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## The 2009 BCG Multilatinas

A Fresh Look at Latin America and How a New Breed of Competitors Are Reshaping the Business Landscape



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# The 2009 BCG Multilatinas

## A Fresh Look at Latin America and How a New Breed of Competitors Are Reshaping the Business Landscape

**I**t is time for a closer look at Latin America. Today, the region offers some strong, resilient economies with solid opportunities for growth that set them apart from other markets and from the region's volatile history. Within this new environment, a group of bold Latin American companies are expanding their operations internationally with impressive speed, ingenuity, and sophistication. The growth paths and approaches adopted by these thriving *multilatinas* may offer valuable lessons to others.

### A New Perspective on Latin America

Latin America is a massive, diverse, and vibrant region. Its nominal GDP (\$4.2 trillion in 2008) is equivalent to China's, it has a very large population (562 million), and its market capitalization (\$1.6 trillion as of June 2009) is greater than that of Eastern Europe and Russia combined.

While it is home to 20 countries, the region is more coherent culturally and linguistically than is Africa, Asia, or Europe. Barriers to regional trade are low and facilitated by regional frameworks. And economic activity is concentrated in a few large markets, with Brazil and Mexico—the two

largest countries—accounting for 63 percent of regional nominal GDP.

Latin America is also a growth market. Although its GDP growth rate over the past five years did not match China's spectacular growth rate, it consistently ranged between 3.9 and 4.8 percent per year.

It is important to de-average these overall regional data points and take a deep look into the risks and opportunities in each market. The region has a volatile history, and some countries still have risky business and political environments. However, in recent years some major countries have reduced their debt levels, strengthened their currency reserves, and applied discipline to their fiscal deficits. The results have been unprecedented reductions in country risk and interest rates, creating unique opportunities for companies based both within and outside the region. In fact, for the first time, the region is now home to five investment-grade economies: Brazil, Chile, Colombia, Mexico, and Peru, which together are responsible for 75 percent of the region's nominal GDP. (See Exhibit 1.)

**The Impact of the Economic Crisis.** The current global economic crisis—

the worst since the Great Depression of the 1930s—has clearly made itself felt in Latin America, as elsewhere around the world. All countries in the region have been affected in a variety of ways, including falling prices, shrinking export volumes, erosion of consumer confidence, credit scarcity, limited liquidity, and capital flight. These effects, in turn, have had negative impacts on financial markets, currency values, economic-activity levels, consumer behavior patterns, company performance levels, and market valuations. Furthermore, several dozen companies, mostly in Brazil and Mexico, suffered severe losses in late 2008 as a result of exposure to exchange rate derivatives. The Bank for International Settlements estimated that Brazilian companies lost \$25 billion in these transactions whereas Mexican companies lost \$4 billion.

On the positive side, Latin America has been less affected by this crisis than by others in the past. In previous crises, such as the Latin American debt crisis in 1982 and the Tequila Effect during 1994 and 1995, the region was either at the epicenter or more severely affected than other regions. In contrast, with respect to the current crisis, the World Bank forecast of June 2009 estimates that in

2009, the GDP of countries in the Organisation for Economic Co-operation and Development will contract by more than 4 percent on aggregate, while Latin America's GDP will shrink by only 2.2 percent.

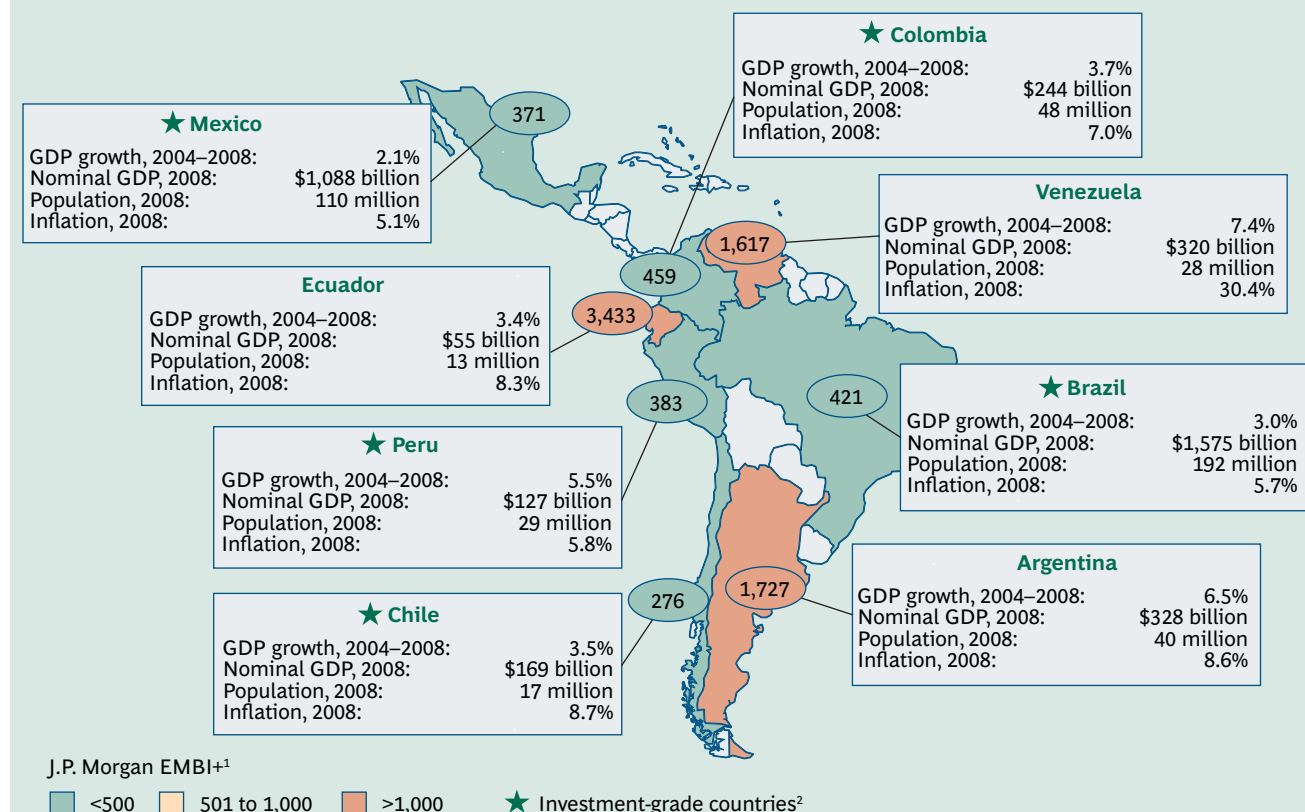
Latin America's relatively positive current position rests on two factors. First, the practices that triggered the crisis elsewhere are not present in the region; household debt is, on average, at manageable levels, and local banks are less leveraged and not directly exposed to toxic assets from overseas.

