Time to tune in: Latin American companies turn up the volume on global growth

Chile highlights
About this report

Rapid-growth markets have largely been viewed and studied from the perspective of inbound investment by companies based in the developed world. *Chile highlights* and the main global report of which it is a part, *Time to tune in: Latin American companies turn up the volume on global growth*, offer rare insights about the strategies of outbound investment from companies based in Latin America and provide in-depth perspectives on decision-making for companies from both mature and rapid-growth markets.

*Chile highlights* draws upon a survey of 600 business executives based in Argentina, Brazil, Chile, Colombia, Mexico and Peru. The survey was conducted by Oxford Economics in November and December 2012. Among the respondents, 29% were from Brazil; 24% from Mexico; 13% each from Argentina, Chile and Colombia; and 10% from Peru. Among the companies surveyed, the reported minimum annual revenues were: 25%, US$1 billion or more; 29%, US$250 million to US$500 million; and 46%, under US$250 million.

*Chile highlights* is based on three sources of research: the survey results for Chile, qualitative interviews with several Ernst & Young sector and country leaders, and the viewpoints of senior executives from companies based in Chile. Oxford Economics provided analysis of current and predicted trade flows between Chile and individual Latin American markets and Chile and the rest of the world.

Forecasting methodology

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

The Oxford Global Model covers 45 economies in detail, with the rest of the world economy covered in six trading blocs. Individual country models are fully linked through global assumptions about internationally traded goods and services, exchange rates, competitiveness, capital markets, interest rates and commodity prices. The forecasts for bilateral export flows are constructed as a function of final demand in each country, using input/output tables to estimate the share of domestic expenditure satisfied by imports. The forecasts for total export flows are then disaggregated by sector, using Oxford Economics’ industry forecasts to inform future demand and production trends.

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

For the last 23 years, Chile has pursued a steady course of growth along free-market lines. Per capita income has nearly doubled since 1990 and is approaching the highest in Latin America. The poverty rate is now about the same as that of the US.

This high degree of political and macroeconomic stability has given Chilean companies a firm foundation on which to build their futures. Today, their main problem is scale: Chile is a relatively small country. With a population of just under 17 million, the decision to go abroad tends to happen much earlier in a company's development than in larger markets. For the most part, Chilean business is meeting the challenge of expanding into larger markets, and not just within its traditional stronghold as one of the world's leading copper producers, but in other sectors as well. Whether you're buying clothes in Bogota, having a kitchen redone in Rio or flying to Buenos Aires, chances are that a Chilean company is there to serve you.

In this report, we look at how Chilean companies are evolving from serving their home market to serving a few other countries or an entire region. We have asked them where they want to head next, why and how, and we interviewed executives at some of Chile's most dynamic businesses about the challenges they see ahead.

This report focuses on the multiple issues Chilean companies face in realizing their cross-border dreams. Whether yours is a foreign company looking to partner with one of Chile's new champions or a Chilean business looking for new cross-border opportunities, we hope you find this report useful.

Cristián Lefevre
Chile Managing Partner
Ernst & Young

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

- For ease of doing business, Chile is ranked first in Latin America. *(Doing Business in Chile 2012, the World Bank)*

- Chile is perceived to be one of the least corrupt countries in Latin America and is the third least corrupt in the Americas, after Canada and the US. It is considered one of the 20 cleanest economies in the world ahead of France, Austria and Ireland. *(2012 Corruption Perceptions Index, Transparency International)*

- In logistics performance, Chile is ranked as the leading country in Latin America. *(Logistics Performance Index, LPI results 2011, World Bank)*

- Chile is highly globalized, ranking 28th on the 2012 Ernst & Young Globalization Index, which ranks the world’s top 60 countries by GDP according to the extent of their openness to trade, capital flows, exchange of technology and ideas, labor movements and cultural integration. By contrast, the US ranks 25th, Mexico ranks 37th and Brazil 45th. *(Looking beyond the obvious: globalization and new opportunities for growth, Ernst & Young, 2013)*

- Chile is considered the most innovative economy in Latin America. *(Global Innovation Index 2012, INSEAD [European Institute of Business Administration] )*

- Chile is rated as the most globally competitive country in Latin America. *(Global Competitiveness Report 2012–2013, World Economic Forum)*

- Over the past 20 years, per capita GDP growth has averaged 3.8% annually, and income has almost doubled in real terms. *(World Bank Chile Overview)*

