



Logistics as a Competitive Factor for SMEs in Countries of the Americas.

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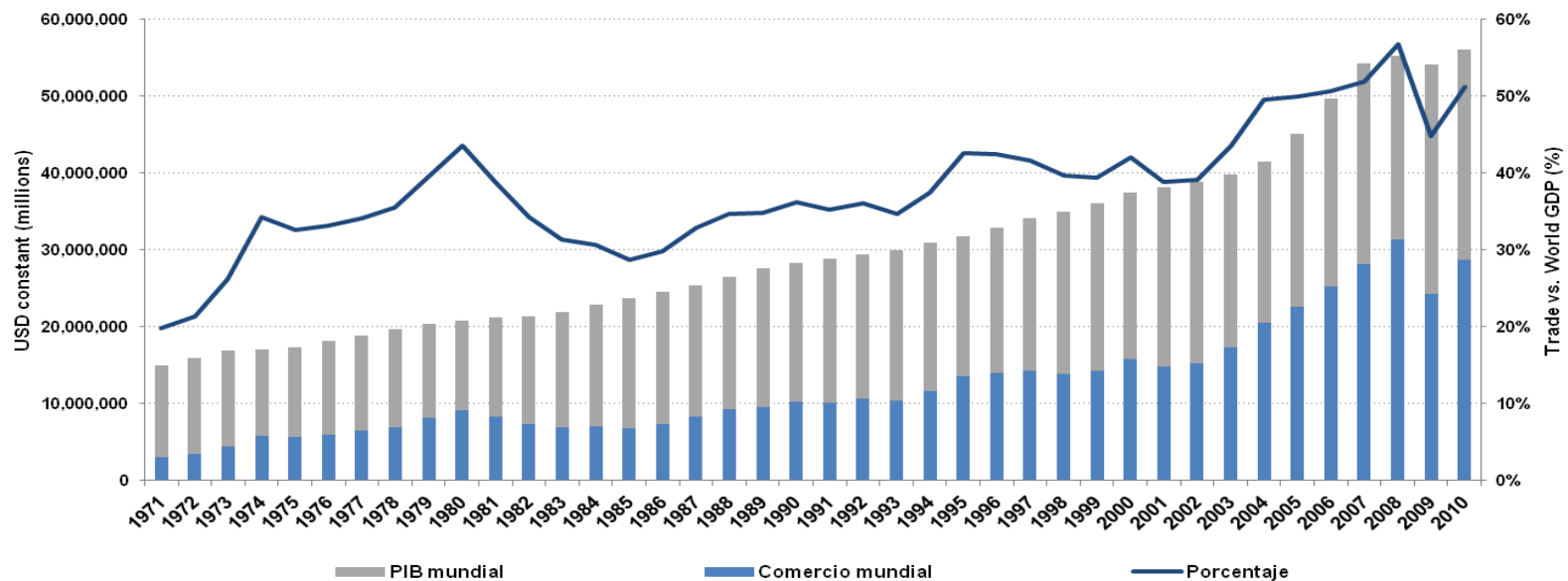
- 1. Analysis of the changes in commercial and logistic activity**
2. Competitive logistic positioning in countries of the Americas
3. Public organism-led improvement initiatives
4. SME-led improvement initiatives
5. Conclusions and recommendations

Analysis of the changes in commercial and logistic activity

Today's SMEs are operating within a context of growing integration of the principal global economies.

World trade as a percentage of GDP has soared from 20% in 1971 to reach 51% in 2010

World Trade as a Percentage of GDP



Source: World Trade Organization (WTO)

Analysis of the changes in commercial and logistic activity

The aforesaid evolution in world trade and global competition have given rise to a high and complex demand for logistics services.

Supply chain management is today a key element in the management of any export-oriented SME.

