

## **Manos Magicas: Reaching across borders to build a fair trade partnership**

Adesegun Oyedele, PhD  
University of the Incarnate Word

Emily Goenner, MA\*  
Herberger College of Business

Maria Guadalupe Alba Aguilar, PhD  
University of the Incarnate Word, Campus Bajio

Robert H. Scarlett  
Board Chair, Venn Foundation

### **ABSTRACT**

This case is based on an actual cross-border fair trade partnership that created a website called Manos Magicas. The names, participants, and narrative details are fictional. Participants in the cross-border fair trade partnership Manos Magicas provided detailed information about the planning, development, execution and results of the Manos Magicas project. Students are challenged to connect small businesses from marginalized communities in Mexico with business-to-consumers and business-to-business markets in South Texas, USA. A deceptively simple story, the case can be focused on any of a wide variety of concepts including the following: social entrepreneurship; fair trade; formal and informal trade networks; creation of a cross-border company; work with business people from marginalized communities or vulnerable indigenous artisans, especially women; managing business structures; cross-cultural communications, and relationship building. The case may address global business models, emerging market conditions, and cross-border venture creation, the export process, or marketing, depending on the course.

The case study may be used in upper division international entrepreneurship, international marketing, international business models classes, as part of a MBA program on global leadership and emerging markets, or in more general business classes with a focus on business models, design thinking, and/or imports/exports.

Keywords: social entrepreneurship; fair trade; formal and informal trade networks; creation of a cross-border company; marginalized communities

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## THE CASE

### Fair Trade Marketing Across Borders

Eva, Noah, and Isa sat around the conference table in their small office in San Antonio, Texas. Founding members of the marketing firm Manos Magicas, the three were reviewing their latest accounts and discussing the company's future.

"Bernadette at the White Flower would like to expand her product line," Eva said about one of their existing clients. "She said the tourists really like the authentic Mexican products and asked if we could get more."

Manos Magicas specialized in marketing products for small businesses and artists. San Antonio attracted a large number of tourists and many of the locals were of Hispanic descent. They were already working with a few local boutiques.

"I wonder if we could find a way to import more products from Mexico," Noah asked.

"We want to make sure we avoid any of the plastic knock-offs from other parts of the world," Eva added.

"A friend of mine works with a community group in Mexico," Isa said. "I'll ask her if she knows anything about local products."

#### Meanwhile

In a small town in rural Mexico, about 25 people gathered in an open air community room. Without even a slight breeze, many people fanned themselves.

"By partnering with us," the middle-aged man boomed to the crowded open-air room, "You will be able to see your products worldwide." He smiled at the people around the room. "Our sales managers are available now to purchase your products and sign contracts immediately!"

Several people in suits stood at the corners of the room. They smiled over their clipboards. Outside, their WorldWide Products van waited, new, clean, shiny in the hot sun.

Maiyra turned to her friend Jose sitting beside her. "What do you think?" She asked.

The community room was crowded with people, most of whom made and sold products by hand. Their t-shirts and casual dresses contrasted with the expensive suits worn by the WorldWide Products representatives. Children ran in and out of the room, chattering and calling to each other. The community had gathered to hear the executive from WorldWide Products speak about buying and reselling the goods people made in their rural community.

"I'm not sure I like him," Maiyra said.

Jose looked at the man's glistening brow; he stood at the front of the room, not speaking to anyone. "He seems like another outsider trying to profit off of our work," Jose agreed. "I'm leaving."

Jose rose and spoke to several people who nodded and followed him outside. They gathered just outside the building, looking suspiciously at the eager American managers standing around with clipboards and papers.

"There must be another way to sell our products," Maiyra thought. She recalled the Community Foundation that sent representatives to the city several years earlier. Maybe they could help connect local artisans with ways to sell their products. "I'll try to call them," Maiyra told herself.

Two weeks later, the community room was again filled, but this time the mood was very different. Claudette, from the Community Foundation, talked easily with several local residents before speaking to the entire group. Maiyra stood and asked for everyone's attention.

"After listening to WorldWide Products," Maiyra started, addressing the group, "I didn't want to sell them my drums. I didn't like the men who came. I contacted Claudette and asked her if she knew anything about selling my products. She offered to come here today to explain the Community Foundation. Let's hear what she has to say."

The audience clapped and focused on Claudette. She smiled and started by asking the community what they wanted. Members were eager to share their goals.

"I'd like to sell my instruments to tourists," Javier said.

"I want my son to see the value in the toys we craft," another man said.

A third added, "I don't want a corporation to buy my whistles and profit from them. I want a fair price."

"Ahh," Claudette responded. "This is something the Community Foundation might help with. Usually, we work to bring government resources to rural communities like yours, things like education, health care and infrastructure. But, we recently met with a small group across the border in San Antonio. Manos Magicas wants to start a cross-border business, bringing unusual Mexican products to the U.S. They help small businesses in Estados Unidos sell Mexican products. San Antonio has a large population of Mexican-Americans and lots of tourists. Authentic Mexican products sell really well."

"Don't they want to cheat us, like WorldWide Products wants to?" Nery asked.

