



NEW YORK UNIVERSITY LEONARD N. STERN SCHOOL OF BUSINESS

## **Clicks & Mortar**

Keys to managing with success in  
Volatile Environments

Presentation prepared for the  
New York University's Stern  
School of Business by  
George Th. Kastner, Ph. D.  
Senior Vice-president Arthur D.  
Little Inc. Director Global Key  
Clients

Arthur D. Little, Inc.

October 6<sup>th</sup>, 2000

Introduction We will discuss

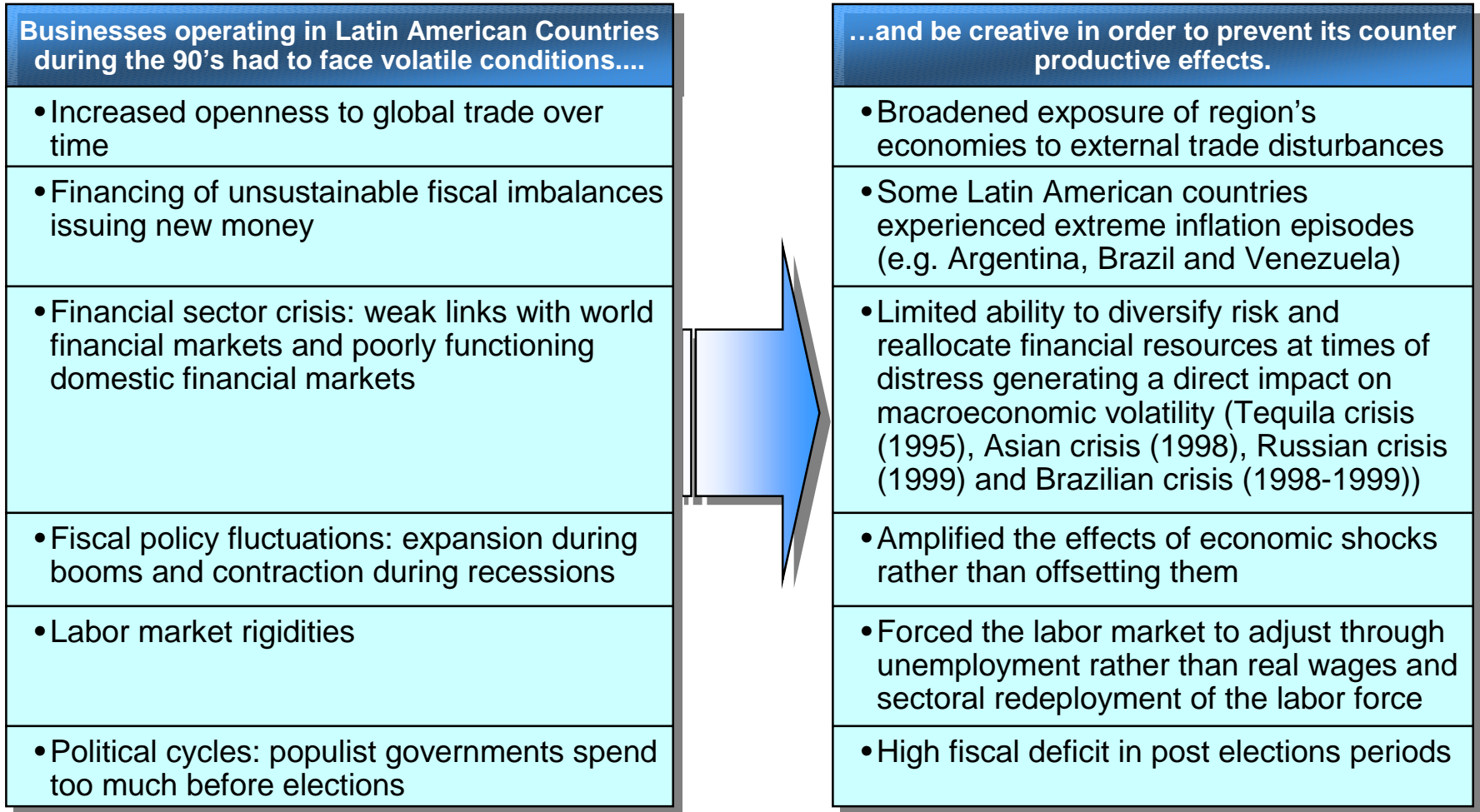
The ideas on the challenges of managing in volatile environments follow a well defined path.



Doing business in Latin America is a challenge; being successful is even a greater challenge.

**Arthur D Little**

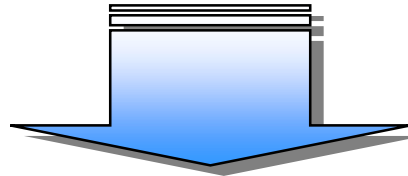
**During the last decade business leaders seeking to do business in Latin America have suffered from the economic volatility of the region.**



**Though most emerging economies share their volatile characteristics, their response capacity varies due to educational differences.**

**Similar Characteristics Shared by Emerging Markets**

- Terms of trade volatility higher than industrial economies
- Private capital flows volatility higher than industrial economies
- Weak links with world financial markets
- Poorly functioning and shallow domestic financial markets
- Deficient bank monitoring and supervision in boom-bust episodes
- Reactive and discrete economic measures with short term outlook
- Plagued with corruption



**On average, the world's workers have seven years of schooling behind them, those of Asian emerging markets have nine, those of Latin America little more than five.**