- Chile now has virtually the same level of poverty as the US: 15.1% versus 15%, according to some economists. *(World Bank Chile Overview, “Record US Poverty Rate Holds as Inequality Grows,” Bloomberg Businessweek, 12 September 2012)*

- More than 1.1 million people aged 18 to 24 are enrolled in higher education, around 45% of the age group. *(“Chile: Progress and its discontents,” The Economist, 14 April 2012)*
Twenty-three years of fairly steady growth and regular elections have made Chile one of the most remarkable economic success stories in Latin America, a pattern similar to the steady transformative success that has changed the face of East Asia in the past 40 years. Low levels of public debt, frequent budget surpluses, high-functioning public institutions, fairly well-developed transportation structures and a floating currency have led the World Economic Forum to rank Chile as the most competitive economy in Latin America and the 33rd most competitive country in the world.

The results of the Ernst & Young 2013 Latin America Outbound Expansion Survey and our qualitative research show that Chile is more outwardly focused than most Latin American economies. The following are our key findings:

- A total of 88% of executives surveyed say their company exports to markets outside their home country, higher than the Latin American average, and 70% say they have brick-and-mortar operations or some other physical investments outside the country, compared with the Latin American average of 56%.

- Chilean businesses have diverse growth plans. Unlike respondents in other Latin American markets, Chilean executives are split on where they expect growth: 28% anticipate the most growth coming from the US. Other markets that earned scores of around 20% are China, Brazil, Colombia, Peru and Argentina.

- When it comes to identifying a new market, Chilean executives look for macroeconomic stability (64%), political stability (59%) and exchange rate stability (54%).

- When they look to target international markets, the top three advantages Chilean executives cite are the quality of their workforce (50%), the quality of their offering (37%) and their ability to innovate (36%).

- Looking ahead, Chilean executives see partnerships with a local firm as their most likely mode of expansion within Latin America (46%), in rapid-growth markets outside Latin America (26%) and in developed markets (24%).

- When it comes to developed markets, Chilean executives see direct export as an important way ahead (20%), followed by minority equity investments (18%).

- Chilean executives believe that their boards need to be more representative of global markets (63%), that their corporate culture needs to be more international (49%) and that they need to enter new market segments (42%).

- Chilean executives are less concerned about finding the right country-level managers (28%) than their counterparts in other Latin American countries (37% average).

- Only 41% of Chilean executives believe their sales unit needs to be revamped, compared with 50% of their Latin American colleagues. Instead, Chileans are most concerned about making sure their information technology is up to date (47%).

Chilean executives believe that their boards need to be more representative of global markets.
Business implications and recommendations

These opportunities and challenges require several strategic responses from Chilean companies that wish to succeed in international markets. We recommend the following actions:

**Use acquisitions to grow quickly.** Chilean strategists understand that they are small fish in a big pond. They need to make up in agility what they lack in size. As some move into Brazil, they realize the only way they can grow is through acquisitions, particularly if they are trying to enter a large market. “The best way to start in Brazil or to grow in an efficient way and quickly is inorganic growth,” says Cristián Lefevre, Chile Managing Partner at Ernst & Young (Ernst & Young Servicios Profesionales de Auditoría y Asesorías Limitada).

**Sell and bank.** Although mining is still Chile’s strong suit, Chile is proving to be very good at retail as well. Given its success in Peru and in Colombia, we could expect Chile to do well in other Latin markets and beyond, since much of the world is looking more and more like Chile – increasingly sophisticated, upwardly mobile and looking for value. Banking is also a significant growth industry in Chile. In a market where past banking crises have left many companies with a profound respect for careful and conservative financial institutions and a solid regulatory framework, Chilean banks could have an edge on many of their competitors.

**Think local.** Knowing your customer is crucial. Over and over again, Chilean companies have competed successfully against much larger and better-capitalized foreign companies – not only in Chile but in Peru and Colombia as well. One reason they have succeeded, some observers say, is because they knew the culture in their target market better than the non-Latin competitor did. Wal-Mart, Carrefour and Home Depot are among many multinational giants that should have succeeded but faced difficulties or even left a market because they did not understand their customers, according to Lefevre.

**Consider the mature markets.** Much of Chile’s growth has been within Latin America. However, given the sophistication of Chilean managers, companies may want to consider moves into mature markets, particularly if they can find a partner that can provide the IT advantage. Chilean executives rate technology as their chief obstacle to international expansion.