"Si," Jose added. "We can't travel or meet them, they can't come here. How do we know they will be fair to us?"

"I've met with their representatives via Zoom," Claudette explained. "Manos Magicas would love to meet and talk with you. They believe in fair trade and fair prices, they say. We could meet them via Zoom to talk to them and do follow-up chat with them on What'sApp." Claudette went on to explain the group was interested in Fair Trade practices and wanted to implement a partnership that would benefit both the sellers and their organization.

"Are you interested in this type of partnership?" Claudette asked.

"I'm willing to meet with them," Jose said. A chorus of agreement rose.

"I'll set up a meeting," Claudette said. "What else are you concerned about? I could send them a list of questions before we meet with them."

Maiyra smiled as the conversation continued. Claudette sat at one of the tables and took notes as she listened to the people discuss their products, concerns and hopes. Maiyra didn't know if a partnership with this new group Manos Magicas would be successful, but she felt Claudette was listening to the community's concerns. This was a great place to start.

Manos Magicas and the artisans are ready to become partners. They now face a multitude of issues to import and market the products.

## **BACKGROUND**

### **The Indigenous Community**

Of the five main indigenous groups in Mexico (the Otomi, the Chichimeca, the Chichimeca Jonaz, the Nahuatl, and the Mazahua), this project focuses on working with the Chichimeca group from the Bajio region, one of the fastest growing regions in Mexico. Guanajuato is well-connected to three major urban economies in Mexico: Mexico City, Guadalajara, and Monterrey.

Chichimeca is an umbrella term used by the Spanish to identify the indigenous groups of people living in San Luis de la Paz in the Bajio region of Mexico. Their history and traditions pre-date the Spanish invasion in the early 1520s, and their languages are traced back to the Uto-Aztec family. In the 1590s, the Chichimeca fought against the Spanish to defend their homeland and sovereign rights. When the Spanish were unable to defeat the Chichimeca, they began assimilation which eventually resulted in establishment of Spanish as a main language, adoption of Christianity, and loss of many old traditions.

Today, the indigenous groups in Guanajuato remain largely marginalized. Major industrialization such as oil, gas and mining projects have caused loss of territory and destruction of natural resources. Many communities are rural, with limited access to governmental services including infrastructure, education, and medical care. While also working other jobs to support themselves, the indigenous artisans produce products passed down from generation to generation.

The Chichimeca are a communal society in which decisions are made by selected members of the community who meet regularly. Ownership of resources is communal, and the scale of production is small. The artisans have avoided large commercialized production. Most trade is done via exchange vs. money; for example, work may be exchanged for goods.

The Chichimeca producers make a variety of crafts. Many of the Chichimeca products are musical instruments. One type of whistle fills with water to create different tones, another is shaped like a bird, and a third shaped like a dinosaur resonates with deep notes. There are a variety of drums and instruments, something like a xylophone that created different notes when struck with mallets. There are various shapes of flutes, both single and double. In addition, some artisans create dolls and doll clothes and other textiles.

### **Relationship Building & Strategic Alliances to Connect to with Indigenous Producers**

Many Chichimeca people are leery of outsiders, so the Community Foundation is essential for relationship building. The Community Foundation (CF) is a non-profit organization working in rural Mexican communities that have been significantly affected by U.S.-Mexican migration. CF is trusted by the Chichimeca community because of its 20-year commitment to investing in sustainable economic development programs, healthcare, and education inside the Chichimeca community. Members of CF may help bridge relationships between outsiders and the Chichimeca.

The CF aims to improve rural communities that may lack access to basic services and infrastructure. The rural communities often have limited options for local development. CF works in communities in a multi-sectoral way. They focus on economic development, social development, education, and health care. When the CF enters a community, they seek alliances



with existing community groups, such as church groups, the elderly, youth in sports or parents in schools and discuss the needs and goals of the community. Then, they partner with the local community to create a development plan. Community members participate in workshops and leadership training to help bolster the self-sufficiency of the community.

Working with CF, one community engaged K-12 students in a unique art program, another community built a bakery where women in the community sell tortillas, sweets, and breads; one brought computers and internet access to the community, and another worked to create a community waste water and septic management system (<https://tafotb.org/new-page-2>). Any plan CF creates follows the plans of the community.

### **Mexican-American Relations**

The U.S. and Mexico do an astronomical amount of trade, over USD \$568 billion in 2019. Issues of power, rule of law, climate change and resource management, and energy are involved in cross-border trade. More common issues include immigration, trade, manufacturing, drugs, and national security.

An overview of U.S. and Mexico trade relationship is connected to the North American Free Trade Agreement (NAFTA), a trade treaty between the US-Mexico and Canada. This trade treaty was ratified on January 1, 1994. The premise of NAFTA was to remove tariffs & non-tariff barriers, protect intellectual property rights, and eliminate investment restrictions among the three treaty participants.

Recently, NAFTA was revised and transitioned into the United States Mexico-Canada Trade agreement (USMCA). The new USMCA trade treaty is mostly 85% NAFTA (Payan, 2019). An important component of USMCA is that it requires 40-45% of auto content be made by workers earning at least USD \$16 per hour. USMCA also prohibits customs duties on digital products such as games, software, etc.

