

Making Inroads Into Latin America

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WASHINGTON—Latin American investors and companies—burned during the mid-to-late 1990s financial crisis—retain a deep mistrust of lending institutions. Latin American corporations often transfer their cash to foreign shores, buying land, buildings and other tangible property and commodities.

“While these assets [tangible properties] are a rational choice, such investments divert savings from local banks and equity and bond markets, thus stunting their (South America’s) development,” according to McKinsey Quarterly, a white paper report from McKinsey & Co., in a recent article titled “Fulfilling the Potential of Latin America’s Financial Systems.”

On the other hand, many local Latin American banks have an aversion to lending to private firms or individuals.

According to McKinsey, between 23 and 26 percent of the assets in Venezuelan and Colombian banks are invested in government bonds. In Mexico, Argentina and Brazil, banks lend more than 50 percent of their funds to governments. The most recent lending trends were not available to the McKinsey team. An exception is Chile, where banks lend less than 2 percent of their funds to their

government.

“Overall, the funding available to Latin America’s private sector is very low,” suggests McKinsey. Latin American banks have fallen far behind Asian banks which lend at least three times more to local firms, encouraging businesses to grow.

Small and mid-size companies face the most difficulties in finding reasonably priced loans and often remain unable to expand. Most firms have to rely on funds from their own operations for new business ventures, modernization, expansion or when replacing old equipment. This limits innovation, employment opportunities, as well as consumer wealth.

Smaller and mid-sized firms have scant borrowing opportunities due to reluctance by lenders and often exorbitant interest rates. The largest Latin American firms stay away from local banks and have aggressively taken advantage of foreign borrowing opportunities.

Foreign Banks Take Advantage

Leading global banks have jumped into the fore and are buying into Latin America’s banks. “The multinationals, having taken notice of the new opportunities, are increasing their investments across the region in hopes of taking market share from

Airline switch ‘hard to understand’



TAKING FLIGHT: An Aer Lingus jet. The company has announced it is no longer flying to Shannon airport in the west of Ireland. The flights will be replaced with a service to Belfast in Northern Ireland. *Adrian Dennis/AFP/Getty Images*

Rita O’Connor

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Aerlingus chief executive Dermot Mannion was heckled by workers as he announced the end of the airlines service between Shannon and Heathrow.

The chief executive announced the change during a press conference on Tuesday, a decision that could effect business in the region.

The decision, according to Minister of state and Clare TD Tony Killeen was difficult to understand.

the leading local banks,” claims McKinsey in a July article “A New Era for Latin American Banks.”

Competition is heating up. Foreign banks moving into the market bring with them a different lending mentality than local lenders. These banks are willing to lend on longer terms and aggressively market real estate loans,

“The common sentiment being expressed today by public representatives and business leaders in the region is that Aerlingus is not committed to maintaining let alone developing existing operations at Shannon airport”, he said.

An immediate review of the decision has been called for by Shannon Development chairman John Brassil. Brassil has said that the decision constitutes a fundamental breach of trust by Aerlingus in respect of Shannon and that the air service was crucial for the continued development of

the west of Ireland.

Brassil’s comments were echoed by Christina Carey of Impact, who represent cabin crew. Speaking on RTE radio Ms Carey said that any expansion of Aerlingus should not be at the expense of workers at Shannon.

Impact are currently seeking an emergency meeting with Aerlingus to discuss the switch.

The Shannon free zone employs over seven thousand people and generates exports of over 2.5 million euro annually, connectivity with the Heathrow hub is essential.

auto loans and corporate bonds.

Global players have acquired marketing tactics that let them move easily from one country to the other, wherever opportunities present themselves. Local players are facing a distinct disadvantage and might be gobbled up by the global banks who might use them as a stepping stone into the

country.

“Institutions such as Citigroup, which has been fine-tuning its organizational model for decades, have turned this capability into a significant competitive advantage,” according to the article.

