



Supply Chain Management and Logistics **in Emerging Markets**

Selected Papers from the
2018 MIT SCALE Latin
America Conference

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Supply Chain Management and Logistics in Emerging Markets: Selected Papers from the 2018 MIT SCALE Latin America Conference

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Chapter 1

Updates in Supply Chain Management and Logistics in Latin America and the Caribbean

C. Mejía Argueta, H. Yoshizaki and M. G. Mattos

1. Latin America and the Caribbean, A Growing Emerging Region

Latin America and the Caribbean (LAC) is undoubtedly a promising region to reckon on in terms of doing business, a big market to sell products and services, to promote trade agreements, and to develop long-term alliances to take advantage of a young workforce with a high potential to manufacture goods at low cost. However, it is also a territory with big contrasts, in terms of income disparity, lack of accessibility, polarization in resource availability (i.e., water, food), low-skilled employees, and education.

First, in terms of the number of nations, LAC is composed of around 25 countries and around 10 dependent territories. It is a vast area that occupies 20.1 million square kilometers (7.8 million square miles). The region is very rich in diverse resources (i.e., oil, gas, timber-related, fertile land, minerals, fisheries, precious metals, sugar, rubber, grains, fruits, and vegetables; [Sinnott, Nash, & De la Torre, 2010](#)). LAC possesses 25% of the forests and fertile land, and over 30% of the world's water resources ([Studer, 2019](#)).

Second, urbanization and densification rates in LAC are recognized as one of the highest, just after North America. That is partially a result that the region is home to 9% of the world's population (643 million inhabitants). The gross domestic product (GDP) of the region accounts for US\$5.8 trillion (5.7% of the world's GDP; [World Bank, 2020](#)). This figure is expected to continue growing because of the increasing number of free trade agreements, long-term alliances with other regions of the world, and bigger foreign direct investment in several sectors ([CEPAL, 2019](#)).

Third, from a microeconomic perspective, most Latin Americans belong to the middle class with a gross national income (GNI) per capita of around US\$8,718 per year (US\$24 per day). They are recognized as one of the highest potential workforces in the world ([DeCarvalho, 2019](#)) despite suffering the effects of

continuous economic crisis, growing inflation rates, and consequences of weak educational systems (CEPAL, 2019; World Bank, 2020).

From a strategic perspective, supply chain and logistics operations in LAC pose significant barriers and problems for companies seeking to grow in emerging markets (CEPAL, 2019; DeCarvalho, 2019). One of the biggest challenges is to overcome the stark contrasts in the region in terms of macro- and microeconomics, infrastructure, and logistics performance. For instance, there are billions of dollars invested in the Panama Canal Expansion. Meanwhile, countries like Colombia still struggle to supply their main cities located in three very high mountain ranges across the Andes. Furthermore, we observe a considerable disparity in terms of the logistics performance index (LPI) per country, where Chile displays the highest score for the region with 3.32 out of 5 and Bolivia, Cuba, and Venezuela show a value equal to the lowest income countries of the world with a score between 2.2 and 2.3. This gap is better acknowledged considering that the average LPI score for the world is 2.87. For Latin America, the score is 2.61, and for Organization for Economic Co-operation and Development (OECD) members, the score is 3.62, with Germany as the top-ranked country with an LPI score of 4.2.

In a more detailed discussion, higher population densities also bring higher fragmentation of urban distribution networks, leading to frequent deliveries in smaller volumes and increased logistics costs (Fransoo, Blanco, & Mejía-Argueta, 2017; Tanco, Escuder, Heckmann, Jurburg, & Velazquez, 2018). Besides, the increasing variety of distribution channels and the diversity in customer profiles (Coca-Stefaniak, Parker, & Rees, 2010) related to preferred payment methods, order processing, and delivery alternatives makes it more complex to serve accurately and on time a large number of orders.