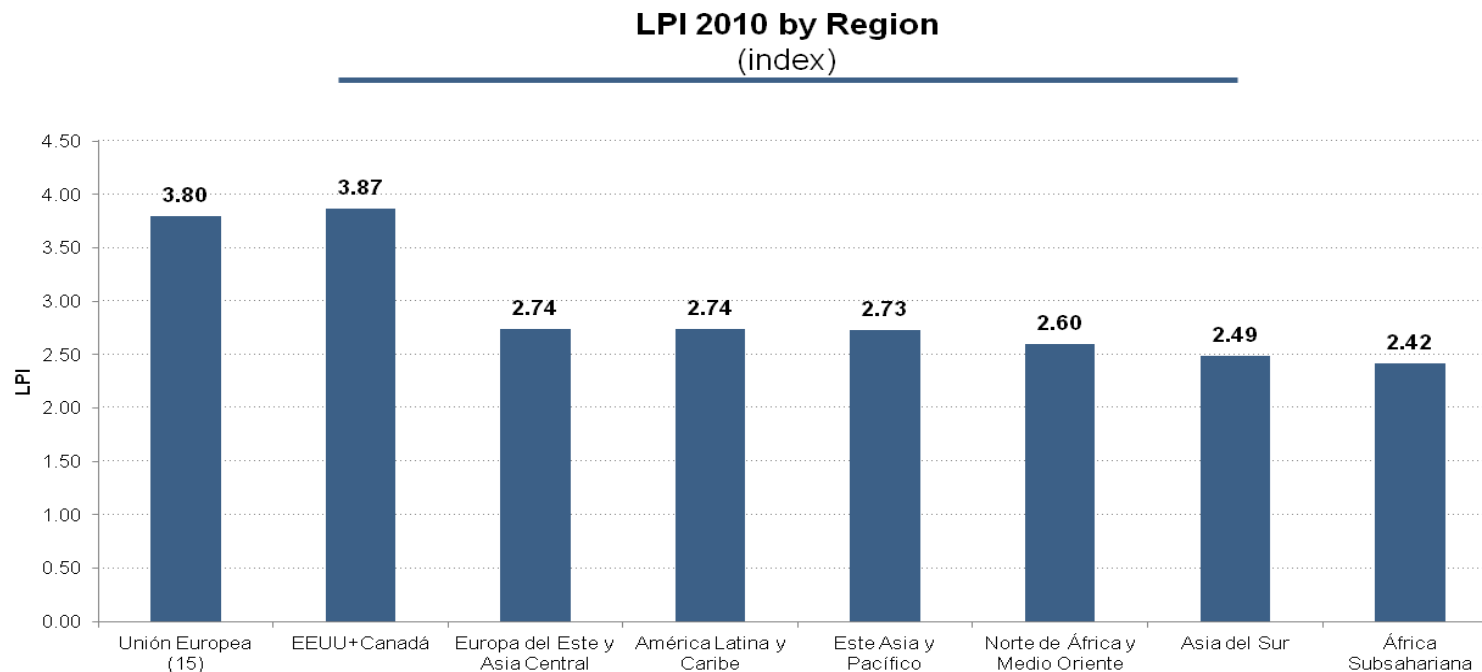
- Global sourcing
- Multi-modal transport
- “Door-to-door” services
- 3PL Services
- 4PL Services
- Cold chain management
- Transport security



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Competitive logistic positioning in countries of the Americas

Although The Americas stands out among emerging regions with regard to logistical competitiveness, they are still far from reaching the benchmark



Source: World Bank (WB).

