



TOGETHER
for a sustainable future

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latin american newsletters
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the internet in latin america: investigating the boom

*11 and 12 October 2000
The Conference Forum, London E1 8DX, England*

developing internet related businesses in
latam – opportunities and challenges

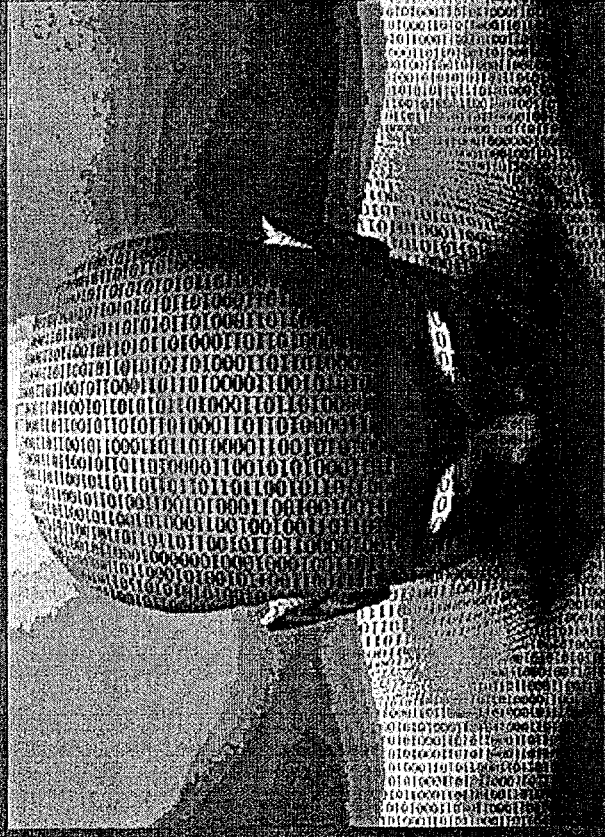
paper presented by:

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Latin American
Newsletters

CONFERENCE:
*"The Internet In Latin America:
Monitoring the Boom"*

Developing Internet Related Businesses in Latin America—Opportunities and Challenges



London, October 11, 2000

Jorge Forteza
Francis Liu

BOOZ ALLEN & HAMILTON
Management & Technology Consultants To The World

AGENDA

- Potential size of the opportunity
 - B2B
 - B2C
- Mid term, likely industry structure
- Emerging challenges and opportunities

SIZE: SOME NUMBERS TO CONSIDER

- Size of the economy: 3 blocks
 - Mexico: US\$ 800 bn (including U.S. Mexican market)
 - Andean Region: US\$ 200-300 bn
 - Mercosur: US\$ 1.400 bn, from which:
 - Brazil: US\$ 900 bn
 - Argentina: US\$ 300 bn
- Mercosur + Andean + Mexico: US\$ 2.500 bn > France, similar to Germany
- Mercosur: US\$1.400 bn: 2 times Spain, similar to Italy
- Thus, L.A. markets appear attractive—at issue is the social and productive structure in the region

