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## IMPORTANCE OF OPERATIONAL MANAGEMENT TO ACHIEVE SUSTAINABILITY IN A SMB

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## **Abstract**

This paper shows a study we made to benefit small companies in general, it based in the problems that a SMB had in the last years (CIEM). We examine the problems or situations that have played a big role in CIEM's decrease in production and try to provide solutions for each of the problems and provide a general solution for the enterprise that could help to increase its profit, hoping these also help many other small companies going through the same kind of problems.

## **Key terms**

- Small Medium Business (SMB)
- Sustainability
- Operational Management

## Introduction

In the world of business, companies must always get on synchrony with the environment that surrounds them, and this also and specially applies when we talk about SMB<sup>1</sup>. The reason being that large companies are the ones who lead the development of business, given that they have the largest impact in the economy of the specific environment. It is then, the responsibility of the SMB's to adapt the way their companies work to not perish under the pressure of a totally different way of doing business.

In this particular case we have chosen a small company that repairs and distributes mechanical equipment, called CIEM. This is a small company that has been working for 10 years, and it has not yet accomplished a strong development inside its area of opportunity. The company was sustainable in the first years of operation, but after the economic crisis CIEM went from having 6 workers to only 2. To many people, 6 workers are not at all a large amount of employees for a company and the drop from 6 to 2 employees wouldn't sound that important or serious, but for a SMB, having to fire a third of its workforce due to the lack of development and decrease of reach inside the market is an issue that requires measures to be taken.

For this research project, we will attempt to find a solution for the actual problem CIEM has. The economic decline of the SMB due to the exponential growth of the economy that surrounds

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<sup>1</sup> Small and Medium Business

them, and we will take CIEM as our research subject. Why we think it is important to dig into the issue, it's because we've found that in many cases, the exponential growth of emerging economies do not reflect the same growth when it comes to SMB. We think our research can help other SMB in the same position CIEM is (there are no few) to raise their profits and survive in the growing economy. We believe a study of the SMB's and how emerging economy affects them can bring a positive outcome to the way SMB's are handled, and also the strategies that can be applied to increase the effectiveness of the small enterprises. If we can present a strong proposal to help CIEM get out of the issue it has right now, it can be presented as a basis for other companies in risk to develop their own action plan.

Now, back on the example we have chosen, the economic crisis is just one of the problems CIEM faces at this moment. In the last few years, other SMB's have started to work in the same area CIEM does, increasing the amount of competitiveness in the environment that surrounds the company.

In this paper we will review the main reasons why CIEM is having this problems, alongside a deep analysis of the companies'situation, everything focused in trying to present a solution to get CIEM out of the numbness it has presented in the last years.

## Theoretical Framework

We decided to research a small enterprise in order to find out how it worked and to understand its financial situation compared to one of a bigger enterprise. "A small and midsize business (SMB) is a business which, due to its size, has different IT requirements" and often faces different IT challenges" than do large enterprises, and whose IT resources (usually budget and staff) are often highly constrained." (Gartner, 2013).

"Even before an investor looks at a company's financial statements or does any research, one of the most important questions that should be asked is: What exactly does the company do? This is referred to as a company's business model - it's how a company makes money." (Ben McClure, 2015). By researching a company's business model it is way easier to comprehend the situation it is in and how it is managed in order to actually be able to analyse the financial situation and how the company reacts to crisis, especially economic ones.

One of the problems we found during our research of the small company CIEM was inefficient operation, since we noticed that the company took too long in their operational process because of the lack of employees to help out and make everything run faster, making it so that they were losing money in this process that is supposed to be more simple. "Inefficient operations detract from bottom-line profit and product quality, making it critical for businesses to identify waste and streamline operations. Efficient production situations have well-designed processes and procedures that allow personnel to complete their duties as quickly and accurately as possible.

Inefficient situations are exactly the opposite and suffer from excess waste.ö (Joseph DeBenedetti, 2015).

We found that the new competitors have played a big role in CIEM's decrease in production since now possible customer have way more options than they did years back and this is a threat to the company. So we came to the conclusion that the company should invest more time on researching the competition in order to find a way to "beat" them and not lose or gain more customers. "Competitors. Whether you want to admit it or not, they're out there and they're hungry for your customers. While it might seem unfair given everything else you need to keep on top of in building up your business, you might want to consider devoting the time and energy into keeping tabs on your competition. By monitoring competitors on an on-going basis you get to know their behaviour and so can start to anticipate what they will be likely to do next.ö (Darren Dahl, 2011).