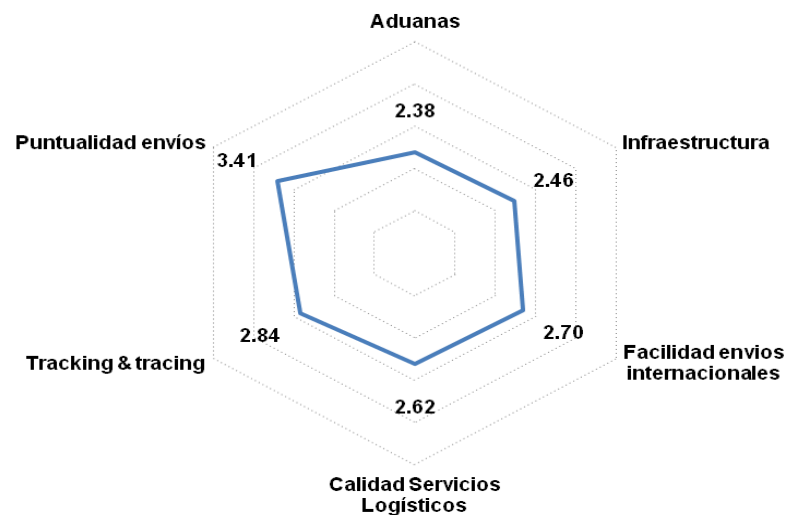
Note: The Logistics Performance Index (LPI) is an indicator, developed and drafted by the World Bank, which assesses the level of logistical development of a given country or region based on the evaluation of concepts such as the efficiency of the customs clearance process; the quality of transport on offer; development of logistical infrastructures, the ease and accessibility of transport contracting, the quality of logistical services; the capacity to monitor and locate merchandise (tracking and tracing); or the punctuality of dispatches at the delivery point.

Customs Infrastructure International Dispatch facility Quality of Logistical Services Tracing and Tracking Punctuality of Dispatch

Competitive logistics positioning in countries of the Americas

Some of the deficiencies reflected in the LPI represent a limiting factor on SME competitiveness in the region.

LPI Latin America and the Caribbean
(index)



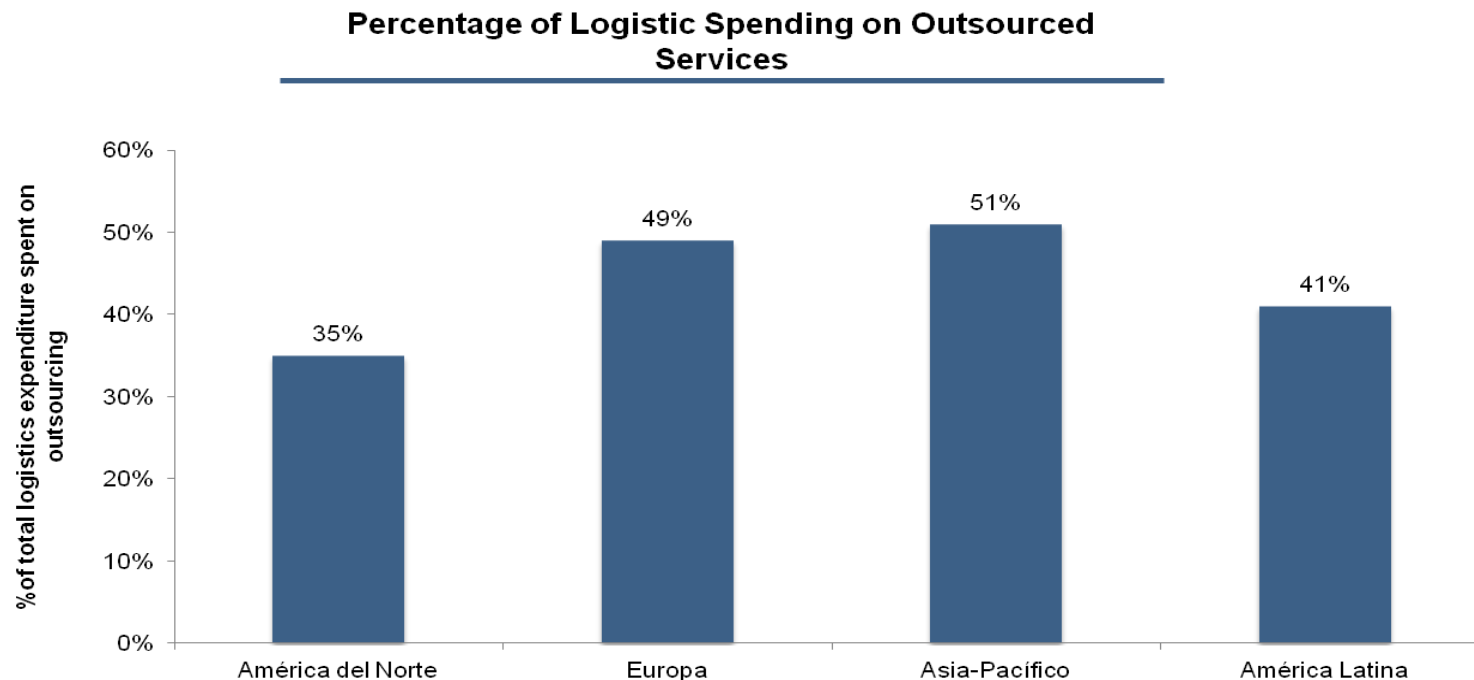
- Limited multimodal connectivity
- Limited access to 3PL services
- Lack of integration between different border control agencies
- Lack of modernization of customs clearance procedures
- Deficient cold chain infrastructure

