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Factors affecting U.S. marketers' decisions on Latin America

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FACTORS AFFECTING U. S. MARKETERS' DECISIONS ON LATIN AMERICA

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by

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Approved:

Emanuel M. Last

Sincere Appreciation

goes to

Dr. E. M. Last

for His

Guidance and Indulgence

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CHAPTER I.

INTRODUCTION TO LATIN AMERICA

John Gunther's opening comment in his book titled Inside Latin America was, "The first thing to say about Latin America is that no such thing exists. What does exist are twenty independent and highly individual countries which differ from one another strikingly."[1]

There are many who support this school of thought; and it is true that the republics of Latin America vary drastically in size, wealth, culture, race, and population; and are presently involved in different stages of political, economic and social revolution.[2]

However, there are many points of common ground for these groups of countries.

It was through European exploration that all the Latin American countries were born, and it is from the Europeans that these republics received their cultural seeds. Still, cultural development and custom have been greatly influenced by the proximity of these countries to North America.[3]

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1. John Gunther, Inside Latin America, (New York: Harper & Brothers, First Edition, 1940), p. 1.

2. Robert A. Humphreys, The Evolution Of Modern Latin America, (New York and London, Oxford University Press, First American Edition, 1946), p. 2.

3. Ibid.

With the exception of Brazil, the countries have all won their independence by joint endeavor. Brazil is a further exception to the rule from language standpoint. Except for Portuguese-speaking Brazil and French-speaking Haiti, all the Latin American countries share a common language - Spanish. [4]

In the Caribbean section the colonization of the Spanish republics was based on the economic value of the Negro as a slave. In other sections, the Indian was taken into slavery. Even though slavery was abolished in most of these republics in the early 17th Century, the master-peon relationship continued in varying degrees until the present day. Basically there is still only a two-class society in Central and South America. [5]

Most of the wealth of these countries is controlled by a few powerful families, and even these families are often interrelated. In wide areas of South America today, the average landholding is about 2500 acres. [6]

So, it is true that there are many economic, political and social parallels between the republics of Latin America.

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4. Humphreys, op. cit.

5. Frank Montgomery Dunbaugh, Marketing In Latin America, (New York: Printers Ink Book Company, 1960), p.l.

6. Ibid. p.2.

GENERAL INFORMATION ON THE AREA

Even the term "Latin America" has been challenged as incorrect by many authors. Some, who consider ancestoral numbers to be the sole determining factor in afixing names, prefer to use "Indo-America" or"Spanish America". Still others, who associate the area with the one-time name of the peninsula made up by the countries of Spain and Portugal refer to the republics as "Hispanic-America". [7]

"Latin America", even though admittedly inadequate from a purist standpoint, is still the name which has come to be sanctioned by the most widespread usage as applying to that portion of the New World whose European backgrounds are not Anglo-Saxon. This area extends south from the Rio Grande River to Cape Horne and includes the Caribbean Islands and Bermuda. [8]

For purposes of this thesis, the area referred to as Latin America will be treated as one single block of economic and marketing potential. However, comparisons and factors of differences will be drawn between the individual republics.

The countries in this area, which for centuries have been boxed off, even from their counterparts, by natural

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7. Philip Leonard Green, Our Latin American Neighbors, (New York: Hastings House, 1941), p. 3.

8. Ibid.

barriers, today present one of the greatest marketing challenges and opportunities of our time.[9]

Latin America covers a land area of about 7,900,000 square miles and is stretched over a distance roughly three times the width of the United States. It is interesting to note that this area accounts for approximately 15.2% of the world's land.[10]

Population of this area is now estimated at over 190 million persons. This contrasts with a population ten years ago of 112 million. With its current annual growth rate of 2.4%, population is expected to reach over 270 million by 1965, and exceed 300 million by the early 1970s.[11]

Even though there is a definite surge in the population of Latin America, currently almost 75% of the land area is virtually unsettled.[12] The areas of high density population center around the power lines, air fields, railroads, rivers, highways, etc. Throughout the

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9. Dunbaugh, _op. cit._, p.4.

10. _Ibid_, p. 203.

11. J. Walter Thompson, _The Latin American Markets_, (New York: McGraw-Hill, First Edition, 1956), p. 3.

12. _Ibid_.

entire section there is a definite trend toward urbanization, though most of the countries are still overwhelmingly rural. [13]

From a natural resources standpoint most of these republics are blessed. To date much of this natural economic blessing is untapped. Some of the republics, such as Argentina, Chile, Brazil, Peru, Columbia, Venezuela, Mexico, and Cuba are far ahead of their neighbors in the utilization of their natural resources. [14]

Industry, which for years has manufactured only the essentials for everyday living, now has progressed beyond that stage in many countries. There are still no well-balanced industrial economies in Latin America, even though much progress has been made by several of the republics. [15]

The paramount deterrents of progress in Latin America today are, in many cases, those which are common to a number of the countries. [16]

There is a decided lack of communication and transportation means (which adversely effects distribution);

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13. Ibid.

14. Humphreys, op. cit., p. 8.

15. Ibid, p. 10.

16. Ibid.

and a shortage of fuel energy, technical training, and capital available at reasonable rates.[17] Within the next several years, by independent national effort, outside help from other countries, and corporate investment, it is reasonable to expect that many of these roadblocks will be removed.

PURPOSE OF THIS THESIS

This thesis considers the economic growth and opportunity of Latin America as it relates in general to the world market and in particular to the United States marketer. Effort is made to show the impact which this area will have on marketing decisions made by those who transact international business.

The nature of the Latin American marketing structure is discussed; and similar as well as dissimilar procedures are noted with respect to the normal manner of marketing in the United States.

Appraisal of the U. S. Government's attitude toward Latin America is made, and the most common reasons for business failure (by U. S. businesses operating in Latin America) are set forth.

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17. *Ibid.*

CHAPTER II

ECONOMIC GROWTH AND OPPORTUNITY IN LATIN AMERICA

Perhaps nowhere in the world today is there as much opportunity to gain economic reward proportionate to creative business endeavor, as there is in Latin America. [1]

Frank M. Dunbaugh, marketing authority on Latin America, dramatically illustrated its importance by saying, "Latin America's population is mushrooming at the highest rate of any major world area. Today urban populations are increasing from two to four times as fast as are the urban populations of the United States. New industries are being founded every month. Roads are being cut through jungles and mountains --- city skylines sprout --- new factories, crowded supermarkets, modern air terminals, luxury hotels --- are changing much of the Latin American landscape."

Private investments of U. S. corporations in Latin America have grown from four billion dollars to more than eight billion dollars in ten years. These direct investments are defined, by the Dept. of Commerce, as being the equity or ownership in the stock, surplus, long-term debt or other liabilities of the foreign enterprise. The manner of channeling these investments (through subsidiary or otherwise) is immaterial. Imports of Latin America have gone from a prewar 1½

1. Frank Montgomery Dunbaugh, Marketing In Latin America, (New York: Printers Ink Book Company, 1960), p. 6.

billion dollars yearly to over eight billion today ---- may be over ten billion by 1965." [2]

Latin America's economic activity has doubled in the last twenty years, to the point that the Gross National Product of the entire area is presently increasing at the annual rate of 5%. This rate of GNP increase, percentage-wise, is much higher than that of the United States. [3]

Consumption of goods and services of the Latin American republics today is at about 50 billion dollars per year, as compared with about 39.8 billion ten years ago. [4]

Production of approximately 60 billion dollars worth of marketable goods on an annual basis is already a reality. This means that the per capita average gross product for the entire area is about $320.00 per year. [5]

Trade with foreign countries in 1958, for the republics of Latin America, amounted to $16,506 million. This was made up of $8,139 million of exports and $8,367 million of imports. The $8,139 million export figure compares with 1947 exports of $5,900 million and the 1953 figure of $7,700 million.

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2. Ibid, cover page
3. Ibid, p. 6.
4. Ibid.
5. Ibid, p. 204

Relative to past years, the area's import volume has also increased considerably. In 1947 the same countries' imports were $5.9 billion, and in 1953 the amount was $6.5 billion. [6]

Before the last world war the total imports for these republics was approximately $1.5 billion per year, with Europe furnishing about 50% of the total. Now, of the total imports, the United States supplies about one half, with the European countries accounting for around 28%. Approximately 10% of the import trade in Latin America in 1953 was conducted between the various countries of Latin America. [7]

The increase of economic prosperity in most Latin American countries is evidenced by the tremendous increase in its consumption of luxury items such as radios, motor vehicles and telephones.

