

**PONTIFICIA UNIVERSIDAD CATÓLICA DEL PERÚ**

**ESCUELA DE POSGRADO**



**Consulting for the textile company Creditex S.A.A**

**TESIS PARA OBTENER EL GRADO DE MAGÍSTER EN ADMINISTRACIÓN DE  
NEGOCIOS OTORGADO POR LA PONTIFICIA UNIVERSIDAD CATÓLICA DEL  
PERÚ**

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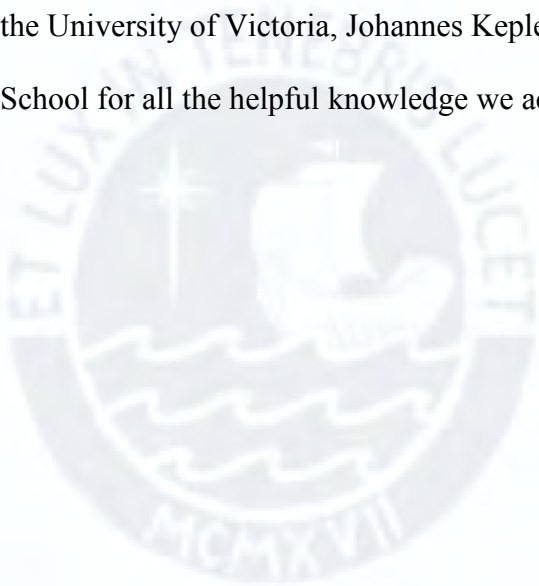
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## Dedications

We dedicate this master thesis to our parents and siblings for their unconditional support during this global experience in Canada, Austria and Peru. Especially in times of the COVID-19 crisis and a persistent feeling of insecurity, they have been an enormous support to us.



## **Abstract**

Creditex is one of the largest Peruvian textile companies listed on the Lima stock exchange. The main activity of the company is the manufacture of textile products, including ginning, spinning, weaving, dyeing, finishing and all activities related to the industrial processing of natural fibers of plant, animal and synthetic origin. Creditex is specialized in the development of complete clothing packages for major international brands such as Tommy Bahamas, Life is good, Island Company, and others.

Creditex is facing a decline in its sales and an increase in its manufacturing and labor costs. One reason for the rapid decline in sales is seen in ineffective product development. Therefore, the research question of this thesis is as follows:

Which product development for the Latin American and US market enables Creditex to achieve sustainable success?

The methodology used is a single case study. Relevant literature was collected by means of a literature review and expert interviews.

Following the literature review, four different possible solutions are presented, which are then systematically analyzed and ranked according to several assessment criteria. The company Creditex is shown one short and one long term solution. The proposed solution suggested to the company is to implement a new product line focusing on medical clothing and sports and leisurewear, taking into account the current demand for both products and the growing expectations of both markets.

## Resumen Ejecutivo

Creditex es una de las empresas textiles peruanas más grandes que cotiza en la Bolsa de Valores de Lima. La principal actividad de la empresa es la fabricación de productos textiles, incluyendo el desmotado, hilado, tejido, tintorería, acabados y todas las actividades relacionadas con el procesamiento industrial de fibras naturales de origen vegetal, animal y sintético. Creditex está especializada en el desarrollo de paquetes completos de ropa para las principales marcas internacionales como Tommy Bahamas, Life is good, Island Company y otras.

Creditex enfrenta una disminución en sus ventas y un aumento en sus costos de fabricación y mano de obra. Una de las razones de la rápida disminución de las ventas se ve en el desarrollo ineficaz de productos. Por tanto, la pregunta de investigación de esta tesis es la siguiente:

¿Qué desarrollo de producto para el mercado Latinoamericano y Estadounidense puede permitir a Creditex lograr un éxito sostenible?

La metodología utilizada es un estudio de caso único. La literatura relevante se recopiló mediante una revisión de la literatura y entrevistas a expertos.

Tras la revisión de la literatura, se presentan cuatro posibles soluciones diferentes, que luego se analizan sistemáticamente y se clasifican de acuerdo con varios criterios de evaluación. A la empresa Creditex se le muestra una solución a corto y una a largo plazo. La solución propuesta que se sugiere a la compañía es implementar una nueva línea de productos enfocada en ropa médica y ropa deportiva y casual, teniendo en cuenta la demanda actual de ambos productos y las crecientes expectativas de ambos mercados.

## Table of contents

<b>List of Tables .....</b>	<b>vii</b>
<b>List of Figures.....</b>	<b>viii</b>
<b>Chapter I: General Situation of the Organization.....</b>	<b>9</b>
1.1. Presentation of the organization.....	9
1.1.1. History.....	11
1.1.2. Products .....	13
1.1.3. Vision .....	14
1.1.4. Mission and Strategic Objectives .....	15
1.1.5. Values and principles .....	16
1.2. Industry Analysis (Porter’s Five Forces) .....	17
1.2.1. The threat of new entrants (medium) .....	17
1.2.2. The intensity of rivalry among competitors (high).....	19
1.2.3. The bargaining power of suppliers (low) .....	20
1.2.4. The bargaining power of customers (high) .....	21
1.2.5 Threat of substitutes .....	22
1.3. External Analysis (PESTE) – Opportunities and Threats .....	23
1.3.1. Political.....	23
1.3.2. Economic.....	24
1.3.3. Social .....	26
1.3.4. Technological .....	28
1.3.5. Environmental .....	30
1.3.6. Opportunities and threats.....	31
1.4. Internal Analysis (AMOFHIT) – Strengths and Weaknesses .....	31
1.4.1. Management and Administration .....	31

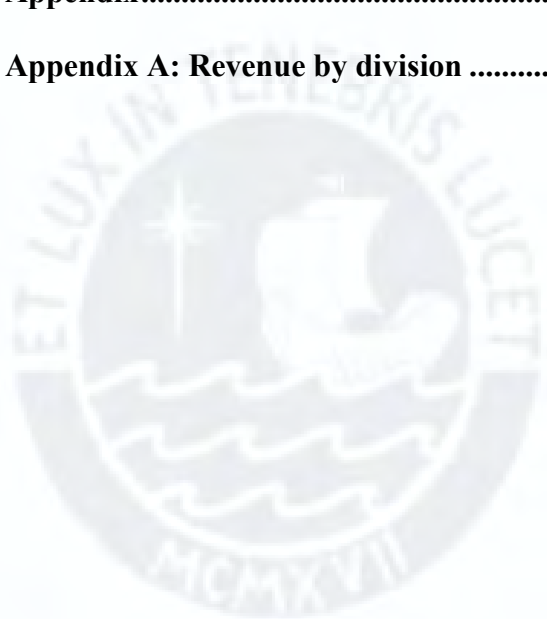
1.4.2. Marketing, Sales, Market, and research .....	33
1.4.3. Operation, logistics, and infrastructure .....	34
1.4.4. Finance and accounting. ....	38
1.4.5. Human resources and culture .....	39
1.4.6. Information and communication system .....	40
1.4.7. Technology, research and development .....	40
1.4.8. Strengths and Weaknesses.....	41
1.5. Conclusion.....	41
<b>Chapter II: Key Problem .....</b>	<b>43</b>
2.1. Identified problem .....	43
2.1.1. Problems identified by the company .....	43
2.1.2. Problems identified by the consulting team .....	44
2.2 Key Problem.....	44
2.2.1 Substance of the problem .....	44
2.2.2 Location of the problem .....	45
2.2.3 Ownership of the problem.....	45
2.2.4 Magnitude of the problem.....	47
2.2.5 Time Perspective of the problem .....	48
<b>Chapter III: Literature Review .....</b>	<b>49</b>
3.1. Literature Mapping.....	49
3.2. Literature Review .....	51
3.2.1. Change management .....	51
3.2.2. Change management in Peru .....	60
3.2.3. Customer and industry trend analysis.....	61
3.2.4. Product development on the North and Latin American market.....	66

3.2.5. Product development process .....	68
3.3. Conclusions .....	72
<b>Chapter IV: Qualitative and Quantitative Analysis .....</b>	<b>73</b>
4.1. Quantitative Analysis .....	73
4.1.1 Annual revenues .....	73
4.1.2 Product formation .....	74
4.1.3 Logistics .....	74
4.1.4. Competitive advantage .....	75
4.1.5 Financial decision making .....	77
4.1.6 Objectives .....	78
4.2. Qualitative Analysis .....	79
4.2.1. Telecommunication .....	79
4.2.2. Investors .....	80
4.2.3. Community .....	80
4.2.4. Organizational structure .....	80
4.2.5. Culture and communication .....	81
4.2.6 Material development .....	81
4.3. Conclusions .....	83
<b>Chapter V: Root Cause Analysis of the Problem .....</b>	<b>85</b>
5.1 Identified Causes .....	85
5.1.1 Personnel .....	87
5.1.2. Communication .....	87
5.1.3 Management .....	87
5.1.4 Processes .....	88
5.1.5 Methods .....	89



5.1.6 Customers .....	90
5.2. Conclusions .....	92
<b>Chapter VI: Assessed Solution Alternatives.....</b>	<b>93</b>
6.1. Alternatives to solve the problem .....	93
6.1.1. Sporty and casual clothing.....	93
6.1.2. Trendy Sustainable and Environmental-friendly Products.....	94
6.1.3. Medical clothing .....	94
6.1.4. Mask, face goods, and surgical masks.....	94
6.2. Assessments of alternatives.....	95
6.2.1. Innovation.....	95
6.2.2. Cost of implementation .....	96
6.2.3. Sustainability .....	96
6.2.4 Time of implementation .....	96
6.2.5. Eco-friendly material.....	96
6.2.6. Feasibility .....	97
6.3. Conclusions .....	98
<b>Chapter VII: Proposed Solution.....</b>	<b>100</b>
7.1. Medical Clothing.....	100
7.2. Sporty and casual clothing .....	101
<b>Chapter VIII: Implementation Plan &amp; Key Success Factors .....</b>	<b>103</b>
8.1. Activities .....	103
8.2. Implementation Gantt Chart.....	104
8.3. Key Success Factors.....	106
<b>Chapter IX: Expected Outcomes.....</b>	<b>107</b>

9.1 Expected impacts of investing in market analysis technologies: focusing on trends, sustainability, and environmentally-friendly products.....	107
9.2 Expected outcomes of producing and selling Medical clothing .....	108
9.3 Expected Outcomes of selling Sporty and Casual clothing .....	109
<b>Chapter X: Conclusions and Recommendations .....</b>	<b>111</b>
<b>References.....</b>	<b>113</b>
<b>Appendix.....</b>	<b>124</b>
<b>Appendix A: Revenue by division .....</b>	<b>124</b>



## List of Tables

Table 1. <i>The company profile of Creditex S.A.A</i> .....	9
Table 2. <i>Opportunities and Threats</i> .....	31
Table 3. <i>Raw Yarn Process</i> .....	35
Table 4. <i>Production capacity in 2019</i> .....	36
Table 5. <i>Inventories 2019</i> .....	37
Table 6. <i>Strengths and weaknesses</i> .....	41
Table 7. <i>Segmentation criteria</i> .....	63
Table 8. <i>Creditex S.A.A Income Statement</i> .....	74
Table 9. <i>Assessment of the proposed alternatives</i> .....	97
Table 10. <i>Key Enablers for implementation</i> .....	106
Table 11. <i>Short-term and Log-term expected results</i> .....	107
Table 12. <i>Competitors product line</i> .....	110

## List of Figures

<i>Figure 1.</i> Creditex' International Network .....	10
<i>Figure 2,</i> Porter's Five Forces .....	17
<i>Figure 3.</i> Level of Impact of the Five Forces in the Textile Industry .....	23
<i>Figure 4.</i> Willingness to Pay More for Sustainable Products.....	27
<i>Figure 5.</i> R&D Expenditures in Peru from 2011 to 2018.....	29
<i>Figure 6.</i> Organizational chart of Creditex.....	46
<i>Figure 7.</i> Creditex EBITDA and EBIT development (2013-2019).....	47
<i>Figure 8.</i> Creditex S.A.A Total Cost of Revenue from 2010 until 2018.....	48
<i>Figure 9.</i> Literature map .....	50
<i>Figure 10.</i> Streich's phases of change.....	52
<i>Figure 11.</i> 8-Step Change Process according to Kotter.....	54
<i>Figure 12.</i> Comparison of Kotter's and Lewin's change models.....	55
<i>Figure 13.</i> New product development process .....	69
<i>Figure 14.</i> The new product concept .....	70
<i>Figure 15.</i> Cotton price development from 2013 – 2019 .....	82
<i>Figure 16.</i> Fiber production development from 1975 – 2025 .....	83
<i>Figure 17.</i> Identified business problem and its main influencing factors visualized by an Ishikawa diagram .....	86
<i>Figure 18.</i> Implementation Gantt Chart of the proposed solution.....	105

## Chapter I: General Situation of the Organization

In this chapter, the company Creditex S.A.A. is presented and the internal and external corporate environment is strategically examined using the Five-Forces, the PESTE, and the AMOFHIT analysis. With the help of internal analysis instruments, an attempt is made to identify the strengths and weaknesses of the company and, with the help of external analysis instruments, the opportunities and threats of the environment are identified.

### 1.1. Presentation of the organization

In this section the company is presented, its history is outlined and its vision, mission, strategic goals, values, and principles as well as its main competitive advantages are presented and analyzed. Creditex S.A.A. (hereafter referred to as Creditex) is an internationally operating textile manufacturing company based in Lima, Peru. Table 1 presents the most important key data of the company.

Table 1.

*The company profile of Creditex S.A.A.*

<b>Website</b>	<a href="http://www.Creditex.com.pe/">http://www.Creditex.com.pe/</a>
<b>Industry</b>	Textile manufacturing
<b>Headquarters</b>	Lima, Peru
<b>Type</b>	Private company
<b>Date of foundation</b>	1997
<b>Chairman</b>	Andreas Wolfgang von Wedemeyer Knigge
<b>Annual Revenue 2019</b>	\$ 79.72 million USD
<b>Employees</b>	1,403

*Note.* Data from DNB, 2020 ([https://www.dnb.com/business-directory/company-profiles.Creditex\\_saa.1f24086f087b0e6bd711cfce257b66b7.html](https://www.dnb.com/business-directory/company-profiles.Creditex_saa.1f24086f087b0e6bd711cfce257b66b7.html))

A distinctive characteristic of the Peruvian textile company is the high degree of vertical integration. Creditex offers so-called complete and comprehensive products. This means that the company handles almost all steps of the production process in-house. From the cultivation of the cotton fields, the ginning of the cotton, the process of producing fine threads, the total control of the manufacturing process of the fabrics to the production of a wide range of high quality garments, which are then distributed abroad by international brands, everything is handled and controlled internally by the company. The markets (Figure 1) that the company serves include South America, Mexico, USA, several European countries and Japan.



*Figure 1.* Creditex' International Network

Taken from "Clients", Creditex, n.d. (<http://www.creditex.com.pe/clients.html>)

The company known as Creditex today has only been operating under this name and in its corporate form since 1997. The history of the company is marked by many acquisitions and mergers.

### 1.1.1. History

According to the Commercial Manager of Creditex, the company has been in existence for almost 100 years (Koch & Negron personal communication, June 16, 2020). However, through several mergers and acquisitions, the name of the company and its organizational structure has been changed multiple times. In 1990, the traditional Peruvian company Corporación Cervesur acquired the business Hilanderías Pimafine as part of a diversification process. This company specialized in the production of Pima cotton products, especially Pima yarns. The next organizational acquisition took place in 1995, when the company Textil Trujillo, which was the leading company in the production of yarns, was taken over. Thus, in 1990 and 1995, two major steps were taken towards consolidation in the spinning sector. Corporación Cervesur wanted to ensure that it had enough capacity to guarantee the supply of high-quality Peruvian Pima cotton (Creditex, n.d.)

Another milestone in the history of Creditex was the acquisition of Compañía de Representaciones y Distribuciones S.A. (hereinafter referred to as Credisa). After a long period of negotiations, the leading company in the production of fine cotton fabrics and clothing was acquired in 1997. Through this step, the company slowly became a highly integrated and export-oriented organization. Together with Credisa, the company Texgroup was bought shortly afterward. Texgroup is a clothing manufacturer and focuses mainly on shirts and trousers. The company named Creditex S.A.A. was formed when Textil Trujillo and Credisa merged. At the end of the nineties, there was a boom in the clothing sector. Creditex responded to this by acquiring Textil El Progreso in 1998, a company that was a renowned producer of long-staple cotton and had great expertise in international marketing (Creditex, n.d.).

A further step in terms of area and channel coverage was taken in the year 2005. The Peruvian company opened its first private label store in the San Isidro district of Lima. This

shop bears the name Norman & Taylor. Here, high-quality shirts and accessories are offered. In 2008 Creditex entered the production of fabric collection with modern designs and simple twisted Pima cotton. This happened in response to the continued growth in demand in the region. As a result of the expansion of production, the Peruvian textile company became the market leader in the production of woven cotton clothing. Creditex product range was expanded further in 2012 with the launch of the men's clothing brand M.bö. The company wanted to add an innovative, modern, and fresh product to its product range, which is oriented towards the lifestyle of urban professionals (Creditex, n.d.).

The company has had to contend with sharply declining profits in recent years. Analyses and studies show that pure cotton products are less and less in demand on the North and Latin American markets. At the same time, production costs are rising enormously. The personnel cost department in particular is recording high figures (EIKON, 2020). The effects of these developments can also be seen by the following statements of representatives from Creditex:

"Our costs are increasing year by year and customers are no longer willing to pay the price for our products." (Koch & Negrón personal communication, June 16, 2020)

"The company is slowly dying and has been for about 5 years." (Koch & Negrón personal communication, June 16, 2020)

The company has now been looking for an organic solution for almost five years. The Commercial Manager of Creditex reported that the company knows that it is time to make fundamental changes in the company, for instance, a change in the product range (Koch & Negrón personal communication, June 16, 2020). The COVID-19 crisis has exacerbated the already serious situation of the company. A report by McKinsey (2020) shows that the willingness to pay a high price for high-quality products has decreased significantly. In addition, customer preference has shifted away from formal clothing to casual and sporty



clothing. This is due to the fact that people spend more time at home and in their private environment in general. There has therefore been a trend towards products that Creditex does not offer.

### 1.1.2. Products

The products offered by Creditex range in the medium to upper price segment. About 95% of the Creditex product range consists of 100% Pima cotton. Creditex has a strong export orientation, however also offers products for the local market. For the international market participates in with cotton yarns of extra-long and long fibers, as well as with other fibers mixed with cotton, cotton fabrics or blends, dyeing, printing and finishing, clothing; while for the local market supplies cotton yarn and blends to the main garment exporters, which is considered as indirect export. Other products with which Creditex participates in the local market are clothing (Superintendencia de Mercado de Valores [SMV], 2019). Creditex produces and sells products of three different types (Creditex, n.d.):

- **Yarns:** About 10 thousand tons of yarn are produced annually. Either Pima combed (extra-long fiber), tangüis (long fiber) or American, in carded and combed yarn is produced.
- **Fabrics:** The weaving and finishing plant produces about 9 million meters of fine, high-quality cotton fabrics, decorative, and apparel fabrics annually.
- **Clothing:** Due to the operational capacity of the Texgroup apparel sector, Creditex is the leader in Peruvian exports of full-range flat fabrics. The product range consists mainly of classic, conservative, formal, high quality, and high price clothing.

Creditex is rather cautious and not willing to take high risks when developing new products. As a result, their product range has changed only very slightly in recent decades.

“We have failed to adapt to changing environments.” (Koch & Negron personal

communication, June 16, 2020). Commercial Manager of Creditex sees a lack of efficiency and willingness to act in the areas of product development, change, and trend management as the main reasons why Creditex does not have a product that can be sold profitably on the North and Latin American market in the long term (Koch & Negron personal communication, June 25, 2020).

### **1.1.3. Vision**

According to D'Alessio (2013), a vision is the desired future of a company and could be seen as the sum of long-term goals, which, to be effective, must take into account nine components that describe the desired future of a company. These components are: (a) a motivational central ideology; (b) a vision of the future; (c) simplicity; (d) ambition; (e) a time horizon, (f) a geographical scope; (g) familiarity with all parties; (h) a sense of urgency; and (i) clarity.

Creditex vision statement cannot be found on the company's website. The following statement has been internally forwarded by the company to the consulting team:

“Be the leading textile company in Peru and America, recognized for its excellence in customer service, innovation, and high quality of its products.” (Koch & Negron personal communication, June 25, 2020)

In addition to the forwarded vision statement, which is presented under the heading Where We AIM to be?, the following statement is also presented: "How We will get there? - Doing the things right from the beginning to the end." (Koch & Negron personal communication, June 25, 2020)

This is a rather vague statement. It does not make it clear how the formulated vision is to be achieved or what enables the company to achieve the set goal. Furthermore, it is not clear if this vision statement is transparent to all employees of the company, if it is an integral part of the corporate culture at Creditex, and how it is realized in the everyday business. “A

vision is what leaders develop as a road map for helping the organization reach its goals and make progress to the future.” (Keffer, 2014, n.p.) The vision statement does not seem to be clear and detailed enough to be understood by the company and its employees as a road map to achieving set goals.

Creditex aims to be a fully integrated and innovative textile company whose flexibility will enable them to be a world leader in qualitatively diversified textile products. It aims to offer prestigious international brands and private labels that are geared towards the high end of the market and whose efficient running enables high profitability. With a strategy based on research and development, where they offer their products through various distribution channels and points of sale, acting in accordance with the rules of good corporate governance, the company aims to increase customer satisfaction and enable a rapid response to their customers (Creditex, n.d.; Koch & Negrón personal communication, June 16, 2020).

