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Latin America Rising
How Latin American Companies Become Global Leaders

Executive summary

Latin America and its companies are becoming an increasingly important part of the global economy. This report provides a deep analysis of the international growth path for Latin American businesses — from local companies to global powerhouses — and offers new and deep insights on how companies can expand their international footprint. In particular, it examines many of the main challenges Latin American companies face when trying to expand beyond their national borders, and highlights five key factors and competencies that help them develop into global enterprises.

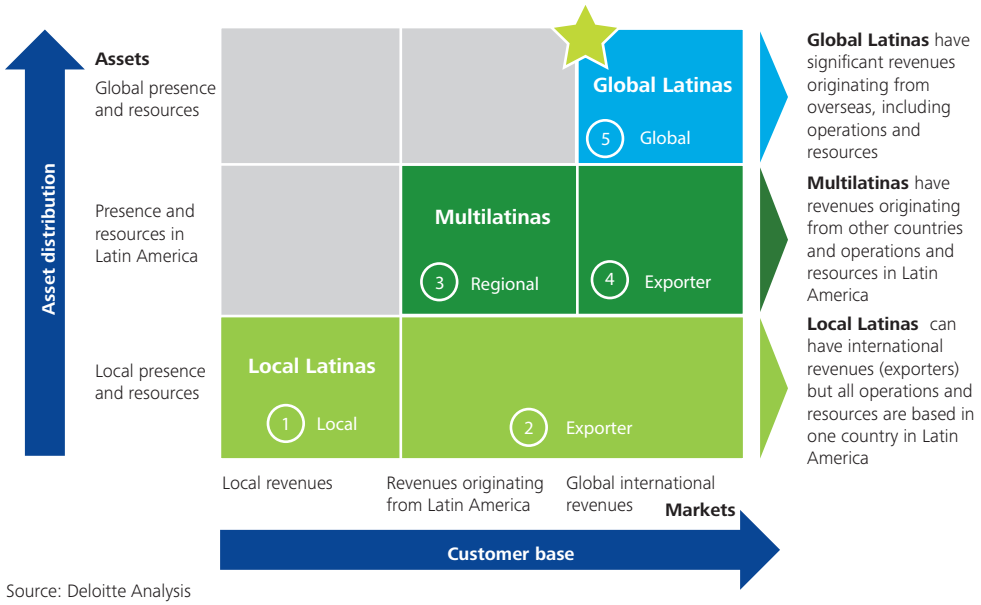
The focus on local Latin American business is also important as over 70 percent of the revenue produced by the top 500 businesses in Latin America is generated by companies based in the region – not by large Multinationals from other regions or international companies operating locally – a fact that contradicts the popular myth that global multinationals are the dominant players in the Latin American market.

Our study examines key management practices, organizational competencies, and growth factors for successful Latin American companies. This is a major difference from most other business-oriented studies of the region, which have tended to be more focused on topics such as mergers & acquisitions (M&A), corporate finance, and social responsibility and development. Moreover, the few reports that have touched on the broader topics of management competencies and international growth were generally descriptive in nature and did not provide CXO-level executives and national policy makers with the practical insights necessary to progress and mature their businesses up the global growth curve.

For this report, we conducted a broad business analysis that started with all of the companies in the Latin Trade Top 500 rankings. We also analyzed the business environments in the top six Latin American economies: Brazil, Mexico, Argentina, Colombia, Chile, and Peru.

A key output of our overall analysis is a framework that describes the ecosystem Latin American companies operate within, and the maturity paths they follow on their way to global leadership (see Figure 1).

Figure 1: Maturity Evolution Matrix



Source: Deloitte Analysis

Sidebar A: About the study

This study provides an in-depth look at what it takes for Latin American companies to thrive and grow on a global scale. Our broad analysis focused on companies in the Latin Trade Top 500, which ranks businesses based on the revenues they generate in Latin America. It also focused on the top six economies in the region — Brazil, Mexico, Argentina, Colombia, Chile, and Peru – which together account for 86 percent of Latin America's Gross Domestic Product (GDP).

We then conducted a rigorous and structured screening process to select a manageable subset of the Top 500 companies for in-depth analysis (see Figure 2). The first step was to highlight Latin America-based businesses from the region's largest economies for which accurate and broad information was publically available. This cut the list down to 196 companies.

Figure 2: Screening and Targeting Companies for In-Depth Analysis

Source: Latin Trade; Companies' Websites; OneSource; Deloitte Analysis

From there, we carefully selected 57 companies that provided a representative cross section of businesses across Latin America, such that (1) the number of companies from each country was proportional to the size of the country's share of GDP in the region, and 2) the number of companies at various maturity levels was proportional to the mix of maturity levels across all top 500 companies.

Our quantitative findings were supplemented with executive interviews that helped validate the findings and provided deep, practical insights that companies can use to improve the effectiveness of their international expansion efforts.

We then conducted a rigorous, multi-step screening process to carefully select a subset of companies from the top 500[1] that provides a representative cross-section of the broader Latin American market in terms of countries, industries, and maturity levels (see Sidebar A). Further, our in-depth analysis of the resulting 57 companies revealed five key factors and competencies that are important for a Latin American company to expand from a local business to a global leader:

- Availability and retention of **top executives** qualified to lead international expansion and operations
- Access to **capital markets and financing**
- Position of **market leadership** at home
- Ability to execute **international acquisitions** and **joint ventures**
- Use of leading **corporate governance practices**

1 The Latin Trade 500 ranking as well as our analysis does not include companies from the Financial Services Industry; further, the asset-customer-geography framework used in this study cannot be appropriately applied to the banking sector

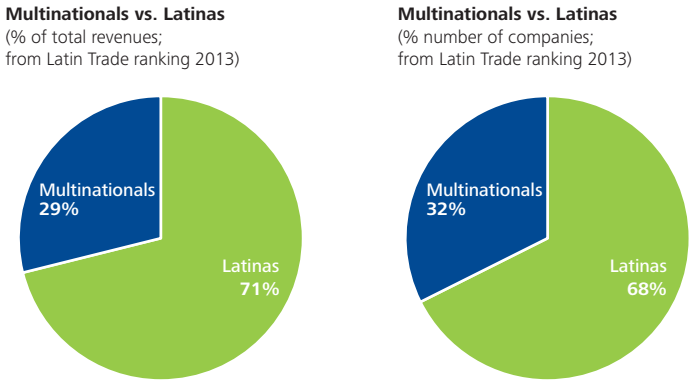
According to our analysis, these five factors are key indicators of whether a Latin American company can compete effectively and sustain performance at the global level. The last three are competencies that a company has direct control over. By contrast, the first two factors are more structural in nature – meaning they are largely inherent to the country where the company is based. Specifically, companies headquartered in Brazil have a distinct advantage in pursuing their global aspirations because that nation provides strong and active support for international expansion. That is not to say companies in other countries cannot succeed at a global level; they certainly can. But in order to do so, they will likely need to aggressively pursue alternative strategies to their home countries' inherent limitations, or aspire to have their national governments adopt structural reforms that are more conducive to global business expansion and growth.

Introduction: Latin America Rising

Latin America is a large market with high growth potential that is increasingly important to the world economy. The region's GDP of $7.4 trillion already accounts for 8.5 percent of global GDP, and by 2017 its real GDP growth rate is expected to surpass that of all other regions except the Middle East and North Africa.[2] Economic openness, combined with substantial infrastructure investments and an expanding middle class, are creating tremendous business opportunities throughout the region.