It would seem to the entrepreneur that proportionate opportunity follows economic growth. This growth and potential has shown itself in Latin America, and far-sighted efficient businessmen have, and will continue, to benefit from it.

GROWTH OF U. S. INVESTMENT IN LATIN AMERICA

United States companies have been investing capital

6. *Ibid.*

7. *Ibid.*

in Latin America for many years. Even prior to 1929, Latin American investments accounted for almost one-half of the United States overseas business ventures. Investment in this area has been rising steadily, except for the years of the U. S. depression, to the point that a total of $8 billion had been placed in investments by 1957. During 1958 and 1959 there was an increase of over 12% in the investments in this region, to the point that U. S. companies had approximately $9 billion worth of Latin American investments. [8]

The flow of capital into this area from the U. S. often fluctuates rather sharply. The 1946 to 1955 annual average of new investment was slightly over $200 million, while the peak year of 1957 took the capital flow to approximately $1.2 billion. [9]

According to a Department of Commerce survey, the flow of capital into Latin America has for a number of years risen steadily. [10] Graph number 1 shows capital flow to other world areas for selected years.

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8. Sam Pizer & Frederick Cutler, U. S. Investments In Foreign Countries, Office of Business Economics of the U. S. Department of Commerce, (Washington: for release on December 12, 1960), p. 7.

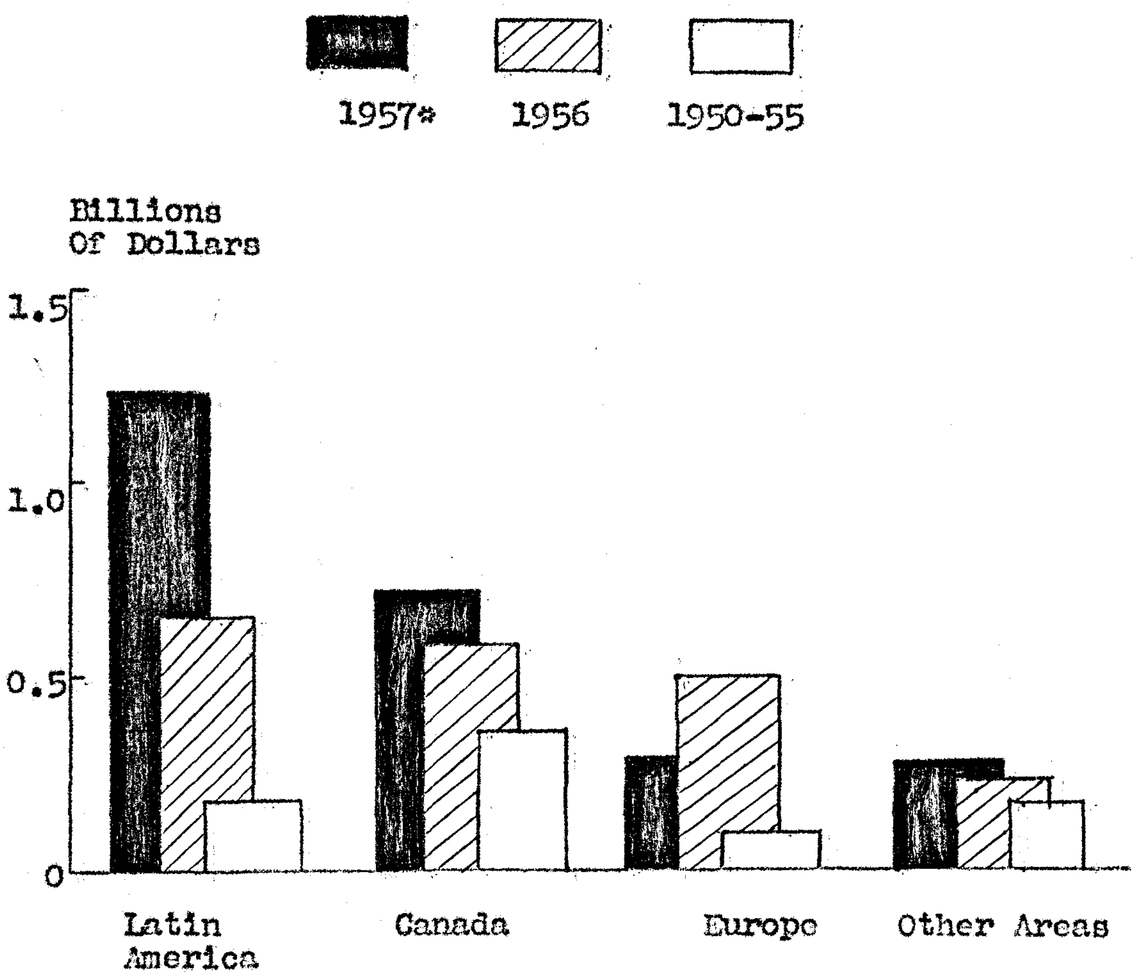
9. Ibid.

10. Ibid.

GRAPH NUMBER 1

CAPITAL FLOWS OF U. S. OVERSEAS INVESTMENT

(By Areas, for Selected Years)



* Data not revised and therefore not completely comparable with other data.

Source: U. S. Department of Commerce, Office of Business Economics, Balance of Payments Division.

In periods of resource development on a concentrated basis, large amounts of investment is placed by the parent company in a relatively short period of time. Such was the case, generally speaking, in 1952, 1956, and 1957. [11]

During other periods, such as 1954 and the latter part of 1959, activity of the type which requires large sums is reduced. [12]

Reasons such as these account for the fact that the Latin American investment picture has "peaks" and "valleys".

There have been other fluctuations of capital investments from a book value standpoint, because of adjustments in the exchange rate for some of the currencies.

For example, the 1957 book value of direct investments in Latin America was about $3.5 billion larger than the value tabulated in 1950. Venezuela accounted for about one-third of the increase, and substantial gains were also registered in Mexico, Peru, and Cuba. Brazil received an amount of capital second only to Venezuela, but values in Brazil were deeply cut by the depreciation of the cruzeiro. Investments in Argentina were similarly effected. [13] It should be noted that, while depreciation of currencies causes book values in terms of dollars to decline, there is no corresponding loss of productive capacity to the host country.

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11. Ibid.

12. Ibid.

13. Ibid. p. 7.

TYPES OF INVESTMENTS

Petroleum consumption, on a worldwide basis, has experienced a tremendous upswing since World War II.[14] To help meet this demand, U.S. companies have incurred heavy expenditures in Latin America, particularly in Venezuela. To build and maintain the refineries and distribution of petroleum, investment in this category, for the years 1950 through 1957, amounted to $1.7 billion. Since this period, investment in petroleum has been considerably reduced, except for that going into Argentina.[15]

The extent of manufacturing investment is calculated by the volume of capital which flows from the U.S. to Latin America plus the reinvestment of corporate earnings in the various countries. For the period 1950-57 this manufacturing investment amounted to $0.9 billion. About 40% of this amount went into Brazil. Colombia, Mexico, Cuba and Venezuela were the other leaders in receipt of manufacturing investment.[16]

The years prior to 1950 witnessed substantial outlay of capital for mining in Latin America. In addition to the cost of extracting the raw material of an area, mining incurs substantial expense in building and developing power,

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14. Ibid, pp7-8.

15. Ibid, p. 8.

16. Ibid.

refineries, transportation, harbors, and community facilities. Historically, mining money has been spent to bring out the copper reserves of Chile and Peru, and iron ore reserves in Venezuela. More recently, considerable expansion has taken place in Jamaica and Surinam because of bauxite deposits. [17]

In certain industries, such as public utilities and agriculture, investment has been relatively stagnant, principally because of the built-in danger of political seizures and interventions. Public utility investment in Latin America, by U. S. businesses, has stayed fairly constant at about $1 billion for the years 1950 through 1957. [18]

Activity in trade and distribution establishments has been quite different from the public utilities and agriculture fields. Sharp increase in the location of modern retailing facilities, utilizing the marketing methods of U. S. stores, has taken place since 1950. Investment of this type reached a record $600 million by the end of 1957. [19]

Financial type investments, such as banks, holding companies, and insurance companies are only moderately increased above the 1950 figure.

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17. Ibid.

18. Ibid.

19. Ibid.

EFFECTS OF THESE INVESTMENTS

Sales of goods and services have greatly benefited from these investments. The dollar value of the total sales of goods and services by U.S. direct-investment companies in Latin America nears $8 billion. This does not include the sales of trading companies. A breakdown of total sales indicates that $1.7 billion was exported to the United States, $1.6 billion exported to other countries (including inter-area trading), and over $4½ billion was sold on the domestic markets of the country of origin.[20]

This figure on total sales takes on new significance when it is noted that it amounts to roughly one-tenth of the gross product for the entire area. In some countries the percentage is even higher.

