MARKETING STRATEGIES FOR LATIN - AMERICAN MARKETS

OCTOBER 18, 2003
Main reasons for presence in new markets

- Cost-cutting opportunities
  - Manufacturing
  - Better perform in core market
- Growth opportunities in core markets dry up
- Active local and overseas suppliers
- Global innovation cycle
  - Ways to innovate, adapt and reinvent business
Increasing Role as U.S. Trade Partner

- Fastest growing U.S. regional trading partner
- 219% growth in trade over last 10 years
Who are the key players?

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Mexico</td>
<td>97,457</td>
<td>11,0775</td>
</tr>
<tr>
<td>Brazil</td>
<td>11,218</td>
<td>13,863</td>
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<tr>
<td>Venezuela</td>
<td>2,840</td>
<td>4,782</td>
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<tr>
<td>Colombia</td>
<td>3,755</td>
<td>4,504</td>
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<tr>
<td>Dominican Republic</td>
<td>4,214</td>
<td>4,343</td>
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<tr>
<td>Chile</td>
<td>2,719</td>
<td>3,625</td>
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<tr>
<td>Argentina</td>
<td>2,435</td>
<td>3,386</td>
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<tr>
<td>Costa Rica</td>
<td>3,414</td>
<td>3,304</td>
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<tr>
<td>Honduras</td>
<td>2,845</td>
<td>3,077</td>
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<tr>
<td>Guatemala</td>
<td>2,274</td>
<td>2,548</td>
</tr>
</tbody>
</table>

Latin America has experienced the strongest growth performance for nearly 25 years in 2004, with growth of 5.7%
New trend of outbound foreign investment

- 22% increase in FDI flows to Latin America coming from Latin-American neighbors and Europe

Brazil & Argentina more influenced by China and the U.S.

FDI sent to Latin America - service internal economies

- Internal economy surpass Chinese consumption levels

Venezuela is the greatest concern in Latin America

Colombia - demand for mid-high ticket durables such as furniture, computers, and cars should grow
Mexico, Chile, and Costa Rica - successful reformers of trade policy

Brazil ranked 5th most ethical country out of 10 examined by M&E

Latin America needs to triple its spending on infrastructure

Brazil and Mexico rivals for leadership in region
  
  • Offer different platforms for entry into the region

<table>
<thead>
<tr>
<th>Mexico</th>
<th>Brazil</th>
</tr>
</thead>
<tbody>
<tr>
<td>High dependence of foreign trade</td>
<td>Least dependence on foreign trade</td>
</tr>
<tr>
<td>Exports primarily manufactures</td>
<td>Dependent on export of commodities</td>
</tr>
<tr>
<td>USA destination</td>
<td>Europe main market</td>
</tr>
</tbody>
</table>
How big is the opportunity?

- Latin America: 546,723,509 (July 2005)
### Consumer Base & Demographics

<table>
<thead>
<tr>
<th>Nation</th>
<th>Population (Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>179</td>
</tr>
<tr>
<td>Mexico</td>
<td>106</td>
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<tr>
<td>Colombia</td>
<td>45</td>
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<tr>
<td>Argentina</td>
<td>38</td>
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<tr>
<td>Peru</td>
<td>27</td>
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<tr>
<td>Venezuela</td>
<td>26</td>
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<tr>
<td>Chile</td>
<td>16</td>
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<tr>
<td>Guatemala</td>
<td>13</td>
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<tr>
<td>Ecuador</td>
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<td>Dominican Republic</td>
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<td>Bolivia</td>
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<td>Honduras</td>
<td>7</td>
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<tr>
<td>El Salvador</td>
<td>7</td>
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<tr>
<td>Paraguay</td>
<td>6</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>5</td>
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</tbody>
</table>

#### Population by Age:
- Aging rapidly - 2015
- 50% under the age of 20
- U.S. – 30% under the age of 21
- Customer lifetime value

#### Household size:
- 4.3 individuals since 1990
- U.S. – 1 or 2 people per house
- Total households – 121 M
Total: 1.3 trillion dollars in 2000

