

**PONTIFICIA UNIVERSIDAD CATOLICA DEL PERÚ**  
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**Strategic Plan for Textile S.A.**

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## Disclaimer

Disclaimer: This thesis was written by graduate students who do not fully master the English language. The thesis was also not edited by a professional English-language editor.



## **Abstract**

The purpose of this thesis is to present the Strategic Plan 2019 to 2024 of the company Textile S.A., including an exhaustive review of its mission, vision, values, and code of ethics. This Strategic Plan will become the guiding light for Textile S.A. to be recognized as a relevant regional player in the textile and confection sector. This Strategic Plan was formulated using D`Alessio´s Sequential Model of the Strategic Process (2015), which included an exhaustive analysis of internal and external factors, and competitive analysis of Peru and of the company. The internal and external analysis resulted in the identification of opportunities, threats, and weaknesses associated with the company. The competitive analysis resulted in the identification of competitive advantages of Peru, and the company and the critical success factors to compete in the textile and confection sector. Textile S.A. can take advantage of the opportunities in the market, the new trends (ecofriendly and e-commerce), and favorable access to raw material in Peru.

At the end of the analysis, sixteen strategies were established and ten retained strategies to make the long-term objectives included the developing of new relationships with potential clients in countries where free trade agreements apply, increasing loyalty of current customers to differentiate from competitors, positioning the company´s brand in the local market aiming a mid-high income segment with the clothing design, among others. The success in the implementation and execution of those strategies will depend on the attitude and position taken by the shareholders of the company.

## **Resumen Ejecutivo**

El propósito de esta tesis es presentar el Plan Estratégico 2019 a 2024 de la empresa Textile S.A., que incluye una revisión exhaustiva de su misión, visión, valores y código de ética. Este Plan Estratégico se formuló utilizando el Modelo Secuencial del Proceso Estratégico (2015) de D`Alessio, que incluyó un análisis completo de los factores internos y externos, y un análisis competitivo de Perú y de la empresa.

Los análisis internos y externos resultaron en la identificación de oportunidades, amenazas y debilidades asociadas con la empresa. El análisis competitivo dio como resultado la identificación de las ventajas competitivas de Perú y la empresa Textile S.A., y los factores críticos de éxito para competir en el sector textil y confecciones. Al final del análisis, se establecieron dieciséis estrategias.

Según lo evaluado, el éxito en la implementación y ejecución de esas estrategias dependerá de la actitud y la posición adoptada por los accionistas de la empresa, teniendo en cuenta la penetración en los mercados internacionales y nacionales.

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## The Strategic Process: A General Vision

In the present document, we have analyzed and developed a Strategic Plan for Textile S.A., a company dedicated to the confection and production of clothing, based on the Strategic Process Model. The strategic process is formed by a set of activities that are developed sequentially and allow the organization to project itself into the future and reach the established vision (D'Alessio, 2015).

According to D'Alessio (2015), the strategic process is characterized by being interactive, because many people participate in it, and iterative, because it generates constant feedback. Also, the strategic process has four main stages: (a) Formulation, stage of planning in which the strategies that will lead the organization to the desired future situation are sought; (b) Implementation, stage in which the strategies obtained in the Formulation stage will be executed; (c) Evaluation and Control, a stage whose activities are conducted permanently throughout the strategic process to monitor the sequential stages; and (d) Conclusions, the final stage that shows the final result of the strategic process (see Figure 0).

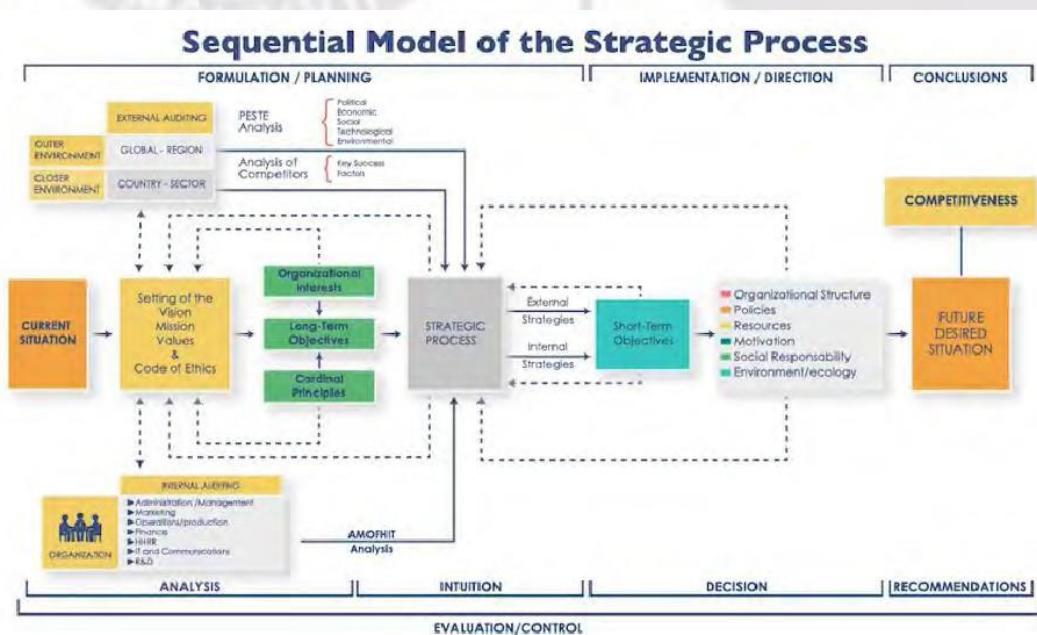


Figure 0. Sequential model of the strategic process

Taken from: "The strategic process: A management approach," by F. D'Alessio, 2015. Mexico: Pearson.

The model of the strategic process begins with the analysis of the current situation, followed by the establishment of the vision, the mission, the values, and the code of ethics; these four components guide and regulate the actions of the organization. Then, the National Interests Matrix (NIM) and the external evaluation is developed in order to determine the influence of the environment on the organization that is studied; and analyze the global industry through the analysis of the PESTE environment (Political, Economic, Social, Technological, and Ecological Forces). From this analysis is derived the Matrix of Evaluation of External Factors (MEEF), which allows us to know the impact of the determined environment based on the opportunities that could benefit the organization and the threats that should be avoided, and how the organization is acting on these factors (D'Alessio, 2015).

According to D'Alessio (2015), from the PESTE and competitors analysis is derived the evaluation of the Organization in relation to them, from which also detached the Competitive Profile Matrix (CPM) and Reference Profile Matrix (RPM). In this way, the external evaluation allows us to identify the key opportunities and threats, the situation of the competitors and the Critical Factors of Success (CFS) in the industrial sector, facilitating for planners the beginning of the process that will guide them to the formulation of strategies that allow them to take advantage of the opportunities, avoid and/or reduce the impact of the threats, know the key factors that allow them to succeed in the industrial sector, and outperform the competition.

Subsequently, the internal evaluation is developed, which is oriented to the definition of strategies that allow the strategists to capitalize the strengths and neutralize the weaknesses so that competitive advantages are built from the identification of the distinctive competencies. For this, the internal analysis AMOFHIT (Administration and Management, Marketing and Sales, Operations and Logistics- Infrastructure, Finance and Accounting,

Human Resources and Culture, Information and Communication Systems, and Technology and Research & Development) is carried out, from which the Matrix of Internal Factor Evaluation (MIFE) arises. This matrix allows the managers to evaluate the main strengths and weaknesses of the functional areas of an organization, as well as identifying and evaluating the relationships between those areas. An exhaustive external and internal analysis is required and it is crucial to continue the process with greater probabilities of success (D'Alessio, 2015).

According to D'Alessio (2015), in the next stage of the process the interests of the Organization are determined, that is, the supreme objectives that the organization tries to achieve in order to be globally successful in the markets in which it competes. From them, the Organization's Matrix of Interests (OMI) is derived and based on the vision, the Long Term Objectives (LTO) are established. These are the results that the organization hopes to achieve. It should be noted that the sum of the LTOs would lead to the achieving of the vision, and the sum of the Short Term Objectives (STO) would be the achievement of each LTO.

The matrices presented, NIM, MEEF, MIFE, CPM, RPM, and OMI, are fundamental inputs that will enhance the quality of the strategic process. The final phase of the strategic formulation is given by the choice of strategies, which represents the Strategic Process itself. In this stage, strategies are generated through the matching and combination of strengths, weaknesses, opportunities, threats, and the results of previous analyzes using five matrices as tools: (a) The Strengths, Weaknesses, Opportunities, and Threats Matrix (SWOTM); (b) The Strategic Positioning and Evaluation of the Action Matrix (SPAEAM); (c) the Boston Consulting Group Matrix (BCGM); (d) the Internal-External Matrix (IEM); and (e) The Grand Strategy Matrix (GEM) (D'Alessio, 2015).



These matrices result in a series of strategies: integration, intensive, diversification, and defensive that are chosen with the Strategic Decision Matrix (DEM), being specific and not alternatives, and whose attractiveness is determined in the Quantitative Strategic Planning Matrix (QSPM). Finally, the Rumelt Matrix (RM) and the Ethics Matrix (EM) are developed to culminate with the retained and contingency strategies. Based on this selection, the Strategies Matrix is prepared in relation to the LTOs, which serves to verify if with the retained strategies the LTOs can be reached, and the Competitors Possibilities Matrix that helps to determine how much these competitors will be able to cope with the strategies retained by the organization. The integration of intuition with analysis becomes indispensable during this stage since it favors the selection of strategies (D'Alessio, 2015).

According to D'Alessio (2015), after having formulated the strategic plan that permits reaching the future projection of the organization, the identified strategic guidelines are put into effect and the strategies retained by the organization are conducted, giving rise to the Strategic Implementation. This basically consists of converting strategic plans into actions and, subsequently, into results. It should be noted that a successful formulation does not guarantee a successful implementation. During this stage, the STOs and the resources assigned to each of them are defined, and the policies for each strategy are established. A new organizational structure is necessary. The worst mistake is to implement a new strategy using an old structure.

Finally, the Strategic Evaluation is developed using four control perspectives from the Balanced Scorecard (BSC): (a) internal learning, (b) processes, (c) clients, and (d) financial, to monitor the achievement of the STO and LTO. From this, the pertinent corrective actions are taken. Then, the competitiveness of the organization is analyzed and the conclusions and necessary recommendations to reach the desired future situation of the organization are presented. An Integral Strategic Plan (ISP) is necessary to visualize the whole process at a

glance. This strategic planning can be developed for various organizations: a microenterprise, company, institution, industrial sector, port, city, municipality, region, state, country or others (D'Alessio, 2015).



## Chapter I: General Situation of Textile S.A.

### 1.1 General Situation

As the Ministry of Production (2015) said between the 50s and 60s the international price of raw materials increased, especially in the case of Peruvian cotton, which was one of the main exported products. The cotton boom allowed the advance of the textile and confection industry, thanks to the improvement of practices and technical transfer from Europe. International clients identified that cotton fibers were flagship products for the Peruvian economy. In 2000s, the insertion of the Peruvian economy in the international market gained greater relevance thanks to the signing of Free Trade Agreements (FTA) with the USA and China, and the increase in the prices of textiles and clothing. The relevant growth of the main industrialized economies worldwide allowed the boost of the sector's exports until the collapse of the main economies due to the financial crisis in 2009. Since 2012, these exports continued to fall, which is attributed mainly to the loss of competitiveness in textile fibers and in the manufacturing process. From 2009 until the beginning of 2017, the exports of the textile industry were very volatile (Ministry of Production, 2015; see Figure 1).

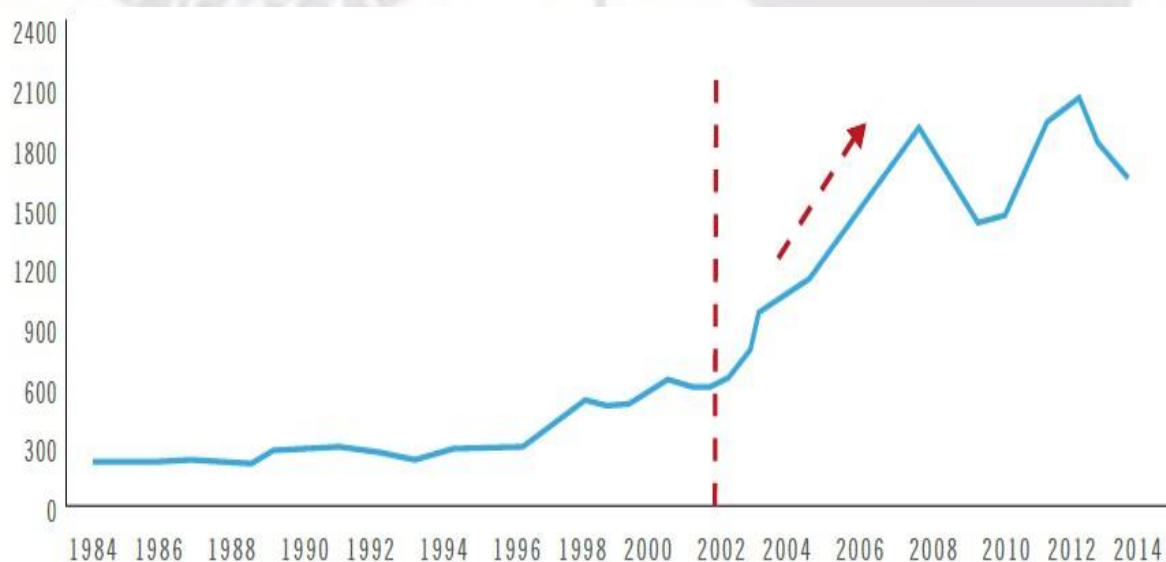
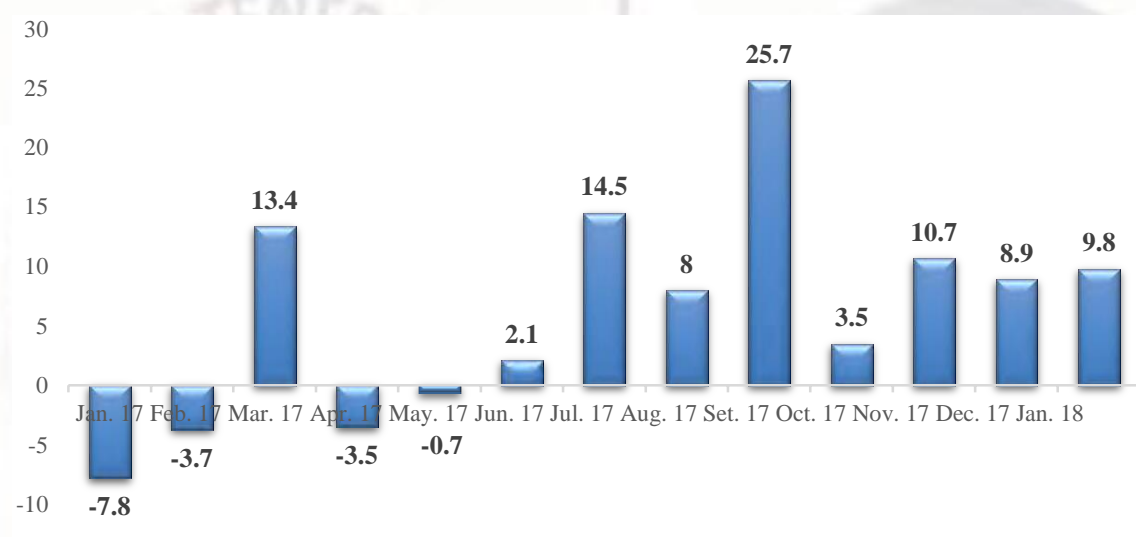


Figure 1. National exports of textiles and clothing products, 1984-2014

Taken from: "Textile Industry and Clothing, Sector Research Study" (1ra. ed.), by Ministry of Production, 2015. Lima, Perú. Retrieved from

[http://demi.produce.gob.pe/images/publicaciones/publicie178337159547c39d\\_11.pdf](http://demi.produce.gob.pe/images/publicaciones/publicie178337159547c39d_11.pdf)

Nevertheless, according to the Central Reserve Bank of Peru (2018), the exports of textile products increased 9.8 percent in January 2018 compared to the same month of the previous year, reaching a value of US\$ 99 million. Textile exports expanded for the eighth month in a row in 2017 (see Figure 2). In the month of January 2018, there were greater shipments to the United States (3.4%), Brazil (230.2%), Chile (31%), China (17.9%) and Germany (66.8%). By economic blocks, the main increases were in exports to the European Union (33.6%), Asia (9.6%), North America (4.5%), mainly to the United States (3.4%), and Mercosur (94.1%) (see Table 1).



*Figure 2. Value of Peruvian Textile Exports*

Taken from: "Informative Summary N° 05" by Central Reserve Bank of Peru, 2018. Lima, Perú.

Retrieved from <http://www.bcrp.gob.pe>

Table 1

*Main Destinations of Textile Exports (million US dollars)*

	January 2017	January 2018	Variation %
Total	90	99	9,8
USA	49	50	3,4
Brazil	1	4	230,2
Chile	3	4	31,0
China	3	4	17,9
Germany	2	4	66,8
Argentina	2	2	16,5
United Kingdom	2	2	20,7
Others	28	29	3,6

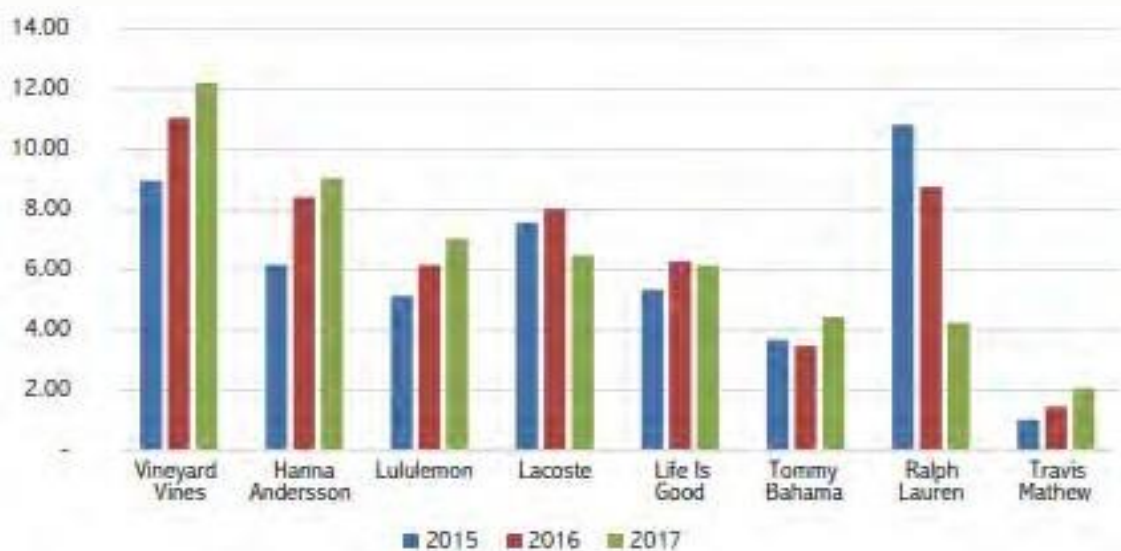
Taken from "Information Note" by Central Reserve Bank of Peru, 2018. Lima, Perú.

It is important to mention that the textile and confection industry represents one of the main non-extractive activities nationwide, amounting to 1.3% of the national GDP and 8.9% of manufacturing production in 2014. In that sense, it is the second most important sector in manufacturing GDP, only behind of the precious and non-ferrous metals industry, whose contribution was 10% in 2014, according to data from the National Institute of Statistics and Informatics. Despite growing by about 14.8% in its production value between 2009 and 2014, the contribution of the textile and confection industry to manufacturing GDP has fallen due to a lower growth rate compared to other non-primary manufacturing activities after the deceleration registered in foreign markets (Ministry of Production, 2015).

This is also due to the fact that the competition of imported products in the clothing segment, which is mainly composed of t-shirts (71%), has intensified significantly, especially with Central American and Asian countries, mainly China, with lower production and labor costs. Even more, considering that these are products that are mostly exported to international brands such as Ralph Lauren, Boss, Old Navy, Calvin Klein, Lacoste, among others (see Figure 3).

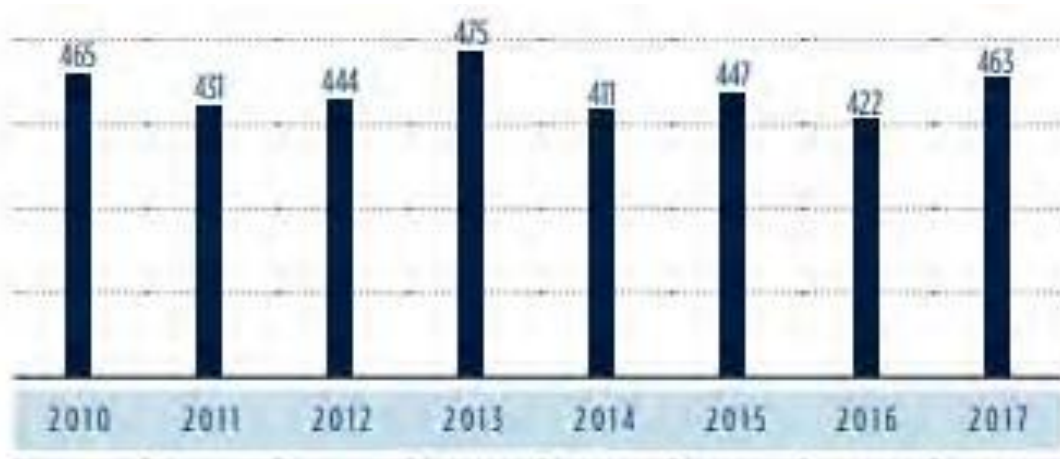
While the destinations of the merchandise are objective markets with high-income clients that mostly prioritize quality, the strong financial crisis in the United States made the companies implement a rapid strategy to reduce costs, which affected Peruvian exports. Added to this is the sharp drop in exports to Venezuela. In 2014, the production of Peruvian clothing fell sharply, by 8.2%, while textile production fell to -1.1% of the previous year (Ministry of Production, 2015). Nevertheless, the space for recovery is fueled by the restoration of private consumption in the United States, the main buyer of textile products.

Additionally, as indicated by the Ministry of Production (2015) the textile and confection industry is one of the main sources of employment with nearly 412 thousand jobs, representing 8.9% of the Economically Active Population (EAP) occupied (see Figure 4).

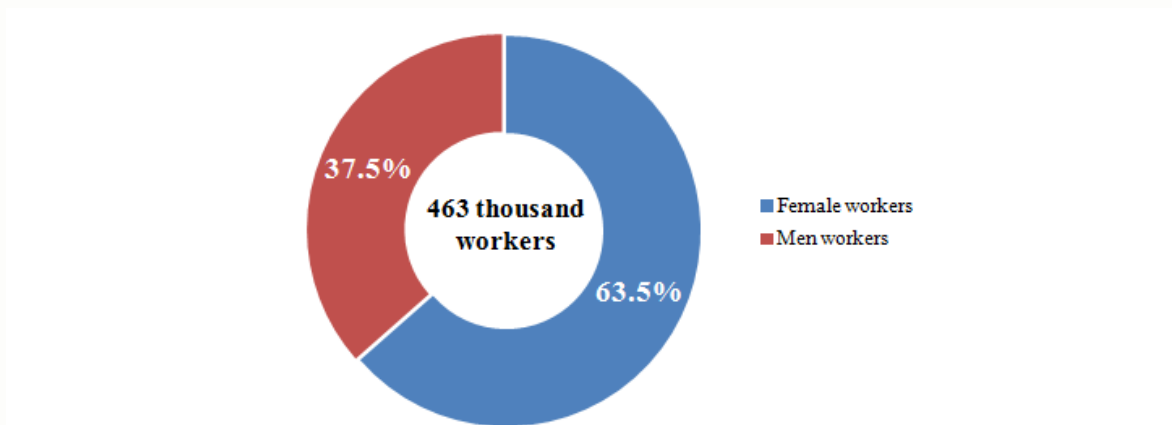


*Figure 3.* Evolution of Exports of Top brands towards USA (In million US\$)  
 Taken from “The Camera” by Chamber of Commerce of Lima, 2018. Lima, Peru. Retrieved from [https://www.camaralima.org.pe/repositorioaps/0/0/par/edicion786/ed\\_dig\\_786.pdf](https://www.camaralima.org.pe/repositorioaps/0/0/par/edicion786/ed_dig_786.pdf)

The majority of this employment is generated by micro, small, and medium companies, whose number has increased considerably since 2009 (+ 38.3%), reaching a projection of more than 463 thousand jobs in 2018, of which 63.5% are women and 36.5% are men (see Figure 5).



*Figure 4.* Employment in the Textile and Confections Industry: 2010 – 2017 (thousands of workers)  
 Taken from “National Household Survey 2017” by National Institute of Economics and Informatics, 2017. Lima, Perú. Retrieved from [https://webinei.inei.gob.pe/anda\\_inei/index.php/ddibrowser/613/export/?format=pdf&generate=yes](https://webinei.inei.gob.pe/anda_inei/index.php/ddibrowser/613/export/?format=pdf&generate=yes)



*Figure 5.* Employment difference in the textile and confections industry  
 Taken from “National Household Survey 2017” by National Institute of Economics and Informatics, 2017. Lima, Perú. Retrieved from [https://webinei.inei.gob.pe/anda\\_inei/index.php/ddibrowser/613/export/?format=pdf&generate=yes](https://webinei.inei.gob.pe/anda_inei/index.php/ddibrowser/613/export/?format=pdf&generate=yes)

Nevertheless, as the Ministry of Production (2015) mentioned, there is a problem related to the work force and informality. In the textile and confection industry, 74% of the employed EAP corresponds to the informal employment segment, this causes the lost of productivity and efficiency in companies, which generate disadvantages compared to other countries that produce textiles and confections worldwide.

Another relevant point is that most of it corresponds to the unskilled segment (defined in this case as those with an incomplete or less educated secondary education level), about 86% of the employed EAP corresponds to unskilled labor. This evidences the great labor productivity gaps that exist in the sector, still concentrated in activities of low technological intensity, which does not allow to shorten the gaps with other industrial producers worldwide. Despite the low qualification of the workforce, the cost of industrial textile labor is one of the highest of the world's leading producers.

On the other hand, the other factor of the production process, the capital investment has also increased considerably since 2009. Thus, the value of the import of machinery and equipment of the sector grew by 158.9% between 2013 and 2014, especially in the stage of high commodity prices between 2010 and 2011 that favored most of the economies that are destination of textiles and clothing of Peruvian origin (Ministry of Production, 2015).

It is important to have into consideration the general situation of the textile industry, to understand the companies in that industry such as Textile S.A., that is a vertically integrated textile and confection company, located in Lima-Peru, that produce and export knitted cotton garments, commissioned by clients from abroad -leaders in the market segments in which they participate- mainly catalogs and retailers, and act as a contracted manufacturer, producing garments according to the design and specifications of the clients (Tello, 2018).

Textile S.A. was established in 1965 and from 1987 it was exclusively dedicated to the export market of knitted garments in cotton and its blends. In 2006, its turnover was equivalent to 6% of the total Peruvian exports in this area. Textile S.A. is vertically integrated in its production plants, occupying approximately 24,217 square meters. The industrial process includes the sectors of Development of Fabrics and Colors, Formwork, Weaving, Dyeing and Finishing of Yarns and Fabrics, Cutting, Embroidery, Sewing and Finishing of Garments. The workers are approximately 1700 people. A long-term relationship has been achieved with customers who are demanding in quality and require prompt response in communications (Tello, 2018).

The garments that Textile produces are mainly made with 100% Cotton, Peruvian Pima, Supima, Upland and Organic, and to a lesser extent, with cotton mixed with other fibers such as Bamboo and other natural fibers. The finishes offered by Textile are varied as Soil & Stain Release, Antimicrobial, Wrinkle Resistant, UV Protection and others, and in fabrics such as Interlock, Jersey, Piqué, Double Jacquard, French Terry, Cobble and Ribs, both in solid colors and in striped and prints. In the development of Prototypes and Production Samples, the Lectra System is used to make molds, which allows customers to be sent by e-mail, molds in Lectra format and / or DXF format (universal format) (Tello, 2018).



Finally, the production and dispatch information provided by Textile to its clients comes from an Integrated Planning System that allows simulating the production programs in each of the processes, identifying possible bottlenecks in order to take corrective actions to meet the Delivery commitments agreed with customers. In that sense, the production lead time is 8 to 10 weeks for solid colors, 10 to 12 for striped garments and / or produced with special yarns, and, 4 to 6 weeks for quick response or reorders (Tello, 2018).

## **1.2 Conclusions**

The textile and confection industry has been one of the main engines of non-traditional Peruvian exports growth in the last decade. This industry has become an important engine of growth for the national economy thanks to its characteristics: linkage with other industries, use of raw materials with national origin, be intensive in the hand of work and be an export source that contributes to diversification productive of the country (Ministry of Production, 2015).

However, from 2010 to 2017 the behavior of the textile industry has been volatile due to the weak international demand, especially in industrialized countries due to the international economic crisis. Nevertheless, after several years of decline, the export of confections have reached a turning point, as the space for recovery is fueled by the restoration of private consumption in the United States, the main buyer of Peruvian products. Though, it must consider that Textile competes with companies in other countries and there are several factors that must be worked on, such as improving productivity, fighting against informality, training technical workforce, and differentiate from competitors, in order to have a greater growth.

## **Chapter II: Vision, Mission, Values, and Ethics Codes**

### **2.1 Background**

According to D'Alessio (2015), if any organization wants to survive in the long term, they must think about the future and plan strategically. Therefore, it is imperative to formulate the appropriate form for the four fundamental components to begin its strategic process: (a) vision, (b) mission, (c) values, and (d) code of ethics. Without a correct and exhaustive analysis of these elements, it will not be possible to analyze both the internal and external environment to formulate the objectives and strategies that the company seeks to achieve and implement.

The textile and confection industry is an important source of income for the economy of our country, but even so, there are opportunities for growth that have not been fully exploited. But the industry must be prepared to effectively take advantage of these opportunities. It is for this reason that Textile has established a vision, mission, values, and a code of ethics, which are available for workers and are reviewed by management and managers in a conscious manner annually. In addition, the vision and mission can be found on the company's website, which allows external people to be aware of what they hope to achieve. Lines below we will be able to see that the current vision is planned up to the year 2020 and was established in 2017. Hence, we can assure that for the company it is an important factor to know what must be achieved in the short, medium, and long-term (Tello, 2018).

### **2.2 Vision**

According to D'Alessio (2015), the vision is the future desired decision that implies a long term approach, pre-evaluation of the current and future situations. The current vision for Textile S.A. is the following: Position ourselves as a leading Peruvian exporter of clothing such as contract manufacturers worldwide (Tello, 2018)

This vision is not challenging enough because nowadays Textile S.A. is already one of the main exporters of the Peruvian industry, in 2018 Textile is the fourth exporter in Peru. That is why it is important that the company diversified its geographical scope in the local market, keeping also an increasing in exports. Furthermore, the contract manufacturer term limits the potential business lines in which the company could develop. For those reasons, the proposed vision for Textile S.A. is the following:

By the year 2024, to be the exporter leading company in the textile and confection industry in Peru, and be a referent brand in the local market, delivering high-quality products from our certified suppliers with added value to our clients, being at the forefront of technology, systems, and processes with highly qualified workers, providing higher profitability for the shareholders.

### **2.3 Mission**

The mission is the application and implementation of the strategic plan into practice, it must specify the markets' needs and products with which the company is planning to offer using efficiently its resources, capabilities, and competences (D'Alessio, 2015). The current mission for Textile S.A. is: Providing a quality product and service to our clients based on the highest international standards (Tello, 2018)

This mission can be improved, mainly because it is very general, it does not state who the clients are, and it does not specify what kind of products and how they are offered. For those reasons the proposed mission for Textile S.A. is as follows:

Produce and supply high-quality clothing products, with added value, to national and international wholesale and retail clients in the medium and medium-high end market segments, fully satisfying their expectations of delivery and innovation, with competitive prices, using efficiently the resources with eco-friendly and sustainable practices.

## 2.4 Values

As Tello (2018) mentioned that in the company there are ten main basic values, those values are essential to foster the relationship of trust that the company wants to have with its stakeholders. The values are the ones that follow: (a) Discipline, (b) Readiness, (c) Innovation, (d) Quality, (e) Meritocracy, (f) Responsibility, (g) Austerity, (h) Effectiveness, (i) Simplicity, and (j) Ethics.

If these values are met, then the following principles might be achieved (Tello, 2018):

Guide the management to serve the customers in terms of quality, delivery opportunity, development and innovation, permanently advancing to their future needs. The possible errors are assumed without delay and without cost to the clients.

Intend that foreign customers perceive us as "local" suppliers, for the quality and information opportunity, and the prompt response that permanently offer them.

Excellence and the need for a high degree of professionalism in all stages of our management; believe that creativity and innovation are the inexhaustible sources of response to the challenges of modernity and globalization.

Way of working is to find the simplest, most direct, least expensive and most effective method to obtain the results propose (Austerity).

Try to supply only from suppliers that guarantee quality, service, fulfillment of delivery and innovation. Do not resort to relatives or friends in the purchase of goods or services, raw materials or inputs, or in the sale of intermediate or finished products.

Believe that the main strength of the company lies in the quality of the personnel and their identification with the company; therefore, committed to

offering opportunities for personal and professional development. The company does not work with family members, nor do we prefer the admission of friends of executives; new personnel enters exclusively for merit, prior psychological evaluation when it is to cover a charge.

Reward head areas based on meeting objectives and preserve labor harmony by appropriately remunerating staff, resolving timely claims, and putting the principles of order, authority and discipline, to specific situations.

Act in accordance with ethical values and principles and respect without prejudice the rights of the customers, suppliers, shareholders, employees, and society in general.

Adhere to the liberal doctrine of the market, understanding it as the one that allow to compete on equal terms, without protectionism or disadvantages.

Conservatively interpret the laws and legal regulations.

Those values are important but are redundant and not necessarily all of them follow the vision and mission. That is why the proposed values are: (a) Discipline, (b) Readiness, (c) Innovation, (d) Quality, (e) Meritocracy, (f), Responsibility, (g) Green Awareness, (h) Effectiveness, (i) Simplicity, and (j) Ethics.

## **2.5 Code of Ethics**

The company tries very hard to be seen as an example of a responsible business, and for that matter, they have a very clear code of ethics. The document can be permanently consulted by the workers and seeks to educate and discipline the previously mentioned values.

The company is well aware of the social responsibility that it has. They define social responsibility as the active and voluntary contribution to social, economic and environmental improvement by the company, that same social responsibility is seen as part of the entire

productive value chain, regulating and guiding activities related to labor, health and industrial safety, relationship with the business partners and the environment. The company adopts the WRAP (Worldwide Responsible Accredited Production) guidelines to manage the social responsibility. WRAP is an independent, non-profit organization dedicated to promoting safe, legal, humane and ethical manufacturing throughout the world through certification and education (Tello, 2018).

The company's code of ethics is audited annually and includes the following guidelines (Tello, 2018):

For social responsibility and business ethics: the company understands the responsibility of contributing to the economic development of society by generating employment through fair competition, we also strive to be an entity useful to society in general. To this end, we carry out all our activities under strict guidelines of respect for human rights, complying with the relevant laws and regulations, and a strong sense of ethical values.

For compliance with laws and regulations of the workplace: comply with the laws and regulations in all the places where they carry out activities.

For the prohibition of forced labor: do not use involuntary or forced labor, in conditions of servitude or otherwise.

For the prohibition of child labor: guarantee the non-hiring of minors that interfere with basic education and minors established by law.

For the prohibition of harassment or abuse: provide a work environment free of harassment, abuse or any form of corporal punishment, having the faculty to sanction through part-time or indefinite withdrawal according to the severity and/or recidivism of the actions that attempt against this principle.

For compensation and benefits: promote meritocracy and ensure that compensation is defined according to the work performed.

For the workday: guarantee that the hours worked each day and the days worked each week, do not exceed the limits of the country's law. The company provides at least one day of rest for each 7-day period, except when required to meet the business's urgent needs.

For the prohibition of discrimination: employ, pay, promote and liquidate employees based on their abilities to do the job, and not based on their personal characteristics or beliefs.

For health and safety at work: consider as a strategic factor the worker's health and safety to maintain a high level of service provision. In this way, senior management is involved and committed to improving the performance of health and safety.

For the freedom of association and collective bargaining: recognize and respect the rights of employees to exercise their legitimate rights of association and collective bargaining.

For the environment: comply with the environmental norms and regulations applicable to the operations and apply environmentally conscious practices in all the places where the company conducts operations.

For compliance with customs: comply with the customs laws, and in particular, establish and maintain programs to comply with the customs laws regarding illegal transportation of finished products.

For general security: the company is committed to comprehensive security in all activities that are carried out as part of the international logistics chain, maintaining security procedures to protect the facilities against the introduction

of cargo not manifested in outgoing shipments such as drugs, explosives, biological risk materials and/or other contraband.

## **2.6 Conclusions**

As we mention at the beginning of this chapter, the textile and confection industry has a significant impact on Peruvian economy. For that reason, every company must be very careful in the moment of establishing their vision, mission, and values. Because of that, an exhaustive analysis of them was made identifying the vision does not establish a time horizon and was not challenging enough and the “contact manufacturer” term limits the potential business lines in which the company could develop. The proposal includes a horizon of five years and its expansion of the geographic scope from a local market to a regional market.

As per the mission, the conclusion of the analysis is that it is very general because it does not state who the clients are and it does not specify what kind of products and how they are offered. For those reasons the proposal includes the characteristics of the clients, the products categories that are offered, and the internal processes the company has to provide them. In addition, the values should follow the vision and mission.



### **Chapter III: External Evaluation**

In this chapter, the external evaluation is made by using updated and relevant data in order to know the implications of the global context and environment. Also, we determine some external factors to understand how they influence on the textile and confection industry. This assessment makes us able to have a better understanding about the contexts in which Textile S.A. is performing. Initially, an analysis was made regarding the following tools: (a) Frederick Hartmann's Three-dimensional, (b) Michael Porter's Analysis of National Competitiveness, and (c) Political, Economic, Social, Technological and Ecological (PESTE) Analysis.

Then, the results were played in the following matrices: (a) Matrix for Evaluation of the External Factors (MEEF), which allowed us to identify threats and opportunities of the textile and confection industry; (b) Competitive Profile Matrix (CPM), in which the key factors were identified for success in the Peruvian textile and confection industry, and developed the strategies to compete with the main competitors; and (c) Referential Profile Matrix (RPM) that made possible to identify the key success factors of the main competitors in the textile and confection industry and compared them with Textile S.A., and take them as benchmarks.

#### **3.1. Three - Dimensional Analysis of the Nations**

The evaluation of the global environment through the Three-dimensional Analysis of international relations is significantly relevant in the Strategic Plan of Textile S.A. because it helps to identify and assess the level of influences of the three dimensions have on the country and then in the textile and confection industry. Even more taking into consideration that relations between countries exceed the national borders and cover all kind of communication, exchange of goods and services, and movement of people. In that context, countries can make decisions to adapt their national interests and take advantage of existing

links with other countries. For that, in this model we study the factors influencing this sector through three dimensions: (a) National Interests, (b) National Potential Factors, and (c) Cardinal Principles (see Figure 6) (Hartmann, 1983).