Wages and salaries paid by direct-investment U.S. companies, in 1957 amounted to approximately $1½ billion, with the manufacturing and petroleum industries each accounting for about one-third of the total.[21]

As a result of these investments, employment was provided for about one million persons. Approximately 10% of this number was managerial, professional or technical.

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20. Ibid.

21. Ibid, p. 9.

United States citizens who were relocated to the area accounted for only about 2% of the total employment, and 20% of the category of specialists. [22]

Operating expenditures of these companies amounted to $7 billion in 1957, excluding material purchase by trading companies and depreciation charges. Purchase of material and cost of services amounted to $3.8 billion of the figure. The total includes over $400 million worth of miscellaneous imports from the United States. Additionally, imports of capital equipment from the United States was at least $400 million. [23]

Tax payment by this category of companies was $1.1 billion in 1957. As a whole this money appears to account for about 20% of total government revenue for the entire Latin American region. [24]

Earnings of these enterprises came to $1.8 billion before taxes, and reflected a net earning of $1.2. Petroleum generated roughly 60% of these net earnings. Manufacturing and mining each accounted for about 10%. [25]

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22. *Ibid.*

23. *Ibid.*

24. *Ibid.*

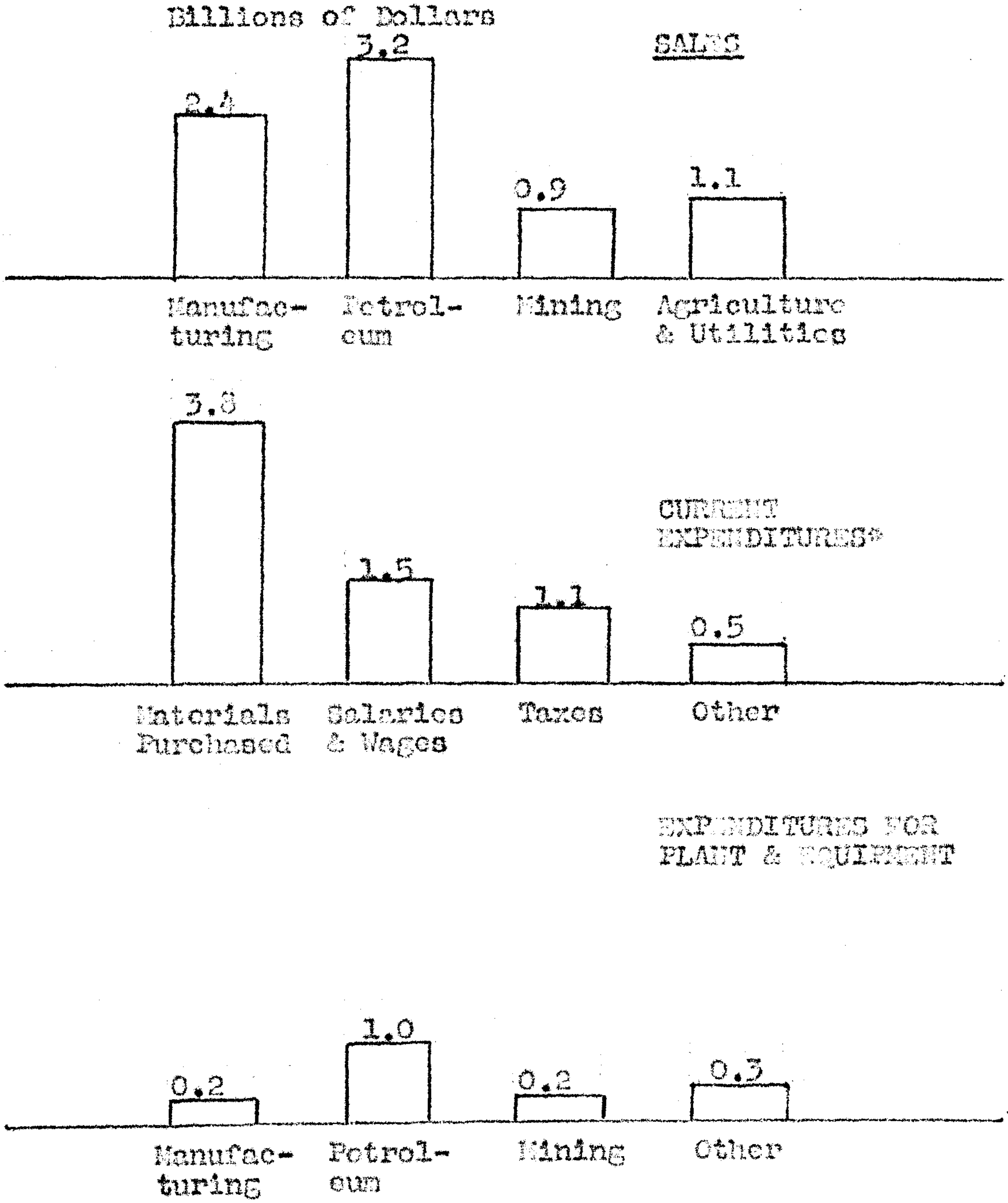
25. *Ibid.*

Sales by industry, current expenditures by classification, and expenditures for plant and equipment by industries give a picture of the direct investments of U.S. companies in Latin America. Graph number 2 illustrates performance of direct investment in Latin America by industries for the year 1957.

DIRECT INVESTMENTS IN LATIN AMERICA

SALES AND CURRENT AND CAPITAL EXPENDITURES

1957



*Excludes goods purchased by trading companies and non-operating payments by insurance companies.

Source: U. S. Department of Commerce, Office of Business Economics, Balance of Payments Division.

GROWTH OF UNITED STATE'S INVESTMENTS UNIVERSALLY

Concurrent with an increase of national production capacity and purchasing power, both here and abroad in recent years, U. S. industrial concerns have had a dramatic upsurge of overseas investment, not only in Latin America but also in other world areas.[26]

Generally, there has been a steady universal economic improvement since World War II, except for short-lived world area set-backs.

This, principally, accounts for the fact that the book value of U. S. direct private foreign investments reached $25 billion by the end on 1957 (more than twice the amount of 1950). By the beginning of 1960 the total universal investment figure overseas stood at approximately $30 billion.[27]

Even though the total book value stands at just over $30 billion, total assets utilized in this overseas endeavor by U. S. companies (not including financial concerns) amounted to $42 billion by the end of 1957. Gross fixed assets totaled $32 billion before deducting depreciation reserves of about $11½ billion. Of this amount, thirty percent was employed in

26. Ibid, p. 1.

27. Ibid, p. 3.

manufacturing, 40% in petroleum, and about 10% each in utilities and mining. Current and miscellaneous assets, according to the office of Business Economics, Department of Commerce, were reported at $21 billion in 1957, with over 40% of this amount in manufacturing. [28]

Aggregate sales of direct-investment enterprises in manufacturing, petroleum, and mineral and agricultural commodities came to about $32 billion in 1957. [29] This does not include intercorporate petroleum sales, but does reflect sales between U.S. companies doing business overseas.

Of these total sales, over $3½ billion was exported to the United States, and more then $5 billion entered international trade. [30]

Aggregate production outlays abroad plus taxes paid to foreign countries by direct investment U.S. companies came to $30 billion in 1957, exclusive of goods purchased by trading companies, intercorporate petroleum sales, imports from the United States and depreciation charges. [31] This total included service industries as well as producers of commodities.

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28. <u>Ibid.</u>

29. <u>Ibid.</u>

30. <u>Ibid.</u>

31. <u>Ibid</u>, p.4.

Wages and salaries paid as a result of these investments reached almost $7 billion in 1957. For the same year purchases of materials and services were $17 billion, direct and indirect taxes about $4½ billion and other costs $1.7 billion. [32] Over one-half the wages and salaries originated in the manufacturing operations, while petroleum concerns accounted for 60% of the taxes paid abroad. The companies also added to foreign incomes through large capital outlays and payments of interest and dividends. [33]

Overall net earnings of the direct-investment enterprises in 1957 aggregated nearly $4 billion, of which some $ 400 million accrued to foreign equity participants. [34]

On an area basis, Latin America accounted for about 30% of total net earnings, Canada for 20%, and Europe and the Middle East for about 15% each. [35]

There are some 10,000 direct-investment enterprises of U.S. origin scattered about the world. Over 3,000 of these affiliates are in Latin America. Canada and Europe each have about 2,700. [36]

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32. Ibid.
33. Ibid.
34. Ibid. p.5.
35. Ibid.
36. Ibid. p.6.

