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Consulting Report – Mipaku

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Elio David Perez Paredes

Advisor: Pablo Arana

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Dedications

To my father Jaime Perez, who in life always yearned to see me as a professional. Despite that you are not here physically, I do always carry you in my heart.

To my mother Bilda Paredes and brothers Alfredo and Jhonny whose invaluable teachings and support were my strength and constant motivation to go ahead during the preparation of this thesis.

Abstract

MiPaku is a small, socially conscious fashion brand specializing in the design, manufacture, and sales of high-quality alpaca wool and cotton blended garments. The company is essentially an outgrowth of D'Peru textiles, which is an already established self-sustainable business that has been running since 2010. While Mipaku offers its products under its own brand name, D'Peru Textiles is a white-label manufacturer of high-end alpaca wool and cotton blended garments. The company is based in Lima, Peru, and, at present, employs a total of 12 persons. Notably, Mipaku shares its production facilities, staff, warehousing, and ownership with D'Peru Textiles. Mipaku generates annual sales of less than US$10,000.

Mipaku wants to grow yet is unsure of how to do so. Accordingly, the main problem(s) addressed in the consulting report concern market selection and modes of entry. In order to address the problem of market selection, an integrated market selection model is designed (based upon relevant literature) and employed to determine which markets Mipaku should pursue. Results from the model are complemented by qualitative research and identified that the United States, Germany, and the United Kingdom are the top markets for further pursuit.

Following market selection, entrance strategies for each market are designed and organized into a Gantt chart. Moreover, the proposed implementation offers legal requirements, distribution channels, cost strategies, and a list of trade shows, boutiques, and other potential customers. Finally, it is analyzed the qualitative and quantitative outcomes that give the expected net present value and internal rate of return. To conclude, it is projected that if Mipaku implements the recommendations outlined in the consulting report, they will indeed accomplish their goal of increasing sales and growing their brand.

Resumen Ejecutivo

MiPaku es una pequeña empresa de moda especializada en el diseño, fabricación y venta de prendas de alta calidad de lana de alpaca y algodón. Mipaku es esencialmente una extensión de D'Peru Textiles, el cual es un negocio autosustentable ya establecido que ha estado funcionando desde 2010. La principal diferencia es que Mipaku ofrece sus productos bajo su propia marca, mientras que D'Peru Textiles es un fabricante de prendas combinadas de algodón y lana de alpaca de alta gama de etiquetas de marca blanca. La empresa tiene su sede en Lima, Perú, y, en la actualidad, emplea a un total de 12 personas. En particular, Mipaku comparte sus instalaciones de producción, personal, almacenamiento y propiedad con D'Peru Textiles. Mipaku genera ventas anuales de menos de US$ 10,000.

Mipaku quiere crecer, pero aún no está segura de cómo hacerlo. En consecuencia, los principales problemas abordados en esta tesis de consultoría se refieren a la selección del mercado y los modos de entrada. Para abordar el problema mencionado, se ha diseñado un modelo integrado de selección de mercados (basado en la literatura relevante) el cual es empleado para determinar qué mercados ofrecen potencial de crecimiento para Mipaku. Los resultados del análisis cuantitativo se complementan con análisis cualitativos, identificando como resultado que, Estados Unidos, Alemania y el Reino Unido son los principales mercados en los cuales Mipaku debe centrarse.

Después de la selección del mercado, se diseña las estrategias de entrada para cada mercado las cuales se organizan en un diagrama de Gantt. Además, propone una implementación la cual contempla requisitos legales, canales de distribución, estrategias de costos y una lista de ferias, boutiques y otros clientes potenciales. Finalmente, se analizan los resultados cualitativos y cuantitativos para determinar el esperado valor presente neto y la tasa interna de retorno. Para concluir, se propone concretas recomendaciones con el objetivo de que Mipaku logre aumentar sus ventas y hacer crecer su marca.

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Chapter I: General Situation of the Organization

1.1. Presentation of the Organization

Mipaku is a small, socially conscious fashion brand specializing in the design, manufacture, and sales of high-quality alpaca wool and cotton blended garments. Although the company was founded in 2010 it started to generate sales since 2017, is based in Lima, Peru, and employs 12 people. At present, Mipaku exclusively markets and sells its products abroad, specifically in The United States and Germany. Though Mipaku has been in operation since 2017, the business is still in its infancy; Mipaku has few sales (approximately USD$6,000 so far in 2019), no well-established distribution network, and is currently in the process of developing and clarifying many aspects of its business and overall strategy, including which markets to pursue and how to enter them.

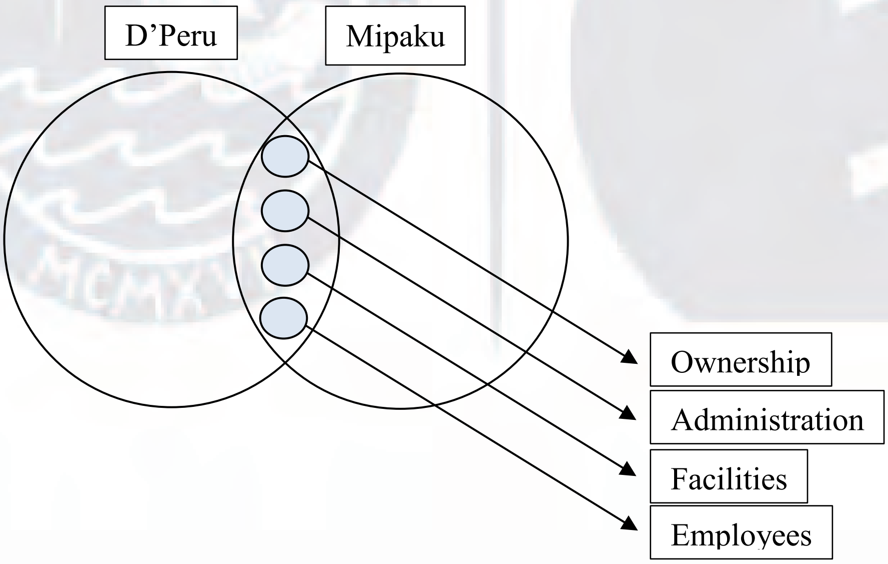

Figure 1. Relationship between D'Peru and Mipaku.
Adapted from *Relationship between D'Peru and Mipaku* (personal communication, p. 1), by A. Leyva, 2019, June 27, Lima, Peru: Author.

Mipaku is essentially an outgrowth of D'Peru textiles, which produces a variety of different alpaca and cotton blended products for other businesses. The primary difference between the two is that D'Peru is a white label manufacturer whereas Mipaku designs and sells clothing under its own brand name. Though the two are separate entities they are owned and operated by the same individuals, are situated in the same location, and share the same equipment and facilities (see figure 1). In Part, Mipaku was created because ‘D’Peru textiles’ was too general of a name to be trademarked. Practically speaking, Mipaku is the fashion brand of D’Peru. That being said, D’Peru is a separate entity with a different business model and is not the focus of this report: Mipaku is.

Because the business is in such an early stage of development, there is little information available regarding operations and performance. Referring to the Figure 2, Mipaku can be considered as being on the borderline between the introduction and development stages of the business life cycle. To briefly explain, during the introductory and development stages of the life cycle a product/business is launched, developed, and tested against the market to determine validity; a business is typically considered as having entered the growth stage of the life-cycle once its business model has been proven by the market and it is poised to grow (D’Alessio, 2014). At its present stage, Mipaku needs to adopt a strategy that will allow it to move from the development stage into the growth stage of the cycle.

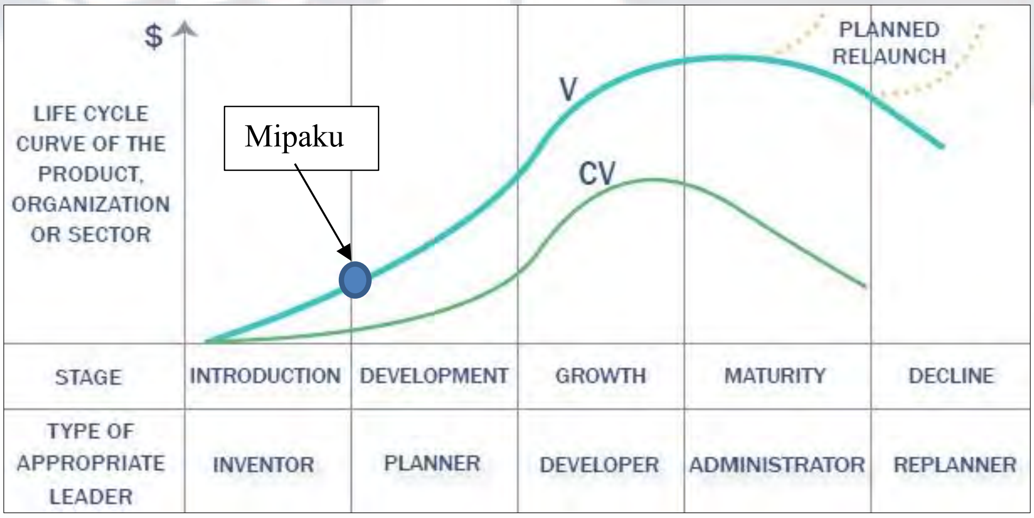

Figure 2. Current situation of Mipaku in the life cycle.
Adapted from *Planeamiento estratégico razonado: aspectos conceptuales y aplicados* (p. 26), by F. A. D’Alessio, 2013, Lima, Peru: Pearson.

Regarding the organizational structure of Mipaku, of the business’ 12 employees, three are involved in administration (including management, sales, marketing and design, etc.) while the remaining nine work predominantly in manufacturing. Of the three employees involved in administration, sales, and design, two of them also happen to be co-owners of the business, while the third owner oversees production. However, it should be noted that responsibilities are not strictly defined; like many small owner-operated businesses individuals take on more than one role within the organization depending on what is needed. The preceding analyses will shed more light on the situation currently facing Mipaku.

1.2. Industry Analysis (Porter´s Five Forces)

The Five Forces analysis was introduced in 1979 by Michael Porter in his Harvard Business Review article “How Competitive Forces Shape Strategy” (Porter, 1979). Porter’s observations prompted a revolution in the strategy field and continues to shape business practices today. Porter's Five Forces is a framework that identifies and analyzes five competitive forces that shape all parts of the business industry. By analyzing the number and power of a company's (a) competitive rivals, (b) potential new market entrants, (c) suppliers, (d) customers, and (e) substitute products, one can alter the business strategy to boost competitive advantage. Furthermore, it may help businesses to assess industry attractiveness, how trends will affect the competition within the industry, and how they can position themselves for success.

1.2.1. Threat of substitute products

In the textile industry in which Mipaku operates, the threat of a substitute for alpaca clothing is high as figure 3 shows, there are products on the market that offer a lower price or a higher performance. A substitute that is easy and cheap to make can weaken one’s position and threaten the profitability. An industry will suffer in terms of growth potential and profit, if it does not distance itself from substitute products through performance, marketing, or other characteristics. However, considering only the specific fine wool animal hair textile and clothing industry, the threat of substitute products of alpaca is medium, table 1 shows the main producers of animal fiber. Alpaca fiber is a globally traded textile commodity and accounts for 10% of global trade of luxurious animal fibers. Along with cashmere, merino, mohair and angora, alpaca is considered one of the finest animal fibers. Mohair, angora and cashmere account for 56%, 21% and 12% respectively (Panigrahi & Kushwaha, 2013). However, the combined share of fine animal fibers is just 1.5% of global output of animal fibers with wool accounting for the remaining 98.5%.

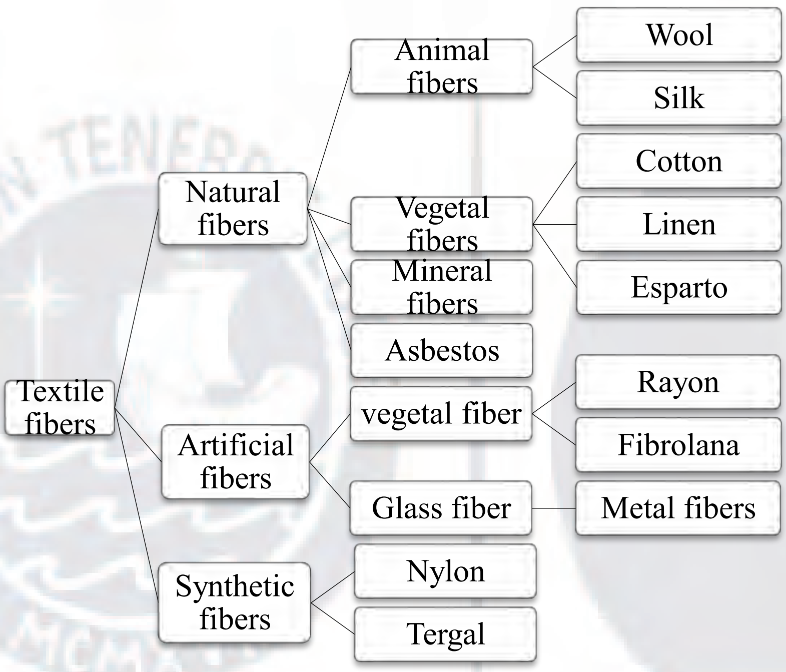

Figure 3. Textile fibers in the textile industry.
Adapted from *Textile fibers*, by A. Esparzo (https://www.edu.xunta.es/espazoAbalar/sites/espazoAbalar/files/datos/1464947174/contido/65_fibras_textiles.html)

Table 1

Annual Production of Animal Fibers by the Main Producers (2012)

Fiber	Main productors	Annual production (tons)
Sheep wool	Australia, New Zealand and South Africa	2,050,000
Mohair	South Africa, United States and Turkey	22,000
Angora	China, France and Chile	8,500
Cachemir	China and Iran	5,000
Alpaca	Peru	4,000
Vicuña	Peru	3

Note: Adapted from *Estudio de mercado: Identificación de oportunidades para proveedores peruanos de productos de Alpaca en Australia* (p.7), by Promperu, 2016, Lima, Peru.

Alpaca fiber has several potential substitute products as other luxurious animal fibers have similar characteristics, such as haptic and appearance. Additionally, the diversification of export destinations has progressed in recent years and there is increased competition particularly from China and other Asian markets with fibers such as cashmere and angora (Kasterine & Lichtenstein, 2018). However, major trends in the textile industry show increased consumer interest in natural fibers, as well as alpaca fiber. A study has shown that there is also an increasing willingness and capacity to pay for these luxury products, especially in countries such as Australia and Asia (Wang & Liu, 2003). And even though it is still a niche market, the European demand for alpaca products in apparel is growing and reaching the highest fashion segments (CBI Ministry of Foreign Affairs, 2016).

As production capacity and production volumes of these natural materials cannot be easily increased, the threat of substitutes diminishes. For this reason, demand is increasing but supply cannot be easily increased. Furthermore, alpaca wool fibers have unique characteristics that limit the threat of substitute products, such as its lightweight and silkiness. Yet, alpaca fiber has great strength and durability and is said to last longer than most other luxury fibers including wools, cashmere, and silk. Also, it is known for being extremely warm as it contains microscopic air pockets, providing great insulation. Those air pockets also allow for breathability, giving the garment great versatility and adaptability to every season. Additionally, it is hypoallergenic due to the absence of lanolin

1.2.2. Potential of new entrants into the industry

New entrants in an industry are looking to gain market share, and thus, bring new capacity. In turn, this puts pressure on prices, on costs, and on the rate of investment necessary to compete. In general, the threat of entry in an industry depends on the strength of entry barriers that are in place and on the reaction entrants can expect from incumbent firms (Porter, 2008).

In the case of the alpaca textile industry, the potential of new entrants into the industry is medium as there are rather high entry barriers in place. Alpaca fiber has many unique and valuable characteristics that need to be considered and understood in the processing stage. One unique characteristic of alpaca fiber is that it contains keratin-based protein, and therefore, is heat and stress sensitive (Yu, 2006). This is an important feature in the handling and processing stages because it makes the fiber resistant to hot temperature and stress (Yu, 2006). There is little information available on handling, processing and blending of alpaca fiber and the number of people that can process alpaca fiber is limited as the know-how is not easily acquired. The machines that are needed for the weaving of the yarn are capital intensive and few people know how to program and work with them. According to Mipaku, up until recently the courses to learn how to program the machines were only offered in the country of origin of the machines, Germany. To send someone to Germany to take those courses and learn how to program the machines was very costly, and thus, not many had that skill. However, nowadays those courses are also being offered in Peru. Furthermore, knowledge on luxury fiber processing is generally kept secret by international processors who have the know-how.

However, as the market and demand for luxurious fibers is growing, the interest on entering the industry might mutually increase. Since the production and handling requires knowledge, specialized machines and a lot of capital investment, there are still significant entry barriers to overcome first. Thus, there is increasing interest in the industry but high entry barriers at the same time which leaves the potential of new entrants into the industry at medium.

1.2.3. Power of customers

The bargaining power of buyers depends on the ability of customers to put the firm under pressure. Power is high if products are standardized or undifferentiated and if buyers believe they can always find an equivalent product and face low switching costs. The buyer bargaining power in the alpaca textile industry is medium as there are multiple factors that make the customers as a group a rather influential force. Even if clients do not influence a brand's position directly, they might do so indirectly. Technology and the 21st century have made it easy for customers to be well informed. In the fashion industry, customers can choose from multiple alternatives and can freely switch between various brands in the market. The high level of competition and the availability of many brands offer the customer a great variety of choice. The fact that Mipaku has not yet positioned itself as an exclusive alpaca brand and does not yet enjoy brand recognition, make this an even stronger force. Due to no or a small budget for marketing, this is also not expected to change in the near future.

1.2.4. Competition in the industry

According to Porter (2008), "rivalry among existing competitors can take many forms, including price discounting, new product introductions, advertising campaigns, and service improvements". A high level of rivalry can limit the profitability of an industry. The degree to which competition influences an industry's profit depends, on the intensity with which businesses compete and on the ground on which they compete.

The competition in the alpaca sector is high as there are numerous competitors producing the similar goods both in the Peru and abroad. Asian competitors and bigger Peruvian firms are especially able to undercut Mipaku regarding their price as they have lower production costs. However as mentioned before, not many firms have the knowledge of how to work with alpaca as the machines that are needed for the weaving of the yarn are capital intensive and few people know how to program and work with them. According to Mipaku (personal communication, June 27, 2019), they have a "contemporary design and are specialized in supremely luxurious classics that form the backbone of a modern and timeless wardrobe. Crafted in small production lines they strive to maintain the artistry in traditional high-quality craftsmanship.”

Table 2

Main Peruvian Export Companies for Alpaca Garments (trousers)

Company	Share (%)
Incalpaca textiles Peruanos de Exportacion.	29
Creative Knit SAC	13
Kero Design SAC	8
Green Design link SAC	7
Consorcio textil Exportador SAC	6
Royal Knit SAC	6
Espacio Concepto Moda EIRL	3
Top Trading Peru SAC	3
Kanaeru EIRL	2
Other Companies (50)	19

Note: Adapted from “Sistema integrado de información de comercio exterior” by Promperu (http://www.siicex.gob.pe/siicex/portal5ES.asp?_page_=172.17100&_portletid_=sfichaproductoinit&scriptdo=cc_fp_init&pproducto=204&pnomproducto=Vestido%20de%20Alpaca)

1.2.5. Power of suppliers

The bargaining power of suppliers is determined by how easy the supplier can increase their prices and how unique the products or services they provide are. The power of Mipaku’s suppliers is medium to high. The alpaca market has the characteristics of an oligopsony in which there are few buyers purchasing from many thousands of sellers (Kasterine & Lichtenstein, 2018).

The alpacas are held by numerous small farmers that manage their animals according to traditional practices. Intermediaries recollect the alpaca fiber and through a long, informal and non-transparent value chain the alpaca fiber gets to the modern, technology-intensive processing industry. There are three industrial groups that process the fiber and afterwards export it as a semi-processed product. Because of the high investments in installations and equipment and the need to reach a critical size for a profitable industrialization, the fiber processing tends to a natural oligopoly (Schmid, 2006).

Mipaku is highly dependent on the price of alpaca fiber as alpaca yarn is the most important raw material in their production process. They purchase their yarn from those three main players in the industry, which process 80-90% of the Alpaca fibers produced in Peru. The alpaca fiber industry is an oligopoly. Accordingly, market power is high, and they have the capability to drive up the cost of Mipaku's inputs to a certain extend. However, there is also some competition between the main players and switching costs from one supplier to another is low.

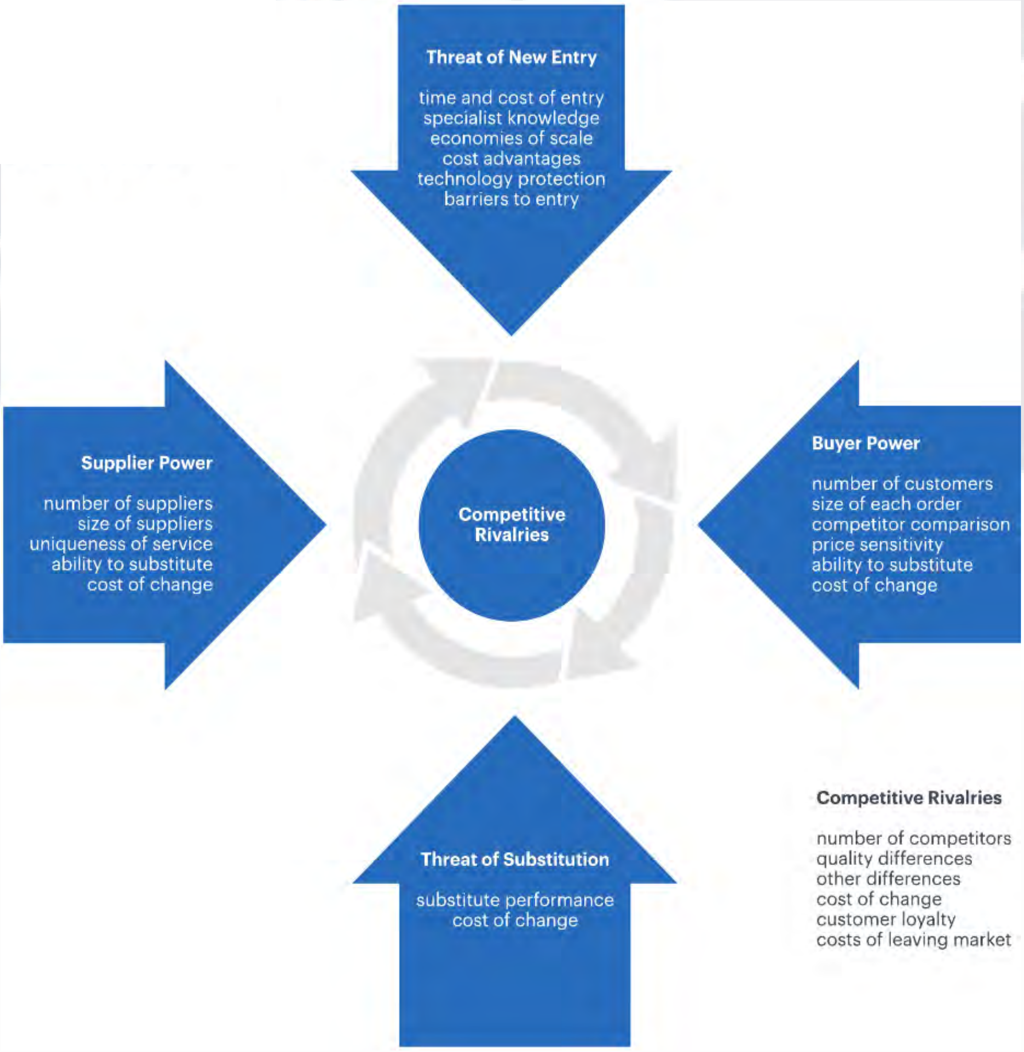

Figure 4. Porter's five forces.
Retrieved from *The Five Competitive Forces that Shape Strategy* (P.4), by M. Porter Author, 2008, Harvard Business Review.

1.3. External Analysis (PESTE) – Opportunities and Threats

The purpose of the PESTE framework is to provide a general overview of the macro-environment of the company (Yüksel, 2012). Furthermore, the aim of this assessment is to identify opportunities and threats that can pose significant impacts to the company by focusing on five specific categories: (a) political, (b) economic, (c) social, (d) technological and (e) environmental factors. As new concepts gain greater traction in the textile industry, companies must be more conscious in their commercial activities than ever before (Yüksel, 2012). It is important to note that companies cannot control external factors but being aware of them allows the business to take advantage of circumstances and reduce risk. The following PESTE analysis looks specifically at three potential markets: Europe, the United States, and China. These markets were chosen because they are the three largest markets for luxury goods in the world (Luan et al., 2019; OECD, 2019).

1.3.1. Political, Governmental, and Legal Factors (P)

Before 1995, the textile and clothing industry largely restricted developing countries from exporting goods by imposing quotas (World Trade Organization, 2019). This meant that developed countries had expensive clothing as production and materials were mainly local. However, the World Trade Organization's (WTO) Agreement on Textiles and Clothing fundamentally changed the structure of the industry by mandating WTO members to remove the trade quotas by January 1, 2005 (World Trade Organization, 2019). This ultimately liberated and fundamentally changed the industry by giving companies access to different and cheaper labor markets. Specifically, the clothing and textile industries are labor-intensive, and the termination of quotas significantly impacted poor and emerging economies as they were able to produce materials at a lower cost. As a result, production was largely relocated and outsourced to lower-cost producers and mainly semi-skilled and unskilled women were employed (Nordas, 2004).

The changes within the last two decades have resulted in the United States (U.S.), Europe and China becoming the largest consumers of clothes. According to OC Data (2018), China is the largest consumer of clothing at US$40 billion, followed by the US at US$17 billion. Additionally, countries such as Germany and France are in the top ten countries that dominate the market for retail purchasing (OC Data, 2018). For this reason, the report will focus on the American, European and Chinese market. Further justification for why these three markets are considered is provided in the economic section.

To date, Peru is a unitary state with a multi-party system. The president of Peru is the head of state and serves a five-year term. The current president is Martín Vizcarra and the next federal elections will be held in April 2021. Subsequently, Peru has been able to grow because of its relatively stable government, which has put great emphasis on economic growth. The government has also set priorities such as guaranteed access to drinking water by 2021, increase access to sanitation services, and improving health and education (PromPeru, 2019). Additionally, the government has stated that it is prioritizing five main areas: education, health, national security, justice, and infrastructure (PromPeru, 2019). These are positive government initiatives that will help Peru economically and give trading partners confidence in Peru. Moreover, Peru has been able to establish trade agreements with the United States, China, and Europe, which are the major economies of the world. Similarly, Peru is also part of the Asia-Pacific Economic Cooperation Forum and the Pacific Alliance.

Legal. The EU has the Textile Regulation (EU) No 1007/2011 that aligns textiles laws of all member countries. In this legislation, there are laws that specify the requirements for labelling products and the requirements for disclosing the composition of the textile product (European Commission, 2019b). The main purpose of this regulation is to protect citizens, businesses, and public authorities.

In addition, the U.S. also has legal labelling requirements for textile products. The U.S. Customs and Border Protection and the Federal Trade Commission are responsible for enforcing the labelling laws and look for things such as: information on fiber content, the country of origin, manufacturer identity, and care instructions (Federal Trade Commission, 2015). It is important to note that failure to comply with the labelling requirements is grounds for failing the clearance process at customs.

In China, textile products are also subject to safety and quality standards or regulations. These standards include regulations on dyes, odors, pH value and formaldehyde content (Federal Trade Commission, 2015). Furthermore, China requires that textile products also have “instructions for use” on the labels, protective clothing requirements, technical requirements and more (Federal Trade Commission, 2015). Specifically for the permanent label, manufacturers need to include product type and size designation, fiber content, and care instructions (Federal Trade Commission, 2015).

1.3.2. Economic Factors (E)

Peru is unique in that it is among the fastest growing economies in South America. Between 2008 and 2017, Peru averaged 5% growth and has been driven by sound monetary and fiscal policies (Foreign & Commonwealth Office, 2019). Moreover, according to the International Monetary Fund (2019), Peru’s inflation rate is a moderate 2.4%. Together, these statistics have resulted in Peru being the 52nd largest export economy in the world (OEC, 2019). Therefore, Peru is a South American economy to be acknowledged.