Increased with decrease of inflation

Latin-American GDP per capita almost 3 times as big as China’s
<table>
<thead>
<tr>
<th>Nation</th>
<th>PPP per capita</th>
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<tbody>
<tr>
<td>Argentina</td>
<td>11,982</td>
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<td>Chile</td>
<td>10,981</td>
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<td>Mexico</td>
<td>9,726</td>
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<tr>
<td>Brazil</td>
<td>8,594</td>
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<tr>
<td>Colombia</td>
<td>6,741</td>
</tr>
<tr>
<td>D. Republic</td>
<td>6,503</td>
</tr>
<tr>
<td>Peru</td>
<td>5,385</td>
</tr>
<tr>
<td>Venezuela</td>
<td>4,725</td>
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<tr>
<td>El Salvador</td>
<td>4,457</td>
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<tr>
<td>Paraguay</td>
<td>4,223</td>
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<tr>
<td>Guatemala</td>
<td>4,048</td>
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<tr>
<td>Ecuador</td>
<td>3,979</td>
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<tr>
<td>Bolivia</td>
<td>2,926</td>
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</table>

<table>
<thead>
<tr>
<th>Nation</th>
<th>PPP</th>
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<tr>
<td>Brazil</td>
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<tr>
<td>Mexico</td>
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<td>Argentina</td>
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<td>Guatemala</td>
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<td>D. Republic</td>
<td>53</td>
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<td>Ecuador</td>
<td>46</td>
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<tr>
<td>Uruguay</td>
<td>44</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>35</td>
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<tr>
<td>Cuba</td>
<td>32</td>
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</table>

<table>
<thead>
<tr>
<th>Nation</th>
<th>Consumption</th>
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<tbody>
<tr>
<td>Argentina</td>
<td>7%</td>
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<tr>
<td>Mexico</td>
<td>6.6%</td>
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<tr>
<td>Chile</td>
<td>6.4%</td>
</tr>
<tr>
<td>Venezuela</td>
<td>5.7%</td>
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<tr>
<td>Peru</td>
<td>5.7%</td>
</tr>
<tr>
<td>Ecuador</td>
<td>5.1%</td>
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<tr>
<td>Colombia</td>
<td>4.4%</td>
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<tr>
<td>Brazil</td>
<td>4.0%</td>
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<tr>
<td>El Salvador</td>
<td>4.0%</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>3.9%</td>
</tr>
<tr>
<td>Guatemala</td>
<td>3.4%</td>
</tr>
<tr>
<td>Honduras</td>
<td>3.0%</td>
</tr>
<tr>
<td>D. Republic</td>
<td>2.7%</td>
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</table>
In each country: Two different worlds
Masses vs. Sophisticated consumers
Economic Breakdown:

- U.S. – bulk of middle class – 56% between 25,000 and 100,000
- Latin America – Pyramid structure

<table>
<thead>
<tr>
<th>Social Segmentation</th>
<th>Percentage of Population</th>
<th>Percentage Buying Power</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upper class</td>
<td>2.2%</td>
<td>19.6%</td>
</tr>
<tr>
<td>Upper Middle class</td>
<td>12.4%</td>
<td>26%</td>
</tr>
<tr>
<td>Middle class</td>
<td>29.6%</td>
<td>37.8%</td>
</tr>
<tr>
<td>Low-poor class</td>
<td>55.8%</td>
<td>16.5%</td>
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</tbody>
</table>
Ethnically a mix:

- Europeans with local population and Africans

Brazil – strongest mix:

- Largest population of African origin in Western hemisphere, including USA
- Sao Paulo has the largest number of Japanese outside Japan
- Sao Paulo has more Italians than Rome and Milan put together

Argentina, Chile and south of Brazil - German strong presence

All over Latin America - Lebanese are significant business force
Geographical disparities:

- Home of Amazon forest and Andes
- Bustling cities: Mexico City, Sao Paulo, Buenos Aires, Caracas
➢ Child is the king

➢ Young Population
  • Mexico:
    - 65% have children under age 18 at home
  • U.S.:
    - 41% Americans have children under age 18 at home