Of the total direct investment, nearly three-quarters is invested in enterprises in which the United States company's equity ownership is 95% or more. About 20% of the investment is in the ownership range of 50% to 95%, and in only about 5% of the cases does the ownership by U. S. companies represent equity participation of less than 50%. In general, the Department of Commerce figures show that there is a tendency for newer enterprises to have a somewhat higher proportion of foreign equity participation. [37]

A comparison of investment by United States' companies is shown, on an area basis, by selected years.

TABLE NUMBER 1

CUMULATIVE VALUE OF DIRECT INVESTMENTS

By Areas, 1929 - 1959

(Billions of Dollars: Book Values)

	1929	1946	1950	1957	1959
Total	7.5	7.2	11.8	25.2	29.7
AREAS					
Canada	2.0	2.5	3.6	8.6	10.2
Latin America[1]	3.5	3.1	4.6	8.1	9.0
Europe	1.4	1.0	1.7	4.1	5.3
Middle East and Africa	.1	.2	1.0	1.8	2.0
Other areas	.5	.4	.9	2.6	3.2

1. Including European dependencies.

Source: U. S. Department of Commerce, Office of Business Economics

37. Ibid.

CHAPTER III

NATURE OF THE MARKET

Table 2 gives the breakdown of political units which comprise the area referred to as the Latin American market.

TABLE 2

BREAKDOWN OF LATIN AMERICAN POLITICAL UNITS

A. The Caribbean Islands and Bermuda Group

- Bermuda, U. K.
- British West Indies
  - Bahama Islands
  - Barbados
  - Jamaica
  - Cayman Islands
  - Turks and Caicos Islands
  - Leeward Islands
    - Antigua
    - Montserrat
    - St. Cristopher-Nevis
    - Virgin, U. K.
  - Trinidad and Tobago
  - Windward Islands
    - Dominica
    - Grenada
    - St. Lucia
    - St. Vincent
- Cuba
- Dominican Republic
- French West Indies
    - Gaudeloupe and dependencies
    - Martinique
- Haiti
- Netherlands Antilles
  - Leeward Islands
    - St. Maarten (St. Martin)
    - St. Eustatius
    - Saba
  - Windward Islands
    - St. Curacao
    - Aruba
    - Bonaire
- Puerto Rico, U.S.
- Virgin Islands, U.S.

TABLE 2 (continued)

B. Central America and Mexico

British Honduras
Costa Rica
El Salvador
Guatemala
Honduras
Mexico
Nicaragua
Panama, Including the Canal Zone

C. South America

Argentina
Bolivia
Brazil
British Guiana
Chile
Colombia
Ecuador
French Guiana
Paraguay
Peru
Surinam
Uruguay
Venezuela

Source: J. Walter Thompson Company, New York City

The Caribbean Islands and Bermuda group account for about 9.87% of the total Latin American population and about 1.15% of the total land area. [1]

Central America and Mexico have about 21.81% of the total population and about 12.25% of the land area. [2]

The South American group contains about 68.32% of the total population and about 86.7% of the total land area. [3]

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1. J. Walter Thompson, The Latin American Markets, (New York, McGraw-Hill, First Edition, 1956), p. 1.

2. Ibid.

3. Ibid.

CHARACTERISTICS OF THE LATIN AMERICAN MARKET

The techniques of marketing in Latin America are not as far advanced as they are in North America. Many marketing methods and tools which are of long standing here are completely new to our southern neighbors. Specifically, market research work, stereotype sales approaches within individual companies, big sales meetings, intense advertising programs, clear-cut sales area break-downs, and the like are virtually untried in certain parts of the Latin American market. [4]

The shift from an economy wholly dependent on agriculture to a more industrial type is a characteristic of the general area. This indicates a maturing of business, and is changing the shape of the economy. [5] This evolution which is developing social as well as economic customs is probably the most important single characteristic in the eyes of the potential marketer. [6]

Dynamic is the work which best describes the regional market when note is taken of such things as the income, purchasing power and birth rates increases. Peasants, whose forefathers had practically no purchasing power now find

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4. Frank Montgomery Dunbaugh, Marketing In Latin America, (New York: Printers Ink Book Company, 1960), p. 7.

5. Ibid, pp 8 - 17.

6. Ibid.

that they have discretionary income. In some countries, such as Argentina, Brazil, Venezuela, Mexico, and Puerto Rico it is very usual for well-planned and well-operated businesses to show annual profits on investments of between 12 percent and 15 percent. [7]

Despite wide variations of geography, language and culture, a certain unified identity of the various countries exists in Latin America. These units, which are no longer isolated, are relatively homogeneous in marketing nature.

There is a vast difference in marketing in urban areas as opposed to rural areas. The metropolitan residents, in general, are adopting many of the buying habits which we in the United States have cultivated. Supermarkets and large department stores are commonplace in the larger towns. Today in downtown cities such as Lima, Caracas, and Bogota, an average of one store in every block is being remodeled. [8] In contrast, most of the smaller rural settlements have few, if any, shops which carry quality merchandise. Most of the buying in these rural sections is in open air markets. [9]

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7. *Ibid.*

8. *Ibid.*

9. Thompson, *op. cit.*, p. 1.

Nationalistic policies in some cases form trade barriers, while in others they act as stimulants to trade. To consider all of the many legal limitations, reasons for their existence and their ramifications is a study in itself. It is noted, however, that they have a very direct bearing on the marketing picture for the section involved.

Entry into the Latin American market by European and Japanese manufacturers constantly challenge the United States firms which do business in Latin America. [10]

HOW ARE THE LATIN AMERICAN MARKETS CHANGING?

Many students of Latin American marketing agree that changes in conditions are coming almost daily in many of the regions. Trends are detected almost everywhere, and many experts agree that there are about six significant trends in the Latin American economy which directly effect an approach to it . [11]

a. A movement toward more self-reliance and toward industrialization.

National pride in many countries is causing the birth of many small town factories. It is this localized expansion that is placing purchasing power in the hands of many who heretofore have presented no potential market.

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10. Dunbaugh, op. cit.

11. Ibid, p.19 - 33.

At its present rate of industrial expansion, Latin America will probably double its industrial output by 1975; even earlier in such fields as petroleum and natural gas usage, hydroelectricity production, and thermoelectricity production. Steel production has doubled in the past ten years, and is expected to again double in three years when integrated mills are constructed. Today there is a total of 63 steel mills in five of the Latin American countries.

During the last decade, when gross industrial production in the United States increased 27%, that of Latin America advanced by 63%, according to H. W. Balgooyen, executive vice president of the American and Foreign Power Company. [12]

The trend toward industrialization isprobably the most important contributor to the changing marketing situation in Latin America.

b. A growing population.

As compared with an overall 16% increase in U. S. population during the last decade, the Latin American population increased by 24%. There is a probability that this rate of growth will continue. [13]

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12. Ibid, p. 20, citing H. W. Balgooyen.

13. Ibid, p. 21.

The steady rise in population indicates that there will be a constantly rising need for goods and services, proportionately.

c. A trend toward better education, better living conditions, and greater income for a larger segment of the population.

The achievement of these goals occupies an important position in the minds of political leaders in most every Latin American government.

Educational institutions are being built in many towns. Often these schools are the most impressive new building in the town.

Much improvement is being made in housing, both government financed and privately built, in most every Latin American country. This in itself creates many new and challenging markets for the investor.

d. A trend toward new stability, due to modern managerial, marketing, and money techniques.

There seems to be a definite move on the part of the large landholding families to divide the power of administration of their properties with a new and rising executive class.

The public, in general, is furnishing much of its own money for capital expansion.

Stock exchanges are playing a more important role in the life of Latin Americans, now that more personal income is available.

As the Latins embrace more of the United States manner of business operation, they will more readily react to proven methods of marketing. Then, and only then, would it seem that the techniques of marketing research, distribution, warehousing and transportation, sales training, advertising, sales promotion, and advanced retailing can be capitalized upon.

Professor Peter Drucker, of New York University's Graduate School of Business stated, "First, in every 'underdeveloped' country I know of, marketing is the most underdeveloped -- or the least developed part of the economy, if only because of the strong, pervasive prejudice against the 'middleman'.

"As a result, these countries are stunted by inability to make effective use of the little they have. Marketing might by itself go far toward changing the entire economic tone of the existing system -- without any change in methods of production, distribution of population or of income." [14]

It is this modern concept of marketing which must be sold to the Latin Americans if the United States is going to perpetuate and expand its share of the business world immediately south of us.