The clothing and textiles industry are worth approximately US$2 trillion in global revenue and growing (Connell, Y, & Kozar, 2017). Within this industry, Peru’s portion of textile exports accounted for US$1.35 billion in 2017, which is 0.77% of its total exports (OEC, 2019). Furthermore, “Peru is one of the few countries in the world that produces alpaca wool” (CBI Ministry of Foreign Affairs, 2018) and this gives it a niche in the clothing and textile market. Additionally, the Peruvian government is trying to expand this sector and is working in collaboration with Europe, specifically the Netherlands. Garments Peru is the sector that includes the alpaca wool and pima cotton industries, which are part of the CBI's Country Programme Peru supported by the Netherlands (CBI Ministry of Foreign Affairs, 2018). The CBI Programme focuses exclusively on high-end garments and helps alpaca wool producers from Peru attract European consumers (CBI Ministry of Foreign Affairs, 2018). Moreover, this program allows participating companies to exhibit their products at the Who's Next trade fair in Paris and London. Only twelve Peruvian alpaca and pima cotton companies are currently participating in the program (CBI Ministry of Foreign Affairs, 2018). In addition to the CBI program, the Peruvian government has an export promotion agency called PromPeru that hosts other fashion fairs and market guides. The agency also displays Peruvian apparel industry catalogs for European importers to view.

The textile and clothing industry are highly dependent on economic booms and recessions. In particular, small and medium-sized enterprises (SMEs) are susceptible to these fluctuations. In the case that there is a recession, Mipaku would be in a better position to conduct business in a market where people have higher purchasing power, thus, the first criteria to consider in market selection is countries with the highest GDP Per capita, the second criteria to narrow the potential markets is the current traded quantities in alpaca textile and clothing. According to the World's Top Exports (2019), Peru's top trading partners are China, the United States, and Europe (Switzerland, the Netherlands, and Germany), Norway and Canada. Below is a deeper analysis of the considered markets for entry.

The Canadian market. When considering the Canadian market, it is important to note that there is a Canada-Peru Free trade agreement (CPFTA), which was signed on May 29, 2008 and entered into force in August 2009 (Government of Canada, 2009). This free trade agreement is free-market oriented and aims to eliminate trade barriers while also creating opportunities for deeper integration, economic development, and fair competition (Government of Canada, 2009). According to the Parliament of Canada (2013), in 2012, Canada-Peru merchandise trade summed US$4.2 billion and comprised of US$3.7 billion imports from Peru and US$536.2 million exports to Peru. Moreover, the amount of Canada's imports from Peru increased from 0.5% in 2007 to 0.8% in 2012. Although the major product exported from Peru to Canada is gold, which accounts for 73.1% of the trade, there has been an improvement in the trading of agricultural and textile products (Parliament of Canada, 2013).

The American market. For this market, there is the United States-Peru Free Trade Agreement (PTPA) that was enforced as law on February 1, 2009 (Office of the United States Trade Representatives, 2019). The PTPA is beneficial for Peru's textile industry as it incorporates provisions to protect the environment and labor rights (Office of the United States Trade Representatives, 2019). Although this agreement primarily focuses on eliminating tariffs on agricultural products, it does include clothing. In 2018, US imports from Peru totaled to US$7.9 billion which is an increase of US$1.1 billion (8.2%) from 2017 (Office of the United States Trade Representatives, 2019). Of these imports, knit apparel accounted for US$620 million (Office of the United States Trade Representatives, 2019).

The Chinese market. In 2017, Peru exported 67% of its prepared wool and animal hair textiles to China, which is valued at US$53.7 million (OEC, 2019). In comparison, Peru exported US$483,000 to Germany and US$284,000 to Norway (OEC, 2019). The Chinese market could be a good area for expansion as there is the China-Peru Free Trade Agreement that was signed on April 28, 2009 (Ministry of Commerce, PRC, 2019). Additionally, this comprehensive FTA is the first China has signed with any South American country (Ministry of Commerce, PRC, 2019) and could pave the way for a competitive advantage for Peru. This agreement aims to strengthen economic and trade cooperation between the two countries.

The European market. When considering the European market, it is important to note that Peru, Colombia and the EU share a comprehensive Trade Agreement which has been provisionally set in motion with Peru since March 1, 2013 (European Commission, 2019). This agreement aims to open both sides' markets for goods, services, government procurement, and investment (European Union, 2012). Similarly, the trade agreement sets out to eliminate tariffs in industrial and fisheries products for both sides and gives considerable concessions for tariffs for agricultural products (European Union, 2012). Although the agreement does not cover clothing and textiles, it does establish a new market access that is aimed to be reciprocal. To the benefit of both parties, predictable and enforceable trading conditions can be established (European Union, 2012) in which Peru's emerging textile industry can take advantage. Additionally, this agreement guarantees the protection of human rights, labor rights, and environmental protection (European Union, 2012) all of which fits with Mipaku's objectives. This agreement ensures that Peru can conduct business in an open, fair and reliable competition environment (European Union, 2012). Aside from the agreement, the European market also features specialized Sub-Committees that Peru can use for discussions involving trade barriers (European Union, 2012).

The Australian market. When looking into the Australian market, the Peru-Australia Free Trade Agreement signed on February 2018 must be considered. This agreement is aimed to launch a new chapter in economic relations between Australia and Peru, giving both parties an advantage to do business in the partner's market (Australian Government, 2018). However, in term of textile industry, specifically in alpaca and fine wool garment, there are several constrains that must be taken into account. First, Australia has the third largest population of alpacas in the world with an annual production of 120,000 kg (PromPeru, 2016). Second, Australia ranks 19th worldwide in terms of imports of fine animal hair clothing from foreign countries, having China as a major partner and followed by Italy, Vietnam and Bangladesh with a share of 65%, 5%, 2% and 2% respectively (PromPeru, 2016). Finally, Peru exports on average US$3.3 million annually which include textiles, alpaca garments and homewares (PromPeru, 2016).

1.3.3. Social Factors (S)

Peru is rich in culture and tradition and is well-known for its delicious food and several UNESCO world heritage sites. It is the third largest country in South America and among the twenty largest in the world. Peru has a population of 31,989,256 people with a US$222.238 billion GDP (World Bank Group, 2019). Moreover, according to the National Institute of Statistics and Informatics, Peru's poverty rate has decreased by 36% between the years 2004 and 2015 resulting in a 21.8% reduction (PromPeru, 2019). One of the most critical social factors affecting the textile and clothing industry is demographics trends. The majority of Peru's population (40.47%) is between 25-54 years old, making it a fairly young population (CIA, 2018). The median age is 27.6 for males and 29.1 for females while the population growth rate is 0.98% (CIA, 2018). This means that Peru is highly susceptible to volatile fashion preferences as millennials gear towards fast fashion. In other words, fashion trends change quickly posing new pressures to clothing retailers.

The alpaca textile industry is sensitive because for many locals in Peru, the animals signify more than just business. The animals are also these peoples' livelihood. Therefore, consumers abroad receiving imported products from Peru are interested in the people involved in the production process. Consumers importing clothing will look at factors such as fair wages, health benefits, education, and more. Similarly, consumers will be concerned about human rights issues in the production of textiles and clothing. These concerns include forced labor and child labor, excessive hours of work, and safety and health hazards (Connell, Y, & Kozar, 2017). In the textile industry, alpaca fibers are generally regarded as specialty fibers known for its warmth, softness and strength (Tuckwell, 1994), which means that customers will expect higher social responsibility. Connel et al. (2017) suggest that sustainable textile corporations will use a triple bottom line method that focuses on fostering sustainable livelihoods throughout the supply chain.

Poverty According to the World Bank (2019e), Peru experienced rapid economic growth throughout most of the 2000s. This growth was driven largely by the expansion of services, agriculture and mining, which combined with targeted social policies, resulted in an income increase for the bottom 40 percent (World Bank, 2019e). Additionally, income inequality fell drastically during 2004-2016 as the bottom 40 percent of the population had an annual income growth of 8.6% compared to the 5.2% mean growth (World Bank, 2019e). This growth slowed down in 2017 as social spending was halted and the labor market stagnated. In this year, the trend over poverty reduction was interrupted as total poverty increased by 1% and the rate of extreme poverty remained stable (World Bank, 2019e). According to the World Bank (2019e), the urban areas experienced the largest increase in poverty, "and particularly in metropolitan Lima where total national poverty increased by 2.3 percentage points." Lima's labor market stared showing signs of recovery in 2018, particularly in the construction sector (World Bank, 2019e). In short, Peru's most affected group by unemployment is youth and increases in employment are concentrated in SMEs and construction.

1.3.4. Technological Factors (T)

The textile and clothing industry are highly susceptible to technological factors as new technology has the potential to significantly impact any stage of the supply chain. Additionally, new machines introduce new modes of production that make it easier and faster to produce clothing, thus reducing costs. However, these cuts in costs are generally realized by larger companies putting smaller retailers at a disadvantage. Furthermore, the way textile companies distribute products is also changing focusing on quicker and cheaper delivery methods. This time-based competition is an essential survival strategy for meeting customer demand (Byrne, 1995). Therefore, SMEs like Mipaku, need to be at the forefront of technological advancements.

Another technological factor in today's increasingly globalizing world, is knowing how to reach your target market. Customer-brand engagement is shifting towards online platforms and understanding how social media affects your company is vital (Colicev, Malshe, & Pauwels, 2018). Technology impacts the way companies' market and sell their products to customers. In the textile industry specifically, firms are using all possible social media tools to extend their reach. These platforms include Instagram, Facebook, Twitter, Pinterest, and many more. These tools are particularly important when it comes to brand building. According to a study by Colicev et al., (2018, p.4), "92% of consumers trust recommendations from the people in their social network… 70% of consumers trust online reviews… [and] only 47% trust traditional advertising." In turn, the number of likes and shares a company can gain on social media applications can positively or negatively affect the way consumers perceive the brand.

In addition, there has been more emphasis on innovative fabrics focusing on design and quality (Byrne, 1995). As consumer purchasing behavior changes, companies must be aware that each year consumer demand has shorter lead times resulting in risk and costs for high stocks (Byrne, 1995). Specific to alpaca wool, there are now new methods of scouring wool using ultrasonic techniques. Given the variety and color of alpaca wool, this technology makes it easier to remove the impurities of the wool (Czaplicki, & Ruszkowski, 2014). Using ultrasonic techniques not only reduces scouring time, but reduces the amount of water and detergent used, which is less damaging to the wool (Czaplicki, & Ruszkowski, 2014).

Intellectual Property Rights. In the U.S. – PERU TPA Intellectual Property Rights (IPR) chapter, there are a number of provisions that cover topics such as: trademarks protection, protection of undisclosed information, and penalties against piracy and counterfeit (International Trade Administration, 2019). This agreement aims to standardize the protection and enforcement of IPR for both U.S. companies and Peruvian companies. The U.S. – PERU TPA IPR provisions also look to improve Peruvian standards of IPR protection by including stronger protection for U.S. patents, trademarks, and deterring piracy and counterfeit with criminalizing penalties (International Trade Administration, 2019).

The EU has many resources for IPR and copyright protection and takes complying with IPR rules seriously. In the EU, once the intellectual property of your product has been protected, you are the only person who can reproduce it and it cannot be copied by other without your permission. Furthermore, protection guarantees the quality of your product and consumers and the origin of the product is clear. Interestingly, Mipaku could earn money through direct use of Intellectual Property (IP), but also indirectly through licensing contracts (European Commission, 2019c). Licensing through contracts means that you give a license to another company to use your IP for a certain period of time. Also, some protections are automatic such as copyright and unregistered design. Owning a patent or a trademark can increase the value of your product and increase your chances of finding investors and other funding opportunities (European Commission, 2019c).

For China, it is difficult to find reliable and vetted sources regarding IPR. The above information indicates that when China operates in those countries, it has to abide by the same IPR regulations. However, when companies operate in China, it seems that there is risk that your IP will not be protected. Additionally, the U.S. and Europe are very clear that if countries from South America would like to do business with them, they must respect and follow the IPR regulations. In fact, the trade agreements that Peru has with the U.S. and the EU explicitly state that foreign companies operating in Peru will have the same IPR rights as they did in their home country.

1.3.5. Environmental Factors (E)

The textile industry is increasingly coming under scrutiny for production processes and its effects on the environment. As people become more educated on environmental issues, they are demanding that companies give priority to ethical and sustainable practices. These issues include but are not limited to wastewater, chemicals, sustainable sources, pollution targets, carbon footprints, and more. Given that Mipaku would like to enter a new market, this factor is especially important as the company must be aware of different environmental standards. For example, directive 96/61 EC "Integrated Pollution Prevention and Control" in Europe aims to eliminate or reduce emissions" (Bisschops, & Spanjers, 2003, p. 1399). Clothing production involves many steps and different processing methods. In many of these steps, waste, greenhouse gasses, and pollution are generated. Companies must be concerned about the effluents they produce and the chemicals they use. Another critical environmental factor is chemical coloring. Chemicals are used in order to improve efficiency and cut labor costs. However, chemical dyes have been observed to leak into water sources and cause pollution and contamination in the local environment (Be Alpaca, 2017).

Environmental protection. In Peru, environmental protection awareness is increasing and good environmental practices in the textile industry are being recognized. Currently, there are 21 ecolabels in Peru which give information about positive environmental protection actions the product is contributing to. Peru's contribution to global emissions of greenhouse gasses is low, but its global emissions caused by deforestation are significantly high (OECD, 2016). Moreover, Peru's national water supply has remained steady.

The U.S.-Peru TPA ensures that trade and environmental policies are mutually supportive. Peru also signed an Environmental Cooperation Agreement with the objective of sustainable development and best practices when using resources. The U.S. Environmental Protection Agency (EPA) provided Peru's Agency for Environmental Assessment and

Enforcement (OEFA) and other governmental organizations training on water quality management (EPA, 2017). In addition, Peru has made significant improvements in terms of air quality. Over the period of 2003-2013, the emission of substances that depleted the ozone layer declined from 191 tonnes to 22 tonnes per year (UNEP, 2013 as cited in OECD, 2017).

Table 3

Opportunities and Threats for Mipaku

Opportunities	Threats
Peru has trade agreements with all markets being considered: Europe, China and the United States	Trends and demands in the clothing industry are highly volatile
Peru's stable economy is promising for future trade partners	Technological improvements make it difficult for SMEs to compete
Peru has the large majority of Alpaca wool exports (almost monopoly)	Customers are increasingly critical of the textile production process
Mipaku can join CBI Country Programme	Mipaku is not a well-known brand
European consumers are most receptive to Fair Trade	There is an increasing awareness on animal welfare
American consumers have 63% awareness of Fair Trade	Several environmental issues including wastewater, pollution, energy consumption, chemical dyes

Note. Adapted from "El Proceso Estratégico: Un Enfoque de Gerencia," by F.A. D'Alessio, 2013. México D. F., México: Pearson

1.4. Internal Analysis (AMOFHIT) – Strengths and Weaknesses

This section will focus on the internal analysis of Mipaku under the AMOFHIT framework. This methodology evaluates the current situation of a company with the aim to identify its strengths and weaknesses using the following criteria: (a) administration and management, (b) marketing and sales, (c) operations and logistics, (d) finance and accounting, (e) human resources, (f) information systems and communication, (g) and technology (D'Alessio, 2013).

1.4.1. Administration and management analysis

Mipaku is the brand name of D'Peru textiles. The purpose of the former is to promote and increase sales volume under this specific brand, whereas, the latter manufactures its garments as a white brand. Currently, Mipaku has very few market sales and therefore little to no market share. Mipaku has just two clients, one in Germany which is Cotopaxi Moccasins & Ponchos) and the other in the United States which is Ediche LLC. In 2017, Mipaku's sales were US$ 2,745 and US$6,000 in 2018; as recently as June 2019, the company has sold US$6,082 (personal communication, 2019, June 27). Although sales have increased by almost three-times than the previous year, Mipaku is not yet self-sustaining and that is why the administration of the business is managed by D'Perú textiles. The company is headquartered in San Juan de Lurigancho, Lima, in the same building where the manufacturing facilities are located, which gives the company an advantage as the administration and management can also directly oversee operations. Moreover, according to the owners, this arrangement allows the company to be better synchronize, connect and respond to their client's needs (personal communication, 2019, June 27).

The Administration of Mipaku is led by Angelica Leyva who has ten-years' experience as a manager and also holds an undergraduate degree in Textile Engineering from the prestigious Universidad Nacional de Ingenieria (UNI). Ms. Leyva's knowledge, experience and commitment, has allowed the company to reach the point they are at now. Additionally, she holds a 33% stake of the total shares and all the areas of the company report directly to her. Ms. Leyva usually holds a meeting with the Design and Operation Manager to see how the company is performing and to see if any improvements can be done. Among her main responsibilities are: (a) to judicially represent the company with the Peruvian government, (b) process the documents and paperwork regarding customs, exports and look for the best partners for sea or air transportation, (c) purchase of raw materials and other accessories needed to make the garments, (d) inventory management, and income and expense control, (e) sign contracts with clients, suppliers, employees and the government. The second owner is Victor Perez, who like Ms. Leyva, holds a 33% stake in Mipaku. Mr.

Perez also has an undergraduate degree in Textile Engineering and oversees design, software programming, and customer relationship. Moreover, Mr. Perez also assists in overseeing the administration of the company. According to Audretsch (2005), the key success factors for SMEs are: decision-making, relationships between ownership, employee deployment and the performances of the firm. It is a strength of Mipaku that Ms. Leyva and Mr. Perez have a deep understanding of the alpaca textile industry. In turn, they can carefully manage scarce resources such as time and money and are able to achieve economic sustainability.

Regarding the organizational chart detailed in figure 5, it is unclear the roles and responsibilities of the Administration job position as it seems that the General Manager is in charge of the entire organization. In reality, this position does not exist within Mipaku. Though this organizational chart currently works as is, after the implementation of this consultancy it is advisable that this chart be improved.

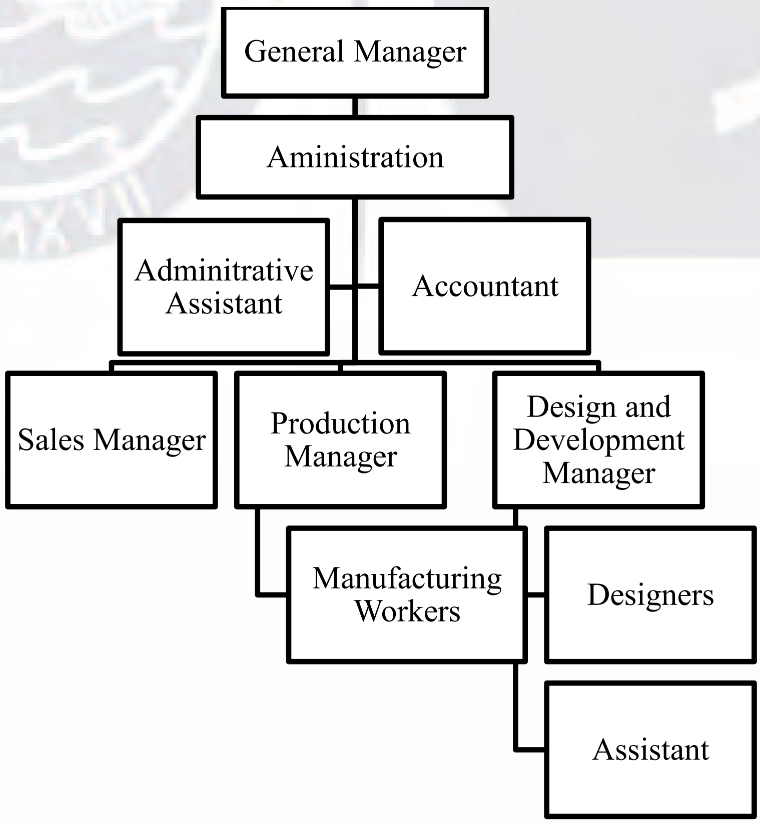

Figure 5. Organizational chart of D'Peru - Mipaku.
Adapted from *Organizational Chart* (personal communication, p. 1), by A. Leyva, 2019, June 27, Lima, Peru: Author.

1.4.2. Marketing and sales analysis

Due to the size of Mipaku and in order to reduce fixed costs, there is currently no fully dedicated marketing department. However, Ms. Leyva and Mr. Perez both assume responsibility over marketing. Currently, the strategy to attract new clients is through word of mouth. D'Peru the company and its specific brand Mipaku, believe in superior customer relationship management, which is why quality and complying with the deliveries is crucial for them. Additionally, they are active members of Prom-Peru, which gives them access to exhibition fairs that invite domestic potential clients and international buyers. Moreover, Prom-Peru tries to connect producers with buyers according to their production capacity. For instance, if a client is looking to purchase a high number of garments, they connect to massive producers that can satisfy that demand, while if the buyer is looking for an amount that can be satisfied by mid or small size companies. Currently Mipaku is focused on increasing its sales in foreign markets. To achieve this objective, they have developed a specific, well-detailed digital marketing plan. This plan identifies and analyzes their target market, includes their strategy of positioning, has short and medium-term objectives, and has a specific schedule and action plan with the Four "P's" used in the marketing strategy (Sarvary & Elberse, 2006):

Product. Mipaku has a wide variety of products made of alpaca fiber, whose properties will have to be promoted in Mipaku's publications, among the most important are: (a) it is hypoallergenic, (b) resistant, (c) it is seven times warmer than sheep's wool, (d)it has microscopic bags that make it thermoregulatory, (e) there are 22 natural tones, (f) obtaining fiber is a process where the animal is not killed, but it is via shearing, (g)the alpacas are more eco-friendly with the pastures and their means of growth than the goats which degrade the grass and lands, among others.

Price. Due to brand-new machinery that the company bought in 2017, the prices of manufacturing have decreased significantly, doing a benchmarking. To date, we do not have the price of production of competitors. However, the asking selling price of similar products in boutiques such as Kuna Larcomar, it is about 40% higher than the selling price of Mipaku. The following lines will detail Mipaku's selling price of the most sold items: (a) sweaters: US$80, (b) cardigan: US$100, (c) ruanas US$180, (d) coats: US$200. On average the profit made by Mipaku is 20% (Personal communication, June 29, 2019).

Place. Currently Mipaku has two clients, however, due to its current situation, the company is mainly focused on exporting its products to a foreign market, particularly, they are very interested in North America and Central and Northern Europe.

Promotion. all advertising is done through social networking sites, having more activity on Facebook with 160 followers and 105 on Instagram. On a regular basis, Mipaku publishes the items that are on sale, as well as the benefits and features of them. Besides, Mipaku's webpage is being redesigned, and is being put the effort in search optimization engine (SEO) with the aim that whenever a potential client looks for a word related to alpaca or Peruvian garments, Mipaku's advertisement and landing page is one of the first results that google shows.

1.4.3. Operations management analysis

The operation of Mipaku takes place in San Juan de Lurigancho, Lima. This facility was chosen for two reasons,: first, the building belongs to Olinda Leyva who also is the third owner of Mipaku with 33.3% of the shares which allows reducing costs; second the location is strategic not only because it is easily reachable for the workforce, but most important because the distribution centers such the airport, seaport, commercial center, etc. are easily reachable within less time and at a lower cost of shipping compared to other districts of Lima or other regions of the country.

This location is one of the main strengths of Mipaku, that is why the three owners are involved in supervising the quality of products and operation improvements, but it is Olinda Leyva who takes responsibility and management of this area. Although not written, Mipaku has a growth strategy, that is why two years ago the company bought two brand new knitting machines that each one can produce a piece of a garment within 15 minutes. One important remark is that these machines are controlled by software that is programmable according to the requirements of the customer. The operation process starts from the supply of alpaca and pima cotton yarn which are bought from two reliable and socially responsible suppliers, then in the design area, are received the customer details and requirements and it is Victor Perez who program the machines, then he sends it to the knitting machines, after that in another machine a technician puts it all together. It is important to mention that it is this last process that takes a great deal of time and when there is overcapacity, a bottleneck is formed. After that, the garments pieces go to the weavers who are in charge of doing everything the machines cannot do, such as removing the remaining threads and knitting. Finally, the finished garments are stored and prepared for shipping. One key remark is that when clients put an order for a certain piece of garment, the minimum quantity that Mipaku allows is 40 units. Also, before making the full order, Mipaku produces a test item to ensure that the product meets the design and quality requirements. Only after verifying the quality is the rest of the order made. According to the Operation Manager, after the first item is approved, the operation works at 100% efficiency. In other words, it does not matter if the quantity ordered is 40, or 100 or 1,000 the time spent on each item is the same.

Mipaku's top management believes that paying close attention to production is key for competitiveness since it allows to reduce costs and gain market share. Currently, the plant works on average at 60% of its full capacity, considering that the plant is in production only eight hours per day from Monday to Friday, and Saturday until midday. Ms. Leyva believes that if there were larger orders, the plant could produce in three work shifts, and that knitting could be outsourced to third party companies as long as they comply with the quality standards of Mipaku.

1.4.4. Finance and accounting analysis

Mipaku is not large enough to have an area of finances and accounting for itself, instead, the firm outsources this process to an external accountant. Among his main task is to declare to the Superintendence of Tributary Administration (SUNAT) which is the tax collector in the Peruvian government, all the invoices and expenditure made in a monthly basis, apart from that and when requested by Mrs. Leyva, this outsourcing accountant also sends a detailed report of the balance statement and financial situation of Mipaku. Moreover, it is important to mention that because Mipaku is a small company, the Peruvian government through Prom-Peru is giving support in handling and giving guidance in term of finances.

Table 4

Financial Statement D'Peru textiles

Assets	Value (PEN)	Liabilities and Equity	Value (PEN)
Cash and banks	105,132.00	Taxes and contributions pension and workers insurance payable	35,454.00
Services and others paid in advance	10,842.00	Financial obligations	68,591.00
Inventory	47,540.00	Total liabilities	104,045.00
Other current assets	2,601.00	Equity	
Property, machinery and equipment	158,493.00	Investment shares	20,000.00
Depression real estate, leased assets and accumulated IME	- 97,100.00	Retained earnings	32,542.00
		Profits	70,921.00
		Total equity	123,463.00
Total net assets	227,508.00	Total liabilities and equity	227,508.00

Adapted from *Financial Statement* (personal communication, p. 1), by A. Leyva, 2019, August 19, Lima, Peru: Author.

Regarding finances there are several issues that Mipaku has to deal with, among the most important are: (a) exchange rate, due to the fact that Mipaku sells its products in foreign market and is paid in foreign currency such as US dollars or Euros, but has its production expenditures in Peruvian Soles (PEN), (b) access to loans from large banks. Owing to its credit history Mipaku has not accessed to large banks that give loans at a low-interest rate, instead, Mipaku takes loans from a small financial institution like Cajas de Ahorro y Crédito but they charge high-interest rate of 25% effective annual rate. Nonetheless, D'Peru textiles, has recently taken a loan from Banco de Crédito del Peru with 21% effective annual rate, according to Mr. Leyva if Mipaku needs an investment, the former can act as a guarantor so that Mipaku accesses to 21%.

1.4.5. Human resources analysis

Mipaku is not large enough to have an exclusive area to handle human resources. It is Angela Leyva together with her assistant Angela Rivera who is in charge of recruiting and hiring new employees, control of work performance and employee's salary payments. D'Peru textile and specifically Mipaku, throughout their ten years of experience in the market are convinced that employees turnover leads to high losses in quality and finances, that is why the firm is focused on creating an environment that favors the personal and professional development of their personnel. According to Leyva, retaining and training an employee is crucial for her business as in the fashion industry it takes a long time to master this specialized handwork. Currently D'Peru textile and Mipaku employs 12 people, having the majority of the workforce in the operation and knitting area, which accounts for eight people and four are in administrative and leadership position. In the operational area, two of them operate the brand-new knitting machines, one operates the machine that put the pieces of a garment together, then there are three ladies that manually knit the parts that cannot be done by machine as well as remove the threads that come from the machines, finally, one lady irons it and other pack and store. One key job placement that represents Mipaku's strength is the design and software management of the knitting machines because of the difficulty in finding them in the Peruvian market. Additionally, it is challenging to find professionals that know how to use the software program for garment design. Fortunately, Mipaku has a trained professional, Victor Perez, who is responsible for this area in manufacturing. If it weren't for him, it would take several days to find someone who can program certain design in a certain way and then send it to the knitting machines. However, it represents a weakness that the neither Leyva neither Victor nor another employee in Mipaku has fluency in English, which restricts their ability close deals in this language.

1.4.6. Information and communication systems (I)

Regarding information technology (IT) in the business, as Mipaku is not large enough, they do not have an Enterprise Resource Planning system (ERP). Instead, they only use Microsoft Office applications such as Word, Excel, Outlook, PowerPoint, and Visio. Besides that, the knitting machines has its own software, that is why Victor Perez went to Germany to be trained in the programming and usage of this software and the knitting machines.

