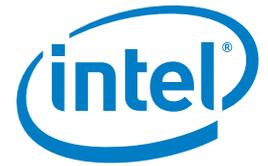


CASE STUDY

Technology and Small Businesses:  
Challenges in Latin America

Intel World Ahead



## Small and Medium-Sized Businesses: The Engine of Local Development in Latin America

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Small and medium-sized businesses (SMBs) play a fundamental role in local economies. Not just from an economic standpoint, but also socially and culturally, especially in Latin America.

## Small and Medium-Sized Businesses Worldwide

The extraordinary influence of SMBs can be observed in developed as well as emerging markets. Worldwide, these businesses employ 300 million people. In developed countries, 95 percent of all businesses are SMBs, and they employ 66 percent of the active population.<sup>1</sup>

In emerging countries—and especially in regions that are rural, remote, and poor—these businesses are the only available source of employment. In Africa, for example, more than 90 percent of businesses are SMBs. In Southeast Asia, SMBs make up 93 percent of the industrial production and more than 87 percent of the active population (outside of Japan).

This trend is mirrored in Latin America: Of the 17 million businesses in the region, an estimated 95 percent are considered micro, small, or medium-sized. These businesses provide 40 percent of employment, 33 percent of Gross Domestic Product (GDP), and 25 percent of investment.<sup>2</sup>

According to data from the World Bank, SMBs employ nearly 50 percent of the workforce in the formal economy of Mexico; nearly 60 percent in Brazil and Ecuador; approximately 70 percent in Argentina, Colombia, Peru and Panama; and 86 percent in Chile (2005).<sup>3</sup>

Despite the fact that SMBs employ labor extensively, their contribution to national GDP is not typically proportional to their influence within the business structure and their impact on employment. This discrepancy is caused by the often-dramatic gap that can be seen when SMBs are compared to large businesses in terms of productivity and ability to compete.

The low productivity of Latin American SMBs can't be attributed exclusively to the small scale of their operations. Other crucial factors come into play as well, including:

- Poor management
- Inadequate or insufficient use of technology
- High level of unreliability that limits SMB access to markets

- Low level of cooperation with other SMBs
- Weak government support
- A regulatory environment that tends to discourage small businesses

These factors tend to worsen pre-existing weaknesses within the context of opening markets and globalization, along with negative consequences from a social standpoint.

## Promoting Growth

Growth opportunities for SMBs improve substantially when technology is included in the equation: Investing in information and communications technology (ICT) is shown to have a direct effect on employment, productivity, national competitiveness, and general well-being.

Incorporating ICT is a must for SMBs. An investment in technology is essential if such businesses hope to compete at a national and local level, and if their respective countries intend to play an active role in global information sharing.

Fortunately, ICT is more affordable than ever today. Governments can also contribute to the savvy investments that SMBs make in ICT, leading to scalable, sustainable urban and rural business development.

In emerging markets, SMBs account for 98 percent of all businesses, 50-80 percent of industrial employment and 50 percent of manufacturing output.

*United Nations Conference on Trade and Development, 2005*



“We have to take this step”

### A New Drive Toward Productivity

To make a leap of this quality, the owners of small and medium-sized businesses must overcome the digital divide, which will help promote growth and make the most of their strengths to compete in regional markets.

This change is possible with the following components:

- Improving business processes
- Adopting ICT
- Overcoming unreliability
- Networking
- Government support
- Improving the national regulatory environment

The roadmap toward improved productivity includes creating programs that tackle all these items in an integrated manner. The challenge can't be overcome by trying to solve existing issues through isolated efforts by the private or public sector.

### Learning from Experience: The Intel World Ahead Program

The Intel World Ahead Program works with industries and governments to translate ICT advantages into benefits for the entire population, with a focus on improving connectivity, access, content, and education for as many people as possible.

Through dozens of projects around the world, the World Ahead Program has identified and systematized the obstacles faced by SMBs in the adoption of ICT—a series of obstacles that repeat across various settings. Governments can do a great deal to improve this situation. Some examples of actions taken toward this end are summarized in the table below.