**Invest in training.** A remarkable 45% of 18- to 24-year-old Chileans are pursuing higher education, a level as high or higher than that of many developed countries. Chilean employers should try to capitalize on these potential workers, particularly as companies try to move up the value chain. Hiring the most promising talent early and giving them exposure to other markets and additional training could go a long way toward creating an important and lasting competitive advantage: for example, Germany’s current industrial strength is in large part the result of its strong technical apprenticeship programs.

**Connect with the world.** Chile’s distance from the rest of the world has been a blessing and a curse throughout its history. Today, with air travel, that distance has been mitigated within South America. However, North America, Europe and Asia remain relatively far away. The Government is trying to address this through such initiatives as Start-Up Chile, which provides incentives for foreigners to start businesses in Chile; it helps that Chile’s open and business-friendly environment could allow it to serve as a potential gateway to the rest of Latin America. Individual companies might try something similar to the Government’s program to attract talent and expertise to the country. Bringing more foreign expertise back to Chile or establishing secondment exchange programs with partners in Asia or North America could connect the world more deeply to the Chilean market.

**Support the Pacific Alliance.** The Pacific Alliance, a recently established trade group consisting of Mexico, Colombia, Peru and Chile, is seen by officers of Chile’s trade ministry and business leaders worldwide as an extremely important initiative, one that will further open trade among four of Latin America’s Pacific-facing markets and with Asia as well. The degree to which the Pacific Alliance negotiations succeed could be a tremendous gain for export-driven Chilean companies.
Even after factoring in the lost year of the 2009 recession and the damage brought by the 2010 earthquake, the Chilean economy has grown an average of 3.8% a year (per capita) for the past 20 years. Incomes have nearly doubled in real terms, and the scale of educational and economic opportunity available to today's young Chileans is much greater than most of their parents knew.

With per capita income now US$17,310 on a purchasing power parity basis, Chile is within a few hundred dollars of being the wealthiest country in Latin America. Only Argentina is wealthier. By 2018, the Government hopes to move Chile into the ranks of high-income countries by streamlining its operations, increasing job creation, and perhaps most important, promoting investment.

In 2011, Chile received record inflows of foreign direct investment (US$17.299 billion – a 13% rise over 2010). Inbound FDI in Chile was US$28.2 billion in 2012, a 63% increase over 2011, and an all-time record. In 2011, Chile also had the largest outward FDI (US$11.822 billion) of any Latin American country, even beating Mexico (US$9.64 billion) and Colombia (US$8.289 billion).

Chilean companies are beginning to move beyond Latin America as well. Sigdo Koppers, an industrial conglomerate, acquired Magotteaux, a Belgian engineering firm, for US$794 million, and wine producer Concha y Toro bought Fetzer Vineyards in the US for US$239 million (Foreign Direct Investment in Latin America and the Caribbean, 2011, ECLAC).

Looking ahead, Oxford Economics analysts predict that Chilean exports will rise 7.6% a year between 2011 and 2021, equaled only by Mexico's 7.6% annual increase. The largest gains as a percentage will be exports to India, forecast to rise 15.8%. However, in terms of volume, China trade is expected to be the largest gainer, with a US$34.6 billion increase between 2011 and 2021, exceeded only by Brazil (see map, “Chile regional goods exports by US$b, 2011-21,” page 9).
Growing Beyond

In a country of exporters like Chile, the strong peso has been a major headache in recent years. While the central bank has intervened twice in the past five years, these efforts proved to be a short-term fix. The central bank has limited leverage since the strength of the peso is basically due to US/EU fiscal policy.

Chile has five key sources of competitive advantage – all of which seem likely to grow more important over the next decade:

**A strong business focus.** For at least 30 years, Chile has pursued a business-friendly path. Perhaps because of this stance or the national character, Chilean deals tend to be more direct and less relationship-focused. Transacting business with Chilean companies may be more like doing business with a developed country, according to M&A experts at Ernst & Young.

> “Most Chilean managers have been trained in the best universities in Chile and outside Chile and they have learned how to go out of the box.”

Cristián Lefevre, Chile Managing Partner, Ernst & Young

**An open economy.** Chile has the most open economy in Latin America. In the Ernst & Young 2012 Globalization Index, Chile ranks 28th, far ahead of the seven other major Latin economies. Its openness may even encourage foreign companies to use Chile as their gateway to Latin America: Marcelo Caldera Villagran, a partner with HMC Asset Management of Chile, says that the clarity of the regulatory platform “is directly related to investment opportunities and could potentially position Chile to be an investment platform for the region.”