The poverty rate in Mexico is about 21%. A large percentage of the Mexican-American population is under 21 years of age but the majority of U.S.-Mexico cross-border entrepreneurs are in middle age (Orrarca et. a., 2017).

### **Formal vs. Informal Institutions**

The Chichimeca operate in an informal economy. Business is conducted mainly in cash or via bartering systems. Without formal structures, including invoices, the business community has difficulty accessing larger markets. These factors help to keep the Chichimeca's production on the margins of the Mexican economy. The implications of lack of invoices include the potential of paying higher taxes in Mexico and barriers to shipping the purchased products in cost effective ways to the United States.

### **Fair Trade Business Model**

The goal of the partnership with the Chichimeca is to develop a Fair Trade business model following examples from the Fair Trade Enterprises (FTE) (Doherty, 2020). A growing network across the globe, Fair Trade Enterprises are mission-led communities in over seven countries. These businesses demonstrate "commercially-viable business models that put people and planet first. These enterprises practice Fair Trade holistically across their business, reinvest

the majority of their profits in their social mission and deploy mission-primacy in their governance. Built to make management and investment decisions to favor workers, farmers and artisans, they are effective in some of the most challenging context” (Doherty, 2020 p.1)

These business models are ecologically focused to protect the planet, resilient in the face of challenges, foster innovation, and aim to reduce inequality and end poverty.

The long business trend toward prioritizing shareholder profits over ethical business practices has created a business environment in which social and economic inequality is greater than ever. When profits are distributed to the few shareholders, it prevents the distribution of wealth to producers and workers. Profit maximization trumps care for the environment, ethical treatment and support of sustainable production.

In contrast to this model, Fair Trade Enterprises prioritizes their mission over profits. FTE demonstrate business can be done successfully in ways that reduce inequality, respect workers, producers and the planet and employ different management models. To be included in the Fair Trade Enterprises, companies must follow the 10 Principles of Fair Trade across the business. The 10 principals are:

1. Opportunities for Disadvantaged Producers
2. Transparency and Accountability
3. Fair Trade Practices
4. Fair Payment
5. No Child Labor, No Forced Labor
6. No Discrimination, Gender Equity, Freedom of Association
7. Good Working Conditions
8. Capacity Building
9. Promote Fair Trade
10. Respect for the Environment (Doherty, 2020, 5)

With fair trade business, the missions may differ according to people’s focus and needs because they respond to the needs of the producers and communities, rather than the needs of the market (Doherty, 2020, 31). Maquita, in Ecuador, for example, aims to capture more value and channel more profit into the farmers and community by processing and manufacturing chocolate (Doherty, 2020, 13). Creative Handcrafts in India aims to empower women through a garment production company. They seek “to be a gender-sensitive employer by providing a creche and offering paid maternity leave. They also carry out training in the local community on the topics of gender, sex, and relationships to tackle wide-spread domestic violence” (Doherty 2020, 16). Profits are reinvested in the company and its women.

Another aspect of Fair Trade Enterprises is the governance over the company. The lack of women and people of color in mainstream business leadership roles is well documented (Fairtrade Federation). Fair Trade Enterprises offer a much more equitable platform to reduce gender inequality. “Unsurprisingly, businesses that champion and seek to proactively support marginalized groups are more likely to have taken steps to tackle gender inequality and are therefore more likely to have women in senior positions. 51 percent of board membership of Fair Trade Enterprises is female (compared to 12 per cent in mainstream business)” (Doherty, 2020, 15).

Alternative business models are commercially viable. Cooperatives may provide a one-member, one-vote model to distribute power equitably and give voice to producers,

workers and community groups (Doherty, 2020, 28). Cooperatives may provide access to transportation, marketing, and more that provides members with more business opportunities than previously available (Doherty, 2020, 29). For-Benefit businesses are “built around mission-primacy” and are searching for alternative business models that enhance an economy that prioritizes people and the planet (Doherty, 2020, 30).

## **TEACHING APPROACH, STRATEGY, ANALYSIS**

The case was designed for use in a variety of ways. In a 90-minute class period, students may discuss and analyze the case. The case should be provided to students prior to the class period; additional materials such as videos of the indigenous artisans are useful to establishing context. Students may be directed to focus on one or several issues involved in the case including global business models, market conditions, indigenous artisan entrepreneurship and venture creation, the export process, or marketing.

A longer class project may include in-depth analysis of any of the concepts listed above and/or developing a business model for the case.

Supplemental information includes:

- San Luis de la Paz cultural indigena, <https://www.youtube.com/watch?v=wFMn15MOAeY>
- Fundación Comunitaria del Bajío, [https://www.youtube.com/watch?v=kvoe0ruAE\\_Q](https://www.youtube.com/watch?v=kvoe0ruAE_Q)
- Manos Magicas: Mexican Handcrafts Store, <https://commerce.cashnet.com/cashneti/selfserve/storehome.aspx>
- <https://vm.tiktok.com/ZMeDKgGbH/>

Below, each part of the case is presented, and discussion questions are suggested. Each part also includes examples of answers to the suggested questions.