#### **1.1.4. Mission and Strategic Objectives**

The mission statement describes the current situation of the company concerning its products, services, processes, target markets, or target groups. It also contains statements about the company's reason for existence and its self-image. Furthermore, it describes what the company does and what it stands for, it offers employees orientation and gives them a sense of purpose for their professional activities (Ant, 2018). Hoque (2020) defines a mission as the written expression of the vision. The mission is also known as corporate principles or guidelines. It has primarily a communication function.

Creditex considers itself to be a company with diversified and vertically integrated business lines, which continuously works to meet the quality standards of its customers (Texgroup, n.d.). The company wants to meet the expectations of its customers through innovative and service-oriented operations. Moreover, a workforce with great expertise and competence is and has always been an important factor for Creditex. It is also important to

the company that employees identify with the company and are committed to the business. The company is keen to ensure that its activities are geared towards achieving profitability with sustainable growth while promoting social and environmental responsibility (Koch & Negron personal communication, June 25, 2020).

Strategic objectives are a concretization of the vision and mission. They have a fundamental character and create a framework for the organization's actions. The success of the company can be measured by strategic goals (Ant, 2018).

To achieve the defined corporate vision and mission, Creditex has defined several strategic goals. The company wants to expand its production capacity by using automatic technologies and it also seeks to significantly increase the production of quality yarns. Creditex also aims to diversify its export target markets in order to increase its market share and it also wants to integrate different parts of the company through the use of state-of-the-art management and information technology. The final strategic goal that Creditex listed is to significantly increase the profitability of the company (Creditex, 2017).

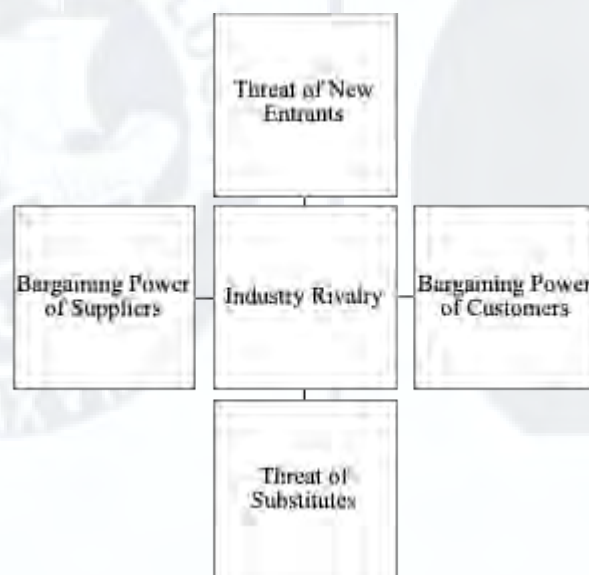
#### **1.1.5. Values and principles**

Values are the principles that guide the company's management activities (D'Alessio, 2013). The way Creditex works is determined by several principles and values. These principles are: (a) profitability, the pursuit of the highest return; (b) customers, the satisfaction of the needs and expectations of the customer through the best quality and excellence in everything the company does; (c) human resources, the employees are the most important resource of the organization and the company works as a team sharing risks and opportunities; (d) competitiveness, the achievement of the greatest global competitiveness through the application of creativity, innovation, and planning in all activities; (e) environment, the belief in the freedom of the market and work with complete transparency and prudent use of natural resources. The company considers respect at all levels of economic

activity and organization to be the most important value (Koch & Negron personal communication, June 25, 2020).

## 1.2. Industry Analysis (Porter's Five Forces)

The textile industry is multifaceted. Many countries and markets have their distinctive characteristics and trends concerning the textile market. Business environments are becoming increasingly volatile, uncertain, complex, and ambiguity. Porter's Five Forces analysis is a sector structure analysis tool that helps analyze the textile industry and to understand which forces work in which way (Porter, 1985). Figure 2 shows the five forces that influence an industry and thus a company operating in that industry.



*Figure 2, Porter's Five Forces*

Taken from “The Competitive Advantage: Creating and Sustaining Superior Performance”, Porter, M. E., 1985, NY: Free Press, p.5.

### 1.2.1. The threat of new entrants (medium)

The threat of new entrants through competitors is determined by the entry barriers that exist in a market. A company that wants to enter the cotton industry needs to overcome certain hurdles such as the cost of entering the market or regulatory barriers (Porter, 2013). In

order to get an overview of the threat of new competitors, the advantages and disadvantages of potential new competitors on the Peruvian cotton industry are analyzed. On the one hand, the following advantages could attract potential competitors and therefore increase the threat of new entrants:

- Peru has relatively low energy costs which lead to low production costs as compared to other countries with a strong cotton industry (Fernandez-Stark, Bamber & Gereffi 2016).
- Due to its longstanding tradition in working with cotton, Peru has a well-trained workforce in the field of high-quality textile production (Fernandez-Stark, Bamber & Gereffi 2016).
- Furthermore, Peru holds a free trade agreement with the USA, the United States-Peru Trade Promotion Agreement (U.S.-Peru TPA), which allows duty-free access to the US market (International Trade Administration, 2020).

On the other hand, several disadvantages of the Peruvian market can deter potential competitors from entering the market and therefore decrease the threat of new market entries:

- Peru suffers from political instability and bribery (WKO, 2020). Transparency International (2019) found that nearly one-third of the public service users had to bribe somebody in the last 12 months.
- Employees' wages in the cotton industry have increased in the last years and outgrow wages in other developing countries (Fernandez-Stark, Bamber & Gereffi 2016).
- Furthermore, new competitors will have to establish a luxury brand. This process includes high marketing costs and high efforts to build a customer relationship. Therefore, companies need to constantly keep reviewing and

upgrading their strategies to stay in the competition (Reisinger, Gattringer, & Strehl, 2013; Martin, 2019).

- The logistical infrastructure of the country of Peru can be described as a further challenge. To enter the port of Callao, for example, waiting times of 12-14 hours for trucks must be taken into account (Cello, 2018).
- Last but not least, the ongoing COVID-19 crises possess a substantial threat to potential new competitors since the demand for expensive cotton products will decrease (McKinsey 2020).

Taking all those advantages and disadvantages into account, the threat of new entrants can be classified as medium.

### **1.2.2. The intensity of rivalry among competitors (high)**

When many organizations are offering similar products and services on the same market, the competition gets fierce. Therefore, economies of scale are of high importance. Consumers are always looking for the latest product with the best value. In this case, each competitor has to find its unique market opportunity. Building an empire on the base of unique aspects can make a company fight its rivals. Advanced technologies, price factors, and constantly changing trends matter the most in this rivalry (Reisinger et al., 2013; Martin, 2019).

The level of industry rivalry is rated as high. In Lima alone, there are more than 9,000 textile producers. In addition to national competitors, there are more and more international players in the Peruvian market. These come from the USA, Brazil, Australia, and to a growing extent from Asia (China, India, etc.). Competition from imported clothing, especially from Asia and Central America, where production costs are lower, is constantly growing. In addition, the Venezuelan market, formerly the main buyer of Peruvian ready-



made clothing, is disappearing. Of almost 180,000 production companies, 30.08 percent are operating in the textile industry (Bundesministerium für Wirtschaft und Energie, 2018).

According to a study conducted by RVM (2014), the textile retail sector is characterized by high price pressure, driven mainly by clothing discounters, by weather-related volatility, and, above all, by the need for a comprehensive multi-channel strategy involving high investments. The importance of online retailing is increasing, and it is recording disproportionately high growth. To be successful in today's world, companies need a multi-channel strategy.

### **1.2.3. The bargaining power of suppliers (low)**

A strong bargaining position of suppliers can reduce the profitability of an industry. Suppliers with a strong negotiating position can increase prices and thus reduce the profit of other companies. A strong supplier power exists if the industry is dominated by a few suppliers or if the industry is only of minor importance to suppliers. Supplier power is also high if there are no substitute products in the industry, the supplier products are highly differentiated, there are high switching costs for the companies or the suppliers can credibly threaten forward integration. (Reisinger et al., 2018; Martin, 2019).

The level of bargaining power of suppliers is industry-wide difficult to determine. The level depends very much on the type of company and its level of integration. However, it is generally noted that textile industry suppliers do not have high bargaining power. There are too many equivalent suppliers on the market (Bundesministerium für Wirtschaft und Energie, 2018).

The high level of vertical integration that Creditex has, further reduces the bargaining power of suppliers. Apart from textile dyes and other minor purchases, Creditex does not source from suppliers (Creditex, 2020).



#### **1.2.4. The bargaining power of customers (high)**

If customers have a strong negotiating position, they can push through lower prices, and/or better-quality products. In general, this makes the industry less attractive for companies, as lower contribution margins are achieved. Strong buyer power exists if customers buy large quantities, there are few customers in the industry, the products are standardized, there are low switching costs for customers and/or customers can credibly threaten backward integration (Reisinger et al., 2018).

The level of bargaining power of customers can be classified as very high. Studies and analyses show how customer preferences and decisions affect business success. As the Peruvian market is home to many textile companies, customers have found it easy to switch from one provider to another (Bundesministerium für Wirtschaft und Energie, 2018).

Besides the customer directly, many other factors have an indirect influence on and power over purchasing decisions. Traditional fashion houses have less and less influence on trend development. Various other platforms or factors influence emerging trends. According to Henkel (2019), the following elements are sources for the emergence of trends:

- Celebrities and style icons
- Urban and street style trends
- Catwalks of fashion weeks
- Social media channels
- Fashion bloggers (especially in niche markets)
- Trends that are pending in so-called style capitals

All these different sources that influence customers and their purchasing decisions are changing and evolving at an unlikely pace in today's world. Customers are asking for the

trend products that have developed. If companies do not offer these products, customers are not prepared to pay a high price for them (Henkel, 2019).

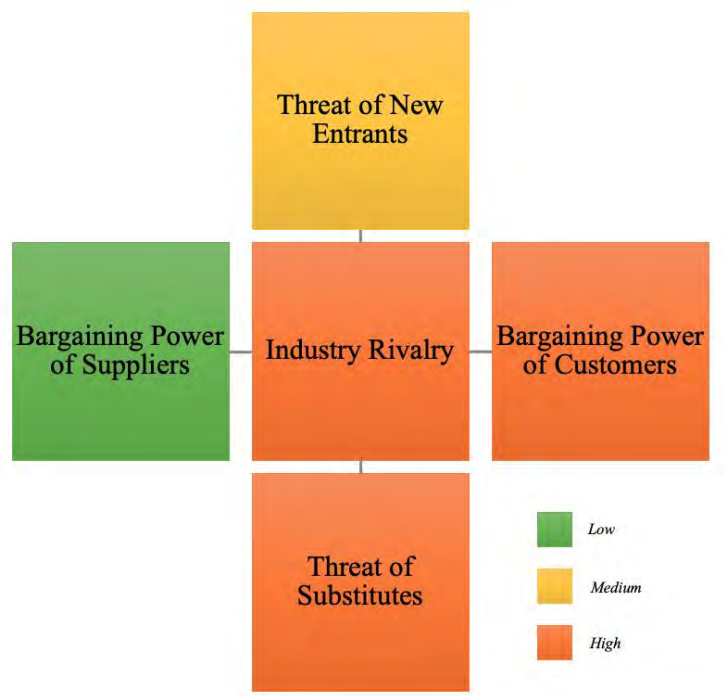
### **1.2.5 Threat of substitutes**

If substitute products for a company's products exist, there is an increased probability that existing customers will buy products from other companies. Substitute products can also create competition across industries, which can reduce the profitability of the industry in which a company operates. A threat from substitute products depends on the following factors (Reisinger et al., 2018):

- How strong is the customer's tendency towards substitution?
- What is the price and quality of the substitute product?
- How high are the switching costs?
- How differentiated are the products?
- How many substitution products are there and what is their availability?

With the increasing competition in the domestic market, the products offered are also increasing. According to the Commercial Manager of Creditex (Koch & Negron personal communication, June 25, 2020) especially fibers produced in India and sold cheaply on the Peruvian and Latin American markets have become a growing threat. Customers switch to these suppliers and accept the loss of high-quality cotton in order to pay a lower price. It is expected that this trend will continue due to the influence of the COVID-19 crisis, as customers have become more price-sensitive during this period.

Figure 3 shows the force level (low, medium, and high) of the five forces in the industry in which Creditex operates.



*Figure 3.* Level of Impact of the Five Forces in the Textile Industry

Adapted from “The Competitive Advantage: Creating and Sustaining Superior Performance”, Porter, M. E., 1985, NY: Free Press, p.5.

### **1.3. External Analysis (PESTE) – Opportunities and Threats**

The PESTE tool will be used for external analysis. With the help of the PESTE analysis, the business environment is analyzed concerning specific market conditions, developments, and their effects in order to provide a sound basis for management decisions. PESTE stands for the political, economic, socio-cultural, technological as well as ecological-geographical influencing factors that affect companies (Reisinger et al., 2018).

#### **1.3.1. Political**

The most important factors influencing the political environment of a company include the economic system, the current or targeted foreign policy, and the stability of the political system of the respective market (Reisinger et al., 2018).

The most significant political circumstances that influence Peru are: (a) informal employment, (b) social instability, and (c) drug trafficking. Labor informality is one of the important structural obstacles of the Peruvian economy. The informality of work is one of the most important structural obstacles to the Peruvian economy. In June 2018, informal employment reached 73% of the working population, an increase of 5.1% over the previous year. In terms of social insecurity, Peru ranks second in the Americas Barometer 2017 only behind Venezuela in terms of countries with the highest crime death rate. When questioned, 33% of Peruvians answer that they have experienced some kind of criminal activity (fraud, robbery, or corruption). Lastly, with regard to drug trafficking, the White House Office of National Drug Control Policy reported that the number of hectares of coca leaf in Peru has increased significantly from 44,000 in 2016 to 49,800 in 2017 (Perú, 2018).

### **1.3.2. Economic**

The economic factors influencing a market provide information about its economic development. For example, information on the current and future sales market should be obtained, as products can only be sold if there is sufficient disposable income and a certain need for it. Information can be obtained by means of key figures such as population (growth trend), real GDP, interest rates, investments, exchange rates, import, and export transactions and disposable per capita income. Increased per capita income can lead to increased consumption and thus be an indicator of a potential sales market. In contrast, low growth figures and high unemployment rates are an indication that the inhabitants of a country lack disposable income and shrinking consumption (Reisinger et al., 2018).

The Peruvian economy has gone through two different phases of economic development in the last 20 years. With a GDP growth rate of 6.1 percent annually, Peru was one of the fastest-growing economies in Latin America from 2002 to 2013. From 2014 to 2018, however, GDP growth slowed to an average annual rate of 3.2 percent. The main

reason for this decline was lower international commodity prices. One such commodity is copper, which is a leading Peruvian export. This has resulted in a decline in private investment, lower tax revenues, and reduced consumption in these years. In this context, the current account deficit narrowed rapidly, from 4.8 percent of GDP in 2015 to 1.6 percent in 2018. This current account deficit was financed mainly by long-term capital inflows (The World Bank, 2019).

It is expected that the process of fiscal consolidation in Peru will continue. In accordance with fiscal rules, it is estimated that the government deficit will reach 1 percent of GDP in 2021. According to the World Bank (2019), growth forecasts for Peru are very vulnerable to external shocks such as a fall in commodity prices or changes in international financial conditions. Currently, Peru, like many other countries in the world, is struggling with the economic slowdown caused by the COVID-19 crisis.

Once the phase of isolation and economic stagnation associated with COVID-19 is over, the textile industry will face a recessionary market and an industrial landscape that is still undergoing dramatic change. According to McKinsey (2020), a period of recovery is likely to be characterized by a sustained slump in spending and a decline in demand across all channels. Even before the pandemic, there were signs that consumer attitudes were changing in certain directions. This change in consumer attitudes is discussed in the section.

Peru's textile industry employs approximately 250,000 people, and textiles and garment manufacturers account for more than 30 percent of the non-traditional exports in Peru. Several global trends have influenced the development of this niche segment over the past two decades and have significant implications for the future of the Peruvian textile and garment industry (Madison, 2019).

### 1.3.3. Social

For an examination of the social environment, structural characteristics such as the population or the education system and the associated trends (demographic change) can be used. In addition, the values, attitudes and behavior of customers, employees, and suppliers in the market should be examined in detail, as they can provide information about specific product characteristics with regard to customer wishes (increased environmental and health awareness, individualization) and how these are addressed (Reisinger et al., 2018).

According to a report provided by McKinsey (2019), the companies that get the most out of the "next generation" social media are the ones that can see the social media landscape through the eyes of the daily user.

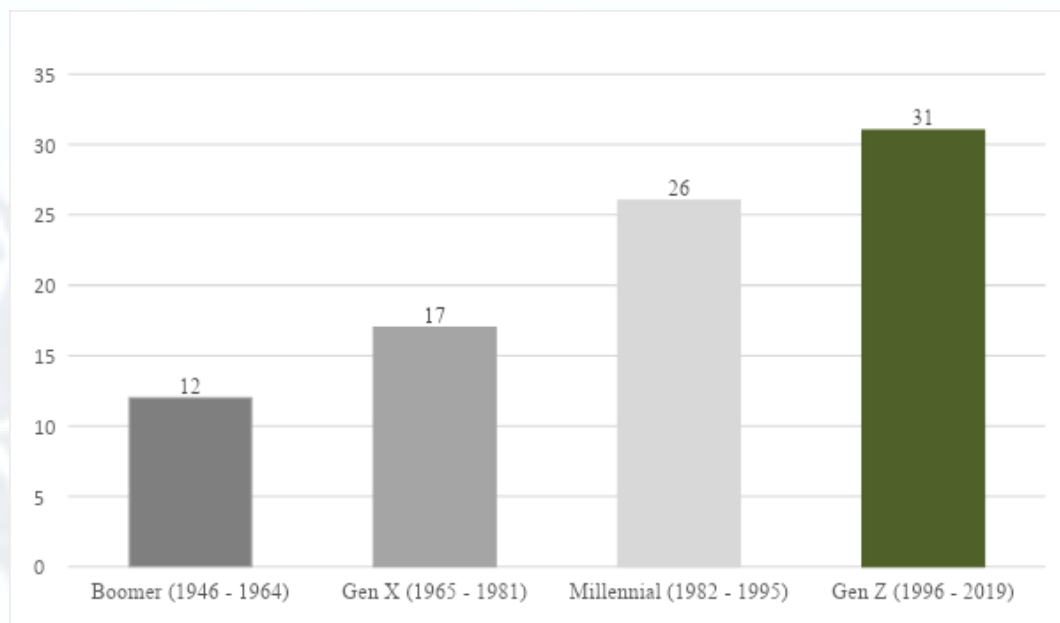
Experts warn that companies should not always advertise and sell and forget that participation in social media should be a social experience. It is above all the creation of an engaging brand voice that holds a digital presence together, especially on platforms that are new to brands. Advanced social platforms from Asia represent a lucrative opportunity in many ways, but for fashion and beauty industry players to benefit, they must remember to build trust and credibility on every social media platform (McKinsey, 2019).

In “The State of Fashion 2020” report by McKinsey (2019) another trend concerning the textile industry is pointed out. Under the heading “In The Neighborhood”, the customer demand for convenience, immediacy, and local shopping is described:

Today’s consumers are used to getting what they want — when and where they want it. Convenience is key, and in terms of shopping, that often means local in tandem with online shopping. Given that many people still like to touch, feel, and try fashioning items before they buy, the industry is well placed to benefit from this theme. We expect fashion retailers to ramp up their presence in neighborhoods and new districts beyond traditional commercial zones, with stores that reflect the local

community and focus on service and experience. (McKinsey & Company, 2019, p. 43)

Aside from convenience, the trend towards sustainable and environmentally friendly products is becoming increasingly evident and important for the textile industry. Figure 4 shows that the younger generation would be willing to pay more for products that have a less negative environmental impact.



*Figure 4. Willingness to Pay More for Sustainable Products*

Adapted from “The State of Fashion 2020” by McKinsey & Company, 2019,

(<https://www.mckinsey.com/~/media/mckinsey/industries/retail/our%20insights/the%20state%20of%20fashion%202020%20navigating%20uncertainty/the-state-of-fashion-2020-final.ashx>), p.55.

It is also predicted that customers will increasingly demand sporty and casual clothing. Joggers and sneakers are now not only worn for sports but also on city trips when socializing and casually in everyday life. This trend is reinforced by the fact that many people are increasingly working from home (Wehsack, 2020).



In times of the COVID-19 crisis, the textile industry is also focusing on medical textile products. The growing number of surgical operations and the increasing incidence of various chronic diseases are driving the demand for medical protective clothing on the world market considerably. One trend that has gained in importance in this context is the increased demand for medical clothing suitable for everyday use and the desire for fashionable, attractive medical clothing. It is assumed that the regions North America and Europe have the largest market for medical protective clothing, as the main market players are located in these regions. Countries such as India, China, and Japan in the Asia-Pacific region are believed to be emerging due to the growing market penetration in these areas (Medgadget, 2019).

A developing trend is that of customization. Customers want individuality - also in the textile industry. North Face, for example, is planning outdoor clothing for the year 2021, which can still be individually designed by customers, due to the continuing customer demand. Specific features can be added as required (Henkel, 2019).

