

CUSTOMER-CENTRIC INNOVATION: THE WAY FORWARD FOR LATIN AMERICA

HLB SURVEY OF BUSINESS LEADERS 2022



TOGETHER WE
MAKE IT HAPPEN

Latin America (LATAM) is a rapidly developing region. Although it's a portmanteau of diverse nations and economic markets, local leaders have a shared professed aim: 97% agree that more rapid and effective innovation is critical to future growth.

Having navigated through two economically, politically, and socially challenging years, 95% of LATAM leaders say they are more confident in their ability to innovate as compared with pre-pandemic. However, they must also address other pressing priorities. Economic and political volatility prompts the majority of LATAM leaders towards 'defensive' strategies – 81% plan to improve their operational efficiency in the next 12 months, while 56% are inclined to seek further cost reduction.

Nonetheless, over 40% also plan to adopt emerging technologies and launch new products or services in the next 12 months, indicating the earlier expressed affinity for innovation. This might prove to be a challenge. LATAM leaders are more inclined to see 'operational effectiveness' as a weakness – 58% vs 43% globally. Similarly, they are less confident in

their innovation capabilities: 35% of LATAM leaders see it as an area of weakness vs 27% globally.

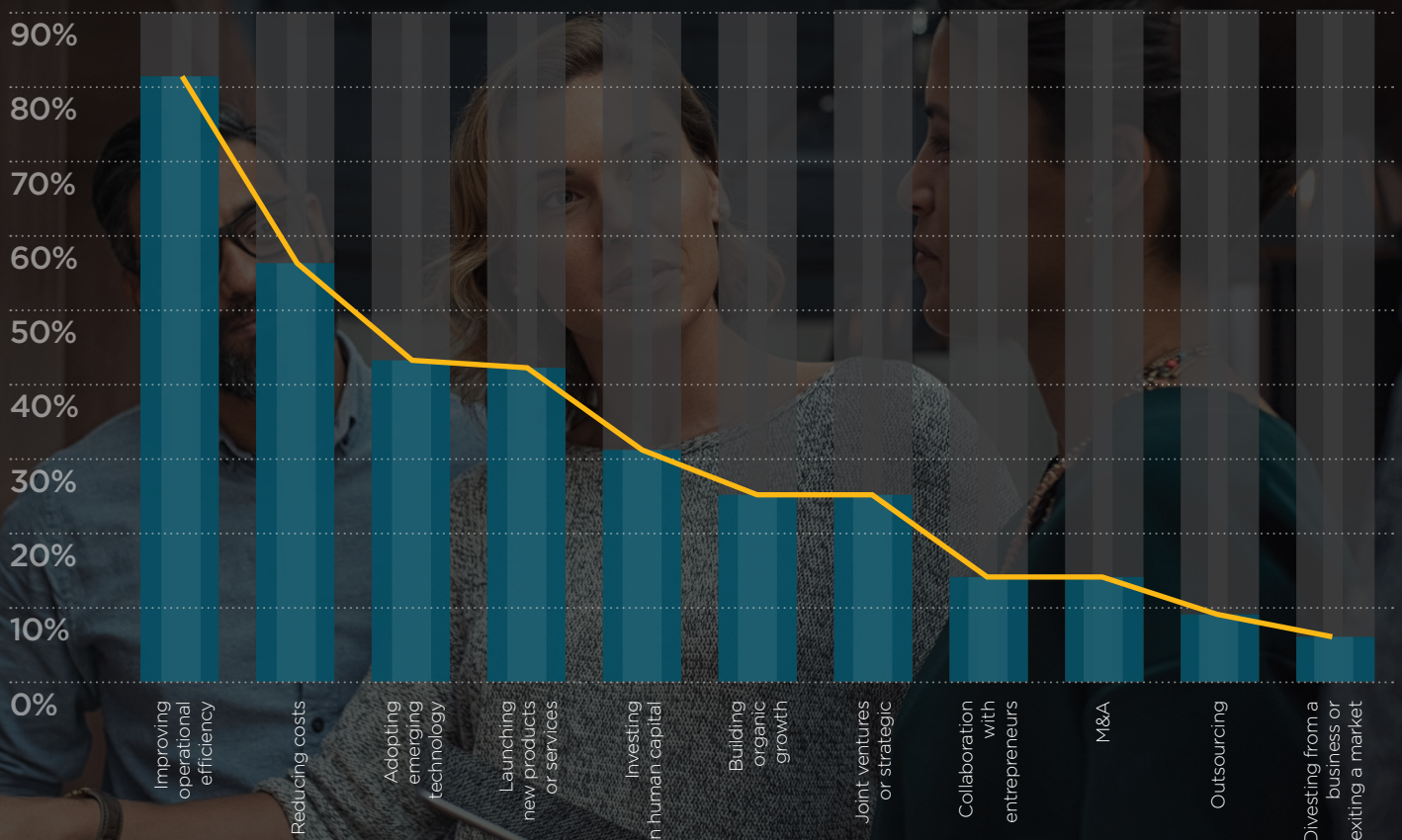
Customer-centric innovation

The transpiring shape of innovation activity in the LATAM is largely customer-centric. Local leaders put an equal emphasis on launching new products (50%) and customer engagement (50%) as two focus areas of innovation, closely followed by technology (48%). That's a curious distinction compared to global leaders. Among them, only 39% plan to concentrate on customer engagement.