Additionally, LAC regions need to overcome security issues to reduce the likelihood of robberies, thefts, and other potential risks. Ultimately, this will allow not only to get high-performance supply chains but also to dissipate social concerns related to the usage of technology. That means collecting data to feed data-driven decision- and policy-making strategies with proper information coming from over 85% of small and very small (i.e., nano, micro) firms, which exist all over LAC. This is particularly important because the rise of proximity retailing and the growth of e-commerce in developing countries will allow serving millions of transactions daily if proper technological devices and software are used to enable the myriad of small firms across the region.

Last but not least, there is an essential task in investigating the role of supply chain operations in LAC to be able to respond effectively to significant societal challenges such as food security, resource waste (food, water), attention to underresourced population segments and reduce undesired environmental effects such as greenhouse gas emissions, and erosion due to poor agricultural practices, among others. While these challenges depend on multiple factors and disciplines outside supply chain management (SCM), they undermine productivity, economic growth, and social development in the long term.

2 Venues of Applied Research in SCM for Latin America and the Caribbean

Back in 2008, the MIT Center for Transportation and Logistics and LOGYCA signed a multiyear agreement to create the Center for Latin-American Logistics Innovation (CLI) to establish the Supply Chain And Logistics Excellence (SCALE) center for Latin America, which is part of the global SCALE network. This alliance has brought together over 35 academic partners from top-ranked universities in 11 countries of Latin America, and the Caribbean called the *MIT SCALE Latin America network*. The academic partners (LAC universities) work together to create a research and educational agenda that aims to face and embrace the logistics, socioeconomic, and SCM challenges of the region under diverse research initiatives that are evaluated every three years.

After 12 years of existence, the SCALE Latin America network has organized 10 academic workshops and two conferences for the region. The contributors and authors of this book presented their studies in the MIT SCALE Latin America Conference of 2018, our second multicountry conference celebrated in April 2018. Fourteen submissions out of 145 papers were selected to be part of this edited book, encompassing top academics from nine different countries (Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Peru, Uruguay, the US). Showing a critical new phase for the MIT SCALE Latin America network, for the first time, true regional and multicountry research appears in this book. The combination of chapters provides a wide variety of methodologies, actual cases, managerial insights, and findings to deal with SCM and logistics challenges in LAC.

For the sake of simplicity, we organize the content of the book in three parts:

- (1) Strategic topics in SCM: with contributions related to collaboration, use of financial and risk key performance indicators, as well as purchasing and prioritization approaches.
- (2) Urban logistics operations and freight transportation: data-driven solutions to deliver goods in densely populated areas and/or pedestrian zones, while overcoming high fragmentation, poor infrastructure, and delivery risks; and, improving the use of other-than-truck transportation means to move cargo from harvesting areas to ports to promote exports.
- (3) Supply chain operations for micro and small firms: recognized experts stressed the importance of micro and small firms in Latin America. There are topics such as a joint replenishment model for this type of firm; and on how supply chain practices and active owners/managers can help to improve their performance. Last but not least, the set of very small, family-owned retailers (called *nanostores* by [Fransoo et al. 2017](#)) is carefully investigated, as they serve as social community hubs and are the main (sometimes the only) point of sale available for low-income people.

In Part I, we present four chapters that discuss strategic topics in SCM for Latin America. In Chapter 2, [Martínez et al. \(2020\)](#) explore how location, frequency of risk-related events, firm's culture against risks, and the region of the

globe affect the decision to adopt a supply chain resilience strategy. They use a data set of 7,000 firms from 102 countries and perform statistical analysis to model logistics regressions, to find significant factors that explain what triggers a proactive resilience strategy. Chapter 3 from [Giacon et al. \(2020\)](#) introduce the importance of supplier selection for a nongovernmental organization (NGO) via a methodological framework that uses three mathematical models of multidimensional auctions to improve the efficiency of procurement by reducing costs and time. Their optimization models based on combinatorial auctions and volume discount, which are suited for procurement processes, and the multi-attribute decision analysis (MCDA) to prioritize alternatives (i.e., suppliers) might be used by other firms different than NGOs. Their results show that savings between 9 and 20% can be obtained with a combination of methods.