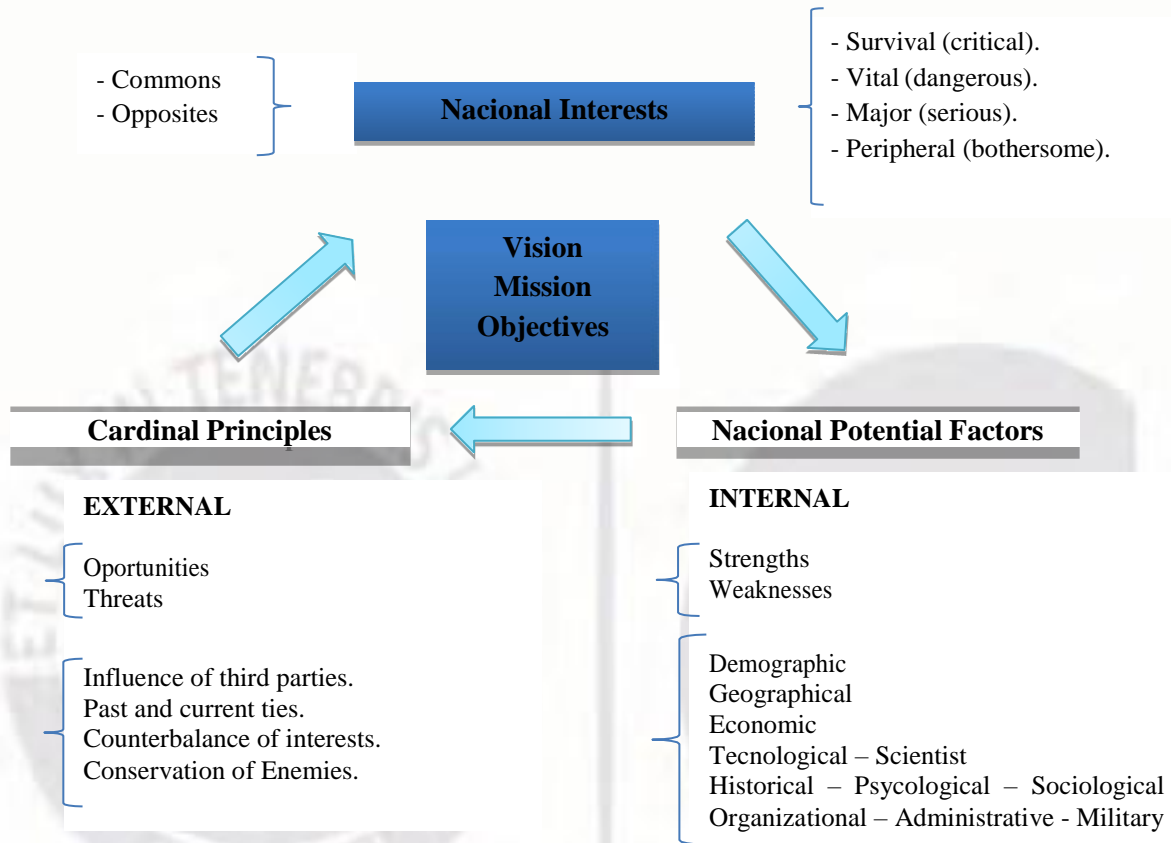


Figure 6. Hartmann Model: Three-dimensional Theory of the relation among countries  
Taken from "The strategic process: A management approach" (3a ed.), by F. A. D'Alessio, 2015.  
Mexico D.F., Mexico: Pearson.

### 3.1.1. National Interests: National Interest Matrix (NIM)

The national interests are the fundamental aspects a country take into account and is pursuing to achieve by doing the necessary efforts. Not all national interests are in the same category because they differ according to what a country seeks, i.e., national interests between two countries always differ. The national interests can be classified in two groups: commons and opposites. The first ones indicate high possibilities of making agreements or alliances with another country, which should be sought more vehemently; while the second

ones refer when there is no possibility of reaching an agreement or alliance (D'Alessio, 2015).

Regarding the intensity of interests, Nuechterlein (1973) developed four levels: (a) Survival, if the existence of a country depends on other countries (very relevant), they are rare and relatively easy to identify, they occur when there is an imminent and credible threat of massive destruction of the national territory; (b) Vital, if the fact of not achieving it causes dangerous damages (relevant), it is distinguished from one of survival primarily by the amount of time a country has to decide how it will respond to the external threat; (c) Major, when a country considers important but not crucial to its welfare and can be negotiated with an adversary; (d) Peripheral, if the consequences of the factor are marginal (something important), that means, it does not seriously affect the welfare of the nation in general.

In that sense, the National Center for Strategic Planning (2016) presented the National Development Strategic Plan Updated in June 2016, called the "Peru toward 2021", in which the six national objectives are defined:

1. Effective exercise of human rights and dignity of people, with social inclusion of the poorest and most vulnerable population.
2. Guarantee access to quality services that allow the full development of the capacities and rights of the population, in equitable and sustainable conditions.
3. Develop and consolidate democratic governance and strong public institutions.
4. Develop a diversified and sophisticated economy with sustainable growth, in a decentralized and generating structure of worthy employment.
5. Cohesive and organized territory in sustainable cities with assured provision of quality infrastructure.

6. Efficient, responsible and sustainable use of biological diversity, ensuring an adequate environmental quality for the healthy life of the people and the sustainable development of the country.

These six national objectives are considered as national interests because they set challenges that guide the country development toward a scenario in which it is possible the following: (a) Human rights are practiced without either exclusion or discrimination, (b) To access to quality services and develop capacities, (c) To have a democratic Government consolidated, and with the aim to service to citizens, (d) To reach a national territory with integral and equitable human development, (e) To achieve a developed, sustainable, and diversified economy, and (f) To achieve development and competitiveness with green growth (National Center for Strategic Planning, 2016).

In that sense, in the National Development Strategic Plan “Peru toward 2021” six indicators are proposed: (a) Human Development Index, (b) Multidimensional Poverty Index, (c) Government Effectivity Index; (d) Per Capita GDP (parity of purchasing power, fixed dollars 2011), (e) Percentage of participation of departmental gross value added (except Lima) over the total aggregate value, (f) Environmental Performance Index (National Center for Strategic Planning, 2016).

In the National Interests Matrix (NIM) made for Peru (see Table 2), in which only the relevant interests were considered, it is observed that there is none of the survival level but there are six between vital, major and peripheral level of interests that refer to: Human rights and social inclusion; opportunities and access to quality services; consolidated democratic governance and strong public institutions; develop a diversified and sophisticated economy with sustainable growth; territorial development and adequate infrastructure; environment, biological diversity, and risks and disasters management (National Center for Strategic Planning, 2016).

Table 2

*National Interests Matrix (NIM)*

National Interests	Intensity of interest			
	Survival (Critical)	Vital (Dangerous)	Major (Serious)	Peripheral (Bothersome)
1. Human rights and social inclusion.		*USA *EU	*Chile *Colombia	**Ecuador **Bolivia **Venezuela
2. Opportunities and access to quality services.		*Spain *UK *USA	*Chile *Ecuador *Netherlands	
3. Consolidated democratic governance and strong public institutions.		*Spain *China *USA *UK	*Brazil *Japan *South Corea *EU *Chile	
4. Develop a diversified and sophisticated economy with sustainable growth		*China *Brazil *USA	**Chile	
5. Territorial development and adequate infrastructure.			*Bolivia *Brazil *EU *Chile *Colombia *Ecuador *Japan *Germany	
6. Environment, biological diversity, and risks and disasters management.		**Chile *Ecuador	*Brazil *Bolivia *Colombia	**Venezuela

Note: \*common interests, \*\*opposite interests.

Adapted from "The strategic process: A management approach" by F. D'Alessio, 2015. Mexico: Pearson.

***Human rights and social inclusion.*** This objective involves the full democratization of society and the unrestricted validity of the right to life, the dignity of people, identity and integrity, non-discrimination, respect for cultural diversity and the free development and well-being of all Peruvians. For this, it is necessary to expand human capacities maximizing their capacities as human beings, significantly reducing poverty and extreme poverty, accepting the values of meritocracy, industriousness, cooperation, honesty, solidarity and social inclusion and stimulating creativity, entrepreneurship and creation of wealth (National Center for Strategic Planning, 2016).

***Opportunities and access to quality services.*** This second objective seeks to guarantee equitable access to basic quality services (education, health, water and sanitation, electricity, telecommunications, housing and citizen security). Universal access to quality services and food security are essential to overcome poverty and ensure equal opportunities. To achieve this, political strategies are required that bring the State and the private initiative together (National Center for Strategic Planning, 2016).

***Consolidated democratic governance and strong public institutions.*** This third objective seeks a stable and forward-looking economic policy, which encourages sustained economic growth through private and public investment in activities that generate decent jobs, being indispensable conditions to achieve this reduction of underemployment and unemployment, improvement of competitiveness, investment and tax pressure, and greater macroeconomic stability (National Center for Strategic Planning, 2016).

***Develop a diversified and sophisticated economy with sustainable growth.*** This objective recognizes natural resources and the environment as fundamental for sustaining the country's economy, by contributing to the satisfaction of the needs of the population and the development of productive activities that generate goods and services aimed at the internal and external markets, regional development and infrastructure. This objective seeks strategies aimed at closing the inequality gaps of resources and economic capacities between Lima and the regions, and between the regions themselves, developing an adequate decentralized economic and productive infrastructure for public use (National Center for Strategic Planning, 2016).

***Territorial development and adequate infrastructure.*** This objective is based on the need to reduce the size of the public sector, decentralization via the growth of the State institutions in the regions. The implementation of the public career is considered essential, as well as strengthening the capacity and quality of public servants. Likewise, it implies a

foreign policy oriented towards peace, integration and global democracy (National Center for Strategic Planning, 2016).

***Environment, biological diversity, and risks and disasters management.*** This objective is based on the need to reduce the size of the public sector, decentralization via the growth of the State institutions in the regions (National Center for Strategic Planning, 2016).

### 3.12 National Potential Factors

National potential is understood as the strengths and advantages of a country, which makes it possible to evaluate how feasible a country can achieve national interests. Among the main factors that determine the national potential are the following: (a) Demographic, (b) Geographical, (c) Economic, (d) Technological / Scientific, (e) Historical / Psychological / Sociological, (f) Organizational / Administrative / Military (D`Alessio, 2015).

***Demographic Factor.*** The estimated growth of the population of Peru makes it possible to evaluate the future demand for basic services and infrastructure that must be met by the Government.

Table 3 *Peru: Projected Population and Growth Rate 2010-2036*

*Peru: Projected Population and Growth Rate 2010-2036*

Year	Population (In thousand of people)			Growth Rate (%)		
	Total	Men	Women	Total	Men	Women
2010	29,461,933	14,768,901	14,693,032	1.13	1.12	1.14
2011	29,797,694	14,935,396	14,862,298	1.14	1.13	1.15
2012	30,135,875	15,103,003	15,032,872	1.13	1.12	1.15
2013	30,475,144	15,271,062	15,204,082	1.13	1.11	1.14
2014	30,814,175	15,438,887	15,375,288	1.11	1.10	1.13
2015	31,151,643	15,605,814	15,545,829	1.10	1.08	1.11
2016	31,488,625	15,772,385	15,716,240	1.08	1.07	1.10
2017	31,826,018	15,939,059	15,886,959	1.07	1.06	1.09
2018	32,162,184	16,105,008	16,057,176	1.06	1.04	1.07
2021	33,149,016	16,591,315	16,557,701	0.99	0.97	1.01
2026	34,718,378	17,361,555	17,356,823	0.89	0.87	0.91
2031	36,179,425	18,073,072	18,106,353	0.78	0.76	0.81
2036	37,491,075	18,704,797	18,786,278	0.66	0.64	0.69

Taken from "Population and Housing Statistics" by National Institute of Statistics and Informatics, 2018. Lima, Peru. Retrieved from <https://www.inei.gov.pe/estadisticas/indice-tematico/poblacion-y-vivienda>

In the same way, the secondary information available by the National Institute of Statistics and Informatics (2018), allows to project the labor force of all sectors in the coming years. The National Institute of Statistics and Informatics (2018) estimated that the population of Peru in 2018 was 32'162,184. Likewise, it was projected that the population in 2021 will be approximately 33,149,016, highlighting that the growth rate of the urban area has been positive and increasingly negative in rural areas (see Table 3). This is important because the greatest consumption is placed in urban areas and, hence, the highest labor force is in urban areas.

By 2018, according to the National Institute of Statistics and Informatics (2018), population estimated is divided in two parts: 16'105,008 men (50.1%) and 16'057,176 women (49.90%). Also, is predicted a decrease in the annual national population density of (1.06%), as well as men (1.04%) and women (1.07%) (see Table 4).

Table 4 *Projected Peruvian Population to 2050 by Age Segment and annual growth*

*Projected Peruvian Population to 2050 by Age Segment and annual growth*

Age group	2015	Annual Growth (%)	2021	Annual Growth (%)	2040	Annual Growth (%)	2050	Annual Growth (%)
<b>Total Population</b>	31,151,643	1.10	33,149,016	0.99	38,405,474	0.57	40,111,393	0.33
<b>0- 4 years</b>	2,861,874	-0.65	2,778,083	-0.45	2,552,801	-0.50	2,424,962	-0.48
<b>5- 9 years</b>	2,922,744	-0.26	2,818,583	-0.53	2,601,571	-0.45	2,476,936	-0.52
<b>10-14 years</b>	2,914,162	-0.07	2,892,095	-0.43	2,651,784	-0.39	2,536,094	-0.48
<b>15-19 years</b>	2,887,529	-0.08	2,886,490	0.02	2,728,735	-0.37	2,635,403	-0.37
<b>20-24 years</b>	2,828,387	0.44	2,841,983	0.07	2,764,120	-0.49	2,670,125	-0.34
<b>25-29 years</b>	2,661,346	1.26	2,784,291	0.37	2,809,222	-0.05	2,699,521	-0.08
<b>30-34 years</b>	2,411,781	0.93	2,636,893	1.17	2,765,333	0.20	2,728,909	-0.85
<b>35-39 years</b>	2,258,372	1.66	2,394,758	1.49	2,704,642	0.25	2,764,800	0.15
<b>40-44 years</b>	1,977,630	2.14	2,235,355	1.26	2,623,703	0.79	2,707,390	0.44
<b>45-49 years</b>	1,725,353	2.19	1,973,730	2.42	2,437,880	1.63	2,625,753	0.05
<b>50-54 years</b>	1,486,312	3.00	1,711,981	2.34	2,165,644	1.28	2,513,349	0.47
<b>55-59 years</b>	1,205,103	3.29	1,468,240	2.75	1,965,241	2.01	2,286,148	2.73
<b>60-64 years</b>	967,702	3.64	1,182,125	3.62	1,630,854	2.52	1,962,852	0.32
<b>65-69 years</b>	736,059	3.67	924,236	3.57	1,304,422	2.61	1,687,104	2.66
<b>70-74 years</b>	545,659	2.93	676,992	4.03	978,745	3.50	1,286,742	2.85
<b>75-79 years</b>	394,230	3.02	468,841	3.50	1,027,107	4.24	1,515,186	3.40
<b>80 y más años</b>	367,400	4.78	474,340	4.01	1,027,107	4.24	1,515,186	3.40

Taken from "Population and Housing Statistics" by National Institute of Statistics and Informatics, 2018. Lima, Peru. Retrieved from <https://www.inei.gov.pe/estadisticas/indice-tematico/poblacion-y-vivienda>



Likewise, it is estimated that there is a faster growth in the proportion of older people, as a consequence of a longer life expectancy in all ages, especially of people who exceed the limit of 60 years, which can be observed in the increase in annual growth rates in the most advanced ages.

Meanwhile, the employed EAP increases each year, concentrating mostly in the urban area (75.2% in 2017), and in the coastal region (53.7% in 2017) (see Table 5). That is, Peruvian agriculture shows low levels of labor productivity, partly explained by the atomization and fragmentation of land, the scarcity of public and private assets that producers access, rural poverty and limited development of rural markets (e.g., work, credit, technical assistance, secure information, among others). This makes very little technical participation of the EAP, although a large increase is expected in the coming years, it does not guarantee the same growth in terms of preparation and access to technical training (National Institute of Statistics and Informatics, 2018).

Table 5 *Evolution of the Occupied EAP: 2005-2014 (Thousands of people)*  
*Evolution of the Occupied EAP: 2005-2014 and population 2014 (Thousands of people)*

Geographical Scope	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	%
<b>Total</b>	<b>13,120.4</b>	<b>3,683.0</b>	<b>4,197.2</b>	<b>4,459.2</b>	<b>4,757.7</b>	<b>5,089.9</b>	<b>5,307.3</b>	<b>5,541.5</b>	<b>5,683.6</b>	<b>5,796.9</b>	<b>100</b>
<b>Area of Residence</b>											
<b>Urban</b>	8,914.2	9,409.8	0,016.9	0,308.8	0,583.6	0,980.6	1,251.7	1,549.6	1,760.2	1,872.5	75.2
<b>Rural</b>	4,206.2	4,273.2	4,180.2	4,150.3	4,174.0	4,109.2	4,055.6	3,991.9	3,923.4	3,924.4	24.8
<b>Natural Region</b>											
<b>Coast <sup>1/</sup></b>	6,638.0	7,012.6	7,517.7	7,650.3	7,852.4	8,097.2	8,194.7	8,431.7	8,471.3	8,487.5	53.7
<b>Rest of Coast <sup>2/</sup></b>	2,960.1	3,016.4	3,237.5	3,245.1	3,357.2	3,435.5	6,505.6	6,664.0	3,580.3	3,618.0	22.9
<b>Highlands</b>	4,734.2	4,886.8	4,801.0	4,918.1	4,994.2	5,028.9	5,110.0	5,082.3	5,173.2	5,241.4	33.2
<b>Jungle</b>	1,748.3	1,783.6	1,878.4	1,890.8	1,911.1	1,963.7	2,002.6	2,027.6	2,039.1	2,068.0	13.1

Taken from "Occupation and Employment Statistics" by National Institute of Statistics and Informatics, 2018. Lima, Peru. Retrieved from <https://www.inei.gob.pe/estadisticas/indice-tematico/ocupacion-y-vivienda/#url>

**Geographic Factor.** According to information from the Private Investment Promotion Agency - Peru (Proinversion), Peru is located in the mid-west of South America, facing the Pacific Ocean, between parallels 0°2 'and 18°21'34' 'of south latitude and the meridians 68°39'7 "and 81°20'13" in length. It has an area of 1'285,216 square kilometers and is the third largest country in South America, after Brazil and Argentine. It has three very marked geographical regions: Costa, Sierra and Selva. Due to its naturally strategic location, Peru is a country with great potential to become a point of reference in the South American Pacific zone, due to the fact that it connects with the countries of the Asia-Pacific Economic Cooperation (APEC), the most important, richest and fastest growing market in the world (Ministry of Foreign Trade and Tourism, 2015).

According to the last agricultural census in 2012, the agricultural area that Peru owns was 38'742,465 has (30.1% of the national territory), this is divided by regions: coast (11.5%), sierra (57.5%), jungle (31.1% ). Likewise, 7'125,008 hectares (18.5%) are destined for agriculture and 31'617,457 hectares (81.5%) are for use not related to agriculture (National Institute of Statistics and Informatics, 2018). At present, there is a deficient agricultural and road infrastructure, which makes access to farming areas difficult and this generates significant increases in transportation costs for the products.

The Peruvian Sea is the part of the Pacific Ocean that stretches along the coast and has a width of 200 nautical miles offshore. Its great ichthyological richness is the result of the marine currents of Humboldt and El Niño. There are several varieties of fish in its waters, whose abundance makes Peru one of the first fishing countries in the world. Callao, Paíta, Chimbote, Ilo, Matarani, Pisco and Salaverry are the main ports (National Institute of Statistics and Informatics, 2018).

About the regions, the coast is a narrow strip of 2,500 km of mostly arid length, that counts on 52 valleys irrigated by rivers coming from the western slope of the Mountain range

of the andes. It occupies 11.7% of the surface of the country and concentrates 52.6% of the population. The sierra extends over the Andes Mountain Range and has the highest peak in the Huascarán mountain with 6,786 meters above sea level. It is essentially a plateau cut by valleys and dominated by one of the wildest mountain ranges in the world. This region concentrates 38% of the population. Finally, the jungle is a region of forests and rivers and concentrates 60.3% of the Peruvian territory and 9.4% of the population. This region is part of the Amazonian plain, the most extensive tropical forest on the planet, and hosts a great diversity of flora and fauna species, navigable rivers, and oil and gas in the subsoil. (National Institute of Statistics and Informatics, 2018) (see Table 6).

Table 6

*Surface of the National Territory, according to the Natural Region*

<b>Geographic Regions</b>	<b>Surface (Km2)</b>	<b>Percentage of the Total (%)</b>
Coast	136,233	10.6
Highlands	391,991	30.5
Jungle	756,991	58.9
<b>Total</b>	<b>1,285,215</b>	<b>100.0</b>

Taken from “Surface of the National Territory, according to the Natural Region” by National Institute of Statistics and Informatics, 2018. Lima, Peru. Retrieved from [https://www.inei.gob.pe/media/MenuRecursivo/publicaciones\\_digitales/Est/Lib1140/cap01.pdf](https://www.inei.gob.pe/media/MenuRecursivo/publicaciones_digitales/Est/Lib1140/cap01.pdf)

**Economic factor.** The Peruvian economy has achieved significant improvements in its performance in recent years, with high growth rates of the Gross Domestic Product (GDP), controlled levels of inflation and low levels of fiscal deficit. Since 2002, there has been an improvement in the Peruvian economy. Between 2010 and 2013, the national GDP has increased at an average annual rate of 6.7%. For the year 2015, GDP grew at a rate of 3.3% due to a partial reversal of supply factors that affected in 2014. In addition, there was a weak performance of public investment (-11.2%), mainly due to the lower expenditure on gross capital formation of the national government and local governments. However, in 2016 and 2017 the GDP grew to 4.0% and 2.5%, respectively. And in 2017, the GDP of Peru grew 2.5% (Central Reserve Bank of Peru, 2018) (see Table 7).

Table 7

*GDP of Peru and percentage Variation*

<b>Year</b>	<b>GDP (millions S/ 2007)</b>	<b>Variation (%)</b>
2000	222,206.7	2.7
2001	223,579.5	0.6
2002	235,773.0	5.5
2003	245,592.6	4.2
2004	257,769.8	5.0
2005	273,971.1	6.3
2006	294,597.9	7.5
2007	319,693.0	8.5
2008	348,923.0	9.1
2009	352,584.0	1.0
2010	382,380.0	8.5
2011	407,052.0	6.5
2012	431,273.0	6.0
2013	456,159.0	5.8
2014	466,844.0	2.4*
2015	480,382.5*	2.9*
2016	499,597.8*	4.0*
2017	523,578.5*	4.8*

Taken from "Statistics" by Central Reserve Bank of Peru, 2018. Lima, Peru. Retrieved from <https://estadisticas.bcrp.gob.pe/estadisticas/series/anuales>

The growth is the product of the private sector and not by state intervention. The monetary and fiscal policies applied in the last two decades have allowed Peru to register in 2014 one of the lowest debt ratios in the region with 20.1% of GDP. In addition, a high level of net international reserves has been maintained, which as of January 31, 2016 was US\$ 59,981 million, consisting mainly of liquid international assets. This level is equivalent to 31% of GDP and 19 months of imports (El Comercio, 2015). This reflects the strength of the Peruvian economy. As a result of the aforementioned indicators, Peru is classified as an Investment Grade by the three main risk rating agencies in the world: Standard & Poor's, Fitch and Moody's (Trading Economics, 2016) (see Table 8).

Table 8

*Country Risk Ratings in Latin America*

Country	S&P	FITCH	MOODY'S
Chile	AA-	A+	Aa3
Mexico	BBB+	BBB+	A3
Brasil	BB+	BB+	Baa3
Peru	BBB+	BBB+	A3
Colombia	BBB	BBB	Baa2
Bolivia	BB	BB	Ba3
Venezuela	CCC	CCC	Caa3
Argentina	SD	RD	Caa1
Ecuador	B	B	B3

Taken and adapted from <https://tradingeconomics.com>, 2016.

On the country risk side, by December 15, 2018 the EMBIG Peru was 157 basis points (bps) and the region spread at 531 bps (see Figure 7). This evaluation was made in the period from December 5 to 12, and it was measured by the average debt spread in Peru. In the same period, the spread EMBIG for Latin American decreased by 17 bps, in a context of lower trade stress between USA and China because the commercial war (Central Reserve Bank of Peru, 2018).



Figure 7. Peru Risk Indicators

Taken from "Statistics" by Central Reserve Bank of Peru, 2018. Lima, Peru.

With respect to domestic demand (see Table 9), 2016 and 2017 grew by 3.0% and 3.8%, respectively, considering that private investment would show improvement because projects submitted under concession would begin to be executed. Of this, public investment was an important factor for the recovery of domestic demand, since it increased by 10.9% and 5.0% in 2016 and 2017 respectively.

On the side of the trade balance, it is evident that exports decreased, mainly non-traditional exports. Thus, the drop in non-traditional exports (which exclude commodities) from the main countries of the region is observed, among which Peru shows the lowest reduction, with the exception of Mexico, because the latter maintains a close relationship with the North American economy, which shows a recovery (see Figure 8).

Table 9 *Internal Demand and GDP (Contributions to the actual percentage change)*

*Internal Demand and GDP (Contributions to the actual percentage change)*

	2014	2015	2016	2017
		I.R. Dic. 15	I.R. Dic. 15	I.R. Dic. 15
I. Domestic demand	2.2	2.5	3.1	3.8
Domestic demand without inventories	3.0	1.2	3.4	3.9
1. Private spending	1.2	2.2	1.9	3.0
Consumption	2.5	2.1	2.2	2.3
Fixed private investment	-0.5	-1.2	0.0	0.8
Variation of existences	-0.8	1.3	-0.3	-0.1
2. Public spending	0.9	0.3	1.2	0.8
Consumption	0.9	0.9	0.7	0.5
Investment	0.0	-0.6	0.5	0.3
II. Net External Demand				
1. Exports	-0.1	0.5	1.3	2.0
2. Imports	-0.6	0.2	0.3	1.0
III. GDP	2.8	2.9	4.0	4.8

Taken from "Statistics" by Central Reserve Bank of Peru, 2018. Lima, Peru. Retrieved from <https://estadisticas.bcrp.gob.pe/estadisticas/series/anales>

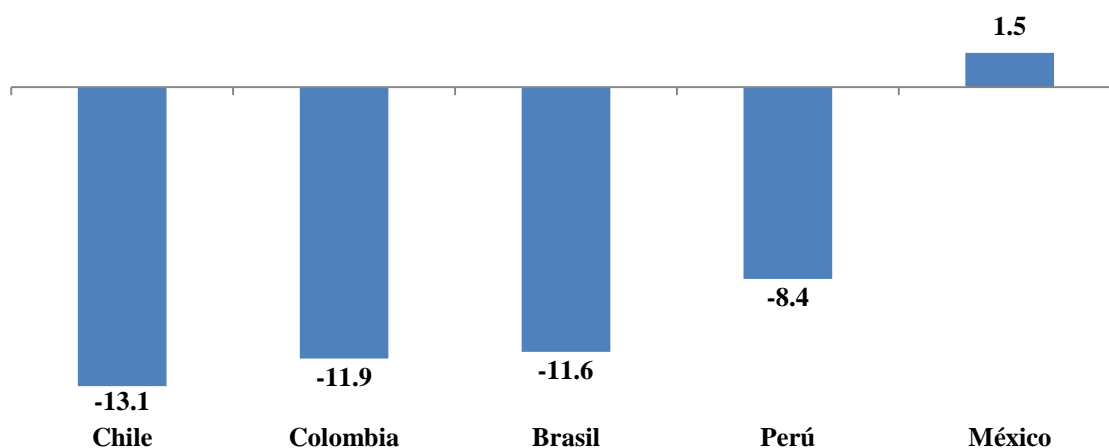


Figure 8. Non-Traditional Exports: Jan-Oct 2015 (Var. %)

Taken from “Statistics” by Central Reserve Bank of Peru, 2018. Lima, Peru. Retrieved from <https://estadisticas.bcrp.gob.pe/estadisticas/series/anauales>

On the other hand, there has been a gradual improvement in the terms of trade towards 2017 (Central Reserve Bank of Peru, 2018) (see Table 10 and Figure 9).

Table 10

Terms of Exchange: 2001-2017

	2010	2011	2012	2013	2014	2015*	2016*	2017*
Terms of exchange	184.1	197.5	193.4	182.3	172.4	162.4	156	158.6
Export price	314.4	382.2	373.7	352.5	328.3	280.3	262.4	271.8
Import price	170.8	193.5	193.2	193.3	190.4	172.6	168.2	171.3

Taken from “Statistics” by Central Reserve Bank of Peru, 2018. Lima, Perú. Retrieved from <https://estadisticas.bcrp.gob.pe/estadisticas/series/anauales>

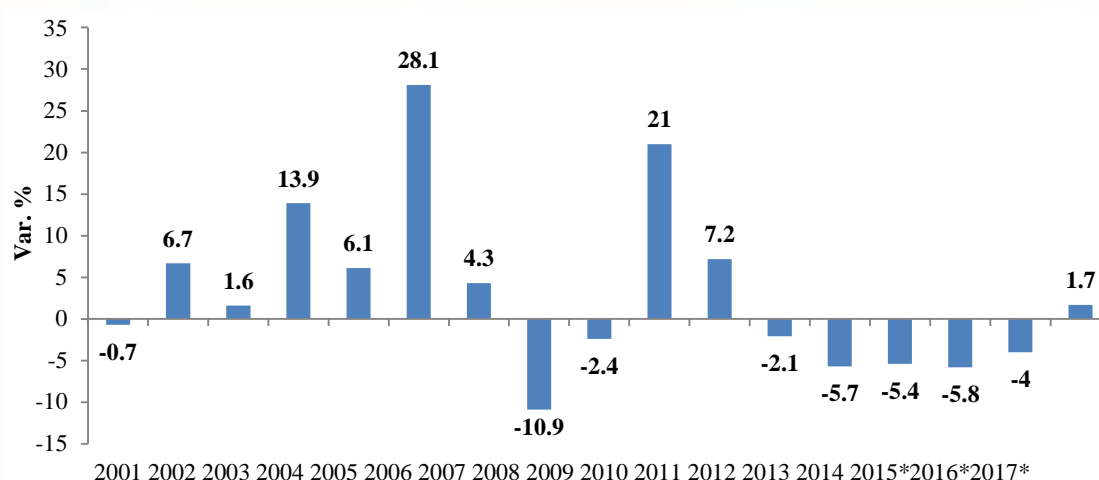


Figure 9. Terms of Exchange: 2001-2017 (Percentage Variations)

Taken from “Statistics” by Central Reserve Bank of Peru, 2018. Lima, Peru.

**Technological / Scientific Factor.** At the moment there has not been a policy of scientific development in Peru, the resources for research and development in this field have been quite limited, historically technology has been imported from other countries and also never have been oriented activities for the development of technology by the State. Only in the year 2000, attempts to increase funds for research and development began through the National Council of Science, Technology and Technological Innovation, an entity that seeks to promote the development and creation of technology.

On the other hand, according to National Institute of Statistics and Informatics (2018), in 2014 only 40.2% of the population over 6 years of age had access to the Internet, mainly in urban areas (49.1%), the coast (51.8%), and Metropolitan Lima (60.0%). Which indicates that there is a gap in the technological advance that Peru must prioritize (see Table 11).

According to the World Economic Forum (2018) in its 2015-2016 global competitiveness report, Peru fell to 88th out of 140 countries in the ninth pillar Technological readiness (see Table 12); however, its location varies between positions 33 and 106 with respect to the variables involved in determining this result. This pillar measures the level of agility with which the economies of the countries adopt the existing technologies to increase the productivity of their industries. Peru is ranked 84th when talking about the capacity for adoption of new technologies and ranked 77th when it comes to absorbing technology at the level of organizations. In this second variable is information relevant to the development of the electronic commerce sector.

Peru is lagging behind in this issue in comparison with other countries in the region such as Chile, Uruguay, Brazil, Colombia, Mexico, Argentina, who hold positions 39, 40, 54, 70, 73, and 69 respectively, and we only surpass to Venezuela (101), Paraguay (109) and Bolivia (110) (see Table 13) (World Economic Forum, 2018).



Table 11

*Population of 6 years and over that makes use of the internet: 2007-2014*

<b>Geographical scope</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Total	31.1	31.6	33.9	34.8	36.0	38.2	39.2	40.2
Lima Metropolitana	45.8	46.0	50.3	50.4	53.0	57.0	58.3	60.0
Rest of the country	24.6	25.2	26.5	27.7	28.3	29.6	30.4	31.0
Area of residence								
Urban	40.1	40.2	42.8	43.5	44.9	47.3	48.3	49.1
Rural	7.4	8.5	9.2	9.9	10.0	10.4	10.9	11.5
Natural region								
Coast	39.7	39.6	42.7	43.3	45.5	48.8	50.1	51.8
Highlands	22.4	23.5	24.6	25.9	26.6	27.1	27.8	27.6
Jungle	17.4	19.3	20.2	21.5	20.2	21.1	21.5	22.2
Department								
Amazonas	13.8	15.3	16.9	16.4	15.8	18.2	16.8	16.6
Ancash	25.7	25.0	27.5	30.0	32.1	33.1	33.7	33.7
Apurimac	18.3	19.2	18.5	18.6	20.4	22.4	20.6	19.1
Arequipa	38.8	41.5	41.5	43.7	42.8	45.0	44.9	46.0
Ayacucho	18.9	19.1	20.9	21.7	23.3	23.9	24.1	23.9
Cajamarca	14.3	16.7	17.9	20.5	18.3	17.6	16.8	15.3
Callao	40.5	42.7	48.9	47.3	46.6	52.7	55.1	57.1
Cusco	27.1	25.2	27.7	28.3	29.6	31.8	34.7	31.9
Huancavelica	12.1	16.5	15.3	16.9	18.1	17.1	16.6	14.0
Huanuco	16.9	18.9	17.3	18.7	18.8	19.9	20.7	20.2
Ica	33.9	34.0	37.1	33.7	37.0	41.0	43.9	44.9
Junin	31.0	31.3	36.6	36.4	37.0	34.7	36.1	36.5
La Libertad	30.2	29.2	27.6	31.5	33.3	36.8	37.8	38.8
Lambayeque	27.0	27.3	28.9	28.8	28.3	29.0	30.8	34.1
Lima	44.7	44.6	48.7	49.0	51.9	55.6	56.9	58.5
Loreto	12.1	14.4	16.6	17.4	15.8	17.6	17.4	19.6
Madre de Dios	20.5	20.4	24.6	26.1	26.8	32.1	35.5	36.0
Moquegua	33.6	34.3	38.8	40.6	40.6	44.3	42.2	46.0
Pasco	29.5	27.8	30.1	32.2	29.5	29.4	23.8	27.4
Piura	21.3	21.6	21.9	22.3	26.0	26.3	28.7	30.9
Puno	22.9	23.6	24.3	25.9	26.9	28.0	28.0	30.1
San Martín	18.4	22.4	20.4	22.6	22.1	22.8	23.6	22.9
Tacna	39.8	43.7	45.1	46.5	45.3	46.6	47.2	46.0
Tumbes	29.5	25.9	27.3	29.6	30.4	35.9	38.2	41.9
Ucayali	25.1	25.8	26.6	26.4	26.0	25.0	26.4	28.0
Lima y Callao	44.3	44.4	48.7	48.9	51.4	55.3	56.8	58.4
Lima Provinces	29.6	28.4	33.0	32.9	34.7	37.6	39.8	40.5

Taken from "Population and Housing Statistics" by National Institute of Statistics and Informatics, 2018. Lima, Peru. Retrieved from <https://www.inei.gob.pe/estadisticas/indice-tematico/poblacion-y-vivienda>

Table 12

*Classification and Scoring of Peru in the Components of Technological Readiness*

	<b>Classification (of 140)</b>	<b>Score</b>
Ninth Pillar: technological preparation (1-7)	88	3.4
Ability to adopt new technologies (1-7)	84	4.5
Absorption of technology at the organizational level (1-7)	77	4.5
FDI and technology transfer (1-7)	33	4.9
Internet users (% of the population)	88	40.2
Suscriptions to broadband internet / 100 inhabitants	80	5.7
Internet bandwidth, kb/s per user	66	36.4
Mobile broadband active suscriptions / 100 inhabitants	106	13.7

Taken from “Classification and Scoring of Peru in the Components of the Ninth Pillar: Technological Readiness” by The global competitiveness report 2014 – 2015 by The World Economic Forum, 2018. Davos, Switzerland. Retrieved from <http://www3.weforum.org/docs/GCR2018/05FullReport/TheGlobalCompetitivenessReport2018.pdf>

Table 13 *The Global Competitiveness (GC) Report: Technological Readiness and Innovation**The Global Competitiveness (GC) Report: Technological Readiness and Innovation*

<b>Country</b>	<b>Technological Preparation</b>		<b>Innovation</b>	
	<b>Classification</b>	<b>Score</b>	<b>Classification</b>	<b>Score</b>
Argentina	69	3.86	93	3.11
Brazil	54	4.39	84	3.16
Bolivia	110	2.89	114	2.89
Chile	39	4.85	50	3.47
Costa Rica	49	4.59	39	3.68
Colombia	70	3.82	76	3.24
El Salvador	81	3.55	99	3.06
Guatemala	90	3.36	91	3.13
Guyana	104	3.08	71	3.27
Haiti	136	2.34	138	2.28
Honduras	97	3.24	55	3.41
Mexico	73	4.24	59	3.38
Nicaragua	116	2.81	137	2.42
Panama	52	4.91	45	3.59
Paraguay	109	2.97	134	2.46
Peru	88	4.53	116	2.78
Uruguay	40	4.81	80	3.21
Venezuela	101	3.14	136	2.43

Taken from “The Global Competitiveness Report: Technological Readiness and Innovation” by The Global Competitiveness Report 2014–2015 by World Economic Forum, 2018. Davos, Switzerland. Retrieved from <http://www3.weforum.org/docs/GCR2018/05FullReport/TheGlobalCompetitivenessReport2018.pdf>

Likewise, there is a low level of investment and commitment in the areas of Research and Development. In this category, Peru ranks 116th in Innovation (the twelfth pillar of the Report) (see Table 14), 117th place in the scientific quality of research institutions, 115<sup>th</sup> place in Expenditures of companies in Research and Development (R & D). Position 108 in participation of the universities in Research and Development, position 123 in Notices of acquisition of products of advanced technology, and in position 117 with respect to the availability of scientists and engineers (World Economic Forum, 2018).