Latin America has a burgeoning service industry. Close time zone proximity to the US, multi-talented labour force, and good cost-to-value ratio, make many LATAM countries attractive destinations for multinationals. Costa Rica houses over 150 companies¹, specialising in BPO and digital services including software development, IT Services, game development, and digital marketing among others. The IT sector in Brazil contributed 5.6% to the country's GDP in 2021, growing at 12.3%

Figure 1: Business leaders most motivated to improve their operational efficiency

Q. Which of the following actions are you planning to take in the next 12 months, in order to grow and remain profitable?



1. Cinde.org. 2021. Through Multifunctional Services. Available at: <<https://www.cinde.org/en/sectors/knowledge-intensive-services>> [Retrieved March 25, 2022]

annually², thanks to both domestic tech companies and IT outsourcing services providers. To achieve even more impressive growth, local leaders understandably strive for excellence in customer experience (CX) and further diversification of their product/service offerings.

MAIN ENABLERS AND BARRIERS TO INNOVATION

Digitisation keeps driving a wider distinction between leaders and laggards. In LATAM, the majority of leaders (47%) believe emerging technologies will help improve their organisation’s innovation capacity. Just under a third also selected secondary enablers such as ‘new market knowledge’, ‘customer feedback’, and ‘big data and data analysis’ — a triumvirate that attests to the country’s commitment to customer-focused innovation.

For local leaders to reposition their businesses in line with the new strategic vision, they will also need to overcome a host of challenges. Compared to global peers, LATAM leaders feel more constrained

by corporate culture (35% vs 23%) and existing operational structures (32% vs 27%). Insufficient funding is a concern both LATAM and global leaders share. So how do they plan to navigate their way around these headwinds and tailwinds?

