Market Expansion in Latin America

9 Steps for a Successful Market Entry in Latin America

"Which country is the most attractive market for my expansion in Latin America?" -

"What is the best strategy to enter and conquer this market?" -

"How do I find the right partner to support my business in Latin America?" -

ongresso PARTNER OF EXPANDEERS global expansion with local expertise

"What are the costs and risks involved in our market entry and how can we control them?" -

If you are in charge of expanding your company's presence in Latin America you will inevitably be confronted with questions such as these. And you will have to come up with the right answers. Every case might result in a different answer, yet there are some generally valid points that every company or investor should keep in mind when planning to do business or invest in Latin America.

Here's what I have learned in 9 years of advising and supporting foreign companies and investors as Market Entry Specialist in Latin America:

1. Don't Start Doing Business in Latin America Until You Are Ready

Many companies from Europe and North America first look to Asia, not Latin America, when thinking of their international expansion. Even before that, they pick the 'low-hanging fruits' in markets closer to home (e.g. neighbouring EU or NAFTA countries, Eastern Europe - to name a few). Latin America on the other hand usually appears further down on the list of export destinations. And for understandable reasons: the region's population is much smaller than the one of Asia, yet it includes the majority of the most violent countries in the world; and news of massive corruption scandals in Latin America sadly make frequent headlines in the world press. Not really what international companies and investors look for when scouting for opportunities and new markets!

Still, Latin America offers many opportunities to investors and companies who are not easily deterred by challenging market conditions and are used to look beyond the obvious.

However, to profit from the opportunities that can be found in Latin America, a company needs to have experience in doing business in developing countries with a different culture and language. This challenge is on a whole different level compared to selling your product in the neighboring country that has a similar level of development, per capita income, cultural background and legal system.

I recently met the owner and CEO of a company from Eastern Europe at a fair in Colombia. The company produces relatively low-tech electric motors for industrial use. The CEO was *visiting Latin America for the first time and had high hopes of doing business in the region. He spoke his mother tongue, some German and a little English but not a single word of Spanish. When I asked him where his company was currently exporting to, he mentioned Eastern Europe and - his furthest market - Germany! They had never exported outside of Europe in over 30 years. I decided to give him my honest opinion instead of sugarcoating the situation and told him frankly that for his company to expand to Latin America at this point made very little sense and would probably turn out very costly, time-consuming and in the end frustrating and unprofitable.*

It is my conviction that it is better to be honest and save a company much frustration instead of winning a client that is poised to fail.

Conclusion: Companies from industrialized countries that have never done business in a developing country before should think twice before expanding to Latin America. Instead they should consider choosing a market closer to home that is less developed than their own but with whom they have more in common. This means less cost and less risk. With each new market you enter you will learn to deal with an increasing level of complexity. And at some point you will be ready to enter Latin America and unlock its Potential.

2. Take Your Time to Identify the Most Attractive Markets

Once you are ready to enter Latin America, make sure you choose the right markets to enter. Latin America may be seen as a homogenous economic region by outsiders, but markets in the region differ significantly in regards to population, level of economic development, ease of doing business, regulatory obstacles, tax burden etc.

Do your research, talk to your contacts that have done business in the region, contact the investment promotion agencies of the countries of interest, read up on their economic and political situation.

With 33 countries in Latin America and the Caribbean, this is a lot of work and probably not very effective. Using the help of an expert in the region can speed up this fact-finding process and guide you to the right decision. After all, sometimes the obvious choice like Mexico or Brazil is not the best one on second thought. It can be preferable to enter a smaller, 'easier' country first, gain experience on a small budget, make 'cheap' mistakes, learn your lessons at less risk and then expand to the bigger markets.

Our market intelligence helps you identify the most attractive markets by analysing different countries and their characteristics (consumer base, price levels, sales channels, competition, cost drivers, landed cost calculations, import and regulatory requirements, etc.). Base your decision on solid facts instead of blindly 'following the herd'.

