Strategic Management in Global Value Chains – A Latin American Perspective

Abstract

Through the mechanism of the global value chain (GVC), companies can locate their activities in the chain(s), evaluate their competitive strengths and weaknesses, and design strategies to optimize their positioning. Aside from natural resource companies and public utilities, most of the largest Latin American firms are diversified groups that demonstrate flexibility to move among businesses and strong relationships with key clients. The analysis here uses five examples of these firms to illustrate how the global value chain enables a firm to develop strategy for expansion along the chain, extension into other countries, and defense against foreign entrants.

Key words: global value chains; multilatinas; Latin America; regional strategy

Strategic Management in Global Value Chains –
A Latin American Perspective

Introduction

A key element of competition in the 21st century is the proliferation of networks of companies that carry out parts of a supply chain or value-added chain. Just as IBM contracted with Intel for supplying processor chips and with Microsoft to design and build the operating system of its PC in the last century, so today do thousands of large and small firms use alliance partners to carry out parts of their value chains. The network may involve large companies, such as Exxon or Apple, or it may be just among small and medium-sized companies – but alliances to share costs and risks are very common today. The various suppliers/participants in the value-added chain may each compete in independent markets for their products against other competitors, at the same time as they contribute to the value-added chain of a particular product.

This analysis uses a framework for thinking about companies as participants in global value chains (GVCs) or networks, in which they buy inputs from suppliers, carry out some production/assembly/processing and sell their products and/or services to customers (consumers or other companies). The goal for the company's management is first to identify where the company is in a global value chain, and then decide on how to build a strategy by expanding into additional activities or places and also defending its position in the existing configuration of value chain participants.

The strategy may even involve the re-arrangement of the chain to better suit the firm's view of an optimal value chain in the particular business sector/activity. When amazon.com perceived a value chain for store-less delivery of books and other products to consumers, it had to invent a new variant of the value chain, cutting out the personal visits to stores and replacing them with on-line views of the products and low-cost, rapid delivery of these products from centralized warehouses. When emerging market entrepreneurs perceived a demand for rapid and inexpensive telephone service, they had to implement virtual (i.e., wireless) phone networks and service to replace the traditional slow, expensive fixed-line telephone service that was the only choice before that. (e.g., http://news.cnet.com/Emerging-markets-fuel-cell-phone-growth/2100-1039_3-6159491.html and http://ijoc.org/index.php/ijoc/article/viewFile/216/179).

So, the approach of this analysis is to place a firm into its overall value chain, identifying suppliers, customers, competitors, facilitators, etc., and then to evaluate strategies based on this network of interacting participants. The paper analyzes five multinational Latin American companies in this framework, including: FEMSA, Grupo Cisneros, Itaúsa, Grupo Economico Antioqueño, and Grupo Luksic. The paper presents the global value chain strategy as a mechanism for designing responses to the challenges of competition in Latin America and further abroad for these companies.

The Global Value Chain Conceptual Framework

The idea of global value chains and the analysis of company strategy from this perspective has appeared in the literature over the past half-century, most frequently in the period after the boom in internet and information and communications technologies and the broad economic opening around the world in the 1990s. As companies have discovered opportunities to improve their competitiveness by contracting out for activities ranging from production to distribution to back-office services, the idea of the global value chain – or global production network, or the global factory[1] -- has gained greater attention. The phenomenon can be seen as a re-structuring of countries' comparative advantages, as companies carve out pieces of business activity and locate them in different countries according to cost, scale economies, availability of resources (including technology) and other factors.

The value chains are important to economic development efforts, since countries find themselves competing to attract business activities such as back-office processing (especially in India today), assembly of manufactured goods (particularly the 'maquila' activity in Mexico and many types of clothing, electronics and other assembly in China and east Asia), and central operation of key logistical activities such as shipping (concentrating in places such as Shanghai, Singapore, Dubai, and Rotterdam) and financial services (concentrating in London and New York, but also now in Hong Kong, Singapore and Dubai)

Dispersed value chain activity has been discussed in the literature at least since after World War II. Hoover (1948) used location theory to explore the optimal distribution of production, processing, distribution and sales activities in an industry across national borders. The analyses in fact came more from the economics literature than the management or strategy literature of that time.

Buckley and Casson (1976) in their internalization theory, looked at the value chain as a set of activities that could be controlled by a single firm, which would then carry out those activities where it was more efficient than external providers – and use external providers where they were more efficient. The emphasis was on control of the overall value chain (whether it crossed borders or not). This perspective helps to understand the decisionmaking process for a [multinational] firm, since each activity in the value chain can be examined in detail to decide whether to do it in-house (e.g., manufacturing, distribution) or contract out to a third party.

Dunning (1981) looking at international production with his eclectic theory, arguing that company-specific and country-specific characteristics defined the company's competitive advantages and weaknesses, while internalization was the mechanism through which decisions could be made as to which activities to carry out in-house or contracted out, and in what country(ies). Both Dunning and Buckley & Casson, by using internalization, focused precisely on the decision to work with an alliance partner or carry out a business activity in-house.

Porter (1985) with his theory of *Competitive Advantage*, focused on the capabilities held by a firm that enable it to successfully compete relative to rivals in a particular business. The analysis is not at all international, but it does focus on the [global] value chain, calling for the company to explore each activity from obtaining inputs to final sales and determine whether it should be carried out in the firm or contracted out. Porter additionally emphasized the *functions* needed at each stage of the value chain, such as risk management and human resource management, and that the firm also needs to carry out internally or contract out.

Grosse (1989) focusing on Latin America, looked at largely the same value chain structure as Porter, arguing that companies should examine their business activities and either carry them out within the firm or contract out with third parties – with an explicit emphasis on choices of locations for the activities in different countries. That is, the firm needs to take stock of its competitive advantages and then determine a strategy that utilizes them, always looking for efficient third parties to supply parts of the value chain (including elements of each value chain stage) wherever those providers may be located.

In the 2000s interest again increased in global value chains, starting perhaps with economists such as Gereffi (1999, 2005), Hummels et al. (2001), and Coe et al. (2005), who looked at the implications of the disaggregation of international production for economic development of the countries involved. Those economists were more focused on the issue of economic development and its relation to value chains, rather than company management in this context.