We live a fiercely competitive environment in the retail industry; therefore, strategy and collaboration help building a long-term competitive advantage. In Chapter 4, [García Castillo et al. \(2020\)](#) study the impact of collaboration between a consumer-packaged-goods (CPG) manufacturer and a Colombian supermarket chain to analyze how managing a joint price strategy in promotions and discounts allows the dyad to improve the global financial key performance indicators (KPIs). Authors use descriptive statistics and a granular understanding of KPIs such as the return of investment (ROI), promotion forecast accuracy (PFA), and market share variation to investigate the effect of promotions per store, country region, and product category. Authors use a rich data set with transactional data of 33 products and 455 points of sale.

On the other hand, Chapter 5 from [Pérez et al. \(2020\)](#) applies a supply chain strategy framework to optimize a company's strategy, in this case, a Peruvian manufacturer of corrugated cardboard boxes. Such methodology includes (1) a functional strategy map (FSM) to capture the essential strategy factors from current supply chain operations; (2) conceptual system evaluation and reformulation methodology (CSAR) to link strategical and tactical levels from the organization following a logical connection between the company's strategy and its activities; and (3) an MCDA method (Analytical Hierarchy Process – AHP) to prioritize the best strategy or operation to be improved. Authors combine primary and secondary data to apply the methodological framework, and they report improvements in the overall cost and fill rate, among others.

Part II comprises four chapters. The first three chapters discuss research in urban environments for different topics, cities, and countries. This topic is particularly important, given the accelerated urbanization rates of the region and the growing challenges to deliver goods and services in densely commercial areas. The fourth chapter presents a freight transportation study to facilitate exports of grains via trains. In Chapter 6, [Puente-Mejía et al. \(2020\)](#) introduce the adaptation and use of a methodology to investigate urban logistics solutions, based in the *Better Cities for Logistics Toolkit* proposed by the MIT Megacities Logistics Lab. The authors present the application of this methodology using primary and secondary data using diverse mathematical formulations. However, the authors did not develop their models for specific companies. Their contribution stands out by presenting three unusual, generic cases of

optimization for (1) Loading and Unloading Bays, (2) Transfer Centers, and (3) freight trip generation models that might be used in other cities of emerging markets.

Understanding city and customer features to deploy effective last-mile operations will become a must in the coming years, due to changing purchasing behaviors and dynamic city regulations, particularly in Latin America. In Chapter 7, [Heckmann and Hidalgo-Carvajal \(2020\)](#) use a methodology to characterize establishments, infrastructure, traffic, and delivery operations in a neuralgic section of the downtown area of Córdoba, Argentina. They use methods like Factor Analysis (FA) and Analysis of Variance (ANOVA) to find relevant factors to identify clusters to guide Córdoba's urban logistics policy and decision-making processes to regulate or to redesign last-mile operations. Large urban areas might also suffer from insecurity, particularly in emerging markets. In Chapter 8, [Barreto et al. \(2020\)](#) assess the risk of cargo theft in Brazil using historical data from January 2015 to November 2017 from a risk management company. They use descriptive analysis, hypothesis testing, and logistics regressions to identify critical variables to reduce the likelihood and impact of thefts for distribution operations and city transportation.

Freight transportation depends on more than just trucks to move cargo, and Chapter 9 discusses how railroad transportation is helpful to get economies of scale and to move large volumes of goods, particularly grains in long-haul trips. [Guedes et al. \(2020\)](#), authors of this chapter, improve the capacity of train operations by optimizing a train-scheduling problem at the port of São Luís, in northern Brazil. They propose mixed-integer linear programming (MILP) to minimize the departure times in order to improve the dwell time of freight train cars. Based on secondary data from a Brazilian logistics operator, the main contribution of this chapter comes from providing an optimized train timetable for peak days, standardization of train crossing options, and providing a support tool for traffic adjustments with other rail operators.