3. The Adventure Starts: Visit the Countries You Have Selected

Once you have made a selection of the most attractive countries in the region it is time to get to know them in person. No amount of research and investigation about a country can replace the insight gained from a personal visit and by spending time 'on the ground'. In just a few days you will get a feel for the market that will shape your decision. Experienced business developers and sales managers have a trained eye to gauge market potential from little details that can be observed in every corner. As they have previous experience in entering new markets they do not spend much time in the country but use every minute of their visit to gather information and reach a conclusion very quickly, based on what they learned.

We recently had the pleasure to observe a prime example of how to conduct a highly effective site visit. An international BPO company hired us to help them organize their site visit in Lima, Peru. Based on our previous comparison of different countries in the region they had chosen Peru as their favorite option to open their first call center in Latin America. Before taking the final decision, the company's 'A-Team' consisting of CEO, Head of Business Development and Global Operations Manager flew in for a lightning visit. In less than 36 hours (!) they pushed through the following agenda:

- Were given an expert country briefing with a Q&A by our legal and operations team
- Met with 4 different HR recruiters (previously scheduled by us)
- Visited 3 different rental office spaces (previously scheduled by us)
- Visited the city's main business districts to get a feeling for the best office location
- Visited some middle class residential areas to gauge living standards
- Visited some shopping malls to gauge consumer interest
- Ate in different high-end restaurants - a pure pleasure given the country's famous cuisine!
- Spent one night at a business hotel
- Were debriefed by our country manager to wrap up the visit and review the lessons learned

- Took the final decision to enter Peru as their first market in Latin America before catching their flight back home (!)

Only 30 days later we had already established their subsidiary, 30 days after that they had recruited their first team of call center agents, another 30 days later their office was outfitted with high-speed internet and all their IT systems and they were ready to start operating. That is how fast things can go in Latin America!

Summary: How to conduct an effective site visit

1. Conduct preliminary research to compare and choose your focus countries.
2. Use local help to schedule as many meaningful meetings as possible and to organize the logistics of your visit (hotel and restaurant reservations, airport transfer, city transport etc.).
3. Talk to as many people as possible during your trip. Every taxi driver, hotel receptionist or waitress can give you valuable insights that will complement your perception of the country.
4. Last but not least: bring your A-Team on board! Your top management must be fully committed to make your market expansion a success. By inviting your superior or CEO on this trip you will ensure he is vested in the decision and will support you in the long run.

4. It is Time to Choose: Decide on the First Country You Will Enter

Once you have selected and visited the most attractive countries for your company in Latin America, you will choose the first country you will enter. Optionally and if resources permit you can enter various countries in parallel but in my experience it is better to go slow and tackle one country after the next. No market entry is free of setbacks, time delays or other unforeseen circumstances and you should focus your available time and energy in solving those issues instead of being divided between two different countries (and you probably have other countries to look after, too!).

Besides, most companies choose one country as their regional hub where they will hire their core team for the region, store their inventory, etc. As a consequence, the country should not only be an attractive market in itself but offer the best framework to fulfill a regional role (good connectivity within the region for travel and transport of goods, low taxes, qualified local talent, functioning infrastructure, ease of doing business and so on).

But business is always more than dry facts. Replay your visits to the different countries and how you felt in each place. Did you feel at ease, uncomfortable, nervous, excited…? Your subconscious can perceive tiny details that shape your actions without you noticing. This is not some hippy mumbo-jumbo but a scientific fact. How you feel about a place will influence your success.

Summary: How to choose the first country you will enter

1. Compare the different countries based on your research data. Weigh the pros and cons, make a SWOT analysis, etc.
2. Compare the insights gained during your visits to the different countries.
3. Compare the eligibility of the different countries to serve as a regional hub based on the framework they offer.
4. Listen to your gut feeling!
5. Tackle one country after the next instead of entering more than one simultaneously.