### Partnerships Are Key to Development

The World Ahead Program forms partnerships with various groups to help channel the creativity and efforts of entrepreneurs and small business owners. The program keeps the global context in mind but also pays attention to local characteristics and business needs.

To take advantage of immediate market opportunities and forecast future needs, business owners must get in synch with a technological plan that positions them for the future and sustainable growth.

The examples that follow highlight some of the work being done by the World Ahead Program in Latin America in collaboration with governments, institutions, entrepreneurs, and business owners.



In Arica, in northern Chile, 64-year-old Ernestina Silva manages her own business called “Tina Fashion.” Today, she produces work and sports clothing, vests, school uniforms, and embroidery for various Chilean suppliers, but in the beginning she had to fight against the odds to support her family. Ernestina’s venture—which began in her living room with a sewing machine and the help of a cousin—was consolidated thanks to her desire to succeed and the help of the online bidding system implemented by ChileCompra.

“Adopting technology helped me do business and find a new niche,” says Ernestina, while in the background it sounds like the end of a busy day at her workshop. “Using the Internet, we were able to increase sales by 90 percent.” She adds: “Even though there is a lot of competition, with good pricing we secured orders from all over the country. We also place fabric orders and buy from our suppliers online.” Before, her relationship with technology tools was non-existent, but today, she assures: “We have to learn, take this step. It’s all about daring to jump in.”

COMMON CHALLENGES FACED BY SMBs	WHAT GOVERNMENTS CAN DO TO HELP
Limited knowledge of ICT and its benefits	Lobby for ICT adoption, promoting its value using public platforms, government locations and so forth.
Lack of financing	Create incentive programs that target SMBs, such as tax incentives, subsidy programs for computer purchases, partnerships with credit entities to offer guaranteed loans, and low-interest loans.
Legal, regulatory, and political problems	Analyze best practices and work to change and adopt new policies that promote competition and encourage business growth.
Limited skills and knowledge in using ICT	Offer incentives and easy access to online or other types of training as part of SMB purchasing programs.
Minimum (or non-existent) IT support personnel	Offer support and training programs; promote and allow public and private collaboration; create online forums for SMBs to obtain information about ICT.

“More businesses,  
more transparency”



ChileCompra Director Felipe Goya says, “ChileCompra has contributed significantly to the use and mass adoption of information and communication technologies (ICTs) by small businesses in the country. As an organization, we have deployed work initiatives on a constant basis to support ventures with the goal of extending and facilitating even more access to small business owners and entrepreneurs in the public market. This is how that business segment achieved a 41 percent increase in 2010 in the amounts traded, doubling their participation in the national economic activity.”

One of ChileCompra’s objectives is to incorporate even more new business owners in the tenders that are published on the public market, with a projected number of 10,000 new businesses by the end of 2011. “As more businesses participate, the government gets better deals, transparency is strengthened, and business ventures are rewarded,” Goya adds. “In this manner, we were able to end 2010 with 100,000 suppliers—8,000 more than at the end of 2009.”

## Chile Case Study: ChileCompra



As is the case in other countries, Chile’s government is the main purchaser of goods and services from private companies. Dirección ChileCompra is the public institution in charge of this task. Since 2003, it has managed Chile’s Public Purchasing Program ([www.chilecompra.cl](http://www.chilecompra.cl)) through a web site that allows various government agencies to make independent purchases and contracts. Companies can also openly offer their products and services at this portal.

ChileCompra’s system launched as a pilot program in 2003 and produced visible results almost immediately. In 2004, 23.8 percent of government purchases were made from SMBs.<sup>4</sup> By 2007, that number had increased to 35 percent. In 2009, ChileCompra’s spending was USD 6 billion; nearly 40 percent of that went directly into the bank accounts of Chilean small businesses.