Buckley (2011) talked about the 'global factory', in which products are made from inputs acquired in various countries and production possibly split across countries as well. The factory idea, more than implying manufacturing alone, implies that one (focal) firm needs to function as coordinator of the global value chain that includes multiple firms. The coordinator firm then has to decide which activities to carry out internally and which to externalize, as well as where to have the activities carried out globally. Buckley emphasizes the fact that decisions have to be revisited frequently, since cost, market, and regulatory conditions in the global economy change so rapidly today.

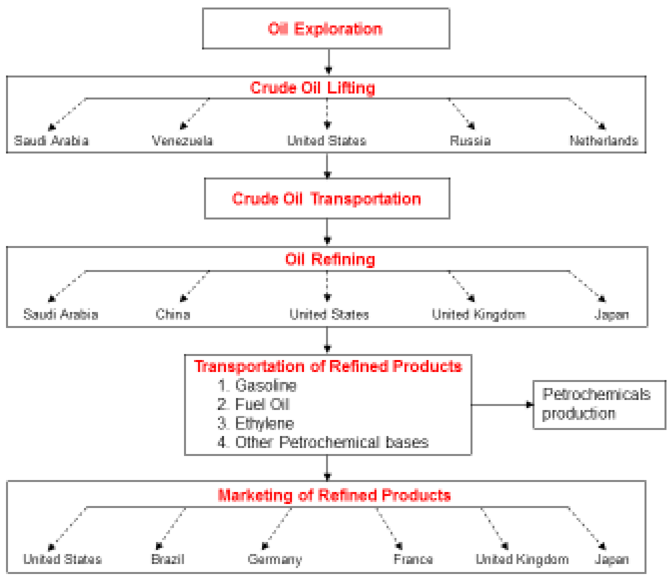
Grosse (2015) looked particularly at the fit of emerging markets into global value chains, from production activities to downstream marketing of products from Triad countries. His approach was managerial, focusing on a company's identification of its existing location in a global value chain(s), and then its alternatives for expanding into other activities and locations, reconfiguring value chains, etc. The empirical evidence used in this analysis always involved either an emerging market firm going overseas or a Triad firm entering an emerging market(s).

UNCTAD's *World Investment Report* (2013) focused on Global Value Chains with an emphasis on how they are changing the distribution of economic activities across countries. As one might expect from an international organization, the discussion focuses on explanation of how MNEs operate the global value chains, and what public policy does and can do to help channel the value chains toward social ends. And UNCTAD in particular is interested in how the GVCs affect international flows of both trade and foreign direct investment.

The logic underlying the global value chain is in the analysis of a company's production process, from purchasing inputs that it needs to carry out its business activity to delivering products/services to customers. If the production process is spread out in this way, then the analyst can discover where the company is weak, where it is strong, and where outside providers can offer support to achieve the company's goals of producing and delivering its wares. And further the company can consider its own business within the context of a global, end-to-end sequence of companies adding value from the initial raw materials to final goods/services sale to ultimate clients. Figure 1 depicts a global value chain, in this case for the oil industry.

[Figure 1 goes here. Oil industry global value chain.]

THE OIL INDUSTRY GLOBAL VALUE CHAIN



In this value chain, a single, integrated oil company such as EXXON (as stylized in Figure 1) or Aramco may carry out activity at all stages of the process. At the same time there are thousands of companies around the world that carry out specific parts of the value chain process, from exploring for oil to operating gasoline (petrol) stations. Even EXXON, with its extensive vertical integration through the total process, does contract with outside firms to provide some exploration service, some transportation of crude and downstream products, some refining, and almost all of its branded gasoline station ownership and operation.

This perspective is descriptive, since it shows how companies constitute one or more value chains such as the petroleum example above. It is also prescriptive, since it identifies the activities that a firm may choose to undertake or not within the GVC. An individual company can evaluate the costs and benefits of expanding into additional activities in the value chain, as well as consider the extension of its activities to other countries. The value maximizing company will expand its activities and its geographic spread to the point where marginal costs just equal marginal revenues – though the alternatives are quite numerous as the firm considers additional locations, possible alliance partners, the make vs buy decision, etc.

The global value chain can be analyzed in minute detail, to look for ways to reduce costs and risks, much the way that Frederick Taylor's (1911) time and motion studies enabled managers of individual companies to look for ways to reduce their costs of operations.

The attractiveness of this GVC framework comes from its ability to encompass a large range of strategic considerations, from who to buy inputs from, to whether or not the firm should produce its own products/services or contract out to someone else for that activity, to where the firm should look for cross-border expansion. The weakness of this framework is that it does not identify the specific competitive advantages that enable the firm to compete in the first place, those advantages on which a strategy should be built. By disaggregating the value chain as in this framework, a given firm can be compared with competitors to identify the areas where it has competitive advantage and where it does not.

In the existing literature, Latin American firms are discovered to have several kinds of general competitive advantages relative to firms from the Triad countries. They include the ability to achieve low-cost production (Khanna and Palepu 2006; Santiso 2008), operating efficient local distribution networks (Grosse 2015), and managing portfolios of businesses (Khanna and Palepu 1997)[2]. While it is outside of the present scope to pursue those and other potential areas of competitive advantage, Table 1 notes the propensity of the largest Latin American companies to operate multi-industry portfolios of businesses in comparison with the largest companies from other large countries.

[Table 1 goes here]

