ENTERPRISE FLORIDA

FRONTIER STRATEGY GROUP

UNLOCKING OPPORTUNITY IN LATIN AMERICA

How to select the right location for your company's Latin America management hub

Introduction

About Enterprise Florida

Enterprise Florida, Inc. (EFI), the principal economic development organization for the state of Florida, confidentially assists companies with their expansion, location and trade plans. EFI works closely with a network of local and regional economic development and trade partners throughout the state to help businesses succeed in Florida.

About Frontier Strategy Group

Frontier Strategy Group (FSG) is the leading information and advisory services firm for emerging-market executives. Through a combination of its FrontierView™ Platform (research, data, and analytical tools), and highly tailored custom advisory engagements, FSG powers the key business activities of emerging-market business leaders at the world's leading multinational corporations with one goal in mind: to help its clients outperform in emerging markets.

Table of Contents

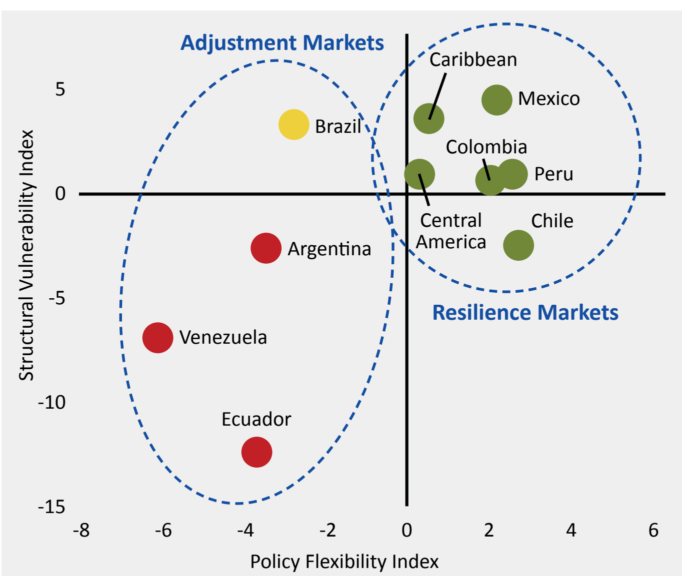
Executive Summary

Latin America presents a wealth of opportunities to multinationals, and companies with a dedicated management hub for the region will be best positioned to access these opportunities. Given the challenging macroeconomic environment in Latin America, the decision of where to locate a regional hub is more important than ever. Florida offers unique advantages as a location for a regional hub for companies in a variety of industries. Florida distinguishes itself from other locations as a U.S. city with a strong connection to the region, because while it is a part of the US, it is also connected to Latin America in a way other US locations are not. This unique position makes Florida an ideal location from which to manage a portfolio of Latin American markets.

This report is divided into six chapters, addressing the macroeconomic environment in Latin America, as well as Florida's advantages as a location for a regional management hub. Key takeaways from each chapter of this report include:

1. The evolving LATAM opportunity: In the face of a challenging external environment and internal political and economic challenges, a pronounced divergence in performance has emerged among Latin American countries
2. Medium- and long-term drivers of opportunity in LATAM: Despite the difficult environment facing Latin America today, there is still tremendous opportunity for multinationals because of the region's long-term fundamentals, as well as medium-term reforms
3. Implications of the LATAM outlook for priority countries and industries: Latin America offers a diversity of opportunities across a variety of countries and industries
4. Deciding where to place a management hub in LATAM: For companies looking to capture opportunities in Latin America, using the right criteria to select a hub location is key
5. Florida's advantages as a LATAM hub: Florida presents a number of advantages to multinationals looking to establish a management hub for Latin America
6. Case studies of Florida-based MNCs: Learning from the experiences of other companies who have placed their regional hubs in Florida can be very useful

RESILIENCE INDEX



Multinationals seeking near-to-medium term opportunities in Latin America should focus attention and resources on the resilient markets that have demonstrated continued growth despite the current environment.

A DATA DRIVEN COMPARISON OF LEADING LATAM HUBS

Category	Criteria	Top Ranked
Talent	1. Labor	Florida
Regulations	2. Tax	Florida
	3. Rule of Law	San Juan
Quality of Life	4. Quality of Life	Florida
Infrastructure	5. Infrastructure	Florida
	6. Networking Benefit	Florida
	7. Real Estate Cost	Panama City
	8. Distance to Markets	Panama City

When deciding where to locate a Latin America management hub, MNCs often consider Florida alongside other locations such as Panama City, São Paulo, Mexico City, and San Juan. A careful and methodical comparison of Florida to other leading locations for regional hubs reveals consistent advantages across a variety of categories.

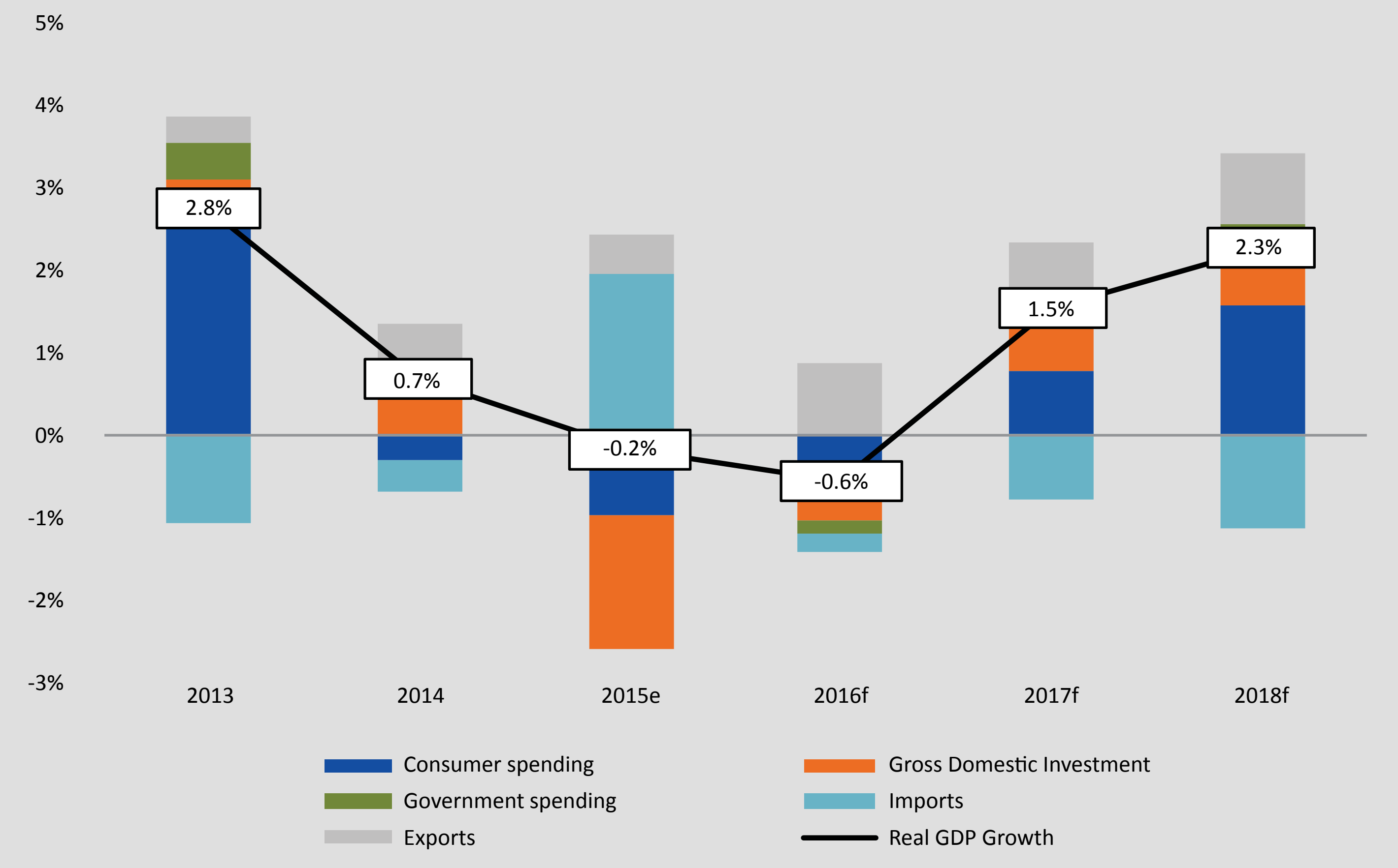
CHAPTER 1
The Evolving LATAM Opportunity

Multinational corporations (MNCs) seeking to do business in Latin America face a region grappling with a challenging external environment and internal political and economic upheavals ranging from falling commodity prices to presidential impeachment proceedings. In this environment, not all countries are faring equally. While some countries have remained resilient in the face of challenges, others are taking longer to adjust to the new economic realities of the region, producing a pronounced divergence in performance across Latin America.