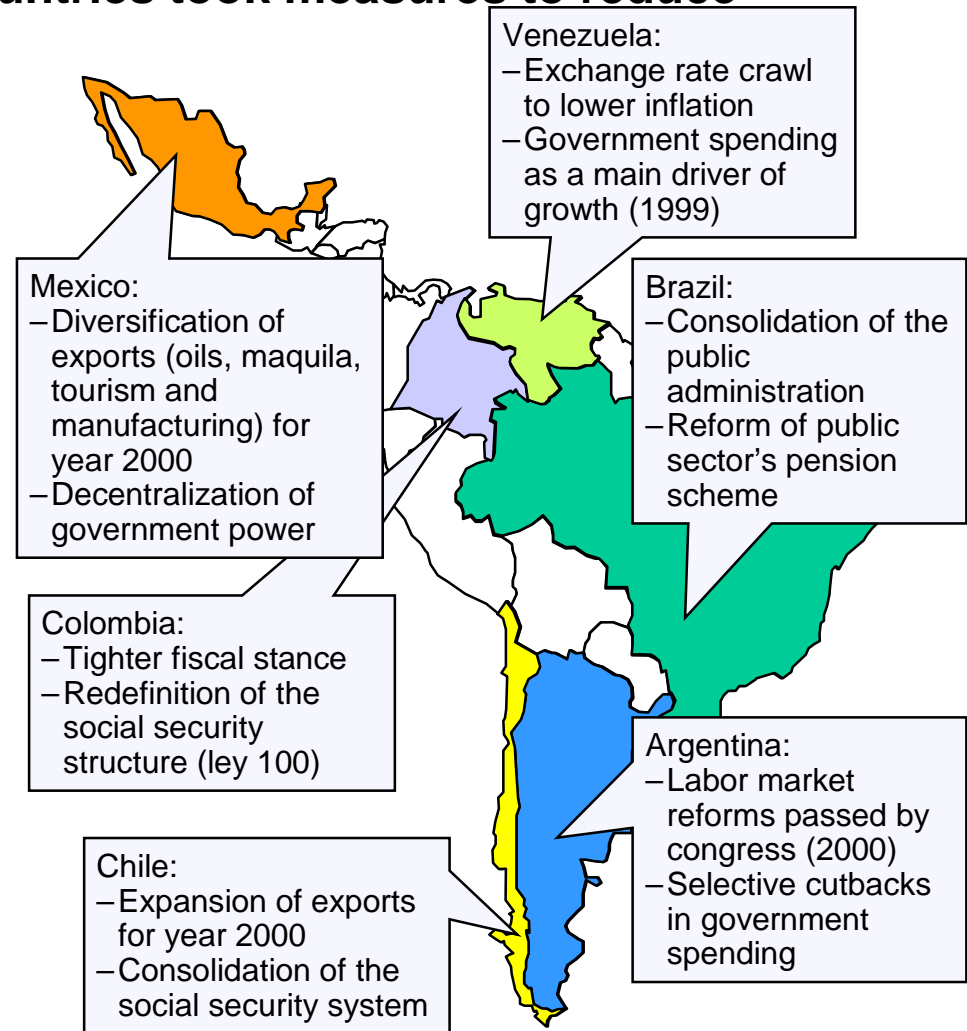
Source: The Economist

**Emerging economies with a better educated labor force provide a more suitable environment for business leaders to attend to volatilities and explore staffing needs for click-based companies.**

## The majority of Latin American countries took measures to reduce volatility.

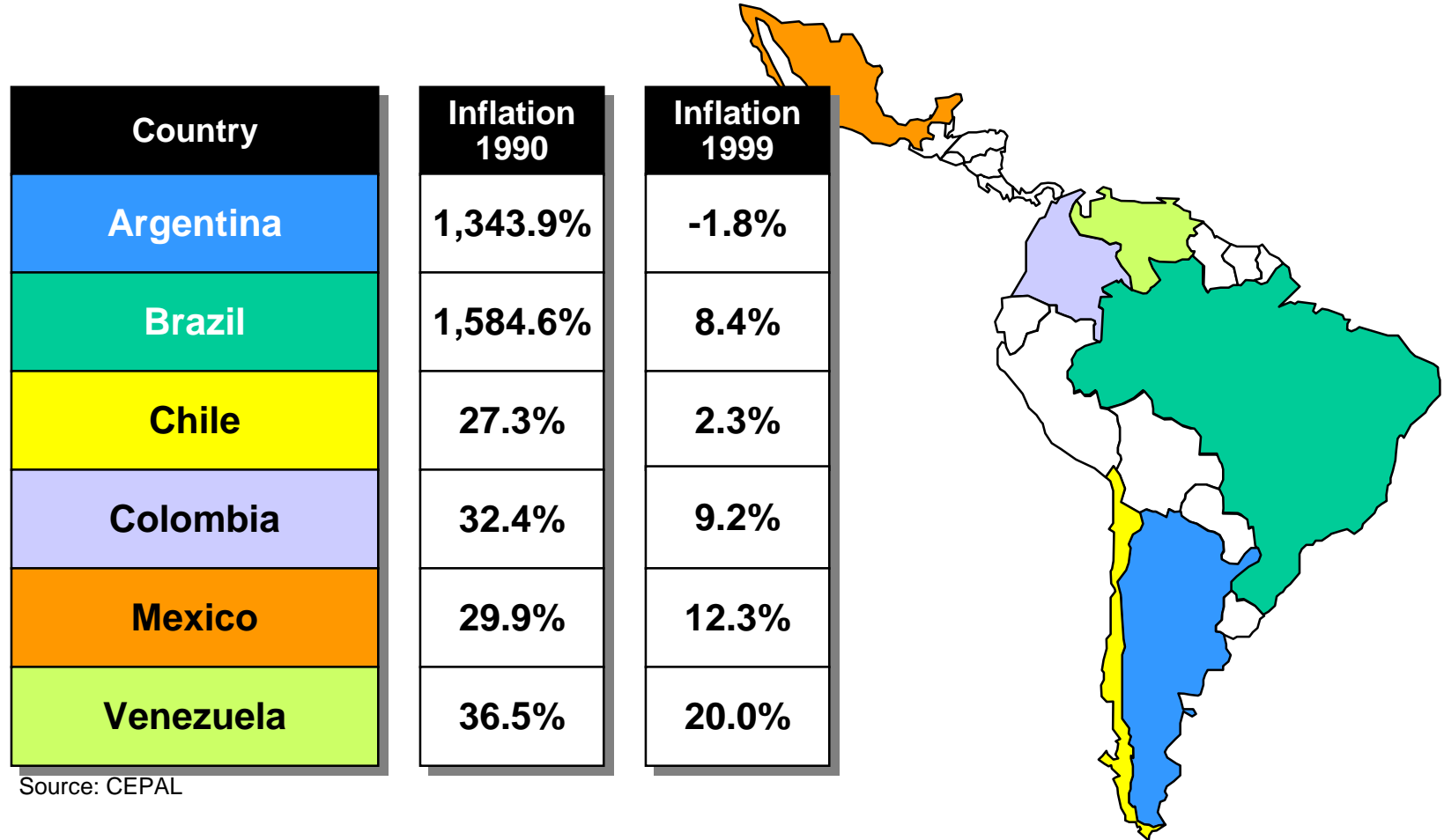
### Key Economic Measures Taken by Latin American Countries During the Last Decade

