

PONTIFICIA UNIVERSIDAD CATÓLICA DEL PERÚ

ESCUELA DE POSGRADO



CENTRUM PUCP
BUSINESS SCHOOL

Consulting Report – Confecciones Julieta

**THESIS FOR THE DEGREE OF MASTER IN
BUSINESS ADMINISTRATION**

GIVEN BY

PONTIFICIA UNIVERSIDAD CATÓLICA DEL PERÚ

PRESENTED BY

Gonzalo Asuncion Garcia Cabello

Jorge Luis Mauricio Reyes

Advisor: Pablo Arana

Surco, September 2019

Acknowledgments

Our thanks to our partners Carling Bennett and Sabrina Blume, who support us to accomplish this consulting report successfully. Additionally, we express our gratitude to all the professors from CENTRUM Business School, University of Victoria, and University of Maastricht for the sharing knowledge.

Dedications

To my parents and sisters, without their support, none of this would be possible.

Gonzalo Garcia

To all my family, for their unconditional support and patience.

Jorge Mauricio

Abstract

In recent years, Peru has experienced a higher average growth higher than other South American countries. This growth can in part be attributed to the Peruvian textile industry, which is one of the strongest manufacturing economies in the country due to its enormous impact on the economy. The growth of the GDP per capita has resulted in a higher spending capacity among Peruvian citizens, and Peruvian consumers are now willing to invest a larger part of their income in clothing. This economic growth has also produced changes in their purchasing processes and increased their expectations for high-quality products. Additionally, Peru ranks fourth in entrepreneurship in Latin America, behind Colombia, Chile, and Ecuador. This emerging entrepreneurial dynamism, however, is a figure of small businesses that are contradicted when compared with the high failure rate.

Confecciones Julieta is a Peruvian small business that specializes in the design, manufacturing, and selling of clothing garments for women. After analyzing the internal and external environment of the industry, the organization is facing typical challenges that many Peruvian SMEs encounter in their operations. In sum, the goal of this paper is to define the best and appropriate cost structure for the company, Confecciones Julieta, in order to strengthen their organizational decision making.

Resumen Ejecutivo

En la última década se ha apreciado que el Perú ha logrado un crecimiento económico promedio superior a sus pares en América del Sur. De la misma manera, la industria textil del país ha evolucionado hasta ser una de las más relevantes de la economía peruana. Debido al crecimiento del PIB per cápita, los ciudadanos peruanos tienen una mayor capacidad de gasto y están dispuestos a invertir una gran parte de sus ingresos en vestimenta. Este crecimiento económico también ha producido cambios en su proceso de compra y expectativas con respecto a los productos. Además, Perú ocupa el cuarto lugar en emprendimiento en América Latina, detrás de Colombia, Chile y Ecuador. Sin embargo, este dinamismo empresarial que está surgiendo como una figura de la microempresa se contradice cuando se compara con la alta tasa de fracaso de estas.

Confecciones Julieta es una pequeña empresa peruana cuyo giro de negocio abarca el diseño, manufactura y venta de prendas de vestir para mujeres. Debido al entorno interno y externo de la industria, la organización enfrenta los desafíos típicos de las PYMES. En general, este documento busca definir una nueva y adecuada estructura de costos para la empresa Confecciones Julieta con el fin de fortalecer la toma de decisiones.

Table of Contents

List of Tables	vii
List of Figures.....	ix
Chapter I: General Situation of the Organization.....	1
1.1. Presentation of the Organization.....	1
1.1.1. Location and workforce.....	2
1.1.2. Organization chart	2
1.1.3. Competitive advantages.....	3
1.1.4. Quality politics	4
1.1.5. Life cycle.....	4
1.1.6. Vision and mission	5
1.2. Industry Analysis (Porter’s Five Forces)	7
1.2.1. Threat of new entrants	9
1.2.2. Bargaining power of suppliers.....	9
1.2.3. Bargaining power of buyers	10
1.2.4. Threat of substitute products or services	10
1.2.5. Internal rivalry.....	11
1.3. External Analysis (PESTE) – Opportunities and Threats	14
1.3.1. Political perspective.....	15
1.3.2. Economic perspective.....	16
1.3.3. Social perspective	18
1.3.4. Technological perspective	19
1.3.5. Environmental perspective	20
1.3.6. Legal perspective.....	21
1.4. Internal Analysis (AMOFHIT) – Strengths and Weaknesses	22

1.4.1. Administration and management.....	23
1.4.2. Marketing and sales.....	24
1.4.3. Operations.....	25
1.4.4. Finance	27
1.4.5. Human resources	28
1.4.6. Information.....	28
1.4.7. Technology	29
1.5. Conclusions	30
Chapter II: Key Problem	32
2.1. Identified Problems	32
2.2. Key Problem (substance, location, ownership, magnitude, time perspective).....	35
2.2.1. Substance.....	38
2.2.2. Location.....	38
2.2.3. Ownership.....	39
2.2.4. Magnitude.....	39
2.2.5. Time perspective	39
2.2. Conclusions	39
Chapter III: Literature Review	41
3.1. Literature Mapping.....	41
3.2. Literature Review	43
3.2.1. Entrepreneurship framework	43
3.2.2. Problem solving in SMEs	47
3.2.3. Cost structure and concepts	49
3.2.4. Small Peruvian enterprises	57
3.2.5. Consulting theory	60

3.3. Conclusions	64
Chapter IV: Qualitative/Quantitative Analysis	66
4.1. Qualitative Analysis	66
4.1.1. Maturity model	66
4.2. Quantitative Analysis	68
4.2.1. Absorbing costing structure.....	69
4.2.1. Variable costing structure.....	70
4.3. Conclusions	70
Chapter V: Root-Cause Analysis of the Problem	72
5.1. Identified Causes	72
5.2. Main Causes of the Problem	73
5.3. Conclusions	77
Chapter VI: Assessed Solution Alternatives.....	78
6.1. Alternatives to Solve the Problem.....	79
6.1.1. Standard costing system	79
6.1.2. Absorption costing structure.....	79
6.1.3. ABC costing structure implementation	80
6.2. Assessment of Alternatives	81
6.2.1. Cost investment	81
6.2.2. Ease of implementation	82
6.2.3. Feasibility	82
6.2.4. Effectiveness.....	83
6.2.5. Impact.....	83
6.2.6. Evaluation of alternatives	84
6.3. Proposed Solution	84

6.3.1. Commitment from the management area	86
6.3.2. Costing structure and its processes	87
6.3.3. Operational excel sheet.....	89
6.3.4. Documented information.....	89
6.3.5. Provision of training	89
6.4. Conclusions	90
Chapter VII: Implementation Plan & Key Success Factors	91
7.1. Activities	91
7.1.1. Phase 1 Top management commitment.....	91
7.1.2. Phase 2 Costing structure and its processes	92
7.1.3. Phase 3 Excel sheet template.....	93
7.1.4. Phase 4 Documented information	94
7.1.5. Phase 5 Training and supervision.....	95
7.2. Implementation Gantt Chart.....	96
7.3. Key Success Factors.....	97
7.4. Conclusions	100
Chapter VIII: Expected Outcomes.....	102
8.1. Qualitative Outcomes.....	102
8.2. Quantitative Outcomes.....	104
8.3. Conclusions	105
Chapter IX: Conclusions and Recommendations.....	106
9.1. Conclusions	106
9.2. Recommendations	107
References.....	109
Appendices.....	119

Appendix A: The Company	120
Appendix B: Confecciones Julieta Sales Control.....	121
Appendix C: Confecciones Julieta Catalog.....	122
Appendix D: Excel Spreadsheet	124
Appendix E: Consulting Report in Spanish	126



List of Tables

Table 1	<i>Components of an Effective Vision</i>	6
Table 2	<i>Components of an Effective Mission</i>	7
Table 3	<i>Distribution of Business in Gamarra Cluster, 2016</i>	12
Table 4	<i>Results of Five Forcers Analysis</i>	14
Table 5	<i>Most Spending Group for Peruvians 2016</i>	17
Table 6	<i>Development Bank Structure, 2016</i>	18
Table 7	<i>Distribution of Business in Peru, 2016</i>	19
Table 8	<i>CJ Sales 2018</i>	25
Table 9	<i>SWOT Analysis for Confecciones Julieta</i>	30
Table 10	<i>Main Constraints for SMEs</i>	47
Table 11	<i>Problems of the Sustainable Development of SMEs Cluster</i>	48
Table 12	<i>Cost Concepts</i>	50
Table 13	<i>Main Pros and Cons of Absorption Costing</i>	53
Table 14	<i>ABC Costing System: Advantages and Disadvantages</i>	54
Table 15	<i>Characteristics of the SMEs</i>	58
Table 16	<i>Growth Limiting Factor for the Peruvian SMEs</i>	59
Table 17	<i>Phases of the Consulting Management</i>	61
Table 18	<i>Approach for Consulting Management</i>	63
Table 19	<i>Maturity Model</i>	67
Table 20	<i>Maturity Analysis for Costing Process</i>	67
Table 21	<i>Income Statement for CJ 2018</i>	68
Table 22	<i>FMEA Matrix for Confecciones Julieta in Cost Management Process</i>	76
Table 23	<i>Breakeven Point and Contribution Marginal Method Proposed</i>	78
Table 24	<i>Evaluation of Alternatives</i>	84

Table 25	<i>Investment Plan</i>	97
Table 26	<i>Key Enablers for the Implementation</i>	98
Table 27	<i>Key Milestones for the Project</i>	98
Table 28	<i>Risk Management for the Implementation</i>	99
Table 29	<i>Stages in the Maturity Model</i>	102
Table 30	<i>Expected Quantitative Outcomes</i>	105
Table E1	<i>Alcance de Entregables</i>	129
Table E2	<i>Hitos claves</i>	130
Table E3	<i>Gestión de Riesgos</i>	131



List of Figures

<i>Figure 1.</i>	She Line clothes.....	1
<i>Figure 2.</i>	Confecciones Julieta organization structure.....	2
<i>Figure 3.</i>	Confecciones Julieta value chain.....	3
<i>Figure 4.</i>	CJ life cycle.....	5
<i>Figure 5.</i>	Porter five forces model.....	7
<i>Figure 6.</i>	Gamarra cluster location.....	8
<i>Figure 7.</i>	Gamarra business evolution.....	11
<i>Figure 8.</i>	Evolution of employees in Gamarra cluster.....	12
<i>Figure 9.</i>	Porter five forces model for CJ.....	13
<i>Figure 10.</i>	Interaction of internal and external forces.....	14
<i>Figure 11.</i>	Poverty evolution in Peru.....	16
<i>Figure 12.</i>	GDP evolution in Peru.....	17
<i>Figure 13.</i>	Evolution of informality in Gamarra complex.....	21
<i>Figure 14.</i>	Confecciones Julieta process map.....	22
<i>Figure 15.</i>	Strategy for Confecciones Julieta.....	24
<i>Figure 16.</i>	Operations for Confecciones Julieta.....	26
<i>Figure 17.</i>	Confecciones Julieta operation cycle.....	26
<i>Figure 18.</i>	Summary of company visits.....	33
<i>Figure 19.</i>	Proposed cause-effect diagram.....	36
<i>Figure 20.</i>	Literature mapping.....	42
<i>Figure 21.</i>	Elements for entrepreneurship definition.....	44
<i>Figure 22.</i>	System production for SMEs in Latin America.....	57
<i>Figure 23.</i>	Challenges for SMEs.....	60
<i>Figure 24.</i>	Time involved for changes.....	62

<i>Figure 25.</i>	Absorbing costing structure.....	69
<i>Figure 26.</i>	Variable costing structure.....	70
<i>Figure 27.</i>	Root-cause diagram.....	73
<i>Figure 28.</i>	Implementation steps.....	86
<i>Figure 29.</i>	Processes interaction in Confecciones Julieta.....	87
<i>Figure 30.</i>	Costing structure map process.....	88
<i>Figure 31.</i>	Structure for the costing process.....	90
<i>Figure 32.</i>	Work breakdown structure.....	91
<i>Figure 33.</i>	Gantt implementation.....	101
<i>Figure 34.</i>	Process expected outcome for CJ.....	104
<i>Figure A1.</i>	Confecciones Julieta profile.....	120
<i>Figure B1.</i>	Confecciones Julieta sales 2015.....	121
<i>Figure B2.</i>	Confecciones Julieta sales 2016.....	121
<i>Figure C1.</i>	She Line catalog A.....	122
<i>Figure C2.</i>	She Line catalog B.....	122
<i>Figure C3.</i>	She Line catalog C.....	123
<i>Figure C4.</i>	She Line catalog D.....	123
<i>Figure D1.</i>	Proposed Excel Spreadsheet.....	125
<i>Figure E1.</i>	Gestión de Proyectos.....	128

Chapter I: General Situation of the Organization

This chapter emphasizes introducing the company, Confecciones Julieta SAC, and on analyzing the current situation of the clothing industry in Lima. Specifically, it will examine the participation of small and medium-sized enterprises (SMEs) operating within the textile cluster of 'Gamarra'. An overview of the external and internal environment will be presented to identify the key drivers of success and growth, as well as to acknowledge the most relevant threats to the company. This chapter will serve as a valuable guideline for designing a proposal for the company.

1.1. Presentation of the Organization

Confecciones Julieta SAC (CJ) was founded in 2011 and specializes in the creation of women's clothing garments produced from cotton, alpaca, and fine mixtures of the best spinning mills in Peru. The organization engages in every step of the supply chain, including design, manufacturing, and selling. The product lines include jackets, sweaters, and the signature cardigan. The company consists of two brands of women's clothing:

- She Line, oriented to the young consumer.
- Julieta, oriented to the contemporary and classic woman.



Figure 1. She Line clothes.

Retrieved from *Reporte de Sostenibilidad Confecciones Julieta*, by Confecciones Julieta, 2019, Lima, Peru: Author.

1.1.1. Location and workforce

The organization operates as a private corporation and maintains a production facility and a physical storefront location. Both sites are situated within the city of Lima, the former of which is in Independencia while the latter is based in the textile cluster of Gamarra, in the district of La Victoria. Regarding the workforce, Confecciones Julieta employs a total of eight staff members. Two of whom work in the retail store and the remaining six are distributed amongst the various processes of weaving, ironing, cutting, and making the products in the manufacturing facility. Likewise, an operator is responsible for carrying out the final quality inspection of the products.

1.1.2. Organization chart

Susana Matos serves as the owner and General Manager of Confecciones Julieta. In 2012, a mere one year following the inception of the company, a reorganization was implemented due to growth experienced by the firm. This new organizational structure was designed in order to allow the key processes of the company to better focus on the value proposition. This places emphasis on directing the focus to the customers, implementing more effective processes in order to increase productivity, and improving their operational capabilities (S. Matos, personal communication, June 27, 2019).

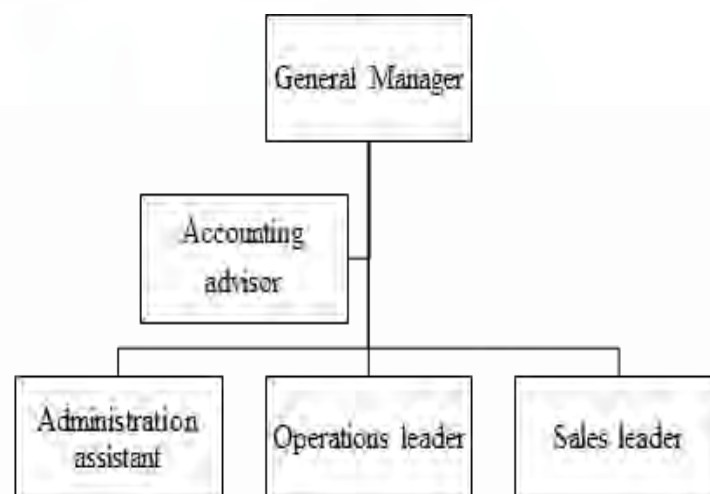


Figure 2. Confecciones Julieta organization structure.

Adapted from *Reporte de Sostenibilidad Confecciones Julieta*, by Confecciones Julieta, 2019, Lima, Peru: Author.

1.1.3. Competitive advantages

Competitive advantages can be defined as the capacities from the companies in order to compete successfully in the market (Hill & Jones, 2009). Porter (1979) supported that competitive advantages must be created over time and are not inherited through employee experience. Due to their location in the Gamarra textile cluster, owning their own supply chain, and their ability to produce large quantities of orders for private companies, CJ can effectively differentiate their exclusive brand, ‘She Line’, from several direct competitors. The unique style, competitive prices, and good quality of the clothing products has allowed the organization to gain a good position within the market. (S. Matos, personal communication, June 20, 2019). Specifically, the selected weaving process uses machinery in order to achieve single- and double-knit fabrics that have considerable flexibility. Additionally, the organization creates garment designs based on current trends and market demands. This allows the company to fulfill any order and encourages repeat consumers due to the high quality and fashionable products (S. Matos, personal communication, June 20, 2019).

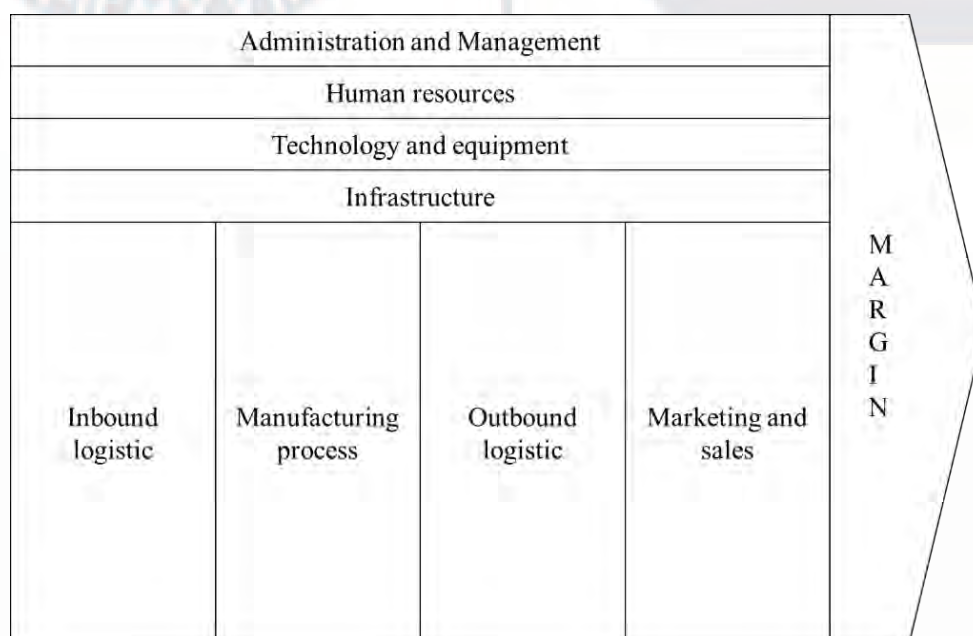


Figure 3. Confecciones Julieta value chain.

Adapted from *Reporte de Sostenibilidad Confecciones Julieta*, by Confecciones Julieta, 2019, Lima, Peru: Author.

1.1.4. Quality politics

Quality Management is always an important process when considering the operations of an organization (Karapetrovic, Casadesus, & Heras, 2010). The definition of quality has evolved over the years and it has different connotations according to various authors. Crosby (1979) maintained that quality should be ensured to deliver the right products to the customers. Juran and Defeo (2010) add that the quality is “freedom from deficiencies” (p. 8). For the International Organization for Standardization (ISO, 2015), sustained quality is the fulfillment of customer requirements.

Confecciones Julieta is formed by a competitive team that specializes in researching developing fashion trends in order to continuously improve their effectiveness in meeting the changing demands of consumers, specifically regarding the desired quality and exclusive designs. The company aspires to establish and make products of value. For that, it has established quality objectives within the organization and its employees:

1. Improve the efficiency of the productive process.
2. Increase productivity.
3. Develop a brand that is positioned in the market for the year 2019.
4. Implement a training plan for the company's personnel.

1.1.5. Life cycle.

While CJ has a short history within the context of the Peruvian textile industry, they have managed to evolve through the use of reorganization in order to open the possibilities for additional opportunities for improvement. Due to the organization's comparatively short existence within the market, Confecciones Julieta can be placed within a growth phase of an organizational life cycle. Analyzing the life cycle is very important for managers because they can identify the accurate strategy to follow in order to achieve their goals. Additionally, this will enable them to use the right resources and knowledge (D'Alessio, 2008).

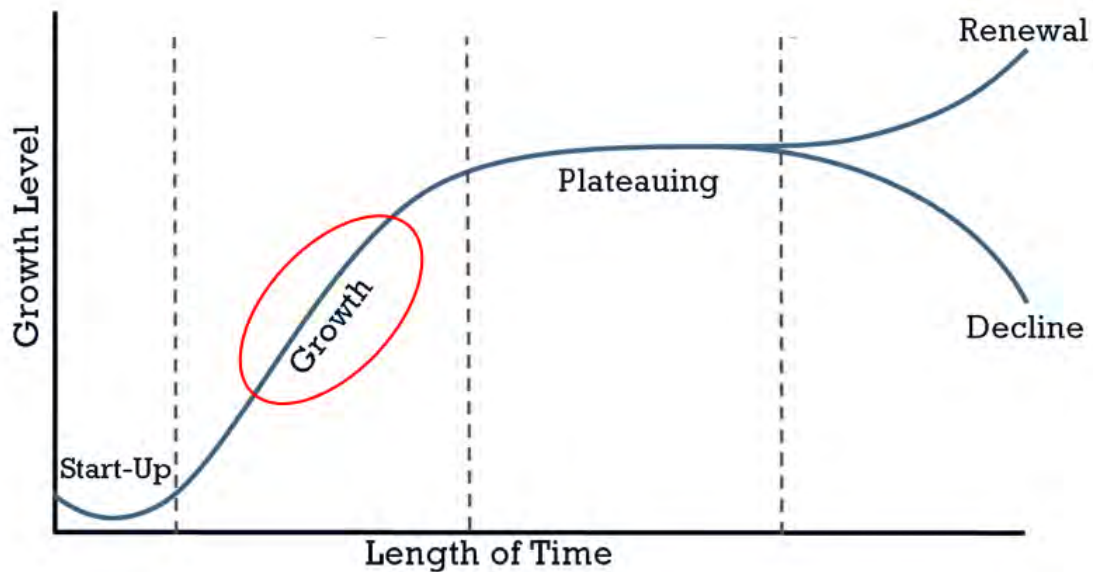


Figure 4. CJ life cycle.

Adapted from *Reporte de Sostenibilidad Confecciones Julieta*, by Confecciones Julieta, 2019, Lima, Peru: Author.

1.1.6. Vision and mission

D'Alessio (2008) defined the vision of a company as a “desired future that is guided by the question ‘what do we want to be?’” (p. 61). A vision statement can only be effective if formulated using nine central components. According to D'Alessio (2008) the vision needs to have a central ideology that motivates change and it must orient the organization towards the future. It should be simple, clear, understandable, ambitious, conclusive, and realistic. The vision statement of Confecciones Julieta is as follows:

“We seek to be leaders in international markets, by attending to the most important brands in the market with their designs, or with the proposals of sample area of product development, and by maintaining exclusivity and respect for our customers”. (S. Matos, personal communication, June 27, 2019).

Upon a thorough analysis, it can be said that this vision statement includes too much detail and fails to consider some important components that make for a good vision statement. Specifically, a time horizon and geographic scope should be defined. There is no clear outline regarding where the company wants to go, or why. Additionally, the goal to

become leaders in the international market is vaguely formulated and seems highly unrealistic considering the current sales and production capacities (see Table 1).

Table 1

Components of an Effective Vision

Components	Included	Analysis
1 Have a central ideology that motivates to make changes	Yes	Central goal is to become international market leaders while maintaining exclusivity and respect for customers
2 Design the organization for the future	Yes	Future goals are mentioned
3 Be simple, clear, and understandable	No	Goal is vague and unclear
4 Be ambitious, conclusive, and realistic	No	Ambitious but not realistic
5 Define a time horizon	No	
6 Forecast a geographic scope	No	
7 Be familiar to everybody	Yes	Displayed in the production facility
8 Create a sense of urgency	No	
9 Draw a clear picture of where the organization wants to go and why	No	

Note. Adapted from *El Proceso Estratégico: Un Enfoque de Gerencia*, by F. A. D' Alessio, 2008. Mexico D.F., Mexico. Pearson.

The central question to answer when formulating an effective mission statement is 'which is our business?' (D'Alessio, 2008). Similarly to the vision statement, it is necessary to incorporate distinct nine elements because the mission statement is the most widespread and visible part of the strategic management process (D'Alessio, 2008). The current mission statement of the organization is as follows:

"We are a company that makes garments for ladies woven in threads of high quality, and according to the latest demands of the market, either for our brand or that of our customers while maintaining the exclusivity of their requirements". (S. Matos, personal communication, June 27, 2019).

The mission statement reflects the same deficiencies that were presented in the vision statement, which is that it is not clearly defined. Based on the required components, the role of the employees is not mentioned, and the term 'exclusivity' is not specific enough to create

firm differentiation within the Gamarra cluster. Furthermore, the market it is not mentioned clearly, and rather it is inherently understood that the organization operates within the Gamarra cluster. While the mission statement addresses the client target group (women) and the product (high quality garments), it does not state specific markets, technology, or objectives of the organization (see Table 2).

Table 2

Components of an Effective Mission

Components	Included	Analysis
1 Clients / Consumers - Buyers	Yes	Ladies
2 Products: goods or services	Yes	Clothes
3 Markets	No	Gamarra, Lima
4 Technology	No	Does not mentioned
5 Objectives of the organization: survival, growth, and profitability	No	Does not mentioned
6 Philosophy of the organization	Yes	High quality and exclusivity for customers
7 Self-concept of the organization	Yes	High quality and exclusivity for customers
8 Concern about the public image	No	Does not mentioned
9 Concern about the employees	No	Does not mentioned

Note. Adapted from *El Proceso Estratégico: Un Enfoque de Gerencia*, by F. A. D' Alessio, 2008. Mexico D.F., Mexico. Pearson.

1.2. Industry Analysis (Porter's Five Forces)

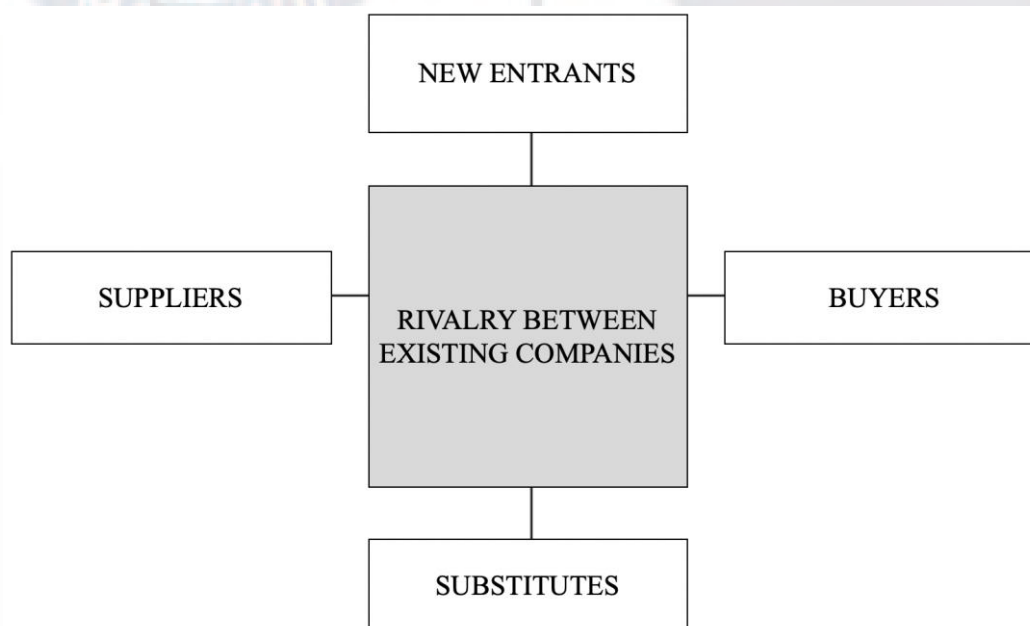


Figure 5. Porter five forces model.

Adapted from "The five competitive forces that shape strategy", by Porter, 2008, *Harvard Business Review*, 86, p. 3.

The first step when managers want to review or improve company strategies is to carefully analyze how the industry performs (Pearce & Robinson, 2000). To do that, Porter (2008) developed a strong process to identify and evaluate the industry through five forces: (a) Threat of new entrants, (b) Bargaining power of suppliers, (c) Bargaining power of buyers, (d) Threat of substitute products, and (e) Internal rivalry. Further, this information will be used in consideration of an ‘outside-in’ perspective of the organization (Aktouf, Chenoufi, & Holford, 2005).



Figure 6. Gamarra cluster location.

From “How do micro- and small-scale enterprises respond to global competition? An example of the textile survival cluster Gamarra in Lima”, by Israel & Hitzeroth, 2018, *International Development Planning Review*, 40, p. 2.

The textile sector has become one of the most important industries in the country due to higher levels of participation and its contribution to the economy. The Instituto Nacional de Estadística del Perú (Instituto Nacional de Estadística e Informática [INEI], 2019) highlighted that the exports of clothing products have increased by fifteen percent in the first quarter of 2019. The Gamarra Textile Complex is the most relevant textile cluster in Peru due to the large concentration of surrounding enterprises (Israel & Hitzeroth, 2018). It is placed in La Victoria District, Lima (see Figure 6). CJ’s primary operations are located within this cluster. In 2016, Gamarra invoiced S/. 7,774 million, of the total production units, of which

about 78% are formal (INEI, 2017a). Porter's Five Forces model will be performed in order to create an effective analysis of the current and potential profitability of an average firm within this clothing industry in Lima

1.2.1. Threat of new entrants

Jaya and Yuliarmi (2019) maintained that companies are not only competing with businesses that currently exist within the industry today, but also with potential entrants who may affect their future market shares. According to S. Matos (personal communication, July 27, 2019), the emerging entrants have a limited capacity to do so, due to the following reasons. First, while theoretically, entering the clothing industry should not be a difficult process due to the absence of a large initial investment, knowledge and efficiency are two key factors within this sector. The evolving equipment and technology necessitate the use of knowledgeable and formerly trained employees prior to beginning a new clothing business in Lima (Gonzales, Espilco & Aragon, 2003). Additionally, running a company in this sector could be hard for entrants due to the existing economies of scale, which are directly linked to having the right workers. S. Matos (personal communication, July 27, 2019) also confirmed cost units can be reduced drastically when the machines produce high quantities of products (personal communication, July 27, 2019). Second, the prices of real estate within the Gamarra cluster have increased significantly within the past decade. Thus, companies with lower profit margins have moved their sales and operations to cheaper sites throughout the city (Visser, Távora, & Villaran, 2014). This implies that new entrants will be required to pay a substantial deposit for a storefront location in Gamarra (Gonzales, Espilco & Aragon, 2003). As a result, this is a low force.

1.2.2. Bargaining power of suppliers

The majority of companies in the Gamarra Complex are micro and small enterprises (SMEs). According to INEI (2017a), more than ninety-nine percent fall into this

demographic. The significance of this represents that some suppliers prefer to work with big or medium companies whereby they can obtain a higher profitability and growth potential (Visser, 1999). Thus, according to S. Matos (personal communication, July 27, 2019), if demand increases or production is limited, it is possible that CJ's suppliers may cut sales or increase prices in order to concentrate on their larger, more important customers. As a result, this is considered a medium force.