Second, the region is much better prepared to confront this crisis than it was to face others in the past. Many indicators are more favorable than they were at almost all other moments of crisis in recent decades, providing unprecedented strength and room for policy responses. For instance, on average, Latin American governments are far less indebted in terms of both net foreign debt as a percentage of GDP (down to 2 percent at the end of 2008 from a high of 30 percent during the 1982 Latin American debt crisis) and short-term debt as a percentage of international

reserves (down to 22 percent in 2008 from a high of 227 percent in 1982). Inflation rates are lower and stable, averaging 8 percent per year across the region (versus 66 percent in 1982). Money market interest rates currently hover around 10 percent (versus 67 percent in 1982), and unemployment is a manageable 7 percent.

It should be noted, however, that the impact of the crisis varies significantly from country to country. Some, such as Venezuela, are particularly exposed to commodity prices and

## Exhibit 1. Latin America's Promising Economies Include Five That Have Investment-Grade Ratings



**Sources:** Economist Intelligence Unit; International Monetary Fund; Banco Central de Reserva del Perú; Thomson Reuters Datastream; BCG analysis.

**Note:** GDP growth from 2004 through 2008 is the compound annual growth rate of real GDP per person.

<sup>1</sup>J.P. Morgan EMBI+ estimates of the risk premium required for investment.

<sup>2</sup>Colombia is considered an investment-grade economy only by Standard & Poor's; Moody's and Fitch Ratings consider it investment grade only for the long term in local currency.

country risk. Others, such as Mexico, are affected because of their multiple connections to the U.S. economy. Still others, such as Argentina, are particularly vulnerable because of their fiscal and debt situations.

In contrast, major countries, including Brazil and most of the other investment-grade markets in the region, are expected to quickly resume their growth trajectories. Analysts expect GDP to recover in 2010 across the region, attaining GDP growth rates ranging from 1.1 to 4.7 percent, with especially strong performance in Brazil, Chile, and Peru.<sup>1</sup>

**The Region's Prospects for Profitable Growth.** The global crisis remains very serious. The world economy is likely to continue to suffer sluggish growth and uncertainty, possibly for some years. As the crisis is still unfolding, it is too early to foresee its ultimate implications for the region, particularly if the downturn is protracted.

Nonetheless, in our view, even in such an adverse global context, we expect Latin America to sustain above-average performance in the medium to long term. The region as a whole is better prepared to face this crisis than most, with the investment-grade countries—Brazil, Chile, Colombia, Mexico, and Peru—leading the pack and providing critical mass for growth in the region.

The resilience and growth potential of Latin America's major economies are based on significant structural factors, which are especially striking in some countries, most notably Brazil (the region's largest economy). These factors include structural reductions in the cost of capital (both

equity and debt); relatively low levels of credit penetration; conservative banking practices and sound financial institutions; an increasingly diversified and modern economy; abundant natural resources; a young, growing, and increasingly educated

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population; improved access to information and global markets; crisis-seasoned institutions and leaders; and the emergence of local companies with international aspirations.

*Structural Reductions in the Cost of Capital (Both Equity and Debt).* This major achievement has been brought about by improved fundamentals. In Brazil, for example, country risk as measured by J.P. Morgan Emerging Markets Bond Index Plus (EMBI+) is at 280 basis points (June 2009 average) compared with 670 basis points five years ago (June 2004 average) and 1,000-plus basis points ten years ago (June 1999 average), while nominal benchmark interest rates are at unprecedented one-digit levels (9.25 percent in June 2009). Structural reductions in the cost of capital have spurred the development of capital markets and created opportunities in infrastructure, real estate, and other long-term investments.

*Relatively Low Levels of Credit Penetration.* This condition will give companies ample room to use debt to finance growth once liquidity in the markets returns to more normal levels. In Latin America in 2008, pri-

vate-sector debt as a percentage of GDP was 29 percent—much lower than other countries' or regions' levels. For example, China's 2008 private-sector debt represented 103 percent of its GDP. In Western Europe the percentage was 137, in the United States, 158 percent, and in Japan, 167 percent.

*Conservative Banking Practices and Sound Financial Institutions.* The region has a relatively low level of bank loans as a percentage of bank deposits (77 percent for Latin America in 2008, compared with 137 percent for Russia, 116 percent for Western Europe, 103 percent for the United States, 92 percent for China, and 86 percent for both South Korea and Eastern Europe). This, among other factors, allowed banks in Latin American countries to suffer less impact from the crisis than banks in other countries, such as the United States, and to be better positioned to support the recovery of their local economies.