Table 1 – Number of Sectors in Which Largest Companies Operate

Country/ company*	Brazil	China	India	Russia	South Africa	Mexico	USA	Germany	Japan
1	Petrobras 3	China Petroleum & Chemical 6	IOC 6	Gazprom 5	SASOL 5	América Móvil/ Grupo Carso 11	Wal-Mart Stores 1	Volkswagen Group 3	Toyota Motor 1
2	Banco 2 Bradesco	Petro China 4	Reliance Industries Ltd. 6	Lukoil 5	MTN GROUP 4	Femsa 3	Exxon Mobil 3	E.ON 5	JX Holdings 9
3	Vale 3	China Mobile 1	BPCL 3	Rosneft 4	THE BIDVEST GROUP 5	ALFA 5	Chevron 4	Daimler 2	Nippon Telegraph & Tel 2
4	Odebrecht 11	Industrial & Commercial Bank of China 1	HPCL 4	TNK-BP Holding 4	ESKOM 9	Cemex 3	Phillips 66 4	Allianz 2	Hitachi 11
5	JBS Friboi 6	Agricultural Bank of China 2	SBI 1	Sberbank 2	SHOPRITE HOLDINGS 4	Grupo Bimbo 2	Apple 4	BASF 5	Nissan Motor 1
6	Ultrapar 4	Bank of China 2	Essar Oil 3	Sistema 15	SANLAM 3	Grupo Mexico 3	Berkshire Hathaway 12	Siemens 6	Honda Motor 2
7	Gerdau 1	China Construction Bank 1	ONGC 3	Surgutneftegas 3	VODACOM 2 GROUP	Soriana 2	General Motors 1	BMW Group 2	Panasonic 4
8	Eletrobras 1	China Life Insurance 1	MRPL 3	Transneft 1	IMPERIAL HOLDINGS 5	GFNorte 3	General Electric 15	Munich Re 4	Sony 5
9	Embraer 1	China Telecom 2	NTPC 5	IDGC Holding 3	PICK'N PAY STORES HOLDINGS 9	Industrias Peñoles (part of BAL)	Valero Energy 2	Metro Group 3	Toshiba 3
10	Itausa 9	Baoshan Iron & Steel 8	Larsen 5	Inter Rao 1	STEINHOFF INTL HOLDINGS 6	Grupo Modelo (part of AB Inbev)	Ford Motor 1	Deutsche Telekom 4	Toyota Tsusho 3
11	Ipiranga 3	China Communications Construction 4	Tata Group 5	VTB Bank 1	MASSMART HOLDINGS 4	Grupo Carso (see Amer Movil)	Fannie Mae 1	Deutsche Post 4	Mitsubishi Corp 13
12	CPFL Energia 1	Lenovo Group 3	BHEL 4	X5 Retail Group 1	Edcon 4	Grupo Televisa 4	AT&T 3	RWE Group 5	Tokyo Electric Power 1
13	Telemar (Oi) 1	China United Telecommunications 1	GAIL 5	Magnit 1	Impala Platinum 2	Grupo Elektra 4 (part of Salinas)	McKesson 2	Deutsche Bank 3	Aeon 1
14	Banco do Brasil 2	CNOOC 2	Bharti Airtel 1	Severstal 5	SAPPI 3	El Puerto de Liverpool 2	CVS Caremark 3	Bayer 3	Mitsui & Co 2
15	BRF Foods 2	Ping An Insurance 2	SAIL 2	Tatneft 3	Barloworld 3	Mexichem 3	Hewlett-Packard 3	ThyssenKrupp Group 5	Mitsubishi UFJ Financial 1
16	Braskem 1	Foxconn Intl Holdings 1	Chennai Petro 4	Norilsk Nickel 2	DE BEERS CONSOLIDATE D MINES 5	Arca Continental 3	Verizon Communications 3	Continental 2	Seven & I Holdings 4
17	Pao de Acucar 1	Minmetals Development 3	PNB 1	Novolipetsk Steel 3	ANGLOGOLD ASHANTI 2	Grupo Inbursa (part of Carso)	United Health Group 2	Deutsche Lufthansa 5	Dai-ichi Life Insurance 1
18	Votorantim 7	PICC Property & Casualty 1	M&M 11	Mechel 6	TRANSNET 5	Grupo Comercial Chedraui 2	JP Morgan Chase 2	Talanx 3	Fujitsu 3
19	CSN 4	China Resources 3	ICICI Bank 2	RusHydro 1	SPAR GROUP 6	Mabe 2	Cardinal Health 2	Celesio 3	Marubeni 1
20	Cemig 1	China Shenhua Energy 3	Infosys 2	UC Rusal 3	AVENG 7	Grupo BAL 7	IBM 4	Commerzbank 2	Idemitsu Kosan 8
21	Cosan 4	Aluminum Corp. of China 2	JSW Steel 2	Rostelecom 3	TELKOM 3	CFE 2	Costco Wholesale 1	Fresenius 4	Itochu 2
22	Marfrig 4	TPV Technology 1	Bank of Baroda 2	MegaFon 1	NASPERS 4	Alpek (part of Alfa)	Bank of America 2	EnBW-Energie Baden 4	Nippon Steel & Sumitomo Metal 3
23	Usiminas 3	Angang New Steel 1	Hindalco Industries 2	Magnitogorsk Iron & Steel 2	MURRAY & ROBERTS 6	Grupo Salinas 8	Kroger 4	TUI 3	Sumitomo Mitsui Financial 1
24	Sabesp 3	Bank of China Hong Kong Holdings 1	Coal India 1	Novatek 2	GRINDROD 6	Grupo Maseca (GRUMA) 2	Express Scripts 1	Henkel 3	Mitsubishi Electric 2
25	Porto Seguro 2	China COSCO Holdings 3	Adani Enterprises 3	Aeroflot-Russian Airlines 1	DATATEC 3	Grupo Industrial Lala 2	Wells Fargo 3	SAP 1	KDDI 1
26					Woolworths	Infonavit (govt)			
27					Allied Electronics	Coppel 3			
average	3.20	2.36	3.44	3.12	4.60	3.55	2.68	3.44	3.4

It is clear from this table that the Latin American companies tend to have a similar diversification across industries in comparison with firms from most other countries, and much more than for US and Chinese firms.

Next we use the GVC framework to examine the businesses of five major Latin American companies.

FEMSA (Mexico)

A very interesting case to illustrate the fit of company activities into global value chains is FEMSA (Fomento Económico Mexicano, SA) in Mexico. This company has operated for over 125 years, with its origin in the beer business operating as the brewer Cerveceria Cuauhtémoc Moctezuma in Monterrey, Mexico. Actually, the group started as Cerveceria Cuauhtémoc (Cuauhtémoc Brewery) in 1890, and only acquired competitor Moctezuma in 1985. The combined Cerveceria Cuauhtemoc Moctezuma (CCM) produces beers including Dos Equis, Tecate, Indio, and Carta Blanca among its international brands.

In 1909 Cerveceria Cuauhtemoc started to expand vertically. To provide glass bottles, in 1909, Vidrios y Cristales de Monterrey S.A., later Grupo Vitro, was founded. In order to produce boxes, bottle caps, and packaging materials, Fabricas de Carton Monterrey was founded in 1900; it was later renamed Titán Company. In 1929, Malta, S.A. was established to produce malt for the brewery.

In 1936 the various businesses were grouped under a holding company called Valores Industriales, SA, or VISA. By the 1970s it was one of Mexico's largest companies. In 1973 the group was divided into VISA, which kept the brewery and the country's third largest bank, Banca Serfin, and Grupo Alfa, which held the industrial non-beer activities, including Hylsa, a steel manufacturer, and Titán, the packaging company.

