value of $ 2,200 for travel expenses, which include airplane ticket, transportation, lodging, and food, which gives a total investment of $ 4,630. The second event in which it is suggested to participate is the "Latin American Coffee Summit" that will take place from June 1 to 3, 2019 in Mexico City, Mexico. This fair aims to:

> "Exchange experiences with other coffee producing and exporting countries; encourage the creation of international businesses, related to coffee and its derivative products; train producers, beneficiaries, roasters and coffee traders to increase the profitability and productivity of their businesses" (Latin American Coffee Summit, 2018).

This is one of the most important expositions in Latin America, where the best producers meet and where commercial agents from all over the world attend. It is presented as a great opportunity to promote the coffee of Pillcocaja. It is estimated that the total investment is $ 3,687 approximately as shown in detail in table 29. In general, commercial agents travel to these events in search of the best coffees in the world, therefore, they are a great place to become known as a brand, promote Pillcocaja's coffee and get buyers.

Table 29 – *Participation costs in events*

Event	Date	Place	Cost per m^2	m^2	Total per m^2 required	Cost per sample to participate	Number of samples	Total per sample presented	Estimated travel (Transportation, lodging, food)	Total
World of Coffee	6-7-8 Jun 2019	Berlin (Germany)	$405	6	$2,430	--	--	--	$2,200	$4,630

Latin American Coffee Summit	1-2-3 Aug 2019	Ciudad de México (México)	$228	9	$2,052	--	--	--	$1,635	$3,687
The Golden Cup	5-oct-19	City to be defined (Ecuador)	--	--	--	$50	3	$150	$100	$250

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Source: Adapted bases on World of coffee, Latin American Coffee Summit and The golden Cup, 2018).

Third, the preparation of the package for samples to be sent to commercial agents in Germany must be reviewed. It should have an elegant and a professional look because it will be the first image buyers will have of Pillcocaja. The samples that are sent must be of green coffee for export, not roasted or ground, as the commercial agents prefer to roast and grind themselves. The coffee should be packed in two bags. The first one must be a hermetic bag, specialized for transporting coffee samples because it is extremely important that this bag maintains the correct humidity and aroma of the coffee inside. Usually, these bags have multilayer sleeves that allow to keep the coffee in optimal conditions, some recognized brands are Ecotact, and GrainPro. It is proposed that the second bag be a jute with the Pillcocaja logo printed on the front. This one will protect the first bag, it is visually more attractive as shown in figure 21. It also fulfills the function of promoting the brand at the moment commercial agents open the sample box.

Also, it is proposed to place a label with the technique that was used to make the coffee, drying time and variety. In addition, one or two samples of different types of coffee of 300gr each will be packed in a wooden box with the name of “Pillcocaja” engraved on the cover of the outside part, and “Ecuador” on the back cover with a background of roasted coffee supported by an acrylic lid as shown in figure 22.

Finally, it is proposed to prepare a brochure that indicates the history of Pillcocaja, its mission, vision, and the website where buyers could contact the company. The brochure should be placed inside the presentation box. It is recommended to make 10

sample boxes to start, and deliver them to different commercial agents in Germany. The costs of the presentation box are detailed in table 30, where it can be seen that the unit cost per box is $ 54.62, which results in a total investment of $ 546.20. This investment is justified because if a client decides to buy a bag of coffee he would be paying around $400, which means that selling 1 or 2 bags of coffee Pillcocaja will pay the investment.

Figure 21 – *Pillcocaja Jute bag. (*Source: Created by Francisco Ramírez and the author)

Figure 22 – *Pillcocaja presentation box.* (Source: Created by Francisco Ramírez and the author)

Table 30 – *Pillcocaja's Samples box costs*

Pillcocaja's Samples box costs			
Motive	Cost	u	total
Development of the box and materials	$ 25.00	10	$ 250.00
Graphic designer	$ 100.00	1	$ 100.00
Hermetic coffee bags	$ 1.40	20	$ 28.00
Small jute bags	$ 0.50	20	$ 10.00
Label printing	$ 0.16	20	$ 3.20
Booklet printing	$ 2.00	10	$ 20.00
Laser engraving in jute	$ 3.25	20	$ 65.00
Laser engraving in box	$ 5.00	10	$ 50.00
Acrylic in the box	$ 2.00	10	$ 20.00
TOTAL			$ 546.20
UNIT VALUE (10 boxes)			$ 54.62

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Source: Adapted based on quotes provided by different suppliers.