➢ Socially dependent
  • Latin Americans are constantly connected

➢ Family size
  - 2 parents w. children and non-working spouse (46%)
  - 2 parents w. children and non-working spouse (36%)
ATTITUDES & PREFERENCES

➢ Language
  • Business = English

➢ Education
  • College = higher income, usually white collar job
  • Data used to identify social class

➢ Religion

➢ Effects of weather on people
  • Outdoor activities
  • People’s usage of product (frequency, etc) and mind set

➢ Life is more complex than appears at first
External Beauty
- Extreme importance for both men and women
- Clothing, grooming, product packaging, etc

Perception of categories
- World of Nations:
  - European beauty products still perceived as better quality
  - Russian vodka is better
  - Changes in some sectors
    › Wine industry (South African, Chilean, etc)

Feel tricked - “Made in China” label in US product
Women participation:

- Machismo
- In all countries women’s participation in domestic sphere is considerably higher than men’s
- Brazil:
  - High number of entrepreneurs & CEOs
- Latin America
  - Evolution
  - 33% of women in labor force
- U.S. - 46% of women in work force
How are you? Brazil – Hand shake

Very social market that works on Network
- Usually school environment or family circle

Negotiation:
- Long – like to bargain and no guarantee of deal
- Latin Americans fight – Tomorrow we are happy
- Sometimes we are late for meetings – Chicago contrast
- Family related activities – Sign that you are welcomed
- Relation guarantees business (family, friends)
  - Find common grounds
Executives choices among given cities:

- Miami (29%)
- Santiago (15%)
- Mexico City (10%)
- Sao Paulo (9%)
- Buenos Aires (4%)
- Barcelona and New York (4%)

Latin American Cities = Major Opportunity for Business
Executives' Selection

Executives choices - free option:

- Santiago, Chile
- Miami, USA
- Sao Paulo, Brazil
- Monterrey, Mexico
- Curitiba, Brazil
- Mexico City, Mexico
- Guadalajara, Mexico
- Porto Alegre, Brazil
- Belo Horizonte, Brazil
- Buenos Aires, Argentina
Sao Paulo, Brazil
- High scores in open-mindedness and Racial/sexual diversity
- Industrial & financial center generating over 30% of the GNP
- Most developed concentration of innovation in region
- Brazil’s economy outweighs that of all South American countries
- Need to work on security measures

Santiago, Chile
- Low scores in tolerance and openness to the new
- Commitment to sound economic policies
Monterrey, Mexico
- Change from maquiladora to knowledge / intelligence industry
- Proximity to U.S
- Alliances between government agencies and universities

Mexico City, Mexico
- Proximity to U.S.
- Need to work on security measures
Most companies enter the market through big retailers.

Retail landscape is highly fragmented:
- Traditional channels dominate
  - Street fair: 1 out of 5 in Brazil

Shopping priorities:
- Helpful staff, express checkout not as important as in U.S.
- Low prices and location are relevant
  - 61% Mexicans stated they choose a store by location (45% U.S.)
  - 50% Mexicans cite price as relevant (31% U.S.)
- Private labels - not so welcomed as in developed countries
  - Private label packaging leaves room for improvement
Media Structure

- Allow large gains for ad. agencies - Profit driven companies

Media Preferences

- TV - Main source of entertainment
  - Average watch is 4.87 hours per day
  - Novelas – Soap Operas
- Internet
  - Penetration – around 12.6%
  - U.S. Penetration – 68.1%
  - Acceptance of new technologies and media
- Newspaper – literacy is an issue
Represents a great deal of satisfaction

- Trip to mall means social interaction

Latin Americans need help with housework

- Permanent or temporary maid
- Baby sitter

Upper class has maid doing supermarket shopping

- Affect in strategies
- List ready to shop (strategy)
- They have decision power too (POP strategy)
Urban Population:
- U.S. urban population: 80.1%
- Latin America urban population: 76.7%

U.S. – 9 cities with more than 1,000,000 people
Latin America – 52 cities with over 1 million inhabitants

Buying power:
- 70% Latin Buying power is concentrated in 10 metropolitan cities
- Example: 5.3% of the urban households in Venezuela account for 40% of total urban buying power
Multinational and Product brand perception
- Welcome international products and businesses
- Social programs - sense of community benefit

Returns & Money-back guarantees
- Latin Americans do not believe in such claims
- Only 27% believe (urban areas of Brazil, Mexico, Venezuela)
- 49% of Americans believe in such promises

Endorsements
- Latin Americans are more likely to believe

Use of Adjectives
- More likely to believe in “new”, “improved”, “official”

Creative talent (awards in Cannes, etc)
How loyal are Latin Americans?