Section One: Latin America's Current Economic Situation

Similar to 2015, forecasts suggest that Latin American GDP will contract in 2016. As shown in figure 1.1, consumer spending, which had been a large contributor to economic growth in previous years, will be a net negative. The trend of sluggish growth will continue in LATAM over the near term, driven by a challenging external environment and internal political and economic turmoil.

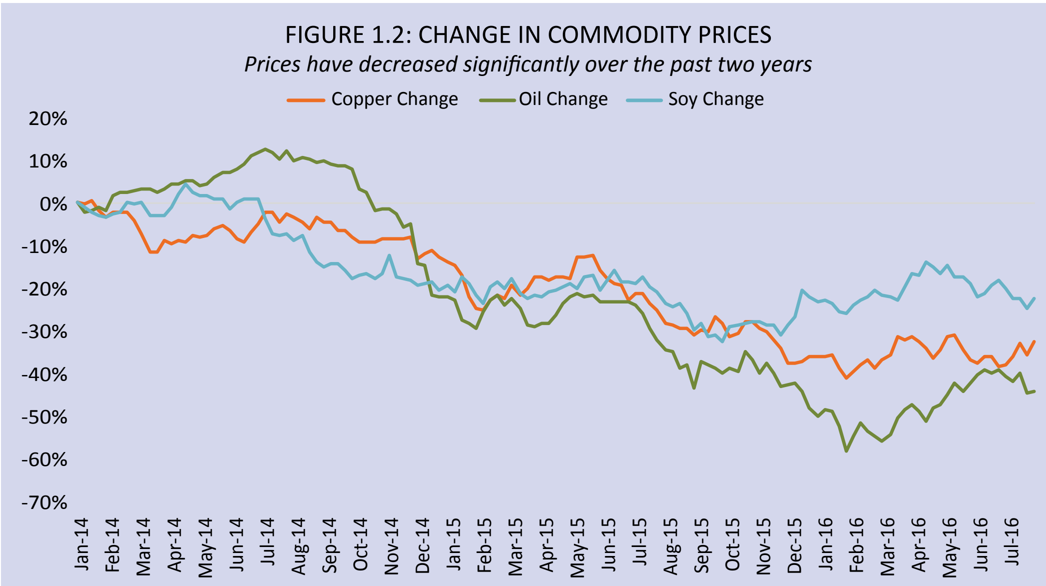
FIGURE 1.1: LATAM REGIONAL GDP, REAL %YOY

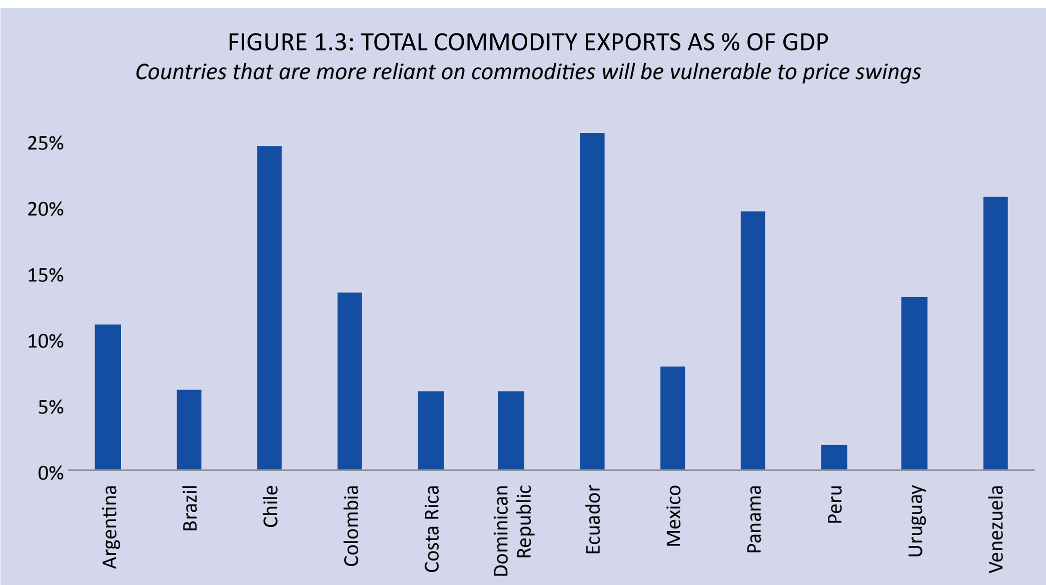


The difficult external environment has not only affected exports of commodities in recent years, but also government revenues, business confidence, and other elements of the economy. While many external factors have contributed to the current situation, there are three drivers that have had a particularly strong influence on regional performance.

External Driver #1: Falling commodity prices and resultant fiscal belt tightening

Commodity prices have been depressed by an economic slowdown in China, and sluggish growth in Europe, which are constraining global demand for raw materials. As commodity prices have fallen, many LATAM governments, which have traditionally relied on commodities to finance spending, have been forced to decrease public expenditure or increase debt. Metals and energy exporters such as Mexico, Colombia, Ecuador, and Venezuela have been impacted most acutely.





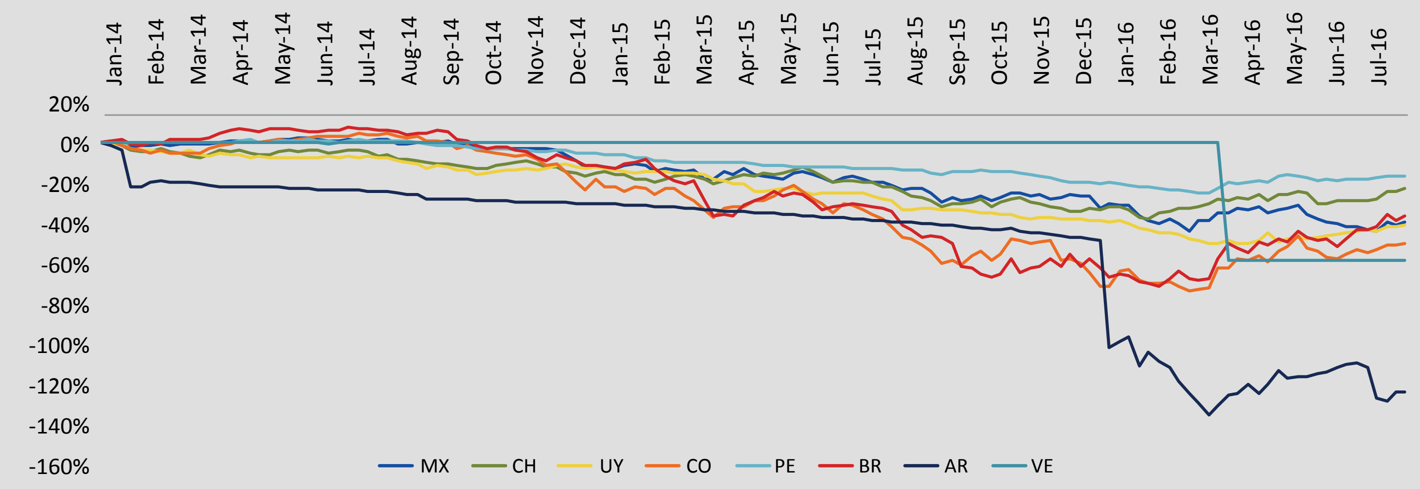
External Driver #2: Tighter credit conditions and higher capital costs

Across Latin America, the cost of capital is increasing as credit conditions tighten. As a result, businesses and consumers are less willing to invest. This is largely the result of changing US monetary policy, i.e., as expectations grow that the Federal Reserve will raise interest rates, capital flows are shifting from emerging markets to the US, thereby decreasing the amount of foreign capital available in Latin America. This reduction in foreign capital flows to the region can be seen in the depreciation of LATAM currencies vis-à-vis the dollar since 2015, and the subsequent interest rate hikes by regional central banks.