It is necessary to clarify that the manufacturing costs of the sample box, the presentation bags and the events were made based on different quotes given for this study. However, these values are subject to changes because prices will not remain stable over time.

4.3. Action plan - Gantt Diagram

This is the final stage of the international marketing plan in which the action plan must be made. The action plan is the concrete and clear proposal for Pillcocaja in which it will be detailed, what are the activities, who will do them and in what time. For this, it has been decided to use a Gantt Diagram as support. This diagram is a tool that helps plan, program, delegate and control specific activities in a given period of time. The Gantt diagram was invented by Henry Lawrence Gantt in the last century as a way to organize projects. What makes this model special is its graphic way of ordering the tasks because it allows to have a clear visualization of them in a series of horizontal bars that are organized by activities and for the time that activities should last (OBS Business School, 2018).

A Gantt Diagram has been prepared in detail for each activity, both for the development of the website and for the elaboration of the boxes. It can be found in Appendix B. This diagram contains a description of each activity planned, the date of duration and responsible for each one. Both, the website and the sample boxes, have been considered as simultaneous projects that complement each other so they must be completed at the same time. The project is proposed to begin on January 2019 and that lasts 28 days. The two projects will be in charge of Pillcocaja's administration, but the person in charge of each activity will be an expert in each area. On the one hand, as regards the development of the website, 7 activities are proposed.

The first one is to prepare a draft of the structure of the web page, and to analyze all the elements that would be needed to make it. For example, photographs, videos, and texts. Also, it must be defined in how many sections will be divided and what goes in each one. This work must be done in conjunction with the programmer of the page who is usually a system engineer. Then it is necessary to make a photo-video session and to redact the text for the webpage. Then next step is to coordinate with a graphic designer the color palette, typography and aesthetic distribution of the elements on the website. With all the elements in hand, the programmer combines them and creates the first prototype of the page, the administration evaluates the prototype, if everything is good, the administration will approve it and it comes into operation, otherwise the errors will have to be fixed.

Simultaneously, it is proposed to develop the prototype of the sample presentation box. This project consists of 9 activities, the first is the development of a digital prototype of the box and the elements with a graphic designer, the proposed design is in figure 22. Once the prototype is designed, a carpenter is required to make the box. The carpenter chosen will be instructed with the measurements, specifications, type of wood, and type of lacquer to make the box. At the same time, the Pillcocaja team must contact the suppliers of airtight bags for the samples, get jute bags and print the labels of the type of coffee to be sent.

When the box is ready, and jute bags are obtained, the Pillcocaja logo on the outside of the box and on the jute bags should be laser engraved. With all the elements finished, the first prototype must be assembled for the administration to approve it. It is important to clarify that, since it is a product destined solely for the foreign market, in this case Germany, no local advertising should be made.

4.4. Conclusions

In this chapter all the research made to Pillcocaja's company takes shape because it makes a concrete proposal of the entry form, the analysis of the marketing mix, and the action plan. Regarding the form of entry, it concludes that it must be indirectly through intermediaries because the premium coffee market flows through commercial agents, who in turn have buyers - roasters - who demand high quality coffee. Regarding the marketing mix, it makes an analysis of the product, price, place and promotion. However, it puts emphasis the on promotion since in the promotion section makes three proposals to enter and promote Pillcocaja in the German market.

The first strategy that chapter 4 proposes is the development of a coffee sample box for different commercial agents so that they send those sample boxes to the roasters that are the ones who actually buy the coffee. It is an action in which both the agents and Pillcocaja win, since it is in their interest that the roasters receive these free samples with an elegant presentation, taste the coffee and buy it. In this way Pillcocaja also promotes the brand, is known in the international market and gets customers in Germany.