Organisational culture

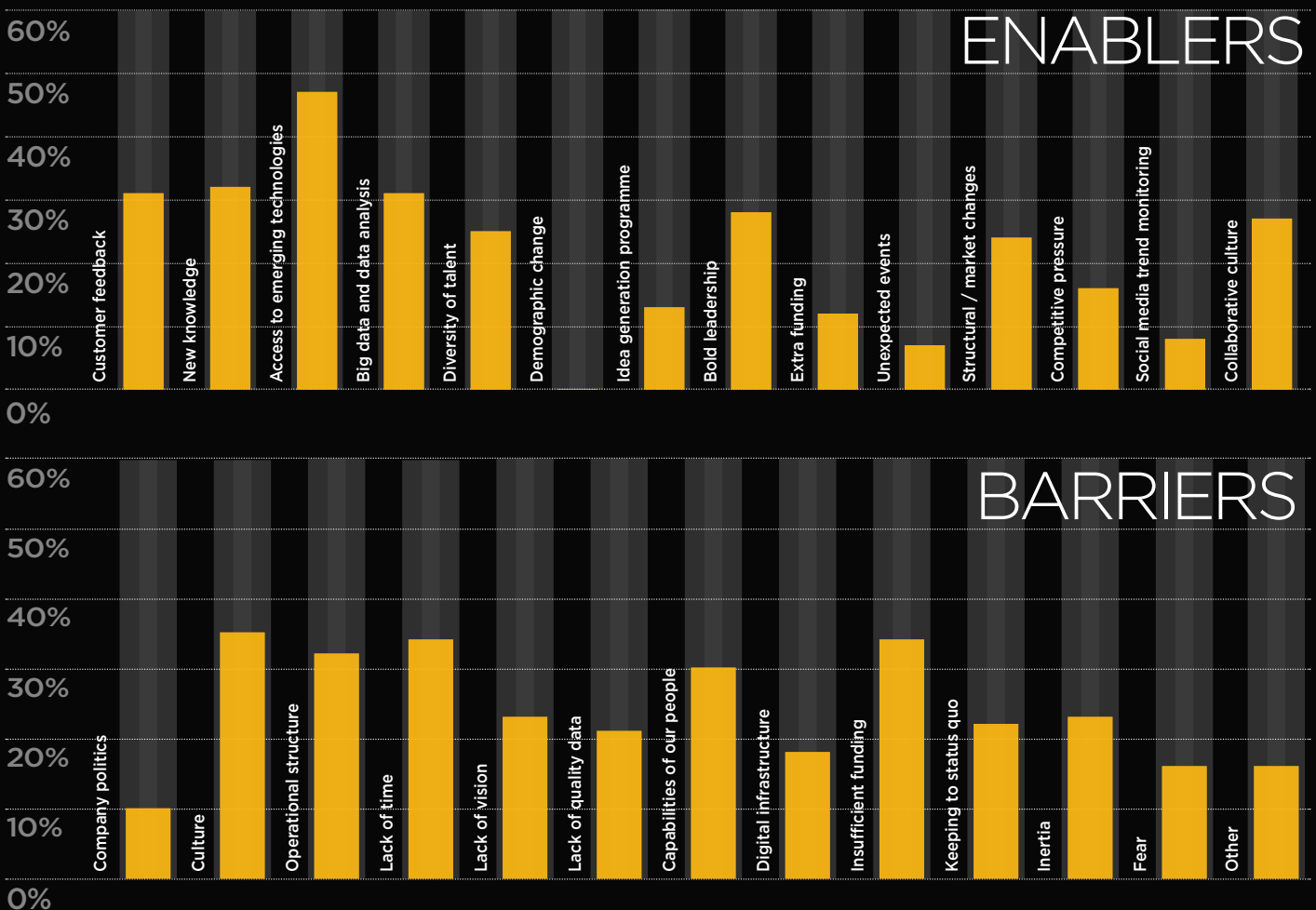
Over a third of LATAM leaders’ name ‘culture’ is the top barrier to innovation. Though

the impact of this single factor could be even higher. Secondary factors such as ‘inertia’, ‘lack of vision’, ‘desire to keep the status quo’, ‘company politics’, and ‘fear of change’ also limit their ability to innovate. Interestingly, 42% of leaders plan to focus their innovation on processes. Perhaps, this is their leeway towards building more nimble, bottom-up, and change-responsive operational models?

Local leaders are also committed to seeking out ‘new knowledge’ as a lever to improve innovation capacity. “Knowledge is power”, but it has to be backed by action.