Source: World Bank (WB).

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Competitive logistic positioning in countries of the Americas

The degree of outsourcing of logistical operations in LAC countries is below the average for Europe and Asia, but above the average for North America



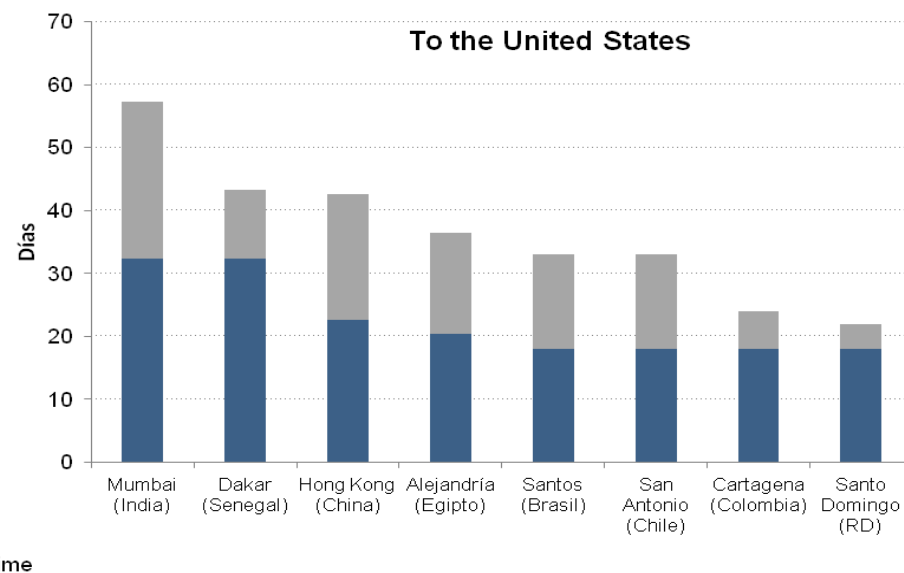
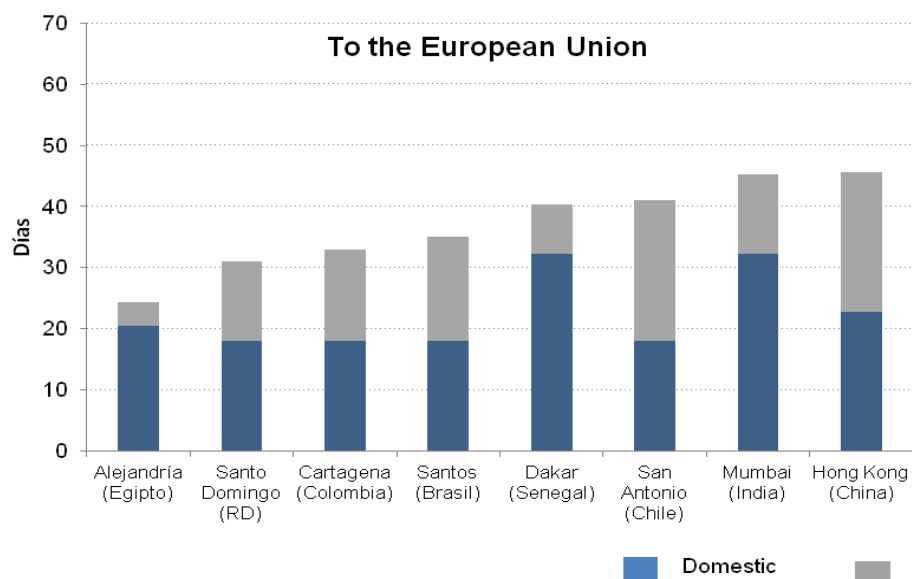
Source: Capgemini et al., 2011. 2010 Report on Third-Party Logistics, p. 8.