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14. Ibid, p. 25, citing Peter Drucker

e. A trend toward uniting Latin American nations into common markets.

Even though the feeling of self-dependence is high in the republics, there is also a common front among the countries in an effort to eliminate barriers, tariffs, and other trade restrictions within certain circles of countries. This, of course, is a move toward economic solidarity among smaller countries which could profit by consolidation into larger trading units.[15]

This movement was spurred by the success, to date, of the European common market.

The West Indies Federation is an example of this consolidation. Ten former British colonies, comprising a land area of about 8,000 square miles, and a population of almost 3,000,000 have formed this block.[16]

There is also a common market treaty of the Central American sections of Guatemala, Honduras, Nicaragua, Costa Rica, and El Salvador. This group will be more tightly bound in its trading when the new Pan American highway makes trading between these countries possible without ships or planes.

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15. United Nations Department of Economic Affairs, "Study Of Inter-Latin-American-Trade", prepared by the Secretariat of the Economic Commission for Latin America, 1957, pp 41 - 59.

16. Dunbaugh, *op. cit.*, p. 27.

Regional groups in South America are in the process of forming, and there are proponents of a Caribbean Marketing group.

More encompassing in this consolidation field is an effort, made under the auspices of the U. N. Economic Commission for Latin America, which would create one huge marketing block for all the Latin American countries.

Prominent Latin Americans have met in Santiago, Chile and later in Mexico City to draft details of this plan.

Major points of the proposal are that: (a). The market is to be open to all Latin American countries; (b). It is to cover all goods,products and items created in the area, custom duties on which are to be reduced gradually; (c). Less-advanced countries will get special consideration; (d). Eventually Latin America will have one tariff vis-a-vis the rest of the world; (e). Specialization of industries within Latin America is to result from the free play of the economic forces only; (f). Multilateral payments will be made within the regional market; (g). When a member nation is in a tight financial spot it may impose temporary import restrictions; (h). Agricultural imports may be restricted if farmers of a particular nation are too badly dislocated by free trade (i). Measures must be taken to prevent unfair competition.[17]

Additional studies in the field of common markets have

17. Ibid, p. 29.

been undertaken by organizations such as the Rockefeller Brothers Fund. This group has attempted to form meetings of U. S., Canadian, and Latin American businessmen in an effort to formulate plans to achieve the desirable results from common market arrangements.

f. A trend toward a world-wide viewpoint on the part of American and other companies, regarding marketing operations outside of their native country.

Indications are that corporate heads are no longer looking at the Latin American markets in terms of what quick profit, in the form of dollars, can be received. Instead, the move seems to be that the corporations are willing to reinvest the money of the concerned country in the perspective of long-term opportunities.

In outlining the foregoing trends, no evaluation or relative worth was placed on them. This is because their importance will vary with the industry or country involved.

In considering the changes which are taking place in Latin America, there are certain underlying trends which should be carefully weighed; possibly in the light of being unfavorable factors to marketing.[18]

Illiteracy and lack of technical skills, even though improving, still present major marketing obstacles, particularly in the field of printed advertising media.[19]

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18. Thompson, _op. cit._, pp 3 - 6.

19. _Ibid._

Agricultural production is lagging behind the increase in population. This may present marketing opportunity for some, while proving to be a deterrent to others. [20]

Transportation costs, on the average, are considerably higher than in the U. S. In some cases, costs are as much as ten times that of the rates here. Unless there is immediate improvement in this field, it may seriously retard development and marketing techniques. [21]

Fuel imports, as a percentage of total imports is on the rise. They accounted for 8.6% in 1950, 10.6% in 1952, and 12.5% in 1953. Fuels are limited and inaccessible. [22]

Export lines are too narrow and are not developing evenly. Too few products are offered, and these tend to be in very competitive lines on the world market. [23] A broader base of export goods is needed.

Imports also are irregular. This is primarily attributable to the disposition and regulations of the various countries. [24]

The point to remember as being paramount is that the Latin American market is anything but stagnant. It is ever-changing. To successfully compete in it, a firm must be long-term in plans, but flexible enough to adjust to periodic changes and market fluctuations.

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20. *Ibid.*

21. *Ibid.*

22. *Ibid.*

23. *Ibid.*

24. *Ibid.*

WHAT THE U. S. INVESTOR SHOULD DETERMINE BEFORE MAKING A DECISION ON ENTERING THE LATIN AMERICAN MARKET.

The specific mechanics of marketing a given good or service in Latin America will vary somewhat with the nature of the industry, good, or service. There are, however, criteria which should be considered before reaching a decision on such marketing matters. Certain steps, such as those which follow, should be taken in assimilating information on the potential market.

A. Evaluate the considered market area as a whole, from the standpoint of disposable income, wages, average family income, retail sales, currency and exchange, imports vs. local production, climate and topography, and the attitude of government bureaus.

Look at the area as it exists as a market for your particular good or service. This would be done in much the same manner as a progressive marketing organization would view its situation in the United States, from a competitive standpoint. Among the items to be scrutinized would be:

a. The consumption of similar goods by volume and value, over a period of several years.

b. The trends in local production of similar goods or services.

c. The potential sales over the forthcoming several years, by best estimate.

d. A description of competitive products or services, including prices, plus an approximation of the share of the market held by other companies.

e. The prevailing trade discounts, advertising allowances, etc.

f. The price structure at retail and wholesale levels.

g. The distribution channels of competitors, caliber of their sales forces, and the wages paid to salesmen and middlemen.

h. The import regulations which prevail.

i. The availability of dollar exchange, and any discounts which might be present.

j. The packaging requirements, and documentation needed.

k. The availability and cost of transportation, and warehousing needed and present.

l. The credit situation of the area, potential customers, and your personal situation as a foreign businessman.

m. The number of wholesale and retail outlets available.

n. The consumers' preferences among competitive products or services.

o. The placement of responsibility for advertising, sales promotion, service and warehousing, as it is divided between manufacturers, distributors and retailers.

p. The advertising media which is presently and possibly available, with the rates that apply and other related data.

q. The attitudes and regulations placed by the individual governments.

B. Consider your company's product or service in relation to competitors' offerings in the market involved. To do this it will have to be determined whether or not your product or service has any recognizable advantages such as longer life, better styling, lower upkeep, lower price, easier handling, etc. Determine whether or not your product or service has any advantageous U. S. identity. Find out if your product or service is one which will appeal and be within grasp of a lower income group; and thereby benefit from a growing market. Finally, determine whether or not you can price so as to compete with other more entrenched companies.

b. Determine whether there is sufficient company executive talent which can be located, and can cooperate with Latin American distributors and dealers. Latin American business ventures cannot flourish with just an occasional visit by company officials from a home operation. Contact must be constant and cultivated.

c. Consider whether or not the company can plan, work out and keep going a long-term advertising and sales promotion campaign in a strange new territory.

This may be necessary if the product or service is not immediately accepted.

d. Ascertain whether or not the company can produce sufficient quantity, and possibly make changes to adapt the product or service to local tastes.

e. Establish whether or not transportation and warehousing can be made available, and whether or not the company can wait a reasonable time for payment.

f. Realize that government trade regulations may hamper operations, and that abrupt fluctuations in exchange may present roadblocks.

The preceeding factors of consideration to be evaluated before making a decision as to whether or not to market in a particular area are those which can pretty much be isolated, weighed, and grouped together for a net decision by some predesignated formula. Most of them are of the nature that they can be assigned a mathematical value or score, relative to their effect on the total picture. However, there is one factor which overlaps into every item affecting Latin American marketing decisions. This is the sociological factor. This all-important unknown weighs heavily on product or service sales potential in Latin America; and it is for this reason that the marketing man should exercise caution and should seek out the advice of experienced businessmen who presently have, or have had, operations in Latin America, before making a firm decision to enter the market.

CHAPTER IV

MARKETING IN LATIN AMERICA

MARKET RESEARCH

Even though intense competition for business in Latin America has helped bring about tremendous strides in market research in the last several years, there are still many obstacles in establishing a good market research program in these countries.

The high cost of collecting data on a market is sometimes prohibitive, even to larger companies. This high cost is incurred primarily because the information-gathering crews are somewhat immobile. The crews, after being trained in the accumulating of data, cannot move freely from one country or area and re-apply their training, as is done in the United States.[1] Therefore, many companies which are already established in a country will rely heavily on statistics compiled by their sales department. This method has shortcomings in that salesmen, by nature seem to be lacking as statisticians, and often find it hard to be objective in such matters as market research.[2]

Statistics on Latin American marketing have to be weighed very carefully. It must be remembered that industrialization is changing the sales picture dramatically at a very fast rate. Outdated data can be very misleading. Even though consumption in certain regions may indicate a considerable

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1. Frank Montgomery Dunbaugh, Marketing In Latin America, (New York: Printers Ink Book Company, 1960), p. 67.