**Smart management.** Chile has an unusually high quality of management, says Lefevre of Ernst & Young. “Most of them have been trained in the best universities in Chile and outside Chile and they have learned how to go out of the box, out of the Chilean mentality and culture,” he says. “They have an open mind to do business and to change the rules, to change the game.” The Government, which has created and nurtured this open economy, has also tended to be helpful to business.

**A sophisticated marketing culture.** Chileans are among the most affluent Latin Americans, and perhaps because most are newly affluent, Chilean retailers have developed a level of expertise for marketing to the Latin American consumer. Their success leveraging this expertise in Peru and Colombia suggests that they will be able to penetrate other markets as well.

**Significant natural resources.** With its vast copper deposits and significant gold and silver deposits, mineral resources are a crucial part of Chile’s export portfolio. The country has some of the biggest lithium deposits in the world and is only just starting to exploit them. The difficulty for the mining industry in Chile is the intensive energy requirements. In the absence of domestic fossil fuel resources,
Chile is relying on coal and hydro projects. It is important to note, however, that opposition on environmental grounds is growing stronger each year, resulting in projects being delayed and in some cases canceled. Many analysts predict that from about 2016 Chile will face a serious energy shortfall that will increase energy costs even further and curb GDP growth.

In the coming years, agriculture is likely to grow in importance. Wine, forest products and aquaculture (Chile is one of the world’s leading producers of farmed salmon) are particularly promising. Beyond that, Chile’s nearly endless beaches and mountains could make the country an important tourist destination for an increasingly urban and increasingly affluent Latin America. The number of international arrivals increased by 11% in 2011 alone, according to the United Nations World Tourism Organization (UNWTO) (UNWTO Tourism Highlights, 2012). Sernatur, the Chilean state tourism agency, reports that the number of international arrivals jumped a further 13% in 2012, one of the highest growth rates in the world.
Where, why and how Chilean companies are expanding

Argentina, the US and Brazil are the top destinations

Perhaps because of its relatively small population – 17 million – Chile is more outwardly focused than most Latin American economies. Our Chilean respondents export more across borders and have more physical operations outside their home country than the Latin American average. Chilean executives conduct the most business with Argentina (42%), the US (41%) and Brazil (38%). But although their trade with North America is lower than the Latin American average (41% to 54%), Chilean respondents report higher levels of trade with most of the top Latin American markets compared with the average, particularly with Colombia and Peru (see Figure 1).

In the next three years, most Chilean companies seem likely to continue to pursue a similarly diversified approach toward growth. Our survey was surprisingly split on where respondents expect to see the most growth in the next three years. Although 28% anticipate the most growth coming from the US, six other markets earned scores of around 20% (Latin America [excluding Brazil]), China, Brazil, Colombia, Peru and Argentina). Overall, Latin American markets outside their home country are still the source of most revenues for our Chilean respondents (see Figure 2).

Most of Chilean companies’ foreign expansion to date has happened within the last decade. “I would say that five to eight years ago, local companies started looking for investment alternatives in South America – in the beginning it was Peru, then came Colombia, and now a lot of companies in different sectors are looking for opportunities or buying companies in Peru or Colombia,” says Javier Vergara, a partner experienced in corporate finance at Ernst & Young in Chile. The biggest businesses are moving on to Brazil, he adds.

Peru and Colombia were relatively easy transitions because the business culture, language and social cultures are similar, according to industry experts. The leading business families also have long-standing connections. Peru’s geographical proximity also helped make the market more attractive, and since the Peruvian Government made similar reforms as Chile – albeit 10 years later – it created windows of opportunity for Chilean companies. “Now we can ‘copy and paste’ the same business models in Peru,” Vergara says.

Figure 1: Chilean companies conduct most of their international business in Argentina and North America
In which of the following countries and/or regions do you conduct a significant amount of business (excluding your company’s home country)? Select all that apply.