CONSIDERING THE SOCIAL STRUCTURE, WE REACH AN "ADDRESSABLE" MARKET OF 50-60 MILLION

SOCIAL STRUCTURE

A

B
C1

C2
C3

D

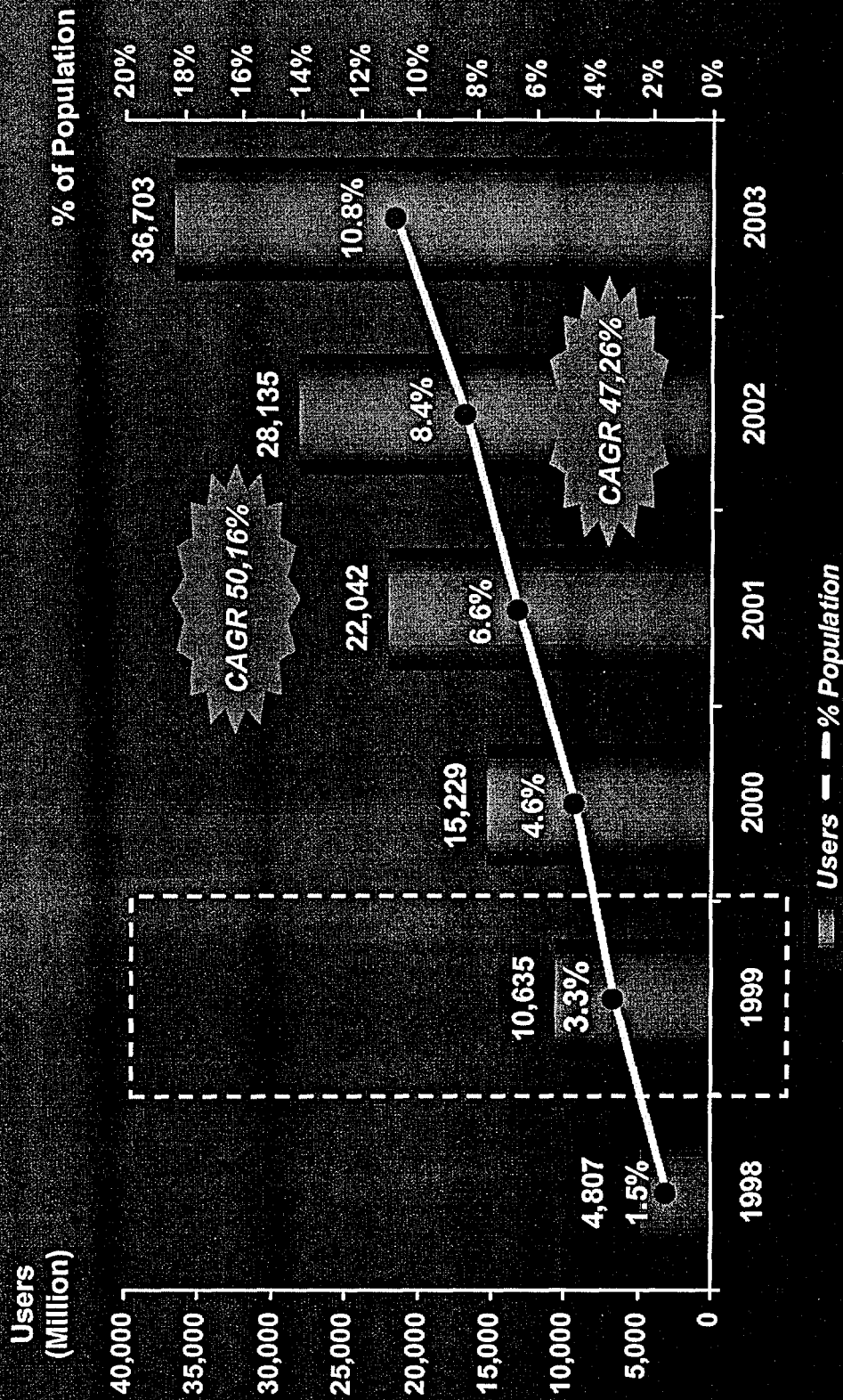
TOTAL

	Chile	Brazil	Argentina	Mexico
A	0.2	4.2	0.5	1.6
B C1	1.3	31.9	4.4	12.8
C2 C3	6.5	44.0	11.7	18.9
D	6.5	87.9	20.4	63.1
TOTAL	14.5	168	37	97

50 to 60 Million People

Note: In case of Chile, class D includes class E

FROM WHICH THERE ARE CURRENTLY 10 TO 11 MILLION USERS



Source: Analysis EA&H, MSDW, IDC, Forrester, CCS

WITH A POTENTIAL SIZE IN 2003 OF 35 TO 40 MILLION USERS BY 2003

POTENTIAL OF INTERNET PENETRATION

	Actual	2003		Users (Million)
		Over Total Population	Over Addressable Market ^{a)}	
Mexico	2%	10%	70%	11
Brazil	5%	10%	50%	18
Argentina	3%	10%	80%	4-6
Chile	7%	14%	90%	2-4
USA	55%	75%+	N/A	190+

35-40 Million People

(a): A,B, C1

Source: BA&H analysis

E-BUSINESS IN LATIN AMERICA SHOULD REPRESENT A US\$8.5-16.0 BILLION OPPORTUNITY

	ACTUAL	2003 (\$ Billion)	
B2C	0.5	1.5-3.0	50% Brazil
B2B	1.0	7.0-13.0	60% Brazil, 30% Mexico
EUROPE	20 Bn	400 Bn	
USA	150 Bn	700 Bn to 2 Trill	
	US\$1.5 Bn	US\$ 8.5-16.0 Bn	

Source: IDC, Forrester, BA&H analysis

THE COMPETITIVE SHAKEOUT IS B2C IS LIKELY TO BE DRAMATIC—TOO MANY PLAYERS CHASING TOO FEW DOLLARS

- **ISP**
 - Massive consolidation in narrow band; free access
 - Rapid development/roll out of broadband (CATV and ADSL) in urban, affluent homes
- **Horizontal/mass portal—dominance by 2-3 integrated portals; content + access**
 - **Brazil:** UOL, Globo, Terra
 - **Mexico:** Esmas, MSN, Terra
 - **Argentina:** Clarin, Terra
- **Emerging “pan regional” plays—e.g., Terra/Telefonica**
- **E-commerce—development of a large number of start ups and, more recently, entry of bricks & mortar retailers**
- **However, scale of markets do not justify such level of activity, leading to:**
 - Emphasis in “low touch” categories (books, CD’s, travel/leisure) and SW/HW
 - Rapid consolidation and close downs—start-ups
 - Depending on the sector, only 2-3 players will build enough critical mass to be profitable