Table 14

*Classification and Scoring of Peru in the Components of Innovation*

	Classification (of 140)	Score
Twelfth Pillar: innovation (1-7)	116	2.8
Ability to innovate (1-7)	105	3.6
Scientific quality of research institutions (1-7)	117	2.9
Expenses of companies in R&D (1-7)	115	2.7
Participation of universities in R&D (1-7)	108	3.1
Notices of acquisition of advanced technology products (1-7)	123	2.7
Availability of scientists and engineers (1-7)	117	3.2
PCT patents, applications / million inhabitants	84	0.3

Taken from “Classification and Scoring of Peru in the Components of the Twelfth Pillar: Innovation” by The global competitiveness report 2014–2015 by World Economic Forum, 2018. Davos, Switzerland. Retrieved from <http://www3.weforum.org/docs/GCR2018/05FullReport/TheGlobalCompetitivenessReport2018.pdf>

***Historical, Psychological and Sociological Factor.*** Peru has a great history, a broad culture and tradition that have been developed as a result of the combinations of the different Pre-Inca, Inca and Spanish cultures. Historically, the Inca Empire dazzled the world, as they dominated various areas of science and had a broad development in goldsmithing, metallurgy and agriculture. For a long period, Peru has gone through several stages such as the Spanish conquest, national independence, wars with neighboring countries, and other events that make it be considered as a country with intense cultural, heritage and social wealth.

According to the World Economic Forum (2018), Peru is characterized by a high level of inequality, generated by an informal economy, 70% of the EAP remains informal (RPP News, 2015). In addition, there is a pronounced decline in the proportion of the population living below the official line of extreme poverty, from 15.8% to 4.3% between 2005 and 2014. Extreme poverty is highly rural and is concentrated in 8% of the districts of Peru, located in the regions of Cajamarca, Piura, La Libertad and Apurímac. Nevertheless, although it remains high the income inequality in Peru, the measured by the Gini coefficient has declined from 0.49 in 2004 to 0.44 in 2014. In rural areas fell only 3 basis points between 2004 and 2013, from 0.44 to 0.41, urban inequality fell by 5 basis points, from 0.45 to 0.40 (World Bank, 2017).

Peru, in order to seek social equity development, institutionalized social inclusion as a State policy and the Ministry of Development and Social Inclusion (MIDIS) was created in 2011. As regards the sociological aspect, Peru has been influenced by the contributions and forms of classic and contemporary world and Latin American thought. Although, Peru is influenced by the United States and Europe, in several areas of the country the inhabitants keep their ideology, customs, culture and psychology intact.

***Organizational, Administrative and Governance Factor.*** Peru is a democratic, independent and sovereign social republic. The Peruvian State is one and indivisible and is constituted according to the principle of the distribution of powers: (a) Legislative Power, with a unicameral congress with 130 members (La Republica, 2016), (b) Executive Power (consists of the President and two Vice presidents), and the (c) Judicial Power.

However, the Peruvian State has constituted autonomous bodies that do not depend on any of the three powers, with the objective of optimizing the effectiveness of their functions. Some of these bodies are: Public Ministry, National Council of the Magistracy, Ombudsman, Constitutional Court, National Elections Board, Central Reserve Bank, National Office of

Electoral Processes, Superintendency of Banking, Insurance and AFP. In addition, there are regional and local governments, which are elected by popular will for the administration of each of the regions, departments and cities. At a political level, Peru is divided into 24 departments and a constitutional province. Also, the departments are divided into 195 provinces, and these in 1,834 districts.

***Military factor.*** According to article 165° of the Political Constitution of Peru (1993), the armed forces are constituted by the Army, the Navy and the Air Force. Their main purpose is to guarantee the independence, sovereignty, territorial integrity of the republic and national security, which is defined in economic terms as an intangible public good, necessary to guarantee the independence, sovereignty and territorial integrity of the State.

Likewise, the President of the Republic presides over the National Defense System, which is composed of the following members: (a) the President of the Republic, (b) the President of the Council of Ministers, (c) the Ministers of Foreign Affairs, of the Interior, Defense, and Economy and Finance; (d) the president of the Joint Command of the Armed Forces, (e) the Chief of the National Intelligence Service; and (f) the Chief of Secretary of National Defense. The National Congress exercises faculties on issues related to defense through commissions such as: Internal Order, Intelligence, Alternative Development and Fight against Drugs. The Ministry of Defense formulates, executes, and supervises the national defense policy in the military field and designs, plans and coordinates in non-military fields.

The primary purpose of the Armed Forces is to guarantee: (a) independence, it is understood as the protection of any attempt to impose a will alien to Peru; (b) sovereignty, which guarantees that the decisions of the Peruvian State govern internally with supremacy; and (c) integrity, which is the reference to the intangibility of the territory, can not be occupied by any foreign power or affected by forces of any nature or magnitude.

### 3.13. Cardinal Principles

The four cardinal principles make it possible to recognize the opportunities and threats for a country in its environment. These principles are: (a) the influence of third parties, (b) the past and present ties, (c) the counterbalance of interests, and (d) the conservation of enemies (Hartmann, 1983).

*The influence of third parties.* The Peruvian strategy of sustainable development is based on a type of open and competitive economy in its exportable supply. This strategy has yielded positive results, because it has allowed the consolidation of foreign trade in goods and services as an instrument of economic development and poverty reduction. International trade negotiations and free trade agreements have gradually reduced the external vulnerability that the Peruvian economy showed in times of crisis. In recent years, Peru has negotiated free trade agreements with most of its trading partners (Central Reserve Bank of Peru, 2018).

The Free Trade Agreements (FTA) signed between Peru and the USA , the European Union, Korea and Canada are the most important. Thus, one of the advantages of the signatures of the FTA is that they simplify and improve the commercial terms bilaterally, which generates greater dependence. However, one of the disadvantages of these treaties, and indirectly, is that they intervene in countries and industries with particular interests. Due to the influence of the USA in world trade, the agreement of the European Free Trade Association (EFTA) was signed, which became operational on February 1, 2009. China also signed a FTA with Peru, which came into force in 2010. In 2015 between January and December, the first destination of our exports was China with 21.9%, followed by the United States with 14.8%, Switzerland with 8.1% and Canada with 7% (see Table 15) (Ministry of Foreign Trade and Tourism, 2015).

Table 15

*FOB Exports From Peru by destination country 2015*

<b>Destination country / Exporter</b>	<b>Total</b>	<b>%</b>
China	6,552,052.8	21.9%
USA	4,427,941.1	14.8%
Switzerland	2,434,828.8	8.1%
Canada	2,080,326.2	7.0%
Spain	997,965.0	3.3%
Brazil	997,359.3	3.3%
Japan	995,955.5	3.3%
Chile	961,237.8	3.2%
South-Korea	934,247.4	3.1%
Germany	841,256.2	2.8%
Colombia	806,675.6	2.7%
Netherlands	789,076.9	2.6%
Ecuador	651,928.5	2.2%
Other countries	6,442,537.6	21.5%
<b>Total</b>	<b>29,913,388.7</b>	<b>100.0%</b>

Taken from “FOB Exports From Peru by destination country, 2015” by Foreign Trade Statistics – Sunat, 2018. Lima, Peru. Retrieved from [http://www.sunat.gob.pe/estadomExt/modelo\\_web/Bol2015.htm](http://www.sunat.gob.pe/estadomExt/modelo_web/Bol2015.htm)

In the same sense of strengthening trade relations, Peru signed the Treaty of the Pacific Alliance in 2011, meaning the association with the countries of Mexico, Chile, and Colombia, because they four shared common interests. And finally, on October 5, 2015, the Transpacific Economic Cooperation Agreement (TPP) was signed, which involves a total of 12 countries: Brunei, Chile, New Zealand, Singapore, Australia, Canada, Japan, Malaysia, Mexico, United States, Vietnam and Peru. The pending work is to maximize the use of these agreements (see Table 16) (Pacific Alliance, 2018).

Also, in Table 1, presented in chapter 1, it is shown that in 2018 the majority of textile exports from Peru were directed to the United States (USA \$ 50 million), and the rest of destinations that include Brazil, Chile, China, Germany, Argentine, and United Kingdom was around 29 million US\$. Within this group the greatest variation was in Brazil (500%)

(Central Reserve Bank of Peru, 2018). With respect to direct foreign investment in Peru as a contribution to capital, higher contributions were received from Spain (18.5%), the United Kingdom (17.9%) and the United States. (13.2%) in 2015 (see Table 17).

Table 16

*Free Trade Agreements of Peru*

<b>Validity (22)</b>	<b>To enter into validity (1)</b>	<b>In negotiation (4)</b>
World Trade Organization	Guatemala	Honduras
Andean Community of Nations		El Salvador
Souther Common Market		Turkey
Cuba		
Asia-Pacific Economic Cooperation Forum (APEC)		
Chile		
Mexico		
USA		
Canada		
Singapore		
China		
States of the European Free Trade Association		
South-Korea		
Thailand		
Japan		
Panama		
European Union		
Costa Rica		
Venezuela		
Pacific Alliance		
Transpacific Association Agreement (TPP)		

Note: Adapted from Trade Agreement of Peru. Retrieved from [www.acuerdoscomerciales.gob.pe](http://www.acuerdoscomerciales.gob.pe)

**Past and present ties.** In the past, Peru has had territorial problems with some countries as is the case of the maritime boundaries problem with Chile and thus also with Ecuador. These have in some way constituted a barrier of social and commercial integration between countries. Also, there is a disjunctive regarding the origin of certain products, which in many cases remain culturally opposed. The relations between the inhabitants of the countries are influenced by these positions, in addition to the treatment that originates from the past conflicts and that are a barrier in the long term. On the other hand, the integration between Peru and Brazil has been strengthened due to the construction of the Interoceanic



Roads, which allow having lower costs in logistics to the Pacific oceans (in the case of Brazil) and Atlantic (in the case of Peru). This approach between both countries can be exploited by Peru through the learning and adaptation of the technology of the main coffee country of the world (Triveño, 2017).

Table 17

*Balance of Foreign Direct Investment in Peru as a contribution to capital*

Country	2012	Weight %	2013	Weight %	2014	Weight %	2015 <sup>2/</sup>	Weight %
Spain	4,441.5	19.6	4,346.8	18.2	4,463.2	18.5	4,486.1	18.5
England	4,314.9	19.0	4,314.9	18.1	4,336.0	17.9	4,336.0	17.9
USA	3,216.1	14.2	3,237.8	13.6	3,193.8	13.2	3,193.8	13.2
Chile	1,407.7	6.2	2,197.7	9.2	2,223.8	9.2	2,226.3	9.2
Netherlands	1,532.8	6.8	1,532.8	6.4	1,532.8	6.3	1,532.8	6.3
Brazil	1,147.0	5.1	1,164.6	4.9	1,188.9	4.9	1,188.9	4.9
Colombia	1,054.2	4.6	1,079.1	4.5	1,079.1	4.5	1,124.1	4.6
Canada	1,074.1	4.7	1,074.1	4.5	1,070.3	4.4	1,070.3	4.4
Panama	936.9	4.1	939.7	3.9	947.9	3.9	947.9	3.9
Luxemburgo	272.4	1.2	541.0	2.3	543.3	2.2	543.3	2.2
Suiza	455.0	2.0	469.7	2.0	487.8	2.0	487.8	2.0
Mexico	476.8	2.1	457.0	1.9	476.7	2.0	476.7	2.0
Singapore	365.5	1.6	365.5	1.5	365.5	1.5	365.5	1.5
Bermuda	76.8	0.3	210.8	0.9	293.1	1.2	293.1	1.2
Japan	238.4	1.1	238.4	1.0	238.4	1.0	238.4	1.0
France	220.5	1.0	220.5	0.9	220.5	0.9	220.5	0.9
China	208.1	0.9	208.1	0.9	208.1	0.9	208.1	0.9
Germany	191.5	0.8	191.5	0.8	191.5	0.8	191.5	0.8
Bahamas	183.1	0.8	183.1	0.8	183.1	0.8	183.1	0.8
Ecuador	145.4	0.6	157.2	0.7	160.8	0.7	160.8	0.7
Uruguay	160.2	0.7	160.2	0.7	160.2	0.7	160.2	0.7
Italy	119.5	0.5	119.5	0.5	127.0	0.5	127.0	0.5
Cayman Islands	81.1	0.4	96.1	0.4	96.1	0.4	96.1	0.4
Belgium	84.9	0.4	84.9	0.4	84.9	0.4	84.9	0.4
Sweden	66.6	0.3	66.6	0.3	66.6	0.3	66.6	0.3
South-Korea	44.1	0.2	44.1	0.2	44.1	0.2	44.1	0.2
Argentina	38.8	0.2	38.8	0.2	39.7	0.2	39.7	0.2
Portugal	38.6	0.2	38.6	0.2	38.6	0.2	38.6	0.2
United Kingdom	24.6	0.1	24.6	0.1	24.6	0.1	24.6	0.1
Liechtenstein	19.3	0.1	19.3	0.1	19.3	0.1	19.3	0.1
Denmark	10.1	0.0	10.1	0.0	10.1	0.0	10.1	0.0
Venezuela	8.0	0.0	8.0	0.0	8.0	0.0	8.0	0.0
Australia	6.9	0.0	7.4	0.0	7.6	0.0	7.6	0.0
New Zeland	6.8	0.0	6.8	0.0	6.8	0.0	6.8	0.0
Austria	5.9	0.0	5.9	0.0	5.9	0.0	5.9	0.0
Malta	-	-	-	-	4.8	0.0	4.8	0.0
Bolivia	4.8	0.0	4.8	0.0	4.8	0.0	4.8	0.0
Honduras	2.9	0.0	2.9	0.0	2.9	0.0	2.9	0.0
Others	6.7	0.0	6.7	0.0	6.7	0.0	6.7	0.0
Total	22,688.4	100.0	23,875.6	100.0	24,163.1	100.0	24,233.5	100.0

Taken from “Balance of Foreign Direct Investment in Peru as a contribution to capital, by country of domicile” by Investor Services Department – Proinversion, 2017. Lima, Peru. Retrieved from <https://www.investinperu.pe/modulos/JER/PlantillaStandard.aspx?are=1&prf=0&jer=6037&sec=38>

In addition, Peru is part of the Andean Community, along with Bolivia, Colombia and Ecuador, countries that have cultural and historical similarities that date back to the Inca period, due to the geographical extension of the Tahuantinsuyo. Currently, this block has lost strength due to differences in its trade policies, taking a free trade and boost investment for the case of Peru and Colombia, while Bolivia and Ecuador opt for more protectionist measures. Although in these times its permanence in the economic block is questioned (El Comercio, 2015).

However, the most important economic block in which Peru is located in the Pacific Alliance created in 2011 in Lima, where standards were established that allowed improving the relationship between the four countries that currently make up the group: Mexico, Colombia, Peru, and Chile. The main objective of the group is to create the necessary conditions to promote economic growth and facilitate the transfer of goods, services, and people through measures such as the reduction of tariff barriers (Pacific Alliance, 2018).

***The counterbalance of interests.*** In spite of the border problems and other conflicting interests, there are some countries that are accelerating the development of their competitive advantages. Peru clearly has comparative advantages in terms of its natural resources, which allows it to differentiate itself and make it viable to obtain competitive advantages over other countries. In addition, it has primary industries that are based on the extraction and commercialization of its natural resources (Central Reserve Bank of Peru, 2018). So, the countries that acquire these resources and transform them to achieve products with greater added value and better commercial margins are consolidated with competitive advantages that, at the same time, allow a sustained development for the country.

The economic and infrastructure integration is what will lead to the development of the region in the future, an example of this is the Pacific Alliance, made up of Mexico, Colombia, Peru and Chile, which seeks the integration of the four markets into one only

promoting the free movement of goods, services, and people. In this way, interests must be balanced and forces joined with neighboring countries to obtain better results when negotiating agreements with other countries to increase trade, face future crises, develop financial markets, and others that promote the development of this part of the region. Another international conflict that was maintained until 2014 with Chile, which was resolved by the International Court of Justice in The Hague, on the ownership of maritime territory over which it is opposed to the interest of Bolivia due to its ambitions to obtain maritime sovereignty by exercising pressure on the Region to achieve its objective (Peru 21, 2014).

*Conservation of enemies.* A prudent State does not accumulate more enemies than it can handle, you have to have enemies and it is preferable to win them than lose them, not having enemies is close to the concept of monopoly. Chile is the main rival that Peru historically had. However, Chile maintains a better competitive position than Peru in factors such as Economic Performance, Government Efficiency, Efficiency in business and infrastructure (see Table 18) (International Institute for Management Development, 2018).

Table 18

*International Institute for Management Development (IMD) World Competitiveness 2018: Factors*

Factor	Sub-Factor	Chile	Peru
Economic efficiency	Domestic economy	53	44
	International trade	59	51
	International investment	12	44
	Employment	36	26
	Prices	15	37
Government efficiency	Public Finances	16	21
	Fiscal Policies	34	34
	Institutional Framework	16	48
	Business Legislations	20	46
	Social Framework	43	58
Business efficiency	Productivity and Efficiency	47	58
	Labor Market	24	49
	Finances	28	50
	Management Methods	33	56
	Attitudes and Values	27	50
Infrastructure	Basic Infrastructure	33	60
	Technological Infrastructure	38	61
	Scientific Infrastructure	50	61
	Health and Environment	37	51
	Education	51	58

*Note:* Taken from “World Competitiveness” by International Institute for Management Development, 2018. Davos, Switzerland.

It can be said that the neighbor countries of Peru with which they are limited, are in some way enemies, because of the competition that exists for foreign investments, but at the same time, they are allies for reciprocal investments and for commercial exchange. The way to make this region more competitive, through clear objectives and with a more attractive climate for foreign investments, is for countries to become strategic partners, having a clear understanding that union between countries is more productive, and this way cope with the demands of the world (Central Reserve Bank of Peru, 2018).

In addition, the growing development of the economies of the countries with which Peru maintains a free trade agreement. This will undoubtedly bring a boost in the growth of exports and national production. In addition, the growing demand will be motivated by the constant demands of the markets which in turn will bring an impulse in terms of the development of innovation and technology to be able to cope with the demands of the market, and in this way can benefit from the influences of neighboring countries with greater competitive advantage (Central Reserve Bank of Peru, 2018).

### **3.14. Influence of the analysis in Textile S.A.**

In the recent years Peru has faced a clear economic growth in which a clear stability was generated, and it was possible to create a favorable environment for Peru, which allowed the levels of foreign investment to grow. However, there was no clear transmission of growth towards the progress of society, since it is evident that there are many points to improve based on the strengths such as the favorable geographical location and the possibilities to grow by diversification.

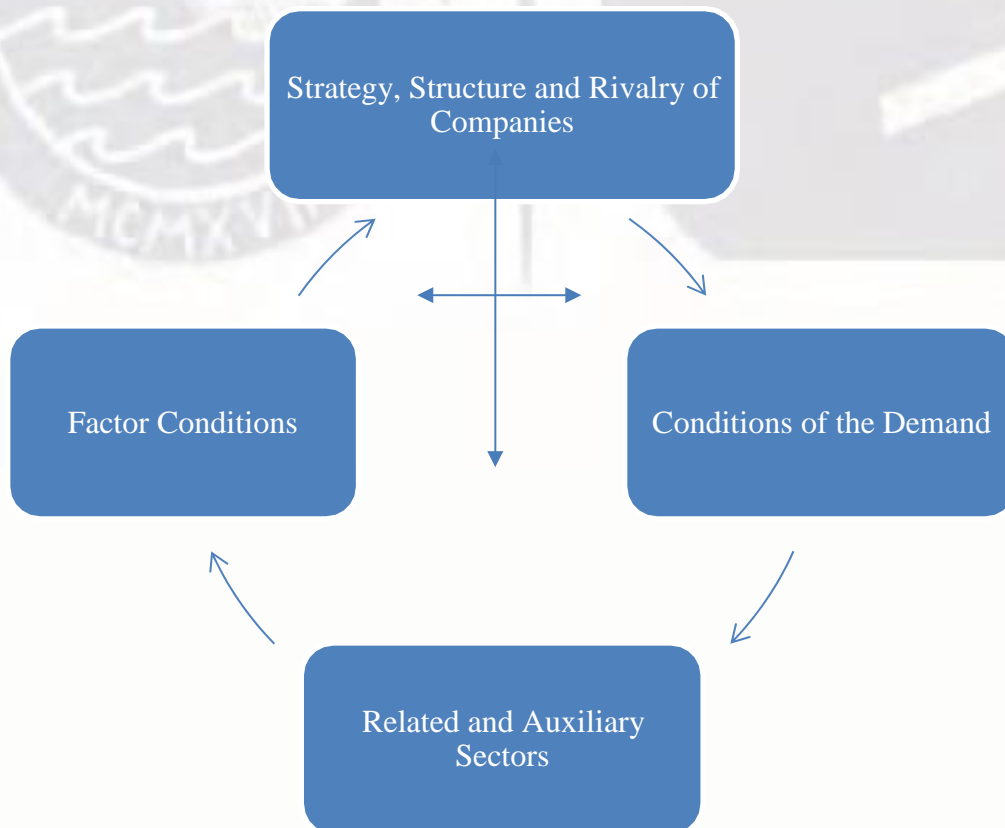
It can be concluded that there are high possibilities for growth and development if the potential factors can be better exploited and the most appropriate strategies are established to continue promoting productive diversity and promote the development of the regions that in

the long term would contribute to the whole country and transfer the improvements into different industries such as textiles and confection.

In this sense, Textile should take advantage of existing relations with other countries and consider them as a great opportunity to further promote their exports. However, the external factors must always be considered in order to not be negatively affected in the future.

### 3.2. Competitive Country Analysis

The competitive country analysis is an important tool to assess the competitiveness of the Peruvian textile and confection industry with respect to the world and determine its strengths. For this Strategic Planning, the competitive analysis of the Peruvian textile and confection industry is developed considering the Diamond Model (see Figure 10) (Porter, 2009), which can be defined as the four aces of poker that can generate or create advantages to compete with others.



*Figure 10.* The determinants of national advantage: Competitiveness of nations - Diamond model. Taken from "Porter's Diamond Model" by M.E. Porter, 2009. Boston, USA.

Porter (2009) emphasized that the relevance of a country's competitiveness and its success are mainly due to the circumstances that support the development of the appropriate strategies of a particular industry. In this sense, the companies that achieve success are the ones that know how to identify those characteristics and obtain competitive advantages.

In the diamond model, four related parts are analyzed, which seek to determine the environment in which the companies compete against each other and identify those factors that allow the companies to develop their competitive advantages: (a) Factor conditions, which are the factors of production such as labor, plant and infrastructure, etc; (b) Demand conditions, which refers to domestic demand that directly affects the textile and confection industry; (c) Related and supporting industries, which are other industries that support the process of innovation and internationalization of the textile and confection industry ; (d) Firm strategy, structure and rivalry, which include all the circumstances that allow companies to create, organize and manage its resources (Porter, 2009).

Regarding to the competitiveness level, Peru is located at a very low position in relation to its Latin American countries peers. According to the International Institute for Management Development World Competitiveness Index (2018), which evaluates 63 countries, Peru is in 54th place, although it has risen one position with respect to last year. At a regional level, Chile holds the best place, in the 35th position; then it is followed by Mexico, which is ranked 51st, and then Peru, in the 54th position (see Table 19).

The evaluation of the competitiveness indicator is based on four factors: (a) Economic Performance, (b) Government Efficiency, (c) Business Efficiency, and (d) Infrastructure. In the case of Peru, there is a strong backwardness in terms of infrastructure, education, institutional framework, domestic economy and international trade, which generates concern, but also an opportunity to develop more appropriate strategies to take advantage of the international Free Trade Agreements and improve the relations with other countries that

benefit textile and confection companies (see Table 20) (International Institute for Management Development, 2018).

Table 19

*International Institute for Management Development (IMD) World Competitiveness 2018 Ranking*

N°	Country	N°	Country
1	USA	33	Portugal
2	Hong Kong	34	Poland
3	Singapore	35	Chile
4	Netherlands	36	Spain
5	Switzerland	37	Slovenia
6	Denmark	38	Kzaakhstan
7	UAE	39	Saudi Arabia
8	Norway	40	Latvia
9	Sweden	41	Cyprus
10	Canada	42	Italy
11	Luxemburg	43	Indonesia
12	Ireland	44	India
13	China Mainland	45	Russia
14	Qatar	46	Turkey
15	Germany	47	Hungary
16	Finland	48	Bulgaria
17	Taiwan	49	Romania
18	Austria	50	Philippines
19	Australia	51	Mexico
20	United Kingdom	52	Jordan
21	Israel	53	South Africa
22	Malaysia	(55) 54	Peru
23	New Zealand	55	Slovak Republic
24	Iceland	56	Argentina
25	Japan	57	Greece
26	Belgium	58	Colombia
27	Korea Rep.	59	Ukraine
28	France	60	Brazil
29	Czech Republic	61	Croatia
30	Thailand	62	Mongolia
31	Estonia	63	Venezuela
32	Lithuania		

Note: Taken from "General Results of World Competitiveness" by International Institute for Management Development, 2018. London, UK.

Table 20

*Factor of Competitive Index of Peru 2018*

<b>Factor</b>	<b>Sub-Factor</b>	<b>Peru</b>
Economic Performance	Domestic Economy	44
	International Trade	51
	International Investment	44
	Employment	26
	Prices	37
Government Efficiency	Finance Public	21
	Tax Policy	34
	Institutional Framework	48
	Business Legislation	46
	Societal Framework	58
Business Efficiency	Productivity & Efficiency	58
	Labor Market	49
	Finance	50
	Managemetn Practices	56
	Attitudes and Values	50
Infrastructure	Basic Infraestructure	60
	Technological Infraestructure	61
	Scientific Infraestructure	61
	Health and Environment	51
	Education	58

Taken from “World Competitiveness” by Institute for Management Development, 2018. Lausanne, Switzerland.

### 3.2.1 Factors conditions

The analysis of the factor conditions is focused on the current state of the textile and confection industry in terms of production, taking into account human resources, the natural resources, knowledge and skills, and the capital and infrastructure it has. In addition, the skills, the knowledge set and, specialized technologies that determine the capacity to generate and assimilate innovations in an industry in a specific country are considered (Porter, 2009).

In that sense, the World Economic Forum (2018) conducted an analysis of 140 economies and obtained a Global Competitiveness Index that results from 12 different



economic variables grouped into three categories: (a) Basic requirements: institutions, infrastructure, macroeconomic stability, health and primary education, and higher education and training; (b) Efficiency: efficiency of markets for goods and services, efficiency of labor markets, sophistication of financial markets, technological preparation, and market size; and (c) Innovation: business sophistication and innovation.

In addition, in Peru there is the National Competitiveness Council (NCC), which is a commission of coordination created by Supreme Decree No. 024-2002-PCM and attached to the Ministry of Economy and Finance (MEF). The NCC aims to improve the country's competitiveness in the short, medium and long term (MEF, 2018). Moreover, it proposes a Competitive Agenda to promote the increase in the productivity of companies and achieve an efficient state at the service of citizens prioritizing goals for seven relevant aspects such as: (a) science, technology and innovation, (b) business development, quality and productive education, (c) internationalization, (d) infrastructure, (e) information and communications technology, (f) business facilitation, and (g) environment.

Peru is a privileged country given its natural resources and its geographical location that allows it to take advantage of the counter season of the countries located in the northern hemisphere. In addition, it has 7.6 million hectares with direct agricultural potential, but less than 3.6 million are used (National Institute of Statistics and Informatics, 2018).

On the other hand, Peru is in a good macroeconomic situation, which leads to increasing levels of development to have a sustainable growth through improvements in education, training, infrastructure, and technology. It is important to keep in mind that the innovation on the manufacturing industries leads the country to be more competitive (Porter, 2009).

It is important to take into consideration that the textile and confection industry has as a key raw material the cotton produced in Peru. In that sense, related statistics were included

in the analysis. The National Institute of Statistics and Informatics (2018) in its last agricultural census, confirmed that precariousness continues among the majority of producers. In addition, it is worth mentioning that Peru has 1.6 million more agricultural hectares, half a million more producers, and that the size of each producer's land has increased in comparison with what was indicated by the last census of 1994. Also, the area of irrigation and the variety of crops have improved, with which it was possible to export in 2012 the amount of US\$ 4,300 million.

Other results of the national census in 2012 were: (a) 42% of arable land is not worked, (b) 63% of land is watered only when there is rain, (c) 1% of producers use electricity in their activities, (d) 77.3% do not use any machinery, (e) 38% does not apply any credit, (f) almost 90% do not receive technical assistance, and (g) 92% do not access credit lines (National Institute of Statistics and Informatics, 2018).

Regarding human resources, according to National Institute of Statistics and Informatics (2018), there is low productivity and poor education and training, which it affects to 53% of the rural population and 16.6% of the urban population. Furthermore, it is worth noting the high level of informality that prevails in the textile and confection sector.

Finally, few additional problems in this industry were the limited access to modern technology and the lack of knowledge on this regard; the limited access to lines of credit that otherwise would allow them to develop and improve their productivity; and the deficient infrastructure that does not enable the innovation of the industry and the generation of added value.

### **3.2.2 Demand conditions**

The analysis of the demand conditions is focused on the internal market of the textile and confection industry, due to the importance of knowing the needs of the clients of each industry. The three main aspects that are taken into consideration are: (a) knowledge of the

client's nature and composition, (b) the size and growth of the domestic market, and (c) the internal preferences of a nation compared to foreign markets (D'Alessio, 2015).

The GDP grew by 4.0% and 2.5% for 2016 and 2017, respectively (see Table 21), driven by higher growth in exports, private investment recovery, and a greater demand as a result of the reactivation in the domestic economy.

Table 21

*Internal Demand and GDP (Real percentage variations)*

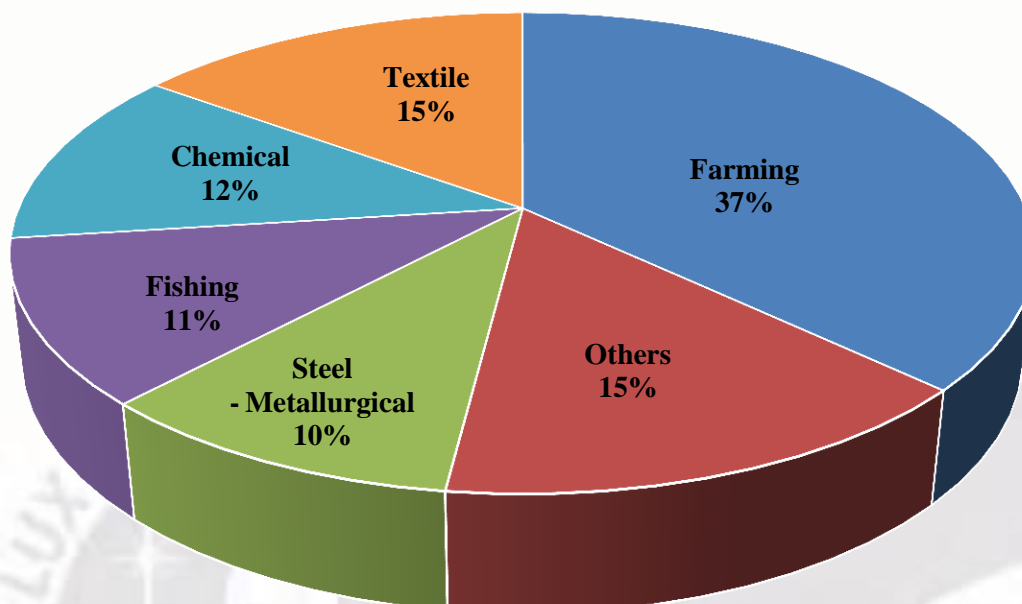
	2015	2016	2017	2018
<b><u>I. Domestic Demand</u></b>	<u>2.9</u>	<u>1.1</u>	<u>1.4</u>	<u>4.3</u>
1. Private Expense	4.0	3.3	2.5	3.8
Consumption	4.0	3.3	2.5	3.8
Fix Private Investment	-4.2	-5.4	0.2	4.4
Public Investment	-9.5	-0.2	-2.3	8.4
2. Public expense	9.8	0.3	0.5	2.0
<b><u>II. Net External Demand</u></b>				
1. Exports	3.9	9.4	7.8	2.5
2. Imports	2.4	-2.2	4.1	3.4
<b><u>III. GDP</u></b>	<u>3.3</u>	<u>4.0</u>	<u>2.5</u>	<u>4.0</u>

Taken from "Statistics" Inflation Report by Central Reserve Bank of Peru, 2018. Lima, Perú.  
Retrieved from <https://estadisticas.bcrp.gob.pe/estadisticas/series/buscador>

In 2018, Peru had a GDP growth of 4.0% and the domestic demand increased by 4.3% more than the previous year and is explained by a moderate growth of public expense (2.0%) and private spending (3.8%), while exports and imports increased by 2.5% and 3.4% with respect to the previous year, respectively (Central Reserve Bank of Peru, 2018).

Regarding the demand conditions of non-traditional exports, the group to which the textile and confection industry belongs, they have been improving due to the high demand for the products because of the quality of the raw material and the confections (see Figure 11). The evolution of the greater demand of the textile and confection industry is determined by what the market demands. The development of the industry was to a greater extent determined by the advent of synthetic polymer fibers and new ranges of dyes in the 1950 and 1960. Then, in 1970, as a result of the oil crisis, companies started to save on water and

energy, and more efficient processes were introduced (National Superintendence of Tax Administration, 2015).



*Figure 11.* Structure of Non-Traditional Exports, 2014.

Taken from “Press Release N ° 039-2015 SUNAT exports” by National Superintendence of Tax Administration, 2015. Lima, Perú. Retrieved from [www.sunat.gob.pe/salaprensa/2015/febrero/NotaPrensa-N039-2015.doc](http://www.sunat.gob.pe/salaprensa/2015/febrero/NotaPrensa-N039-2015.doc)

### 3.2.3 Firm strategy, structure and rivalry

In this section the strategies, structure and rivalry of the companies are determined in relation to the way of companies of the textile and confection industry organize and manage their resources; and plan and implement their strategies to differentiate from the domestic rivalry. In addition, the regulations and cultural attitudes against innovation, profit and risk limit the firms’ creation, organization and management of the strategies and structure of the companies (Porter, 2009).

In the textile sector, the formulation of its strategies is oriented towards the long term objectives. The companies are seeking to continue growing and maintaining stable profitability, as well as to increase their client portfolio and product diversification while achieving a higher level of sales.

### **3.2.4 Related and supporting industries**

The related and supporting industries to the textile and confection industry are the ones that supply raw materials, human resources, and technology. In the case of raw materials are cotton industry, in the case of workforce are technical education industry, and for technology are machinery manufacturers and IT system providers.. These related and supporting industries promote competitiveness within the textile and confection industry through providing resources, technology, and qualified human resources to sustain innovation in productive chains (Porter, 2009).

Likewise, the textile and confection industry relates with a number of national institutes such as: (a) the Ministry of Foreign Trade and Tourism, (b) the Ministry of Production, (c) the Ministry of the Environment, and (d) the Ministry of Agriculture.

### **3.2.5 Influence of the analysis in Textile S.A.**

The previously mentioned conditions (i.e. natural resources and economic growth) promote greater competitiveness in the textile and confection industry, henceon Textile S.A. as well. Furthermore, the demand increase affects positively on the future sales of the textile and confection industry. Even though, Textile S.A. is more focused on the international market there is an opportunity to take advantage of the local demand. .

However, it is important to have a better control over the costs and, maintain high quality standards with specialized workforce, in order to be more efficient and increase the productivity.

## **3.3 PESTE Analysis**

PESTE Analysis is a simple and widely used tool that helps to analyze the Political, Economic, Socio-Cultural, Technological and Environmental changes in the business. This helps to understand the forces of change that textile and confection industry is exposed to,

and, from this, take advantage of the opportunities that present it and mitigate the threats of the business.

### **3.3.1 Political, governmental and legal forces**

D'Alessio (2015) indicated that these forces are what determine the rules, both formal and informal, under which textile and confection industry must operate, that is, government regulations and legal factors are assessed in terms of their ability to affect the business environment and trade markets, that include political stability, tax guidelines, trade regulations, safety regulations, and employment laws.

As we have indicated in the General Situation section of this document, the recovery trend of the textile and confections industry has been maintained in the first month of 2018, closing at a growth of 9.8%. However, the accumulation in the percentage variation between 2012 and 2017 is -36.3 in the textile and confection industry according to the Central Reserve Bank of Peru (2018). This is due to the fact that abroad the Peruvian textile and confection industry competes with great players who have subsidies, free zones, and a pro-exporting dollar. Therefore, what is required is to see the needs of the industry to be in a more even situation, and that the market decides. In that sense, it should strengthen the textile and confection industry, make it more competitive, identifying the aspects required to compete with countries that have lower production costs, improving the productivity level of the Peruvian worker, reduce production costs and guarantee the raw material.

In this current framework of the textile and confection industry, the Ministry of Production (2015) has sought to articulate markets and increase the productivity of companies in order to obtain a more diversified economy with greater economic growth. Among the policies that has been implemented by the ministry, at the textile and confection sector, are the reduction of the administrative burden of companies by simplifying

bureaucratic processes and procedures, as well as investment in technology and innovation, which is one of the main sources for the diversification of the export basket.

In that sense, nowadays the textile and confection industry has a regulation and specific benefits. Thus, regarding labor regulation, due to the importance in the absorption of direct labor in this industry, which has a fairly high percentage of informality, Decree Law No. 22342 was issued, which as of this date is still in force, and the same that establishes the labor regime for exports, with which the hiring of temporary workers is allowed. In order to access this benefit, companies must export at least 40% of their annual production actually sold. The objective of this decree was to increase non-traditional exports (especially of manufactured products) and promote greater opportunities for investment and work, in order to encourage the development of the textile industry and, in this way, generate a greater foreign currency income to the country.

It is necessary to emphasize that our labor legislation establishes, as a general rule, in the matter of contracting, the conclusion of contracts with an indeterminate term. Exceptionally, as part of the policy of competitiveness and flexibilization of labor relations derived from global globalization, under certain assumptions regulated by law, fixed-term contracts are established (Business News, 2008, December 7th). In this sense, based on the current regulation and given that the current international economic policy of our country, consisting of entering into trade agreements with the strongest economies in the world, companies in the textile and confection industry currently has the option of using a flexible labor regime, being able to hire workers from temporary way, which helps them to be able to have greater management of their labor costs, especially the costs related to the compensation for arbitrary dismissal, because they will be able to stop the labor link with his workers by the fixed term contracting.

Moreover, regarding tax regulation, companies in the textile and confection industry follow general obligations, not having an specific regulation for the industry. However, many textile and confection companies receive tax benefits reducing their tax obligations in order to encourage their growth. Nevertheless, many companies that are not considered small or medium-sized do not benefited by any of these tax benefits, having to pay the general regime, ie, income tax (29.5%), Gereneral sales tax (18%) ) with right to tax credit, and contributions to public social security (National Superintendence of Tax Administration, 2018).

Finally, regarding the political and trade regulations, the Peruvian government has signed several commercial treaties in the first decade of this century. This fact coincides with the economic growth that has been maintained in this period. Thus, between the Free Trade Agreements (FTA) signed by Peru with the different economies of the world, specifically the FTA Peru - United States, Canada, China, and the European Union (see Table 22).

Table 22

*International Free Trade Agreements of Peru: 2009 - 2013*

	<b>Validity</b>	<b>Benefits</b>
FTA Peru – United States of America	February 2009	Preferential access to new products such as yarns, fabrics, confections other than confections, among others.
FTA Peru – Canada	August 2009	100% of Peruvian exports enter Canada without paying tariffs.
FTA Peru – China	March 2010	61.2% of Peruvian products that are exported to the Chinese market enter without paying a tariff. 94.5% of products that Peru exports to China (they enter with some tariff benefit).
FTA Peru – European Union	February 2013	Peruvian exporters have 5,850 items of products that can be exported to the European Union without tariffs under the Generalized System of Preferences (GSP) Plus.