#### **1.3.4. Technological**

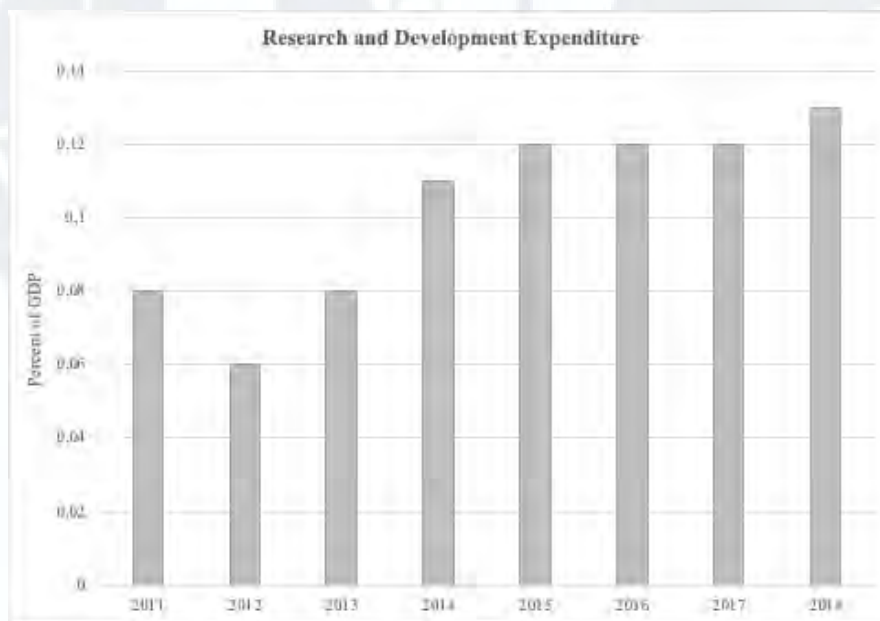
Technological developments can also influence the strategic decisions of companies. Information and communication technology have revolutionized the work processes of companies. E-Business has changed the way transactions are processed and also made new business models possible. This can mean that a company has to master additional technologies in different markets that were previously unimportant, or that companies from completely different fields of technology suddenly become competitors (Reisinger et al., 2018).

Technological innovations and further developments in the world of information and communication have brought countries, markets, suppliers, and customers closer together. Global trade and the movement of goods, people, and capital has become very simple, even in remote places. The textile industry has also been severely affected by globalization and



technologization. This poses various advantages but also challenges. Part of today's businesses are processes that use technologies such as cloud computing, large amounts of data, the Internet of Things, sensors, and intelligent robotics. Digitization is key to the growth of productivity enhancements, which can be used as an opportunity to create new market factors (Fern Fort University, n.d.).

Investment in science and technology in Peru is low in comparison to other economies. Figure 4 shows the R&D expenditures as a percentage of GDP for Peru from 2011 to 2018. The average value for Peru during this period was 0.103 percent, with a minimum of 0.06 percent in 2012 and a maximum of 0.13 percent in 2018. By comparison, the global average in 2018 based on 26 countries is 0.42 percent (Global Economy, n.d.).



*Figure 5.* R&D Expenditures in Peru from 2011 to 2018

Data are from “Peru: Research and development expenditure”, Global Economy, n.d.

([https://www.theglobaleconomy.com/Peru/Research\\_and\\_development/](https://www.theglobaleconomy.com/Peru/Research_and_development/)).

### 1.3.5. Environmental

Ecological-geographical environmental factors include climatic conditions, the topography and size of a country, and the available resources. The climate, for example, can influence the demand (e.g. for soft drinks), the functionality (use of technical equipment in the desert or the tropics), and the transport and packaging of products. The topography also influences the strategic planning of the company, as natural barriers such as mountains and virgin forests can make the transport of products (distribution) more difficult. In addition, the consumer behavior of people who live in the smallest towns and villages differs from that of those living in large cities. Ultimately, the availability of resources indicates the economic development potential of a country (Reisinger et al., 2018).

The design, production and distribution of yarns, fabrics, and clothing are the core areas of the textile industry. In recent decades, the industry has experienced enormous growth on an international level, especially in cotton production. Cotton is the world's most important natural fiber and in the year 2007, the global yield was 25 million tons from 35 million hectares cultivated in more than 50 countries (Majeed, 2019).

Many countries have started to focus on sustainable and environmentally friendly textiles. Some of the innovative approaches in this area are clothing made from used coffee grounds, algae, or spoiled milk. These new textiles are unique and are becoming increasingly popular on the market. Recycling, reuse, and resale are the main pillars of sustainability (Basu, 2011).

In their report, McKinsey (2019) also points out the trend of upcycling. The company Patagonia, for example, has managed to produce high quality and high-priced products from collected irreparable old clothes.

### 1.3.6. Opportunities and threats

In the following table, the opportunities and threats resulting from the external analysis are presented.

Table 2.

#### *Opportunities and Threats*

Opportunities	Threats
O1. Technological solutions for the automation of operations	T1. Economic slowdown
O2. Fashionable medical garments	T2. COVID-19 crisis
O3. Social Media advertisement (Cutting-edge Social Media)	T3. Increased competitive pressure
O4. Domestic purchasing	T4. Reduction in Pima cotton cultivation
O5. Sustainable and environmental-friendly products	T5. Rising personnel costs throughout the industry
O6. Upcycled garments	T6. Customers are getting more and more price-sensitive
O7. Sporty and casual clothing	T7. Companies start to integrate vertically
	T8. New players have efficient and agile processes and procedures to cope with the digital era

### 1.4. Internal Analysis (AMOFHIT) – Strengths and Weaknesses

The internal analysis of a company is essential for decision making by managers and executives. The main areas that have to be considered in this analysis are: Administration and Management (A), Marketing and Sales (M), Operations and Logistics (O), Finance and Accounting (F), Human Resources (H), Information and Communication Systems (I), and Technology, Research and Development (T) (D'Alessio, 2013).

#### 1.4.1. Management and Administration

The administration and management of an organization is the unit responsible for managing all operational and strategic activities of the company. Furthermore, decisions are made about the future of the organization and about which strategies need to be adjusted to

achieve their goals. Figure 6 (see Section 2.2.3. Ownership of the problem) shows the organizational chart of Creditex.

**Planning.** Creditex's management team is trying to find cheaper yarns and fabrics so they can sell their finished products at cheaper selling prices. The future direction of the company is strategically formulating how they can increase sales in South America (SA), North America (NA), and Europe (EUR) while sustaining a competitive advantage and increasing market share in the three regions (Koch & Negron personal communication, June 16, 2020).

**Organization.** The Chief Executive Officer (CEO) and the board of directors make decisions, proposals, and policy changes. Once put forward in motion, the board communicates the message to the rest of the staff to implement the changes made. (Koch & Negron personal communication, June 25, 2020).

**Management.** The management style at Creditex is looking to shift from an autocratic and permissive style to more of a persuasive management approach. Currently, management is risk-averse and looking to change that mentality (Koch & Negron personal communication, June 16, 2020).

**Coordination.** There is a communication issue in the organization that is negatively affecting the coordination between different divisions. Management is looking to fix this problem so that the integration between the divisions ensures that the resources of the company are used most efficiently so they can succeed in achieving their short-term goals. (Koch & Negron personal communication, June 25, 2020).

**Control.** Although senior management and the Board of Directors control the company, the CEO makes the final decisions. The company has complete control over the entire manufacturing process (Koch & Negron personal communication, June 16, 2020).

#### **1.4.2. Marketing, Sales, Market, and research**

The marketing and sales department of an organization has the task of analyzing the sales market for all products and services. This is to ensure that potential customers find the products and services to offer special and useful. Customer acquisition and customer retention are the main goals of marketing and sales (Reisinger et al., 2018).

***Analysis of the consumer.*** Creditex targets middle-aged individuals who would be considered middle-class to higher-income earners. This is because of the high-quality cotton yarns and raw materials (Koch & Negron personal communication, June 16, 2020).

***Sale of Products.*** Creditex sells its products to its main customers including Devanlay, L.L Bean, Border Bros, Cutter and Buck, Tommy Bahamas, Island Company, Psycho Bunny, Cabelas, Robert Graham, Cliften Charles, Charly Dog, and Life is good. (Creditex, 2020).

***Product Planning.*** The Creditex company is trying to find a way to reduce its product production costs in order to offer them at a lower price. This is to boost sales in Creditex three main sales regions. The company has the pre-production area, as well as the design area. Another possibility is that of innovative and customer-oriented product development. This requires not only precise market, customer and trend analyses, but also technological know-how (personal communication from Koch & Negron, June 16, 2020). The prices are set depending on their production costs to ensure a big enough markup is made on each order (Koch & Negron personal communication, June 25, 2020).

***Distribution.*** Creditex distributes its products to North America, South America, and Europe. They use their subsidiary “Texgroup” to export their products to the three regions (Koch & Negron personal communication, June 25, 2020; Creditex 2020).

***Opportunities analysis, cost, benefit, and risks.*** There are several opportunities to increase their sales in South America, Latin America, the United States, and Mexico. The

cost is that their product quality will diminish (the exact amount still uncertain at this time) but the benefit would be increased sales and thus, increased revenue (Koch & Negrón personal communication, June 25, 2020).

#### **1.4.3. Operation, logistics, and infrastructure**

Creditex has operations in Lima, Lambayeque, Pisco, Piura and Trujillo, with weaving and manufacturing mills located in Lima, the ginning mills located in Lambayeque and Piura, and the spinning facilities located in Pisco and Trujillo. According to the organizational chart, the company does not have an Operation Management area itself, but has Technical Management, Yarn Commercial Management, and Commercial Management of Fabrics/Garments areas; these three areas are related to each other because all are involved in the operations of the company (Creditex, n.d.).

During 2019, the company has been forced to improve and speed up the logistics and supply planning operations due to the new development products with cotton blends, modal, polyester, and nylon with lycra (Superintendencia de Mercado de Valores [SMV], 2019).

**Process.** The Pre-Production Manager is responsible for monitoring the processes established for the elaboration of new developments, verifying their compliance within the established parameters and deadlines. The samples sent by the client to develop, are kept during this process by the commercial area. The destination of these samples is defined as requested by the client, that is, whether they are returned to the client or remain in the company in the sample archive (Creditex, n.d.). The company registers each product process in order to have the methods established, in Table 3 it showed step by step of the yarn process, it involves the activities done by each area in each stage of the production.

Table 3.

*Raw Yarn Process*

N°	ACTIVITY	AREA RESPONSIBLE
1	The responsible in turn receives the following information from the customer about the yarn: - Raw material - Title - Quantity - Delivery Date - Distinctive characteristic (different from Creditex standards, example: twisting, etc.)	Commercial Spinning
2	The responsible in turn assesses the company's ability to meet the product's manufacturing requirements.	Technical Manager / Superintendent of Spinning
3	If the company is able to meet the requested requirements, the responsible in turn informs the customer to place the Purchase Order (PO).	Commercial Spinning
4	Place the Purchase Order	Customer
5	The responsible in turn receives the Purchase Order, generates the "Thread Manufacturing Order" and sends it to Production Control, which indicates with the corresponding prefixes if the order corresponds to a sample and to the market where it is addressed.	Commercial Spinning
6	The responsible in turn registers and retransmits the order to Spinning Mill, with a proposed schedule.	Production control
7	The responsible in turn determines the operating characteristics of the machines, records them in the formats: "Title Sheets" and places its approval signature.	Superintendent of Spinning
8	The responsible in turn generates the "Change Order" for each machine.	Spinning Assistant/Spinning Supervisor
9	The responsible in turn make the corresponding adjustments and modifications to the machines in the Spinning section, as indicated in the "Title Sheets" and "Change Orders" and inform Quality Control of the change for the sample.	Spinning Mechanic
10	The responsible in turn manufactures the yarn (sample or production, as required by the customer)	Spinning
11	The responsible in turn tests and verifications, as appropriate, according to the Quality Plan.	Quality control
12	The responsible in turn approves the sample/production of the new product in coordination with the Spinning Superintendent/Chief Spinner.  Note: If the result is disapproved, the steps from point 7 are repeated, generating a new version for the documents mentioned in this point.	Quality Control Manager
13	In case the customer has requested a sample: - Send sample to customer - Client approves the sample. If it is not approved, the steps from point 7 are repeated	Spinning Commercial

Adapted from "Procedimiento Desarrollo nuevos productos", Creditex, 2020



**Capacity.** In the fourth quarter of 2019, Creditex produced the following items, referring to units and quantities:

Table 4.

*Production capacity in 2019*

Item	Measure unit	Quantity
Yarns	tn.	8,069
Fabrics	metres.	4,394,222
Clothing	garments	1,096,561

Adapted from “Informe de Gerencia al Cuarto trimestre 2019”, Creditex, February 2020.

Production levels at the end of 2019 in comparison with the similar period of the previous year, varied as follows: it decreased by 4.47% in the yarn line, in fabrics it increased by 7.55% and in apparel, it grew by 25.39% (Creditex, n.d.).

**Inventory.** Inventories, such as finished goods, by-products, and work in progress, are measured at the lower of cost or net realizable value after an impairment loss. Net realizable value is the selling price in the ordinary course of business, less the costs of bringing the inventories to their saleable condition and the related selling and marketing expenses. Costs are determined using the weighted average cost method. Inventory receivables are an exception to this rule and are reported as specific acquisition costs. The estimate of impairment in realizable value is calculated based on a specific analysis performed annually by management, and any effect is recorded in the separate income statement in the year in which it is determined (Superintendencia de Mercado de Valores [SMV], 2019). Table 5 shows the inventories that Creditex had during 2019 and 2018.



Table 5.

*Inventories 2019*

	2019	2018
	S/.(000)	S/.(000)
Finished goods	62,812	68,130
Products in process and subproducts	29,401	31,378
Raw Material	36,457	28,721
Supplies and spare parts	7,120	6,796
Auxiliar material	5,003	4,885
Goods	4,043	3,099
Receivable inventories	15,889	2,214
Packaging	1,413	1,748
	162,138	146,971
Allowance for impairment of inventories	-682	-431
	161,456	146,540

Adapted from "Financial statement reports", SMV, 2020.

**Labor.** Creditex offers good labor conditions to its employees, to prove this the company has achieved the WRAP (Worldwide Responsible Accredited Production) certification ensures that Creditex has healthy, safe, and decent working conditions (Creditex, n.d.).

**Quality.** Creditex's quality policy is to interpret the needs and requirements of clients, establishing specifications and process parameters that allow providing them with products that satisfy and even exceed their expectations. The company has different international quality certifications that ensure the good products that they offer to customers (Superintendencia de Mercado de Valores [SMV], 2019).

**ISO9001.** In August 2017, the company has been certified in the new version of ISO 9001: 2015, issued by LRQA, with UKAS accreditation from the United Kingdom. It applies

to the development, manufacture, and sales of yarns, fabrics, and clothing; for the local and international markets (Creditex, n.d.).

*Business Alliance for Secure Commerce (BASC)*. Creditex has been awarded BASC certification. This is awarded by an independent international non-profit organization that promotes humane, lawful, and ethical working conditions and the fight against global drug trafficking. The certification has been adapted to the BASC certification of 2012. BASC regularly monitors the working conditions of Creditex to support compliance with the international safety standards of the World BASC Organization for export business in Peru (Creditex, n.d.).

#### **1.4.4. Finance and accounting.**

According to the financial information found in the Superintendencia del Mercado de Valores (SMV), the liquidity ratio on December 31, 2019, was 2.82 times, the general ratio and 0.99 times the acid test, which compared to the same date in 2018 were 3.19 times and 0.86 times respectively. The working capital S/.160'151,186 and S/.137'587,563 in the same period of 2018. There was an increase in the working capital and acid test but a decrease in the liquidity ratio. During 2019 the capital stock of the company remain the same of 2018 at amount of S/. 163'194,418. The person in charge of the Values section of the company is the General Accountant, Maria Elda Motta Loli. (Superintendencia de Mercado de Valores [SMV], 2019).

*Investment decisions*. In December 2019, the company made investments of PEN 6,076,361.00, which are mainly made up of machinery, diverse equipment and installations, in which those destined for spinning and a fabric drying branch stand out (Creditex, 2020). The investment share accounts is maintained for S/. 10'475,638 (Superintendencia de Mercado de Valores [SMV], 2019).

**Financial decisions.** The level of sales insoles in 2019 has experienced a 4% increase compared to the same period of the previous year. The gross margin in December 2019 was 13.69% of total revenues compared to 17.99% for the same period in 2018. Regarding these numbers, it is assumed that the international market is decreasing the sales and the local market is increasing it (Creditex, 2020).

**Dividend decisions.** In March 2019, the distribution of dividends was for PEN 12,156,903.92, corresponding to part of the undistributed accumulated profits (Accumulated Results) of previous years, which at the end of the present period amounted to PEN 156,946,183.00, after distribution and other records. In December 2019, the equity decreased by a net amount of PEN 2,346,033.00. This value is the result of the cash dividend distribution agreement for PEN 12,156,903.92, the increase in unrealized results of PEN 2,422,620.92, and the net income as of the fourth quarter of 2019 amounting to PEN 7,388,250.00. Financial income increased by 14.1% in response to placements made by the company, such as shares and the dividends they generated, as well as interest from mutual funds (Creditex, 2020).

#### **1.4.5. Human resources and culture**

Human Resources is one of the most important areas of Creditex. It is also the area that generates the highest costs. At Creditex (n.d.), creative technologies are available to the people working in different areas, which contribute to the production of end products that meet international quality standards. For employees, there are incentives such as wellness programs for the employee and his family, integration events, health campaigns, holiday celebrations throughout the year, etc.

Creditex sees its employees as an essential source of expertise and a potential source of competitive advantage. To avoid drastic staff cuts, it is essential to work together as a team and develop products and processes that will boost sales. The employees have access to

machines and products of superior quality (Koch & Negron personal communication, June 25, 2020).

#### **1.4.6. Information and communication system**

Information and communication technology (ICT) play a central role in many countries in adapting to today's world. Businesses need ICT to become more efficient and competitive so that they can develop further. To play a role in the global supply chain, companies must establish different business models, break the production chain into smaller parts and thus open up new opportunities. ICT plays a central role in this. Creditex has a state-of-the-art ICT system that enables them to monitor their entire value chain with a maximum delay of five hours. This is particularly important because, for strategic reasons, their ginning plants are located directly in the cotton-growing regions. This enables them to source all their requirements directly from the supplier, thus enabling them to select only high-quality goods. The type and quality of cotton can be constantly monitored during processing. With this information, the stock levels in the knitting mills can be monitored in good time and the productivity of the knitting mills can be continuously developed (Creditex, n.d.).

#### **1.4.7. Technology, research and development**

Historically, the textile industry has undergone constant technical development and has thus had a major influence on how textile products get from the raw material to the end customer. Great leaps have been made, especially through the Internet and the constant development of production machinery. In today's business environment, it is essential to continuously explore new approaches in order to remain competitive as a company. At Creditex, this is taken into account through ongoing investment in machinery and infrastructure along its entire value chain. This is necessary to meet the ever-challenging

requirements of its customers. In order to be even more focused, Creditex works hand in hand with the best manufacturers of machinery, equipment, and raw materials (Creditex, n.d.).

#### 1.4.8. Strengths and Weaknesses

In this section, the information obtained from the internal company analysis is assigned to either company strengths or weaknesses.

Table 6.

##### *Strengths and weaknesses*

Strengths	Weaknesses
S1. Established and well-known company	W1. Inefficient product development
S2. Textiles and yarns of high quality	W2. Lack of trend adjustment
S3. High level of control over the production processes due to the high level of vertical integration	W3. Very little differentiated clothing portfolio
S4. Highly qualified and trained personnel	W4. Low level of profitability
S5. International network	W5. Poor innovative products and processes
S6. ISO 9001 certification	W6. “traditional”, “hierarchical” and “refusing to change - or not seeing the need to change” corporate culture
S7. Well established and secure supplier relationships	W7. Poor communication throughout the corporation
S8. USP: Pima Cotton	W8. Unstable and inefficient production capacity utilization
	W9. Production orders in small quantities

#### 1.5. Conclusion

The textile industry is changing. Companies linked with or operating in this industry need to consider many aspects that form the foundation and competitive environment of this industry. Technology, new trends, changing cultures, globalization, and new economic changes that are present around the globe require regular structural and strategic updates within companies. Businesses like Creditex must keep pace with these changes and trends.

New competitors also have to meet certain criteria to successfully enter the textile industry. Companies from Asia have successfully done this in the Peruvian market. In addition to trend adjustments, Creditex must develop strategies to recover the losses caused by the ongoing pandemic. In order to remain successful in the South American market, the Peruvian textile company has to study and analyze its market, including its customers and their wishes, in order to generate promising strategies.



## Chapter II: Key Problem

In this chapter, the identified corporate problems are presented, and the key problem is identified. The substance, location, magnitude, and time perspective of this problem are then analyzed.

### 2.1. Identified problem

In this section, the problems identified by the company as well as those identified by the consulting team are presented.

#### 2.1.1. Problems identified by the company

One of the identified problems is a significant loss of profit. The company has suffered a serious profit downturn, especially in the last five years. The main reason for this decrease in profit is ever-increasing manufacturing costs. A very high-cost factor in this context is the personnel costs (Koch & Negron personal communication, June 16, 2020).