Several decades later the beer part of the business was sold to Heineken in 2010, in exchange for 20% ownership of Heineken and two seats on the Board of Directors. So as far as beer is concerned, FEMSA is a global portfolio investor today, with a large but still minority stake in Heineken.[3]

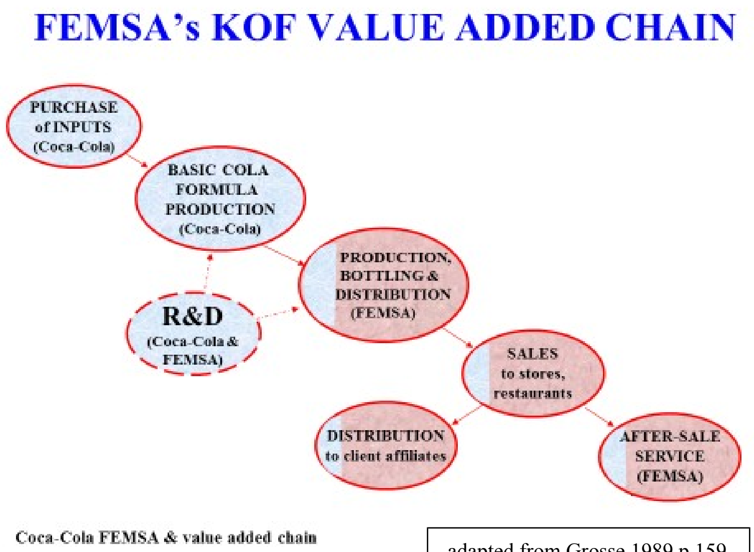
FEMSA expanded into other beverages in 1979, by becoming the principal distributor of Coca-Cola products in Mexico and later in several other Latin American countries. FEMSA began working more closely with Coca-Cola in 1991, forming a joint venture called Coca-Cola-

FEMSA (KOF). This joint venture was initially owned 51% by FEMSA, 30% by Coca-Cola, and 19% by shareholders on the Mexican stock exchange. KOF combined the Mexican company's existing local soft drink brands and bottling facilities with the Coca-Cola brand. After initially operating just in Mexico, Coca-Cola FEMSA has acquired bottling companies throughout Latin America. In 2003 KOF transformed itself into a major international player by acquiring Panamco, a Coca-Cola bottler with operations in southern Mexico and in Guatemala, Nicaragua, Costa Rica, and Panama, as well as in Colombia, Venezuela, and Brazil. By 2012 KOF had become the largest Coca-Cola franchise bottler in the world. More recently, KOF has acquired additional bottlers in Brazil. And the company has broadened its scope to include bottled water and juices in addition to soft drinks. Figure 1 shows KOF's value chain participation.

Along with beer and soft drinks, FEMSA has built a major presence in the convenience store business. OXXO stores were started in 1977, when the company decided to set up its own retail store network to sell its beer. The small stores quickly took on the 7-Eleven or Circle K style of convenience stores, selling not just beer and related snacks but also soft drinks, a more extensive food selection, and other assorted items. By 2014 there were more than 11,000 OXXO stores in Mexico and 34 in Colombia.

So today FEMSA participates in three major value chains: non-alcoholic beverages (bottling and distribution) with Coca-Cola; convenience store operation (OXXO); and beer (through Heineken). The discussion below just looks at FEMSA's business of soft drink bottling and distribution (KOF). It is a business in which FEMSA depends heavily on the soft drink supplier (Coca-Cola), and occupies a value chain location between producer and consumer.

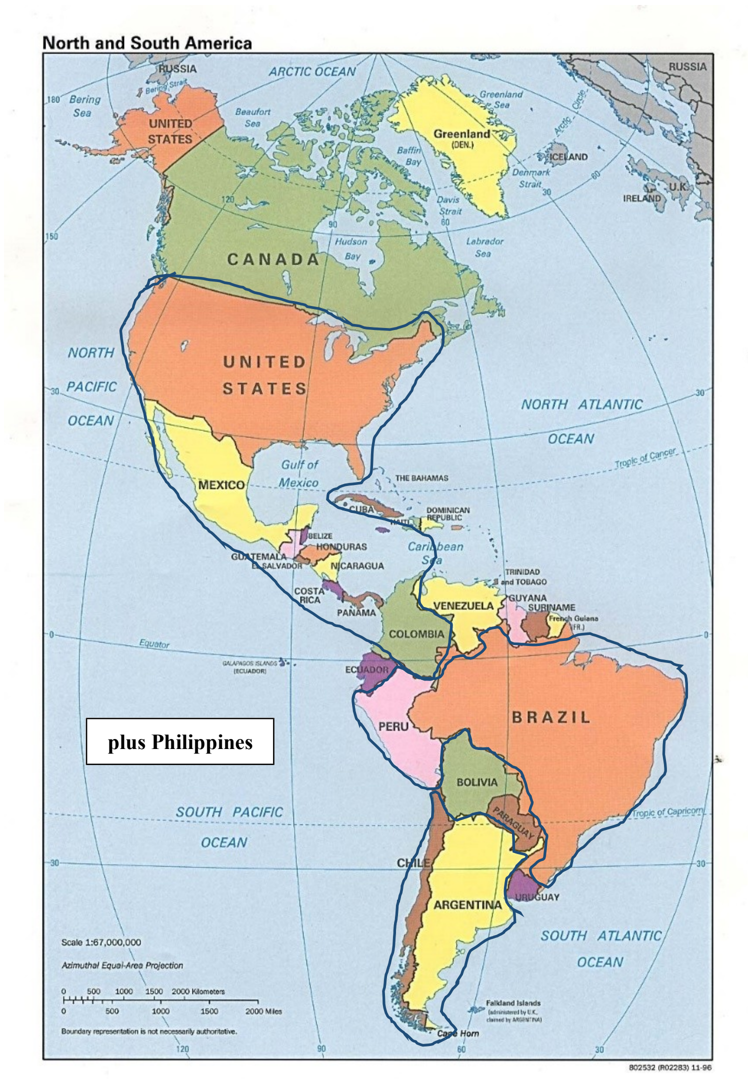
[**Figure 1 -- FEMSA Global Value Chain**]



adapted from Grosse 1989 p.159

KOF's globalization is completely in the Americas, except for one outlier affiliate in the Philippines (See Figure 2).