- In general:
  - Firm monetary policies oriented to defending the rate of exchange and therefore the stability of prices (except Mexico, where the exchange rate was left to float)
  - Durable improvements in public finances which include governments spending and tax structures and public sector governance
  - Creation on commodity stabilization funds (Chile and Colombia) to deal with terms of trade risks
  - Wide range privatization programs for key industries (only eight countries have had privatizations averaging over 1% of GDP a year during the 1990's)



Sources: World Bank "Securing our future in a Global Economy" D. Ferranti, G. Perry, I. Gill, L. Serven. 2000, CEPAL "Economic Studies of Latin America and the Caribbean" 1999-2000, Arthur D. Little.

One of the primary objectives of the measures taken by Latin American countries was to curb inflation rates.

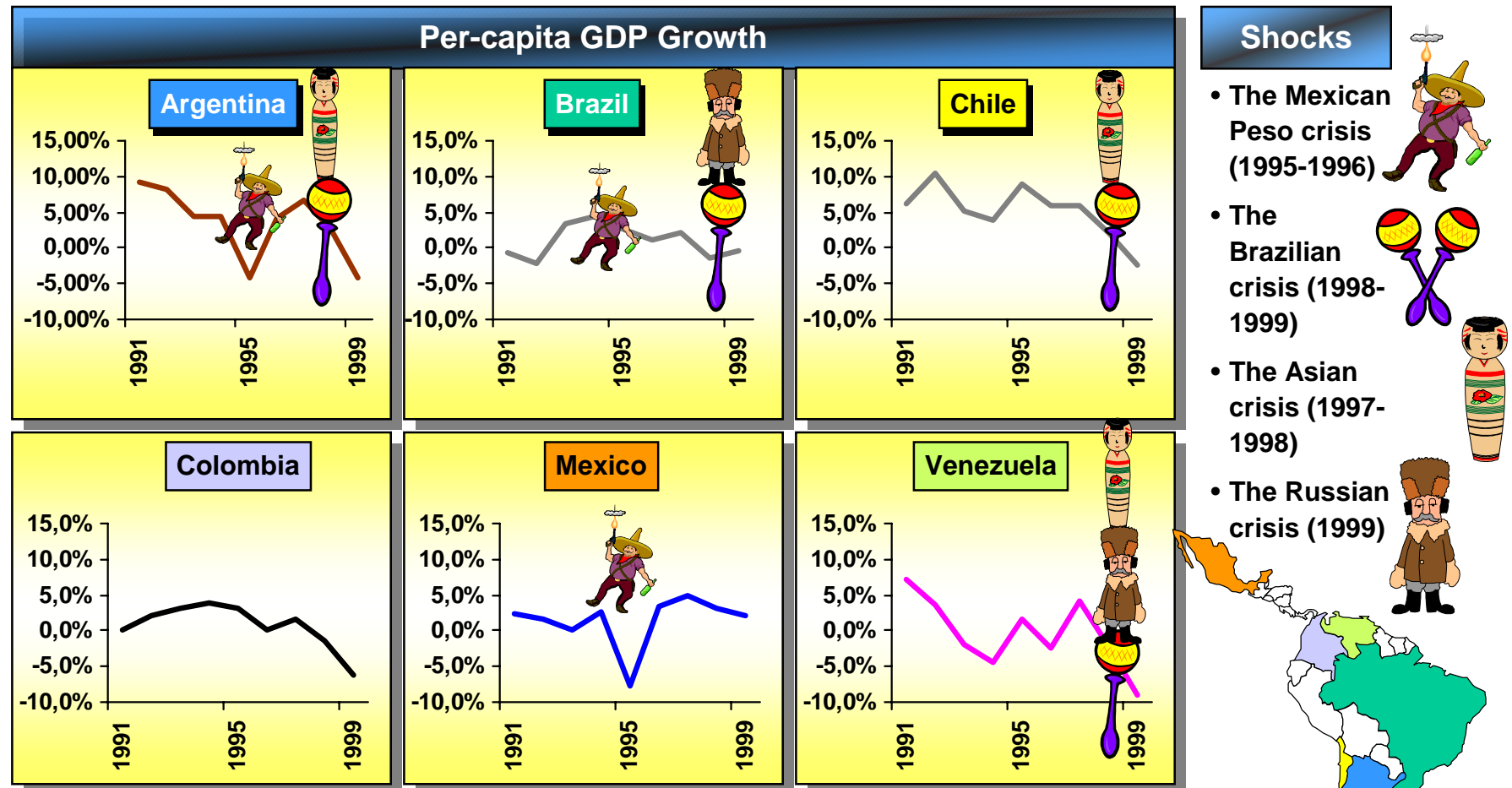


Source: CEPAL

Question: are such measures sufficient?

## Volatility in Latin America

Although the majority of countries controlled inflation levels, the region's economic growth was affected heavily by external and internal shocks.



Source: CEPAL

Money seeks refuge to safety and stability.