Another problem that has a significant impact on the sales figures of Creditex is increasing competitive pressure, especially in the South American market (EIKON, 2020). The market share of the Peruvian textile manufacturer has suffered as a result. Products from Asia (especially from India, China, and Vietnam) are gaining market share. Although these products are far from being as high quality as those of the Peruvian company, they bribe with an incredibly low price. An Indian, Chinese, or Vietnamese running meter can be bought for 3 dollars. At the company Creditex, the production costs for one running meter alone amount to 4 dollars (Koch & Negron personal communication, June 16, 2020).

The products offered by Creditex are also mentioned as another reason for the declining sales figures. The Creditex product range, which consists of high-quality, high-priced, and elegant articles, was overlooked in order to adapt to today's prevailing trends. Most of the products in the range no longer meet the demands of customers. The company

has no product that can be sold at a sustainable profit on the South American, Mexican, and North American markets.

### **2.1.2. Problems identified by the consulting team**

In addition to the problems identified within the company, the consulting team was able to detect other areas in which there is considerable potential for improvement.

One of these areas is the corporate culture of Creditex. Large parts of the Creditex workforce (including explicitly the top and middle management) are not aware or not fully aware of the current critical situation of the company. The enterprise has been operating successfully for decades without ever significantly changing its processes or products. This long phase of success and not having to adapt has become embedded in the corporate culture and the minds of many employees. This mindset prevents change and adaptation of current market trends in the textile market. It also hinders productive, innovative, and effective cooperation as well as efficient solution finding.

Another thing that is certainly very much related to the Creditex corporate culture is ineffective and inefficient change management. Processes of decision making, product development, and market introduction consume a great amount of time. As a result, newly developed products are not in high demand at the time of launch or, in the worst case, they are no longer trendy at all.

## **2.2 Key Problem**

The key problem is clearly defined, and its substance, location, ownership, magnitude, and time perspective are analyzed.

### **2.2.1 Substance of the problem**

The company has no product that can be sold sustainably and profitably on the South American, North American, and Mexican markets. Although there are several areas in the company Creditex. with potential for improvement, the consulting team considers the launch



of a sustainable and successful product as the most important. The reason for this is to generate higher profits as quickly as possible in order to prevent, among other things, a significant reduction in staff. Creditex presents a new or revised product range every 6 months. The collection for September 2020 is already planned, i.e. a product for the next season (February/ March 2021) has to be designed. The fabric division in particular is experiencing massive revenue declines. In 2018, this division generated revenues of PEN 34.85 million. Compared to 2017 (PEN 50.57 million), this is a 31.08 percent decrease. This shows the urgency of this corporate problem.

### **2.2.2 Location of the problem**

The problem that the products in the portfolio sell badly or not at all concerns the whole internationally operating company. However, when locating the problem, it is worth noting that the lack of product development and trend adjustment is particularly noticeable in Creditex's textiles and garment divisions and less so in the yarn division.

### **2.2.3 Ownership of the problem**

The responsibility for the defined problem is shared by many parties. Top and middle management bear a particularly high level of responsibility. With regard to product innovation, product development, and introduction, the Creditex technical manager, commercial manager, and the employees of the pre-production area have the greatest responsibility. Figure 6 shows the company organization chart of Creditex.

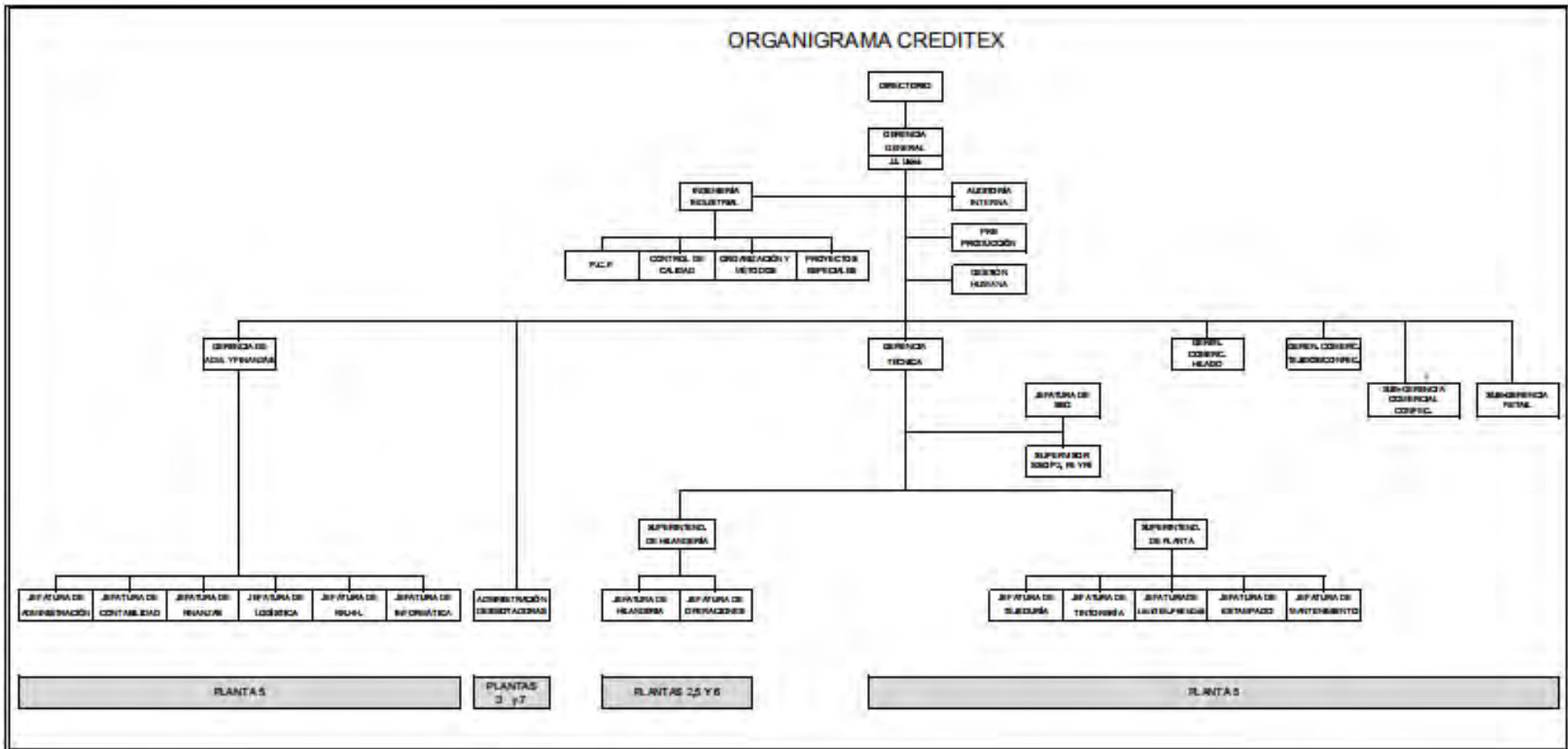


Figure 6. Organizational chart of Creditex

Taken from “Organigramma Creditex”, Koch, R., and Negron, L. personal communication, June 25, 2020

### 2.2.4 Magnitude of the problem

Figure 7 and Figure 8 and the reports of Mr. Koch and Mr. Negron demonstrate how serious the company situation is and how important it is to launch profitable projects shortly. Table A1 additionally gives a comparison of sales of the different divisions in 2017 and 2018. As already mentioned, drastic staff reductions, and location closures are imminent. The company, therefore, needs a saleable product for the South American, Mexican, and North American markets as soon as possible. Since the company presents a new collection every six months, product innovation would be suitable for the launch of the collection in February/March 2021. Figure 3 shows that the operating profit of the company is negative (-1,83 million PEN) in 2019. This trend seems to continue. The Free Cash Flow in 2019 was minus 24,1 million PEN.

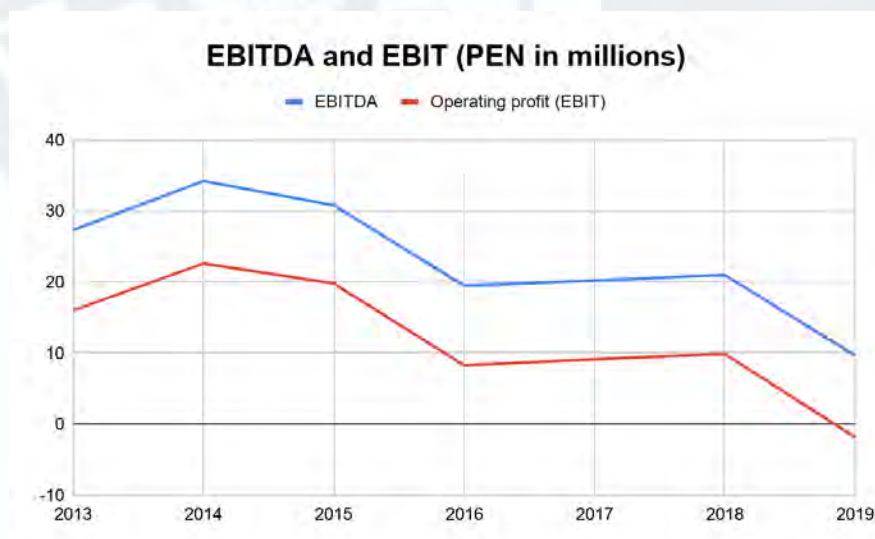
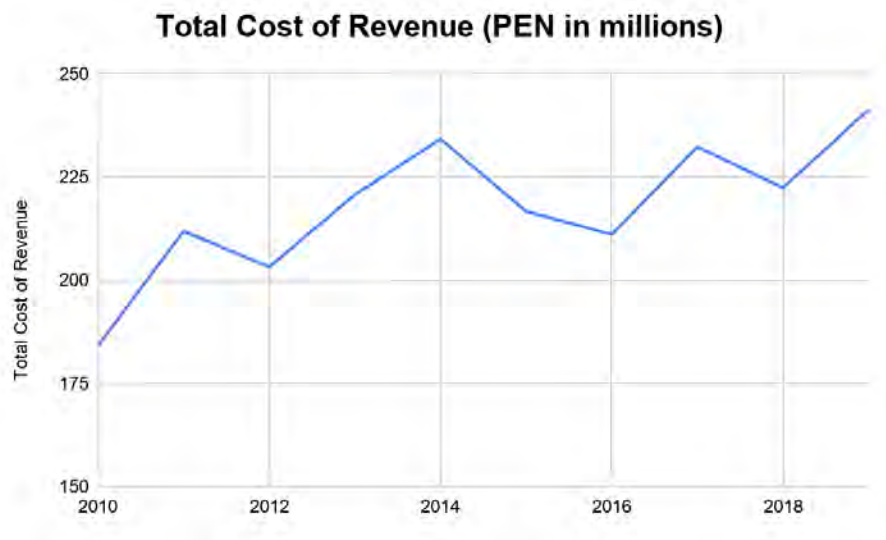


Figure 7. Creditex EBITDA and EBIT development (2013-2019)

Data from "Creditex S.A.A (CRETEXI1)", Market Screener, n.d.

(<https://www.marketscreener.com/CREDITEX-S-A-A-45419111/financials/%2Fservices%2F>)



*Figure 8.* Creditex S.A.A Total Cost of Revenue from 2010 until 2018

Data from “Refentitiv Eikon“, EIKON, 2020 (<https://eikon.thomsonreuters.com/index.html>)

### **2.2.5 Time Perspective of the problem**

The trend of increasing costs and simultaneously decreasing profit can be observed particularly strongly over the last five years. Figure 4 shows the development of Creditex’s earnings before interest, tax, depreciation, and amortization (EBITDA) and earnings before interest and taxes (EBIT) from 2013 to 2019. Figure 5 on the other hand shows the development of the Total Costs of Revenue from 2010 to 2019. These figures confirm what the Commercial Manager reported during an interview: The costs in the company have been rising steadily and massively for years and represent a huge problem for the company. The profit of the company decreases from year to year (Koch & Negrón personal communication, June 25, 2020; Eikon, 2020).

## Chapter III: Literature Review

This chapter presents and analyses relevant literary topics. It presents a rundown of previous literature and past research that applies to the problem(s) that were identified in Chapter II.

### 3.1. Literature Mapping

The literature mapping gives the opportunity to clearly define the most important and/or relevant topics in the literature review process. Mapping the literature helps to structure and visualize it better before starting the literature review process (Rowley and Slack, 2004).

The focus of the literature map is the identified problem. Relevant literature areas identified in connection with the problem are (a) the product development process, (b) customer and trend analysis, (c) specifics of product development in the North and Latin American market, (d) change management, and (e) change management in Peru. Relevant information can be found in various sources, such as journal articles, books, papers, theses, and archival material. Figure 9 shows the literature map, which visualizes the areas of the literature review.

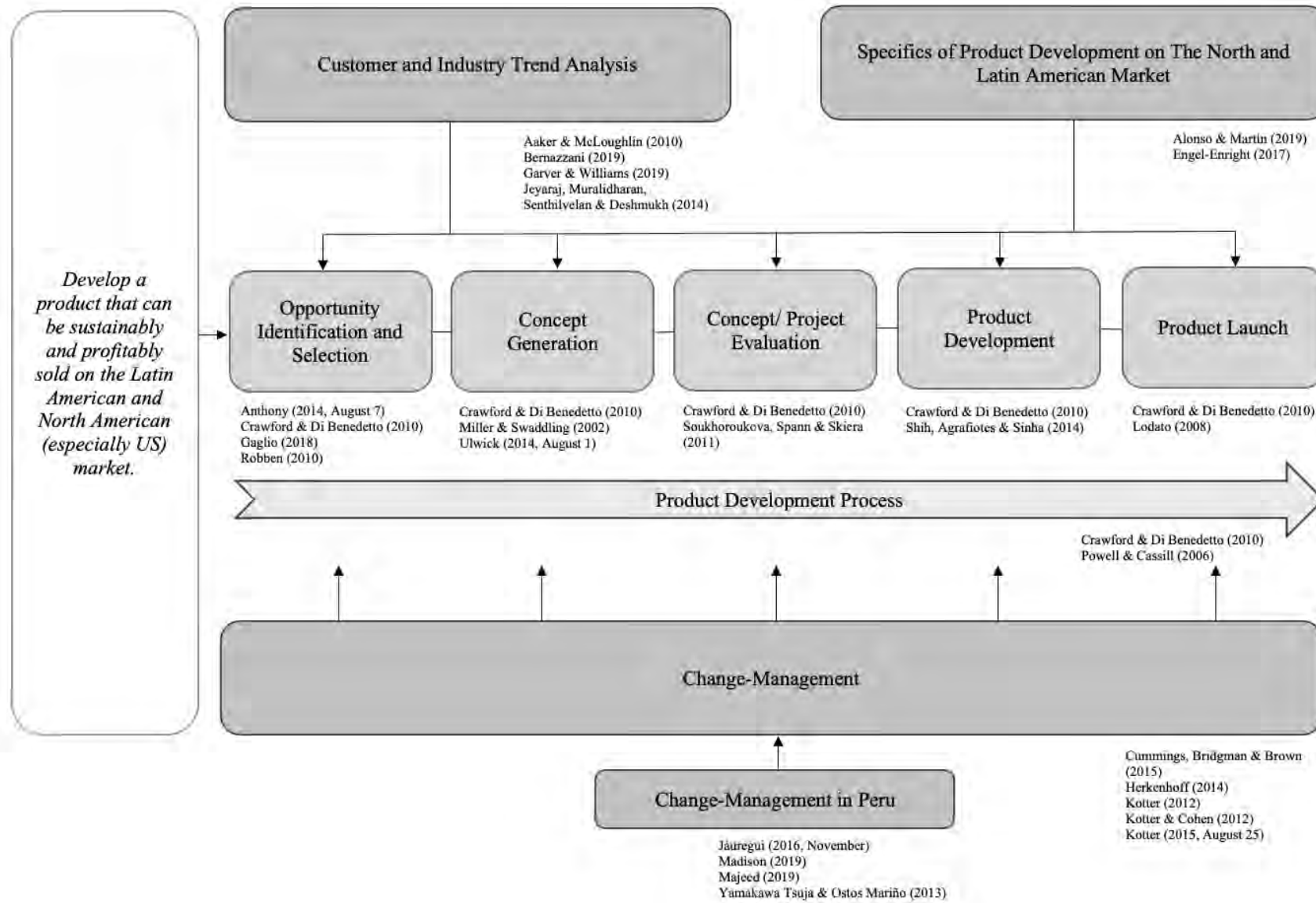


Figure 9. Literature map

## **3.2. Literature Review**

The literature review serves as a method to collect knowledge related to the defined problem. By conducting a literature review, one gains an insight into already existing knowledge and theories related to a defined problem (Eschenbach, 2020).

### **3.2.1. Change management**

Przeworski (2012) points out that the need for companies to continuously adapt to constantly changing economic, social, political, and cultural conditions is more relevant than ever. The worldwide mobility of people and goods and the unlimited availability of capital and knowledge have led to a global competitive situation in which goods and services have become interchangeable to such an extent that companies that insist on only conservative corporate structures and business processes are threatened in their existence. Worldwide synergy effects and value-added processes as well as a general social transformation make all-embracing, holistic, and long-term change projects in companies inevitable.

In global competition, only those who are willing and able to carry out this process of adaptation quickly and continuously can survive (Reiß, von Rosenstiel & Lanz, 1997). According to Sadri and Lees (2001) today, the goal of distinguishing oneself from other companies and being "better" can no longer be achieved by applying purely business management methods alone but is increasingly influenced to a greater extent by the active corporate culture. Because the quality of the corporate culture determines whether business processes can be optimized in such a way that they lead to maximum corporate success. Greater willingness to innovate, stronger customer orientation, and the smooth cooperation between the business units of a company can only be achieved through a suitable corporate culture.

Under the section Change Management the (a) model of Streich, which describes the phases of emotional acceptance in the course of change, the (b) 8-step model according to



Kotter, which gives managers guidance on how companies can be successfully led through change as well as the (c) concept of the learning organization is presented. The concept of the learning organization aims to integrate change as part of the organizational structure and to consider the fact of regularly adapting the organization to changing conditions as "normal".

**Phases of change according to Streich.** Change is a process and can be divided into different change phases. Several change models have this phase progression in common. Streich (2016) also looks at the change process in phases. In his model, the question of how people or even entire organizations experience change depends on the perceived competence in change, which shifts over time. The focus here lies on involuntary, externally induced changes. Streich developed the model of a change curve on this basis.

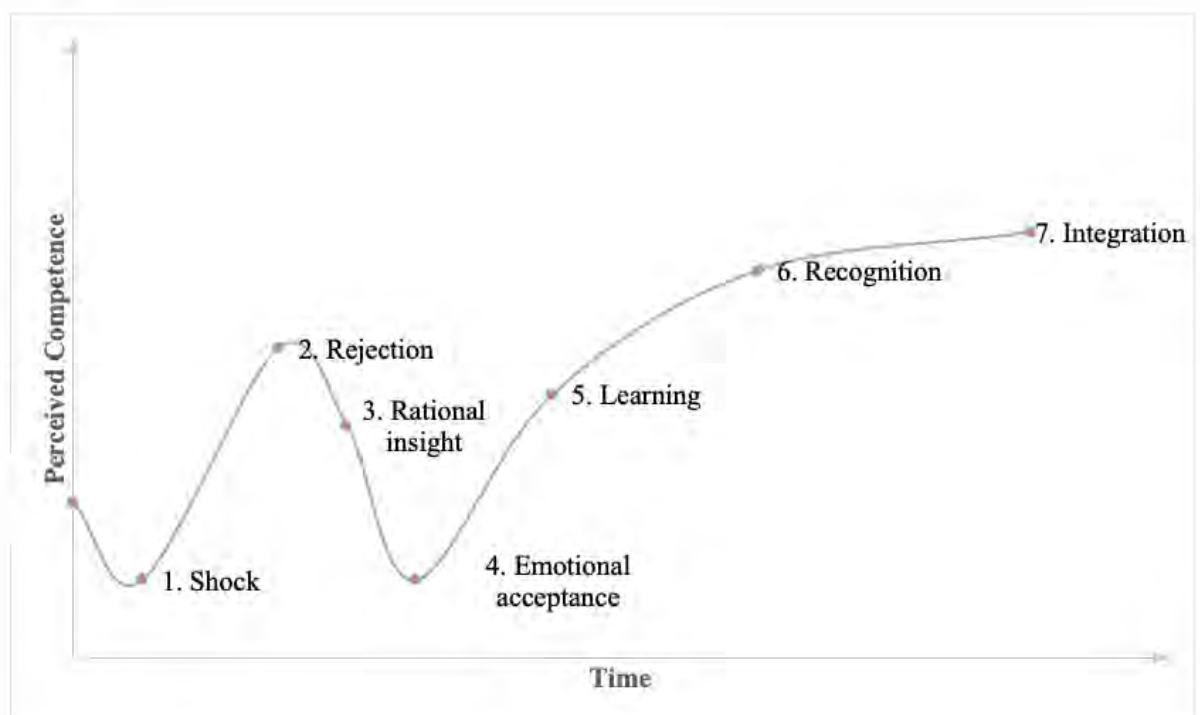


Figure 10. Streich's phases of change

Adapted from *Fit for Leadership: Entwicklungsfelder zur Führungspersönlichkeit* (p. 25), by Streich, R.K., 2013, Wiesbaden, Germany: Springer Gabler.