Figure 2: Leaders look to emerging tech to aid innovation

Q. Please select the top three factors which you think aid your organisation in improving your innovation capacity. Also, select the top three barriers that hinder innovation in your organisation?



2. Zdnet.com 2022. Brazilian IT sector sees growth amid COVID-19 crisis. Available at: <<https://www.zdnet.com/article/brazilian-it-sector-sees-growth-amid-covid-19-crisis/>> [Retrieved March 25, 2022]

“IN LATIN AMERICA, WE DON’T RUSH TO INNOVATE. INSTEAD, WE SIT AND OBSERVE WHAT’S HAPPENING IN THE NORTH AMERICAN AND EUROPEAN MARKETS. WE WANT SOMEONE ELSE TO SPEND RESOURCES AND TEST THE RISKY IDEAS FIRST. THEN TRY TO COPY AND ADAPT THE PROVEN BEST PRACTICES AT OUR MARKET.”

Marcelo Fonseca, Partner, HLB Brazil

This type of caution is understandable, especially amidst ongoing and emerging spells of turbulence. Yet, true innovation requires not just ongoing research and process improvements, but also a bold vision, continuous ideation, and rapid idea validation capabilities — factors that are impossible to achieve without an innovation-driven culture.

Lack of Time

The pace of business accelerated. Sweeping connectivity and digital technologies allow you to fail fast but recover as rapidly. 95% of LATAM business leaders also agree that they can now innovate with greater speed than in the past. Though many are far from reaching their top cruising speed. ‘Lack of time’ is the second top barrier to successful innovation 34% of leaders mentioned. So what is slowing down the LATAM?

It appears that local leaders indeed know how to move on fast — yet they lack time to handle an ever-evolving list of priorities. The aforementioned organisational and cultural issues stand in the way of agility. Perhaps, this is why 68% plan to improve the levels of operational effectiveness this year. When internal change management is slow and complex, time will always be in short supply.

“WE ARE A REGION THAT HAS BEEN HISTORICALLY FOCUSED ON TRYING TO MOVE ON, TRYING TO CHANGE IN ORDER TO GET BETTER AT WHATEVER WE DO. MOST PEOPLE HAVE TO SHIFT PRIORITIES EVERY COUPLE OF YEARS BECAUSE OF YET ANOTHER CRISIS, BECAUSE OF THE HIGH VOLATILITY AND ECONOMIC UNCERTAINTY, LOCAL BUSINESSES CONSTANTLY NEED TO GET BACK TO THE DRAWING BOARD”.

Carlos Morales, Partner, HLB Costa Rica

Insufficient funding

Insufficient funding is the third top barrier, holding LATAM leaders back from reaching their full potential. Only 44% of local leaders have a dedicated budget set aside for innovation activity. A quarter of business leaders in LATAM are not funding their innovation at all. That’s 10 percentage points higher than globally.

Those who have allocated the funds are most likely to fund their innovation strategies via cash flow — an option 80% of respondents selected. Alternative financing options such as cost-sharing arrangements with partners, raising equity funding, or using government-backed grants or loans are hardly considered. Globally 25% of leaders consider raising equity to fund innovation or share innovation costs with partners vs only 3% and 15% in LATAM.

Private and public financing opportunities may not be as prevalent for LATAM-based businesses as in other regions. But they exist. “In Peru, there are special lending options available from the Central Bank of Peru. For small businesses, the interest payments can be as low as 1% annually, with first repayments due only in three years”, notes Hector Machuca, Partner, HLB Peru. Venture capital from abroad has also made inroads into the region.

DEPLOYING TECH TO INNOVATE

Technology appears to be both a means and a target of its own for LATAM leaders. Almost half (48%) name technology as a key focus area for innovation. Nearly as many (47%) deem 'access to emerging technologies' an enabler for pursuing innovation activity more successfully.