External Driver #3: Market-disrupting currency depreciation

The depreciation of LATAM currencies against the US dollar is causing a rise in inflation across much of the region. In turn, high inflation is depressing consumer confidence and constraining purchasing power, most notably in Venezuela, which is on the verge of hyperinflation. Argentina, while also experiencing high inflation, is taking steps to correct the situation as a part of newly-elected President Mauricio Macri's economic adjustment policies. Meanwhile, Brazil, while not in the same dramatic situation as Venezuela and Argentina, is continuing to experience higher-than-normal inflation of around 7.5%.

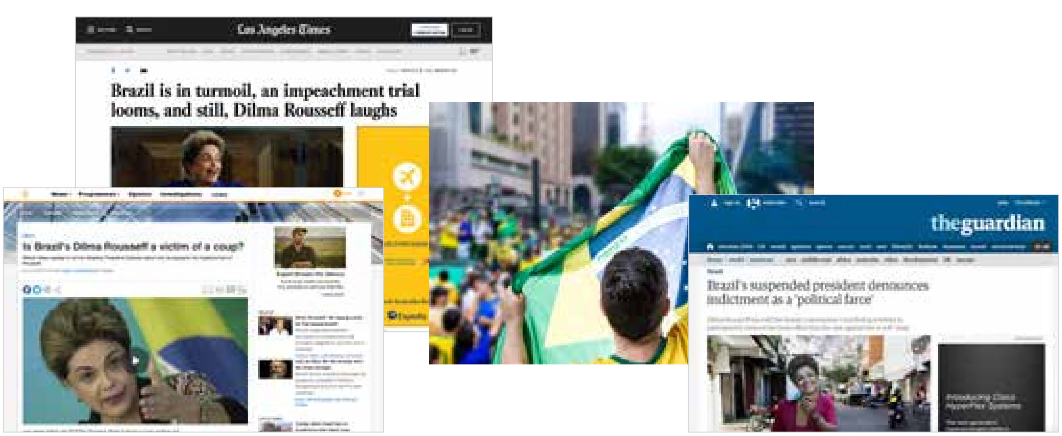
FIGURE 1.4: CURRENCY DEPRECIATION



Internal Driver: Deteriorating consumer and business sentiment due to political instability

In addition to a challenging external environment, internal factors are creating further economic headwinds for LATAM markets. In particular, political instability is causing consumer and business sentiment to deteriorate.

In Brazil, President Dilma Rousseff is undergoing impeachment proceedings, obstructing the government's efforts to shore up its finances by raising taxes and cutting spending, causing investor and consumer confidence to plummet. In Venezuela, President Nicolas Maduro is consolidating power in a time of economic crisis in an attempt to maintain his grip on the presidency. Riots and food shortages are leading many analysts to predict a possible military coup in Caracas. Venezuela's recession is likely to persist as the government, which still controls most institutions, continues to avoid the measures necessary to tackle the country's deep economic imbalances and to deal with the effects of the sharp decline in oil prices.

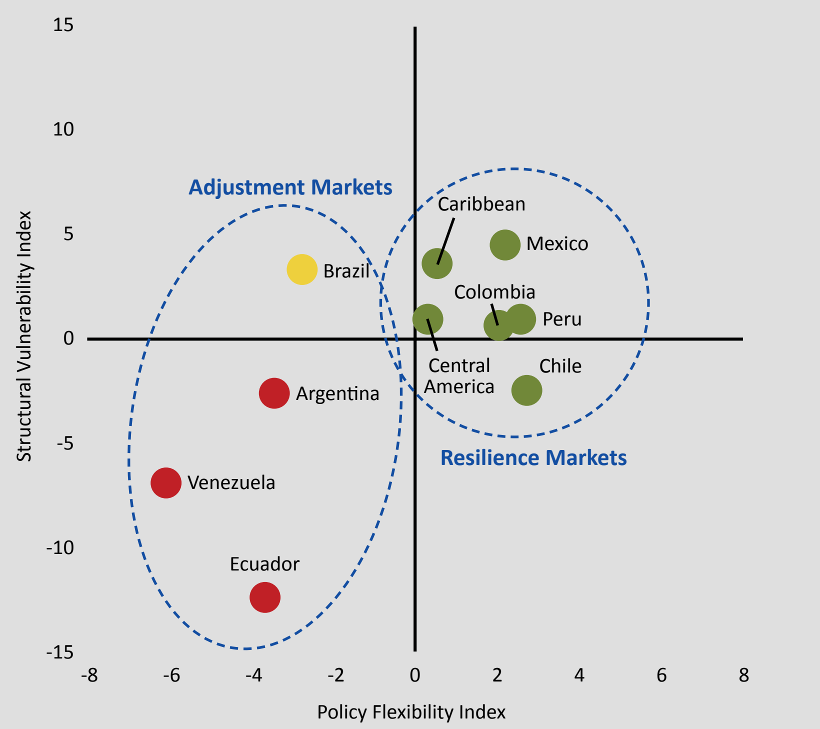


Section Two: A Pronounced Divergence Across the Region

In this difficult environment, not all countries are faring equally. As seen in figure 1.5, while one group of countries has remained resilient in the face of these challenges, another has taken longer to adjust to the region's new economic realities. Multinationals seeking near-to-medium term opportunities in Latin America should focus attention and resources on the resilient markets that have demonstrated continued growth despite the current environment.

In figure 1.5, the Y-axis depicts a country's structural vulnerability to external shocks by combining an assessment of the country's commodity import dependency and exchange rate regime. The X-axis represents a country's flexibility to implement countercyclical policies, by combining data on monetary and fiscal buffers.

FIGURE 1.5: RESILIENCE INDEX

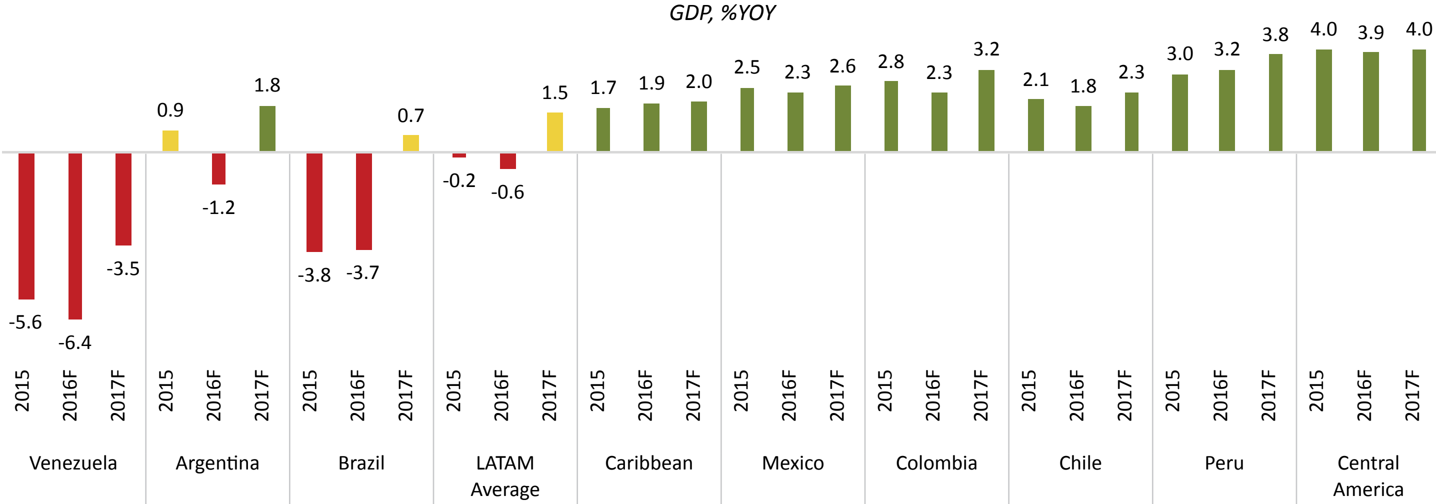


The Pacific Alliance Markets (Chile, Peru, Colombia, and Mexico), Central America, and the Caribbean are the regions best positioned for resilience in this tough economic environment. The Pacific Alliance markets benefit from lower inflation rates and deeper fiscal resources, particularly in the case of Chile and Peru, which saved earnings from commodities during the boom years. While the Pacific Alliance markets insulated themselves somewhat from declining commodity prices, energy-importing countries in Central America and the Caribbean have benefited significantly from lower commodity prices. Additionally, the economies of these countries are highly connected to the US market and have benefited from the strengthening US economy.

