

BY: SANDRA DI SI

## Latin American Growth Offers Opportunities for Channel Savvy Manufacturers

CHANNEL SAVVY MANUFACTURERS ARE BEGINNING TO LOOK MORE CAREFULLY AT THE LATIN AMERICAN MARKETS AS A SOURCE OF NEW GROWTH.

**B**ut, successfully accessing new markets in Latin America requires careful preparation in order to compete against locally entrenched brands and distribution relationships.

Over the past few years, the Latin American region has progressively observed sustained economic development through the adoption of generally lean fiscal and monetary policies, increased investments and greater regional trade collaboration efforts. The largest economies in Latin America, which include Brazil, Mexico, Argentina, Colombia, Chile, Venezuela, and Peru respectively, continue to demonstrate elevated GDP growth rates relative to their individual historic performance levels. According to local economists, Peru, Venezuela, Argentina and Chile should experience the highest GDP growth, reaching 6-7%, followed by Colombia estimated at 5-6% and Brazil at about 4%. Comparatively, Mexico is anticipated to trail behind with a lower GDP growth on account of weakened U.S. demand for its products.

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countries with closer ties to the United States, for instance Mexico and Chile, have exhibited decelerated GDP growth in 2007, possibly due to decreased demand from its primary export partners.

In recent years, the Brazilian economy has been positively impacted by a progressive decline in interest rates, which are currently at a 10-year low, reaching 11.75% in mid-2007, and expected to decrease further by year-end. Lower financing costs have contributed significantly to increasing investments in the country, including elevated construction activities, infrastructure improvements and modernizations.

In 2006-2007, the Brazilian government further supported the industrial segment by cutting taxes on a number of building material products, in addition to instituting the PAC (Programa de Aceleração de Crescimento) in January 2007. This proposes to allocate \$250 billion towards improving the overall distribution of energy, the construction of rail/highways, ports and airports, housing, and investments in other infrastructure projects throughout the country by 2010.

To take advantage of these growth-oriented investments, managers must begin now to research and evaluate end-user customers buying expectations, existing competition, potential indirect channel partners and import requirements. Otherwise, the dynamic window of opportunity for growth may be missed.

Other sectors of the economy that have demonstrated notable growth include the automotive sector, gradually filling its idle capacity, and retail. Likewise, high-growth markets such as Peru, Venezuela and Chile have been largely supported by growing construction markets. This is particularly due to issues emerging in other sectors of the economy,

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for instance, a focus on earthquake reconstruction efforts in Peru, lower oil demand in Venezuela, and mining accidents and fishing strikes in Chile.

### Understanding Local Market Dynamics is Critical

While Mexico and Chile are defined by their export-intensive markets, other countries such as Colombia, Venezuela and Brazil are favorable import markets in view of high local demand and, as in the case of Brazil, a valued exchange rate relative to the U.S. dollar. Despite the encouraging investment climate in Latin America, prominent international brands may not be recognized locally by end users. An effective brand/channel strategy is essential. In addition, the overall cost of new imports may dissuade usage in a predominantly price sensitive region.

However, in spite of cost concerns, Latin Americans tend to value premium, functional and performance products if they offer additional cost-benefits – for example, lower installation and/or maintenance costs and lifespan/durability. Locally-based customer/technical support and training personnel, as well as locally-sourced replacement parts/warranties, are key components that may contribute to lowering the long-term costs associated with foreign brands distributed in Latin America, thus enhancing their overall value relative to local alternatives.

### Choosing a Channel Structure That Supports Profitability

The critical element in reducing investment risks in Latin America is to understand the culture, decision-making processes, unmet needs and market dynamics by region, trade-bloc and country. Latin American countries tend to be largely nationalistic, and as such, by employing a more conservative and phased market entry approach (initially through imports or establishing local strategic partnerships), companies are better able to access market opportunities/threats to subsequently re-evaluate their market entry strategies more efficiently.

#### SUMMARY

*Developing strategic alliances with local partners offers an opportunity to quickly leverage and access industry knowledge and relationships, while concurrently allowing foreign companies to validate their brands more effectively at the local or regional level.*

*To arrange a more detailed discussion of Latin American growth opportunities, please contact Sandra Di Si at [sandra@ml.com.br](mailto:sandra@ml.com.br) or Karl Edmunds at [kedmunds@franklynn.com](mailto:kedmunds@franklynn.com).*