When it comes to digital technologies, aiding businesses in innovation, 'cloud computing', 'Internet of Things (IoT)', and 'robotic process automation (RPA)' rank the highest.

"Pandemic was a signal for local businesses to move to the virtual world. But given the pressure and lack of expertise, there was no chance to do it right. The effort was enormous and for the time being, so many businesses had to rapidly adjust their digital strategies to suit client and cybersecurity needs.", Hector Machuca, Partner, HLB Peru

Thus, many leaders today still strengthen their digital 'mortar' rather than add innovative 'blocks' on top of it. Only 31% are looking into AI vs 43% globally. Likewise, interest in machine learning is more moderate.

"Innovation is highly correlated with technology and R&D investments. But when you look at the business cycle of the Latin American economies, you'll see high volatility. This often deters or delays investment in high-cost tech solutions", says John C. Cheng, Managing Partner at HLB Panama. Hector Machuca,

Partner at HLB Peru also agrees that AI is cost-inhibitive for many Peruvian businesses. Especially, as some lack even the baseline technical 'posture'. Private and public financing opportunities may not be as prevalent for LATAM-based businesses as in other regions. But they exist. "In Peru, there are special lending options available from the Central Bank of Peru. For small businesses, the interest payments can be as low as 1% annually, with first repayments due only in three years", notes Hector Machuca, Partner, HLB Peru. Venture capital from abroad has also made inroads into the region

Deploying tech to innovate

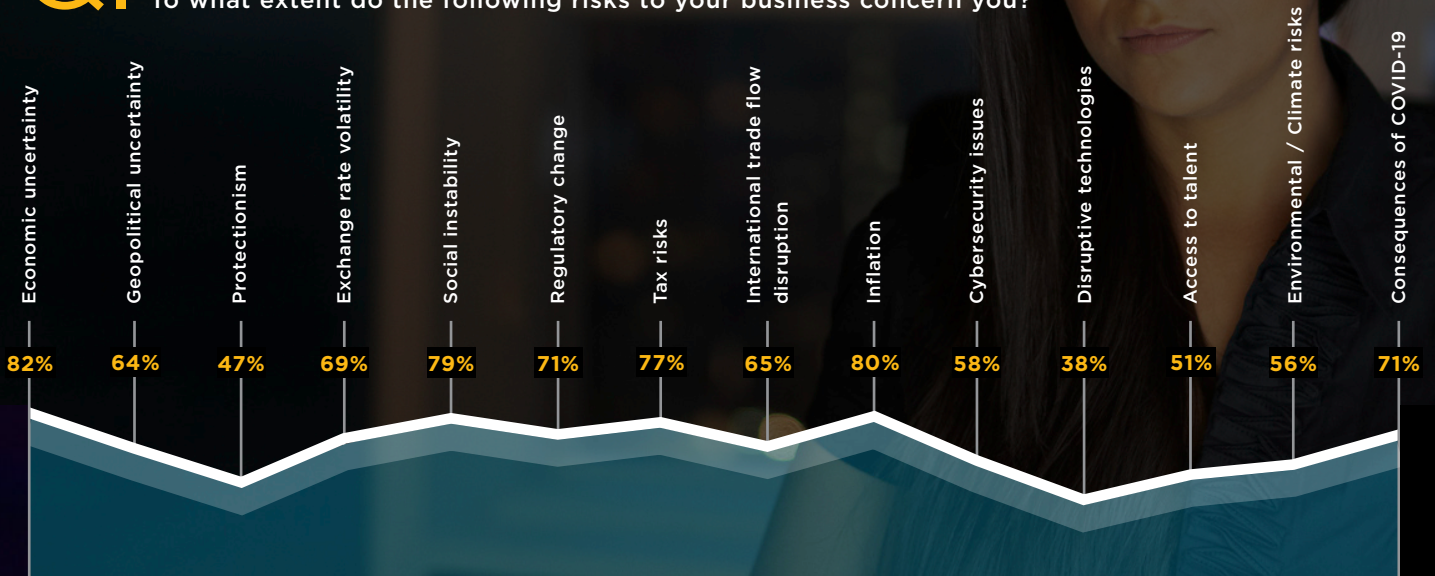
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Figure 3: Risks are on the rise in the region