1.2.3. Bargaining power of buyers

In conjunction to understanding the supplier power, it is relevant to define whether buyers or potential customers have the ability to impact the price (Porter, 2008). According to CJ, the buyers have a higher capability to do so, due to the following reasons. First, Confecciones Julieta sells products for other retailers or private companies. These types of orders occur occasionally, but in sizeable batches. Consequently, S. Matos (personal communication, July 27, 2019) confirmed that buyers can influence the price. The negotiation process also incorporates the schedules for optimal delivery times and the quality of the products. This is a common issue in small companies because there are several firms within a close proximity and the buyers can negotiate for better prices in another store (Leon, 2014). Second, taking into consideration the sales to the final customer, the company currently only has one brand that is not well recognized. Additionally, the company occasionally dedicates themselves to repeating or copying former products as these products reflect the competencies of the workers. In this complex, several firms are not motivated to develop new brands because they are more interested in securing their survival (Israel & Hitzeroth, 2018). As a result, this is considered a high force.

1.2.4. Threat of substitute products or services

Due to globalization, the commercial exchange trade between China and Peru materialized through the Free Trade Agreement signed by both parties in 2009. This was

subsequently implemented the following year (Ministry of Foreign Trade and Tourism, 2019). This free movement of goods has had negative consequences for the clothing industry, specifically for the companies located in Gamarra. In the last decade, lower-priced Chinese textile products have entered into the Peruvian market and are sometimes half the sale price of a similar Peruvian product. As a result, several SMEs has been unable to defend themselves since their production costs do not allow them to reach a comparable selling price (Berrios, 2015). As a result, this is considered a high force.

1.2.5. Internal rivalry

Figure 7 shows that there are more than 31,000 establishments divided into small workshops and stores that receive between 300,000 and 500,000 clients per day (INEI, 2017a). These numbers have increased significantly over the last couple of decades, due to the rampant growth of the textile cluster. According to Visser, Távora, and Villaran (2014), firms have increased more than one-hundred percent in comparison to previous data census.

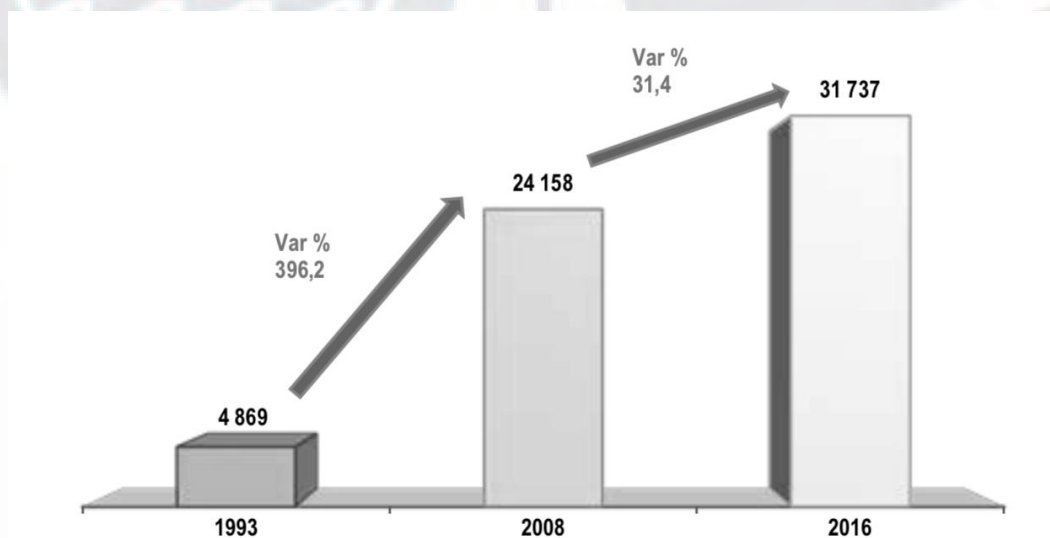


Figure 7. Gamarra business evolution.

Retrieved from *Características de las empresas del Emporio Comercial de Gamarra 2016*, by Instituto Nacional de Estadística e Informática, 2017a, Lima, Peru: Author.

Consequentially, Figure 8 shows that the number of employees in this area has increased in the last two decades, and now surpasses more than 70,000 workers (INEI, 2017a). In total, 27,280 companies carried out economic activities within the Gamarra Textile

Complex during 2016. Of these, more than ninety-nine percent of the total companies were classified as small and medium enterprises (SMEs). Big companies represented less than 0.5 percent (see Table 3).

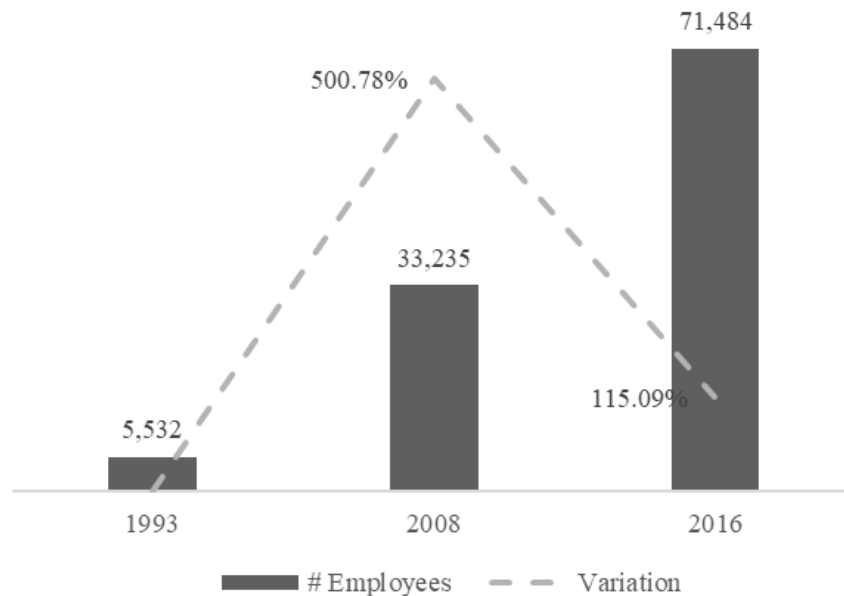


Figure 8. Evolution of employees in Gamarra cluster.

Adapted from *Características de las empresas del Emporio Comercial de Gamarra 2016*, by Instituto Nacional de Estadística e Informática, 2017a, Lima, Peru: Author.

Table 3

Distribution of Business in Gamarra Cluster, 2016

Type of business	Quantity	Percentage (%)
1 Micro business	25,497	93.5
2 Small business	1,642	6
3 Medium and big business	141	0.5
Total	27,280	

Note. Retrieved from *Características de las empresas del Emporio Comercial de Gamarra 2016*, by Instituto Nacional de Estadística e Informática, 2017a, Lima, Peru: Author.

The most commonly used strategy of SMEs in Peru is ‘high segmentation’ since this allows them to specialize in one sector (Gonzales, Espilco & Aragon, 2003). Confecciones Julieta focuses specifically on the demands of women between the ages of twenty-five and thirty-five with the brand “She Line”. Due to the location of CJ’s retail store being in the center of Gamarra, there is intense competition between vendors. There are several similar companies in this area that are equally dedicated to meeting the needs of the same market

segment. Additionally, some of these clothing companies are becoming increasingly competitive due to their entrance into a new channel: e-commerce. This allows them to expand their existing operations and reach a larger clientele. Additionally, the lack of trust between entrepreneurs in the Gamarra cluster may further encourage rivalry. Israel and Hitzeroth (2018) emphasize that strong competition, high rates of informal economic activity, and different ethnic backgrounds from the vendors may cause a lack of cooperation between firms. As a result, this is considered a high force.

Below, Figure 9 and Table 4 summarize the sum of the aforementioned concepts and explain how the five forces have influenced the average profits for the clothing market in Lima.

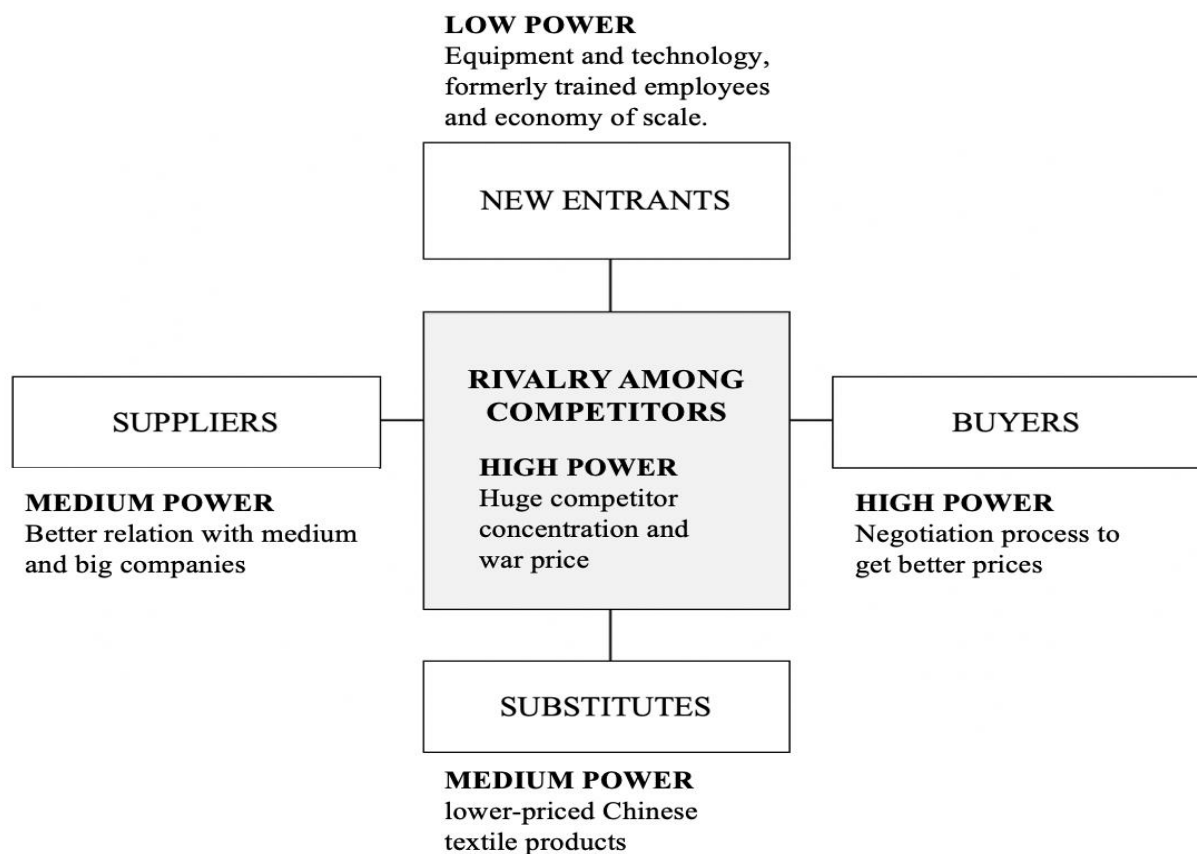


Figure 9. Porter five forces model for CJ.

Adapted from “The five competitive forces that shape strategy”, by Porter, 2008, *Harvard Business Review*, 86, p. 3.

Table 4

Results of Five Forcers Analysis

Forces	Threats to profits
1 Entry	Low
2 Substitutes / Complements	Medium
3 Supplier power	Medium
4 Buyer power	High
5 Internal rivalry	High

Note. Adapted from “How competitive forces shape strategy”, by Porter, 1979, *Harvard Business Review*, 57(2), 102-117.

1.3. External Analysis (PESTE) – Opportunities and Threats

As a result of their location within the largest clothing emporium in Peru, Confecciones Juliette will be affected by every event that influences this textile complex. D’Alessio (2008) supported that because of the globalization, companies should analyze their external environment in order to discover opportunities and pressures. In the same route, Hill and Jones (2009) added that external forces as macroeconomics, technology, social, political and environment can affect seriously the business (see Figure 10).



Figure 10. Interaction of internal and external forces.

Adapted from *Administración estratégica, un enfoque integral*, by Hill & Jones, 2009, Mexico D.F., Mexico: Cengage Learning.

The following investigation will focus on the Peruvian economy and specifically the current context of Gamarra. A very famous framework to evaluate these factors is the PESTE

analysis, which is a model for Political, Economic, Social, Technological and Environment influences (Gupta, 2013). In this sense, the PESTE analysis will help to understand and analyze the external factors that Confecciones Julieta is facing.

1.3.1. Political perspective

Globalization has driven the formation of several agreements that seek to promote international trade in goods, services, and investments between countries. In recent years, the global business context has increased dramatically as companies seek to take advantage of new opportunities in foreign markets. The current political context in Peru provides benefits for foreign investment, but it is not favorable for the Gamarra firms since the textile imports from China have grown since the last decade (Berrios, 2015). The free trade agreement (FTA) between these countries has resulted in low prices and unfair competition, which has subsequently caused the closure of several Peruvian companies. One of the Peruvian Regulation Institutions, Indecopi, applied duties in an attempt to protect national apparel products against unfair competition in December 2013. Additionally, anti-dumping policies have been developed to fight the concerns of monopolization from foreign firms in domestic markets which would consequently drive out domestic rivals through unreasonably low prices. The extent to which can sometimes be predatory insofar that once a monopoly is obtained, supra-competitive prices can be charged afterwards (Niels, 2000). Furthermore, in 2017, this national regulation expanded a definitive duty measure on imports of zip fasteners and other parts from China for an additional five years due to a complaint made in 2016 by the big sales store “Rey Corporation” (“Indecopi impuso barreras,” 2018).

Ultimately, all firms located within Gamarra are local, even though some of them may sell Chinese garments in addition to their own products. The periods in which Asian investment in Peru decreases is during the presidential elections. This is due to the increasing uncertainties regarding the FTA and changes in policies. Evidently, investments also decrease

when there are revelations of issues associated with corruption or bribery. In conclusion, political decisions only affect the Gamarra emporium when the foreign markets are allowed to enter and compete directly.

1.3.2. Economic perspective

Poverty has become one of the most important macroeconomic indicators in Peru. A considerable amount of the economic growth experienced by the country is due to increases in private investment and employment generation, infrastructure improvements in rural areas, and an increase in the number of social programs (see Figure 11). As a result, the poverty index as of 2017 was just above twenty-one percent, while extreme poverty remained at an approximate four percent (INEI, 2018).

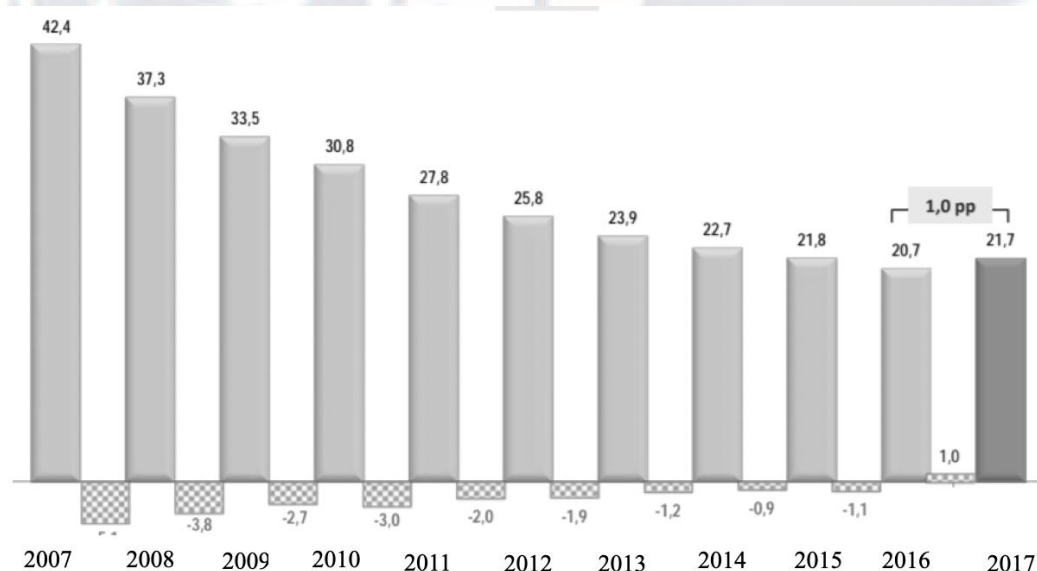


Figure 11. Poverty evolution in Peru.

Adapted from *Evolución de la pobreza monetaria*, by Instituto Nacional de Estadística e Informática, 2018, Lima, Peru: Author.

Over the last fifteen years, the Peruvian economy has grown-up in an average of approximately five percent (Trading Economics, 2019). The Gross Domestic Product (GDP) is the greatest fundamental measure of well-being. It represents a cyclical chain, and everything produced by companies (goods or services) that is consumed by Peruvians. This is

equivalent to higher income and increased profits for companies, which can generate new jobs and create a better quality of life for citizens (Dyner & Sheiner, 2018).

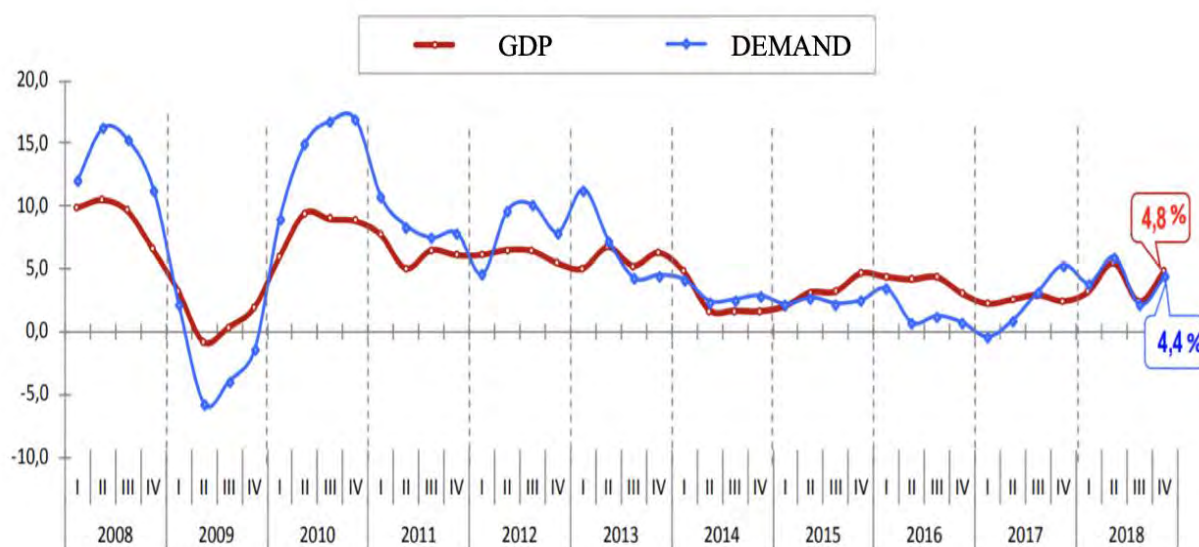


Figure 12. GDP evolution in Peru.

Retrieved from *Comportamiento de la economía peruana en el cuarto trimestre 2018*, by Instituto Nacional de Estadística e Informática, 2019, Lima, Peru: Author.

When this data is translated into local consumption, benefits can be seen in Gamarra specifically because customers are more willing and able to spend money in third activities such as clothing and shoes (INEI, 2018). It is important to note, however, that during economic crises, Gamarra remains a successful market as the sales are not affected in large quantities (see Table 5).

Table 5

Most Spending Group for Peruvians 2016

Spending group	2011	2012	2013	2014	2015	2016	2017
1 Food	194	196	199	197	199	199	194
2 Alcohol and beverage	2	2	1	1	1	1	1
3 Clothing and shoes	28	30	31	31	31	31	32
4 Accommodation, water and electricity	114	122	129	132	136	139	143
5 Furniture and home appliances	24	26	25	26	27	28	27
6 Health	58	60	57	57	56	59	59
7 Mobilization	44	48	52	49	49	51	53

Note. Adapted from *Evolución de la pobreza monetaria*, by Instituto Nacional de Estadística e Informática, 2018, Lima, Peru: Author.

This occurs due to Gamarra's notoriously cheap prices within the local market. Beneficially, most of the stores are able to adapt their production processes, which makes this even less expensive when comparing costs to larger department stores. The immigration of Venezuelans has also helped to reduce costs within the Emporium as most of these foreigners necessitate employment and will accept lower wages ("Revelan cuánto ganan," 2017). These costs could increase, however, if the employment of these employees becomes formalized.

1.3.3. Social perspective

Over the years, Gamarra has exemplified negative components of Peruvian customs, such as informality and insecurity. This issue creates a disadvantage that prevents the region from growing and limits the extent to which producers think to expand, as exports. This is as a result of safety measures, and to make sure that products are insured (Gamarra: más de 800," 2019). These issues have remained a concern of local governments throughout the years, specifically, Lima province municipality and La Victoria district municipality. Officials have historically been unwilling to face this issue until this year, when the district major took action and cleaned the unsafe and unregistered vendors from the streets of Gamarra. Additionally, there is more support from the government through social programs, see Table 6, the National administration expects to overcome the social problems that plagued the region in previous years and directly affected the small companies like "Confeciones Julieta".

Table 6

Development Bank Structure, 2016

	Organization	Creation year	Credits SMEs (MM USD)
1	COFIDE	1971	1,311
2	Agrobanco	2001	468
3	National Bank	1966	72.436

Note. Retrieved from *Financial inclusion of SMEs in Peru. Experience of Development Banking*, by Leon, 2017, Santiago de Chile, Chile: CEPAL.

The presence of SMEs in the Peruvian economy is another interesting factor to consider. In the Latin American context, SMEs are considered to be a fundamental component of business development within the countries. They are the drivers for economic and social development due to the significant percentage that they represent in each country. Additionally, they are considered to be the main generator of employment (Villaran, 2000). In Peru, a micro company is a business that is constituted by a natural or legal person under any corporate form whose objective is to develop activities of extraction, transformation, production of goods or provision of services and with annual sales up to the maximum amount of 150 Tax Unit. In 2019, one Tax Unit is about s/ 4,200 (Superintendencia Nacional de Administración Tributaria [SUNAT], 2019). In 2016, SMEs represented approximately more than ninety-five percent of the total in Peru, with annual sales of less than s/ 577,000 per company (INEI, 2017b). On the other hand, medium and big companies performed just under one percent (see Table 7).

Table 7

Distribution of Business in Peru, 2016

Type of business	Quantity	Percentage (%)
1 Micro business	2'011,153	94.7
2 Small business	92,789	4.4
3 Medium and big business	13,031	0.6
Public business	7,307	0.3

Note. Retrieved from *Peru: Business structure 2016*, by Instituto Nacional de Estadística e Informática, 2018, Lima, Peru: Author.

1.3.4. Technological perspective

Drawing upon the Chinese influence once again, some companies have reduced their production costs because the acquisition of Chinese machinery is cheaper than that of the Americans or Europeans. However, according to S. Matos (personal communication, June 27, 2019), Chinese machines are notorious for having a short life cycle. This increases benefits just in the short term for the local manufacturers. Since the last decade, new machinery has

increased the already large amounts of production and has reduced waste (Berrios, 2015). Likewise, nowadays there is a concern about sustainability and environment and firms are being encouraged to use clean technologies and to develop green investments that could provide future benefits.

E-commerce is an additional factor in this dimension that plays an intriguing role. Due to globalization and the consequent changes in consumer behaviour, many companies have begun to take advantage of, and develop this new channel. Kenneth and Laudon (2012) supported this new strategy because, they argued, many welfares for enterprises who has this new way of operation can be achieved. Some of which include; more loyalty, service customization, ubiquity, better customer service and an improvement in the interactivity between companies and clients. Despite this, Peru's adoption of this technology has been slow. Mina (2014) claimed the most limiting factor for developing e-commerce platforms within Peruvian small companies is the limited access to external financing. As Mina (2014) pointed out, "from the perspective of own resources, they are limited, in most cases, to the contributions of family and friends and to self-financing" (p. 435). The typical micro-business owner usually spends all of their own resources (financial and physical) to run a business for the first time. As a consequence of this situation, owners of small companies are not able to adapt their operations with this technology.

1.3.5. Environmental perspective

Greenpeace (2012) supported the notion that the textile industry is a dirty business. The foundation claimed this sector is the second most polluting affecting the Earth, following the oil industry, because of the fast consumption of garments. Additionally, Sajn (2019) added that "the production of raw materials is responsible for a large share of the environmental impact of the textile and clothing industry, not least from growing crops for natural fibres" (p. 3).

Nevertheless, this external factor is not currently affecting the production in Gamarra. The only correlation that exists between technology and the environment is related to the reduction of waste. Peruvian customers are not concerned enough with the implementation of a sustainable supply chain in Gamarra. As a result, this factor has unfortunately not had a significant effect in the Gamarra context.

1.3.6. Legal perspective

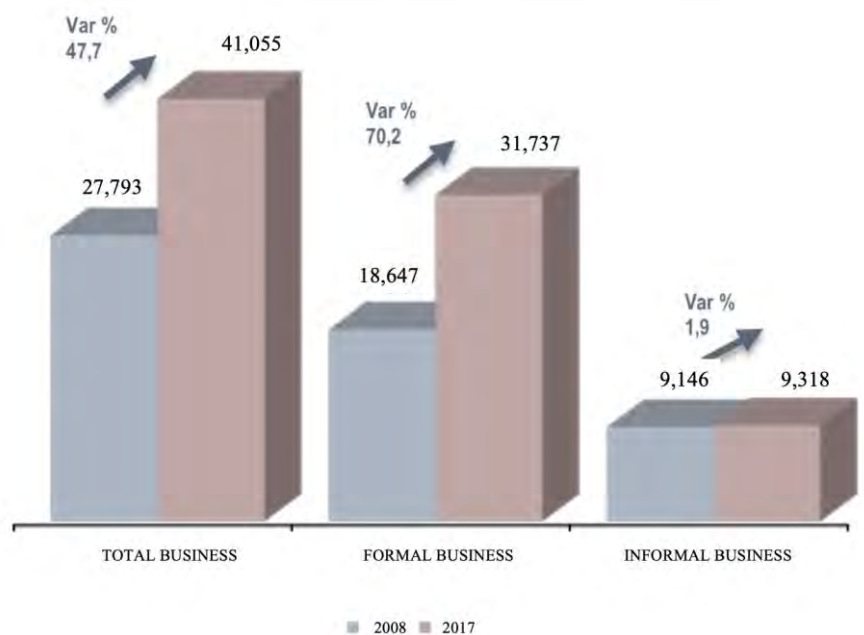


Figure 13. Evolution of informality in Gamarra complex.

Adapted from *Características de las empresas del Emporio Comercial de Gamarra*, by Instituto Nacional de Estadística e Informática, 2017a, Lima, Peru: Author.

Figure 13 shows the evolution of informality in Gamarra Complex. It is clear that informality is still a huge proportion, with more than 9,000 businesses (INEI, 2017a). Since 2019, the government has had an influence in decisions related to legal aspects of the informal and unsafe vendors in Gamarra. For one month, the clothing emporium was shut down due to confrontation between the police and the illicit stores owners. This negatively affected sales by thirty percent (Garcia, 2019). Furthermore, the Gamarra Complex is still vulnerable to events such as these in the future. Also, because of the illegitimacy and informality, the poor working conditions is an ongoing issue that small companies (Peñaranda, 2018). A change in the legal framework has forced store owners to invest in

improved health and safety conditions, and to switch from improper to legal conditions.

While the implementation of these two legal factors has resulted in high expenses in the short-term (less than one year in the Peruvian context), the results could be realized within a mere two to three years. In the case that organizations fail to comply with these regulations, the company in question may be forced to cease their operations (INEI, 2017a).

1.4. Internal Analysis (AMOFHIT) – Strengths and Weaknesses

Hill and Jones (2009) highlighted that an internal evaluation is the right tool for managers to identify strengths and weaknesses where they can have influence taking decisions. Following the same route, D'Alessio (2008) proposed the internal evaluation under 7 elements: (a) Administration, (b) Marketing and sales, (c) Operations, (d) Finance, (e) Human resources, (f) Information system, and (g) Technology. As a result, the AMOFHIT framework is carried out to evaluate and define the current situation of the district based on the analysis of seven functional areas.

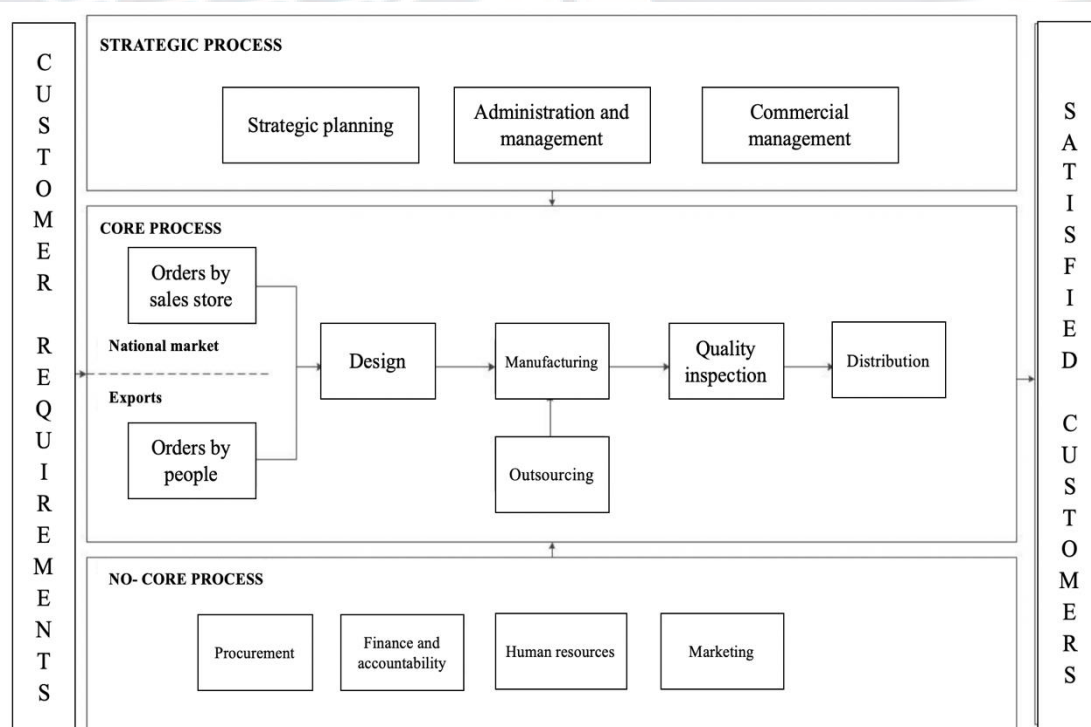


Figure 14. Confecciones Julieta process map.

Adapted from *Reporte de Sostenibilidad Confecciones Julieta*, by Confecciones Julieta, 2019, Lima, Peru: Author.

Additionally, having a process approach management allows companies to connect the differences process in order to deliver products and services to the customer (ISO, 2015). Beltran, Carmona, Carrasco, Rivas and Tejedor (2009) argued that a more efficient management is achieved when the resources and activities of the operations are managed as a process. Also, a process management allows to trace the route for continuous improvement within the company (Pokorni, 2004). According to S. Matos (personal communication, June 27, 2019), Confecciones Julieta follows a process-based management (Figure 14). The process map will be useful and explained in each element of the AMOFHIT framework.

1.4.1. Administration and management

The administrative staff is composed of only one person: the commercial manager, who is also the owner. She is the only person within the firm who makes decisions. The owner is responsible to define and implement the strategic plan for the company. This can be perceived as a disadvantage because she is in charge of all daily operations that occur within the firm. This includes managing all issues from areas such as human resources, to customer-facing sales issues. However, it is clear that the owner has the predisposition to achieve growth for the company. The company is interested to get more international sales, so it was the reason why the GRI Report was developed. Mission and vision have been established in the last years to promote these concepts inside workers' mindsets. Additionally, although it is a small company, Confecciones Julieta has managed to develop an organizational structure that allows it to monitor fundamental daily operations. Also, it was noticed during the visits that employees are comfortable in the company. The owner has been able to create strong bonds with her employees and internal communication is adequate. Regarding the strategy taken by the company, Confecciones Julieta is developing a market penetration strategy. The purpose is to sell more products to the customers in the same market segment where the company is positioned. As a result, the owner is interested to explore the e-commerce channel

just a way to gain customers from the competitors (see Figure 15). However, she does not have the necessary expertise, nor time, necessary to dedicate to each of these individual departments. This makes it difficult to monitor and implement any changes that occur within the organization.