### **Option 1: Developing a Cross-border Startup**

The first way to use this case is as an exploration of how to develop a cross-border startup. For clarification, startups are new firms or existing firms with founders and teams committed to creating products and services that solve societal problems and are aligned with consumers’ needs. Startups are driven to solve problems, motivated by innovative ideas and rapid growth. Startups promote agile and proactive decision making and are characterized by persistence and dynamic culture. Students may be given the case and asked to perform a business model analysis and describe issues common to developing a cross-border startup in an emerging market context.

A cross-border startup company will need to manage trade rules, import/export laws, taxes and tariffs, and cross-border logistics for transporting products.

### **Possible Discussion Questions:**

1. What business model will you use?
2. Describe some issues common to emerging market conditions.
3. How will you get the goods and transport them to the U.S.?

## Exploration of Discussion Questions

### 1) What business model will you use?

#### a. Business Model Canvas

The first starting point is to discuss the key dimensions of Osterwalder's (2014) business model canvas. Osterwalder's business model provides insight into the building blocks of a basic business model. According to Ogunte (2014), Osterwalder's model addresses the "what," "who," "how," and "why" of any business. The "what" helps explain the value proposition; the "why" elucidates the cost structure and revenue potential; the "who" provides insights on relevant channels, customer segments, and customer relationships; and the "how" underscores the relevant key strategic partners and key resources of a business (See Appendix 1).

According to Oyedele (2016), another way to assess Osterwalder's business model is on the basis of three themes. Each element of the business canvas contains an internal aspect. Key activities, value proposition, and cost structure are focused on explicating internal operations and the activities that support the creation of customer value. Key resources, channels and revenue streams consider the product and capital flow going in and coming out of a given business (whether it is tangible products or intangible messages and information exchange). Key partners, customer relationships and segments fall under a more social aspect that relies heavily on perceptions, beliefs, behaviors, demographics, and relationships. Therefore, three key themes can be inferred from the nine elements of Osterwalder's business model canvas. These themes can be named 'Internal Operations,' 'Capital Flow (tangible and intangible),' and 'Human Factors.'

#### b. Global Business Model Framework

While Osterwalder's model is useful for understanding the internal view of the basic rationale underlying how companies create their value propositions, it fails to account for important external market conditions. In other words, the major shortcoming of Osterwalder's business model is that it does not account for the "where" of global market conditions. Global business models in emerging markets must assess and account for relevant market conditions such as power of non-governmental institutions, effect of clientelism and prevalence of informal institutional flux, market heterogeneity, chronic shortage of resources, inadequate infrastructure, unbranded competition, and channels of distribution challenges (Oyedele, 2016). Appendix II shows the revised Osterwalder business model framework that incorporates market conditions in emerging markets.

#### c. Fair Trade Sustainable Business Modes

Students may discuss traditional vs fair trade business models. Sustainable business models or fair trade models help eliminate inequality, end poverty, and save the planet. Unlike mainstream startups, who mostly emphasize profitability as their primary mission, an important mission of fair trade startups is to put people and the planet first. Fair trade startups across the globe employ business models that emphasize balancing commercial and social value (Doherty et. al, 2020). The investments and management decisions made by fair trade startups emphasize caring for employees, farmers, and artisans. Fair trade startups adopt and promote innovation and ecological practices that care for the environment. Many fair trade startups reinvest their profit into social causes while maintaining financial viability. A significant proportion of fair trade startups are run by women entrepreneurs (Doherty et. al, 2020). Appendix III provides useful information about fair trade principles.



An example of a Fair Trade startup is Manos de Uruguay, which is a women-owned fashion company focused on supporting women in rural Uruguay. Manos is composed of about 20 women producers where 12 women cooperatives directly dye and knit all of the products. The clothing items produced are very high quality, and they are currently being sold as an individual label as well as private label brands, like Gabriela Hearst and Ulla Johnson. Their commitment, motivation, and talent gained consumer attention, which benefitted their social mission. Its social mission has been to invest and remain fully committed to the producer cooperatives in rural Uruguay regardless of their remote locations and other challenges they may face. This startup exists to serve producers prioritizing the mission of providing personal development opportunities for rural women. This sustainable business model utilized by Manos de Uruguay has been proven successful and could be replicated for all startups worldwide (Doherty et. al, 2020).

Another Fair Tradestartup is Yabal Guatamala, which is a sustainable, indigenous handloom weaving business. Similar to Manos de Uruguay, this startup operation is mostly lead by women. About 50-60 women directly produce and sell their products. Their Board of Directors is comprised of 80% female leaders, and their women are paid forty percent more than the minimum wage. In addition, Yabal Guatemala offers skill development workshops to these women regarding financial literacy. Yabal Guatamala abides by their environmental standards because they utilize their artisan handweaving techniques and natural dyes extracted from plants, which do not leave a carbon footprint (Doherty et al 2020).