Q. To what extent do the following risks to your business concern you?



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LATAM’s business leaders are also interested in non-digital technologies. 71% (vs 61% globally) are looking to advance their innovation opportunities in Renewables (incl Solar, wind, tidal energy). Additionally, 46% concentrate their attention on electrification (power, cars, fleets, and other transport). The high rates of interest in ‘green’ technologies reverberate with the local governments’ commitment to net-zero targets. Ten counties in the region have set a 70% of renewable energy target for 2030³. Uruguay is already setting the bar for others in phasing out fossil fuels and limiting its carbon imprint — almost 100% of the country’s energy already comes from renewable sources⁴. Inevitable reorientation towards renewable energy presents plenty of new opportunities for LATAM businesses to profit from, as well as reverse the climate damage done to the region.

Business risks are on the rise

Latin America is a rapidly developing region — yet, the fast pace of change also causes more turbulence. Many countries still battle new waves of COVID-19. So local leaders are more concerned about the consequences of the pandemic than their global peers (71% vs 55%). At the same time, economic uncertainty, fostered by both international and domestic affairs, is seen as a greater risk — 82% vs 65% globally.

Volatile market conditions, ongoing political tensions, and ever-changing regulations shape the local risk radar. Inflation worries 80% of local leaders (vs 61% globally). Tax risks are a stressor for 77% of LATAM leaders, whereas social instability concerns 79%.

A wide range of risks explains why LATAM leaders are less confident in their own growth prospects than their global peers (80% vs 84%). Similarly, they are less optimistic about the global growth prospects. Over a quarter expects the growth to decline over the next 12 months. Still, a tempered economic outlook doesn’t stop most from pursuing innovation activity — 97% agree that market disruption motivates them to innovate.

3 PRI.org 2021. Net zero target setting: opportunities for Latin American investor leadership. Available at: <<https://www.unpri.org/pri-blog/net-zero-target-setting-opportunities-for-latin-american-investor-leadership/8391.article>> [Retrieved March 25, 2022]

4 DW.com. 2021.Uruguay leads green energy charge in Latin America. Available at: <<https://www.dw.com/en/uruguay-leads-green-energy-charge-in-latin-america/a-59492982>> [Retrieved March 25, 2022]

“FAST ECONOMIC RECOVERY ALONG WITH THE GROWING RATE OF INFLATION IS WHAT WE ARE SEEING IN PANAMA TODAY”.

John C. Cheng, Partner at HLB Panama.

CONCLUSION

LATAM's leaders expect innovation activity to drive almost a quarter of their business growth in 2022. Despite being pressed by an expanding risk radar, most continue to exhibit admirable levels of resilience and innovation. In a region, prone to disruption, a good crisis cannot go to waste. LATAM leaders treat the ongoing upheaval as an opportunity to improve their operational effectiveness, innovation streak, and digital capabilities.

They are looking into emerging technologies — cloud computing, IoT, RPA, and renewables — as a key enabler to move forward. Whilst they are mostly using cash flow to fund their innovation activities, their main focus areas over the next twelve months are to improve operational efficiencies and reduce costs. Though technology adoption and new products/services launch also rank high. This could be an ambitious goal, given the macroeconomic risks which they face and ongoing market uncertainty.

METHODOLOGY

As part of its global survey of business leaders, between September and November 2021, HLB has collected 118 survey responses from business leaders in LATAM from a range of industry backgrounds. Responses were collected via an online survey tool or telephone interview. The base for all figures is 81 unless otherwise indicated.

More data and information about this survey is available upon request.

Please visit www.hlb.global/surveyofbusinessleaders or contact marketing@hlb.global





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