	Existing Products	New Products
Existing markets	Market Penetration Strategy 1 More purchase and usage from existing customers. 2 Gain customers from competitors. 3 Convert non users into users.	Product development strategy 1 Product modification via new features 2 Different quality levels 3 'New' product
New markets	Market development strategy 1 New market segments 2 New distribution channels 3 New geographic areas	Diversification strategy 1 Organic growth 2 Joint ventures 3 Mergers 4 Acquisition/ take-overs

Figure 15. Strategy for Confecciones Julieta.

Adapted from *El Proceso Estratégico: Un Enfoque de Gerencia*, by D'Alessio, 2008, Mexico D.F., Mexico: Pearson.

1.4.2. Marketing and sales

The past marketing strategy taken by the company was through personal news and in the physical sales store. The company made promotions as two-for-one specials for sweaters, a typical offer in Gamarra Complex. In the same way, the salesperson also offers some price discounts to get more transactions per day. When a customer identified some problems with the products, the owner executes a post-sales service to keep the loyalty and reputation of the brand. Currently, Confecciones Julieta is trying to use new channels to make advertising. Social online platforms like Instagram and Facebook are considered nowadays to launch marketing campaigns and to offer discounts and special deals. Regardless, these efforts sometimes are inefficient because they have been poorly developed and are used inconsistently. As aforementioned, the responsibility of maintaining these platforms falls to

the owner, who is focused on other organizational operations. The company has made arrangements with the Textile Gamarra webpage to use the online platform and to promote the clothes.

The owner is the responsible for the sales process. Regarding large quantity orders, the company considers all the needs and requirements of the client, such as the specifications of measurements, dimensions, and the type of fabric. The general manager discusses the production capacity with the customer and confirms the order before sending the order to the production. Table 8 shows the sales during the year 2018.

Table 8

CJ Sales 2018

Month	Sales	Taxes	Total
1 January	9,492.37	1,708.63	11,201
2 February	10,489.83	1,888.17	12,378
3 March	7,527.12	1,354.88	8,882
4 April	11,950.85	2,151.15	14,102
5 May	23,905.93	4,303.07	28,209
6 June	16,636.44	2,994.56	19,631
7 July	28,144.07	5,065.93	33,210
8 August	26,759.32	4,816.68	31,576
9 September	14,855.08	2,673.92	17,529
10 October	15,099.15	2,717.85	17,817
11 November	14,935.59	2,688.41	17,624
12 December	23,816.95	4,287.05	28,104

Note. Adapted from *Reporte de Sostenibilidad Confecciones Julieta*, by Confecciones Julieta, 2019, Lima, Peru: Author.

1.4.3. Operations

A first division of operations management is the separation in administration of the physical goods and services production. Figure 16 shows the type of operations where Confecciones Julieta performs. There, it is clear that the organization focus in the production of goods, specifically the manufacturing process. The company has a manufacturing facility which is located in the district of Independencia. There, all the products are designed and manufactured by the workforce.

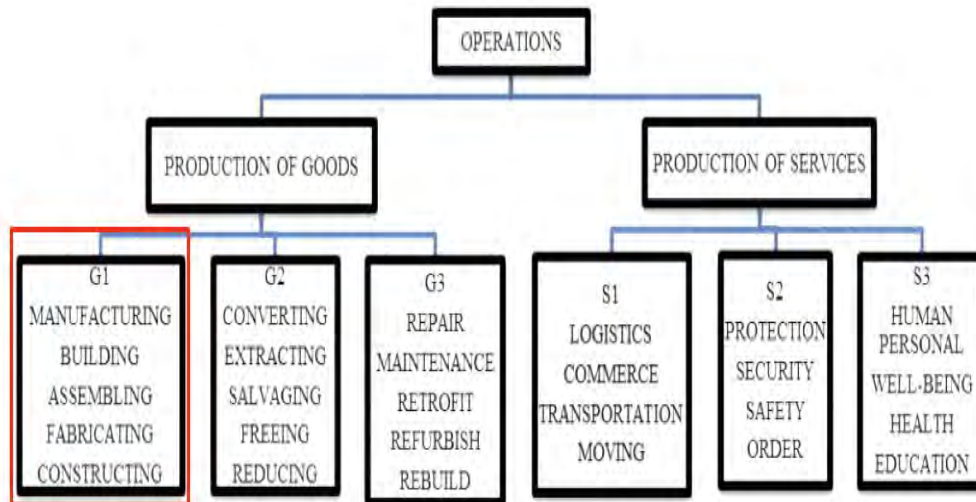


Figure 16. Operations for Confecciones Julieta.

Adapted from *Reporte de Sostenibilidad Confecciones Julieta*, by Confecciones Julieta, 2019, Lima, Peru: Author.

The operating cycle of Confecciones Julieta is showed in Figure 17. There, it is showed how the direct and indirect materials interact between them. Fabrics, cotton, alpaca cloth and closures are the most relevant direct materials in the manufacturing process.

Regarding indirect materials, there are equipment, electricity and water.

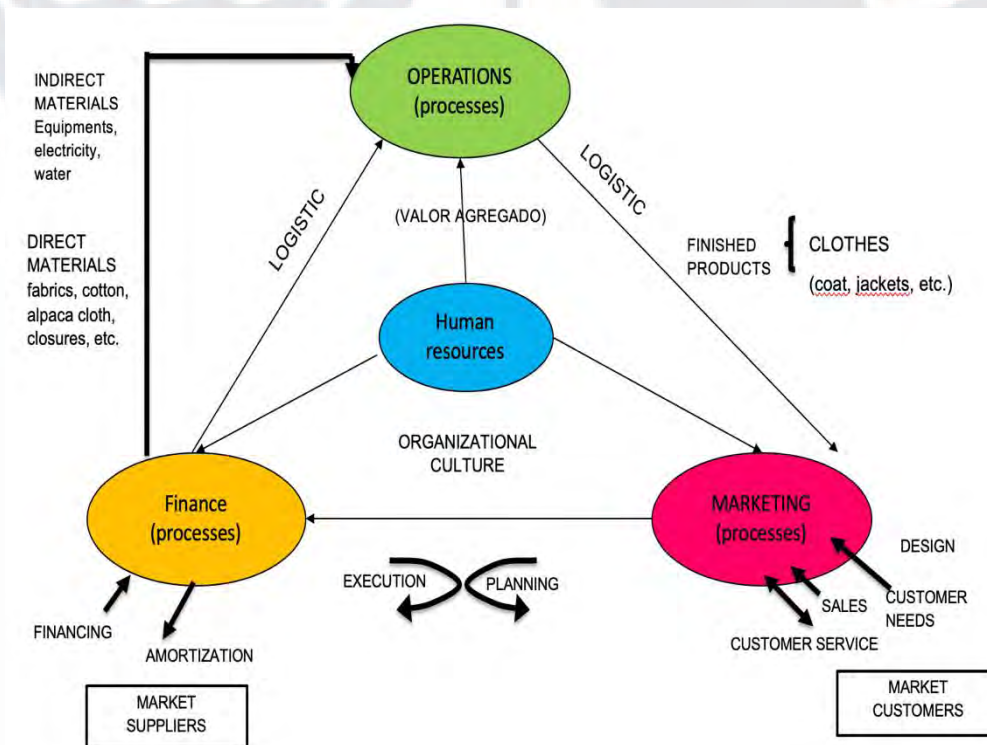


Figure 17. Confecciones Julieta operation cycle.

Adapted from *Reporte de Sostenibilidad Confecciones Julieta*, by Confecciones Julieta, 2019, Lima, Peru: Author.

Regarding operations, the volume of production depends on the orders. Confecciones Julieta has had orders with big quantities of clothes. Sometimes, the firm also makes use of outsourcing business to satisfy these orders. Regarding suppliers, they are located close to the production facility. It is because CJ wants to avoid and reduce potential delays with raw materials due to transport issues. The company complies with all the requirements of large production given by the client. If they do not reach fulfillment and are detected in production, they are taken to another warehouse to be sold in the local market.

However, there are some issues in the operations. The processes are not standardized, however still function due to a strong dependence on the labor experience that has been acquired throughout the years. There are no documents to train new employees. Also, all the processes are controlled and overseen by the General Manager. Additionally, the firm utilizes old machinery, which hinders the organization's ability to control its operations.

1.4.4. Finance

After the meetings with the owner, it is clear this is one of the most relevant weaknesses for the company. There is no specifically defined finance department at Confecciones Julieta. These tasks are managed and conducted by the general manager. While there is evidence of an abundance of hard copies of financial documents, the contents of which remain unclear. The lack of digitization makes information difficult to access, and unavailable to any employees other than the general manager. Based on the information that has been provided, the financial processes are unorganized, and do not include all item costs that the organization incurs. By not having accounting indexes, the company is not able to discover if it is generating income in the periods. Also, Confecciones Julieta does not use budgets for the various marketing campaigns. The financial statements requested by the Peruvian law (balance sheet and income statement) are not made by the organization. However, they have an external accountant person to declare income and expenses to the

SUNAT. Regarding suppliers, every purchase generates a purchase order, which indicates the conditions of delivery of the merchandise and the average payment. The policy of the company limits the purchase on credit with letters of 45 or 60 days.

1.4.5. Human resources

The company has eight employees; six of whom work in the production of the garments, one of which works at the storefront location, and the last of which is the general manager and is responsible for overseeing all operations. There is not a single employee dedicated to human resources, and any inquiries of such nature are directed to the general manager. Additionally, a high turnover of personnel is very common in the textile industry, generally due to workload issues (S. Matos, personal communication, June 27, 2019). Confecciones Julieta also suffers this issue. The owner said it is because workers are continuously looking for another job with a better wage. About training, the company, through educational institutes as SENATI and PromPYME, carries out instruction on topics of textile manufacturing. In addition, the owner is responsible for instilling quality in all activities within the company among employees.

1.4.6. Information

There is minimal information available regarding this topic. The company does not use software for operational, administrative and accounting records. As an exporting company, documentation, and support must comply with all the requirements demanded by SUNAT for payment vouchers such as invoices, guides, export policies, import policies. Internally the records are kept in order of order and per client, all the documentation related to the raw material used is registered and supported with certificates of origin since they are also subject to customs audits in Peru. However, these documents are stored in physics. Regarding communication system, the store and the factory remain both physically and operationally disconnected. There is a shortage of historical data, which prevents the

company from gaining a comprehensive understanding of their sales and expenses. Often, the firm still uses physical documents and files that are stored at the factory location, and that have not been uploaded digitally.

1.4.7. Technology

Currently, the company is not using updated machinery. The weaving machines used to create the garments are from the 1970's and were manufactured in Germany. The production process consists of five different steps; within which there are four separate machines that are used for creating the fabric, drying, cutting, simple reclose, and complex reclose. The lack of high-technology equipment prevents the company from producing garments faster, or in larger quantities, than their current competencies permit. Regarding research and development, the company Confecciones Julieta has a strategic alliance with the SENATI, an important educational institution. As a consequence, the owner and some employees have the opportunity to attend some meetings regarding new trends of textile machines and manufacturing processes. However, the company is not able to acquire these new machines because it does not have the enough profit.

Below, Table 9 summarizes the sum of the aforementioned concepts considering the internal and external context of the organization. The SWOT matrix helps assess problems inside and outside the company and it describes the strengths, weaknesses, opportunities, and threats for Confecciones Julieta. The SWOT model takes in consideration internal business characteristics and environment forces in which the organization operates to establish future strategies to provides with a scheme for strategic decision making (D'Alessio, 2008). These results will be helpful to build the alternative solution for Confecciones Julieta in the next chapters.

Table 9

SWOT Analysis for Confecciones Julieta

Strengths	Weaknesses	Opportunities	Threats
High level of entrepreneurship and creativity of the owner.	Limited use of management skills hampers the medium and long term.	The constant economic growth envisages a greater growth of the textile-garments sector.	Strong competition and price war to increase market share.
Adaptability and predisposition of the firm for adapting to different changing scenarios.	No financial capacity for the use of new technologies in the manufacturing and commercial processes.	Increase of public institutions with the aim of giving support and training to entrepreneurs of small business.	Macroeconomic policies of the Government that encourage imports of textile products from China.
Networks and alliances with external institutions in order to improve internal processes.	The lack of personnel specialized in quality control; the reprocessing costs are assumed by the company.	Opening of new sales channels through social networks and web pages, which would increase the branding of the company	Technological changes that reduces the life cycle of current machinery, with the risk of speeding up depreciation.
The entrepreneur and workforce of the SME have extensive operational experience.	Weak associative capacity of the firm limits their bargaining power.	Taking advantage of fashions and international trends to differentiate from competitors.	Textile industry concentrated by small companies located in Lima, with low productivity and a high informality component.
Raw materials of high quality, which becomes a competitive advantage.	Insufficient market share in the national and international market.		

Note. Adapted from *El Proceso Estratégico: Un Enfoque de Gerencia*, by D'Alessio, 2008, Mexico D.F., Mexico: Pearson.

1.5. Conclusions

In conclusion, it is clear that this industry, and specifically clothing companies in Peru, are competing aggressively amongst enterprises in the same industry who are targeting to deliver their products to the same customers. This fierce competition arises from the need for enterprises to achieve market leadership in order to generate positive margins and thereby become profitable in the long-term. It is expected that this competition is equally as prevalent within the new e-commerce channel.

Additionally, the PESTE analysis proves that there are external factors that can deeply affect the administration and daily operations of every enterprise. It is clear that the active governmental performance has had an impact. The new set of measures and anti-dumping

policies that seek to protect local textile producers from unfair trading practices will ultimately harm the Peruvian economy, which has been steadily improving from the last decade. In this economic environment, people are willing to pay for clothing stuffs due to the increase of their personal income. Despite these market developments, the e-commerce channel is not being used by a lot by people because of the distrust and suspicion that surrounds the introduction of new technology.

It is clear that Confecciones Julieta is facing issues that Peruvian SMEs are typically required to overcome. The shortage of accounting records, undetermined production costs, incomplete pricing lists, and the absence of timely information required for decision making are daily problems within the internal SME environment. While the market is conducive to creating value through the improved management of the company, Confecciones Julieta must first address a way to overcome these internal challenges.

Chapter II: Key Problem

This chapter focus on identifying the root problem of the organization Confecciones Julieta. Following several site visits and meetings with the owner, the team identified several challenges and their subsequent consequences. According to the owner, the company is facing low sales due to the company's lack of a marketing strategy for the Facebook page. Following an intense analysis and evaluation, however, the consulting team has determined underlying issues that should be addressed prior to implementing a new marketing strategy.

2.1. Identified Problems

Confecciones Julieta is one of thousands of companies located within the Gamarra textile complex. As aforementioned, one of the key aspects that characterizes these small firms is the recurring internal issue of having poor planning. Additionally, many of them are prone to experiencing intense pressures from the competition of the external environment. As of yet, three meetings have been conducted with the owner of the company, who is also the General Manager. Each time that the manager sought to address the key issue, she would mention creating growth for the company through online sales. The manager believes this to be the solution as there are already two 'competitors' who have successfully developed an online marketing campaign and attracted thousands of followers.

The first meeting with the commercial manager of Confecciones Julieta was about the general aspects of the company. In this, she argued the marketing problem she is facing currently. The objective of this kick-off was to know each other and understand the client's perspective. A second meeting was appointed one week later, and the location was the outlet the company has in the Gamarra textile emporium. She explained the main products (garments) she has and basically the main information obtained was the external and internal environment. This visit was useful because gave to the research a new perspective of how the business in Gamarra and the main competitors are that Confecciones Julieta has. It was

important to note the Gamarra tendencies, the size of the competitors, etc. The third visit was in the textile Complex located in the north of Lima, district of Independencia. The production facilities were observed, the equipment and also the head office. In this last interview with the commercial manager it was clear the lack of order in both production and administrative staff. In the last two visits it was possible to have a look on the sales and tracing process. The next figure explains better how the data collection from the firm was.

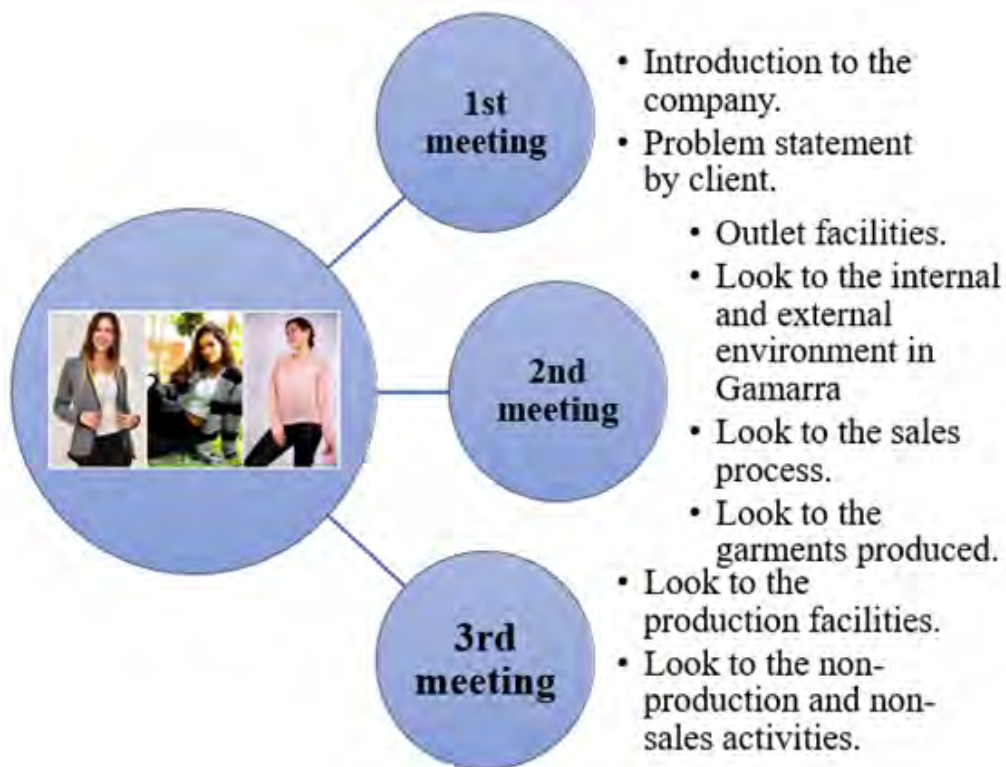


Figure 18. Summary of company visits.

With this in mind, questions were formulated in order to identify the key problem and the root cause. The questions were built following the Five Ws which is explained by Mazzei (2018) as a process to find information and research about any topic. This tool is used in any situation, academic or work assigned, especially important in journalism. The what answers what the event was, the where its location, the when explains the time when the event happened, the why tries to find the reason of the event and the who for the people who was involved or participated in the situation (Mazzei, 2018).

The question process was established as follows: (a) What sales is the company currently performing? (b) What are the key issues the firm is facing nowadays? (c) Why do you need to increase the sales to get more profits? (d) When do you want to achieve these objectives? (e) Where are your main resources located? and (f) Who is in charge of the various operations? The following additional questions were also included; “Currently, how much the firm is selling?” and “What is the mark-up the company has in order to develop competitiveness in the local industry?” The corresponding answers showed a lack of understanding regarding how to solve these questions. The final questions were evidence that more specific details would be necessary.

The answers were the following: (a) The sales are low because there is no marketing strategy; (b) The current issue is the lack of a social media campaign that can improve the sales; (c) Increasing profits is the only way to grow and compete in the market; (d) it has not been determined; (e) The store is located in Gamarra, district of La Victoria; and (f) The commercial manager is in charge of the administration, finance, production, marketing and human resource of the company. In addition, the other questions were not answered properly because the lack of information regarding the total sales and mark-ups.

Following the collection of this information, visiting the factory, and interviewing the remaining employees, the main findings were illuminating. The company is still operating manually and has not uploaded their historical sales on a web platform, software, or spreadsheet. For this reason, there is no data regarding sales and production ratios, or demand forecasts. The information regarding the business is constructed on the experience and knowledge of the employees which means that there have not been any procedures implemented. For instance, there are not any manuals available outlining the instruction of the machines that are used during the production process. Other issues include the lack of human resources, which has resulted in a single employee creating all products. This is

inefficient and will be further explored later in this proposal. Additionally, Also, the lack of information and communication systems are a significant disadvantage because the main competitors are currently using these tools to make their processes more efficient (i.e. design, production, distribution, sales, and marketing). As aforementioned, the lack of systems and digital information prevents the organization from implementing future strategies because there is no existing information that provides an indication of where to begin. Despite this, if the company wants to improve their sales, there should be data that outlines their current financial ratios and growth throughout the past few years.

The vast diversity and quantity of stores makes it difficult for them to differentiate themselves within the market. As a result, additional sales opportunities are achieved by means of having a visible and accessible location within the emporium. Gamarra emporium is a large group building located next to each other, with multitudes of stores located inside. Thus, if an outlet is located close to the street or on the first floor, they will be more likely to attract clients. Conversely, if the store is located on the top floor, it is less accessible, and consumers may be finished shopping before reaching the outlet. Confecciones Juliette is located on the fifth floor and shares the space with fifteen other outlets. The only advantage provided by this location is the low rent cost, which is approximately ten times less than that of a store on the first floor.

2.2. Key Problem (substance, location, ownership, magnitude, time perspective)

The general manager's approach to the marketing strategy lacks sustenance because the internal structure of the company is not working well. As a result, it is more important to focus on correcting the internal operations of the company to understand the organization's productivity. This can be measured in both inputs and outputs, the former of which is currently an unknown element for Confecciones Juliett. These numbers will include the costs

and expenses that the organization incurs and will also provide insight into the remaining production capacity of the firm.

These previously mentioned issues are a common denominator across a significant portion of firms that operate within Gamarra. Organizations claim that the lack of strategic processes is what prevents them from expanding, and that they will be unable to achieve these goals if they continue to lack methods of measurement. Confecciones Julieta requires a clear breakdown of the mark-up of the business. Thus, this research is driven by the need to formulate information regarding the total profits (including incomes, costs, and expenses). It will only be possible for the company to achieve its desired future position if it can implement these proper cost measurements. Should it fail to do so, Confecciones Julieta will continue to face the following problems: (a) lack of liquidity, (b) no associated budget, (c) absence of performance evaluation, (d) no possibility to develop a future strategy; among others indicated by Amir, Auzair and Amiruddin (2016). For a more comprehensive understanding of the problem, refer to the Cause-Effect Diagram located below (see Figure 19).

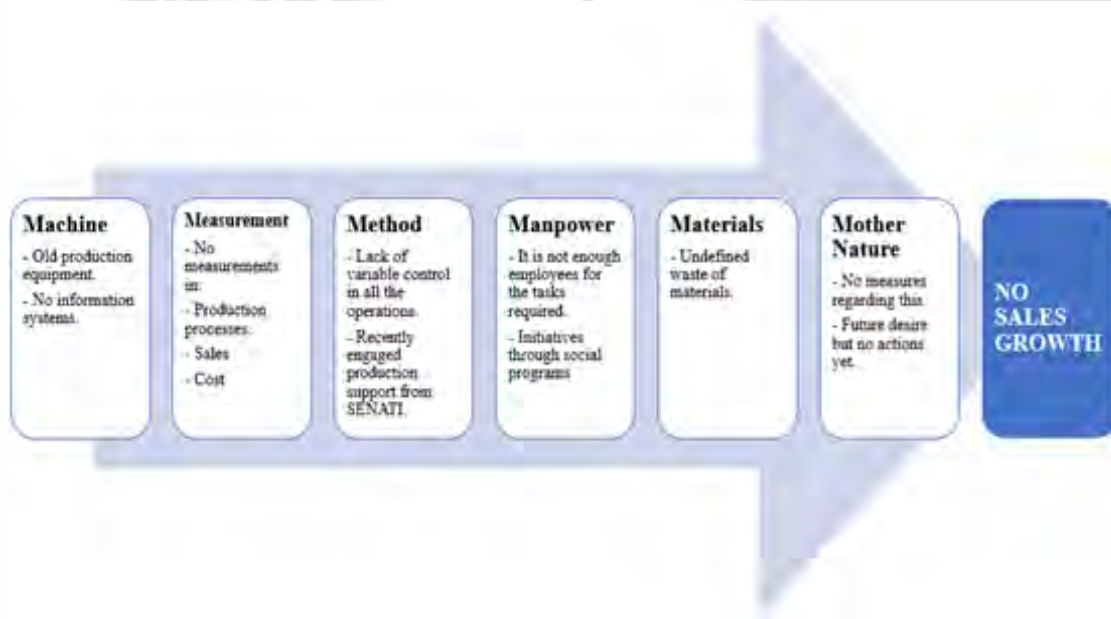


Figure 19. Proposed cause-effect diagram.

Adapted from *What is Total Quality Control? The Japanese Way*, by K. Ishikawa, 1985, Englewood Cliffs, NJ: Prentice-Hall.

The Cause-and-Effect Diagram is a tool that was developed by Ishikawa (1985), when using the figure of a fishbone, a person (or a team) can realized the main causes of the problem stressed. The fishbone figure has six bones which are the categories for every cause: (a) machine, (b) measurement, (c) method, (d) manpower, (e) materials, and (f) mother nature. Upon given the causes, the solution for every cause can be develop (Ishikawa, 1985).

The current situation that the organization is facing can be summarized as a lack of growth in sales. Evidently, this is based on assumptions as there is not presently enough information available to make an accurate assessment. Cash and liquidity, however, are unique factors that can be analyzed in this context as they are considered to be the main key performance indicators (KPIs) developed by the firm and are easily accessible. Using the Cause-Effect Diagram and having defined this issue as a lack of growth in sales, the root of the problem will be defined. Regarding the machinery, the equipment that is being used for production is more than thirty years old and cannot compete against new technologies. Additionally, there are no information systems (I.e. computers) being used in order to create clothing designs, create charts for KPIs, etc. As aforementioned, there is an overarching lack of measures of the current activities and knowledge of actual costs, which would be required in order to set more accurate prices. The current measurement methods, or lack thereof, are an issue since no standard procedures have been implemented in production or administration practices. The firm has recently begun participating in a teaching program developed by SENATI that focuses on improving productivity, reducing material waste, and adapting new textile techniques.

With respect to employee, all decisions made across the organization are made by the same individual, the commercial manager, Susana. In this role, she oversees every process that occurs within the firm. With the intention of reducing labour costs this year, the organization is negotiating a program that will involve working alongside incarcerated

women in order to increase their learning and social activity. While this is still a conceptual idea, it would be mutually beneficial for both the corporation and the participants.

Concerning the materials, there is uncertainty about the amount of waste produced per textile piece manufactured. This lack of precise information prevents the firm from being able to improve their production processes. Thus, there have not been any concrete environmental initiatives set yet. This is due in part to the lack of cost management, which prevents the firm from improving or developing processes that cannot be measured and are not fully comprehended. Thus, there is an internal paradox at CJ between the desire to increase the amount of sales, and of knowing what the target amount of sales is.

2.2.1. Substance

Prior to implementing any organizational changes, it is necessary to improve the administrative processes and to streamline decision-making in order to establish a cost management strategy that will be suitable for the company. Currently, the manager is not able to determine the cost of the individual products, which is affecting the organization's ability to establish a reasonable sales price, and to determine an accurate break-even point for the organization. Once this information has been established, the organization will be able to accurately assess what their target amount of sales will be.

2.2.2. Location

The problem identified is inherently located within the accounting processes of the firm. Thus, it is important to note that the consequences of which can severely impact related internal processes. Specifically, the lack of a cost management system can affect operations as there will not be a coherent budget to adhere to. Sales may also be affected if there are not adequate revenues needed to cover the costs incurred during production. Additionally, the lack of control can influence in wrong decision makings.

2.2.3. Ownership

The Owner and General Manager, Susana, is aware of this challenge, but is currently considering addressing a problem that is related to the marketing campaign. Ultimately, she believes that additional revenues will be realized through increased sales generated by social media marketing campaigns. Thus, it is necessary to explain to the owner that the revenues could increase drastically if a proper cost management strategy is implemented that will allow them to realize their current costs and capacity for additional production and sales.

2.2.4. Magnitude

Cost management is an indispensable element to the administration of every enterprise because it serves as a necessary tool for decision-making within an organization. Costs are used in order to determine the prices of products (and associated profit generated per unit), to measure the productivity of employees, and to compare the real production costs of goods with the historical cost. An increased awareness of the key cost drivers will allow the company to gain better control over their operations and improve their decision-making capabilities.

2.2.5. Time perspective

Following the first meetings with the General Manager, the consulting team determined that this issue has subsisted since the inception of the company. Initially, a cost management strategy was overlooked and not implemented. Following this, the company became interested in increasing their sales in order to realize higher profits. Consequently, the Owner noticed that as sales continued to increase, so did the revenues. Thus, internal weaknesses such as the lack of cost strategy have not since been considered.

2.2. Conclusions

In consideration of the location issue, the lack of available digital information, and the inadequate cost management, it is apparent that Confecciones Julieta is experiencing the same

issues as many other small firms in Peru. As a store located in Gamarra, there are two distinct options that would allow the organization to differentiate themselves. The first of which would be to improve sales through price or marketing strategy, and the second would seek differentiation through the reorganization of internal operations. As previously noted, CJ is unable to implement the first option without a stronger administrative foundation for the organization.

Saying this, and after the key problem process made previously, the problem found is the lack of a cost management as part of the internal processes developed by the firm. The explanation given by the commercial manager only proved that the current situation of the company is not well oriented in try to find and solve the real issues, but instead increase sales without a solid starting point. For example, a change in marketing strategy will involve redesigning the products, or the use of an online store, both of which will only be effective if there is a defined cost management strategy. For this reason, the organization should strategize by differentiating themselves by focusing on the internal issues that are preventing them from expanding their business.

Chapter III: Literature Review

This chapter is about a reviewing of several literature sources such as journals, books, scholarly investigations, academic publications, additional materials that may prove useful for the purpose of this consulting assignment. The main objective of this literature review is to further comprehend the problem identified in the previous section, and to gather information and models that can be relevant for the breakdown of the research problem. In order to effectively gather the necessary literature and additional resources, the Centrum database will be used to retrieve the right sources and additional research webpages. It is apparent that this chapter will require the use of several Spanish resources because Confecciones Julieta is a micro-company based in Peru. Thus, a local perspective will be necessary in order to increase and exploit the understanding of the Peruvian business environment and realistic application of theoretical concepts.

3.1. Literature Mapping

Research investigation is defined as a critical, systematic and empirical process with the goal of the study of a phenomenon or singularity (Hernández, 2010). It is a systematic process because it has sequences and logic steps. It is a critical process since it has several iterations in order to define the right conclusions. It is considered as an empiric process because the research is based on experimentation or observation (Hernández, 2010).

Specifically, this literature mapping focus on identify the right factors and drivers related to cost structure management. In order to develop this stage, it will be covered four important topics as follows: (a) Entrepreneurship concept to analyze the global necessity-based framework and the currently approach for Peruvian cluster; (b) Problem solving in SMEs to comprehend how the owners without management education usually faces and solve challenges; (c) Cost management Fundamentals about ABC costing, standard costing, and others; and (d) Peruvian SME in Gamarra to study some successful cases (see Figure 20).