Although multinational companies from outside of Latin America have a highly visible presence and get much of the attention, Latin American companies actually account for the majority of business in the region. In fact, according to our analysis of the Latin Trade Top 500, Latin American companies comprise 70 percent of the Top 500, and capture 71 percent of the total revenues (see Figure 3).

Figure 3: Multinationals versus Latinas in the Latin Trade 500[3]



Source: Deloitte's Latin America research, 2014.

This report examines the international growth path for companies based in Latin America, and offers new insights into how they can develop into regional and global players. It also provides useful and practical insights for multinationals and international companies from other regions that want to learn how to operate more effectively in the Latin American market.

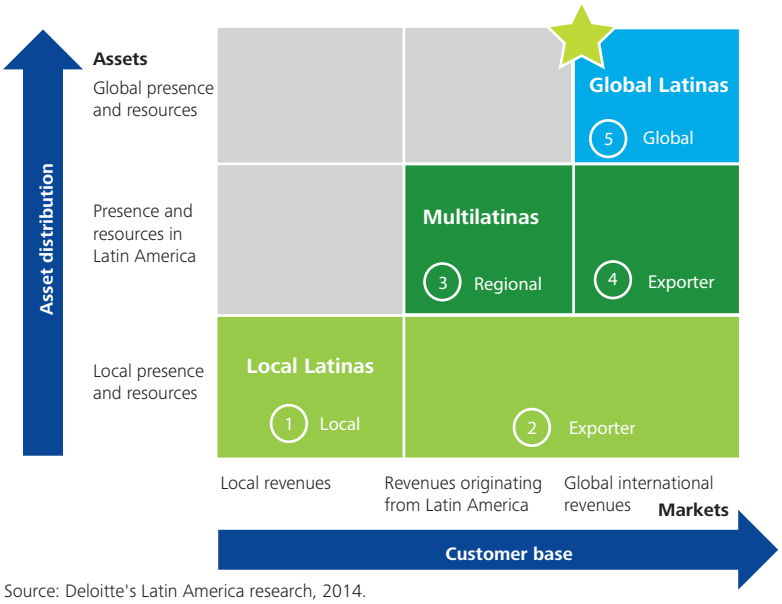
2 Regional GDP estimated based on data from the CIA World Factbook for Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Peru, Paraguay, Uruguay, and Venezuela

3 Fully state-owned companies were excluded from the analysis

The business ecosystem and growth stages for Latin American companies

Latin American companies can be divided into five categories based on the geographic distribution of their assets and customer base (see Figure 4).

Figure 4: Ecosystem and Maturity Model for Latin American Businesses



Source: Deloitte's Latin America research, 2014.

Local Latinas are businesses whose operations are contained within a single Latin American country. Those that do little or no exporting are designated Local Latinas. Those that do significant exporting (within or beyond Latin America) are Latina Exporters.

Multilatinas are businesses that operate in multiple Latin American countries, but do not have significant operations outside the region. Those that do not export much beyond Latin America are designated ***Regional Multilatinas***. Those that do are ***Multilatina Exporters***.

Global Latinas are companies that operate in multiple countries — within and beyond Latin America — and generate significant revenue outside of the region.

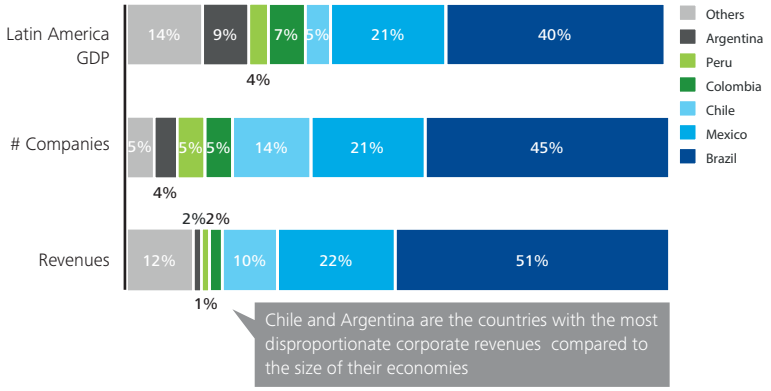
Our analysis found that each of these categories has different requirements that present their own unique business challenges, especially for companies that want to move up and progress to the next level. What is more, the road to becoming a Global Latina is not linear or pre-defined; Latin American companies that want to mature and grow have multiple routes and destinations from which to choose or that they can follow.

A closer look at the Latin American market

Latin America should be viewed as a collection of diverse individual markets, rather than a single homogeneous regional market, since every country has its own unique characteristics that can help or hinder a local company on its quest for regional and global growth.

Companies in some countries have a much greater business impact than companies in other countries, and their collective impact is not always proportional to the size of the country's economy (see Figure 5).

Figure 5: Relative Importance of Each Country's Local Companies[4]
(% of total, from Latin Trade ranking 2013)



Source: Deloitte's Latin America research, 2014.

Brazil is Latin America's largest individual economy, accounting for 40 percent of the region's total GDP. Brazil's businesses are even more dominant, comprising 45 percent of the region's companies, and capturing 51 percent of the revenue generated by the Latin Trade Top 500.

Mexico is the second largest individual economy, representing 21 percent of the region's GDP – and harboring the same percentage of the region's companies (21 percent), which capture a similar portion of the region's revenues (22 percent).

Argentina is Latin America's third largest economy, with 9 percent of the region's total GDP. However, Argentinian businesses comprise only 4 percent of the region's companies, and only capture 2 percent of the region's revenues. These statistics show how a nation's local business environment can have a major influence on its companies' ability to compete and grow.

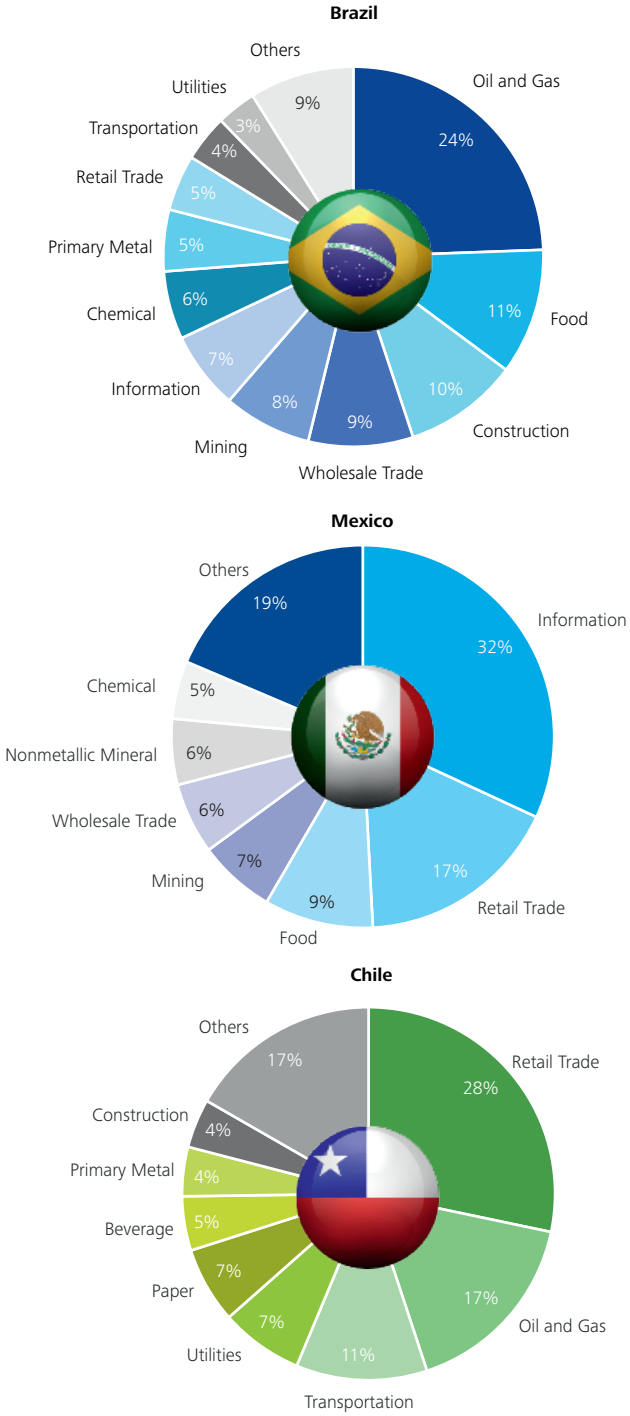
Case in point: While Chile is only Latin America's fifth largest economy in terms of GDP (5 percent), it has the third highest number of companies (14 percent) and a disproportionate share of the region's revenues (10 percent). Later in this report, we take a closer look at some of the factors that enable Chile's businesses to perform so well.