Adjustment Markets, including Brazil, Venezuela, and Argentina, continue to suffer from the effects of populist economic policies that have hurt their overall economies in recent years. The three markets have been hit hard by high inflation, although to varying degrees. While the governments in the Adjustment Markets are under internal pressure to right the situation, only Argentina has taken concrete steps to correct its economy.

FIGURE 1.6: WINNERS AND LOSERS IN LATAM

GDP, %YOY



Chapter 1 Conclusion

Three external factors—falling commodity prices and the resultant belt tightening, tighter credit conditions that reduce access to capital and increased capital costs, and market-disrupting currency depreciation—and one internal factor—deteriorating consumer and business sentiment due to political instability—have created a challenging environment in Latin America, resulting in slower growth than previous years. While these factors affect the region as a whole, not all countries are faring equally. The first group, the Resilience Markets, is made up of Pacific Alliance, Caribbean, and Central American countries that have better policy flexibility and less structural weakness. The second group, the Adjustment Markets, continues to suffer the effects of populist economic policies, which hurt the markets' overall economic potential. When approaching the region, it is important to take a portfolio approach that fits your company's strategic needs and accounts for the economic difficulties and pronounced divergence in performance currently facing Latin America.

CHAPTER 2
Medium- and Long-term Drivers of Opportunity in LATAM

Despite Latin America's current economic slowdown, the region's solid fundamentals, including demographics, natural resources, and democratic institutions, mean that MNCs should continue to invest in the region for the long term. Meanwhile, over the near term, MNCs will also find opportunities in some markets stemming from the implementation of structural reforms.

Section One: Long-term Drivers of Opportunity

Three economic fundamentals will continue to attract MNCs to Latin America as they have in the past.

LONG-TERM FUNDAMENTALS

The first major factor driving long-term opportunity for MNCs in Latin America is the region's demographic fundamentals. While this region of 20 countries is rich with diversity, the prevalence of two dominant languages as well as a relatively connected culture across the region improves the ease of conducting business. A burgeoning middle class supports a large consumer base of 625 million people, which has increased private spending in the region. Higher incomes result not only in higher spending power, but also consumer sophistication, allowing MNCs to sell more expensive and complex goods. Additionally, Latin America has the highest urbanization rate in the world, allowing MNCs easier access to markets.

The second fundamental driving long-term opportunity in Latin America is its extensive natural resource base. Natural resources can provide governments with strong sources of revenues and attract foreign investment. Chile, which has used the income from its copper mines in the boom years to create a countercyclical sovereign wealth fund, presents a strong example of how a country can leverage natural resources to its sustainable advantage.

Finally, Latin America benefits from being more democratic than any other emerging-market region. Owing to the region's strong institutions, MNCs face less reputational risk when doing business in Latin America, as evidenced by the region's favorable scores on the Global Competitiveness Index, Corruption Perception Index, and Freedom in the World Index. While the recent political turmoil in some markets—most prominently Brazil—can present alarming headlines, in many instances, it actually points to a strengthening of institutions, as the ability of officials to crack down on corruption and a push for more transparency in government have grown.

Section Two: Medium-term Drivers of Opportunity

In addition to the long-term drivers of opportunity in LATAM, several other factors will create opportunities in the region over the near to medium term. These factors, unlike the long-term fundamentals, require proactive change, mostly in the form of policy reforms.

Achieving an upside scenario in the medium term will be difficult, as improved growth depends on the successful implementation of reforms in the following seven areas:

1. Productivity
Productivity in LATAM has remained relatively stagnant in recent decades compared with other emerging regions. To jump-start productivity growth, governments in the region must invest in education and infrastructure

2. Economic Informality
Much of the economic activity in the region is conducted in the informal sector. To provide benefits to both the private and public sector, governments must implement reforms to bring more of that informal activity into the formal sector

3. Protectionism
In recent years, some Latin American countries have slipped further and further into protectionist policies, isolating themselves from the world. Governments need to follow the course set by the Pacific Alliance markets, which have benefited from embracing trade

4. Security
Physical security remains an issue throughout the region. Governments must make efforts to address security challenges, including improving border patrol to decrease imports of drugs and contraband

5. Countercyclical Policies
For those countries endowed with natural resources, successfully managing revenue streams is critical. Becoming overly reliant on easy money in boom years can lead to disaster in more difficult times

6. Public-Private Partnerships
Many Latin American governments are facing revenue shortfalls. To make up for these gaps, governments should explore partnerships with private businesses to drive investment

7. Investment Policies
Latin America is experiencing a net capital outflow, as reflected in the depreciation of local currencies against the US dollar. Governments need to implement changes to attract investment back to the region, as in Chile and Argentina where governments have established new agencies tasked with attracting foreign capital

While external factors have played a role in slowing growth over the near term, they have also exposed significant structural weaknesses, which must be addressed if the region is to return to 2–3% annual growth within the medium term. In particular, many countries in Latin America must reduce their dependency on global commodity exports and focus on improving economic productivity. Additionally, while the rise of the middle class over the previous decade has been one of the biggest stories for the region, recent economic turmoil has brought to light the instability faced by lower middle-class individuals. Governments must provide a better safety net to this group in order to sustain the progress made in recent years.

Chapter 2 Conclusion

Just as in the last decade, Latin America's favorable demographics, natural resources, and democratic institutions will continue to attract MNCs to the region, as these long-term fundamentals drive real long-term opportunities. However, to achieve upside growth over the medium term, governments will need to implement reforms to address the region's structural weaknesses. When evaluating regional opportunities, consider the impact that the region's long-term fundamentals will have on growth moving forward. In addition, monitor any progress against policy reforms in order to be prepared for changes that could drive near-term opportunities.

CHAPTER 3
Implication of the LATAM Outlook for Priority Countries and Industries

In addition to the lens of medium- and long-term opportunities just discussed, it is also useful to consider Latin America through the prism of geography and industry when hunting for opportunity. A data-driven approach reveals several high-growth countries with favorable business environments that will present the greatest opportunities for MNCs in the coming years. Meanwhile, pan-regional themes, such as the liberalization of previously closed sectors, will drive industry opportunities.

Section One: Priority Countries

The diversity of countries within Latin America presents a wide range of opportunities for MNCs to find an ideal strategic fit, depending on risk tolerance. One of the best ways to identify the market opportunities that are most aligned to the unique needs of a business's strategic objective is to use a data-driven market prioritization approach. The model shown in Figure 3.1 scores countries on a relative basis in terms of size, growth, and business environment. By combining these three perspectives, it is possible to gain a holistic view of the risk-adjusted market opportunity for a particular country.

FIGURE 3.1: RISK-ADJUSTED OPPORTUNITY

Data-driven prioritization model

Indicators	Weight
Size	**30**
Gross Domestic Product (GDP), US$ billion	5
Consumer Spending, US$ billion	5
Government Spending, US$ billion	5
Gross Domestic Investment, US$ billion	5
Population, million	5
Urban Population, % of population	5
Growth	**36**
Gross Domestic Product (GDP), Real %YOY	36
Business Environment	**34**
Quality of institutions	
Soundness of banks	4
Efficiency of legal framework in settling disputes	6
Quality of regulations	
Property rights	3
Intellectual property protection	3
Burden of government regulation	5
Business impact of rules on FDI	7
Control on corruption	
Pubic trust in politicians	1
Transparency of governing policymaking	3
Irregular payments and bribes	2

In this model, indicators were selected that would provide a broad perspective on the opportunity in a given market across industries. Weightings were set to give near-equal importance across each of the three constituent sub-indices: size, growth, and business environment.