5. Define the Right Market Entry Strategy and Business Model

Many small and medium-sized companies do not have a clearly defined market entry strategy. Some make a conscious decision to be pragmatic and adapt to each country, opening a subsidiary in one, working with a distributor in another, depending on market conditions. Still, those companies will know which business model to use in which country and will not waver once they have decided on the right approach.

But in many cases the absence of a clear market entry strategy is not the result of a deliberate decision but of the lack of experience in successfully entering similar markets. Such companies tend to start with one business model, then switch to another one if the desired results are not achieved soon enough. And should the new approach not work either, why not try a hybrid model? Such conduct will unsettle your distributors, partners, clients and negatively affect your reputation and market potential.

Once you have decided on your market entry strategy and business model, stick to it and give it sufficient time to make it work.

But how do you decide which strategy and business is the best for the first Latin American country you want to enter?

If you have not done business in Latin America before, keep an open mind before making this decision. Do not assume that the strategy you use in another part of the world will automatically work in Latin America as well. Latin American business culture is very relationship-based. Without building a rapport on a personal level first and regularly meeting face-to-face with your partners and clients, you will have a hard time being successful. Also, do not underestimate the language barrier (relatively few people speak English, so you need to be able to communicate in Spanish and/or Portuguese), time difference (especially for companies in Europe) and the fact that emails often go unanswered. All those aspects need to be taken into account when choosing your strategy and business model.

Summary: How to choose the right market entry strategy and business model

- Keep an open mind, consider all options (subsidiary with own sales force, distributors, sales agents, outsourced regional sales manager, hybrid model combining different models, to name a few)
- Analyse the market, the competition, the pros and cons as well as the cost of every option.
- Take the relationship-based business culture in Latin America into account.
- Once you have made your decision, stick to it long enough to make it work!

6. Get Help for Your Market Entry: Choose the Right Local Experts and Partners

When you enter a new country you will be confronted with a myriad of tasks and responsibilities such as:

- Finding the ideal partner for sales and distribution
- Meeting your key clients
- Hiring and training the best local talent
- Finding office space
- Forming a local company
- Making sure you have enough liquidity during the startup phase
- Paying your employees and suppliers on time
- Making sure you are complying with accounting and tax regulations
- The list goes on and on

Many of these tasks - if not handled correctly - can result in costly delays, put your company at risk and result in penalties, lawsuits etc.

To make sure this will not happen and that you will have enough time to focus on your key responsibilities, you will need the help of local experts.

There is a saying that it is good to have a lawyer, a physician and a priest as your friends. To do business successfully in Latin America I would modify this statement to: It is good to have a lawyer, an accountant and a consultant with broad local experience who 'gives it to you straight'.

The attorney will help you with the formation of your company, in drafting commercial and labor contracts and protect your interests in the case of legal issues.

The accountant will help you stay compliant and keep the tax authority happy. If hired in a more complete role as finance manager - either as an employee or external service provider - he can also handle your payroll, payments and other administrative tasks.

The consultant at your side should be trustworthy and experienced enough to give you straight answers, provide honest feedback, explain cultural aspects and will not shy away from telling you the truth even if it is unpleasant. Having such a person by your side as your sounding board will prove invaluable and help you avoid the pitfalls of doing business in a new country. This conviction is based on my personal experience.

> *In my previous career as executive of a global supply chain company I was tasked with the company's market entry in Chad (Central Africa), one of the poorest, most corrupt countries in the region with desolate infrastructure. With very little time to set up our logistics and start delivering to our customer, the United Nations, I had to rely on local experts and providers to make things work. But as my employer did not have contacts or previous experience in Chad, I had no other help than my gut feeling to tell apart serious suppliers from empty show-offs. I made some good calls but I also got fooled a few times. Having a trustworthy local consultant by my side, giving me reliable facts, would have saved me a lot of energy, time and money!*

Summary: How to choose the right local experts

- When entering a new market, focus on your core responsibilities and hire local experts to take care of the rest.
- Avoid compliance issues by hiring experts in the areas of law and accounting.