If we narrow the focus from all Latin American businesses to only Global Latinas, the differences between countries are even more striking – with 80 percent of all Global Latinas based in either Brazil (48 percent) or Mexico (32 percent), and those two countries' Global Latinas taking 95 percent of all Global Latina revenues (70 percent and 25 percent for Brazilian and Mexican Global Latinas respectively).

According to our analysis, different industries tend to thrive in different countries. Figure 6 illustrates this composition for the three countries that encompass the largest share of revenue in our analysis, Brazil, Mexico, and Chile.

4 Fully state-owned companies are excluded from this analysis

Figure 6: Top Industries for Latin American Companies in Brazil, Mexico, and Chile[5]
(% of revenues, from Latin Trade ranking 2013)



Source: Deloitte's Latin America research, 2014.

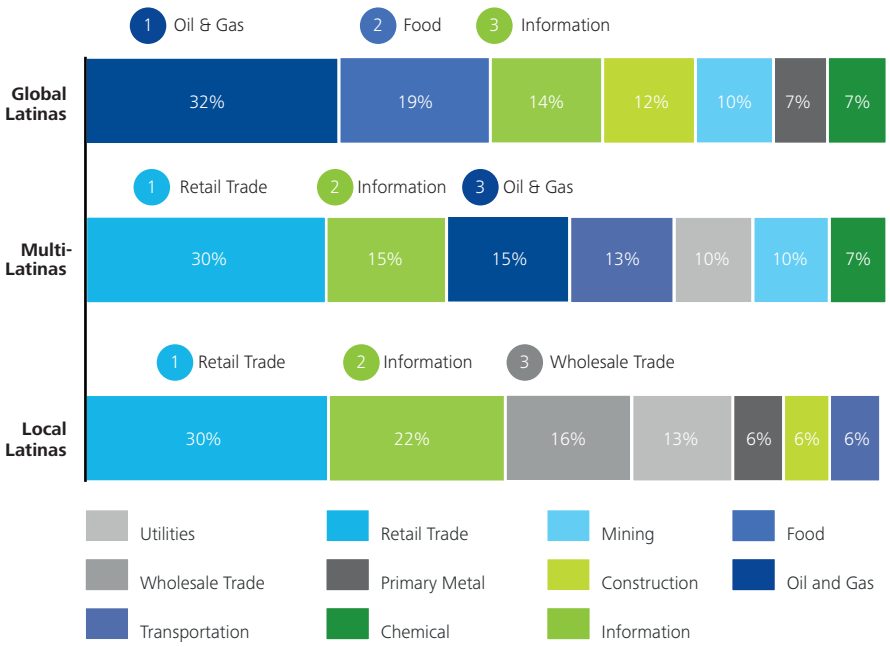
In Brazil, the top three industries for Latin American companies as a percentage of total revenue are Oil & Gas (24 percent), Food (11 percent), and Construction (10 percent). If we narrow the focus from all Latin American companies to only Global Latinas, the top industries remain the same but the revenue percentages change: Oil & Gas (36 percent; see Sidebar B: "State Presence in Key Industries"), Food (14 percent), and Construction (12 percent).

In Mexico, the top three industries for Latin American companies are Information (32 percent), Retail Trade (17 percent), and Food (9 percent). However, if we focus only on Global Latinas, the top three industries are Information (36 percent – all from one company, América Móvil), Food (16 percent), and Nonmetallic Minerals (10 percent).

In Chile, the top three industries for Latin American companies are Retail Trade (28 percent), Oil & Gas (17 percent), and Transportation (11 percent). However, if we look only at Global Latinas, the top three industries are very different: Transportation (30 percent), Paper (22 percent), and Chemicals (19 percent). Chile's business environment is highly conducive to creating Multilatinas, but lacks some of the structural elements that help build Global Latinas. As a result, only a small number of Chilean companies have reached that higher pinnacle of business development in Latin America and thus statistically the industry distribution of Chile's Global Latinas does not align with that of the country's overall economy.

5 Fully state-owned companies are excluded from this analysis; industries are defined according to NAICS (North American Industry Classification System)

Figure 7: Maturity Stages in Selected Industries[6]
(revenues in USD, from Latin Trade ranking 2013)



Source: Deloitte's Latin America research, 2014.

Looking across all Latin American countries, our analysis found that some industries are more conducive to creating and supporting businesses that grow to an advanced stage of maturity (Figure 7).

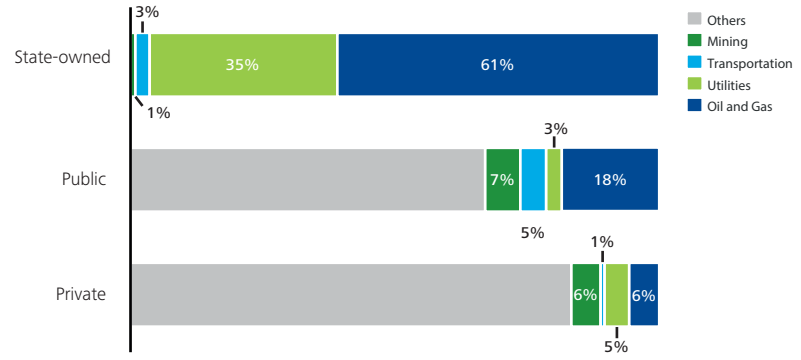
Across all of Latin America, the top three industries for Global Latinas are Oil & Gas (32 percent – dominated by one Brazilian oil company, Petrobras, which somewhat skews the results), Food (19 percent), and Information (14 percent). For Regional Latinas, the top three industries are Retail Trade (30 percent), Information, (15 percent), and Oil & Gas (15 percent). The top industries for Local Latinas are Retail Trade (30 percent), Information (22 percent), and Wholesale Trade (16 percent).

Later in this report, we examine the factors that make an industry more or less conducive to international expansion and exports.

Sidebar B: State Presence in Key Industries

For many countries in Latin America, state-owned companies represent a significant portion of their economies (see Figure 8). Such companies tend to be concentrated in the Oil & Gas and Utilities industries, making these sectors less attractive to companies that are publically or privately owned.

