

Growing Beyond

Time to tune in

Latin American companies
turn up the volume on global growth

About this report

Rapid-growth markets have largely been viewed and studied from the perspective of inbound investment by companies based in the West. *Time to tune in: Latin American companies turn up the volume on global growth*, offers cutting-edge insights into the strategies of outbound investment from companies based in Latin America and thus provides new perspectives on decision-making for companies from both mature and rapid-growth markets.

Time to tune in draws upon a survey of 600 business executives based in Argentina, Brazil, Chile, Colombia, Mexico and Peru. The survey was conducted by Oxford Economics in November and December 2012. Among the respondents, 29% were from Brazil; 24% from Mexico;

13% each from Argentina, Chile and Colombia; and 10% from Peru. Among the companies surveyed, the reported minimum annual revenues were: 25%, US\$1 billion or more; 20%, US\$500 million to US\$999 million; 9%, US\$250 million to US\$500 million; and 46%, under US\$250 million.

Time to tune in is also based on qualitative interviews conducted between January and March 2013 with several Ernst & Young sector and country leaders, leading economists, and senior executives of companies based in Latin America's six most important markets. Oxford Economics provided analysis of current and predicted trade flows between Latin American markets and the rest of the world.

Forecasting methodology

The bilateral sector export forecasts for the Latin American countries in the survey are underpinned by Oxford Economics' Global Macroeconomic and Industry Models.

The Oxford Global Model covers 45 economies in detail, with the rest of the world economy covered in six trading blocs. Individual country models are fully linked through global assumptions about internationally traded goods and services, exchange rates, competitiveness, capital markets, interest rates and commodity prices. The forecasts for bilateral export flows are constructed as a function of final demand in each country, using

input/output tables to estimate the share of domestic expenditure satisfied by imports. The forecasts for total export flows are then disaggregated by sector, using Oxford Economics' industry forecasts to inform future demand and production trends.

The historical data on bilateral flows of merchandise exports was sourced from the UNComtrade database, which classifies sectors according to the Standard International Trade Classification (SITC) system. Historical data on exports of services was sourced from the International Monetary Fund (IMF).

Introduction



In their rush to succeed in booming Asian markets such as China and India, investors have been pushing Latin America backstage. But this fast-growing market is now moving into the spotlight – and it’s not the Latin America you used to know. Although competition is heating up, both from regional businesses and from companies in other emerging markets, opportunities are plentiful in a way they never were before.

Ernst & Young’s latest Rapid-Growth Markets Forecast predicts strong growth in the region, with bright prospects for Brazil, Mexico and Colombia, and a surprisingly robust outlook for Peru. Latin American countries are also maturing in terms of their legal and regulatory environment, providing even more support for local companies looking to make their way onto the global stage. Investing in the region is particularly critical for companies in specific industries, such as oil and gas, mining and metals, retail and consumer products, infrastructure, and agribusiness. There’s never been a better time than now for multinational companies to join Latin America’s growth carnival.

What’s different about the region’s revival is that this time around, its market growth is led not by Western multinationals (as was mostly the case in the past) but by the emergence of major national businesses, themselves often supported by revamped government policies. These businesses are increasingly expanding

into other markets to become global players. Several Mexican, Brazilian, Chilean and Colombian multinationals are heading especially quickly down that path. Companies from rapid-growth markets are increasingly acquiring stakes in developed-market companies, and Latin American businesses are among the leading buyers.

These trends pose both new challenges and new opportunities for global companies. For years, they have not perceived Latin America as a global player, but this is changing rapidly, and companies need to get ahead of the curve. Today, success in the fast-growing markets and promising underlying conditions of Latin America requires businesses to navigate a dynamic new competitive landscape. At the same time, they must cope with the region’s long-standing challenges related to infrastructure, bureaucracy and social conditions. We see this report as an in-depth exploration of a region of vast potential that will be an important source of new growth as well as tough competition. Whether you lead one of the new global Latin American companies or you work for a developed-world company investigating the market, we hope you find this report useful.

Sam H. Fouad
Americas Emerging Markets Leader
Ernst & Young

*Time to tune in: Latin American companies turn up the volume on global growth is part of **Growing Beyond**, our flagship program that explores how companies can grow faster by expanding into new markets, finding new ways to innovate and implementing new approaches to talent management.*



Executive summary

Not so long ago, Latin America was considered mostly as a business opportunity for outsiders, a treasure that could be unlocked only with northern hemisphere capital and northern hemisphere expertise. Even today, the idea of a research project focused on outward-bound investment caught many of the executives we interviewed by surprise. Often, they would start to talk instead about opportunities for foreign companies in their own country, or they would ask twice to make sure they had understood us correctly.

But this perspective is likely to become much more familiar in the next few years. Smart, innovative and nimble, the best of the companies some scholars are calling “Multilatinas” or “Global Latinas” are now world-class companies. They can be useful partners – or major competitors. Over the next decade, the strategists of most multinationals will come to know them in both capacities.

The results of the Ernst & Young 2013 Latin America Outbound Expansion Survey and our qualitative research show that Latin American companies are poised to expand significantly

outside their borders, presenting both opportunities and challenges for global companies based outside the region. The following are our key findings:

- ▶ A majority of our respondents export or sell to markets within Latin America (80%) or outside the region (66%), but relatively few have brick-and-mortar operations through direct investment in Latin America (56%) or outside the region (33%).
- ▶ For 54% of our respondents, the US and Canada are by far the top countries for conducting international business, but they will be less dominant in the next three years as Latin American companies expand farther afield.
- ▶ Notably, China ranks fourth for international business, ahead of several other Latin American countries and Western Europe; 32% of Colombian respondents and 26% of Chilean respondents currently conduct a significant amount of business with China.
- ▶ India is among the top 10 overseas markets expected to hold the best growth opportunities in the next three years.
- ▶ According to 43% of the executives surveyed, rapid-growth markets beyond Latin America currently account for more than 10% of total international revenues, but 54% expect these markets to account for more than 10% of total international revenues in three years.