Note: Taken from adapted from [http://wapaperu.mpdl.org/index.php?option=com\\_content&view=article&id=207&Itemid](http://wapaperu.mpdl.org/index.php?option=com_content&view=article&id=207&Itemid)

Regarding this topic, it is important to specify the current conjuncture of the trade war between the United States and China, which is an excellent opportunity to increase exports to



United States in 2018, because our tariff for entering the American market is 0% and that of Chinese clothing to that country would be 30%. So when Chinese exports that can not enter the United States are going to redirect to Latin America, so China has announced that it will review the FTA signed with our country (La Republica, 2018)

In conclusion, it is clear that both internal and external political conditions are conducive to the development of textile and confection industry. This becomes more evident with the Free Trade Agreements that Peru has been negotiating with several countries, which will allow opening new markets through the entry of confections with low tariffs. Nevertheless, with the negotiations of the FTAs and opening with other markets, the entry of new competitors is imminent, so the companies in the industry must have a differentiation strategy with its competitors.

### **3.3.2 Economic and financial forces**

Through this factor, the companies in the textile and confection industry examine the economic issues that are bound to have an impact on them. This would include factors like inflation, interest rates, economic growth, unemployment rate and public policies.

According to the economist Durand (2018), the national economy did not have a statistical and percentage increase that would have been expected at the beginning of 2018, the figures have remained stable in the first months of this year. Thus, the GDP increased by 4% with respect to the year 2017 (see Figure 12). Regarding inflation, Peru currently had a 1.37% inflation rate. According to the Central Reserve Bank of Peru (2018), inflation was expected to be 2.0% that year. The exchange rate at the end of December 2017 reached 3.32%, beginning in 2018, it has not undergone significant changes, with the exchange rate of 3.22% as of February 2018. Additionally, Peru had a 3.0% reference interest rate, which influences the price of very short term credit operations.

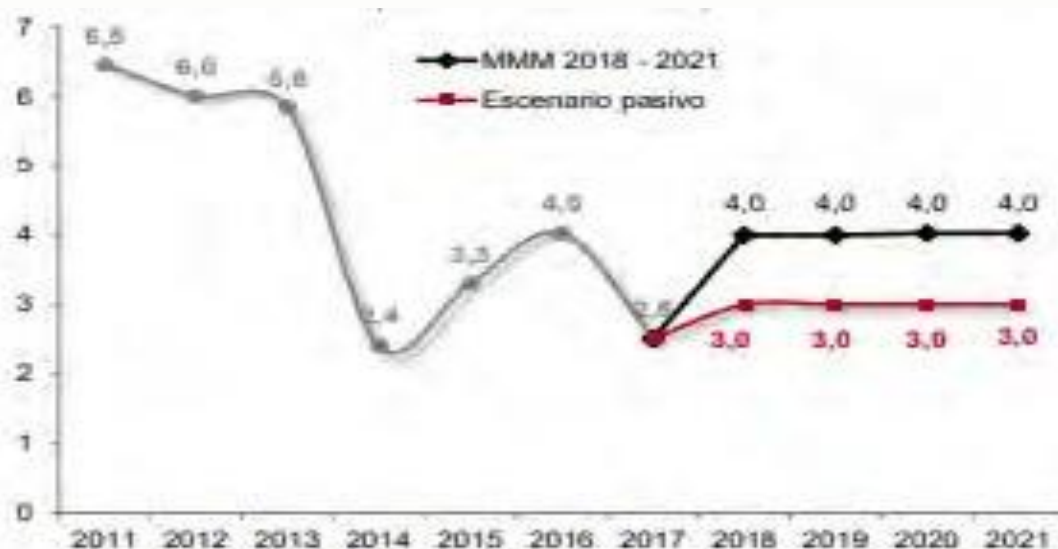


Figure 12. Evolution of the annual GDP (Percentage Change)

Taken from “Update Report of Macroeconomic Projections 2018-2021” by Ministry of Economy and Finance, 2018. Lima, Perú.

In this sense, the positive evolution of economic activity was based on the favorable performance of external demand for traditional products (14.05%); as well as non-traditional (27.5%) among which the textile products stood out. The recovery in domestic demand was associated with higher imports of non-durable consumer goods (14.03%), retail sales (3.15%) and consumer loans (7.49%). The growth of April 2018 constitutes the highest growth rate in the last five years, due to a synchronized acceleration of the primary sectors (11.2% real) and non-primary sectors (6.6% real), mainly due to a greater boost of domestic demand (La Republica, 2018).

On the other hand, in the 2018-2021 projection horizon, international conditions will remain favorable for the Peruvian economy and would be better than expected in the Multiannual Macroeconomic Framework 2018-2021. Furthermore, world economic activity would grow an average of 3.9% in 2018-2021, the highest rate since 2011. Likewise, the prices of the main raw materials would continue at high levels, not seen in at least the last three years. Finally, despite the gradual withdrawal of the monetary stimulus in the United States (USA) and the Euro Zone, the financial environment would be favorable due to global

liquidity and the interest rates of the main central banks at low levels (Ministry of Economy and Finance, 2018).

Also, it is important to specify at this point that the growth projections are vulnerable to external shocks in relation to the prices of the products that Peru exports, including confections, a greater deceleration of China's growth, the volatility of the capital markets and the speed of monetary policy adjustment in the United States. Likewise, in order to have high value products, the companies decide to import raw material with quality certifications, therefore, they are sensitive to the volatility of the international prices. The economy is also exposed to natural risks, including recurring climatic phenomena such as El Niño. On the other hand, in order to increase long-term growth, structural and fiscal reforms are needed that free productivity, reduce informality, and improve the efficiency of public services (World Bank, 2018). However, to date, the government has not issued reforms that help free productivity and reduce the informality that prevails in the textile and confection industry.

In conclusion, international conditions will remain favorable which will help textile and confection's exports. Nevertheless, the growth projection could be vulnerable because of the external shocks in relation to the prices of the products, and the volatility of the capital markets.

### **3.3.3 Socio-cultural forces**

With this factor, the companies of the textile and confection industry can analyze the socio-economic environment of its market via elements like customer demographics, cultural limitations, lifestyle attitude, and education. With these, a business can understand how consumer needs are shaped and what brings them to the market for a purchase.

For textile and confection companies that depend on international markets, it is extremely important to analyze the future of the textile and confection industry in Peru's foreign trade. Thus, after accumulating four consecutive years of falls, especially in 2015 (-

26.4%), and registering the lowest value in 2016 (US\$ 1,198 million), exports of textile products achieved a positive variation in 2017, adding a value of US\$ 1,272 million, 6.2% more than the previous year (Gestión, 2018), which has been maintained in 2018, except in the second quarter of this year (see Figure 13).

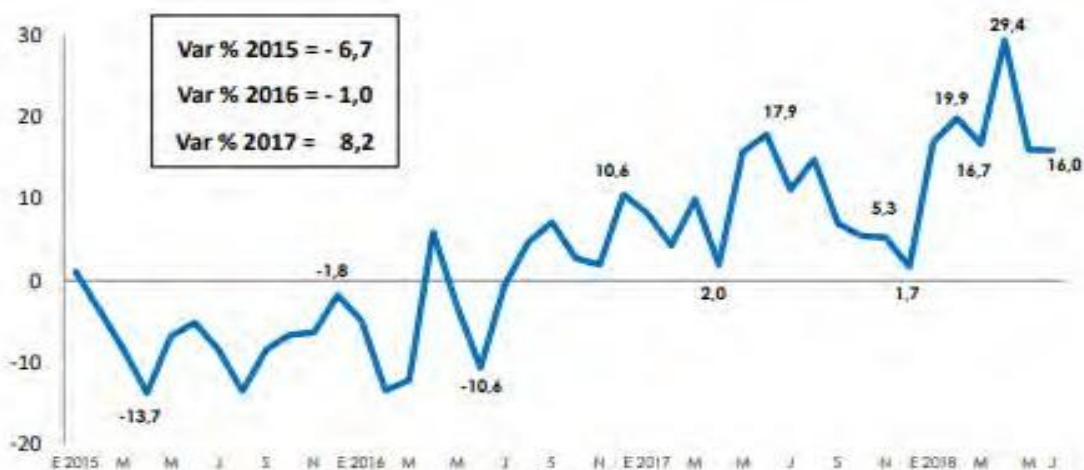


Figure 13. Non-Traditional Exports, 2015-2018 (Percentage change)

Taken from “Statistical Report N° 8” by Institute of Economic and Social Studies, 2018. Lima, Perú

The dynamism of textile exports was due to the higher domestic demand of our main trading partners. Thus, 49.4% of the total of these exports was destined to the USA , so the performance of consumption in this country is crucial for the growth of Peruvian textile exports. In 2017, shipments to this destination grew by 3.7%, with a value of US\$ 628 million (Gestión, 2018) (see Figure 14).

However, despite all these favorable conditions, people spend progressively less on clothing and a clear example where this happens is the USA , our main destination for textile exports. In a world in which technology and e-commerce are the most popular, retailers hold various e-commerce sites such as Amazon, eBay, and AliExpress, among others, responsible for displacing their sales. Thus, in 2010, spending on technology exceeded spending on clothing. In 40 years, domestic spending on clothing has been reduced by half in that country, from 6.2% in 1977 to approximately 3% in 2017, while spending on technology now stands

at 3.4%. These changes in consumption patterns are due to various factors that, for the most part, can not be controlled by the large apparel companies. In that sense, the fact that there are more jobs that allow a casual dress is one of the factors that has made people no longer need to have separate closets. Also, large brands are losing market to retailers with lower prices, because there is the possibility of "dressing up" without spending too much (Gestión, 2018).

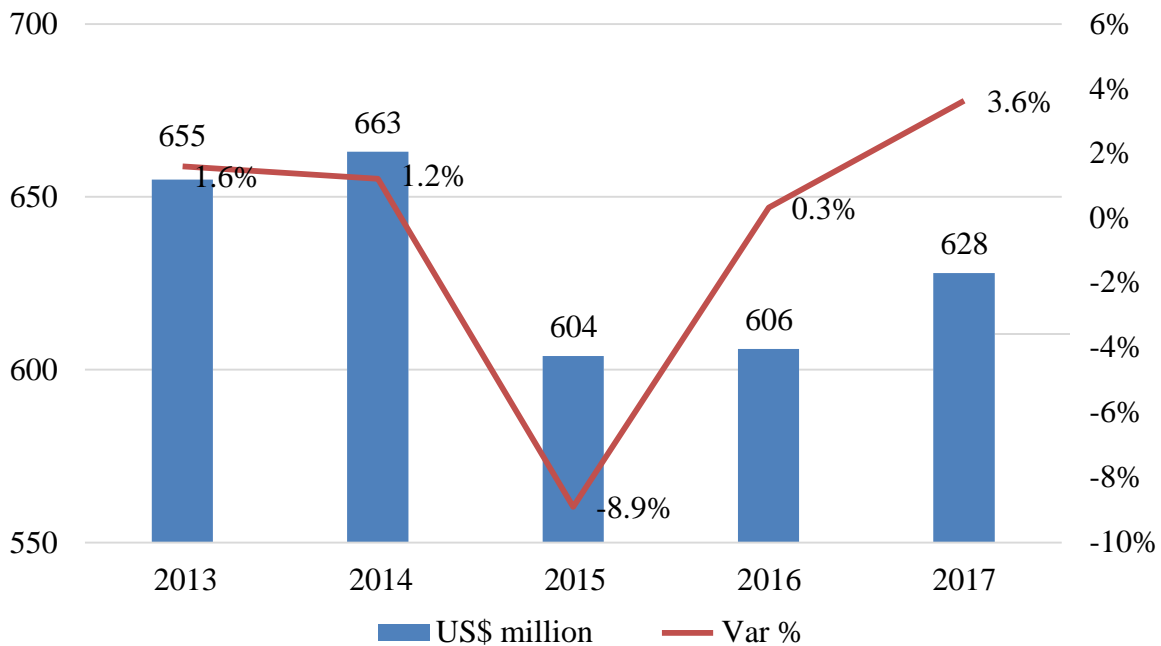


Figure 14. Evolution of Peruvian textile exports to the USA

Taken from: Gestión (2018, February 19<sup>th</sup>). Exports of Peruvian clothing and e-commerce: Where is the trend going?. Lima, Perú. Retrieved from: <https://gestion.pe/economia/exportaciones-confecciones-peruanas-e-commerce-tendencia-227577>

Consequently, the sustained growth of clothing exports is not assured, since there are several factors that threaten negatively the textile and confection industry, and among them are the new consumption patterns of people (i.e. fast fashion), especially young people. However, this problem encourages the textile and confections industry to continue to innovate and adapt to new trends, therefore in the coming years can see more dynamism than that achieved in the last year.

### 3.3.4 Technological forces

The companies in the textile and confection industry could analyse how technology can either positively or negatively impact the introduction of a product or service into a

marketplace. These factors include technological advancements, lifecycle of technologies, the role of the Internet, and the spending on technology research by the government.

In this regard, it should be noted that productivity in a company is largely linked to its technology both equipment and plant. With higher technology, productivity per person is higher, allowing greater production, higher income for workers and profits for entrepreneurs. In a country where the textile and confection industry is losing share in the gross domestic product, technology has become the key tool to increase the value and potential of accumulation (Roca, 2017).

Likewise, in developed countries the cultivation of the raw material of the textile industry (cotton) is large scale, while in Peru is in small units, thus, its viability is more associated with the use of varieties that generate more yield and allow them to have two campaigns per year, that to the same size, as well as to the technification of the production and the harvest that enables the avoidance of the fiber deterioration due to problems of harvesting, hauling, storing, among others (Gestión, 2017).

Additionally, one of the main problems facing the textile and confection industry in Peru is that there are no specialists that absorb the basic knowledge brought by the technologies. Not even in the simplest and most basic areas, such as in the repair and maintenance of equipment. For many textile companies it is difficult to organize a unit within the company linked to machinery and equipment, because they only like to focus on the product, good or service. In addition, technological work has been less remunerated, which gives little interest to the progress of the individuals who dedicate themselves to it. At the level of development in which Peru finds itself, it is not as efficient and as little as possible to dedicate to producing new technology, in this sense, must achieve the transfer of existing technology, the most efficient and modern one. But to absorb technology in the areas and branches that are needed, there must first be a clear determination to learn (Roca, 2017).

Finally, emerging IT technology on ecommerce might benefit the companies in the textile and confection industry through a number of advantages such as: global scope, cost reduction, permanent availability, product customization, among others.

In conclusion, the textile and confection industry in Peru do not have specialists that absorb the basic knowledge brought by the technologies. Nevertheless, it is a good moment to promote the transfer of technology in the country and in textile and confection industry, since the new technologies of the world are taking a leap in terms of methods and applications to specialized niches or personalized products, which do not have to force companies to repeat the existence of economies of scale.

### **3.3.5 Environmental forces**

This factor include all those that influence or are determined by the surrounding environment that include but are not limited to climate, weather, geographical location, global changes in climate, and environmental offsets.

It is undeniable the importance that has acquired, in recent times, ecological awareness and the conservation of the environment as a concern of the first order for humanity. In that sense, they affect the decisions of the organization in operational, legal, image, and even commercial aspects, depending on the type of industry to which it belongs and the related community (D'Alessio, 2015). This concern for the care of the environment is increasingly growing and the textile and confection industry is constantly under observation, due to the impact generated by this industry, since it is one of the most polluting due to chemicals and dyes that are used in the production, that emanate substances of low toxicity, such as salts, due to the use of chemical substances, and the excessive consumption of water.

As a result, entities such as Greenpeace have made efforts and reports to the various governments in order to put more control, emphasis and care of the environmental damage that the operation of the textile and confection industry leaves on our environment. Therefore,

the Peruvian state has issued more regulation in environmental matters, this leads to textile companies, must comply with current environmental legislation regarding treatment of discharge water, which increasingly will be more demanding.

On the other hand, in the case of the textile and confection industry, our country has appropriate climatic conditions for the cultivation of cotton. The recognition of Peruvian native cotton has been achieved as a genetic and ethnic cultural heritage that can be managed to avoid undesirable crossings with commercial fibers (Gestión, 2017). This situation places Peru, specifically textile companies, in a better position to obtain its quality raw material, compared to foreign companies.

Nowadays, it is a trend to use ecofriendly products that could represent an opportunity for companies in the textile and confection industry, nevertheless, could raise the production cost because the raw material and the process of production might be more expensive.

In conclusion, there are adequate and stable climatological conditions in our country that facilitate the development of raw material in different parts of the country. Nevertheless, there is an increase in environmental regulation that regulates to a greater extent the use of inputs and the operations in general of textile and apparel companies that generate which has meant that textile and confection companies must invest more in this aspect.

#### **3.4. Matrix for the Evaluation of External Factors (MEEF)**

The matrix of for the Evaluation of External Factors (MEEF) allows the strategists to summarize and evaluate the information: Political, governmental, and legal (P); Economic and financial (E); Social, cultural, and demographic (S); Technological (T); and, Ecological and environmental (E) as a result of the PESTE analysis; to then quantify the results in the identified opportunities and threats offered by the environment (D'Alessio, 2015).

The MEEF for the textile and confection industry (see Table 23) has 11 key factors of success, 06 opportunities and 05 threats. The value 2.29 indicates an average response, which means that the use of opportunities to cope with or seek to neutralize their threats is regularly



good. However, the textile and confection industry must work on the factors assessed. The improvement of these would make better use of the opportunities offered by the environment. Likewise, threats must be neutralized by developing the necessary strategies to better respond to the influence of the environment (D'Alessio, 2015).

Table 23

*Matrix for the Evaluation of External Factors (MEEF) of Textile S.A.*

<b>Determinants success factors</b>	<b>Weight</b>	<b>Value</b>	<b>Points</b>
<b>Opportunities</b>			
1. The GDP and non-traditional exports are growing.	0.10	3	0.30
2. Free Trade Agreements with USA , Canada and EU.	0.14	3	0.42
3. International conditions will remain favorable for the Peruvian economy	0.12	2	0.24
4. New trends and innovation (i.e. eco-friendly products).	0.05	2	0.10
5. Adequate and stable climatological conditions facilitate development of raw material.	0.08	1	0.08
6. New technologies are taking a leap in terms of methods and applications (i.e. ecommerce).	0.06	3	0.18
<b>Subtotal</b>	<b>0.55</b>		<b>1.32</b>
<b>Threats</b>			
1. Strong competition from existing rivals (i.e. China and India)	0.12	2	0.24
2. External shocks in relation to the demand and prices of the products (i.e. trade war).	0.08	2	0.16
3. New consumption patterns of people.	0.09	2	0.18
4. Lack of specialists in the market that absorb the basic knowledge brought by new technologies.	0.09	2	0.18
5. Increase in environmental regulation.	0.07	3	0.21
<b>Subtotal</b>	<b>0.45</b>		<b>0.97</b>
<b>TOTAL</b>	<b>1.00</b>		<b>2.29</b>

Note: The classification is as follows: (1) the answer is poor, (2) the answer is in the average, (3) the answer is above the average, and (4) the answer is best.

That the result has been 2.73 shows that the textile and confection industry is responding very little to their opportunities that arise, taking advantage of only a few but still not able to neutralize all the threats of the existing environment; that is to say, the existing strategies of the sector do not allow to efficiently take advantage of all existing opportunities and slightly minimize the potential adverse effect of external threats.

### **3.5. Textile S.A. and its Competitors**

Porter (2009) developed an economic diamond model for businesses to help them understand their competitive position in the markets. The author assumes that the competitiveness of businesses is related to the performance of other businesses. Furthermore, other factors are tied together in the value-added chain in a long distance relation or a local or regional context.

After analyzing the competitive level of Peru at global and regional levels and seeing how it is translated to the progress of society, it is important to do the assessment of the competitiveness of Textile S.A. in order to identify the relevant aspects for the development of their vision.

In that sense, Porter's five forces will be used to determine how competitive Textile S.A. is in order to develop a business strategy. It is important to be clear about the competitive forces and their underlying causes to determine the origins of the company's profitability and provide the necessary knowledge of the current situation to be able to anticipate the competing companies' actions and influence in the company's profitability (medium through Return Over Equity - ROE) in the long term.

#### **3.5.1. Bargaining Power of Buyers**

Porter (2009), stated that influential customers can monopolize more value by forcing prices down, demanding better quality or more benefits and facing, in general, the different participants in an industry. All this at the expense of the profitability of an industry. Buyers are powerful if they have a negotiating influence on the participants of an industry, especially if they are sensitive to prices because they use that weight to exert pressure to reduce them.

Before starting with this point we must specify that Textile S.A. operates in two fronts. The most important is the foreign market mainly with exports to the United States and to a much lesser extent in the local market with its own store in the district of Ate in Lima. As

in the previous point, the negotiating power of the clients is quite high because the main clients of Textile S.A. are internationally well-known brands such as Nike, Armani, Lacoste, Hanna Andersson, among others; and the volumes they request are very high. On the other hand, at the local level, customers have a low power because most of them do not make substantial purchases and for this reason, the price does not change at the time of purchase (Tello, 2018).

In this sense, Textile S.A. is constantly searching for more efficient processes that reduce costs in order to be more competitive in both international and national markets. An option to stimulate greater demand of the local market would be offering quality products at a more accessible price with the possibility of payment in installments, and also, to make promotions and offers during specific seasons for the sale of products in physical and electronic modalities (Tello, 2018).

### **3.5.2. Threat of New Entrants**

According to Porter (2009), companies that aspire to enter into some industry can exert pressure on prices, costs and the investment index. They can also influence the existing capacity and liquidity flows to stimulate competitiveness. This threat marks a limit to the potential benefits of an industry. That is why this threat depends on how high the access barriers are.

The threat of possible new entrants is relatively low since managing economies of scale is not something that small or medium-sized companies can do easily due to the large investment that is required. In addition, new companies should earn a name in the market, customers should check that the quality is the same or better so that it can be considered as a possible competitor. However, they could be an alarm if they consider joining and producing in greater quantity, creating synergies between them and sharing experiences, resources, and knowledge of the textile sector.

On other hand, Textile S.A. must not lose sight of Asian companies, which can afford to offer a wide variety of products at a much lower price given the low labor cost in that continent. (Tello, 2018). Therefore, the FTA with China may increase the risk of new entrants, due to the greater competitiveness of Chinese producers and the consequent increase in imports from that country, in addition, to their unfair practices in international trade (dumping, subsidies, overvaluation , triangulation). Even more so bearing in mind that China is the world's largest producer and exporter of textiles and clothing; however, the exports of these products represent less than a third of the total sectoral production of that country, which gives a rough idea of the potential of China to continue to flood the world market with these products, especially if it does without paying tariffs (Tello, 2018).

However, a possible threat for Textile S.A. is that small and medium-sized companies decide to form clusters, and, in this way, they can obtain greater participation by reducing costs and sharing resources (Tello, 2018).

### **3.5.3. Threat of Substitutes**

According to Porter (2009), a substitute performs a function identical to that of the product of an industry, but in a different way. The threat of a substitute product is not as visible or direct when a substitute occupies the product of the buyer's industry. Substitutes are always present, but it is easy to ignore them since they may seem very different from the product of the industry. When the threat of substitutes is high, the profitability of the industry suffers thereby, limiting the yield potential of an industry by placing a ceiling on prices and limiting profits and even reducing them.

The products offered by Textile S.A. do not have direct substitutes but the raw material used to produce them does. For instance, the direct substitute for cotton is mainly the synthetic material which can greatly affect the quality of the products offered. In the current market in which Textile S.A. participates, there are confections of different quality (e.g.

cotton mixed with synthetic), these substitute products are purchased by consumers because they are offered at a lower price but are of lower durability., but the company seeks to differentiate itself from the competition by offering products of the highest quality with several international certifications. In the international market, the threat of substitutes is low because the core business of the company is the exports and the premium clients always demand high quality cotton (Tello, 2018).

As per the local industry, the threat of substitutes is mid because companies from other countries such as China or India offer their products with different materials which generate both a fall in price and quality. In the same way, many national merchants choose to sell imitations of well-known brands, compromising the quality of the confections, which has generated over the years that the national public reacts for a high price. Fortunately, the Peruvian consumer's mind has changed a lot in recent years and is looking for a higher quality for an important product as clothing, which can help the brand itself to be well received by the public (Tello, 2018).

On the other hand, because the total sales come mainly from exports to the United States, the company is concerned with offering higher quality products. Which is considered correct to replicate it in the local market but it must be adjusted with the preferences of Peruvian consumers regarding the design of the products, sizes, colors, among others. The strategy that the company must follow is the differentiation through products with innovative designs and high quality but these must be related to the demand (local and international) and the changing preferences of the consumers (Tello, 2018).

#### **3.5.4. Bargaining Power of Suppliers**

In 2009, Porter indicated that the influential suppliers monopolized more value for themselves by charging a high price, limiting quality or services or transferring their costs to

industry participants. The most powerful suppliers can get the maximum profitability from an industry that cannot pass on an increase in cost to the final price.

Unfortunately for Textile S.A. because its main raw material is cotton and it is very important to obtain a cotton of excellent quality and since there are few suppliers that offer this type of raw material, the negotiating power of the suppliers is high because currently there are not many suppliers that offer high-quality certified cotton. Indeed, if the company looks for suppliers of a lower quality, it could find a lot of them and manage to have lower costs, but it would put at risk the final product delivered to the clients, which are international brands that expect the highest quality confections ready to be sold to their customers (Tello, 2018).

For Textile S.A. its current suppliers are a fundamental part of its value chain, for that reason the suppliers can charge a higher price for their products. Given the latter, it is in the interest of Textile S.A. to maintain its suppliers as strategic partners.. In addition, it is important that Textile S.A. has replacement suppliers in case of any eventuality (Tello, 2018).

In this sense, FTA with USA and the Uropean Union benefit the organization because of its geographical position the movement of goods and transactions becomes more viable at a lower cost.

### **3.5.5. Competitive Rivalry**

Porter (2009), suggested that the rivalry between existing competitors takes many familiar forms, which are included in price discounts, new product improvements, advertising campaigns, and service improvements. A high rivalry limits the performance of an industry. The degree to which rivalry lowers the potential for profit of an industry depends on the intensity and the basis on which it is competing. Rivalry can be destructive to profitability if it tends only toward price because price competitiveness transfers the benefits directly from an industry to its customers.

The rivalry intensity for Textile S.A. is high because it is affected by international trade that benefit companies and offer to customers a bigger list of products to choose. Companies in the industry sector seek to offer products with a high quality and a competitive price for customers, which means that on certain occasions both aspects are sacrificed. Additionally, Textile S.A. in the international market competes with major brands from China. In that sense, Textile S.A. competes in a fragmented international market with a high level of rivalry, and with a low consumer loyalty (Tello, 2018).

In the local market, the rivalry intensity is also high given the presence of large retail stores specialized in providing high quality clothing to the mid and high socioeconomic sectors. In that sense, the competitors are Zara, H&M, Desigual, Calvin Klein, independent brands (e.g. AMC). (Tello, 2018).

In the previous force, it was mentioned that the threat of new entrants is relatively low, however, there are many companies in the industry which point to the lower socioeconomic sectors but may in the near future begin to see the international market as their main objective due to the possible gains that can be obtained from the sale of high volumes (Tello 2018).

### **3.6 Textile S.A. and its Referents**

Textile S.A. operates mainly in the local market and exports to the United States. However, the most important part (more than 95% of its sales) is directed to the foreign markets and a small part to the local market with a headquarters in Ate. Its clients are quite high because the main clients of Textile S.A. are internationally well-known brands such as Nike, Armani, Lacoste, Hanna Andersson, among others; and the volumes they request are very high.

Many companies do the same business activities as Textile S.A. such as manufacturing, sales, and exporting textile and confection products. For that, some referent

companies are selected in order to do a benchmarking for Textile S.A. such as: (a) Devanlay Peru S.A., (b) Confecciones Textimax S.A., (c) Southern Textile Network S.A.C., and (d) Cotton Knit S.A.C.

### **3.7 Competitive Profile Matrix (CPM) and Referential Profile Matrix (RPM)**

After considering all the factors that directly or indirectly influence Textile S.A., the success factors are identified to be included it in two matrices: (a) The Competitive Profile Matrix (CPM) identifies the main competitors of the organization, their strengths and weaknesses in relation to the strategic position of a model organization. The main idea is to indicate how Textile S.A. is with respect to its competitors within the same industry, so that, possible strategies are determined to improve its positioning in the market; and (b) the Referential Profile Matrix (RPM) that seeks to benchmark regarding Textile S.A. within the textile and confection industry, i.e., to whom to imitate its success keys and understand which variables can significantly affect the competitive position (D'Alessio, 2015).

In the CPM six key success factors are considered. Textile S.A. reached the score of 3.65 points, below the main company Devanlay Peru S.A. that reaches a value of 3.84 because mainly exceeded in the factors of market share and profits and brand reputation. However, it is followed by Confecciones Textimax S.A. with a value of 3.32 (see Table 24).

In the RPM, Textile S.A. is compared with Luthai Textile Com from China because it is the best ranked company considering the same six key success factors (see Table 25).

### **3.8 Conclusions**

In the last 10 years, Peru experienced a high attractive environment for investment, which is due to the high GDP growth rates even after the economic crisis in 2009, in which Peru was not affected as much as the other countries.

From the three-dimensional analysis of nations that explains the national interests, national potential factors, and cardinal principles, it can be concluded that the textile and



confection industry growth contributes to the economic growth and development of Peru and the other related industries, and the utilization of technologies in the production processes might increase the productivity of textile and confection industry that in turn benefit the Peruvian economy growth.

Regarding the national potential it is possible to see the strengths and weaknesses of Peru and textile and confection industry. The geographical and economic factors, which are determined as the strengths, are not being used as they should because it shows that there is great potential to grow economically and achieve sustainable development. In this area, the government plays a fundamental role to promote productive diversity. On the other hand, demographic factors continue to show a decrease in the natality rate in the following years, and technological / scientific factors continue to project lower levels of investment in research and development.

Likewise, Peru has greater opportunities to take advantage of the relation with the existing economic blocs such as the Pacific Alliance, the group that comprises four important coastal countries with common interests: (a) Mexico, (b) Colombia, (c) Peru, and (d) Chile. If Peru takes advantage of this association and the other agreements it has with other countries in order to increase exports and the trade balance and GDP, which must be transmitted to the economic development and social progress of the regions of Peru. All this will greatly benefit the textile and confection industry, since they will promote productivity and productive diversification by benefiting not only companies in this industry but also workers and people who live near the production areas of raw materials.

The competition in the textile and confection industry in the recent years has increased due to economic growth, the international clothing brands that has entered the market, and new trends and changes in the customers' preferences, that promote high competition.

Additionally, the growth of exports was affected by global economic crisis and by other external factors that affected the prices of products in the local and foreign market. Then, since 2015 there is a recovery in the levels of exports and the textile and garment industry.

Technology must be a point to consider, since it improves productivity and allows processes to be increasingly efficient, fewer resources for manufacturing without decreasing quality. Furthermore, the new trends in IT system might mean an opportunity for the textile and confection industry, for instance, the development of the e-commerce channel.

In the MEEF the opportunities and threats of the textile and confection industry are shown. There are favorable and potential points for the growth of the Textile S.A. such as the FTA with USA , Canada, and China; International conditions that will remain favorable for the Peruvian economy; and the growth of the textile and confections industry. While, existing competitors, new entrants, and new patterns of customers will be the main threats.

The bargaining power of both customers and suppliers is relevant because they exert price pressures, which is why Textile S.A. is affected. For the client's perspective, they are willing to pay more for good quality products. Finally, the suppliers' force is high because there few companies that offer certifications for quality cotton.

From the analysis of the CPM and RPM, the key success factors are identified for Textile S.A. and its main competitors, and it was possible to understand the relative position of the company with the use of benchmarking to know the points of improvement.

Table 24

*Competitive Profile Matrix (CPM)*

Key Success Factors	Weight	Textile S.A.		Confecciones Textimax S.A.		Southern textile network S.A.C.		Cotton Knit S.A.C.		Devanlay Peru S.A.	
		Value	Weighted weight	Value	Weighted weight	Value	Weighted weight	Value	Weighted weight	Value	Weighted weight
1. Brand Reputation	0.19	3	0.57	3	0.57	3	0.57	3	0.57	4	0.76
2. Product Design	0.16	4	0.64	4	0.64	3	0.48	3	0.48	3	0.48
3. Entry Barriers	0.16	4	0.64	4	0.64	4	0.64	4	0.64	4	0.64
4. Technological Capacity	0.14	4	0.56	3	0.42	3	0.42	3	0.42	4	0.56
5. Product Quality	0.19	4	0.76	3	0.57	3	0.57	3	0.57	4	0.76
6. Profits and Market Share	0.16	3	0.48	3	0.48	2	0.32	3	0.48	4	0.64
<b>Total</b>	<b>1</b>		<b>3.65</b>		<b>3.32</b>		<b>3.00</b>		<b>3.16</b>		<b>3.84</b>

Values:

- 4 = Major Strengths
- 3 = Minor Strength
- 2 = Minor weakness
- 1 = Greater weakness

Table 25

*Referential Profile Matrix (RPM)*

Key Success Factors	Textile S.A.		Luthai Textile Com (China)		Hongdou Group (China)		
	Weight	Value	Weighted weight	Value	Weighted weight	Value	Weighted weight
1. Brand Reputation	0.19	3	0.57	4	0.76	4	0.76
2. Product Design	0.16	4	0.64	4	0.64	3	0.48
3. Entry Barriers	0.16	4	0.64	4	0.64	4	0.64
4. Technological Capacity	0.14	4	0.56	4	0.56	4	0.56
5. Product Quality	0.19	4	0.76	4	0.76	4	0.76
6. Profits and Market Share	0.16	3	0.48	4	0.64	4	0.64
<b>Total</b>	<b>1</b>		<b>3.65</b>		<b>4.00</b>		<b>3.84</b>

Values:

- 4 = Major Strengths
- 3 = Minor Strength
- 2 = Minor weakness
- 1 = Greater weakness

## **Chapter IV: Internal Evaluation**

In this chapter, the inside of the company is analyzed. The internal evaluation has the purpose to develop strategies to take advantage of the company's strengths and transform the company's weaknesses into strengths (D'Alessio, 2015). For this purpose, it will be carried out: (a) the AMOFHIT analysis; and (b) the Matrix of Evaluation of Internal Factors. For the AMOFHIT analysis, the company's management shared with us the relevant aspects of the company. In turn, the Matrix of Evaluation of Internal Factors was also based on the information provided by the management. Finally, the conclusions of the internal evaluation are at the end of this chapter, along with the recommendations for the company.

Textile S.A. is a company with an important track record in the textile market over 50 years that make it to be considered as a key player in the Peruvian clothing market. Its business model is focused on providing solutions to global clothing brands through the manufacturing of high-quality products. Most of its products are exported to the United States of America (USA) (Tello, 2018).

### **4.1 Internal Analysis AMOFHIT**

The AMOFHIT analysis allows the management to break down the company into functional processes in order to identify how well the company is using its resources. Every company should use its resources to build competitive advantages focusing on the key success factors of the industry and evaluate their impact on every functional process (D'Alessio, 2015). For analysis purposes, the company's functional areas will be designated as the seven classifications according to the AMOFHIT analysis tool.

#### **4.1.1. Administration and management (A)**

The board of directors of Textile S.A. is composed by five people with complementary experience that are designated by the shareholders on an annual basis, they provide leadership to the Company and is responsible to the shareholders for its success.

Additionally, they establish and review the strategies and goals of the company, and oversees the business and affairs in light of emerging risks and opportunities.

Likewise, the managerial team that is composed by experienced professionals with more than 25 years of experience in the textile and confection industry. The CEO has 28 years in the company and is also the President of Committee of Textiles of Exporters Association (ADEX), which positions the company as a leader and referent in the textile and confection industry. The company has only two levels of managers, the first line formed by the CFO, Commercial Manager, Planning Manager, IT Manager, Quality Manager, and Production Manager. Then, there is a second line that reports to the first line (see Figure 15). The main corporate policies, guidelines, rules and procedures are very well defined with the aim of creating a good relationship between the CEO and the other managers to achieve their objectives and maintain internal balance (Tello, 2018).

The leadership style is collaborative and open doors, along with the practicing of empowerment. The company makes decisions based on results and prioritize its personnel as the most valuable resource. The management utilizes strategic planning as a process to establish its strategies. They conduct it on an annual basis with the participation of the board of directors. The executive management uses a Balance Score Card to monitor the progress on strategic objectives, while the middle management has KPIs for their respective areas (Tello, 2018).

Overall, the corporate governance of the company is moderately adequate existing room of improvement to reach higher standards. For instance, the inclusion of independent directors might be seen as a positive change. Moreover, the company has corporate policies that are formalized in manuals which are shared with the involved staff. Most of the corporate policies are oriented towards productive processes existing a room of improvement to increase the scope to other areas. It is also important to state that the company uses the

management by objectives to guide its actions in line with the legal requirements and with a permanent focus on innovation and product development with the active participation of the personnel. There is a tight control of the costs while the company promotes the investments in technology and research (Tello, 2018).

Regarding the organization of Textile S.A., the company orders its processes in functional areas, of which stands out the general manager or CEO, Administration and Finance, Commercialization, Planning, Systems, Quality Assurance, and Production (see Figure 15).

#### **4.1.2. Marketing and Sales (M)**

Textile S.A. has a focus on foreign clothing companies (clients) that manage brands directed to mid- and mid-high end segments (final consumers), mainly in the United States of America (around 95% of its sales). The company's value is the quality offered of the clothings, as well as, the raw materials used in the manufacturing processes. The company manages a pricing system that based on historical data and projections of potential increases or decreases of costs determine the prices of their products. The sales manager is focused on satisfying the needs of their current clients providing them with a personalized service along with a competitive price and punctuality in delivery. The relationship with their main clients is long, in some cases over 20 years, which allows them to have a close relationship with their clients' purchase managers. Most of its clients are very well known global brands such as Lacoste, Nike, Nordstrom, Calvin Klein, Nautica, Sears, Armani Exchange, Brooks Brothers, among others (Tello, 2018).

Textile S.A. does not conduct market research on their own, but purchases market reports of the countries in which they are exploring to enter or increase sales (i.e. Australia, Brazil, etc.). The company is constantly exploring new segments for their clients.