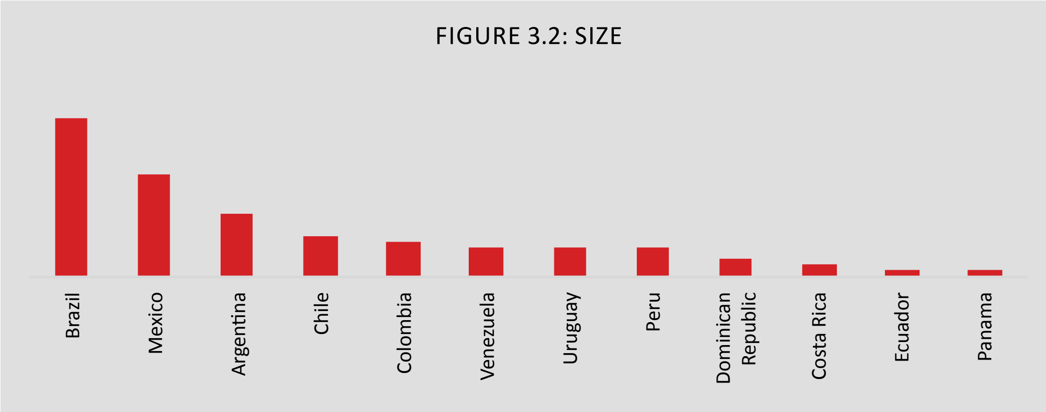


Figure 3.2: The top two markets, Brazil and Mexico, scored highest in the size index owing to their population and GDP sizes. Argentina ranks third, and while it has a sizable population, it is only one-fifth the size of Brazil's.

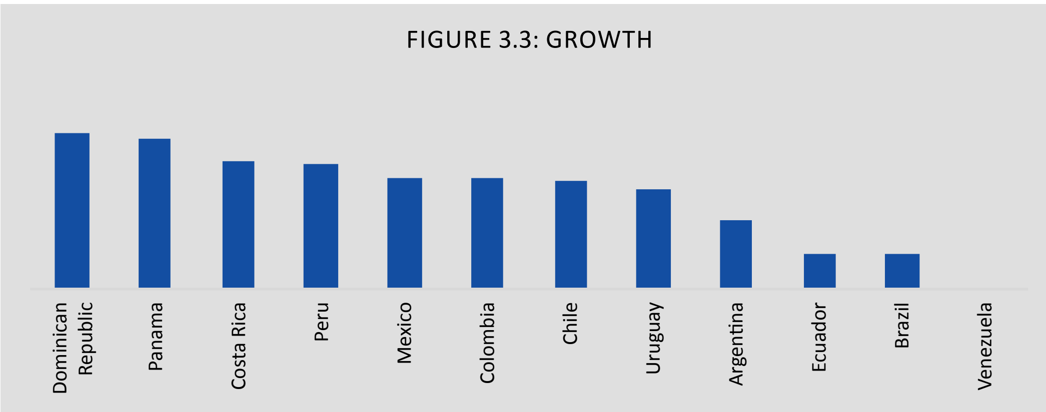


Figure 3.3: Caribbean and Central American countries achieved the top three positions in the growth index. Venezuela ranks at the bottom, followed by Brazil, Ecuador, and Argentina, which are the four Latin American countries that will see their GDP contract in 2016.

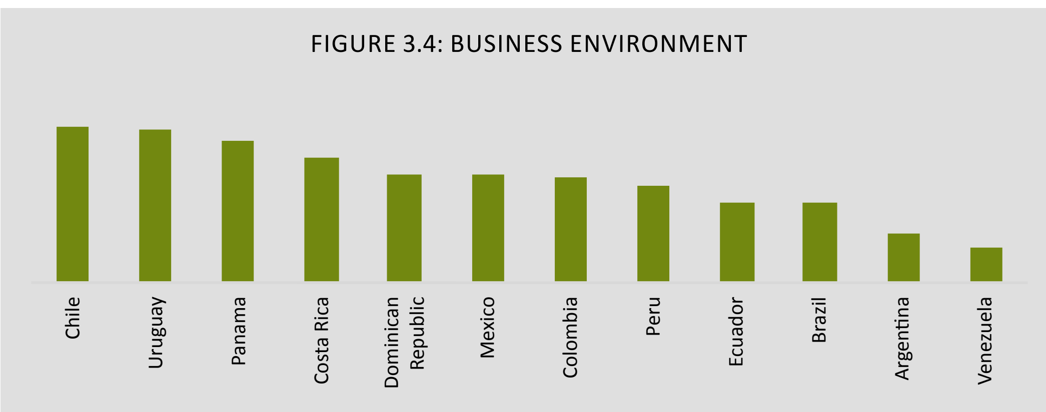


Figure 3.4: Chile ranks at the top of the business environment index. Chile has long been seen as the most open and business-friendly market in the region, and it frequently ranks at the top of the World Bank's Ease of Doing Business index. Interestingly, the bottom four countries—Venezuela, Argentina, Brazil, and Ecuador—also rank the lowest on the growth index.

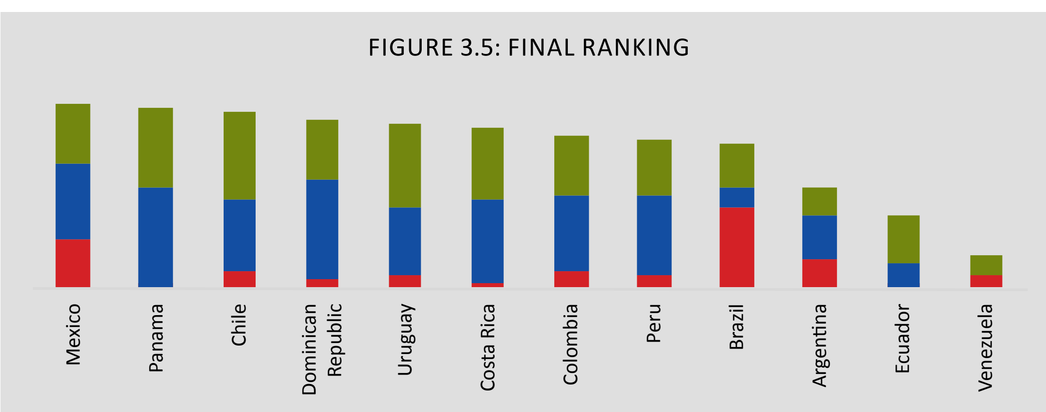


Figure 3.5: Mexico ranks at the top of the Risk-Adjusted Opportunity model owing to its performance in all three of the indices—it is the only country to rank among the top six in all three. Panama and Chile, on the other hand, rank toward the top as a result of high growth rates and favorable business environments.

Section Two: Priority Industries

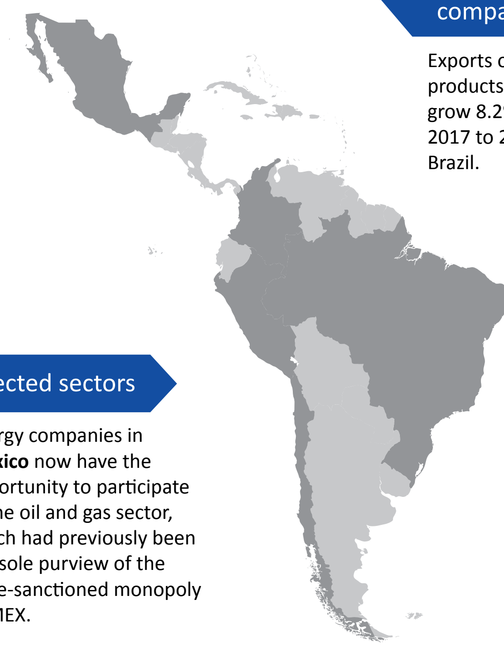
When it comes to industry opportunities across Latin America, much of the relative prioritization will be driven by pan-regional themes. This is due to the fact that, while the priority industries in individual countries may differ, a number of common themes are driving a region-wide narrative. For example, governments are reacting to a challenging economic environment by making policy changes that may drive opportunity in a number of industries. These include both countercyclical policies intended to stimulate growth, as well as the liberalization of previously government-protected industries, which will drive opportunities for companies in the infrastructure and energy sectors, respectively. Additionally, with government coffers depleted because of declining commodity prices, inadequate public funding for vital social services is likely to persist, presenting opportunities for companies in the healthcare and education sectors to step up and fill gaps. Finally, export industries in which LATAM has long held a comparative advantage, such as agriculture and minerals, will continue to be drivers of opportunity in the region.