As shown in Figure 10, Streich's model consists of seven phases. These phases are explained in more detail in the following (Streich, 2016):

- **Phase 1. Shock/ surprise:** In this step, employees are confronted with the fact that change is inevitable, and this inevitably leads to a certain amount of fear and cannot be understood by certain people. Employees who feel that their current skills are not sufficient for future tasks often show reduced productivity levels.
- **Phase 2. Rejection:** When the first shock moment has passed, certain employees try to push the upcoming change away and pretend that everything will continue as before. In very extreme cases this state can last for a very long time and lead to these employees losing touch with their colleagues and reality. In this situation, it is therefore essential that managers give employees an understanding of the situation and involve them in the change process. This requires many one-on-one meetings and understanding the fears of colleagues.
- **Phase 3. Rational insight:** In this phase, the employees have accepted that change is inevitable and that their rejection of it is not conducive to achieving the desired results. However, they do not yet fully understand what the target situation looks like and therefore only minor changes occur in this phase.
- **Phase 4. Emotional acceptance:** At the low point of the emotional refusal to change, a change happens in the employees. They accept that the change must happen and do not only understand this. Now they can break away from established practices and the fundamental change process can begin.
- **Phase 5. Learning:** The employees try to get along in the new environment, sometimes they are even curious about how the new processes work and they

are therefore more involved in the change process. By constantly trying out, the new activities are learned.

- **Phase 6. Recognition:** As successes become visible when using the new processes, the employees recognize that the change also has positive aspects. Thus, the newly learned is integrated into the daily working life.
- **Phase 7. Integration:** The change process is completed, and the new behavior of the employees is fully integrated into the work process.

In contrast to Streich, who focuses on the emotional reactions of employees in change management processes, Kotter concentrates on eight process steps which must be passed through in order to successfully manage change. He also focuses strongly on the role of managers in each of the process steps.

**Kotter's 8 phase model of change.** According to Kotter (2012), it is not technology but people who are the greatest hindrance to change. Kotter developed the 8-step model of change in 1996. This model shows eight phases of change management and provides managers with tips on how to successfully drive and lead change. Figure 11.1 shows the eight phases of change according to Kotter.

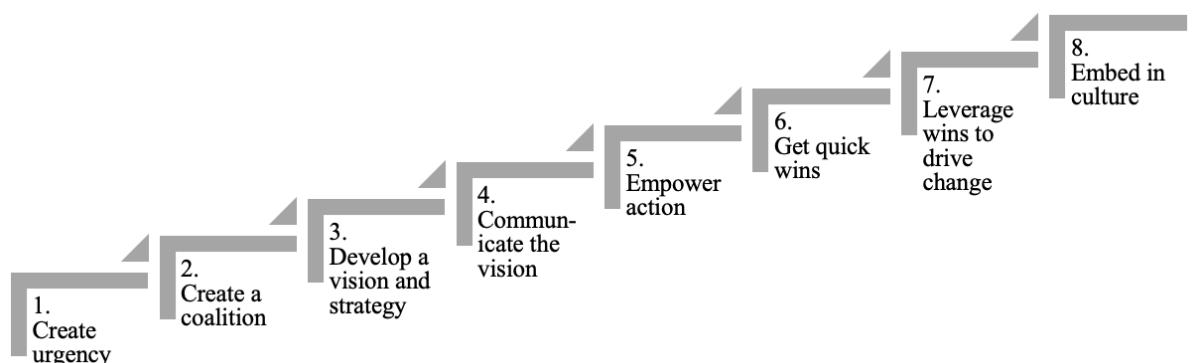


Figure 11. 8-Step Change Process according to Kotter

Taken from “The 8-Step Process for Leading Change”, Kotter Inc, 2019, September 25  
(<https://www.kotterinc.com/8-steps-process-for-leading-change/>)

The model focuses on person-to-person communication. The model of John P. Kotter is a further development of the 3-phase model of Kurt Lewin. Figure 121 shows how the eight phases of Kotter can be categorized in Lewin's unfreeze-move-refreeze model from the year 1947 (Cummings, Bridgman & Brown, 2015).

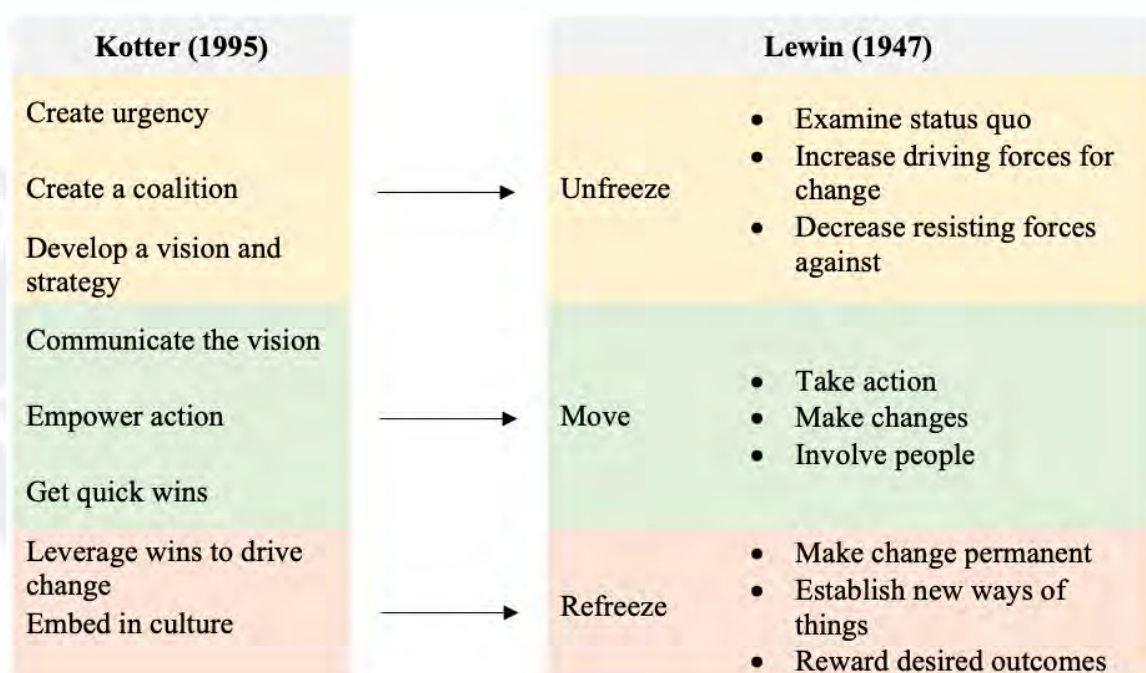


Figure 12. Comparison of Kotter's and Lewin's change models

Adapted from “Unfreezing change as three steps: Rethinking Kurt Lewin's legacy for change management”, Cummings, S., Bridgman, T., & Brown, K. G., 2015, *Human Relations*, 69(1), p.10.

Kotter (2012) states that change in companies can only be successful if all eight stages of change are passed through and intensively accompanied by managers.

*Phase 1. Create a sense of urgency.* At the beginning of a planned change is the insight that only quick action can contribute to the further success of a company. This insight

required by employees can only be gained by creating a sense of urgency in them. At the same time, Kotter makes it clear that a feeling of urgency should not have its origin in triggered fear or anger. However, employees will only then be willing to cooperate and support the change when the awareness of the necessity of change has arrived in their minds (Kotter, 2011). According to Kotter, developed future scenarios, which could occur in the event that no changes are made, help develop the necessary awareness among employees (Klug, 2009).

In order for a company not to fail directly at the first stage of a change process, it also requires a large portion of courage as well as the willingness of managers to take risks. After all, a top management team led by cautious managers will hardly be able to create or increase a sense of urgency in order to successfully implement a change process (Kotter, 2011).

*Phase 2: Form a powerful coalition.* Once a company has survived the first stage and successfully communicated to its employees that change is indispensable, it is now a matter of building a suitable leadership coalition. If an organization wants to successfully implement fundamental change, this requires a powerful and assertive team consisting of members who possess the necessary degree of trust of all participants and, above all, pursue the same goals (Kotter, 2011).

As mentioned above, an effective team that will move an organization forward in a process of change requires trust and the pursuit of the same goals and should unite employees from different departments. This provides a coalition with a wide range of competencies (Klug, 2009).

*Phase 3. Develop a vision and strategy.* In this phase it is up to the management team to develop a suitable vision and strategy to achieve the goal. The vision used should take on several functions for this purpose. At best it has a motivating effect on the employees and

acts as a support during the first steps of change. At the same time, it should coordinate processes between departments and employees (Kotter & Cohen, 2012)

*Phase 4. Communicate the vision of change.* Phase 3, developing the vision and strategy, has already shown how important a properly elaborated idea of the future is for a process of change. But now it is up to the successful communication of this idea within the company. Only when all those involved can come up with a common understanding of a new orientation is there less danger of the transformation breaking off at this point (Kotter, 2012).

Klug (2009) stated that well-executed communication also enables management to gain the necessary trust of its employees. However, it must be noted that top management in particular adapts its behavior to the new vision. Only in this way can prejudices and mistrust within a company be reduced.

According to Kotter (2011), phases 3 and 4 run strictly according to a top-down process. This fact is strongly discussed in the literature. The additional application of the bottom-up or countercurrent process is mentioned in several places as helpful or even necessary (Przeworski, 2012).

*Phase 5. Empower action.* Employees need to be empowered on a broad basis in Phase 5 of Kotter's 8 Step Plan. For resistance can still arise, which can prevent employees from implementing the change. To prevent this, it is necessary to remove as many obstacles as possible (Kotter 2011). Unsuitable organizational structures or work processes that no longer match the current status should be eliminated in this phase (Teuber & Himmelreich, 2006).

*Phase 6. Get quick wins.* It often happens that employees and participants lose motivation after a short time, because the goals set by the management are too far away. In order to avert this danger, the use of short-term goals that can be reached quickly is suitable (Przeworski, 2012). According to Kotter (2012), quick successes help to weaken opponents

of a change project and make them supporters of the project, since improvements that occur justify the use of change. It also further stimulates the fighting spirit of the employees who have supported the project from the beginning. For change agents, achieving goals means positive feedback for previous work.

However, quick successes can only support a transformation if they are real.

Successes that do not have a solid foundation and are used by management purely as a means to an end to get employees on board quickly are often quickly seen through by those involved. This whitewashing can lead to employees becoming cynics or opponents. Moreover, participants may find this approach unacceptable and therefore turn away from the project (Kotter, 2011).

*Phase 7. Leverage wins to drive change.* Even if the positive effect of the short-term successes described above cannot be denied, companies are now running the risk of resting on their laurels early on. At this point, it would not be advisable to be deceived by the initial successes and to think that the entire project could continue to run successfully on its own from now on. The goals achieved in the short term must now be secured and further changes introduced (Miximini, 2013).

In this phase, proper leadership is essential and can have a decisive impact on the further course of the transformation process. Good leaders will not lose sight of the actual goal prematurely during this time but will devote themselves to change projects and quickly set them in motion in order to drive the further development of the company (Kotter, 2011).

*Phase 8. Embed in culture.* Once a company has successfully overcome all seven phases, it is now a matter of anchoring the achieved goals and new approaches permanently in the corporate culture (Klug, 2009). Kotter (2012) is of the opinion that cultural change can only really happen in phase 8, as it requires a previously successful change in the ways of acting and working of all those involved. To want to carry out the cultural change already at

the beginning of a transformation process would therefore be the wrong approach. Right at the beginning of a change process, behavioral changes are necessary to drive the transformation process forward. However, the final anchoring of the completed change in the corporate culture only takes place at the end of the process.

Kotter has already mentioned how important it is to embed change into the corporate structure and culture. The concept of the learning organization also deals with the embedding of change.

***The learning organization.*** Today's organizations are increasingly influenced by the knowledge-intensive global environment. This environment is characterized by growing complexity, uncertainty, non-linearity and rapid change (Popova-Nowak & Cseh, 2015). According to Wang and Ellinger (2011), companies that want to function effectively in this time and generate or maintain a competitive advantage through creativity and innovation are turning to organizational learning.

A learning organization is an organization where change is accepted as normal. These organizations usually have an organizational culture open to change and efficient organizational mechanisms for learning. A learning organization permanently orients its further development towards customer needs and market demands. In a rapidly changing world, companies that do not permanently adapt to change quickly lose touch with their competitors. The "learning company" constantly faces up to the demands of the market. One of the characteristics of learning organizations is that they monitor the changes in markets and recognize risks and opportunities arising from the changes at an early stage (Kluge & Schilling, 2000).

Molina, Kaiser and Widukl (2018) list the following as key elements of a learning organization:



- **Decision making:** Decisions are made at the highest level of competence. While in conventional company organizations the hierarchical level determines who is allowed to make which decision, in a learning organization the person with the greatest wealth of experience is authorized to make decisions in a particular matter.
- **Delegating responsibility:** By delegating tasks and responsibilities, employees can work more freely. This promotes for instance effective solution-finding processes. It has been shown that in companies which are conventionally run and where there is constant intervention by the board of directors or top management, a culture of learning that promotes work cannot develop.
- **Turning those affected into participants:** Here, the assumption applies that people who are themselves involved in the decision-making process and who have been integrated in its course are more likely to identify with the changing company. This increases the individual enthusiasm and may jump over to employees who still have doubts about the change.
- **Clearly defined goals:** Clearly defined objectives convey to employees the sense of implementation and the way to achieve the objectives.

### **3.2.2. Change management in Peru**

In order to reveal how Peruvian companies, deal with change, Jáuregui (2016) conducted a study in which over 100 managers of large-scale companies in various sectors were surveyed. This study was designed to investigate how change management processes are implemented in Peruvian companies and how they are managed.

Most of the managers believe that there is a positive perception of change in their organizations. However, a significant percentage of respondents also think that change is



negative and expensive. 58% see change and transformation as an opportunity for change, 11% as necessary, 21% as negative, and 10% as costly (Jáuregui, 2016).

The survey also showed that higher hierarchical levels of organizations are more willing to change. Jáuregui (2016) sees the reason for this as the lack of communication on process developments and progress. More than two thirds also state that there is little or no coaching, training, or further education for employees. They are not prepared or trained for new needed skills, functions or tasks. Another area with significant potential for improvement is process monitoring. In Peru, the response to change and transformation is usually reactive rather than proactive. According to Jáuregui (2016), this is one reason why companies fail to adapt to a changing world and seize opportunities in this changing world, despite all efforts.

### **3.2.3. Customer and industry trend analysis**

Organizations are increasingly focused on satisfying individual customer needs in a fiercely competitive international market. An ongoing challenge for companies is dealing with customer satisfaction, which in turn to a large extent determines the customers' willingness to buy. The ability to understand and meet customer needs as well as the early identification of emerging trends are regarded as core factors in product design and development, which in turn influence the success of a company in specific markets (Jeyaraj, Muralidharan, Senthilvelan & Desmukh, 2014).

Customer analysis. Scientific studies (Eggert, Ulaga & Schultz, 2006; Auh, Menguc, Katsikeas & Jung, 2019; Jiang, Li, Yan, Li, & Chen, 2019) show that customer orientation and the creation of special customer benefits have a high impact on the long-term success of a company. It is therefore of central importance for a company to know its customers and their needs. This allows particularly attractive customer groups to be selected and these can be addressed individually and effectively.

The goal of the strategic customer analysis is to identify existing and potential customers or customer groups (market segments), their needs, and purchasing behavior. In doing so, both the current situation and possible future developments that may result from changes in existing customer groups should be taken into account. The strategic customer analysis primarily addresses the following questions (Reisinger et al., 2013):

1. Who are our customers?
2. Which market segments (customer groups) can be formed?
3. Which market segments are particularly attractive?
4. Which needs and which buying behavior do these customers show?

In the following, the four phases of strategic customer analysis are examined in more detail.

*Identification of customers.* The first step in strategic customer analysis is the identification of the company's customers. The first step is to clarify whether the customers are private end customers (consumer goods market) and/or companies (capital goods market). The aim of this phase is to create an awareness of which customers are relevant to the company today and in the future.

*Formation of market segments.* The needs of customers are often very different. Nevertheless, individual customers can usually be grouped together in groups with similar needs. The task of market segmentation is to divide customers into groups in such a way that the similarity within the group is as high as possible and the similarity between the groups is low. In the literature, there are various criteria available for segmenting consumer and capital goods markets (Hungenberg, 2014).

Table 7.

*Segmentation criteria*

Criterion	Consumer goods market	Industrial goods market
<i>Demographic criteria</i>	Age, gender, income, place of residence	Location
<i>General personality traits</i>	Lifestyle, attitudes to life, interests	
<i>Socio-economic criteria</i>	Income, education, profession	Sales, industry
<i>Purchasing behavior</i>	Shopping location selection, product selection, purchase frequency	Procurement concepts, purchasing frequency, purchasing volume
<i>Customer needs/preferences</i>	Preferences in terms of price, quality, desired function, brand, ...	Preferences in terms of price, quality, desired function, brand, ...

Adapted from "Strategisches Management", Reisinger, S., Gattringer, R., & Strehl, F., 2013, p.67.

The market segmentation serves as the basis for a customer-specific approach and offer generation. The selected segmentation criteria should therefore be oriented as closely as possible to the purchasing behavior of the customer (Homburg & Krohmer, 2016).

*Select attractive market segments.* The subsequent stage involves the identification of those market segments that are particularly attractive for the company (target groups). Both quantitative aspects (e.g. market volume/potential, sales volume/potential, customer lifetime value, ABC analyses) and qualitative aspects (e.g. strategic importance of the customers, the intensity of competition) are relevant for the decision (Hungenberg, 2014).

*Determine customer needs.* To establish the chosen customer groups on an individual level, it is required to analyze both the needs and purchasing behavior of these customers. Thus, the motivational factors are examined as well as customer price willingness and the overall buying process (Reisinger et al., 2013).

Sources of information available for strategic customer analysis include customer surveys or observations, market studies, statistics, surveys of sales staff or retailers, internal company customer data, website usage behavior, and crowdsourcing (Armstrong & Kotler, 2017).

***Trend research and trend management.*** Due to the increasing speed of innovation of technologies and products, it is no longer sufficient for companies to react to changes on an ad hoc basis. What is required is the ability to react to weak signals and to initiate changes and market adjustments preventively (Durst, Stang, Stöße & Edelmann, 2010). According to Pfadenhauer (2004), failing to follow a trend or acting too late can mean considerable competitive disadvantages for a company. The aim of trend research is therefore to examine and name the processes of change in the present. Trend management in companies has the task of identifying relevant trends, recording them in a structured manner, and evaluating them in order to take suitable measures for implementation or further observation. The trend researcher forms his assessment of a trend based on leading indicators, the assessment of experts, and his own opinion (Dömer & Junker, 2009).

Trend management is understood as part of the innovation process. Thus, it cannot be considered separately from this process. The task of trend management within the innovation process is to generate ideas. It is thus used more in the early stages of innovation management (Herstatt & Verworn, 2007). In these phases, needs in the company are identified by means of strategic search fields. Ideally, trend management results in the emergence of new ideas and innovations that turn into a competitive advantage in the product portfolio (Dömer & Junker, 2009).

***Information sources.*** Theoretically speaking, many various forms of information sources is conducted when looking for trends. External sources involve both primary data (e.g. conferences, trade fairs, and congresses) and secondary data (e.g. start-ups, competitors,

web research, print media, trend databases, or agencies). Compared to large companies (companies with 500+ employees), small and medium-sized enterprises (SMEs) are most likely dependent on primary data, such as conversations with colleagues or customer opinions. Internal data sources are particularly suitable for incremental innovations. Conversely, to identifying new trends at an early stage in order to possibly align new business models with them, a comprehensive scanning of the external corporate environment is crucial (Durst, 2018).

*Methods.* The underlying database has a decisive influence on which methods can be used for trend research and identification. Thus, qualitative methods are used in particular for the analysis of expert interviews or customer opinions. Brainstorming, active self-research, expert interviews, formal and informal exchange were the methods most frequently cited for identifying trends. Automated analysis tools enable companies to work out data much more effectively and thus enable them to identify trends faster and more specifically. Using applicable cluster algorithms and machine learning methods, the significance of search results can be considerably increased, and the use of resources can be minimized. Some companies are already using software solutions that are capable of analyzing huge amounts of documents for complex patent searches. Technology experts can thus focus on the crucial topics instead of getting lost in the multitude of publications, patents, and press releases (Durst, 2018b).

*Trend evaluation.* For trend evaluation, the practice relies on proven standard criteria such as relevance to the industry and the company, market potential, degree of maturity, or strategic fit. Above all, fast-moving trends need to be continuously monitored and reassessed again and again (Durst, 2018b).

*Organizational embedding.* Trend management is usually part of the marketing and street department or is even formed by a single person. In larger companies, there are

sometimes departments that deal exclusively with trend management. In order for the trend management process to work, all process steps and the related tasks and roles must be implemented and communicated (Durst et al., 2010).

### **3.2.4. Product development on the North and Latin American market**

In this section specifics of product development on the North and Latin American markets are presented.

*North American market.* Global spending on research and development has reached a record high of almost USD 1.7 trillion in 2019. Almost ten nations are responsible for 80% of this expenditure. The United States (US) became the world leader in research and development in the 20th century. The US, the world's largest economy, accounts for around one-fifth of global economic output. In relation to the gross domestic product, the US invested a share of 2.7 % in research and development (R&D intensity) in 2019. The country produces the most goods and services per period worldwide. High investments in research and development are intended to promote innovation in order to maintain the enormous economic output in the future. Measured by R&D investment, the US is the most research-active nation in the world (UNESCO, 2020).