With regards to information management, the information produced by the daily operation is stored in computers and laptops that belong to the company. However, from time to time the general manager does a backup of relevant information in case there is computer breakdown, or the computers are stolen. With respect to webpage development, Mipaku outsources this deliverable to a third-party player, making sure that it has the necessary information to trigger a positive reaction to potential clients that land in the webpage. Aside from that, Mipaku has updated information on a regular basis in social networking sites like Facebook, Instagram, LinkedIn, and Twitter. One remarkable thing about social networking sites is that one of their clients contacted Mipaku by Facebook since then Mrs. Leyva believes that being active in these sites is crucial for the business.

1.4.7. Technology and research and development (T)

Lastly but not less important of the internal analysis is the technology and research development assessment. For Mipaku this area is essential to stay in business. Although not having a written strategic plan, but in order to keep growing, the company acquired two brand new German knitting machines, which are able to produce a piece of a garment within 15 minutes. This technology places Mipaku ahead of their competitors both, in prices and in quality. Besides that, Perez is constantly doing research about the latest trends in the fashion industry as well as, assists to fashion fairs not only in Perú but also abroad, for instance, the last year he went to the Paris Fashion Week. This time as a spectator, but he hopes that in the future they can promote Mipaku products in those fairs. In fact, last year, Mipaku qualified to participate in New York Fashion week, but unfortunately nor Mrs. Leyva neither Mr. Perez could travel because an American Visa was denied to them.

1.4.8. Internal Strength and Weaknesses

Given the AMOFHIT analysis of Mipaku, some preliminary conclusions can be made about their internal strengths and weaknesses. Regarding their strengths, one of the most important is that the management of the company is under the purview of the three owners, which is additionally strengthened as two of them, Angelica Leyva and Victor Perez, are married. Moreover, the third owner is Angelica Leyva's sister, and apart from that, there is a high level of commitment among the workforce which results in low rates of turnover. Furthermore, Perez and Leyva have extensive knowledge and experience in the textile industry, and both have an undergraduate degree in textile engineering. Besides, Perez has learned how to program the software that controls the knitting machines which turn out to be critical for any textile company because there is little supply of these professionals in the market. This combination of critical competences has led Mipaku to be more responsive to clients' demands, and have in fact, enabled the company to produce prototypes for products in a matter of hours.

However, there are several weaknesses typical of small companies. To start, Mipaku lacks an enterprise resource planning (ERP) system which could help to better manage and control the scarce resources of the company: money and time. Aside from that, although the spot of the manufacturing facilities is in a strategic spot, it has not the area to expand, nowadays it fits the size of production but if there were larger orders, Mipaku has to look for a bigger facility. In terms of access to credit and loans with low interest rate is also a downside to Mipaku as well as accounting and financial knowledge in the management level, another weakness if the lack of understanding about international business that is to say how to do business in foreign countries with factors such as customs, tariffs, technical barriers, low and regulation, among others.). Table 5 provides a quick summary of what has been discussed in this chapter.

Table 5

Strengths and Weaknesses of Mipaku

Strengths	Weaknesses
Leadership team and workforce fully committed and motivated to achieve Mipaku's goals	Top management lack the knowledge in term of finances and accounting and fluency in English
Owners' Extensive experience in the textile industry.	Manufacturing facility building does not have more area to expand
Highly responsive to client's requirements	Restricted access to low-interest loans
Optimized in the manufacturing process	Lack of enterprise resource planning (ERP)
Plant capacity works on average at 60%	Not knowledge of foreign markets entrance and dynamism
Investment in brand-new machinery	
Have a certification on fair trade and active member of Prom-Peru.	Areas and job descriptions of the company are not well established
High quality of a garment and low cost of production (fixed and variable costs)	Limited amount to invest in marketing as well as limited working capital.

Note. Adapted from "El Proceso Estratégico: Un Enfoque de Gerencia," by F.A. D'Alessio, 2013. México D. F., México: Pearson

1.5. Conclusions

Mipaku is a small Peruvian textile company specializing in the design, manufacture, and sales of alpaca wool garments. Though the business was founded in 2017, it is still in the early stages of development and is facing many challenges. In particular, the business is unsure how to achieve healthy and lasting growth. In order to better understand the position of the company, several analyses were performed, including a PESTE and AMOFHIT analysis. Porter's five forces were also considered.

The main conclusions of the internal and external analysis of Mipaku are best summarized in the form of a SWOT analysis. The main strengths of the company include: the company's owners/management are fully committed to the growth of the company; all owners have a background in textile engineering; the management team has over 10 years of experience via D'Peru; and that facilities are currently operating below capacity – there is room to grow. The company's main weaknesses include: management is spread too thin and lacks well defined responsibilities; management lacks knowledge in the areas of accounting and finance; the company has high interest rate payments on outstanding loans; and Mipaku lacks reserve to invest in equipment and product. Mipaku's main opportunities include: ease of market access as Peru has many FTA's with other countries; Peru's economy is stable and growing which attracts investment; Peru controls the majority of alpaca wool exports; and foreign consumers are aware of fair-trade practices. The main threats are: trends and demand in the clothing industry are highly volatile; technological improvements make it difficult for SME's to compete with large corporations; customers are becoming increasingly critical of production processes; and that the textile industry faces several environmental challenges, including waste water issues, pollution, energy consumption and chemical.

The key takeaways from the Porter analysis include that the threat of substitute products is medium, as there are a number of potential substitute products, such as cashmere, angora and silk. However, Alpaca fiber has unique characteristics, which limit this threat. Moreover, the potential of new entrants into the industry is low to medium as there are rather high entry barriers in place. The power of customers is high as they have no switching costs. Mipaku has not yet positioned itself as an exclusive alpaca brand and does not enjoy brand recognition. The competition in the sector is medium as there are numerous competitors, in particular Asian producers are tough competition due to their low prices. The power of suppliers is medium as the alpaca fiber industry is an oligopoly. Accordingly, market power is high, and they have the capability to drive up the cost of Mipaku's inputs to a certain extent. However, there is also some competition between the main players and switching costs from one supplier to another is low.

Mipaku has reached a critical juncture in its development; the choices the company makes now will decide whether or not the business grows, stagnates, or fails. The remainder of this report is dedicated to clarifying the main problems facing Mipaku and, ultimately, providing the company with the information needed to make the right decisions moving forward.

Chapter II: Key Problem

Chapter two discusses the key problems facing Mipaku. These challenges are presented in the form of a concise problem statement in order to clarify, simplify, and limit the scope of this consulting report. Moreover, chapter two discusses the initial concerns raised by Mipaku as well as the line of thought by which the consulting team arrived at the concise problem statement. Significantly, the following chapter delimits and provides direction for the remainder of the report.

2.1. Identified Problems

The initial 'concern' raised by Mipaku's owners was that they desired to grow the company and further establish the business in foreign markets. The primary means via which this was to be accomplished was by increasing Mipaku's sales abroad. However, exactly where and by what means sales would be generated was unclear. Thus, in the early stages of the consultancy it was uncertain exactly what the clients desired and, consequently, how this consulting report could help them achieve their goals. In particular, it was unclear which market(s) Mipaku wanted to sell their products in and via what strategy, e.g. business-to-business (B2B) or business-to-customer (B2C). Northern Europe was mentioned several times, yet little justification was given regarding why this region in particular was the right fit for Mipaku; why not the United Sates or China? The client too expressed an interest in pursuing a B2C strategy, yet exactly why this strategy was appropriate for Mipaku was not specified. Moreover, given the early stage of the business cycle that Mipaku is in, they have little-to-no actual sales history to base strategic decisions upon. Thus, uncertainty and a lack of information resulted in a lack of clarity during the early stages of the consultancy. However, over the course of several weeks, during which the consulting team met with the company several times, toured Mipaku's production facility, and discussed the problems in greater depth, a tangible direction became clear.

As more information became available regarding Mipaku's business, including information concerning the company's organizational structure, current operations, production capacity, goals, vision, design process, logistics, etc., it became apparent that the clients initial 'concerns' required a slight adjustment. Specifically, as information regarding important strategic changes currently taking place within Mipaku came to light, including a complete redesign of Mipaku's product line and the launch of a new marketing campaign, an opportunity to provide value to the client became clear. Although the clients had already accomplished a great deal in terms of improving Mipaku's product offerings and marketing, the clients still lacked a well-defined plan concerning where to go (i.e. which markets to target) and how to get there (i.e. entrance strategies). Upon realizing this, the aim of this consulting report became clear: to provide Mipaku with a tailor made, research-based market analysis as well as an overview of the different entrance strategies available to them.

2.2. Key Problem

As Mipaku's owners see it, the major problem facing their business is a lack of recognition, market penetration, and, most critically, sales. What they want is to grow. As the consulting team sees it, the underlying cause of this problem is the absence of a well-defined plan concerning *where* to sell and *how* to get there. Thus, the key problem facing Mipaku is informational in nature. Therefore, what Mipaku requires is a market study regarding which markets to target and how to enter said markets. Accordingly, this report aims to provide Mipaku with the market information necessary to develop a workable plan.

2.2.1. Problem statement (substance)

In consideration of the consulting team's analysis of Mipaku's current situation and main problem, which is a lack of information and consequently direction regrading which markets to pursue, the following two-fold problem statement has been devised: First, which markets are likely to be the most receptive and therefore the most appropriate for Mipaku;

and second, what are the best entrance strategies available to Mipaku? Research will be primarily devoted to developing an actionable set of recommendations concerning the key issues identified in the problem statement. Additionally, the following questions will also be briefly researched:

- Should Mipaku pursue a B2C or B2B strategy? Why?
- Should Mipaku work with an international distributor? Why?
- Which tradeshows should Mipaku attend? Why?
- Should Mipaku consider hiring a dedicated sales force? Why?
- What strategies have similar businesses used to increase and maintain their customer base?
- What are the major financial constraints facing Mipaku and how to manage them?

2.2.2. Location

Given Mipaku's current size and the nature of problem facing the company, the 'location' of the key problem is self-evident. In terms of Mipaku's organizational structure, it is located at the top; expressly, the problem is located at the administrative level of the organization (see figure 5). It is important to Keep in mind that Mipaku is an owner operated business and that the company's three owners share the administrative duties; they likewise share the responsibility for the key problem.

2.2.3. Ownership

As mentioned above, Mipaku is a privately owned and operated business. Thus decisions can be implemented quickly as they do not need to be approved by a board of directors or shareholders. In particular this represents an opportunity for Mipaku, as new information can be acted upon quickly; the company as a whole is highly agile. At the same time, Mipaku's ownership structure lies at the root of the company's current problem;

Mipaku's small size and limited human capital contribute to its lack of information. Thus, 'ownership' of the key problem too falls upon the shoulders of Mipaku's owners.

2.2.4. Timing and magnitude

If for no other reason than survival, it is important that Mipaku increase its sales. In order to do this the company needs to either sell more in the markets in which it currently operates or identify new markets to pursue. In either case, information plays a critical role in the business's success. Thus, the magnitude of the key problem, namely a lack of information and consequently direction, may be considered high. Regarding timing, it is likewise important that the company move as fast as possible.

Chapter III: Literature Review

Chapter three presents an overview of a selection of the available literature applicable to the problem statement identified in the previous chapter. As previously stated, this report is focused on providing Mipaku's owners with the information needed to generate increased international sales. Specifically, this report will provide: 1) a market analysis and 2) an examination of the most appropriate entrance strategies. Given the objective, it is essential to review literature that explains the characteristics of the markets considered for entry or penetration. The markets that will be explored are the United States, China, and Europe, specifically northern and central Europe. As exporting is a complicated and risky process, a framework will be used to guide the decision criteria. Daniels and Radebaugh (2001) provide an essential export strategy for small businesses that includes country comparison and selection tools. Moreover, these tools, such as matrices, will help to compare variables when deciding on a location.

3.1. Literature Mapping

The mapping process allowed for the most important topics to be separated in terms of what was primary and secondary to the issue at hand with Mipaku. The central topic addressed in this literature review is "Internationalization of a small Peruvian textile company," in order to find the desired outcome, the starting point will be to do a market selection, in which will be taken three potential models: (a) A small business international market selection model, (b) delineating Foreign Market Potential: A Tool for International Market Selection, and (c) a fuzzy attractiveness of market entry (FAME) model for market selection decisions, then, it will be reviewed the literature concerning the different modes of entry into foreign markets and analyze the most suitable in accordance to Mipaku current situation. Additionally, the research will focus on government support and financial management. In expansion will be addressed several topics to provide a complete picture concerning the internationalization process. Figure 6 shows the literature mapping.

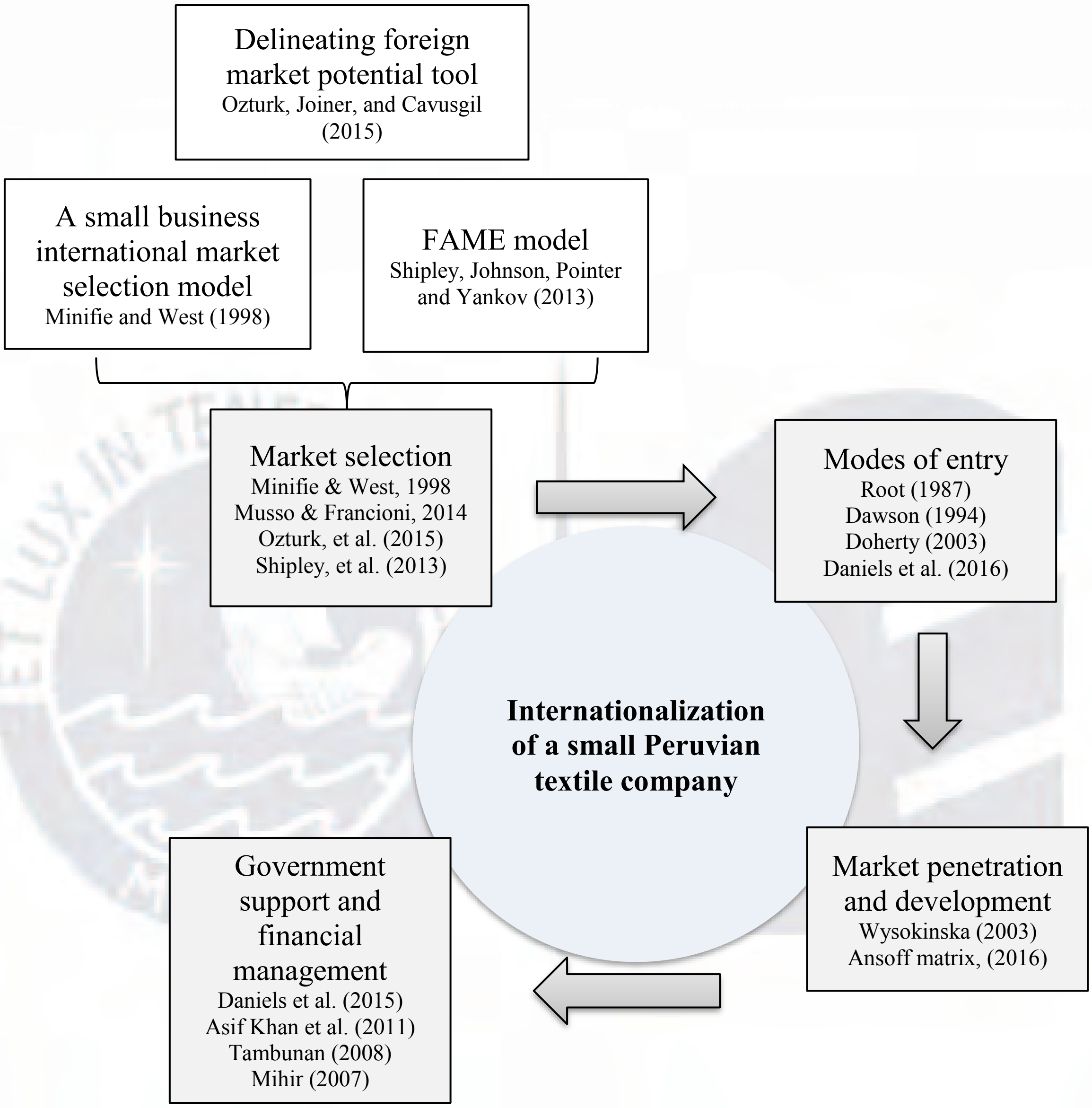

Figure 6. Review of the literature map.

3.2. Literature Review

In accord with the key problem identified in chapter two of this report, the following literature review will consist of an analysis of: first, different approaches to international market selection; secondly, modes of entry and further market penetration and development; and finally, an overview of the types of government support and the financial tools available for managing exchange rate exposure. The purpose of this review is to gain a better understanding of the relevant literature and from this identify the best alternative(s) for Mipaku to consider.

3.2.1. Market selection

Market selection is among the first and most crucial issues that needs be addressed when a firm makes the decision to internationalize (Minifie & West, 1998; Musso & Francioni, 2014; Ozturk, Joiner, & Cavusgil, 2015; Shipley, Johnson, Pointer & Yankov, 2013). As business has become increasingly global, and as firms have become increasingly exposed to competition from outside their domestic markets, the pressure to internationalize has likewise grown increasingly strong, so much so that even the smallest organizations need to be able to compete on an international level (Minifie & West, 1998). Thus, international market selection is no longer a problem reserved solely for large multinationals; small businesses too must decide in which markets to operate in and for what reasons (Minifie & West, 1998; Musso & Francioni, 2014). Yet, despite this, there exists no hard-and-fast rule concerning international market selection. On the contrary, there are several different systematic and non-systematic guides, methodologies, and frameworks utilized by decision makers across industries. Moreover, at present the "extant literature has not suggested an integrated scholarly framework" on the topic (Ozturk et all., 2015, p. 122). Accordingly, the following section explores several different approaches to international market selection; in particular, literature pertaining to small and medium sized businesses is explored.

Firstly, acknowledging that many businesses do not base their market selection decisions on systematic frameworks, a question needs be asked: is it necessary to adopt a systematic approach at all? In general, literature on the topic suggests that it is. Research has shown that the use of such frameworks results in improved firm performance in comparison with those that do not use them: "non-systematic market entries have unfavorable consequences for the performance of companies" (Ozturk et all., 2015, p. 138). In particular, the use of systematic selection processes has been found to improve firm performance in relation to export activities: “a significant positive relationship was found between the use of systematic… processes and export performance” (Ozturk et all., 2015, p. 127). Therefore, it may be concluded that the use of such frameworks is a wise decision for firms looking to internationalize; at the very least it is advisable that such frameworks be used to supplement the decision-making process.

There are, in general, three broad categories by which market selection can be approached: “optimizing, reasoning and analogizing” (Shipley et al., 2013, p. 598). Optimization models are quantitative in nature, typically involving mathematical and statistical analysis of a market; reasoning models involve collecting aggregate and industry specific country data and then logically evaluating that data; and analogizing involves looking to similar examples (case studies) and from this reaching a conclusion regarding one’s own business (Shipley et al., 2013). Each approach has its own particular strengths and weaknesses, and the model best suited to a specific business depends upon a host of factors, including access to information, resources, and sector (Minifie & West, 1998). Below three selection models in particular are examined in greater detail: Minifie and West’s (1998) market selection model; Ozturk et all., (2015) tri-criteria selection model; and lastly Shipley, Johnson, Pointer and Yankov’s (2013) fuzzy attractiveness of market entry model (FAME). As will be shown, each model approaches the problem of market selection in a different way.

A small business international market selection model. Minifie and West (1998) propose a selection framework based principally upon three criteria: “political stability, governmental control, and cultural differences.” (p. 452). Notably, in this model political stability is alleged to be one of the more important factors when assessing the viability of foreign markets: “market entry appears to be highly dependent on the political stability of a country. One such study suggested that political stability was the most important factor to be considered in entering foreign markets" (Minifie & West, 1998, p. 452). Interestingly, the type of politics dominant in the country is not the crucial factor; what matters is the *stability* of the government (Minifie & West, 1998). The idea that political stability is an important factor in market selection is corroborated by other literature on the topic (Musso & Francioni, 2014; Ozturk et al., 2015; Shipley, Johnson, Pointer & Yankov, 2013). The second factor in Minifie and West's (1998) framework concerns government control. Specifically, what is meant by 'governmental control' is the influence that government has on business and, further, the likelihood that a government will favour domestic firms over foreign firms (Minifie & West, 1998). In this model, a country in which the government supports free-market economics and takes an objective stance towards business is preferable. Finally, the third criteria, cultural differences, pertains to the similarities or differences between a business's domestic culture and that of the target country. Basically, it is reasoned by the authors that culture plays a large role in influencing consumer behaviour and preferences, and that culture is therefore a relevant factor to assess when determining market suitability (Minifie & West, 1998).

Building upon political stability, government control, and cultural differences, Minifie and West (1998) propose a five-step model "designed to assist the decision maker in narrowing down the list of potential markets for analysis" (p. 455). Specifically, the five steps in the model are: (a) select a country for analysis, (b) assess government stability, (c) assess government influence, (d) assess cultural accessibility; and finally, (e) assess market opportunity (Minifie & West, 1998). Notably, step one (country selection) is based upon the preference of the decision maker(s). Each step is pass or fail; you do not proceed to the subsequent step if the selected country does not 'pass' the preceding step. Thus step five, assessment of market opportunity, is only undertaken for those countries which 'pass' the other conditions. In this way, the model narrows the list of potential markets considered for further assessment in step five, which is the most time consuming and resource intensive step in the model. Explicitly, step five involves a "detailed analysis of: (a) the economic environment, (b) the competitive environment, and (c) the technological environment" (Minifie & West, 1998, p. 460). Ultimately, the model is designed to assist decision makers in choosing which markets to pursue.

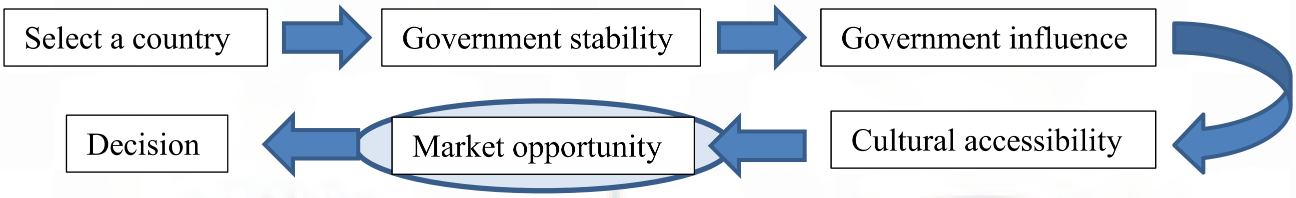

Figure 7. Small business international selection model.
Adapted from Minifie, R. J. & West, V. (1998). A small business international market selection model. In *the International Journal of Production Economics, 56* (1), pp. 451-462. (https://doi.org/10.1016/S0925-5273(98)00073-5)

Delineating foreign market potential: a tool for international market selection.

Ozturk et al. (2015) develop a tri-criteria template for market selection consisting of: 1) country responsiveness; 2) growth potential; and 3) aggregate market potential. The first criteria, country responsiveness, involves "analyzing the income elasticity of industry-specific consumer expenditure by country" (Ozturk et al., 2015, p. 121). Basically, this step assesses consumer income and purchasing behaviour in order to determine market suitability. Secondly, growth potential involves examining each market "in terms of income and industry specific consumer expenditure" (Ozturk et al., p. 121). Thirdly, aggregate market potential "combines the indicators of responsiveness and growth potential with an aggregate measure such as gross domestic product (GDP), growth rate, country risk, or other country level indicators that are most… relevant for a specific industry" (Ozturk et al., 2015, p. 121). In contrast to the previously mentioned model proposed by Minifie and West (1998), the 'three criteria' model developed by Ozturk et al. (2015) relies solely upon secondary statistical data to develop a general 'picture' of a market upon which businesses can then make decisions regarding suitability.

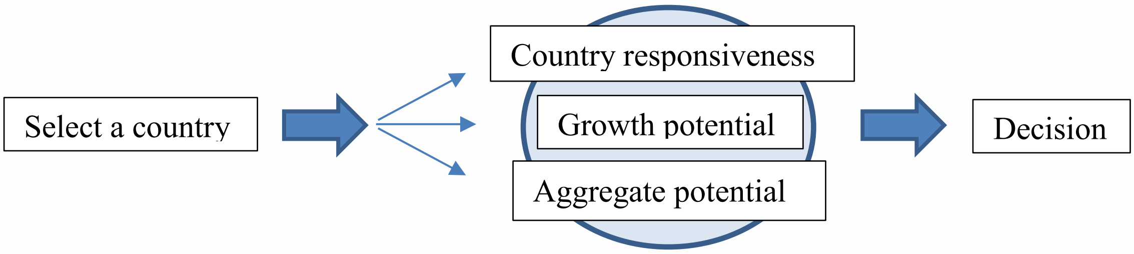

*Figure 8.*Tri-criteria selection model.
Adapted from Ozturk, A., Joiner, E., & Cavusgil S. T. (2015). Delineating Foreign Market Potential:A Tool for International Market Selection. In *Thunderbird International Business Review, 57*(2), pp. 119-141. doi: 10.1002/tie.21686

A fuzzy attractiveness of market entry (FAME) model for market selection decisions. Authors Shipley, Johnson, Pointer and Yankov (2013) propose a mathematical model for market selection based upon expert opinion. In contrast to traditional models, the approach is knowledge based as opposed to data driven. Shipley et al. (2013) developed the model because they observed that "methods [which] utilize classical logic or statistics are… inadequate for effectively dealing with situations where information is limited" (p. 597). Because many decisions are made in situations where little or no information is available, an alternative method is necessary. Specifically, the FAME model assesses market potential in regards to three key areas: "(a) the fit between the firm's products and a market, (b) the market environment including key competitors, and (c) the strategic value of the market to the firm" (Shipley et al., 2013, p. 600). In essence the FAME model is a means of mathematically conveying linguistic expressions. It proceeds along the following lines: first, a set of questions is devised pertaining to the abovementioned criteria; next a small set of industry experts are identified and given the survey devised in the previous step; results are collected, assigned a numerical value, and analyzed according to a mathematical technique designed by the articles authors. Ultimately a value between 0 and 1 (1 being a perfect fit) is produced indicating the potential attractiveness of the market for the firm. Based upon this value businesses are advised to either pursue or not pursue the market. There are, however, several methodological flaws with the FAME model, least of which being the fact that the quality of the analysis relies entirely upon the quality of the selected experts' opinions. Moreover, no clear reason is given why mathematically expressing the experts' linguistic statements is superior to the linguistic expressions themselves; it is simply an alternative means of presenting the same information. Nonetheless, the FAME model provides decision makers with another tool for assessing market attractiveness.

In the preceding section the different general approaches to market selection were discussed and three different selection models were reviewed in detail. Ultimately, it is important to keep in mind that market selection models, whether they be qualitative or quantitative in nature, linguistic or mathematic, are not meant to supplant the reasoning of decisions makers (nor should they be expected to). They are tools meant to assist in the decision-making process (Minifie & West, 1998). And like any other tool, the usefulness of market selection models depends to a great extent on the individuals employing them.

3.2.2. Modes of entry

Globalization gives companies the opportunity to expand their business by exploring foreign markets. Thus, the primary consideration and most important issue in an international market entry strategy is the choice of a suitable entry mode. Entry mode strategy is typically defined as "an institutional arrangement that makes possible the entry of a company's products, technology, human skills, management or other resources into a foreign country" (Root, 1987). More specifically, the entry mode choice in the fashion retail market relates to the process that a fashion retailer chooses to enter, distribute and expand its brands in (Picot-Coupey, 2006). During the past two decades, international expansion has become a central activity for the growth of fashion retailers, which is why they have been aggressively expanding to foreign markets (Wigley and Moore, 2007).

Modes of Entry can range from soft modes to hard modes. Businesses may either decide to establish a physical presence in the new market or they can just opt for exporting or licensing. According to Dawson (1994), “retailers can enter foreign markets via an internal expansion, merger or takeover, franchising, joint venture and through a non-controlling interest”. He defines them as follows: (a) Internal expansion: separate businesses using in-house resources, (b) Merger/ takeover: Acquisition of authority over a firm in the host country, (c) Franchise type agreements: Franchisee uses the ideas of the franchisor, (d) Joint ventures: various forms for the joint venture of retailing, (e) Non-controlling interest by a firm in the home country over a firm in the host country.