*An Increasingly Diversified and Modern Economy.* With the growth of strong regional players over the past decade, Latin America's economy has become increasingly diversified. These companies compete with multinational corporations (MNCs) based outside the region in various high-tech sectors, such as aerospace and defense, transportation, telecommunications, automotive, technology, and software design.

*Abundant Natural Resources.* This attribute of the Latin American region is

1. These projections are based on June 2009 forecasts from the World Bank, J.P. Morgan, and Goldman Sachs for the seven largest economies in the region.



exceptionally valuable in an increasingly commodity-constrained world. Latin America possesses 30 percent of the world's fresh water, 48 percent of its copper, 19 percent of its iron ore, 13 percent of its petroleum, 23 percent of its natural forests, and more than 50 percent of its soybean production. Clearly, these resources provide a platform for growth and specifically for competitiveness in industries such as steel and paper.

*A Young, Growing, and Increasingly Educated Population.* Latin America's population has grown at some 1.5 percent per year over the past 10 years, and 57 percent of the population is under 30 years old. Moreover, the literacy rate among people aged 15 years old and above increased from 91.8 percent to 93.5 percent over the past 10 years, while enrollment in universities almost doubled from 1.7 percent to 2.9 percent of the total population. This "demographic bonus" will fuel growing consumer spending as the young, increasingly educated sector of the population comes into its prime years for establishing households. It will also support the region's need for highly qualified workers and managers as national economies continue to expand.

*Improved Access to Information and Global Markets.* The increasing penetration of new technologies, such as the Internet and cellular phones, is narrowing the information access gap and lowering transaction costs relative to other regions. For example, cellular phone penetration in the region increased from 25 percent in 2003 to some 80 percent in 2008.

*Crisis-Seasoned Institutions and Leaders.* The experience and know-how

Latin American leaders bring to the present crisis has helped the region to be flexible and adapt to increased global volatility.

*The Emergence of Local Companies with International Aspirations.* Local

Latin American  
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companies are reshaping the regional competitive landscape as they expand outside their home countries, across the region, and beyond.

**The Region's Fast-Changing Corporate Landscape.** The corporate landscape of Latin America is changing rapidly. Over the past two decades, privatization, trade agreements, deregulation, the development of capital markets, and increased pressure from international competitors have contributed to a market environment dominated by private companies—an increasing number of which are operating internationally.

Our analysis shows that the internationalization process is both deeper and more advanced than most observers might realize. For instance, we identified in our research 471 companies with 2007 regional revenues of more than \$500 million. We categorized them in four groups, according to their international profiles:

♦ *Local Companies.* Each local company is based in one Latin American country and operates within its borders. Local companies rep-

resent 27 percent of the group of 471 but only 15 percent of its revenues. They tend to concentrate in specific industries—such as utilities, media, distribution, and infrastructure—in which foreign ownership is limited as a matter of government policy.

♦ *Exporters.* Each exporter is based in one Latin American country and earns at least 10 percent of its revenues from exports. Together, exporters represent 16 percent of the group in terms of number of companies and 13 percent of the group in terms of revenues. Many of these companies have supporting international commercial networks.

♦ *MNCs.* These companies are based outside the region and have operations in one or more Latin American countries. They represent 36 percent of the companies in the group and earn 38 percent of the revenues.

♦ *The 2009 BCG Multilatinas.* These 100 companies are a thriving breed of competitors that are headquartered in Latin America and controlled by shareholders based in the region. All 100 BCG multilatinas have significant operations and foreign direct investments outside their home-country markets. They represent only 21 percent of the companies in our study group but account for an impressive 34 percent of its revenues.<sup>2</sup>

2. Some of the 2009 BCG Multilatinas are listed in *The 2009 BCG 100 New Global Challengers: How Companies from Rapidly Developing Economies Are Contending for Global Leadership*, BCG report, January 2009, available at [www.bcg.com/publications](http://www.bcg.com/publications).

## Introducing the 2009 BCG Multilatinas

The transformation of Latin American business environments began in the 1990s, triggering a surge of internationalization in the region, as local business leaders began to perceive the need to embrace globalization for growth and sustainability. Outward foreign direct-investment flows from Latin American countries leaped from an average of \$2.1 billion annually from 1990 through 1994 to \$25.4 billion annually from 2004 through 2008. Among the companies leading this expansion across the region and beyond have been the 2009 BCG Multilatinas.

**A New Breed of Regional Contenders.** The 2009 BCG Multilatinas are 100 companies based in eight countries across Latin America; all are operating internationally, and each earned 2007 revenues of at least \$500 million. (See Exhibit 2 and the sidebar “Methodology for Selecting the 2009 BCG Multilatinas.”)

As the largest markets in the region, Brazil, with 34 multilatinas, and Mexico, with 28, are home to 62 percent of the companies in the group. Notably, Chile, with a far smaller economy, nonetheless claims 21 multilatinas—a disproportionately high number.

We believe the success of Chile in breeding multilatinas highlights the critical role of a clear strategic direction and a consistent ecosystem at the country level. Chile offers the following beneficial conditions for multilatinas:

- ♦ A business-friendly environment, including a growing economy, low

economic volatility, sound fiscal and monetary policies, predictable regulation, solid institutions, and well-developed capital markets

- ♦ A fairly open economy with international reach, including partici-

The 2009 BCG Multilatinas have created spectacular shareholder value during their internationalization.

pation in regional blocs, a vast network of bilateral trade and investment agreements, and supportive institutions such as Fundación Chile and ProChile<sup>3</sup>

Although multilatinas operate in all industry sectors, their penetration varies widely. They have strong presence in Latin American aerospace activities; basic materials (construction materials, pulp and paper, oil and gas, and metals and mining); transportation; media and entertainment; food and beverage; and telecommunications. But they have only a negligible presence, relative to external MNCs, in automotive, technology, and even agricultural commodities. (See Exhibit 3.)