The website is a complement to the sample box because today's world is all about the internet. It essential to have a webpage. Today, web pages are a highly used tool for communication between customers and the company. For this reason, this chapter proposes that Pillcocaja's website must be a content dissemination page, so that customers who access it can know a little more about the company, can communicate with it to buy coffee, schedule visits, or simply to ask for information.

Chapter 4 proposes to participate in national and international competitions and fairs, because they are a strategy to promote the company's brand and to attach buyers. It advices to participate in 2 international fairs or competitions and at least 1 national so that the desired objective is achieved. With these three proposals it considers that Pillcocaja will have a great reception in the German international market. The investment cost that must be made to develop these three proposals is minimal compared to the results that can be obtained, the three proposals go hand in hand and it is necessary that all three are carried out to ensure an optimal result.

Final Conclusions and Recommendations

After completing the development of an international marketing plan for the introduction of Pillcocaja coffee to the foreign market, it is possible to conclude that Germany is the ideal country to export green coffee from Pillcocaja company. After an exhaustive analysis of economic, political and social aspects, the research determines that Germany presents a greater number of characteristics related to Pillcocaja coffee. That is why a marketing strategy was addressed for the aforementioned purpose. One of the most important factors is that this European country is the second largest consumer of green coffee in the world after the United States, which shows that the coffee market has a very strong acceptance.

The coffee market is a business with extraordinary potential, it is consumed in almost all countries and increasingly, consumers demand quality over price. In Germany there are people who do not bother to pay $ 15 for a cup of coffee as long as it meets their expectations, and Pillcocaja not only seeks to meet the expectations of the customer but to overcome them. The objective of the company is not only to provide quality but an entire experience. Pillcocaja seeks to tell a story behind each cup of coffee.

Also, it concludes that Ecuador is a country that has perfect conditions for growing specialty coffee, especially the Yunguilla Valley where the Pillcocaja plantation is located. In this valley there is fertile land, sufficient water, exceptional climate and an optimum level of height; factors that are the most important for the cultivation of coffee. This is why it considers that Pillcocaja should continue with the production of coffee in small quantities to maintain the quality and exclusivity of the grain, since that is the business model and its *raison d'être*.

Regarding the export, although an analysis of cubic capacity and actual export costs of each of the target markets was carried out, it recommends not to export directly but rather to ally with the commercial agents for the next reasons. First, the estimated production of Pillcocaja analyzed in chapter 2 does not cover even the smallest container of 20”, which results in loss for the company. Second, Pillcocaja would have to take care of the paperwork involved in the export, both at the point of origin and destination. Unfortunately, the company does not have any experience on that subject.

Moreover, to sell specialty coffee, several customers are needed because by being a high-cost coffee, generally, it is not sold to a single customer. Pillcocaja does not have the client portfolio that a commercial agent has, which would be another obstacle for the company. Then, if the company works together with the commercial agents, they will take care of the export procedures and sell the coffee to different clients because that is precisely what they do. Pillcocaja must continue to be a company focused on quality coffee in small quantities, not on being a commercial coffee company.

Finally, this research recommends to apply the proposed marketing plan to enter the German market through commercial agents as intermediaries. Also, it prepares a schedule of activities to be carried out in January 2019 in which deadlines and responsiblilitiea for each activity will be detailed. It proposes that both the web page and the presentation pack should be developed simultaneously, so that when customers receive the sample box they can communicate with Pillcocaja immediately through the website. The evaluation of the impact of this marketing plan will be the subject of a subsequent study. However, the proposal made in this research is the first step to internationalize the Pillcocaja brand.