- ▶ Reaching new customers and increasing sales growth are the top benefits expected from international expansion across all types of new markets.
- ▶ Macroeconomic stability, high-quality infrastructure and political stability are the features of the business environment that Latin American companies assess most carefully in targeting an international market.
- ▶ Identifying reliable business partners is one of the top challenges when expanding internationally, according to 54% of executives. But 62% consider themselves effective at forging relationships with local suppliers in new markets, which positions them well to meet this challenge.
- ▶ To build an international management team, 50% of our respondents expect to draw on talent from within their companies, but as many as 37% plan to recruit locally in their target markets for overseas expansion. This is in line with respondents’ plans to make boards more representative of overseas markets (55%) and make their corporate culture more international (49%).

Business implications and recommendations

These opportunities and challenges require several strategic responses from global companies that wish to respond effectively to and benefit from Latin American business expansion. Those companies that tune in quickly to the new Latin America stand to gain a significant competitive edge. By understanding where, how and why companies from Latin America are expanding, global companies can prepare to grab opportunities rather than risk falling behind potential new competitors. We recommend the following actions:

Seize strategic partnership opportunities.

A majority of the Latin American executives we surveyed say that beyond direct exports, forging partnerships will be their company's preferred mode of market entry. Not surprisingly, they see identifying reliable business partners as their biggest challenge. On top of this, many executives believe that their companies lack the kind of international perspective needed to become global players. Non-Latin American global companies should be on the lookout for these partnership opportunities; if they have a complementary offering, a partnership could be a good opportunity not just in its own right but as a way to gain a foothold in the region and better understand Latin business culture without the risks of an acquisition.

Foreign companies will need to ask whether their offering is sufficiently unique to differentiate them from Latin players who might be competitors or whether they should enter Latin markets as partners. Anecdotal examples indicate that some Latin American

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firms have launched a few ventures beyond their borders rooted in strategic local partnerships. For example, in February 2013, Mexico-based pharmaceutical firm Genomma Lab announced a major deal with Wal-Mart to distribute Genomma's products in the US, following a similar arrangement with Walgreens drugstores, targeting Hispanic consumers in the US. Genomma also has distribution arrangements in Spain, France and several Latin American countries. Most recently and famously, in March 2013 the Brazilian 3G investment group joined Warren Buffett in the acquisition of Heinz, to add to 3G's global footprint of consumer products investments.

It is clear that getting to know today's Latin American business leaders is well worth doing for its own sake. In Mexico, for instance, managers are sophisticated and increasingly adept at operating in a global environment. "The management of Mexican companies has become much more professional in the last 20 years," says Alberto Tiburcio, Regional Managing Partner, Ernst & Young Mexico. "They are dealing with the real issues and learning how to grow."

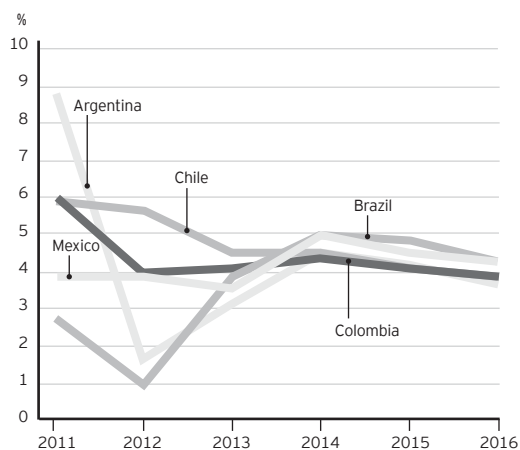
But in some countries and sectors, the rapid growth may force global companies not based in Latin America to consider a merger sooner than they might have wanted to, as a defensive strategy to prevent local companies from becoming large enough at home to become a threat to them. Jorge Menegassi, Country Managing Partner at Ernst & Young in Brazil, says that the banking sector, for instance, is growing so quickly that it has been more profitable for Brazilian banks to focus on the internal market than to invest time and resources to go abroad. "Even though GDP grew at 1% to 2% last year, family consumption has been growing at 4% to 5% each year. That still leaves banks with a lot of opportunities to explore." And Cristián Lefevre, Country Managing Partner at Ernst & Young in Chile, says bluntly that an M&A strategy is the best way for non-Latin American companies to get into a large market like Brazil. "The best way to start in Brazil or to grow in an efficient way and quickly is inorganic growth," he says.

Watch for a possible shift in methods of sourcing talent. The ability to place the right managers in the right target market or country will be a key challenge for Latin American companies. At the same time, the need to develop the right blend of skills at home to manage the extended operation will also remain. Most of our respondents are fairly confident that they manage their talent effectively across all their markets and that their senior managers have enough international work experience. But they also emphasize that in order to succeed internationally, they will need corporate boards that are more representative of global markets (55%) and will need to recruit talent locally (37%). This could present significant opportunities for global and mature-market companies to provide the international outlook and diverse leadership perspectives essential to take an international expansion strategy forward.

Still, they shouldn't expect to do much poaching: in Mexico, for instance, executives tend to be very loyal to their company and to see their own efforts as part of a larger national program to make their country strong, according to Ernst & Young's Tiburcio.

Understand the importance of corporate culture. Cultural compatibility is a key issue for many of the Latin multinationals, which tend to replicate their corporate culture in the markets into which they expand. Many executives we surveyed believe that their top

Real GDP growth in Latin America



Source: Ernst & Young Rapid-Growth Markets Forecast, Winter edition, January 2013

management team needs greater knowledge of global markets (60%) and local culture and ways of doing business (44%). Further, the cultural differences between Latin America and the mature markets should be understood to effectively partner or do business with companies from these regions. Global businesses will need to familiarize themselves with the varying ways of doing business across Latin America and understand how this relates to their own corporate culture or the integration of potential partnerships. Some foreign companies with far-ranging international operations may find opportunities as go-betweens, acting as the cultural glue between two markets that might otherwise have a hard time understanding each other.