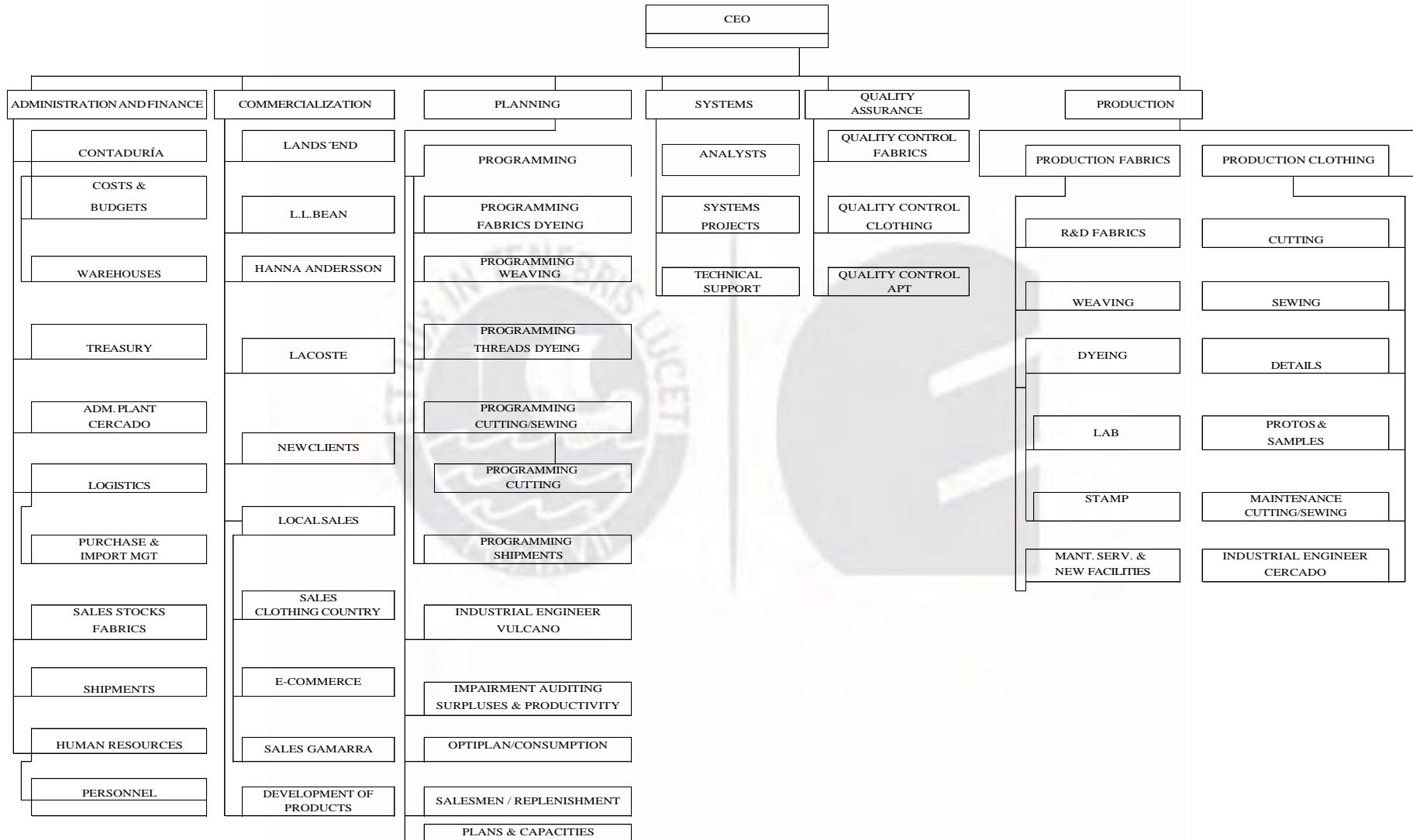


Figure 15. Organizational Chart of Textile S.A.  
 Adapted by the authors. Prepared by Textile S.A.



Historically, the company has focused on adult people (ladies and gentlemen), however, they realized that the higher consumption and renovation frequency of clothing were in the kid segment. As a result, they started to increase the products for this segment. They are also exploring the manufacturing of clothing based on organic cotton, which is demanded by mothers with young children. This market is even willing to pay a higher price for this product (Gestion, 2018). Overall, the company manufactures its products in line with global standards and lately they have started to propose outlines and designs for their clients. Furthermore, Textile S.A. has developed its own brand for the local market, which represents still a very low percentage of its sales (less than 5%) (Tello, 2018).

It is important to mention that Textile S.A. stands out as the fourth largest Peruvian exporter of clothing in 2018, with USD 25.7 million in FOB value in June and 2.8 m units of clothing, that in total gives them a market share of 5.9% regarding the total FOB value (see Table 26). Additionally, in Figure 16 we can appreciate that Textile S.A. has experimented a continuous growth through the last five years achieving in 2018 the very good amount of US\$ 74 million in sales and it is expected to keep growing in the following years.

Table 26 Ranking of Exporters of the Textile and Confection Industry

*Ranking of Exporters of the Textile and Confection Industry*

#	Exporter	Jan-Jun 2017			Participation US\$ FOB 2017	Jan-Jun 2018			Participation US\$ FOB 2017
		FOB US\$	Weight N.Kg	Units		FOB US\$	Weight N.Kg	Units	
1	Devanlay Peru S.A.C.	31,310,964	595,721	2,466,654	8.0%	33,062,451	655,471	2,765,231	7.5%
2	Confecciones Textimax S.A.	28,674,190	734,660	4,621,367	7.3%	29,471,364	748,533	4,584,900	6.7%
3	Souther Textile Network S.A.C	24,421,665	614,367	2,249,716	6.2%	26,233,784	602,896	2,392,969	6.0%
<b>4</b>	<b>Textile S.A.</b>	<b>29,400,714</b>	<b>704,600</b>	<b>3,514,250</b>	<b>7.5%</b>	<b>25,770,203</b>	<b>579,476</b>	<b>2,897,561</b>	<b>5.9%</b>
5	Topy Top S.A.	17,159,755	473,211	2,776,307	4.4%	23,700,055	704,245	3,405,050	5.4%
6	Textile Sourcing Company S.A.C	16,990,457	525,880	3,588,810	4.3%	21,490,599	696,364	4,046,590	4.9%
7	Hilandería De Algodon Peruano S.A.	14,953,876	339,467	2,041,462	3.8%	20,061,719	420,076	2,441,643	4.6%
8	Textiles Camones S.A.	13,958,589	622,980	4,619,627	3.6%	19,576,950	859,891	5,854,215	4.5%
9	Garment Industries S.A.C	12,283,748	119,312	949,147	3.1%	17,726,785	192,929	1,321,766	4.0%
10	Industria Textil Del Pacifico S.A.	15,257,857	525,396	2,301,048	3.9%	14,176,815	450,420	1,902,121	3.2%

*Note.* Taken from “Statistics” by National Society of Industries, 2018. Lima, Perú

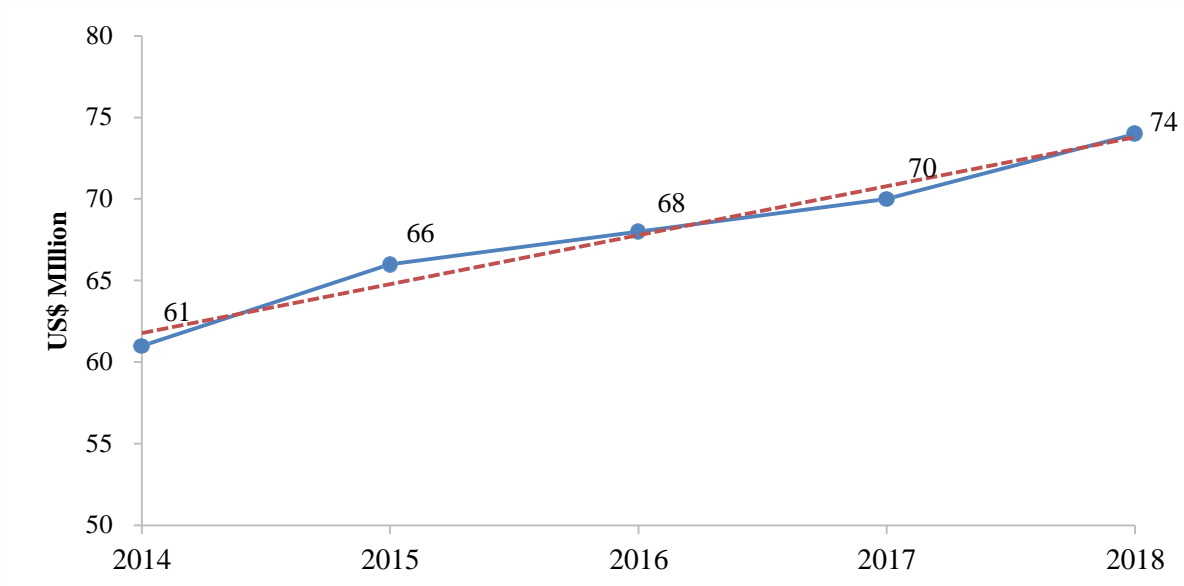


Figure 16. Annual sales of Textile S.A.  
Adapted from interview with Textile S.A.'s CEO

#### 4.1.3. Operations and Logistics-Infrastructure (O)

As per the type of operations Textile S.A. performs, it is important to clarify that this company is a G1 type since it manufactures high-quality clothing (see Figure 17).

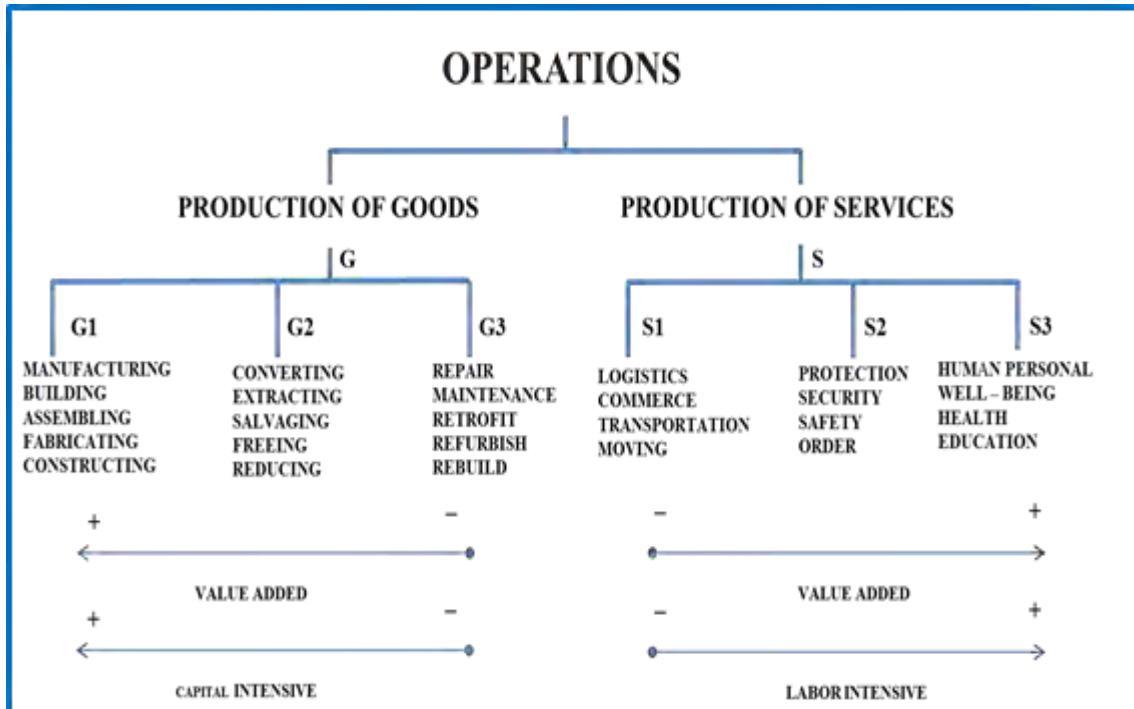


Figure 17. Type of operations  
Adapted from D'Alessio, F. A. (2015). *The Strategic Process: A management Approach*. Mexico D.F., Mexico: Pearson.

Furthermore, Textile S.A. has an installed capacity of 10 million clothing per year, while its actual production is around 9.5 million of clothing per annum (i.e. 95% of capacity use). The company utilizes cutting-edge technology for production, which gives them a competitive advantage compared to their competitors in terms of costs. In consequence, they can manage better prices and quality standards of their products. Besides, the company has two plants located in two different districts in Lima: Cercado de Lima and Ate, which allows them to access skilled, especially in sewing activities (Tello, 2018).

In addition, Textile S.A. has preventive maintenance plans for their productive assets, which allow them to avoid recurrent corrective maintenance. The preventive plans are in line with their production program. Textile S.A. manages the relationship with their suppliers through an accreditation that guarantees that they manage a specific quality level, short delivery time, and payment terms in line with market standards (Tello, 2018).

As Tello (2018) mentioned, Textile S.A. manages around 3 suppliers at least for their main items. Most of the raw material is imported. The company manages its inventories depending on the item and based on historical data. All of its suppliers deliver the raw material in Textile S.A.'s plants. The company has a strong quality control system that goes from the reception of the raw material to the finished product. They use a traceability tool to determine the whole production process of every product they have, as well as, the relevant quality factors in each process. They manage a big database that can be accessed through mobile applications. Textile S.A. is constantly increasing its production capabilities and implementing new production lines in its plants in Cercado de Lima and Ate, in some cases. Furthermore, they are periodically evaluating its production processes in order to automate some of them to increase its competitiveness advantage. Textile S.A. has a treatment plant that allows it to reuse the water, which has involved a millionaire investment and a cost of treatment that reaches approximately 0.7 dollars per cubic meter (Tello, 2018).

An overview of the company's operation is as follows: The process starts with the reception of inputs (threads) and indirect materials (buttons, nylon, etc.) which enter into the process that relies on both plant and labor for the production of fabric as an intermediate product and clothing as a final product. Certainly, the logistics of both entrance and exit, along with the design and post-sale service, are the critical part of the whole process (Tello, 2018) (see Figure 18).

Regarding the type of process the company performs (see Figure 19), it can be noticed that Textile S.A. has an intermittent process in terms of frequency and a job lot process in terms of volume. The nature of the business requires to produce a wide variety of models and colors for clothing, adapting to client's requirements in terms of design and volumes.

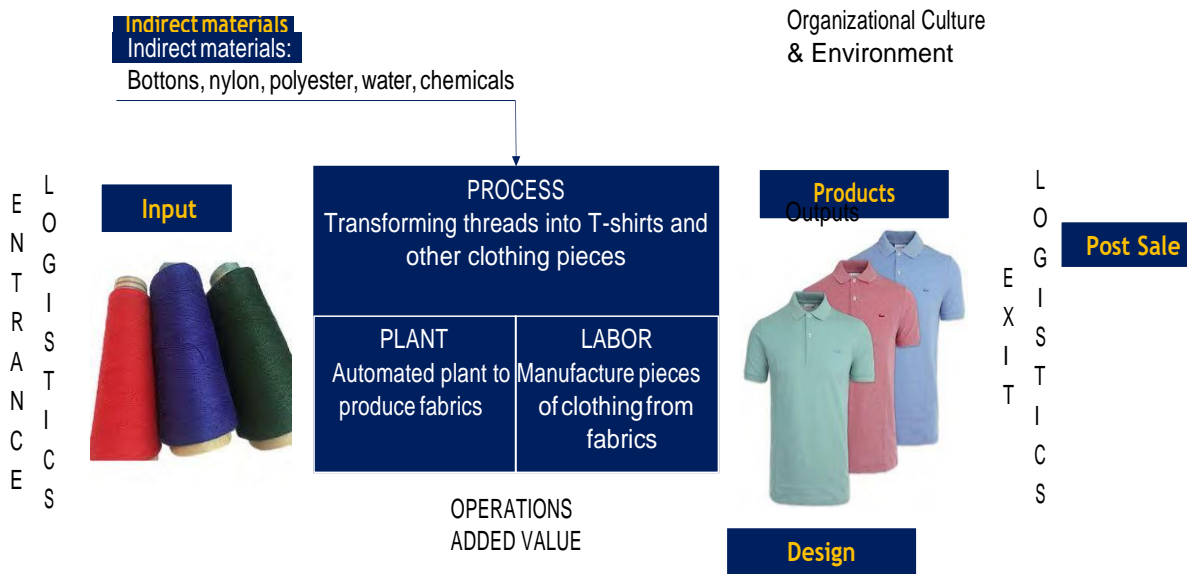


Figure 18. Input-Process-Output Diagram for Textile S.A

Textile S.A. has productive areas and supporting areas. In the first group are: (a) cutting (laying, cutting, and enabling), (b) sewing, (c) finishing (vaporizing and washing), (d) folding, and (e) packing. As supporting areas are: (a) commercial, (b) product development, (c) engineering, (d) logistics (purchases and warehouses), (e) production planning and control, (f) quality control, (g) administration and finance, (h) human resource, (i) systems,

and (j) maintenance. If it is necessary an application of embroidery, embossing, and crafts for the garments, they will be sent to external outsourcing services (see Figure 20).

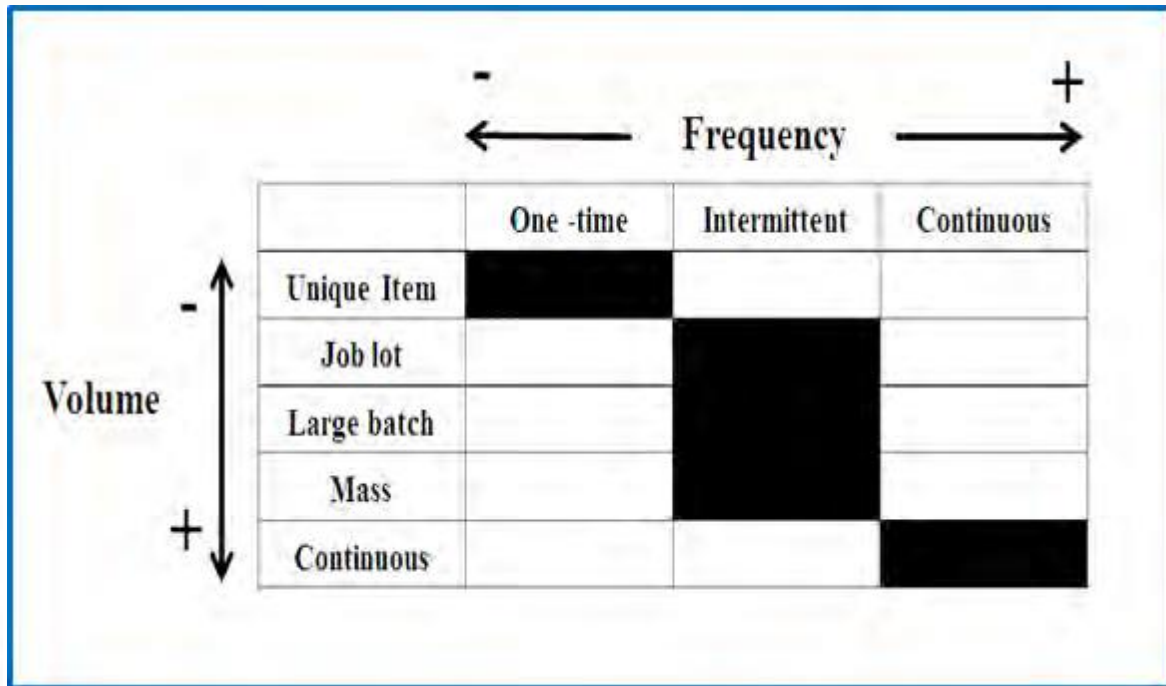


Figure 19. Type of process of Textile S.A.  
Taken from “Type of Processes” by D’Alessio, 2015, *The Strategic Process: A management Approach*. Mexico D.F., Mexico: Pearson.

#### 4.1.4. Finance and Accounting (F)

Textile S.A. is a company that has an adequate financial position. In terms of sales, the company had USD 74.0m in 2018, with an EBITDA of USD 25.2 million and a net profit of USD 7.4 million. The profitability of the company is represented by its RoA of 31.0% and its RoE of 48.5% in 2018. In addition, its other financial indicators look healthy. The company has a low leverage in terms of Liabilities over Equity. As of December 2018, this ratio was 0.6, which has remained stable over the last five years. Furthermore, the company had a liquidity ratio of 2.4 which is good considering that 1.0 is an acceptable level for a manufacturing company. Finally, the assets turnover ratio of the company was 3.1 as of December 2018 (see Table 27) (Tello, 2018).

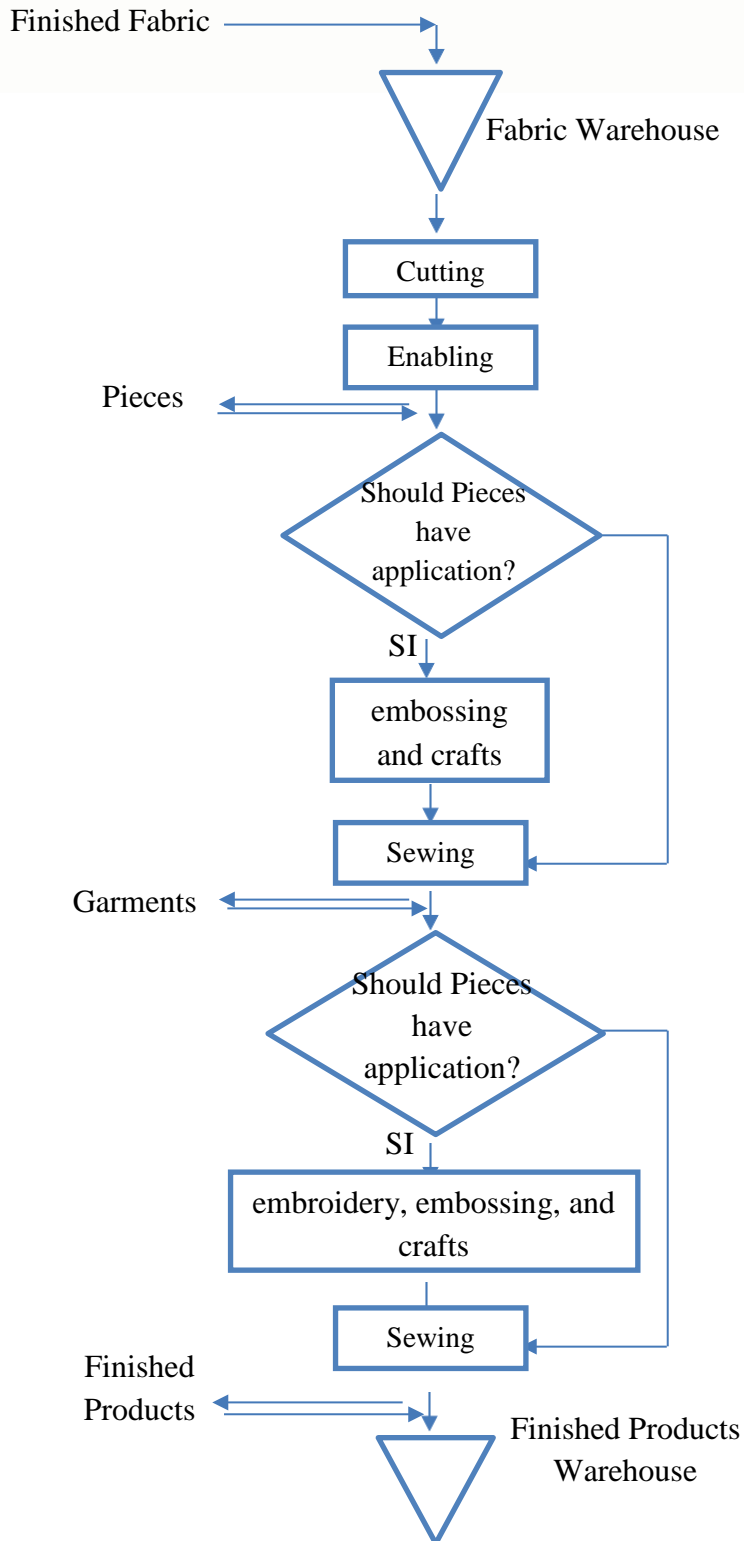


Figure 20. Production Flow Chart for Textile S.A.

Table 27

*Financial Information for Textile S.A.: 2014 - 2018*

<b>in US\$ million</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Total Assets	20.9	21.7	21.4	22.5	23.9
Total Liabilities	6.7	7.1	7.5	8.0	8.6
Total Equity	14.2	14.6	13.9	14.5	15.3
Sales	64.9	68.1	64.4	69.2	74.0
EBITDA	20.8	21.8	19.3	22.1	25.2
Net Income	6.5	6.8	6.4	6.9	7.4
Liquidity ratio	2.7	2.6	2.0	2.1	2.4
Assets Turnover	3.1	3.1	3.0	3.1	3.1
Liabilities/Equity	0.5	0.5	0.5	0.6	0.6
RoE	45.8%	46.6%	46.3%	47.8%	48.5%
RoA	31.1%	31.4%	30.0%	30.7%	31.0%

As per the access of Textile S.A. to the financial system, the company is cataloged as an A1 client. For that reason, it receives loans at a relatively low interest rate compared to the market average. In addition, it obtains these financial resources to invest in the purchase of productive assets. In order to analyze these investments, the company conducts a financial analysis that uses the payback methodology to make decisions. On average, all its investments should have a payback period of no more than 24 months. (Tello, 2018).

As per shareholders, their support to the company is evident through the approval of the annual plan of investments. On the other hand, the generated net income is distributed to shareholders through dividends on an annual basis. Overall, the financial area supports the efficient management of the company's resources by providing information about the alternatives when acquiring productive assets (Tello, 2018).

#### **4.1.5. Human Resources & Culture (H)**

At the end of 2018, Textile S.A. has 1,700 employees, of which 82% (1400 workers) are operational personnel, and 18% (300) are administrative personnel, a percentage that has not been dramatically modified if we compare it with the year 2017 and 2016 (see Table 28).

As per the turnover of employees, the company has a low and stable indicator. In 2018, the rotation index in Textile S.A. was less than 16% per year. Actually, there are no worker unions (Tello, 2018).

Textile S.A. try to keep an adequate working environment through the fulfillment of labor regulation, in some cases above what is required by law, providing a pleasant atmosphere, permanent training, and training for supervisors in staff management skills, because Textile S.A. has training programs that are focused on the technical side, mainly about processes (Tello, 2018).

Table 28 *Analysis of Textile S.A.*

*Types of Human Resources of Textile S.A.*

Year	N° Workers	Administrative	Operational	Total
2018	Indeterminate	280	250	
	Fixed Term	20	1150	
	Total	300	1,400	1,700
	%	18%	82%	100%
2017	Indeterminate	288	180	
	Fixed Term	9	1,200	
	Total	297	1,380	1,677
	%	18%	82%	100%
2016	Indeterminate	282	250	
	Fixed Term	20	1,150	
	Total	290	1,375	1,665
	%	17%	83%	100%

Note: Own creation adapted from Interview to the President of the Textile committee of Adex by Tello, C. 2018. Lima, Perú

Actually, the company does not have established career lines for its employees; however, they are looking for developing them. Additionally, the remuneration of the employees is composed by a base salary and a variable income for goal achievements. Regarding the philosophy and business culture of its personnel, Textile S.A. values the identification of the personnel with the company, the ethical and responsible behavior, promoting their training and development. Additionally, Textile S.A. practices a culture of



order, discipline, punctuality and cleanliness. Finally, Textile S.A. promotes an attitude of change and innovation, maintaining an agile, flexible organization and permanent technological optimization (Tello, 2018).

#### **4.1.6. Information and Communication Systems (I)**

Textile S.A. supports the decision making of its management with Management Information Systems (MIS). For example, in the case of Operations, MIS provides the results of productivity and efficiency of plants and equipment. Regarding the Operational Systems, the company supports mainly its production processes (Tello, 2018). This is a strength for Textile S.A. that can gain efficiencies in the decision making process while providing accurate data to managers. Nevertheless, the company has a room for improvement in the degree of connectivity with its clients, especially retail ones.

#### **4.1.7. Technology and Research & Development (T)**

Textile S.A. invests continuously in the development of new products, mainly new fabrics. They also invest in new designs for clothing which is the final product, but at a lower extent. On the other hand, Textile S.A. does not have as a priority to invest in the development of new processes of production. The company focuses on improving permanently the overall quality of its products. In addition, Textile S.A. makes efforts to replace manual operations by automated processes, however, these changes are evaluated taking into account the economic benefits (Tello, 2018).

#### **4.2. Matrix for the Internal Factor Evaluation (MIFE)**

The Matrix for the Internal Factor Evaluation (MIFE) is a strategic planning tool that allows identifying the key success factors of a company. Furthermore, this tool assigns weights and values to these factors related to the strategic importance of them for the sector and how well the company is performing on that factor. In addition, this matrix enables the

management to summary the main strengths and weaknesses and identify the relationship among them (D'Alessio, 2015).

The matrix for Textile S.A. has 17 key success factors, 9 strengths, and 8 weaknesses. The value of 3.02 indicates that the company has a moderately strong profile that allows them to compete in the market successfully. In that sense, Textile S.A. should take advantage of its competitive advantages to continue developing a sustainable growth while at the same time minimize the impact of its higher weaknesses (see Table 29) (Tello, 2018).

Table 29

*Matrix for the Internal Factor Evaluation (MIFE)*

	<b>Key Success Factors</b>	<b>Weight</b>	<b>Value</b>	<b>Points</b>
<b>Strengths</b>				
1	Cutting edge technology for production process	0.05	4	0.20
2	Adequate capabilities for the development of new products	0.07	4	0.28
3	Good access to financial system	0.05	4	0.20
4	Seasoned management team with deep market knowledge	0.05	4	0.20
5	Long commercial relationships with well known global brands	0.06	4	0.24
6	Good support of IT for production processes	0.06	4	0.24
7	Commitment of employees evidenced by a low turnover ratio and lack of a Union	0.05	4	0.20
8	Strong quality control system	0.11	4	0.44
9	Good financial performance evidenced by the high EBITDA	0.05	4	0.20
		<b>0.55</b>		<b>2.20</b>
<b>Weaknesses</b>				
1	Concentration in United States of America	0.07	2	0.14
2	Limited financial support of shareholders	0.05	2	0.10
3	Little investment in market research	0.05	2	0.10
4	Lack of internal and external integration of IT systems	0.05	2	0.10
5	Training programs are mainly focused on hard skills	0.05	2	0.10
6	The production process still has some manual processes that might be automated	0.05	2	0.10
7	Lack of positioning of company brand	0.08	1	0.08
8	Lack of career development for the employees	0.05	2	0.10
		<b>0.45</b>		<b>0.82</b>
		<b>1.00</b>		<b>3.02</b>

Note: (4) Higher strenght, (3) lower strenght, (2) lower weakness, and (1) Higher weakness.

### 4.3. Conclusions

Textile S.A. has various actors in the administration and management organization, starting with a board of directors that provide leadership to the Company and is responsible to the shareholders for its success. The company has only two levels of managers that are in charge of the main corporate policies, guidelines, rules and procedures to achieve their objectives and maintain internal balance. The leadership style is collaborative and open doors, along with the practicing of Empowerment, and they utilizes strategic planning as a process to establish its strategies.

Additionally to that, in the marketing and sales area, Textile S.A. stands out as the fourth largest Peruvian exporter of clothing in 2018 with USD 25.7 million in FOB value and 2.8 million of clothing units in June, that in total gives them a market share of 5.9% regarding FOB value. Textile S.A. is focus on foreign clothing companies that manage brands directed to mid- and mid-high end segments, mainly in the United States of America (around 95% of its sales) with international and known brands such as Lacoste, Nike, Nordstrom, Calvin Klein, Nautica, Sears, Armani Exchange, Brooks Brothers, among others.

The company's value offer is the quality of the clothing as well as the raw materials used in the process. Overall, the company manufactures its products in line with global standards and lately they have started to propose outlines and designs for their clients. Furthermore, Textile S.A. has developed its own brand for the local market, which represents still a very low percentage of its sales (less than 5%).

With respect to the operations area, Textile S.A. is a G1 type since it manufactures high-quality clothing that has an installed capacity of 10 million clothing per year, while its actual production is around 9.5 million of clothing per annum. The company utilizes cutting-edge technology for production, which gives them a competitive advantage compared to their competitors in terms of costs. In consequence, they can manage better prices and quality

standards of their products. Also because textile manages the relationship with their suppliers through an accreditation that guarantees that they manage a specific quality level, short delivery time, and payment terms in line with market standards.

Overall, the financial performance of the company is adequate; although presents a vulnerability to market conditions as evidenced in 2016. The main financial weakness is the concentration of sales in In addition, the company's largest market by far, is the United States of America. Even though this market is very large and has a high purchase power, it is highly recommended to gradually diversify into new markets locally and externally. Furthermore, its shareholders do not reinvest the net income of the company. In the short run, this is mitigated by the company's adequate access to banks, however, in the long run, it could represent a limitation for growth.

As per human resources, the company has a low turnover which is an important strength as it helps keeping productivity. Furthermore the company has training for its workers, specially in the manufacturing issues. On the other hand, the main weakness is the lack of career development of its workers.

Regarding the IT systems, the company has a MIS that facilitates the decision making process. Nevertheless, there is still a further internal and external connectivity, considering the technology. For Textile S.A. it is important to continuously reinvest in keeping the pace to technological advances, especially the ones related with the manufacturing process. This is a clear strength of Textile S.A. that supports these initiatives on a regular basis.

## Chapter V: Interest of Textile S.A and their Long-Term Objectives

According to D'Alessio (2015), after having established the vision, the mission, the values, and the code of ethics, the Long-Term Objectives (LTO) based on the external and internal audits must be defined. For which, in this chapter we will review the bases of the LTO, first it will be necessary to consider the interests, then the organizational potential, and, finally, the cardinal principles of the organization.

### 5.1 Interests of Textile S.A.

In 1983, Hartmann stated that the organizational interests are those aspects that an organization is interested in, and try to achieve them at any cost. These interests must be very clear and can be classified according to their level of intensity: (a) vital, (b) important, and (c) peripheral; or their interaction: (a) common and (b) opposite. The interests vary according to the type of organization, which can be considered according to the areas, activities, or responsibilities (Nuechterlein, 1973).

The interests of Textile S.A. are mainly aligned with the vision set in Chapter II, but also taking into consideration the mission, the values and the code of ethics. The interests of the company show its orientation towards its national and international clients, concerned with offering a greater diversity of products with the same quality, maintaining a high level of profitability. It also shows the importance of growing both in terms of sales and number of premium customers, aligning existing labor policies to generate greater efficiency. According to Tello (2018) the main interests for Textile S.A. are the following:

***Profitability.*** One of the main interests of investors is to obtain profitability.

Currently, the company has a high profitability, so it would not be appropriate to seek greater profitability, but rather to maintain it in the following years. This interest seeks a financial strengthening demonstrating the management capabilities that are had and, in this way, to let investors know that the return on their investment can continue to increase. To maintain a

high profitability, we must ensure a high volume of sales or the lowest possible costs. If the company is able to maintain current profitability, then it is likely that it will continue to work with large customers that demand large volumes of production which will generate greater satisfaction of investors.

***Increase the client portfolio.*** Currently, the company has four main clients that represent close to 80% of total sales. This means that they are very dependent on these clients and that if for some reason the commercial ties should end, a negative impact would be noticed in several areas of the company and probably even in the work environment. It is for this reason that Textile S.A. has as one of its priorities to find at least a three new premium clients, which can represent about 10% of sales and that privileges quality over price (Tello, 2018).

***Product diversification.*** Given the high competition in the current market, many companies seek diversification both in the products offered as well as trying to enter new industries, in this way we can have a greater differentiation with respect to the competition. For this reason, Textile S.A. will place emphasis on developing new garments with a variety of designs, providing greater added value to customers. In the same way, garments made with FMBM (fibers made by man) should be increased, in this way competitiveness will be increased thanks to the fact that the tariffs for these products in the United States is 32% while for cotton only 16% Currently only 5% of the production is FMBM and ideally it would reach 20% (Gestion, 2018).

***Sales increase.*** Textile S.A. wants to focus on an expansion in both local and international sales. There is a big growth gap for the national level with the launch of the own brand and the push that the management is giving to the local store, and in terms of the international level as we mentioned before we are looking for a premium client that helps more to the increase in annual sales. In recent years we have seen that the industry has

suffered a decline, but the future is promising since in the first quarter of this year there has been a 10% growth in exports of the sector (Gestion, 2018).

***Focus on quality, technology and highly qualified workers.*** Textile S.A. wants to set well defined policies for its internal processes in order to obtain recognized certifications and develop a thorough assessment of the quality of internal processes and products. For that purpose, the company aims to have audit reviews in all the areas and sanction the employees that does not meet the requirements. In addition, in order to increase sales, reduce costs, and have a higher productivity it is extremely important that Textile S.A. keep on investing in technology; robotization could help enormously to achieve a higher installed capacity; thus, being able to satisfy more clients requirements, both locally and internationally. Finally, Textile S.A. focuses on selecting the most qualified technicians in the market through a recruitment process that allows identifying the skills and abilities of the applicants. Likewise, the company promotes the continuous improvement of its employees through training and incentives regarding their remunerations (Tello, 2018).

## **5.2 Potential of Textile S.A.**

Textile S.A. has a strong potential to become a regional player in the textile and confection industry. The Company has developed core competencies that position it as a leader in the export of high-quality clothing, such as the ability to acquire high-quality raw materials from its local and foreign suppliers, manufacture and turn them into high-quality products, to get a position in the USA competitive market. Furthermore, Textile S.A. has a seasoned management team that knows very well the market and manages the relationship with suppliers and customers. On the other hand, Textile has room to improve efficiencies through automatizations and develop a further commitment from shareholders to continue supporting the capital of the company through reinvestments for future projects. According to Tello (2018) the main potentials of Textile S.A. are the following:

***Administration & Management:*** The management team is well organized and has an important track record in implementing successfully the company's strategies. The managers are well positioned in the Peruvian textile industry and use strategic planning as a tool to guide its long-term objectives and strategies. The board of directors approves it and revises the progress semiannually. The middle management has KPIs to monitor the progress of their objectives (Tello, 2018).

***Marketing and Sales & Market Research:*** The president of the board of directors, Mr. Carlos Castro mentioned that Textile has a long commercial relationship with its main clients, that recognize the quality of the garments, the service, and agility to deliver urgent requests or late minute changes. In addition, he stated that the company has the flexibility to produce small batches, which larger textile factories are not allowed to do. For that reason, Textile's clients are willing to pay a higher price for the quality of the service and the product. The clients are mainly based in the United States of America (around 95% of total sales) which is a large but competitive market. The company has developed a few distribution channels to sell its products locally, including e-commerce, and two small stores. They also have a brand for local market named "Velour" (Tello, 2018).

***Operations and Logistics & Infrastructure:*** Textile has a well-defined production process that relies on technology and labor skills. The company invests every year around USD 1.5m in the modernization of its production facilities and processes. They also invest in constantly improving the skills of its workers. Most of its raw materials come from abroad, which is managed adequately by Textile. The agreements with their suppliers allow the company to fulfill the requirements of their clients in a timely and quality manner. The company has two plants in Lima which location allows them to have access to the raw materials (mainly imported), skilled labor and access to the port for exports. Textile has a quality control system and a number of certifications that guarantee the fulfillment of norms



and monitoring its production process and labor environment, such as WRAP (Worldwide responsible accredited production), BASC (Business alliance of secure commerce), Global Organic Textile Standard, among others (Tello, 2018).

***Finance and Accounting:*** Every year the company invests in their production facilities in order to increase its capacity production and improve its processes. The management makes its investment decisions based on payback period. If this indicator is up to 2 years the company proceeds with the investments, and in some exceptional cases if the ratio is over 2 years. Most of the funds come from the banking system, as the net income is fully distributed as dividends. Textile has a wide access to credit lines from banks at low-interest rates. The company recorded sales of USD 63m in 2017 (Tello, 2018).