A sustainable business model or fair trade business model is ideal for this project because of the producers involved. Fair trade prioritizes people and focuses on creating means for sustained economic development. In addition, fair trade models work in rural or disenfranchised areas where more traditional business models do not work for geographic, development, or means of production reasons. Discussion of business models may involve the (mis)treatment of indigenous peoples in Mexico and the devaluing of their traditions and practices. It may include analysis of ethical business practices and ways of improving communities through international partnerships.

## 2) Describe some issues common to emerging market conditions.

The global business model of a cross-border startup should account for important market conditions such as power of non-governmental institutions (e.g., indigenous groups, tribes), prevalence of informal institutional flux, market heterogeneity, chronic shortage of resources, inadequate infrastructure, unbranded competition, and channels of distribution challenges (Oyedele, 2016, Sheth, 2011). Specific to Mexico, in certain instances, the mentors and the students' efforts to connect and network with key stakeholders in the state Guanajuato were negatively impacted by the waning security situation in Guanajuato, Mexico, the COVID pandemic, and midterm election issues in Mexico. Appendix II shows the revised Osterwalder business model framework that incorporates market conditions in emerging markets. Developing a global business model requires a clear understanding of the market conditions in the global marketplace. Using the global business model framework presented in the Appendix section (See Appendix II), student teams should evaluate and develop ideas of viable global business models for their proposed cross-border startup operations.

In order to create a sustainable and competitive global business model, a firm needs to understand the strengths and weaknesses of both domestic and global competitors. The design aspects of creating global business models entails extensive evaluation of information and ideas

gathered in all the phases of the business model process. The ideas must be converted into prototypes. The firm can add value to these prototypes by experimentation and testing (Miettinen, Rontti, Kuure, and Lindström, 2012). Implementation must be driven by milestones and the company may decide to conduct integrated or separate implementation. Separate implementation is viable if the current culture of the firm does not support the implementation of the business model. Managing a global business model will entail continuous scanning of the environment trends and macro environmental changes that can affect the global business model (Maciariello, 2009; Bowers, and Khorakian, 2014). For instance, inherent instability in the macro environmental situation increases the complexity of managing a global business model in an emerging market context.

Developing in-depth understanding of current trends, mental models of global customers, actions of global competitors and their business models is an important requirement for innovating global business models. Firms can develop in-depth understanding about global customers by conducting voice of customers research using contemporary technologies such as social media and through traditional survey. Conducting voice of customer research makes one understand and even uncover the unidentified need not previously articulated by the customer. Market awareness can be done with the help of a local strategic partner in a global market (Buckley, Beames, Bucolo, and Wrigley, 2012).

Developing and nurturing relationships is another vital aspect to emerging markets. Determining who controls state enterprises is one way to start. Forming relationships with major state actors will help the startup company navigate the cross-border issues. Forming relationships with Non-Governmental Organizations or other non-profits is common for partnering with producers of indigenous goods. Indigenous producers may not often sell their products in a formal economy; trade or barter may be common, and they may lack access to traditional means of transport. Creating structures that are flexible, open, and supportive of the community will help the success of the enterprise.

A detailed discussion of emerging market conditions and global business models for cross-borders and small-midsized firms in emerging can be found in Oyedele's (2016) "Emerging Markets Global Business Innovation" article published in the Journal of Research in Marketing and Entrepreneurship. Oyedele and Firat (2018) work on small local firms strategies in emerging markets published in the *International Marketing Review*.

1) How will you get the goods and transport them to the U.S.?

Market conditions in emerging markets require value propositions that support the businesses in ways different from the traditional markets. Emerging markets must center on transporting the product to the market in safe ways. Protective and easy-to-carry packaging may be suggested.

One of the problems is the difference between formal and informal institutions. The Chichimeca operate in an informal economy. Business is conducted mainly in cash or via bartering systems. Without formal structures, the buyers of the Chichimeca artisan products do not receive invoices from the Chichimeca artisan sellers. The implications of lack of invoices include the potential of paying higher taxes in Mexico and barriers to shipping the purchased products in a cost effective way to the United States. Students need to come up with legal and creative ways to ship the products they purchased from the Chichimeca artisan producers who operated primarily in the informal economy.

Without formal invoices, one strategy implemented by the students may be to ship the purchased products to San Antonio as samples for an academic exhibition through DHL and FedEx services. This strategy has high cost implications. The cost of shipping the artisan products through DHL and FedEx courier service was very high at \$370 per kilogram. The shipment cost was 64% of the total value of the artisan products shipped to San Antonio.

Students should review and compare the differences between the formal vs. informal export process. Exporting products from Mexico to the U.S through formal export process requires proper export documentation including invoices and certificate of origin.

The informal export process or the options for exporting without proper documentation is cost prohibitive with specific reference to high local tax burden and cost of freight service.