"No business is static. Your business is on an upward track or on its way down. Making improvements to make your business better is a conscious choice. Not only must you balance your time but choose the right area of business that will make the biggest impact.ö (Darrell Zahorsky, 2015). One of our approaches is that this company definitely needs to change some things to improve, but they need to make a good research about their areas of opportunity so they can be successful at them.

## **Method**

To make the research of the company, we considered the most effective method to find the true situation CIEM is living at the moment was analysis method.

We visited the installations of the company to see how CIEM is working this year. We were received by its owner, José Olvera, who is currently one of the two people working in the company. Inside the installations, we made a review of the conditions of the place, the methods José has to repair the equipment, and the flow of work he receives at his shop.

Also, we made him an interview so he could tell us the financial situation of the company, and how the business has been working in the last couple years.

Then, we decided that the best way to understand what was stopping CIEM from growing as a company was to compare the processes and the organization of the company to other successful companies that worked under the same environment and field. We also made a research of the amount of potential customers that CIEM can possibly have in its environment, with the objective of making a forecast of how much the company can possibly grow, and searching for new areas of opportunity for the enterprise.

This research gave us a total view of the situation the company is living, and how cases of success differentiate to CIEM.

Another reason why CIEM is having financial problems is because it is having a hard time

having the customers paying on a short term. This is the common case of a SME that has big organizations as customers. We inquired José about how long it does usually takes to CIEM to get the payments for the offered services, being this key part of the financial situation of the company.

In resume, facts we took in consideration to make the field research:

The process, which is strictly related to the efficiency of the company, therefore related to the profit the company can have, increase the efficiency, and increase the profit.

Competitiveness, that is related directly with the amount of work a SMB will receive, being of special importance considering SMBs value their customer enormously, given they don't have as many as large enterprises.

Areas of opportunity, that if taken correctly, can mean the difference between a brilliant future or a bad outcome for the company.

These are the three main subjects we based our research on, as we believe these are the main points to study to create a solid proposition of improvement for absolutely all SMBs.

Also of course, we covered a particular problem CIEM has, that also applies for a lot of SMBs (not all of them though), which is the difficulty of the relation they have with large companies they work for, affecting them financially and putting in danger their small business.

Field research in SMBs, as well as gathering info about their processes, and even visiting the large enterprises to see firsthand how the relation with SMBs are, is how we worked the following results.

## **Results**

CIEM is a small company that was formed 10 years ago and now has only two workers, its mechanic and owner, and his wife, who is in charge of the finances of the business. Its principal activity is to give maintenance and repair forklifts, and in occasions purchasing and selling them.

Although CIEM is a small company, its customers are mainly large international companies, which do not have specialists to repair the damaged equipment.

During our research, we found three main problems as of why CIEM has not been able to develop as a company and its becoming unsustainable for his owner to carry on with it.

We divided the results in this paper into three different sections, each one signaled as one of the problematic, followed by the analysis of each one and the proposed solution for the specific problem. In the end, there is a suggested plan of action based on our opinions after the analysis, including the three problems as a whole.

### **Problem no.1-CIEM has an inefficient operation**

#### **Analysis.**

The process of CIEM is basic, yet it consumes a lot of time and it's not efficient. This operational process is the following: The company picks up the damaged equipment in the

customer's location, brings it back to the shop, once there it receives a review to set up a price for the repair, than is then presented to the client. Once the customer agrees with the price, the product gets fixed<sup>2</sup>, and finally delivered back to the client.

During our investigation, it wasn't hard to spot the reason why the process is so inefficient. The reason is simple; everything is done by the same person. CIEM used to have a total of 6 workers, one in charge of the accounting of the business, one in charge of transportation of the products, two mechanics repairing the equipment, and one person always looking for new customers. In that situation, the whole process is divided into three different processes: transportation, reparation and marketing. As it is commonly known, a process is more efficient when there is a specific employee doing one specific part of the process. After the crisis a few years ago, things started to go bad for CIEM's finances, as it did to all the clients of the company, forcing the enterprise to let go 4 of its employees, who were in charge of a specific part of the process. After the crisis, the owner of the business had to entirely rely on himself to keep the business working, but the economical sustainability of the company has been in jeopardy ever since. We realized that the reduction of the people involved in the process increased enormously the time that it takes CIEM to complete an order. Before the cut of personnel, at CIEM they were able to pick up more than 20 pieces of equipment in a day, because there was a person whose only job was to drive around the city picking up the equipment and delivering the repaired equipment back to the enterprises. The mechanics were able to focus only on repairing the equipment, which allowed them to repair

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<sup>2</sup> How long it takes the mechanic to repair the machine depends on the complexity of the damage

at least 6 pieces of equipment a day, ready to be delivered the following day. The person in charge of marketing was able to go around industrial parks and companies trying to get new customers, allowing CIEM to have a bigger client wallet to always be filled up with equipment to be repaired. This person would also offer new equipment to the enterprises he visited, opening a new field of opportunity for the CIEM to make profits.

