Economic and commercial changes taking place at the national and international levels have important implications for the Latin American enterprise. Economic liberalization, real exchange rates, reduction of trade barriers, and vanishing protectionism allow for the penetration of international competitors in domestic markets with equal conditions, intensifying business rivalry. This is no doubt a basic reason for the greater interest that we have noted on the part of Latin American businesses in redefining their competitive strategy, as we see in the cases selected for this special issue.

The fundamental objective of formulating and implementing a business strategy is to ensure higher return on investment in the long term. This competitive advantage should be unique and depend upon a range of key elements whose objective is to make imitation difficult for the competition. Both high and low performing companies can be found in all industries, independent of how attractive these industries may be. This clearly demonstrates that the success of a business will depend on the concrete actions it takes to compete, not on the average profitability level of its industry.

The history of economic development in Latin America has been marked by policies of import substitution during much of the twentieth century, as a means of spurring industrialization throughout the region. This translated into greater levels of protectionism, including high tariffs, nontariff barriers, and licensing, which in the majority of cases promoted the development of local businesses with low levels of international competitiveness. Indeed, in the past, doing business successfully was relatively simple when compared with other parts of the world or to the same region today. Almost anything was good business since both the competition and consumer options were totally limited. The case Turri S.A. (Paladino and Almaraz, 1994) included in this special issue, describes past and present economic development strategies in Latin America by using Argentina as an example and clearly traces the implications of these policies for management at the company level.

The reduction of trade barriers, the liberalization of economies, and the subsequent change in the structure of industries have all affected the level of competition in Latin America. This in turn has substantially heightened pressure on both local companies and on multinationals located in the region that are interested in developing new strategies for competing in local, regional, and international markets. In recent years, we have observed different ways of competing in each of these markets, and although the individual company strategies vary widely, we may group them into four general categories for analysis: national defense; alliances between local competitors; creation of real competitive advantage at the local level; and going international, regional, or global.

National Defense Strategy

This strategy is used by Latin American companies to defend their local market through the active promotion of protectionist policies. They lobby for governmental and congressional support in keep tariffs high and to impose nontariff barriers on international trade, thus restricting the entrance of imported goods and services into the country or at least making their prices prohibitive for local consumers.

The arguments commonly used to support this strategy are based upon the unfair advantage of large multinational companies. These arguments include fears about the impossibility of competing against multinational giants and about the threat that they will come in and buy up or destroy local businesses and the employment they generate. Such arguments are appealing to many political factions. They are useful for labor unions and may be convincing to the public at large that has never had the opportunity to exercise choice in daily consumption. Throughout the years, this strategy has been common practice in the Latin American business environment under the import substitution model. Today, it is used by businesspeople and managers who have not been able to anticipate the impact that free market forces and trade liberalization would have on their industrial sector. As a result they have no other recourse but to resist the change by fighting to keep international competition from penetrating the local...
market with the hope of securing protection for a few more years. This strategy, when used by private sector associations with strong political influence, has been successful in prolonging protectionist policies in some countries.

From a pragmatic business perspective, the use of national defense as a strategy is absolutely valid as a means of maximizing profits. Businesspeople naturally will attempt to eliminate or reduce the level of competition that must be faced, and whoever claims the contrary has probably never had to meet a payroll. Thus, the pursuit of a national defense strategy is understandable, although we must recognize that both the country and the consumers may suffer the consequences of inefficiencies resulting from a lack of competition, such as high prices, less variety, lower levels of service, and poor quality.

Given the circumstances surrounding international trade today, a national defense strategy cannot be considered sustainable since experts consider that trade liberalization is a reality in the long term. The valid question is not why to embark upon such a strategy, but rather, what actions to take during the period that protection still exists. Most countries in Latin America and in the world are opening their borders, and every day it will become more difficult to convince policy makers to raise or maintain levels of protectionism. When governments do agree to protect certain sectors of the economy, it is usually a temporary measure during an adjustment period rather than a permanent policy.

If the national defense strategy is to be employed by an association of businesses, then it must be recognized that this strategy will provide only a temporary advantage and as such will win the country a little time to develop a true competitive advantage that will allow it to compete at in local and international markets. Unfortunately, we have noted that many Latin American companies opt to fight for the status quo per se and not for the purpose of buying time to prepare for trade liberalization. In most cases, these companies fail as soon as a strategy could be considered monopolistic and thus explicitly prohibited by law.

Alliances between Local Competitors

In recent years, we have observed a significant increase in alliances between local competitors in order to improve the local strategic positioning companies involved. One interesting aspect of this strategic option is that for decades many of these companies had been fierce rivals in the local market, and now we see them acting together to defend their market from external competitive threats. Examples that we have studied include the poultry industry in a Central American country, where an alliance was developed between local competitors in order to confront the dreaded international competi-
inevitable failure. Clearly, no alliance or merger by itself is a substitute for operational effectiveness or sound competitive strategy. Members of such opportunistic alliances will not be able to compete in an open market unless they undergo drastic change in the way they operate and/or in the way they compete. In either case, the first step is to review performance and strategy to evaluate whether an alliance or merger will provide the complementary operating skills or will improve the company's strategic position so that it can compete successfully.