***Human Resources and Culture:*** Textile has adequate human resources policies that allow them to maintain a low turnover ratio and be one of the few textile companies that do not have worker unions. The company's culture is based on the consecution of objectives, relatively open to innovation and focused on providing high-quality products to their clients. There is still room for improvement in developing career lines for their employees and training in skills other than production. The company does not take advantage of the deep knowledge generated internally by their employees (Tello, 2018).

***Information Systems and Communications:*** Textile supports the managerial and operational processes with information systems. Most of the information systems are focused on supporting production processes providing tools for making operational and strategical decisions. The company still needs to upgrade its information systems for the remaining areas, especially marketing and finance areas. Furthermore, the company does not have integrated systems either with clients or suppliers (Tello, 2018).

***Technology and Research & Development:*** The company is committed to continue investing in developing new products and improve the production process. Textile S.A. has

approached its clients with innovative proposals for changes in design, and lately, they also have developed its own brand for the local market, at a low scale yet (Tello, 2018).

### 5.3 Cardinal Principles of Textile

The cardinal principles of Textile S.A. are the key factors that the company should consider when evaluating the implications of its relationship with allies and competitors. This tool was developed by Hartmann and proposed as a tool to recognize the opportunities and threats of an organization (D'Alessio, 2015). The cardinal principles come to be the guidelines that an organization must consider when evaluating its allies and competitors in terms of their common and opposite interests. As discussed in chapter III the cardinal principles of the country, now the same analysis will be developed but applied to Textile S.A. to be able to raise the interest matrix.

***Influence of third parties.*** According to D' Alessio (2015), this cardinal point indicates that there are no relations that are purely bilateral; in every possible agreement or partnership, there are always third or more parties that evaluate whether it suits them if the agreement carries it out or not, or prevent it from taking place. For this reason, the implications of the intervention of third parties should be evaluated.

In the case of Textile S.A., we can see that there are several third parties involved with the business. For instance, the Peruvian Government may enact new labor policies or regulations, to promote the sector, or for the protection of the environment; international treaties that are agreed with other countries can also affect the development of the industry; Another important third parties are the international fashion trends because they define the designs, technology, and materials that will be used for the products. Similarly, international companies that are dedicated to the purchase and sale of machinery and new technology can be considered at this point.

***Past-present ties.*** According to D'Alessio (2015) it is important to analyze how competitors have historically rivaled and if this competition has been loyal or affected by bad practices. The past is always projected to the present and even more, to the future. This analysis will help decide the strategies to be chosen or be careful when they are implemented. However, this principle must be handled with great care, since it is projected to the parties in a critical way (which not many people take well).

Regarding past ties, it is important to know that many companies in the textile and confection industry arose from a vertical integration of spinning and clothing companies, always looking for a perfecting of materials, processes, and designs in a market that keeps changing due to the latest fashions. On the other hand, in the present area, it maintains good relations with financial entities, even with those that are not constantly working. Likewise, relationships with companies that work in the same sector are positive, even on certain occasions they become customers for certain orders.

***Counterbalance of interests.*** D'Alessio (2015) stated that this counterbalance helps to assess the interests of competitors to decide if the conflict of interest affects the plans of the organization. This point should be reviewed from the point of view of common interests when seeking agreements or alliances with potential strategic partners.

Some of the main interests of Textile, as we have seen at the beginning of this chapter, are to increase the customer portfolio and sales thanks to exports and domestic sales to achieve greater market share. The company must carry out an exhaustive evaluation of its interests in order to determine which will have the greatest economic, financial, social, and environmental impact.

***Conservation of the enemies (competitors).*** According to D'Alessio (2015), this is an incentive to improve, be creative, innovative, and thus make the organization more productive and competitive. The absence of competitors is bad and demotivating, in many

cases, the true course is lost when there is a monopoly since it is possible to observe a lack of concern for consumers.

Textile S.A. is one of the main manufacturing and exporting companies in the country. By having internationally recognized brands as main clients, we compete against clusters from other Central American and Asian continents to serve the North American market. At the local level, in the textile industry disagreements can be appreciated between the parties basically for the supply of the raw material, which gives rise to a possible loyalty in the relations with the different members of the supply chain. A point in favor not only for Textile but for all companies in the industry is that there are many companies which generates a rivalry and that companies look for different ways of serving the different markets.

#### **5.4 Organizational Interest Matrix of Textile S.A (OIM)**

The Organizational Interest matrix (OIM) is a tool that allows managers to visualize the company's interest along with the identification of common or opposed interests with competitors (current, substitutes and entrants). In case of any opposed interest, it is important to identify if it is vital, important or peripheral. On the other hand, if the interests are common, the company can have allies. Once all the opposed and common interests are categorized in the table, the tool is complete and provides the management with an important input for developing the long-term objectives of the company (D'Alessio, 2015) (see Table 30).

#### **5.5 Long-Term Objectives of Textile S.A.**

The next step in this chapter is the formulation of the Long-term objectives (LTOs), which is the logical result of all the internal and external analysis that have been conducted. The LTO represents the results that the company expects to achieve after implementing the

selected strategies, which should conduct Textile S.A. to its vision (D'Alessio, 2015) (see Table 31).

Table 30

*Organizational Interest Matrix of Textile S.A. (OIM)*

Interest of Textile S.A.	Intensity of Interest		
	Vital	Important	Peripheral
Profitability	Nike (*), Armani (*), Lacoste (*), Hanna Andersson (*)	Peruvian Government (*)	Independent Brand as AMC, Vernácula, Bo'hem, Coco Jolie (**)
	International Suppliers (*) Ripley (*) Oeschle (*)	BBVA Continental, BCP, Scotiabank (*) Ministry of Environment (*)	
Increase the client portfolio	Devanlay Peru S.A. (**) Confecciones Textimax S.A. (**) Southern textile network S.A.C. (**) Cotton Knit S.A.C (**) Luthai Textile Com (**)	Peruvian Exporters Associations (*)	Trading Partners from USA, EU, and Canada (*)
Product diversification	Ripley (*) Oeschle (*)	Topitop (**) Zara (**) H&M (**) Desigual (**) Calvin Klein (**)	Manufacturers of clothing machines (*)
Sales increase	Nike (*), Armani (*), Lacoste (*), Hanna Andersson (*) Devanlay Peru S.A. (**) Confecciones Textimax S.A. (**) Southern textile network S.A.C. (**) Cotton Knit S.A.C (**) Luthai Textile Com (**)	Strategic allies (*)	
Focus on quality, technology and highly qualified workers	Qualified Worker Force (*) ISO 9001:2015 (*), ISO 14001:2015 (*), OHSAS 18001 (*)	Ministry of Labor (*) SENATI (*), TECSUP (*), National University of Engineering	

*Note.* (\*) Common interests; (\*\*) opposed interests. Adapted from "The Strategic Process: A managerial approach", by D'Alessio, 2015, Mexico: Pearson.

The proposed vision for Textile S.A. is the following: By the year 2024, to be the exporter leading company in the textile and confection industry in Peru, and be a referent brand in the local market, delivering high-quality products from our certified suppliers with added value to our clients, being at the forefront of technology, systems, and processes with highly qualified workers, providing higher profitability for the shareholders.

Table 31

*Textile S.A.'s LTOs*

N°	Long Term Objectives	Base Year	Final Year	Initial Value	Final Value
<b>To be the exporter leading company in the textile and confection industry in Peru, and be a referent brand in the local retail market</b>					
LTO 1	Increase the client portfolio in three premium international clients, by the year 2024	2018	2024	4	7
LTO 2	Increase the local market share in the mid-high income segment in 5%, by the year 2024	2018	2024	1%	6%
LTO 3	Expand the participation of local market to 5% of total sales, by the year 2024	2018	2024	2%	5%
<b>delivering high-quality products from our certified suppliers with added value to our clients</b>					
LTO 4	Increase the offered value of textile products, generating the annual improvement of not less than 65% of the products by 2024	2018	2024	25%	65%
LTO 5	Increase the quality of raw materials from the use of natural fibers in 80% of the total produced, by the year 2024	2018	2024	15%	80%
<b>Being at the forefront of technology, systems, and processes</b>					
LTO 6	Increase the efficiency in the processes using high technology to reduce the time of production by 10%, by 2024	2018	2024	5%	10%
<b>With highly qualified workers</b>					
LTO 7	Improve the performance of each worker by 10% by 2024	2018	2024	100	110
<b>Providing financial results for the investors</b>					
LTO 8	Increase RoE in 300 bps. by 2024	2018	2024	48.5%	51.5%

*Note.* Adapted from “The strategic process: A management approach”, by F. D’Alessio, 2015, Mexico: Pearson.

Following the vision of Textile S.A. that wants to be leading Peruvian in the textile and confection industry both in the manufacture and retail, and the total sales in 2018 of US\$ 74 million, the LTOs to fulfill are: (a) increase the client portfolio in one premium international clients by 2021, one more client by 2022, and until reaching a total increase of three premium clients by 2024 considering they represent 80% of the total sales; (b) increase

the local market share in the mid-high income segment in 1% per year for the next five years, until reaching 5% of market share by 2024; and (c) expand the participation of local market from 2% to 3% by 2021, to 4% by 2023, and to 5% by 2024.

In order to meet the deliver high-quality products with added value worldwide mentioned in the vision, the LTOs to accomplish are: (a) increase the offered value of textile products, generating the annual improvement of 30% by 2020, 35% by 2021, 45% by 2022, 55% by 2023, and 65% by 2024; (b) increase the quality of raw materials from the use of natural fibers in 20% by 2020, 30% by 2021, 40% by 2022, 60% by 2023, and 80% by 2024.

The achievement of being at the forefront of technology, systems, and processes, requires Textile S.A. to increase the efficiency in the processes using high technology, reducing the time of production by 1% per year from 5% to 10% by 2024. Likewise, Textile S.A. aims to have highly qualified workers for that reason, it has to improve the performance of each worker by 10% increasing the productivity index by 2 units per year, from 100 to 110 by 2024.

Finally, Textile S.A. wants to provide financial results for the investors. For that purpose, it has to increase RoE in 100 bps. by 2020, in 100 bps. by 2022, and 100 bps. by 2024. Overall, RoE will increase from 48.5% in 2018 to 51.5% in 2024.

## **5.6 Conclusions**

Textile S.A.'s interests are clearly supported by the vision. They are oriented to increase the client portfolio and sales through a good alignment of labor policies and product diversification. As consequence, the company can ensure its high level of profitability in the future. Likewise, these interests are directly related to the generation of value for customers, workers and shareholders of the company, as well as, an improvement in the processes in the search for greater efficiency and quality.

Furthermore, the long-term objectives support the previously mentioned interests and are focused on exploiting the real potential that Textile S.A. has in the strategic areas and always considering the four cardinal points of the business. These objectives will serve as a guide to know if the company actually reaches its vision. Likewise, Textile S.A. considers that all LTOs must be SMART, therefore they have the following qualities: (a) Specific, (b) Measurable, (c) Attainable, (d) Relevant, and (e) Timely.





## Chapter VI: The Strategic Process

This chapter is the formulation stage of the strategic process. In the following subsections, the strategies for the fulfillment of the LTOs are created using a defined set of matrices. According to D'Alessio (2015), the stage of combination uses five matrices for the creation and selection of strategies. The first one is the Matrix of Strengths, Opportunities, Weaknesses, and Threats (MSWOT), which is the cornerstone in the generation of strategies.

### 6.1 Matrix of Strengths, Opportunities, Weaknesses, and Threats (MSWOT)

The MSWOT relies on four main components: (a) Strengths, (b) Opportunities, (c) Weaknesses, and (d) Threats. The strengths and weaknesses were developed in the internal analysis, while the opportunities and threats in the external analysis of Textile S.A.. The results are showed in Table 29.

From the combination of these four variables, a set of strategies were created and are indicated as follows:

#### *Strategies SO, to be exploited*

S1: Develop new relationship between Textile S.A. and potential clients in countries where the FTAs apply.

S2: Develop higher efficiencies in the clothing value chain streamlining and automatizing the processes.

S3: Adopt backward vertical integration to secure high quality raw material.

S4: Minimize the environmental impact on the production processes becoming a more eco-friendly company.

#### *Strategies ST, to be confronted*

S5: Participate in international fashion fairs to keep updated with new trends.

S6: Participate in the clothing design process of other brands to increase the added value.

Table 32

*Matrix of Strengths, Opportunities, Weaknesses, and Threats (MSWOT)*

		Strengths	Weaknesses
		1 Cutting edge technology for production process	1 Concentration in United States of America
		2 Adequate capabilities for the development of new pro	2 Limited financial support of shareholders
		3 Good access to financial system	3 Little investment in market research
		4 Seasoned management team with deep market knowle	4 Lack of internal and external integration of IT
		5 Long commercial relationships with well known global brasystems	
		6 Good support of IT for production processes	5 Training programs are mainly focused on hard skills
		7 Commitment of employees (low turnover ratio and la	6 The production process still has some manual processes that might be automated
		8 Strong quality control system	7 Lack of positioning of company brand
		9 Good financial performance evidenced by high EBIT	8 Lack of career development for the employees
Opportunities	Strategies SO	Strategies WO	
1 The GDP and non-traditional exports are growing	S1 Develop new relationship between Textile S.A. and p	S8 Diversify the market destination of the exports seeking a more profitable position for Textile S.A.	
2 FTAs with USA, Canada, and EU	clients in countries where the FTAs apply		
3 International conditions will remain favorable	S2 Foster higher efficiencies in the clothing value chain	S9 Make strategic alliances in local and international market (South America)	
4 New trends and innovation (i.e. eco-friendly products)	streamlining and automatizing the processes		
5 Adequate and stable climatological conditions facilitate development of raw material	S3 Backward vertical integration to secure high quality ra	S10 Promote the training of soft skills for employees to generate an external motivation from the company	
6 New technologies are taking a leap in terms of methods and applications (i.e. e-commerce)	S4 Minimize the environmental impact on the production processes becoming a more eco-friendly company	S11 Position the Textile S.A. brand in the local market aiming to a mid-high income segment with the clothing design	
		S12 Invest in the strengthening of the online channel	
Threats	Strategies ST	Strategies WT	
1 Strong competition from existing rivals (i.e. China and I	S5 Participate in international fashion fairs to keep updat	S13 Seek for new sources of capital and economic financing	
2 External shocks in relation to the demand and prices of the products (i.e. trade war)	new trends	S14 Develop new channels for new patterns of consumers	
3 New consumption patterns of consumers	S6 Participate in the clothing desing process of other bra	S15 Invest in the robotization of the processes to minimize the manual tasks	
4 Lack of specialists in the market that absorb the basic	increase the added value		
5 Increase in environmental regulation	S7 Increase loyalty of current customers to differentiate	S16 Generate a culture of digital transformation using business intelligence	
	from competitors		

*Note.* Adapted from *The Strategic Process: A management approach* (3<sup>rd</sup> ed. Rev, pp. 270-272), by F. A. D'Alessio, 2015, Lima, Peru: Pearson.

S7: Increase loyalty of current customers to differentiate from competitors.

***Strategies WO, to be looked for***

S8: Diversify the market destination of the exports seeking a more profitable position for Textile S.A.

S9: Make strategic alliances in local and international market (South America).

S10: Develop the training of soft skills for employees to generate an external motivation from the company.

S11: Position the Textile S.A. brand in the local market aiming to a mid-high income segment with the clothing design.

S12: Invest in the strengthening of the online channel.

***Strategies WT, to be avoided***

S13: Identify new sources of capital and economic financing.

S14: Develop new channels for new patterns of consumers.

S15: Invest in the robotization of the processes to minimize the manual tasks.

S16: Generate a culture of digital transformation using business intelligence (see Table 32)

## **6.2 Matrix of Strategic Position and Actions Evaluation (MSPACE)**

The MSPACE is an important tool to determine the strategic position of a company with respect to the factors related to the industry and the organization (D'Alessio, 2015). In that sense, there are four possible strategic positions for a company: (a) conservative, (b) aggressive, (c) defensive, and (d) competitive. In order to do this matrix, it is important to consider determinant factors that affect Textiles S.A. and the textile and confection industry (see Table 33). The results of this analysis allowed discovering that Textile S.A. is situated in the aggressive quadrant (see Figure 21).

When a firm is in the aggressive position, it should implement exploration strategies in new market and products (D'Alessio, 2015). The strategies came out from an aggressive quadrant of MSPACE are: (a) concentric diversification, (b) vertical integration, (c) aggressive reduction of costs, (d) reduction of expenses on R&D, sales, and advertisement.

Therefore, Textile S.A. has to consider strategies such as:

S1: Develop new relationship between Textile S.A. and potential clients in countries where the FTAs apply.

S5: Participate in international fashion fairs to keep updated with new trends.

S6: Participate in the clothing design process of other brands to increase the added value.

S7: Increase loyalty of current customers to differentiate from competitors

S8: Diversify the market destination of the exports seeking a more profitable position for Textile S.A.

S9: Make strategic alliances in local and international market (South America).

S11: Position the Textile S.A. brand in the local market aiming to a mid-high income segment with the clothing design.

S12: Invest in the strengthening of the online channel.

S14: Develop new channels for new patterns of consumers.

Textile S.A. is positioned in the aggressive quadrant because the company has a clear competitive advantage and the resources to keep and improve its leading position in the market. Furthermore, the environment is relatively stable but with a number of challenges identified by the company. In that sense, the strategies that apply for Textile S.A. are focused on exploring new segments and products, as well as increasing its penetration on the local and international markets.

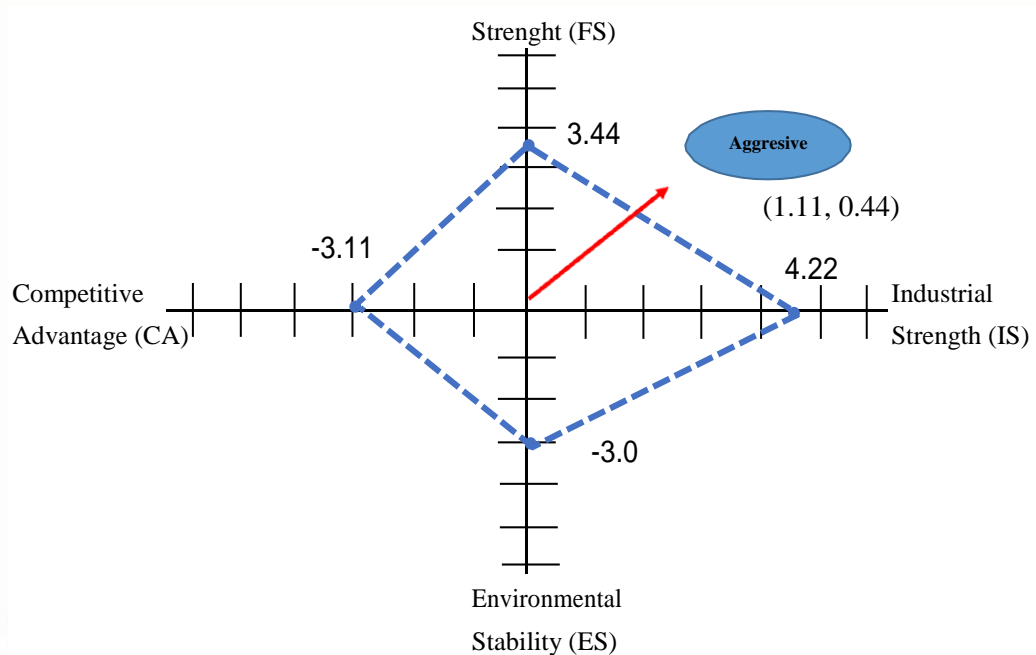


Figure 21. Graphic of MSPACE of Textile S.A.

### 6.3 Boston Consulting Group Matrix (BCGM)

According to D'Alessio (2015), the BCGM relies on the market share and the sales growth as main factors to determine the strategies to be followed by Textile S.A. regarding its portfolio of business units or products.

The BCGM has four quadrants: (a) quotation marks, for low market share and high sales growth, (b) stars, for high market share and high sales growth, (c) cash cows, for high market share and low sales growth; and (d) dogs, for low market share and low sales growth as per D'Alessio, (2015). In Table 34, it is presented the figures of market share and sales growth of the main products of the textile company. The BCGM (see Figure 22) was created using the information from the aforementioned table. After applying BCGM matrix, two important cash cows, four quotation marks and two dogs were identified.

The following external alternatives strategies resulted from the BCGM analysis, which would allow Textile S.A. to generate stars from quotation marks: (a) customer acquisition, (b) market research to determine consumer psychology, and (c) innovation, and (d) rebranding.

Table 33

*Matrix of Strategic and Actions Evaluation (MSPACE)**Matrix of Strategic Position and Actions Evaluation (MSPACE)*

Determinant Factors of Financial Strenght (FS)										
Internal Strategic Position	1 Return over Investment	Low	0	1	2	3	4	5	6 High	4
	2 Leverage	Unbalanced	0	1	2	3	4	5	6 Balanced	4
	3 Liquidity	Unbalanced	0	1	2	3	4	5	6 Balanced	4
	4 Required capital versus available capital	High	0	1	2	3	4	5	6 Low	3
	5 Cash flow	Low	0	1	2	3	4	5	6 High	4
	6 Easiness of market exit	Hard	0	1	2	3	4	5	6 Easy	2
	7 Inherent risk of the business	High	0	1	2	3	4	5	6 Low	3
	8 Inventory turnover	Slow	0	1	2	3	4	5	6 Quick	3 Average
	9 Economies of scale and of experience	Low	0	1	2	3	4	5	6 High	4 3.44
Determinant Factors of Competitive Advantage (CA)										
Internal Strategic Position	1 Market share	Small	0	1	2	3	4	5	6 Large	3
	2 Quality of the product	Inferior	0	1	2	3	4	5	6 Superior	4
	3 Product life cycle	Mature	0	1	2	3	4	5	6 Early stage	2
	4 Product replacement cycle	Variable	0	1	2	3	4	5	6 Fixed	3
	5 Consumer loyalty	Low	0	1	2	3	4	5	6 High	2
	6 Competitors' capacity utilization	Low	0	1	2	3	4	5	6 High	3
	7 Technological knowledge	Low	0	1	2	3	4	5	6 High	4 Average
	8 Vertical integration	Low	0	1	2	3	4	5	6 High	2 -3.11
	9 Speed for introduction of new products	Slow	0	1	2	3	4	5	6 Quick	3 2.89
Determinant Factors of Environmental Stability (ES)										
External Strategic Position	1 Technological changes	Many	0	1	2	3	4	5	6 Few	3
	2 Inflation rate	High	0	1	2	3	4	5	6 Low	4
	3 Demand volatility	High	0	1	2	3	4	5	6 Low	2
	4 Range of price of competitive products	Wide	0	1	2	3	4	5	6 Narrow	3
	5 Market entry barriers	Few	0	1	2	3	4	5	6 Many	4
	6 Rivalry/ competitive pressure	High	0	1	2	3	4	5	6 Low	1 Average
	7 Elasticity price of demand	Elastic	0	1	2	3	4	5	6 Inelastic	2 -3.00
	8 Pressure of substitutes	High	0	1	2	3	4	5	6 Low	5 3.00
Determinant Factors of Industrial Strength (IS)										
External Strategic Position	1 Growth potential	Low	0	1	2	3	4	5	6 High	4
	2 Earnings potential	Low	0	1	2	3	4	5	6 High	3
	3 Financial stability	Low	0	1	2	3	4	5	6 High	4
	4 Technology knowledge	Simple	0	1	2	3	4	5	6 Complex	5
	5 Resources utilization	Inefficient	0	1	2	3	4	5	6 Efficient	4
	6 Capital intensity	Low	0	1	2	3	4	5	6 High	4
	7 Easiness of market entry	Easy	0	1	2	3	4	5	6 Hard	5
	8 Productivity/ Utilization of capacity	Low	0	1	2	3	4	5	6 High	5 Average
	9 Negotiation power of producers	Low	0	1	2	3	4	5	6 High	4 4.22

Table 34

*Market Share and Sales Growth in 2016*

Divisions	Sales (USD million)	% sales	Relat. Market Share %	Industry Growth
T-shirts	23	37%	13.4%	1.5%
Shirts	15	24%	11.5%	1.8%
Pants	7	11%	9.0%	2.1%
Sweatshirts	7	11%	4.2%	2.0%
Dresses	4	6%	7.8%	3.5%
Skirts	3	5%	5.7%	3.2%
Jackets	2	3%	3.1%	0.5%
Sleepwears	2	3%	6.3%	0.2%
Total	63	100%		

Note. Elaborated based on data provided by Textile S.A.

For that purpose, Textile S.A. needs to explore markets with higher growth potential. The strategies formulated in the MSWOT that are supported by the results of the BCGM are the following:

S1: Develop new relationship between Textile S.A. and potential clients in countries where the FTAs apply.

S5: Participate in international fashion fairs to keep updated with new trends.

S6: Participate in the clothing design process of other brands to increase the added value.

S7: Increase loyalty of current customers to differentiate from competitors.

S8: Diversify the market destination of the exports seeking a more profitable position for Textile S.A.

S9: Make strategic alliances in local and international market (South America).

S11: Position the Textile S.A. brand in the local market aiming to a mid-high income segment with the clothing design.

S12: Invest in the strengthening of the online channel.

S14: Develop new channels for new patterns of consumers.

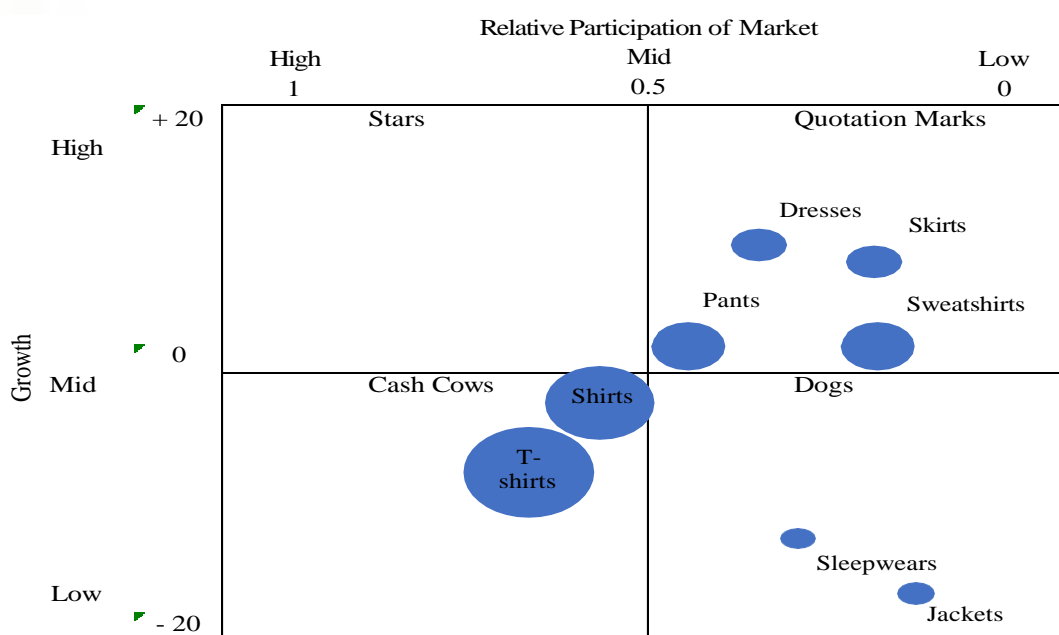


Figure 22. BCGM of the Textile SA.

#### 6.4 Internal and External Matrix (IEM)

The IEM was developed by the consulting company McKinsey for General Electric to evaluate their portfolio of business units. According to D'Alessio (2015), this matrix has nine quadrants and the position of the company is determined by the scores calculated in the external evaluation (MEEF) and the internal analysis (MIFE) of the company.

In the case of Textile S.A., it has a score of 3.02 in the MIFE and a score of 2.29 in the MEEF. In consequence, it is positioned in the quadrant IV, as shown in Figure 23. As stated by D'Alessio (2015), the corresponding stance in quadrant IV is “grow and build”, using intensive and integration strategies.

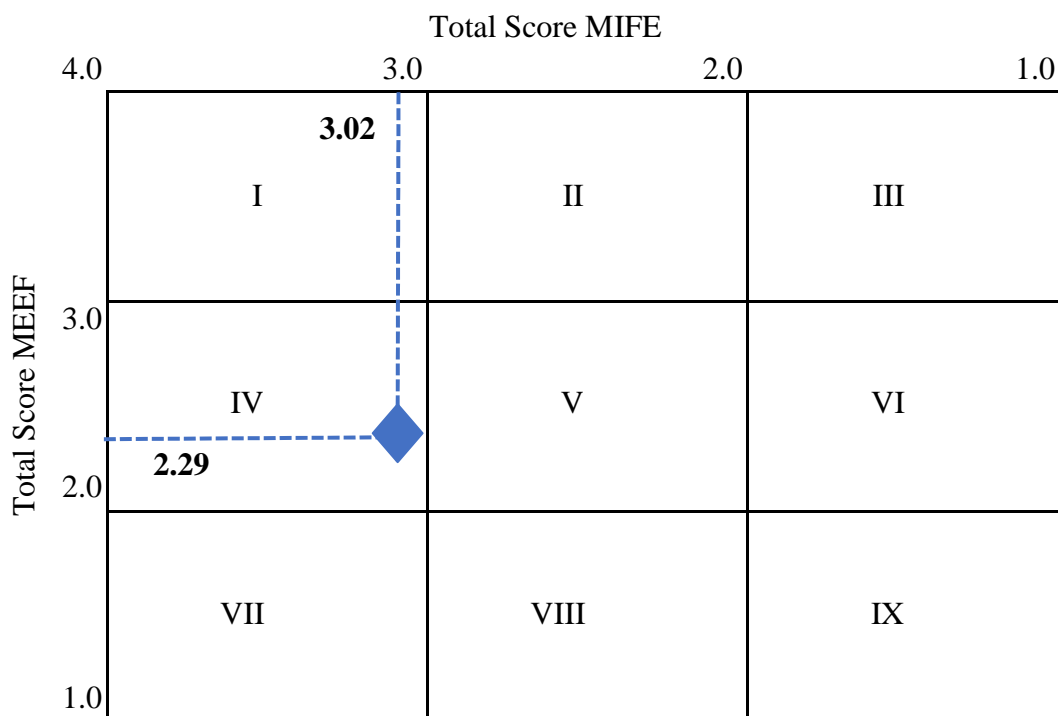


Figure 23. Internal and External Matrix for Textile S.A.

After positioning Textile S.A. in the fourth quadrant of IEM, the recommended strategies to apply are: (a) backward vertical integration, (b) forward vertical integration, (c) horizontal integration, (d) market penetration, (e) product development, and (f) market development.



The strategies formulated in the MSWOT that are supported by the results of the IEM are the following:

S1: Develop new relationship between Textile S.A. and potential clients in countries where the FTAs apply.

S3: Adopt backward vertical integration to secure high quality raw material.

S5: Participate in international fashion fairs to keep updated with new trends.

S6: Participate in the clothing design process of other brands to increase the added value.

S7: Increase loyalty of current customers to differentiate from competitors

S8: Diversify the market destination of the exports seeking a more profitable position for Textile S.A.

S9: Make strategic alliances in local and international market (South America).

S10: Develop the training of soft skills for employees to generate an external motivation from the company.

S11: Position the Textile S.A. brand in the local market aiming to a mid-high income segment with the clothing design.

S12: Invest in the strengthening of the online channel.

S13: Identify for new sources of capital and economic financing

S14: Develop new channels for new patterns of consumers.

## **6.5 Grand Strategy Matrix (GSM)**

The GSM is a matrix that considers the market growth (rapid or slow) and the competitive position (strong or weak) as important drivers for the strategy of a company. The objective is to assess each of these variables and position the company in any of their four quadrants as affirmed by D'Alessio (2015). As with the former matrices, the position of the company in the matrix determines its strategic stance (see Figure 24). In the case of Textile

S.A., the company is positioned in the quadrant I that evidences a relatively rapid growth of the market and a strong competitive position. In the opinion of D'Alessio (2015), the strategies that corresponds to the quadrant I are: (a) market development, (b) market penetration, (c) product development, (d) vertical integration, (e) horizontal integration, and (f) concentric diversification.

The strategies formulated in the MSWOT that are supported by the results of the GSM are the following:

S1: Develop new relationship between Textile S.A. and potential clients in countries where the FTAs apply.

S3: Adopt backward vertical integration to secure high quality raw material.

S5: Participate in international fashion fairs to keep updated with new trends.

S6: Participate in the clothing design process of other brands to increase the added value.

S7: Increase loyalty of current customers to differentiate from competitors

S8: Diversify the market destination of the exports seeking a more profitable position for Textile S.A.

S9: Make strategic alliances in local and international market (South America).

S11: Position the Textile S.A. brand in the local market aiming to a mid-high income segment with the clothing design

S12: Invest in the strengthening of the online channel.

S14: Develop new channels for new patterns of consumers.

Textile S.A. is located in the quadrant I because the company has a strong competitive position in the market as manufacturer, and the textile exports market growth is moderately higher after recovering since mid 2018. In that sense, the recommended strategies for Textile

S.A. are the ones related with market development, product development, market penetration, backward vertical integration, and concentric diversification.

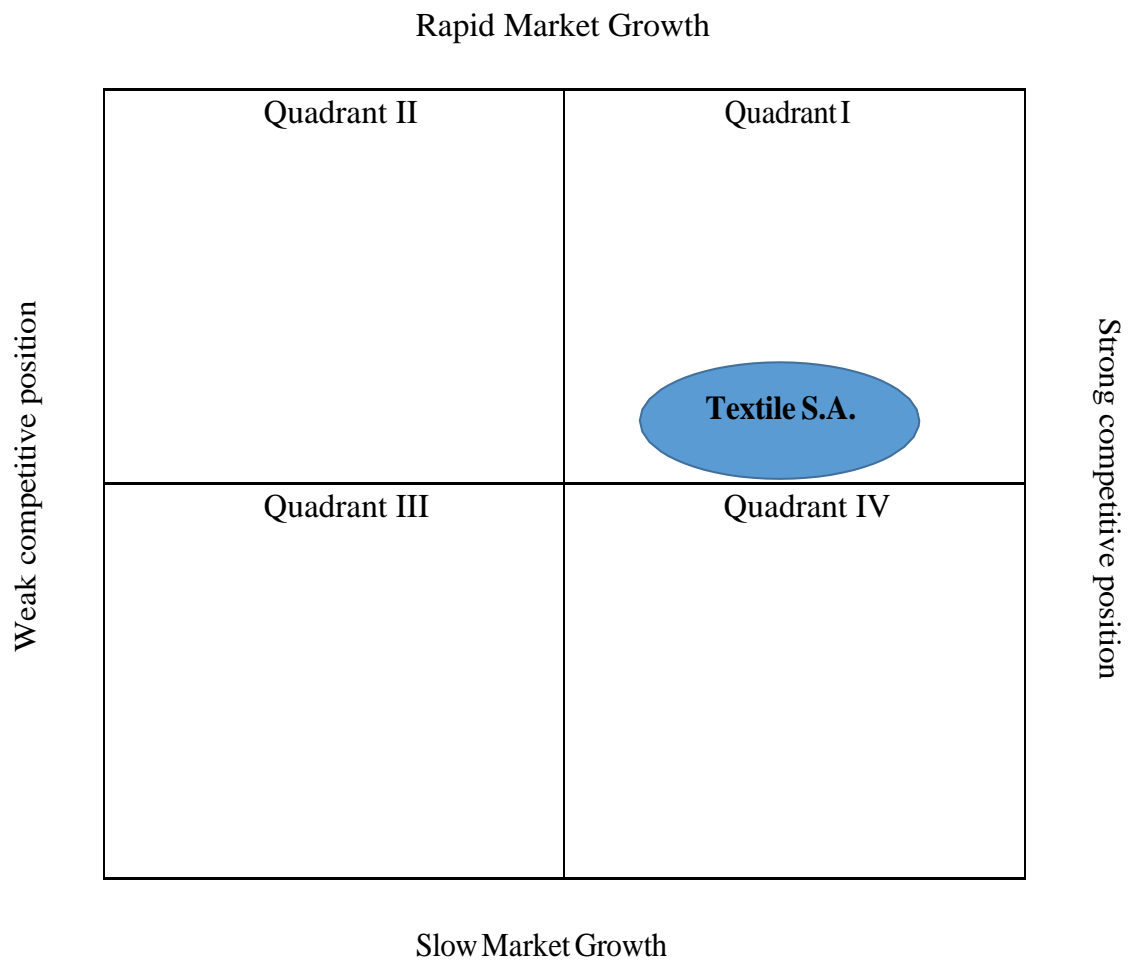


Figure 24. Grand Strategy Matrix for Textile S.A.

## 6.6 Strategic Decision Matrix (SDM)

The SDM is the consolidated matrix that receives input from the previously analyzed matrices MSWOT, MSPACE, BGCM, IEM, and GSM. The purpose of the SDM is to keep the strategies that are repeated at least three times among the aforementioned matrices. Then, these strategies will be used in the Quantitative Strategic Planning Matrix (QSPM), in which their attractiveness will be evaluated compared with the key success factors, as suggested by D'Alessio (2015). In Table 35, the SDM of Textile S.A. is presented and based on the criteria of at least three times repetition, the following strategies are retained:

S1: Develop new relationship between Textile S.A. and potential clients in countries where the FTAs apply.

S3: Adopt backward vertical integration to secure high quality raw material.

S5: Participate in international fashion fairs to keep updated with new trends.

S6: Participate in the clothing design process of other brands to increase the added value.

S7: Increase loyalty of current customers to differentiate from competitors

S8: Diversify the market destination of the exports seeking a more profitable position for Textile S.A.

S9: Make strategic alliances in local and international market (South America).

S11: Position the Textile S.A. brand in the local market aiming to a mid-high income segment with the clothing design.

S12: Invest in the strengthening of the online channel.

S14: Develop new channels for new patterns of consumers.

From the retained strategies, it is possible to combine S6, S7, S11, and S12 as these strategies are aligned in penetrating the current markets in which Textile S.A. has presence. United States is a consolidated market, however the company needs to remain close to its current clients and generate value for them on an ongoing basis. Furthermore, Textile S.A. already has presence in Peru with its own but small brand. The firm needs to work more on the positioning of its own brand and penetrating more the Peruvian market.

As a complement, S1, S5, S8, S9, and S14 can combine as these strategies are in line to promoting the creation of new products and markets for Textile S.A. It is recommended that the company looks for an additional export market and gradually diversify from USA. Furthermore, Textile S.A. has to innovate constantly its products given the dynamic demand of clothing and the constant changes in consumer behaviors. The company needs to be open

to emerging new technologies within and without the textile and confection industry, especially those that makes the manufacturing process more eco-friendly. There is a large opportunity in the green movement that is emerging in the globe to become a sustainable company.

### **6.7 Quantitative Strategic Planning Matrix (QSPM)**

The purpose of this matrix is to assess the attractiveness of each retained strategy. For this process it is necessary to incorporate into the matrix, the strengths and weaknesses identified in the internal analysis and the opportunities and threats observed in the external assessment. These variables have to be the key success factors identified previously and have to be pondered with their respective weights. Then, each strategy has to be qualified from a range between one and four. On one hand, one means no attractive or no acceptable and on the other hand, four means highly attractive or very acceptable. After this step, each qualification has to be pondered by the key success factors' weight to obtain a final score for each strategy. Each strategy might have a score between two and eight, being five the average. Then, a score of five and above is acceptable, while below five is less acceptable or non acceptable, as claimed by D'Alessio (2015).

