IMPROVING THE SURVIVAL RATE OF SMALL FIRMS IN LATIN AMERICA
A case study in Aguascalientes, Mexico

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INTRODUCTION

99% & 1/4 Micro & Small Firms’ Survival Rate

Source: OECD-ECLAC (2012)

Case Study in Aguascalientes, MX
RESEARCH QUESTION

What are the critical Supply Chain and Business Practices that improve survival rate of small firms in LATAM?
HYPOTHESIS

H0: Managerial Quality and Demand Planning are the two critical practices to improve small firms survival rate.
## Five Stages of Small Business Growth (Churchill & Lewis, 1983)

**Survival Stage**

- **Stage 1**
  - Existence
  - Customer Relationships
  - Owners do most of the work
  - Minimum to inexistent
  - Cash Flow

- **Stage 2**
  - Survival

**Success Stage**

- **Stage 3**
  - Success
  - Growth of company
  - Functional managers
  - Operational budgets
  - Adapt

- **Stage 4**
  - Take-off
  - Delegation & cash flow
  - Decentralized in sales or production
  - Yes

- **Stage 5**
  - Maturity
  - Control finance while keeping advantages of size
  - Decentralized
  - Yes

**Reasons for failure**

- Decapitalization
- Maintain earnings
- High growth

- Lack of innovation and risk aversion
METHODOLOGY

Existing Data Screening Analysis from Bolivia, Colombia, and Peru

Small Firms Interview & Deep Dive

Case study Aguascalientes, MX

Additional Data Collection & Resources Engagement

Case study Aguascalientes, MX

Results & Recommendation
DATA COLLECTION

Data Collection Guideline

SURVIVAL POTENTIAL

- Workshop & Company Tours
- Questioning
- Shadowing
- Behavioral Operations
- General Data
- Supply Chain Practices
- Immersion
- Business Practices Benchmark
- Lean Manufacturing
- Questioning
- Rapid Plant Assessment
CASE STUDY & WORKSHOP

Case Study

• Deep dive in 3 small enterprises in Aguascalientes, Mexico to understand their business model, operation process, opportunities, concerns and challenges beyond Excel.

Workshop

• Better understanding of the small firms in study.
• Engage with companies.
• Teach basic supply chain and business practices.
• Discuss their main challenges.
• Perform questions to determine the stage analysis each company is.
RESULTS & DISCUSSION

Model Formulation

- Critical attributes: No. worker, No. Trusted Supervisors, Main Challenge, Main activity driver for managers
- Dependent variable: the stage of the company
- Output value: Survival or Success

Number of delegates → Survival Stage

Number of workers

<= 0.3

Main Activity of managers

Main Challenge of company

> 0.3

Survival Stage

Success Stage
RESULTS & DISCUSSION

Initial Findings

• Most of the small firms are in survival stage
• Longer years of existence does not define the success of a firm
RESULTS & DISCUSSION

Business Practices

<table>
<thead>
<tr>
<th>Business Practices</th>
<th>Survival</th>
<th>Success</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing</td>
<td>4%</td>
<td></td>
</tr>
<tr>
<td>Buying and Stock Control</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Costing and Record-Keeping</td>
<td></td>
<td>15%</td>
</tr>
<tr>
<td>Financial Planning</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Percentage of Adoption
RESULTS & DISCUSSION

Supply Chain Practices

- Supplier Relationship Management: 40%
- Customer Relationship Management: 10% (Survival 0%, Success 10%)
- Operations Management: 15% (Survival 0%, Success 15%)
- Planning and Business Processes: 6% (Survival 0%, Success 6%)

Survival vs. Success rates for various Supply Chain Practices.
RESULTS & DISCUSSION

Important Practices Heat Map

PLANNING & BUSINESS PROCESS
• P8: Steps definition to make product

OPERATIONS MANAGEMENT
• O3: Supplier lead time knowledge
• C2: Delivery process description
• O6: Appropriate conditions for inventory holding
• O10: Delivery information registration for each customer.

FINANCIAL PLANNING
• F8: Annual income/expenditure sheet
• F5: Annual profit and loss statement
• F6: Annual statement of cash flow
CONCLUSION

KEY INSIGHTS

• Most companies are in Survival Stage.
• Years of existence of a company are not directly related to the stage the firm
• Financial Planning and Operations Management are the most critical practices.

FUTURE WORK

• Extending the model to other LATAM regions.
• Developing educational tools for small firms among those critical practices.
THANK YOU!

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REFERENCES


Velázquez Martínez, Josué, Ximena Castaño, Gianmarco Merino, Carolina Mendoza, and José A. Larco. 2017. "Micro SCM: Leveraging SCM decisions in small firms @ Latin America."

APPENDIX

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