THE OPPORTUNITY IN B2B MARKETS IS A LOT MORE SIGNIFICANT

BRAZIL EXAMPLE

KEY B2B SECTORS

Value Chain	Size \$BB	Fragmentation	Supply Chain Efficiency	Level of Intermediation	Information Transparency
Agribusiness	\$60	○	●	●	●
Chemicals	\$32	●	●	●	●
Oil, Gas, Mining	\$30	●	●	●	●
FMCG's	\$40	●	●	●	●
Auto/Autoparts	\$30	●	●	●	●
Transportation	\$10	○	●	●	●
Construction	\$15	○	●	●	●
Electronics	\$13	●	●	●	●
HW/SW	\$11	●	●	●	●
Steel	\$20	●	●	●	●



Source: IBGE, BA&H analysis

AT THE SAME TIME, THE B2B SPACE IS RAPIDLY BEING OCCUPIED BY "BRICKS & MORTAR" COMPANIES

DESCRIPTION

- Leverage the web to improve operational performance
 - Sourcing
 - Supply chain
 - Customer relationships
 - Internal processes (HR, Knowledge)
- Create new business opportunities by leveraging unique assets (ex.: transactions)
- Use the web to redefine/ transform traditional business models

Efficiency and Effectiveness Opportunities

New Business Opportunities

Redefinition of Value Chains

EXAMPLES

- Volkswagen—e-sourcing
- Cemex—concrete planning, scheduling and control
- Bradesco/Itaú—electronic banking
- Buyer lead marketplaces
 - Votorantim, Cemex and Bradesco: MRO
 - Telefonica B2B verticals (ex.: retail, Mercador)
 - Bunge (Megaagro)
- Seller lead marketplaces
 - Civil construction: Tigre, Votorantim Cimentos, Bradespar, Pirelli consortia
 - Transora (FMCG's consortia)
- Neutral marketplaces
 - Bladex (international trade consortium)
 - Bradespar/Portal do Campo (agri)
- Enron—Trading portals
- Unibanco—Banco1Net

SOME START UPS CAN REMAIN—SPECIALLY IN HIGHLY COMPLEX AND FRAGMENTED SEGMENTS

- A number of start ups are being developed across a number of B2B sectors (e.g., agri, construction, chemicals, logistics, MRO); however, most of them quickly faced significant barriers:
 - Difficulty in generating transactions—attraction of buyers and sellers (the classic “chicken or the egg” problem)—leading to high customer acquisition costs
 - Significant competition from large, B&M corporations
- However, some start ups can be successful—specially in fragmented and complex supply chains, and where industry lead consortia will be unable to develop neutral exchanges
 - Agri
 - Chemicals
 - Transportation

CHALLENGES IN E-COMMERCE ARE STILL SIGNIFICANT IN LATIN AMERICA

E-COMMERCE IN L.A.: CHALLENGES

- Need to overcome consumer's perception of on-line payment and security concerns
- Development of reliable alternative payment methods over the web
- Development of reliable fulfillment and delivery networks in the "last mile"
- Development of effective and cost efficient supply chain infrastructures
 - Fulfillment
 - Delivery
- Integration with buyers' legacy systems
- Rapid development of e-business capabilities and management of cannibalization/channel conflicts by traditional, "bricks & mortar" companies

B2C

B2B

AS SUCH, THERE ARE SIGNIFICANT OPPORTUNITIES IN E-INFRASTRUCTURE

e-INFRA- ESTRUCTURE

- Fulfillment and logistics/supply chain management
 - B2C
 - B2B
- Web infrastructure (hosting; telecommunications, etc.)
- e-services (ASP; systems integration, etc.)

ONE LAST THOUGHT—HOW TO MANAGE THE “DIGITAL DIVIDE”

- A significant chunk of the population (~260 million people) with limited/no access to the web
- Joint, government/private sponsored programs should therefore be leveraged (ex.: the Educar program in Argentina)
 - Access and utilization of PC
 - Education and distance learning
 - Infrastructure

TO CONCLUDE—L.A. PRESENTS AN INTERESTING OPPORTUNITY, SPECIALLY IN B2B AND E-INFRASTRUCTURE

- Potential e-commerce of \$1.5-3.0bb; 50% in Brazil

- Significant consolidation

 - ISP

 - Horizontals

 - Verticals

- Given scale of markets, max of 2-3 players per segment in B2C commerce

- Potential e-commerce of \$7-13bb; two major countries—Brazil and Mexico

- Significant opportunities, specially across fragmented, inefficient value chains

- Entry by traditional, B&M corporations

- Emerging opportunities in web related services and infrastructure (logistics/fulfillment; web infrastructure; web services)

- Significant challenge—digital divide gap

B2C

B2B

**E-
Infrastructure**

Institutional