**Arthur D Little**



**Additionally, some measures failed to take into account the political and social variables which present an ongoing threat to stability in many Latin American countries.**

**Main Social and Political Consequences in Latin America**



Increased unemployment (from 7,3% in 1997 to 9,0% in 1999)

Income distribution inequality has risen as did the level of poverty  
-Between 1990 and 1997 the level of poor remained stable in about 200 million people  
-in 1999 there are 224 million poor (+12,0%)



Political instability

Precarious and low productivity of new jobs created



**Nearly two thirds (61,2%) of Latin Americans responded to a broad based survey that their parents have lived better than they do, less than half (46,1%) thought their children would live better\*.**



In general, the measures taken by governments have had varied impacts on the business community.

Impact on the Business Community
<b>International</b> (+) Privatizations fostered investments (-) Pro-cyclical measures reduced direct foreign investments
<b>National</b> (+) Controlled inflation allowed better business control (-) Undeveloped local financial markets limited sources of funding
<b>Both</b> (+) Controlled budget deficits built investors confidence and contained risks associated with an increase in external financing requirements (-) Postponed social reforms increased poverty, which lowered personal safety

**Adding to the measures taken by governments and their impact on business, the new economy builds pressure on Latin American business leaders to take the right strategic actions.**

**The New Economy**

- Increased offering of goods and services from different parts of the world
- Clients are more informed, demanding and sophisticated
- Increased presence of global players with local focus
- Closer and more competition
- Innovative business models of click based companies (B2B/B2C/B2G/E2E)
- Continuous development and launch of new products and services (product lifecycle is shorter)

**Business Leader's Strategic Actions**

- Identify quickly and effectively client's needs
- Develop products and services to attend those needs
- Faster time to market
- Cost efficiency
- Overcome political and geographical frontiers



**Can the clicks help overcome volatility?**

The strategic actions business leaders take can be defined both under the “Old Economy” and “New Economy” paradigms.

Business Paradigms - Old Economy -
• Focus only on products and/or services and existing markets, not taking into account new potential ones
• Focus on direct competitors and not include potential competitors
• Discrete view of the company instead of viewing it as a whole
• Formal and “calculated” planning processes not giving enough room for expressing creativity and sharing the vision of those involved
• Anchored to politics
• Talent widely available

Business Paradigms - New Economy -
• Start with customer needs instead of the what and how
• Have awareness of competitors never thought before
• Have flexibility
• Support cooperation between small entrepreneurial companies and big brick and mortars
• Point towards high velocity of change in economic development
• Acknowledge that employees have more power of contributing to the business and are more demanding

Business leaders that take actions based on the “New Economy” paradigm will have greater probability of success for longer time horizons.

**(Some) Business leaders accept the challenge of following the “New Economy” paradigm by taking the right strategic actions.**

*“We were all saying, Isn’t it funny how two years ago we were all idiots, and now we are visionaries-supposedly?”*,  
Greg Keough, CEO  
ZonaFinanciera.com



*“Workers with good ideas, can write their own ticket. We’re talking about democratization of power”,* Nathan Myhrvold; Intellectual Ventures llc

*“... We saw clearly many years ago that to be successful we had to cross borders”,* Ricardo Verdaguer; CEO of Argentina’s multinational Impsat



*“They [ex colleagues at BCG] understood that, in the internet, every week that passes is like a year. I told them that the opportunity is now”,* Alec Oxenford; Founder DeRemate.com



*“...For the first time, employees became accountable”,* Fernando Pinto; CEO Varig Airlines



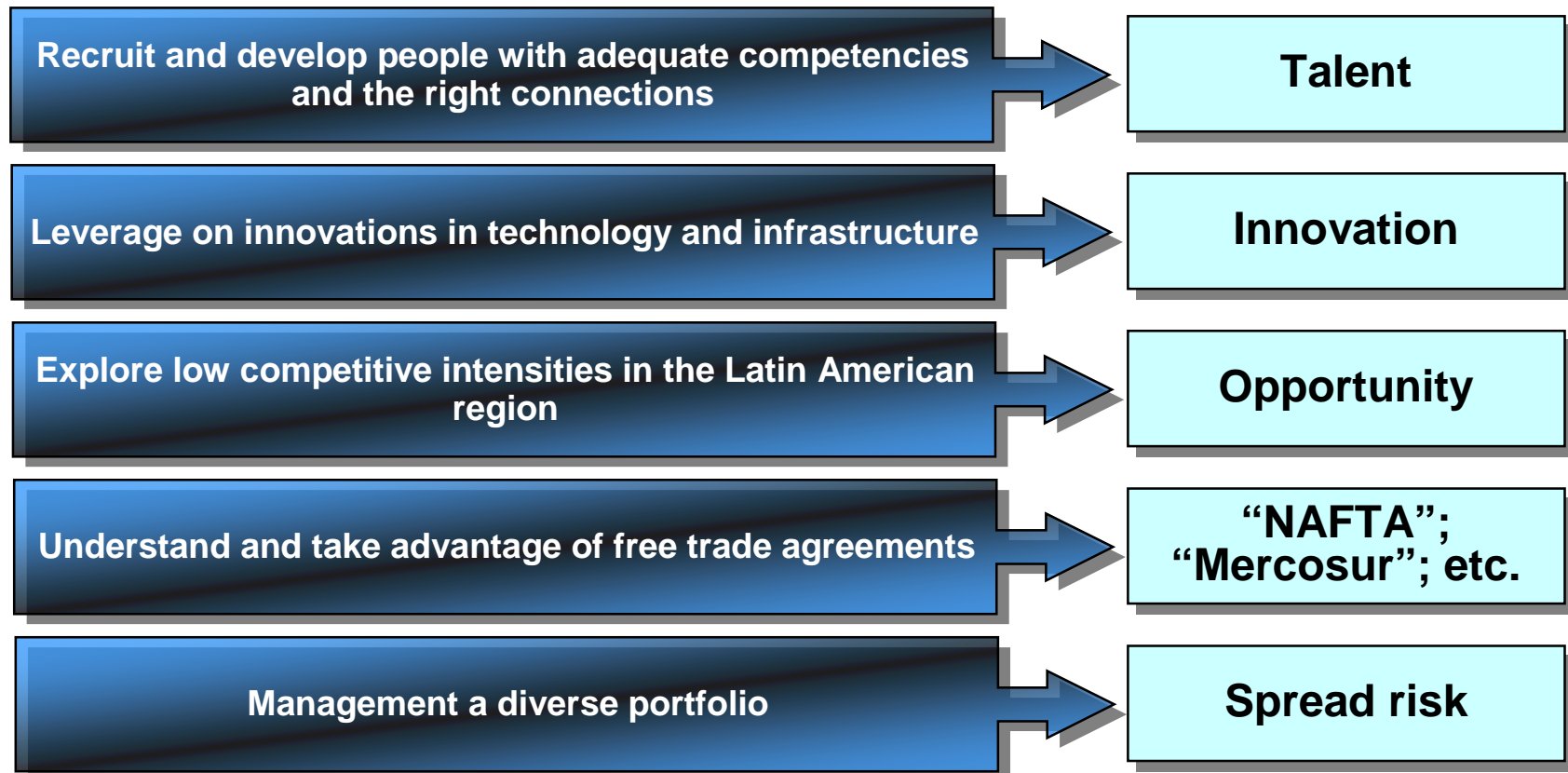
*“Competition is what signals the growth of the media. And we would rather have a big slice of a large pie than all of a smaller one”,* Alba Fernando, StarMedia General Manager