Above all, the progress of technology and the numerous increasingly simple possibilities of producing personalized and individual products have further increased the number of new product developments in the US. More than 30,000 new products are launched in the US every year. This seems rather high, but studies show that at least one-third of US consumers are actively looking for new products on the market. Especially the US government, research institutions, and American universities invest a great amount of financial and intellectual resources in the development of new products (Kupfer, 2019).

*Latin American market.* Herrera (2007) points out the importance of the business environment in terms of development and innovation strategies, especially in Latin American

countries. He sees effective product management as a dynamic integration process that brings together several actors. The systematic linkages and interactions between the actors as well as the economic and institutional infrastructure that each country can develop determine its ability to effectively develop innovative products. Important actors in this context include governments, research institutes, and universities.

According to Herrera (2007), for innovation to be successful, the following conditions must be in place: (a) qualified human resources; (b) education, training, and research facilities of excellent quality; (c) companies that strive to create innovative products; (d) strong public-private institutions that invest and do not shy away from risk or generate innovative product ideas themselves. Herrera (2007) also mentions that the innovation effort in Latin America, and especially in Peru, is still in its beginning stages compared to the US, Europe, Japan, and Asia. At the global level, there are heterogeneous efforts between countries to promote and develop competition and innovative capacity. Studies show that more and more countries are increasingly committed to investing in innovative research and development projects.

The UNESCO Science Report (UNESCO, 2014) shows that the number and quality of university graduates, the availability of human resources in the field of R&D and scientific production in Latin America increased significantly during the reporting period. With the exception of Brazil, however, Latin American countries are far from being able to keep up with the research intensity of dynamic emerging economies. It should also be noted that there is a general lack of international competitiveness in high-tech activities. As already indicated, Brazil is an exception in this context. Its scientific and research activity surpasses the rest of Latin America in terms of both sheer size and intensity. At the same time, it is geographically highly concentrated and not well connected to the rest of society and the economy, which suffers from stagnant productivity.



Apart from Brazil, no country in Latin America spends more than 1% of GDP on research and development. Most spend less than half of that, which is below the average for low middle-income economies. Overall, however, Latin America's share of global R&D spending has increased from 3.1% in 2007 to 3.4% in 2013. In Peru and Latin America in general, investment in research and development has not increased significantly (around 0.5% of GDP) (UNESCO, 2014).

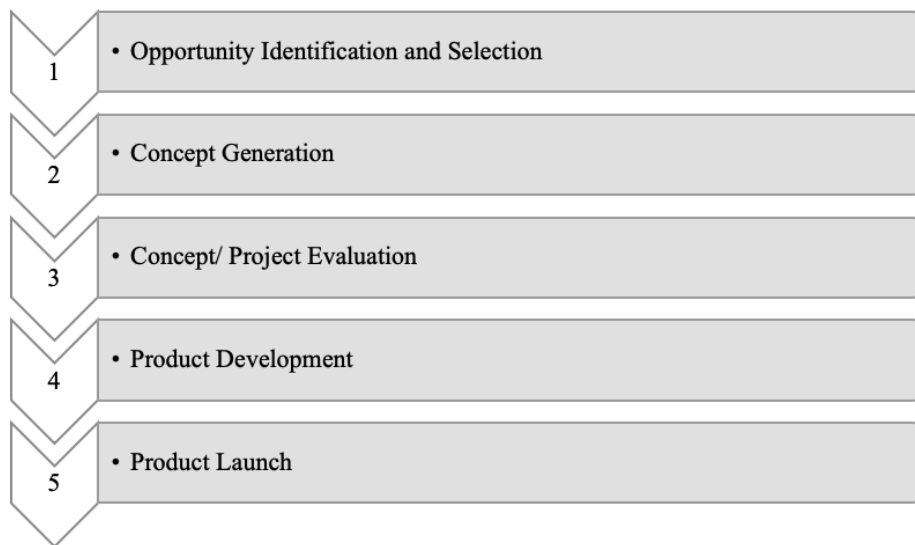
Alonso and Martin (2019) pointed out that the more available capacity from abroad in the form of imports (e.g. through intermediate inputs and capital goods), the easier it is to develop products in South America. Furthermore, they found that the process of product development and diversification is strongly path-dependent, but not deterministic.

Pérezza, Geldes, Kuncc & Flores (2018) point out that through the participation of foreign capital the institutional gaps and lack of regional support systems that they see in Latin American countries can be overcome.

### **3.2.5. Product development process**

Faced with an increasingly globalized economy, textiles and clothing manufacturers face stiff competition and industrial decline as the country's economy matures. New products, whether completely newly developed or only modified and optically differentiated from the previous product, can be the key to the sustainable well-being and growth of companies. It is essential to understand how a textile and garments manufacturer maintains its competitive advantage in the global industry. The development of new products as a factor of competitiveness has been adopted by many companies (Shih et al., 2013).





*Figure 13.* New product development process

Adapted from *New Products Management* (10th ed, p.19), by Crawford, M. C. & Benedetto, A. D. C., 2010, New York, United States: McGraw-Hill Education.

***Opportunity identification and selection.*** The first phase is the search for ideas. As this is the basis of the whole process, the search for new opportunities should be systematic. Internal and external sources can be used for this purpose. Internal sources of new ideas are research and development departments, patent departments, the company suggestion scheme, marketing departments, and market research. External sources can be the analysis of consumer needs and customer problems, the analysis of competitor activities, the analysis of products from other markets and industries, the retail sector, research institutes, scientific publications, market research institutes, and product testing institutes. The brainstorming process can be stimulated and intensified by creativity-promoting procedures in the company (Crawford & Benedetto, 2010).

***Concept generation.*** In the concept phase, starting from the basic solution, the building structure is clearly and completely worked out according to technical and economic aspects (Crawford & Benedetto, 2010).

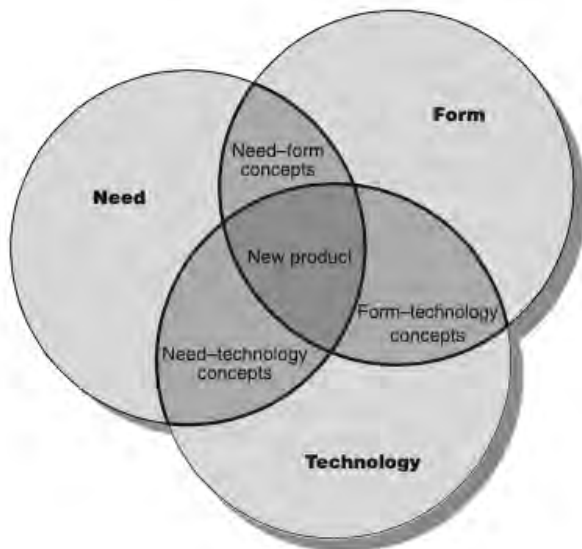


Figure 14. The new product concept

Taken from *New Products Management* (10th ed, p.104), by Crawford, M. C. & Benedetto, A. D. C., 2010, New York, United States: McGraw-Hill Education.

**Concept/ project evaluation.** The search for ideas and the concept generation is followed by a pre-selection phase (screening), in which the new product ideas found are initially consolidated. Ideas that are incompatible with company goals and resources are eliminated. As a method, point evaluation or scoring models (point evaluation procedures) are often used. Based on various criteria, the weighted total score is determined for each product idea; all product ideas that fall below a predefined minimum score are eliminated (Kirchner, 2020).

Furthermore, a profitability analysis can be carried out, whereby, in contrast to the more subjective qualitative considerations, a quantification of the evaluation is carried out during the pre-selection process. Among other things, break-even analysis and investment calculation approaches are applied here. The break-even analysis provides information on whether and under which price quantity constellations the revenues of a new product cover the costs. The minimum sales quantity required to cover costs is calculated. To evaluate

alternative new products, the calculated minimum sales quantities must be compared with the forecast sales expectations. In addition to this static evaluation, new product alternatives are evaluated using the usual methods of investment calculation (net present value method, internal rate of return method, etc.) (Crawford & Benedetto, 2010).

**Product development.** Product ideas that are expected to be successful on the market enter the product development phase. In this phase, in which the research and development department and the marketing department in particular work together, the first attempt is made to concretize products that previously consisted only of ideas. This phase ranges from the first design drawing to the production of prototypes. This phase also includes product conception, such as product design, advertising concept, pricing, and the definition of the product name (Crawford & Benedetto, 2010).

The product development is followed by the test phase, which is decisive for the decision on the market launch. This includes technical-functional tests such as product tests as well as market tests with potential customers to check the acceptance of the product and the entire marketing concept. Depending on the results of these tests, the product concept is either discarded, converted, and improved or released for the final phase, the market launch (Kirchner, 2020).

**Product launch.** In the product launch phase, a company sets a date for launching a product or service on the market. Some refer to the product launch as the official starting date for selling a product or service. On this date, a product launch package is created, which is made available to all persons involved as an internal company accompanying document. From this, the distribution of selective information to the customer is derived. The timing of the launch is determined on the basis of internal factors such as the product development phase and the cooperation between product management and the interfaces (among others) sales, marketing, communication, production, and research & development. Technological

development, market trends, customer demand, competitor activities, and industry-specific events such as trade fairs, symposia, or congresses are among the external factors (Kirchner, 2020).

### **3.3. Conclusions**

The literature review presented will help and provide a better opportunity to suggest different alternatives for the main problem facing Creditex. These main topics have been chosen because they are the first issues on which the company needs to focus its work in order to achieve short-term results. Nowadays, globalization demands constant changes from companies; it is not a question of how big or small a company is, but of being present in the virtual world, especially now that the pandemic is preventing people from moving from one place to another.

## **Chapter IV: Qualitative and Quantitative Analysis**

Both quantitative and qualitative analyses are necessary to analyze the internal problems of the company and to assess risks. On the one hand, it is important to find out the mathematical analyses and data to shed light on important statistics about the company and the market. This type of data, found through tactics such as multiple-choice questionnaires, can help a company like Creditex to assess the interest in its offers. On the other hand, it is equally important to gather the public's views and opinions about the company. To achieve this, organized and sophisticated data must be collected by the company's finance and accounting department, and by interviewing its key customers and consumers (FlexMR, 2019).

### **4.1. Quantitative Analysis**

The purpose of quantitative research is to collect reliable, standardized facts and statistics to guide important business decisions and to obtain knowledge of market statistics and target customer ratios. The collection of mathematical data is essential for the quantitative analysis of a company. In addition, the data must come from reliable sources such as business administration and areas such as accounting and finance to ensure viability (FlexMR, 2019).

#### **4.1.1 Annual revenues**

In the long history of Creditex, it has faced several changes and challenges, some beneficial while some harmful to it. Its name also changed once. It has gone through many crusts and troughs during this time. Its revenues have been affected by many factors. The following figures prove what the Commercial Manager of the company says, “The costs in the company have been rising steadily and massively for years and represent a huge problem for the company. The profit of the company decreases from year to year. Furthermore, it remains to be seen how the COVID-19 crisis will affect corporate profits.” Though its total

revenue has increased from 234,7 to 277,0 in the last 10 years; but the gross profit of Creditex has decreased from 49,3 in 2010 to 35,6 in 2019 (DNB, 2020).

Table 8.

*Creditex S.A.A Income Statement*

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Total Revenue	277,0	267,5	273,0	254,2	269,1	286,4	265,5	238,2	292,2	234,7
Total Cost of Revenue	241,3	222,4	232,3	211,1	216,7	234,2	220,7	203,2	211,9	184,1
Gross Profit	35,6	45,1	40,7	43,1	52,4	52,2	44,7	35,0	78,8	49,3

Data from "Refentitiv Eikon", EIKON, 2020 (<https://eikon.thomsonreuters.com/index.html>)

#### **4.1.2 Product formation**

The significant products, which the company makes, are Yarns, Fabrics, and Clothing. Creditex produces 10 thousand tons of yarn annually, 9 million meters of cotton fabrics, and is a leading company in Peruvian exports of full-range flat-woven clothing. Its annual revenue as per 2019 statistics is USD 79.72 million and its employees 1,403 people overall. The innovation and attention to detail make it different from the rest of the market. Their production process and use of technology give them the ability to pay close attention to the finest details to ensure their products meet their quality standards and exceed customer expectations (Creditex, n.d.).

#### **4.1.3 Logistics**

The company has been facing a downtrend in its logistics and infrastructures lately. The company has been dying for the past 3 to 5 years, the sales are decreasing. The company

is looking to increase sales in South America and start in the US too. The formal garment is being sold less and less through time, customers are changing the wearing style from formal to casual and sport the US by garments only, not fabric. It is difficult to sell in Europe because the lead-time is longer. At the end of 2019 in comparison with the similar period of the previous year decreased by 4.47% in the yarn line, in fabrics it increased by 7.55% and in apparel, it grew by 25.39%. In the 4th quarter of 2019, 8069 tons of yarns, 4394222 meters of fabrics, and 1096561 garments had been produced. In 2019, finished goods were 6,000 less than 2018 even though raw material was 8,000 more than last year (Basu, 2011). At the end of 2019 Creditex closed the year with a slightly higher sale in kilograms of the American yarns compared to the 2018, but turnover in dollars was 9% lower than the 2018 (Superintendencia de Mercado de Valores [SMV], 2019).

#### **4.1.4. Competitive advantage**

Creditex's Generic strategy is differentiation, which gives them a competitive advantage. Even though there are many companies, especially in the US, which are leading the market, there still, are some advantages Creditex has over its competitors which it can use to dominate the market.

- **Quality:** They use cotton tangüis in their products, which is one of the finest fibers in the world and can only be found in certain places around the world. In addition, their products contain Peruvian Pima cotton, which is considered one of, if not the best, cotton in the world. This cotton gives high resistance, comfort, and pureness and is hypoallergenic. 70% of the cotton Creditex uses is Peruvian Pima (DNB, 2020).
- **Processes:** The manufacturing process uses ginning plants that collect 100% of cotton production. Modern system analysis gives Creditex the ability to control the characteristics of the cotton. They use a cutting-edge fabric

spreading system to work fabrics with designs and automatic cutting equipment with high-end technology to make precise cuts. All garments are steam pressed and all products are inspected before they are dispatched (Koch & Negrón personal communication, June 25, 2020).

- **Innovation:** Continuous innovation and optimizing technological advancements allow them to satisfy specialized demands. They implemented UV protection, antibacterial, and anti-mosquito protection to their finished products (Koch & Negrón personal communication, June 25, 2020)
- **Integrity:** The Company has wastewater treatment policies that allow them to reuse 30% of the water that goes into the production process. They also recover and reuse two-thirds of the caustic soda they use each month. The company does not use fossil fuels and has zero emission of CO<sub>2</sub> (Koch & Negrón personal communication, June 25, 2020)
- **Resilience:** During the COVID-19 pandemic, the organization had to endure the stress of only 50% capacity utilization. According to the commercial manager, they managed this situation quite well (Koch & Negrón personal communication, June 25, 2020).
- **Technology:** The Company uses German machinery and equipment in its production plants. Institutes Testex (Switzerland) and Hohenstein (Germany) ensuring that yarns and finished fabric meet Oeko-tex Standard 100 certifies this (Creditex, n.d).
- **Certification:** The Company has a Quality Management System (ISO 9001: 2008), also has the certification of Business Alliance for Secure Commerce



(BASC) an international business partnership that promotes safe trade in cooperation with governments and international organizations (Creditex, n.d).

**Finance and Accounting.** According to the financial information found in the SMV, the liquidity ratio on December 31, 2019, was 2.82 times, the general ratio and 0.99 times the acid test, which compared to the same date in 2018 were 3.19 times and 0.86 times respectively. The working capital S/.160'151,186 and S/.137'587,563 in the same period of 2018. There was an increase in the working capital and acid test but a decrease in the liquidity ratio (Eikon, 2020).

#### 4.1.5 Financial decision making

The investment, financial and dividend decisions and financial income are analyzed in the following (Creditex, n.d.):

- **Investment decisions:** In December 2019, the company made investments of PEN 6,076,361.00, which are mainly made up of machinery, diverse equipment, and installations, in which those destined for spinning and a fabric drying branch stand out.
- **Financial decisions:** The level of sales in Soles in the last year (2019) has experienced a 4% increase over the same period of the previous year. The gross margin in December 2019 was 13.69% of total revenues compared to 17.99% for the same period in 2018. Regarding these numbers, we assume that the international market is decreasing the sales and the local market is increasing it.
- **Dividend decisions:** In March 2019, the distribution of dividends was for PEN 12,156,903.92, corresponding to part of the undistributed accumulated profits (Accumulated Results) of previous years, which at the end of the present period amounted to PEN 156,946,183.00, after distribution and other

records. In December 2019, the equity decreased by a net amount of PEN 2,346,033.00. This value is the result of the cash dividend distribution agreement in the amount of PEN 12,156,903.92, the increase in unrealized results of PEN 2,422,620.92, and the net income as of the fourth quarter of 2019 amounting to PEN 7,388,250.00.

- **Financial income:** increased by 14.1% in response to placements made by the company, such as shares and the dividends they generated, as well as interest from mutual funds.

#### 4.1.6 Objectives

Creditex has the vision to become the leading textile company in Peru and America shortly. It believes in its excellent customer service, the innovation in its products, and high-quality services to the customers. Though it has gone through many crusts and troughs, the vision is still static. The most recent trough in its way is the current pandemic due to which its sales have been reduced significantly. The company wants to make medical garments to overcome this obstacle. To achieve its target in the end, it has set many long-term objectives that are as follows (Koch & Negron personal communication, June 25, 2020):

- By 2025, Creditex will have 100% operational excellence; by 2018, the company still does not have the activities that generate value in the production process.
- Rise the number of customers in South America and North America in the next three years.
- By 2022, increase the gross margin by 22%, by 2019 it was 13.69% and in 2018 it was 17.99%

- Achieve at least 79% in the General Index of Job satisfaction in the next two years; by 2018, it was 73%
- Extend the local market participation and increase sales in Soles by 8% in the next three years, and in 2019 alone by 4%.

## **4.2. Qualitative Analysis**

The purpose of qualitative research is to deepen the knowledge about the motivation and emotions of customers. The qualitative analysis asks the consumers of a company's products the question of "why". This approach can be useful in uncovering aspects such as how customers perceive a brand, why they like certain marketing messages and not others, how a company like Creditex can improve its strategy, and so forth.

### **4.2.1. Telecommunication**

In the modern world, businesses need much more than just a good product. Marketing and good service aside, a company needs to connect with its customers directly regularly. A company needs to maintain and show off its presence in the market. An investment in improving the response time and quality of customer service for telephone calls or messages from customers is considered a promising investment. Customer opinions and processes have an immense influence on the purchase decision of potential future customers. It will not only help the company to connect directly with its customers and build an environment of trust between them but also to improve its strategy according to the demands of its customers. Such a connection will consequently allow companies to get closer to the demands of the market. Creditex has a website where customers can directly contact the company; a little advancement in this thing will make it better by many folds ("Qualitative Vs Quantitative", 2015).

#### **4.2.2. Investors**

Investors not only help a company to grow in numbers, but they also help it to grow quality-wise. The positive impact on investors of conducting a roadshow to meet as many of them as possible helps the company to find new ways to strengthen its base and grow it in more and better ways. New investors not only review the strategy and organizational structure of a company but also assist the company to make it improved and enhanced. However, for a widespread company like Creditex, it can bring much more. Private investors view the overall business opportunity and the principals of the company as key criteria in the decision-making process (“Qualitative Vs Quantitative”, 2015).

#### **4.2.3. Community**

One of the most effective tactics for a company to build a robust image on its customers is to go for an extra mile in community projects. The impact on the local community of allowing employees to spend a few hours of paid time assisting with community projects is huge. This helps create a ‘soft’ image of the company in the market and consumer base, which will, as a result, boost the sales of any business. Creditex needs to follow the same method to deal with any downtrend it might face in the future. As it has a wide international buyer base, going towards community projects will not only give it an extra boost to grow its business but also help it to go deeper into the market (Guinea, 2019).

#### **4.2.4. Organizational structure**

The presence of a strong organized system in the accounting and finance department is necessary for the growth of a company. The company has many divisions for the formation of its products from getting raw products, processing them, and making products like yarns, fabric, and clothing. If the company wants to get the maximum efficiency out of their procedures, they need to have a robust structure inside the company where different sections work along with each other in harmony. If there is not a strong liaison between all these

sections of Accounting and Finance, then a little break can render damage of millions to Creditex. In the company, there needs to be a proficient coordinator who observes the entire steps in between from a close-up perspective. This will help the company to evade many disadvantages (Guinea, 2019).

#### **4.2.5. Culture and communication**

The culture system and channels of communication within a company are an important part of procedures and documentation information of product and deliverance of service. For example, if the team that involves the formation of products is not trained, there can be numerous delays in the formation process. This is not the only problem that comes with this system of culture and communication in the company, if there is no proper accountability and all the reliance is on the untrained team, and then a small loophole can easily render the company with a huge loss. Creditex also needs to train its team to perform its duty in a more efficient way to avoid any sort of delays in its functioning as an international company. It is considered beneficial for companies such as Creditex (traditional and lagging in the past) to introduce a new procedural and documentation culture that will help it to better manage the current rate of delays (Guinea, 2019).