Competitive logistic positioning in countries of the Americas

SMEs in the region find themselves in an advantageous position compared to businesses in other emerging economies with regard to exports to the United States, but not with exports to the European Union (EU).

In Latin America and the Caribbean, an average of 18 days are needed to deliver a container to its port of embarkation, whereas the average in OECD countries is just 10.9 days.

Average exportation times from various emerging regional economies to the United States and the EU
(in days)



Source: Doing Business (World Bank) + Sea Rates Container Transit.

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Public organism-led improvement initiatives

Easily reproducible initiatives already exist in the region that can enhance the SME's logistical competitiveness.

Beyond investment in infrastructure, which delivers a clear and immediate impact on implementation, but which requires large sums of money, are those actions oriented at facilitating and supporting businesses during the exportation process.

Measures Supporting SME Internationalization

- Development of support and guidance institutions for export-oriented SMEs.
- Development of plans for the innovation and adoption of new technologies.
- Development of Single Window models
- Introduction of risk management techniques into the customs system
- Reforms in port sector management
- Promotion of Short Sea Shipping (SSS) as a development tool for inter-regional commerce

Public organism-led improvement initiatives

En Brazil, the *Programa de Aceleração do Crescimento* (PAC) (Growth Acceleration Program) has meant investment of USD 35,000 million in logistical infrastructure during the period 2007-2010.

Due to the program's reach, its execution has involved both the private and the public sectors, giving rise to many PPP-type agreements.

- **Roads:** construction, widening or refurbishment of more than 45,000 km of roads
- **Railways:** construction, widening or refurbishment of more than 2,500 km of railways
- **Ports:** expansion of 12 ports
- **Airports:** expansion of 20 airports



Public organism-led improvement initiatives

In Costa Rica, the introduction of a Single Window system has simplified and speeded up customs clearance procedures

Before harmonization, the export clearance process in Costa Rica was long (8 days) and complicated (multiple documents required by various organisms)

Promotora de Comercio Exterior (Procomer) (Foreign Trade Corporation)

The centralization of responsibilities has been this project's key to success. The Single Window legislation establishes that all other governmental agencies taking part in the foreign trade process fall under the aegis of *Procomer* in this sphere.

Furthermore, *Procomer* provides certain services that contribute to export sector development, such as, for example (*):

- Consultancy for export license registration and renewals
- Consultancy for import permits
- Capacity-building for importation and exportation documentation, processes and procedures
- Consultancy on preliminary export procedures
- Issuing of certificates of origin
- Statistics gathering



(*) Various countries have agencies that lend support to export-oriented SMEs. These include: Colombia, Costa Rica, Guatemala, Honduras, Nicaragua or Panama. Although the promotion and development of agencies of this kind is an action that yields results over the medium and the long term, they have a high impact level that brings an increase in exterior activity at both the business and the national level.

Public organism-led improvement initiatives

Chile has introduced risk-management techniques in its customs clearance system

This system accepts the idea that not every case of fraud can be prevented, but offers the best available balance between costs and benefits.

How does it work?

- The customs agency risk profile for every exporting and importing business.
- An automated system indicates which cargoes should be inspected, resulting in a lower number of inspections for companies with the best reputation.



Advantages

- It enables the customs agency to optimize resources without putting a brake on commercial exchange.
- It enables the customs agency to minimize corruption, given that automatization eliminates discretionality concerning which cargoes ought to be inspected.