In the case of Textile S.A. each of the ten retained strategies selected in the SDM have a score above five, as can be noticed in Table 36. As a summary, the scores obtained by the ten strategies are the following:

S1: Develop new relationship between Textile S.A. and potential clients in countries where the FTAs apply. This strategy had a score of 6.49 (acceptable).

S3: Adopt backward vertical integration to secure high quality raw material. This strategy had a score of 5.91 (acceptable).

S5: Participate in international fashion fairs to keep updated with new trends. This strategy had a score of 6.81 (acceptable).

S6: Participate in the clothing design process of other brands to increase the added value. This strategy had a score of 6.31 (acceptable).

S7: Increase loyalty of current customers to differentiate from competitors. This strategy had a score of 5.59 (acceptable).

S8: Diversify the market destination of the exports seeking a more profitable position for Textile S.A. This strategy had a score of 5.46 (acceptable).

S9: Make strategic alliances in local and international market (South America). This strategy had a score of 6.17 (acceptable).

S11: Position the Textile S.A. brand in the local market aiming to a mid-high income segment with the clothing design. This strategy had a score of 6.58 (acceptable).

S12: Invest in the strengthening of the online channel. This strategy had a score of 6.58 (acceptable).

S14: Develop new channels for new patterns of consumers. This strategy had a score of 6.24 (acceptable).

## **6.8 Rumelt Matrix (RM)**

The RM is an additional filter for the retained strategies, that follows the criteria defined by Richard P. Rumelt in 1986. Each strategy has to be evaluated under the following variables: (a) consistency, (b) consonance, (c) feasibility, and (d) advantage. Consistency refers to the alignment in terms of objectives and policies. Consonance means that the strategy needs to respond to the external environment and the changes that are emerging. Feasibility relates to the fact that the strategy should not generate cost overruns nor create problems for the company. Finally, advantage refers to the creation and maintenance of company's competitive advantages. In the case of Textile S.A., each of the ten retained strategies complied with the four criteria of Rumelt, as can be noticed in the Table 37.

Table 35

*Strategic Decision Matrix (SDM)*

	<b>Strategies</b>	<b>SWOT</b>	<b>SPACE</b>	<b>BCG</b>	<b>IE</b>	<b>GS</b>	<b>Total</b>	<b>Accepted?</b>
S1	Develop new relationship between Textile S.A. and potential clients in countries where the FTAs apply	x	x	x	x	x	5	Yes
S2	Develop higher efficiencies in the clothing value chain streamlining and automatizing the processes	x					1	No
S3	Adopt backward vertical integration to secure high quality raw material	x			x	x	3	Yes
S4	Minimize the environmental impact on the production processes becoming a more eco-friendly company	x					1	Yes
S5	Participate in international fashion fairs to keep updated with new trends	x	x	x	x	x	5	Yes
S6	Participate in the clothing design process of other brands to increase the added value	x	x	x	x	x	5	Yes
S7	Increase loyalty of current customers to differentiate from competitors	x	x	x	x	x	5	Yes
S8	Diversify the market destination of the exports seeking a more profitable position for Textile S.A.	x	x	x	x	x	5	Yes
S9	Make strategic alliances in local and international market (South America)	x	x	x	x	x	5	Yes
S10	Develop the training of soft skills for employees to generate an external motivation from the company	x			x		2	No
S11	Position the Textile S.A. brand in the local market aiming to a mid-high income segment with the clothing design	x	x	x	x	x	5	Yes
S12	Invest in the strengthening of the online channel	x	x	x	x	x	5	Yes
S13	Identify for new sources of capital and economic financing	x					1	No
S14	Develop new channels for new patterns of consumers	x	x	x	x	x	5	Yes
S15	Invest in the robotization of the processes to minimize the manual tasks	x					1	No
S16	Generate a culture of digital transformation using business intelligence	x					1	No

Table 36

*Quantitative Strategic Planning Matrix (QSPM)*

Key Success Factors	Weight	S1: Develop new relationship between Textile S.A. and potential clients in countries where the FTAs apply		S3: Adopt backward vertical integration to secure high quality raw material		S5: Participate in international fashion fairs to keep updated with new trends		S6: Participate in the clothing desing process of other brands to increase the added value		S7: Increase loyalty of current customers to differentiate from competitors	
		AW	TAW	AW	TAW	AW	TAW	AW	TAW	AW	TAW
<b>Opportunities</b>											
1 The GDP and non-traditional exports are growing	0.10	3	0.30	3	0.30	2	0.20	3	0.30	4	0.40
2 FTAs with US, Canada and China	0.14	4	0.56	3	0.42	4	0.56	4	0.56	2	0.28
3 International conditions will remain favorable	0.12	4	0.48	3	0.36	4	0.48	3	0.36	4	0.48
4 New trends and innovation (i.e. eco-friendly products)	0.05	4	0.20	4	0.20	4	0.20	4	0.20	4	0.20
5 Adequate and stable climatological conditions facilitate development of raw material	0.08	3	0.24	4	0.32	3	0.24	3	0.24	2	0.16
6 New technologies are taking a leap in terms of methods and applications (i.e. e-com)	0.06	3	0.18	3	0.18	3	0.18	4	0.24	3	0.18
<b>Threats</b>											
1 Strong competition from existing rivals	0.12	3	0.36	3	0.36	4	0.48	4	0.48	3	0.36
2 External shocks in relation to the demand and prices of the products (i.e. trade war)	0.08	4	0.32	3	0.24	4	0.32	2	0.16	3	0.24
3 New consumption patterns of consumers	0.09	3	0.27	3	0.27	4	0.36	4	0.36	4	0.36
4 Lack of specialists in the market that absorb the basic knowledge brought by new te	0.09	2	0.18	3	0.27	3	0.27	2	0.18	3	0.27
5 Increase in environmental regulation	0.07	3	0.21	2	0.14	3	0.21	3	0.21	2	0.14
<b>Strengths</b>											
1 Cutting edge technology for production process	0.05	4	0.20	3	0.15	4	0.20	4	0.20	4	0.20
2 Adequate capabilities for the development of new products	0.07	4	0.28	4	0.28	4	0.28	4	0.28	4	0.28
3 Good access to financial system	0.05	3	0.15	3	0.15	3	0.15	3	0.15	4	0.20
4 Seasoned management team with deep market knowledge	0.05	4	0.20	4	0.20	4	0.20	3	0.15	4	0.20
5 Long commercial relationships with well known global brands	0.06	4	0.24	4	0.24	4	0.24	4	0.24	3	0.18
6 Good support of IT for production processes	0.06	4	0.24	3	0.18	3	0.18	3	0.18	3	0.18
7 Commitment of employees (low turnover ratio and lack of union)	0.05	4	0.20	3	0.15	4	0.20	3	0.15	3	0.15
8 Strong quality control system	0.11	4	0.44	3	0.33	4	0.44	4	0.44	3	0.33
9 Good financial performance evidenced by high EBITDA	0.05	3	0.15	3	0.15	4	0.20	4	0.20	3	0.15
<b>Weaknesses</b>											
1 Concentration in United States of America	0.07	4	0.28	3	0.21	4	0.28	2	0.14	1	0.07
2 Limited financial support of shareholders	0.05	3	0.15	3	0.15	2	0.10	1	0.05	3	0.15
3 Little investment in market research	0.05	2	0.10	2	0.10	2	0.10	2	0.10	3	0.15
4 Lack of internal and external integration of IT systems	0.05	2	0.10	2	0.10	2	0.10	2	0.10	1	0.05
5 Training programs are mainly focused on hard skills	0.05	2	0.10	2	0.10	2	0.10	2	0.10	1	0.05
6 The production process still has some manual processes that might be automated	0.05	2	0.10	2	0.10	3	0.15	3	0.15	1	0.05
7 Lack of positioning of company brand	0.08	2	0.16	2	0.16	3	0.24	3	0.24	1	0.08
8 Lack of career development for the employees	0.05	2	0.10	2	0.10	3	0.15	3	0.15	1	0.05
<b>Total</b>	<b>2.00</b>		<b>6.49</b>		<b>5.91</b>		<b>6.81</b>		<b>6.31</b>		<b>5.59</b>



Continuation (...)

Key Success Factors	Weight	S8: Diversify the market destination of the exports seeking a more profitable position for Textile S.A.		S9: Make strategic alliances in local and international market (South America)		S11: Position the Textile S.A. brand in the local market aiming to a mid-high income segment with the clothing design		S12: Invest in the strengthening of the online channel		S14: Develop new channels for new patterns of consumers	
		AW	TAW	AW	TAW	AW	TAW	AW	TAW	AW	TAW
<b>Opportunities</b>											
1 The GDP and non-traditional exports are growing	0.10	4	0.40	3	0.30	4	0.40	4	0.40	4	0.40
2 FTAs with US, Canada and China	0.14	2	0.28	4	0.56	3	0.42	3	0.42	3	0.42
3 International conditions will remain favorable	0.12	2	0.24	3	0.36	3	0.36	3	0.36	3	0.36
4 New trends and innovation (i.e. eco-friendly products)	0.05	2	0.10	3	0.15	4	0.20	4	0.20	3	0.15
5 Adequate and stable climatological conditions facilitate development of raw materia	0.08	2	0.16	4	0.32	3	0.24	3	0.24	3	0.24
6 New technologies are taking a leap in terms of methods and applications (i.e. e-com	0.06	4	0.24	3	0.18	3	0.18	3	0.18	3	0.18
<b>Threats</b>											
1 Strong competition from existing rivals	0.12	3	0.36	4	0.48	4	0.48	4	0.48	3	0.36
2 External shocks in relation to the demand and prices of the products (i.e. trade war)	0.08	3	0.24	4	0.32	4	0.32	4	0.32	3	0.24
3 New consumption patterns of consumers	0.09	3	0.27	4	0.36	4	0.36	4	0.36	3	0.27
4 Lack of specialists in the market that absorb the basic knowledge brought by new te	0.09	2	0.18	2	0.18	3	0.27	3	0.27	3	0.27
5 Increase in environmental regulation	0.07	3	0.21	3	0.21	4	0.28	4	0.28	4	0.28
<b>Strenghts</b>											
1 Cutting edge technology for production process	0.05	4	0.20	4	0.20	3	0.15	3	0.15	3	0.15
2 Adequate capabilities for the development of new products	0.07	4	0.28	4	0.28	3	0.21	3	0.21	3	0.21
3 Good access to financial system	0.05	4	0.20	3	0.15	3	0.15	3	0.15	3	0.15
4 Seasoned management team with deep market knowledge	0.05	4	0.20	4	0.20	4	0.20	4	0.20	4	0.20
5 Long commercial relationships with well known global brands	0.06	4	0.24	3	0.18	4	0.24	4	0.24	4	0.24
6 Good support of IT for production processes	0.06	3	0.18	3	0.18	3	0.18	3	0.18	3	0.18
7 Commitment of employees (low turnover ratio and lack of union)	0.05	3	0.15	3	0.15	3	0.15	3	0.15	3	0.15
8 Strong quality control system	0.11	4	0.44	2	0.22	4	0.44	4	0.44	4	0.44
9 Good financial performance evidenced by high EBITDA	0.05	4	0.20	2	0.10	4	0.20	4	0.20	4	0.20
<b>Weaknesses</b>											
1 Concentration in United States of America	0.07	3	0.21	4	0.28	3	0.21	3	0.21	3	0.21
2 Limited financial support of shareholders	0.05	1	0.05	1	0.05	2	0.10	2	0.10	2	0.10
3 Little investment in market research	0.05	3	0.15	2	0.10	2	0.10	2	0.10	2	0.10
4 Lack of internal and external integration of IT systems	0.05	1	0.05	2	0.10	2	0.10	2	0.10	2	0.10
5 Training programs are mainly focused on hard skills	0.05	1	0.05	4	0.20	2	0.10	2	0.10	2	0.10
6 The production process still has some manual processes that might be automated	0.05	1	0.05	2	0.10	3	0.15	3	0.15	3	0.15
7 Lack of positioning of company brand	0.08	1	0.08	2	0.16	3	0.24	3	0.24	3	0.24
8 Lack of career development for the employees	0.05	1	0.05	2	0.10	3	0.15	3	0.15	3	0.15
<b>Total</b>	<b>2.00</b>		<b>5.46</b>		<b>6.17</b>		<b>6.58</b>		<b>6.58</b>		<b>6.24</b>

Table 37

*Rumelt Matrix (RM)*

	Strategies	Consistency	Consonancy	Feasability	Advantage	Accepted?
S1	Develop new relationship between Textile S.A. and potential clients in countries where the FTAs apply	Yes	Yes	Yes	Yes	Yes
S3	Adopt backward vertical integration to secure high quality raw material	Yes	Yes	Yes	Yes	Yes
S5	Participate in international fashion fairs to keep updated with new trends	Yes	Yes	Yes	Yes	Yes
S6	Participate in the clothing design process of other brands to increase the added value	Yes	Yes	Yes	Yes	Yes
S7	Increase loyalty of current customers to differentiate from competitors	Yes	Yes	Yes	Yes	Yes
S8	Diversify the market destination of the exports seeking a more profitable position for Textile S.A.	Yes	Yes	Yes	Yes	Yes
S9	Make strategic alliances in local and international market (South America)	Yes	Yes	Yes	Yes	Yes
S11	Position the Textile S.A. brand in the local market aiming to a need high income segment with the clothing design	Yes	Yes	Yes	Yes	Yes
S12	Invest in the strengthen of the online channel	Yes	Yes	Yes	Yes	Yes
S14	Develop new channels for new patterns of consumers	Yes	Yes	Yes	Yes	Yes

## 6.9 Ethics Matrix (EM)

The EM, along with the RM, are filters for the retained strategies. In the case of the EM, this matrix is focused on ethics and its objective is to evaluate every strategy considering aspects related to right and justice. The matrix is divided in three subsections: (a) Rights, (b) Justice, and (c) Utilitarianism. In the case of Rights, the impact of each strategy can be defined as Violate (V), Neutral (N), and Promote (P). In the case of Justice, the definitions are Fair (F), Neutral (N), and Unfair (U). Finally, in the case of Utilitarianism, the definitions are Excellent (E), Neutral (N), and Harmful (H). If any of the strategies violate the human rights, is unfair or harmful for the company, then it has to be disregarded, as suggested by D'Alessio (2015). The analysis for Textile S.A. is shown in Table 38. The result is that the ten retained strategies fulfilled the criterias established by the EM.

Table 38 *Ethics MEM – part 1*

### *Ethics Matrix (EM)*

Strategies	Develop new relationship between Textile S.A. and potential clients in countries where the FTAs apply	Backward vertical integration to secure high quality raw material	Participate in international fashion fairs to keep updated with new trends	Participate in the clothing design process of other brands to increase the added value	Increase loyalty of current customers to differentiate from competitors
<b>Rights</b>					
Impact on the right to life	N	N	N	N	N
Impact on the right to own property	N	N	N	N	N
Impact on the right to free thought	N	N	N	N	N
Impact on the right of privacy	N	N	N	N	N
Impact on the right to freedom of conscience	N	N	N	N	N
Impact on the right to freedom of speech	N	N	N	N	N
Impact on the right to due process	N	N	N	N	N
<b>Justice</b>					
Impact on the distribution	N	N	N	N	N
Equal administration	N	N	N	N	N
Compensation norms	N	N	N	N	N
<b>Utilitarianism</b>					
Strategic objectives and results	E	E	E	E	E
Strategic means used	E	E	E	E	E

*Continuation (...)*

Strategies	Diversify the market destination of the exports seeking a more profitable position for Textile S.A.	Make strategic alliances in local and international market (South America)	Position the Textile S.A. brand in the local market aiming to a need high income segment with the clothing design	Invest in the strengthen of the online channel	Develop new channels for new patterns of consumers
Rights					
Impact on the right to life	N	N	N	N	N
Impact on the right to own property	N	N	N	N	N
Impact on the right to free thought	N	N	N	N	N
Impact on the right of privacy	N	N	N	N	N
Impact on the right to freedom of conscience	N	N	N	N	N
Impact on the right to freedom of speech	N	N	N	N	N
Impact on the right to due process	N	N	N	N	N
Justice					
Impact on the distribution	N	N	N	N	N
Equal administration	N	N	N	N	N
Compensation norms	N	N	N	N	N
Utilitarianism					
Strategic objectives and results	E	E	E	E	E
Strategic means used	E	E	E	E	E

## 6.10 Retained and Contingency Strategies

This section summarizes the retained and the contingency strategies for Textile S.A., after applying the SDM, QSPM, RM, and EM:

Retained Strategies:

S1: Develop new relationship between Textile S.A. and potential clients in countries where the FTAs apply.

S3: Adopt backward vertical integration to secure high quality raw material.

S5: Participate in international fashion fairs to keep updated with new trends.

S6: Participate in the clothing design process of other brands to increase the added value.

S7: Increase loyalty of current customers to differentiate from competitors.

S8: Diversify the market destination of the exports seeking a more profitable position for Textile S.A.

S9: Make strategic alliances in local and international market (South America).

S11: Position the Textile S.A. brand in the local market aiming to a mid-high income segment with the clothing design.

S12: Invest in the strengthening of the online channel.

S14: Develop new channels for new patterns of consumers.

Contingency strategies:

S2: Develop higher efficiencies in the clothing chain value streamlining and automatizing the processes.

S4: Minimize the environmental impact on the production processes becoming a more eco-friendly company.

S10: Develop the training of soft skills for employees to generate an external motivation from the company.

S13: Identify new sources of capital and economic financing.

S15: Invest in the robotization of the processes to minimize the manual tasks.

S16: Generate a culture of digital transformation using business intelligence.

### **6.11 Strategies vs Long-Term Objectives Matrix (SLTOM)**

The purpose of the SLTOM is to evaluate the matching between the retained strategies and the company's long term objectives. If any of the retained strategy does not match with any of the long term objectives, then it will have to be reassigned as a contingency strategy, as stated by D'Alessio (2015). For Textile S.A., all the retained strategies will be useful to achieve the long term objectives (see Table 39).

Table 39

*Strategic vs Long-Term Objectives Matrix*

		<b>LTO1</b>	<b>LTO2</b>	<b>LTO3</b>	<b>LTO4</b>	<b>LTO5</b>	<b>LTO6</b>	<b>LTO7</b>	<b>LTO8</b>
		Increase the client portfolio in three premium international clients by 2024	Increase the local market share in the mid-high income segment in 5%, by the year 2024	Expand the participation of local market to 5% of total sales, by the year 2024	Increase the offered value of textile products, generating the annual improvement of not less than 65% of the products by 2024	Increase the quality of raw materials from the use of natural fibers in 80% of the total produced, by the year 2024	Increase the efficiency in the processes using high technology, reducing the time of production by 10%, by 2024	Improve the performance of each worker by 10% by 2024	Increase RoE in 300 bps. by 2024
<b>Strategies</b>									
S1	Develop new relationship between Textile S.A. and potential clients in countries where the FTAs apply	X							X
S3	Adopt backward vertical integration to secure high quality raw material			X	X	X			X
S5	Participate in international fashion fairs to keep updated with new trends	X							
S6	Participate in the clothing desing process of other brands to increase the added value	X	X		X		X	X	
S7	Increase loyalty of current customers to differentiate from competitors	X	X						X
S8	Diversify the market destination of the exports seeking a more profitable position for Textile S.A.	X			X				X
S9	Make strategic alliances in local and international market (South America)	X	X	X	X		X		X
S11	Position the Textile S.A. brand in the local market aiming to a mid-high income segment with the clothing design		X	X	X				X
S12	Invest in the strengthening of the online channel	X	X	X	X				X
S14	Develop new channels for new patterns of consumers	X	X	X	X				

## 6.12 Competitors' Possibilities Matrix

According to D'Alessio (2015), the CPM allows Textile S.A. to anticipate the reactions of the current competitors, substitutes and new entrants. In the case of Textile S.A., it is considered that its main competitor is Devanlay Peru S.A., while its followers are Confecciones Textimax S.A., Southern Textile Network S.A.C., Cotton Knit S.A.C., and Luthai Textile Com as the most important foreign competitors (see Table 40). Furthermore, it is important to highlight the potential entrance of new players from different parts of the world as the textile industry is already a global playfield.

Table 40 Competitors' Possibilities Matrix

		<b>Devanlay Peru S.A.</b>	<b>Confecciones Textimax S.A.</b>	<b>Southern textile network S.A.C.</b>	<b>Cotton Knit S.A.C.</b>	<b>Luthai Textile Com</b>
S1	Develop new relationship between Textile S.A. and potential clients in countries where the FTAs apply	Imitate	Imitate	Imitate	Imitate	Low price Strategy
S3	Adopt backward vertical integration to secure high quality raw material	Purchase local raw material	Imitate	Imitate	Imitate	Imitate
S5	Participate in international fashion fairs to keep updated with new trends	Market development	Imitate	Imitate	Imitate	Imitate
S6	Participate in the clothing desing process of other brands to increase the added value	Increase quality	Increase quality	Increase quality	Increase quality	Increase quality
S7	Increase loyalty of current customers to differentiate from competitors	Marketing Efforts	Develop a strategy to recover sales	Develop a strategy to recover sales	Develop a strategy to recover sales	Low Cost Strategy
S8	Diversify the market destination of the exports seeking a more profitable position for Textile S.A.	Market development	Imitate	Imitate	Imitate	Imitate
S9	Make strategic alliances in local and international market (South America)	Market development	Imitate	Imitate	Imitate	Low Cost Strategy
S11	Position the Textile S.A. brand in the local market aiming to a mid-high income segment with the clothing design	Devanlay is more focused abroad	Imitate	Imitate	Imitate	Imitate
S12	Invest in the strengthening of the online channel	Imitate	Imitate	Imitate	Imitate	Imitate
S14	Develop new channels for new patterns of consumers	Imitate	Imitate	Imitate	Imitate	Imitate

### 6.13 Conclusions

The strategic process has as its main output the selection of the strategies for Textile S.A. For that purpose, the used methodology has incorporated a set of matrices carefully selected. Every matrix has been used having in mind the knowledge of Textile S.A. and the development of the textile and confection industry. The first one is the Matrix of Strengths, Opportunities, Weaknesses, and Threats (MSWOT), that allowed Textile S.A. to generate sixteen strategies.

The second one is the Matrix of Strategic Position and Actions Evaluation (MSPACE) that is used to determine the strategic stance of a company considering the factors related to the industry and the organization. Textile S.A. is positioned in the aggressive quadrant because the firm has a clear competitive advantage and the resources to keep and improve its leading position in the market. In that sense, the strategies that apply for Textile S.A. are focused on exploring new segments and products, as well as increasing its penetration on its current markets.

The third one is the Boston Consulting Group Matrix (BCGM), which relies on the market share and the sales growth as main factors to determine the strategies to be followed. In the case of Textile S.A., the matrix helped to identify two important cash cows, four quotation marks and two dogs. Because of that, it is recommended that Textile S.A. needs to explore markets with higher growth potential.

The fourth one is the internal and external matrix (IEM). This matrix has nine quadrants and the position of the company is determined by the scores calculated in the external evaluation (MEEF) and the internal analysis (MIFE) of the company. In the case of Textile S.A., it has a score of 3.02 in the MIFE and a score of 2.29 in the MEEF. In consequence, it is positioned in the quadrant IV, for “grow and build”, using intensive and integration strategies.



The fifth matrix is the Grand Strategy Matrix (GSM), the one that considers the market growth (rapid or slow) and the competitive position (strong or weak) as important drivers for the strategy of a company. In the case of the Textile S.A., the matrix evidences a relatively rapid growth of the market and a strong competitive position in the market as manufacturer. Because of that, the strategies that corresponds to this quadrant is market development, market penetration, product development, vertical integration, horizontal integration, and concentric diversification.

The sixth one is the Strategic Decision Matrix (SDM), that is the one that receives input from the previously analyzed matrices MSWOT, MSPACE, BGCM, IEM, and GSM. In the case of Textile S.A., the matrix's results determined that some strategies are retained, those that are aligned in penetrating the current markets in which Textile S.A. has presence. As a complement, some strategies foster the creation of new products and markets for Textile S.A. It is recommended that the company looks for an additional export market and gradually diversifies from USA. Furthermore, Textile S.A. has to innovate constantly its products given the dynamic demand of textile and confection industry and the constant changes in consumer behaviors.

The seventh matrix is the Quantitative Strategic Planning Matrix (QSPM). The purpose of this matrix is to assess the attractiveness of each retained strategy. In the case of Textile S.A. each of the ten retained strategies selected in the SDM have a score above five.

The eighth matrix is the Rumelt Matrix (RM), which is an additional filter for the retained strategies. In the case of Textile S.A., each of the ten retained strategies complied with the four criteria of Rumelt. The ninth is the Ethics Matrix (EM) that focused on ethics and its objective is to evaluate every strategy considering aspects related to right and justice. The matrix's result for Textile S.A. is that the ten retained strategies fulfilled the criterias established by the EM.

The tenth matrix is the Strategies vs Long-Term Objectives Matrix (SLTOM) that has the purpose of evaluating the matching between the retained strategies and the company's long term objectives. In the case of Textile S.A., all the retained strategies help to reach the long term objectives. The eleventh matrix is the Competitors & Possibilities Matrix (CPM) that allows companies to anticipate the reactions of their current competitors, substitutes and new entrants. In the case of Textile S.A., it is considered that its main competitor is Devanlay, while its followers are Textimax and the foreign competitors mainly from Asian countries. In addition to the potential entrants from different parts of the world as the textile and confection industry is already a global playfield.

In consequence, the proposed strategies have been carefully selected. In the case of Textile S.A., the selected strategies allow the firm to achieve their long term objectives and also to become a sustainable company.

## Chapter VII: Strategic Implementation

After the process of formulating and identifying strategies has been completed, the execution phase of the strategic process begins. Thus, according to D'Alessio (2015), the stage of the strategic process in which the implementation of the strategy takes place involves converting the strategic plans into concrete actions in such a way that the objectives are achieved.

In this sense, short-term objectives (STOs) should be set based on the long-term objectives (LTOs), with the purpose of achieving Textile S.A.'s vision through the implementation of selected strategies in the previous stages of the process.

### 7.1 Short-Term Objectives

As previously pointed out, the STOs are the result of the breakdown of the LTOs, which have previously been defined for Textile S.A. STOs should be established using the SMART philosophy, understanding it as the acronym that is used to guide the development of measurable goals. In that sense, each goal should be:

Specific – Keep goals clear, concise and simple

Measurable – Define action plans to measure

Achievable – Keep goals incremental

Realistic – Match goals to needs and ambitions

Timetable – Add milestones and completion dates

A total of 20 STOs have been established to be able to meet the six LTOs previously established (see Table 41).

### 7.2 Resources Assigned to the Short-Term Objectives

The resources are the necessary inputs that allow firms executing their selected strategies. These resources can be quantitative or qualitative, tangible or intangible. Not only must they be identified, but they must also be correctly assigned.

Table 41

*Short Term Objectives for Long Term Objectives*

		Indicators						
		Base Year	2019	2020	2021	2022	2023	2024
<b>LTO 1 Increase the client portfolio in three premium international clients by 2024</b>								
STO 1.1	Increase one new premium client from USA every 1.5 years	2018	4	5	5	6	6	7
STO 1.2	Increase annual participation in international fairs in which Textile S.A. can participate	2018	Once every two years	Once every two years	Once every two years	Once a year	Once a year	Once a year
STO 1.3	Increase sales to new clients in current markets by 5% annually	2018	US\$ 73.8 million	US\$ 77.5 million	US\$ 81.4 million	US\$ 85.5 million	US\$ 89.7	US\$ 94.2 million
<b>LTO 2 Increase the local market share in the mid-high income segment in 5%</b>								
STO 2.1	Open one store per year in malls in Lima, Arequipa, and Cuzco with the brand of Textile S.A.	2018	1	2	3	4	5	6
STO 2.2	Increase the brand awareness in the mid-high income segment in 5 bps. per year through marketing campaigns and influencers	2018	5%	10%	15%	20%	25%	30%
<b>LTO 3 Expand the participation of local market to 5% of total sales, by the year 2024</b>								
STO 3.1	Increase sales in Lima in 60% by 2020, in 40% by 2021, in 62% by 2022, in 46% by 2023, and in 29% in 2024	2018	US\$ 681,842.11	US\$ 1,090,526.32	US\$ 1,526,736.84	US\$ 2,469,535.53	US\$ 3,603,025.74	US\$ 4,632,946.28
STO 3.2	Increase sales in Arequipa by 40% in the following two years, by 25% from 2022 to 2023, and by 20% in 2024	2018	US\$ 50,000	US\$ 70,000	US\$ 98,000	US\$ 122,500	US\$ 147,000	US\$ 176,400
STO 3.3	Increase sales in Cuzco by 40% in the following two years, by 20% from 2022 to 2023, and by 17% in 2024	2018	US\$ 45,000	US\$ 63,000	US\$ 88,200	US\$ 105,840	US\$ 127,000	US\$ 148,000
<b>LTO 4 Increase the offered value of textile products, generating the annual improvement of not less than 65% of the products by 2024</b>								
STO 4.1	Look for new delivery suppliers in the local market for the e-commerce sales	2018	Delivery time of 48 hours	Delivery time of 48 hours	Delivery time of 36 hours	Delivery time of 36 hours	Delivery time of 24 hours	Delivery time of 24 hours
STO 4.2	Certificate its production (ISO 9001:2015; ISO 14001:2015; OHSAS 18001)	2018	5% defect rate of total	4% defect rate of total	4% defect rate of total	3% defect rate of total	3% defect rate of total	2% defect rate of total

			production	production	production	production	production	production
STO 4.3	Implement reverse logistics from 2019, maintaining it until 2024 when 90% of defective finished products will be returned to the source	2018	30%	35%	40%	45%	47%	50%
<b>LTO 5 Increase the quality of raw materials from the use of natural fibers in 80% of the total produced, by the year 2024</b>								
STO 5.1	Seek new suppliers of natural fibers so that the products of Textile S.A. contain 45% of those materials by 2024	2018	-	10%	20%	30%	40%	45%
STO 5.2	Eliminate the use of hazardous substances (brominated and chlorinated flame retardants) and non-natural substances in all products	2018	Reduce by 10%	Reduce by 10%	Reduce by 20%	Reduce by 20%	Reduce by 25%	Reduce by 30%
<b>LTO 6 Increase the efficiency in the processes using high technology, reducing the time of production by 10%, by 2024</b>								
STO 6.1	Increase the investment in machinery and technology in US\$ 50,000 in the following two years, in US\$ 100,000 in the next two years, US\$ 150,000 in the last year	2018	US\$ 250,000	US\$ 300,000	US\$ 350,000	US\$ 450,000	US\$ 550,000	US\$ 700,000
STO 6.2	Increase productivity through approved suppliers regarding Textile S.A.'s requirements by 5 bps. per year	2018	Productivity 100	105	110	115	120	125
STO 6.3	Keep the return per project within the expected target	2018	ROI of 30%	ROI of 30%	ROI of 30%	ROI of 30%	ROI of 30%	ROI of 30%
<b>LTO 7 Improve the performance of each worker by 10% by 2024</b>								
STO 7.1	Increase the trainings in hard skills for operational employees and soft and hard skills for administrative employees	2018	One a year	One a year	Twice a year	Twice a year	Twice a year	Three times per year
STO 7.2	Develop a talent program for employees	2018	-	1	1	1	1	1
<b>LTO 8 Increase RoE in 300 bps. by 2024</b>								
STO 8.1	Increase EBITDA	2018	34.0%	34.0%	34.5%	35.0%	35.5%	36.0%
STO 8.2	Improve the asset turnover	2018	3.1	3.15	3.2	3.25	3.27	3.3

Textile S.A. has STOs that are ambitious and involve a considerable investment. Due to the latter, the implementation process depends on the feasibility of the STOs. For that purpose, four fundamental resources must be assigned: (a) financial, (b) physical, (c) human, and (d) technological, as affirmed by D'Alessio (2015).

In relation to the physical resources, Textile S.A.'s infrastructure is very important and crucial to achieve the short and long term objectives. Regarding the human aspect, Textile S.A. needs many different specialists and managers to be able to achieve every STO, and in the long run the LTOs. Concerning the financial resources, Textile S.A. has two options: either use its own resources or funded from third parties. Last but not least, the technological aspect is always aborbed by informations systems, telecommunications, and software. Table 42 shows the resources assigned to each STO.

### **7.3 Policies of each Strategy**

Policies are defined baseline guidelines, approved and supported by the decision makers in the organization. The policies allow the articulation of the vision with the objectives to guarantee that, with the fulfillment of the latter, the vision is reached, as suggested by D'Alessio (2015). In the case of Textile S.A., policies are generated by senior managers and the board of directors. These policies facilitate the implementation of strategies and are subject to the principles of ethics, legality, and social responsibility. The policies facilitate the solving of problems related to matters of finances, personal management, purchases, and decision making; with which it is possible to avoid conflicts and, therefore, make the company more productive.

The following policies are proposed and are associated with each of the strategies retained (see Table 43):

P1: Meet the customers' needs and achieve their fidelity after sales.

P2: Innovate continually to respond to the changing patterns of customers.

P3: Estimulate the benefits of creating shared value within the company.

P4: Carry out continuous improvement by constantly evaluating processes and adopt new technologies.

P5: Train employees continuously.

P6: Focus on the production of quality products with added value.

P7: Incentivize the construction of a network of strategic partners worldwide.

P8: Exchange knowledge with national and international manufacturers and suppliers.

#### 7.4 Structure of Textile S.A.

After the performed analysis and the proposed strategies, it is necessary to rethink part of the structure of Textile S.A. This must be done with the intention of giving a more strategic and flat emphasis, which will facilitate the decision making and the execution of actions that allow the achievement of the proposed objectives. As part of this proposal for an organic structure, emphasis has been placed on the importance of retail at a national level and creating supporting areas (planning, systems, and quality) (see Figure 25).



Figure 25. Proposed organizational chart for Textile S.A.

Table 42

*Resources Assigned to the Short Term Objectives*

LTO		STO		Financial	Physical	Human	Technological
LTO 1	Increase the client portfolio in three premium international clients by 2024	STO 1.1	Increase one new premium client per year and a half from USA	Own Resources	Meeting rooms	Sales & Commercial Managers	Information systems, software, telecommunications
		STO 1.2	Increase annual participation in international fairs in which Textile S.A. can participate	Own Resources	Computers, Ipads, cellphones	Sales & Commercial Managers, CEO	Information systems, software, telecommunications
		STO 1.3	Increase sales to new clients in current markets by 5% annually	Own Resources	Meeting rooms	Specialists in market research	Information systems, software, telecommunications
LTO 2	Increase the local market share in the mid-high income segment in 5%	STO 2.1	Open one store per year in malls in Lima, Arequipa, and Cuzco with the brand of Textile S.A.	Funded resources	Infrastructure, offices for the monitoring, Computers	Sales Managers, New business specialists	Information systems, software, telecommunications
		STO 2.2	Increase the brand awareness in the mid-high income segment in 5 bps. per year through marketing campaigns and influencers	Own Resources	Infrastructure, Computers	Sales Managers	Information systems, software, telecommunications
LTO 3	Expand the participation of local market to 5% of total sales, by the year 2024	STO 3.1	Increase sales in Lima in 60% by 2020, in 40% by 2021, in 62% by 2022, in 46% by 2023, and in 29% in 2024	Own Resources	Infrastructure, Computers	Sales Managers	Information systems, software, telecommunications
		STO 3.2	Increase sales in Arequipa by 40% in the following two years, by 25% from 2022 to 2023, and by 20% in 2024	Own Resources	Infrastructure, Computers	Sales Managers	Information systems, software, telecommunications
		STO 3.3	Increase sales in Cuzco by 40% in the following two years, by 20% from 2022 to 2023, and by 17% in 2024	Own Resources	Infrastructure, Computers	Sales Managers	Information systems, software, telecommunications
LTO 4	Increase the offered value of textile products,	STO 4.1	Look for new delivery suppliers in the local market for the e-commerce sales	Own Resources	Meeting rooms, Computers	Supply Chain Managers	Information systems, software, telecommunications



LTO 5	generating the annual improvement of not less than 65% of the products by 2024	STO 4.2	Certificate its production (ISO 9001:2015; ISO 14001:2015; OHSAS 18001)	Own Resources	Infrastructure, Offices for the programs, Computers	Quality Managers	Information systems, software, telecommunications
		STO 4.3	Implement reverse logistics from 2019, maintaining it until 2024 when 90% of defective finished products will be returned to the source	Own Resources	Infrastructure, Office for monitoring	Production Managers	Information systems, software, telecommunications
	Increase the quality of raw materials from the use of natural fibers in 80% of the total produced, by the year 2024	STO 5.1	Seek new suppliers of natural fibers so that the products of Textile S.A. contain 45% of those materials by 2024	Funded resources	Offices for the monitoring	CEO, Quality Managers	Information systems, software, telecommunications
		STO 5.2	Eliminate the use of hazardous substances (brominated and chlorinated flame retardants) and non-natural substances in all products	Own Resources	Infrastructure, Office for monitoring, Computers	Environment Specialists	Information systems, software, telecommunications
LTO 6	Increase the efficiency in the processes using high technology, reducing the time of production by 10%, by 2024	STO 6.1	Increase the investment in machinery and technology in US\$ 50,000 in the following two years, in US\$ 100,000 in the next two years, US\$ 150,000 in the last year	Funded resources	Computers, Cellphones	Production Managers	Information systems, software, telecommunications
		STO 6.2	Increase productivity through approved suppliers regarding Textile S.A.'s requirements by 5 bps. per year	Own Resources	Infrastructure, Computers	Training Specialists	Information systems, software, telecommunications
		STO 6.3	Keep the return per project within the expected target	Own Resources	Meeting rooms, Computers	Financial Managers	Information systems, software, telecommunications
LTO 7	Improve the performance of each worker by 10%	STO 7.1	Increase the trainings in hard skills for operational employees and soft and hard skills for administrative employees	Own Resources	Infrastructure, Computers	Training Specialists	Information systems, software, telecommunications
		STO 7.2	Develop a talent program for employees	Own Resources	Infrastructure, Computers	Training Specialists	Information systems, software, telecommunications
LTO 8	Increase RoE in 300 bps. by 2024	STO 8.1	Increase EBITDA	Own Resources	Computers	Financial Managers	Information systems, software, telecommunications
		STO 8.2	Improve the asset turnover	Own Resources	Computers	Financial Managers	Information systems, software, telecommunications

Note. Elaborated by the authors.