2. *Ibid*, p. 68

market, one must realize that trade in less developed areas is still transacted extensively by barter.[3]

Market research work is hampered by the fact that local dealers are somewhat suspicious of information-gathering, and consider it to be a form of spying.

About the only general advice which can be offered in the matter of market research is that anyone undertaking such a program in Latin America should keep the specific research objectives well-defined and always in view. Even the best-trained research interviewers, under more ideal circumstances, can bring out information as it pertains to only a few specified research problems.

DISTRIBUTION ORGANIZATION

If, after considering the various ramifications of a preliminary study, one decides to enter the Latin American market, the next logical step is to determine the best approach to the area.

The distribution system for Latin marketing men distributing in Latin America is similar to that which the U. S. marketer utilized in this country, from the standpoint of channels. But for the U. S. producer who wants to sell in Latin America the situation becomes more complicated.

Before considering the setting up of a marketing organization *in* Latin America, an enterprise must first consider organization in its parent company. The organization must

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3. *Ibid*, p. 71.

gear its internal administration to handle territories outside the United States. There are basically five types of organizational arrangements whereby the administration of overseas operations can be fitted into a parent organization.[4]

a. A built-in export department.

Basically, this type department functions by utilizing the services of present employees in a domestic company. The only added employees are those specifically assigned to the cultivation of business in the export market. An organization such as this makes for economy of operation, but its success or failure often hinges on the abilities of an export manager to woo business from the foreign market, and then enlist assistance from department heads within the domestic organization, in order to accomplish the job of supplying the export market.

b. Separate export department.

In this set-up, the export personnel devote their efforts completely to overseas marketing, and work as a separate unit of the company. This system logically makes for more enthusiasm and teamwork because of its autonomy.

c. Export Sales Company

When sales reach a sufficiently high figure, it is probably well to incorporate a separate sales company to handle export sales. A subsidiary such as this

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4. Ibid, pp 34 - 35

generally buys from the parent company, and operates primarily as a middleman establishment. The performance of such a sales organization can readily be evaluated by its profit performance, if standards of comparison are realistic.

d. Latin American Division of an Export Sales Company

This is a regional division of a world-wide distribution organization. The regional operation normally comes under the jurisdiction of a more-encompassing export sales arm of the parent company.

e. Latin American Sales Export Company

For revenue reasons and tax concessions, it is sometimes feasible to incorporate a separate Latin American company to handle sales. Special consideration is often given to companies which qualify for coverage under the Western Hemisphere Trade Corporation agreement.[5]

In establishing the internal organization for overseas marketing, the agency which best lends itself to the most appropriate distribution of the good or service should be utilized.

CHANNELS OF DISTRIBUTION

The principal marketing channels used by U. S. companies doing business in Latin America are manufacturers' agents, distributors and retail dealers. In addition to these

5. United Nations Department of Economic Affairs, "Study Of Inter-Latin-American Trade", prepared by the Secretariat of the Economic Commission for Latin America, 1957, pp 6 - 10.

are sales branches, branch factories, licensees, subsidiary sales companies, and subsidiary manufacturing companies.[6]

In setting the channel of distribution for a given good or service, a company must consider the nature of the item to be marketed, the potential it has, present business involved, the relative importance of the Latin American market to the present markets of the company, and the laws and business practices which exist in the involved areas.

A brief description of these various channels should better identify them:

a. Latin American Manufacturers' Representatives

This person, who receives an exclusive franchise normally (although he frequently represents several supposedly non-competing U. S. Manufacturing companies), is an important link in the selling chain. Firms which are just beginning to market in Latin America are likely to utilize the services of this specialist. His function is to submit orders to the U. S. manufacturer for shipment directly to the buyer. The representative works on a straight commission basis, and all credit arrangements are normally made between the manufacturer and the buyer. This type of middleman is sometimes called an exclusive agent, and the actual practice of his job varies. Some representatives who claim to be in this category will actually take possession of the manufacturer's goods, perform some storage functions,

6. Dunbaugh, op. cit., pp 37 -41.

and thereby make themselves wholesalers as well as representatives. Other middlemen of this agent type operate as brokers, especially in the raw materials fields. Some go so far as to extend credit to buyers and perform delivery, and in effect make themselves factors.

b. Latin American Distributors

As a company's business grows and as its familiarity with the area is sufficient, the company may wish to conduct its business through direct associations. In such a case the business may progress to dealing directly with the distributors in the individual country, just as it does in the United States. These distributors take possession of merchandise for resale, either to dealers, or in some instances, directly to customers. They often have exclusive territories, in which case they handle much of the promotion and servicing in their area. This is parallel to U. S. distributors.

c. Latin American Retailers

Usually the American manufacturer will have little contact with the Latin American retailer, except in a market research way. There are exceptions and times when it is well to consider the direct association at the retail level. This is particularly true when the good can be sold through catalogs, or the utilization of circulars; or when service is no factor. By direct retailer contact, middleman savings may often be affected.

Other exception to the normal occurs when a U. S. firm establishes a chain of retail outlets in Latin America; or when the domestic retailer, to whom the manufacturer may sell, again resells to the smaller retailers in the area.

d. Latin American Branch Sales Offices

Latin American sales offices normally replace distributors, and therefore operate essentially in the same manner as the distributor. They handle sales and promotion in the area. On the staff of a branch sales office usually would be found such persons as technicians, repairmen, and salesmen. Except for the expense of operation, a branch sales office (because of its close association with the parent company) offers many advantages for the manufacturing firm.

e. Latin American Branch Factories.

Branch factories or branch assembly plants are often brought about by tariffs, import restrictions, availability of cheaper labor, and cheaper raw materials. Of course, branch factories can be taken a step further, to the point at which one or more factories exist in the country where business is conducted. Only the individual situation of the country and the product, from a cost standpoint, would furnish a basis for decision on this subject.

f. Latin American Subsidiary Sales Corporations

These are separate companies, incorporated under the laws of the country in which they operate. Capital stock may be wholly or partially owned by the parent U. S. company, except in countries which have laws to the contrary. Mexico has statutes which, even though mainly ignored by the current president, call for 51% Mexican ownership of such companies. [7]

The normal Latin American subsidiary sales company functions much like a branch office, except that it is more autonomous.

g. Latin American Subsidiary Manufacturing Corporations.

In the case of such a manufacturing operation, control is very much decentralized to the point where the subsidiary operation fairly well controls its complete functioning. The parent company normally receives product samples on a regular basis, to test for quality and to make certain that products, which may be produced sub-standard, are not sold under its brand names.

h. Latin American Licensees

This form of marketing in Latin America has become very popular of late. This is an arrangement whereby an existing Latin American firm is contracted with to produce (to the U. S. company's standards), and to distribute goods.

If a company is otherwise equipped to enter the Latin American market, and can reasonably establish distribution

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7. Ibid, p. 41.

through one of the preceding channels, it should do so only after assuming the proper frame of investment mind.

Latin America as a market potential should be viewed only in terms of the long-range. It should not be considered as a place to rid a company of out-of-style surplus items. This long-range view pays off. Latins, who are very likely to be buying for the first time, may stick to a particular product for a lifetime if it is favorable in its first impression. And since family ties are strong in Latin America, it is very possible that one member of a family, who may become sold on a product, will definitely influence other family members.

In the selection of associates in foreign countries it is very important that a thorough check be made of the potential affiliate, his financial condition, his know-how, his experience, and his social and political status.

Organization-wise, good communication and proper balance of authority between the U. S. officers and the branch operation is vital. Any plan should be definite and understandable. It may be either free rein or closely controlled in operation, but either policy should be spelled out and understood completely by all parties involved.

Before entering the foreign market, it is necessary that the organization be set up to render service, even before the first sale is made. This is a matter of public relations and proper start.

BUSINESS PROCEDURES

Within the subject of business procedures, a Latin

American marketing aspirant should familiarize himself with such things as conditions of credit, governmental trade restrictions, pricing, shipping, packing, labelling, trademarks, tax and legal questions; all of which will enter into the business operation.

Credit, by and large, can be handled in a business-like manner, just as it is handled in the United States.[8] Satisfactory answers to such questions as the length of operation of a company, the management make-up, its reputation, its practice of payment of bills, its net worth, and its accounts receivable, will establish the company as a good credit risk. Information in categories such as these can be obtained from sources such as the firm itself, Dun and Bradstreet, U. S. banks, foreign banks, the U. S. Bureau of Foreign and Domestic Commerce, the Foreign Credit Interchange Bureau of the National Association of Credit Men, The Market Guide to Latin America, and the foreign trade bureaus of the Chambers of Commerce, just to mention a few.