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IDENTIFICATION DATA

OWNER'S NAME:	COMMERCIAL COMPANY SA AGRICOLA PILLCOCAJA	
O SENDER:		
CLIENT CODE:	*SCAP*	
PROPERTY NAME:		
TELF:	FAX:	
E-MAIL:	graciela.herrezuela@agende.com	
TYPE OF ANALYSIS:	MINERAL SOIL ANALYSIS	
CULTURE:		
Growth phase:		

SAMPLING DATE: unreported

Date: 03/14/2017

WORK ORDER No .: 693

LAB REPORT DATE .: 04/04 / 2017.01.2014

Do not bill.: 3843

DR. Carlos J. FALCONI BORJA

LABORAT Orios

Plantsphere Laboratories

BELLAVISTA oxcart
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RESULT ANALYSIS AND MICRO MACRO floor elements

IDENTIFICATION No.LAB.			Sat 1/2 %	PH		EC mSiem / cm	Nitrogen nitrates N ppm	Amonia N ppm	Match P Total ppm	Match P Sol.Agua ppm	Zinc Zn	Copper Cu	Iron Manganese Faith	Iron Manganese Mn	Potassium K Total ppm	Potassium K Sol.Agua ppm	Calcium Magnesium Sulfur AC	Calcium Magnesium Sulfur mg	Calcium Magnesium Sulfur S	Boro M.Orgánica B	Boro M.Orgánica MO %
Sample 1	PSL M1		39.0	7.10		0,41	88	32	109	Four. Five	2.8	1.1	42	38	332	30	3245	332	twenty	1.2	3.90
sample 2	PSL M2		38.0	7.40		0.22	75	40	96	22	3.2	1.5	55	40	245	22	2078	236	14	1.6	4,20
INTERPRETATION LOW				4.90		0.70	Four. Five	18	Four. Five	27	5.4	4.5	Four. Five	18	270	108		360	27	0,72	3.60
FROM THE RESULTS OPTIMUM			30 to 40	5.5 6.5		0.8 to 1.5	50 to 150	20 to 40	50 to 150	30 to 50	6-15	5 to 10	50 to 100	20 to 40	300 to 600	120 to 150	(3a4) 1000	400 to 600	30 to 60	0.8a1.2	4 to 8
ANALYSIS	HIGH			7.10		1.60	165	43	165	55	16.5	11.0	115	44	660	165		660	66	1,32	8.8

IDENTIFICATION No.LAB.			Ca / Mg		Ca / Mg	Mg / K	Ca / K	(Ca + Mg) / K	Ca / B	Fe / Mn	NO3 / NH4 N		Al + H meq / 100 g	SODIUM ppm	SODIUM meq / 100 g	chlorides ppm	Potassium meq / 100 g meq.	Calcium 100 g meq / 100 g	Magnesium		CICE meq / 100 g
Sample 1	psl M1			5.94		3.10	19.11	22.32	2704	1,11	2.8			12	0.05	21.0	0.85	16.23	2,73		19.9
sample 2	psl M2			5,35		2,99	16.58	19.68	1299	1,38	1.9			8	0.03	14.0	.63	10.39	1.94		13,0

Sample 1: previous crop barley, strawberry project. Sample 2: previous crop corn, grasses project.

pH in water 1 to 2.5 ratio
Phosphorus and potassium, acid extract twice (Mehlich) and Water
Calcium and magnesium in Mehlich extract
Nitrate nitrogen soluble in water. Method salisílico acid Ammoniacal Nitrogen basic method
phenol
Microelements: In Mehlich extract by atomic absorption spectrometry Sat. = 01.02% average saturation: Estimated capacity
moisture retention

C.Eléc. in saturation extract
Sulfur, sodium borohydride water soluble
Organic matter dichromate reaction.

CICE = Effective Cation Exchange Capacity

Load capacity biopolymer (CCB):	HIGH
BioColoidal partition (PBC):	HIGH
Biocatalysts exospheric (BE):	HIGH
Biocatalysts rhizosphere (BR):	HIGH
Biocatalysts endosféricos (BE):	unreported

LOCATION CCB, PBC, BE, BR, BE for the exploitation of the crop

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IDENTIFICATION DATA

OWNER'S NAME	
O SENDER:	TORRES
CLIENT CODE:	
PROPERTY NAME:	PILLCOCAJA
TELF:	994083051 ING. PEDRO
E-MAIL:	ptorres_081@yahoo.com
LOCATION: TYPE OF	CUENCA - SANTA ISABEL
ANALYSIS: CROP:	TEXTURE
	COFFEE
Growth phase:	