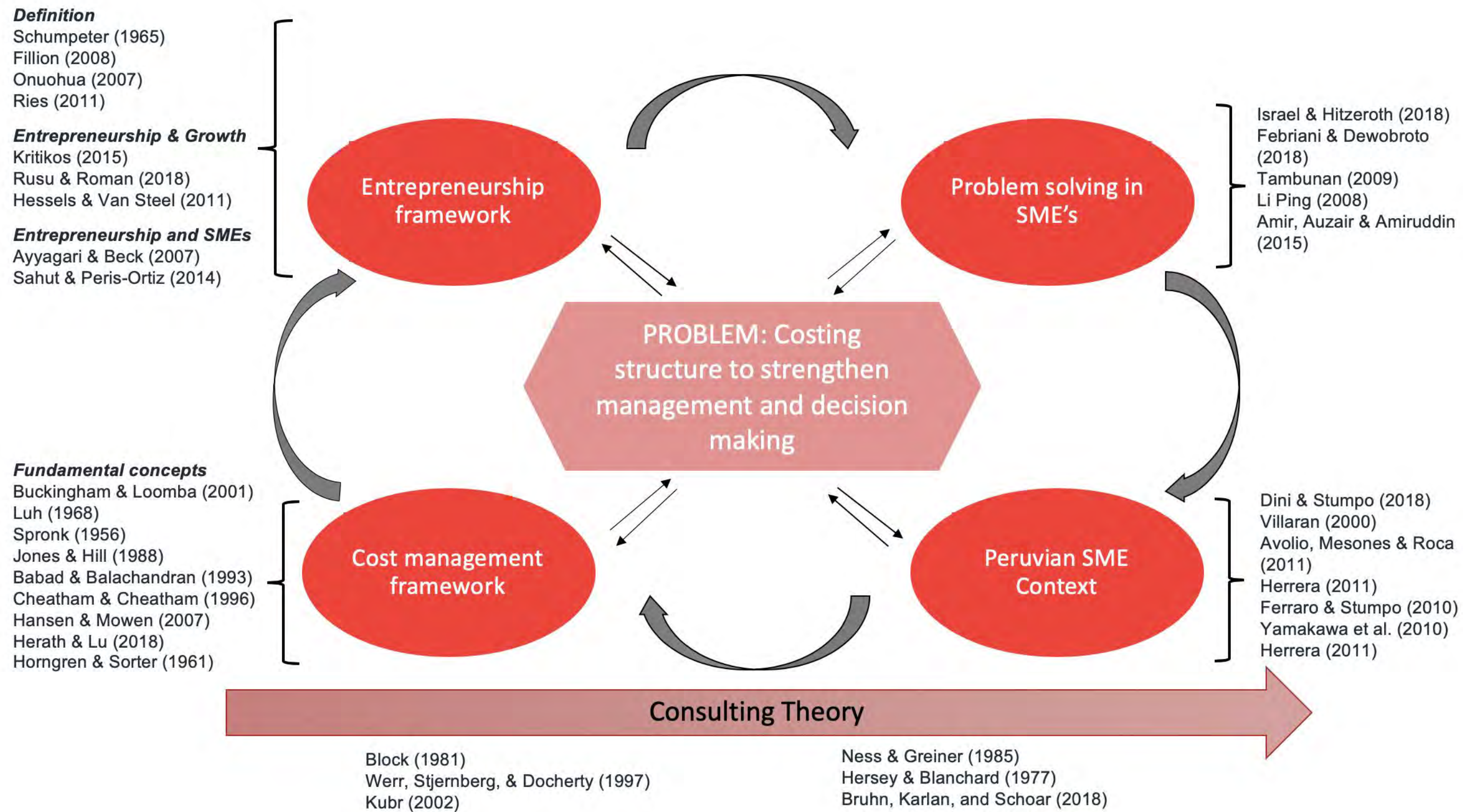


Figure 20. Literature mapping.

The findings in the literature mapping will help to get a better comprehension about Confecciones Julieta and to identify the best way to establish the cost structure to enhance the making decision and company management. In overall, the literature mapping will answer these questions:

- How is the Entrepreneurship in Latin America? What are the key issues that SME are facing?
- What is the main issue found in this specific research? And how to solve it?
- In that sense, how is the Gamarra context and current situation?
- How to link the propose framework (Cost management) within the context explained?

3.2. Literature Review

3.2.1. Entrepreneurship framework

Entrepreneurship definition. There is not one common definition of the word entrepreneurship to be found in research. One of the most commonly used definitions is from Schumpeter (1965), who consider entrepreneur every individual who wants take advantages of the opportunities he identified previously in the market making new technical and innovation actions. On the other hand, Onuoha (2007) stated that entrepreneurship is the performing of running a new business in response to challenges and opportunities. Drucker (1970) pointed out that entrepreneurship is about taking risks. As various as the different definitions on the word entrepreneurship itself are, as various are the different types of entrepreneurship that exist. Following this route, Ries (2011) in his book “Lean Startup” talked about entrepreneurship definition taking in consideration the context in which the innovation happens. He mentions that Startup is “a human institution designed to create a new product and service under conditions of extreme uncertainty” (Ries, 2011, p. 31). Figure

21 shows the most relevant elements used to define the term entrepreneurship taking into consideration the previous scholars:

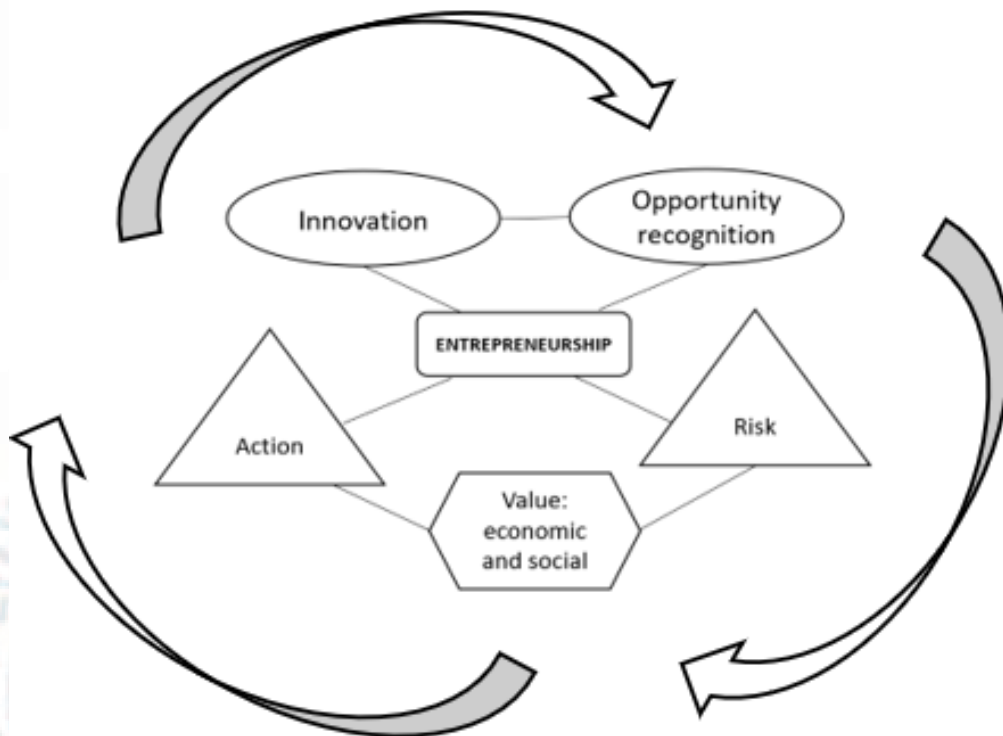


Figure 21. Elements for entrepreneurship definition.

Adapted from *Defining the Entrepreneur: Complexity and Multi-dimensional Systems: Some Reflections*, by Fillion, 2008, Montreal, Canada: HEC Montréal.

An important distinction that needs to be established is the difference between opportunity-based approach and the necessity-based. The Global Entrepreneurship Monitor (GEM) analyzes entrepreneurial motivations, starting from the incentives why individuals choose to open or run a business, and it sorts them into two categories. Firstly, opportunity entrepreneurs who take the resolution to turn into a new business because they see an opportunity and secondly necessity entrepreneurs who decide to follow a new one because they are not able to access a job in their local market, or just because this work offer is not good enough to supply them with an income high enough to survive (Rusu & Roman, 2018).

Entrepreneurship and economic growth. Several scholars have found that Entrepreneurship is important for countries because they have positive effects on job creation

and economic growth. Analyzing data from the GEM between the years 2002 and 2005, Hessels and Van Steel (2011) founded that TEA is considerably positively interrelated to economic growth. The reasons they found is because entrepreneurship can increase competition and diversity. Consequently, more businesses are opened, and they contribute with taxes to the state and getting more employees from the domestic market (Hessels & Van Steel, 2011). Additionally, Kritikos (2015) obtained an interesting result concerning the effect of entrepreneurship ecosystem on jobs and economic growth. His study shows people are more likely to start a startup when the economy is not going well, and this boom of new businesses in bad times could help turn up the economy again (Kritikos, 2015). This entrepreneurship style can be defined as a necessity-based activity because the decision for starting a business depends form macroeconomic events (Rusu & Roman, 2018).

Entrepreneurship ecosystem. Entrepreneurship is a global phenomenon that presents diverse behaviors depending on several factors. As external factors there are government support, incubators, finance access, and cluster organization. According to Audretsch, Mamtora, and Menendez (2016), the public administration should encourage and establish flexible policies to reduce bureaucracy for opening new business and attract more young people to this culture of entrepreneurship. Hausberg and Korreck (2018) added incubators can drive and accelerate the development of startups helping them to achieve their goals. Rusu and Roman (2018) considered the finance access as a key for this ecosystem because it will make more interested people to put in action new business ideas. Isenberg (2010) supported that clusters encourage companies to work together and help them be more innovative, as to scale-up their activities.

Entrepreneurial ecosystem in Peru. Peru can be considered as one of the top entrepreneurial states in the world. The Global Entrepreneurship Monitor (GEM) ranked Peru ninth out of 60 nations, although the total early-stage entrepreneurial activity (TEA) index

has dropped from 28.8% in 2014 to currently 22.2% (GEM, n.d.). Even though Peru is one of the most entrepreneurial countries, it has one of the highest discontinuation rates (8.8% in 2015), as many firms turn out not to be profitable. This assumption is supported by the low percentage of firms with equal or older than three and a half years with a rate of 6.6% in 2015 (GEM, n.d.).

Despite the decreasing TEA and a high fail rate in Peru, over half of the population believe there are good opportunities to start a business and over 65% believe the country has a good environment to start businesses. Furthermore, twice as many new entrepreneurs specified that the reason for starting a new company is opportunity-based rather than necessity-based (GEM, n.d.). Also, the GEM report recognized cultural, social and economic climate as the more relevant factors that positively impact on Peruvian entrepreneurship. On the other hand, the main factors constraining entrepreneurship in Peru are public policies, financial access, education and training (GEM, n.d.).

Entrepreneurship and small business. For the purpose of the following section, where the term Small and Medium Enterprise (SME) will be often used, it is important to stress what are the definitions regarding these two, and the relationship. In the research made by Ayyagari, Beck and Demircus-Kunt (2007), SME's definition is mentioned as variable depending on the country of analysis, but there are some common criteria used to defined these enterprises: (a) number of workers, (b) total net assets, (c) revenues, and (d) investment level. For every region or country, a firm is called SME if meets the criteria required. In that sense, Sahut and Peris-Ortiz (2013) linked entrepreneurship and SMEs through the concept of innovations. The authors found that innovation is the main characteristic of entrepreneurship, people having creative ideas and using different resources to achieve them; however, it is also found that not all the SME develop innovations. Although, the results of this innovations do not depend on the size of the enterprise, are other factors like motivation or cultural

conditions that can make that SMEs have better performance innovating than Large enterprises (Sahut & Peris-Ortiz, 2013). Having made the clarification of these terms, the following sections will discuss about SMEs as a general, which is the denomination given to the Gamarra firms, especially the one in analysis.

3.2.2. Problem solving in SMEs

Having defined the concepts of entrepreneurship and SME, it is quite important the clarification on what this SME have to face as a common issue, and then what is the best alternative to deal with them. Israel and Hitzeroth (2018) stated two main problems that, specifically in this kind of enterprises are facing now: (a) the are not enough public policies that support the local unions and take into account during the decision making, and (b) The effects of the global competition.

Febriani and Dewobroto (2018) indicated, in the analysis of Indonesian SME where these firms represent the 99% of the total firms (similar situation with the current Peruvian market), that there is a high rate of failure in small business: almost 50% of those failed in the fifth year of operations. Complementing this analysis, Tambunan (2009) in his research about development and some constraints of the Indonesia market are condensed in the Table 10.

Table 10

Main Constraints for SMEs

Constraints	
1	Lack of high prices of raw material
2	Marketing difficulties
3	Lack of resources
4	Transportation concerns
5	Lack of skilled workers

Note. Adapted from “Export-oriented small and medium industry clusters in Indonesia”, by Tambunan, 2009, *Journal of Enterprising Communities: People and Places in the Global Economy*, 3(1), 25–58.

For some industries the import or access to raw materials is quite expensive and increased its cost and expenses. Marketing difficulties since the customer satisfaction, segmentations and positioning are not well developed (Febriani & Dewobroto, 2018). It is

interpreted that the lack of enough education that comes from the head of this firms, makes them to take bad decisions and focus wrongly the product or service made. Lack of capital, which is related to the financial sources that does not give enough opportunities to these enterprises, indicated by Tambunan (2009). The transportation issues which is not clearly explained but can be said that the prices of the fuel and the time spent in the traffic represent a high cost especially for small firms. Tambunan (2009) said also that the lack of skilled workers affects the levels of exports, and outsourcing is required in order to achieve the demand, but the costs are high.

Table 11

Problems of the Sustainable Development of SMEs Cluster

Problems
1 Several manufacturing clusters are considered as low-grade performance, and they face the industrial upgrade challenge.
2 Co-operation innovation system has not formed, and imitation performance is very common among small companies.
3 Small industrial cluster is failing regarding low-cost advantages.
4 <u>In some cases, public administration made bad policies because of a wrong reading.</u>

Note. Adapted from “The Characteristics and Problems of SME Cluster of China”, by Li Ping, 2008, *International Seminar on Business and Information Management*, 394-396.

Another perspective developed by Li Ping (2008) is shown in the Table 11. The author explained the case of China, where first the SMEs have the disadvantage regarding the industrial upgrade. This means that the new technology add value that can be recognized for customers and the competence with this added take advantage increasing sales, but when the economy is based in low technique the positioning in the global market is getting a real problem. The second point mentioned is that still a problem the lack of collaboration regarding innovation between clusters and to take into account the intellectual property. Third, the cost advantage developed through the years by China is suffering the effects of the upgrade in the standards of living, that reduces the cheap labor force; and also, the pressure of the government for the environment awareness makes the SMEs to stake out new cost structure. Finally, Li Ping (2008) indicated that some local governments lack of planification

in order to attract investment, mainly through policies, which affect the economy development.

As has been shown in this section, the key problems (regarding marketing, lack of capital, and other disadvantages) have the same origin, which is the lack of planification at the beginning of operations of these SME. In that sense, one solution proposed by Amir et al. (2015) is about the reorder of the management oriented mainly in costs. They found a positive relationship among cost management practices and competitiveness. It is concluded for the authors that the correct adoption of cost management practices will help managers to improve and grow its business. This concept will be developed in depth in the following part.

3.2.3. Cost structure and concepts

The implementation of a proper costing strategy is essential in the economic success of any corporation. Buckingham and Loomba (2001) argued that a systematic process for managing costs is essential in helping target management's attention on "long-range, proactive cost-control goals" (p. 12). The use of an effective costing strategy can create both a financial and competitive advantage, while simultaneously eliminating the need for organizations to manage their costs on a predominately tactical foundation (Buckingham & Loomba, 2001). Additionally, benefits can include a more cohesive working environment, wherein employees feel a responsibility in maintaining the new costing system (Buckingham & Loomba, 2001). As such, the system should be simple to use so that all employees understand how it functions, even if a more complex system may lead to more detailed information (Pattinson et al., 1994). According to Luh (1968), an effective costing method can achieve three primary objectives: maintain current operational efficiency and detect deviations from it, expose any sign of imminent crisis, and reveal any likelihood of enhance the current operational efficiency. Spronck (1956) further specified four additional goals of a costing method which are to (a) serve as a guide in establishing selling prices, (b) improve

management control, (c) account for inventories and cost of sales to determine net income, and (d) assist in organizational planning. In selecting a suitable costing method, it is necessary to ensure that all seven of these intentions are met. The definition of different costs is shown in the Table 12.

Table 12

Cost Concepts

Type of cost	Definition
1 Direct cost	They can be identified quickly and easily with the cost object. Examples: raw materials, labor.
2 Indirect cost	They are hard to associate with the cost object or specific activity. Examples: Management salary.
3 Fixed cost	They always remain stable and is not affected by any variation as the total volume.
4 Variable cost	They vary depending on the level of activity or the total volume.
5 Manufacturing cost	They are generated during the manufacturing process.
6 Administrative cost	They are generated in the administrative area.

Note. Adapted from *Administración de costos, contabilidad y control*, by Hansen & Mowen, 2007, Mexico D.F., Mexico: Cengage Learning.

It is important to highlight, however, that not any costing structure will work for any organization. In certain instances, companies may even change their costing strategy depending on which stage of their lifecycle they are in (Jones & Hill, 1988). When properly matched with an appropriate costing strategy, an organization can “improve competitiveness in terms of costs, quality, and profitability” (Babad & Balachandran, 1993, p. 160). Should an improper costing strategy be selected, there is a possibility that an organization may incur additional costs as a result (Jones & Hill, 1988). Interestingly, it can be argued that, although they generally require simpler methods, costing strategies are more beneficial for small businesses because it is more difficult to maintain an adequate cash balance (Spronck, 1956).

Standard cost system. More frequently used, however, is the standard cost system (SCS). With this method, the goal is “to facilitate cost control through identification of situations and investigation of performance when actual cost deviates significantly from standard cost” (Luh, 1968, p. 123). When using standard costing methods, practices generally

assume that “the expected value of an efficient operation is stability and that any significant deviation of the mean of actual cost from the expected value indicates abnormality of operation requiring managerial attention” (Luh, 1968, p. 123). While this adheres to the notion that an effective costing strategy should indicate the potential for any upcoming issues, it is argued that the SCS fails to provide adequate data regarding any advanced information that may be necessary (Cheatham & Cheatham, 1996).

Scholars who continue to advocate for the advantages of SCS maintain that it is possible to update the strategy while still retaining the advantages of having superior control over the system. Cheatham and Cheatham (1996) argued for the adoption of benchmarking measures as a method of improvement. In this capacity, organizations look beyond their own internal processes to the performance and practices of industry leaders and competitors (Cheatham & Cheatham, 1996). This can provide an organization with important insights such as how their competitors are providing superior products at lower costs (Buckingham & Loomba, 2001). Similarly, companies can adopt the practice of using target costs, which essentially requires “setting a cost that is low enough to permit a selling price that is viable on the market” (Cheatham & Cheatham, 1996, p. 28). This creates a very low target cost and creates a goal for the organization to work towards. Finally, SCS can be updated to current trends by simply updating the responsibility of the managerial team regarding reporting costs. If this task is shared cooperatively between managers and employees alike, research shows that there will be more positive attitudes about reaching targets (Cheatham & Cheatham, 1996).

Absorption costing. Historically, the method of absorption costing (also known as traditional or full costing) has been used to calculate the overhead costs of an organization in the form of “direct labor time and machine time spent on manufacturing the product or service” (Buckingham & Loomba, 2001, p. 13). Essentially, this method assumes all variable

and fixed costs incurred during manufacturing as product costs. In this sense, the inventory costs then absorb the total overhead manufacturing costs (Herath & Lu, 2018). The argument in favour of this costing method is that “income is greater when production exceeds sales [rather than equals sales] because fixed facilities are better utilized and render benefits in the form of inventory that will bring future revenues” (Herath & Lu, 2018, p. 394). There are academics that refute the benefits of this costing system by presenting counterarguments. For example, Buckingham and Loomba (2001) proposed that in many of today’s markets, this form of costing can be perceived as being unable to adapt to changes in global demand, while Balakrishnan, Labro and Sivaramakrishnan (2012a) stated that this method is unable to address issues that arise with short-term planning when the organization has a shortage of capacity.

Variable costing. Variable costing, also referred to as ‘Direct costing’, is the “inventory costing method which applies only variable production costs to products” (Horngren & Sorter, 1961, p. 84). In this respect, the overhead costs associated with production are not assigned to the products (Horngren & Sorter, 1961). Thus, when calculating the total cost of sales and the contribution margin, only the variable costs are used, and fixed costs are excluded (Blocher, Stout & Cokins, 2010, p. 816). It is important to note that the primary difference between variable costing and absorption costing because the overhead costs are treated as a period cost rather than a product cost (Horngren & Sorter, 1961). Arguments in favour of the use of variable costing argue that it is a more accurate costing measurement because it is not affected by changes in inventory levels because “all fixed costs are deducted from income in the period in which they occur; fixed costs are not included in inventory so that inventory changes do not affect income” (Blocher et al., 2010, p. 818). Fremgen (1964) outlined additional arguments in favour of variable costing, which include its ability to “facilitate incremental profit analyses” (p. 44). Additionally, Gudzynski

(1951) argued that the “chief advantages are simplicity of operation, immediate comparison of achieved results with budgeted targets, and the provision of a first approximation to the effect of any change in conditions” (p. 68). In this capacity, it can be assumed that variable costing proves predominately beneficial when the variable costs incurred represent a significant portion of the total organizational costs. There are, however, academics who argue against the efficacy of variable costing. A reoccurring argument in costing literature suggests that the method is too simplified, which produces less comprehensive information.

Additionally, problems can occur with variable costing methods when determining which costs should be treated as fixed period expenses, and which of those are variable (Hepworth, 1954).

Among these two last definitions, there are a number of advantages and disadvantages that each of them brings. In this sense, the company has to choose which one is the most convenient and beneficial of its accounting management. The following scheme shows the main pros and cons of these two methods (see Table 13).

Table 13

Main Pros and Cons of Absorption Costing

	Variable Costing	Absorption Costing
Pro	Facilitates the comparison among products and their potential profitability.	No double work: This method is accepted for the financial and governmental institutions (tax office).
	The break-even point is more precise developing this method.	Useful for manufacturing companies that does not sell its production and sales are in different periods.
Cons	Since not all the costs are considered in this method, it is difficult to set prices for products	Comparing profits between product lines does not bring precise information.

Note. Adapted from “Absorption Costing vs. Variable Costing: What’s the differences?”, by J.B. Maverick, 2019 (Investopedia Stock Analysis).

Activity-based-costing. Alternatively, literature also suggests that activity-based-costing (ABC) is an updated method, that “seeks to discover the causal factor, known as the

cost driver, which determines the demand for a particular overhead resource, known as the activity” (Buckingham & Loomba, 2001, p. 12). ABC was first introduced by Kaplan and Cooper in 1988, as a means to assist organization’s in achieving more competitive costs through an increase in information (Ríos-Manríquez, Muñoz & Rodríguez-Vilariño, 2014). This method has proven to achieve increased accuracy than alternative methods since costs are estimated by using multiple cost drivers (Babad & Balachandran, 1993). Typically, examples of these drivers can include experience, complexity, quality, innovation, and volume (Buckingham & Loomba, 2001). It is important to note that the ABC can be more accurately defined as a cost accumulation system rather than method of controlling costs (Cheatham & Cheatham, 1996). Despite this, the most obvious benefit of this model is that it brings together members of an organization in order to work towards a common goal and provides essential information regarding the major drivers of an organization’s incurred costs (Buckingham & Loomba, 2001).

Table 14

ABC Costing System: Advantages and Disadvantages

Advantages	Disadvantages
1 More accurate estimation about the total cost of a product.	Historical information about costs is needed.
2 It recognizes the relationship between the cost driver and the activities.	It takes time to determine and work with cost drivers.
3 Its implementation can help to build a new culture of efficiency inside the organization.	It takes hard for small companies because they do not have all the control in their costs.

Note. Adapted from *Administración de costos, contabilidad y control*, by Hansen & Mowen, 2007, Mexico D.F., Mexico: Cengage Learning.

The apparent success of ABC, however, is not as pertinent in reality as it is theoretically. Specifically, this notion holds true in relation to small enterprises that have fewer resources. Additional reasons that may explain problems associated with this costing method may include problems associated with rising indirect costs, the method not adhering to existing organizational operations, and compatibility problems with administrative control

(Ríos-Manríquez et al., 2014). Further reasons why this method may not be ideally suited for include the fact that substantially more data is required in order to implement this method rather than a traditional costing system, and the financial burden may not outweigh the associated benefits (Balakrishnan et al., 2012b). Advantages and disadvantages of the ABC costing system are shown in the Table 14.

In a means to achieve the most effective costing method possible, Cheatham and Cheatham (1996) proposed combining elements from both SCS and ABC. In this respect, there are various combinations that can be drawn from each of the methods:

- For indirect costs use the ABC method and for direct costs keep the SCS updated.
- Use the SCS method for financial records and the ABC to analyze indirect costs outside the records system.

With the use of either of these strategies, companies will be able to benefit significantly from the level of control retained from using SCS in conjunction to the more thorough overhead analysis provided from an ABC method.

Finally, Peru has clear policies regarding the declaration of taxes. Here, the National Superintendence of Tax Administration (SUNAT) is responsible for setting the policies that formal companies must consider managing tax returns. The Income Tax Law (SUNAT, 2004) mentions that "tax debtors may carry a Standard Cost System that adapts to their remit, but when formulating any balance for purposes of the tax, they must necessarily assess their inventories at the real cost" (p. 30). As it can be seen, the national regulation forces all formal companies to submit their tax returns based on standard costing (absorption and direct costing).

Budgeting practice. Fleming (1995) described budgeting as an alternative for managers to have time to develop future strategies, instead of dealing with daily issues. Horngren, Rajan and Datar (2012) describe it as an action plan that helps to prepare future

financial statements. It is appropriate to indicate that the development of a budget needs to be coordinated throughout the company. Since the strategy is part of the managerial role (D'Alessio, 2008), this element works as a tool to measure the progress of the yearly planification. Any disruption can be easily detected, and the remediation process involves feedback from multiple areas of the organization. Fleming (1995) provided some recommendations for the success of a company budget, such as: (a) make it the easiest possible, (b) accurate, and (c) keeping timely reports.

The implementation of the budget requires the study of macro- conditions, which is why it is very close related to the long- and short-term SWOT analysis. Furthermore, budgets in large firms are prepared by managers and sub-managers inside the company. Since Confecciones Julieta is a small organization, this implementation must be made by the commercial manager in charge. According to Horngren et al. (2012) there are nine steps to follow in order to build a budget. The explanation of each of these steps has been adapted in consideration of the current situation of the firm being analyzed.

- Step 1: Prepare the revenues budget.
- Step 2: Production budget in units.
- Step 3: Prepare the budget for direct materials usage and purchase (separately).
- Step 4: Direct manufacturing labor costs budget.
- Step 5: Manufacturing overhead costs budget (indirect).
- Step 6: Prepare the ending inventory and ending inventory budget.
- Step 7: Prepare the budget for the cost of goods sold.
- Step 8: Prepare the non-manufacturing costs budget.
- Step 9: Prepare the budgeted income statement.

3.2.4. Small Peruvian enterprises

After the evaluation of the global entrepreneurship framework, the situation of the SMEs in Latin America and Peru is very different when it is compared against the European Union. Dini and Stumpo (2018) suggested that these divergences is because they have different production systems. In Europe, small companies are articulated with each other in networks, they are usually suppliers of big companies, and they produce specific goods in order to avoid the competition with large enterprises (Dini & Stumpo, 2018). However, in Latin America there is another story. Here, the majority of small companies are working in standardized production areas with low intensity of knowledge and they try to compete directly with big companies (Dini & Stumpo, 2018). This is shown in Figure 22.

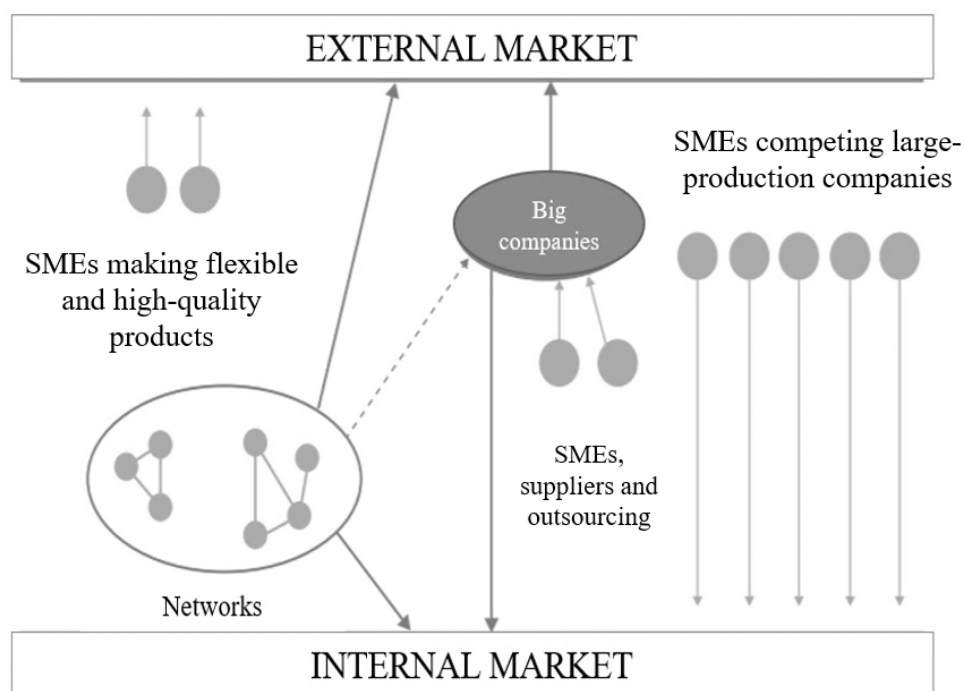


Figure 22. System production for SMEs in Latin America. Adapted from *MSEs in Latin America Fragile performance and new challenges for development policies*, by Dini & Stumpo, 2018, Santiago de Chile, Chile: Naciones Unidas Ediciones.

As a consequence of this macro-economic performance, the participation from the SMEs to the regional gross domestic product (GDP) is only 25%, where in Europe this number in average is approximately 56% (Dini & Stumpo, 2018). A similar story happens

here in Peru. The SMEs has always been a fundamental part for the economy. This is due to the high number of these companies and their participation within the economically active population (Villarán, 2000). However, their participation to the Peruvian GDP is just about 23% (Ministerio de la Producción, 2016).

Because of the small size, in most of the SMEs the owner of the company is the one who assumes the responsibility of all the operations of the company. In other words, the owner is the person in charge to: (a) Set the goals and purposes of the company, (b) Lead the projected work, (c) Promote employees to do their jobs, and (d) Get the resources in order to invest in the company (Avolio, Mesones & Roca, 2011). According to Villarán (2010) and Herrera (2011), the SMEs has the potential to become successful businesses, since they have the perception of the needs of the clients, allowing them to be focused on a smaller market, and a better flexibility due to their small size. These factors influence them to identify and take advantage of opportunities, as well as creativity and personal skills that allow them to design business solutions according to the availability of resources (Avolio, Mesones & Roca, 2011). Following the description from the global entrepreneurship framework, Ferraro and Stumpo (2010) had established a classification for the SMEs in three groups: accumulation, subsistence, and new ventures.