Figure 8: Ownership in Selected Industries
(% of total revenues, from Latin Trade ranking 2013)



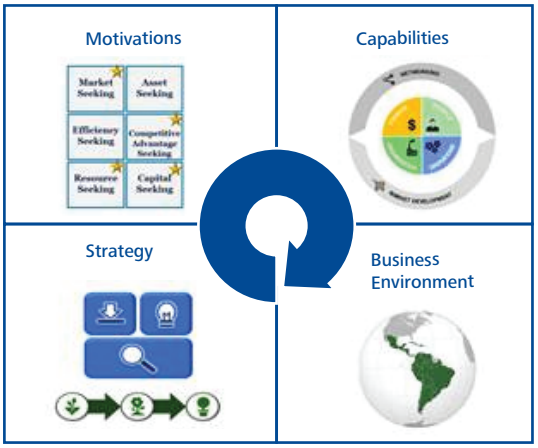
Source: Deloitte's Latin America research, 2014.

6 Fully state-owned companies are excluded from this analysis

A framework for assessing global maturity

To understand how companies become Global Latinas, we developed an assessment framework built around four key drivers (see Figure 9).

Figure 9: Assessing Potential Maturity Drivers



Source: Deloitte Analysis

These four drivers provide deep insights into a company's potential for becoming a Global Latina, and provide clues on how to get there.

- **Motivations.** The reasons or drivers that motivate a company to expand internationally.
- **Capabilities.** Inward – and outward-facing capabilities that help a company succeed beyond its home market.
- **Strategy.** A company's core business strategy and how it relates to international expansion.
- **Business environment.** Country-specific advantages and challenges that help or hinder a local company's international efforts.

Motivations

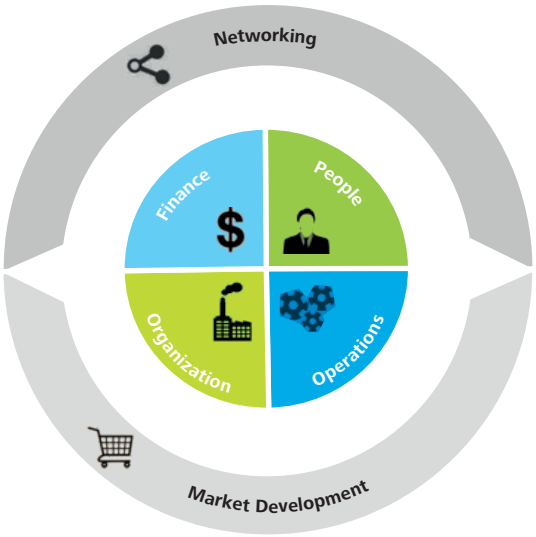
Companies have varied reasons for expanding internationally. Many are pursuing business in foreign markets in order to directly drive growth. However, that is only the most obvious motivation. Here is a list of some of the most common things companies are seeking when they pursue business abroad.

- **Market expansion.** Seeking new customers and revenue sources.
- **Efficiency.** Pursuing cheaper labor and production capabilities, as well as tax-free zones and other incentives to reduce costs and improve efficiency.
- **Resources.** Looking for inputs to counter a lack of or more expensive natural resources at home.
- **Intellectual assets.** Seeking foreign sources of technological and R&D-related capabilities and talent.
- **Competitive advantage.** Pursuing know-how and expertise to boost business results and get an edge on the competition.
- **Capital.** Pursuing cheaper capital from more developed or more efficient equity and debt markets.

Capabilities

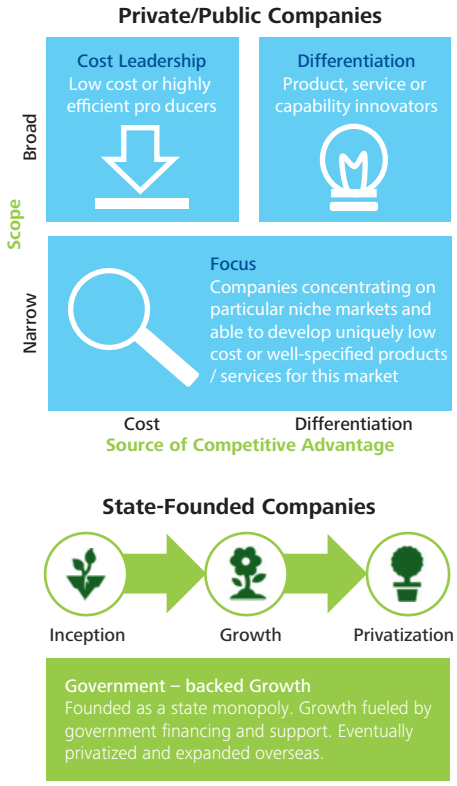
Every business has a unique set of capabilities that determine how effectively it operates and serves customers. These capabilities are deeply embedded within the organization and are not transferrable.

Figure 10: Capabilities that drive global expansion



The *inward-facing (back office)* capabilities related to international expansion fall into four broad categories: people, operations, finance, and organization. The *outward-facing (front office)* capabilities related to international expansion fall into two broad categories — Networking and Market Development — which focus on improving the company's position with outside entities such as markets, customers, and partners (see Figure 10).

Figure 11: Four Primary Business Strategies



Source: Deloitte's Latin America research, 2014.

Strategy

Generally speaking, businesses are driven by one of four major strategies, each with a different impact on a company's efforts to expand internationally. For private and public companies in Latin America, cost leadership – not differentiation — is currently the most common strategy for global success. On the other hand, state-founded companies tend to follow a government-backed growth strategy largely driven by monopoly power and strong government support (see Figure 11).

Local business environment

Every country in Latin America has a unique business environment with distinct attributes that can help or hinder a company's efforts to expand beyond the country's borders. Key indicators in our analysis include: economic freedom (as measured by the Heritage Foundation Index, which accounts for factors such as property rights, corruption, labor regulations, and banking efficiency); and ease of doing business (as measured by the World Bank's Ranking of countries based on the extent to which their regulatory environments are conducive to business). Other key indicators include wealth, productivity, and a country's recent economic history.

Our country-specific analyses provided deep insight into the unique challenges and opportunities companies based in that country face when trying to conduct business abroad. We have profiled the top three countries for Global Latinas, Brazil, Mexico, and Chile (see Sidebars C, D, and E).

Sidebar C: Country Profile – Brazil[7,8]

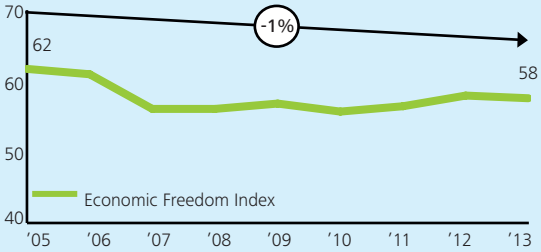
Despite being the largest economy in Latin America, Brazil has hurdles to overcome to make the market even more attractive for businesses.