Public organism-led improvement initiatives

In México, the introduction of the “landlord” model of port management and the promotion of SSS are energizing maritime transport

The “landlord” model of port management

- The Port Authority limits itself to providing infrastructure and port-side land, and to regulate the use of this public domain.
- Port services provision remains in the hands of private operators under a concessions regime
- This model is considered to optimize port management



Short Sea Shipping (SSS)

- Consists in the development of high-frequency, short-and medium-distance merchant shipping routes
- It is a complementary mode to land transport
- In Mexico, the idea is to foster this kind of transport between Mexican ports, as well as between these and the United States.



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SME-led improvement initiatives

Good supply chain management is one of the elements that determines success or failure in a SME engaged in a process of internationalization

The transfer of knowledge and the adoption of best practices are the key to optimum management

- Logistical efficiency within an SME is defined on the basis of the same levers and drivers as in any other company, although the characteristics deriving from its particular size might accentuate the relative importance of one or other of them.
- The levers and drivers that contribute to the construction of efficient logistical operations favoring the creation and maintenance of a competitive advantage, include the following:
 - Organization
 - People
 - Process-based management
 - Logistical metrics
 - Information technologies
 - Other integration systems
 - Horizontal and vertical collaboration

SME-led improvement initiatives

Adequate corporate organization and correct people-management act as fundamental levers for optimizing the supply chain

Organization

- The most common organizational structure in SMEs is the classic division into functional silos
 - Enables optimization of individual operations
 - Carries a certain lack of clarity regarding responsibility for the process as a whole
 - Introduces communication inefficiencies
- The so-called “best in class” organizations use integration systems to go beyond these limitations
- Logistics plays an integrative role through global supply-chain management

People

- The need to adapt the necessary skills to undertake each task (changing environment). However...
 - Logistical work is undervalued
 - There are shortcomings in professional training
- ...which translates into the need to develop specific training programs

Performance Evaluation Systems

Help to align the behavior of people and departments with the organizations goals.

SME-led improvement initiatives

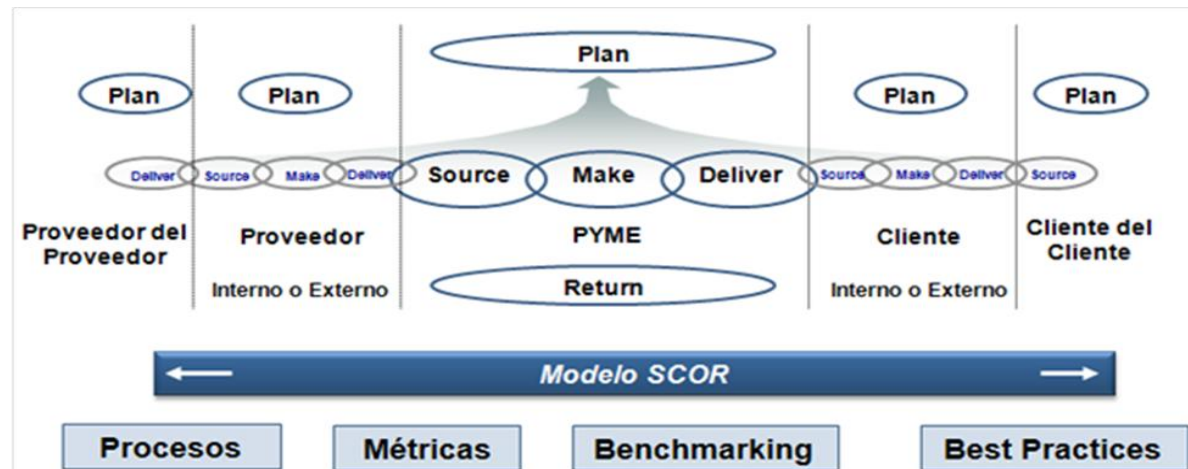
The aim of process-based management is to align operations with the goals of both the businesses and the client

The reference model in this sphere is SCOR, developed by the Supply Chain Council