Careful evaluation of governmental trade restrictions and policies is essential before entering any Latin American market. Such restrictions include import tariffs, import licences, exchange controls, import quotas, and price controls.

The Exporters' Encyclopedia is a source of definite instructions regarding trade restrictions, as are the U. S. Department of Commerce, Latin American consulates and the various foreign trade associations.

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8. Ibid, p. 125.

Two conflicting theories exist in pricing for sale in Latin America. One is that such sales are plus sales and, as such, should reflect lower prices. The other is that marketing in Latin America entails greater risk, smaller output, more governmental curbs and more business "headaches"; and therefore should require an increase in price. Regardless of which theory is adopted, the company considering entry into the market should determine its definite pricing policy prior to entry.

Transportation of goods to and in Latin America presents some complication. One particular problem area is that of documentation. The exporter shipping by water must usually present to the ship-owner the following documents in a Latin American transaction: (a) Bill of lading, negotiable or non-negotiable (10 to 25 copies), (b) Insurance policy or certificate of insurance, (c) Consular invoice, visaed by the consul of the Latin American country to which goods are consigned, (d) Commercial invoice, (e) Certificate of origin, (f) Packing list, (g) Certificate of purity of composition, (h) Export permit or export license, (i) Import license issued by the Latin American country to which goods are consigned, and (j) Evidence of consignee's ability to secure exchange.

Shipment by air transportation requires somewhat less documentation.

Labelling in a proper manner is equally important. Some Latin American countries impose fines if shipping cases are not properly and consecutively numbered. Regulations vary so much that printed instructions should be obtained from each country involved. It is best to communicate with the consul of the country of destination, as to the requirements for the marking of weights and the procedure for shipping.

One of the first steps to be taken after deciding to market in any Latin American country is to apply for registration of one's trademark. It is well to remember that what belongs to one company in the United States may belong to some other company in a different country.

Legal and tax questions should be studied painstakingly during the early planning period, instead of waiting until after the decision to market has been made. Foreign trade and legal experts are the best source of advice in these matters, because of the complicated nature of this field.

ADVERTISING

To properly reach the customer in Latin America a company must use the means available in the most advantageous manner. It means that the proven principles of advertising must be adapted to the Latins. There are, however, definite peculiarities of advertising in Latin America, which must be taken into consideration.

In Latin America the advertiser cannot pick his average coverage from statistical publications. There is no counterpart of such things as the Standard Rate and Data Service; and the equivalents of such things as Starch readership surveys, Nielsen, Pulse, Trendex, or other television and radio ratings are still information of the future. Advertising associations in the large markets are working toward audited data, but much progress will have to be made before these statistics will be advanced as far as they are in the United States. [9]

Marketers in Latin America have a choice of advertising media such as the inter-American magazines, newspapers, radio, television, direct mail, outdoor advertising, transportation ads, and motion picture trailers. Each has its own particular appeal and advantages. A few significant facts have bearing on the choice of media for advertising.

Radio is a vital selling force in most of the Latin American countries, mainly because it reaches the smaller towns and sells to those who cannot read. Inefficient programming and over-commercialization on some stations render them less effective, in some cases. [10]

Television is fast coming into its own in Latin America. Percentage-wise, the number of television sets is increasing two and one-half time as fast in Latin America as in the United States. [11] One advantage of Latin American television advertising, as compared to United States television advertising, is the fact that talent fees and sponsorship costs are considerably lower there. This, however, loses its impact when one considers that fewer numbers of persons are reached by this medium in Latin America, at least for the time being.

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9. *Ibid.*, p. 85.

10. *Ibid.*, p. 94.

11. *Ibid.*, p. 95.

Motion picture trailers are as much accepted in Latin America as are television commercials in the United States.

Certain limitations of advertising should be taken into consideration in any attempt to reach the Latin American buyer. Among these are such things as the following. [12]

a. There is a decided scarcity of marketing facts (as we know them) about the Latin American marketing region.

b. In newspaper and magazine advertising, one must contend with a wide variety of formats, page sizes and columns which are offered.

c. There is normally a limited circulation of printed media, particularily of such things as domestic magazines and trade papers.

d. Relatively few circulations are audited or verified by an objective organization; consequently, publishers claims are often considerably inflated.

e. There exists no standard or one-price rate in either printed or broadcasting media. Prices are often set by the "horse-trading" method.

f. There is often a lack of firm scheduling or a presence of carelessness in carrying out schedules.

g. There have been compiled very few facts on reader, listener, or viewer characteristics.

h. In the printed media there is a lack of variety and quality type faces; and equipment is quite often

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12. J. Walter Thompson, The Latin American Markets, (New York: McGraw-Hill, First Edition, 1956), p. 191.

obsolete or mechanically inadequate.

i. There is a high illiteracy rate in many Latin American countries; ranging from about 15% of those ten years of age or over in Argentina to almost 80% in Bolivia.[13] Therefore motion pictures are a particularly effective medium, when compared to printed type advertisement.

The placing of advertising overseas will normally be done by an agency operating in the concerned country. In the selection of an advertising agency, thorough examination should be made. Consideration should be given to the agency's success with other clients, its reputation, the caliber of trained and experienced personnel, and the length of association with present clients, among other things. The agency's creative ability and knowledge of the market should also be ascertained as completely as possible. The marketer should determine whether or not (and if so how many) clients have been lost by the agency, and why. The financial condition of the company with which one may enter into an advertising agreement should be scrutinized. It should be ascertained for how much territory a particular agency can accept an account. Evaluation should be made of the nature of the agreement the wants to set forth in the handling of the account. All of these questions and problems should be resolved before entering into a working agreement with any agency.

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13. <u>Ibid</u>.

LEGAL ASPECTS OF DOING BUSINESS IN LATIN AMERICA

A U. S. firm wishing to do business in Latin America may normally use one of the three following methods, from a legal organization standpoint:[14]

a. It may register itself to conduct the business in the country involved.

b. A subsidiary company may be organized under the laws of the country involved.

c. It may organize a U. S. subsidiary and register it to engage in business in the country under consideration.

Generally, it is not advisable to register a large U. S. corporation in a foreign country, because of the possibility of subjecting the company's entire assets to the jurisdiction of the courts and the tax authorities of the foreign country.

If a subsidiary arrangement is set up, there are normally four business organization alternatives;[15]

a. Sociedad Colectiva. This is a simple partnership or association of two or more partners, whose liability is unlimited.

b. Sociedad en Comandita. This is a limited partnership arrangement or an association of partners, some of whom have managerial rights and unlimited liability; while others have liability limited to the amount of

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14. Dunbaugh, op. cit., p. 138.

15. Ibid, p. 139.

their contribution to the capitalization of the partnership, with no rights of management.

c. Sociedad de Responsabilidad Limitada. This is an arrangement of limited liability, with the company taking on some of the structures of both a corporation and a partnership, with liability for all partners limited to the amount contributed to the partnership.

d. Sociedad Anonima. This is the civil law counterpart of the corporation.

In order to become a legal entity in a Latin American country, certain legal formalities must be satisfied.

The organization generally is brought about by means of a public instrument drawn up by a notary and duly registered and published.[16]

The organization of a general or limited partnership may be brought about by means of either a public or private instrument, but that of corporations must be publicized. In both cases, the instrument must be registered.[17]

All partnership agreements must contain: the names and addresses of the partners, the firm value of the partnership, the name of the managing partner who may use the firm's name, the amount contributed by each partner, and the duration of the partnership. In some countries additional information may

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16. Ibid.

17. Ibid.

be required.[13]

Before attempting to establish a working arrangement in any foreign country it is vital, from a good business standpoint, that the services of a competent and experienced legal adviser be enlisted, since the entire area of legality of overseas operation is of paramount importance.

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13. Ibid, p. 140.

CHAPTER V

THE CRITICAL POSITION OF LATIN AMERICA IN THE WORLD COMMUNITY

Not only does Latin America have the problems of improving its economic status, but into its role are built the complications of a continent caught in the middle of a relentless East-West cold war. Almost daily we are cognizant of the manifestations of these problems.