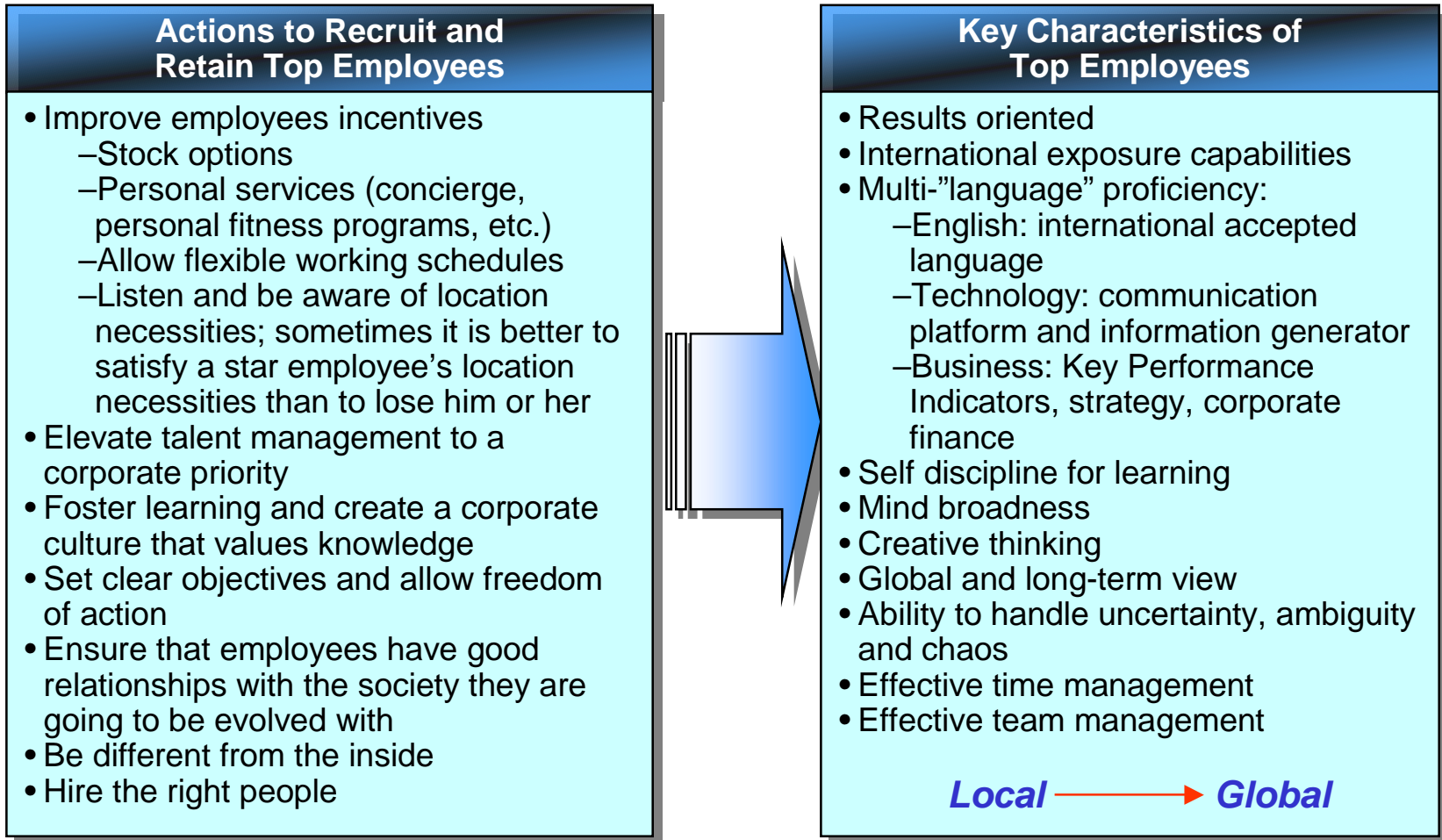
## Key Success Factors

We define five critical success factors that business leaders must master in order to succeed in the volatile Latin American environment.