To help students learn about the formal process for exporting products from Mexico into the U.S market, the instructor should address topics on formal export process and export documentation. The following topics should be discussed in class:

- a. Registration & license: Mexico regulates "who" can export Mexican-made products. Usually, an exporter must be incorporated or part of an incorporated entity in order to become a registered exporter and be, in effect, licensed and registered in order to export. Student teams were asked to research how to apply for the required documentation export products from Mexico to the U.S.
- b. Certificate of Origin: In order to export from Mexico to the U.S., the Mexican exporter will need to fill out a Certificate of Origin that shows what percentage of the exported product was sourced or manufactured in Mexico. If this percentage is above a certain threshold, the U.S. Customs tariffs should be "Zero" or minimal. In Spanish, this is called the Certificado de Origen (it may have other names, as well).
- c. Impuesto de Valor Agregado (el IVA): This "value added tax" is a sales tax that is paid on everything that is sold in Mexico. It can be around 16%. Record-keeping is required by the taxing authorities. But, it is possible that products manufactured for export may not have to pay the IVA.
- d. Transportation: Once the above issues have been resolved, it will be worth spending time to find the most cost-effective means for delivery of this category of merchandise. It is important to keep in mind that, when exporting, charges are based on "volume," not just weight. So for any given package, it is its Length X Height X Width that creates the basis for the charges.
- e. Logistics company: Estefeta <https://www.estafeta.com/> is an example of a logistics company that facilitates import and export business between U.S and Mexico. They work both ways, and they may have experts available in many states in Mexico including Guanajuato, who can help determine the most cost-effective way of shipping products to San Antonio, Texas.

The formal export process should involve seeking the services of an experienced customs broker. Custom brokers are licensed to assist exporters and importers to meet the formal requirement governing exports and imports transactions. Custom brokers submit important information and payment to the custom authorities on behalf of the importer or exporter seeking their services. The custom brokers will charge fees for the service rendered to the customers. Custom brokers usually have expertise in many areas related to cross-border trade. This includes export product classification, product valuation, export procedures and determination of relevant duties, rates and taxes for export and import goods.

Exporters or importers seeking the services of a custom broker must provide the following documentation to the custom broker: Electronic invoice; Commission for custom agent; Letter of instruction to the agent specifying detailed information of operation; Delivery directly to the custom agent; List of packaging; Certificate of origins; Transportation document and other relevant documents (e.g., no tariff restriction, permits etc.). Appendix IV a, b, and c provides information about export formula analysis and tariff rates for the artisan products.

### **Option 2: Marketing a Cross-Border Startup**

This case study provides an excellent opportunity for students to explore how to sell or market and brand products from an indigenous society. The issues involved are varied. Students could be asked to discuss the marketing options or create fully developed marketing plans for the Chichimeca people.

Possible Discussion Questions:

- Determine a marketing strategy.
- Explore marketing tactics.

### **Exploration of Discussion Questions**

- Determine a Marketing Strategy

The discussions about selling or developing the market for the product should be linked to the process of branding a product or service. Marketing strategy involves doing a detailed research of industry trends, competitor analysis, and most importantly customer segmentation analysis. The following could be used to present the marketing strategy assignment:

“To develop the market and realize the potential for the Chichimeca handmade artisan products in the U.S. market, we need to research information about key competitors, industry trends and potential customer segments for the Chichimeca artisan product. The customer discovery analysis and target market selection should be sufficiently described and grounded in research. The outcome of the customer research and competitor analysis should be used to develop a positioning for the artisan product. Product positioning and marketing strategy should be clearly articulated and flow logically from the situation analysis and market research.”

The discussion can start with definitions and clarification of marketing strategy concepts. The following are concepts and topics to explore:

- i. Market segmentation - The process of dividing the markets into groups of customers with similar needs and developing marketing programs that meet those needs
  - i. Market segment – Groups of actual customers or potential customers with similar needs
  - ii. Rationale for segmentation
  - iii. Heterogeneity of markets
  - iv. Differences in customers’ needs, wants, values & beliefs, constraints, and response to incentives
  - v. Customers actively seek products and services that better meet their needs and wants
  - vi. Firms compete to better meet customers’ needs and wants
  - vii. Products designed to fit the needs of particular customers provide more customer utility
  - viii. More customer utility = customer willingness to pay premium price



- ii. Better understanding of customer needs = more efficient and effective tactical decisions
- iii. Conditions for viable segments are:
  - i. Homogeneity is the measure of the degree to which the potential customers in a segment have similar responses to some marketing variable of interests. The bottom line is that segment members are different between segments but similar within segments
  - ii. Accessibility is the degree to which marketing managers can reach segments separately using observable characteristics of the segments (descriptor variables)
  - iii. Profitability of a segment specifies the costs of serving customers in a segment must be no more than they are willing to pay
- iv. Variables to segment business-to-consumer segments or customer characteristics are:
  - i. Demographics - Age, education, ethnicity
  - ii. Psychographics - Lifestyles, attitudes values, personality, and motivations
  - iii. Behaviographics - Use occasion, usage level, and extent of brand loyalty
  - iv. Media pattern - Types of media used and levels of use
- v. Targeting - The process of selecting a segment or those segments in a market that the firm chooses to serve. Examine how to evaluate the attractiveness of segments, select segments to serve, and identify customers in target segments
- vi. Evaluation of segment attractiveness should consider:
  - i. Size and growth potential of the segment
  - ii. Competitive rivalry analysis for the segment to see if there are gaps in the market
  - iii. Product fit - The assessment of the segment fit with firm's capabilities, segment synergy and cost and segment profitability
- vii. Positioning - Affecting the minds of customers to help them perceive the product differences clearly. This is different from differentiation, which relates to what product changes are needed to make it different from competing products.
- viii. Basis of positioning – Consider the following:
  - i. Lifestyle positioning
  - ii. Attribute positioning
  - iii. Benefit positioning
  - iv. Competitive positioning
  - i. Time-based positioning
- ix. The dimensions of a positioning statement are as follows:
  - i. Target market description using segmentation variables such as demographics, psychographics, and behavior variables
  - ii. Frame of reference describes the category the product is in
  - iii. Point of difference describes the unique selling point; why it is different?
  - iv. Reason to believe or explain the evidence/proof of point of difference or unique selling point