Apple’s success is a lesson in corporate strategy

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Apple Inc. is riding high. In the last quarter, it shipped almost 1.8 million Macintosh computers, sold 9.8 million iPod music players and its iPhone—a revolutionary new product that went on sale in June after an almost hysterical media blitz—is expected to reach sales of more than 1 million within the next three months, according to a recent Apple press release.

Apple also claims that it has sold more than three billion songs—downloaded from its iTunes music software—and has five million songs, 550 television shows and 500 movie titles for purchase, more than those offered by Amazon.com and Target.

“We are thrilled to report the highest June quarter revenue and profit in Apple’s history, along with the highest quarterly Mac sales ever,” said CEO Steve Jobs in a recent press release.

Alongside the company’s resurgence, Apple’s stock (NASDAQ: AAPL) has also enjoyed high

returns. At the end of 2002, its stock hovered around \$14 a share. It jumped to around \$65 a share by the end of 2004. At the end of 2006, Apple was trading at \$85 a share, eventually moving up to more than \$120 by May of this year.

Taking the Hint

Harvard Business School has followed Apple’s fortunes and misfortunes since 1992 and included the company as a case study in its MBA curriculum. The case has been revamped five times, including a video lecture from John Sculley, former Apple CEO (1985 – 1993), going over blunders he should have avoided.

“This is a case where you can focus on strategic success as well as strategic failure,” said Harvard Professor David B. Yoffie, in the article “HBS Cases: The Evolution of Apple,” published last month. He continued, “There aren’t many instances where you have both sides so nicely paired [the ups and downs of a company].”

The Apple case study resonated

well with Harvard students and generated deep discussions. When Apple was in the dumps, everyone said that they saw it coming, but when it was doing well, students were confounded when Yoffie pointed to problems in the making.

“Student opinion of Apple tends to be excessively positive or excessively negative, depending on the company’s current fortunes,” suggested Yoffie.

The case study’s latest version, “Apple Computer, 2006,” discusses in details the strategies used by former Apple CEOs, the reasons behind the strategies and why a given strategy was ineffective.

“The company always looks a little different, yet many of the core issues that pose challenges for it remain constant,” indicated Yoffie.

Yoffie suggested three different strategies in the 2004 “Where Does Apple Go from Here?” article. The most drastic change was to “build their business off of the digital home, the iPod, iTunes, iPhoto, etc.,” said Yoffie. He also

suggested that Apple restructure from a computer manufacturer to a consumer electronics firm. He proposed to use Macintosh computer sales as a cash cow and build up the other products.

Another suggestion was to once again start licensing the Macintosh operating system (OS), which was stopped after Jobs took over the CEO position. A window had opened into the software market, with Microsoft products becoming pricy for consumers.

Lastly, Yoffie suggested out of self-interest (he held board membership in chipmaker Intel) to throw in the towel on its own OS, license Microsoft Windows and become a big-time computer manufacturer.

Jobs, who assumed the CEO position in 1997, must have followed the Harvard discussions closely. Apple went innovative under his leadership, as it introduced the iMac, iPod, and iTunes. The OS X operating system and iPhone appeared and sourcing chips from Intel panned out. At the same time, to emphasize the new direction as a consumer

electronics manufacturer, Apple ditched the word “Computer” from its official name.

Customer Voices

Apple’s products are some of the most sought-after, and its retail stores are often crowded with customers. When the latest product, the iPhone, hit the market on June 29, media reported long lines in front of Apple stores of consumers waiting to buy the phone. The lines had formed a few days before the event and people had brought mattresses and food, just so they would be one of the first to get the iPhone.

“Apple brings several things [to the market]: really sleek cool hardware, great software and a cool hip image,” said Eric Clemens, professor at the University of Pennsylvania’s Wharton Business School in a recent Wharton publication.

Additionally, Apple is the current front-runner as a “technology leader of the digital living room,” Clemens added.