Take advantage of newly progressive policy regimes. Many Latin American countries have been updating their Western-style policy regimes, increasing their attractiveness for inbound investment and making them more pre-

dictable and credible partners/competitors in their own quest for international expansion. In improving the ease of doing business in their markets, Chile has led the way, with Mexico, Colombia and Peru also making significant recent improvements, while Brazil clearly needs to do more in this regard. However, although policy-makers "get" business much more than they once did, political pressure and misconceptions about what constitutes the most productive ways to help a company can still derail growth or "unbalance" the playing field. To an extent, the heavy-handed paternalism of the past makes it difficult for foreign companies to play a productive role as Latin American policy advisors. Alliances with local stakeholders and NGOs may be a more useful route to influence policy as well as cement relationships that will be useful later on when considering new investments and partnerships.

“Due to the steady growth of the national economy in the last two decades, and an expanding middle class, Peruvian companies have been successful in expanding in the local market, and after achieving that, the most mature companies are now expanding to foreign markets.”

Jorge Medina, Peru Managing Partner, Ernst & Young

Countries that have not liberalized their policy regimes are also worth keeping an eye on, to be well-positioned if or when the markets do reopen. For the Colombian companies that are still in Venezuela, it is a risk due to currency exchange restrictions, cautions Luz Maria Jaramillo, Colombia Managing Partner at Ernst & Young. “It is not worth making money if you cannot bring it to the supplier or investor,” she says.

Prepare for Latin America's entrance into several markets. There is no single destination for Latin American companies expanding abroad. Eighty percent of the executives we interviewed say their companies do business outside of their home market. Most believe they will be selling more abroad in three years. The largest Latin global companies will forge strong connections with Asia and Africa. Latin American companies particularly favor China and India as important economic and business partners outside the Americas (e.g., China is already Chile's largest trade partner), even as developed-market companies are beginning to rely less heavily on the Asian giants for growth. Africa also is on the radar for Latin American companies. But they are not underestimating North America: for absolute growth, Asia and Africa may be the best bets,



but depending on the sector and the home country of the business, the US and Canada still offer great opportunities. Between 2011 and 2021, Oxford Economics estimates, exports from Latin America to the US will grow by as much as all of Latin America's exports to other countries (excluding the region) combined. Furthermore, North America has some distinct advantages – it is culturally more familiar than Europe, Africa or Asia, as well as geographically more convenient and home to one of the biggest and richest populations of Hispanics in the world.



Global companies with operations in one or more of these regions of the world will have the most to lose or gain from the entrance of Latin American companies. Many developed-market companies are sufficiently entrenched in Asia and may find partnership opportunities with global Latin businesses looking to go west. However, in Africa, solidarity with other countries that endured colonial dominance, along with an ability to improvise in markets with weak infrastructure, may make Latin firms tough competitors.

This competition may also come from unlikely quarters – not only from the leading enterprises of the region’s two giants, Brazil and Mexico, but also from companies based in the smaller Latin economies. Take Peru, for example: “Due to the steady growth of the national economy in the last two decades, and an expanding middle class, Peruvian companies have been successful in expanding in the local market, and after achieving that, the most mature companies are now expanding to foreign markets,” explains Jorge Medina, Peru Managing Partner at Ernst & Young.

Consider opportunities arising from tax and regulatory challenges. For Latin American companies, going abroad, whether within Latin America or to a developed market, is likely to lead to significant regulatory and tax complexity. Within Latin America, this is likely to arise if the home country does not have a tax treaty with the target market. Outside Latin America, the most common challenge is managing much higher levels of complexity, says Rafael Sayagues, Tax Leader at Ernst & Young in Costa Rica. In the US, for instance, foreign companies must learn to navigate the local, regional, state and federal tax codes. At the same time, it’s important to understand that not every jurisdiction is equal, Sayagues adds: some states are trying to encourage development of specific industries and may offer special tax incentives and grants to set up business there. Furthermore, company executives and family shareholders also need to worry about their exposure to US operations, as it is relatively easy to accidentally become liable for US income taxes. A non-Latin global company with a strong grasp on the varying tax and regulatory rules of the developed world may have a lot to gain by partnering with a Latin company that is seeking to enter new mature markets.

The reverse holds true as well: while most non-Latin American companies consider it risky to tread in some of the countries, other Latin American companies have entered these markets and might be valuable partners. Ernesto San Gil, Argentina Managing Partner at Ernst & Young, notes that Argentina is “located in an up-and-coming neighborhood” – next to two of Latin America’s most dynamic markets: “It is clear, particularly as Argentina and Brazil are both members of the Mercosur common market, that some enterprising Argentine companies will profit directly and indirectly from that proximity. Indeed, they already do.”

Business environment and economic outlook

Having weathered the financial crisis better than many other parts of the world, Latin America is coming into its own and showing solid GDP growth. According to the International Monetary Fund, Latin America and the Caribbean are expected to grow 4.1% in 2013. And that's just the beginning: between 2011 and 2013, Oxford Economics forecasts enormous growth for most of the major Latin American economies.

With that kind of performance, global businesses have been taking a much closer look at Latin America. For a while, says Sam Fouad, Americas Emerging Markets Leader at Ernst & Young, excitement over Asian and African growth had led Latin America to be somewhat neglected, but no longer. Over the past year, Fouad says, "Latin America has come roaring back into view as a leading global growth market."

Enthusiasm over Latin America's prospects is nothing new, he adds – for decades, companies in North America have found opportunities in what used to be described simply as "south of the border." But two factors make


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this round of development different, says Fouad. First, an increasing number of Latin American companies are able to pursue these opportunities on their own, without the capital or expertise of a mature multinational. Second, most Latin American governments have evolved their policies to create a pragmatic mix of state-led and free-market growth. Among other factors propelling growth in the region are a rising middle class, fueling a growing consumer economy; an urgent need for basic infrastructure, which is creating many business opportunities; rising demand for commodities and other exports worldwide, with predicted average export growth of 6.4% through 2021; and increasing foreign direct investment, which is boosting growth in the region.