Table 15

Characteristics of the SMEs

	Accumulation SMEs	Subsistence SMEs	New Ventures SMEs
1	Capacity to generate profits	No capacity to generate profits	Capacity to generate profits
2	Business of less than 10 people	Single or family businesses	They aim to be more competitive
3	They invest in company growth	They generate loss of their capital	They point towards innovation and creativity
4	Ability to raise productivity	Low productivity	Ability to obtain productivity
5	Generation of paid employment	Not minimum standards of labor rights	Interest in working in the field of formality

Note. Adapted from *Policies to support SMEs in Latin America*, by Ferraro & Stumpo, 2010, Santiago de Chile, Chile: CEPAL Ediciones.

In Table 15, the characteristics of each group are described. It is clear that Subsistence SME is the group which is facing many real challenges. According to Yamakawa et al. (2010), less than 20% of the Peruvian SMEs are considered in the accumulation sector, while almost 70% of them are located in the subsistence group. When analyzing the growth limiting factors of the SMEs, Avolio, Mesones and Roca (2011) suggested to split the factors into 4 groups: strategic, operational, external and personal. Each of these groups directly affects the operations of the small business and causes low productivity, low income and a high failure rate of the company (see Table 16).

Table 16

Growth Limiting Factor for the Peruvian SMEs

	Strategic	Operational	External	Internal
1	No experience to manage the company	Basic knowledge of production and inventories	High rate of informality	Motivation just by necessity urgent
2	No mission, vision and long-term objectives	Only keep record of income and expenses.	High competition that adopt the same management approach	Limitation by the lack of education
3	They do not carry out an analysis of the industry	they do not seek to improve productivity	Bureaucratic system by public institutions	Entrepreneurs do not seek to expand their knowledge
4	Limitation for financial access	Not training within the employees	Price war to obtain greater market share	

Note. Adapted from *Factors that limit the growth of Micro and Small Enterprises in Peru MSEs*, by Avolio, Mesones & Roca, 2011, Lima, Peru: Revistas PUCP.

To explain the limiting factors, Yamakawa et al. (2010) used a different approach, but in general the two authors share the same challenges for the Peruvian SMEs (see Figure 23). In one of his interviews, Alfonso Velasquez, President of one of the most relevant business associations in Lima, argued that SMEs failure is because they do not have the enough management skills, there is a lack of market vision, costing system, and competitiveness. All these factors represent huge limitations for the growth of the SMEs. Therefore, the failure rate of small businesses is very high, reaching an exit index of approximately 90% after the first year of operation (Diario Gestion, 2017).

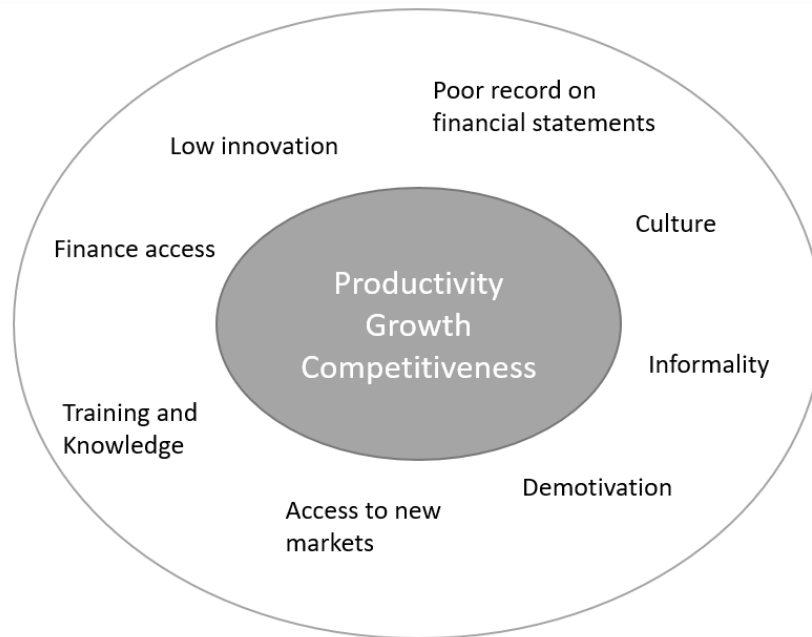


Figure 23. Challenges for SMEs.

Retrieved from *Technological model of integration of services for the Peruvian SMEs*, by Yamakawa et al., 2010. Lima, Peru: ESAN.

3.2.5. Consulting theory

Peter Block defines the concept of consultation as any action a person who does not belong an organization recommend solving issues (Block, 1981). He outlined three specific skills that are required in order to be an effective consultant:

- Technical skills; having expertise about the topic in question.
- Interpersonal skills; the ability to communicate ideas, listen to ideas, provide support, disagree respectfully, and maintain a relationship with a client.
- Consulting skills; the ability to move through the following five phases of consultation successfully.

While Block maintains that these skills need to be used in tandem to a specific consulting method, many experts believe that successful consulting occurs based solely on the “personal skills and experiences, rather than the method” (Werr, Stjernberg, & Docherty, 1997, p. 288). According to Kubr and International Labour Office (2002), the consulting process include the following five phases:

Table 17

Phases of the Consulting Management

Steps	Description
1 Entry and contracting	To explore the potential problem, understand the client's expectations, explain your own expectations as consultants, and to explain the next steps in beginning the consulting.
2 Discovery and dialogue	To establish with their own sense of both the problem and the strengths of the client. Additional topics to explore will be who will be involved in the project, the kind of data that will need to be collected, and the duration of the project.
3 Analysis and decision act	Consultants need to reduce large amounts of data, determine how to get close with the client in the data analysis, and fully examine and understand the data before determining how to proceed with the decision-making process.
4 Engagement and implementation	The goal for this stage is to have actions with enough impact that change, or learning, will inevitably occur.
5 Extension, recycle, or termination	A decision will be made on whether or not to extend the process to a larger segment of the organization. Alternatively, this process may be repeated to form discussions of a new contract for a different problem.

Note. Adapted from *Management consulting: A guide to the profession*, by Kubr & International Labour Office, 2002, Geneva, Switzerland: International Labour Office.

While these phases are important in achieving success during a consulting project, Block (1981) outlined that tangible information must be specified to overcome the assumptions of the consultant. Valid data “eliminates major causes of confusion, uncertainty, and inefficiency in problem solving” (Block, 1981, p. 20). It is equally important to ensure that all parties involved in the project have the ability to make decisions freely. This will further motivate individuals to attempt to implement the project and will ensure feelings of dedication to the project from all parties (Block, 1981). An excellent communication between consultants and the company became important from the beginning of the consulting process (Ness & Greiner, 1985). The following Figure shows the time involved during different levels of change inside organization that consultants have to considerate when they are managing projects (Kubr & International Labour Office, 2002).

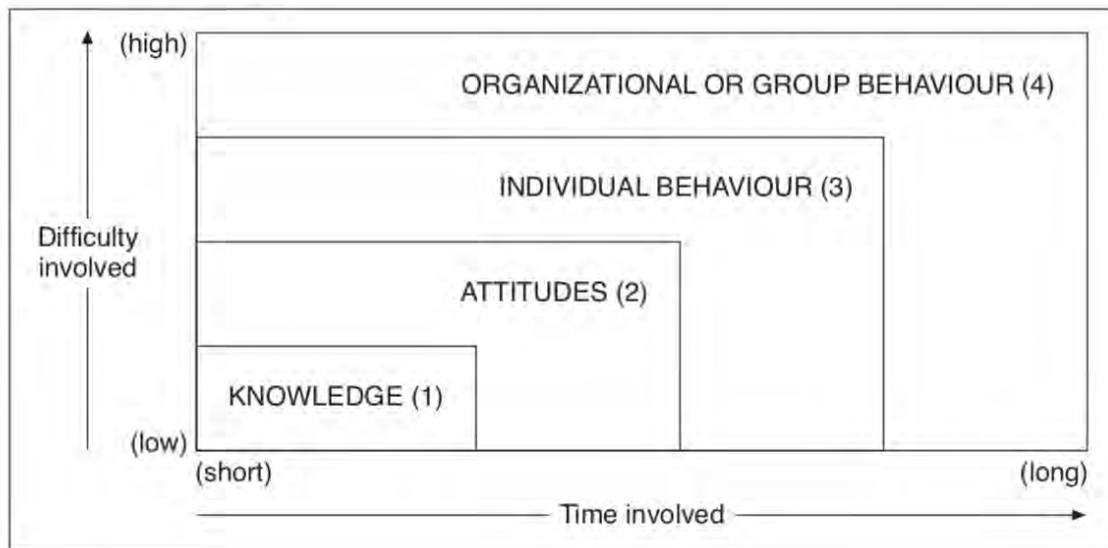


Figure 24. Time involved for changes.

Retrieved from *Management of organizational behavior: utilizing human resources*, by Hersey & Blanchard, 1977, Englewood Cliffs, N.J: Prentice-Hall.

An alternative method of managerial consulting, called “core process redesign” (CPR) coined by McKinsey, adheres to a step-by-step process of only four phases; (a) prepare the programme, (b) launch wave of microcosms, (c) launch additional waves, and (d) move into continuous improvement (Werr et al., 1997, p .291). This methodology is distinctly different than that proposed by Block as it focuses on hypothesis-driven problem solving. In this strategy, a solution is formulated prior to data collection and is then proven to be right or wrong (Werr et al., 1997). Nees and Greiner (1985), however, maintained that this method could be attributed to a specific type of consultant. Table 18 demonstrates the differentiation between five various approaches to management consulting methods, based on individual tactics. These are categorized by “the kind of people who are hired as consultants, the values they bring to their clients, and the manner in which they carry out their assignments” (Nees & Greiner, 1985, p.71). In this context, the ‘Management Physician’ would conform to McKinsey’s CPR method, as they tend to make broad diagnoses before the overarching problem is defined (Nees & Greiner, 1985, p. 74).

Table 18

Approach for Consulting Management

	Approach	Mental adventurer	Strategic navigator	Management physician	System architect	Friendly co-pilot
1	Knowledge base	Science	Economics	General management	Technology	Business experience
2	Role orientation	Researcher	Planner	Diagnostician	Designer	Advisor
3	Approach to project	Statistical	Modeling key variables	Problem identification	Implementations of solutions	Sounding board for CEO
4	Focus on recommended actions	Creative answers	Future goals	Organization and leadership	Administrative procedures	Needs of CEO
5	Expected outcomes for client	More knowledgeable decisions	More profitable market niche	Improved organizational effectiveness	Greater efficiency	Better CEO judgement

Note. Adapted from “Seeing Behind the Look-Alike Management Consultants”, by Ness & Greiner, 1985, *Organizational Dynamics*, 13(1), 68-79.

Despite the managerial consulting method that is used, the role of the consultant can be perceived as being a three-fold process: (a) Establish a cooperative association, (b) Solve issues so they stay solved, and (c) Encourage awareness is given to both the technical, business problem and the relationships (Block, 1981). Werr et al. (1997) emphasized the importance of an integrative relationship by stating that “the clients’ active role in the change process is the vehicle for the transfer of competence (both knowledge and skills) from consultant to client” (p. 298). Furthermore, Nees and Greiner (1985) agreed that “misdiagnoses of company problems are less likely to occur if there is a better match between client and consultant” (p. 69). Although small companies face various challenges in their operations, such as lack of financing and adequate human capital, Bruhn, Karlan, and Schoar (2018) demanded that all the previous challenges are just consequences of the lack of capital management. As a consequence of that, several SMEs have started to ask assistance to consultancy firms. However, there is no clarification within the scholars about the right consultant’s role regarding small companies. For example, Bradshaw, Cragg and Pulakanam

(2013) argued that consultants assumed the role of “mediator” in these types of business. Consultants are expecting to identify the real problems inside SMEs and to propose and communicate potential solutions. The responsibility for the final decision making is for the owner (Bradshaw, Cragg & Pulakanam, 2013). On the other hand, Bruque and Moyano (2007) claimed the most relevant insight from consultants to SMEs is training and knowledge. In other words, consultants must ensure that the owners and responsible for decision making comprehend and use the innovative management skills (Bruque & Moyano, 2007). Finally, Scupola (2008) build a framework where he explained consultants can influence three factors for the small companies: a) vision, playing a role to achieve the SME’s strategy, b) value, to enforce the competitive advantages, and c) control, establishing ways to monitor the daily operations.

3.3. Conclusions

The SMEs enterprises are important for the economic environment. They are almost more than 94% of the total companies in Peru and they employ more than 60% of the workers. However, it is clear they are facing several issues in their operations. The lack of strategy, planning, and management capital can be the drivers of the high rate of failure. One of the explanations why small companies do not considerate a management is because the majority of the SMEs were made by a necessity-based. Several of these small companies are working in standardized production areas with low intensity of knowledge and they try to compete directly with big companies. The typical problems in this type of companies are lacking cost control, no quality assurance, lack of training and not interest for innovative process. As a result, their participation in the GDP is less than 22%.

SMEs are exposed to external factors regarding the government policies and support, social changes, and in addition, the internal incapacity to develop appropriate strategies.

What is clear is that these strategies like the marketing ones, will not fit without an efficient

cost management. In that sense, the importance of this cost methodology implementation means a solid base for the future success of the SMEs, which become more capable to deal with uncertainty, than others without this.



Chapter IV: Qualitative/Quantitative Analysis

This chapter is about a deeply analysis of various cost structures in an effort to determine the best alternative for Confecciones Julieta. These structures will help to understand the most suitable framework for the organization, and will assist in more comprehensive decision-making on topics such as product price, marketing campaigns, discounts, etc. This chapter will be split in two parts. The qualitative analysis will be based on a meeting held with the owner and will evaluate the actual cost processes of the organization. The quantitative analysis will review the differences between the simple, absorption, and ABC costing structures, and will further review the varying impacts of these methodologies on financial statements.

4.1. Qualitative Analysis

On July 23, the consulting team held a meeting with the CEO and owner of the company, Susana Matos. The discussion focused on understanding the current cost processes and on obtaining feedback regarding the potential proposals. In order to present an overview of the current processes, as understood from the meeting, a maturity model will be used to identify strengths, weaknesses, and areas where the organization needs improvement. Additionally, an in-situ observation of the current process was helpful to make the qualitative analysis.

4.1.1. Maturity model

Hammer (2007) presented the Process and Enterprise Maturity Model (PEMM) as a way to assess the separate stages of a firm's operations and processes. This framework takes into consideration five factors that are prevalent in all organizations: a) design, b) performers, c) owner, d) infrastructure, and e) metrics. According to Perez and Rodriguez (2014), this framework is most applicable in measuring maturity in SMEs. Some of the advantages of this proposed model include the measurement of the maturity of processes on four levels (initial,

managed, defined, and optimizing), a wide field of application, a friendly structure, and ease of use (meaning it does not require expert personnel) (Perez and Rodriguez, 2014). Table 19 shows the description of each factor of this framework.

Table 19

Maturity Model

Factors	Description
1 Design	This factor looks for answer how the process is well designed from the beginning to the end. It covers all the inputs and outputs from the process.
2 Performers	This factor is about the person who execute the activities regarding the process have the competences and knowledge to manage and to do the work in a well way.
3 Owner	This factor watches for the authority and responsibility of the process. In other words, who is in charge from the success of the process.
4 Infrastructure	This factor is about information systems and human resources regarding the process.
5 Metrics	This factor looks for a measurement of the process.

Note. Adapted from “The Process Audit”, by Hammer, 2007, *Harvard Business Review*, 85(92), 1-17.

After evaluating the organization’s current costing processes, Table 20 shows the results. In general, the company has an initial level regarding this process and the weaknesses will have to be considered in order to develop the best solution. The owner Susana Matos agrees with the results of this evaluation.

Table 20

Maturity Analysis for Costing Process

Factors	Level	Description
1 Design	Initial	The process is not documented, there are no associated policies, procedures and standards that govern it.
2 Performers	Initial	The staff knows the process. There are no training records.
3 Owner	Initial	The authority and responsibility for the management of the process are defined only for some levels or the functions are not specific and complete. There is no separation of functions and they are not documented.
4 Infrastructure	Initial	There is no an infrastructure to manage all the records.
5 Metrics	Initial	No measurement is made in the organization. It works empirically.

Note. Adapted from “The Process Audit”, by Hammer, 2007, *Harvard Business Review*, 85(92), 1-17.

4.2. Quantitative Analysis

To develop this section, the data delivered by the owner will be used to define several aspects such as workers salary, raw materials cost, and rent. It is important to know the most significant or relevant costs for Confecciones Julieta in order to define the best proposal in the following chapters. After analyzing the data, it is clear that the investment in raw materials represents almost 30% of the organization's most important costs. Additionally, salaries (production, administrative, and sales staff) represents on average 24% of the total costs. Finally, the organization does not pay rent because the CEO owns all of the properties used by the firm, however when considering similar stores surrounding CJ's location in Gamarra, rent is an estimated two thousand soles (see Table 21).

Table 21

Income Statement for CJ 2018

	Months											
	1	2	3	4	5	6	7	8	9	10	11	12
Revenues	13,155	9,278	9,323	9,009	16,494	15,122	30,734	20,956	13,300	13,243	13,366	17,104
Workforce salary	5,400	5,400	5,400	5,400	5,400	5,400	5,400	5,400	5,400	5,400	5,400	5,400
Raw materials	3,946	2,783	2,796	2,702	4,948	4,536	9,220	6,287	3,990	3,972	4,009	5,131
Place renting	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Marketing	100	100	100	100	100	100	100	100	100	100	100	100
Utilities cost	250	250	250	250	250	250	250	250	250	250	250	250
Total cost	11,696	10,533	10,546	10,452	12,698	12,286	16,970	14,037	11,740	11,722	11,759	12,881
Pre-tax earnings	1,459	-1,254	-1,233	-1,443	3,796	2,836	13,764	6,919	1,560	1,520	1,606	4,222

Note. Adapted from *Confecciones Julieta Sales control 2015 & 2016*, by Confecciones Julieta, 2019, Lima, Peru: Author.

Upon analyzing Table 21, it is apparent that the company is facing several issues. There are some periods (from February to April) where the cashflow is negative and the company does not have enough liquidity to manage the daily operations. The marketing and utilities (electricity, water, etc.) expenses are not representative. This income statement was built with basic data because Confecciones Julieta currently uses a simple structure costing (expenses and revenues). It is clear that there is no differentiation between costs and expenses, since the costs incorporates all cash payments involved in the execution period of

the production and sales. Confecciones Julieta does not use the right application of the accountability theory that refers to recognizing as an expense within the period in which they are incurred, regardless of whether it was paid or collected. These costs are considered as being the most important of those acquired during the production process; nevertheless, in the development of the consulting report it became clear that there are more relevant costs within the process. In order to gain a deeper understanding, a different costing structure will be analyzed.

4.2.1. Absorbing costing structure

As mentioned in the literature review section, this cost management is also considered as 'full costing'. This method takes into consideration the direct materials, direct labour, and variables as fixed costs in order to allocate all manufacturing costs to each product unit. Using this model, inventories including finished product units will be incorporated into the income statement. These figures only appear in the financial statement after the units are sold. With this type of structure, Confecciones Julieta will be able to determine their gross margin, operating income, and net income (see Figure 23).

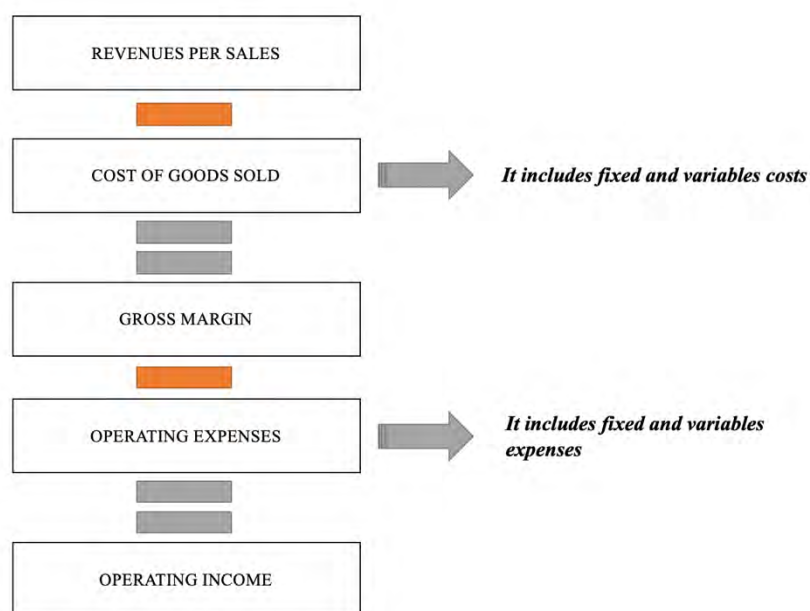


Figure 25. Absorbing costing structure.

Adapted from *Administración de costos, contabilidad y control*, by Hansen & Mowen, 2007. Mexico D.F., Mexico: CENGAGE.

4.2.1. Variable costing structure

In the variable costing structure, the variables are first subtracted from the period revenue in order to obtain a contribution margin. Next, the fixed expenses are reduced from the gross contribution margin in order to obtain the net operating income (see Figure 26). This model provides some advantages in determining the financial break-even point of the organization.

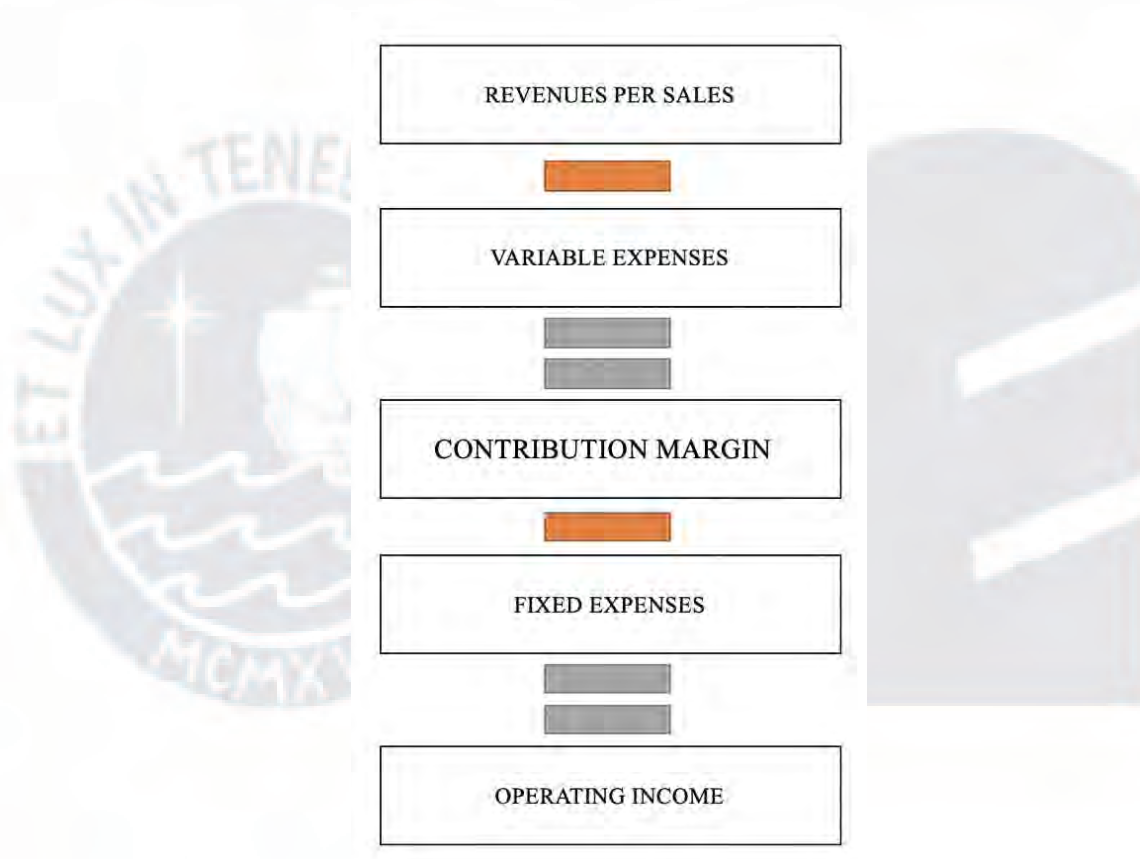


Figure 26. Variable costing structure.

Adapted from *Administración de costos, contabilidad y control*, by Hansen & Mowen, 2007. Mexico D.F., Mexico: CENGAGE.

4.3. Conclusions

The models and frameworks reviewed in this chapter were considered following meetings with various Centrum scholars. Professor Eduardo Villa, who teaches the budgeting and cost course, recommended the use of the 'Hammer Model' in order to correctly identify the current stage of the organization. He emphasized that this is the first step in creating a

process improvement. Professor Gloria Zambrano, who teaches the accountability course, added that a common issue for SMEs is that they do not consider differences between costs and expenses. She agreed with the evaluation of several costing structures in order to identify which one would best fit the small company.

Following both a qualitative and quantitative analysis, it is clear that the company is facing several issues regarding their costing processes. The qualitative analysis, which uses the Hammer framework, demonstrates that the company is in the initial stage of their costing process. This means that the costing process has failed because it has not been conceived on a beginning-to-end basis, and that there is not a designated individual available to manage the activity. Additionally, there is no way to measure the index in order to determine if the company performs better over a period of time. The quantitative analysis displays that the company has no means to identify and control their costs and expenses during their spending periods. Consequentially, there is a mistake regarding the gross contribution margin. As it was explained in Chapter III, the right cost determination is relevant for the business because if it is misallocated, the business strategy of Confecciones Julieta will be compromised (like overprice or underprice a product).

Chapter V: Root-Cause Analysis of the Problem

This chapter is meant to identify the root-causes of the key problem that was previously stressed in Chapter II. Having identified the causes and ranked those of the highest importance, it will be necessary to propose a solution that encompasses them all. The importance of this chapter is to create an analysis that will cover every department of the company. This analysis will be complemented by the external environment but will specifically emphasize the internal one since this is where the key problem lies.

5.1. Identified Causes

In Chapter II, the problems plaguing Confecciones Julieta were found. Currently, and as mentioned in Chapter IV, the company is facing difficulties in terms of sales. The sales growth index from the last two years revealed that the rate will not increase to the extent that the company desires. Following the consulting process that sought to find the real problem of the firm, the common factor found was the lack of a suitable system for cost management. In Section 5.2 of this chapter, the causes of this non-existent cost management system will be discussed with the purpose of finding the key drivers of the current situation. Having already found the causes, the last part of this section evaluates and ranks of each cause in order to establish the most influential one, which will be the key element in solving the future proposal. The following list shows a summary of the causes found in the analysis:

- Inadequate sales tracking.
- The task of daily paperwork.
- No defined positions within the company, specifically within accounting.
- Too few employees.
- Undeveloped performance indicators.
- No associated budget.
- No cost structure required from the Governmental Tax Office.

- Similar occurrences throughout Gamarra.

5.2. Main Causes of the Problem

A Cause-Effect Diagram (as found in Chapter 2), adapted from Ishikawa (1985) model, was made in order to identify the common factors regarding the stagnant growth in sales. In this sense, the lack of cost management is the key problem of the organization. This section will discuss the main causes of the issue. The Cause-Effect Diagram will be developed again in order to identify, from the most relevant categories, the main causes of this specific problem.

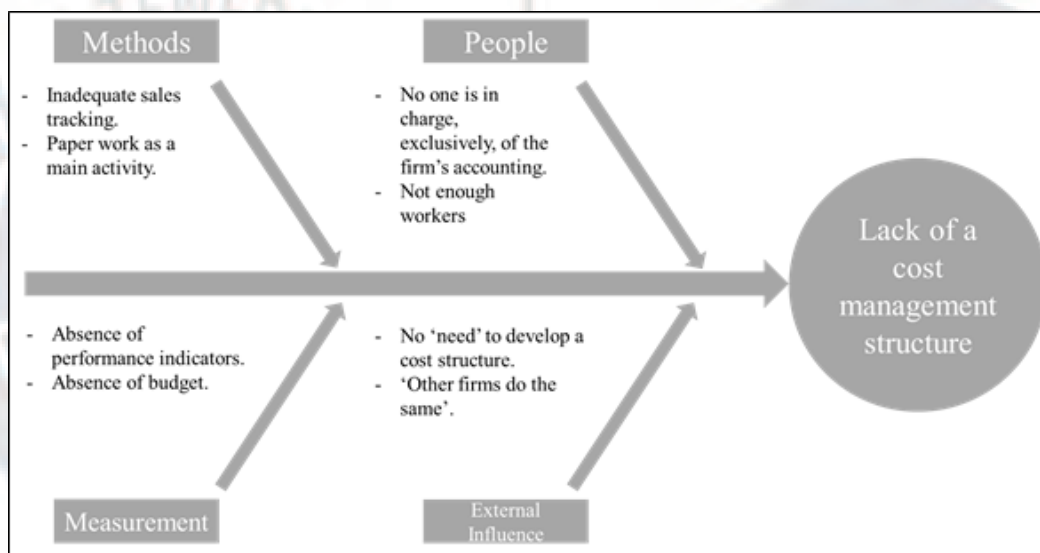


Figure 27. Root-cause diagram.

Adapted from *What is Total Quality Control? The Japanese Way*, by K. Ishikawa, 1985, Englewood Cliffs, NJ: Prentice-Hall.

The Cause-Effect Diagram has six categories, however for the purpose of this analysis, only four will be used. The material and machine categories will be considered as part of the methods, since there has been no problem associated with the product's quality or production levels. As was mentioned in the external analysis outlined in Chapter 1, the environment is not a category that currently determines the fate of the firm, which is why it has not been taken into account for this analysis. Since this small firm is greatly influenced by the competitive environment but will not use the drivers of 'machine', 'materials', and

'environment', they have instead been included in the "External Influence" category as part of the root-cause analysis for the lack of cost management. Figure 27 shows the diagram mentioned.

5.2.1. Methods

Inadequate sales tracking. The company does not have an appropriate sales record. Customers pay in cash and every transaction is manually recorded in a notebook. At the end of each day, the balance is reviewed. This balance includes the total daily sales, costs, and expenses. The latter two could include the material purchases, etc. The balance is then used as a working capital for the next day. Sometimes, depending on the bargaining price of the customer, the price can vary between S/.2 and S/.5. This also depends on the previous amount sold that day. These changes and conditions cannot be tracked since there are no charts or integrated information available.

The task of daily paperwork. The information registered manually is not transferred to any digital version, which makes it increasingly difficult to make a future analysis of the data. Furthermore, the data is inaccurate because mistakes can occur during the writing process. The notebooks and receipts are the only evidence that the company has, which means that there is no additional information security or future available data.

5.2.2. People

No defined positions within the company, specifically within accounting. The commercial manager oversees all the activities, which does not allow her to focus on a specific topic. Consequently, the tasks and future projects concerning accounting, marketing, and production cannot be well developed because often the sales are the most important activity in the company.

Too few employees. As aforementioned, the company lacks employees which makes it more difficult to develop new strategies and to achieve their desired objectives. Since the

financial results are not where they should be, the company does not want to invest in having personalized employees for every position.

5.2.3. Measurement

Undeveloped performance indicators. This data is closely related to the information outlined in Section 5.2.1. Since there are not any sales or costing tracking, there is no opportunity to develop indicators regarding the financial performance, production efficiency, etc.

No associated budget. Up until this moment, the company has not been managing a budget. The implementation of this financial practice has not been achieved because there is not enough know-how on which steps will be needed, and the investment of hiring an expert in the topic would be too expensive.

- Lack of know-how.
- Lack of investment (time and money).

5.2.4. External Influence

No cost structure required from the Government Tax Office. The government institution in charge of collecting taxes from Peruvian companies does not require specific information about the budget of financial performance. The only items required are the monthly sales and costs of the organization. This is one reason why small firms do not implement advanced methodologies in order to correct the internal situation.

Similar occurrences throughout Gamarra. Since most of the small firms do not implement any costing methodologies, this behavior is common practice and it is perceived as though anything more is unnecessary. Any cost management practice is considered to be differentiation in the industry.