It should be clear that what is really being achieved a local alliance strategy is time to prepare for open competition. If the time is not well used, all that is obtained is temporary protection from the market, which basically makes this another variation of the national defense strategy. Unfortunately, many Latin American companies do not take advantage of this unique opportunity to prepare for competition by making the decisions and investments needed to assure their future success. Curiously, the temporary advantage provided by an alliance is often utilized to exploit an oligopolistic position and to continue “milking the company” rather than preparing it to compete.

Whether or not this strategy is sustainable will depend on the level of commitment, complementarity, synergy, and how serious the companies are about making the changes required for a competitive market. Effective management of strategic alliances requires that the companies involved know each other very well, that they are able to identify areas of complementarity, determine potential areas of conflict, set up clear rules, achieve congruency of strategies and goals, communicate clearly and frequently, carry out transparent transactions, compete equitably, act flexibly, review their agreement constantly, and finally, recognize the moment when the alliance should end.

Creation of Local Competitive Advantage

Strategies of national defense and alliances between local competitors are both temporary responses, although as we have said, they can be advantageous because they provide the space and time to develop a true competitive advantage that will ensure success. We shall now address this issue directly. How is it that true local competitive advantage is created? This is an important question not only in the defense of domestic markets but also because the same advantage that enables a company to compete locally also may enable it to compete internationally.

Genuine competitive advantage must be based on a group of strategic dimensions possessed by the local company that are difficult to imitate—especially by a foreign business—and that ensure the company’s long-term sustainability. When competing in its local market against very large multinational or global companies that possess superior economic, human, and technological resources, the local company must take advantage of every possible resource available in order to capitalize upon its many years of influence in the market, exploiting the fact that it is a local “elephant” and not merely an “ant” at the global level.

The multinationals interested in Latin American markets include world giants with much experience in penetrating emerging markets. Their strategies range from direct investment in new “green field” operations to acquisition of local companies and distribution chains. Local companies usually have four alternatives in the face of such competition: they can sell their business, become allies, compete successfully, or simply do nothing and wait for the inevitable erosion of their markets and failure of their business. One might ask why a world giant, with all its resources, might be interested in acquiring or establishing an alliance with a local company. In fact, local companies may be in an excellent position to negotiate alliances or outright sale to international competitors who perceive them as obstacles to local market penetration or as interesting opportunities for growth. This is precisely why it is important for a company to create real competitive advantage in its local market. It vastly improves the company’s negotiating position, and, in the worst of cases, enhances the value for sale to foreign investors.

Our research indicates that those companies that have been able to develop a clear and consistent strategy for local market positioning also have been capable of sustaining their position, even against the largest and strongest of international competitors, without the need to sell out or form an alliance. Local customers that have been consuming quality products and services from these companies for many years generally continue to be loyal even when new options appear on the market, unless the quality-price relation changes drastically. Companies that have gained a position of local competitive advantage are usually the ones that fight hardest to maintain their independence and to control their own destiny. Before selling out or allying with multinationals, they are tireless in seeking other options that allow them to maintain control, such as selling shares to the public, seeking venture capital, or gaining access to technology, that allow them to continue being successful in their domestic market.

Experience with Latin American companies that have successfully made use of the local positioning strategy indicates that some of the most important strategic dimensions are image and brand familiarity, knowledge of local consumer needs, access and close relationships with the complex network of local distribution channels, the maintenance of suitable levels of technology and innovation, specialization, selectivity in the recruitment of human resources and programs for their continued development, and the appropriate degree of vertical integration.

This Special Issue describes some of the most important examples of the creation of local competitive advantages. These include the acquisition of new product lines, technology and systems of production as illustrated in Agroceres-Pic.
Going International: Regional or Global

Latin American companies have recognized that creating local competitive advantage in domestic markets is often not enough to ensure sustained growth and profitability; sometimes it becomes necessary to expand activities into the regional or international arena.

There are several reasons for this. First, new markets must be sought to achieve economies of scale for competing with international companies entering the region. These companies generally are much larger and more efficient, since they are competing at the regional or global level. For many decades Latin America's traditional protectionism permitted only the development of relatively small companies that could compete successfully in local markets where there was no external competition of any kind. Today it is much more difficult for smaller-scale businesses to compete, even when they enjoy a local competitive advantage. The need to confront companies that are much larger and much more efficient has motivated organizations to achieve higher levels of efficiency, and in many cases this is obtained through geographic expansion, either regionally or globally. This strategy not only makes it possible for the companies to compete in new markets but also to improve their competitive position in the local market. A good example of the strategy, included in this special issue, is the case of Virutex Ilko, a Chilean company that decides to export to the United States and later to Europe.