Country Overview

- Brazil is the **largest economy in Latin America**, and the world's **seventh largest** in terms of GDP
- After a prolonged period of military dictatorship characterized by significant **government intervention and protectionism**, a process of **privatization and liberalization** began in the 1990s
- A subsequent period of **income growth** has led to a **growing middle class, despite significant inequality**
- Brazil is the world's **10th largest country in market capitalization**, and the **largest in Latin America**
- The country is **Latin America's 2nd largest exporter**, behind Mexico

Economic Freedom

- Brazil was ranked **114th of 179**, globally, in economic freedom
  - The country was ranked similarly in the World Bank's ranking at **116th**

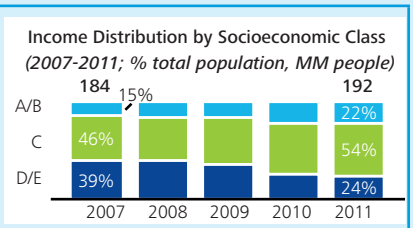


- The key factors in the decline of the country's index include:
  - Increasing **tax burden**
  - Growth in **government spending**
  - Increased **difficulty to open, operate, and close businesses**
  - Increased **labor legislation**

Sovereign Risk	Currency Risk	Banking Risk	Political Risk	Economic Risk	Country Risk
BBB	BBB	BBB	BBB	BBB	BBB

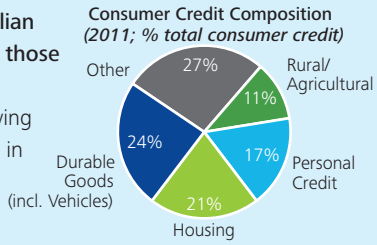
Market Size

- Brazil is the **largest Latin American** country in terms of **population and GDP,** with a large consumer base
- The **middle class has grown significantly** in recent years, supporting **internal growth of local companies**
- The booming consumer market has **attracted a large number of foreign companies in recent years**



Capital Markets

- Latin Trade's 2011 list of **Latin America's Top 100 Banks included 33 Brazilian banks** which **controlled two thirds of the total assets** of the top 100; **7 of those 33 were in the top 10**
- Growing **consumer credit for durable goods and housing** due to the growing **middle class** has driven credit and the banking sector as a whole, but is seen in the market as a **probable bubble**



Labor Force

- Brazil has a **weak education system**, ranked **118th** of 195 globally by the UN in average years of schooling, accounting for a large mass of unskilled workers
- On the other hand, the country is the **15th most influential in terms of scientific publications** according to the SCImago Journal Rank
- Brazil also has a **large number of CEOs**, reflected by INSEAD's 2012 list of 50 top performing CEOs in Latin America, **26 of which were Brazilian**

7 "2014 Index of Economic Freedom." Index of Economic Freedom: Promoting Economic Opportunity and Prosperity by Country. January 2014.
8 "Doing Business – Measuring Business Regulations – World Bank Group." Doing Business – Measuring Business Regulations – World Bank Group. January 2014.
Source: The World Bank, UN, OECD, EIA, INSEAD, SCImago Journal, Deloitte Analysis

Sidebar D: Country Profile – Mexico[7,8]

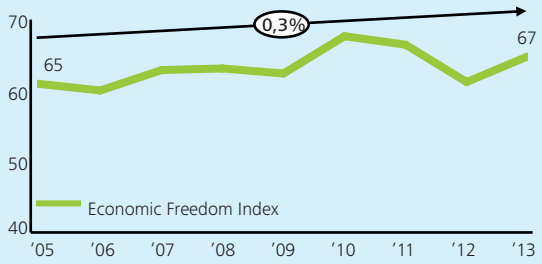
Mexico has a large consumer base, but faces challenges in education, and labor laws.

Country Overview

- Mexico has the **2nd largest GDP,** behind Brazil, and 2nd largest GDP per capita, behind Chile
- The country spent 70 years under de facto rule of a single political party until 1997; the period was marked by **expansionary policies, authoritative government, and import substitution**
- Mexico relies heavily on **exports to the US**, as well as income **remittance from migrant workers** in the US
- The **income gap** in Mexico is evidenced by the **large number of migrant workers** seeking jobs in the US
  - The country is Ranked **12th of 17** in Latin America by the World Bank's Gini Index, which measures **income equality**

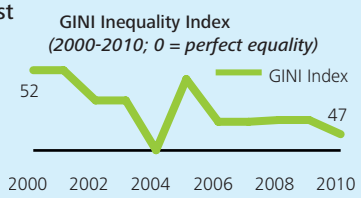
Economic Freedom

- Mexico was ranked **55th of 179**, globally, in economic freedom
  - The country was ranked similarly in the World Bank's ranking at **53rd**



- The country has **improved significantly on tax rates, ease of doing business, trade tariffs**, and reduced constraints to **flow of capital**
- **Banking efficiency** and **corruption**, however, have **worsened** since 2005

Sovereign Risk	Currency Risk	Banking Risk	Political Risk	Economic Risk	Country Risk
BBB	BBB	BBB	BB	BB	BBB

Market Size	• With a population of approximately **120 million**, Mexico is the **second largest country** in Latin America • **Income inequality** has diminished over the same period, with a **reduction in the GINI index** from 51.9 to 47.2 • The growing consumer market has fostered growth of foreign and local **companies in recent years (17% of growth in middle class)** 
Capital Markets	• The country places **30th globally** in terms of the **soundness of its banks,** according to the Global Competitiveness Report and is tied for **2nd in Latin America** in terms of **efficiency and independence of the banking system** according to the Economic Freedom Index • Overall **financial market development** shows that the country **ranks 59th globally** according to the Global Competitiveness Report • Despite this, the country still needs to develop the capital markets in order to **finance the necessary investments in infrastructure** and to provide an **outlet for the growing pension funds**
Labor Force	• A major challenge for Mexico is the **quality of education**, particularly in **math and science (ranked 124th by executives** in the WEF Global Competitiveness Report), **hampering innovation** and the **quality of the country's workforce** • **Labor laws** are a major **hindrance to business,** due to the **difficulty to hire and fire workers** • Mexico follows Brazil in INSEAD's 2012 list of 50 top performing CEOs in Latin America, with **10 of the 50 listed CEOs**

Sidebar E: Country Profile – Chile[7,8]

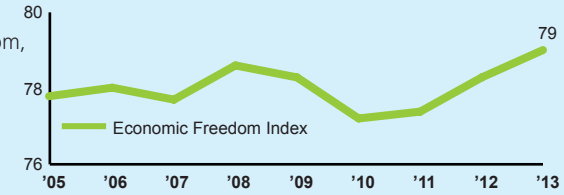
The Chilean economy is widely considered the most developed and stable in Latin America.

Country Overview

- Despite having the 6th largest GDP in 2012, Chile is the **richest of the Latin American nations** with a per capita GDP of **over US$15,000**
- In 2010 Chile became the **first South American country to become part of the OECD**, and boasts **trade agreements** with many partners including the **European Union, China, South Korea, Mercosur, and Mexico**
- Chile underwent a major movement of privatizations, being the **only country in Latin America** with a **fully privatized urban water supply and sanitation**
  - The country has some of the **best coverage and quality levels** in urban areas, where **85% of the population** lives
- Despite the long series of privatizations, a major source of revenue for the government remains copper

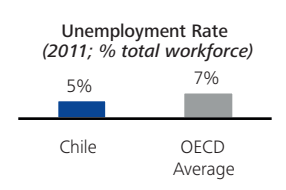
Economic Freedom

- Chile is ranked **7th of 179, globally**, in economic freedom, and **1st in Latin America**
  - The country was ranked 34th in the World Bank's ranking, but was still **first among Latin American economies**



- The major contributing points to the country's elevated index include:
  - **Property rights** (2nd globally)
  - Low **corruption** (22nd globally)
  - Low **inflation and price controls** (7th globally)
  - Reduced constraints to **capital flow** (2nd globally)
  - **Efficient** and **independent banks** (19th globally)