With the descriptions of the aforementioned causes, the next step in this analysis is the evaluation of each one in order to understand which are the most influential, and how to

proceed with the next steps. The tool used is the Failure Mode and Effects Analysis (FMEA) matrix. The company's problems are listed with their respective causes. Afterwards, every driver is evaluated in terms of severity or significance of the impacts, probability of the occurrence, and detection of the issues (Hrbackova, 2016). The first one measures the impact of the cause where the grade of 1 is for the lowest severity and 4 is for the highest.

Occurrence measures how frequently an action happens, where 1 is uncommon and 4 is very often. Finally, detection concerns the current controls to identify this situation where 1 means that it is easy to detect and 4 means difficult. These three factors are multiplied, and the results will outline where the attention should be focused. According to Hrbackova (2016), this method works on the identification, analysis and evaluation of risks, and the definition of the potential failure and its main cause. The scope of this research should not focus on obtaining an international certification within the medium term, but on establishing an adequate solution of the causes, which will prepare the company to obtain future objectives.

Table 22 shows the FMEA matrix for Confecciones Julieta.

Table 22

FMEA Matrix for Confecciones Julieta in Cost Management Process

Potential Failure	Cause	Severity	Occurrence	Detection	Total
It is not possible to evaluate the performance of the company, not no know the current financial situation and predict future scenarios.	- Inadequate sales tracking.	3	4	4	48
	The paperwork still being one of the everyday tasks in the firm.	2	4	4	32
	- No defined positions within the company, especially in accounting.	3	3	3	27
	- Reduced number of employees.	3	2	3	18
	- Performance indicators have not been developed.	2	4	3	24
	- No associated budget.	3	4	3	36
	- The government taxes office does not require a cost structure.	1	3	1	3
	It is a common situation in Gamarra.	1	3	2	6

Note. Adapted from "Risk-based thinking in the Production Process Using the Methods of Quality Assurance Matrix and the FMEA Process," by L. Hrbackova, 2016, *Journal of Systems Integration* (1804-2724), 7(1), p. 21–28.

After the results are obtained, the main causes for this problem are: (a) inadequate sales tracking, (b) no associated budget, and c) the task of daily paperwork. Extending further into the purview of this analysis, the severity evaluation reveals the impact of the findings. The absence of sales tracking is a daily occurrence since the outlet is open seven days a week. This is associated with the second highest relevant cause, the paperwork. The lack of digitalization in the processes can be determined as a sub-cause of the first one.

5.3. Conclusions

Every cause identified is related; some of them are sub-causes of each other while others are a result of the absence of a costing structure. For instance, the current paperwork processes and the inability to control sales are as a result of the lack of human resources. This need for human capital can be achieved through an investment driven by an increase in sales. From this, it is apparent that the company should divert their immediate attention to: a) creating an appropriate method to track and evaluate sales, b) establishing an initial budget as a starting point to overcoming their financial disarray, and (c) implement a paperwork process. The latter most of these will be considered as a complementary solution to the former two.

Chapter VI: Assessed Solution Alternatives

This chapter will assess potential solutions for Confecciones Julieta to solve the problem identified in previous chapters. These alternatives will be evaluated by variables in order to define the appropriate next step for the company. The following three alternatives will be explained using their associated advantages for the organization.

Prior to assessing the alternative options, there are necessary steps that Confecciones Julieta should follow. Despite exhausting the results from the implementation process, some theoretical concepts should be used in order to have a better understanding of the situation. This research does not want to consider digitalization as the key solution but takes it into consideration throughout each step that is proposed. First, chosen alternative will be accompanied by a spreadsheet that uses a “fill in the blanks” method. The company has not yet made more data available, however additional data is being prepared. This is considered as a step in the implementation process (Chapter 7). With this, the company will be able to determine the key (and basic) financial rates as follows.

Table 23

Breakeven Point and Contribution Marginal Method Proposed

		Quantity of sold good (Q)		
		0	500	1,000
Selling price per unit (SP)	35	0	17,500	35,000
Variable cost per unit (VCU)	20	0	10,000	20,000
Contribution margin per unit (CMU)	15	0	7,500	15,000
Fixed cost	10,000	10,000	10,000	10,000
Total cost		10,000	20,000	30,000
Operating income		-10,000	-2,500	5,000

Note. Note: This table works as an example on how Confecciones Julieta should start managing their cost before any use of the alternatives that will be given.

Table 23 shows a simple operating income of the firm and considers the number of garments sold within a specific period of time (monthly, in this instance). This serves as a basic example for how Confecciones Julieta should begin managing their costs, regardless of

the upcoming alternatives that will be given. New terminology such as ‘Contribution Margin per Unit (CMU)’ is used to identify the corporate incomes in comparison to the amount of sales. In this instance, CJ will receive S/15 for every garment sold. The objective here is to achieve the largest possible number in order to minimize the fixed costs. The fixed cost divided by the CMU will determine the breakeven point. This is the minimum number of garments that the company can produce and sell in order to survive. Anything below this quantity will create a negative operating income for CJ. For the given example, the breakeven point is 666 units per month. Likewise, the budgeting practice is not going to be considered as an alternative solution since it serves as a complement of any costing system. The implementation of this practice will be recommended as a future step to develop.

6.1. Alternatives to Solve the Problem

6.1.1. Standard costing system

As it was mentioned in the literature review, the standard costing system (SCS) allows to identify and know which the costs and expenses are that the company has. For the case of Confecciones Julieta, it was revealed in Chapter II and Chapter V that the lack of information was a constant issue for every process, mainly in the cost management. The SCS will allow the firm to recognize which the fix and variable cost are, differentiate between direct and indirect manufacturing costs and finally get an operating income for every product made. This method must be considered as a first step of future implementations and developments in the accounting and financial structure of the organization. The purpose of this technique is not building an income statement but start a habit that helps to order the internal processes and identify improvement opportunities.

6.1.2. Absorption costing structure

As explained in previous chapters, this model is more accessible for the company. This structure will be able to deliver more precise information about the gross margin

contribution and operating income in order to make business decisions. Confecciones Julieta will get a simple, clear, and realistic methodology so that the owner can handle the costs. Further, the company will develop a tool that will lay the foundation for correct pricing based on the cost of the products. To achieve this, several steps must be considered: (a) describe the new process of costing for the company (inputs – resources – outputs); (b) training the workforce about costing concepts as fixed and variable cost; (c) definition of responsibilities about the new costing process; (d) establishment of written procedures to ensure that the method is standardized; (e) changing the current system using an excel sheet to input the data and to control the costs; and (f) evaluate the success of implementation.

6.1.3. ABC costing structure implementation

As reviewed in previous chapters, the ABC (Activity Based Costing) cost system is a leading costing strategy across industries as it guarantees modern and innovative management. This model is a tool for increasing competitiveness and allows for more accurate measurement of the costs generated by the activities and tasks that contribute to the process of creating a product. With this method, Confecciones Julieta will be able to focus on their activities in order to obtain more precise information, a more detailed perspective of the process, and reductions in cost. To achieve this, several steps must be considered: a) describe the new process of ABC costing for the company (inputs – resources – outputs), b) training the workforce about costing concepts as ABC model and cost drivers, c) definition of responsibilities about the new process, d) establishment of written procedures to ensure a standardized method, e) changing the current system using an excel sheet to input the data and to control the costs, and f) evaluate the success of implementation. The first step, which is also the most relevant, can be described as the following:

- Identify the processes that are the object of the selected cost.
- Identify causal activities of the costs.

- Define the categories of direct costs and the indirect cost groups associated with the process.
- Identify the cost drivers or cost allocation base associated with each activity.
- To allocate the indirect costs to the process, each unit rate of cost driver should be developed.

6.2. Assessment of Alternatives

In order to evaluate the alternatives for Confecciones Julieta, the following factors will be taken in consideration: (a) cost investment, (b) ease of implementation, (c) feasibility, (d) effectiveness, and (e) impact. Each one will have a weight and an evaluation ranking in order to facilitate the assessment. These criteria were established taken in consideration two inputs: the literature reviews and several factors that scholars consider as a growth limitation for the SMEs, and they were validated for the general manager of Confecciones Julieta. For Confecciones Julieta, because is a small-sized enterprise, the cost investment and a fast implementation are the most relevant factor for a proposal solution. So, the weightages assigned were taking into consideration the needs and capabilities that the firm has at the moment. That is why the factors with the highest weightages are the ones that can determine the company's decision. Cost of investment and ease of implementation have 30% and 25% weightage since investment and time are the scarcer resources in the company, while feasibility, effectiveness and impact have 15% each one (S. Matos, personal communication, July 26, 2019). Below the explanation of these factors.

6.2.1. Cost investment

This feature refers to the money that the company should invest in order to achieve the implementation of the solution. For Confecciones Julieta, money is a limited resource. And since precisely the costs within the company are undefined, any investment means a risk for the organization. To rank this factor, it is important to question how Confecciones Julieta

will manage the investment, and whether the company will be able to recover the money quickly after the implementation of the alternative. Consequently, this factor will have a weightage of 30%. To rank this factor, it is important to question how Confecciones Julieta will be able to handle the investment, and whether the company will be capable to recover the money quickly after the implementation of the alternative. Analyzing the alternative solutions, ABC costing system implies more money and resources investment because this implies to establish a new way to do the things and a fresh culture. As a consequence, more training on people means more capital.

6.2.2. Ease of implementation

This feature refers to whether the alternative can be achieved in a brief span of time. For Confecciones Julieta, the best way to counteract the current organizational issues is to obtain results as quickly as possible. Thus, this factor will have a weightage of 25%. It is important to evaluate however, whether it will be possible for Confecciones Julieta to solve the costing challenge within the next three months. Analyzing the alternative solutions, ABC costing system implies more time because of the training on people and money investment. This alternative can take definitely more than three months to be implemented.

6.2.3. Feasibility

Feasibility refers to the extent to which the company has the capability to successfully implement a chosen approach. For Confecciones Julieta, human resources are an important factor to consider as the workforce consists mainly of unskilled employees, who are not trained to work with different costing systems. Therefore, this factor will have a weightage of 15% in our analysis. To rank this factor, it is important to question whether Confecciones Julieta will be able to manage the proposed solution with the given management and the present human resources. Analyzing the different proposed solutions, the ABC costing system requires the most human capital and knowledge. Therefore, this alternative becomes

harder to manage for Confecciones Julieta after the implementation compared to the other solutions, which makes this solution likely to fail.

6.2.4. Effectiveness

Effectiveness refers to the degree to which the solution will be able to solve the problem. For example, it has to be determined to what degree a new cost structure helps CJ to understand the costs incurred during the production of their garments. For Confecciones Julieta, this costing problem is an urgent issue because not having precise data regarding the costs of the products is negatively affecting the performance of the company as missing data causes untargeted marketing campaigns and production planning. Thus, this factor will have a weight of 15%. To rank this factor, Confecciones Julieta must question how they will solve the costing challenge after the solution has been implemented. Additionally, it needs to be determined how the company will avoid encountering the same issue in the future. All three alternatives can solve the company's problem in a different way, but ABC get the highest score as this approach is more precise than the others two.

6.2.5. Impact

The impact is the degree of changes that other processes (such as manufacturing, human resources, etc.) can suffer following the implementation of the solution. For Confecciones Julieta, it is important to keep the different stages of the production process because it is a small company and therefore the changes must be gradual, and should not all occur at the same time. Otherwise, the daily operations of the company could be negatively affected. This factor will have a weightage of 15%. It is important to determine whether the implementation of a new costing structure will cause the company to change certain processes. Analyzing the alternative solutions, the three potential solutions suggest changes in the current process. However, the ABC costing system implies more alterations in internal

process, as for example in the accountability and human resources area. So, this alternative gets the lowest grade for the previous reasons.

6.2.6. Evaluation of alternatives

Table 24 demonstrates the evaluation of each alternative while considering the aforementioned five conditions: cost investment, feasibility, effectiveness, impact, and ease of implementation. Solution 1, “Standard costing system”, acquired the highest average of points. This is because this solution requires the fewest resources (money and manpower) to be implemented. It is the solution with the easiest implementation plan, and it is also an alternative that the owner will be able to manage by herself in the future.

Table 24

Evaluation of Alternatives

Alternative Solution	Cost investment (30%)	Ease of implementation (25%)	Feasibility (15%)	Effectiveness (15%)	Impact (15%)	Total
1 Standard Costing	3	3	3	2	2	2.70
2 Absorption costing	2	2	2	2	2	2.00
3 ABC costing	1	1	2	3	3	1.75

Note. 3 = highest score on each criterion. 1 = worse score on each criterion.

Table 24 shows the scores for cost investment, where 1 means the most expensive and 3 the least expensive; for ease of implementation, 3 means the easiest to achieve and 1 the hardest; for feasibility, 3 means the most feasible to do while 1 the least feasible; in the case of effectiveness 3 means the most effective and 1 the least effective. Finally, for the impact 3 is the one with the greatest impact and 1 the one with the least impact.

6.3. Proposed Solution

Based on the results of the previous analysis, the standard costing system got the highest score. This is because the cost of investment is the cheapest option in comparison with the two others for which more time in human resources will be needed both in the implementation and the maintenance of the updated information. Regarding the ease of

implementation this is the one that demands the least time to implement. In terms of feasibility the SCS scores highest because it can be easily implemented. For the effectiveness, it can be seen that the ABC costing is the one that can get the best solution for the current issue; and regarding the impact, it can be mentioned that due the resources needed, time invested and change in managerial behavior the ABC costing is the one that is most favorable compared to the alternatives.

Following a lengthy evaluation, the alternative of a standard costing system demonstrates the most promising characteristics for a successful implementation at the organization according on the current situation and needs. Table 24 shows this proposal solution the highest grade taking in consideration all the right factors that Confecciones Julieta should take into consideration.

In order to achieve a successful implementation several steps should be accomplished. Figure 28 highlights all the stages. That the company must considerate to achieve the proposal solution. First, it is necessary to plan changes in the administrative staff to obtain support from the entire organization. The second stage involves assessing the operational activities in order to obtain the right fixed, variable, direct, and indirect costs for the company. Third, it is necessary to deliver an excel sheet in order to facilitate the management of this new process. Fourth, it is necessary to compile all the information regarding new standardized procedures and instructions of the cost process to ensure that any person affiliated with the organization can consult the documents at any time. The final stage consists of training for the entire workforce that will be involved in the implementation of this new process.



Figure 28. Implementation steps.

Adapted from *Administración de costos, contabilidad y control*, by Hansen & Mowen, 2007. Mexico D.F., Mexico: CENGAGE.

6.3.1. Commitment from the management area

Management at Confecciones Julieta is responsible for the decision-making and execution of all projects. Additionally, the top management delivers all of the internal and external resources needed for the continual improvement of the processes of the organization. In this respect, the first goal must be to gain unwavering support from the owner and general manager. This individual needs to be aware of the advantages of this new costing structure and should communicate them to the workforce. In order to have the top management promote this new approach, it will be necessary to work with them from the beginning to the end. Communicating the evolving objectives and reassuring their doubts will be essential.

6.3.2. Costing structure and its processes

A costing process is not an isolated process. This process must work and interact with others in order to achieve the essential information workflow. Figure 29 shows the interactions of processes in Confecciones Julieta that occur to obtain the information to define the different types of cost in the organization.

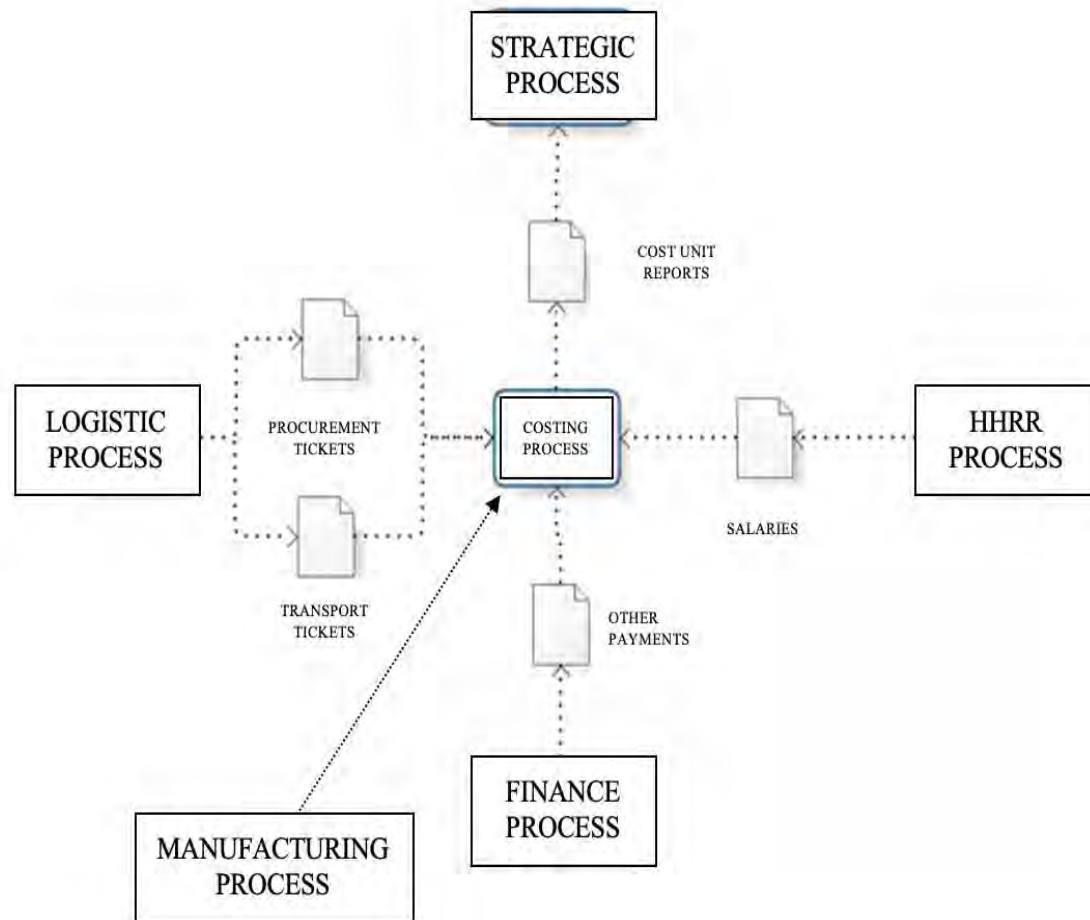


Figure 29. Processes interaction in Confecciones Julieta.

With this, the organization should be able to determine all of the activities and processes that are needed for the costing structure. In this stage, the required inputs (the different types of internal costs) and the expected output will be determined, as will the sequence and interaction of activities. Figure 30 shows the process map.

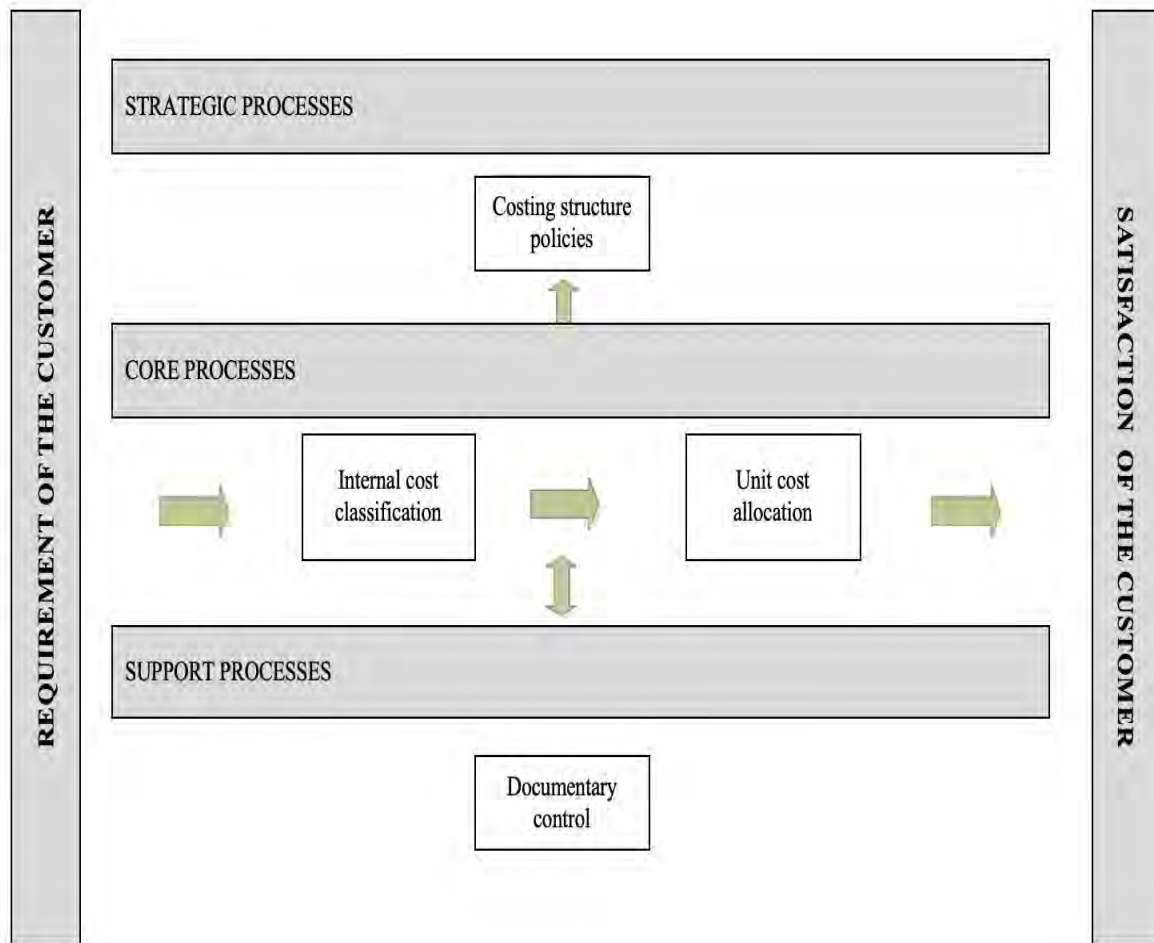


Figure 30. Costing structure map process.

Adapted from *Quality management systems – Requirements*, by International Organization for Standardization, 2015.

Costing structure policies. Here, all the internal costs that are involved in the elaborate design of a garment are named. This process marks what information Confecciones Julieta needs from the other processes in order to ensure that the new costing process will run seamlessly. Additionally, this provides the cost drivers that will be considered for the core processes.

Documentary control. Here, the relationship between the costing process and the logistics, finance, human resources, and production processes are described. This subprocess has the objective of gathering all of the information about incurred costs needed for the preparation of the garments. It should be highlighted that the costs that must be collected are

provided by the previous subprocess. Additionally, it provides the maintenance about any information needed to support the operation of this new process.

Internal cost classification. In this instance, Confecciones Julieta works with the cost lists obtained in the previous activity. This has the mission of classifying costs according to their direct or indirect relationship with the cost object, the garments.

Unit cost allocation. Here, each indirect cost is properly allocated in order to obtain, together with each direct cost, the actual unit costs of the products.

6.3.3. Operational excel sheet

An online platform is useful in storing and managing data for daily operations. Additionally, this Excel sheet will help Confecciones Julieta to maintain and measure traceability. Finally, Excel is an easy software that can be used by the owner, or other employees, following a brief training session.

6.3.4. Documented information

This management is an important step for companies like Confecciones Julieta because it can lead to a significant reduction in costs and can improve the safety and efficiency of work. Further, it provides the maintenance of any information needed to support the operation of this new process. Procedures and instructions are designed in this stage.

6.3.5. Provision of training

At this stage, training support will be provided to all individuals who interact in this costing structure. As it will be a new process, Confecciones Julieta needs to ensure that the workforce acquires the necessary competences required to complete the job. Additionally, it will be mandatory to conduct an evaluation of these trainings.

The following figure demonstrates all of the interactions of the previous activities described in order to certify the success of the consulting project.

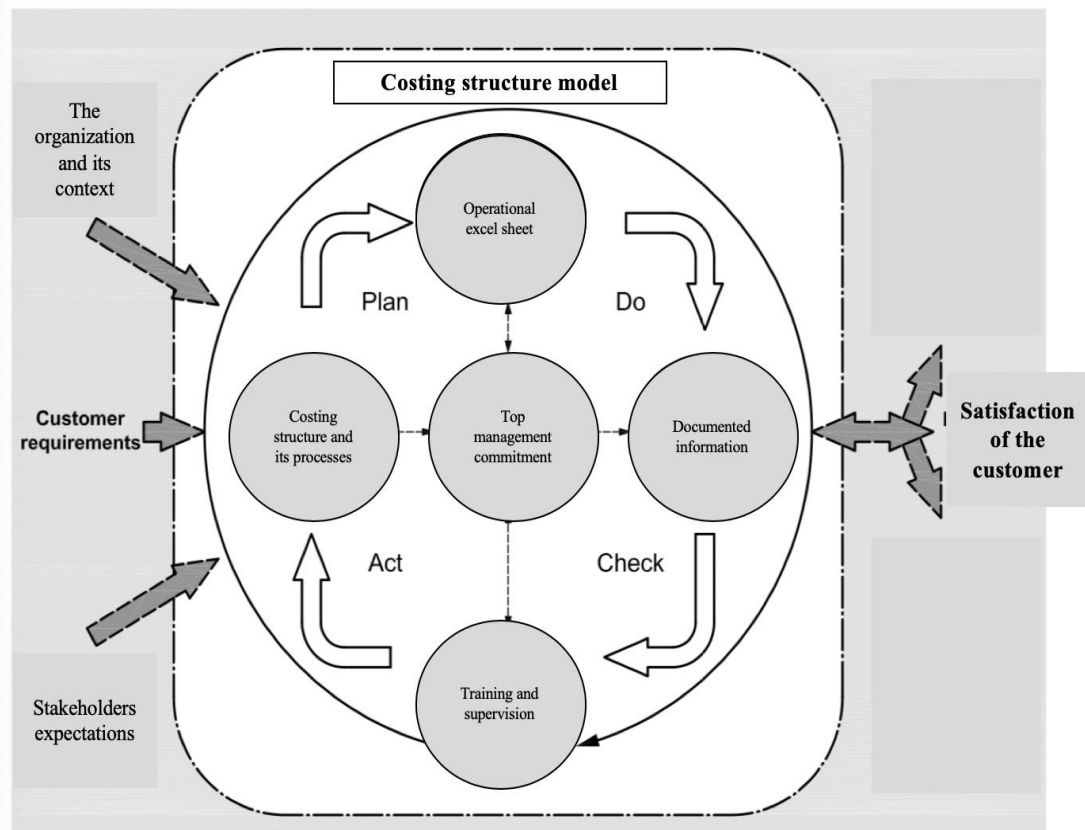


Figure 31. Structure for the costing process.

Adapted from *Quality management systems – Requirements*, by International Organization for Standardization, 2015.

6.4. Conclusions

As seen in the explanation of the proposed solution, it is important to identify, first, the main problem of the company and the current ability in order to propose an appropriate solution: the standard costing. The lack of costing structure is a constant in these types of companies, which do not invest in the improvement of internal processes. Currently, the company does not have enough resources to implement the other two alternatives that are more complex. Another important fact to consider as part of the future implementation, is the data the company will be able to manage. The information that will be obtained can be used for future consultations in terms of manufacturing, logistics or sales. In that sense, the support from the management area is the first and most relevant step in order to perform an adequate implementation.

Chapter VII: Implementation Plan & Key Success Factors

The present chapter will define the implementation plan for the proposed solution explained in the previous sector. To achieve this, the activities will first be defined for the several stages of the consulting project. Then, a Gantt chart will be built in order to establish the milestones and deadlines. Finally, the key success factors will be stated in order to measure the accomplishment of the consulting project.

7.1. Activities

When it refers to Project Management, that includes all the activities that are carried out to fulfill a definite main purpose, in a set time using both human and material resources and for which the costs that will be incurred must be budgeted (Project Management Institute, 2004). Following that framework, the proposed approach for the consulting project consists of three (3) stages and a total of five (5) complementary phases. Each of which is aligned to the description of the proposed solution in Chapter VI. The scope of each of the stages and phases is mentioned below.

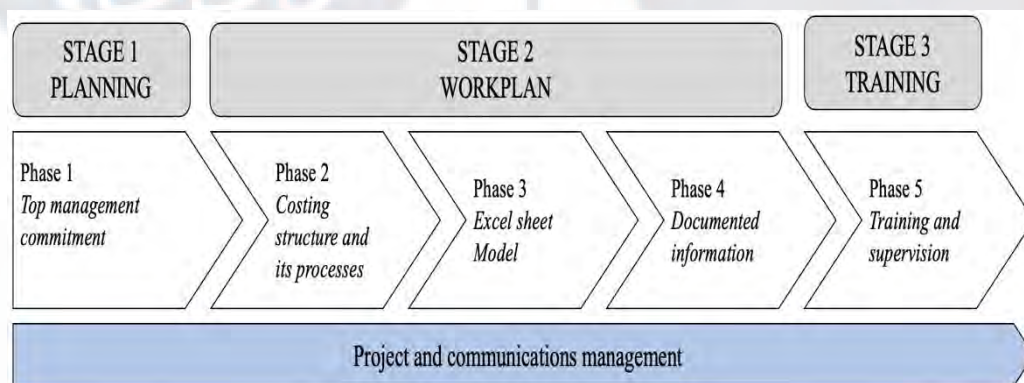


Figure 32. Work breakdown structure.

7.1.1. Phase 1 Top management commitment

In order to implement the proposed solution, the first step will be to involve the key people at the company who are involved in costing. Getting these people involved will not only mean that their approval and cooperation will be required but will also assess whether the right individuals are in the proper roles. Potentially, the pool of employees will need to be

extended or reduced. Currently, the General Manager, Susana Matos, is dealing with all topics related to costing, sales, and inventory. If the proposed Excel sheet were to reflect sales and inventory data, however, it may be logical to involve the employees that are responsible for inventory at the production facility, and for sales at the shop in Gamarra. Select employees could be given limited access (through blocking certain cells on excel from editing), which would increase efficiency and reduce the workload for the General Manager.

The activities in this phase are the following:

- Kick-off presentation
- Preparation of the project charter
- Awareness program for senior management
- Senior management training program
- Measurement of results through surveys

7.1.2. Phase 2 Costing structure and its processes

Assuming that the key people will be motivated to work with the consulting team in order to solve this issue, the second step will be data collection. A new costing structure and system to track expenses, sales, and costs will require lists of all items and prices that will need to be compiled and organized. As the Excel sheet is supposed to be implemented at a later stage, it can also be used for analyses. It can determine what is of the upmost importance list first, and then describe all items that CJ sells and assign article numbers so that the various items cannot be confused. When the company is not using item numbers or varying names for the same item, it becomes impossible to use the sales data for analyses. Following the completion of the Excel sheet, CJ should have a more comprehensive overview of revenues, costs, and sales. Additionally, they should be able to determine which items are performing well, the seasonal trends per item, and if a specific item is not generating revenues. The activities in this phase are as follows:

- Definition of the organizational model that will support the implementation of the new process.
- Identification and documentation of relationships between macro processes of the company with the new cost process.
- Identification of those costs that are involved in the preparation of the product.
- Determination of the cost generators that will be considered for the core processes.
- Collection of all information from processes directly related to the cost process.
- Identification of the direct and indirect costs of making garments.
- Allocation of each indirect cost to obtain, together with each direct cost, the actual unit costs.

7.1.3. Phase 3 Excel sheet template

When all data has been evaluated and all items (for sales and costs) have been given a unique description and item number, an Excel sheet will need to be set up. The Excel sheets need to fulfil certain characteristics in order to be useful in a company like CJ. Firstly, it needs to be easy to use. Secondly, it must be tested to ensure that errors do not occur, and finally, it needs to be able to analyze the sales data and display predetermined outputs necessary for the company to adjust their strategy.