The second reason is based on the limitations of local markets. Businesses interested in aggressive growth generally find that local possibilities are limited, and this forces them to expand operations outside their national boundaries. This was also true in the past, but the decision to expand geographically had more to do with vertical or horizontal integration or diversification. We have observed that many family groups and consortiums in Latin America decided to continue growth by means of investments in their own country but in activities other than their own principal business. Experience has shown that in most cases this was not the best decision. Specialization or concentration of the principal business has been the most successful option now that Latin America is facing a business setting that is much more open in terms of trade and economic policy. Given this situation, the large Latin American groups have had to focus their efforts on the activities where they have developed real competitive advantages and have consequently found themselves obliged to expand into other markets as a means of maintaining the desired level of growth. The Endesa case provides an excellent example of a Chilean company with a desire and necessity for growth after earning significant financial surpluses, but totally limited by the restricted possibilities at the local level. As a result, rather than thinking about diversification into completely unknown fields, Endesa decide its best option was to stay within its area of expertise and invest in Argentina.

A third reason for regional or global expansion concerns the real or apparent limitations that local businesses perceive in regard to new competition in their own market. On many occasions the companies seek out new markets, since most often the new competition means a partial loss of their market share and consequent underutilization of production capacity, which is offset through exports to other markets. In some cases, such as that of Rheem-Saiar, the company not only had to face an important change in the local setting caused by more competition, but it also had excess capacity and a great business opportunity to penetrate new markets in developed countries using new and different strategies, with enormous potential for growth.

In still other cases, regional or global expansion has been the result of a changing mentality on the part of the Latin American businessperson who has been moving away from a narrow, local vision toward a regional or global one. These businesspeople have discovered that the characteristics of specific market segments in other parts of the world are often similar to these same segments in their domestic market, allowing them to develop their company under the same regional or even global strategic concept. This penetration of regional or global markets turned out well when the company already had been successful in its own market. Bancrecense is a good example, since its strategy in Costa Rica—which the company would like to repeat in the rest of Central America—is exactly the same as the one employed by its parent company in Mexico.

In some instances companies have discovered better possi-
abilities for long-term positioning, growth, and profitability in Latin American markets than in the developed countries. Regional businesses traditionally have penetrated international markets under strategies of low cost (Woodside, 1997), but on many occasions Latin American markets offer opportunities to change their positioning to one of greater differentiation and higher profitability. Examples are Virutex Ilko and an earlier case not included in this volume, Hush Puppies Chile (Morrison and Bowey, 1993).

The strategy of penetrating international markets has been repeated successfully by Latin American companies. One example is the case of Consorcio Ferrex (Goiri, Edigo, and Martínez, 1993), which involved a group of competing companies who joined together in order to export to developed countries. The consortium integrated volume, variety, transportation, design, marketing, etc. under one single brand but only for export purposes. Another example is the use of alliances with multinationals first to obtain suitable levels of technology and then to penetrate new markets, as in the cases of Agroceres-Pic, CECSA, and Turri S.A. A final example is the acquisition of ongoing businesses or new projects using direct investment, as in the case of Endesa. A widely used strategy for achieving success in such difficult markets as the United States has been penetration through what we could call political leaders, for example, restaurants, bars, bakeries, catalogues, etc. A good illustration is provided by Mexico’s Corona Beer (Rodríguez and Brenes, 1997), which initially worked through Mexican-style bars and restaurants to make itself known to the public, instead of using publicity or promotion. Once it had attained brand recognition, the beer was introduced successfully at the retail level.

Our research shows that by searching out and conquering international markets companies will see an improvement in their competitive position in the local markets. This strategy has been used successfully by many Latin American businesses for many years but is employed more now that we are facing greater economic and trade liberalization. Companies such as Hush Puppies Uruguay, a subsidiary of Hush Puppies Chile; Mavesa; Chocolates El Rey, and many others recently have been following this strategy. For example, Mavesa is a company with a very strong position in the Venezuelan market in the area of value-added, fat and vegetable oil–based products. The company has decided to take advantage of its abilities and resources to compete in both local and new markets, even though in many of these it faces strong competition from multinationals such as Unilever, Kraft, and Cargill. Its original goal was marketing to the Andean Pact and then the rest of Latin America, but today its products can be found all over the world. Because of its growing financial needs, the company also decided to make use of international capital markets, and today is quoted on the New York Stock Exchange.

In conclusion, there are at least four strategic options for Latin American companies facing international competition, the national defense strategy: alliances between local competitors; the creation of local competitive advantage; and going international. It should be clear, however, that the only strategies for long-term sustainability are those that pursue true competitive advantage rather than temporary protection. Experience documented in these case studies has shown that this competitive advantage will be of assistance in international as well as in local markets.

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