The revenues of multilatinas also vary widely; in fact, seven companies are responsible for half of the total revenues of the group. Moreover, the group’s income is not evenly distributed across the many industries in which the multilatinas participate; half of their revenues come from commodities and basic materials—sectors that outperformed the economy as a whole over the period we analyzed.

Internationalization is not a play reserved only for large corporations. Our analysis shows that company size (as measured by revenues) is not correlated with internationalization (as measured by the number of countries in which a company operates). Entrepreneurship and competitive dynamics trump scale. For instance, Sonda, a \$540 million Chilean company that offers IT services, platforms, and applications, already operates in eight other countries, and Grupo TACA, a \$938 million company based in El Salvador, was able to develop a regional footprint in the airline industry, competing against large incumbent players in other countries.

**Value Creation and Strategic Roles.** The 2009 BCG Multilatinas have created spectacular shareholder value during their international expansion, even taking into account the impact of the current crisis on their share prices. The total shareholder return (TSR) of the 68 multilatinas that were publicly traded over the past ten years was much higher than the TSR of the benchmark markets, including the MSCI Emerging Markets Index.

A \$100 investment made in June 1999 in a hypothetical multilatinas index would have grown at a compound annual growth rate of 19 percent, to reach a value of more than

3. Fundación Chile is a nonprofit platform for interaction among the Chilean government, the private sector, and the academic community, aiming to introduce innovation and develop human capital in the Chilean economy’s key clusters. ProChile, the Trade Commission of Chile, is part of the General Directorate of International Economic Affairs of Chile’s Ministry of Foreign Affairs. Its purpose is to foster and promote Chilean exporting companies.

## Exhibit 2. The 2009 BCG Multilatinas Are Based in Eight Countries Across Latin America



**Sources:** Press search; companies' Web sites and annual reports; BCG analysis.

**Note:** The sample does not include financial services companies.

<sup>1</sup>Grupo Pluspetrol's 2007 revenues were less than \$500 million, but it is important for the region and had 2006 revenues of \$704 million.



## Methodology for Selecting the 2009 BCG Multilatinas

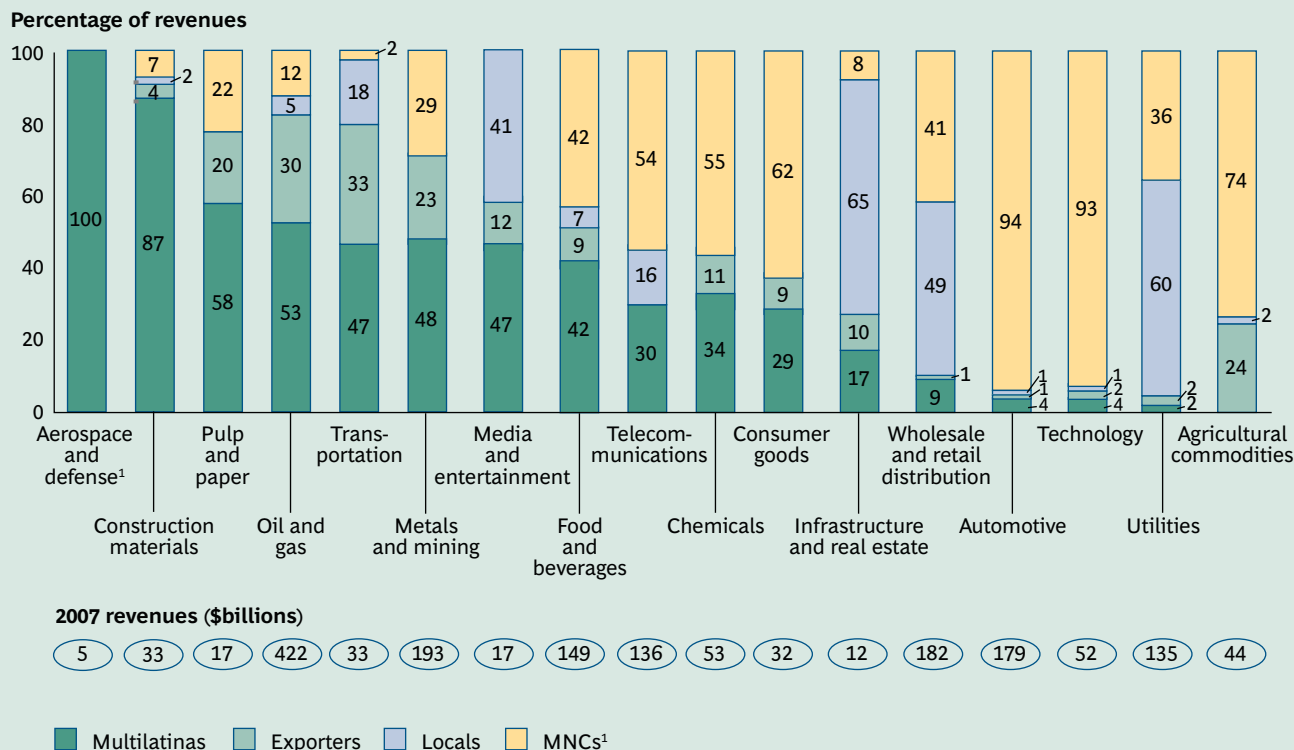
To arrive at our list of the 2009 BCG Multilatinas, a team of BCG consultants performed a comprehensive analysis of nonfinancial companies active in the region. The team first compiled a list of 471 such companies with 2007 revenues greater than \$500 million, based on international and local rankings from Argentina, Brazil, Chile, Mexico, and other Latin American countries, and on a detailed consolidation of international

groups. Next, the team undertook a thorough study of these companies' annual reports, Web sites, and press coverage and built a comprehensive proprietary database that characterizes each player according to the nationality of its equity controller, the sectors and countries in which it operates, and its business model and apparent strategy, as well as its revenues, net equity, number of employees, and EBITDA. The 100 2009

BCG Multilatinas all have Latin American equity control and all have significant assets or operations (factories, mines, ports, railways, or distribution centers) outside their home countries. The analysis was based entirely on publicly available sources.