Figure 2 – FEMSA Geographic Footprint



Source: Grosse 2015, p.173.

The company clearly fits into the downstream end of the global value chain for soft drinks and other beverage sales, operating bottling and distribution networks for Coca-Cola. While geographically KOF has remained in the Americas to date, their product portfolio has shifted from the original focus on soft drinks to a broader array of non-alcoholic beverages including milk and juices.

Value Chain Opportunities. A logical direction for the KOF part of FEMSA is to expand into the markets in the Americas where they are not already present, including Venezuela, Canada, and the Caribbean. The company overall could look for further food and beverage offerings to supplement the KOF products, particularly non-soda drinks such as juices. A century ago

FEMSA produced the bottles used for selling its drinks and the containers for shipping the bottles; such upstream expansion into producing inputs could be considered again. And downstream, the company could look to expand its retail OXXO stores. OXXO faces a very positive challenge of trying to expand into Latin American markets beyond Mexico and Colombia, since convenience stores are a common phenomenon throughout the region. The opportunities are great for cross-selling the two FEMSA lines of beer and non-alcoholic drinks, along with snacks, in the OXXO stores.

Value Chain Risks. In the KOF business FEMSA is vitally dependent on Coca-Cola, and this puts the company at a disadvantage in dealing with Coca-Cola, which could pursue a strategy harmful to FEMSA's interests. This is similar to the relationship with Heineken in beer, since FEMSA now depends completely on Heineken as majority owner to make ultimate strategy decisions. One way to deal partially with these risks is to diversify, as FEMSA has done with the OXXO retail stores that do not depend on particular suppliers of key inputs.

This brief commentary on FEMSA shows the kind of strategies pursued by Latin American multinationals, which ebb and flow in their core businesses due at least partly to the global demand for their products and the competition from other companies. At the same time these emerging market firms look for opportunities to insert themselves into global value chains, in this case initially through beer distribution in Latin America and the US, and then through the link with Coca-Cola to provide bottling and distribution of Coke products throughout Latin America.

Cisneros Group of Companies

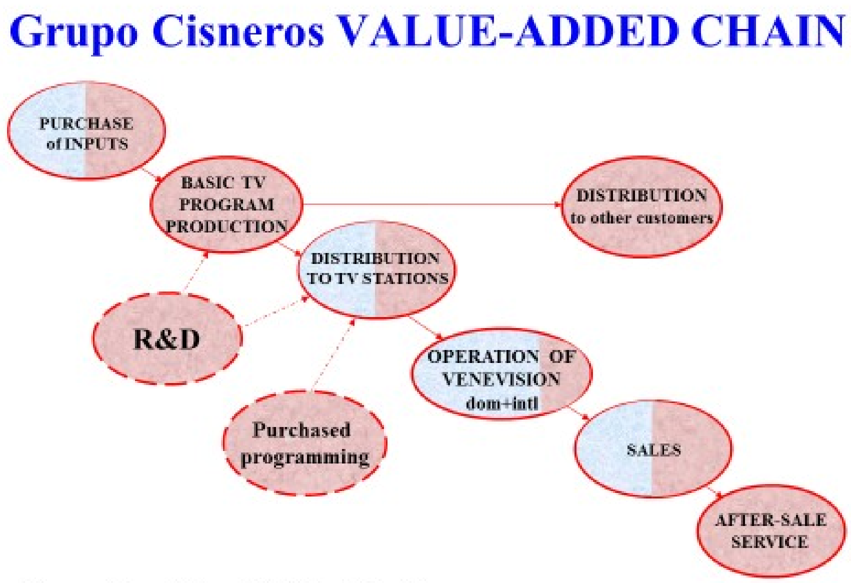
Grupo Diego Cisneros (now Cisneros Group of Companies, CGC) from Venezuela is a quintessential emerging market company that also can be viewed as part of a global value chain. Since its founding in 1929, the Cisneros Group has demonstrated a great capacity for switching industries, running a diverse portfolio of businesses, and keeping government support (or at least avoiding government condemnation). When founded by brothers Diego and Antonio Cisneros, the company offered transport services for construction materials and then also passengers around Caracas, the capital and largest city in Venezuela.

In 1939, the Venezuelan government decided to put passenger transport into a public monopoly business, and pushed out the Cisneros. The brothers then opened an auto parts importing business, bringing these parts from the United States. In 1940, Antonio Cisneros decided that it would be a viable business to sell Pepsi-Cola in Venezuela, and the brothers entered into that business.

The Cisneros Group entered the television business in 1961, when the Venezuelan government asked Gustavo Cisneros to take over the bankrupt Televisión Independiente (Canal 4), and Venevisión was launched. This step was really a transforming one, since the Cisneros then proceeded to build additional media and entertainment businesses, ultimately exiting virtually all of their other activities. By the early 2000s the Cisneros Group was comprised primarily of media companies such as Venevisión, Venevisión International (throughout Latin America and in the US), the Miss Venezuela pageant, and production of Spanish-language TV content that is presented on Venevisión and other Spanish-language channels in the US and Latin America. In 2013 the Group was re-organized into three divisions: media; interactive (including mobile advertising services, digital publishing, gaming, and e-commerce); and real estate (including a major tourist development, Tropicalia, in the Dominican Republic).

The Cisneros Group's development over time is a classic emerging market success story. The company began in local transportation, entered into franchises of foreign (US) products such as colas, hamburgers, pizza, and even computers, and then shifted largely into television and other media. In 2013 it had entered into real estate (actually tourism) development and e-commerce as well. The group has been flexible, quick to react to challenges in one or another of its businesses, and ready to ally itself with international partners from Pepsi-Cola to DirectTV.

[**Figure 3 – Cisneros Global Value Chain for TV**]



Cisneros Group Value-Added Chain for TV

Value Chain Opportunities. Cisneros Group's fit into its principal global value chain today largely focuses on television service and programming, as shown in the Figure. In 2016 Venevisión International was present in over 70 countries, primarily with telenovela programs. While the company is seeking to expand its presence in the television programming and service provision activities in Latin America, the US, and elsewhere, it is simultaneously building new core activities in the other two divisions (interactive media and real estate). So in this case, as in many EM companies, the strategy is to evaluate various value chains and to put attention and money into those that offer greatest returns in the current environment.