Sovereign Risk	Currency Risk	Banking Risk	Political Risk	Economic Risk	Country Risk
A	A	A	A	BBB	A

Market Size	• Despite the fact that Chile has the **highest GDP per capita** in Latin America, **income inequality** ranks as the **worst** among members of OECD, according to the GINI index • **Unemployment l**evels are among the **lowest** of the group of countries in the OECD, making for a relatively large consumer base 
Capital Markets	• Chile **actively promotes foreign direct investment (FDI) inflows** to the country via a Foreign Investment Committee (FIC), which led to **FDI growth of nearly sevenfold** between 2002 and 2010 • Two of the major draws to doing business in Chile, according to the Index of Economic Freedom are its **reduced restraints to capital flow** (ranked 2nd globally) and the **efficiency** and **independence from the government of the banking sector** (ranked 19th globally) • Over **half of banks are foreign owned**, and have significant access to external capital markets • The **financial market development** is considered a **key quality** of the country by executives surveyed in the WEF Global Competitiveness Report, ranking in the **top 20%** of countries in six of eight indicators
Labor Force	• While the educational gap across generations has been reduced over the past years, **access to quality education has remained a problem**, due to uneven income distribution • At the same time, in 2005, **37.4% of Chile's workers were over-qualified for their jobs** (against the OECD average of 25%), a major point of concern for executives in the Global Competitiveness Report is the poorly educated workforce

When looking at how the local business environment affects companies based in Brazil, Mexico, and Chile, two trends are particularly noteworthy. First, Chile's high degree of economic freedom has given rise to a disproportionately large number of Local Latinas and Multilatinas. Second, and as presented later in this report, the dominance of Brazil at the Global Latina level can be largely attributed to structural advantages such as access to top human and financial capital, and in some cases direct government support.

Five keys to becoming a Global Latina

To understand how Latin American companies move up the global maturity curve, we used our assessment framework to study a set of 57 carefully selected businesses that collectively mirror the Latin Trade Top 500, in terms of both geographic distribution and company type (Local Latina, Latina Exporter, Regional Multilatina, Multilatina Exporter and Global Latina).

Our analysis revealed five key factors that largely determine a Latin American company's ability to move up the maturity curve and become a Global Latina:

1. Availability and retention of **top executives** qualified to lead international expansion and operations
2. Access to **capital markets and financing**
3. Position of **market leadership** at home
4. Ability to execute **international acquisitions** and **joint ventures**
5. Use of leading **corporate governance practices**

Limitations in any of these areas can make it very difficult for a business to expand internationally or become a global company. The first two factors are more structural in nature, meaning they are largely pre-determined by where a company is based and may not be within the company's direct control. Companies that face such structural limitations need to develop explicit strategies to work around the challenges. The last three factors are competencies that are more within a company's control.

1. Top Executives

A country's local business environment plays an important role in the availability and retention of top executives, directly affecting a company's ability to find leaders who are prepared to guide overseas expansion and operations.

Harvard Business Review's List of 100 Top Performing CEOs in the world evaluated a sample of 3,143 CEOs globally[9]. Among the Top 100 CEOs, nine are Brazilian, three are Mexican, and one is Chilean. Brazilian CEOs comprise only 4.5% of the total sample, but 9% of the top 100. Also, on average, Mexican CEOs ranked 108 places higher than CEOs from the US. These numbers help explain why 80 percent of all Global Latinas come from Brazil or Mexico (see Figure 12).

Figure 12: Top 100 Performing CEOs Globally [10]
(HBR, % by nationality of company in 2013)

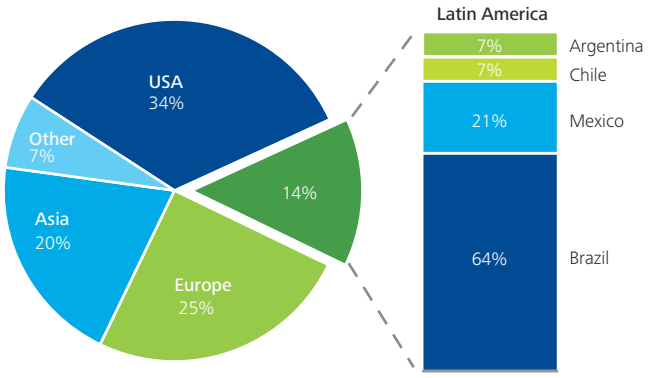
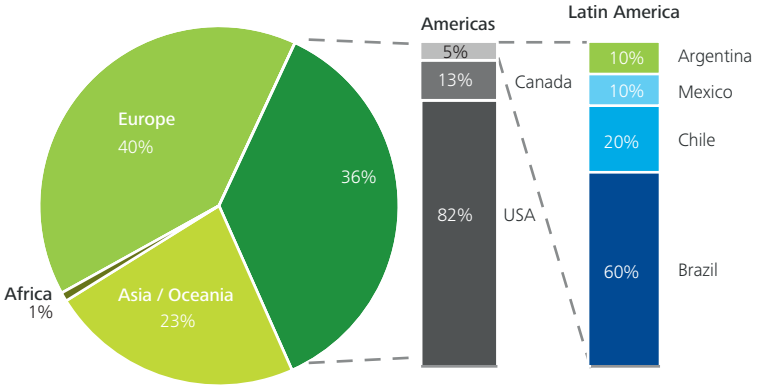


Figure 13: Top 500 Universities Globally
(ARWU, % of Universities per location in 2013)



9 "The Best-Performing CEOs in the World." *Harvard Business Review*. Web. January 2013.
10 Only one Latin American company studied has a foreign CEO; other companies have local CEOs; Latin Americans only appear in Latin American companies among the top 100 listed; ARWU considers every university that has any Nobel Laureates, Fields Medalists, Highly Cited Researchers, or papers published in Nature or Science

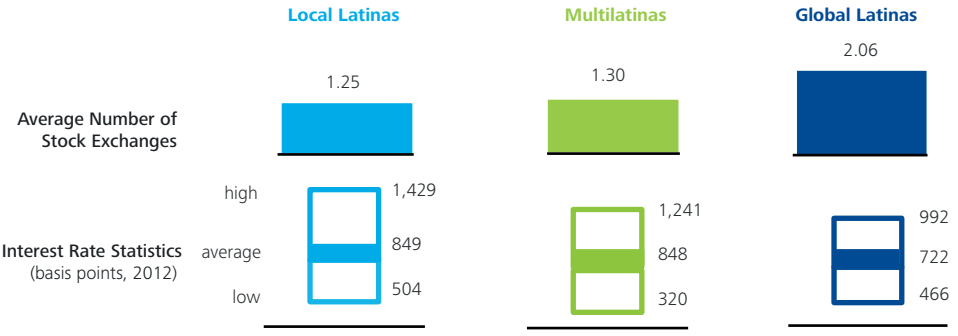
Of course, top-flight leadership talent does not just materialize without investments; it is a result of top-flight education. Academic Ranking of World Universities (ARWU) lists the top 500 universities from a pool of more than 2,000 higher education institutions worldwide. Given the size of their economies, it seems reasonable to expect that all six of the top GDP countries in Latin America should have at least one school in the ranking (see Figure 13). Yet, the only Latin American countries with universities in the Top 500 are Brazil (six), Chile (two), Mexico (one), and Argentina (one).