## Exhibit 3. The 2009 BCG Multilatinas Operate in All Industry Sectors to Varying Degrees

Estimated percentage of total 2007 regional revenues in each sector, by company type



Sources: Press search; companies' Web sites and annual reports; BCG analysis.

Note: Regional revenues include revenues of all Latin American countries represented by the 2009 BCG Multilatinas; the revenues of MNCs are estimated on the basis of available data.

<sup>1</sup>This sector's figures exclude the MNC aerospace cluster in Mexico, for which individual company data are not available.

\$560 in 2009. (See Exhibit 4.) Undoubtedly this impressive financial performance reflects in part the rise in commodity prices over the period, as well as generally improved economic environments, which have spurred higher valuation multiples. But we believe that there is more to it than that.

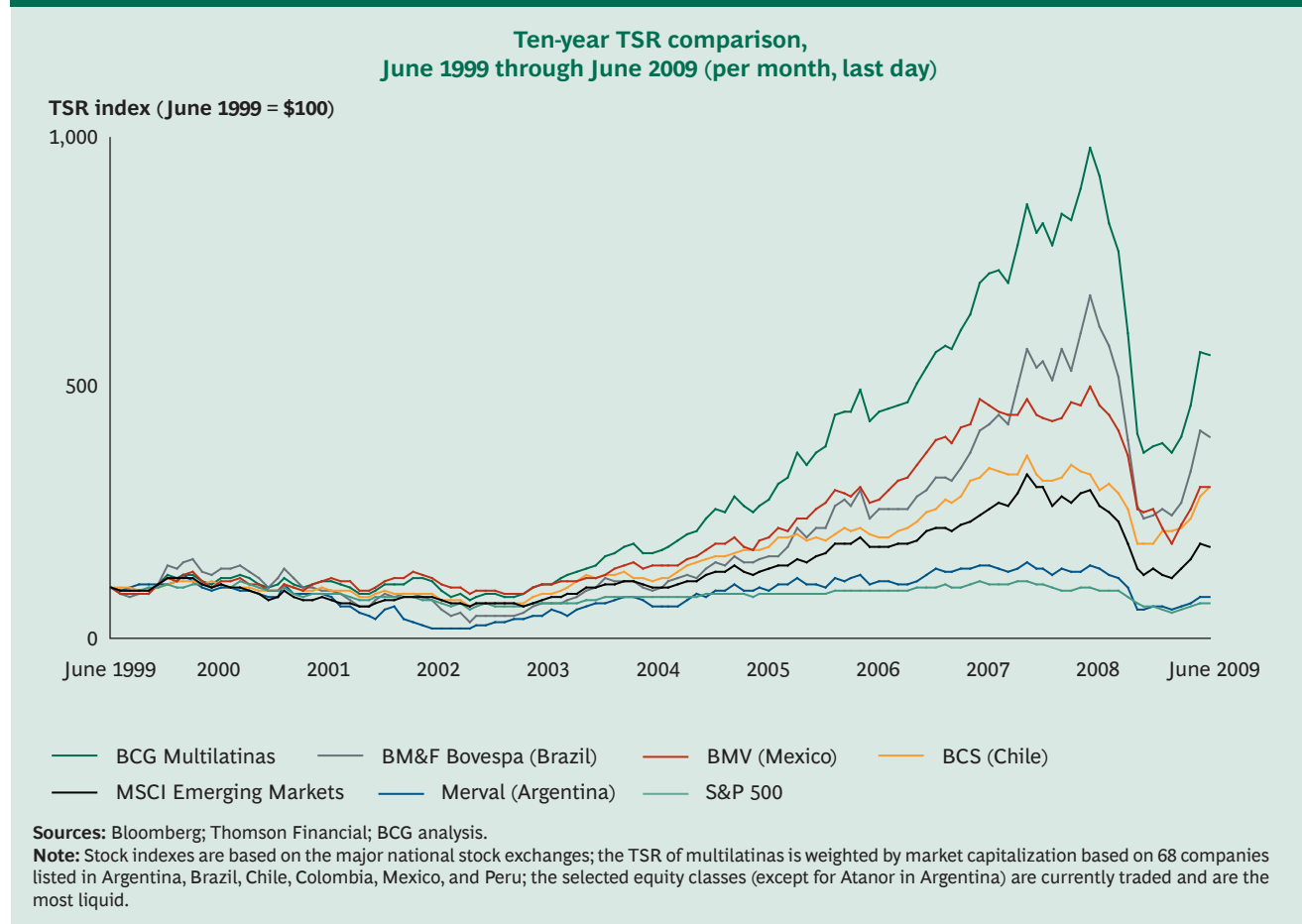
In our view, internationalization plays a critical role in enabling sustainable growth and value creation. The Boston Consulting Group's analyses of value creation over different time periods and across regions and industries show that long-term shareholder return is driven primarily by

growth. For instance, a recent BCG study of a large sample of companies listed in Standard & Poor's S&P 500 showed that from 1988 through 2007, 68 percent of the companies' value creation came from growth. This realization creates a solid rationale for strategies based on international expansion, even if by pursuing such strategies companies may achieve lower profitability than they would have had they remained at home—as long as profitability exceeds the cost of capital.