- Look for a local consultant that can help you choose the right partners and suppliers and give you reliable information on diverse topics.
- You make the final decision. Hire for experience and trustworthiness and listen to your gut feeling!

7. Time to Crunch The Numbers: Create Your Budget

Once you have selected the country, defined the strategy and business model and chosen the local experts, it is time to plan the budget for your venture. Your research will have given you a rough idea of your sales potential in the short and long term. My advice: Be very, very conservative in your sales projections and generous when defining the timeline for your break even point. It goes without saying that each case is different and that the time to reach break even does vary wildly, and - let's face it - in some cases this moment never comes. But whenever I meet a company who expects to start making money in the first year of entering Latin America I recommend them to either add one or two years to their timeline or to better go looking in another part of the world for their expansion. I know this sounds harsh but I have seen too many companies with unrealistic sales projections and insufficient financial endurance who, after a short adventure left the region with nothing but losses and disappointments. Those companies have one thing in common: they did not take the time to get to know the country first, do their research, use the help of local experts to get a realistic picture of the market potential and then create a budget that actually makes sense.

Summary: How to create a realistic budget for your market entry

- Research the market to reach realistic sales projections - be conservative!
- Use the help of local experts to understand the labor costs, the pros and cons of different labor contracts, risks related to employing local staff etc.
- Get various quotations for the expert services you will require (e.g. legal, accounting, tax, HR, admin, customs, relocation, property agents)
- Use the help of local experts to get a clear picture of the fees and taxes that will apply for you (income tax, local taxes, company registration fees, import tariffs, etc.) and what your options are to minimize your tax burden.
- Worst case scenario: Quantify and include your exit costs (liquidation of labor contracts and local company, early termination penalties of supplier contracts, legal fees etc.)

- Include a reserve / buffer for unforeseen expenses.
- Always keep in mind: No budget or business plan ever works out exactly as planned and clocks in Latin America are ticking slower, so be conservative and allow for enough time to reach break even!

8. Let the Fun Start: Taking the First Steps in the Market

With an approved budget and a clear timeline for your market entry, you are ready to execute and with the help of local experts you will hit the ground running. Make sure to outsource all activities that are not part of your core business to specialists so you can focus on finding the winning strategy as fast as possible. Time is money!

The question is: do you go 'all in' or are you the more careful type that prefers a 'soft landing' that allows you to 'fail fast' at a predictable risk and cost? 'Fail fast' does not necessarily mean complete failure and subsequent market exit but rather to evolve through trial and error, learn from your mistakes, adjust your business model if necessary, and once you are ready roll it out on a larger scale.

As usual, which strategy is best depends on the company, market conditions and other criteria. A large global player with the strategic objective to dominate the market and the closest competitor breathing down his neck might not even consider failing and will have plenty of funds to make its market entry work, no matter the cost. This type of company will most probably choose the 'all in' option.

Meanwhile, companies with a more careful approach, of smaller size and budget would be well advised to take things a bit easier and apply a 'soft landing' approach. This implies a more gradual market entry with a business model that can change in each phase until reaching maturity. This can mean for example hiring your first staff through an HR Outsourcing or Personal Employer Organization instead of creating a legal entity straight away. Or doing a pilot project with a showcase customer to gain real world insight into the market and get a first reference on which to build your reputation. Or using a flex-desk option in a co-working space instead of renting your own full-blown office and everything that comes with it. The general idea is to limit your budget, risk and exposure while approaching your target market gradually.

You can compare the ‘all in’ vs ‘soft landing’ approaches to marriage: either you are in an arranged marriage (‘all in’), or you start seeing each other, go on dates, then propose and get engaged before actually making the covenant of life (‘soft landing’). Personally, I am a fan of the latter. ;-)

Summary: How to take your first steps in the market

- Use local experts for all non-core business activities to hit the ground running and focus on finding the winning strategy as fast as possible.
- Choose between the ‘All In’ and the ‘Soft Landing’ approach.
- In the ‘Soft Landing’ approach, start by testing the market while limiting the risk, cost and exposure related to the mistakes you will almost certainly make.
- Stay flexible and open-minded in regards to your business model: Learn from your mistakes and adapt your business model if necessary.
- Apply the lessons learned in other markets but do not forget that each market is different and follows its own rules.
- Consider flexible solutions that are easy on your budget and limit your financial exposure during your market entry phase (e.g. personnel outsourcing, co-working office, pilot projects).