SAMPLING DATE:
Date: 19/11/2015
WORK ORDER No .: PSL484
LAB REPORT DATE .: 12/10/2015
Do not bill.:

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RESULT ANALYSIS AND STRUCTURE TEXTURE

ID	No. Lab.	SAND %	SILT %	CLAY %	CLASS TEXTURAL	STRUCTURE
M1	LOT 1	74	one	25	Arcillo Franco Arenoso	aggregated
M2	LOT 2	67	0	33	Sandy clay	aggregated
M3	LOT 3	65	0	35	Sandy clay	aggregated
M4	LOT 4	71	one	28	Arcillo Franco Arenoso	aggregated
M5	Lot 5	85	0	fifteen	Franco-Gritty	aggregated
M6	Lot 6	83	0	17	Franco-Gritty	aggregated
M7	Lot 7	80	0	twenty	Franco-Gritty	aggregated
M8	Lot 8	82	0	18	Acillo Franco Arenoso	aggregated

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IDENTIFICATION DATA

OWNER'S NAME		
O SENDER:	ING. PEDRO TORRES	
CLIENT CODE:		
PROPERTY NAME:	PILLOCOAJA	
TELF:	994083051	
E-MAIL:		
TYPE OF ANALYSIS:	**Soil analysis**	

CULTURE:	COFFEE
Growth phase:	
LOCATION:	**CUENCA - SANTA ISABEL**

SAMPLING DATE:		
DATE OF ADMISSION:	19/11/2015	
WORK ORDER No .:	PSL484	
LAB REPORT DATE .:	02/12/2015	
Do not bill.:		

Plantsphere Laboratories

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RESULT ANALYSIS AND MICRO MACRO floor elements

IDENTIFICATION No.LAB.			Sat 1/2 %	PH		EC mSiem / cm	Nitrogen nitrates N ppm	Nitrogen Amonia N ppm	Match P Total	Match P Sol.Agua	Zinc Zn	Copper Cu	iron Manganese Faith	iron Manganese Mn	Potassium K Total	Potassium K Sol.Agua	Calcium Magnesium Sulfur AC	Calcium Magnesium Sulfur mg	Calcium Magnesium Sulfur S	Boro M.Organica B	Boro M.Organica MO %
									ppm												
M1	LOT 1		34.0	6,39		1.27	120	60	155	75.0	5.5	1.8	38	19	220	110	3254	208	40	1.5	3.5
M2	LOT 2		34.0	6.34		0,41	108	40	160	77.0	4.8	2.7	42	25	322	155	4521	199	32	1.2	3.9
M3	LOT 3		34.0	6,39		0,41	94	32	108	45.0	6.6	1.9	55	40	455	266	4087	335	55	1.1	3.5
M4	LOT 4		34.0	6,28		0,46	74	38	110	41.0	7.5	1.1	32	38	509	269	3068	412	46	0.8	3.1
M5	Lot 5		34.0	6.09		0.25	42	22	78	32.0	5.8	1.9	62	42	462	255	3897	335	38	1.5	3.8
M6	Lot 6		34.0	6,33		0,69	78	38	80	29.0	6.3	2.7	30	12	412	287	4018	650	29	1.3	2.8
M7	Lot 7		34.0	5.47		0,66	80	55	92	56.0	7.1	1.7	48	Four. Five	335	155	3064	517	31	0.8	2.9
M8	Lot 8		34.0	5,78		0,71	63	43	70	40.0	8.0	2.6	75	38	488	298	2014	538	63	0.7	3.5
INTERPRETATION LOW				4.90		0.70	Four. Five	18	Four. Five	27	5.4	4.5	Four. Five	18	270	108		360	27	0,72	3.60
FROM THE RESULTS OPTIMUM			30 to 40	5.5 6.5		0.8 to 1.5	50 to 150	20 to 40	50 a150	30 to 50	6-15	5 to 10	50 to 100	20 to 40	300 to 600	120 to 150	(3a4) 1000	400 to 600	30 to 60	0.8a1.2	4 to 8
ANALYSIS	HIGH			7.10		1.60	165	43	165	55	16.5	11.0	115	44	660	165		660	66	1,32	8.8