Countercyclical fiscal stimulus

Colombia is investing in the construction sector, fueled by a government stimulus program called PIPE; however, investment levels are somewhat lower than in **Peru** and **Chile**.

Chile's government is investing in renewable energy, targeting 20% renewable energy by 2025 from a 2014 level of 9%.

Peru has undertaken an ambitious subway project to connect Lima's international airport to the port of Callao, a project worth US$ 5.83 billion



Export with a comparative advantage

Exports of total agricultural products are forecasted to grow 8.2% CAGR in **Peru** from 2017 to 2021 and 6.6% in Brazil.

Liberalization of previously government-protected sectors

In **Brazil**, the implementation of reforms in the aviation sector resulted in the privatization of several government-run airports, presenting opportunities to businesses interested in managing airport operations.

The **Mexican** government broke up oligopolies in the electricity and telecommunications sectors, creating competition, downward price pressure, and opportunities for MNCs to invest.

Energy companies in **Mexico** now have the opportunity to participate in the oil and gas sector, which had previously been the sole purview of the state-sanctioned monopoly PEMEX.

In order to jump-start sluggish economies, many governments across LATAM have implemented countercyclical fiscal stimulus, creating significant opportunities for MNCs in the infrastructure sector. Peru and Chile, which are the two countries that saved the most during the boom years, are investing heavily in infrastructure-related projects. For example, Peru has undertaken an ambitious subway project to connect Lima's international airport to the port of Callao, a project worth US$ 5.83 billion. Meanwhile, Chile's government is investing in renewable energy, targeting 20% renewable energy by 2025 from a 2014 level of 9%. Colombia is also investing in the construction sector, fueled by a government stimulus program called PIPE; however, investment levels are somewhat lower than in Peru and Chile.

Across the region, industries that had previously been under government protection are undergoing liberalization, presenting numerous opportunities for MNCs. For example, energy companies in Mexico now have the opportunity to participate in the oil and gas sector, which had previously been the sole purview of the state-sanctioned monopoly PEMEX. Additionally, the Mexican government broke up oligopolies in the electricity and telecommunications sectors, creating competition, downward price pressure, and opportunities for MNCs to invest. In Brazil, the implementation of reforms in the aviation sector resulted in the privatization of several government-run airports, presenting opportunities to businesses interested in managing airport operations.

Inadequate and poorly administered social services combined with increasing demand for these services will present numerous opportunities for well-positioned MNCs in the healthcare and education sectors. Declining public budgets in LATAM markets suggest that inadequate funding for these services will persist over the medium term. In particular, opportunities in the healthcare sector are numerous across the region and will remain relatively immune to external shocks given demand inelasticity, i.e., demand for these services should remain relatively robust no matter the economic environment.

In addition to these emerging opportunities, industries like agriculture and mining, which benefit from Latin America's vast land resources, will continue to supply opportunities to MNCs. In particular, producers of pulp, soy, sugar cane, meat, orange juice, grains, and minerals should be well positioned for success. For example, exports of total agricultural products are forecasted to grow 8.2% CAGR in Peru from 2017 to 2021 and 6.6% in Brazil.

Chapter 3 Conclusion

When identifying market opportunities, consider both geographies and industries. Smaller countries with high growth rates and a friendly business environment offer some of the best opportunities to MNCs in the region. These countries include Panama, Chile, the Dominican Republic, Uruguay, and Costa Rica. Pan-regional themes, such as countercyclical policies, industry liberalization, the resilience of demand for social services, and the strength of export-led industries, offer significant opportunities to MNCs across a variety of industries.

Chapter 4
Deciding Where to Place a Management Hub in LATAM

A regional management hub is crucial for companies looking to capture opportunities in Latin America. By bringing regional operations closer to the markets, a regional management hub allows MNCs to better manage market volatility and increases their ability to support local partners and customers, among other benefits. When selecting the right location, it is important to consider five key factors: talent, regulation, infrastructure, quality of life, and access to market opportunity.

Section One: Role of Strategic Hubbing

In this volatile macroeconomic environment, MNCs with dedicated management hubs for Latin America will be best positioned for success in the region, because in addition to improving ease of access to key LATAM markets, a well-chosen regional hub can foster closer relationships with customers and partners, improving responsiveness to opportunities and challenges that arise in the region.

Additionally, success in Latin America today depends on having team members who are located in or close to key markets to help manage volatility. Proximity to priority markets ensures that an MNC's regional management team is immersed in the latest developments that are driving performance, such as economic trends and regulatory changes.

Proximity to the region also improves a MNC's ability to respond to the needs of clients and manage key partners. A management hub located near the offices of key accounts allows commercial staff to build deeper relationships with clients and improves responsiveness to client needs. Meanwhile, a strategic location in or close to key markets also improves the ability of a management team to effectively manage existing partners and identify the best new partners for growth in Latin America.

Finally, MNCs with dedicated regional hubs are able to provide a more focused mandate to their regional and country teams. By creating an office solely dedicated to a single region, teams are able to focus their attention on achieving the business unit's strategic objectives. Moreover, companies gain credibility in the eyes of their partners and customers by having a regional presence. In doing so, companies are better able to quickly and efficiently expand their market share and customer base.

Section Two: Selection Factors

When selecting a management hub, it is important to take a methodical, data-driven approach to ensure that the Latin America business unit is set up for long-term success. All too often, decisions are influenced by the subjective opinions and preferences of people involved in the process, which may result in a suboptimal outcome. A balanced, data-driven approach that considers the following five factors will ensure the selection of a hub that is aligned with the long-term strategic objectives of your business.

Factor #1: Talent

When selecting the location of a management hub, consider the characteristics of the labor force from which you will draw your local team. First, consider whether to staff the office primarily with new hires, relocated employees from existing offices, or a combination of both. If hiring locally is a preferred and available option, then the evaluation of hub sites should prioritize the quality and cost of local talent, with a focus on ensuring linguistic and cultural connections to Latin America. If the local talent pool will not be able to completely meet operational needs, study the cost and feasibility of relocating current employees.

Factor #2: Regulations

Next, consider the location's regulatory environment. An important consideration will be personal and corporate tax rates, which will have a significant impact on operating costs. In addition, evaluate the strength of the legal system, the clarity of local laws, and intellectual property protections.

Finally, investigate the benefits offered to MNCs by local public institutions, which may assist in the relocation process, facilitate business engagements, or provide financial incentives.

Factor #3: Infrastructure

Understanding what each location offers in terms of business support infrastructure and physical infrastructure is another critical aspect of the decision-making process. The presence of a strong network of financial, legal, and professional services firms will allows the company to operate more effectively in the region.

Additionally, choosing a location with robust physical infrastructure is crucial to establishing a hub that is truly connected to the rest of the region. A potential regional hub must be equipped with reliable telecommunications infrastructure to facilitate business communication with the rest of the region. The location should also offer quick and inexpensive direct flights to the major cities in the region, such as Bogota, Panama City, Mexico City, and São Paulo. Finally, an ideal regional hub will have plentiful and affordably priced office space.

Factor #4: Quality of life

While not directly related to business operations, quality of life is an important criterion to consider when selecting a location for a management hub, as it impacts a MNC's ability to attract and retain talent. Safety is a critically important aspect in this, especially given recent upsurges of violence across the region. Next, cost of living is also an important consideration, impacting the ability of employees to live in convenient locations as well as compensation requirements. Finally, employees with children will place a premium on working in an area with access to a high-quality education system for their children. With this in mind, a decision about a management hub location should consider the quality of local public and private schools.

Factor #5: Access to market opportunities

The final factor to consider is access to Latin American markets. Conducting business across the region is greatly facilitated with increased proximity to customers. Latin America management hubs should offer businesses quick access to strategically important markets. Consider time zones as well, given that a similar time zone will decrease the need for late-night and early-morning phone calls, helping to maintain employee motivation through better work-life balance.