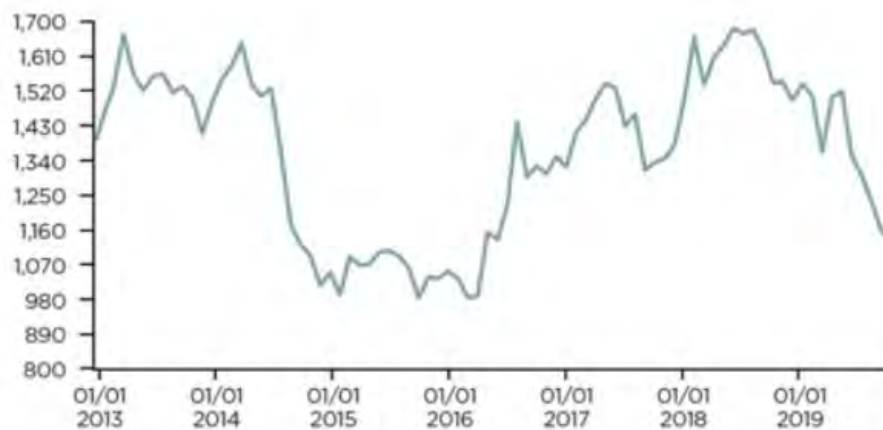
Teamwork, throughout the process of collecting the raw material, processing this material into products to be sold on the market, is one of the most important factors in teamwork. Teamwork not only increases the morale of a company's employees, but also helps to increase the quantity and quality of a company's production unit. Creditex needs to focus on its teamwork especially in South America where it wants to boost its sales, which have been reduced due to expensive prices (Guinea, 2019).

#### **4.2.6 Material development**

The textile industry is very sensitive to changing economic conditions. Figure 15 shows the development of the cotton price. Even before the outbreak of the COVID-19 crisis,

experts were expecting a decline in global economic growth. It is predicted that the US and Chinese textile markets will experience the largest declines. The development of the cotton price is of particular importance for Peru and thus also for the Creditex company (Coface, 2020).

**COTTON PRICES  
(USD/METRIC TON)**



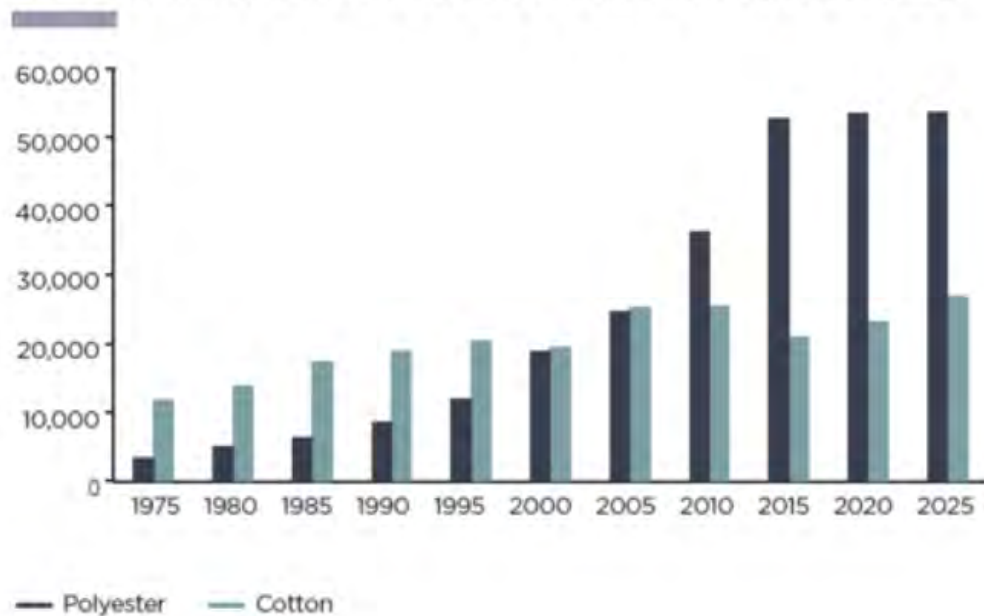
*Figure 15.* Cotton price development from 2013 – 2019

Taken from “Textile – Clothing/ Economic analysis”, Coface, 2020,

(<https://www.cofacecentraleurope.com/Economic-analysis/Textile-Clothing>)

Figure 16 shows the global production trend for polyester and cotton from 1975 to 2025, confirming what customer surveys and interviews with the Commercial Manager of Creditex have already indicated. Cotton is becoming less and less in demand. It is being pushed out of the market by other cheaper and synthetic fibres (Coface, 2020).

### GLOBAL PRODUCTION (THOUSANDS OF METRIC TONS): THE GROWING IMPORTANCE OF THE SYNTHETIC FIBERS



*Figure 16.* Fiber production development from 1975 – 2025

Taken from “Textile – Clothing/ Economic analysis”, Coface, 2020,

(<https://www.cofacecentraleurope.com/Economic-analysis/Textile-Clothing>)

#### 4.3. Conclusions

The objective of quantitative analysis is to collect accurate, consistent facts and statistical evidence to make important business decisions about market trends and consumer spending. The collection of mathematical data is important for a quantitative analysis of a product. In addition, accurate data should be collected, such as on corporate governance and accounting and finance. Qualitative analysis aims to increase insight into the drive and emotions of consumers. Qualitative research raises the question of "why" for the buyers of a company's goods. This methodology can help uncover questions such as how consumers see a company, the explanations for why they prefer certain marketing campaigns and not others. Creditex aims to become the leading textile company in Latin and North America. The company wants to rely on its excellent customer service, product creativity and quality after-

sales service. However, data show that the company has experienced a huge drop in sales and an increase in costs over the last five years. The COVID-19 crisis has exacerbated this critical situation.





## Chapter V: Root Cause Analysis of the Problem

This chapter identifies and analyses the causes of the problem identified in **¡Error! No se encuentra el origen de la referencia..**

### 5.1 Identified Causes

In this paragraph, cause-effect relationships are visualized using the Ishikawa diagram. The diagram developed by the Japanese Kaoru Ishikawa is a simple tool for systematic identification as well as a structured and clear presentation of cause-effect relationships. All possible causes for a defined problem are listed in order of main influencing variables. The diagram is divided into a cause and an effect area and is similar in its structure to the bones of a fish (hence the common name fishbone diagram) (Brüggemann & Bremer 2019). The head of the diagram is the problem to be investigated. The identified problem is that of inefficient and unsustainable product development

Classified according to main influencing variables, all possible causes are determined and entered in the diagram, divided into main and secondary causes (Brüggemann & Bremer 2019). The main areas of causes identified are as follows:

- Personnel
- Communication
- Management
- Processes
- Methods
- Customers

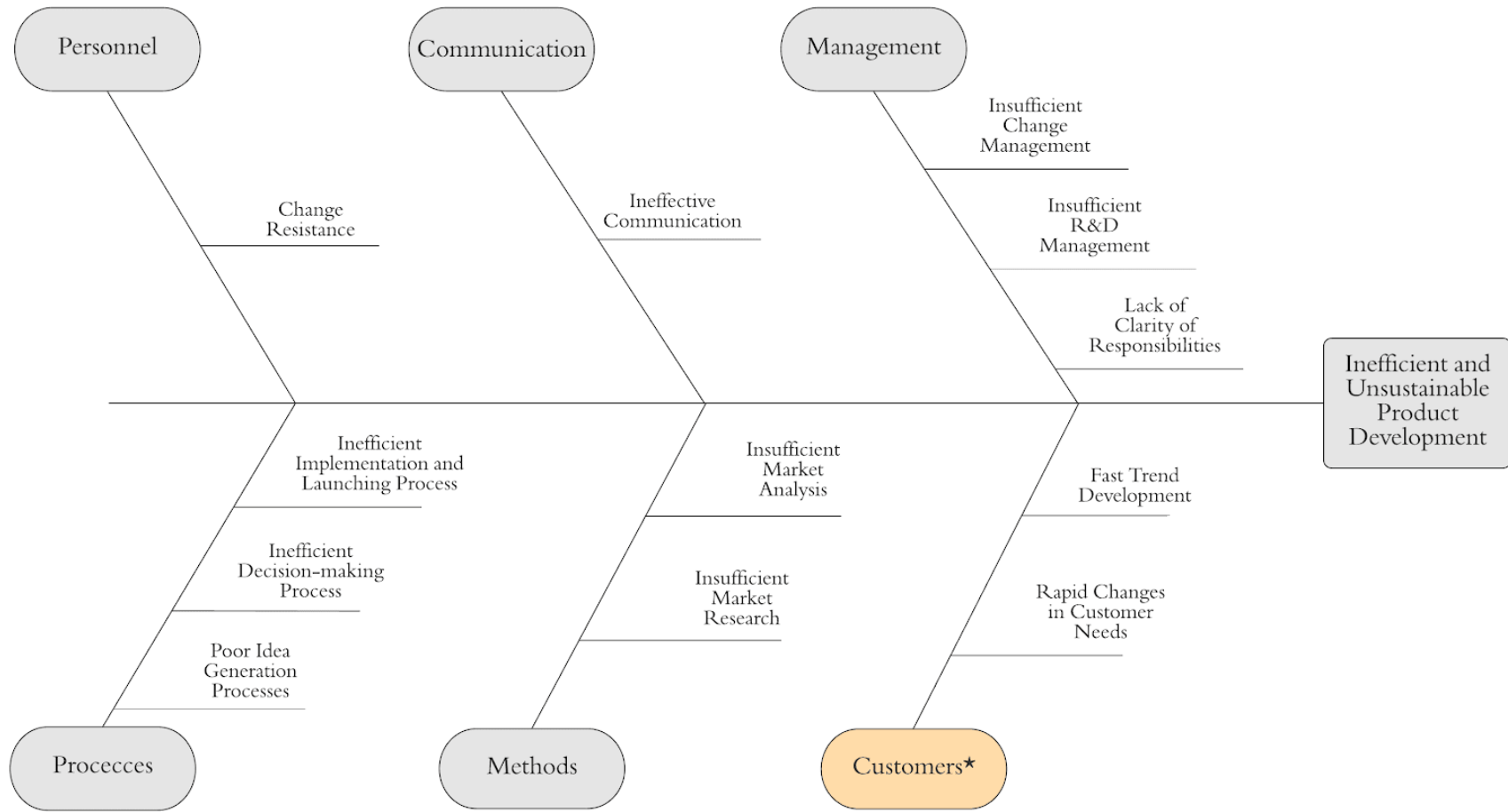


Figure 17. Identified business problem and its main influencing factors visualized by an Ishikawa diagram

Note. The causes marked with an asterisk are those, which the company cannot change. These causes originate from the corporate environment

### 5.1.1 Personnel

***Change resistance.*** Large parts of the Creditex workforce, including senior and middle management, have been with the company for decades. The organization has been successful for years without ever changing its processes or products significantly. This long period of success and non-adjustment has become firmly established in the corporate culture and the minds of many employees. Some parts of the workforce are not fully aware of the critical situation of the company and do not see the need for change. Other employees know that the company needs to change fundamentally but are afraid of this change. This may be because employees feel that they do not have the skills needed for the change processes or they fear that they no longer have a place in a significantly changed organization. The problem of resistance to change is highly dependent and linked to the problems of ineffective communication, insufficient change management, and the lack of clear responsibility structures in times of change.

### 5.1.2. Communication

***Ineffective communication.*** Changes in the company often trigger fears and resistance. Change communication is crucial to inform those affected and to promote their support. The first step should always be to convey to employees that change is necessary. In addition, exactly this first essential step was not taken at Creditex. As already mentioned in the Personnel section, a large part of the staff is not aware of the need for change or is unwilling to go down this road.

### 5.1.3 Management

***Insufficient change management.*** Change management is used in particular to adapt companies to changing environmental conditions and make them fit for the requirements of the markets in the digital age. Change management comprises all components to successfully shape change processes - from the strategy and structure of a company to processes and

management systems, but also corporate culture, ways of thinking and acting, as well as communication, relationships, and leadership within the company. People like to hold on to what they are used to, so successful change is only possible through a goal-oriented and structured approach. There is no structured, systematic change process within Creditex. In times of digitalization and globalization, the change should be part of the corporate culture. At Creditex, however, change is seen as a project to be completed and which must be tackled from time to time. However, today's corporate environment demands that change in a company should not be a project but a process. It must be integrated into the corporate culture and structure.

***Insufficient R&D management.*** As already mentioned under the point Ineffective Communication, communication is of central importance for the success of research and development activities. In addition to the lack or limited existence of effective communication within the company, the structure and set-up of the R&D department are far from optimal. Alternatively, it could be that the low level of change in the company's past may have led to a lack of skills and knowledge in the area of research and development.

***Lack of clarity of responsibilities.*** The success of change processes depends above all on how employees are integrated into the change process. Those affected primarily want to know what is in store for them and what they should change. They want to be prepared and qualified for this. Changes are initiated and led by management top-down and designed bottom-up by employees. At Creditex, there is a lack of change managers who communicate the necessity of change, guide employees, have an open ear for doubts, and who supervise in times of change.

#### **5.1.4 Processes**

***Poor idea generation processes.*** Creativity is the prerequisite for new ideas. Companies in which creativity and innovation are not promoted or companies in which a

culture that impedes creativity prevails have problems generating innovative ideas or products. Creditex is a traditional and risk-averse company, which takes very little risk in product development or new product ideas. The conservative and hierarchical corporate structure hinders the organization in the idea finding, idea generation, and idea development process. It is also questionable whether there are creative out-of-the-box thinkers in the company who could develop new, different product ideas.

***Insufficient decision-making process.*** As already mentioned, Creditex is a traditionally hierarchically managed company. Exclusively top management also makes decisions. Decisions from the top can be very time-consuming and a company cannot afford long decision-making processes in today's rapidly evolving business world. When things are fast and complex, top-down decrees become the brake on an organization. Advances, individualized services, and products as well as high speed are only possible whereas little time as possible passes between decision and implementation. In addition, technical expertise today lies primarily with the specialists in teams and not with top managers and CEOs. However, in traditional organizations such as Creditex, larger decisions are still being shifted to the next higher hierarchical level.

***Insufficient implementation and launching process.*** According to Creditex internal reports, the implementation or launch process is far too time-consuming. In addition to the extremely important time factor, the marketing measures accompanying the launch are also critical to success. The marketing measures seem to have not been brought up to the developing state of the technology at Creditex for years. As a result, the company does not reach numerous potential (especially younger) customers.

### **5.1.5 Methods**

***Insufficient market research.*** There is a lack of in-depth market research. Reasons for this could be that (a) Creditex does not have the necessary market research tools and systems,

that (b) Creditex does not want to test its new ideas on potential customers because they do not want to share their ideas, that (c) the company is not able to invest enough money or time in thorough market research, that (d) Creditex relies on outdated data for its market research and that (e) the employees do not have the necessary skills and knowledge to conduct thorough market analysis. This could be the case because market research has not been relevant to the company for a long time.

***Insufficient market analysis.*** Problems concerning market analysis are of course strongly linked to those encountered in market research. The lack of competence in the areas of customer and trend analysis at Creditex is particularly severe. This makes it difficult or almost impossible to develop products that will be in demand in the long term. Customers are an essential strategic factor for every company. They, therefore, play a central role not only in the analysis of the industry and market. The identification of existing and future customer requirements and the long-term retention of valuable customers are the prerequisites for successful cooperation. Both "customer analysis" and "market research" provide the necessary information basis for strategies and measures of operative and collaborative (communicative) customer relationship management (CRM).

#### **5.1.6 Customers**

***Rapid changes in customer needs.*** Increasing competition demands that new ways be found to meet the needs of customers and thus guarantee sustainable value creation. Increasing digitalization is creating new customer needs. Large companies with digital expertise (such as Amazon or Google) are venturing into new markets. Start-ups emerge because they are perfectly tailored to new (digital) customer needs. Furthermore, information is almost freely available as Open Data, Open Source, and Open Access. This massively accelerates the innovation cycles of companies. In order to remain competitive, established companies must renew their business models. This means that they have to gear their

innovation activities to new customer requirements and technological possibilities as well as to completely new offerings outside their core business and find new forms of value creation. In other words, they must transform the business model and, in a next step, the company as well. In particular, changing customer needs and the formation of networks motivate companies to position themselves differently in the market and to meet their customers in a new way (Grivas & Graf, 2020).

***Fast trend development.*** Customers are more demanding and fashion-conscious, thus forcing fashion retailers to offer the right product at the right time on the right market. As a result, the term fast fashion has developed in the garment sector. Companies must deliver trendy and in-demand fashion rapidly. As the consumer market is fragmented in terms of consumer behavior, fast fashion is becoming increasingly important to consumers (Bhardwaj & Fairhurst, 2010). Digital and social media have dramatically changed the purchasing behavior of fashion customers. They discover trends in social media buy fashion via their smartphones and expect to hold trend pieces in their hands in a short time. For companies, the go-to-market process is crucial to the success of the products: the faster fashionable clothing reaches the consumer, the more pieces can be sold at full price. 98% of experts from the fashion industry therefore give top priority to improving these go-to-market processes. At the same time, 92% of respondents at large fashion companies say their company has problems making quick decisions and meeting deadlines. More than 70% of fashion companies blame themselves for launching new products too slowly and lacking the necessary digital tools and skills. In addition, there is often a lack of good planning and reliable forecasting of trends (McKinsey & Company, 2018).

Almost all the causes illustrated in the Ishikawa diagram have a significant influence on the defined problem. However, the following points can be named as the main critical causes:



- Change resistance
- Ineffective communication
- Insufficient change management
- Inefficient decision-making processes
- Insufficient market research
- Insufficient market analysis

These areas are to be seen as those which urgently need change. These causes have an immense effect on the success of the company Creditex.

## **5.2. Conclusions**

The causes that lead to the problem of inefficient and unsustainable product development originate from many different areas of the company as well as from the corporate environment. These causes not only harm Creditex's product development, but they also reinforce and influence each other. It is important to keep in mind that the change resistance of the staff is very closely connected and influenced by causes such as ineffective communication, insufficient change management, and lack of clarity of responsibilities. The influence of the causes in the areas of processes, methods, and customers also mutually reinforce each other. Trends develop and customer requirements change much faster today than a decade ago. In such an environment it is important for an organization to constantly and effectively analyze its target markets and to react quickly to changing conditions. However, market research, market analysis, idea generation, decision-making, implementation, and launching processes are among the areas at Creditex that have significant potential for improvement. It is therefore essential to initiate change in fundamental organizational structures.



## **Chapter VI: Assessed Solution Alternatives**

This chapter presents various alternatives for Creditex as possible solutions to the problem identified during the consultancy process. In the first part, alternative solutions are examined based on the problem described in the previous chapters. In the second part, each proposed alternative is evaluated to determine which is the most appropriate solution.

### **6.1. Alternatives to solve the problem**

In the following four alternatives are presented, which aim to solve the problem defined in Chapter II. Inefficient product development and a lack of trend adjustment are among the reasons for the rapid decline in the company's turnover over the last five years. The alternatives, which will henceforth be described in more detail, are (a) the development of sports and leisurewear, (b) the development of trendy, sustainable, and environmentally friendly products, (c) the development of medical clothing, and (c) the development of masks, facial products, and surgical masks.

#### **6.1.1. Sporty and casual clothing**

The influence of sportswear into the fashion industry is not new but today it is increasing more and more. The consumer is looking for comfortable clothing and not something tight. In the 1920s, there were many influences of sportswear into the fashion, tennis style, ski suits, and tracksuits were some of the most stylish sportswear that was adapted into fashion. Some of these tendencies were used only for the aristocrats and the high elite society and it was adapted to daily life use because is considered as comfortable and casual clothes. These tendencies force the company to innovate the material that is used to produce these clothing, not only using cotton but also introducing nylon, polyester, terry cloth, and velour (Kenworthy, 2015). Today the market is looking for more sporty and casual products and it has increased more this year with the current pandemic that is affecting the world, people stay at home to do work from home so now they don't need to wear elegant

clothes instead they want to feel comfortable wearing sporty and casual clothes (McKinsey, 2020).

### **6.1.2. Trendy Sustainable and Environmental-friendly Products**

The products offered by Creditex are of high quality, high-priced, and considered as elegant, and it worked for the market need 5 years ago, but the market needs keep changing and this kind of product is not required as much as they used to be. The company has no product that can be sold at a sustainable profit on the South American, Mexican, and North American markets, and that is one of the identified problems in chapter II. The possible alternative is to produce and launch a sustainable, trend, environmental-friendly, and accessible product for the South America market, especially for the coming spring-summer season (McKinsey, 2020).

### **6.1.3. Medical clothing**

Medical clothing in Peru and some other countries of South America is not very nice and comfortable for the health care providers; evidence of this is that they have to take their medical clothing in a bag and change it in their workplace. People, in general, want to save time and spend less money; one alternative for this is to improve the medical clothing offered in this region. Additionally, some of these products are imported from Asian countries, especially China but with the current pandemic, the supply chain of many medical clothing companies is facing delay in the delivery (Goldeberg, 2020). Having the opportunity to produce these products in Peru and deliver them to the local market and other South American countries will save time for the consumers who want these products in a short time.

### **6.1.4. Mask, face goods, and surgical masks**

Latin American nations are urging, and sometimes mandated, people to use face covers to contain the novel coronavirus (COVID-19) pandemic, even as global experts debate its effectiveness in warding off infection. In Chile, where 5,116 people have tested positive

for COVID-19, and 43 have gone from the infection, the government has executed it necessary to use a face cover on all public transportation and paid private transit (Ríos, 2020).

There are certain initiatives that local artists have begun to develop. In Lima, John Sanchez produces face masks with different options such as phrases that encourage people, company logos, and important national slogans. In Colombia, companies associated with the fashion industry have switched their traditional production to the manufacture of masks. These companies are trying to offer a different kind of masks by making them more colorful and with pictures of local animals so that customers find them attractive (Rodriguez, 2020).