On the downside, the economic variation among the six Latin American countries we surveyed is wider than it tends to be in neighboring countries in most parts of the world. This may create challenges for global companies that wish to take advantage of the region's revival. In terms of size, Brazil has

roughly twice the GDP of Mexico, and Mexico in turn could almost incorporate the next four largest – Argentina, Colombia, Chile and Peru. World Bank research shows that GDP per capita ranges from Colombia's US\$9,048 to Chile's US\$16,019, and in terms of openness to trade, there are large variations as well, with roughly 60% in merchandise trade as a percentage of GDP (Mexico) at the high end to less than 20% (Brazil). Another important example is Brazil's legacy of protectionism, which means that it can still be a somewhat risky market for many kinds of products: the global automobile industry, for instance, was upset last year when the Brazilian Government slapped a 40% tariff on imported cars. "It's really influencing the way carmakers think about the market," says Andrew Sale, Ernst & Young's Americas Automotive Leader.

An abstract painting featuring vibrant, swirling colors. The composition is dominated by warm tones of orange, yellow, and red, interspersed with cool blues and greens. The brushstrokes are dynamic and expressive, creating a sense of movement and depth. The background is dark, which makes the bright colors stand out. The overall effect is one of energy and complexity.

Where, why and how Latin American companies are expanding

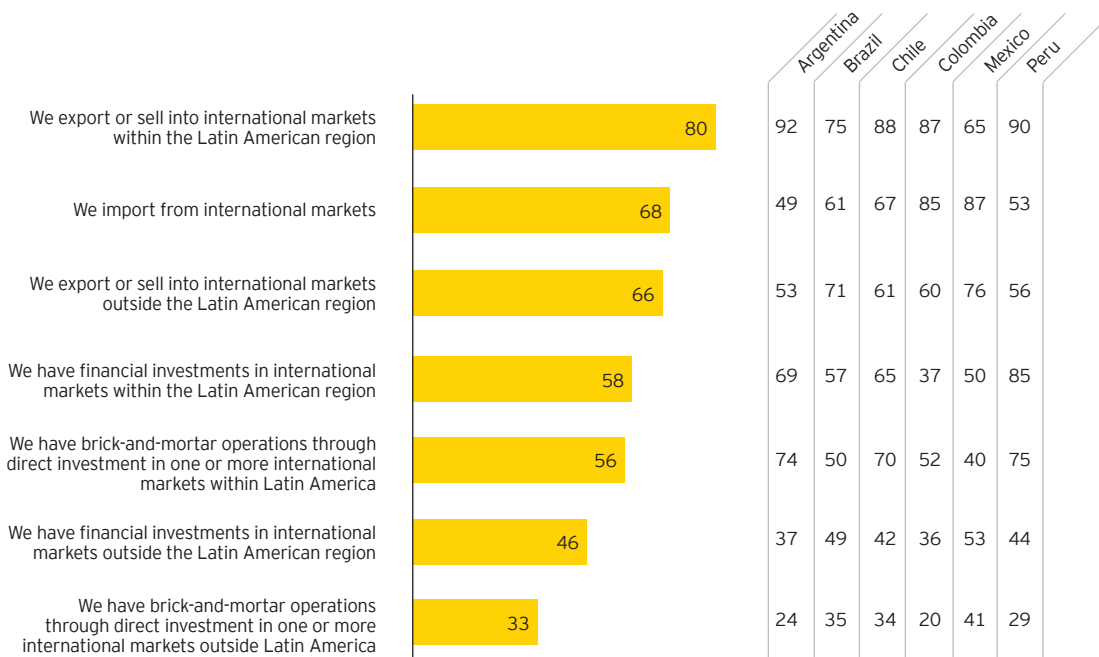
Business is still heavily intraregional, but Asia is a big attraction

Despite the global ambitions of such hard-charging companies as Brazil’s metals and mining giant Vale or Mexico’s telecom multinational America Movil, the picture that emerges from our survey is that most Latin companies are still taking their first steps out of their home market. Eighty percent export to or sell within Latin America, but only 66% do so outside the region. Even fewer (46%) have financial investments outside Latin America, and only a third have “brick and mortar” operations in one or more international markets (see Figure 1).

Overall, 21% of our respondents’ revenues are generated outside the company’s home country. But they expect that percentage to rise by three percentage points in three years’ time, with some changes in the sources of those revenues (see Figure 2). They also expect external market profits to follow a similarly slight upward trajectory, from 20% to 22% of total revenue – a suggestion that for the most part they don’t plan to invest in driving more market share, in which case profits would likely go down and there would likely be a greater gap between revenue and profit. At the same time, it could also suggest that few believe themselves in a situation where they have any serious pricing power.

Executives are optimistic that trade with India and China will grow over the next three years. Right now, 22% of respondents say their company deals with China. India, by contrast, did not even reach the top 10 destinations. Three years from now, however, executives predict that sales will grow in China (20%) and in India (9%). The prediction of growth for India is interesting in that it suggests that the market is already on the radar screen of some companies.

Figure 1: Latin American companies’ imports and exports are concentrated within the region
What business do you conduct with markets outside your home country? Select all that apply.



Source: Ernst & Young 2013 Latin America Outbound Expansion Survey
 Base: Latin America = 600 (Brazil, 171, Mexico, 141, Argentina, 78, Chile, 76, Colombia, 75, Peru, 59); shown = percentage of respondents

Most Latin companies are looking for the same qualities in an international market for sales or investment macroeconomic stability.

However, respondents are more optimistic about prospects in Latin America and more bullish still about landing more deals in the US and Canada or Latin America. Oxford Economics' trade forecasts suggest that this scenario is likely to play out. Between 2011 and 2021, the analysts expect overall growth in Mexican exports to the US of US\$381 billion, a 7.6% average annual gain, followed by US\$258 billion from Brazil to the US, a 7.2% average annual gain, much more than is expected of China or India.