- Among Americans the ones that are not loyal choose from 3 brands
- Latin American best deal
- Longer menus of brands = opportunity to convert consumer
- Affluent people tend to be more loyal
- Consider known brands vs. generic brands

Different sectors - Different degree of Loyalty

- Beer market: local brand brews
- Soft drink: 48% loyalty - almost as U.S.
- Shampoos: 50% loyalty level
U.S. Strategy
- Expensive brand building
- Frequent product enhancements
- Sophisticated marketing techniques

Latin-American Strategy
- Price-sensitivity
- Select portfolio of products
- Pre-test price against other features
- Avid label readers – less trust in manufacturers
- Opportunity for customer care programs
  - Strengthen brand perception
  - Develop loyalty and solidify customer relationship
During periods of crisis spend more on clothes and cosmetic products for better appearance.
MAIN DIFFERENCES AMONG LATIN-AMERICANS

- Argentineans – the most Europeans
- Brazilians – do not consider themselves Hispanics
  - Greatest disparity between rich and poor
  - 73% poor people have TV
- Different social agendas
  - Crime, corruption, drugs, etc
- Sports:
  - Argentinean and Brazilians – Soccer
  - Venezuelan, Cubans, and Puerto Ricans – Baseball
  - GOLF – spreading fast (Trump investment)
  - Women and men like sports (Go with your client to a game)
Marriage
- 50% optimistic about the institution of family

Recreation
- 62% like to listen to music
- 55% like to watch TV (84% access to TV)
  - Like cable TV – upper class
  - Latin America is the fastest growing market for cable TV
- 1 out of 5 travel on weekends
- 1 out of 10 visited a new-car dealership
- 4 out of 10 shopped for clothes for themselves (5/10 US)
- Attitude towards comparison with competitor product (39%)

Consumers are ever more demanding
Major conflicts balancing family and work
No matter what you always need marketing services
  • PR is essential
  • Market research - Monitor the market
  • Study co-op marketing opportunities
    - Venezuela: high consumption of Black Label whisky and cosmetics

Define a business plan for international initiatives

Create an International Product Life Cycle Assessment
  • General acceptance (which markets)
  • Create chart for timing for demand (current and forecasts)
  • General modifications vs. core positive assessment

Choose the correct mix of products and prices for the market

Map the region and identify key opportunities
Select target and understand the prospective client

Address each country’s needs separately

- Traditional Events:
  - Can be used as center theme for campaigns
  - Carnival, independence, etc
- Trade shows
- Research
- Infrastructure
- Consumer trends and behavior

Plan at least 2 years ahead of time

Have some international folks in your U.S. international department
### Low Income Strategy

- Use local branding and positioning
- Elevate traditional values
- Imitate local competitors understanding the key points that provide them advantage. Use this learning in global level
- Adhere to local standards of quality
- Address all points-of-contact (new technologies and media)
- Adapt your product to local preferences
- Apply market strategies that work best to save money and understand consumers rational
- Relate to local people with specific role models (coming from low income and making money)

### High-Priced Products

- Pursue global brand positioning
- Use global image with local flavor
- Do not be afraid of showing international experiences & highlight your local and international power
- Keep your global standards of quality
- Address all points-of-contact (new technologies and media)
- Do not extensively change your product
- Brand is status – is a way to prove you belong to a certain class
- Key role models – Social active brand ambassadors
INSIGHTS - BUDGET & MANUFACTURING

Show me the money!
- Determine how much you can afford
- Try not segment the budget by country
- Forget about forecasts in dollar
- Create a 3 or 5 year marketing plan

Use regional hub for manufacturing
- Keep manufacturing separate from operations
- This is an investment act as a venture capitalist investor
- Give autonomy to maintain low cost infrastructure and still innovate
- Explore cross-border alliances and partnerships
Hire a good lawyer, a savvy banker, a knowledgeable accountant, and a seasoned transport specialist.