Quinn (1996) mentioned other entry modes such as “retail alliances licensing, management contracts, exporting merchandise to foreign retailers and duty-free shopping.” According to Doherty (2003), one may also use multiple approaches at the same time when establishing international activities. Research on the internationalization activities of fashion retailers show that firms primarily engage in low-cost and low-risk entry modes such as franchising or wholesaling (Doherty, 2007).

The multiple entry methods can be considered as a continuum. They range from low control to high control and vary in the level of investment risks, resource commitment and financial returns (Sternquist, 1998). As illustrated below, high control entry modes require more resource commitments, and the activities are exposed to a higher level of uncertainty. Low control methods need a limited resource commitment and therefore limit investment risk, but the firm has less power over foreign activities, which could result in lower financial returns.

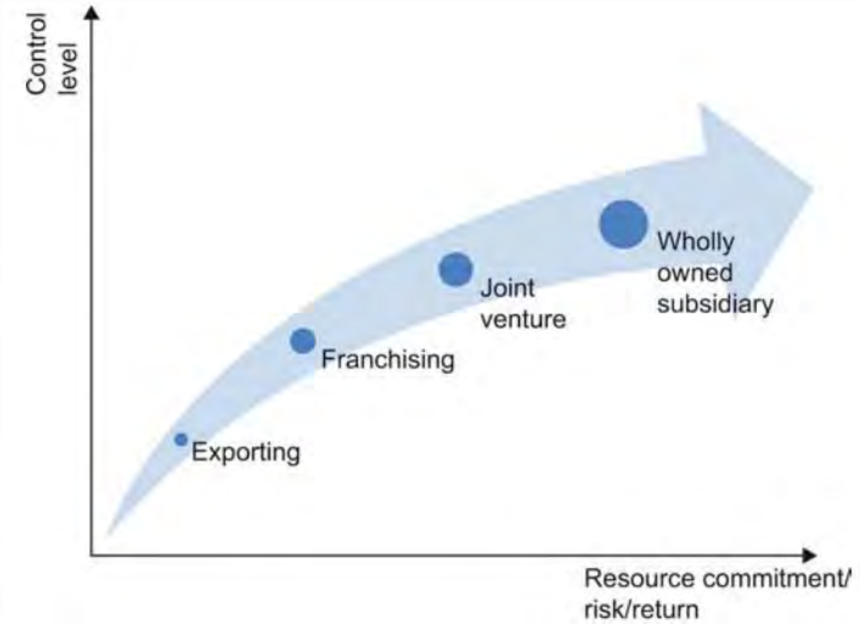

Figure 9. Entry modes.
Retrieved from *Retailers' foreign market entry decisions: an institutional perspective* (16., p.613-29), by B. Sternquist and Y. Huang, 2007, International Business Review.

There are multiple studies that have identified various factors that influence the entry mode choice to international markets. Alexander and Doherty (2004) argue that fashion retailers need to select an entry mode that matches its international expertise and the cultural discrepancy of a foreign market. This is crucial to cope with the cultural challenges that can be encountered in foreign markets. Furthermore, fashion retailers need to consider other factors such as competition or other characteristics that relate to a foreign country's political and economic stability (Gripsrud and Benito, 2005). According to Picot-Coupey (2006), especially the operational aspects such as the size of the business, the financial and human resources that are accessible, play an important role.

In the case of Mipaku the following market entry modes can be considered and explored more in detail. One of them is direct exporting. A direct strategy is when products are directly distributed and sold to buyers through either local sales representatives or distributors. The sales representatives advocate their company's products and do not take title to the merchandise. In comparison to that, distributors do take ownership of the products and also take responsibility for the risk involved. Among other, especially the low required initial investment could make it an attractive alternative for Mipaku. Furthermore, one can reach customers quickly, keep control over production, benefit of learning for future expansion, offers low financial risk and transportation and other services can be arranged by local agents.

Why Mipaku should export. Is exporting the right decisions for Mipaku? According to Daniels et al. (2016), there are many factors that motivate to export, but the potential of becoming more profitable is the key advantage of exporting. Moreover, there are three main "dimensions that drive export: profitability, productivity, and diversification" (Daniels et al., 2016, p. 569). These dimensions allow companies such as Mipaku the flexibility to sell their products for higher prices abroad. This is especially true because the product would be in a different life cycle in the selected counties for exporting as it would be in Peru. Additionally, exporting can increase Mipaku's productivity, which is linked to economies of scale (Daniels et al., 2016). Exporting also promotes a company's learning by increasing the potential for innovation (Daniels et al., 2016). This is possible as foreign markets tend to have knowledge that domestic markets lack and this companies produce products of higher quality. Exporting will also help Mipaku diversify their activities and make them more adaptable to changes in market trends. Also, when choosing where to export, Mipaku needs to look at factors such as market similarities, physical distance and cultural ties.

Commercialization and distribution. The distribution channel is a chain that takes the products from the manufacturer until it reaches the consumer or user (MINCETUR, 2016). The most used distribution channels for clothing in alpaca used by Peruvian small and medium enterprises are: (a) direct distribution channel, (b) indirect distribution channel, (c) distributor channel, and (d) broker/agent channel. Figure 10 shows the distribution channels most used in the alpaca apparel industry.

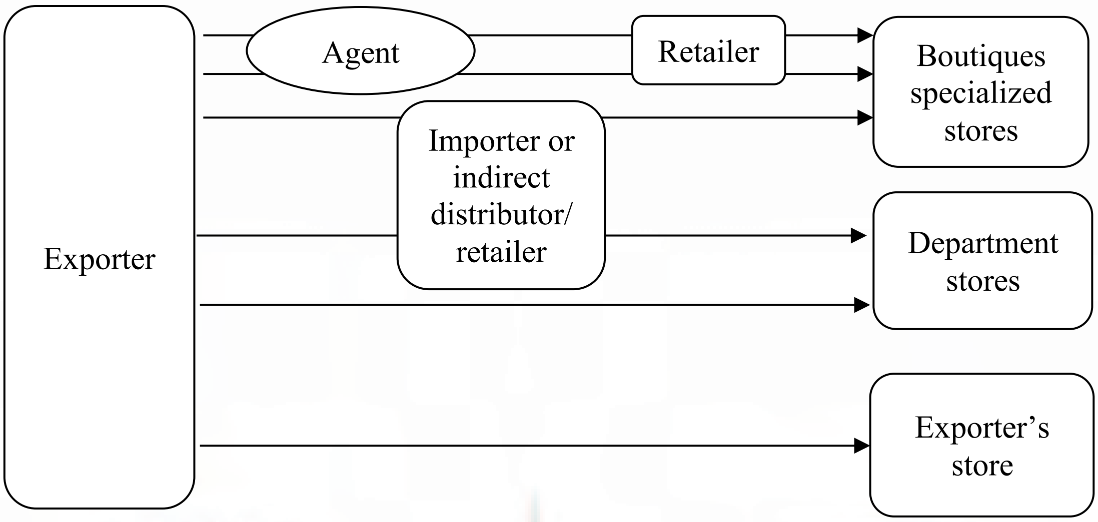

Figure 10. Structure of the distribution channels.
Retrieved from *Prendas de Alpaca Perfil del mercado de Estados Unidos* (p.59) by Ministerio de Comercio Exterior y Turismo [MINCETUR], 2018

Direct distribution channel. Direct distribution happens when the exporter sells the garments directly to the importers without the intervention of intermediaries, agents or distributors ("Direct vs. Indirect Distribution Channel: What's the Difference?", 2019). It is also called direct channel when the producer sells directly to the consumer through a physical or online store to the public, such is the example of Kuna, a Peruvian alpaca garments brand, that in the United States sells directly to the final consumer through its online store. In general, this is the distribution channel that is most used in the purchase of garments made in alpaca wool (MINCETUR, 2018).

Direct Sale to Retailers. This distribution channel is recommended when the importers' orders are very small. In this channel, the exporter sends a consolidated charge of all orders in the same shipment which leads to a reduction of all the transportation cost (MINCETUR, 2018). According to Promperu (2015), Direct sales to retailer distribution channel is quite used by several Peruvian alpaca garments manufacturer since they export directly to boutiques.

Sales to multi-brand boutiques. Multi-brand stores or boutiques are small specialty stores and sell a variety of medium-high to high-quality products. As a means of differentiation, these boutiques are more open to trying new products than department stores (MINCETUR, 2018). This represents a great opportunity for new suppliers such as Mipaku as it lacks brand recognition, However, the downside is that their orders are small, and their payments method is after sales, that means a money collection is between 30 and 60 days after the invoice of the garments. Nonetheless, if well negotiated the terms and conditions of the export, it can be that 50% is paid at the time of placing the order and the remaining 50% is paid before making the shipment, in this way the producer has the working capital to manufacture the garment. Anyway, it is usual that it is issued a credit letter given by a first-order bank, this letter is irrevocable and confirmed, paid at the date accorded by the two parties (MINCETUR, 2018).

Sales to department stores. Department stores are a great marketing channel for the exporter. First, because the exhibition of their products reaches a wider consumer public and second because their purchase volumes are usually high. In the case of alpaca garments particularly, many department stores have their own brand and usually place orders under their brands that is, the manufacture becomes a white brand. A disadvantage of sales to department stores is that they are not usually willing to try new lines of brands hardly known in the market (MINCETUR, 2018). In terms of payment conditions, they are agreed with department stores, however, owing to the high-value purchase volumes, the terms are usually through a confirmed and irrevocable letter of credit payable on a term that should be no more than 180 days from the date of shipment of the merchandise (MINCETUR, 2018).

Indirect Distribution. Indirect exporting is when the firm relies on an intermediary “to supervise marketing, terms of sale, packing, distribution, and credit and collection procedures” (Daniels et al., 2016, p. 576). This strategy is relatively stress-free and results in fewer demands for SMEs; however, it is less profitable and gives the company less control over its products. MINCETUR (2018) states that in indirect distribution channel the producer does business with an intermediary who would be the importer and/or distributor to reach the retailer. An indirect distribution channel is suitable for manufacturers that do not have representation or an office in the country of destination. This channel is also quite common to supply businesses or small boutiques that do not buy in large volumes. Generally, the producer does not necessarily get to know the customers of their distributors, however, it is important that they know to which sector of the market their garments go. In this channel, the distributor puts the selling price that not only has the importing and distribution costs, but also earning percentage that fits for both, the distributor, and at the same time is attractive to the buyer (MINCETUR, 2018).

The broker channels. In this channel the broker has the exclusivity to represent and promote the product, also, he is the responsible for promoting it. The major advantages of this channel are manifold, first, the producer forgets about final sales, as the broker is responsible for making sales to distributors or even retailers, second, the producer knows who the buyers are because the agent is not the final buyer, but he is a representative of the company before the consumers. The way the broker makes money is by receiving a payment fee from the manufacturer, which is considered within the sale price. In order to be successful, it is important that the agent knows the market and has a portfolio of the clients targeted. This channel is recommended when the producer has barely not experience or is entering to new markets (MINCETUR, 2018).

Subsidiary or Showroom opening. This channel is an alternative for direct exhibition of garments from the exporter/producer to the retailers. The way it works is like an agent with a direct exhibition room for small stores or boutiques. Unlike the agents, the showroom offers a place where it displays the garments so the potential buyer visits and try the products, with this first-hand experience, he is more convinced to purchase it. The disadvantage is that it can be risky since there are many players that offers similar products; thus, the buyers can buy to other competitor that is also offering products in the showroom. Besides, the cost of showrooms is generally more expensive than a broker usually it varies between 20% to 25% of the selling price of the garments, which in the end makes even more expensive to the final consumer (MINCETUR, 2018).

Store opening. In this distribution channel, the major advantage is that the products can be sold directly to the final customer, avoiding in this way the costs of an agent, broker, distributor or showroom. On the other hand, the amount sold is likely to be fewer compare to the other distributed in well-known retailers. Besides, having a store that sell directly to the consumers requires high investment, comply with laws and regulations of the hosting country as well as an increase in fixed costs. The success of this channel lays on several factors such as the location of the store, the product features, the targeted market, etc. (MINCETUR, 2018). All in all store opening can be the most challenging of the distribution channels mentioned,

3.2.3. Market penetration and development

For this section, we will use the Ansoff Matrix model to identify different marketing strategies appropriate for the European or global market. Given that Mipaku would like to expand, we will focus on two of the four strategies: (a) market penetration and (b) market development.

Market penetration is a strategy that can involve more aggressive activity in order to increase the market share of an existing product in an existing market (*Ansoff matrix*, 2016). Additionally, market penetration can be measured and indicate the level of product sale success by calculating a product's sales volume to the total sales volume of the market. This strategy is regarded as the lowest risk strategy and includes increased marketing and sales campaign (Ansoff matrix, 2016). Firms will use this strategy when they are competing in well-known markets that still have unmet demand (Wysokinska, 2003).

In contrast, market development strategy is when a firm introduces an existing product to a new market. An example is when a company takes a product they are selling in a domestic market and launches it into a foreign market. Companies using this strategy are perhaps seeking for underdeveloped or less price-conscious markets than the existing one (*Ansoff matrix*, 2016). This method could involve the development of new distribution channels or the creation of new retail outlets. Market development often involves exporting as a way to access new markets, and therefore, is a higher risk strategy (Ansoff matrix, 2016).

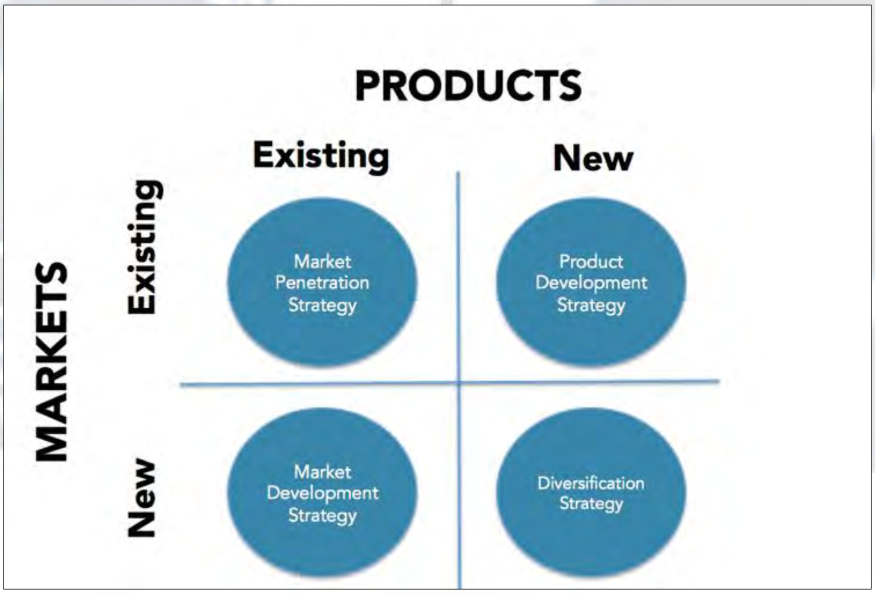

Figure 11. Ansoff matrix.
Retrieved from "Ansoff matrix," by C. Doyle, 2016, (https://www-oxfordreference-com.ezproxy.library.uvic.ca/view/10.1093/acref/9780198736424.001.0001/acref-9780198736424-e-0082)

3.2.4. Government support and financial management

Small and medium enterprises (SMEs) play a critical role in the development of a country. North and Varvakis (2016) state that SMEs are not the only important source of local development and job creation, but also, constructive agents for poverty alleviation. That is why government intervention is fundamental to foster the sustainability and growth of these businesses. Currently, there are several aspects by which the government supports SMEs that seek to enter into foreign markets. However, internationalization of businesses also brings challenges such as exchange rate exposure, financial constraints, cultural differences, etc. one of the most important aspect when starting to operate in another country is a different political and legal framework (Daniels et al, 2015), for a company based in Peru such as Mipaku, it will be an environment completely different when doing business in North America, Europe or China and it might find this political and legal framework quite shocking. Thus, is crucial that these SMEs carefully research into those aspects influencing either directly or indirectly to their firm. Figure 12 shows the political and legal factors influencing international business operations. This framework is important for managers in order to adjust the firm's activities to local circumstances (Daniels et al, 2015).

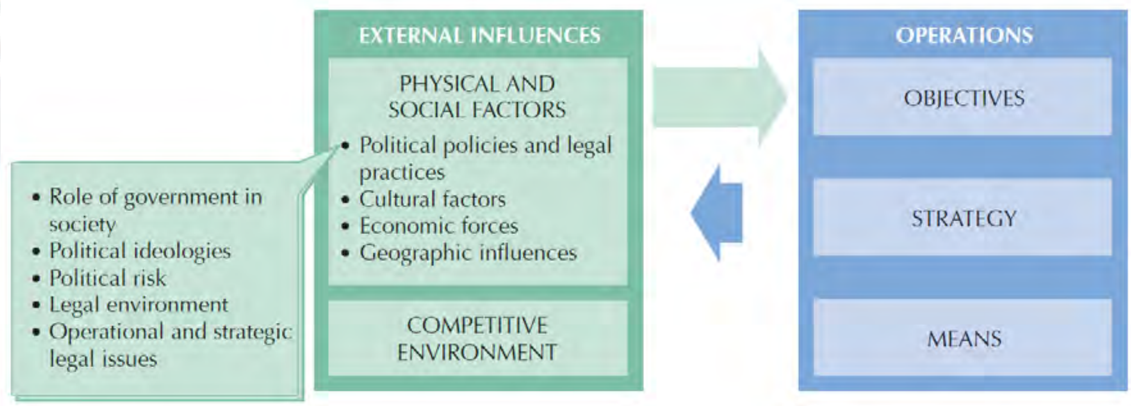

Figure 12. Political and legal factors influencing international business operations. Retrieved from *International Business environments and Operations* (15, 134), by Daniels, J. and Radebaugh, and D.Sullivan, 2015, England, United Kingdom: Pearson.

The success of a business requires resilience and continual effort in all parts that affect the business. Asif Khan, Azam, Hunjra, Jasra and Rehamn (2011) pointed out that the most critical variables determinants of SMEs' success are: (a) financial resource, (b) marketing strategy, (c) technological resources, (d) government support, (e) information access, (f) business plan, and (g)entrepreneur skill. Government support is incredibly important for SMEs and can play a critical role by giving SMEs a favorable environment and creating favorable policies which lead to the success of entrepreneurship. Moreover, government support is increasingly crucial now that the business environment is changing rapidly. Asif Khan et al (2011) argue that the government should create a training program free of charge for small entrepreneurs as well as focus on programs that enhance small entrepreneur's skill.

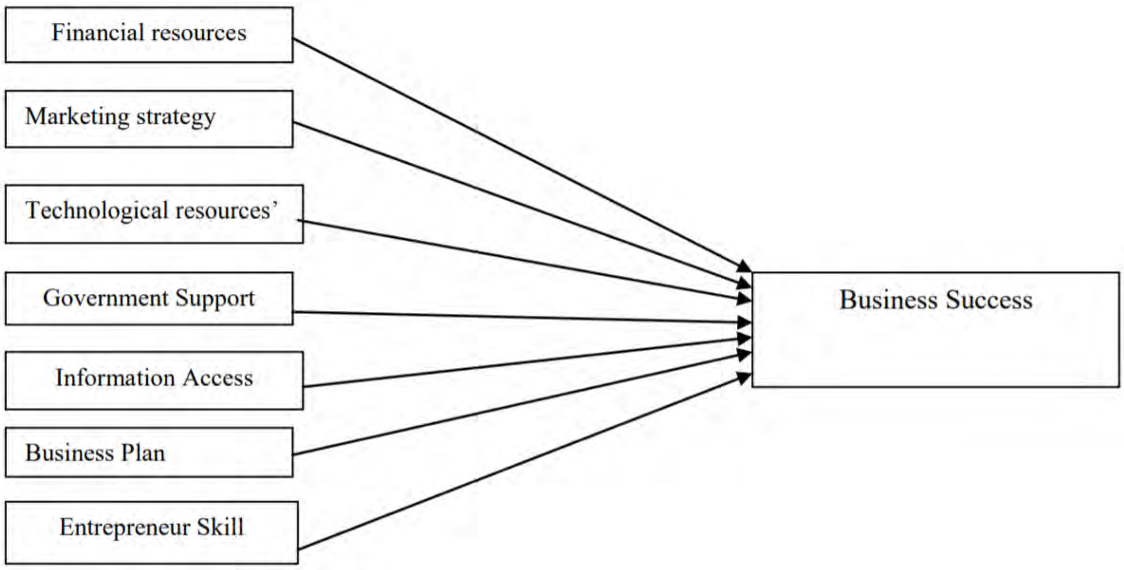

Figure 13. Determinant of success.
Retrieved from "Determinants of Business success of Small and Medium Enterprises" by Asif Khan.M, I-Azam.R, Hunjra.I.A, Jasra.M.J & Rehamn.R, 2011, *International Journal of Business and Social Science,* 2(20), 274 – 280.

Furthermore, Tambunan (2008, p. 163) states that the "government development expenditure has positive effects on the growth of SMEs, and the effects are both indirect (i.e., public services and infrastructure) and direct (e.g., government-sponsored special credit schemes and training programs for SMEs)." Moreover, Tambunan (2008) concluded that the results support the pro-SMEs policy promoters. From this perspective, government development programs that are specially catered to help SMEs will aide countries in exploiting the social benefits from greater competition and entrepreneurship as well as sustain a stable national economy (Butler, 2008). In a study conducted by the European Commission (2010) found that most programs in OECD countries focus on access to markets, by, providing market information, market analysis or organizing trade fairs, and so on. However, these support programs could be improved as only a small portion focusses on the removing international trade barriers and improving the business environment of the home market.

Financial management. For a business to run operations profitably, it needs financial resources. THis is where SMEs are at a disadvantage as they have comparatively little resources compared to large businesses and have greater difficulty in accessing funding sources (Thurik, 2007). Thus, when firms especially SMEs that opt for doing business in foreign markets should carefully manage its financial risk. One of the principal risks associated with internationalization is exposure to foreign exchanges market and transaction. "An exchange rate is a rate at which one currency can be exchanged for another" (Mihir, 2007, p.2). Since usually firms manufacture their products in a country and sell them in another with a different currency, it creates "a need for a mechanism to convert one currency into another." Among the world, "there are over 164 different types of currencies with which individuals, companies, and governments conduct trade and financial transaction" (Mihir, 2007, p.1). These organizations regardless of their size should make full use of financial derivatives to avoid the risk of the products and services for themselves and other economic agents (Liu & Hong, 2015). Moreover, when planning and setting a price for foreign exchange products like foreign exchange loans, deposit, long-term settlement and other foreign exchange derivatives, these organizations should consider risks caused by different customers, different tread team and different currencies (Liu & Hong, 2015, p.46).

Exchange Rate Movements. Prices of currencies can fluctuate just as prices of goods can fluctuate. Then, it can appreciate or depreciate with respect to other currency. When a currency increases in value relative to other currencies, it is said to "appreciate"; when a currency decreases in value, it is said to "depreciate." (Mihir, 2007, p.9) this floating exchange rate leads to high uncertainty. In other words, the amount "x" of a currency that at any given time could buy a "y" amount of other currency, within minutes, even seconds this exchange rate varies. Taking into consideration that SMEs such as Mipaku takes on average 60 days since the order is made until the firms get its full payments and in other currency (personal communication, June,27), it is fundamental these businesses have financial risk management. In the following section, it will be presented the most common strategies for exchange risk management through hedging by derivatives.

Forwards and futures. Before explaining forwards, is important to understand the concept of spot transactions. It refers to the daily exchange rates at which any currency is exchanged for another that takes place on the "spot" (Mihir, 2007). While spot transactions are suitable and frequently used in the foreign exchange market, there are times when organizations or individuals want to trade, not today, but at some point in the future. These types of transactions are called forward transactions (Mihir, 2007). “Futures and forwards are agreements between two parties in order to exchange a specific asset at some future date for a price agreed in advance” (Antelo & Peón, 2012). According to Mihir (2017, p. 9), the forward rate is greater or less than the spot rate, which depends on whether the currency is predicted to appreciate or depreciate. If the former is expected to happen, the forward rate is priced higher than the spot rate, and the rate is said to contain a premium (Mihir, 2007). “If the currency is expected to depreciate in the future, the forward rate is priced lower than the spot rate, and the rate is said to contain a discount” (Mihir, 2007, p.13). Futures contracts are similar to forward contracts, with the exception that forward contracts are customized between buyers and sellers who are genuinely interested in conducting the currency transactions, whereas futures contracts are standardized for trading on markets like the Chicago Mercantile Exchange (Mihir, 2007, p.16).

Swaps. A swap is another mechanism of hedging against the risk of exchange rate fluctuations, which is essentially a series of forwards under one contract that hedges long-term, sustained foreign exchange exposure (Mihir, 2007, p.15). Swap markets are a straightforward and low-cost way to manage interest rate and currency exposure. Interest rate swaps account for about a half of all notional amounts of outstanding derivatives in the world today (Antelo & Peón, 2012). Swaps are over the counter derivatives set as a sequence of forward contracts, with the purpose of protecting oneself from longer-term risks (Antelo & Peón, 2012, p.73). Brokers and banks are the ones who arrange swaps. There are various types of swap arrangements that incorporate different payment schedules and contract structures. However, the general principle is that a swap allows two parties who have complementary foreign exchange exposure/obligations to pair up and trade their currencies privately (Mihir, 2007, p.15). "Swaps and forwards differ in that a swap contract typically covers multiple future transactions and can have anywhere between five and ten years until maturity, whereas a forward contract is drawn for one transaction and usually has a shorter maturity" (Mihir, 2007, p.15).

Options. Options are derivatives that give the buyer the right, but not the obligation, to decide whether to buy or sell the underlying asset at some prespecified date or period of time and at an agreed-upon price (Antelo & Peón, 2012, p.74). Since options give the owner a right to exercise the derivative, the buyer has to pay a price on it called premium. This premium is what makes options different from standard futures, forwards and swaps, and harder to price (Antelo & Peón, 2012). In other words, options are forwards in which the owner can exercise it if the exchange rate agreed at some time in the future adds value to the owner, that is to say, the amount received by exercising the option is more optimal than the amount received in the spot market. Mihir (2017, p.18) affirms that options are contracts that permit their owners to either buy or sell a currency at a designated price within a specific period of time. There are two basic option types: call options and put options. Calls give the owner the right to buy the underlying asset at the pre-specified strike price, whereas puts give the owner the right to sell it (Antelo & Peón, 2012, p.74). This leads to having four basic positions: long call, long put, short call, and short put.

Table 6

Types of Options

Option	Call	Put
Long	Right to buy	Right to sell
Short	Obligation to sell (if required by the buyer)	Obligation to buy (if required by the buyer)
American	Can be exercised at any time	Can be exercised at any time
European	Right to exercise only at maturity	Right to exercise only at maturity

Note. Adapted from *Financial Markets: A Guided Tour*, by M. Antelo and D. Peon, 2012, New York, The United States: Nova Science Publishers, Incorporated.

3.3. Conclusion

Chapter three provided a review of some of the existing literature on market selection strategies, modes of entry, as well as what government support and financial tools are available to businesses looking to internationalize. The general purpose of chapter three was to look at how others have approached the problem of market selection and modes of entry, but more specifically to examine the methodologies and frameworks available. The following chapter builds upon the material assessed in this chapter with the aim of developing a framework via which Mipaku's specific problem may be addressed.

Chapter IV: Quantitative and Qualitative Analysis

Chapter four introduces the quantitative and qualitative methods of analysis used to help determine the best market for Mipaku to enter. The analysis will consist of different indicators to measure the desirability of each market. Together, eight subgroups will be observed, and 21 indicators will be used to select the ideal markets. These indicators were taken from a combination of two models and a selection process of international markets; the Market Selection Model (Minifie & West, 1998), the Tricriteria Model (Ozturk, Joiner, & Cavusgil, 2015), and International Selection Indicators (Fuentes, Cosano & Sanchez, 2015). For the qualitative analysis, Ansoff's Matrix will be used that detects growth opportunities. Once a thorough review of the indicators has been performed, the countries of the best market will be ranked in order to propose the top three most profitable markets for Mipaku to enter.

4.1 Quantitative Analysis

Based upon Minifie and West's (1998) small business international market selection model, Ozturk, Joiner, and Cavusgil (2015) tri-criteria model, and the criteria used by Fuentes, Cosano and Sanchez (2015) to evaluate foreign market potential, an integrated market selection framework has been designed involving: (a) selecting a country for analysis; (b) assessing government stability; (c) assessing government influence; (d) accessing cultural accessibility; and finally, (e) assessing market opportunity. Steps two through four are taken directly from Minifie and West's (1998) model and are knock-out criteria, meaning if a selected country does not pass, no further analysis is performed. Notably, step five is where the three models have been integrated. Step five involves performing an analysis of: (a) current export activity; (b) export dynamism; c) commercial and political risk; d) market growth; and (e) market size.