Process-based Management

- Facilitates consensus around basic logistical concepts
- Offers an overall view of the process (goes beyond the limits of functional silos)
- An approach that responds to standard indicators
- Facilitates the adoption of best practices and acts as a catalyst for personal initiatives

Application of the SCOR Model to SMEs



SME-led improvement initiatives

The development of metrics within the sphere of logistics is directly linked to process-based management

By monitoring a series of specific indicators, greater control is gained over logistical operations, which allows them to be aligned with business objectives

Metrics (indicators) for Logistical Management

Type	Area	Definition	Indicators
INTERNAL	Reliability	The capacity to carry out tasks as expected (i.e. predictability of process results)	<ul style="list-style-type: none"> – Perfect order compliance – Complete delivery – Delivery on time
	Capacity to respond	Speed at which tasks are performed/ products are delivered	<ul style="list-style-type: none"> – Order cycle time – Delivery cycle time (inc. transport) – Planning cycle time
	Agility	Capacity to respond to external influences, responding to changes in the market to gain or maintain a competitive position	<ul style="list-style-type: none"> – Supply chain flexibility – Supply chain adaptability
EXTERNAL	Costs	Cost of executing supply chain processes, including labor costs, materials, material and product transport and management	<ul style="list-style-type: none"> – Costs of goods sold – Cost
	Assets	Capacity to effectively use assets	<ul style="list-style-type: none"> – Days needed for inventory – Percentage capacity uptake – Cash-to-cash cycle time

Source: Author's own elaboration

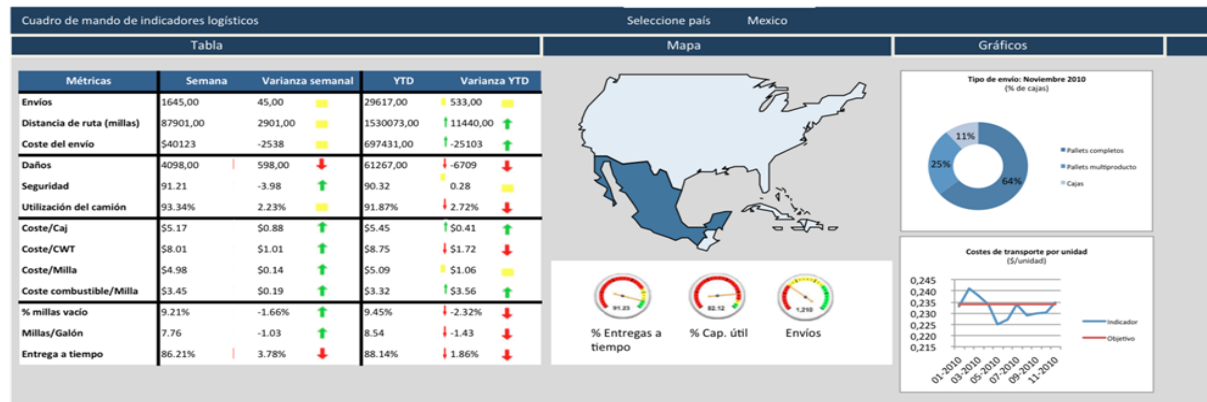
SME-led improvement initiatives

In logistics, Information and Communication Technology (ICT) systems are fundamental

Their importance is reinforced by conditioning factors such as the nature of the logistical operations in real time or their extent, the growing complexity of product management and market globalization

