

memo

Mexico City, Mexico, May 24, 2023

Mexico: Most Common Financial Problems in Companies

Each company is unique and may face specific financial challenges depending on its individual situation. Good financial management, careful planning, and adaptability are key to overcoming these issues and ensuring the long-term financial health of a company.

Small and medium-sized companies are a crucial pillar of Mexico's development. In addition to being sources of employment, they also contribute significantly to Mexico's Gross Domestic Product (GDP). According to data from the National Institute of Statistics and Geography (INEGI), there are an estimated 4.9 million SMEs in the country, with 1.2 million SMEs having been established in 2021. Statistics also indicate that the number of new micro, small, and medium-sized companies exceed the number of closures, particularly after 2020.

However, small businesses encounter a range of difficulties and obstacles that impede their growth, hindering the proper strengthening of this sector. Therefore, it is crucial to identify the most common financial problems they face. While it is true that these issues may vary depending on the size, sector, and geographic location of the SMEs, the common financial challenges can generally be summarized as follows:

1. Insufficient cash flow:

Lack of cash is one of the most common financial problems faced by companies. This issue arises when revenues are insufficient to cover expenses, making it difficult to meet financial obligations such as paying salaries, suppliers, and other commitments. The lack of cash flow can significantly impact a company's ability to invest in new projects and seize growth opportunities.

2. Excessive indebtedness:

Excessive indebtedness is a serious problem for companies, particularly if they are unable to meet debt payments. High levels of debt can impede their ability to secure additional financing and can lead to long-term financial difficulties.

3. Poor financial management:

Lack of knowledge or skills in financial management can result in business problems. Inadequate financial planning, absence of budgeting, poor cost control, and inadequate asset management can have a negative impact on a company's financial health.

4. Competition and market changes:

Changes in the market and increased competition can affect a company's finances. The entry of strong competitors shifts in customer preferences, or technological advancements can reduce revenues or increase costs, leading to financial challenges.



5. Tax and regulatory issues:

Companies may also encounter financial problems due to non-compliance with tax obligations, fines, or costly regulations. Failure to fulfill tax obligations or adhere to relevant regulatory standards can result in significant additional expenses and impact the company's financial situation.

6. Changes in economic conditions:

General economic conditions, such as recessions or financial crises, can affect companies and pose financial problems. Decreased demand for products or services, declining prices, or rising costs can jeopardize a company's financial stability.

While each company is unique and may face specific financial challenges based on its individual circumstances, it is crucial for companies to prioritize good financial management, careful planning, and adaptability to navigate market challenges. Seeking financial advice and support from industry experts can also aid companies in overcoming these challenges.

ECIJA Advisory Mexico offers specialized financial services to its clients, including operational restructuring, enhancing operational development, cost reduction, cash and working capital management, and financial restructuring through business modeling. Additionally, they provide value-added services such as CFO as a service. These services can assist companies in improving their financial situation and overcoming the financial challenges they encounter.

We remain at your disposal for any questions you may have.

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