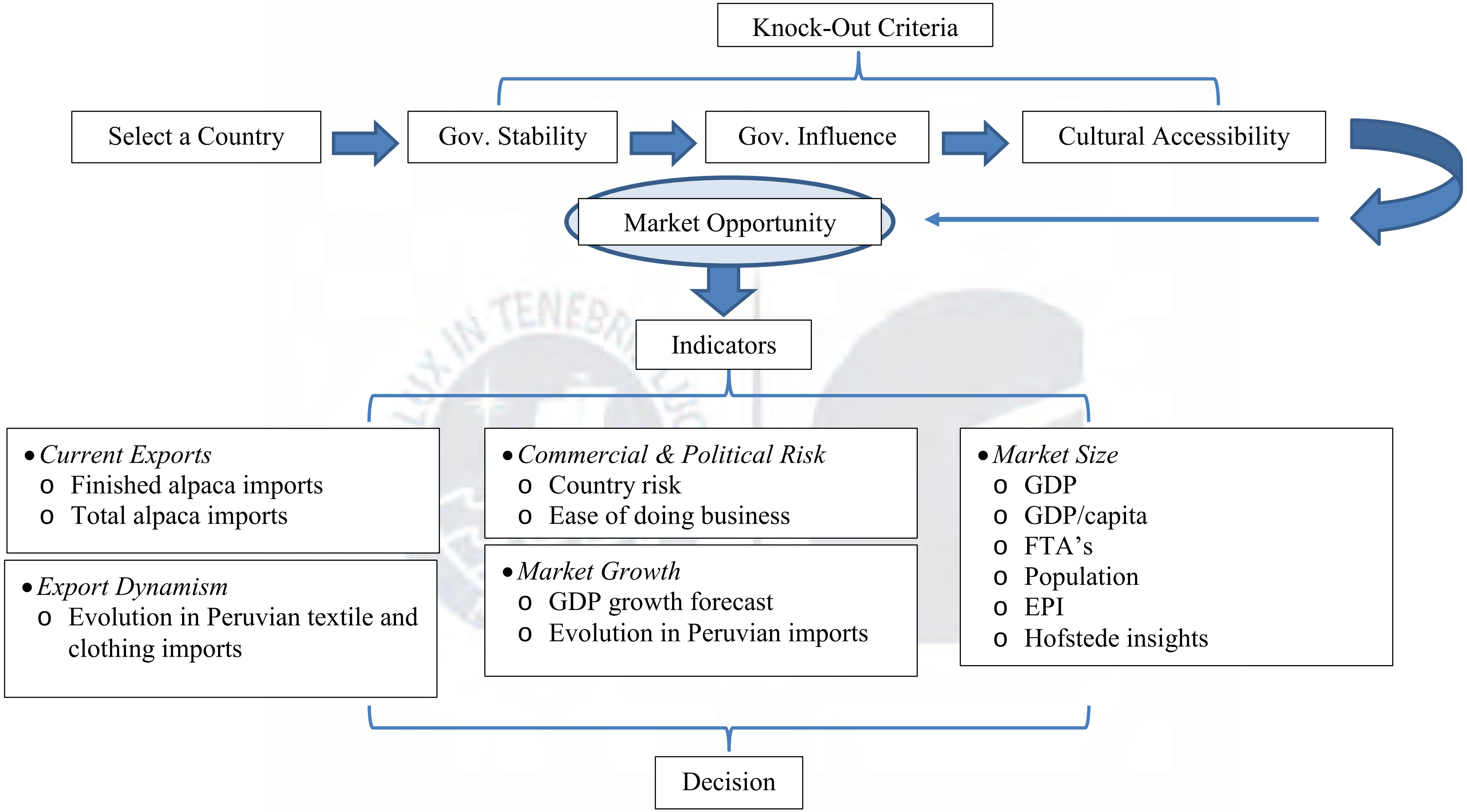

Figure 14. Integrated market selection model.
Adapted from Minifie, R. J. & West, V. (1998). A small business international market selection model. In *the International Journal of Production Economics, 56* (1), pp. 451-462. (https://doi.org/10.1016/S0925-5273(98)00073-5). Adapted from Ozturk, A., Joiner, E., & Cavusgil S. T. (2015). Delineating Foreign Market Potential:A Tool for International Market Selection. In *Thunderbird International Business Review, 57*(2), pp. 119-141. DOI: 10.1002/tie.21686. Adapted from Fuentes García, F., Cosano, A. & Sanchez, S. (2015). Exploratory analysis of foreign markets for Spanish organic wines. *Ciencia e investigación agrarian, 42*(2), pp. 139-152. 10.4067/S0718-16202015000200002.

As mentioned in the literature review, quantitative models typically involve mathematical and statistical analysis of a market; and reasoning models involve collecting aggregate and industry specific country data and then logically evaluating the data. The indicators below are derived from a mix of the two models and will provide a numerical value used in selecting a solution.

4.1.1 Indicators

Gross domestic product (GDP). GDP is one of the most commonly used figures to measure a country's overall economic activity (WEO, 2019 as cited in IMF, 2019). According to the World Economic Outlook (2019 as cited in IMF, 2019), GDP "represents the total value at constant prices of final goods and services produced within a country during a specified time period, such as one year.

Population. Population is the amount of people in any given country. This indicator is important for market selection because it gives us information about the potential market size in the country. Additionally, changes in population size can impact the market potential and monitoring demographic trends is a critical part of business strategy.

GDP per capita. GDP per capita simply means the GDP per person and is calculated by dividing the total GDP by the total population (Focus Economics, 2019). The GDP per capita will be expressed in a standard unit of currency, in this case, the US dollar (USD). It is also paramount to note that GDP per capita does not measure personal income but should rather be used for cross-country comparison. Additionally, this indicator does not factor in income distribution in a country and the figure can also be distorted by exchange rate fluctuations (Focus Economics, 2019).

Estimated real GDP growth. This indicator is used to forecast or project how well the country or market will perform economically in the following year. This indicator is indicated as a percentage that demonstrates the change in a country's GDP while taking into account a certain period of time, for example, one year (Investopedia, 2019). This figure includes inflation rate in its measurement

Alpaca & fine wool share imports. This indicator will be used because it demonstrates how much each country imports from the total alpaca and fine wool industry. This will give Mipaku a more precise picture of which markets have the biggest imports of specifically alpaca clothing.

Environmental performance ranking. This indicator ranks 180 countries and is a measurement of the environmental trends and progress in each country (Wendling, Emerson, Esty, Levy, de Sherbinin et al, 2018). According to the 2018 Environmental Performance Index, this index measures on a national scale and gives insight to how close a country is to establishing environmental policy goals (Wendling et al, 2018). This indicator will provide Mipaku with guidance when considering countries that care for or aspire for sustainability, which is ideal given that the brand is FairTrade certified. Moreover, the scores range from 1-180, 1 being the best ranking and 180 being the worst ranking.

Ease of doing business. Ease of Doing Business is an important indicator as it demonstrates which countries have the most business-friendly regulations. The Doing Business project launched by the World Bank (2019) "provides objective measures of business regulations for local firms in 190 economies and selected cities at the subnational level." Not only does this indicator provide a measurement of regulations, it also includes the protection of property rights (WB, 2019). In short, the Ease of Doing Business indicator lets Mipaku know which country's regulatory environment is more helpful for starting and operating a business.

Country risk (commercial & political). The Country Risk indicator provides Mipaku with a political, economic, and financial risk rating on which it can predict future risk events (PRS Group, 2019). This is a great indicator for Mipaku as it can be used to leverage risk management. Furthermore, International Country Risk Guide (ICRG) "is the only political risk methodology and data series to be accepted by the courts in commercial disputes involving the valuation of political risk (PRS Group, 2019)." For this indicator, the higher the score, the lower the country risk is.

Free trade agreement. Free Trade Agreements (FTA) are signed agreements involving the cooperation of at least two countries. The purpose of FTAs is to reduce trade barriers, quotas and tariffs, and to increase trade between the agreeing partners. This indicator is important when Mipaku considers what market to enter. Having a FTA will make exporting to that market much easier and could make a considerable difference to costs if there is a desirable agreement in place. To choose a market where a FTA is already in place would mean ease of entrance.

Peruvian share of total alpaca exports. The Peruvian Share of Total Alpaca Exports indicator helps Mipaku assess how strong their position is in relation to the greater Peruvian position. This also lets Mipaku know how much Peruvian alpaca products are already being shipped to which countries and could help explain the saturation of the market, or the potential of the market.

Finished alpaca garment exports. This indicator explains how much finished alpaca garments Peru exports to the countries being considered. Interestingly, this indicator can tell us which countries prefer to import raw alpaca products versus finished alpaca products when compared to the Peruvian Share of Total Alpaca Exports. In addition, this indicator will show Mipaku which countries are the largest importers of finished alpaca garments, and therefore, may have the highest interest for Mipaku's clothing brand.

Evolution of Peruvian exports (textiles & clothing) to the country (US$) 2007-2017 percentage of change. The purpose of this indicator is to find the trend of Peruvian exports, particularly in textiles and clothing, to each country considered for entry over the last 10 years. This indicator will tell us if Peru is exporting more or less to countries over a 10-year period, which could indicate a higher chance for selling alpaca clothing to these markets. It is important to note that this 10-year period includes the global financial crisis, which might distort the figures.

Evolution of Peruvian exports to the country (US$) 2007-2017 % Change. This indicator is helpful in the sense that it tells us how Peru's export relationship has been with partner countries over the last 10 years. This is important because it explains if a certain country is buying more from Peru and could be an indication of how the trading relationship is. It is important to note that this 10-year period includes the global financial crisis, which might distort the figures.

Common cultural factors with Peru. Lastly, the quantitative analysis will include Common Cultural Factors as an indicator, which is derived from Hofstede's (2019) Country Comparison tool. The six dimensions included in this indicator are: power distance, individualism, masculinity, uncertainty avoidance, long term orientation, and indulgence. This indicator will be included in the analysis because it will give Mipaku insight as to what are the cultural drivers of each country and how this could relate to their own business functions (Hofstede, 2019). Each country will be compared with Peru to see how culturally alike they are or culturally different.

"Power Distance is defined as the extent to which the less powerful members of institutions and organisation within a country expect and accept that power is distributed unequally (Hofstede, 2019)." Furthermore, Individualism refers to "the degree of interdependence a society maintains among its members (Hofstede, 2019). In other words, this dimension measures how people in a country define themselves, whether they use an "I" or "We" image (Hofstede, 2019). Moreover, the Masculinity dimension demonstrates the desire to compete, achieve success and win (Hofstede, 2019). The lower the score, the more feminine the country is, and this is characterized by importance on quality of life and caring for others (Hofstede, 2019). Uncertainty Avoidance is a measurement of how threatened members of a country feel by unknown situations, which can range from very threatened to not very threatened (Hofstede, 2019). In addition, Long Term Orientation explains how societies maintain a connection to their past while trying to deal with present and future challenges (Hofstede, 2019). Lastly, the Indulgence factor defines to what extent “people try to control their desires and impulses (Hofstede, 2019).” In this case, some countries display a strong sense of restraint, while others are described as indulgent.

Common Cultural Factors, in this situation, will be defined as any country’s dimension that lies within a 20-point difference of Peru’s rating. To further explain, Hofstede’s Country Comparison model assigns countries scores ranging from 0-100; therefore, if Peru scored 64 in Power Distance and Germany scores 64 in Power Distance, this would not be considered a Common Cultural Factor.

4.2. Qualitative Analysis - Indicators

For the qualitative analysis, the following frameworks will be used to supplement the decision-making process of market selection: A Small Business International Market Selection Model, Export Strategy, Market Penetration and Development, and Government Support and Financial Management. The seven qualitative indicators that will be used to assess the alternatives are: political stability, government control, cultural differences, profitability, productivity, market penetration, and government support.

Political stability. This indicator will help Mipaku consider which foreign markets are attractive by assessing the difficultly or ease to enter based on a country’s political stability. A politically instable country could pose business risks for Mipaku. On the other hand, a politically stable country

Government control. This indicator looks at how governments can influence businesses and the likelihood that the government will favour domestic firms (Minifie & West, 1998). This is important to consider because if a country is biased towards domestic firms, then Mipaku as an international firm, will be at a competitive disadvantage. Ideally, Mipaku would want to operate in a country with an unbiased government, meaning that the government supports free-market economies with an unobtrusive stance towards business.

Cultural differences. This indicator, although similar to Common Cultural Factors, will focus on different components of culture. More specifically, this indicator looks at how social norms of each market attribute to consumer preferences or buying behavior. For example, an individualistic and indulgent culture is more likely to spend on luxury goods, and therefore, would make a better market for Mipaku. Other factors included in this indicator is the age, sex and desire to differentiate oneself.

Consumer receptiveness. Consumer receptiveness is an indicator of a group or an individual response. Consumer receptiveness is expressed in terms of knowledge, behavior, attitudes and beliefs, (Alexander & Doherty & Carpenter & Moore, 2010). Low levels of consumer receptiveness are reflected by negative attitudes and beliefs, knowledge gaps and negative behaviors including avoidance and negative word-of-mouth towards the incoming product or service. On the other hand, high levels of consumer receptiveness towards the incoming products are reflected by positive beliefs and attitudes, accurate knowledge and positive behaviors including approach and positive word-of-mouth (Alexander et al, 2010).

Government support. The Government Support indicator focuses specifically on support for SMEs, such as Mipaku. It is vital to SMEs that governments help as they face many challenges like exchange rate exposures, financial constraints, and more. The government support in a country includes government-sponsored special credit schemes, training programs for SMEs, providing market information, hosting trade fairs, and more.

4.3. Conclusions

In conclusion, it is necessary to select a mix of quantitative and qualitative indicators to help determine and validate the most attractive market for Mipaku to enter. The indicators proposed in the quantitative and qualitative analysis section will ensure that a thorough and comprehensive analysis of potential markets is done. Many businesses fail to enter new markets because they lack the knowledge and information about the differences and challenges. For that reason, we propose the 21 indicators in order to help reduce the risk of market entry failure. These indicators include: (a) GDP, (b) population, (c) GDP per capita, (d) estimated real GDP growth, (e) alpaca and fine wool share imports, (f) environmental performance ranking, (g) ease of doing business, (h) country risk, (i) free trade agreements, (j) Peruvian share of total alpaca exports, (k) finished alpaca garment exports, (l) evolution of Peruvian exports (textiles and clothing) to the country, (m) evolution of Peruvian exports to the country, (n) common cultural factors with Peru, (o) political stability, (p) government control (q) cultural differences, (r) profitability, (s) productivity, (t) market penetration, and (u) government support. For the qualitative analysis section will consider factors such as (a) political stability, (b) government control, (c) cultural differences, (d) consumer receptiveness, and (f) government support. These indicators will ensure that Mipaku is aware and ready for market entry challenges by researching the key steps to enter the appropriate market. Each country will have a different weight or rating according to the indicators and the top three markets will be proposed after the assessment.

Chapter V: Root Cause Analysis of the Problem

5.1. Identified Causes

As stated in chapter two, the major problem facing Mipaku is that it needs to expand yet lacks adequate knowledge regarding which markets to pursue and how best to pursue them. This lack of information has prevented Mipaku from developing a clear strategy regarding growth. Worse yet, it has prevented the company from taking concrete steps towards expanding into new markets. Accordingly, the primary focus of this report is to provide Mipaku with the information necessary (market analyses) to develop a practical and actionable growth strategy. Simple. However, a further step needs be taken in order to gain a more sophisticated understanding of why Mipaku is in its current position at all: an analysis of the underlying cause (or causes) of the business's key problem. In essence, the following section attempts to answer *why* Mipaku is facing difficulties at all.

Firstly, before exploring Mipaku's specific situation in greater depth, it is worthwhile to examine a few of the general factors that are thought to hinder small business growth as well as those which are thought to ensure success. In the article Reasons Why Small Businesses Fail, Robert Lussier (1996) compared entrepreneurial survey data with the existing literature at the time on why small businesses fail. Following this comparison, he concluded that there are ten crucial areas in which entrepreneurs need to pay special attention to avoid failure. They can be summarized as follows: (a) capital and fixed-costs ratio, (b) timing and macro-economic conditions, (c) creditor relationship management, (d) accounts receivable practices, (e) recordkeeping practices, (f) diversified customer base, (g) management experience and practices, (h) partner/team selection, (i) expansion strategies, (j) and theft minimization (Lussier, 1996). To expand on several of Lussier's categories, area (a) concerns the relationship between a business's access to capital and fixed costs, and points out that it is crucial for businesses to maintain a healthy balance between the two, meaning that fixed-costs should be kept as low as possible to avoid depleting cash reserves; area (d) simply states that for small businesses good collection practices are crucial and often represent the difference between success and failure, again because good collection practices are needed to maintain adequate cash flows; finally, area (i) suggests that small businesses should expand slowly and organically using their own revenues as opposed to outside financing, again to avoid financial overextension and running out of cash (Lussier, 1996). Markedly, the central theme which connects all ten areas and which Lussier identified as the primary reason why small businesses fail is inadequate cash flows, which result in an inability to meet obligations; thus measures should be taken to ensure that the business maintains healthy cash flows and does not deplete its reserves.

5.2. Main Causes of the Problem

Returning to the specific case of Mipaku, it does not appear that inadequate financial flows are at the root of the company's problems. Rather, inadequate financial flows are a symptom. In light of the analyses already undertaken, in particular the AMOHFIT analysis, it appears the underlying cause of Mipaku's problem is chiefly a lack of time. If the question is "why hasn't Mipaku performed a market analyses?", the answer would be because they have not had the time to. And why has the company not had time? Several reasons. First, because of the size of the company, Mipaku lacks the human capital to undertake a project of the kind; everyone currently involved in the business is already engaged in alternative activities. Moreover, the company lacks a fluent English speaker; this hurts Mipaku's ability to grow internationally. Secondly, because Mipaku shares its ownership, administration, facilities and employees with another company, namely D'Peru textiles, staff is spread quite thin. And as the latter is a significantly larger company (generating approximately USD$250,000 yearly (personal communication, June 28, 2019)) and better-established business, it is more time demanding than Mipaku. Finally, in addition to the previous factors, Mipaku faces notable financial constraints; the business only has USD$20,000 working capital available at any given time. Though not the key factor, a lack of financial capital is too hindering Mipaku's growth.

In summary, the key problem facing Mipaku is not yet have identified the appropriate markets to pursue and how best to penetrate them. The primary underlying cause of this problem is a lack of time; if Mipaku had the time to undertake a market analysis, then the problem would not exist. Mipaku's lack of time can be attributed to three subfactors: first, a lack of human capital; second, alternative priorities, specifically alternative priorities in relation to the owner's primary business, D'Peru Textiles; and third, a lack of capital. Taken together these factors have prevented, or at least seriously hindered, Mipaku from performing the necessary research to develop a solid market analysis and, ultimately, from growing their business internationally.

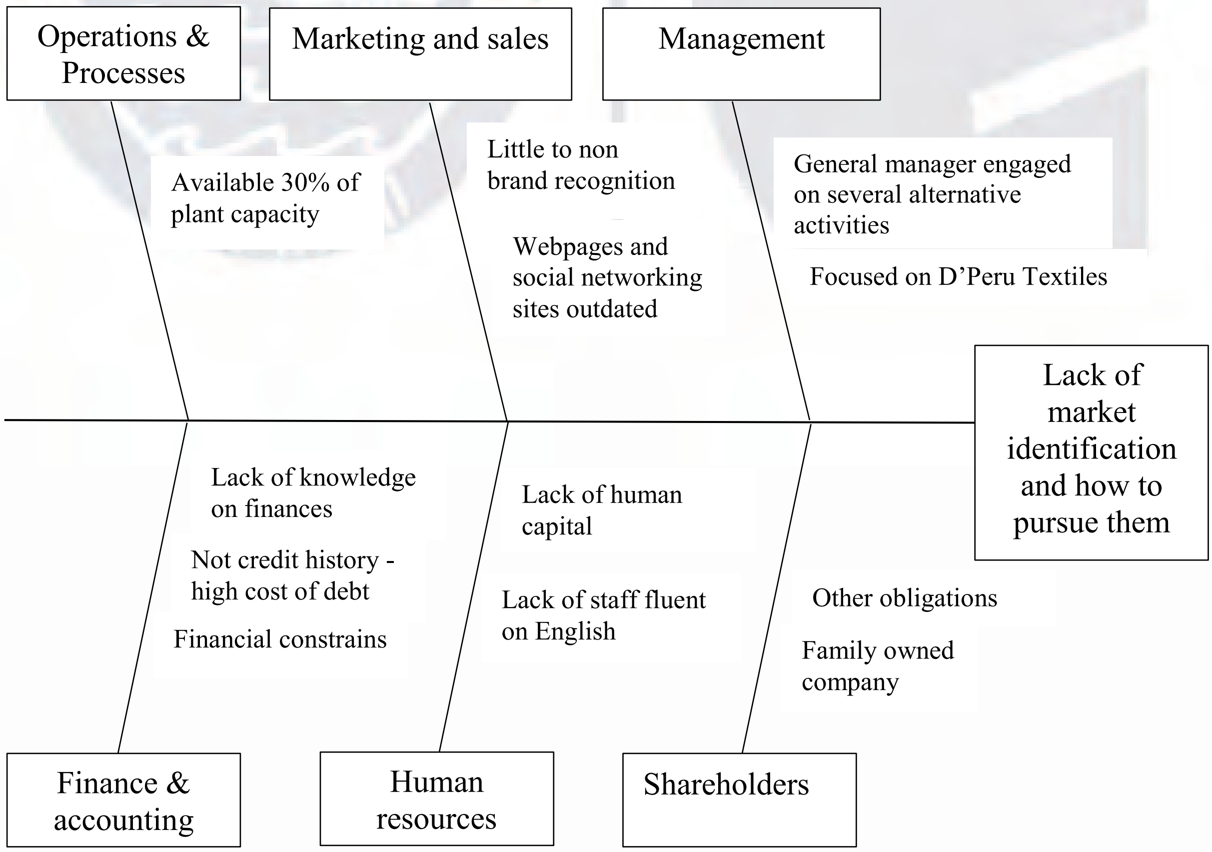

Figure 15. Root cause analysis of Mipaku's problem.
Adapted from *Guide to Quality Control* by K. Ishikawa, 1968. Tokyo, Japan: JUSE.

Chapter VI: Assessed Solution Alternatives

In this chapter, several of the alternatives available to Mipaku in its search for internationalization will be reviewed and analyzed, both qualitatively and quantitatively. The first part analyzes the criteria outlined in the models presented in chapter four and forms the basis of the analysis. What follows is associated with that selection criteria and presents a list of countries obtained with the post-filters applied to them. The final part presents the proposed solution that meet the requirements of Mipaku’s problem.

6.1. Alternatives to Solve the Problem

First a preliminary selection was done by macro-oriented screening methods where markets/countries are chosen primarily according to their appeal in trading with Peru in the alpaca textile industry, most specifically in alpaca garments. The factors considered are in accordance to the models detailed in the quantitative/qualitative analysis and complemented with the PESTEL factors analyzed in chapter two. Aside from that, the following was also taken into consideration: Mipaku owner’s suggestions; willigness/easiness to do businees; Purchasing Power and disposable income of potential markets; other macroeconomic indicators such as political stability and country competitiveness; and finally Geographical, Cultural, Administrative, Economic distance. As a result of the preliminary selection, several countries were excluded in advance as potential markets, whereas others seemed promising for Mipaku to enter. After proper research and discussion among the consultancy team and Mipaku’s owners, several of the world’s largest markets were considered: The United States, China, Canada and the European Union, in particular northern and central Europe. Taking this preselection into consideration, and more specifically focusing in market/countries among the European Union, an in-depth analysis was carried out with the purpose of determining the most appropriate market for Mipaku to target.

The results of the criteria mentioned gave the following countries: (a) Germany, (b) United Kingdom, (c) France, (d) Norway, (e) Sweden, (f) Switzerland, (g) the United States, (h) China and, (i) Canada as the potential markets for further analysis. Having the indicators analysed in the quantitative analysis and the countries for deeper research, it was built a double entry table (Table 7). To rank the countries, first all the indicators were summed in each row, having as a 100% the sum of all the countries considered (step 1). Then in the second step (step 2) the amount of each country was divided by the sum of the row calculated in step 1. In the third step (step 3) the proportion mentioned above (step 2) was multiplied by the weight assigned by the experts in table 8. Finally, in the last step (step 4) it was summed the results in each column. In case of the values that were negative, it was considered its absolute value.

In order to select the most suitable market for Mipaku, table 7 was weighted using the widely applied methodology known as Delphi technique. The Delphi technique can be defined as a qualitative, comprehensive forecasting technique that prompts, improves, and draws upon the collective judgement and expertise of a panel of specialists (Njuangang, Liyanage & Akintoye, 2017). Moreover, the indicators not only were weighted, but also, they were validated against the judgement of three experts. The first expert was Mipaku's owner Mrs. A. Leyva, who has extensive experience in international business gained during her ten years in the alpaca garments market. The second expert was professor Ruben Guevara, who not only holds a Ph.D in Natural Resource Economics and Management but also has sound expertise in international markets. Finally, the last expert was the consultancy team in charge of composing this report, who as students of a Master of Global Business program, have the knowledge and in hand expertise that gives a panoramic view of international business.