Finally, in Part III, we present six chapters of a trending topic in the region: SCM for micro and small firms, and nanostores' (i.e., mom-and-pop stores') operations. In Chapter 10, [Velázquez-Martínez and Tayaksi \(2020\)](#) position the importance of studying SCM for micro and small firms by presenting insightful facts from several cases and workshops they have carried out through their MIT GeneSys initiative to increase productivity and survival rate for this type of firms. The authors conclude presenting three main avenues of research. Chapter 11 from [Otero-Palencia et al. \(2020\)](#) discusses a collaborative strategy for noncompetitive small and medium-sized enterprises aiming to reduce their logistics costs. Although the authors use hypothetical data, their methodological framework based on a Stochastic Collaborative Joint Replenishment problem (S-CJRP) for multiple items is an appealing approach. It was modeled carefully to overcome challenges such as the frequency with which each buyer should replenish the products, whether to coordinate the supply chain internally or outsource its coordination and how to allocate investments among partnering buyers.

Chapter 12 introduces an empirical investigation based on data collection using the methodology created by MIT GeneSys. [Silupú et al. \(2020\)](#) explore if the adoption of business, SCM, and lean practices influence the performance of 50 micro and small enterprises from Piura, Peru. The descriptive statistics and linear regressions used by authors indicate that best practices do matter for a firm's performance, and different practice categories like business, SCM, and lean complement each other even for micro and small firms. For instance, the effect of the business practices will be higher if the firm also adopts SCM practices. In Chapter 13, [Yalico et al. \(2020\)](#) study the role of manager's knowledge and a KPI system for small and medium-sized firms in the wood and timber sector of Peru. Authors use a framework based on Bloom's Taxonomy, descriptive statistics, and hypothesis testing to evaluate 21 firms. Results show the high variability in the knowledge about KPIs and a low level of usage.

The retail industry is one of the most dynamic sectors in the world because it depends on macroeconomic trends, microeconomic (end-consumer) patterns, political stability, and supply chain operations. We consider that the myriad of small, family-owned retailers spread all over cities of emerging markets deserves special attention and close zoom within the micro-and-small-firm studies ([Fran-soo et al. 2017](#); [Mejia et al. 2019](#)). They have particular features, such as the variety of product categories they handle (edible and nonedible), as well as constraints such as limited shelf and storage space, limited budget, low technology adoption rates, aversion to risk, and high informality rates. Therefore, we present two chapters related to nanostore operations that address strategies of how to manage current and shape future nanostore business models, as well as retail format choice.

In Chapter 14, [Rangel-Espinosa et al. \(2020\)](#) explore opportunities to increase the competitiveness of nanostore business models in neighborhoods with different socioeconomic levels. Authors collect primary data from customer's attributes and other characteristics from stakeholders (shopkeepers, suppliers) of nanostore supply chains in nine out of 16 boroughs from Mexico City. They use descriptive statistics and independent nonparametric tests to determine significant factors of the competitive landscape in which nanostores are immersed and analyze interaction among significant factors and stakeholders using causal loop diagrams. In Chapter 15, [Avila et al. \(2020\)](#) present a logistics regression model to explain customers' preference to buy in supermarkets or nanostores. They collected 110 surveys from customers in the district of Surco, Lima, Perú, which is a representative area of that famous Latin American city. Results showed that time available for purchase and a comparatively better-perceived service at nanostores would increase the probability of customers in selecting them as their main point of sale.

We hope that readers find the discussions in all chapters of this book insightful and useful. More importantly, we would like to invite readers to take advantage of the variety of topics, methods, and applications presented such that they can learn from how researchers and practitioners are facing and embracing current and future SCM challenges in LAC.

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