In addition to playing a central role in the region by means of their direct

economic contributions, multilatinas create a number of strategic benefits for their home countries—and indirectly for the rest of the region. Their headquarters give rise to high-value-adding jobs in corporate, research and development, and back-office functions. They spur the development of service clusters, including accounting, legal advice, and consulting. And they tend to inspire and support the international expansion of their business partners. Thus, multilatinas promote and sustain wealth creation, talent retention, technology development, knowledge and skill advancement, tax generation, and

#### Exhibit 4. The 2009 BCG Multilatinas Have Outperformed Overall Markets in TSR Growth



diversity and competition in the business ecosystems around them. Moreover, multilatinas have significant symbolic value: they are a source of national pride and an indication that globalization can be a two-way street.

**How Multilatinas Compare with MNCs Based in Other RDEs.**<sup>4</sup> As a group, multilatinas differ from MNCs based in other rapidly developing economies (RDEs) chiefly in three ways: ownership, regional focus, and industry focus.

**Ownership.** Multilatinas are owned predominantly by private investors (97 percent) and controlled by individual families (77 percent). In contrast, Russian multinationals, for example, are 33 percent government owned, and Chinese multinationals are 69 percent government owned. An important implication is that multilatinas are largely unaffected by governmental or geopolitical objectives. In addition, concentrated ownership often confers an agility advantage, which can be crucial, for example, in merger and acquisition (M&A) activities.

**Regional Focus.** Multilatinas are largely regional contenders, focused on their natural markets in the Americas (although many of them also operate farther afield). Argentina, the United States, and Peru are the primary destinations for multilatinas' international operations; 53 percent, 49 percent, and 42 percent of multilatinas are active in these locations, respectively. Brazilian multilatinas are generally more focused on South American countries, and Mexican multilatinas concentrate on markets in the United States. MNCs from India and China have focused primar-

ily on targeting developed markets in the United States and Europe, as well as developing markets in Africa. (See Exhibit 5.)

**Industry Focus.** Multilatinas are present in a balanced mix of industries,

The multilatinas' challenge now is to adapt their agendas to the new reality of the financial crisis.

whereas MNCs based in other RDEs tend to be more concentrated in narrower bands of industries and also have more representatives in technology sectors.

Like MNCs from other regions, most multilatinas (77 percent) have fueled their growth by resorting to equity markets. Brazilian and Chilean multilatinas have access to very highly developed local capital markets and are more advanced in this process (79 percent of Brazilian multilatinas and 100 percent of Chilean multilatinas use this approach) than multilatinas based in other countries. For example, only 43 percent of multilatinas from Argentina and 40 percent of those from Colombia have gone public.

Multilatinas are also aggressively leveraging acquisitions to support their overseas expansion. From January 1998 through September 2008 they concluded 312 outbound M&A deals, of which Mexican companies accounted for 153 and Brazilian companies accounted for 98, or 80 percent of all deals. Multilatinas' outbound M&A activity grew particularly strongly from 2003, when they

performed 19 outbound M&A deals, through 2007, when they concluded 49. Mexican and Brazilian companies led the charge during this period as well, with a total of 73 and 70 deals, respectively. That activity dropped drastically in 2008 because of the global financial crisis. However, we are confident that as economic conditions improve, M&A activity will remain an important component of multilatinas' growth strategies.

## A Strategic Agenda for Multilatinas

Multilatinas achieved their international growth in the context of a boom environment; their challenge now is to adapt their agendas to the new reality presented by the financial crisis. Largely because of that crisis, they are facing considerable risk and turbulence in their home and international markets. Therefore, their first priority should be to protect their financial fundamentals and existing businesses. As BCG points out in more detail in its Collateral Damage series of publications, companies can deploy a number of tactics to achieve this protection:<sup>5</sup>

- ◆ Protect cash and manage credit risk by exercising tight cash management, reducing or postponing spending, and focusing on cash inflow

4. In this section, we compare multilatinas with MNCs based in other RDEs and listed in *The 2009 BCG 100 New Global Challengers: How Companies from Rapidly Developing Economies Are Contending for Global Leadership*, BCG report, January 2009, available at [www.bcg.com/publications](http://www.bcg.com/publications).

5. For a complete list of publications in BCG's Collateral Damage series or information about how to obtain copies, please visit our Web site at [www.bcg.com/publications](http://www.bcg.com/publications).

- ◇ Optimize financial structure, improving the balance sheet by defining appropriate financial leverage, and securing financing
- ◇ Improve cost and organizational efficiency, streamlining the organization by delayering, increasing spans of control, consolidating and centralizing functions, and discontinuing low-value-adding functions
- ◇ Manage the top line aggressively through customer retention initiatives and by managing credit to customers

- ◇ Adapt product portfolio and pricing approaches
- ◇ Reassess investments and divest noncore businesses
- ◇ Improve risk management by carefully controlling market, business, and operational risks