Table 7

Integrated Key Indicators

Subgroup	Indicators	Country								
		Germany	UK	France	Norway	Sweden	Switzerland	US	China	Canada
Market Size	GDP 2018 (Billion US$)	4,000.39	2,828.64	2,775.25	434.937	551.135	703.75	21,340	27,330	1,709
	Population 2018 (Thousands)	82,887	66,040	67,372	5,323	10,215	8,526	329,560	1,400,000	37,058
	GDP per capita - 2018	44,549	39,734	39,869	74,940	53,217	80,590	64,770	10,150	51,357
Market Growth	Estimated Real GDP growth (2018)	0.80%	1.20%	1.30%	2.00%	1.20%	1.10%	1.90%	6.10%	1.88%
	Fine alpaca or Lama wool share importers (Countries with less than 1% are weighted with 0%)	2.00%	4.00%	0.00%	0.00%	0%	0.00%	1.00%	56.00%	0.00%
Commercial & Political Risk	Environmental performance ranking (2018)	13	6	2	14	5	1	27	120	25
	Ease of doing business (Ranking of 190 Countries)	24	9	32	7	12	38	8	46	22
	Country risk (100 is a not risky country)	85	79	76	88	87	86	79	69	82
Trade Agreement	Free trade agreement	FTA EU	Post Brexit Agreement	FTA	EFTA	FTA	Bilateral FTA	PTPA	FTA	CPFTA
Peruvian Position	Peruvian share of total alpaca exports (US$) 2017	7,000,000	5,000,000	2,000,000	9,000,000	4,000,000	1,000,000	30,000,000	48,000,000	1,219,500
	Finished alpaca garment exports (US$) 2017	4,200,000	1,500,000	1,800,000	0	0	800,000	4,376,001	80,000	614,000
Contribution to Exports	Peruvian exports (textiles & clothing) to the country 2017 (Thousand US$)	$35,403	$23,430	$20,406	$12,688	$7,684	$1,580	$630,745	$64,222	$26,288
	Evolution of Peruvian exports (textiles & clothing) to the country (US$) 2007-2017 % change	39.55%	-2.63%	-34.22%	83.04%	90.55%	-231.85%	-33.96%	67.75%	71.54%
Export Dynamism	Evolution of Peruvian exports to the country (US$) 2007-2017 % change	0.33%	66.49%	15.95%	-57.39%	-9.69%	0.60%	19.51%	73.85%	-34.69%
Cultural Factors	Common cultural factors with Peru	Indulgence	None	Power distance, masculinity, uncertainty	Long-term orientation, indulgence	None	Indulgence	Masculinity, long-term orientation	Power distance, individualism	Masculinity, long term orientation,
		16	0	80	48	0	16	48	32	48

Retrieved from "World Economic Outlook: *GDP*", by International Monetary Fund, 2019 (https://www.imf.org/external/datamapper/NGDPD@WEO/OEMDC/ADVEC/WEOWORLD) Retrieved from "World Economic Outlook: Population", by International Monetary Fund, 2019 (https://www.imf.org/external/datamapper/NGDPDPC@WEO/OEMDC/ADVEC/WEOWORLD) Retrieved from "Opotunidades comerciales para prendas de alpaca en Europa.", by Promperu, 2018. (http://www.siicex.gob.pe/siicex/resources/estudio/609578798radC335A.pdf) Retrieved from "Environmental Performance Index", by Yale Center for Environmental Law & Policy, 2019 (https://epi.envirocenter.yale.edu) Retrieved from "Ease of Doing Business Index", by World Bank, 2019 (https://data.worldbank.org/indicator/IC.BUS.EASE.XQ?most_recent_value_desc=false) Retrieved from "Mincetur: Envios de Fibra de Alpaca Crecieron Mas del 100% Entre Enero y Noviembre del 2017", by Ministerio de Comercio Exterior y Turismo, 2018 (https://www.mincetur.gob.pe/mincetur-envios-de-fibra-de-alpaca-crecieron-mas-del-100-entre-enero-y-noviembre-del-2017/) Retrieved from "Peru Textiles and Clothing Exports by Country and Reason 2007", by World Integrated Trade Solutions, 2019 (https://wits.worldbank.org/CountryProfile/en/Country/PER/Year/2007/TradeFlow/Export/Partner/all/Product/50-63_TextCloth) Retrieved from "Peru Textiles and Clothing Exports by Country and Reason 2017", by World Integrated Trade Solutions, 2019 (https://wits.worldbank.org/CountryProfile/en/Country/PER/Year/2017/TradeFlow/Export) Retrieved from "Country Comparison", by Hofstede Insights, 2019 (https://www.hofstede-insights.com/country-comparison/peru/)Retrieved from "Regional Political Risk Index", by The PRS Group, 2019 (https://www.prsgroup.com/regional-political-risk-index-4/

Table 8

Integrated Key Indicators - weighted

Subgroup	Indicators	Weight: Expert 1: Mipaku's Owner (Mrs. A. Leyva) In percentage (%)	Weight: Expert 2: International marketing expert (Ph.D R. Guevara) In percentage (%)	Weight: Expert 3: Thesis Team (Consultancy Project members) In percentage (%)	Weight (Average)
Market Size	GDP -Billion US$ (2018)	1	0	0	0
	Population (2018)	3	0	1	1
	GDP per capita - 2018	7	5	7	6
Market Growth	Estimated Real GDP growth (2018)	3	0	5	3
	Fine alpaca or Lama wool share importers (Countries with less than 1% are weighted with 0%)	6	15	10	10
	Environmental performance ranking (2018)	3	5	7	5
Commercial & Political Risk	Ease of doing business (Ranking of 190 Countries)	4	10	5	6
	Country risk (100 is a not risky country)	3	0	5	3
Trade Agreement	Free trade agreement	7	40	10	19
Peruvian Position	Peruvian share of total alpaca exports (US$) 2017	5	0	15	7
	Finished alpaca garment exports (US$) 2017	19	5	15	13
Contribution to Exports	Peruvian exports (textiles & clothing) to the country 2017 (Thousand US$)	10	0	5	5
	Evolution of Peruvian exports (textiles & clothing) to the country (US$) 2007-2017 % change	10	5	4	6
Export Dynamism	Evolution of Peruvian exports to the country (US$) 2007-2017 % change	15	10	5	10
Cultural Factors	Common cultural factors with Peru	4	5	6	5

Note: Adapted from *weighted key indicators* (personal communication, p. 1), by A. Leyva, 2019, August 06, Lima, Peru: Author. Adapted from *weighted key indicators* (personal communication, p. 1), by R. Guevara, 2019, August 05, Lima, Peru: Author. Adapted from *weighted key indicators* (personal communication, p. 1), by Consultancy team members, 2019, August 15, Lima, Peru: Author.

Table 9

Results of Quantitative Market Selection

Country	Score (%)
China	22
US	17
Germany	11
UK	10
France	8
Norway	6
Sweden	6
Canada	6
Switzerland	4

For any company looking to internationalize, it is vital to have an overall view of the potential markets. Following this is a thorough assessment of potential countries, which should be performed to determine the best possible market to enter. As discussed in the literature review, when a company solely focuses on exporting, the costs of internationalization are quite low; for this reason, in this report it is suggested that Mipaku focus on three countries to enter within the next six to twelve months. The quantitative analysis revealed that the top three countries for Mipaku are China, the United States, and Germany. These countries have commonly been among the top performers over the last several years (based upon the criteria applied in Table 7), which is mainly attributed to their high rank in trade with Peru, especially in the alpaca textile. However, quantitative macro level data alone is not enough to justify pursuing one market over another; for a full picture, qualitative data needs be taken into consideration. Accordingly, a deeper qualitative analysis will be carried out in order to determine if these three markets are the most suitable for Mipaku considering its current situation. The selection process used is that if one market does not meet the qualitative requirements, it is discarded and the next market considered is the one that follows in ranking score in the quantitative analysis (Table 9).

6.1.1. China

China’s economy has grown considerably in recent decades. Between 1990 and 2018 China’s GDP grew from 360 billion USD to over 13 trillion – a 3500 % growth (World Bank, 2019a). Accordingly, the average income of the country’s citizens has also grown, especially in the region’s economic hubs: Beijing, Shanghai, Guangzhou and Chongqing (Chevalier & Lu, 2009; Luan et al., 2019). Over the same period China’s GDP per capita rose from 317 USD to 9,770 – an approximate 3,000 % increase (World Bank, 2019b). Such pronounced changes in China’s economic situation and the emergence of a ‘new rich’ middle class has brought with it “conspicuous consumption and many millions of luxury-product consumers” (Chevalier & Lu, 2009, p. 54). In 2018 China accounted for approximately 30% of the world’s luxury consumption (Luan et al., 2019) and is “the world's second largest market for fashionable clothing and leather goods” (Zhan & He, 2012, p. 1452). Furthermore, the country’s desire for luxury items is expected to increase. Speaking strictly in terms of market size and potential China presents luxury-oriented businesses with an opportunity to capitalize upon the country’s emerging wealthy middle and upper classes. Thus, in terms of market size and potential, China is an acceptable option for Mipaku.

However, shifts in China’s economic position have also produced significant cultural changes. For one, it has led to the emergence of a new type of consumer: the young elite (Chevalier & Lu, 2009; Luan et al., 2019). In contradistinction to traditional Chinese culture, which tends to be highly collectivistic and regards frugality as a virtue, the emerging young elites have adopted many of the hallmarks of western culture – including an individualistic attitude, liberal spending habits, and the desire to differentiate oneself (Luan et al., 2019). Thus, the so-called “young elite [are] an obvious target for luxury goods” (Chevalier & Lu, 2009, p. 55; Luan et al., 2019). That being said, “China’s luxury market has yet to develop the widespread sophistication necessary to sustain demand for truly niche or boutique brands, as has been the case in the West" (Luan et al., 2019, p. 8). Moreover, collectivism still dominates culturally, and larger well-established brands control the largest market share in the luxury segment (Zhan & He, 2012). Therefore, despite the fact that recent economic shifts have reduced the cultural barriers to marketing foreign made products in China, there still exists significant cultural challenges for luxury brands looking to enter the Chinese market, especially for those with little to no name recognition. Culturally speaking, China may not be a suitable market for Mipaku at this time.

Regarding consumer receptivity to fair trade practices and ethical branding, the average Chinese consumer cares little about such initiatives. However, Chinese consumers are not unique in this respect; a lack of receptivity to fair trade practices is the rule, not the exception. Globally, "ethical" products account for less than 1% of total consumption (Davies, Lee & Ahonkhai, 2011). It has been observed that although consumers often express a preference for ethical products, their actual buying behavior does not reflect this - a phenomenon referred to in the literature as the attitude-behavior gap (Davies, Lee & Ahonkhai, 2011). Moreover, the majority of fair-trade purchases that do occur are for low-cost commodity products like coffee, bananas, and tea. Basing purchase decision on fair trade or other certification is almost unheard of in the luxury and higher-end product segment, and there is little evidence to suggest that ethical purchase behavior would transfer from commodities to luxury items (Davies, Lee & Ahonkhai, 2011). Therefore, in respect to fair trade receptivity, China is neither a significantly better market nor a significantly worse market than others – at least, when speaking in terms fair trade luxury items. Researchers expect that with time and increasing awareness of the importance of Fair-Trade practices in purchasing behavior will become more important in this segment. Currently it is not. In respect to consumer receptivity to fair trade initiatives and ethical branding, Mipaku should not target China.

Administratively, China and Peru are on relatively good terms with one another. The countries have had strong diplomatic ties for over 50 years and it appears these amicable relations will continue into the future. Moreover, the two countries have a free trade agreement (FTA) in place, the China-Peru FTA, and are currently working to further liberalize trade between themselves. Geographically speaking, China and Peru are around 17,000 km apart – a considerable distance to move products. By sea it takes an estimated 29 days to reach Shanghai from Lima, and by plane around 21 hours (SeaRates.com, 2019). Accordingly, China is a good fit for Mipaku in terms of diplomatic relations and FTA's, but an unideal target with respect to distance. All in all, considering not only the factors mentioned previously, but also Mipaku's owner's opinion, China was discarded as a target market for Mipaku at this time.

6.1.1. The United States

The clothing and textile industry play a vital role in the economic development for many emerging economies such as Peru. Furthermore, the American textile and clothing market in particular is appealing because the United States (U.S.) is the largest importer in the world (OEC, 2019). In fact, in textiles and clothing, the U.S. outpaces the EU by 50% and Japan by 300% (OECD, 2004 as cited in Seyoum, 2010). More specifically, the U.S. imports $112 billion worth of textiles with knit sweaters being the most popular commodity (OEC, 2019). Since the elimination of textile quotas in 2005, the American market has been increasingly accessible (World Trade Organization, 2019). In addition to market size, the GDP per capita in the U.S. in 2016 was $57,467, which signifies that Americans have the financial power to buy luxury clothing (Yu & Sapp, 2019). This is an essential factor to consider as Mipaku aims to target the luxury clothing industry. However, one critical competitor to note in this market is China as it is the single biggest supplier of textiles to the U.S. and takes a considerable amount of market share (OECD, 2019).

Another market criterion to consider is culture and how this could motivate American consumers to purchase luxury clothing. According to Hofstede's country comparison, the United States is considerably more individualistic and indulgent in comparison to Germany and China. This is further supported by Yu and Sapp's research, which explains that luxury good purchases have three primary motivations: symbolic, hedonic, and instrumental (2019). There are of course other factors that can be considered when analyzing motivation for luxury good consumption among Americans such as age, sex, preference, etc. Research found that individualistic cultures, such as the U.S., like to present themselves as unique and free (Yu, & Sapp, 2019). In other words, American "consumption behaviors are most likely motivated by their inner preferences and emotions (Yu & Sapp, 2019, p. 117)." Additionally, if a person perceives people in society to be ranked on different levels, that person is more likely to be motivated to consume luxury clothing (Yu & Sapp, 2019). This cultural information is very helpful when looking into how luxury alpaca clothing can be sold in the U.S. and how to motivate consumers in this market.

When analyzing the United States market, companies must consider how to comply with the legal and regulatory systems. This is especially true for Mipaku as the products are manufactured in Lima, Peru. In the U.S., each state has a consumer protection statute that protects consumers from predatory or deceptive advertising that misrepresents the characteristics of the product (Del Mauro, Meyer, & Patterson, 2018). The first step to launching a product in this market is knowing how you will define the product. For example, what materials does it contain e.g. alpaca wool. Products must also contain safety information and instruction for use (Del Mauro et al., 2018). Among other things, Mipaku should be aware that legislation regarding products are subject to change and clothing should abide by marketing, sale and shipping regulations.

In terms of physical distance, the United States is the closest market to Peru, located approximately 5,577 km away. This means that exporting clothing and textile products to the U.S. would be faster, cheaper and logistically easier to carry out in comparison to China and Europe. A shorter shipping route also presents more opportunities in methods of delivery such as air, road and water.

Regarding economic distance, The United States has a population of 325.9 million and a low unemployment rate of 4.4% (Heritage Organization, 2019). Not only is it one of the world's most developed countries, it is one of the largest and wealthiest economies with a GDP of 20.494 trillion in 2018 (World Bank, 2019). Similarly, the United States' economy is highly diversified.

The United States and Peru share a strategic partnership based on mutual interests and shared values that include democracy, human rights, security and trade (U.S. Department of State, 2019). Their law enforcement and security relationship in particular is strong, which includes assistance funds and programs from the United States to Peru. More importantly, the two countries share bilateral economic trade relations that deepened after the U.S.-Peru Trade Promotion Agreement (PTPA) came into force in 2009 (U.S. Department of State, 2019). This agreement sets standards for both countries in terms of market access, intellectual property rights, investment, and environmental and labor rights protection (U.S. Department of State, 2019). The PTPA has contributed to positive trade flows for the U.S. and Peru showing figures increasing from $9.1 billion in 2009 to $17.5 billion in 2018 (U.S. Department of State, 2019). Peru also belongs to several international organizations that the United States belongs to, such as United Nations, Asia-Pacific Economic Cooperation forum, International Monetary Fund, World Bank, and World Trade Organization. Both countries also have bilateral representation, each maintaining an embassy to provide consular services.

Additionally, Fair Trade (FT) is an ethical trading model that started in the 1950s and has transformed into the global movement that it is today (Wilber, & Pasricha, 2017). FT aims to support producers and communities all over the world by trying to create a just and ethical trading system. Given that the United States is a high-income country, it is no surprise that FT is well known in this market. In the U.S. there are at least four organizations with FT labels that promote ethical and sustainable practices. For all the reasons mentioned above, the US market is suitable for Mipaku to pursue.

6.1.3. The European Union

The European Union is an attractive market for Mipaku to enter. To start with, the total population of the 28-member states is 513 million (World Bank. 2018). Second, due to its openness to trade outside and within the union has led to put the EU is in prime position when it comes to global trade. Moreover, its economy as a block is the largest in the world (European commission, 2019). The European union has an accumulated GDP of US$ 17.5 Trillion and a GDP per capita of US$ 36,534 (World Bank. 2018), which is among the highest in the world, meaning Europeans have a relatively high purchasing power. In terms of competition for alpaca products in Europe, a report presented by CBI Ministry of Foreign Affairs (2016), found that although the market entry is high, product competition is medium. Moreover, the rivalry among competitors is moderate to high, the power of suppliers is low and finally, the buyer power is medium. All in all, these factor offers a promising business environment to Mipaku.

Regarding culture, Europe is known for having a comparatively individualistic culture, though this varies somewhat between nations. In terms of consumer preferences, it is very diverse from country to country even in those that share a common border, that is why it is impossible to form a single, all-embracing conception of culture. This difference can have a huge impact to trade. Firstly, almost every country has its own language which constitute a huge barrier when trying to do business with. Moreover, social norms, religious beliefs, race, also can create distance between a company and these target markets (Meyer, 2014). Furthermore, according to Ghemawat (2001), cultural attributes distance groups by affecting the choices that consumers make between substitute products because of their desires for specific features (Ghemawat, 2001, p.6).

Additionally, Due to Peru's geographic location for trade with strong economies represent a constrains for business. The average distance from Peru to Europe (Rotterdam – Netherlands) is 10,488 kilometers. Travelling by airplane takes on average 13 hours whereas by sea the shortest route is by Panama Canal and it would take nearly 20 days and a total distance of 11,472 km at the seaport of the same city (SeaRates, 2019). Ghemawat (2001) argues that companies that find geography as a barrier to trade are often expected to switch to direct investment in local plant and equipment as an alternative way to access (p.7).

In terms of administrative distance, although there is an absence of colonial ties (only with Spain) and absence of shared monetary and political association, both parties have democratic governments, which reduces the administrative distance (Ghemawat, 2001). Peru has a good and healthy relationship with the EU which has led to the formation of a FTA, signed on June 26, 2012 in Brussels, and entered into force on March 1, 2013 (Mincetur, 2018). This FTA aims to open markets for the free flow of goods, services, government procurement and investment. Furthermore, the Agreement does not solely focus on market access and tariff preferences, but also establishes a set of trade. Moreover, the Agreement incorporates provisions that guarantee the protection of human rights and commitment to ensure labor rights and environmental protection (Trade Agreement between the EU and Colombia & Peru, 2012). According to Ghemawat (2001) a political union that includes preferential trading arrangements, and common currency, can increase trade by more than 300% for both parties. Besides, within the European Union there is a single market, customs union and 19 members share a Monetary Union (Baldwin & Wyplosz, 2012) which in turn can be advantageous for Mipaku because once the products enters into the European Union, they can move freely from country to country within the member states. Aside from that, in a study carried out by the CBI Ministry of Foreign Affairs (2016), it was found that the biggest importers of apparel products from countries outside the European Union is Germany, followed by United Kingdom and France. Although there is a lack of specific data for a niche market such as alpaca apparel, but the study concluded that a first level of insights there is a potential for alpaca products.

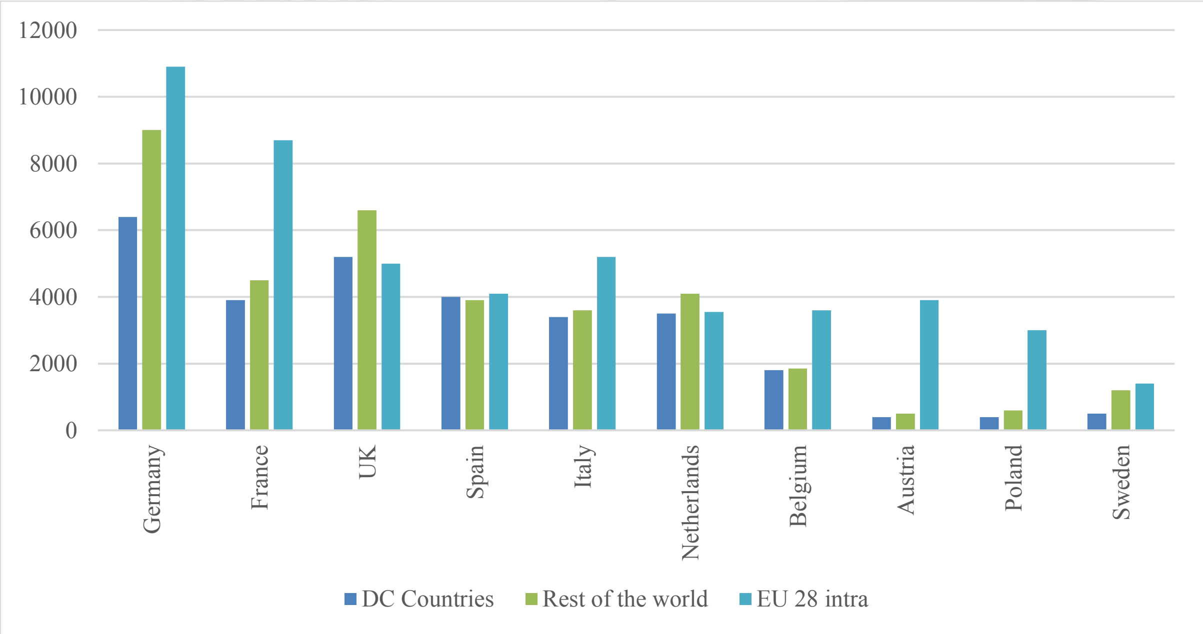

Figure 16. Apparel imports of main European buyers in 2014 in EU€ million.
Adapted from *CBI Product Factsheet: Alpaca Products in Europe* (p.4) by Ministry of Foreign Affairs, 2016, the Netherlands.

Regarding consumer receptivity to fair trade practices and ethical branding, the World Fair Trade Organization-Europe (WFTO-Europe) introduced transparent, fair and binding mechanisms to achieve a climate of trade justice. In Europe it is formed by more than 100 members, among them Fair Trade enterprises, Fair Trade networks and Fair-Trade support organizations (World Fair Trade Organization – Europe, 2019).

6.2. Assessment of Alternatives

Based upon the above analysis, we believe that the European Union, specifically countries situated within northern and central Europe, is the most appropriate market for Mipaku to pursue. This decision is based upon the following criteria: Europe as a block is a large market whose consumers are, on average, highly educated, socially aware, and have a high disposable income – they should accordingly be receptive to Mipaku's offerings and able to afford their products; European institutions are receptive to and supportive of companies which engage in free trade; the European Union functions as a single market, and the principle of mutual recognition guarantees that goods approved for sale in one country can be sold in any other member state; Europe currently has a FTA with Peru, the Free Trade Agreement Colombia, Peru, and Ecuador; Europe has a well-developed fashion market that is able to support boutique and niche brands like Mipaku; and the physical distance is acceptable. Taken together, the information gathered in the above literature review supports the idea that Mipaku should pursue growth via increasing its presence in Europe.

In order to select the appropriate market within the EU, a fine-grained screening was done. This is where the firm's competitive power (and special competences) in the different markets can be considered. For this the following countries were taken into consideration: Germany, UK, France, Norway, Sweden, Switzerland. Those countries were primarily chosen under consideration of their climate, seasonality, potential market size and the purchasing power of their population. Alpaca wool clothing is a seasonal product and is suitable for colder climates and it is a luxurious fiber, and thus costly. The selection is based on the model as explained in chapter four.

The outcome of this analysis can be summarized as follows. The most attractive market measured by GDP per capita is Switzerland, followed by Norway and Germany. Accordingly, the population of Switzerland and Norway possibly have the highest budget to possible spend on clothes. Furthermore, the real estimated GDP growth was considered in order to see which economy has the most potential in the future, which is Norway, France and Sweden. Subsequently, the Peruvian share of total alpaca exports in USD and the finished alpaca garment exports were analyzed. The Peruvian alpaca export to Norway and Germany are the highest and for finished alpaca garments it is the highest for Germany, UK, and France. Norway was not considered for this indicator as it does not appear among the top ten countries that trade alpaca garments with Peru. In 2017, Peruvian exports (textiles & clothing) to Germany, the UK and France were the highest. To become a clearer picture of the evolution of Peruvian exports (textiles & clothing).

All in all, it can be seen then that the EU as a whole presents great potential for Mipaku. However, the EU is a macro-economic unit composed of individual nations, and accordingly the individual nations themselves need be considered in greater depth. Within the EU there are several countries that stood out in the quantitative analyses: Germany and the UK in particular are attractive options for further pursuit. Regarding Germany, the country boasts a well-educated consumer base with a high GDP per capita. Additionally, the country has a highly developed and sophisticated luxury market, one that is able to support niche and boutique fashion brands (Luan et. al, 2019); therefore, Germany presents as an attractive potential market for Mipaku. Likewise, the UK has a high GDP per capita, an educated consumer base, and a highly developed luxury fashion market. Moreover, due to the UK's geographical location, the weather is generally cold with an average temperature of 10 degrees Celsius ("Climate and average monthly weather in London (Buckinghamshire), United Kingdom", 2019) which means that UK residents wear warm clothes for several months of the year. Finally, both countries have trade agreements in place with Peru and strong previously established relationships. Accordingly, they are among the top alternatives. In Table 10 a summary of the options considered in the first screening for a further quantitative analysis are presented. In the quantitative analysis, the French, Norwegian, Swedish, Canadian and Swiss markets were left out. In the qualitative analysis, out of the four markets analyzed, China was left out due to the reasons summarized in table 10.

Table 10

Summary of Alternative to solve the problem

Country		Quantitative Score (%)	Comply with quantitative criteria?	Comply with qualitative criteria?	Reasons
China		22	Yes	No	Luxury market has yet to develop the sophistication necessary to sustain demand for niche or boutique brands Largest well stablished brands dominates the luxury segments Not receptive to fair trade Language constrains and high geographic distance.
US		17	Yes	Yes	Biggest alpaca importer from Peru Exporting to the U.S. would be faster, cheaper and logistically easier in comparison to China and Europe World's most developed countries Receptive to fair trade
European Union	Germany	11	Yes	Yes	Strongest economy in the EU Biggest importer of alpaca apparel in the EU Well-educated consumer base with a high GDP per capita Receptive to fair trade
	UK	10	Yes	Yes	Highly developed luxury fashion market Second biggest importer of alpaca apparel from developing countries Favorable weather conditions for warm clothes.
	France	8	no	-	Not analyzed - It does not meet quantitative criteria
	Norway	6	no	-	Not analyzed - It does not meet quantitative criteria
	Sweden	6	no	-	Not analyzed - It does not meet quantitative criteria
	Canada	6	no	-	Not analyzed - It does not meet quantitative criteria
	Switzerland	4	no	-	Not analyzed - It does not meet quantitative criteria

Note: Adapted from "China Luxury Report" by Luan et al, 2019 (https://www.mckinsey.com/~/media/mckinsey/featured%20insights/china/how%20young%20chinese%20consumers%20are%20reshaping%20global%20luxury/mckinsey-china-luxury-report-2019-how-young-chinese-consumers-are-reshaping-global-luxury.ashx. Adapted from "Observatory of Economic Complex" by OEC, 2019 (https://atlas.media.mit.edu/en/profile/country/per/) Adapted from "CBI Product Factsheet Alpaca Products in Europe" by Ministry of Foreign Affairs, 2016. Adapted "Motivations of luxury clothing consumption in the U.S. vs. china. Journal of International Consumer Marketing" by from Yu & Sapp, 2019 (doi:10.1080/08961530.2018.1480446)

6.3. Proposed Solution

6.3.1. Identified Markets for Development

Based on the selection criteria identified in chapter three, the framework developed in chapter four, and the analysis performed in chapter six of this report, several markets have been identified as viable candidates for pursuit. Based upon our criteria, the United States, Germany and the United Kingdom have been identified as the best markets for further pursuit. The reasons underlying these recommendations will be explored in greater depth in the following chapter.

The United States. The quantitative and qualitative analysis performed here suggests that the United States is the largest potential market for Mipaku to pursue. In particular, the United States' high GDP per capita, past trade activity with Peru, and previous import volumes of Peruvian alpaca-based textiles indicate the country is an attractive market for Mipaku. Additionally, geographically and culturally speaking the United States is closer to Peru than the other markets examined. Finally, Mipaku currently conducts business in the United States, albeit very little, meaning that the company already knows how to get their products into the country.

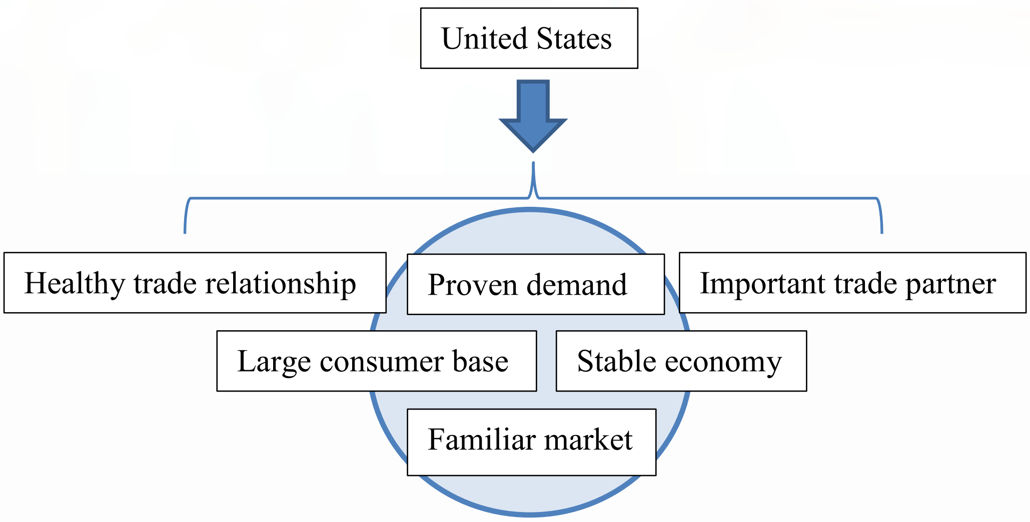

Figure 17. United States market factors.

Germany. Of the countries assessed in chapter six Germany stood out as a potential candidate for further consideration. Specifically, Germany is a good potential market for Mipaku because: first, Germany has a relatively high GDP per capita and a large population, indicating that the country has a large potential consumer base (IMF, 2019c; IMF, 2019d); secondly, Germany is currently among the top importers in Europe in terms of both raw alpaca fibers and garments, indicating that there exists demand in the country for Mipaku's products (Promperu, 2018; Ministerio de Comercio Exterior y Turismo, 2018); third, within the European market Germany has comparatively high textile and clothing import volumes from Peru, indicating that there exists demand in Germany for Peruvian clothing and textiles (WITS, 2019b); fourthly, German demand for Peruvian textiles and clothing has grown steadily over the past ten years, indicating the two countries have a well-established and stable trade relationship (WITS, 2019a; WITS, 2019b); and finally, Germany is currently Peru's most important export partner in Europe for finished garments (Promperu, 2018). Taken together, these factors suggest Germany is a good market for Mipaku to pursue further. Furthermore, Germany is an interesting choice as Mipaku already has sales and presumably contacts in the country (albeit very little).