<table>
<thead>
<tr>
<th>Country</th>
<th>Chile</th>
<th>Latin America</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>42%</td>
<td></td>
</tr>
<tr>
<td>United States or Canada</td>
<td>41%</td>
<td>54%</td>
</tr>
<tr>
<td>Brazil</td>
<td>38%</td>
<td></td>
</tr>
<tr>
<td>Colombia</td>
<td>32%</td>
<td></td>
</tr>
<tr>
<td>Peru</td>
<td>30%</td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>26%</td>
<td></td>
</tr>
<tr>
<td>Mexico</td>
<td>25%</td>
<td></td>
</tr>
<tr>
<td>Western Europe</td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td>Ecuador</td>
<td>18%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Ernst & Young 2013 Latin America Outbound Expansion Survey
Base: Latin America = 600 (Chile, 76); shown = percentage of respondents
Retail is one industry that Chile exported successfully to the Colombian and Peruvian markets. After watching foreign entities such as Sears and Carrefour fail in Chile, Chilean retailers learned two lessons, says Ernst & Young’s Lefevre. “In my opinion, the foreign retailers didn’t understand the culture – basic things like what the people would like to buy,” says Lefevre. Also, they did not understand that their CEO needed a local network. “Without a network, it’s very difficult to do business in any country,” he says.

Both lessons have been well learned by Chilean retailers as they moved north into Peru and Colombia – to the point that they are succeeding in Colombia even as Carrefour, the French hypermarket heavyweight, is looking to exit the market. “That means something very powerful – that Chilean companies are doing business in some countries better than the European entities like Carrefour,” Lefevre says.

Chilean executives’ motives for going abroad are roughly the same, regardless of where they intend to grow. All are looking for new customers and more sales, all hope to fill an unfilled niche, and all want to access new distribution channels. Not surprisingly, given the success of conservative economics in their own country, executives say that when it comes to identifying a new market, they look for macroeconomic stability (65%), political stability (59%) and exchange rate stability (54%) (see Figure 3).

Despite having more experience than businesses in most Latin American countries, many Chilean companies face the same challenges of any company as it expands. Their primary concern is about finding reliable business partners. They also report concern over whether their management team has the right blend of skills and how to gain sufficient understanding of the market. Chilean executives worry less about finding the right country-level managers (28%) than do their counterparts in other Latin American countries (37% average) – perhaps because many Chileans have had more experience in managing foreign subsidiaries (see Figure 4).
Chilean business executives also view partnerships as the most likely growth strategy in rapid-growth markets outside Latin America and in developed markets.

Consistency is another concern. Raúl Véjar, CEO of Sonda, a Chilean provider of information technology services operating in 10 countries, says that trying to make sure his company is the same company all over Latin America isn’t easy. “There are processes that the company has that must run throughout the entire organization,” he says. “And that goes from administrative processes, to accounting, to human resources, and so on, up to the most operational processes – the service and business processes. So what I want is that even if a person went from Chile to Mexico, for example, he would recognize that the company is Sonda.”

When they look to target international markets, the top three advantages Chilean executives cite are the quality of their workforce (50%), the quality of their offering (37%) and their ability to innovate (36%). Interestingly, they lag behind the Latin American average for the self-reported quality of their product or service (37% vs. 45%) but lead in their confidence about their ability to innovate (36% to 26%). These results may be a reflection less of the relative quality of Chilean companies’ offerings than a familiarity with the rough-and-tumble of global competition, where sustaining success depends more often on adaptability than a lasting advantage.

Local partnerships are the preferred method to expand internationally

More than their Latin American counterparts, Chilean executives see partnerships with local firms as their most likely mode of expansion within Latin America (46%). This is particularly true of Brazil, a daunting market for Chileans. Chilean business executives also view partnerships as the most likely growth strategy in rapid-growth markets outside Latin America (26%) and in developed markets (24%). This is not surprising, given the extent of Chile’s international trade experience compared with other countries in the region.
Chilean executives remain cautious about mergers and acquisitions, particularly in developed markets. When it comes to developed markets, our respondents see direct export as an important way ahead (20%), followed by minority equity investments (18%), confirming trade flow data that suggests that for now, despite its global aspirations, Chile's outward investment activity remains focused largely on Latin America.

When Chilean businesses do look to buy, they are doing so with newfound confidence. With all the positive economic news coming out of Chile, Chilean companies are negotiating now with more self-assurance. It also doesn’t hurt that the valuations of Chilean companies are high and the currency is strong against the Colombian peso and the Brazilian real, as Colombia and Brazil are the two top merger destinations.

Masisa’s double-digit growth opportunity

Selling doors, plywood and particleboard throughout Latin America might seem like a straightforward business, but wood products company Masisa, headquartered in Chile, finds that almost everything must be custom-fit - from the individual order to the country.