Given Brazil's exceptional showing in both the top CEOs and top universities lists, it is not surprising that the country by itself is the home base for nearly half (48 percent) of all Global Latinas and has a high need for top executive talent.

2. Capital Markets and Financing

To fund international expansion, companies need ready access to relatively cheap capital. This is especially important for companies based in Latin America, where obtaining credit can be a major challenge (see Sidebar F). On average, Global Latinas are listed on 2.06 stock exchanges, compared to only 1.30 and 1.25 listings for Regional and Local Latinas respectively. This gives Global Latinas more options and sources for raising capital from investors. Global Latinas also have access to lower interest rates (see Figure 14).

Figure 14: Stock Listings and Interest Rates



Source: Deloitte's Latin America research, 2014.

In addition, Global Latinas have the opportunity to get their funding from either local or international sources (see Figure 15), which reduces cost and risk – and helps them overcome capital-related structural limitations that may exist within their home countries.

Figure 15: Sources of Financing

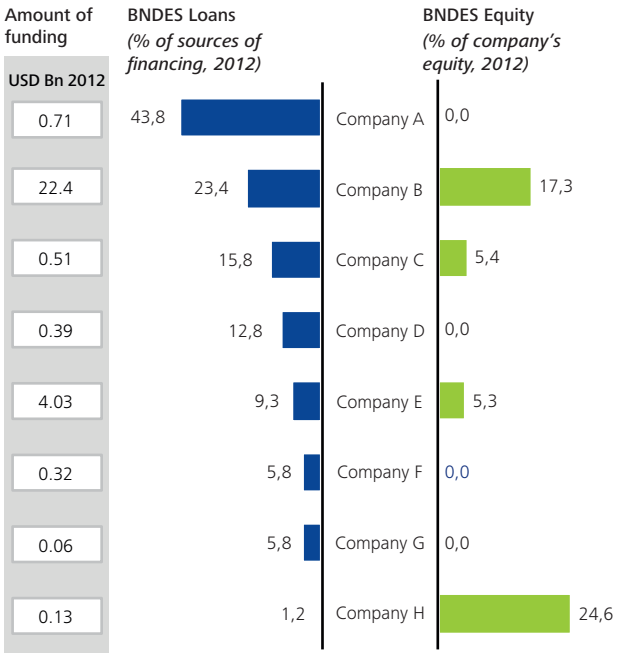
Source: Deloitte's Latin America research, 2014.

Sidebar F: Government-backed financing gives Brazilian companies a big edge

Brazil's national development bank, Banco Nacional de Desenvolvimento Econômico e Social (BNDES), provides Brazilian companies with government-backed financing that helps them grow internationally and provides a significant advantage over companies from other Latin American countries. In this respect, Brazil is similar to other fast-growing economies such as Russia and China, which also have national banks that help spur economic development at home and abroad.

BNDES offers Brazilian companies a mix of loans and equity tailored to their unique needs. (see Figure 16).

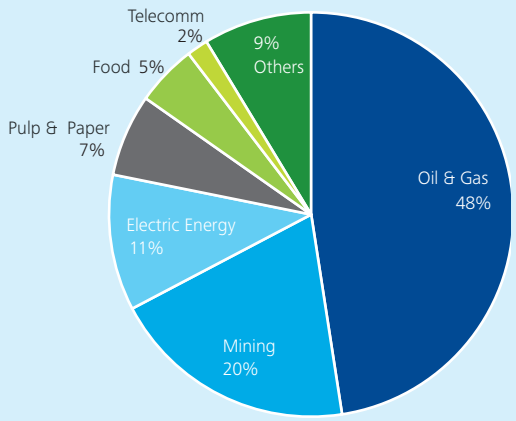
Figure 16: Examples of BNDES Global Latinas financing for selected companies



Note: 1) All Latina American Brazilian companies used/have access to BNDES funding; 2) BNDES = National Bank of Development; 3) Selected companies only; Source: "The New Banks in Town: Chinese Finance in Latin America"; "Finance for Development: Latin American Comparative Perspective"; InterAmerican Dialogue: "China-Latin America Finance Database"; Companies' websites; BNDES Financial Report 2012; Deloitte Analysis

BNDES provides equity financing to a wide range of industries, with a particularly strong presence in Oil & Gas (Figure 17).

Figure 17: BNDES Equity Portfolio *(% of equity value per sector, 2012)*



Source: Deloitte's Latin America research, 2014.

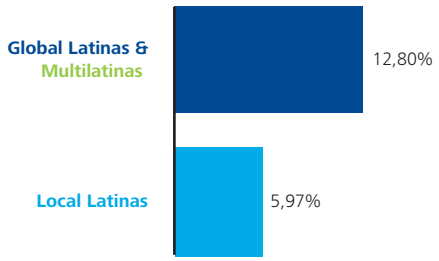
In other Latin American countries, different types of institutional funding such as the Inter-American Development Bank and the China Development Bank are present and have grown significantly over the past five years. China's funding, of course, is made with Chinese national interests in mind first.

3. Market Leadership

Global Latinas and Multilatinas are healthy companies with strong growth prospects that were typically top performers and market leaders in their home countries before expanding abroad. For example, in the Brazilian food industry, one Global Latina, BRF, controls 71 percent of the country's market for frozen processed meats, compared to a successful Local Latina that controls just 14 percent of the country's market for cookies and pasta.

The dominant leadership position of Global Latinas and Multilatinas in their home market is reflected in the tremendous sales growth advantage they enjoy over Local Latinas in their respective industries (see Figure 18).

Figure 18: Sales Growth Advantage Over Industry *(%; 5 year CAGR 2008-12)* [11]



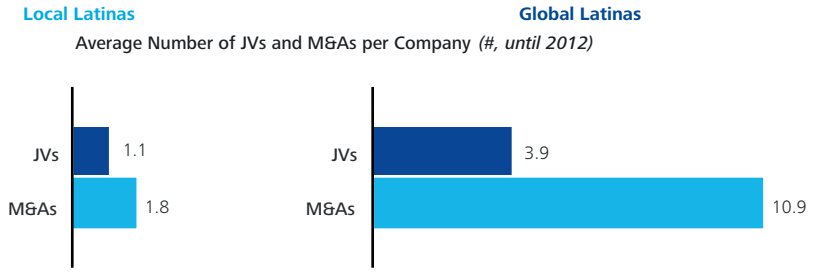
According to our research, cost efficiency is the most common source of market leadership for Global Latinas. Many of the most successful companies in the region have been able to effectively leverage a position of local cost leadership into a competitive and sustainable advantage in the global marketplace.

4. Acquisitions and Joint Ventures

Many companies mistakenly assume that effective international expansion requires a green field strategy of building their own local operations in a foreign country from the ground up. However, our research shows that the international expansion strategy for Global Latinas is more likely to rely on inorganic growth through acquisitions and joint ventures (see Figure 19). In fact, considering acquisitions overseas, compared to Local Latinas, Global Latinas on average execute almost four times as many joint ventures (JVs) — and more than six times as many mergers & acquisition deals (M&A).

11 Average difference between company sales growth and industry sales growth

Figure 19: Global Latinas Rely on JVs and M&A



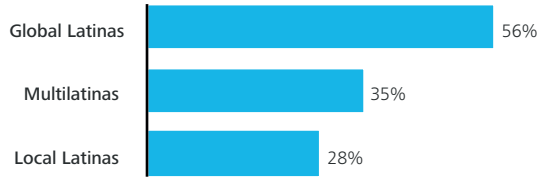
A Mexican Global Latina, CEMEX, has developed a rigorous M&A model that it used to execute 15 or more M&A deals in 2012 alone. The model is built on a global capability platform that covers every aspect of the business, and is implemented by an experienced team of M&A professionals.