Technological Support Tools

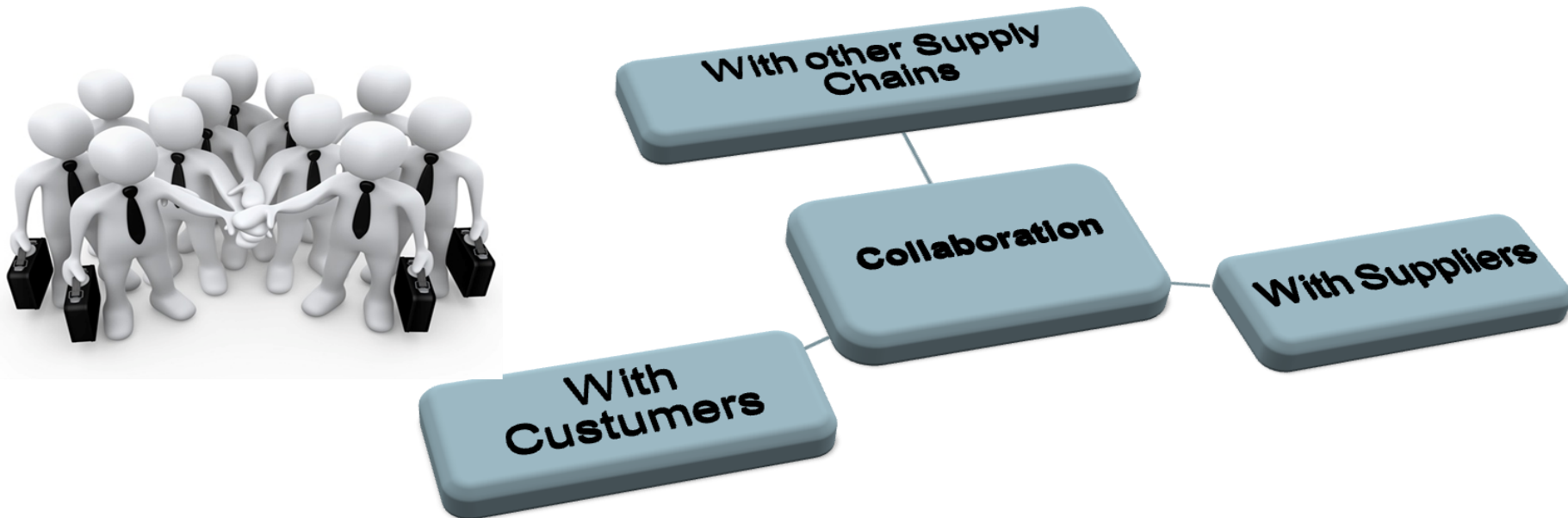
- Transactional management systems (Enterprise Resource Planning/ERP)
- Logistical executive systems
- Planning and decision-making systems
- Business intelligence systems



Source: Author's own elaboration..

SME-led improvement initiatives

Another of the levers of SME logistical competitiveness lies in their capacity to develop collaborative strategies with other organizations in their supply chain, or even with business competitors



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Conclusions and recommendations

Logistics should act as a motor for private sector development and economic growth in other sectors of the economies of the Americas

Limiting factors still exist today at both a national and a SME level that hinder fulfillment of this role

Country

- Limited multimodal connectivity
- Deficient port sector operations
- Deficient cold chain infrastructure
- Bureaucracy associated with exportation: necessary documents, time periods, etc
- Lack of coordination among governmental agencies regarding inspections

SME

- Difficult access to advanced 3 PL services
- Deficiencies in education and formation in the logistics field
- Limited availability of concentrated centers of logistical activity
- Lack of collaborative instruments to achieve the economies of scale required to compete globally
- Limitations in access to best practices, technologies and supply chain management performance improvement mechanisms

Conclusions and recommendations

Efficient measures exist to tackle these deficiencies, which have been widely tested in many countries in the region

These include both actions to be undertaken by the SMEs themselves and others to be promoted at the national level

ADMINISTRATION-LED MEASURES

Sector and Normative framework

- Development of Single Window models
- Introduction of risk management techniques into the customs system
- Promotion of ICT uptake
- Improve logistics training and education policy
- Promotion of more sustainable forms of transport: Short Sea Shipping, railways, etc.
- Promotion of PPP plans in the development of new infrastructures

Infrastructures

- Improve multimodal connectivity
- Develop logistical parks and platforms
- Develop cold chain infrastructure

SME- AND SECTOR ASSOCIATION-LED MEASURES

Better internal practices

- Development of systems of indicators
- Development of internal training programs
- Adequate ICT uptake
- Promotion of access to advanced 3PI logistical services for SMEs
- Promotion by sector associations of cargo consolidation among SMEs



Thank you.