Mr. William L. Ryan, Associated Press news analyst, recently wrote, "Few thinking persons in Latin America today doubt that the long, hard and possibly decisive battle for the future of the continent has begun". [1]

It seems obvious, from frequent happenings that the United States is faced with an extremely important and difficult task of improving relations with this area. This task is aggravated by anti-American (United States) groups which have made in-roads as a result of a vast fraud perpetrated upon the masses in Latin America. These masses, which naturally seek to improve their station in life, are vulnerable to anti-Yankeeism for psychological reasons, such as a feeling of envy, inferiority, or the urge to kick an affluent neighbor.

In its efforts to improve the Latin American attitude, Mr. Ryan feels that the United States is faced with three formidable enemies; the alliance of communism with the

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1. William L. Ryan, "Time Runs Out In Latin America", Associated Press release, "Richmond Times-Dispatch", April, 1961.

followers of such men as Fidel Castro, the resistance to change from the super-rich, and, finally, time.[2] Emphasis is placed on "time" because a large number of Latins feel that overnight miracles may come from leftist regimentation.

American businesses in Latin America are aware of considerable criticism of the democratic process, because of their proximity to the people of the area. And because of their location, such business are subjected to unfavorable acts and accusations. Latins, who seem quick to attach labels, are encouraged by anti-Americans to place an unpleasant connotation on the word "capitalism". American business is charged with the moral responsibility of anticipating and countering these accusations; and, from indications, have taken steps in this direction.

One unfavorable claim is that United States firms in Latin America do not have a sufficient number of nationals in company executive positions. There seems to be a detectible trend in the direction of training more natives for the responsible positions, and toward the assimilation of U. S. firms into local economies. It is through efforts such as these that the attitude of Latins toward the United States and its companies will be improved.

There is an ever-increasing concern on the part of the United States Government that Latin America will lean away

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2. Ibid.

or become alienated from our democratic cause.

The measure of this concern is the number of governmental and independent studies and plans which have been undertaken to insure a harmonious political, social and business relationship with our southern neighbors.

One significant study group of this type was headed by Dr. Milton S. Eisenhower, [3]

His report, which was publicized in early 1959, included the following recommendations:

a. That the Organization of American States work sincerely to foster and develop a better understanding of one another.

b. That the governments of the Latin American republics assume, along with the United States, a large part of the understanding in their own country.

c. That the information facilities of the United States Department of State be increased and co-operate with the United States National Commission On Latin American Affairs to introduce more (and more comprehensive) mass media in the republics.

d. That there be an increase in the exchange of leadership, students, and other exchanges of persons.

e. That the United States Information Agency

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3. Milton S. Eisenhower, "Help For Latin America------ A Good Neighbor", Reported in the "U. S. News and World Report", Vol 46, pp 102 - 112, January 16, 1959.

become more active in Latin America.

f. That the proposed Inter-American Development Institute exercise leadership in the field of co-ordinating loans and planning in the utilization of existing credit facilities.

g. That lending institutions of the United States notify that they are ready to finance sound, well-timed loans.

h. That the United States should co-operate with the leaders of the Latin American countries to create an Inter-America bank which would co-ordinate its operation closely with those of the World Bank.

i. That the President urge the northern group of South America and the southern group of South America to create a common regional market in those areas.

j. That a technical co-operation program for Latin America be placed under the direct supervision of the ambassador in each country.

k. That there be established a Council on Inter-American Affairs, whose task would be to advise with the Secretary of State on all matters of hemispheric importance.

l. That we have an "abraso" (embrace) for democratic leaders of foreign countries, while maintaining a formal handshake for dictators.

m. That we refrain from granting special recognition to Latin American dictators.

The present political administration of the United States places a premium on the cultivation of Latin American relations. Many high officials express the feeling that it is vital that the United States develop, with those republics of Latin America, a sound program which will assure the maintenance of a common front against communism.

On April 20, 1961, President Kennedy, in an address to the American Society of Newspaper Editors, expressed this feeling for the need of mutual effort by saying, "The evidence is clear ----- and the hour is late. We and our Latin friends will have to face the fact that we cannot postpone any longer the real issue of survival of freedom in this hemisphere itself. On that issue, unlike perhaps some others, there can be no middle ground. Together we must build a hemisphere where freedom can flourish; and where any free nation under outside attack can be assured that all our resources stand ready to respond to a request for assistance". [4]

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4. John F. Kennedy, comments made in a speech before the American Society of Newspaper Editors, Reported by the Associated Press in an article appearing in "The Richmond Times-Dispatch", April 20, 1961.

CHAPTER VI

REASONS WHY UNITED STATES' BUSINESSES FAIL WHEN THEY ENTER THE LATIN AMERICAN MARKET

Those seeking to conduct business in Latin America can well profit from the mistakes of others who have preceded them in ventures. There seems to be no agreed set of "do's" and "don'ts" in the operation of a business in Latin America, even though considerable research has been conducted on the subject by firms such as the A. C. Nielsen Company, and by groups such as the American Marketing Association.

There are however, items whose improper handling contribute to the failure of businesses, and these seem to form a pattern of reoccurrence in statistics compiled on the subject.[1]

Significant among these items are the following:

a. The failure of companies to adapt the product or service to the Latin American market. Companies have a tendency to adopt the theory that what is good for one market is good for another, when this is not necessarily so. Companies fail to carefully view, through the assumed perspective of the Latin American consumer, such things as design, size, packaging, color, cost and other vital characteristics.

b. The failure to gauge the underlying impact of custom, tradition, and racial and religious differences. Many marketing companies are geared to reach a customer who is by cultivated nature ever-changing, and is not so directly bound

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1. In discussion with persons directly concerned with Latin American marketing these points have been brought out.

by historical preferences. The discounting of these strong inborn Latin differences has been the downfall of some marketing attempts.

c. The failure to exploit markets in proper sequence. This results when enterprises choose their entry into markets incorrectly. Entry into a large segment of Latin America rather than into one country, into a complete country instead of one or several locations in that country, and into countries with completely different market tendencies (rather than similarities) with existing profitable operations can mean the difference between success or failure in an endeavor.

d. The failure to enter potentially profitable markets because of personal repugnance toward political institutions. Much can be said for the placing of importance on the political nature of a potential market; but from a mundane and purely economic viewpoint, much reward has been forfeited because of reservations of this type. It may well be that entry into market areas which are not completely and desirably settled into what the United States considers to be a tenable political situation, would render not only economic gains, but also may go far toward the gaining of some political allies.

e. The failure to build a strong management of nationals. Because of the high feeling of national pride and the sensitivity of Latins toward domination from outside, it seems to be a cardinal mistake for a company to open itself to possible accusation that its operation is run "by U. S. personnel for the benefit of U. S. personnel". It seems only economically feasible, whenever possible, to depend extensively on regional natives for the operation of long-term business. [1]

f. The failure to appreciate differences in connotation of words, and to understand differences in advertising. This problem of a communication barrier can be blammed in part on the normal unfamiliarity with foreign languages in the case of many U. S. citizens. This problem is further complicated by differences in mechanics and availability of advertising media.

g. Failure to achieve a domestic personality. When companies do not establish their products as those in sympathy with the nationals involved, company progress is restricted. [2]

h. The failure to understand and weigh correctly the relative importance of the various types of retailers in the market. Incorrect assumptions are often made on this subject.

i. The failure to grasp the consumers' attitudes on the relationship between price and quality. This problem, not peculiar to only the Latin markets, is of utmost importance. Now that people living immediately south of the United

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1. Committee For Economic Development, "Cooperation for Progress In Latin America", (New York), April, 1961, p. 43.

2. Ibid.

States find themselves in an economic situation such that they can make purchases, it is very important that the relationship between price and quality be instilled in the minds of these potential customers. This relationship should be equally understood by those who market.

j. The failure to pay attention to the various government regulations involved. It must be remembered, without fail, that statutes vary radically from country to country in Latin America, and for this reason companies without competent legal counsel often find themselves in unfavorable situations.

k. Failure to insulate the business from arbitrary acts of government. Some enterprises, in a short-sided manner, consider that the future relationship of the company with the government is guaranteed to remain operable. This is not necessarily so, and the fact must be considered before decisions on such things as the construction of local factories, large capital outlays, licensing, etc. are made.

l. The failure to invest as a long-term proposition. Companies which go into Latin America in hopes of establishing a disposal area, or solely for realization of short-term gains do not normally fair exceptionally well. As in most countries, a business in a Latin American republic must be cultivated, and effective cultivation is not a short-term proposition.

m. The failure to provide for an adequate flow of information both to and from the parent company. Communication takes on an even more important light when it is between a parent company and its overseas operation(s). In such areas as company and branch operation objectives, policy, quality standards, packaging, production, pricing, budgeting, accounting, and marketing, it is of paramount importance for the survival and profitability of the operation that constant and complete communication be maintained.

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