The program achieved its proposed objectives of transparency and efficiency in the bid process, including the administrative and government savings initially set forth in the plan. (The Chilean government saves an estimated USD 100 million a year.) The program also produced significant benefits that surpassed those objectives:

- SMBs were found to be more competitive than larger businesses when it came to winning low-volume purchasing bids that the government makes available throughout its territory.

- SMB participation in online commerce rose 24 percent (USD 1.44 million) for businesses in their early stages of development and 34 percent (USD 2.1 million) for mid-sized businesses.
- The program caused Chile to create some 250,000 new jobs in 2009—the great majority generated by SMBs.
- The new jobs generated by ChileCompra account for nearly 6 percent of the country’s total employment.

## On Equal Footing

The creation and evolution of ChileCompra led Chilean micro and small business development to experience significant growth. Contrary to what occurs in a traditional marketplace, micro and small businesses compete more efficiently with medium-sized and large businesses in an online commerce environment.

Complementary to the ChileCompra program, the Chilean government generates training opportunities designed to help entrepreneurs familiarize themselves with online commerce—not only on the Web site, but also using other platforms available in Chile and globally.

With this purpose in mind, the Ministry of Economy created a training program called @prende y Emprende ([www.aprendeemprende.cl/](http://www.aprendeemprende.cl/)) that teaches people how to offer and sell their products and/or services online. Inspired by an initiative in Uruguay, @prende y Emprende provided tools and information to approximately 1,000 entrepreneurs from all over Chile during 2010. The program aims to increase that number to 100,000 in the next three years.

## Mexico Case Study: MiPyME creSE



The MiPyME creSE program was created in 2009 after Intel and Microsoft conducted a study about the impact of ICT in Mexico. The country has more than 5 million economic units, of which 99.4 percent are SMBs that generate 55 percent of GDP and 72 percent of employment.<sup>5</sup> After realizing their importance, the Mexican Federal Government's Economic Department expressed interest in establishing partnerships to incorporate technology into the region's businesses as an opportunity to create jobs with added value.

In April 2010, a public/private partnership agreement was signed by the Economic Department, the financial sector (BBVA Bancomer), and the ICT industry, led by Intel and Microsoft (with the support of national and foreign businesses Dell, HP, Lanix, Lenovo, SyTech, and Toshiba). The main objective was to train 1 million SMBs over a period of three years.

### Comprehensive Education and Training

Mexico's micro, small, and medium-sized businesses exhibit characteristics similar to other SMBs in Latin America. In general, they are very practical and don't feel the need to innovate if the system they're using works. They are specialized in one product or service and think about technology in tangible terms based on the task being performed. In some instances, these SMBs are family businesses where home and work are continually interconnected. And they tend to be passionate about what they do.

MiPyME creSE offers a comprehensive solution for executive education and training that includes technology and communication solutions, with the goal of strengthening business development and increasing competitiveness, profitability, and productivity. The program seeks to bridge the digital and information divide that prevents smaller economic units from taking advantage of an information-based economy and finding more business opportunities.

The program was established through CONALEP ([www.conalep.edu.mx](http://www.conalep.edu.mx)), an educational institution dedicated to technical education for businesses in Mexico. It provides training to increase a business person's knowledge of corporate culture and technology. The training also seeks to improve a business person's abilities and skills in the use of technology and specialized tools to help with management and financial organization. Participants who complete these courses earn certification with official recognition and accreditation.

SMBs enrolled in MiPyME also have a financial incentive from the government's Economic Department to access productivity tools. By the end of 2010, some 50,000 SMBs had received training through the program. The goal for 2011 is to reach 300,000 trained and commercially viable businesses.

"We used to keep track of inventory on a sheet of paper"



Jorge Andrade is the general director of Mikasa, a business that distributes sporting goods, with warehouses and retail stores in various parts of Mexico. However, the company's administrative management was informal: "Our sales and quotes were done on a piece of paper," Andrade says. Administrative personnel kept track of inventory on printed forms and using manual methods, leading to errors and stock shortages. "Results and inventory control were behind more than three months," Andrade says.