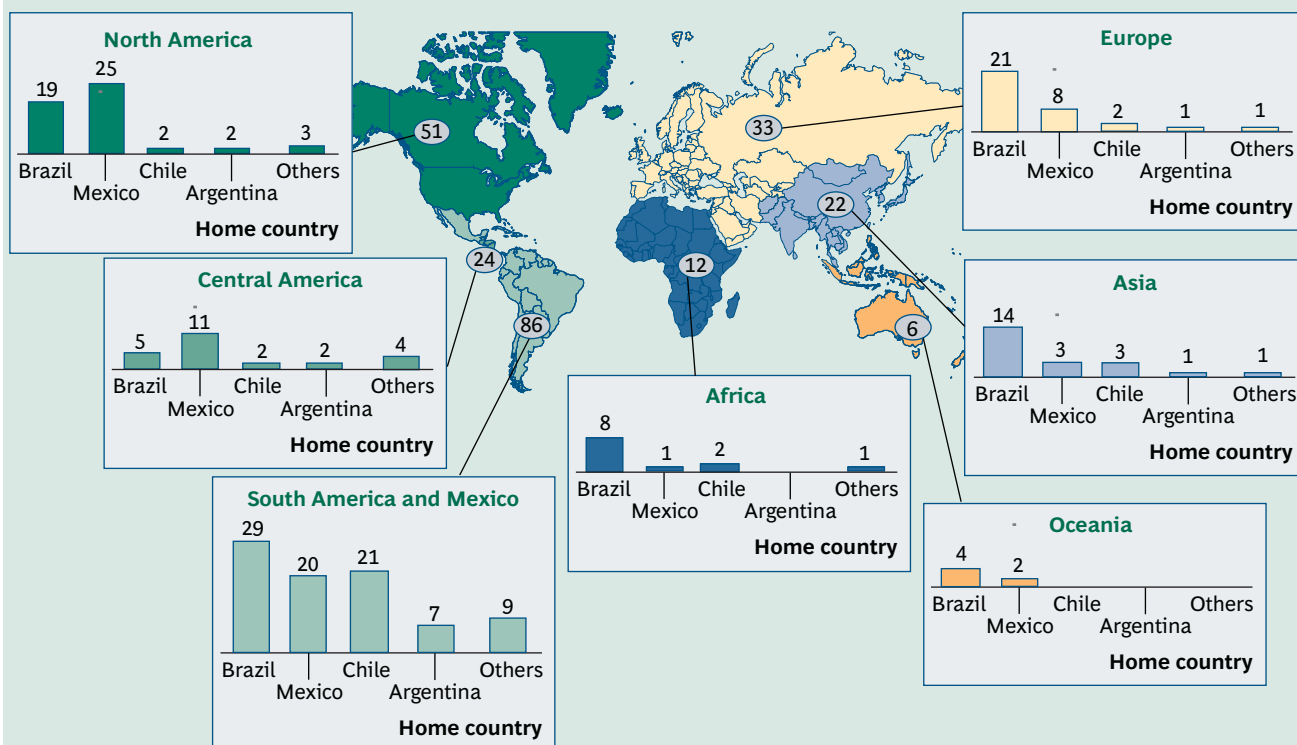
Fortunately, most multilatinas have low leverage ratios: 60 percent have ratios of net debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) that are lower than 2, and for 73 percent, such ratios are lower than 3. So they

should soon be in position to take advantage of the current crisis and continue to grow. For these companies, opportunities arising from the crisis include acquiring discounted assets, outperforming weakened competitors, creating new capabilities, and envisioning new options.

In contrast, highly leveraged companies will have to retrench and focus on restructuring their balance sheets and may become victims of the crisis. To benefit fully from these opportunities, multilatinas can draw on the lessons they learned—and the capabilities they developed—during

## Exhibit 5. The 2009 BCG Multilatinas Operate Mainly in the Americas but Also Far Beyond the Region

The number of multilatinas with foreign operations in each region, by home country, 2007



Sources: Press search; companies' Web sites and annual reports; BCG analysis.

Note: A company that has investments in more than one country in a region is counted only once; "others" includes Colombia, El Salvador, Peru, and Venezuela.

the early phases of their internationalization experience.

**Lessons and Capabilities for the Future.** BCG has worked closely with a number of multilatinas across the region to support their international expansion. In our view, the valuable lessons learned in the course of that experience can provide a sound basis for a strategic agenda. The lessons themselves appear deceptively simple: build in value creation discipline; define an international growth strategy and philosophy around core capabilities; monitor global markets, and plan the evolution of the company's international footprint; manage timing carefully; and create and replicate capabilities to enable sustainable international growth.

*Build in value creation discipline.* A disciplined approach to value creation is a crucial requirement for success. It requires strategic perspective, quantitative rigor, and a strong alignment of management processes, performance metrics, and incentives with value creation goals. BCG has supported several leading multilatinas' achievement of this discipline through comprehensive value-management and investor-relations programs. As discussed above, value creation requires profitable growth and a disposition to take risks and penetrate new markets—even when doing so may lower profitability.<sup>6</sup> It is critical to ensure that the internationalization path has a solid rationale and execution, for example, by defining and tracking clear synergy targets for each acquisition.

*Define an international growth strategy and philosophy around core capabilities.* In order to avoid the temptations

of flag planting and empire building, multilatinas need to define a consistent approach for their international expansion, identifying core capabilities that they can leverage and replicate to establish a winning strategy. Core capabilities for internationaliza-

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tion include the ability to make acquisitions quickly or in rapid succession; innovative operational, organizational, or business models; efficient and replicable processes; low-cost operations, from supply chains to distribution networks; brand management; partnership skills; and trained talent with international experience and ambition.

Leveraging and extending the comparative advantages of a company's home country is a good starting point, as is evident in multilatinas' industry concentrations. But multilatinas often go beyond their initial home-country focus to leverage competitive advantages by exploring various growth models, including:

- ◆ Rolling out new business models to multiple markets
- ◆ Acquiring natural resources
- ◆ Monetizing local natural resources globally
- ◆ Taking local brands global
- ◆ Assuming global category leadership

- ◆ Turning local engineering into global advantage

Embraer, for example, was able to turn local engineering into global advantage by developing a training program that allowed it to produce some 150 highly trained engineers each year. Over time, this program created a strong competitive advantage based on high-quality engineering and ingenious design solutions, which Embraer was able to leverage to grow internationally, targeting a specific competitive space in midsize jets. Embraer also identified key players to partner with in Asia, Canada, Europe, and the United States, thus enhancing the company's global reputation and pool of knowledge.

As a result, the company emerged from near bankruptcy to become the third-largest player in the airline industry and the world's leading supplier of jets that have up to 120 seats. Its newest commercial jets are in operation in more than 45 airline companies in more than 30 countries, and the company's backlog of orders is worth some \$20 billion.