#1 Talent

- Hiring Considerations
  - Local Hires
    - Quality
    - Cost
  - Non-local hires
    - Visa restrictions
    - Relocation costs
- Culture/language

#2 Regulation

- Rule of law
  - Clarity
  - Government effectiveness
  - IP strength
- Tax Rates
  - Corporate
  - Personal
- Trade Agreements
  - Goods
  - Services
- Public support (incentives)

#3 Infrastructure

- Business support infrastructure
  - Financial
  - Consulting
  - Legal
- Physical infrastructure
  - Flights
  - Broadband Internet
  - Ease of Shipping
  - Lease/building costs

#4 Quality of Life

- Safety
- Socioeconomic stability
- Cost of living
- Education

#5 Access to Market Opportunity

- Proximity
- Time zone

Chapter 4 Conclusion

Companies with dedicated regional hubs for Latin America will be best positioned to capture opportunity in this difficult economic environment. MNCs with regional hubs are able to build closer relationships with customers and more effectively manage partners in the region, and by having team members close to the region, an organization can more effectively manage volatility. When selecting a location for a regional hub, it is important to use a data-driven objective approach that focuses on five factors: talent, regulations, infrastructure, quality of life, and access to market opportunities. A rigorous selection process that considers all of these factors will ensure that the location of a regional hub is closely aligned with the long-term objectives of the business.

Chapter 5
Florida’s Advantages as a LATAM Hub

When deciding where to locate a Latin America management hub, MNCs often consider Florida alongside other locations such as Panama City, São Paulo, Mexico City, and San Juan. A careful and methodical comparison of Florida to other leading locations for regional hubs reveals consistent advantages across a variety of categories. Florida’s skilled talent pool, proximity and ease of access to the region, favorable regulatory environment, and high quality of life make it clear why so many MNCs have chosen to locate their regional hubs in Florida. Florida distinguishes itself from other locations, because while it is a part of the US, it is connected to Latin America in a way other US locations are not. This unique position makes Florida an ideal location for managing a portfolio of Latin American markets.

Section One: Quantitative Comparison

As mentioned in Chapter 4, using a methodical, data-driven approach to select a regional hub ensures a strong and objective outcome that puts the best interests of the business first. When conducting such an assessment, begin by building a list of potential locations and conducting an in-depth analysis of the relative strengths and weaknesses of each location according to the criteria that are most important for the long-term success of the business.

Figure 5.1 provides an example of a data-driven analysis of potential hub locations. The table allows executives to easily compare five common Latin America management hubs against each other in eight criteria, aligned with the five criteria categories outlined in Chapter 4: talent, regulations, infrastructure, quality of life, and access to market opportunity.

FIGURE 5.1: A DATA DRIVEN COMPARISON OF LEADING LATAM HUBS

Category	Criteria	Florida	Panama City	São Paulo	Mexico City	San Juan
Talent	1. Labor	4	80	122	114	46
Regulations	2. Tax	53	166	178	92	134
	3. Rule of Law	25	95	124	105	20
Quality of Life	4. Quality of Life	66	96	121	127	74
Infrastructure	5. Infrastructure	11	40	74	59	58
	6. Networking Benefit	33%	-	21%	13%	-
	7. Real Estate Cost	$525	$368	$962	$450	-
Access to Market Opportunity	8. Distance to Markets	2,746	1,848	2,182	2,779	2,442

Table
1. Labor: Global Competitiveness Index, measures labor market efficiency, global ranking
2. Tax: Ease of Doing Business Ranking, measures friendliness of the tax environment of a country, global ranking
3. Rule of Law: WEF Competitiveness Index measures effectiveness of legal framework in settling disputes, global ranking
4. Quality of Life: Mercer Quality of Living Ranking, assesses quality of living conditions in 230 cities
5. Infrastructure: Global Competitiveness Index, measures availability of infrastructure, global ranking
6. Networking Benefit: percent of companies with regional headquarters in each location, based on Frontier Strategy Group client survey, n=70
7. Real Estate Cost: AméricaEconomía, annual price of commercial real estate per square foot
8. Distance to Markets: average distance in miles to São Paulo, Mexico City, Panama, City, Bogota, Lima, Santiago, and Buenos Aires

The table below includes an overview of the qualitative advantages and disadvantages of the leading LATAM management hubs.

Florida	San Juan	Panama City	São Paulo and Mexico City
Advantages: • Ranks at the top in five of the eight criteria • High-quality talent pool with many Spanish and Portuguese speakers • Benefits from being in the US, e.g., regulations • Numerous direct flights to the region **Disadvantages:** • Not located directly in a Latin American market	**Advantages:** • Rule of law • Connection to the US, including the US dollar **Disadvantages:** • Small talent pool requires most employees to relocate • Current economic turmoil	**Advantages:** • Central location • Tax benefits **Disadvantages:** • Difficult and expensive to obtain talent	**Advantages:** • Located in the center of a large market **Disadvantages:** • Local concerns may take precedence over regional priorities: multinationals will take a "Brazil +" or "Mexico +" approach rather than a portfolio approach
Summary: Florida's high rank in five of the eight criteria places the market far ahead of any of the other leading options. The local labor pool makes it easy to find local talent, while the high quality of life is a draw for current team members relocating from other cities	**Summary:** While San Juan would have been a top choice a few years ago, many of its advantages have diminished. While obtaining numerous benefits from Puerto Rico's status as a US territory, the territory's current economic climate creates uncertainty and instability	**Summary:** Despite its central location, Panama City lacks the benefits of being part of an advanced economy. Panama City also suffers from a notable lack of access to talent, poor overall infrastructure, and weakly-defined and established laws	**Summary:** MNCs looking to manage a portfolio of LATAM markets with operations across the region will face challenges if managing the region from São Paulo or Mexico City. These two cities offer great access to their respective countries but lack connections to the region as a whole

Section Two: Florida

Further investigation of the advantages enumerated above reveals why so many leading MNCs have chosen to locate in Florida. The state's outstanding talent pool, proximity and ease of access to the region, high quality of life, and favorable regulatory environment make it the clear choice for MNCs seeking a regional management hub for Latin America.

Talent: Florida's labor force is one of the largest in the US. Beyond physical proximity and ease of access to the region, Florida's demographics illustrate a workforce with cultural and linguistic connections to the region, which makes doing business in Latin America more efficient and makes Florida an attractive destination for team members relocating from the LATAM region. 27% of Florida's population speaks a second language, with 4 million people speaking Spanish and 86,000 speaking Portuguese. While other locations in Latin America may offer this connection, no other choice is as easy to relocate to as Florida. In addition to these cultural ties, current employees considering relocation from other cities may be drawn to Florida's high standard of living and well-known quality of life.

Regulation: Florida offers all of the benefits that come with being located within the US from a regulatory and legal perspective. As part of the US, Florida's favorable regulatory environment allows businesses to establish operations with ease. In addition, MNCs in Florida benefit from the protections of a highly efficient and transparent legal and judicial system, allowing for faster and easier resolution of legal disputes than may be found within the other Latin American markets. In addition to intellectual property protections under US federal law, MNCs receive additional safeguards from favorable state laws protecting trademarks and trade secrets.

Infrastructure: The state's vibrant business community offers MNCs access to a wide variety of high-quality professional services. Florida offers a robust financial services sector, with over 32,000 financial services companies that can support MNCs in the state. In addition, many business-consulting firms tailor their services to meet the needs of the 1,100 of MNCs located in southern Florida. Additionally, the presence of 44 consulates and 33 bi-national chambers of commerce increases the efficiency of conducting international business.

Finally, Florida's physical infrastructure fosters a robust connection to the LATAM region. 19 airports support direct flights to over 100 cities across Latin America, such as Bogota, Mexico City, São Paulo, and Panama City. Fifteen deep water seaports, 300 customs brokers, and more than 1,000 freight forwarding agents have propelled Florida to be the number one trading partner to Latin America in the US.

MAP OF DIRECT FLIGHTS FROM FLORIDA TO LATAM CITIES

Quality of life: Florida is renowned for the high quality of life its residents enjoy. Many relocated executives cite the pleasant climate as one of the top benefits of living in the state. Florida also offers a safe and secure environment to live and work in, which can be a concern in a number of cities in Latin America, such as Bogota, São Paulo, Mexico City, and Caracas. In addition to physical security, Florida offers the monetary security that comes with living in an advanced economy. The ability to not only conduct business in US dollars but also one's personal life is a great advantage. Additionally, Florida offers a wealth of vibrant cultural attractions for employees, including 33 IMAX theaters, 25 amusement parks, 11 national parks, and 1,350 miles of coastline.