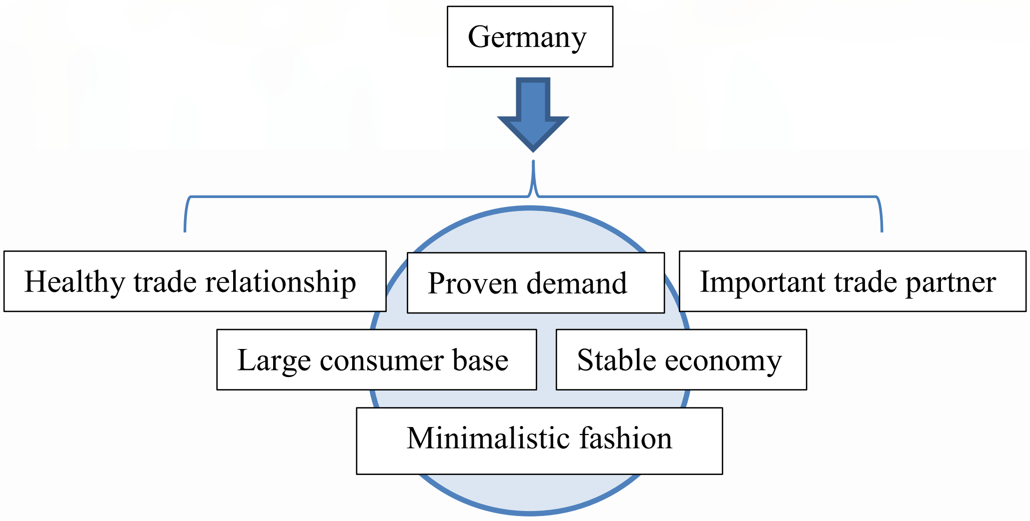

Figure 18. Germany market factors.

The United Kingdom. The third market identified here for further pursuit is the United Kingdom. In particular, the country stood out as good fit for Mipaku because it boasts a high GDP per capita, previous textile trade with Peru, and, more specifically, previous alpaca wool imports led to the United Kingdom being selected. Interestingly, in the qualitative analysis it was found that the United Kingdom has a relatively well-developed 'fair trade' boutique fashion market.

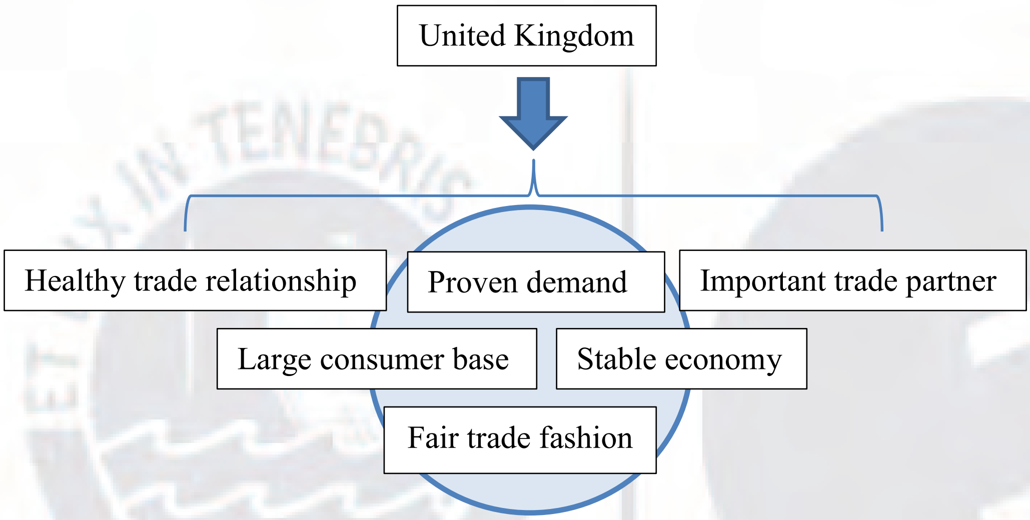

Figure 19. United Kingdom market factors.

Chapter VII: Implementation

7.1. Implementation

In the preceding chapters of this report several different modes of market selection were discussed and an integrated model was developed in accordance with previous literature on the topic. This model was consequently used to evaluate the potential fit of several different markets. Explicitly, the model identified that the United States, China, and Germany are the top three potential markets for Mipaku to pursue further. However, when considered alongside additional qualitative research, it was concluded that at this time, Mipaku is not suitable for the Chinese market give the company's size and lack of brand recognition. Accordingly, the top three markets for Mipaku are: (a) the United States; (b) Germany; and (c) the United Kingdom. Having identified several suitable markets for Mipaku, the logical (and necessary) next step is to detail the means through which Mipaku can access said markets, i.e. generate sales. The different modes of market entry will be explained in the following chapter.

Typically, Peruvian businesses specialized in the manufacture and sales of alpaca based textiles have followed one of four general approaches to selling their goods in foreign markets: (a) they work with several intermediaries usually including an agent and/or network of retailers to get their products abroad, (b) they work with an importer and/or distributor, (c) they directly sell their products to foreign boutiques and/or department stores, and (d) they sell directly to the end customer via their own store (Ministerio de Comercio Exterior y Turismo, 2016). In the early stages of the consultancy, Mipaku expressed to the consulting team that they wished to sell directly to the end customer via an online store and social media. That is, Mipaku wanted to pursue a business-to-customer (B2C) strategy. However, after much discussion it was concluded that at this stage in the company's development it would be significantly easier and more effective to work with an intermediary (or several) and pursue a business-to-business (B2B) strategy. Accordingly, aspects of strategies (2) and (3) will be developed further in this chapter.

In terms of strategy (2), a list of relevant trade shows will be provided, as such events serve as excellent means of meeting distributors as well as networking more generally. In terms of (3), a list of individual boutiques that Mipaku can contact will be offered. Ultimately, the purpose of the following chapter is to provide Mipaku with the information they need to generate new sales and grow their business.

7.1.1. The United States

Legal requirements. In order to export to the US market, a series of legal requirements must be met. On top of that and foremost important for Mipaku is garments labeling. The U.S. Customs and Border Protection (2019) states that apparel must have labels specifying content and instructions for care. In other words, All textiles must have either label indicating the country of origin or, if this is not feasible, (yarn, thread, wool) be packaged in such a way that country of origin is discernable to the ultimate purchaser. Moreover, there is documentation requirements that Mipaku will have to comply with such as transportation documents, export compliance documents, certificates of origin, certificates for shipments of specific goods, temporary shipment documents, and other export-related documents (Free Trade Agreements [OTEXA], 2019).

Prices for Alpaca garments in the US. After the margins are added in the value chain and include taxation, on average the prices of common garments can range from USD 80 to more than USD 1 000 per garment (MINCETUR, 2018). However, it is important to distinguish between two comparisons, one for alpaca fiber garments made in the United States and the other for those that are imported and mainly from Peru and sold under various brands both online and in stores. Table 11 shows prices of US alpaca apparel made in the US, whereas Table 12 Shows products made in other countries, including Peruvian companies.

Table 11

Price of Alpaca Garments Made in the US

Company	Product	Price (US$)
Island Alpaca - Martha's Vineyard	Alpaca Mix Scarf	25
	Scarf in Alpaca "Riccio"	34
	Reversible scarf in Alpaca	39
	Neck / band in Baby Alpaca.	49
	100% Baby Alpaca hair scarf	79-89
	Alpaca Diamond-Leaf Shawl	159
	100% Alpaca Diamond Scarf	69
	Hand crochet shawl	79
	100% Alpaca Herringbone scarf	62
	100% Alpaca Infinity Scarf	62.5
	100% Alpaca Handmade Scarf	39
Alpaca Nation	Alpaca Afghan-Cable Blanket	249
	100% Alapaca Baby Blanket	169
	Alpaca Frazada baby	159
	King & Queen size Blankets	198
	Signature Alpaca Frazada	475

Note. Adapted from *Perfil de Prendas de Alpaca del Mercado de Estados Unidos* (p.43) by Ministerio de Comercio Exterior y Turismo [MINCETUR], 2018, Peru.

Table 12

Price of Alpaca Garments Made Outside the US

Company	Product	Price (US$)
Peruvian connection	Sweater coat 100% Baby Alpaca	698
	70% Baby Alpaca 30% Wool Vest Jacquard fabric	325
Alpaca Collection Kuna	Long vest in intarsia handmade	450
	100% Baby Alpaca Sweater	219
	100% Baby alpaca Cardigan	225
Anthropology	Alpaca, wool and nylon poncho with	248
	Sweater in Alpaca, nylon and wool	198
Stella McCartney	50% alpaca 50% wool sweater made in Italy	750
Novica	Inca Maze Asymmetric Poncho from Peru	41
	Alpaca & Cotton blend sweater	68
	Peru Sweater Cardigan Evening Mirage	44
	Earth Crack Asymmetric Poncho from Peru	46
	Navy Long Sleeve Alpaca Cardigan Waterfall dream	46
	54 Lady of the flowers, 100% Alpaca	230
	100% Liquorice alpaca skirt	136
	Valley of the flowers 100% Baby alpaca	220

Note. Adapted from *Perfil de Prendas de Alpaca del Mercado de Estados Unidos* (p.45) by Ministerio de Comercio Exterior y Turismo [MINCETUR], 2018, Peru.

Product classification. The US market requires that any product that is imported is classified according to Harmonized system (HS). Table 13 shows the different codes that Mipaku will have to use when exporting its garments.

Table 13

Harmonized system (HS) Codes and Tariffs for Alpaca Garments in the US

HS	Description
5109.10.00.00	Wool or fine hair yarn for retail sale with a content> = 85% by weight
5109.90.00.00	Other wool or fine-hair yarn put up for retail sale
6110.19.10.90	Other sweaters (sweaters), of wool or of fine hair; except for the gooseneck (sous pull, turtle neck).
6102.10.00.00	Coats, jackets, capes and similar knitted items, for women or girls, of wool or fine hair
6110.19.30.00	Cardigans of other fine hairs
6115.94.00.00	Other, socks and other articles of wool or fine hair hosiery
6202.11.00.00	Coats, raincoats, coats, coats and similar items, for women or girls, of wool or fine hair
6214.20.00.00	Shawls, neck scarves, scarves, mantillas, veils and similar items, of fine opelo wool
5108.20.00.00	Unfinished combed fine hair yarn for retail sale
4303.90.10.00	Alpaca leather goods
6110.19.90.90	Other sweaters (pullovers), pullovers, cardigans, vests and similar articles, knitted, of wool or of fine hair; except for the gooseneck (sous pull, turtle neck).
6111.90.10.00	Knitwear and clothing accessories for babies, wool or fine hair
6104.41.00.00	Knitted dresses for women or girls, made of wool or fine hair
6204.31.00.00	Jackets (bags), for women or girls, of wool or fine hair

Note. Adapted from *Perfil de Prendas de Alpaca del Mercado de Estados Unidos* (p.15-16) by Ministerio de Comercio Exterior y Turismo [MINCETUR], 2018, Peru.

Trade shows in the US. The United States is among the top potential markets for Mipaku to further pursue. Given that Peru and the United States currently have a free trade agreement in place (the United States–Peru Trade Promotion Agreement) the most difficult aspect of expanding in the United States for Mipaku will be generating new sales. As mentioned, there are several different means by which a company can increase their sales. One important channel via which small fashion companies such as Mipaku can capture new sales is by attending or exhibiting at trade shows. Table 14 provides an overview including location, dates, and contact information of several of the most relevant trade shows for Mipaku in the United States.

Table 14

Relevant Trade Shows USA

Name	Location	Date	E-mail
POOLTRADESHOW	New York	Sep.	cs@ubmfashion.com
FAME	New York	Sep.	cs@ubmfashion.com
MODA	New York	Sep.	cs@ubmfashion.com
NY Women’s	New York	Sep.	cs@ubmfashion.com
Sourcing@Coterie	New York	Sep.	cs@ubmfashion.com
Coterie	New York	Sep.	cs@ubmfashion.com
NY Now	New York	Aug.	NYNOW@experient-inc.com
DG Expo	Chicago	Aug.	info@dgexpo.net

Note. Adapted from *Perfil de Prendas de Alpaca del Mercado de Estados Unidos* (p.71-74) by Ministerio de Comercio Exterior y Turismo [MINCETUR], 2016, Peru.

*Pooltradeshow***.** Is widely considered as the best show for emerging apparel and accessory brands looking for retail customers, thus it is good fit for Mipaku. FAME is full of fresh trends and is a shopping destination for retailers looking for contemporary fashion for trend-oriented women. MODA is a luxury event that provides a concise blend of modern, contemporary ready-to-wear collections featuring some of the most sought-after names in fashion. NY Women's is a high fashion showcase with the most sought-after brands in women's clothing, footwear and accessories. Sourcing@Coterie is an exclusive sourcing event connecting the most influential luxury brands and designers to a selection of specialized manufacturers at low minimums and high-quality production. Coterie is the premier global event connecting designers of women's apparel, accessories and footwear with the international who's who of retailers. NY Now Artisan Resource connects US-based importers with international producers and exporters. Artisan Resource exhibitors have experience in meeting export demands and are selected by their commitment to design innovation, cultural preservation, social enterprise and sustainability. DG Expo is a great place for small cottage industries to display their unique textile and yarn collections, it brings together textile and fashion designers who unique raw materials creations from different parts of the world.

In addition to attending trade shows small niche fashion designers can increase their sales by marketing and selling their products directly to small boutiques. Table 15 provides a list of American boutiques specialized in international, artisan and socially conscious fashion. It is recommended that Mipaku directly contact these businesses.

Table 15

Relevant Boutiques USA

Name	Location	E-mail
Momentum (Fair Trade Winds)	Colorado	Contact via site
Grassroots	Alaska	store@grassrootsfairtrade.com
Made by Hand	Delaware	madebyhand2@yahoo.com
Hands Around the World	Iowa	hands@orangecitycomm.net
Adored Boutique	Michigan	Contact via site
Divas Fair Trade	Minnesota	guisela@divasfairtrade.org
Aizada Imports	Montana	thetravellerstree@yahoo.com
Given: Cause Conscious Goods	South Carolina	shopgiven@gmail.com
KeyNorth Boutique	Minnesota	sales@keynorthboutique.com
She's Interantional Boutique	Virginia	shop@roanokeboutique.com

Note. All information retrieved from company websites.

7.1.2. Germany

Legal requirements. In order to export to the European Union from developing countries like Peru, exporters must comply with a series of formalities, procedures, safety inspection, labeling, etc. According to CBI Ministry of Foreign Affairs (2016), for textiles, particularly for clothing garments sent to the EU market, the following directives and/or regulations must be met: (a) The General Product Safety Directive which applies to all consumer products marketed in Europe, (b) The majority of restrictions on chemicals, known as REACH, listed in the EU legislation on chemicals, (Regulation (EC) 1907/2006); Azo dyes are frequently used in the tinting process for textile products. However, Certain azo dyes are carcinogenic and illegal for use in consumer products in Europe; (c) Name, composition and labelling of textile products. Any textile product composed of two or more components with different compositions must bear a label stating the fiber content of each component. For alpaca the name ‘alpaca’ is used, possibly followed by the word ‘wool’ or ‘hair’; (d) Flame retardants. They are restricted in textile products that will be in contact with the skin. (e) European legislation: Liability for defective products: In theory, your European buyer can be held responsible for damage caused by defects in exporter’s products. Because buyers can pass claims to them, however, European legislation on product liability is also of relevance to exporters from developing countries (Directive 85/374/EC).

Table 16

Main Laws and Standards for Textiles in the EU

Regulatory institution	Law, Standard or Regulation Name	Publication date
European parliament council	General Product Safety Directive - GPSD	December 2001
European parliament council	Registering chemicals - REACH	December 2006
European parliament council	Textile fiber names and related labelling and marking of the fiber composition of textile products	September 2011
European parliament council	Criteria for granting the label EU ecological to textile products	June 2014

Retrieved from *Perfil Producto Mercado: Mantas de Lana o Pelo Fino en Alemania* (p.1) by Promperú, 2015

Regarding labelling and packaging. The principal information on the product and packing labels of alpaca clothing products is origin, composition, care, labelling and size. Packaging usually consists of plastic wrapping to protect the fabric from humidity. Besides the product labeling, Mipaku must correctly label the products for transportation. Normally the labelling includes information on the producer, consignee, composition of the product and the size of the product, number of pieces, bale/box identification and total number of bales/boxes, and net and gross weight. (CBI Ministry of Foreign Affairs, 2016). Figure 20 shows as example on how to label a piece of alpaca garments.

Figure 20. Example of alpaca garment label
Retrieved from *CBI Product Factsheet: Alpaca Products in Europe* (p.3) by Ministry of Foreign Affairs, 2016, the Netherlands

Product classification. The European union through its customs union, requires that any product that is imported to any of its members states, should be classified according to Harmonized system (HS). Table 17 shows the different codes that Mipaku will have to use when exporting its garments. Besides, the table also provides the import tariffs for Peru as well as for any third country.

As it can be seen in table 17. the preferential tariff between Peru and the European Union gives a competitive advantage to Peruvian alpaca apparel exporters such as Mipaku, as the EU import duties tariff for the garments is 0%. In contrast, other countries that do not have a formal agreement may pay a tariff of 12%. The European union law that regulates this tariff preference is the EU law D1207350 between the European Union and its Member States, of the one part, and Colombia and Peru, of the other part, this law entered into force in 2013.

Table 17

Harmonized System (HS) Codes and Tariffs for Alpaca Garments in the EU

Harmonised System (HS)	Product description	EU Import duties	
		Peru (%)	Third country (%)
610331	Men's or boys' jackets and blazers, knitted or crocheted of wool or fine animal hair	0	12
610341	Men's or boys' trousers, bib and brace overalls, breeches and shorts knitted or crocheted of wool or fine animal hair	0	12
610431	Women's or girls' jackets and blazers of wool or fine animal hair	0	12
610441	Women's or girls' dresses of wool or fine animal hair	0	12
610461	Women's or girls' trousers, bib and brace overalls, breeches and shorts of wool or fine animal hair	0	12
611000	Jerseys, pullovers, cardigans, waistcoats and similar articles, knitted or crocheted of wool or fine animal hair	0	12
611110	Babies' Garments and Accessories, of Wool, Knitted or Crocheted	0	12
611300	Garments, knitted Or Crocheted	0	12
611591	Stockings, Socks, of Wool or Fine Animal Hair, Knitted or Crocheted	0	12
611691	Gloves, Mittens, Mitts, of Wool or Fine Animal Hair, Knitted or Crocheted	0	12
611710	Shawls, Scarves, Mufflers, Mantillas, Veils, knitted Or Crocheted	0	12
611594	Panty hose, tights, stockings, socks and other hosiery, including graduated compression hosiery (for example, stockings for varicose veins) and footwear without applied soles, knitted or crocheted of wool or fine animal hair	0	12
611691	Gloves, mittens and mitts, knitted or crocheted of wool or fine animal hair	0	12
611710	Shawls, scarves, mufflers, mantillas, veils and the like	0	12
51021930	textile articles of alpaca, llama or vicuna	0	0

Retrieved from *CBI Product Factsheet: Alpaca Products in Europe* (p.4) by CBI Ministry of Foreign Affairs, 2016, the Netherlands. Adapted from "EU Market access database: EU tariffs," by European Commission (https://madb.europa.eu/madb/euTariffs.htm?productCode=611594&country=PE)

Prices for Alpaca garments in Germany. After the margins are added in the value chain and include taxation, it can be estimated that the raw material cost is 5-6% of the product's selling Price. The production takes between 20 to 25 % of the selling price. The transport and export charges account for 10% to 15% if transported by sea, and between 18%

to 23% is transported by air. The value added tax standard in Germany is 19%. Finally, the retailer takes between 35% to 45% of the product selling price (CBI Ministry of Foreign Affairs, 2016).

Figure 21. Price composition for alpaca products in the European market
Retrieved from *CBI Product Factsheet: Alpaca Products in Europe* (p.10) by Ministry of Foreign Affairs, 2016, the Netherlands.

Transportation and logistics. As seen in figure 21, transport and logistics takes a percentage of cost that means a great deal of the selling price. Table 18 shows the means of transportation by sea available between Peru – Callao seaport and Europe – Germany or nearby seaports including average fare for transportation, and table 19 shows the shipping lines that provide this service.

Table 18

Sea Distribution Channels Peru – Germany

Departure port (Peru)	Arrival port	Average fare for container (in US$)		Cons. Merchandise - US$ for (Tm/m³)
		20 feets	40 feets	
Callao	Hamburg (Germany)	2,280	2,490	80
Callao	Bremerhaven (Germany)	1,635	1,921	112
Callao	Le Havre (Francia)	1,500	2,300	55
Callao	Rotterdam (Países Bajos (Holanda))	1,500	1,738	65
Callao	Hamburgo (Alemania)	2,280	2,490	80
Callao	Amberes (Bélgica)	1,555	2,017	64
Callao	San Petersburgo (Federación Rusa)	1,900	2,900	94
Callao	Tilbury (Reino Unido)	2,100	2,800	70
Callao	Bremerhaven (Alemania)	1,635	1,921	112

Retrieved from “SIICEX: Simulador de Rutas Maritimas,” by Promperu, 2019 (http://rutasmaritimas.promperu.gob.pe/home)

Table 19

Sea Shipping lines Peru - Germany

Departure port	Arrival port	Shipping line	Deposit	leading time	Departure frequency
Callao	Hamburg	CMA CGM	UNIMAR	25	Weekly
Callao	Hamburg	MAERSK LINE	ALCONSA	24	Weekly
Callao	Hamburg	MOL	NEPTUNIA	25	Weekly
Callao	Hamburg	Hamburg Sud	LICSA	24	Weekly
Callao	Hamburg	CCNI	IMUPESA	25	Weekly
Callao	Bremerhaven	MAERSK LINE	ALCONSA	28	Weekly
Callao	Bremerhaven	HAPAG LLOYD	DPWORLD	28	Weekly
Callao	Bremerhaven	MSC	DEMARES	29	Weekly

Retrieved from "SIICEX: Simulador de Rutas Maritimas," by Promperu, 2019 (http://rutasmaritimas.promperu.gob.pe/empresa?pruta=63)

Although, shipping lines are significantly cheaper that air freight, there are two main disadvantages. First, it takes almost one month for shipping; and secondly, the shipping lines require exporters to fill one container, which Mipaku is currently unlikely to complete. Therefore, the best means of transportation for Mipaku's luxurious products is shipping by air. Table 20 shows the air distribution channels available between Peru and Germany. Table 21 shows the air shipping companies with its average cost for shipping.

Table 20

Air Distribution Channels Peru - Germany

Departure Airport	Leading time	Arrival Airport
Lima - Jorge Chavez	12.3 hours	Dusseldorf
Lima - Jorge Chavez	12.4 hours	Frankfurt / Main
Lima - Jorge Chavez	12.8 hours	Berlín

Retrieved from *Perfil Producto Mercado: Mantas de Lana o Pelo Fino en Alemania* (p.3) by Promperú, 2015

Table 21

Air Shipping cost Peru - Germany

Cargo Airline	Units	Shipping costs (approximately)
KLM Cargo	214 piezas / 278 Kg.	US$ 2 483 – US$ 2 744
United Airlines	100 piezas / 51 Kg	US$ 441 – US$ 488
KLM Cargo	50 piezas / 25,2 Kg.	US$ 218 – US$ 241

Retrieved from *Perfil Producto Mercado: Mantas de Lana o Pelo Fino en Alemania* (p.3) by Promperú, 2015

Target market. Mipaku's products are aimed for the medium to higher end of the market, in other words, alpaca garments products can be classified as luxurious items. Table 22 shows the market segmentation as well as the product and fashion criteria in these segments and finally the main competitors that supply with similar products with which Mipaku will have to get a market share.

Table 22

Segments, Competitors and Fashion Criteria in Europe

Market Segment	Product criteria	Brand names	Fashion criteria
High price luxury segment Market share 5%	Limited collections, made with special care; sometimes hand-made; high quality materials; designers/brand name stand for exclusivity and fashionable	Dolce&Gabbana, Prada, Giorgio Armani, Donna Karan	High fashionable collections Exclusively designed materials and artworks Trend setting
Upper middle price segment Market share 15%	Collections are produced after presale; extra attention to fitting and accessories Brand-name goods, good quality materials, good range of design	Max Mara, Hugo Boss, Blumarine, Marni, Strenesse, Marc Cain	Large variety of styles and materials Styles and fitting are vitally important Product in line with the latest fashion trends
Middle price segment Market share 30%	Collections are produced after presale; good to medium quality materials; trend-following or classical assortment; brand-name goods	French Connection, Inwear, Benetton, St. Oliver, Esprit, Mexx, Jackpot	Good fitting is important Recognisable by brand-name Visible on the outside
Middle to Low price segment Market share 40%	Produced in large quantities to lower the price; basic styles; few changes to patterns; basic fitting; Medium quality material, less fashionable	Private labels: C&A, Promod, WE, Marks & Spencer, HEMA, Etam, Vögele, Hennes & Mauritz, Zara, Mango, Topshop	Collections with a view to the current fashion high fashionable, close to trends

Retrieved from *CBI Product Factsheet: Alpaca Products in Europe* (p.10) by Ministry of Foreign Affairs, 2016, the Netherlands

Trade shows Germany. Like the previously discussed United States, trade show attendance is a good means of developing clients in the German market. Table 23 includes basic information on several of the largest and most reputable trade shows in Germany. Innatex, the only natural textiles fair in the world, is in particular, an interesting show for Mipaku to consider attending.

Table 23

Relevant Trade Shows Germany

Name	Location	Date	E-mail
Panorama	Berlin	Jan.	office@panorama-berlin.com
Innatex	Frankfurt	Jan.	hitzel@muveo.de
Seek	Berlin	Jan.	info@seekexhibitions.com

Note. All information obtained from trade show websites.

7.1.3. The United Kingdom

The United Kingdom also presents Mipaku with an opportunity to increase its sales. However, as with the United States and Germany, exactly how the company will gain new sales in the market is uncertain. Attending or exhibiting at trade shows presents Mipaku with an opportunity to network and/or present their products to a wide variety of potential clients. Table 24 outlines the relevant information on two of the major fairs in the UK market.

Table 24

Relevant Trade Shows UK

Name	Location	Date	E-mail
PURE London	London	Feb.	exhibitor@purelondon.com
MODA	Birmingham	Feb.	modasupport@ite-exhibitions.com

Note. All information obtained from trade show websites.

Table 25 provides a list of small English boutiques specialized in international, artisan and socially conscious fashion. Notably, of the three markets examined the United Kingdom appears to have a considerably large concentration of boutiques emphasizing fair trade practices. This makes the market particularly interesting for businesses that practice fair trade, such as Mipaku.

Table 25

Relevant Boutiques UK

Name	Location	E-mail
FAIR	Brighton, England	info@thefairshop.co.uk
Thekeepboutique	London, UK	shop@thekeepboutique.com
Birdsong	N/A	support@birdsong.london
Lowie	London, UK	boutique@ilovelowie.com
Wolf&Badger	London, UK	support@wolfandbadger.com
69b Boutique	London, UK	hello@69bBoutique.com
AIDA	London, UK	aida@aidashoreditch.co.uk
Klow	N/A	info@klow.co
The Third Estate	London, UK	shop@thethirdestate.co.uk

Note. All information obtained from company sites.