Reaching new customers and increasing sales are top reasons for expansion

Across the board, our respondents cite reaching new customers/sales growth as the main reason for expanding into new markets of all types, but variations exist by country and industrial sector. For example, a higher proportion of Colombian firms (75%) than those based in the other five countries (an average of 62%) consider reaching new customers an important expected benefit. Reaching new customers is particularly important to food producers (81%) and firms operating in technology (73%), beverages (71%) and manufacturing (71%).

Most Latin companies are looking for the same qualities in an international market for sales or investment: macroeconomic stability, high-quality infrastructure and political stability. By contrast, executives' responses to our survey suggest that access to low-cost labor, natural resources and assets, and the level of fraud and corruption, matter very little to them. And they believe they have a lot to

Figure 2: Most revenues come from the home country, but some international growth is likely
What percentage of your revenues is currently generated outside your company's home country? And what percentage do you expect to be generated outside your firm's home country in three years?



Source: Ernst & Young 2013 Latin America Outbound Expansion Survey
 Base: Latin America = 600 (Brazil, 171, Mexico, 141, Argentina, 78, Chile, 76, Colombia, 75, Peru, 59); shown = percentage of respondents

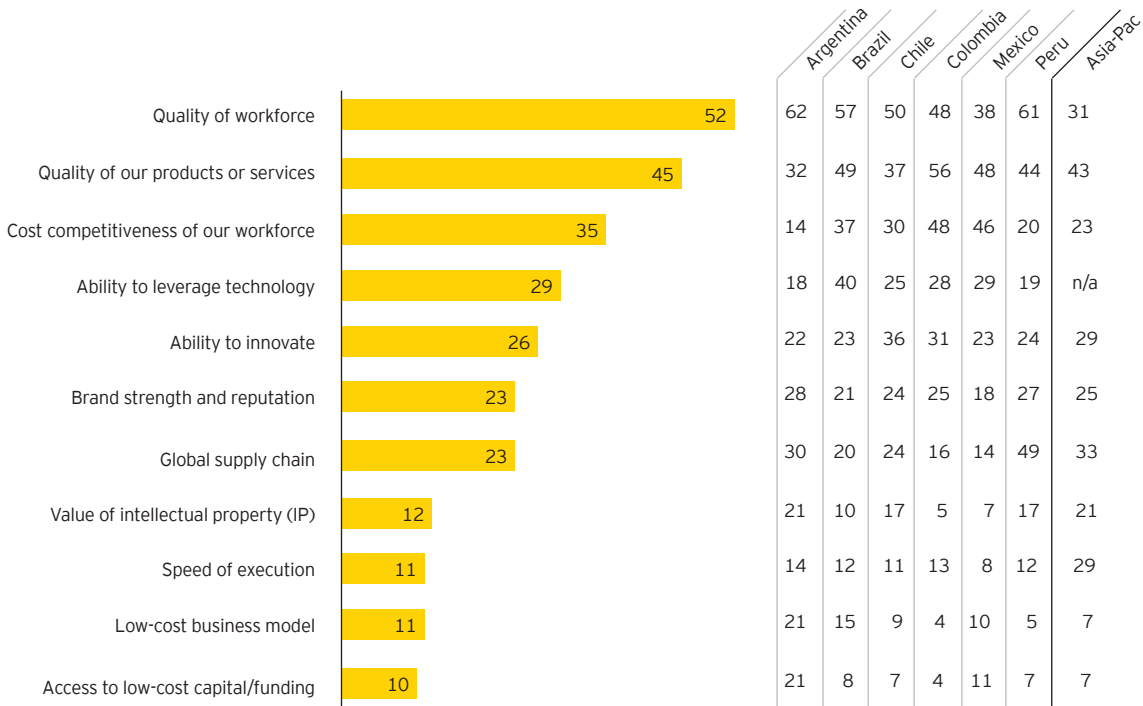
offer international markets: 52% of our Latin American respondents (compared with 31% in the Asia-Pacific region) believe that the quality of their workforce is their greatest strength, followed by the quality of products and services (45%) and the cost competitiveness of their workforce (35% vs. 23% for Asia-Pacific respondents) (see Figure 3).

Expansion will occur mostly through direct exports, local sales and partnerships

Within Latin America, most executives predict that direct export (51%), local sales distribution (50%) and partnerships (39%) will be the way ahead over the next three years. Some companies have taken other approaches: Chile-based wood products manufacturer Masisa, for example, underwent a significant strategic shift several years ago, moving away from its export model and relocating its activities overseas by planting forests and building factories in major markets outside Chile, including several Latin American countries and the US.

To reach developed markets, our respondents see direct export (23%) and partnerships (21%) as important, but they don't have the same degree of hope for local sales (13%). Instead, they are more confident in patent and technology licensing (18%) – a recognition, perhaps, that it will take more than scale or a cost advantage to win a lasting place in those high-end markets (see Figure 4).

Figure 3: Latin American executives view workforce quality as their greatest strength
What are your company's most relevant strengths and advantages as it targets international markets for sales through exports or for a physical presence via direct investment? Select up to three.