*Monitor global markets, and plan the evolution of the company's international footprint.* Deciding which regions and markets to explore and target for expansion is a significant challenge. Leading multilatinas develop and constantly monitor detailed

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6. A recent BCG international survey indicated that even in the midst of the current crisis, investors are willing to pay a premium for companies that offer long-term strategic advantage and good prospects for growth. (This is based on 135 responses of professional investors and equity analysts in the United States and Europe, responsible for more than \$60 billion in assets under management covering a wide range of industries and regions.)



competitive maps of the global landscape, evaluate strategic rationales and approaches for entry into specific markets, and identify and track potential acquisition targets. They link opportunities with their capabilities and objectives. They also evaluate competitors' positions and apparent strategies to identify possible moves and their likely implications for competitive dynamics.

In our view, as multilatinas evaluate possible next steps in their international expansion, they would do well to explore opportunities within Latin America. Not only has the region suffered relatively mild effects from the current crisis, but it is also expected to recover sooner than developed countries. Moreover, securing core markets is key to successful expansion strategies, and Latin American countries constitute "natural" markets for multilatinas because of cultural and geographical proximity as well as established trade agreements.

It is interesting that although Brazil and Mexico are the region's two largest markets, only 35 percent of multilatinas from other countries have operations in Brazil and 39 percent in Mexico. Notably, only 38 percent of Brazilian multilatinas have ventured into Mexico, while only 43 percent of Mexican multilatinas are present in Brazil. Yet there are persuasive reasons for multilatinas—and other companies—to explore opportunities in both countries. Brazil presents unique growth opportunities that can be valuable for companies in view of the current depressed condition of the U.S. market; and Mexico, of course, offers the advantage of serving as a rehearsal stage for subsequent entry into the adjacent U.S. market once that economy recovers.

The governments of both countries could further support the process through trade and investment agreements.

América Móvil offers a good example of a company that successfully

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developed a regional footprint in the wireless segment to compete with Spanish multinational Telefónica. Formed in 2000 as a result of a spinoff from Telmex (Teléfonos de México), América Móvil was a Mexico-based company with very small operations in Ecuador, Guatemala, and the United States. Over the next few years, the company made a number of well-planned acquisitions in Latin America to become the third-largest wireless-telecommunications provider in the world, with operations in 18 countries. In this process, the company grew from 10.1 million to 182.7 million subscribers, of whom Mexican users represent only 31 percent (a decline from more than 88 percent in 2000).

*Manage timing carefully.* Choosing the right timing for expansion moves—and particularly for acquisitions—can make the difference between success and failure. Companies that have a clear endgame vision can use time to their benefit, choosing the right moment to advance and adapting their approaches to market conditions. Economic crises such as the current one typically present unequaled opportunities to strengthen

a company's competitive position, for example, by acquiring assets or setting up partnerships in foreign markets at attractive valuations.

Brazil-based Gerdau, the leading manufacturer of long steel in the Americas, has a history of choosing structurally attractive targets that were either underperforming relative to their potential or having economic difficulties.<sup>7</sup> The company achieved credibility in the eyes of investors not only by timing its series of takeovers very carefully but also by turning around and boosting productivity in its plants, leading to an impressive ten-year TSR of 38 percent per year (June 30, 1999, through June 30, 2009), despite the recent global turmoil.

*Create and replicate capabilities to enable sustainable international growth.* Some capabilities are critical for players seeking to internationalize their businesses. To benefit from opportunities for growth through acquisitions and to succeed as serial acquirers, multilatinas need both M&A and postmerger integration capabilities. They also need strengths in creating international organizations, including structures and processes, so that they can adapt flexibly to the challenges and specifics of each phase of growth.

Some companies develop teams of "missionaries" who are responsible for spearheading entry into new markets and replicating capabilities and cultures. Brazilian bus maker Marcopolo, for example, has devel-

7. "Long steel" includes steel products, such as reinforcing bars and wire rods, used in civil-engineering projects (including construction and railroads) and various industrial applications.

oped a process to make sure that it succeeds when it enters a new market. The company has a group of key executives responsible for building and developing new factories in foreign countries. These executives have both know-how and a structured method to ensure that a new facility is up and running as fast as possible, the local employees are hired, and the right local suppliers and partners are selected. Once the job is done, the group moves on to another challenge in a new market or returns to headquarters.

It is also critically important to be able to manage talent effectively across frontiers. This capability entails adopting not just new human-resources approaches and policies but a whole new global mindset. In many cases, that mindset requires a shift from a headquarters-centered

operating model to a more decentralized and dynamic network.

Finally, the company's basic business model, together with all its operations, must be scalable and flexible so that the company can adapt to the internationalization process as needed. For example, Nematik, a Mexico-based automotive supplier, has achieved extraordinary growth over the past 17 years by focusing on developing and replicating complex technical capabilities in aluminum castings. During that period, Nematik expanded its footprint through both organic moves and acquisitions, from operating only in Mexico to operating in 13 countries.

**Looking Ahead.** We expect that after a period of relative retrenchment, multilatinas will resume their international growth. They will be pulled

to do so by the lure of growth-based opportunities for value creation and by the desire to use the competitive advantages they have been developing, which they can replicate abroad. But they will also be pushed to do so by the fact that foreign MNCs will increasingly target their home markets.

While some multilatinas will be acquired, others will emerge and take their places. Most will remain regional contenders, continuing to operate and perhaps expand within Latin America, more fully realizing the opportunities of this promising region. Others will follow the lessons learned by multilatinas during the early phases of their international expansion and will build core capabilities that can be replicated to sustain growth, becoming—as Cemex, Embraer, and Vale, for example, already are—global contenders.



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