Value Chain Risks. The major risks facing the Group today include the possibility that a larger multinational media company such as Univision (based in the US) or Televisa (based in Mexico) may more aggressively enter the South American markets for television programming and produce more attractive content than Cisneros does. While the Group controls the Venevisión channel, they do not control the other main TV channels in Venezuela – and the Cisneros have even less control over programming in other Latin American and US markets where they operate. Even so, they have demonstrated over the years an ability to exit businesses that are no longer attractive and enter into new ones where they can build a dominant position.

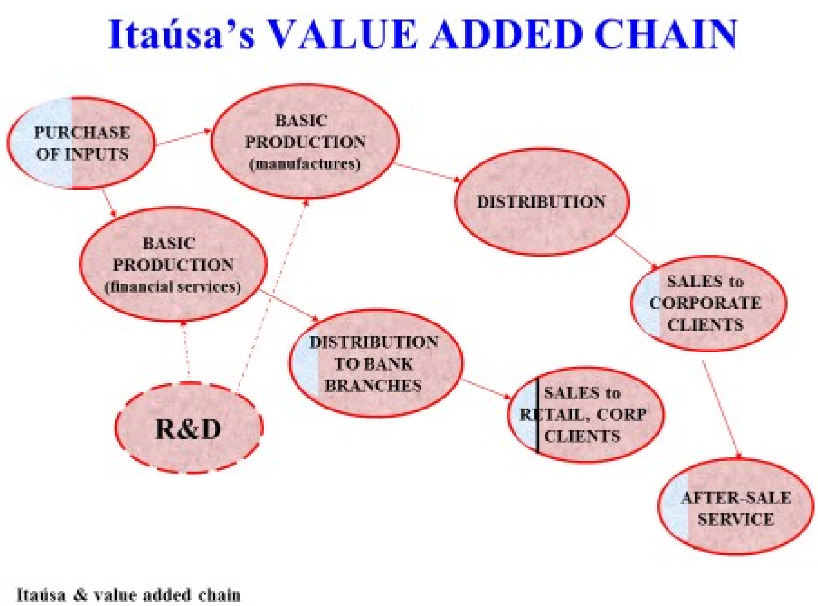
ITAÚSA from Brazil

The Itaú group was founded in 1965 as Brazil's first investment bank. The group borrowed in the financial markets to finance loans and investments in Brazilian companies. Over time the bank gained significant positions in the equity of a number of Brazilian companies, such that a decision was made in 1974 to restructure the group's activities. All business was placed under the umbrella of Itaú Investments (Itaúsa). The banking activities were put into Banco Itaú and later Unibanco, while industrial holdings were concentrated in three companies: Duratec (a manufacturer of wood panels and porcelain and metal bathroom fittings for the construction industry); Itaútec (a manufacturer of ATMs and computer software, mainly for bank automation) and Elekeiroz (a manufacturer of chemical products such as resins for the construction industry)[4].

With the acquisition of Unibanco in 2008 the group's financial services business became the largest bank in Latin America, though still heavily focused on the domestic Brazilian market. Previously, in 1998 Itau had purchased Banco del Buen Ayre in Argentina, making it one of the top ten full-service banks in that country. In 2014 Itau-Unibanco acquired control of Corpbanca, with extensive operations in Chile and Colombia, as well as Citibank's operations in Uruguay. Today Itau-Unibanco has a presence in almost all Latin American markets, with either full-service coverage (as in Brazil, Chile and Colombia) or investment and corporate banking only (in Mexico). The bank had total assets of $US 362 billion at yearend 2014, ranking it 13th in the world.

The internationalization of Itaúsa has been almost completely within Latin America, though each of its businesses does have clients in other parts of the world, particularly in the United States. The banking business is the only one with operations in other countries, and even in this instance the percentage of total activity outside of Brazil is less than 10% of the bank's total financial services activity. This is clearly a company with huge opportunity to move into overseas markets for its manufactured goods as well as for expansion of its financial services business. Figure 4 shows how Itaúsa operates in two very distinct value-added chains, and it implies that the group could move further into additional services and definitely outside of Brazil.

[Figure 4 -- ITAÚSA Global Value Chain]



Value Chain Opportunities. Itaúsa's competitive strengths come from its 'typical' diversified business base, its large scale of operations, especially in banking, and its existing customer relationships, especially in Brazil. In the industrial realm Itaúsa could look to invest in other business lines that have been served by their investment bank and have proven to have solid profitability and growth prospects. And all of the existing and potential industrial divisions have the potential to expand in other Latin American countries. Banking opportunities remain for expansion in Latin America, from retail banking in Mexico to overall financial service provision in Peru, Central America and the Caribbean.

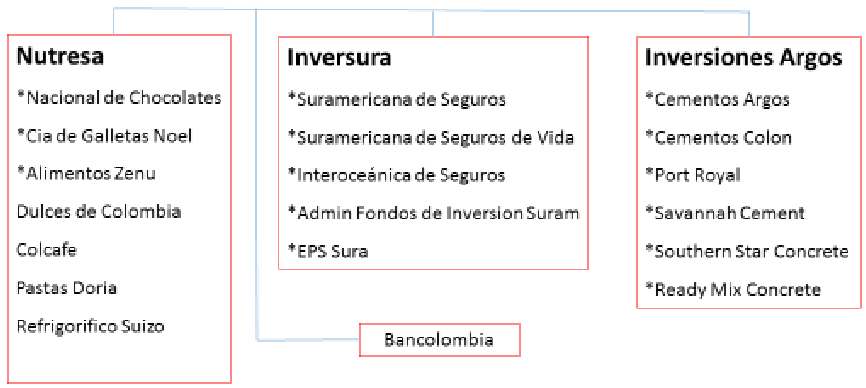
Value Chain Risks. Probably the main risk facing Itausa is its 90%+ dependence on the Brazilian market. As events in 2015-6 (including the impeachment of President Rousseff and the Petrobras scandal, along with a major recession) have shown, Brazilian country risk is high, and companies operating there may suffer reduced earning potential relative to international rivals. Clearly, the group needs to build its presence in other markets, as the bank has done to a limited degree.

Grupo Económico Antioqueño (GEA) from Colombia

GEA, originally known as the Sindicato Antioqueño, is the largest business group in Colombia, and it would be listed in the Fortune Global 500 except that the group structure does not list one company as a holding company for the rest. That is, there are three main divisions of the group, consisting of financial services (under the insurance affiliate, Suramericana de Seguros), cement (Argos), and foods (Nutresa, formerly Nacional de Chocolates) – and they operate through cross-holdings and cross-directorships in each other. The main companies in the group are shown below in Figure 5.