## Key Success Factors





**A key factor is the recruitment and retention of professionals with solid experience in the region and with strong links to business and political communities.**





## Key Success Factors




**Leverage on technological innovations in established and new markets, improving the company’s competitive position against global competitors.**

Company	What strategy	Highlights
 <b>Teléfonos de México</b>	Expansion of wireless communications network in the European market (initially in Spain)	Offered to buy 17,5% on FirstMark communications in Spain (subsidiary of US Firstmark communications international)
 <b>(Mexico)</b>	Creation of a series of internet construction exchanges as part of its CxNetworks internet strategy	Investment of \$200m in the next two years for the creation of the enterprise. It will go online on next December in the US, Spain, Portugal and the main Latin American markets. Cost savings are estimated to be \$120m a year
 <b>(Chile)</b>	Participation with Endesa (Spain) in a telecom venture throughout Latin America	Enersis is taking advantage of its technological infrastructure (large fiber-optic networks) to enter the Latin American telecommunications industry
 <b>Femsa and Grupo Modelo (Mexico)</b>	Use of the internet as a communication platform with their external distributors	Using the web as a marketing tool to grow revenues and reach end consumers

Source: Morgan Stanley Dean Witter, Industry Report - May, 2000; Financial Times, 9/13/2000

## Key Success Factors





**Leverage on technological innovations in established and new markets, improving the company’s competitive position against global competitors (cont.).**

Company	What strategy	Highlights
 (Brazil)	Planning to create a portal that would enable customers to buy online and pick up the merchandise at the nearest gas station	Improve products commercialization over the internet
 (Brazil)	On-line Financial services in the B2C and B2B arena	Protect their local market share of retail clients and increase its business by capturing new corporate clients through the internet (B2B)
 (Argentina)	Acquired by Banco Santander Central Hispano	Patagon wants to reach its full potential in the region and globally. Its aim is to challenge, together with BSCH, the local incumbent banks on the virtual front

Source: Morgan Stanley Dean Witter, Industry Report - May,2000

## Key Success Factors




**Business leaders can improve further the company’s position by taking advantage of virgin markets which have low competitive intensity in Latin America and in other regions.**

Company	Innovative approach	Strategy
 (Argentina)	New concept of online auctions for Latin America implemented very rapidly	Growth. Currently operating in Brazil, Chile, Colombia, Mexico, Uruguay and Venezuela having approximately 80,000 clients in the Region
 (Venezuela)	Developed a new technology to emulsify extra heavy crude oil allowing its transportation and use as fuel for electrical generation plants (competes with coal)	Take advantage of the gigantic heavy crude oil reserves which are difficult to commercialize in international oil markets
 (Mexico)	Applied technology (Dynamic Synchronization of Operations) to manage more efficiently customer orders which helped it achieve today’s leading position	Learn to manage unforecastable demand to plan on-time distribution of product. Cemex vaulted to the forefront of its industry in Mexico and its doing the same abroad
 (Venezuela)	Taxco made a joint venture with Movilnet (cellular phone) to allow clients to pay with credit and discount cards	Provide added value services to cab clients through the use of mobile technology (browsing, email, virtual access to the office and e-banking)

Source: Companies web pages

## Key Success Factors

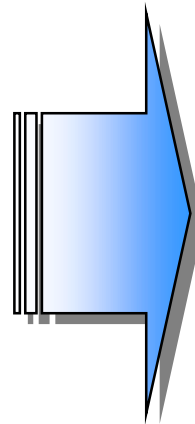
### Identify and exploit leverage points in Latin American free trade agreements.

Free Trade Agreement	Key characteristics	Examples
 <p><b>Mercosur</b> (Argentina, Brazil, Paraguay and Uruguay)</p>	<ul style="list-style-type: none"> <li>• Free transit of production goods, services and factors through elimination of customs rights and lifting nontariff restrictions on the transit of goods</li> <li>• Fixed external common tariff and adoption of common trade policy with regard to nonmember countries</li> <li>• Phase out by 2006 the remaining restrictions on trade between Argentina and Brazil in cars and car parts</li> </ul>	<ul style="list-style-type: none"> <li>• Automotive (Volks Wagen, Daimler-Chrysler, etc.)</li> <li>• Consumer goods (beverages and food)</li> </ul>
 <p><b>Adean Community</b> (Bolivia, Colombia, Ecuador, Peru and Venezuela)</p>	<ul style="list-style-type: none"> <li>• Deregulated trade of goods</li> <li>• Moving to liberalize trade in services by progressively eliminating by year 2005 all restrictive measures that affect national treatment and access to the market</li> </ul>	<ul style="list-style-type: none"> <li>• Aplina, Noel, Bonbrill, Boots and Bags and Bossy have taken advantage of the low tariffs export policies</li> </ul>
 <p><b>Mexico and European Union</b></p>	<ul style="list-style-type: none"> <li>• Mexico eliminated tariffs on 47,6% of the European products imported and Europe on 82% of Mexican products</li> <li>• Political relationships more profound</li> <li>• Commerce is expected to double and exports to diversify</li> </ul>	<ul style="list-style-type: none"> <li>• Products with zero tariff: coffee, mango, guava, tequila, beer</li> <li>• Automotive (spare parts)</li> <li>• Chemical and pharmaceuticals</li> <li>• Company that has had mayor growth: Metalsa (provesa Group)</li> </ul>

**Business leaders must creatively manage portfolio risk.**

**Latin American Stocks Markets have Changed...**

- Latin American stock markets have become highly influenced by outside forces (markets closely track Nasdaq technology stocks)
- Focus has changed from regional to global (global industry and detailed sector knowledge required)
- The markets have lost liquidity (blue chip companies are buying back their stocks)
- Market concentration (Brazil and Mexico together claim about 80 to 90 percent of daily trading volume)
- Stock performance has become highly polarized (e.g. the first two months of 2000, Latin America's 10 largest stocks returned 144%, while the smallest 10 plunged 23%)



**...obliging business leaders to be proactive and creative.**

- Creativity on looking for financing sources and controlling risk:
  - Bank loans
  - ADR and ADS offerings in the U.S. stock market
- Proactiveness in acting upon market cycles to gain equity:
  - Buying when the market is down
  - Issuing when the market is up
- Develop a sense of timing
- Understand local politics and history and integrate knowledge with a global focus
- Expand creatively and with partners beyond the local comfort zone

Source: Institutional Investor, Arthur D. Little analysis





## Key Success Factors

Thus, mastering these key success factors will contribute to leading successful businesses.