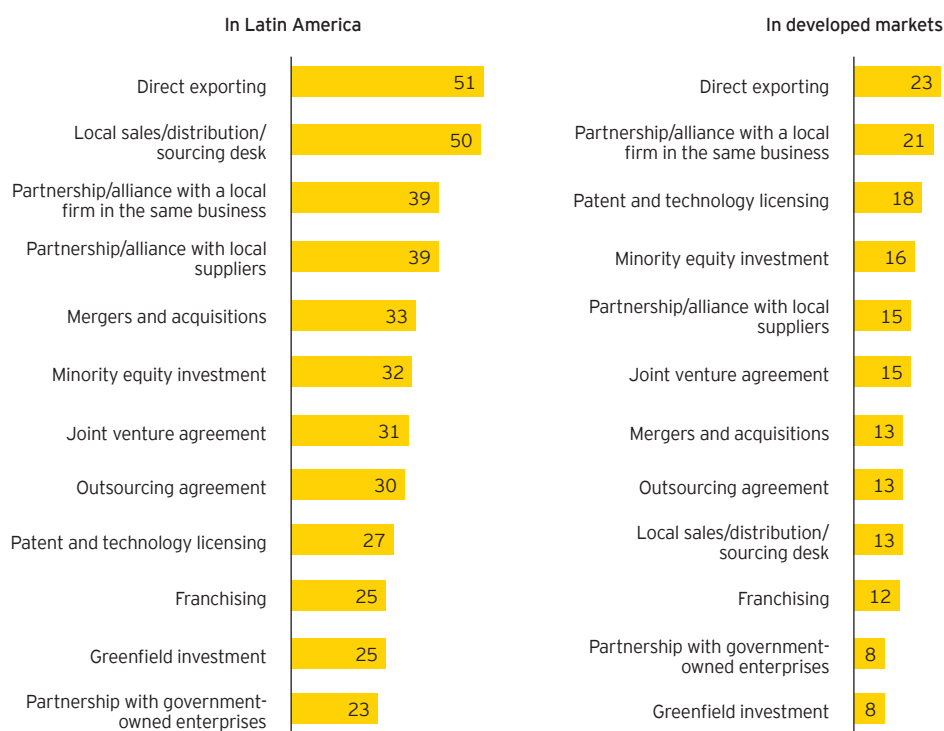
Source: Ernst & Young 2013 Latin America Outbound Expansion Survey
 Base: Latin America = 600 (Brazil, 171, Mexico, 141, Argentina, 78, Chile, 76, Colombia, 75, Peru, 59); shown = percentage of respondents



A notably higher percentage of Latin American executives than Asia-Pacific respondents (55% vs. 37%) say that to succeed abroad, they need boards that are more representative of global markets. But like their Asia-Pacific counterparts, Latin American executives wish to create a more international corporate culture (49%) and enter new market segments (35%) (see Figure 5).

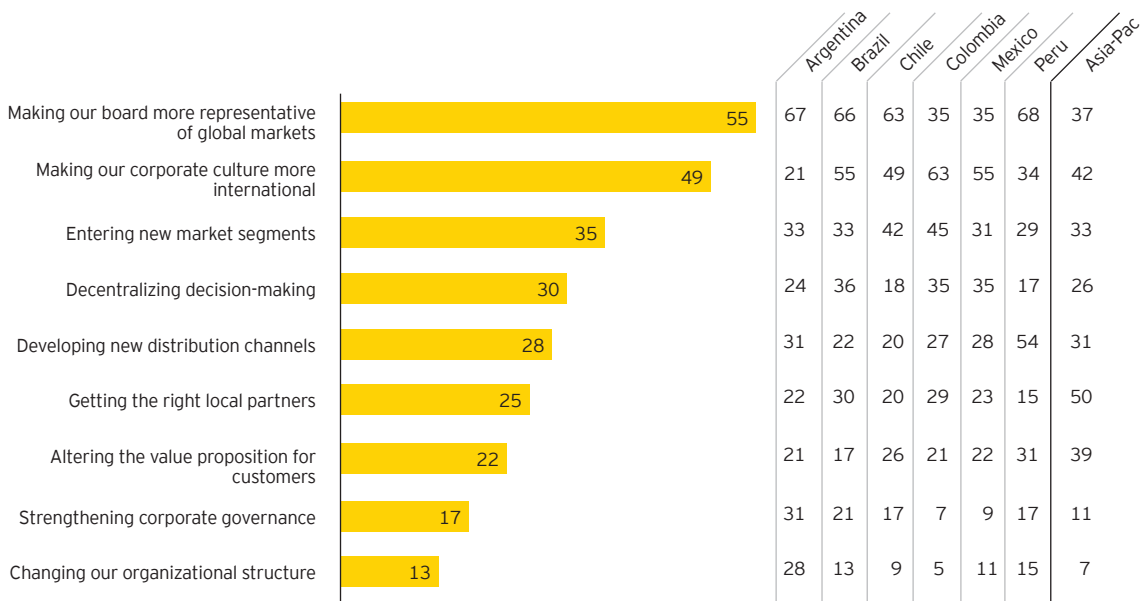
However, most of our Latin American respondents are fairly confident about their colleagues. A solid majority believe that their company manages its talent effectively across all its markets, that their senior managers have an international outlook when they need to make a decision, and that their senior managers have enough foreign work experience. They report that the next set of managers they need will be drawn from within the company (50%) and may need to have international experience (40%) or be recruited locally in the case of an international market (37%).

Figure 4: Direct exports will be the most important expansion method in the next three years
As you consider strategies for expansion, which methods will become more important in the next three years? Select all that apply.



Source: Ernst & Young 2013 Latin America Outbound Expansion Survey
 Base: Latin America = 600 (Brazil, 171, Mexico, 141, Argentina, 78, Chile, 76, Colombia, 75, Peru, 59); shown = percentage of respondents

Figure 5: It's essential to make boards more representative of global markets
Which of the following changes will be most important for your business to succeed with its international expansion plans? Select up to three.



Source: Ernst & Young 2013 Latin America Outbound Expansion Survey
 Base: Latin America = 600 (Brazil, 171, Mexico, 141, Argentina, 78, Chile, 76, Colombia, 75, Peru, 59); shown = percentage of respondents

Our respondents also say they need to revamp their sales and marketing organization (50% compared with 36% for Asia-Pacific respondents), beef up their IT (43%) and improve their strategic planning (39%). Interestingly, given the increasing challenges of global compliance and financial reporting, few see this as important. In fact, their lowest priorities are evidently financial reporting (11%), regulatory compliance (8%), or global tax compliance and reporting (see Figure 6).