[Figure 5 – GEA businesses]

Figure 5 Group Structure – Grupo Empresarial Antioqueño



Major companies of the 150 total belonging to the Grupo Empresarial Antioqueño.

GEA was set up in 1978 as a response by Medellín businessmen to a wave of takeovers of local companies by companies from Bogotá and elsewhere. Local leading companies including Postobon (soft drinks), Coltejer (textiles), and Banco Comercial Antioqueño had been acquired by Bogotá-based business groups, and the heads of 14 Medellín-based companies came to a formal agreement to invest in each other's companies and form a defense network that would preclude outsiders from taking control of any of them. At that time two of the pillars of GEA (Nutresa and Inversura) had seen creeping takeover of shares by the Grupo Grancolombia from Bogotá, and they in particular were strongly committed to the mutual defense scheme. Today there are about 150 companies in the GEA, grouped under the three industrial headings shown in the figure above, along with the bank, Bancolombia.

The group has functioned successfully within Colombia since that time, with ups and downs along with the general economic condition of the country. In the late 1990s and 2000s several of the group's companies made significant pushes to internationalize by establishing subsidiaries in other Latin American countries. Inversura, for example, owns insurance companies in Mexico, Peru, Chile, and Panama, as well as in some smaller markets in Latin America. Argos has expanded by acquiring a large cement business in the southern US, as well as others in Honduras, the Dominican Republic, and Panama. And Nutresa has chocolate or other food operations in all Andean countries of South America, Argentina, all Central American countries, and an extensive network of subsidiaries in the US. Figure 6 shows the geographic expansion of GEA, and the notable hole in that coverage, namely, Brazil.

[**Figure 6 -- Grupo Empresarial Antioqueño Geographic Network**]

Source: Grosse 2015. p. 182.

Value Chain Opportunities. The group's strategy is clearly one of diversified growth, with the three main product/service sets of companies not even accounting for all of the major businesses in which GEA is involved (e.g., the bank, the textile company, Fabricato, and the airplane importer, Internacional Ejecutiva de Aviación). For each of the three main business lines the group has defined a strategy of being a market leader in the Americas, from the US to Argentina, and this strategy has been partially realized in every instance. Clearly the main target market that remains in the region is Brazil – though GEA's market share in most countries outside of Colombia is not the largest, so room for growth exists in those markets as well.

Value Chain Risks. The key risks facing GEA include the challenge from larger competitors in all of the company's markets outside of Colombia. And even in Colombia there are challenges from larger banks and insurance companies based in the US, Spain and elsewhere, and from cement companies such as Cemex and LaFarge, as well as cookie and candymakers such as Nabisco, Kellogg, Bimbo, Mars, and several others. As a medium-sized company in global terms, GEA is clearly subject to the incursions of these outside competitors.

Grupo Luksic

The Luksic Group has been one of the two or three largest business groups in Chile for four decades. The group began in the copper business, with Andrónico Luksic's purchase of small mining areas in Antofagasta in 1954. While that business has remained in the Luksic portfolio for decades, it did not become the major player that it is today until the purchase of the Los Pelambres mine in 1986, and the major development of that resource beginning in 1996. That production made the Luksic group into the second largest copper producer in Chile, after the state-owned Codelco. The group's founder, Andrónico Luksic, saw additional opportunities in other sectors, and built up a pasta business (Lucchetti), a beer business (CCU, acquired in 1986), and a metal fabricating business (Madeco, acquired in 1970). In addition, he added a financial institution, which has seen a rollercoaster ride since the 1970s.

The group has bought and managed the largest or second largest bank in Chile on three separate occasions over the years, beginning with Banco O'Higgins in 1979. Along with Spanish partner Banco Central Hispano, the group then bought controlling interest in Banco de Santiago in 1995, and sold it all to Banco Santander in 1999. Finally, the group purchased control of Banco de Chile in 2000, and still retains control today.

The Luksic group grew during the 1980s into the largest Chilean private-sector company (still much smaller than the government-owned copper company, Codelco, however). It is a classic conglomerate grupo, with family control of the diverse businesses, and a set of quite unrelated sectors in the portfolio. The group has "modernized" with establishment of a holding company, Quiñenco, that is now publicly traded and owns a minority share in the family's businesses.

Figure 7 shows how the Luksic businesses constitute a very diverse portfolio.

[Figure 7 – Luksic Portfolio of Businesses]

Value Chain Opportunities. One of the clear opportunities for the Luksic Group is to seek out other business sectors that currently offer good opportunities in Chile, and to pursue them with major resources and management skill. Luksic has perhaps been the most successful of the Latin American groups in operating as a portfolio investor, entering and leaving investments at opportune times[5]. The company has global reach with its shipping (CSAV) and copper businesses, and a strong Latin American regional presence in banking. Because the group has generally operated businesses through the whole value chain, they are not able to move further up or down in them. So geographic expansion looks like the most viable broad strategy, along with further sectoral diversification.

Value Chain Risks. None of the Luksic companies is the largest in its business arena globally, so the group is faced with the risk of being a follower or at least a second or third participant in a sector dominated by others. This is not a major threat in the domestic Chilean market, where Luksic companies are market leaders, but rather in overseas markets. Still, all of the businesses face potential rivalry from foreign, larger entrants, so that defense of the home market is a challenge. And with copper production still accounting for about 1/3 of total sales, this dependency on a commodity market brings its own risks as commodity prices rise and fall.

These five company examples demonstrate how the global value chain perspective offers a comprehensive structure for designing strategy in such firms.

Lessons from the Case Studies

By using the global value chain, we can see the key opportunities and risks facing the five companies in Table 2.