Understand regulations and procedures.

Utilize social marketing programs.

Think globally and act locally.

Never forget that you are the most valuable business asset you have. The human touch is even more precious in our age of advanced technology.
Strategy:

• Made use of Powerful U.S. Brand
• Invested High amounts of money
• Partnership with a media company based in region (Cisneros Group - Venezuelan) and regional bank (Banco Itau – Brazil)

Situation:

• Peak - in 2002 with 1.4 million paying users mostly in Argentina, Brazil, Mexico, Puerto Rico
• March 2005 – 400,000 subscribers
• Filed for bankruptcy – June 2005
• Loss – U.S. $ 1 billion
What went wrong?

• Underestimated competition?
• Getting in too late?
• No changes to US business model?
• Marketing Plan?
Case Study

- **Underestimated competition?**
  - Competitors were allies of content providers
    - UOL in Brazil – Folha de Sao Paulo - Big Newspapers
    - Company core product – information
    - Trouble with free Internet service providers – iG Brazil

- **Getting in too late?**
  - Average operating for 3.5 years already

- **No changes to US business model?**
  - Massive distribution of CDs with Internet setup software
    - Need for having a credit card when sign up via CD
    - **Latin America** – Lower use of plastic
**Message**
- The best because we’re the biggest
- AOL perceived as arrogant

**PR Strategy - Preparing enemies?**

**Pricing**
- Charged more than competitors

**Product Mix**
- Growth of Broadband usage in Latin America
- Late introduction of such product (2003)
- No lesson learned from U.S.

**Distribution**
- CD mailing costs - 30% to 40% higher in Latin America
- Response rates 50% of those in U.S.
<table>
<thead>
<tr>
<th>Audience / Point of Influence</th>
<th>Target</th>
<th>Discipline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distribution Efforts</td>
<td>Current Distribution Channel Study, Analysis of Distribution Options, Identification of Plan for bigger ROI</td>
<td>Cross-Promotional Marketing, Retail Sales Velocity Programs, Public Relations</td>
</tr>
<tr>
<td>Market Landscape &amp; Key Decision Makers</td>
<td>Market &amp; Competitors Analysis, Industry &amp; Consumer Trends, Identification of Key Players &amp; Experts</td>
<td>Community / Media Relations, Synergistic Partnerships</td>
</tr>
<tr>
<td>Sales Force Enhancement Program</td>
<td>Current Sales Operations, Ideal Sales Structure, Identification of Goals, Timing and Calendar Map</td>
<td>Incentive Programs, Sales Presentations, Cross-Promotional Marketing</td>
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<tr>
<td>Co-Marketing Partners</td>
<td>Complementary advertisers seeking market share amplification</td>
<td>Cross-Promotional Marketing</td>
</tr>
<tr>
<td>Internal Stakeholders</td>
<td>Company decision-makers who should be updated on program progress</td>
<td>Intranet Communications, Presentations, Newsletters</td>
</tr>
</tbody>
</table>
The San Jose Network™ is the largest group of marketing communications firms exclusively serving the U.S. and Latin-American markets.

MISSION: To accomplish unprecedented marketing results for our Clients

- **24 years of experience** at national and international levels.
- **Serving 21 countries** across the Americas with cSTRAm™, our centralized strategic model.
- 24 offices and **525 specialists** working to achieve your growth objectives.
- **Strategic and tactical competencies** aligned with a fully integrated marketing model.
The San Jose Network™ can help you accomplish unprecedented marketing results in Latin-American markets. To identify if there is a best fit between your needs and our experience please contact:

Tatiana Vieira  
Director, The San Jose Network™  

233 N. Michigan Avenue, 24th Floor  
Chicago, IL 60601  

Phone: (312) 565-6406  
E-mail: tvieira@sjadv.com

For more information also visit: www.thesanjosenetwork.com