As mentioned, countries are having more restrictions in order to avoid the spreading of this virus. Now facemasks are considered as a new accessory that must be wear if you are not at home, it should be considered as a trend fashion that will last 18 months as minimum or at least until a vaccine for this virus is found (Milton, 2020). On the other hand, using disposable face masks does not contribute to having a better environment, so there are options for developing washable and reusable masks (“Washable and Reusable Mask”, n.d.).

## **6.2. Assessments of alternatives**

In this section, to determine the best option as a solution for the company, some criteria are going to be considered. The criteria selected are going to evaluate the alternatives proposed to Creditex as possible solutions to the identified problem. These are the criteria that will be used: (a) innovation, (b) cost of implementation, (c) sustainability, (d) time of implementation, (e) eco-friendly material, and (f) feasibility.

### **6.2.1. Innovation**

It is an important criterion considering that Creditex is expected to be recognized by its innovation and to have it in all the stages of the production process. Innovation measures if the product that is going to be offered is disruptive or bring something new to the market.

This will be used to determine the competitiveness that the company will need in the demanding market of the textile industry.

### **6.2.2. Cost of implementation**

It is essential for the company knows how much each proposed alternative will cost. The cost of implementation measures how much will each alternative cost to the company and how much return on investment (ROI) they will have. The cost of the proposed alternatives should be achievable to be implemented by the company and not overestimate the budget.

### **6.2.3. Sustainability**

The company attaches importance to sustainable operations and therefore sustainability is one of the criteria used to evaluate the possible alternatives. The sustainability measures if each alternative is aligned with the triple bottom performance: social, environmental, and economic. This will determine how much each proposed alternative can last and if is sustainable trough the time, a long-term solution.

### **6.2.4 Time of implementation**

This item will give an idea to the company if each alternative is aligned to the time, they expect to spend in implementing a solution. Time of implementation measures how long will take each alternative to be launched into the market. Creditex is looking to have a solution in the short-term in order to recover from the last season in which didn't have sales.

### **6.2.5. Eco-friendly material**

This criterion is key to determine which proposed alternative is good as a solution because today the world trends eco-friendly products are becoming increasingly evident and important for the textile industry. The eco-friendly material measures if each alternative is sustainable for the environment. Implementing environmentally friendly practices in the supply chain is becoming more important especially for this industry.

### 6.2.6. Feasibility

The feasibility measures how easy and successful is to implement each proposed alternative taking into consideration internal and external factors. This will determine if each alternative is achievable for the company after evaluating the other criteria. In addition, this will determine if the proposed alternatives are associated with the requirements of the company.

In the assessment of the proposed alternatives, each option will be evaluated according to each criterion mentioned above. The rate for each alternative will be from 1 to 10, where 1 is the lowest, and 10 is the best rate. The weight considered for each criterion is related to the importance of the possible solution that Creditex is looking for. Table 8 shows the result of the assessment of the proposed alternatives:

Table 9.

#### *Assessment of the proposed alternatives*

Criteria	Weight (%)	Possible solutions			
		Alternative 1: Sporty and casual clothing	Alternative 2: Trendy Sustainable and Environmental-friendly Products	Alternative 3: Medical clothing	Alternative 4: Mask, face goods and surgical masks
a) Innovation	20%	7	8	8	6
b) Cost of implementation	20%	7	7	7	6
c) Sustainability	15%	7	8	7	8
d) Time of implementation	15%	8	7	7	8
e) Eco-friendly material	15%	7	8	7	8
f) Feasibility	15%	7	8	8	7
<b>Result</b>	<b>100%</b>	<b>7.15</b>	<b>7.65</b>	<b>7.35</b>	<b>7.05</b>
<b>Ranking</b>		<b>3</b>	<b>1</b>	<b>2</b>	<b>4</b>

The advantage of introducing an alternative that is already on the market (such as Alternative 1) is that there is certainty that the market demands this type of product. The disadvantage is that a product in high demand will bring more competitors and a lower price.

The advantage of implementing alternative two is that the products is not only trendy it also provides benefits to the environment and this market is increasing because there are more consumers worried about saving the planet, the disadvantage is that the price of the offered products will be higher than an article of common clothing.

The advantage of alternative three is that the medical industry is probably the only one that, due to the current situation, is now hiring more people instead of cutting jobs compared to other industries. The disadvantage of this proposed solution, however, is that it will take more time to develop trendy medical clothing that is not only used at work but as everyday clothing. Figs, a company that successfully sells leisure and sports medical clothing in the U.S. market, took years to develop and design. Therefore, this alternative is not an alternative that is conducive to short-term profit generation. The advantage of alternative four is that a small accessory does not take much time to produce and could sell faster than the previous alternatives, especially if it is a better option (product advancement) than those already on the market. The disadvantage, however, is that many local textile companies in Peru, including Creditex, have already started producing face masks and donated them to people who do not have easy access to this accessory and to hospitals (Gonzales, 2020), so it will not be a viable alternative in the medium and long term.

### **6.3. Conclusions**

Looking at the evaluation criteria of each alternative, two alternatives present themselves as particularly promising. These alternatives are trendy, sustainable and environmentally friendly products and medical clothing. The alternative of developing trendy, sustainable and environmentally friendly products meets the need to be able to offer a novel product on the South American market that is foreign to Creditex product ranges, given the decline in sales over the last five years. The development of medical clothing is a response to the current demand for this type of product for the medical industry and the lack of this product on the

South American market. However, as can be seen when evaluating alternatives, each of these two alternatives has a rate of over seven points, which can be suggested as a merging of two or more alternatives into one.



## Chapter VII: Proposed Solution

In the previous chapter, each proposed alternative, which can be the answer to the problem that Creditex is facing, was analyzed and rated; there were two options with a better rate: trendy, sustainable, and environmental-friendly products, and medical clothing. Nevertheless, it was also suggested to merge two or more of the three alternatives solution to have a better product to offer to the market. Taking into consideration this, the proposed solution is going to be focused on two kinds of product development: medical clothing, and sporty and casual clothing; the objective is that both products are developed as sustainable, trendy, and eco-friendly.

### 7.1. Medical Clothing

Medical manufacturing is the industry that seems even more alive than others in this time of crisis and continues to hire full-time employees. As mentioned in Section 6.1.3, medical apparel in South America is not as well developed as in other countries such as the United States, which have companies like Figs. The medical garments used by healthcare providers in Peru and South American hospitals come from manufacturers in China and other Asian countries, with the current pandemic there have been delays in the supply of these products, due to this situation it is a great opportunity for Creditex to start developing this type of product.

Creditex already offers high-quality material for their clothing and has international quality standards that certify this. It will not be difficult for the company that is trying to enter and start with this new type of clothing. The company can lead the market if it uses the strengths it has and brings a disturbing product to the local market. The process of changing from elegant clothing to medical clothing will be a challenge not only for the managers but also for the employees involved in each phase of production. Moreover, according to the



criteria evaluated in section 6.2., this solution has a higher rating in terms of innovation and feasibility, which the company is striving to achieve.

## **7.2. Sporty and casual clothing**

According to the evaluation criteria of this alternative, it has the best rating in terms of the time of implementation. This is a particularly important advantage, considering that the company plans to launch new products in the spring of 2021, the next season. The development of sports and leisurewear will be the most precise solution to one of the main problems Creditex faces. Wearing sporty and casual clothing is not new in the market trends, but nowadays it is becoming more and more common as people spend more time at home. As a result, formal business wear, expensive branded products, and even tight-fitting products are becoming less and less popular in the wake of the pandemic. Customers want casual, comfortable, and sporty clothes. This type of clothing has experienced a real boom due to the COVID-19 crisis.

The development and launch of this product should initially focus on the local and South American markets. As it should be considered here that the distribution from Lima is much easier than across continents. Once it has been determined where the product will be offered, it will be helpful to know the consumer preferences in that market. The consumer is looking for a product that is not just for one occasion, but many different situations. The product to be developed must take this into account.

As already mentioned, these two proposed solutions for product development must be trendy, sustainable, and environmentally friendly to keep up with the trend of the times. In addition, Creditex should be guided by the objectives of sustainable development, which nowadays take into account almost every future-oriented company. By taking all these aspects into account, Creditex can survive longer in the market, while at the same time

greatly enhancing its reputation and image. Both options correspond to what Creditex is looking for: a product that is now in demand and which is innovative and promising.



## **Chapter VIII: Implementation Plan & Key Success Factors**

In the previous chapter, two solution variants were presented which could solve the main problem outlined in Chapter II or at least alleviate it in the short term. One was the introduction of a product line for medical clothing and the other was the introduction of sports and leisurewear. This chapter sets out a three-year implementation plan in terms of the steps and necessary measures required to give these alternative solutions a chance of success.

### **8.1. Activities**

The management of Creditex has the task of communicating effectively throughout the organization that new product lines are in the development phase and that there will be shifts in the production process. Marketing, on the other hand, must start by addressing the new expected customers in the new target markets.

When marketing the medical apparel line, strategic marketing tactics must be put into practice to draw attention to new customers in the new target markets. These include hospitals and clinics, outpatient facilities, medical practices, massage therapy facilities, and other industries that either need or would benefit from affordable medical protective clothing.

In addition to marketing leisure and sportswear, a new marketing campaign must be launched to address potential new customers and the markets in South America, North America, and Mexico.

The management must ensure that the production process is efficient, cost-effective, and consumable in order to start the production of both product lines. This includes a careful analysis of raw material costs, labor costs, and machinery that is capable of producing the final product at a lower price than the competition. Within the first month, management should be able to determine either whether or not it is capable of producing the product.

After receiving feedback after the marketing campaign, the company will either refuse or ask for sample products and possibly a short-term agreement.

## 8.2. Implementation Gantt Chart

The Gantt chart shows the activities described above and the area responsible for each activity. The presented activities begin as soon as the manager has informed the entire organization about the strategy or the new plan and its activities, which are intended to boost revenue generation. Figure 16 shows the time that each activity should take.



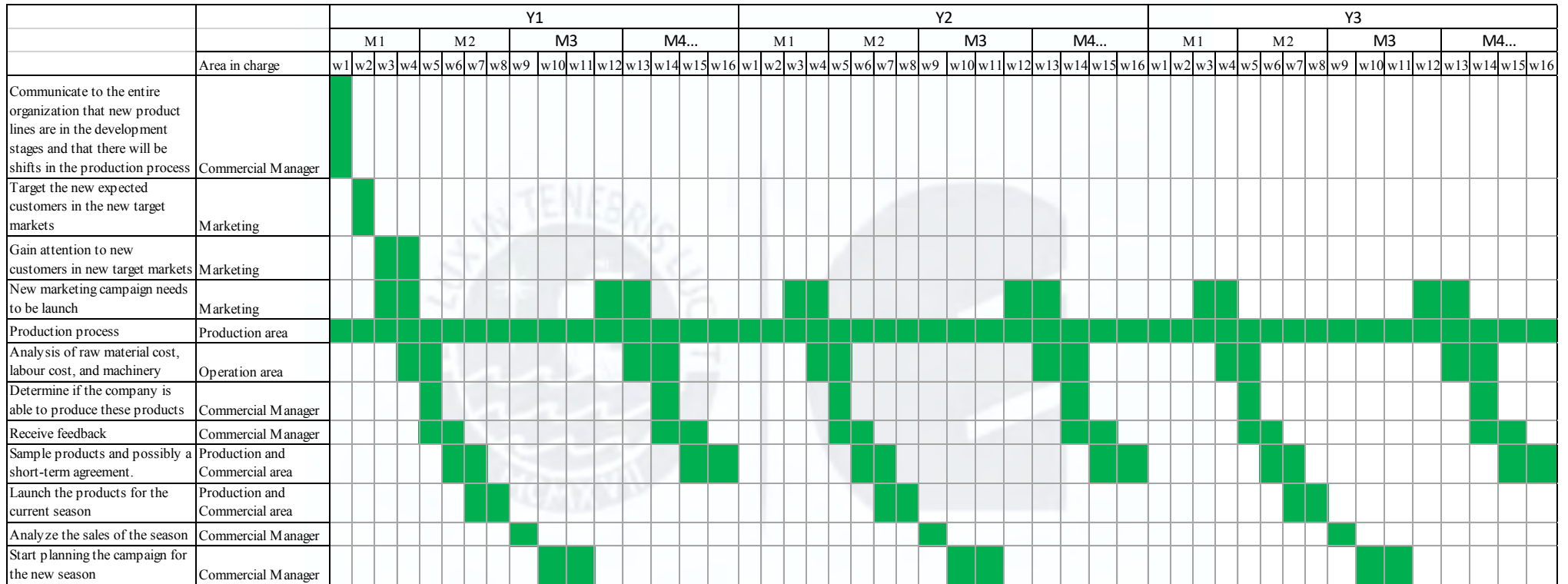


Figure 18. Implementation Gantt Chart of the proposed solution

### 8.3. Key Success Factors

The proposed solution should take into account the key success factors that influence possibly positive results. For it requires the identification of enablers to help implement this project and ensure that both the company and the consulting team benefit. It is of great value that the enablers to be considered must be linked to the goals, vision, and objectives of the company. **¡Error! La autoreferencia al marcador no es válida.** shows and describes the enablers considered in this project in detail.

Table 10.

#### *Key Enablers for implementation*

Enabler	Key action to ensure it
1. Interest to be recognized for its excellence in customer service	In order to ensure this the communication should be clear at all levels of the organization, considering that the internal customer is the most important for a company
2. Interest to be recognized by innovation	In order to improve the innovation, Creditex should invest more in Research & Development
3. Interest to be recognized by innovation	Creditex already has international quality certifications, in order to continue keeping this the company should follow the standards required for these institutions
4. Reduce labour costs	To achieve this the company can use better machinery that replace the workforce
5. Increase the profitability	Applying the suggested solutions will allow the company to increase the profitability in medium term period

## Chapter IX: Expected Outcomes

The expected outcomes of the proposed solution mentioned in previous chapters include reduced cost of materials, higher levels of customer satisfaction, increased levels of employee motivation, and most importantly, higher sales in the aforementioned regions. The following paragraphs will show the main impacts of both; (a) investing in market analysis technologies, focusing on trends, sustainability and environmental-friendly products, (b) start producing and selling medical clothing, and (c) produce sporty and casual clothing products long term.

### 9.1 Expected impacts of investing in market analysis technologies: focusing on trends, sustainability, and environmentally-friendly products.

As expected, a short-term investment in various market analysis technologies can have a positive long-term impact on the sustainability of Creditex's products.

The short and long-term expected results are shown in Table 11.

Table 11.

#### *Short-term and Log-term expected results*

<u>Short Term</u>	<u>Long Term</u>
Short-term expected impacts:	Long-term expected Impacts:
(1) Help determine immediate and emerging trends.	(1) Determine patterns in consumer behaviour.
(2) Determine outsider view of CREDITEX's reputation to see what needs to be adjusted immediately.	(2) Improve communication both internally (between organizational members) and externally with customers.
(3) Establish what benchmarks should be used in the future to measure progress towards long-term goals.	(3) Save time and money in the long-run.
(4) Facilitates short-term strategic planning.	(4) Will help discover CREDITEX's competitors strengths and weaknesses and how they respond to changes in demand.
(5) Give CREDITEX a social media platform/awareness.	(5) Help focus on long-term customer demands.

Note. Short-term is defined as 1 year or less and long-term as 2+ years.

## 9.2 Expected outcomes of producing and selling Medical clothing

As mentioned in Chapter VI, the COVID-19 pandemic has provided Creditex an opportunity to start producing a medical clothing product line. If Creditex decides to go this route their most popular products for this product line would likely be selling surgical drapes, scrubs, gloves, facial protection, and protective apparel. Geographically speaking, it can be expected that sales would be highest in Latin America and the United States since they have been hit hardest by the pandemic (Insights, 2020). The new target customers for this new product line would be hospitals and clinics, outpatient facilities, and physicians' offices. Geographically speaking, it is expected that sales would be highest in Latin America and the United States since they have been hit hardest by the pandemic (Insights, 2020). The new target customers for this new product line would be hospitals and clinics, outpatient facilities, and physicians' offices. Wearing medical clothing is almost always a requirement of healthcare professionals but is also expanding to other service industries such as housekeeping, massage therapy, and cosmetologists (Insights, 2020). Although medical clothing is constantly in high demand, not all styles, colors, and sizes are readily available for purchase in regular stores, which if pursued, can be a huge opportunity that Creditex can capitalize in the short term.

The expected outcomes for the medical clothing option would be the following:

- **New Target Markets.** Creditex would be selling the medical clothing product(s) to a new type of customer. Instead of selling to traditional retailers, they would be targeting new end-users (i.e. hospitals).
- **Increased sales/revenue from the new stream.** The medical clothing market size was USD 63.3 billion in 2019 and is expected to reach USD 99.9 billion by 2027 (Insights, 2020). This has the potential to be a very profitable industry if Creditex capitalizes on the opportunity quickly. There are possible short-



term gains from selling innovative, reusable face masks until the pandemic is under control, as well as the potential for long term profitability for the medical produced clothing. The bottom line is that as long as there is a medical industry, medical clothing will always be a necessity.

- Increased CSR and reputational improvement. By supplying the healthcare and related industries with medical protective clothing, not only does this look good from a CSR perspective, but also implies a caring, moral, and ethical organizational culture.

### **9.3 Expected Outcomes of selling Sporty and Casual clothing**

As mentioned in the previous chapters, there is a worldwide trend towards the desire to wear comfortable and fashionable clothing. Similarly, most manufacturers who produce this type of garment (e.g. Lulu Lemon, RW&CO, etc.) sell their products at a premium price that is too expensive for middle to low-income households. Creditex, therefore, has the opportunity to gain significant market share in each of its main regions (NA, SA, EUR) if it can sell its end products at a lower price. In this way, they can meet the need to satisfy consumer demand while increasing the number of their customers due to lower prices.

In order to carry out a competitive analysis, "FIGS", whose mission is to offer the ultimate solution for active and modern travelers seeking elegant, comfortable and ethical clothing, sells its products at the prices shown in Table 12. Creditex would have to sell its products in this product line at a similar or lower price to gain market share. If the company is not able to compete with the FIGS prices, it would have to create an innovative product design that justifies a higher price due to its unique selling proposition. This requires effective and efficient research, analysis, and implementation.

Table 12.

*Competitors product line*

Category (Most popular)	Women CAN \$ low-high	Men CAN \$ low-high
Running and Training Shirts	55-170	70-350
Jackets and Vests	130-400	150-500
Casual Pants	57-250	60-300
Jeans	60-200	65-350
Shorts	49-240	54-200
Sweaters	65-255	60-130
Running and Training Bottoms	50-150	65-225

Data from <https://www.altitude-sports.com/collections/fig-clothing>

If Creditex is able to manage and implement the aforementioned they could expect the following results:

- Consumer base expansion. Creditex can increase the number of consumers if they can sell end-products affordable to the middle and lower-class.
- Increase sales in Latin America. Currently, there is little competition in this region.
- Increase sales in North America.

## Chapter X: Conclusions and Recommendations

This report analyzed the current status of Creditex, an international textile manufacturing company based in Lima, Peru. In recent years, Creditex's overall sales have declined, consumer demand has changed dramatically, and they have not gained market share in North America, South America, or Europe. In virtual meetings, the consulting team was brought together with Creditex representatives who shared their concerns about the current environment (both internal and external) and what they believe needs to be changed to free the organization from its five-year drought.

This report commenced with an overall analysis of the textile industry using Porter's Five Forces, followed by an external (PESTE) and internal (AMOFHIT) analysis of the company. Subsequently, the problems were identified, both of which were highlighted by Creditex representatives and the consulting team. The consulting team identified the core problem: Creditex does not have a product that can be sold sustainably and profitably in the South American, North American, and Mexican markets. After providing a thorough and detailed literature list and review, our team conducted a qualitative and quantitative analysis and root cause analysis of the problem.

After a comprehensive analysis and evaluation with regard to the company Creditex, the following recommendations were formulated:

- Communication throughout the company needs to improve to increase efficiency and productivity in the workplace.
- Creditex's leadership should accept that risks and changes need to be made or nothing will improve.
- There should be more investment in data analysis and market research to ensure they are keeping up with industry trends, changes in consumer demand, and bolster their reputation.

- New product lines should be created (medical, casual, and sporty) to increase overall revenue streams, increase sales in South America and North America, to gain and retain new customers, create new target customers, and increase their CSR initiatives.

On the basis of the results and according to the research carried out, there are some possible solutions that could solve the problem. After narrowing down the possible solutions, the team has worked out and proposed three solutions: investment in market analysis technology, the start of production of a new product line for medical clothing, and start of production of a product line for leisure and/or sportswear. In addition to implementing one or more of these solutions, the company should also work on the root causes identified in Chapter V. Ignoring these areas with significant potential for improvement will sooner or later have a significant impact on the success of the company.

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## Appendix

### Appendix A: Revenue by division

Table A1.

Revenue by division

	2017		2018		Delta
	PEN (in millions)	%	PEN (in millions)	%	
Threads	145,07	52.5%	148,38	54.8%	+2.29%
Garments	69,83	25.3%	76,09	28.1%	+8.97%
Fabrics	50,57	18.3%	34,85	12.9%	- 31.08%
Other	7,55	2.7%	8,17	3%	+8.2%

Data from "Creditex S.A.A. (CRETX11)", Market Screener, n.d. (<https://www.marketscreener.com/CREDITEX-S-A-A-45419111/financials/%2Fservices%2F>)