Easy to use. While this may not appear to be important when implementing a new costing structure and management system, it is essential. Without an intuitive system, the general manager and the employees are increasingly likely to revert to old structures and habits if the new system proves too complicated. Therefore, it must be ensured that the Excel sheet is as simple as possible. It should only include relevant data and should exclude any non-essential information.

Safe. This point works in tandem with the first point in that it aims to make the system easy to use. Excel sheets that include a variety of formulas, graphs, and a large amount of data can be easily compromised when data entry is not done carefully. Although all employees involved in data entry will receive a training beforehand, it must be considered that the employees dealing with the data have little, if any, knowledge or training with the Excel program. It is necessary to properly set up the Excel sheet in order to avoid any accidental deletion of formulas or improper data entry.

Analysis. The main goal of introducing this new costing structure and cost management system is to identify unnecessary costs, to increase efficiency, to reduce costs associated with inefficient management, and to evaluate sales in terms of profitability and trends. It is important to perform a careful, yet useful, analysis with the data entered in the new excel sheet. In order to effectively perform these analyses, special attention needs to be focused on the data that is required for these analyses, and how it will be used.

The activities in this phase are as follows:

- Identify technological alternatives to implement the information repository.
- Determine the steps for the implementation of the repository tool ensuring that the process ensures all requirements are met.
- Evaluate alternatives of tools identified according to the established requirements.
- Select the tool to be used among the alternatives analyzed considering also obtaining the best efficiency in terms of investment and quality.
- Develop design architecture and interface design.
- Document the procedure manuals for updating and maintaining the repository.

7.1.4. Phase 4 Documented information

The activities in this phase are as follows:

- Identification regarding which information needs to be documented.

- Elaboration of the characterizations and flowcharts for the identified activities.
- Document all procedures required by the organization.
- Distribution of documented processes to those involved, and increased awareness of the importance of compliance.

7.1.5. Phase 5 Training and supervision

As determined, the key people that will use this costing sheet in the future, and who will have to set up the sheet with the relevant information, will require proper training in order to use the program effectively. As aforementioned, if the employees find it too difficult to use the new system – either due to overcomplication or insufficient training – the employees will quickly fall back into old habits and the excel sheet will become irrelevant. Thus, employees need to understand the importance of the new system and their role in maintaining the integrity of the system. Furthermore, each employee will need to receive one-on-one training, as not all employees will be using the same functions. For example, the employee who works in the production facility will be primarily involved in keeping the inventory data up-to-date, therefore the emphasis of the training will be on inventory. Conversely, the employee working in the retail store will be entering sales data, which should remain the focus of the training. The General Manager, Susana Matos, will receive the most extensive training in order to ensure that she is able to keep the system running and understands all its functions. She will also be taught how to extract the data in order to conduct a thorough analysis on how specific pieces of her collection are performing in order to make well-informed decisions on which items to keep, and which should be discontinued.

The activities in this phase are as follows:

- Define skills required to implement the costing process while considering the methodology and related techniques.

- Formalize and communicate the functions and responsibilities that will support the costing process.
- Validate if there is an internal workforce that covers the profiles and can be assigned to the positions defined in the new process.
- Execute internal training to cover skills gaps.
- Train staff on the use of the Excel tool for the new process.
- Measurement of training results.

7.2. Implementation Gantt Chart

The resulting schedule will be plotted in a Gantt Diagram. For the Top Management Commitment, the estimated completion time is two weeks. The costing structure and its processes phase will take three weeks, of which the process of data collection take two of the three-week duration. The third phase takes five weeks, where the Excel sheet model will be implemented in consideration of the company needs. The documented information phase will occur within seven weeks, due the current situation whereby CJ does not have any digitalized data. Finally, training and supervision is the largest phase and is also the hardest activity in the training session with the staff. This training includes measuring the progress of the whole implementation. The total time for this project is expected to be 25 weeks (see Figure 33).

Investment plan. Regarding the investment made for the execution of this project, each of the phases has a cost associated. For every week invested in the program, as indicated in the Gantt chart, the number of hours will represent the 50% of the operation staff hours in one week and sometimes 50% of the management time in one week also. In this sense, a week of production will cost S/. 563 (S/.1,125 as an average monthly salary means S/.140.60 per half a week per employee and will be considered 4 workers for this project), and for the management time will cost S/. 300 soles (all of them approximate costs). A project manager is assigned by the company, that should preferably be an external member of the

organization. For the first phase, the resource used is the time invested in prepare the meetings and stablish the program in coordination between the project managers and the firm, the cost associate will be S/. 1,726. For the second phase, the coordination will be between the project leaders and the manager of the company, and will take three weeks, the cost approximate is of S/. 900. The third phase will be in charge exclusively of the project manager. The fourth phase will require the support of all the member of the organization, because the purpose is to identify activities and document the processes involved in this improvement. The seven weeks invested will cost around S/. 6,041. For the last phase, 10 weeks will be necessary, the first 4 will oversee by the manager and the cost is S/. 1,200. In the last 6 weeks the training and supervision have to be for all the members, the cost involved here is S/. 5,178. For the 25 weeks, the total cost is S/.15,045, which translates as the time that has stopped being produced to receive the training and use of this new costing method. The cost of the project manager, who is an employee dedicated part-time to the development and monitoring of this project, approximate S/. 500 per week. This means, S/.1,000 for the first phase, S/.1,500 for the second one, S/.1,500 for the third one, S/.3,500 for the fourth phase and S/.5000 for the last one. The total cost is expected to be approximate S/.27,545.

Table 25

Investment Plan

Stage	Investment (S/.)
1 Phase	2,726
2 Phase	2,400
3 Phase	1,500
4 Phase	9,541
5 Phase	11,378
Total	27,545

7.3. Key Success Factors

As in any project or new initiative, there are critical factors that can influence on them to guarantee the success. As a consequence, Juliatt Confections must concentrate on them to

move towards success. Those are the most decisive and therefore deserve special attention.

The key success factors identified seek to achieve the objectives described above and to obtain the expected benefits. These are detailed below:

Table 26

Key Enablers for the Implementation

Key enablers	Description
1. High interest from the Owner to improve all the internal management.	This commitment of the organization is so important because this new process requires a change management from the owner. Also, because the owner is the responsible to guarantee all the necessary resources.
2. Employees Commitment as part of the Awareness and Training Programs	It is necessary the commitment of the areas involved for the implementation of the new costing process. The workforce will apply this new methodology, so they must believe in the positive results of this new way of procedures.
3. Smooth communication at all levels	The existence of an adequate communications plan according to the stage of the project among the entire organization enhances the success of the proposal solution.
4. Strong training on the excel tool and procedures	Personnel trained in the methodology of the new process is a relevant factor for the success of the consulting project

Relevant Milestones. Below is the list of project milestones associated with the deliverables that will be presented throughout the life of the project according to the established scope.

Table 27

Key Milestones for the Project

Milestones	Time
1. Awareness Program execution	Week 2
2. Roles and functions of the cost process	Week 3
3. Process Map updated	Week 5
4. Excel spreadsheet delivery	Week 9
5. Report on procedural manuals	Week 14
6. Training Program execution	Week 16
7. Training Program measurement	Week 23

Risk Management for the project. All projects have some kind of risk implicit (Project Management Institute, 2004). The key to project success is not to ignore the risks or be fully aware of them, but to analyze and manage them effectively (Project Management Institute, 2014). For the proposal solutions, Table 28 shows the critical risks for the project, and key actions to reduce their effects.

Table 28

Risk Management for the Implementation

Critical risk	Key actions to reduce the effects
1. Perception of new costing structure does not bring benefits but represents more work and bureaucracy.	Compliance of the awareness program, resolving every doubt from the employees regarding the new process. Implementing an alternative communication channel in case it is identified that the current ones are not enough. Allow the participation of employees in the elaboration of suggestions and considerations.
2. Wrong transfer of the methodology of the new process, generating confusion among the staff.	Compliance of the defined training programs, monitoring the results periodically in order to verify if the objectives are being achieved or failing to make the modifications in a timely manner.
3. Low availability of internal staff in each area to attend the implementation process.	Design a schedule from the beginning of the project in order to establish the right time for the training program and implementation.
4. The content of the manuals and procedures presents incomplete or insufficient information	Make available to the project team the necessary templates for the documentation of profiles, manuals and procedures.
5. Delays in the execution of the activities.	Perform a weekly follow-up of the project and scale any deviation for corrective action.

Project assumptions. The assumptions identified for the consulting project are the following:

- Commitment from Juliatt Confections for the implementation.
- Personnel are available in quantity and competencies to carry the training.
- There are established means and communication tools necessary to execute awareness for the new project.
- Personnel are available for timely monitoring and control of the Project.

7.4. Conclusions

As mentioned, a project manager will be in charge of compliance with all stages of the implementation. Using different phases, and activities within each one, the project responsible will be able to track the progress of the implementation. This project will encourage the employees and the senior management to carry out each (future) project following a work methodology: with milestones, roles and functions, and providing training at each stage.



Stage	Phase	Activities	Responsible	Weeks																								
				1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25
Planning	Top Management Commitment	Kick-off presentation.	Company Top management Owner	█																								
		Preparation of the project charter.		█																								
		Awareness program for senior management.		█																								
		Senior management training program.			█																							
		Measurements of results through surveys.			█																							
Workplan	Costing Structure and its processes	Definition of the organizational model that will support the implementation of the new process.	Leader of each process			█																						
		Identification and documentation of relationships between macro processes of the company with new cost process.				█																						
		Identification of those costs that are involved in the preparation of the product.				█																						
		Determination of the cost generators that will be considered for the core processes.				█																						
		Collection of all information from processes directly related to the cost process.				█	█																					
		Identification of the direct and indirect costs of making garments.					█																					
		Allocation of each indirect cost to obtain, together with each direct cost, the actual unit costs.					█																					
	Excel sheet model	Owner Costing process Leader	Identify technological alternatives to implement the information repository.				█	█																				
			Determine the steps for the implementation of the repository tool ensuring that the process ensures all requirements are met.					█	█																			
			Evaluate alternatives of tools identified according to the established requirements.						█																			
			Select the tool to be used among the alternatives analyzed considering also obtaining the best efficiency in terms of investment and quality.							█																		
			Develop design architecture and interface design.								█	█																
			Document the procedure manuals for updating and maintaining the repository.									█	█															
Documented information	Company Top management Owner	Identification regarding which information needs to be documented.																										
		Elaboration of the characterizations and flowcharts for the identified activities.																										
		Document all procedures required by the organization.																										
		Distribution of documented processes to those involved, and increased awareness of the importance of compliance.																										
Training	Owner Costing process Leader	Define skills required to implement the costing process while considering the methodology and related techniques.																										
		Formalize the communicate the functions and responsibilities that will support the costing process.																										
		Validate if there is an internal workforce that covers the profiles and can be assigned to the positions defined in the new process.																										
		Execute internal training to cover skills gaps.																										
		Train staff on the use of the Excel tool for the new process.																										
		Measurement of training results.																										

Figure 33. Gantt implementation.

Chapter VIII: Expected Outcomes

This chapter will outline the results that Confecciones Julieta expect to achieve following the implementation of the proposed solution. For this reason, the qualitative and quantitative results will be described in order to demonstrate how the company progresses from the initial stage of no costing process to having a strong structure that contributes to the firm's decision-making. Additionally, the investment plan will also be explained in this chapter.

8.1. Qualitative Outcomes

The purpose of this consulting report is to improve a specific process, therefore the maturity model outlined in the qualitative analysis section will be used to present the expected outcomes in relation to five factors: (a) design, (b) performers, (c) owner, (d) infrastructure, and (e) metrics. As described in Chapter IV, the current process is currently in the 'initial stage'. Following the implementation of the proposed solution, however, Confecciones Julieta is expected to achieve the 'managed stage' (see Table 29).

Table 29

Stages in the Maturity Model

Stage	Description
1 Initial	The actual process is at an incipient level and it does not present evidence at the level of formalization or application.
2 Basic	The actual process is at a basic level, it presents some evidence at the level of formalization and application in an isolated but consistent way.
3 Defined	The actual process is at an intermediate level, presents evidence at the level of formalization and application in an organized and structured way for most of its components
4 Managed	The actual process is at an advanced level, presents evidence at the level of formalization and application operating consistently in all its components
5 Optimized	The actual process promotes continuous improvement by quantitative feedback and from piloting innovative new ideals and technologies.

Note. Adapted from "The Process Audit", by Hammer, 2007, *Harvard Business Review*, 85(92), 1-17.

The following information will explain the expected outcomes regarding each component of the Maturity Model for the costing process of Confecciones Julieta:

Design factor. It is expected that the outcome will result in a well-documented process, whereby the activities and interactions between various process are well described. This will help any new or existing employees to understand the intricacies of the organizational procedures. The new costing process has been aligned with the objectives of the company and will assist in achieving the vision of Confecciones Julieta. The procedures will establish the activities, responsibilities, and interactions between processes, which will allow the staff to understand and execute their individual responsibilities.

Performers factor. It is expected that the outcome will result in a well-trained workforce that will draw on extensive knowledge regarding costing concepts, metrics, and business management in order to effectively implement the new costing process. Additionally, employees affected by the costing process will receive the necessary skills in order to ensure that the objectives are met.

Owner factor. It is expected that the outcome will result in a single authority figure being responsible for the success of the new costing process. Additionally, this extends to the definition and documentation of the process. Every responsibility must be communicated with the respective workers involved in the process. There will be extensive, high-quality communication that occurs between all participants involved in the new process.

Infrastructure factor. It is expected that the outcome will result in the use of an easy-to-use excel spreadsheet. This document will manage and control all activities regarding the new costing process. This new tool will need to be intuitive for both the owner and the employees, as it will be used by the workers to store and manage data in daily operations.

Metric factor. It is expected that the outcome will result in the use of success metrics and several KPIs in order to analyze the performance of the costing system. Every type of

risk will be monitored and reviewed to ensure the success of the cost process. Likewise, they key indicators of the process will be documented, and the monitoring plans will be put into practice.

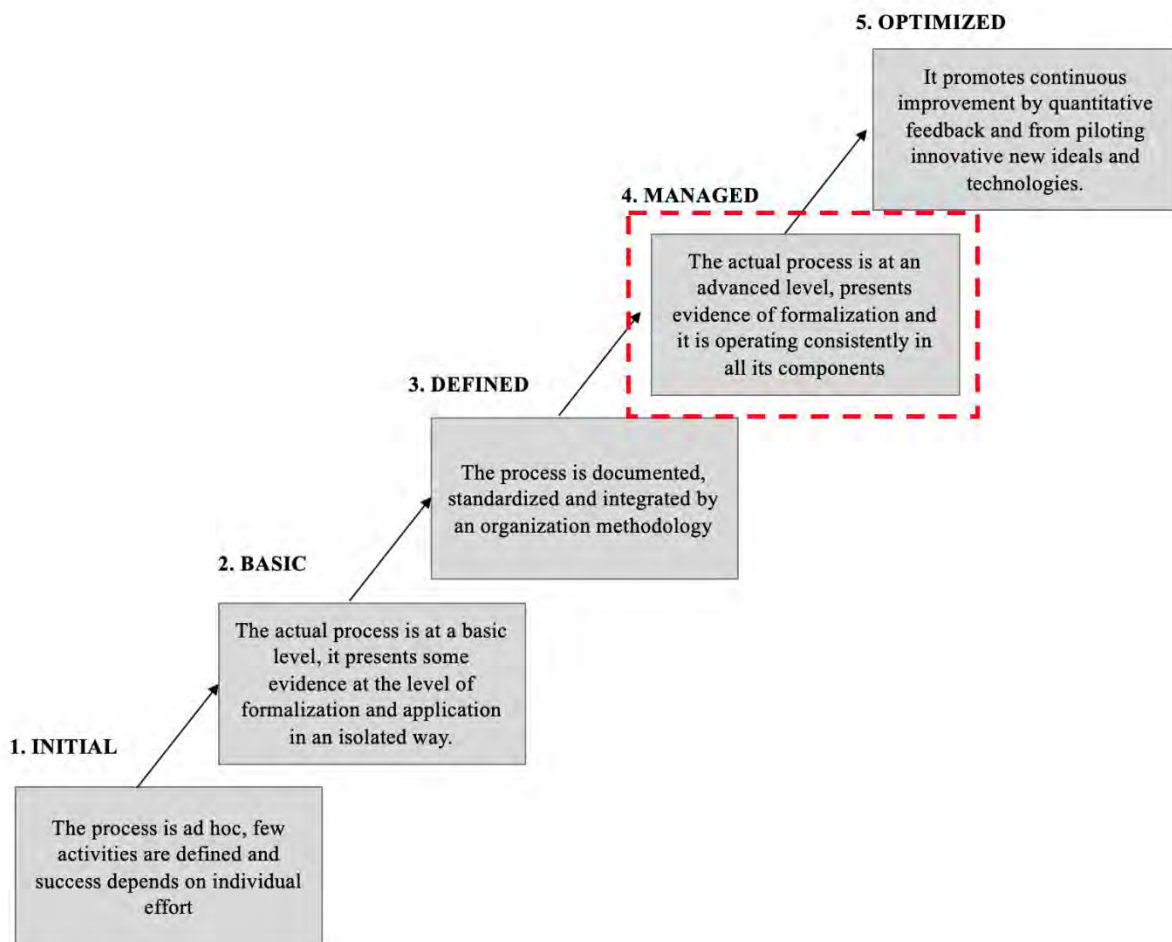


Figure 34. Process expected outcome for CJ.

Adapted from “The Process Audit”, by Hammer, 2007, *Harvard Business Review*, 85(92), 1-17.

8.2. Quantitative Outcomes

The ideal quantitative outcome of the costing structure is to develop a spreadsheet that will support the owner of Confecciones Julieta. It will allow her to control and manage the costs in a more realistic manner that will allow her to make decisions based on the actual costs incurred by the company. In this capacity, the organization will be able to identify the proper unit production costs in order to establish more accurate prices and to make better

decisions regarding the management of the firm. The following table outlines the quantitative outcomes that Confecciones Julieta can achieve after implementing the proposed solution.

Table 30

Expected Quantitative Outcomes

Expected outcome	Description
1 Variation of fixed cost	To analyze the manufacturing capacity in order to obtain more units on which to make a fixed unit cost allocation
2 Variation of variable cost	To analyze their historical behavior, since costs can be reduced by buying the necessary inputs when their prices are lower.
3 Contribution margin	To understand the profitability of continuing with the production of a specific product

Note. Adapted from “The Process Audit”, by Hammer, 2007, *Harvard Business Review*, 85(92), 1-17.

Expected outcome for the organization. The cohesiveness of the organization will achieve the additional outcomes associated with the new management processes:

- Decision making to increase the opportunities for accurate decision making because the company will have realistic data to analyze.
- Order, planning, and control of the costing process.
- Updated information to make decisions based in the most actual data.
- An efficient culture that encourages adhering to alternative internal processes and management.
- Improve competitiveness in order to have a competitive advantage over competitors.

8.3. Conclusions

The expected outcomes for this project are mainly related to a change in the management area of the company, as there will be more information to make decisions and develop new strategies. The proposed order of the costing structure will allow the company to be competitive and grown in its market.

Chapter IX: Conclusions and Recommendations

This final chapter will cover the most relevant takeaways from the content of the consulting report. Additionally, it will provide recommendations for Confecciones Julieta that will allow them to implement ideas in the future that are complementary to the original proposal.

9.1. Conclusions

To conclude, the perceived issues are more complex than they initially appeared at the onset of the consulting project. Confecciones Julieta is suffering from common problems that exist across small firms in the textile sector. The client stressed what she believed to be a key factor in the organizational disarray, which was the lack of a marketing strategy. Upon reflection, it was crucial to inquire about current procedures and actions within the organization, as it were these questions that unveiled the real problem: the lack of cost management.

Creating proper organizational management structures and processes internally is essential and will allow for the successful development of future strategies. The purpose of suggesting a costing method is that it will allow the firm to identify which of their real operating costs are high and will enable them to develop new tools in order to remedy these costs. Alternative solutions to the costing system also considered the current situation of Confecciones Julieta. In this capacity, it was not simply a means of picking one method and suggesting that it was the most appropriate for the organization. Rather, the actual situation outlines that a lack of time and capital were key factors to consider when determining a strategy.

Several costing methods were evaluated, and it became evident that standard costing method would be the best solution for Confecciones Julieta. The alternative costing methods were unfeasible substitutes for the company because they focus predominately on financial

statements, of which the organization does not create. The company belongs to a special tax regime whereby this financial information is not required. Instead, the most important financial features to present are the quantity of sales recorded within a specific time period (I.e. monthly). At Confecciones Julieta, this procedure occurs manually due to the lack of digitization of the information.

In order to successfully implement the change, it is important to get the key people involved, in the case of Confecciones Julieta the general manager Susana Matos and employees in charge of the store and the inventory. Firstly, data needs to be gathered and organized to be able to come up with an excel sheet that not only offers a good overview and wide range of analytical tools but is also easy to use and safe. The sheet must be easy to use to ensure that employees are not overwhelmed and thus stop using the application at some point and it must be safe as excel sheets are error prone if used incorrectly. To avoid mistakes, it needs to be set up so it can be handled even with only limited training. The last step is to ensure all employees using the application are properly trained and feel confident using the system.

9.2. Recommendations

The proposed cost management solution does not consist of a single method that is chosen and developed. Each of these methods are composed of a set of steps that allow the company to be more precise in determining their income, costs, and final earnings. The standard costing system is simply the first step to many future improvements. Confecciones Julieta has potential for growth, but will require the implementation of alternative methods, such as the implementation of a budget, absorption costing, variable costing, or activity-based-costing. The selection of a prospective costing methodology should consider trends and seasonality and should be elected based on a realistic alternative for the organization.

As aforementioned, a costing system is not simply an implementation process, but consists of constant monitoring of the calculated standard costs and the real costs incurred. More precisely for this method to be a success the involvement of all the employees is required. To improve the precision of this cost method, it must be accompanied by a standardization of the information processes (as mentioned in the steps of the proposed solution). An operational excel spreadsheet will have the capacity to register every cost of the company and to document information regarding production levels, purchases, and sales activities. Having a digitized version of this information will simplify the organization's current processes and make it easier to analyze production and sales trends.

Having the appropriate information provided by a proper costing system will allow the firm to understand whether the current production costs are more expensive than imported garments. It is possible that the cost of importing garments from abroad would be cheaper than producing within CJ's factory, and would yield higher quantities. This could be perceived as an opportunity to improve the operating income, however due to the threat imposed on local Gamarra producers by imports, a plan must be carefully formulated in the case of potential backlash from the public.

Based on the standard costing system that has been uniquely developed for the firm, the selling price per unit can be adapted according to the company's needs. For instance, in combination with budgeting practices, the costs of raw materials (threads) increase in price considerably during the summer, while the level of sales decrease. With these two components, CJ can develop two strategies to facilitate their survival. First, they can aim to sell more products in provinces where the summer is not as hot as it is in Lima (considering transportation costs as an indirect manufacturing cost). Second, they could develop a technique to reduce costs, for example by improving machine capacity or changing the weaving techniques so that they are faster and can generate higher volumes.

References

- Aktouf, O. & Chenoufi, M., & Holford, D. (2005). The False Expectations of Michael Porter's Strategic Management Framework. *Problems and Perspectives in Management*, 4(4), 181-200.
- Amir, A., Auzair, S., & Amiruddin, R. (2016). Cost Management, Entrepreneurship and Competitiveness of Strategic Priorities for Small and Medium Enterprises. *Procedia - Social and Behavioral Sciences*, 219, 84–90.
- Audretsch, D.B., Mamtora, A. & Menendez, H. (2016). Creating and entrepreneurial society in Europe. *The Journal of Technology Transfer*, 43(6), 1437-1448.
- Avolio, B. Mesones, A., & Roca, E. (2011). *Factores que Limitan el Crecimiento de las Micro y Pequeñas Empresas en el Perú (MYPES)* [Factors that limit the growth of Micro and Small Enterprises in Peru MSEs]. Lima, Peru: Revistas PUCP.
- Ayyagari, M., Beck, M. & Demirguc-Kunt, A. (2007), Small and Medium Enterprises Across the Globe. *Small Business Economics*, 29(4), 415-434.
- Babad, Y. M. & Balachandran, B. V. (1993). Cost Driver Optimization in Activity-Based Costing. *The Accounting Review*, 68(3), 563-575.
- Balakrishnan, R., Labro, E., & Sivaramakrishnan, K. (2012a). Product Costs as Decision Aids: An Analysis of Alternative Approaches (Part 1). *Accounting Horizons*, 26(1), 1-20. doi: 10.2308/acch-50086
- Balakrishnan, R., Labro, E., & Sivaramakrishnan, K. (2012b). Product Costs as Decision Aids: An Analysis of Alternative Approaches (Part 2). *Accounting Horizons*, 26(1), 21-41. doi: 10.2308/acch-10197.
- Beltran, J., Carmona, M, Carrasco, R., Rivas, M. & Tejedor, F. (2009). *Guía para una gestión basada en procesos* [Guide to process-based management]. Sevilla, Spain: Centro Andaluz.

- Berrios, R. (2015). Dumping y subsidios en las exportaciones chinas: El caso textil peruano [Dumping and subsidies in Chinese exports: The Peruvian textile case]. *Pensamiento critico*, 19(2), 39-64.
- Blocher, E.J., Stout, D. E., & Cokins, G. (2010). *Cost Management: A Strategic Emphasis*. New York, NY: McGraw-Hill.
- Block, P. (1981). *Flawless consulting: A guide to getting your expertise used*. Austin, Tex: Learning Concepts.
- Bradshaw, A., Cragg, P., & Pulakanam, V. (2013). Do IS consultants enhance IS competences in SMEs? *The Electronic Journal of Information Systems Evaluation*, 16(1), 13-24.
- Bruhn, M., Karlan, D., & Schoar, A. (2018). The Impact of Consulting Services on Small and Medium Enterprises: Evidence from a Randomized Trial in Mexico. *Journal of Political Economy*, 126(2), 635-687.
- Bruque, C. & Moyano, J. (2007). Organisational Determinants of Information Technology Adoption and Implementation in SMEs: The Case of Family and Cooperative Firms. *Technovation*, 27(5), 241–253.
- Buckingham, M. & Loomba, A.P.S. (2001). Advantageous Cost Structure A Strategic Costing Case Study. *Production and Inventory Management Journal*, 42(1), 12-18.
- Cheatham, C.B. & Cheatham, L.R. (1996). Redesigning Cost Systems: Is Standard Costing Obsolete? *Accounting Horizons*, 10(4), 23-31.
- Confeciones Julieta (2019). *Confeciones Julieta Control de ventas* [Sales control Confeciones Julieta]. Lima, Peru: Author.
- Confeciones Julieta (2019). *Reporte de sostenibilidad Confeciones Julieta* [GRI Report Confeciones Julieta]. Lima, Peru: Author.
- Crosby, P. B. (1979). *Quality is free: The art of making quality certain*. NY: McGraw-Hill.

- D'Alessio, F. (2008). *El Proceso Estratégico: Un Enfoque de Gerencia* [The Strategic Process: A Management Approach]. México D.F., México: Pearson.
- Diario Gestión. (2017). El 90% de los startups en el Perú no sobreviven más de un año [90% of startups in Peru do not survive more than a year]. Retrieved from <https://gestion.pe/economia/90-startups-peru-sobreviven-ano-126280>
- Dini, M. & Stumpo, G. (2018). *MIPYMES en América Latina Un frágil desempeño y nuevos desafíos para las políticas de fomento* [MSMEs in Latin America Fragile performance and new challenges for development policies]. Santiago de Chile, Chile: Naciones Unidad Ediciones.
- Drucker, P. (1970). Entrepreneurship in business enterprise. *Journal of Business Policy*, 1(1), 3-12.
- Dynan, K. & Sheiner, L. (2018). *GDP as a Measure of Economic Well-being*. Retrieved from <https://www.brookings.edu/wp-content/uploads/2018/08/WP43-8.23.18.pdf>
- Febriani, E. & Dewobroto, W. (2018). Problems and requirement analysis as a first step to connect researchers and small and medium enterprises (SMEs). *Cogent Business & Management*, 5(1), 1-9.
- Ferraro, C. & Stumpo, G. (2010). *Políticas de apoyo a las pymes en América Latina* [Policies to support SMEs in Latin America]. Santiago de Chile, Chile: CEPAL Ediciones.
- Fillion, L.J. (2008). *Defining the Entrepreneur: Complexity and Multi-dimensional Systems: Some Reflections*. Montreal, Canada: HEC Montréal.
- Fleming, M. (1995). A budget model for a small manufacturing firm. *Industrial Management*, 37(2), 1.
- Fremgen, J. M. (1964). The Direct Costing Controversy – An Identification of Issues. *The Accounting Review*, 39(1), 43-51.

- Gamarra: más de 800 ambulantes serán formalizados en primera etapa del plan. [Gamarra: more than 800 itinerants will be formalized in the first stage of the plan]. (2019, March 29). Retrieved from <https://elcomercio.pe/lima/gamarra-840-ambulantes-seran-formalizados-primera-etapa-plan-municipalidad-victoria-noticia-nndc-621258>
- Garcia, E. (2019, May 13). Ventas en Gamarra disminuyen hasta en 30% tras retiro de los ambulantes [Sales in Gamarra decrease by up to 30% after removal of street vendors]. *Diario Gestión*. Retrieved from <https://gestion.pe/economia/ventas-gamarra-disminuyen-30-retiro-ambulantes-266648>.
- Global Entrepreneurship Monitor (GEM). (n.d.). Retrieved from <https://www.gemconsortium.org>
- Gonzales, C., Espilco, L., & Aragon, E. (2003). Análisis de estrategias competitivas en sectores industriales del Perú [Analysis of competitive strategies in industrial sectors of Peru]. *Industrial Data*, 6(2), 88-93.
- Greenpeace. (2012). *Toxic Threads: Putting Pollution on Parade. How textile suppliers are hiding their toxic trail*. Amsterdam, The Netherlands: Author.
- Gupta, A. (2013). Environment & PEST Analysis: An Approach to External Business Environment. *International Journal of Modern Social Sciences*, 2(1), 34-43.
- Gurzynski, Z.S. (1951). Variable Costing: An Aid to Management. *South African Journal of Economics*, 19(1), 62-74.
- Hammer, M. (2007). The Process Audit. *Harvard Business Review*, 85(92), 1-17.
- Hansen, D. & Mowen, M. (2007). *Administración de costos: contabilidad y control* [Cost administration: accounting and control]. Mexico D.F., Mexico: Cengage Learning.
- Hausberg, J. & Korreck, S. (2018, January 29). Business incubators and accelerators: a co-citation analysis-based, systematic literature review. *The Journal of Technology*

Transfer. Retrieved from <https://link.springer.com/article/10.1007/s10961-018-9651-y#citeas>

Hepworth, S. R. (1954). Direct Costing – The Case Against. *The Accounting Review*, 29(1), 94-99.

Herath, H. S. B., & Lu, X. (2018). Inference of Economic Truth from Financial Statements for Detecting Earnings Management: Inventory Costing Methods from an Information Economics Perspective. *Managerial and Decisions Economics*, 39(1), 389-402. doi: 10.1002/mde.2912

Hernández, R. (2010). *Metodología de la investigación* [Investigation methodology]. Ciudad de México, México: McGraw-Hill.

Herrera, B. (2011). *Análisis estructural de las mypes* [Structural analysis of the MSEs]. Lima, Peru: Revista UNMSM.

Hersey, P., & Blanchard, K. H. (1977). *Management of organizational behavior: Utilizing human resources*. Englewood Cliffs, N.J: Prentice-Hall.