Access to markets: Florida's proximity and ease of access to key Latin American markets make it an ideal location from which to manage a regional business. While not located directly in a Latin American market, executives in Miami can reach Mexico City, Bogota, and Panama City in approximately three and a half hours. As an added bonus, executives have quick access to corporate headquarters located within the US, with hubs such as New York and Chicago just a three-hour direct-flight away. With a maximum two-hour time zone difference from every country in Latin America, a Florida hub allows executives to easily communicate with local partners, enabling them to effectively manage day-to-day operations and quickly respond to evolving challenges.

Chapter 5 Conclusion

A methodical, data-driven analysis of Florida relative to other LATAM regional hubs reveals key advantages in almost all categories. Florida's affordable and highly qualified talent pool, favorable and transparent regulatory environment, famous quality of life, and close connection to the LATAM region add up to make it the clear choice for MNCs seeking a LATAM regional hub. While not directly embedded in the region, Florida offers a unique region-wide perspective that is hard to maintain for hubs located within the region, given its favorable regulatory environment and stability. Unlike other locations within the US, Florida offers a strong cultural connection and easy access to key LATAM markets. These unique advantages make Florida an ideal location for MNCs in all industries to manage their LATAM operations.

Chapter 6
Case Studies of Florida-based MNCs

Ecolab's new regional management hub in Miramar brings it closer to key customers

COMPANY: Ecolab Inc., a Fortune 500 industrial equipment supplier with over 45,000 employees

HUB LOCATION: Miramar, Florida

Until recently, the Ecolab Latin America operation was primarily run out of Ecolab's corporate headquarters in Saint Paul, Minn. Then in 2011, through a major acquisition, the company increased its LATAM regional footprint dramatically. Shortly thereafter, the team began due diligence on establishing a new regional management hub. The new headquarters for Latin America officially opened in Miramar, Florida in January 2016 and is currently up and running.

The Ecolab team evaluated Panama City, Mexico City, São Paulo, Miami, and Houston as prospective hubs. Houston was ruled out because of an insufficient number of direct flights to the region. Other cities such as São Paulo and Mexico City could not match South Florida's access to talent or the long-term stability offered by doing business in the U.S.

"I spoke with several recruiting firms asking who had explored elsewhere. We heard that several companies had left Miami for places like Panama City or Mexico City, only to come back to Florida a few years later." – Jeremy O'Brien, VP of Human Resources, Latin America at Ecolab

Florida's chief advantage has proven to be the proximity to Ecolab's customers and partners, as well as access to talent in the region. Though Florida is not embedded within the LATAM region, Ecolab views this as a strategic advantage, given the stable currency and political environment that comes with operating in the U.S.

"My take on South Florida is that everything is accessible; not just accessibility to destinations, but also accessibility to our customers, because so many MNCs have their offices here across the hotel, hospitality, food and beverage, and industrial industries." – John Guttery, SVP and President of Latin America at Ecolab

The quality of life offered by South Florida has also made it easy for Ecolab to attract talent, due to the area's appeal as a great place to live and work.

"You can get talented people to move to Miami, both from outside and inside the company, which creates a great platform to sustain the company's growth." – John Guttery, SVP and President of Latin America at Ecolab

Lexmark stresses the importance of location within South Florida when choosing a regional hub

COMPANY: Lexmark International, Inc., an enterprise software provider with over 10,000 employees

HUB LOCATION: Coral Gables, Florida

Lexmark established a Latin America management hub in Coral Gables over ten years ago. At the time, the business was expanding rapidly, and Lexmark chose to locate its offices in Coral Gables based on the recommendation of a senior manager. The Lexmark team grew the regional hub gradually, relocating its LATAM management team to the office over two years.

In establishing a regional hub, Lexmark Finance Director Robert Kerber stressed that the location within the Miami area is important, as "5–10 miles can make a huge difference" in terms of accessibility and cost of living. While those in the finance, consulting, and insurance industries tend to cluster in downtown Miami, companies in other industries may find significant cost advantages to considering locations outside the city limits.

In the years since establishing its regional hub in South Florida, Lexmark has benefited from the area's the high-quality talent pool, hiring many highly qualified employees with the language skills necessary to do business in the region.

> *"The Miami area has a broad-based professional workforce with the language skills and cultural experience that you need to manage a business in Latin America…the advantages of being in Miami far outweigh the disadvantages of being a couple hours flight from your actual operations and management base."—Robert Kerber, Finance Director of Latin America, Lexmark*

In addition, Lexmark believes that Florida offers cost savings to MNCs over the long term when compared to other hub locations in the region.

> *"Even compared to a lot of the other non-US options, there's a lot more stability, and even long-term, there's cost competitiveness with infrastructure, communications capability, and labor costs. It's pretty much a no-brainer for me." —Robert Kerber, Finance Director of Latin America, Lexmark*

Finally, proximity to its distributors and other partners is a major advantage for Lexmark, as all of its US-based partners have offices in the area, allowing it to more effectively manage relationships with vital partners.

Moving its management hub from Mexico City to Miami gave Ferring a truly region-wide perspective on its portfolio of Latin American markets

COMPANY: Ferring Pharmaceuticals, biopharmaceutical company with 5,000 employees

HUB LOCATION: Miami

Ferring relocated its management hub from Mexico City to Miami in 2014 in order to better serve its growing Latin America business. Ferring considered placing its hub in a number of locations, including Panama City, New Jersey, and São Paulo; however, the team quickly determined that Miami was the best fit for its needs. Though New Jersey is a major hub for other players in the pharmaceutical space, it was too far removed from the LATAM region. The team also ruled out Panama City, citing concerns that hiring talent in Panama would be significantly more difficult than in Florida. Florida stood out for its access to talent, as well as the availability of direct flights into the region.

FERRING PHARMACEUTICALS

> *"As the business grew, we knew that the region needed to have its own responsibilities and should be separate." –Edvard Philipson, VP of Latin America, Ferring Pharmaceuticals*

One of the greatest advantages of Ferring's move to Miami has been the ability to take a broader, region-wide perspective on its LATAM strategy. Because the office is not managing a particular country or territory from the same office, it can more effectively manage its entire portfolio of LATAM markets.

> *"One benefit is that because there is no country or territory that is managed here at the same time, you get the broad perspective, looking at the whole region." – Edvard Philipson, VP of Latin America, Ferring Pharmaceuticals*

Another major advantage of Florida for Ferring has been the concentration of industry peers with hubs nearby. This concentration of other important pharmaceutical companies, as well as service providers that cater to these companies, has been a major advantage to Ferring.

> *"If it's for a regional LATAM hub, there is no other city like Miami." –Edvard Philipson, VP of Latin America, Ferring Pharmaceuticals*

About Frontier Strategy Group

The leader in emerging-markets information services

Frontier Strategy Group (FSG) is the leading emerging-market information services and advisory firm. By partnering with more than 200 multinational companies for nearly a decade, we have developed a unique perspective on the workflows, management priorities, and key challenges of our clients. We have assembled this perspective into an integrated solution that powers and supports business-critical activities, such as strategic planning, commercial execution, and market monitoring.

A trusted partner to 5,550+ corporate leaders

Our services

FrontierView™ Platform

- Frontier Data
- Tools & Analytics
- Research
- Experts
- Events

FrontierView provides senior executives with an integrated platform of resources to support their strategic planning and management priorities.

Custom Engagements

- Market Prioritization
- Market Opportunity Assessment
- Channel Management
- Demand Planning
- Risk Management

Custom Engagements provide comprehensive, project-based solutions to address our clients' most pressing needs. Includes access to FrontierView Platform.

Frontier Strategy Group

FSG AROUND THE WORLD

Washington DC
1150 18th St, NW
Suite 350
Washington, DC 20036 USA
Tel: +1 202 741 1333

London
25 Southampton Buildings
London WC2A 1AL
Tel: +44 (0) 203 709 9385

Singapore
9 Battery Road
11/F Straits Trading Building
Singapore 049910
Tel: +65 6422 7920

FSG ONLINE

www.frontierstrategygroup.com

Follow us on Twitter: @FrontierStrtGrp

Connect with us on LinkedIn

Read the blog: blog.frontierstrategygroup.com

Listen to our podcast "Emerging Markets Insights" on iTunes

Want to learn more?
Contact us:
info@frontierstrategygroup.com
+1 202.741.1333