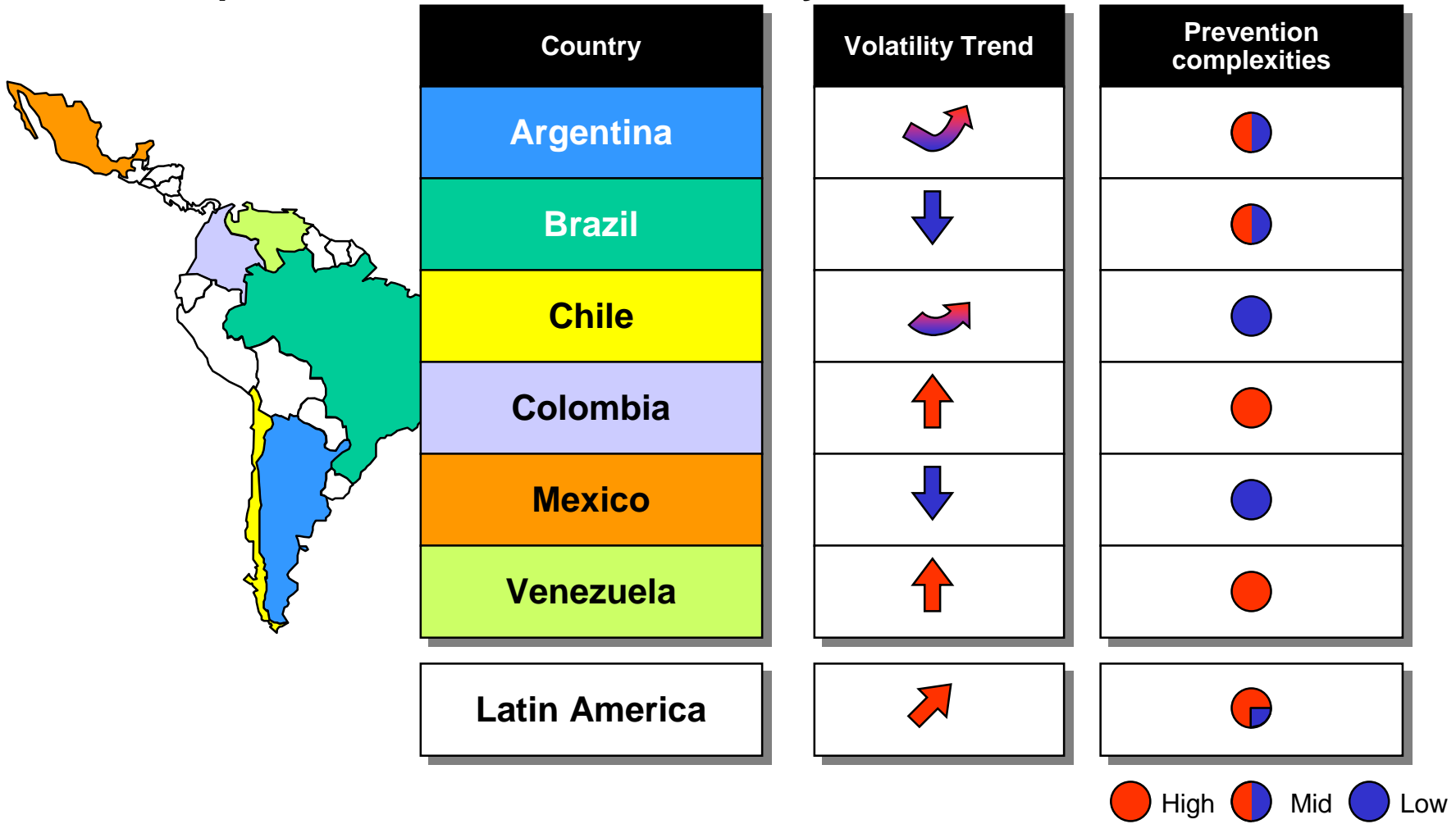


In multiple forums during 1999 and 2000 many experts came to the conclusion that talent and information are the basis of competition in the years to come.