Table 2 – 5 Major Latin American MNCs

Company/ Features	Businesses	Competitive Advantages*	Opportunities	Risks
FEMSA	Non-alcoholic beverages; beer; convenience stores	distribution channels; key LAm client relations	Expand OXXO in LAm; increase % of Heineken	dependence on Coca-Cola, Heineken
Cisneros	Television stations & content; resorts; interactive media	flexibility; Spanish language programming	Expand further TV in LAm; build more resorts	potential greater entry by Televisa (Mex) & Spanish firms
Itaúsa	Banking; construction materials; ATMs	largest bank in Lat America; LAm client relations	Expand industrial activities in LAm; global banking	over-dependence on Brazil
GEA	Insurance & fin. services; cement; cookies & candy	wide portfolio; key relations in Colombia	Build scale by acquiring rivals in other LAm nations	medium-sized in all businesses
Luksic	Copper; banking; transport; beer; TV	owns copper; key client relations, esp in Chile	Find new sectors; buy rivals in LAm	medium-sized in all businesses; dependence on copper

* All five of these companies have demonstrated the ability to enter and leave businesses over time to avoid bankruptcy and take advantage of new opportunities.

If we consider the stages in the value chain, it is clear, for example, that FEMSA has a large range of opportunities further upstream in all three of its value chains, since the company today is largely marketing and distributing other companies' beverages and foods. Since FEMSA began as a beer brewer and expanded into production of many of the inputs into that industry's value chain, the firm can certainly revisit such vertical integration. Geographically, the company has extensive operations in soft drinks throughout Latin America, and the opportunity exists to expand its convenience store business similarly. The value chain concept emphasizes the company's potential for expanding into activities where it is not already present, and to geographies where the company's products or services may not yet be sold.

Interestingly, none of these major Latin American multinationals is an important competitor outside of Latin America – so the regional rather than global label definitely applies here[6]. This may be a slight overstatement, because FEMSA and Cisneros have significant market positions in the US, but in niche businesses. And CSAV (in Grupo Luksic) is the 20th largest global ocean shipping competitor.

Conclusions

The global value chain offers a very useful perspective on business for (large) firms in Latin America. It enables a manager to put the company into a logical structure for analyzing competitive advantages, and then for looking at ways to build on those advantages upward and downward in the value chain, as well as geographically across countries.

A key feature of all of the companies in the discussion is that they are diversified into several industry sectors. While this is very common outside of the US and the UK, it also points out that these companies have discovered ways to maneuver through economic good times and bad, and they fall back on their diversification when problems arise in any one sector or business.

Over the past 50 years or more these firms have all entered and left different industry sectors, benefitting from their ability to manage their portfolios of businesses and from their agility in entering and leaving at opportune times.

A key caveat is that these companies are generally competitive in a regional context, so lessons for other firms need to be considered in light of this context. It may be true that most companies are also national or regional in the bulk of their business, but the Latin American companies are also somewhat smaller than the world's leading (largest) competitors. Their challenges may come from the traditional larger multinationals, or even from the growing number of Chinese multinationals.

References

Buckley, P. J., & Casson, M. C. (1976). *The future of the multinational enterprise*. London: Macmillan.

Buckley, P.J. (2011). "International Integration and Coordination in the Global Factory", *Management International Review*. 51: 269–283.

Coe, Neil, Peter Dicken and Martin Hess (2005). *Journal of Economic Geography*, Vol.8. pp. 271–295.

Dunning, J. (1981). *International Production and the Multinational Enterprise*. (London, George Allen and Unwin).

Gereffi, G. (1999). "International Trade and Industrial Upgrading in the Apparel Commodity Chain", *Journal of International Economics* 48(1): 37–70.

Gereffi, G., Humphrey, J. and Sturgeon, T. (2005). "The governance of global value chains", *Review of International Political Economy*, 12, 78-104.

Grosse, R. (1989). *Multinationals in Latin America*. London: Routledge.

Grosse, R. (2015). *Emerging Markets: Strategies for Competing in the Global Value Chain*. London: Kogan Page.

Hoover, E. M. (1948). *The Location of Economic Activity*. New York: McGraw-Hill.

Hummels, D., Ishii, J. and Yi , K-M., (2001), The Nature and Growth of Vertical Specialization in World Trade. *Journal of International Economics* 54, 75-96.

Khanna, Tarun, and Krishna Palepu (1997). "Why Focused Strategies May Be Wrong for Emerging Markets", *Harvard Business Review*. July-August. pp. 41-51.

Khanna, Tarun, and Krishna G. Palepu (2006). "Emerging Giants: Building World-Class Companies in Developing Countries." *Harvard Business Review* 84, no. 10 (October).

Porter, M. (1985). *The Competitive Advantage: Creating and Sustaining Superior Performance.* New York: Free Press.

Rugman, Alan (2005). *The Regional Multinationals: MNEs and 'Global' Strategic Management*. Cambridge, UK: Cambridge University Press.

Santiso, Javier (2008). "The emergence of Latin multinationals", *CEPAL Review*. Vol. 95. August. pp. 7-30.

Taylor, F.W. (1911). *Principles of Scientific Management*. New York: Harper & Brothers.

UNCTAD (2013). *World Investment Report*. Geneva. http://unctad.org/en/PublicationsLibrary/wir2013_en.pdf

Endnotes

1 On global value chains, see UNCTAD, 2013, *World Investment Report* "Global Value Chains: Investment and Trade for Development". New York and Geneva: United Nations. http://unctad.org/en/publicationslibrary/wir2013_en.pdf. On global production networks, see for example Neil M. Coe, Peter Dicken, and Martin Hess, "Global Production Networks: Realizing the Potential," *Journal of Economic Geography* 8, no. 3 (May 1, 2008): 271–95; and Hanson, G. H., Mataloni, R. J. and Slaughter, M. J. (2005), "Vertical Production Networks in Multinational Firms", *The Review of Economics and Statistics*, 87, 664–678. On the global factory, see for example Peter J. Buckley (2009), 'The Impact of the Global Factory on Economic Development', *Journal of World Business*, 44 (2), April, 131-43.
2 Grosse, R., and Luiz Mesquita (eds.) (2007). *Can Latin American Firms Compete?* Oxford: Oxford University Press, Chapter 1 summarizes the findings of a dozen studies of competitive advantages of Latin American firms, finding all of those mentioned here plus several others.
3 In principle this 20% could give FEMSA the opportunity to take control of Heineken at some point; however the Heineken family owns 50.1% of total shares, so FEMSA is likely to remain as an influential minority investor.
4 The Itaúsa group is 61% owned by the Egydio Souza Aranha family, with the remaining shares traded on the Sao Paulo stock exchange. The banking part of the conglomerate is 50% owned by Itaúsa and 50% by the Moreira Salles family.
5 The author will never forget the response from Andronico Luksic a number of years ago, when asked what his corporate strategy was. He said: we buy low and sell high!
6 As discussed in Rugman (2005).