5. Governance practices

Adoption of leading practices for international corporate governance helps Global Latinas operate more effectively on a global scale. Also, it helps them gain access to capital from state pension funds and sovereign wealth funds, which typically have strict guidelines about the types of companies they invest in. This insight is important for all companies that aspire to become Global Latinas; however, it is especially critical for companies that are currently controlled by a single owner or family, since operating effectively on a global level may require surrendering a certain amount of control to other investors and stakeholders.

More than two-thirds of Global Latinas have publicly traded shares in foreign stock exchanges, while less than half of Local Latinas are traded outside their home country. Being listed on foreign stock exchanges makes Global Latinas more likely to adopt international standards and leading practices for corporate governance. For example, compared to Local Latinas, Global Latinas on average have twice as many independent directors on their boards (see Figure 20).

Figure 20: Independence of Board of Directors
(% independent directors; average per expansion phase)



Source: Deloitte's Latin America research, 2014.

Also, Global Latinas are more likely to issue only common stock, giving voting rights to all investors (see Figure 21).

Figure 21: Voting Rights of Shareholders
(% companies with only voting rights stocks)

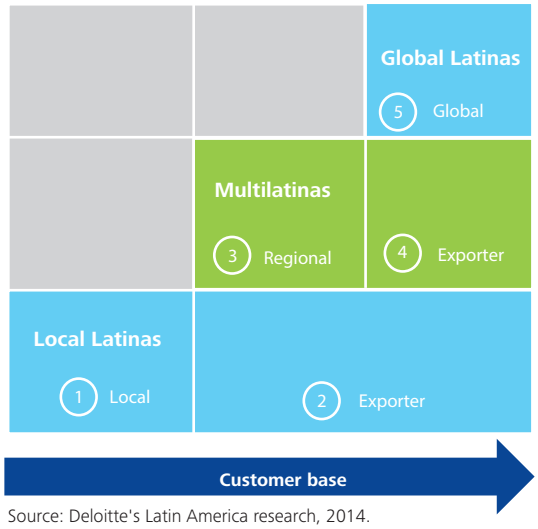
Source: Deloitte's Latin America research, 2014.

Our analysis suggests that the five factors listed above are key indicators for a Latin American company's ability to grow into a Global Latina. Companies with global aspirations should ensure all five of these factors are addressed – even if it means reaching beyond their home country's borders for key resources such as executive talent and investment capital. Also, understanding the five factors can help companies from outside Latin America gain a foothold and operate more effectively within the region.

Moving horizontally into exports

Becoming a Global Latina is not the only way to capitalize on international business opportunities. Local Latinas and Regional Multilatinas also have the option to expand internationally by moving horizontally on the maturity path and becoming Exporters. This involves a company continuing to base all operations in its home country, but seeking new sources of revenue by selling products and services in foreign markets – both within and beyond Latin America (see Figure 22).

Figure 22: Expanding Horizontally into Exporting



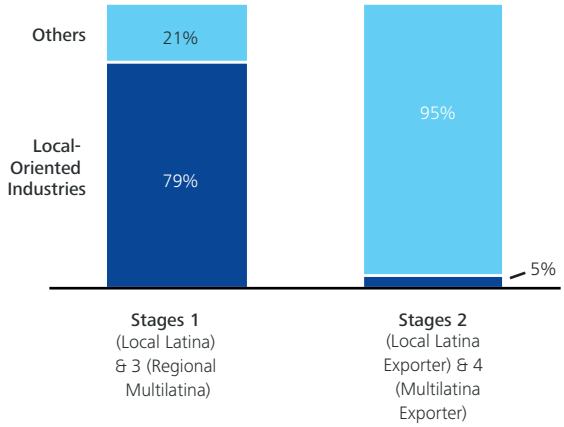
Source: Deloitte's Latin America research, 2014.

This horizontal move can be a useful intermediate step on the path to becoming a Global Latina; however, instead of the five key factors described above, there are three different factors associated with successful exporting:

- Doing business in an **export-friendly industry**
- Developing a **differentiated strategy** that is compelling internationally
- Establishing **strategic partnerships** for foreign sales and distribution

To become a successful exporter, it helps to operate in an industry where the products and services are in demand globally and are relatively easy to export – industries such as Food, Construction, and Air Transportation – rather than in local-oriented industries such as Retail, Utilities, Ground Transportation, and Telecom, where the goods and services are difficult or impossible to export. Among the companies we analyzed, only 5% of the Latina and Multilatina Exporters are in local-oriented industries. By contrast, 79% of the Local Latinas and Regional Multilatinas are in local-oriented industries, which could be making it fundamentally difficult for them to move into exports (see Figure 23).

Figure 23: Companies in Local-Oriented Industries
(% of total within group; Latin Trade ranking 2013)[12]



12 Our sample is based on 19 companies in Stages 1 (Local Latina) and 3 (Regional Multilatina) and another 21 companies in Stages 2 (Local Latina Exporter) and 4 (Multilatina Exporter)

Conclusion

Latin America is a rising star in the global economy. The insights presented here can help Latin American companies capitalize on growth opportunities within and beyond the region. They can also help companies from outside the region establish solid footholds and operate more effectively in the Latin American market.

For Local Latinas and Multilatinas, there are five key factors for expanding internationally and moving up the maturity curve toward becoming Global Latinas. Three of these factors are *competencies* that companies have the power to affect through their own actions: (1) establishing a position of market leadership at home, (2) developing strategies and capabilities that focus on acquisitions and joint ventures as the primary means for international growth, and (3) adopting leading corporate governance practices. Global Latinas tend to be very strong in all three of these areas, and any Latin company that aspires to reach a similar level of global success will likely want to follow their lead.

The two remaining factors are more *structural* in nature, meaning they are largely determined by a company's home business environment. These factors are: (1) availability and retention of top executives qualified to lead international expansion and operations, and (2) access to capital markets and financing. Although companies do not have total direct control over these factors, that does not mean they cannot succeed internationally. They simply have a tougher path to follow and need to make a deliberate effort to find alternative strategies. Of course, over the mid to long-term, government policy development and changes in talent and capital, if deemed a national interest, may offer more parity in the market. Alternative strategies for executive talent acquisition may include targeted executive development programs sponsored by interested companies, or international recruitment of capable executives in the region. Relative to investment, private equity and venture capital, in particular those originating from the region, can foster direct investment and ownership of Latin companies to accelerate growth in earlier stages of development, either from a Local Latina to Multilatina, or from Multilatina to Global Latina. This model of direct investment given local and regional market knowledge and comfort of operating in this environment, may lead to more aggressive consolidation and expansion at the global level. It could also result in market changing opportunities at the global level originated – and controlled– within and by Latin American businesses.

Having all five factors in place gives a company a distinct advantage in the global arena. However, it does not guarantee success. Our analysis shows there is not a single magic formula for expanding internationally and becoming a Global Latina. Different companies will be presented with different opportunities and obstacles, and will follow different paths. Some will become Global Latinas; others will not. However, all companies that do business in Latin America can potentially improve their performance by understanding and addressing the five factors that have helped Global Latinas establish a strong presence in the global marketplace. These same factors can also serve as guidance for international companies that either operate or want to operate in Latin America.

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