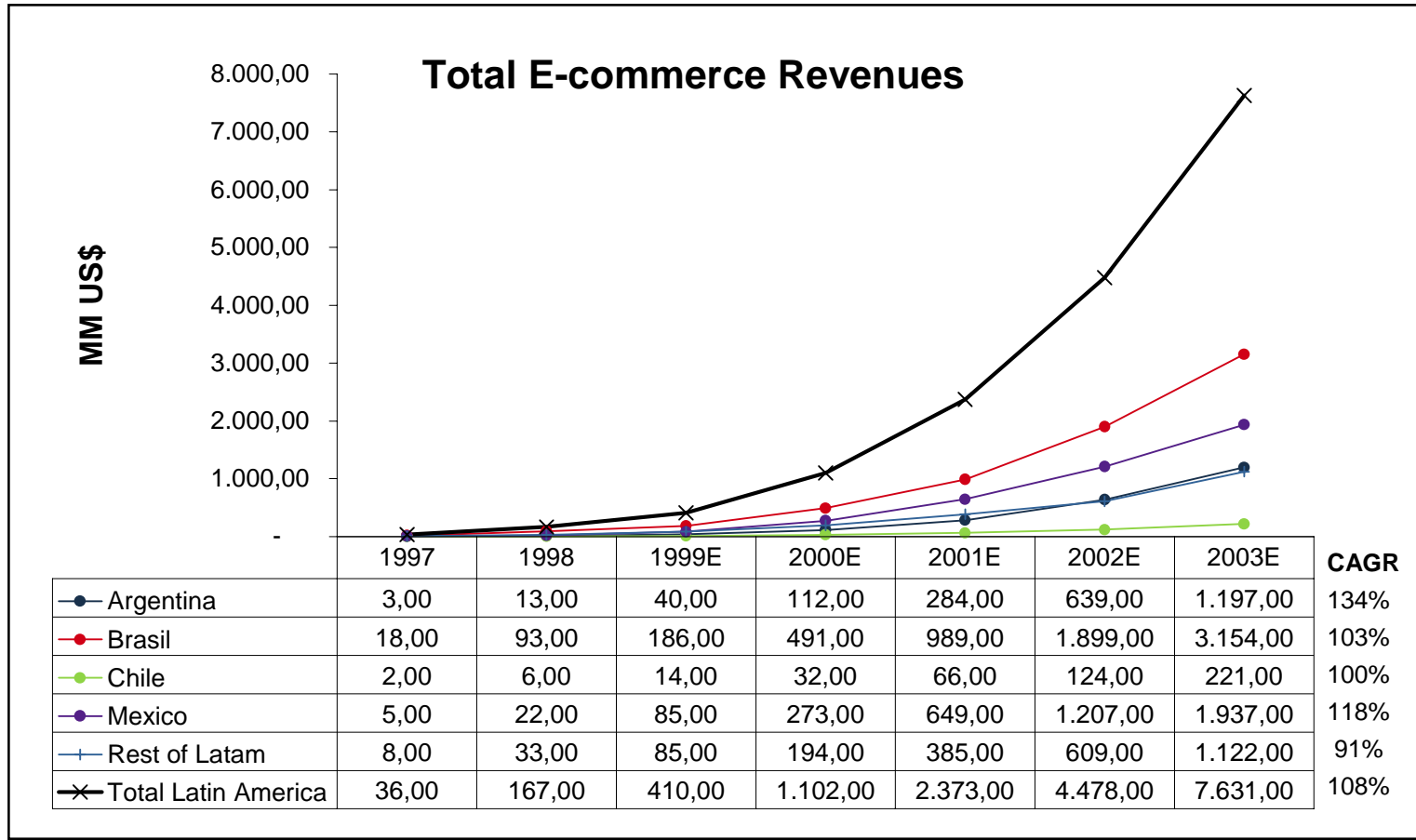


## Key Success Factors

Although volatility in Latin America is a barrier for business leadership proactively mastering the key factors is more plausible in countries which promise lower levels of volatility.



**Countries which promise lower levels of volatility show a higher growth rate in electronic commerce.**



Source: Morgan Stanley Dean Witter

**Volatile environments require business leaders to carefully measure their decisions, with some clear Do's and Don'ts in mind.**

Key Success Factor	Do's	Don'ts
Recruitment and development of right people	Look for top talent	Treat employees as simple employees, they are more empowered and proactive than before
Leverage on technical innovations	Take advantage of the internet to maximize business efficiency and/or to create new businesses	Implement ebusiness solution nor start a new ebusiness without knowing exactly where to go
Explore low competitive intensities in the Latin American Region	Focus on consolidating locally and then expanding regionally	Look at multinational companies as a threat thinking the only way to compete is either changing industry segment or be acquired
Understand and leverage on free trade agreements	Have clear all the trade conditions of the accord that impacts your business	Lobby or create pressure on governments for protectionist measures, in the long run the company will lose its competitive advantages
Manage portfolio risk	Be proactive in understanding and acting upon market fluctuations having a clear understanding of the global scene	Rely solely on local industry knowledge and political contacts

# Latin American country leaders are always promising better futures for their people.

*“A stage ends, a new cycle begins, we have initiated a new path. In the unceasing course of history, this path is not a crossroad but a firm route towards a new ethical society, progressive and solidary” Fernando De La Rúa - Speech addressed to the Nation when taking office as Argentina’s new President” 7/22/99*



**Argentina’s President**



**Colombia’s President**

*“Colombians, we are here today, to fulfill a compromise with history. We have postponed it for almost a half of a century to turn it into a reality. We know that every person’s eyes are on us, of each worker, of each entrepreneur, of each peasant, of each mother, of each displaced, of each soldier, of each insurgent, are paying attention to us” - Andrés Pastrana - Speech read during the installation of dialogue roundtables in San Vicente del Caguán 1/7/99*

*“I will make a tremendous effort to show the world that this is a democratic country where power is in the hands of authorities, elected by the people, and where the armed forces are obedient to him” Ricardo Lagos - “Before the swearing in Valparaiso” 03/11/00*



**Chile’s President**

# Latin American country leaders are always promising better futures for their people.

Venezuela's President



*"The literacy campaign, we are going to speed it up, we are going to develop a massive plan to generate jobs"*  
Hugo Chávez - "Speech on the first and a half year of government" 8/2/00

*"Words, indeed, are difficult to turn into facts, but if we do not begin with a word, the transformation of reality will never occur. Transformation begins with words and I want to give you the Brazilian's word, that word of believing in integration in a free environment to find prosperity for our peoples"*  
Fernando Cardozo - Conference: "Brazil and the integration perspectives of Latin America" 07/22/99



Brazil's President

*"I am not a supporter of deficits that increase the vulnerability of our economies and the burden for future generations. I believe that public spending should be more efficient, and also the contributions we make for the development of the country should be increased, which is extremely low, seen from any international standard".*  
Vicente Fox - Speech "Mexico Challenges for the XXI Century"



Mexico's President



**Latin American country leaders are always promising better futures for their people.**



**Taiwan's President**

*"I think we should form a government that crosses ethnic and party lines, and we should build links to all the other parties. Now that the election is over, passions must subside, especially in cross-strait relations. We would propose active conciliation to reduce tensions" Chen Shui-bian - First Interview - TIME Asia 10/05/00*

*"Singapore is very good for trading activities, buying, selling, and so on. That's entrepreneurship. But we are less good in building things. Traditionally, Singaporeans have shied away from manufacturing. Because that requires capital, and capital comes out of fixed assets. You can't move as quickly as you can in trading. So I would say Hong Kong has more entrepreneurial drive than Singapore" - Go Chok Tong Interview "Finally, being His Own Man" - - Asianweek 25/11/99*



**Singapore's President**

**Are you going to wait until those promises become reality to be successful?**