Overall, student responses to customer segmentation analysis will vary. An example of a target market description is presented in Table 1.

## 2) Explore Marketing Tactics

As appropriate, the tactical implications should include an integrated marketing communications plan, distribution plan, pricing plan, etc. The tactical plan should be a logical extension of the product positioning and marketing strategy. Identify the performance measures to be tracked and the benchmarks to be achieved in order to determine if the proposed marketing strategy and tactics are successful.

The discussion for marketing tactics can start with definitions and clarification of marketing tactics concepts. Marketing tactics or marketing mix relates to four Ps of marketing: product, promotion, placement, and pricing. The instructor should use this discussion to address the differences between traditional marketing mix elements and digital marketing mix dimension as described in Kolter's et. al (2016) book titled Marketing 4.0: moving from traditional to digital.

The traditional marketing mix helps plan what to offer and how to offer it to the customers. Topics should include:

- a) Product- Product developed to meet customers' needs
- b) Promotion- Communicate information about the product through ads, sales promo, public relations etc.
- c) Placement- Distribute the product making it conveniently accessible to customers
- d) Pricing- Set using market research, cost-based pricing, competition-based pricing, customer-value based pricing methods

The four C's Marketing mix must accommodate more customer participation. Students should consider the following topics:

- a) Cocreation of value involving customers early in the ideation stage; customization and personalization allow superior value
- b) Communal activation channel concepts are changed; for instance, the sharing economy allows peer-to-peer distribution (e.g., Uber, Airbnb). Products are made available conveniently, instantly, safely through communal efforts. Aggregators of restaurant food service delivery (e.g., Grub hub), for example, have arisen.
- c) Conversations on the rise of customer rating systems and social media conversations; Yelp provides a platform for customers to have conversations, for example.
- d) Currency similar to currency which fluctuates based on consumer demand, from standardized to dynamic pricing, setting flexible prices based on market demand, using big data to determine or offer unique pricing to customers

For a detailed discussion about traditional marketing mix and the four C's of marketing mix, see Kolter et al (2016).

The marketing tactics or marketing mix discussion should focus on a digital marketing mix. A course assignment may read as follows:

“To execute our branding strategy targeting GenZ consumers in the global marketplace, with the objective to motivate GenZs to buy the artisan products produced by the Chichimeca

group, we need to create 4 Tik Tok videos using hashtags that would stimulate engagement from GenZs in the U.S. The GenZ population in the U.S. are from different cultures, consequently, your videos must contain themes, ideas, and messages that can cross cultures. Examples of companies that promote messages that cross cultures are Pepsi, Coca Cola, Nike just to name a few. Messages that cross cultures include family, sustainability, safety, love, kindness etc. The campaign will involve creating 4 TikTok videos to promote Chichimeca products to GenZ consumers in the U.S.”

The discussion about Tik Tok should be focused on three major topics: how Tik Tok works, creativity, and tips for creating Tik Tok videos. See Table 2 below.

Students may propose partnerships with the Chichimeca business community, create marketing and sales proposals, and suggest product design. Research on potential customers in the U.S. will target marketing plans. For example, a student group may suggest a digital marketplace on which to sell the Chichimeca artisan products. This may include marketing campaigns and how to operate the business. Another option may be to partner with boutiques in the U.S., or to create a viral Tik Tok marketing proposal; see Table 2.