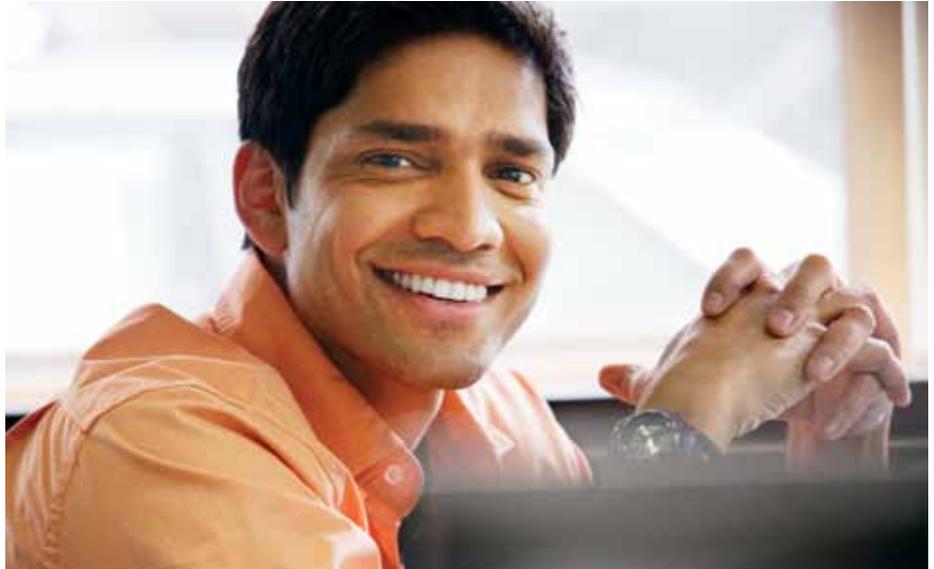
Incorporating technology, through the Business Administration program, streamlined communication among the various areas of the business and the administrative task of inventory control at the warehouses, as well as orders and commitments with suppliers. "Our sales have reaped the benefits and making decisions is a lot easier," says Andrade. He adds that these tools are essential for any business owner who wants to grow: "Growth has been exponential and will continue in the next few years with the addition of future clients."

## Conclusion

SMBs play an essential role in Latin America in terms of generating value and employment. ICT adoption by Latin American SMBs brings about rapid improvement in the processes and products they offer.

Governments must act in cooperation with the private sector to facilitate the adoption of ICT and attain an increase in the efficiency and productivity of SMBs. This growth has an immediate impact on the quality of life of the region's population.

Technology adoption enables and accelerates competitiveness. It should not be approached as an isolated issue or constrained to a certain scale or profitability. On the contrary, as a small business integrates technology in basic operations, such as administrative and marketing functions, it will be more natural for the business to adapt, add value, and be successful in a more sophisticated consumer and global environment.



To learn more about Intel® technologies for emerging markets, visit [www.intel.com/worldahead](http://www.intel.com/worldahead)

ChileCompra:  
[www.chilecompra.cl](http://www.chilecompra.cl)

Mexico: MiPyME creSE:  
[www.mipyme crese.org.mx](http://www.mipyme crese.org.mx)



<sup>1</sup> Study "Upgrading to Compete" by C. Pietrobelli and R. Rabellotti, published by BID in 2009.

<sup>2</sup> Pavón, Lilianne, Micro business financing and SMBs in Mexico (2000-2009), United Nations, Cepal, Santiago de Chile, August 2010.

<sup>3</sup> United Nations Conference on Trade and Development, 2005.

<sup>4</sup> See: [www.chilecompra.cl/Information and Studies / Document Center](http://www.chilecompra.cl/Information%20and%20Studies/Document%20Center).

<sup>5</sup> Statistics taken from INEGI (National Institute of Statistics and Geography, Mexico), 2009 Preliminary Results <http://www.inegi.org.mx/>

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