7.2. Strategy and Timeline

The implementation strategy recommended by the consultancy team involves engaging in several 'extracurricular' activities as well as slightly altering certain existing processes. The slight alterations are as follows: first, Mipaku should ensure that the products and pricing on its website are up to date, which they are currently not; second, because Mipaku wishes to chiefly sell its products abroad the company needs to ensure that the English on its website is grammatically correct, which it is currently not; third, it is recommended that the company utilize the free version of Google analytics in order to gain a better understanding of who is visiting the site and from where; and fourth, Mipaku needs to organize its internal financial documents so that all information is readily accessible and its cost structure absolutely transparent. The 'extracurricular' activities are solely meant to help Mipaku generate new sales. First, it is recommended that Mipaku take the time to draft a generic professional 'sales-pitch' in multiple languages (Spanish, English, and German) showcasing the quality of its goods and its commitment to fair trade. Further, it is recommended that Mipaku strategically attend trade shows outside Peru as a means of marketing their product abroad, networking and gaining new clients. Finally, Mipaku needs to engage in to remain responsive to the market: Mipaku needs to actively gather feedback from customers on their goods and use this information to continually improve upon the design of their clothing. Figure 22 outlines the timeline over which these activities will occur

Task	Resources in Charge	October 2019				November 2019				December 2019				January 2020				February 2020				March 2020			
		W_1	W_2	W_3	W_4	W_5	W_6	W_7	W_8	W_9	W_{10}	W_{11}	W_{12}	W_{13}	W_{14}	W_{15}	W_{16}	W_{17}	W_{18}	W_{19}	W_{20}	W_{21}	W_{22}	W_{23}	W_{24}
Update Website	External Company	■	■	■									■									■			
Correct English on Website	General Manager	■	■																						
Set-up Google Analytics	General Manager	■	■	■	■	■	■																		
United States																									
Draft Sales Email (English)	Administrative assistant, External Translator						■	■	■	■										■	■				
Contact Distributors	Administrative assistant, External Translator									■	■	■	■								■	■	■		
Contact Boutiques	Administrative assistant, External Translator									■	■	■	■	■							■	■	■		
Apply to Fairs	General Manager, Operation Manager, Design Manager																	■	■	■	■	■	■	■	■
Germany																									
Draft Sales Email (German)	Administrative assistant, External Translator						■	■	■	■										■	■				
Contact Distributors	Administrative assistant, External Translator									■	■	■	■								■	■	■		
Contact Boutiques	Administrative assistant, External Translator									■	■	■	■	■							■	■	■		
Apply to Fairs	General Manager, Operation Manager, Design Manager																	■	■	■	■	■	■	■	■
United Kingdom																									
Draft Sales Email (English)	Administrative assistant, External Translator						■	■	■	■										■	■				
Contact Distributors	Administrative assistant, External Translator									■	■	■	■								■	■	■		
Contact Boutiques	Administrative assistant, External Translator									■	■	■	■	■							■	■	■		
Apply to Fairs	General Manager, Operation Manager, Design Manager																	■	■	■	■	■	■	■	■
Ongoing																									
Gather Customer Feedback	General Manager, Operation Manager, Design Manager	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Product Design	Design Manager	■	■	■	■				■	■	■	■	■	■				■	■	■	■	■	■	■	■
Organize Financial Documents	General Manager, External accountant			■	■			■	■			■	■			■	■			■	■			■	■

Figure 22. Gantt chart

7.3. Key Success Factors

7.3.1. Enablers

Enablers are aspects of Mipaku's business that will help them when implementing the strategies outlined above. Several factors that can be considered as enablers for Mipaku include: the company's strong relationship with their alpaca wool suppliers; the company's commitment to fair trade, which, alongside producing positive social consequences, serves as an excellent marketing point; Mipaku's ability to quickly fulfill low quantity orders without compromising on quality; the strong design and overall presentation of Mipaku's products; the high commitment of Mipaku's owners and staff; and finally, Mipaku's responsiveness and commitment to satisfying their customers' needs and wants.

7.3.2. Risks

Risks are aspects of the company that could result in the plan failing and potentially harm Mipaku. The major risks internal to Mipaku include: the company lacks any strong English speakers, which makes it difficult to communicate with foreign buyers; the company lacks any employees with a good understanding of foreign markets; because of the small size of the business and the owners other commitments, the company lacks time, which is necessary for successful implementation; the company lacks employees with a background in finance and/or accounting, which has resulted in internal disorganization regarding financial data; and finally, the company has limited working capital, which makes trade show attendance difficult, as trade shows are expensive to attend.

Chapter VIII: Expected Outcomes

Once Mipaku has successfully implemented its internationalization strategy and is offering its fashionable alpaca garment to the United States, the United Kingdom and the German market, there are several outcomes that Mipaku should accomplish. By analyzing a market research report that looks into which European markets offer opportunities for apparel exporters, it was concluded that the German market, along with the UK market, are the most promising for promotion and positioning of imports from developing countries (CBI Ministry of Foreign Affairs, 2019). The German market demands an average of EU€15 billion, while the UK market demands EU€14 billion. Likewise, these countries have also had a stable market growth of 2% to 3% and the forecast is that this stable growth will continue in the coming years. A similar, or even more promising panorama, offers the United States market. According to the data from the Sistema Integrado de Informacion de Comercio exterior (2018), alpaca apparel, in particular trousers, sweaters, dresses and jackets, made over US$4.3 million of exports from Peru, which positions the U.S. market as a major importer of alpaca garments. The analysis carried out in the chapters above has made possible to outline several quantitative and qualitative outcomes.

8.1. Qualitative Outcomes

It is impossible to know with a 100% certainty if undertaking the activities outlined in the previous chapter will lead to an increase in sales for Mipaku. Yet, doing nothing guarantees that the company will not grow. Moreover, the qualitative and quantitative market analyses performed in Chapter six of this report suggest that the three markets identified for further pursuit, namely the United States, Germany, and the United Kingdom, present small niche designers like Mipaku an opportunity to gain market share, if only a little. In the case of Mipaku, even a little gain, such as one or two new clients, represents a significant accomplishment. Therefore, it is reasonable to believe that if Mipaku implements the plan outlined in Chapter seven of this report the company will increase its sales and, ultimately, grow as a brand. More specifically, it is expected that if Mipaku implements the recommended plan, the company will gradually build itself a distribution network of independent boutiques, gain financial independence from D'Peru Textil, and earn recognition as a brand.

There are, however, several risks involved in implementing the recommendations in Chapter seven. The largest risk pertains to the potential losses incurred when attending trade shows. Trade shows are expensive, and it is entirely possible that the expenses of exhibiting or attending may not be recouped. As Mipaku has little working capital this represents a major risk for the company. Moreover, Mipaku's growth may interfere with D'Peru Textil, which could result in a conflict of interest as D'Peru Textil is owned by the same people and is, at present, a much larger business. Finally, depending on the type of agreements Mipaku signs with its buyers, the company may be exposed to currency exchange risk in the form of delayed payments.

8.2. Quantitative Outcomes

A cost analysis through a cash flow was calculated to find the Net Actual Value (NAV) and the Internal Rate of Return (IRR), as there are several scenarios as a result of the implementation. In order to get an expected value, a Monte Carlo simulation was calculated. Monte Carlo simulations are used to model the probability of several outcomes in a process that cannot easily be predicted due to the intervention of random variables. This technique is used to understand the impact of risk and uncertainty when trying to develop predictions and forecasting models. This model can also be used to tackle a range of problems in virtually every field such as finance, engineering, supply chain, and science ("Monte Carlo Simulation", 2019). The starting point is to determine the plant capacity to make sure that the cash flow has realistic data. According to Mrs. Leyva (Personal communication, August 17) the plant capacity varies from 1200 to 1400 pieces of garments each month which makes a range of 14400 to 18000 each year. The variation depends on the complexity of the design, the product batches, and the knitting method. From this plant capacity, D'Peru textil consumes on average 70%, which leaves the remaining 30% capacity for Mipaku. This 30% capacity would be the maximum number of alpaca products that Mipaku can produce.

Table 26

D'Peru and Mipaku Plant Utilization

Description	Plant utilization	Average annual production (Units)
D'Peru Textiles	70%	10796
Mipaku	30%	4854

Note: The quantitates presented in this table varies due to Monte Carlo simulation

After having analyzed the potential markets and the current operations of D'Peru Textil and Mipaku, it was forecasted that in the first year (2020) Mipaku will utilize 15% of the total plant capacity left to Mipaku. In other words, the quantity of garment units sold by Mipaku in the three markets selected will be 15% of the total plant capacity. Table 27 shows the products and prices that Mipaku will offer, as well as its forecasted quantity sold in the first year.

Similarly, the market growth was analyzed, so that the following year (2021) Mipaku's market share will increase at a rate of the total alpaca apparel market growth rate. As mentioned previously, the market growth rate for Germany and the UK will be between 2% and 3%. Likewise, for the U.S., it was forecasted that the market will grow up to 6%. Table 28 shows the simulation of market growth since 2013 until 2025.

Table 27

Quantity of Products Sold in the First Year

Description	Price in US$ (Without VAT)	Quantity sold		Revenue in US$	
		Scenario 1	Scenario "n"	Scenario 1	Scenario "n"
Sweaters					
Fabiola Sweater	127.12	34.00	38.00	4,322.03	4,830.51
Fio Sweater	169.49	6.00	7.00	1,016.95	1,186.44
Gabriel Sweater	127.12	13.00	15.00	1,652.54	1,906.78
Karina Sweater	127.12	20.00	22.00	2,542.37	2,796.61
Macarena Sweater	101.69	6.00	7.00	610.17	711.86
Maita Sweater	135.59	34.00	38.00	4,610.17	5,152.54
Mapi Sweater	127.12	20.00	22.00	2,542.37	2,796.61
Maras Sweater	127.12	27.00	30.00	3,432.20	3,813.56
Mariane Sweater	101.69	13.00	15.00	1,322.03	1,525.42
Petra Sweater	127.12	41.00	45.00	5,211.86	5,720.34
Pia Sweater	194.92	6.00	7.00	1,169.49	1,364.41
Yenka Sweater	101.69	27.00	30.00	2,745.76	3,050.85
Ruana Kimono and Capes					
Astral Ruana	139.83	27.00	30.00	3,775.42	4,194.92
Eugenia Ruana	169.49	6.00	7.00	1,016.95	1,186.44
Florencia Kimono	127.12	20.00	22.00	2,542.37	2,796.61
Kipa Kimono	152.54	34.00	38.00	5,186.44	5,796.61
Jackets and Cardigans					
Clara Jacket	127.12	34.00	38.00	4,322.03	4,830.51
Flora Jacket	152.54	27.00	30.00	4,118.64	4,576.27
Kristen Jacket	144.07	20.00	22.00	2,881.36	3,169.49
Lisset new bolero	135.59	13.00	15.00	1,762.71	2,033.90
Martha Jacket	152.54	34.00	38.00	5,186.44	5,796.61
Merryn Jacket	423.73	6.00	7.00	2,542.37	2,966.10
Prisscila Cardigan	135.59	13.00	15.00	1,762.71	2,033.90
Rosita Jacket	144.07	20.00	22.00	2,881.36	3,169.49
Tania Cardigan	135.59	13.00	15.00	1,762.71	2,033.90
Veret new jacket	144.07	20.00	22.00	2,881.36	3,169.49
Zury Jacket	144.07	20.00	22.00	2,881.36	3,169.49
Coat and Ponchos					
Abigail Poncho	152.54	27.00	30.00	4,118.64	4,576.27
Daniela coat	186.44	34.00	38.00	6,338.98	7,084.75
Margaret Coat	169.49	34.00	38.00	5,762.71	6,440.68
Yessica Coat	152.54	20.00	22.00	3,050.85	3,355.93
Total		669.00	747.00	95,953.39	107,237.29

Note: the quantitates presented in this table varies due to Monte Carlo simulation

Table 28

Analysis of Market Growth

Year	Markets growth			Global Average	
	US (%)	Germany (%)	UK (%)	Average	Standard deviation
2013	3.04	2.99	2.33		
2014	5.07	2.68	2.03		
2015	2.49	2.71	2.42		
2016	1.15	2.50	2.65		
2017	3.66	2.03	2.39		
2018	1.49	2.57	2.72		
2019	2.98	2.06	2.63	2.87%	1.07%
2020	4.73	2.68	2.98		
2021	5.72	2.35	2.48		
2022	5.98	2.89	2.82		
2023	2.78	2.99	2.81		
2024	4.93	2.22	2.77		
2025	1.28	2.68	2.26		

Note: Adapted from “Which European markets offer opportunities for exporters of apparel?” by CBI Ministry of foreign affairs, 2019 (https://www.cbi.eu/market-information/apparel/which-european-markets-offer-opportunities-exporters-apparel/). Adapted form “Estados Unidos aumenta demanda de prendas de vestir peruanas en I cuatrimestre",by Andina Noticias, 2019 (https://andina.pe/agencia/noticia-estados-unidos-aumenta-demanda-prendas-vestir-peruanas-i-cuatrimestre-715100.aspx). Note: the quantitates presented in this table varies due to Monte Carlo simulation

The next step was to build a five-year cash flow sheet focusing on 2020 – 2025. This table will show the expected Net Actual Value of the initial investment and the Internal Rate of Return. To date, Mipaku has developed a cost structure for their products which is represented as a percentage of the total selling price. It is also important to mention that some administrative costs such as the management team, rents, and machinery usage are already a sunk cost. However, a current weakness of Mipaku is that the company is not able to access low interest rates on loans that leads to a decrease in profit.

Table 29

Mipaku's Future Cash Flow (Scenario 1)

Description	Year 2019	2020	2021	2022	2023	2024	2025
Growth rate		-	3.18%	1.50%	1.17%	2.99%	2.13%
Revenue		95,953.39	99,001.68	100,482.88	101,653.90	104,689.01	106,920.80
Row material & machinery renting cost (46%)		44,522.37	45,936.78	46,624.06	47,167.41	48,575.70	49,611.25
Labeling cost (1%)		563.25	581.14	589.83	596.71	614.52	627.63
Quality cost (1%)		1,026.70	1,059.32	1,075.17	1,087.70	1,120.17	1,144.05
Labor cost (24%)		23,028.81	23,760.40	24,115.89	24,396.94	25,125.36	25,660.99
Overhead cost (6%)		5,824.37	6,009.40	6,099.31	6,170.39	6,354.62	6,490.09
Financial cost (1%)		1,026.70	1,059.32	1,075.17	1,087.70	1,120.17	1,144.05
Custom cost (1%)		681.27	702.91	713.43	721.74	743.29	759.14
Profit before taxes		19,279.91	19,892.41	20,190.02	20,425.32	21,035.16	21,483.60
Taxes (30%)		5,783.97	5,967.72	6,057.01	6,127.60	6,310.55	6,445.08
Cash flow	(30,000.00)	13,495.94	13,924.68	14,133.02	14,297.72	14,724.61	15,038.52
Weighted Average Cost of capital (WACC)	23%						
ANV	14,018.38						
IRR	37%						

Note: the quantitates presented in this table varies due to Monte Carlo simulation

Table 30

Mipaku's Future Cash Flow (Scenario "n")

	Year						
Description	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
Growth rate		-	1.65%	3.79%	3.17%	2.93%	3.29%
Revenue		107,237.29	109,005.59	113,136.37	116,719.26	120,133.41	124,086.69
Row material & machinery renting cost (46%)		49,758.10	50,578.59	52,495.28	54,157.74	55,741.90	57,576.22
Labeling cost (1%)		629.48	639.86	664.11	685.14	705.18	728.39
Quality cost (1%)		1,147.44	1,166.36	1,210.56	1,248.90	1,285.43	1,327.73
Labor cost (24%)		25,736.95	26,161.34	27,152.73	28,012.62	28,832.02	29,780.80
Overhead cost (6%)		6,509.30	6,616.64	6,867.38	7,084.86	7,292.10	7,532.06
Financial cost (1%)		1,147.44	1,166.36	1,210.56	1,248.90	1,285.43	1,327.73
Custom cost (1%)		761.38	773.94	803.27	828.71	852.95	881.02
Profit before taxes		21,547.19	21,902.49	22,732.49	23,452.40	24,138.41	24,932.74
Taxes (30%)		6,464.16	6,570.75	6,819.75	7,035.72	7,241.52	7,479.82
Cash flow	(30,000.00)	15,083.03	15,331.75	15,912.74	16,416.68	16,896.88	17,452.92
Weighted Average Cost of capital (WACC)	22.6%						
ANV	19,648.46						
IRR	43%						

Note: the quantitates presented in this table varies due to Monte Carlo simulation

Table 31

Weighted Average Cost of Capital

Description	value	
Balance sheet		
Total liabilities (2018)	$	30,873.89
Total equity (2018)	$	36,635.91
Total investment	$	30,000.00
Debt Financing (33.3%)	$	10,000.00
Cost of debt (Rd)		21%
Equity finance	$	20,000.10
Return free of risk (Rf)		1.46%
Beta (β)		1.23
Beta leveraged (β_l)		1.96
Market expected return (Rm)		12.10%
Expected inflation (Rx)		2.50%
Country risk		1.67%
Tax		30%
Debt (D)	$	10,000.00
Equity (E)	$	20,000.10
CAPM (Re)		26.49%
WACC		22.60%

Note: Adapted from “United States Rates & Bonds,” by Blomberg (https://www.bloomberg.com/markets/rates-bonds/government-bonds/us) Adapted from “Industria Textil Piura SA,” by Infront Analytics, 2019 (https://www.infrontanalytics.com/fe-ES/30001LP/Industria-Textil-Piura-S-A-/beta), Adapted from “Reporte inflacion junio 2019,” by Banco Central de Reservas del Peru, 2019, (Inflacion/2019/junio/reporte-de-inflacion-junio-2019.pd)

The weighted average cost of capital in table 31 was calculated in order to analyze the actual net value with the cost of opportunity of the owners if they would decide to invest in another business within the same industry. As a result of the Monte Carlo simulation, the consultancy team came up with the expected values, the standard deviation, the maximum and the minimum values of the Actual Net Value as well as the Internal Rate of Return.

Table 32

Expected Actual Net Value (ANV) and Internal Rate of Return (IIR)

Description	Actual Net Value (ANV)	Internal Rate of return (IIR)
Expect Value	US$17,569.79	40.89%
Standard deviation	US$3,236.48	3.94%
Max	US$25,270.59	49.42%
Min	US$11,324.18	32.99%

Note: the quantitates presented in this table varies due to Monte Carlo simulation

All in all, the result of the quantitative outcomes is quite promising to Mipaku since it has an expected ANV of roughly US$17,570 for the next five years. With a level of confidence (95%), it can be asserted that Mipaku will get at least a minimum ANV of US$7,000. However, this expected value depends heavily on the marketing strategy, and overall company performance.

8.3. Investment Plan

One of the major constraints for Mipaku is the lack of working capital, as well as restricted access to low interest rates in loans. As seen in the quantitative analysis, the interest rate for capital is 20%, which in turn, negatively affects the Net Actual Value a great deal. That is why the implementation process should be done with the minimum efficient amount. Firstly, Mipaku needs to prepare for internationalization, and therefore, needs to improve their website design and content. The most necessary improvement for their website is correcting the English grammar so that their customers view the brand as reliable and luxurious. The second step is to make use of the technology available, thus, during the first weeks of implementation the company should write a letter of presentation to the boutiques and to the contacts mentioned in chapter seven. Currently, due to the size of Mipaku, it is not recommendable to attend international fairs because they demand a high amount of investment. Instead, it is recommendable that Mipaku apply for 'stand in' participation to the mentioned fairs, which is much more cost effective.

Moreover, Mipaku should invest in working capital because the main strategy used is "make to order," also known as a pull strategy. This pull strategy leads to high inventories. Apart from that, the money collection takes considerable time. Usually in the alpaca textile industry it takes on average from 0 to 60 days after the delivery is done. Table 33 shows the investment plan for the implementation of the proposed solution.

Table 33

Investment Plan

Administrative cost	Number of months	Unit cost (US$)	Total cost (US$)
Improvement of Website	1.00	720.00	720.00
Hire/Outsource revision of English writing	4.00	200.00	800.00
Hire a partial time employee to contact distributors and boutiques	4.00	650.00	2,600.00
Office items	2.00	100.00	200.00
Sub Total			4,320.00
Application to a fair trade in the US	**Number of days**	**Unit cost (US$)**	**Total cost (US$)**
Paperwork for Visa	1.00	317.60	317.60
Flight Tickets	1.00	1,250.00	1,250.00
Accommodation (1 week)	7.00	124.00	868.00
Transportation	7.00	20.00	140.00
Sub total			2,575.60
Working Capital	**Number of Items**	**Unit cost (US$)**	**Total cost (US$)**
Raw material	200.00	59.80	11,960.00
Labor cost	200.00	31.77	6,354.40
Other expenses (Financial, administrative, etc)	200.00	11.70	2,340.00
Cash			2,450.00
Sub Total			23,104.40
Total (US$)			30,000.00

Note: The investment plan was validated with Mipaku's owner/manager.

Chapter IX: Conclusions & Recommendations

Lastly, the final chapter of the present consulting report will summarize the research and work performed which was key to properly propose a solution for the key problem encountered for Mipaku. It will also highlight the key learnings and takeaways that can be identified from this consulting process. Finally, in a later section of this chapter, concrete recommendations will be provided according to the analysis of the data collected plus the assessment of the internal and external environment from the company.

9.1. Conclusion

The purpose of this report was to select the top three most appropriate market for Mipaku to pursue. Firstly, it was analyzing Mipaku's current situation and the environment in which it operates. This process was done in order to determine Mipaku's competitive advantages, possible threats, the opportunities that Mipaku can take advantage of as well as the company strengths and weaknesses, from this analysis it is concluded that at present, Mipaku lacks significant sales and needs to expand its customer base in order to survive. For the company to grow, it needs to increase its sales in foreign markets, in particular, because Mipaku's products are too expensive for Peru and the Peruvian market is already saturated. Thus, the purpose of this report was to provide Mipaku with (a) information regarding which markets to pursue further; and (b) a set of recommendations on how to do so.

The first pre-selection criteria that was used to assess the countries with potential for Mipaku included macro-economic indicators like those identified in the PESTEL analysis, also it was considered Mipaku owner's suggestions regarding willingness/easiness to do business with and their internationalization expectations, besides, it was considered the purchasing power and disposable income of potential markets; as well as other macroeconomic indicators such as political stability and country competitiveness; and finally Geographical, Cultural, Administrative, Economic distance. The results of the mentioned criteria gave the following countries: (a) Germany, (b) United Kingdom, (c) France, (d) Norway, (e) Sweden, (f) Switzerland, (g) the United States, (h) China and, (i) Canada as the potential markets for deeper quantitative analysis.

To come to a market selection, the starting point was to do a thorough research into the literature review which then led to develop both a quantitative and a qualitative analysis. In the quantitative analysis a series of indicators that included macroeconomic factors such as market size, market growth, commercial and political risk and trade agreements. Moreover, the quantitative analysis measured other factors that were relevant to Mipaku, such as Peruvian position in the textile industry, exports and market dynamism, and ever more specifically exports from Peru of items that are either finished alpaca garments, or total alpaca wool exports.

Once the double-entry table for quantitative analysis was completed, it was not only validated but also weighted by three experts in the industry and/or in international markets. The quantitative results gave China (22%), the US (17%), Germany (11%), as the winners. However, a subsequently qualitative analysis discarded China potential market because, first, China's luxury market has yet to develop the widespread sophistication necessary to sustain demand for truly niche or boutique brands that lacks recognition, second, Chinese's collectivist culture makes that bigger well-established brands control the largest market share in the luxury segment. Finally, China is not receptive at all to fair trade practices and environmental awareness. Therefore, the next market in line for selection was UK (10%), which after the qualitative analysis, it was reconfirmed as a potential market.

In the end, it is concluded that the US (17%), Germany (11%) and the UK (10%) are all equally suitable markets for Mipaku to enter, regardless of their end result scores. The primary reason for this is because cold-calling boutiques and other clients are deemed the most cost-effective and efficient means of securing sales. Furthermore, the probability of materializing a phone call into a sale is relatively low while Mipaku is still trying to build its brand recognition. Therefore, focusing only on one market is irrelevant because finalizing a sale in any of the top three markets could be challenging and would be significant for Mipaku. In addition, Mipaku's cost of doing business abroad is low as the company is not planning to establish physical facilities abroad at this point in time. Likewise, Mipaku has plant capacity to produce roughly 400 pieces of garments per month. Given this capacity, the consultancy team deduce that the company can handle orders from one, two, or all three markets at the same time because the likelihood of receiving orders totalling to more than 400 pieces is highly unlikely in this niche market. In addition, it should be noted that establishing a sale in any of the three markets would make a positive contribution to Mipaku's revenue and to focus on one market would be too narrow of a focus at this stage.

Finally, in the expected outcomes it is concluded that although Mipaku will invest US$30,000, there is a positive panorama for Mipaku to grow and make profits in the selected markets. According to the Monte Carlo simulation carried out, the net present value made by the company in next five years is in average US$17,569, likewise, the internal rate of return is on average 40%. It is important to mention that due to D'Peru textile, Mipaku has already sunk cost, such as administrative cost, rent cost of machinery and facilities that are currently allocated to the D'Peru textiles.

9.2. Recommendations

Finally, it is recommended that Mipaku engage in the following activities: first, the company needs to ensure its website is up to date; second, Mipaku needs to correct the language on the English version of its website; third, the company should set-up a free version of google analytics to monitor who is visiting their site; four, Mipaku should draft a kind of generic 'sales-pitch' for direct selling purposes in multiple languages, in particular English and German; fifth, the company needs to actively sell its product, including directly reaching out to boutiques and other potential buyers via email using the pitch drafted in step four; and sixth, the company should apply to attend relevant trade shows to network and find new clients. Noticeably, recommendations one through six are focused solely on generating new sales. In addition, it is recommended that the company actively gather customer feedback to continually refine their designs, and that Mipaku organize internal financial documents so that information is easily accessible and transparent.

If Mipaku chooses to carry out the implementation plan outlined in chapter seven of this report, it is expected that the company will improve its presence abroad and generate additional sales. This expectation is supported by both qualitative and quantitative analyses. To reiterate, it is necessary that Mipaku generate new sales in order to build and grow its brand; the recommendations provided in this report are intended to help the company do so.

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Appendices

Table A1

Cost Sheet for Producing a Piece of Garment (Yamila Coat)

Raw material	Qty	3%	V/unit. (US$)	Price (US$)	% Part.
100% Baby Alpaca + MIX yarn	0.76 Kg	0.0228 Kg	53.85		
80% Bl-20% Silk yarn	0.76 Kg	0.0228 Kg	63.54		
AW yarn	0.76 Kg	0.0228 Kg	35.54		
70/30 bl / silk yarn	0.76 Kg	0.0228 Kg	74.31	58.17	
24/2 Cotton Yarn	0.76 Kg	0.0228 Kg	22.62		
Yarn 2/40, 100% Royal Alpaca	0.76 Kg	0.0228 Kg	67.85		
Yarn 2/40, 60% Royal Alpaca-20% Cashemere-20% Silk	0.76 Kg	0.0228 Kg	120.62		
Nuna Brushed Yarn, 1 / 15.6, 60% Baby Alpaca-5% Merino wool-35% Polyamide	0.76 Kg	0.0228 Kg	63.54		
Alpaloop5 yarn, 89% Superfine Alpaca-11% Polyamide	0.76 Kg	0.0228 Kg	50.62		
Alpaloop8 yarn, 81% Superfine Alpaca-19% Polyamide	0 Kg	0 Kg	52.77		
	0.76 Kg	0.0228 Kg			
			Total >>>>	58.17	46.40%

Avios	Qty	3%	V/unit. (US$)	Price (US$)	% Part.
Tags - Care / Composition Mipaku	1	0.03	0.21	0.21	
Mipaku brand tag	1	0.03	0.15	0.16	
Mipaku size tag	1	0.03	0.05	0.05	
Hang tag	1	0.03	0.18	0.19	
biodegradable bag	1	0.03	0.06	0.06	
Box	1	0.03	0.06	0.06	
		0		-	
			Total >>>>	0.74	0.587%

Labor cost				Price (US$)	% Part.
Waving				14.96	
Confection				10.66	
Smoothing	Outsourced			5.03	
			Total >>>>	30.64	24.44%

Other expenses				Price (US$)	% Part.
AE + VE + IFE		17%		15.22	6.07%
Financial expenses		3%		2.69	1.07%
Customs expenses		2%		1.79	0.71%
Waste		3%		2.69	1.07%
			Total >>>>	11.19	9%

Profit					% Part.
Product profit			Total >>>>	24.62	20%

Selling price					% Part.
Selling Price (Without VAT)			Total >>>>	125.35	100%

Note: Retrieved from *Cost sheet for producing a piece of garment* (p.1) by A. Leyva, 2019, Lima, Peru; Author.

Table A2

Mipaku's Product Identification

Model	YAMILA COAT		
Description	Elegant coat with pocket	Date	05/04/19
Client	MP003	Yarn	2/40 BL, 70%Super baby+ 30%Silk
Season	AW20	Spinning	Michell
DPT Model Code	MP0269	Sample Size	L
Customer model code	MP0269	Weight of finished garment Sample	0.5 Kg
Point	Milano con Links	Sample Consumption	0.65 Kg
Strands	2	Waste	0.15 Kg
Machine	Stoll 330.6, GG10	Quoted Consumption	0.76 Kg

Note: Retrieved from *Cost sheet for producing a piece of garment* (p.1) by A. Leyva, 2019, Lima, Peru; Author.