“Global Latinas”: what sets them apart

Although most Latin American companies are still regional, many that have expanded beyond their borders have become major multinationals. Large global companies based in Brazil include oil and gas producer Petrobras, mining company Vale, aircraft manufacturer Embraer, and food producer Marfrig; Mexican multinationals include Bimbo, the world’s largest bread manufacturer; building materials manufacturer CEMEX; and telecom giant America Movil. Recent transactions in developed markets include Brazilian firm Camargo Corrêa’s buyout of Portuguese cement-maker Cimpor and

America Movil’s acquisition of minority stakes in Dutch and Austrian companies. In the 2011 Fortune Global 500 ranking of the world’s largest corporations by revenue, seven were from Brazil and three from Mexico, but other Latin American countries also boast global companies. Argentina’s Techint Group, for example, is the world’s largest maker of seamless steel tubes, and Arcor, also based in Argentina, is the world’s leading producer of candies. Chile’s emerging MNCs include retail and consumer products companies such as Falabella and Cencosud, and business conglomerates such as Quilenco.

“Relationships, especially with the governments and marketplaces in these markets, are still very important.”

Sam H. Fouad, Americas Emerging Markets Leader, Ernst & Young

Smaller Latin American companies are also moving up fast: in October 2012, Cerveceria Costa Rica struck a deal to buy North American Breweries, the brewer of Genesee and Labatt in the United States, for US\$388 million in cash. “Not just monster players but also smaller companies are expanding their global reach,” says Rafael Sayagues, Ernst & Young’s Tax Leader in Costa Rica.

Some scholars argue that the emerging Latin American multinationals have some special qualities of their own. Lourdes Casanova, a senior lecturer in management at the Johnson School of Business at Cornell University, has been studying the companies she and other academics call “Global Latinas” since the

1990s. “I started studying them in 1996 and immediately I saw that they were different in a number of dimensions,” she says. “They were very agile, much less bureaucratic, and being family-owned seemed to make them extremely resilient.”

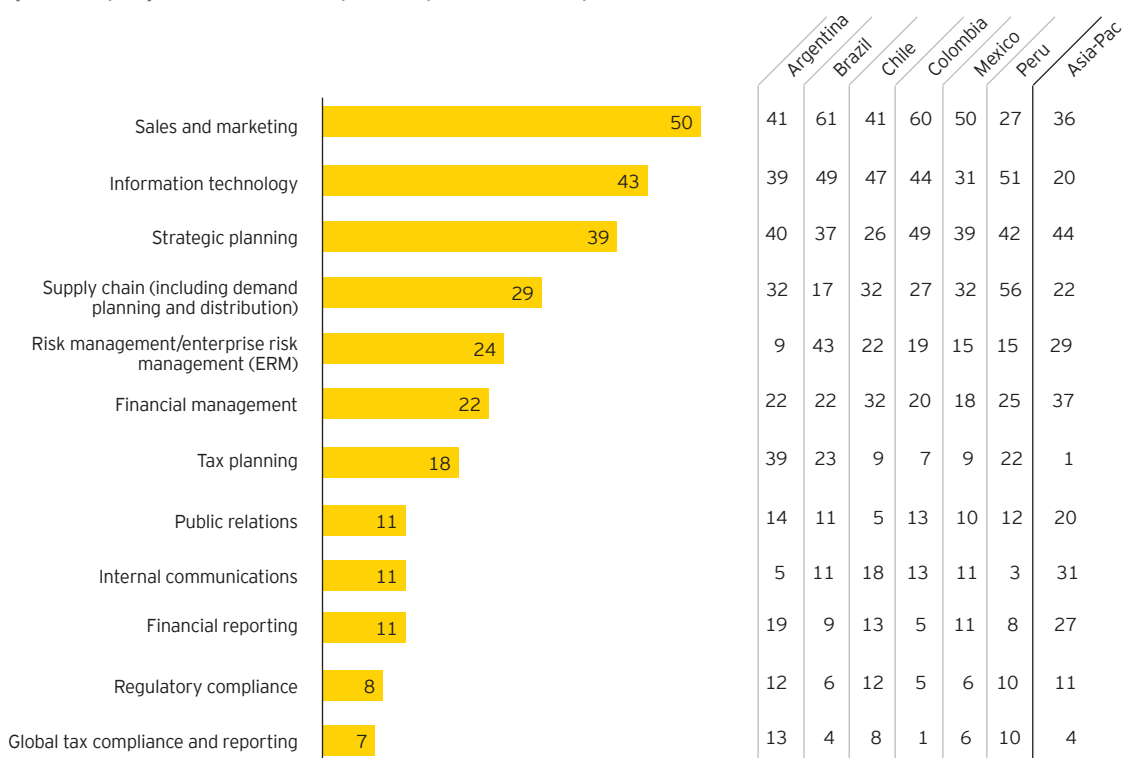
The fact that these companies had to cope with so many economic crises gave them a chance to exercise that resilience and develop vision, according to Casanova. “The Latin American companies had no choice but to work for the medium term, as the short term was often too hard,” she says.

Many of the Global Latinas continue to be family owned, which could be both a strength

and a weakness. “On one level it’s helpful because relationships, especially with the governments and marketplaces in these markets, are still very important,” Ernst & Young’s Sam Fouad says. “On the other, it can also slow the company down if the company is unwilling to welcome outside talent.”

The Global Latinas are also frequently very active in their communities, Casanova says. Operating in countries with massive social problems, the Global Latinas tend to consider philanthropic work part of their mission. “In the past, most companies in Latin America have had to compromise with society,” she says.

Figure 6: Sales and marketing will require the most significant changes
Which of the following functional areas will require the most significant changes in order to ensure the success of your company’s international expansion plans? Select up to three.



Source: Ernst & Young 2013 Latin America Outbound Expansion Survey
 Base: Latin America = 600 (Brazil, 171, Mexico, 141, Argentina, 78, Chile, 76, Colombia, 75, Peru, 59); shown = percentage of respondents

As they continue to grow, however, the Global Latinas may face pressure to change. Casanova, author of a book called *Global Latinas: Latin America's Emerging Multinationals* (INSEAD Business Press, 2009), says the governance of some of the Global Latinas may be changing because of investments by state pension funds and sovereign wealth funds. For instance, in 2008 the Brazilian Government stepped in and, as a large shareholder, acted to veto an acquisition by Vale, the mining giant. "In retrospect, this was the right decision because they would have overpaid," she says, but adds that this kind of activity could have uncertain consequences, given that state-run capitalism has previously had mixed results in Latin America.