Table 43

*Policy and Strategies Matrix*

		Strategies									
		S1: Develop new relationships between Textile S.A. and potential clients in countries where the FTAs apply	S3: Adopt backward vertical integration to secure high quality raw material	S5: Participate in international fashion fairs to keep updated with new trends	S6: Participate in the clothing desing process of other brands to increase the added value	S7: Increase loyalty of current customers to differentiate from competitors	S8: Diversify the market destination of the exports seeking a more profitable position for Textile S.A.	S9: Make strategic alliances in local and international market (South America )	S11: Position the Textile S.A. brand in the local market aiming to a mid-high income segment with the clothing design	S12: Invest in the strengthening of the online channel	S14: Develop new channels for new patterns of consumers
P1	Meet the customers' needs and achieve their fidelity after sales			X	X	X			X	X	X
P2	Innovate continually to respond to the changing patterns of customers		X	X	X					X	X
P3	Estimulate the benefits of creating shared value within the company	X	X		X	X		X			
P4	Carry out continuous improvement by constantly evaluating processes and adopt new technologies					X			X		
P5	Train employees continuously		X		X		X		X	X	X
P6	Focus on the production of quality products with added value		X			X			X		
P7	Incentivize the construction of a network of strategic partners worldwide	X						X			
P8	Exchange knowledge with national and international manufacturers and suppliers				X			X			

## **7.5 Environment, Ecology, and Social Responsibility**

All the strategies formulated and the proposed actions have been defined with the idea of maintaining a high sense of caring for the environment and social responsibility. For Textile S.A., it is very important to develop all its activities complying with this philosophy, since to fulfill its clients' requirements the firm needs to have certain processes and technologies, in addition to certifications that guarantee processes related to the environment and social responsibility. Furthermore, in order for Textile S.A. to fulfill its commitment to take care of environmental and social issues, it is necessary to have international certifications such as ISO 9001 for quality of service and customer satisfaction, ISO 14001 for environmental management and OHSAS for occupational health and the safety of workers.

Due to the latter, it is important to bear in mind that at the time of the execution of the strategic plan, Textile S.A. must comply with the legal regulations in force, related both to the company's raw material, which is cotton and its derivatives. As well as, the rules related to employees, in relation to health and safety at work through a decent and safe environment to perform their work activities. This is essential to foster a solid relationship between citizens in general and workers, who are recognized as the main capital of the organization.

On the other hand, the optimization of the use of inputs for manufacturing, mainly water and chemical elements guarantees that the productive processes are highly efficient with respect to the care of the environment. These initiatives will be key to ensure proper care of the environment and, above all, to demonstrate to all the strategic partners and customers of Textile S.A. the responsible and sustainable high sense with which the company develops.

## **7.6 Human Resources and Motivation**

The human resources that are dedicated to work at Textile S.A. should be suitable, with extensive experience, focused on developing strategies to achieve the objectives and

vision. The key positions and the necessary competencies for the position must be defined, covering them with leaders with a clear vision, in order to apply the strategies indicated in this document, as suggested by D'Alessio (2015). It is essential that the workers have the same values and principles, and must also be convinced of the company's methodology, proposals, and convictions so that an efficient work team can be formed.

In order to perform adequately their tasks, it is important that the staff is motivated, in an intrinsic way (self-motivation) and extrinsically (through mechanisms established by the company). Due to this, it is important to follow the below strategies in this regard:

1. Training in the use of new technologies associated with new machinery and new production processes;
2. Evaluation of the performance of the results obtained in the production of each human resource. Meaning that the personal objectives of the workers are aligned to the objectives of Textile S.A., in such a way that these generate sufficient synergy for the achievement of the firm's vision.
3. Implementation of policies and actions regarding the evaluation of results, trying to minimize the negative impacts and avoid a climate of uncertainty or fear.
4. Transversal communication at all levels with the workers, to listen and solve their queries.

## **7.7 Change Management**

In order to properly manage change, it is necessary to engage the entire company in the strategies and vision of the same, in such a way that all workers comprehend them, for this, they must be adequately informed about the long and short term objectives and the proposed actions that will be carried out. Furthermore, it is important to identify the influential people in each area and achieve a compromise with them and make them understand the changes and the benefits they will bring to the employees and the company.

This will facilitate the process of changes for Textile S.A.; To do this, it must incorporate ideas such as process management, continuous improvement, performance evaluation, and ongoing training. In this context, teamwork, internal communication and the systematization of learning become key factors to consolidate a new work culture, favorable to adaptation and change in order to successfully face the challenges of a highly competitive global market.

It is imperative that Textile S.A. starts focusing more on the local market hence, the commercial management will probably face the biggest changes of the organization since they need to make the employees understand that the own brand needs to be attended with extra care and importance because in the near future its sales will represent a bigger part of the total sales of the company. Textile S.A. will as well need to start making strategic alliances to boost the sales of its own brand, the opening of new stores and new designs for both men and women are needed to reach a higher market share through a clear differentiation against the competitors.

## **7.8 Conclusions**

The process of transforming the strategies into actions requires the analysis of each STO to achieve each LTO. Likewise, it is important to assess the feasibility of each STO regarding how the resources are assigned. This could be financial, physical, human and technological.

Moreover, it is also important that each of the developed STOs of Textile S.A. are specific, measurable, achievable, realistic, and timebound following the SMART philosophy. Only in this way, they will help the company to achieve the proposed LTOs. Likewise, Textile S.A. has many policies in order to support each STO, these policies are defined by the board of directors as a framework to facilitate that strategies show the track to achieve each LTOs. Therefore, it is important to determine a series of actions that support the process for continuous improvement.

## Chapter VIII: Strategic Evaluation

In this chapter, the third stage of the strategic process is developed, which is evaluation and control. This phase, in fact, is carried out permanently during the whole process. This is because the intensity and frequency of changes in the environment, competition and demand cause the need for dynamic strategic planning (D'Alessio, 2015).

To control and evaluate strategies and short-term objectives, the Balanced Scorecard will be used, a tool used to measure results designed by Kaplan and Norton (1992). This model allows to alienate the strategies, obtaining four strategic results:

Satisfied shareholders: by making them earn more money and adding value to the organization.

Satisfied customers: satisfying their needs.

Efficient processes: when producing and selling quality products and cost.

Motivated employees: to help the organization to generate value.

### 8.1 Control Perspective

It is imperative to have an effective mechanism to evaluate the strategies. The evaluation must have a short-term and long-term focus. This process involves the following: (a) questioning expectations and assumptions, (b) generating a review of objectives and values, and (c) stimulating creativity in the generation of alternatives and evaluation criteria (D'Alessio, 2015). The evaluation of the strategies should consist of three stages: (a) internal and external review, (b) performance evaluation, and (c) corrective improvements.

***Internal and external review.*** The MEEF and MIFE must be updated. The new MIFE should reflect the changes in strengths and weaknesses in: (a) operations, (b) marketing, (c) finance, (d) human resources, (e) information systems, and (f) culture of the company. On the other hand, the new MEEF should focus on the efficiency with which the strategies have taken advantage of the opportunities and responded to the threats of external

factors. Due to the great internal and external dynamism, D'Alessio (2014), recommends the elaboration of multiple SWOT matrices throughout the strategic process in such a way that progressive adjustments are made in the strategies.

***Performance evaluation.*** The basis of the evaluation is in measuring and comparing.

The performance evaluation should consider:

Comparison of the operation of the organization in different periods of time.

Comparison of the operation of the organization with that of the competitors.

Comparison of the operation of the organization with the industry averages.

***Corrective improvements.*** Taking corrective actions involves making changes to reposition the organization, making it competitive for the future. If you are not obtaining results, and also internal and external changes occur, then corrective measures must be taken; Only when external and internal changes have not occurred and the organization has progressed towards its objectives the course can be maintained.

The Balanced Scorecard tries to convert a company's strategy into action and results. For this, it uses the alignment of the objectives according to four perspectives. These are (a) internal learning, (b) processes, (c) clients, and (d) financial.

### **8.1.1 Internal Learning**

This refers to how you must learn and improve the organization to achieve the vision outlined (D'Alessio, 2015).

It is very important that companies consider that human resources are a fundamental part of achieving success. For this reason, measures must be taken to develop and retain talent in the organization, in the same way, it should be a priority to try to improve the working environment to ensure that workers feel happy and thus identified with the company. Another important aspect is to seek to improve the productivity of the workforce, to achieve

this the company must provide employees with the best possible information technology since this could facilitate the processes. The performance of workers is related in an articulated manner to the objectives defined by the organization. Internal learning is directly linked to the vision and the strategies defined. Therefore, it is a priority that training is accompanied by performance evaluations focused on learning and productivity.

The company thinks that one of the fundamental pillars is the human resource and always seeks the satisfaction of the internal client, which is why it constantly trains the personnel on the technical side, mainly about processes; likewise, the company is developing career lines and trying to keep an adequate working environment by giving more than the law requires. Furthermore, Textile S.A. is always seeking alignment between areas, establishing a culture of respect and motivation to boost the leadership across the whole organization.

### **8.1.2 Internal Processes**

Here the company must identify the internal processes that will impact, to a greater extent, customer satisfaction (D'Alessio, 2015). There are four main internal processes that should be considered for this perspective: (a) operation management, (b) client management, (c) innovation management, and (d) regulation and social management.

In the case of the operation management processes, the company should consider having new suppliers in case of an emergency with the regular ones; likewise, focus on those operations and critical processes that guarantee operational efficiency and improve production and delivery times, thereby improving customer satisfaction.

Regarding the client management processes, the company is always looking for new customers but without neglecting current customers and even projecting higher sales with them; in addition, the after-sales service offered to customers is first class, allowing relationships to be strengthened instead of deteriorating.



For the innovation management process, the company believes that only by being innovative can you work in such a changing market as the textile and confection industry. Hence, Textile S.A. seeks new business opportunities with different customers that require different materials for their clothes.

Last but not least, the regulation and social processes are related to the previous section, emphasis will be placed on the use of information technologies that support the achievement of process efficiency and having a good working environment.

### **8.1.3 Clients**

In the clients perspective, Textile S.A. must think about how to see the clients to achieve the proposed vision, defining the actions with respect to them, allowing identifying market segments and knowing how to reach them (D'Alessio, 2015).

As for any other company, the level of customer satisfaction is very important, therefore actions are always taken to maintain and raise the indicators of customer satisfaction. In the same way, greater participation of the market is sought for which a series of marketing and communication actions must be defined in order to reach the current and potential clients. With respect to current clients, relationships should be strengthened by offering a greater diversity of products or looking for different materials of higher quality.

In this perspective, the company must define the value proposition offered to the client, this value proposition is composed of: (a) attributes of the product which includes price, quality, availability, selection, and functionality; (b) relation that includes service and partnership; and (c) image (brand).

### **8.1.4 Financial**

In this perspective, the tangible results of the strategy are described in financial terms (D'Alessio 2015). This dimension can be divided into two key aspects: financial growth strategy and financial productivity strategy. The first one is aimed at increasing total

revenues, either by new sources of income or by increasing the client value; while the second focuses on the increase of benefits of the organization, either by improving the cost structure or improving the use of assets.

In the financial perspective, it is suggested to review the following aspects: return on equity (ROE), return on sales (ROS), income per employee, the profitability of projects, break-even analysis, cash flows, and financial return.

The company recognizes the importance of reinvesting the net income to continue growing and improving. Only then it will be possible to continue working as one of the best exporters of high added value garments. Modernization is vital; If this does not happen, Textile S.A. would be relegated to the current market, which is highly competitive. For this reason, in order to guarantee better income, Textile S.A. constantly invests both in machinery and training for personnel; In the same way, active participation in international fairs is sought, in which it is possible to get to know possible new clients.

## **8.2 Balanced Scorecard**

In Table 44, the Balanced Scorecard of the company can be observed regarding the four analyzed perspectives. This tool developed by Robert S. Kaplan and David P. Norton fills the gap between what organizations should do and what they really do. It is a performance evaluation tool that measures the fulfillment of the objectives for its correction in the event of a deviation, providing a new order to the strategies measuring the progress and achievement of the short and long-term strategic objectives with the established vision.

## **8.3 Conclusions**

The Balanced Scorecard is a tool that is used to apply strategic control in relation to each of the four control perspectives: (a) internal learning, (b) processes, (c) clients and (d) financial.

The STOs, through the strategies, serve to reach the LTO. The Balance Scorecard with the four perspectives of the company brings together the measures, goals, and initiatives that must be taken for each STO, thus allowing Textile S.A. to monitor the evolution of its LTOs through the PCOs, using the proposed measures as indicators. This tool will provide senior management with a quick and accurate evaluation of the objectives set by the shareholders letting them know if they were achieved.



Table 44

*Balanced Scorecard of Textile S.A.*

Balance Scorecard – Short Term Objectives					
	Learning and Growth Perspective	Initiatives	Responsible	Indicators	Units
STO 6.2	Increase productivity through approved suppliers regarding Textile S.A.'s requirements by 5 bps. per year	Set the basic requirements that the suppliers need to have to work with Textile S.A.	Supply Chain Management	Lead time	# Hours for delivery
STO 7.1	Increase the trainings of workforce in hard and soft skills	Set a level of training and development for all the employees	Human Resources	Employee Annual Assessment	# Development programs
STO 7.2	Develop a talent program for employees	Establish a career development plan	Human Resources		# Promoted employees
Internal Processes Perspective					
STO 4.1	Look for new delivery suppliers in the local market for the e-commerce sales	Develop a local network of delivery suppliers	Supply Chain Management		# new strategic alliances
STO 4.2	Certificate its production (ISO 9001:2015; ISO 14001:2015; OHSAS 18001)	ISO compliance project Certification process	Quality Assurance	Certification	ISO Certification
STO 4.3	Implement reverse logistics from 2019, maintaining it until 2024 when 90% of defective finished products will be returned to the source	Reverse logistic project	Logistics / Shipments	Delivery time	# Hours
STO 5.1	The purchase of natural fibers from Textile S.A. subsidiary has to be at least 45% by 2022	Internal supply of natural fiber project	Supply Chain Management		# orders
STO 5.2	Eliminate the use of hazardous substances (brominated and chlorinated flame retardants) and non-natural substances in all products	Chemical minimization project	Quality Assurance / Production	Percentage of hazardous substances = Hazardous substances / Total composition	% efficiency
STO 6.1	Increase the investment in machinery and technology in US\$ 50,000 in the following two years, US\$ 100,000 in the next two years, and US\$ 150,000 in the last year	Upgrading project	Production / Supply Chain Management	Cost savings	% efficiency

Customer Perspective					
STO 1.1	Increase one new premium client per year and a half from USA	Participate in most prestigious international fairs	Commercialization / New Clients		# New clients
STO 1.2	Increase annual participation in international fairs in which Textile S.A. can participate	Do a market research of the most prestigious textile fairs	Commercialization	Participation on international fairs	# Assistancess
STO 1.3	Increase sales to new clients in current markets by 5% annually	Develop loyalty program	Commercialization		# repetitive sales
STO 2.1	Open one store per year in malls in Lima, Arequipa, and Cuzco with the brand of Textile S.A.	Develop strategic alliances with malls	Commercialization		# new stores
STO 2.2	Increase the brand awareness in the mid-high income segment in 5 bps. per year through marketing campaigns and influencers	Enroll influencers/ brand advocates	Commercialization		# influencers/ brand advocates
STO 3.1	Increase sales in Lima in 60% by 2020, in 40% by 2021, in 62% by 2022, in 46% by 2023, and in 29% in 2024	Marketing Campaigns. Promotions	Commercialization	Number of sales in Lima	Growth %
STO 3.2	Increase sales in Arequipa by 40% in the following two years, by 25% from 2022 to 2023, and by 20% in 2024	Marketing Campaigns. Promotions	Commercialization	Number of sales in Arequipa	Growth %
STO 3.3	Increase sales in Cuzco by 40% in the following two years, by 20% from 2022 to 2023, and by 17% in 2024	Marketing Campaigns. Promotions	Commercialization	Number of sales in Cuzco	Growth %
Financial Perspective					
STO 6.3	Keep the return per project within the expected target	Develop a policy of a minimum expected ROI per project	Every area leading projects	ROI	%
STO 8.1	Increase EBITDA	Develop a cost per activity approach	Financial	EBITDA	%
STO 8.2	Improve the asset turnover	Internal projects for improving asset turnover	Financial	Asset Turnover	times

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Note. Prepared by the authors

## **Chapter IX: Competitiveness of Textile S.A.**

### **9.1 Competitive Analysis of Textile S.A.**

According to D'Alessio (2015), the model of Porter's Five Forces is an important tool for doing a competitive analysis in order to determine the structure and attractiveness of the industry where the organization competes, as well as the development of many strategies. It is important to start by analyzing the level of competition and conditions, to measure the strategic situation and the position of an organization in the industry.

#### **9.1.1 Suppliers' bargaining power**

The textile and confection industry aims the synergy of small and medium-sized companies to jointly access better financing methods and strengthen their negotiation capacity with suppliers, also achieving linkages or production chains. The inputs of the Peruvian textile industry - in general - are valued worldwide but it is essential that Pima cotton production increased since many exporting companies prefer to import them. In the world, large groups or chains are vertically integrated and a large part of their production process takes place in their own factories, subcontracting only for some phases of that process (Tello, 2018).

This drastically limits the bargaining power of suppliers, since they are large textile conglomerates worldwide. At the national level, there is a large number of suppliers, with a textile conglomerate that gives strength to the producers, confirming the worldwide trend of low bargaining power.

#### **9.1.2 Clients' bargaining power**

Worldwide, the main buyers of clothing are the United States, Germany, and Brazil, which together accounted for 76% of the total imported in the world in 2017 (see Table 45). The analysis has been made considering tariff heading 61 since it represents more than 65% of textile products exported by Peru and 93.5% of ready-made confections. Other relevant

countries are the United Kingdom, France, and Canada. All of them are developed economies, with high volumes of purchases, which in the case of the United States exceeds the US \$ 45 million per year, which is why they claim to have high bargaining power (Trademap, 2017).

Table 45

*List of importing markets for a product exported by Peru*

<b>Importers</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
World	829,155	791,988	826,091
United States of America	531,327	541,485	565,248
Brazil	56,844	35,684	39,834
Germany	33,326	29,885	24,514
Canada	20,167	20,223	22,966
Chile	19,009	20,404	21,866
Argentina	14,724	15,968	19,500
France	15,712	15,684	17,332
Colombia	16,354	12,304	13,189
United Kingdom	12,699	12,904	12,704

Note. Adapted from "List of Importing Markets for a Product Exported by Peru 2015-2017", by Trademap, 2017. Lima, Perú. Retrieved from [http://www.trademap.org/Country\\_SelProductCountry\\_TS.aspx?nvpm=1|604|||57||2|1|1|2|2|1|2|1|1](http://www.trademap.org/Country_SelProductCountry_TS.aspx?nvpm=1|604|||57||2|1|1|2|2|1|2|1|1)

The global demand for clothing becomes more demanding in terms of quality and low price, the opening and commercial integration foster export possibilities. In the local market, the consumers of the C and D socioeconomic area privilege the price factor over the quality factor, their demand is not demanding and they lack the qualms to acquire synthetic fiber and short fiber cotton clothing. On the other hand, there is no intellectual property defense strategy, which affects innovation and the development of national producers. At the national level, it has been seen that consumers are looking for low-priced clothing, which has given an important place to imports from China. That is why the local garment industry has been affected, despite the restrictions that exist to import, since the trade agreement signed between China and Peru established a protectionist clause. Then, the bargaining power of local buyers what has been achieved is the entry of lower cost product, harming domestic producers (Tello, 2018).

### **9.1.3 Threat of substitute products**

The clothing and confection industry does not have a direct substitute since both natural fiber and synthetic fiber are part of the industry in question. However, any item that can capture consumer spending represents a substitute. That is why it is essential that the Peruvian textile industry be quicker to adopt international fashion, creating in the market and its customers the need to acquire the textile garments of each collection (Tello, 2018).

Clothing is oriented to cover a basic human need, such need is not primary. In a situation of economic crisis, families can stop buying clothes. From this, it can be noted that clothes are mass consumption goods, and the demand for these arises after the demand for food, health or education. However, the demand for textile and confections have increased, to the extent to which economic growth has improved in the United States and in Europe.

However, for Tello (2018), textiles are part of the fashion industry macro, which has a short life cycle, being replaced quickly, even several times a year. This agility creates a need in the consumers, hindering the entry of substitute products. So although there are economic crises, there will always be demand for textiles, although consumers probably look for items of lower value.

### **9.1.4 Threat of new entrants**

The threat of possible new entrants is relatively low since managing economies of scale is not something that small or medium-sized companies can do easily due to the large investment that is required. In addition, new companies should earn a name in the market, customers should check that the quality is the same or better so that it can be considered as a possible competitor. However, the textile and confection industry must not lose sight of Asian companies, which can afford to offer a wide variety of products at a much lower price given the low labor cost in that continent (Tello, 2018). However, a possible threat for the



industry is that small and medium-sized companies decide to form clusters, and, in this way, they can obtain greater participation by reducing costs and sharing resources (Tello, 2018).

### **9.1.5 Rivalry of competitors**

The leading companies in the Peruvian textile and confection industry focus their main productive and commercial efforts in relation to demand expectations, this adapts their production processes, and consequently their infrastructure and technology. On the other hand, the Peruvian regulatory framework -from the Free Trade Agreements- has become more demanding, and promotes safer and more responsible labor practices in companies. For the textile and confection industry, oriented to a market with a preference for premium products, differentiation is a necessary condition. Although the production is focused on Pima cotton clothing, which is an input highly valued internationally, the differentiation in the design and confection must complement this characteristic of origin to penetrate and develop a demanding market (Tello, 2018).

The textile and confection industry in Peru competes with strong economies such as China (see Table 46), which constitutes a clear technological and aggressive competition in the commercial area, even in the local market where its clothes are preferred by socioeconomic lower income. Thus, they have displaced clothing made in the country, although national products have quality inputs that are notoriously superior. This occurs as a consequence of the undervaluation and the entry of yarns, fabrics or garments at dumping prices, which, in many cases, are recorded below their actual price. Then, there is a local and global level, high rivalry, where Asian countries lead world exports (Trademap, 2017).

It is important to mention that with its large territory and abundant labor, China will continue to be the world's largest manufacturer of textiles and clothing, both in the short and medium term. Because of this, the key to successfully competing on the world stage will be differentiation.

Table 46

*List of supplying markets for a product imported by Peru*

<b>Exporters</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
World	311,834	277,517	300,193
China	205,792	173,696	196,787
Bangladesh	17,286	26,614	26,754
Colombia	14,730	13,053	14,300
Cambodia	7,443	7,481	7,603
Viet Nam	7,137	6,772	7,579
India	15,264	7,887	7,130
Turkey	3,815	5,582	6,267
Indonesia	4,611	4,510	4,611
Sri Lanka	2,764	2,816	3,438

Note. Adapted from “List of Supplying Markets for a Product Exported by Peru 2015-2017”, by Trademap, 2017. Lima, Perú. Retrieved from [http://www.trademap.org/Country\\_SelProductCountry\\_TS.aspx?nvpm=1|604|||57||2|1|1|2|2|1|2|1|1](http://www.trademap.org/Country_SelProductCountry_TS.aspx?nvpm=1|604|||57||2|1|1|2|2|1|2|1|1)

## **9.2 Identification of the Competitive Advantages of Textile S.A.**

Textile S.A. follows a competitive strategy of product differentiation because it offers higher quality clothing with better designs than the competition. This strategy can be seen in the development of the value chain, which shows the competitive advantages that are focused on the creation of value (see Figure 26).

The company has competitive advantages in the production unit because it has a large plant capable of producing in large volumes, generating synergies between the business units. In addition, in production, economies of scale are achieved, i.e., reaching lower production costs by increasing the volume, through the investment made previously in the acquisition of better machines and constant training (hard skills) of workers.

In addition, the company has a strong quality control system that goes from the reception of the raw material to the finished product. Also, the company is constantly increasing its production capabilities and in some cases implementing new production lines in its plants in Cercado de Lima and Ate.

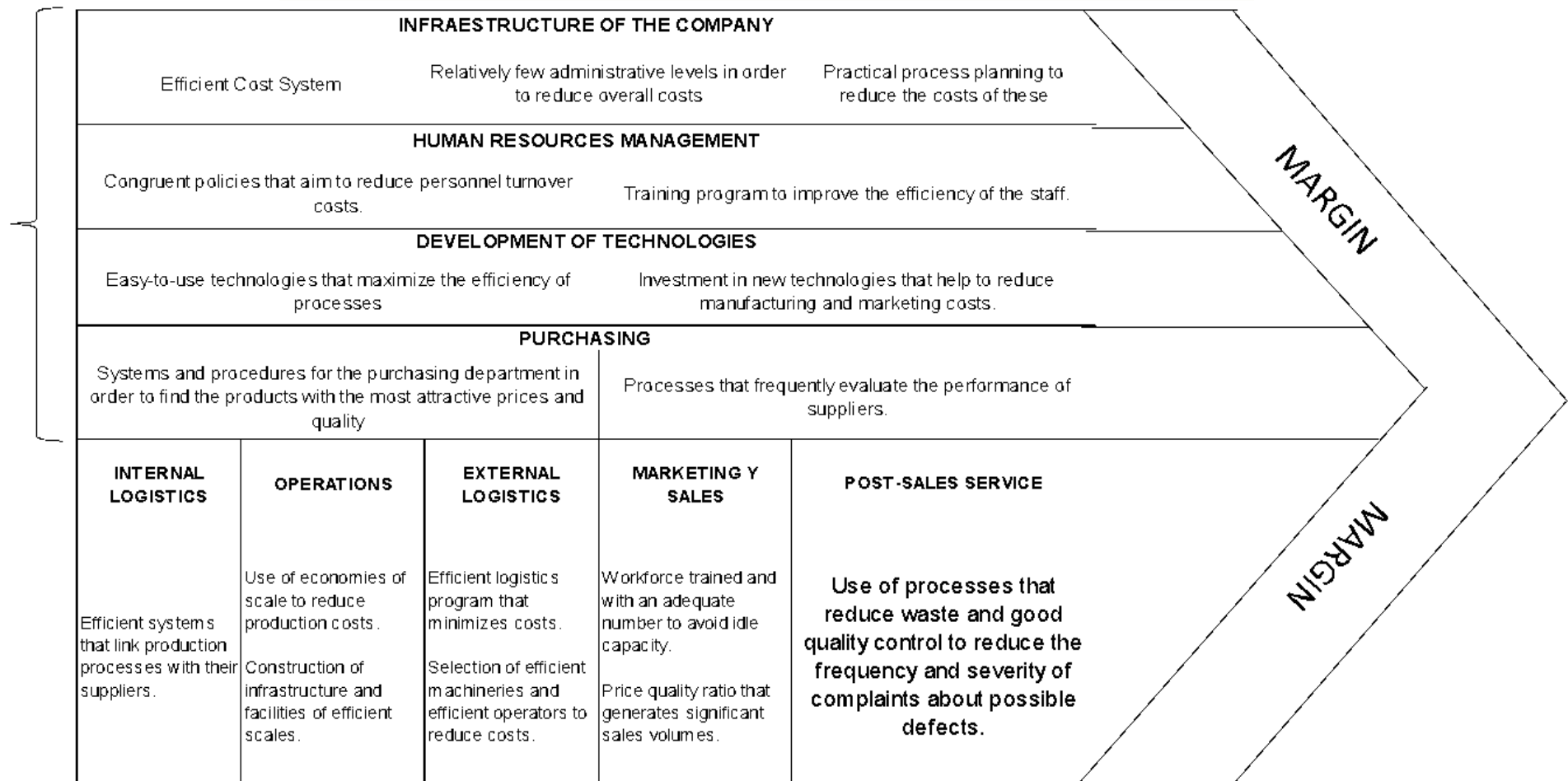


Figure 26. Value Chain and value creation activities of Textile S.A.

Also, cotton, which is the main raw material, is considered as part of the competitive advantages because it is imported from abroad because it maintains adequate quality standards to guarantee that the final product meets the necessary conditions required by the companies. international markets.

As mentioned above, the main destination of the company's exports is the United States. In that sense, the geographical location of the plant benefits the company, since the reason why it is in Peru is justified in the lower tariff costs that Peru has due to the bilateral FTA that it has to be able to buy the raw materials.

Finally, it is recommended that the company consider increasing vertical integration backward with Peruvian products that allow finding better prices for inputs, mainly cotton. The agreements can improve between the company and local producers that allow sharing knowledge to improve the quality of cotton to make it possible to use them in the production of clothing, which would be offered in the local market initially. With regard to vertical integration forward, the creation of finance, logistics, purchasing, marketing, and forecasting units can be considered.

### **9.3 Identification and Analysis of the Potential Clusters of Textile S.A.**

According to Porter (2009), clusters are concentrations of companies in a certain geographic space in which they compete and cooperate with each other. With the idea of generating a competitive advantage, the geographical factor takes an important role for Textile S.A., because the companies are concentrated and interconnected, benefit from being in a competitive environment with a high motivation to continue improving through innovation and higher productivity. In this sense, Porter (2009) defines that a cluster comprises three main elements: (a) geographic location, (b) competitiveness, and (c) economic specialization.

In Peru, two potential clusters can be identified, one in the district of Santiago de Surco (Jockey Plaza) and, the other one, in the district of Jesus María (Real Plaza Salaverry). For strategic and geographical reasons, both districts can be considered as Textile S.A. potential clusters for its local brand, since the malls in both districts are presented with high potential to increase mid-high customers through better articulation of the sales areas.

It is important to have into consideration some competitive advantages of the textile sector in Peru: (a) Pima cotton as a cluster of production of a differential raw material; (b) fine hairs or Andean camelids as a cluster other than Premium segment; (c) cluster high-cost confection of Jockey Plaza and Real Salaverry; and (d) brand & retail cluster, includes producing companies, pure retailers or fashion designers.

According to Porter (2009), it is necessary that there are related industries that support the cluster, in the generation of knowledge and its subsequent disclosure, the support of the institutions (among others). Nowadays, Jockey Plaza and Real Salaverry are the main groups of Lima and Peru. They are located geographically in the Lima districts of Santiago de Surco and Jesus Maria, two of the 43 districts of the province of Lima.

Both the Jockey Plaza and Real Salaverry, are formal commercial emporiums that facilitate the generation of knowledge and its subsequent disclosure. Additionally, they receive support from governments and formal credit agencies (banks), there is a large production of clothing, there are aid mechanisms to improve production processes, access and new markets, and innovation development.

The competitive advantages of Jockey Plaza and Real Salaverry are:

There is a strong concentration in Lima that allows a relevant nucleus of companies to act as tractors for the industry, training the different actors and generating knowledge.

There is a chain of customer-supplier relationships, companies cooperate with each other and therefore work in a dynamic cluster.

Create high-quality clothing, either by finishing or by the materials.

The fashion-textile business is Peru's main manufacturing export.

Finally, the dynamism of Jockey Plaza and Real Salaverry represents a focus of entrepreneurs.

#### **9.4 Identification of the Strategic Aspects of Potential Clusters**

Gaia & Dávila (2013), explained that the implementation of a policy that promotes competitiveness in a given industry through the development of clusters is based on three main conditions: (a) identify existing and potential clusters, (b) select the policies based on their expected impact on the cluster; and (c) prioritize action on some strategic points.

In this sense, what is sought with these three conditions is: (a) to develop processes or strengthen activities, (b) to increase productivity and product quality, (c) to promote innovation, and (d) to promote cooperation and improve the relationship between institutions and companies.

In the case of Textile S.A., the two clusters in Jockey Plaza y Plaza Salaverry are defined as the most important, since it highlights several strategic aspects: (a) adequate infrastructure for sales, (b) support from the government to continue empowering the textile industry, (c) constant training to the staff in terms of how to operate the machinery and improve skills, (d) good location of the functional areas, (e) high quality of the final product, and (f) good technological infrastructure.

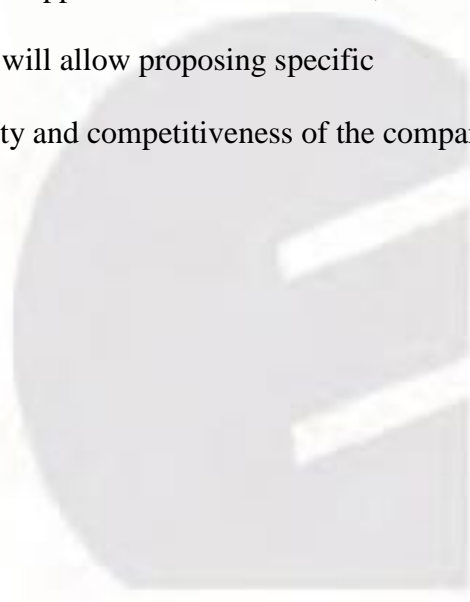
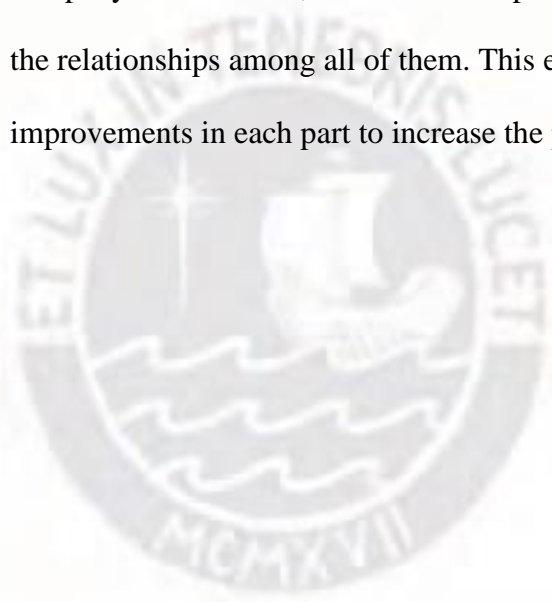
#### **9.5 Conclusions**

The competitive environment in which Textile S.A. is located must be determined locally and internationally, differentiated by the specific characteristics the markets specifies. Also, the competitive analysis must be developed for each unit and then together. For

instance, the production unit has strengths that make it possible for Textile S.A. to respond to the demands of the national and international markets.

Because there is a highly competitive rivalry both locally and internationally, it is very important that Textile S.A. follows the differentiation strategy through the delivery of good quality products and with more innovative designs to continue making difference among the competitors.

Likewise, the development of competitive advantages must be seen using the company's value chain, because all the processes and support activities are shown, as well as the relationships among all of them. This evaluation will allow proposing specific improvements in each part to increase the productivity and competitiveness of the company.



## **Chapter X: Conclusions and Recommendations**

### **10.1 Integral Strategic Plan**

The ISP allows the management to have a systematic view of the strategic implementation, in order to verify the alignment and articulation among all the variables (D'Alessio, 2015). The ISP for the textile company was developed in Table 47. The recommendation for the management is to use the proposed ISP as the Balance Score Card is complemented by the visualization of the LTO, the strategies, the vision, the mission, the policies, the cardinal points, the values, and the code of ethics.

### **10.2 Final Conclusions**

The main findings in the present document refer to the external and internal factors of Textile S.A., its competitive advantages, the key success factors to thrive in the textile and confection industry and the retained strategies proposed for the company. As per the business environment, the level of competition for Textile S.A. is strong as it competes globally with international players with good profiles. Furthermore, a new scenario is emerging in the global trade landscape. The stance taken by the current government of the USA has originated a “trade war” with China and a more protectionist atmosphere for global trade. Clothing export is not exempt from this reality, then it is a factor that Textile S.A. needs to take into account. Nevertheless, there are important business opportunities in both the international and local market, and in the technological and environmental landscape.

Regarding the internal analysis, Textile S.A. has important productive and managerial capacities, while its main weaknesses relate to its concentration in the US market and its lack of a strong brand positioning. Textile S.A.'s competitive advantages are its high-quality clothing, its large production volumes that generate economies of scale, its strong quality control system, and the high quality of its main raw material: the Pyma cotton.





Moreover, the company has a trajectory in the market that positions it favorably for the opportunities and challenges that the industry will face in the coming years. The company has more than 50 years in the market and a close relationship with its clients, however, the context is different from 50 years ago and if Textile S.A. wants to succeed it is necessary to be more innovative and take more measurable risks.

Overall, the retained strategies proposed in this document can be grouped as market development, market penetration, product development, and backward vertical integration. As per market development, it is time for Textile S.A. to reduce gradually its dependency on the USA as a solely major market. There are a set of potential markets within and outside the region that might be attractive for Textile S.A. In that sense, exploring the neighboring countries with whom Peru has signed FTAs might be a good starting point. Strategic alliances are highly recommended in this regard. Considering market penetration for international markets, Textile S.A. needs to create a higher differentiation by participating in the clothing design process of other brands to increase the added value; and by increasing the loyalty of current customers. In the case of the local market, Textile S.A. needs to further strengthening its brand position aiming a mid-high-income segment; and refreshing its online commercial channel. Regarding the backward vertical integration, this strategy will allow Textile S.A. to secure high-quality raw material.

### **10.3 Final Recommendations**

For the board of directors and CEO of Textile S.A., a set of final recommendations in line with the conclusions in the previous sections are detailed below. First, because of the great number of opportunities that Textile S.A. locally and internationally, the company should invest in positioning its brand in the retail local market and developing new commercial relationships outside the U.S.A. Second, invest in manufacturing technology to have more eco-friendly processes, and enhance levels of productivity in line with LTOs.

Third, it is recommended to implement this strategic plan starting in the second half of 2019, following the sequential model that involves the strategic process, which consists in three stages: formulation, implementation, and evaluation and control. Fourth, it is recommended to have a clear understanding of the company's key success factors as they are the starting point to take strategic actions.

Furthermore, the proposed strategies are aligned with the company's vision and LTOs. Fifth, in order to win the competition in the resources, labor forces and technology equipment, Textile S.A. should implement some strategies. For the raw material, it is recommended to adopt a backward vertical integration. For the labor forces, it is recommended to implement soft skills training programs to employees and develop a culture of digital transformation.

In addition, for technology equipment, it is recommended to strengthen its relationship with technology suppliers and keep updated with the latest advance by attending sectorial fairs. Finally, the implementation of the strategies developed in the strategic plan requires a new organizational structure for Textile S.A. that provides the company with supporting that facilitates the resources to the core areas that will have more focus on the business.

#### **10.4 Textile S.A.'s Future**

The textile industry in the world has faced important challenges, since after the financial crisis the market began to be quite volatile, which caused exports to decrease. In addition, international competitors have entered with lower prices for their products, due to lower production costs, lower labor costs, and higher manufacturing capacity. Furthermore, the trade war between the two largest economic world powers sets a backward movement contrary to the progress that the world has made in international commercial trade. Moreover, the trends in business and consumer patterns toward sustainability and technology caused

disruptions in several industries, and the textile and confection sector has not been an exemption.

Despite the challenging context, by the year 2024 Textile S.A. accomplish its vision to become the exporter leading company in the textile and confection industry in Peru, be a referent brand in the local retail market, and deliver high-quality products from its certified suppliers with added value to its clients, remaining at the forefront of technology, systems, and processes with highly qualified workers. Textile S.A. reaches the objective of increasing RoE in 300 bps. from 48.5% to 51.5%, which shows improved financial results for the shareholders.

On the commercial side, by the year 2024 Textile S.A. achieves the objective of including three additional premium clients to the portfolio, which is a major achievement and a result of the important commercial efforts of the company. In the local market, Textile S.A. also fulfills the objective of improving its positioning by increasing its market share from 1% to 5% despite the strong competition. On the operational side, Textile S.A. reaches the objective of generating annual improvements in 65% of our products while increasing the quality of its products by increasing to 80% the usage of natural fibers. In the same line, Textile S.A. achieves a time reduction in its manufacturing process of 10% driven by its leading in technology. Finally, the productivity of its workforce also improve by 10%, which is the result of the improved practices in the human resources area.

All aforementioned achievements were fulfilled given the implementation of the strategic plan prepared in this document. This strategic plan set the route map for Textile S.A. as allowed it outstand its competitors. Furthermore, the strategic plan's relevance will continue for the next years, as its implementation will drive customer satisfaction; cost efficiency; Increase market share and product designs, with which Textile S.A. will further consolidate its leading position in the Latin American textile and confection industry.

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