But after the crisis, this well organized process got destroyed and turned into pieces drastically. The whole process relies now into one single person, the owner of the business.

Needless to say, efficiency of the process dropped so much that the company is now in a crisis.

One person is able to cover the full process, because he has the knowledge to do so, but the numbers he is producing aren't even close to the ones CIEM had on its previous years.

During our investigation, it was clear that the owner had to let go the 4 employees for the impossibility to afford the cost of the salaries. During the interview we had with the owner of the company, we discovered that CIEM had never received any type of support, from the government or else, and he never looked for a business incubator.

This reduced the possibility of the company of growing into something bigger, and even stopped them from keeping the low but sustainable rhythm of growth they had have in the first 5 years since its foundation.

The company no longer has the resources to invest on a way to improve the operation. In this particular case, there's no need of developing a new process, the only thing that is necessary is to

standardize as much as possible the existing process dividing the tasks with different employees.

It is not possible to run CIEM on a perfect standard as if it was a production line in a manufacturing company, because there are too many factors that make each order different from each other.

On the study we did, none the less, the area of opportunity CIEM has to expand its business is really big. At this moment CIEM has around 25 solid clients, that in average give the company 1 equipment to be repaired each month. These are almost all clients that CIEM gathered when they had a solid and efficient process of distribution and repair. The company has an opportunity to gather more clients if they go back to the way things were working before the economic crisis, and the growth the company can have with the area of opportunity can be exponentially important. Also, CIEM has kept their focus mainly on the repair of the equipment, which as we mention before, can be unpredictable and changing. On a smaller scale, CIEM also does buying and selling of new equipment, and as we were able to prove in the interview we did to the owner, is way easier, because it only requires to pick up the product from the supplier and deliver it to the client. This is an area of opportunity CIEM has not yet explored, than can even give the company more profit than the repairs themselves.

### **Proposed solution.-**

For this first problem that we found, in order to stop the unsustainability of CIEM, an investment is required to make the process more efficient. It may not be something the owner is willing to

do, but from our point of view, the company needs economic help to get out of the ditch where it is now. In today's economy, efficiency means competitive advantage, and that is translated into more profit for the company. If CIEM wants to grow as a company it is necessary to invest to hire someone to help the owner improve the way the company works. At the same time, we do recommend to make special emphasis into the purchase and sale of products, because it can provide a big entry of income for CIEM.

**Problem No.2- The difference between the capacity of handling the current economic situation of CIEM and its clients.**

### **Analysis**

In our research, we found that almost all of CIEM's customers are large international enterprises, which for a SME would sound as something ideal, but the way large companies work and the needs of a SME like CIEM are two totally different things. With the current economic situation of CIEM, it's of vital importance to get as much profit as possible to cover the fixed expenses of the business, and for the owner to make a living out of the business. None the less the everyday needs of a SME are not of a large companies concern, in the new emergent economy after the crisis, all the enterprises, even big transnational companies have some financial problems. Or even by simple protocol, it takes these enterprises at least 1 month to process the payment for the services. For a company like CIEM, this is a big issue, because they need an almost daily income

to fulfill the need of the company and his owner.

When we interviewed the owner, he mentioned that this was indeed one of the main problems he had, and one of the reasons why he couldn't afford to hire someone to improve his process. The delay in the payment might bring the owner a legal problem, that with the current situation of the company, it's the last thing he needs.

This is a good opportunity to discuss how SME relate and are affected by the environment of big companies that surrounds them. In this particular case, CIEM's market opportunity decreases a lot with some of the largest companies in the city, because they already have someone to do the job for them inside the same company. And for other SME's it's even worse, because there are small companies who try to produce the same product as a large company, and the small company just isn't capable of competing with the prices and reaching possibility of the bigger companies.

All these are ways, in which the large companies set the precedent on how things are to be done in business, and sometimes it's hard for SME's to keep up to the standards of big companies.

They face the reality that their business model just isn't sustainable in the environment that surrounds them and this difference is what stops many SME from growing and developing. This is exactly one of the problems that is causing CIEM to have economic problems, alongside the lack of customers and work, the ones it has have a different model of business, and it's almost impossible for CIEM to stand the long periods of payments large companies have.