9. The (Sometimes) Uncomfortable Part: Being Told the Unvarnished Truth, Having the Personal Format to Admit an Error and Acting on it

In my opinion, honest feedback is one of the rarest yet most valuable commodities in the world. How often does it happen that we become too involved in something to see that we are on the wrong track; and while this is obvious to the people around us they might hesitate to tell us in order not to hurt our feelings or be the bearer of the bad news that could hurt their position. These situations happen all the time, in personal life as much as in business.

The situation becomes especially delicate if the object in question is your client. In my role as advisor and supporter of foreign companies and investors in Latin America I regularly find myself in this difficult situation. Do I tell my client that in my opinion he is using the wrong approach, working with the wrong partner, employing the wrong people, communicating with locals in the wrong way? Or is it better not to overstep and risk hurting the working relationship with the client?

The answer is clear: If the local expert, consultant or advisor does not give his client a completely honest feedback, who else will? In my case, that sometimes includes providing unsolicited feedback about aspects of my clients' business that lie outside of our contractual scope of work. But it is this unvarnished and sometimes uncomfortable truth that can open the client's eyes and allow him to take corrective action before it is too late.

> *One of my clients from Germany had a sales executive in charge of the Andean region, based in Bogota. This person had been hired a few years before, by the previous regional manager and showed an unsatisfactory sales performance. The client asked me to review the sales executive labor contract and propose changes that would provide more effective incentives that would lead to improved sales. A first look at the contract showed that the base salary was ridiculously high for a sales position. This guy was living the high life with a fixed salary equivalent to a local CEO. No wonder he was not generating a lot of sales! The impression gained from a personal conversation I had with this guy showed that he was neither willing to change nor to renegotiate his contract. So, my recommendation to the client was to terminate his employment and look for a more ambitious replacement with a salary package at market conditions. And I made it clear to the client that it was not enough to write a new contract and hire a new guy but that he had to change his approach and manage the new person much more closely than before. I would not say my client was exhilarated to hear the honest truth because it did not shed a positive light on his management style but he had the personal format to admit the past errors and take action.*

How can you ensure you receive the unvarnished truth about your business activities that helps you take corrective actions on time if necessary?

Usually it is easier for an outsider to criticize what is going wrong in your organization. They will have a more objective approach and will not be afraid of jeopardizing their position in the company by saying the wrong thing. Hearing the uncomfortable truth from such an outsider is easier to accept for many executives.

Hiring an experienced local consultant to conduct an independent review (similar to a Due Diligence) of your company's current situation can open your eyes to necessary changes. This applies not only to the first phase of market entry but makes sense every once in a while as market conditions, regulatory and tax requirements and so on can change and might require your company to adjust and take corrective action to avoid unnecessary risks and ensure your long-term success.

Following the 9 steps during your market entry process will bring you a big step closer to success. At Ongresso, we help you unlock the potential of Latin America by assisting you with successful market entry and long-term growth in the region.

Contact us to set up a free consultation to talk about how we can help you succeed in Latin America.

You can read about all 9 steps here. To stay informed about our future publications and articles, follow us on LinkedIn.

Daniel Breitenmoser is the Founder and CEO of Ongresso, a Market Specialist in Latin America who assists foreign companies with market entry and the achievement of long term success in the region. In his 9 years in Latin America, Daniel has helped an extensive list of clients across a variety of industries understand local business culture and implement their business model. His passion is to share his knowledge with like-minded people to jointly unlock the potential of Latin America. Originally from Switzerland, Daniel has found his new home in Medellin, Colombia.