Hessels, J. & Van Steel, A. (2011). Entrepreneurship, export orientation, and economic growth. *Small Business Economics*, 37(2), 255-268.

Hill, C. & Jones, G. (2009). *Administración Estratégica, un enfoque Integral* [Strategic Management, an Integral approach]. México D.F, México.: Cengage Learning.

Horngrén, C. T., Datar, S. M., Rajan, M. V., & Gómez, M. A. J. (2012). *Contabilidad de costos: Un enfoque gerencial* [Cost accounting: A managerial approach]. México D.F., México: Pearson Educación.

Horngrén, C.T. & Sorter, G. H. (1961) “Direct” Costing for External Reporting. *The Accounting Review*, 36(1), 84.

Hrbackova, L. (2016). Risk-based thinking in the Production Process Using the Methods of Quality Assurance Matrix and the FMEA Process. *Journal of Systems Integration* (1804-2724), 7(1), 21–28.

Indecopi impuso barreras antidumping a importaciones textiles chinas por cinco años [Indecopi imposed antidumping barriers on Chinese textile imports for five years]. (2018, February 18). Retrieved from <http://semanaeconomica.com/article/legal-y-politica/marco-legal/268026-indecopi-impuso-barreras-antidumping-a-importaciones-textiles-chinas-por-5-anos/>

Instituto Nacional de Estadística del Perú (INEI). (2016). Evaluación de la pobreza monetaria 2009-2015. [Monetary Poverty Assessment 2009-2015]. Lima, Peru: Author.

Instituto Nacional de Estadística del Perú (INEI). (2017a). *Características de las empresas en el centro comercial de Gamarra 2016* [Characteristics of the companies of the commercial emporium of Gamarra 2016]. Lima, Peru: Author.

Instituto Nacional de Estadística del Perú (INEI). (2017b). Perú: Estructura empresarial 2016 [Peru: Business structure 2016]. Lima, Peru: Author.

Instituto Nacional de Estadística del Perú (INEI). (2018). *Evolución de la pobreza monetaria* [Evolution of monetary poverty]. Lima, Peru: Author.

Instituto Nacional de Estadística del Perú (INEI). (2019). *Comportamiento de la economía peruana en el primer trimestre del 2019* [Behavior of the Peruvian economy in the first quarter of 2019]. Lima, Peru: Author.

International Organization for Standardization (ISO). (2015). *Quality management systems – Requirements*.

Isenberg, D.J. (2010). How to start an entrepreneurial revolution. *Harvard Business Review*. Retrieved from:

<https://institute.coop/sites/default/files/resources/Isenberg%20%20How%20to%20Start%20an%20Entrepreneurial%20Revolution.pdf>

Ishikawa, K. (1985). *What is total quality control? the Japanese way*. Englewood Cliffs, NJ : Prentice-Hall, 1985.

Israel, A. & Hitzeroth, M. (2018). How do micro- and small-scale enterprises respond to global competition? An example of the textile survival cluster Gamarra in Lima. *International Development Planning Review*, 40(2), 203-222.

Jaya, E.J., & Yuliarmi, N.N. (2019). Factors Influencing Competitiveness of Small and Medium Industry of Bali: Porter's Five Forces Analysis. *Russian Journal of Agricultural and Socio-Economic Sciences*, 89(5), 45-54.

Jones, G.R. & Hill, C.W.L. (1988). Transaction Cost Analysis of Strategy-Structure Choice. *Strategic Management Journal*, 9(2), 159-172.

Juran, J. M. & Defeo, J. (2010). *Juran's Quality Handbook: The Complete Guide to Performance Excellence*. New York: McGraw Hill.

Karapetrovic, S., Casadesus, M. & Heras, I. (2010). Empirical analysis of integration within the standards-based integrated management systems. *International Journal for Quality Research*, 4(1), 2-4.

Kenneth, L. & Laudon, J. (2012). *Sistemas de información gerencial* [Management information systems]. Juárez, México. Pearson Educación.

Kritikos, A. (2015). Entrepreneurship and Economic Growth. *International Encyclopedia of the Social & Behavioral Sciences*, 2, 675–680.

Kubr, M., & International Labour Office. (2002). *Management consulting: A guide to the profession*. Geneva, Switzerland: International Labour Office.

- Leon, J. (2014). Determinantes del Proceso de Internacionalización de las Empresas Peruanas [Determinantes del Proceso de Internacionalización de las Empresas Peruanas]. *Pensamiento Crítico*, 6(1), 83-96.
- Leon, J. (2017). *Inclusión financiera de las micro, pequeñas y medianas empresas en el Perú, Experiencia de la Banca de Desarrollo* [Financial inclusion of micro, small and medium enterprises in Peru, Experience of Development Banking]. Santiago de Chile, Chile: CEPAL.
- Li Ping, W. (2008). The Characteristics and Problems of SME Cluster of China. 2008 *International Seminar on Business and Information Management*, 394-396.
- Luh, F.S. (1968). Controlled Cost: An Operational Concept and Statistical Approach to Standard Costing. *The Accounting Review*, 43(1), 123-132.
- Maverick, J.B. (April 18, 2019). *Absorption Costing vs Variable Costing: What's the Difference?* [Investopedia Stock Analysis. New York: Newstex].
- Mazzei, M. (2018). Five Ws. *Salem Press Encyclopedia*.
- Mina, S. (2014). Dirección y Ética y contabilidad de gestión. Un camino posible hacia el logro de objetivos [Management, Ethics and management accounting. A possible way towards the achievement of objectives]. *Cuadernos De Contabilidad*, 15(39), 807-828.
- Ministerio de la Producción (PRODUCE). (2016). *Estudio de la situación actual de las empresas peruanas* [Study of the current situation of Peruvian companies]. Lima, Peru: Biblioteca Nacional del Perú.
- Ministry of Foreign Trade and Tourism. (2019). *Manual del orden del tratado de libre comercio entre Perú – China* [Manual of the Regime of Origin Free Trade Agreement Peru – China]. Peru, Lima: Author.

- Nees, D.B. & Greiner, L.E. (1985). Seeing Behind the Look-Alike Management Consultants. *Organizational Dynamics*, 13(1), 68-79.
- Niels, G. (2000). What is Antidumping Policy Really About? *Journal of Economic Surveys*, 14(4), 467-492.
- Onuoha G. (2007) Entrepreneurship. *AIST International Journal* 10(1), 20-32.
- Pearce, J. & Robinson, R. (2000). *Formulation, implementation, and control of competitive strategy*. New York, NY: McGraw-Hill.
- Peñaranda, C. (2018, June 11). How to face informality. *Diario Gestion*, p. 25. Retrieved from <https://www.camaralima.org.pe/repositorioaps/0/0/par/gestion/0618%20gestion.pdf>
- Perez, E. & Rodriguez, Y. (2014). Modelos de madurez y su idoneidad para aplicar en pequeñas y medianas empresas [Maturity models and the suitability of its application in small and medium enterprises]. *Ingeniería Industrial*, 35(2), 149-160.
- Pokorni, S. (2004). Process approach to quality management in education. *AARMS*, 3(4), 625-631.
- Porter, M. (1979). How competitive forces shape strategy. *Harvard Business Review* 57(2), 102-117.
- Porter, M. (2008). The Five Competitive Forces That Shape Strategy. *Harvard Business Review*, 86(1), 78-93.
- Project Management Institute. (2004). *A guide to the project management body of knowledge* (PMBOK guide). Newtown Square, Pa: Project Management Institute.
- Revelan cuánto ganan los venezolanos que trabajan en Perú [It is revealed how much Venezuelans who work in Peru earn]. (2017, August 14). Retrieved from <https://larepublica.pe/sociedad/1074190-revelan-cuanto-ganan-los-venezolanos-que-trabajan-en-peru/>

- Ries, E. (2011). *The lean startup: How today's entrepreneurs use continuous innovation to create radically successful businesses*. New York, NY: Crown Business.
- Ríos-Manríquez, M., Muñoz, C. I., & Rodríguez-Vilariño, M. L. (2014). Is the Activity-Based Costing System a Viable Instrument for Small and Medium Enterprises? The Case of Mexico. *Estudios Gerenciales*, 30(1), 220-232.
- Rusu, V.D. & Roman, A. (2018). Entrepreneurial Motivations in the European Union countries: an empirical approach. *Management Dynamics in the Knowledge Economy*, 6(1), 9-31.
- Sahut, J. & Peris-Ortiz, M. (2013). Small business, innovation, and entrepreneurship. *Small Business Economics*, 42(4), 663-668.
- Sajn, N. (2019, January 9). Environmental impact of the textile and clothing industry. What consumers need to know. *European Parliamentary Research Service*. Retrieved from [http://www.europarl.europa.eu/RegData/etudes/BRIE/2019/633143/EPRS_BRI\(2019\)633143_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/BRIE/2019/633143/EPRS_BRI(2019)633143_EN.pdf)
- Schumpeter, J.A. (1965). *Economic theory and entrepreneurship history*. Cambridge, MA: Harvard University Press.
- Scupola, A. (2008). Conceptualizing Competences in E-Services Adoption and Assimilation in SMES. *Journal of Electronic Commerce in Organizations*, 6(2), 78-91.
- Spronk, L.H. (1956). Today's Costing Methods and Their Objectives. *New York Certified Public Accountant*, 26(1), 285-294.
- Superintendencia Nacional de Administración Tributaria (SUNAT). (2019). Unidad Impositiva Tributaria UIT [Tax Unit TU]. Retrieved from <http://www.sunat.gob.pe/indicestajas/uit.html>

- Superintendencia Nacional de Administración Tributaria (SUNAT). (2004). Ley del impuesto a la renta. Capítulo IX [Law of income tax. Chapter IX]. Retrieved from <http://www.sunat.gob.pe/legislacion/renta/regla/cap9.pdf>
- Tambunan, T. (2009). Export-oriented small and medium industry clusters in Indonesia. *Journal of Enterprising Communities: People and Places in the Global Economy*, 3(1), 25–58.
- Trading Economics. (2019). *Peru GDP Annual Growth Rate*. Retrieved from <https://tradingeconomics.com/peru/gdp-growth-annual>
- Villaran, F. (2000). *Las PYMEs en la estructura empresarial peruana* [SMEs in the Peruvian business structure]. Lima, Peru: SASE.
- Visser, E. (1999). A Comparison of Clustered and Dispersed Firms in the Small-Scale Clothing Industry of Lima. *World Development*, 27(9), 1553-1570.
- Visser, E., Távara, J. I., & Villaran, F. (2014). Growing but not Developing: Long-Term Effects of Clustering in the Peruvian Clothing Industry. *Tijdschrift voor Economische en Sociale Geografie*, 106(1), 1-16.
- Werr, A., Stjernberg, T., & Docherty, P. (1997). The Functions of Methods of Change in Management Consulting. *Journal of Organizational Change Management*, 10(4), 288-307.
- Yamakawa, P., Castillo, C., Baldeon, J., Espinoza, L.M., Granda, J.C., & Vega, L. (2010). *Modelo tecnológico de integración de servicios para la mype peruana* [Technological model of service integration for the Peruvian SMEs]. Lima, Peru: ESAN.

Appendices

Appendix A: The Company

102-1 Nombre de la organización

Nombre de la organización



Confecciones Julieta S.A.C.

102-2 Actividades, marcas, productos y servicios

Descripción de las actividades de la organización
Nuestra empresa comenzó sus actividades en el año 2011, confeccionando ropa femenina en prendas tejidas en hilo de algodón, alpaca y mezclas finas de las mejores hilanderías del Perú.
Nuestra empresa maneja dos marcas de prendas femeninas:


1) **Sheline:** Orientada al consumidor joven.



2) **Julieta:** Orientado a una mujer clásica contemporánea.



102-3 Ubicación de la sede

 Nuestro centro de operaciones se encuentra en el emporio comercial "Gamarra" Prolongación Gamarra Nro. 764 Int. 145b (Galería el Rey de Gamarra)

Distrito: Victoria

Departamento: Lima, Perú

102-4 Ubicación de las operaciones

a) **Número total de países:** 1

b) **Países en los que lleva a cabo las operaciones más significativas:** Perú

102-5 Propiedad y forma jurídica

Nuestra empresa está constituida bajo la forma jurídica de sociedad anónima cerrada en la ciudad de Lima distrito la victoria en el conglomerado de Gamarra (Se puede resaltar que es una empresa que trabaja con asociaciones locales, instituciones académicas dando oportunidad a jóvenes profesionales en formación).

102-6 Mercados servidos

i. las ubicaciones geográficas en las que se ofrecen los productos y servicios.

Nuestra empresa llega a todo el Perú teniendo nuestro punto de venta en el emporio comercial de Gamarra.



ii. los sectores servidos

Textiles y Confección



iii. los tipos de clientes y beneficiarios

Empresas, instituciones públicas y privadas, minoristas, mayoristas, personas naturales.

Figure A1. Confecciones Julieta profile.

Retrieved from *Reporte de Sostenibilidad Confecciones Julieta*, by Confecciones Julieta, 2019, Lima, Peru: Author.

Appendix B: Confecciones Juliatt Sales Control

RESUMEN 2015

VENTAS MENSUALES

MES	BASE IMP.	IGV	TOTAL
ENERO	9,492.37	1,708.63	11201
FEBRERO	10,489.83	1,888.17	12378
MARZO	7,527.12	1,354.88	8882
ABRIL	11,950.85	2,151.15	14102
MAYO	23,905.93	4,303.07	28209
JUNIO	16,636.44	2,994.56	19631
JULIO	28,144.07	5,065.93	33210
AGOSTO	26,759.32	4,816.68	31576
SEPTIEMBRE	14,855.08	2,673.92	17529
OCTUBRE	15,099.15	2,717.85	17817
NOVIEMBRE	14,935.59	2,688.41	17624
DICIEMBRE	23,816.95	4,287.05	28104
TOTAL	203,612.71	36,650.29	240,263.00

COMPRAS MENSUALES

PAGO RENTA
142
157
113
179
359
250
422
401
223
226
224
357
3,054

MES	BASE IMP.	IGV	TOTAL
ENERO	6,301.70	1,134.31	7436.01
FEBRERO	10,524.01	1,894.32	12418.33
MARZO	8,563.22	1,541.38	10104.6
ABRIL	11,057.17	1,990.29	13047.46
MAYO	24,164.61	4,349.63	28514.24
JUNIO	16,639.10	2,995.04	19634.14
JULIO	28,099.58	5,057.93	33157.51
AGOSTO	27,076.27	4,873.73	31950
SEPTIEMBRE	15,169.96	2,730.59	17900.55
OCTUBRE	15,337.39	2,760.73	18098.12
NOVIEMBRE	14,789.61	2,662.13	17451.74
DICIEMBRE	23,443.81	4,219.89	27663.7
TOTAL	201,166.44	36,209.96	237,376.40

Figure B1. Confecciones Juliatt sales 2015.

Retrieved from *Confecciones Juliatt Sales control 2015 & 2016*, by Confecciones Juliatt, 2019, Lima, Peru: Author.

RESUMEN 2016

VENTAS MENSUALES

MES	BASE IMP.	IGV	TOTAL
ENERO	13,155.93	2,368.07	15524
FEBRERO	9,278.81	1,670.19	10949
MARZO	9,323.31	1,678.19	11001.5
ABRIL	9,009.32	1,621.68	10631
MAYO	16,494.92	2,969.08	19464
JUNIO	15,122.88	2,722.12	17845
JULIO	30,734.75	5,532.25	36267
AGOSTO	20,956.78	3,772.22	24729
SEPTIEMBRE	13,300.00	2,394.00	15694
OCTUBRE	13,243.22	2,383.78	15627
NOVIEMBRE	13,366.10	2,405.90	15772
DICIEMBRE	17,104.24	3,078.76	20183
TOTAL	181,090.25	32,596.25	213,686.50

COMPRAS MENSUALES

PAGO RENTA
197
139
140
135
247
227
461
314
200
199
200
257
2,716

MES	BASE IMP.	IGV	TOTAL
ENERO	13,572.97	2,443.13	16016.1
FEBRERO	9,337.29	1,680.71	11018
MARZO	9,813.27	1,766.39	11579.66
ABRIL	11,033.43	1,986.02	13019.45
MAYO	13,098.31	2,357.69	15456
JUNIO	15,172.88	2,731.12	17904
JULIO	32,322.88	5,818.12	38141
AGOSTO	19,721.19	3,549.81	23271
SEPTIEMBRE	13,956.78	2,512.22	16469
OCTUBRE	13,126.36	2,362.74	15489.1
NOVIEMBRE	14,004.24	2,520.76	16525
DICIEMBRE	16,680.51	3,002.49	19683
TOTAL	181,840.09	32,731.22	214,571.31

Figure B2. Confecciones Juliatt sales 2016.

Retrieved from *Confecciones Juliatt Sales control 2015 & 2016*, by Confecciones Juliatt, 2019, Lima, Peru: Author.

Appendix C: Confecciones Julieta Catalog



Figure C1. She Line catalog A.

Retrieved from *Confecciones Julieta Sales control 2015 & 2016*, by Confecciones Julieta, 2019, Lima, Peru: Author.



Figure C2. She Line catalog B.

Retrieved from *Confecciones Julieta Sales control 2015 & 2016*, by Confecciones Julieta, 2019, Lima, Peru: Author.



Figure C3. She Line catalog C.
Retrieved from *Confecciones Julieta Sales control 2015 & 2016*, by Confecciones Julieta, 2019, Lima, Peru: Author.



Figure C4. She Line catalog D.
Retrieved from *Confecciones Julieta Sales control 2015 & 2016*, by Confecciones Julieta, 2019, Lima, Peru: Author.

Appendix D: Excel Spreadsheet

The following table is the pilot of the proposed Excel Spreadsheet that the company will use to manage their costs. For this case, the blanks were filled with the information given by the company (S. Matos, personal communication, August 8, 2019). It is important to note that this information is not 100% accurate because there is not documented information or records of sales and costs. However, this is a starting point for the ordering of internal processes and the establishment of future strategies, as have been mentioned in Chapter IX. This table has three different parts: (a) revenues, (b) manufacturing costs, and (c) expenses. This must be a monthly practice, because the salaries, taxes and most of the expenses have one month as the standard period. It is important to know, also, that the firm does not have inventory cost because the dresses are produced to replace those already sold in the store. In less than one week, what is produced is sold again.

The income also includes the different products that Confecciones Juliett manufactures. The price and quantity sold is expressed in the first four columns. Monthly the average total revenues are S/. 33,620.

- Ropa punto abierto.
- Ropa punto capas.
- Ropa punto abierto (imported).
- Ropa punto cerrado (imported).

The second section of this table has the manufacturing cost, which also includes the variable and fix cost. The variable costs are the raw materials used for manufacturing the garments, and the external workforce; while the fixed cost is the internal workforce with 4 production employees each of them with S/.900 (15 salaries per year). The costs are S/. 16,172, S/. 1,650 and S/. 4,500 for raw material, external workforce and internal workforce respectively.

The third and last section involves the expenses that indirectly affect manufacturing costs. Currently all of them are fixed, within which we have: maintenance expenses, sales expenses and administrative expenses. Subtracting all the aforementioned costs and expenses from income, there is an operating income of S/.6,254 representing 19% of the total revenues.

		Product Line "She Line"					
Cantidades en PEN (peruvian nuevo sol)		Ropa punto abiertos	Ropa punto capas	Ropa punto abierto (importado)	Ropa punto cerrados (importados)	S/.	%
Revenues	Ingresos					33,620	
	Cantidad (unidades/mes)	500	300	100	100		
	Precio (soles / unidad) (-IGV)	29	33	53	41		
	Ingresos Totales	14,350	9,840	5,330	4,100		
Manufacturing Costs	Materia Prima (Variable)					16,172	48%
	Hilo usado (kg/und)	0.400	0.400				
	Costo hilo (soles / Kg) (-IGV)	25	25				
	Costo hilo usado (soles / und)	10	10				
	Otros Materiales (S/. / per unit)	1	1				
	Costo Unitario	11	11	40	35		
	Total cost material	5,420	3,252	4,000	3,500		
	Mano de Obra Externa (Variable)					1,650	5%
	Precio Unitario (soles / und)	15	15				
	Cantidad unidades (30%)	50	60				
Mano de Obra Variable	750	900					
Manufacturing Costs	Mano de Obra Interna (Fijo)					4,500	13%
	Fijo	4,500					
Gross Margin						11,298	34%
Expenses	Gastos de Mantenimiento (Fijo)					1,080	3%
	Telefono	150					
	Luz	300					
	Agua	200					
	Gas	130					
	Mantenimiento máquinas	300					
	Gastos de Ventas (Fijo)					1,964	6%
	Vendedor	900					
	Luz	60					
	Telefono	50					
	Mantenimiento (Agua)	50					
	Pago diseñadora	100					
	Transporte (10 soles / día)	300					
	Impuestos (1.5% ventas)	504					
	Gastos Administrativos (Fijo)					2,000	6%
Administrativos	2,000						
Operating Income						6,254	19%

Figure D1. Proposed Excel Spreadsheet.

Appendix E: Consulting Report in Spanish

1.1. Descripción del Proyecto

La consultoría realizada a la empresa Confecciones Julieta, la cual se dedica a la producción y venta de vestidos hechos en base de hilados de lana en el emporio textil de Gamarra, empezó con una mirada general a la situación de la empresa. La meta inicial era identificar, de acuerdo con lo descrito por la gerencia de la empresa, el verdadero problema que esta organización estaba enfrentando. Los problemas visibles descritos fueron la falta de crecimiento en ventas, baja respuesta en campañas de marketing realizadas anteriormente. Tras una serie de visitas al local de ventas y de manufactura, se pudo lograr determinar que el origen de todos estos problemas era la ausencia de una estructura de costos que pueda ser la columna vertebral de la empresa. En otras palabras, la empresa no es capaz de establecer futuras estrategias que demanden inversión económica, si no empieza por una identificación de sus procesos y costos asociados a estos.

1.1.1. Visión del proyecto

Lograr que la organización Confecciones Julieta comprenda, actúe y reconozca que contar con una estructura de costos le permite mejorar su trabajo y contribuye a mejorar los resultados de la empresa.

1.1.2. Objetivos del proyecto

El objetivo principal del proyecto es establecer una estructura de costos para la empresa Confecciones Julieta que permita la toma de decisiones y el control de los recursos de forma más eficiente.

Los objetivos específicos del proyecto incluyen:

- Identificar la estructura de costos más apropiada para el tamaño y naturaleza de la empresa.

- Desarrollar una metodología para los diversos tipos de costos que facilite su cálculo para la empresa
- Construir una hoja de cálculo en el software Excel para que facilite la gestión de costos a la empresa.
- Documentar los procesos identificados que tengan prioridad a través de manuales de procedimientos, que incluyan caracterizaciones y flujogramas de los procesos, siempre y cuando sean relevantes con el problema identificado
- Diseñar indicadores que permita medir las diversas operaciones.

1.1.3. Factores críticos de éxito

Los factores críticos de éxito identificados para alcanzar los objetivos descritos anteriormente y obtener los beneficios esperados se detallan a continuación:

- Compromiso de la Gerencia, otorgando los recursos que se establezcan necesarios como parte de los Programas de Sensibilización y Capacitación.
- Comunicación fluida a todo nivel adecuando el mensaje en función a la diversidad de receptores y canales de comunicación que posee Confecciones Juliett.
- Participación de todas las áreas en el levantamiento de los procesos y la documentación pertinente, asegurando la precisión de la información en las caracterizaciones y flujogramas.
- Personal capacitado para la ejecución de los Programas de Sensibilización y Capacitación
- Cumplimiento de los programas de sensibilización y capacitación definidos, monitoreando los resultados periódicamente a fin de verificar si se está alcanzando los objetivos o en su defecto realizar las modificaciones oportunamente.

1.2. Enfoque del Proyecto

1.2.1. Definición de la metodología

El proyecto de Consultoría se desarrollará en 5 fases principales. A continuación, se presenta el plan de trabajo a alto nivel:

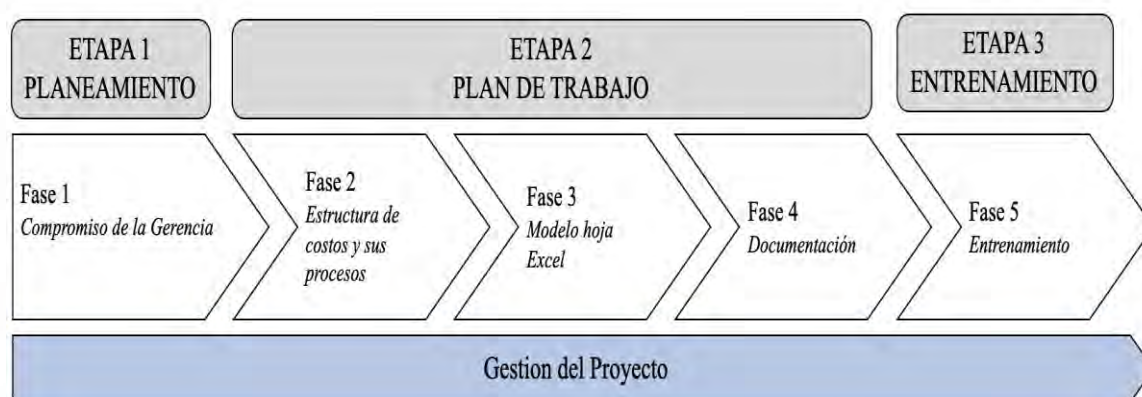


Figure E1. Gestión de Proyectos.

1.2.2. Objetivo de las fases de enfoque

Fase 1. La fase tiene como objetivo involucrar a las personas claves de la empresa que están involucradas o tienen injerencia en el proceso de costos. Involucrar a estas personas no solo significará que se requerirá su aprobación y cooperación, sino que también evaluará si las personas adecuadas tienen los roles adecuados.

Fase 2. La fase tiene como objetivo la recopilación de datos dentro de la organización. Una nueva estructura y sistema de costos para rastrear gastos, ventas y costos requerirá listas de todos los artículos y precios que deberán compilarse y organizarse. Esta fase marca la información que Confecciones Juliett necesita de los otros procesos para garantizar que el nuevo proceso de cálculo de costos se ejecute sin problemas. Además, esto proporciona los generadores de costos que se considerarán para los procesos centrales.

Fase 3. La fase tiene como objetivo la configuración de una hoja de Excel para la gestión de costos. Las hojas de Excel deben cumplir ciertas características para ser útiles en una empresa como Confecciones Juliett.

Fase 4. La fase tiene como objetivo elaborar toda la documentación pertinente al nuevo proceso de costos, tales como procedimientos, manuales e instructivos. Esta fase proporciona el mantenimiento de cualquier información necesaria para respaldar la operación del nuevo proceso.

Fase 5. La fase tiene como objetivo brindar soporte de capacitación a todas las personas que interactúen en esta estructura de costos. Como será un proceso nuevo, Confecciones Juliett necesita asegurarse de que la fuerza laboral adquiera las competencias necesarias para completar el trabajo. Además, será obligatorio realizar una evaluación de estos entrenamientos.

1.2.3. Alcance de entregables

La gestión de un proyecto de consultoría implica una cantidad diversa de entregables. Estos incluyen todo el trabajo y productos que se deben generar durante la gestión del proyecto para asegurar el éxito del mismo. Cada fase de un proyecto debe contar con entregables específicos. El listado de entregables por fase y el contenido principal de cada uno se presenta a continuación:

Table E1

Alcance de Entregables

Fase	Entregables
1 Compromiso de la gerencia	Programa de sensibilización Informe de cumplimiento del programa de sensibilización Estructura organizacional: responsables y líneas de autoridad
2 Estructura de costos y sus procesos	Mapa de procesos actualizado Mapa de relaciones entre procesos Inventario de actividades
3 Modelo hoja de cálculo	Excel hoja de calculo
4 Documentación	Listado de información documentada Difusión de los procesos documentados a los involucrados
5 Entrenamiento	Programa de capacitación Informe de cumplimiento del programa de capacitación

1.2.3. Fuera del alcance

Para ejecutar el Proyecto considerado en este documento, se ha estimado un plazo para su ejecución y se ha previsto asignar personas competentes acorde con lo descrito en el alcance de los entregables. En tal sentido, es conveniente precisar aquellos aspectos relevantes que están fuera del alcance de este proyecto

- Actividades de capacitación o sensibilización fuera del plazo del proyecto.
- Capacitaciones o sensibilizaciones que no correspondan a temas relacionados a la gestión de costos.
- Roles, funciones o responsabilidades y perfiles que no estén directamente relacionados con el proceso de costos.
- Documentar procedimientos distintos a la gestión de costos.

1.3. Hitos Claves

A continuación, se muestra el listado de los hitos del proyecto asociados a los entregables que serán presentados a lo largo de la vida del proyecto según el alcance establecido.

Table E2

Hitos claves

Hitos	Fecha fin estimada
1 Ejecución del Programa de sensibilización	Semana 1
2 Roles y funciones del proceso de costos	Semana 2
3 Mapa de procesos actualizado	Semana 5
4 Entrega de hoja de cálculo Excel	Semana 7
5 Informe sobre manuales de procedimiento.	Semana 9
6 Ejecución del Programa de capacitación	Semana 10
7 Medición del Programa de capacitación	Semana 12

1.4. Supuestos y Riesgos del Proyecto

1.4.1. Supuestos del proyecto

Los supuestos identificados para el proyecto de consultoría son los siguientes:

- Se cuenta con el compromiso de Confecciones Julieta para la implementación del nuevo proceso de costos.
- Se cuenta con el personal en cantidad y competencias para ejecutar la sensibilización y la capacitación al respecto de temas de costos.
- Se cuenta con medios y herramientas de comunicación establecidos necesarios para ejecutar la sensibilización.
- Se cuenta con personal para el seguimiento y control oportuno del Proyecto

1.4.2. Riesgos del proyecto y plan de respuesta inicial

La gestión de un proyecto involucra la aparición de riesgos que pueden afectar negativamente el desarrollo de este y los resultados esperados por la organización. Por lo tanto, se han identificado los siguientes riesgos del proyecto de consultoría durante la etapa inicial de planeación que deben ser monitoreados y administrados a través de todo el proyecto:

Table E3

Gestión de Riesgos

Riesgo	Plan de respuesta inicial
1 Resistencia al cambio del modelo organizacional	Permitir la participación de los empleados en la elaboración de sugerencias y consideraciones. Sustentar mediante buenas prácticas el modelo propuesto
2 Los recursos disponibles no cuentan con las competencias necesarias para cubrir los requerimientos del nuevo proceso	Evaluar si la competencia establecida es crítica o deseable. En este último caso, se establecerá un plan de desarrollo del personal. En caso la competencia sea crítica, se procederá a contratación de personal.
3 El contenido de los manuales y procedimientos presenta información incompleta o insuficiente	Poner a disposición del equipo del proyecto las plantillas necesarias para la documentación de perfiles, manuales y procedimientos.
4 Las relaciones identificadas entre procesos son incorrectas o no han sido documentadas de manera apropiada	Involucrar a las áreas correspondientes en el proceso de documentación de cada subproceso creando relacionamiento y compromiso con el proyecto y el equipo responsable.
5 Desviación del proyecto respecto a tiempo, alcance y/o calidad	Realizar un seguimiento semanal del proyecto, escalar cualquier desviación para la toma de medidas correctivas

1.5. Resultados esperados

Se espera que la empresa pueda alcanzar un alto nivel de ordenamiento interno y le permita establecer otras buenas prácticas administrativas y financieras. Así también como desarrollar una estrategia de marketing debidamente sustentada en términos económicos y con una proyección de ganancias determinada y sobre todo cuantificable. Los resultados inmediatos se verán cuando Confecciones Julieta pueda determinar sus costos de producción y con ello establecer el precio de venta correcto para las prendas que manufactura y comercializa.