### **Proposed Solution**

The proposed solution we came up with for this problem is strictly related to the solution in page (page#). By expanding the quantity of clients CIEM can have, instead of receiving payments every month, the company may be receiving payments every 15 days, and as the number of clients grows exponentially, the more recurring payments CIEM will receive. The only way to keep the pace alongside large companies is for SME to merge as new reference points for the economy that surrounds them. This is hard and of course is not thought to be a short term solution to the problems of CIEM, but definitely if the company doesn't want to suffer from the difference in the working ways of its clients, it is therefore essential for CIEM to climb a step higher into the economy of its surrounding, which brings us back to the solution of the first problem discussed in this paper.

### **Problem #3- New competitors merging in the surrounding of CIEM**

#### **Analysis**

After we gathered information on how CIEM was working as a company, we decided to review the potential competition the company has, that might be taking customers away from the enterprise. According to the owner of CIEM, when he started there was around 6 similar companies in the city. Of course in a city as big as Monterrey and with a number of companies so astonishing, 6 companies doing the same for so many enterprises should leave enough customers for everybody. None the less, in the last couple years the number of competition has risen, and companies now have way more options besides CIEM to choose from. We made a

research on the most recently open workshops, to see if they mean a threat for the current customers CIEM has. We found a key difference between CIEM and the competitors on the client focus they have. While most of the companies in the city have as customers other SME, CIEM has as main customers large companies. This represents an advantage because there are many more large companies in Monterrey than SME that can potentially become customers of CIEM. On the other hand, in the field investigation we realized the new merging companies do have a better process than CIEM, meaning that they can reach more potential customers than CIEM. At the moment for what we mentioned before, the competitive environment hasn't affected CIEM's economic situation directly, but it does affect the potential growth the company can have. CIEM hasn't expanded its target aside from the large companies, that cause the 2<sup>nd</sup> problem we mentioned in this paper. The solution we propose is to make a business plan to take the customers the new companies are slowly gathering. With this we intend to solve two problems, SME usually have a shorter time-frame to make the payments, and they represent a huge area of opportunity is CIEM knows how to take advantage of them.

### **General solution**

In the way new companies are merging everyday trying to make a stand to the big multinationals and be a part of the economic system of the country, the only way to be sustainable it to do the same and try to grow as a company. CIEM is no exception in this matter. The company is not sustainable before the merge of new competition and the changes of the way its clients work,

because after the crisis the growth CIEM had stopped. The solution we propose is to look for an investment, a partner, or even a business incubator, to hire back personnel to improve the operation's efficiency, in order to increase the profit. At the same time, we think CIEM should start a marketing campaign to try to reach other SME and make them customers, neutralizing the threat of the competitions and increasing the affluence of work in the shop, and therefore, the profit. Finally, we also recommend exploring the other area of opportunity the business has the purchase-sale of the equipment. Giving more emphasis to this area will increase the reach area of the company, produce more profit, and grow as a company to regain the sustainability CIEM had before the crisis.

Now, how does this help the whole group of SMB that are having the same issue? We've come to the conclusion that SMB's fail to develop for the lack of resources to become stronger and create a bigger competitor to already established large companies. A proposed solution would be, to merge with companies that are already well positioned into the market, in order to have a bigger reach and economic sustainability. Strategic agreements with other SMB's can also be affective, as they can work together to fulfill the areas of opportunity the other counterpart has, and the other way around. Join strengths and correct weaknesses, by creating smart strategic bundles with companies that can give the SMB the resources to sustain and grow in the market.

## **Conclusions**

With the research we performed on this specific company, we were able to discover why many SME never reach sustainability. They are too easily affected by larger companies and economic crises. In Monterrey's economy in particular, there are always companies merging into the market, representing a competition too big to handle for SME. This stops them from developing or even takes them down once they were already sustainable enough in their environment. For this particular case, CIEM represents no difference to the issues many SMEs face now with the merging economy in the state. Sadly, the solution for all of them is the same. Grow and expand, or become extinct. SMEs must take hand of all the possible ways to do so until they find one that allows them to surpass the unsustainability of the area where the smallest SMEs are located in the business environment. For a company to accomplish success and sustainability, an exponential growth is necessary, otherwise, the company won't be able to stand the competition large companies present.

Also, if the company does not have a way to find resources and keep going on their own, they must consider making strategic relations with other companies in order to grow. With the study and research we performed on local SMBs, if none of the previously mentioned solutions are applied, the outcome will most likely be the unsustainability of the company and lastly the closure of the same. After the first year of life of new SMBs, the most critical one, the development curve of the SMBs is in most cases impossible to climb, and given the limited resources most SMBs have to start with, a strategy must be developed before the company reaches such situation. The options we presented before, are in our opinion, and according to our interpretation of the data we gathered, the best way SMBs can battle the merging of new economies in the country.

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