“In many developed countries, you tend to do things yourself,” says Enrique Cibié, Director of Masisa. “You buy the parts and assemble them. For example, if you want to remodel your kitchen, you can go out and purchase the countertops and put it all together yourself because everything comes standardized. But in Latin American countries, construction is not standardized.”

One size fits none when it comes to individual markets as well. In Brazil, for instance, “each state operates differently, autonomously or semi-autonomously, with different tax systems,” says Cibié. “It's hard to work there, but it is a magnificent country with great opportunities.” Chile itself presents its own share of challenges, as the high exchange rate has forced Masisa to move away from its export model and relocate its activities overseas by planting forests and building factories in major markets outside Chile, including several Latin American countries and the US.

In some places, institutional ethics can be a challenge. This has sometimes hindered his operation, notes Cibié: “For example, although we have never paid unlawful fees, we face the problem that our competitors are not always so scrupulous. I think that corruption, and finding a way to get rid of it, is Latin America’s great problem.”

Managing multiple markets is not easy. Cibié says his company’s biggest challenge is coping with all the peculiarities of the individual markets, “because even though we are all Latin Americans, we don't even all speak the same language. This is no small matter.”

But the effort is worth it. Although the company focuses on individual carpenters, Cibié foresees an industrial-size opportunity ahead. “Why? Because there is a housing shortage in Latin America. The housing shortage is being relieved by massive availability and affordability of long-term mortgages that did not exist before. We are facing double-digit growth for our products.”
Yet confidence doesn’t mean proceeding blindly: when it comes to acquisitions, Sonda looks for compatibility. “It’s a fundamental condition, because there is not only due diligence in accounting, there is due diligence in legal matters, in taxes, in human resources, and so on,” says Raúl Véjar of Sonda, which has accomplished much of its growth through a roll-up acquisition strategy. “But there is another thing, something that we do, and that’s what we’ve called cultural due diligence: that is, at heart, intimately convincing ourselves that the people from the company that we are buying will be able to adapt to our culture and our way of working and our processes, from top-level management to low-level employees.”

All the same, many companies may feel pressure to grow fast. The relatively small size of the Chilean market means that Chilean companies aspiring to regional leadership may find that they need to scale quickly, through a merger or global alliance. Unless they have some extraordinary competitive advantage, it may be difficult for them to compete against the leaders in a major market such as Mexico or Brazil. Lefevre points to Chilean airline LAN’s purchase of Brazil’s TAM as an example of the kind of deal-making sometimes required for a Chilean company to win in Latin America’s biggest market.

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

<table>
<thead>
<tr>
<th>Functional Area</th>
<th>Chile</th>
<th>Latin America</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information technology</td>
<td>47</td>
<td>43</td>
</tr>
<tr>
<td>Sales and marketing</td>
<td>50</td>
<td>41</td>
</tr>
<tr>
<td>Supply chain (including demand planning and distribution)</td>
<td>32</td>
<td>29</td>
</tr>
<tr>
<td>Financial management</td>
<td>22</td>
<td>32</td>
</tr>
<tr>
<td>Strategic planning</td>
<td>26</td>
<td>39</td>
</tr>
<tr>
<td>Risk management/Enterprise management (ERM)</td>
<td>24</td>
<td>22</td>
</tr>
<tr>
<td>Internal communications</td>
<td>18</td>
<td>11</td>
</tr>
<tr>
<td>Financial reporting</td>
<td>13</td>
<td>11</td>
</tr>
<tr>
<td>Regulatory compliance</td>
<td>12</td>
<td>8</td>
</tr>
<tr>
<td>Tax planning</td>
<td>9</td>
<td>18</td>
</tr>
</tbody>
</table>

Source: Ernst & Young 2013 Latin America Outbound Expansion Survey
Base: Latin America = 600 (Chile, 76); shown = percentage of respondents

Other companies have found that when they reach the wider world, they are better off accepting an acquisition with a larger partner. Lefevre recalls the thought process of one client who decided to accept a minority share in a large French firm. His reasoning: although he is a minority shareholder, because he has 20% ownership and the next biggest shareholders have 4% to 5%, he will have a high degree of say in what happens in the global company. This kind of adaptability is not unusual, according to Lefevre. “Chilean executives are very open to changing the rules of their business model,” he says.