**APPENDICES**

**Table 1 Target Market Description**

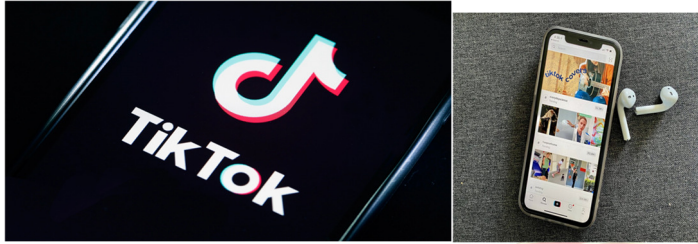
Option 1	Option 2	Option 3
<p><b>*Targeted Consumers</b>                      People born in Mexico or Latin America and currently residing in the United States.  <b>*Demographic characteristics</b>                      Age: 40 - 50 years                      Sex: Women                      Economic income: Below \$30,000 per year (Average salary of Mexican immigrants)                      Acculturation: Low  <b>*Country: United States.</b>  <b>*Psychological profile</b>                      Working people of Latino origin who currently reside in the USA who are looking for objects that remind them of their native country and culture.</p>	<p><b>*Targeted Consumers</b>                      Children of Mexicans or other Latin Americans born in the United States or who began to live in this country at an early age.  <b>*Demographic characteristics</b>                      Age: 18 - 28 years                      Sex: Women                      Economic income: Below \$30,000 per year (Average salary of Mexican immigrants)  <b>*Country: United States</b>  <b>*Acculturation: Medium</b>  <b>*Psychological profile</b>                      Young descendants of Mexican or Latin American families who have not had the opportunity to learn about their parents' culture and seek to learn more.</p>	<p><b>*Targeted Consumers</b>                      Americans who have lived in or visited Mexico and want to have a memory of the country and its culture.  <b>*Demographic characteristics</b>                      Age: 40 - 55 years                      Sex: Women                      Economic income: USD \$45,284 per year (Average household income of an American family)  <b>*Country: United States.</b>  <b>*Liberals</b>  <b>*Psychological profile</b>                      People of United States origin with an emotional attachment to Mexico and its culture who seek to have a representative object of the country.</p>
 	 	 

**Table 2 Tik Tok Marketing**

How does Tik Tok work	Creativity on Tik Tok	Tips
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<ul style="list-style-type: none"> <li>*Simple</li> <li>-60 seconds or less</li> <li>-Catch their attention</li> <li>*Target Audience</li> <li>-Speak to them</li> <li>-Know your theme</li> </ul>	<ul style="list-style-type: none"> <li>*Doesn't need to be perfect</li> <li>*Have fun with it!</li> <li>*Humor, education, or emotion!</li> <li>*Use popular sounds</li> <li>*Quick and Easy to understand</li> <li>*This is NOT an ad, it's a Tik Tok!</li> <li>*You can fail</li> </ul>	<ul style="list-style-type: none"> <li>*What do you need to be successful</li> <li>-Camera Phone</li> <li>-Open Mind</li> <li>*Tips:</li> <li>-Think about your target audience</li> <li>-Have a theme or goal</li> <li>-Incorporate popular sounds/themes</li> <li>-Be willing think outside the box</li> </ul>
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Click link to see examples of Tik Tok video developed to brand the Chichimeca artisan product.  
<https://vm.tiktok.com/ZMeDKgGbH/>



**Appendix I- The Ten Principles of Fair Trade**

WFTO members fully practice the 10 Principles of Fair Trade across their entire business and with their suppliers.



Source: Doherty et al (2020) – Creating the New Economy Business Model that Put People and Planet First

**Appendix II – Export Computation**

1. Formula to Calculate Export

$$\text{FOB/FCA} = \frac{\text{CP} + \text{EP} + \text{IT}}{1 - (\text{PR} + \text{EP}) + \text{TX}}$$

2. Cost of Export and Discount Integration

Costs of Export	Integrate Discounts	Example
Free on Board (FOB); FCA (Free Carrier): CP= Cost of production or pre-export cost EP= Export operating costs & expenses (e.g., customs brokers fees) IT= Internal transportation cost	Cost of logistics Determine cost of incoterms Price of export Determine total cost of discount	Exporter that wants to send 1000 boxes of fruits to the U.S using the following data CP= \$10/box = \$10.000 EP= \$ 300, shipping costs and others IT= not applicable in this case because International and

<p>PR= Profit you want to obtain from the operation TX= Integrate taxes paid in the production stages prior to export</p>		<p>transport withdraws from its deposit PR= 20% EP= 1% custom brokers fees TX= 4%</p>
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**Appendix IIb**

## Solution

	10000+300	10.300
FOB/FCA=	_____ =	_____
	1- (0,20+0,01) + 0,04	1- (0,21) + 0,04

	10.300	
FOB/FCA=	_____ =	12.409,64
	0,83	

Notes: FOB-> Seller delivers the goods on board the vessel at his own cost good loaded on the vessel with the exporter/seller bearing the cost. The rest of the cost, risk on carriage to the final destination is on the buyer FCA -> Seller and buyer agree in the contract for the seller to deliver the goods to a specified location. The specified location could be where the buyers carrier is located. FOB -> appropriate for conventional sea freight not used when goods move via sea freight in a container for FCA-> used for all modes of transport

**Appendix IIc Tariffs and Value Added Tax Specification for the Chichimeca Artisan Products**

Item	Tariffs	Tariffs	IVA – Value Added Tax Export	IVA – Value Added Tax Import
	Export	Import		
Flautas	0%	?	0%	16%
Musical instruments	0%	10%	0%	16%
Dolls	0%	15%	0%	16%
Ocarinas – Ceramic products	0%	15%	0%	16%
Silbatos (Metal & Wood)	0%	15%	0%	16%
Drums	0%	20%	0%	16%



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