IDENTIFICATION No.LAB.		RELATIONS		Ca / Mg	Ca / Mg	Mg / K	Ca / K	(Ca + Mg) / K	Ca / B	Fe / Mn	NO3 / NH4 N		Al + H meq / 100 g	SODIUM ppm	SODIUM meq / 100 g	chlorides ppm	Potassium meq / 100 g meq	Calcium 100 g meq / 100 g	Magnesium		CICE meq / 100 g
M1	LOT 1			9.51		2.93	28.92	31.96	2169	2.00	2.0			8	0.03	12.0	0,57	16.27	1.71		18,6
M2	LOT 2			13.81		1,92	27.45	29.44	3768	1,68	2.7			7	0.03	10.0	0,82	22.61	1,64		25.0
M3	LOT 3			7.42		2,28	17.56	19.93	3715	1,38	2.9			5	0.02	9.0	1,16	20.44	2.75		24.4
M4	LOT 4			4.53		2,51	11.78	14.39	3835	0,84	1.9			9	0.04	8.0	1.30	15.34	3.39		20.0
M5	Lot 5			7.00		2.25	16,49	18.82	2598	1,48	1.8			5	0.20	11.0	1,18	19.49	2.75		23.4
M6	Lot 6			3.76		4.90	19,00	24.14	3091	2.50	2.1			6	0.03	13,0	1.00	20,00	5,35		26.5
M7	Lot 7			3.60		4.79	17.88	22.84	3030	1.00	1.5			4	0.02	14.0	0,86	15.32	4.25		20.0
M8	Lot 8			2,28		3.42	8.00	11.61	3877	1,97	1.5			5	0.02	18.0	1.25	10.00	4.42		15.8
INTERPRETATION LOW				2.70		1.80	9	13.8	<1700	1.25			> 0.9			0.13	0.70	0.13	2.7		10.8
FROM THE RESULTS OPTIMUM				3 to 6	2 to 6	2 to 6	10 to 25	15 to 25	(2a4) 1000	1.5 to 5			< 1.0	<40	<0.17	15 to 30	0.8 to 1.5	15 to 20	3.3 to 5		12 to 25
ANALYSIS	HIGH			6.60		6.60	27.5	28	> 4500	6.2				> 44	> 0.20	33	1.7	22	6.5		27.5

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Action Plan for Pillcocaja 2019

Duration of activity

Activity	Start	Duration	Responsible	Tasks Details
Draft	02-01	5	Systems engineer X	Draft the structure of the web page, define what is needed to assemble the page
Photo / Video session	07-01	2	Photographer X	Make a photo and video session of the farm and coffee to place it on the website
Text	07-01	7	Editorial X	Write the texts for the webpage
Visual Format	07-01	3	Graphic designer X	Define the web page format, typography, and color palette
Programming	14-01	8	Systems engineer X	Program the web page to have the first prototype
Prototype review	21-01	6	Pillcocaja Administration	Approve the prototype of the website
Launching	28-01	1	Pillcocaja Administration	Lauch the web page
Digital prototype	02-01	6	Graphic designer X	Prepare a digital prototype of the box and its components with a graphic designer
Carpenter	07-01	7	Carpenter X	Go to a carpenter, select the type of wood, lacquer and elements of the box and start to make it
Coffee bags	07-01	5	Supplier of coffee bags	Get special coffee bags and jute bags
Box printing	14-01	4	Specialized business in Laser Printing	Once the box is finished, take it to a workshop that engraves wood with lazer
Jute print	14-01	2	Business that prints on jute bags	Engrave jute sacks with the Pillcocaja logo
Acrylic	21-01	4	Business that works with acrylic	Take the box to get the acrylic placed
Printing labels	07-01	1	Printing company	Print coffee type labels to place in the first sleeve
First prototype	21-01	1	Administración Pillcocaja	Present the first physical prototype of the box and its components
Approve prototype	21-01	8	Pillcocaja Administration	Review the final prototype, perform tests and approve the model to manufacture more