Nevertheless, the growing importance of Latin America and the Global Latinas will have significant implications for mature-market businesses. In the automobile market alone, according to Andrew Sale, Ernst & Young's Americas Automotive Leader, the opportunity is enormous. "The long-term growth trends in South America and Brazil are huge, and it's already the fourth-largest market," he says.

But the rise won't be all good news for mature-market MNCs. The new Global Latinas are likely to be a source of ferocious competition as well, particularly for US companies. The combination of managers who have studied in the US, the flexibility of family control, the financial power of a large and secure home market, and a friendly domestic government could prove to be extremely powerful: a competitor scarcely noted one year may be well positioned to become a fierce attacker the next.

Looking ahead: the tempo is upbeat

For over 500 years, the economic value and priorities of Latin America were largely set in markets thousands of miles away. Now, for practically the first time in centuries, Latin Americans are getting the chance to take true control of their own economic destiny and perhaps to remake the mature markets too while they are at it.

These are clearly exciting times – and not just for Latin Americans. Those multinationals that figure out the Latin America story early on will be the ones to succeed. Significant challenges still exist in Latin America, although there has been much progress in many of the region's countries. Heavy bureaucracy, infrastructure weaknesses, social inequality and lack of easy access to a wide range of financing are features of many Latin American economies. There are also major differences within the region with regard to language, culture (especially the nuances of "business culture"), and trade and regulatory regimes.



The arrival of a new generation of Latin American multinationals presents a different dynamic. It offers non-Latin global companies a large variety of business opportunities.

Yet the opportunities are tremendous. The arrival of a new generation of Latin American multinationals presents a different dynamic. It offers non-Latin global companies a large variety of business opportunities, including potential partnerships, a chance to offer talent and technological expertise to Latin American companies planning to expand, and access to new markets (e.g., in Asia) that may have been difficult to enter otherwise.

Although we tend to think of rapid-growth markets in terms of teams and scores, the truth is that the success of the rapid-growth markets of Latin America will not be a zero-sum game. Instead, it means that the genius of a region that gave the world the first external heart pacemaker, the first color television and some important advances in medicine – not to mention the salsa, the tango, and some of the most influential art

and literature of the 20th century – may astonish us even more in the 21st century as well by allowing businesses from different markets to flourish.

Latin American companies face tangles of red tape overseas

One of the biggest issues Latin American companies will confront when they leave home is tax and regulatory complexity, particularly if they expand to the US or another developed market. While some countries – such as Mexico, Chile and Colombia – have rapidly expanded their bilateral and multilateral trade, investment and tax agreements, other countries, such as Brazil, remain slow to move in this direction, and hence there is an absence of meaningful regional agreements.

Between Latin American countries, companies sometimes face difficulties repatriating earnings if the countries lack a reciprocal tax treaty. In Peru, for example, Ernst & Young Tax Leader David de la Torre says that the lack of a deduction has led many companies to delay repatriating the earnings of some markets, and that the difficulty has grown even worse after the Peruvian Government's recent decision to tax worldwide revenue.

The variances in tax, regulatory and accounting regimes can make it difficult for multinational companies to operate regionally and for local companies to expand across borders, says James Littlewood, a Global Insurance Center senior manager at Ernst & Young in Miami. There remains a huge opportunity in Latin America, however, as many Latin American assets are underinsured. Some developed-country reinsurers might have the capacity to take on the risk and want to extend their coverage, but the rules can make a market too difficult to reach. After Chile's last big earthquake, for example, the total economic loss was US\$30 billion, but the total money paid by insurers was just US\$8 billion, Littlewood says.

By all accounts, however, foreign companies find the US and other developed markets even more difficult to navigate. For one thing, these

countries have a multi-tier system, says Rafael Sayagues, Ernst & Young Tax Leader in Costa Rica. For another, professional fees can soar: Sayagues says that the costs of high-level legal and accounting help can triple the average hourly rate in Latin America.

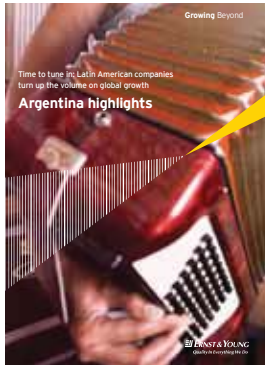
Structurally, too, there can be multiple levels of complexity. What works in one country may not work in another. A Panamanian holding company, for example, may be perfectly legal in Panama but not be recognized in France.

Latin American companies looking to expand beyond their borders should ask themselves these four basic questions:

- ▶ Does the target country have specific lists of blacklisted jurisdictions that would be no good to invest from?
- ▶ Are there any tax treaties or foreign investment protection treaties that would make one jurisdiction much more attractive than another?
- ▶ Does a US business involve only US citizens? Major shareholders and executives need to be careful that they don't accidentally make themselves liable for US income taxes if they don't need to be. "That's something you really need to be very careful and very cognizant about," says Sayagues.
- ▶ What are all the taxes and laws with which it is necessary to comply? Some of the local variations can be difficult to figure out. Taxes too, may be wildly complex - many states, for example, have their own sales tax regime.

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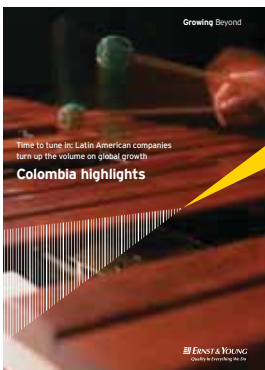
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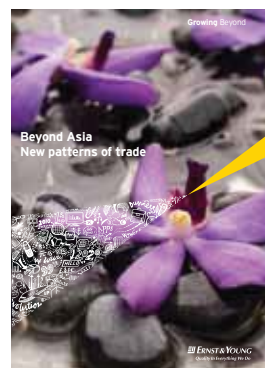


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