To get ahead internationally, Chilean executives believe that their boards need to be more representative of global markets (63%), that their corporate culture needs to be more international (49%) and that they need to enter new market segments (42%) (see Figure 5).
When it comes to trade policy, Chile has a brand like no other: everyone knows Chile’s reputation as a free trader. The country has free trade agreements (FTAs) in place with 60 countries, surpassing all other nations. Through FTAs and similar agreements, Chile has preferential access to markets representing 93% of global GDP.

“When we sit at the negotiating table in an integration process or take part in economic policy forums, we don’t improvise,” says Alvaro Jana Linetzky, Director General of international economic relations with the Chilean Foreign Ministry. “We have a track record everyone recognizes and which speaks for itself. In that sense, Chile is a brand, right? When you think of Chile in terms of trade, economic, fiscal or monetary policy, other countries know what Chile is in this regard and respect that.”

Most Chilean products, however, still need an introduction. To encourage that, the Government sponsors more than 50 trade offices all over the world – more branch offices than any individual Chilean company has, says Jana Linetzky. “A physical presence in strategic markets is key to success and a big part of export policy. The focus continues to be on forestry, livestock and agriculture. Chile is a world food powerhouse shipping fresh and processed foods, fresh and dried fruits, seafood, wine and beverages, and is currently exploring other areas.”

Chile’s Foreign Ministry continues to knock on trade ministry doors as well. Although Chile now has trade agreements that give it access to major economies, it is still working to refine some of those agreements. At the top of the agenda now: negotiations with India to complete a free-trade agreement and negotiations with Mexico, Colombia and Peru to create an integrated-free trade group, the Pacific Alliance, which Jana Linetzky sees as a game-changer for Chile and the region. “I cannot overemphasize the Pacific Alliance currently being negotiated,” he says.

Unusually, however, Chileans don’t see sales and marketing as the function that needs the most work if they are to succeed internationally, the most common answer in Latin America. Only 41% of Chilean executives believe their sales unit needs to be revamped, compared with 50% of their Latin American colleagues (see Figure 6). Instead, Chileans are most concerned about making sure their information technology is up to date (47%) – a reflection, perhaps, of the degree to which Chilean executives share the same preoccupations as mature-market managers and the current interest in the possibilities of “big data” analytics.

Looking ahead: a blue-chip market

It may not be the biggest market in Latin America or the most strategically located, but over the past 20 years, the world’s southernmost country has earned a place as a blue-chip market among Latin American countries and rapid-growth markets generally: Standard & Poor’s assigns Chilean bonds a rating of AA-, giving it the same likelihood of default as China, Taiwan or Japan.

The future looks bright for many Chilean companies today – not just because of what lies ahead, but also because of the confidence they have gained over the past decade. “We believe the future looks good,” says Sonda’s Raúl Véjar. “We see a market that is growing at healthy rates, a market that still, given the company’s size, has a lot of room to grow. And our track record keeps us enthusiastic and confident that we will be able to carry out our new plan and continue to grow.”
Growing Beyond

In these challenging economic times, opportunities still exist for growth. In Growing Beyond, we’re exploring how companies can best exploit these opportunities – by expanding into new markets, finding new ways to innovate and taking new approaches to talent. You’ll gain practical insights into what you need to do to grow. Join the debate at www.ey.com/growingbeyond.

About Ernst & Young
Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 167,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit www.ey.com.

© 2013 Ernst & Young Servicios Profesionales de Auditoría y Asesorías Limitada. All Rights Reserved.

This publication contains information in summary form and is therefore intended for general guidance only. It is not intended to be a substitute for detailed research or the exercise of professional judgment. Neither Ernst & Young Servicios Profesionales de Auditoría y Asesorías Limitada nor any other member of the global Ernst & Young organization can accept any responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. On any specific matter, reference should be made to the appropriate advisor.

Contacts

Cristián Lefevre
Country Managing Partner
Tel: +56 2 2676 1165
Email: cristian.lefevre@cl.ey.com

Departamento de Estudios
Tel: +56 2 2676 1655
+56 2 2676 1230
Email: departamento.estudios@cl.ey.com

Sam H. Fouad
Americas Emerging Markets Leader,
SASA Market Leader
Tel: +1 212 773 3504
Email: sam.fouad@ey.com

www.ey.com/latinamerica

For more information on how Ernst & Young can help you in a globalized world, please visit us at: www.ey.com/growingbeyond.