



eSourcing in Latin America: *Cultural Challenges and Opportunities*

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Introduction

Recently, Latin America has experienced rapid economic growth and is becoming an increasingly attractive near-shoring option for large multi-national companies in North America. However, the potential challenges associated with conducting sourcing events—specifically eSourcing events—in Latin America may require adjustments to traditional sourcing practices. Recent experiences with Latin America prompted Denali - A WNS Company's sourcing team to examine the following factors:

- *What are the cultural differences between North America and Latin America?*
- *How do these differences affect how strategic sourcing initiatives are executed?*
- *What works and what does not when sourcing in Latin America?*

This whitepaper discusses eSourcing in Latin America and provides helpful tips and insights into the major categories of spend sourced in Latin America. For the purposes of this whitepaper we have grouped Latin America countries into the following markets:

- **Major markets:** Brazil, Argentina, Mexico
- **Medium markets:** Colombia, Chile, Venezuela, Perú

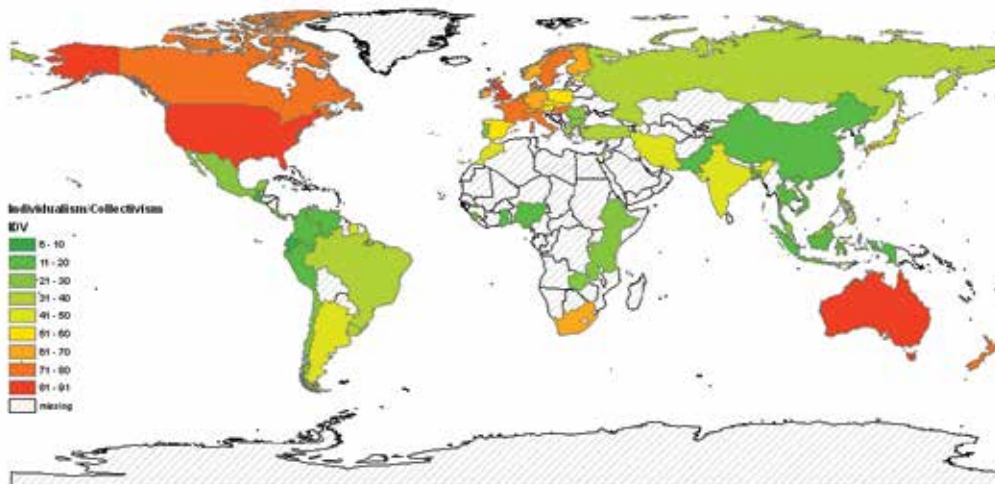
- **Small markets:** Ecuador, Uruguay, Paraguay, Puerto Rico, Bolivia, Jamaica, Honduras, Guatemala (and remaining Latin American countries)

The classification of these markets is directly related to the size of their economy, multinational company presence, and market maturity as it relates to trade and free market principles.

Latin America Cultural Background

Latin American markets have boomed in the past decade, which has led to a dramatic increase in outsourcing. However, United States companies that would like to be active in the Latin American markets have found it necessary to adjust the way they conduct business. According to the Hofstede 100-point scale, Latin American businesspeople are far less individualistic than those from the U.S., indicating a focus on relationship building. This requires business to be done in a more diplomatic, indirect, and non-confrontational manner. The map below depicts ratings in the social-structure scale for Individualism according to the Hofstede 100-point scale.

IDV - Individualism/Collectivism Hofstede's Cultural Dimensions



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Latin Americans tend to feel that it is essential to establish a relationship prior to engaging in a project. When that principle is applied to sourcing, commodity managers in this region spend considerable time networking, as relationships drive deeper value than service, quality, or price. This cultural dynamic can present significant challenges in the eSourcing space where the majority of communication is electronic and competition based. Latin American sourcing professionals also tend to take more time when negotiating contracts and to be driven by relationship depth versus true market competition. To Latin Americans, time-consciousness may be viewed as hasty, rushed and pushy, while their time management may be viewed by North Americans as lacking a sufficient sense of urgency.

While some of these cultural differences create unique business challenges, globalization appears to be creating a monoculture (common global culture) throughout the corporate workplace. Particularly in regards to Latin American businesses with an advanced level of technology, their culture is often quite similar to that of North American businesses since many multi-national companies doing business in Latin America are headquartered in North America.

Latin America Supply Base

It is important to understand how the size of a company can ultimately affect how other companies interact with them throughout a sourcing process. Larger companies are more likely to have made the investment in technology and implemented the necessary training, thus requiring less upfront effort when participating in sourcing events. Also, larger companies are often more culture neutral and, therefore, less relationship centric. In the section below we break down the different types of Latin American companies and provide insight into categories commonly sourced.

Micro Companies

These Latin American businesses have very few employees and are usually managed by a family. They typically focus on a very specific product or service that

meets local demand. Contacts are quite informal and could be as simple as a purchase order (PO) or a work order. Because companies with this profile may lack financial transparency if privately owned, hiring them involves a level of risk. Therefore, careful evaluation should be done prior to contracting. Micro companies in Latin America have very high bankruptcy rates, so signing long-term contracts with one is not recommended. Categories that lend themselves to sourcing with micro companies are very niche and specialized needs, such as catering for specific events, spare parts for machines, equipment maintenance, or workshop and air-conditioning maintenance.

Small and Medium Companies

Small and medium companies serve clients located throughout the national territory and, in some cases, overseas. More reliable than micro businesses, these companies usually have more professional and administrative staff. While the use of eSourcing tools, like Ariba, for project sourcing does not pose problems, participants usually require prior tool training. Categories commonly sourced with small and medium companies include graphic printing equipment, maintenance shop, and promotional merchandise.

Large Companies and Multi-National Corporations

This group represents only two percent of companies in the Latin America region, but it employs the largest portion of the economically active population. Its employees and contractors usually have a much higher educational level compared to those of small and midsize companies. All companies in this group are empowered to participate in eSourcing projects. Any type of project sourcing can be done with this type of enterprise.

Relationship-Driven Cultures Require Longer Cycle Times and Higher Touch

The duration of and average savings with eSourcing projects is quite comparable between the medium and major markets, with the biggest difference found in the common categories sourced. Major markets are diverse and offer additional categories, while medium markets have not yet developed fully in all categories.

According to Denali's findings, executing eSourcing projects with small Latin American markets can take more time than with the larger markets. Spend is usually smaller when compared with major markets, but the average savings is about 10% higher. Initial steps of getting a

sourcing project underway tends to lengthen the process (supplier discovery, relationship building, etc.). Although it requires more time and effort in the beginning, the results are positive and we've found that it provides more room for negotiation and, at times, a significant difference in pricing among suppliers.

Illustrated in the table below are the similarities and differences among Latin American markets regarding duration, savings, and common categories sourced. For reference our data indicates projects sourced in Latin America have an average 20 percent longer lead time for source-to-contract cycle.

Latin American Markets Duration, Savings & Common Categories Sourced

	Average Cycle Time (Days)*	Average Savings (%)	Common Categories Sourced
Major Markets: Brazil, Argentina, Mexico	38	16%	<ul style="list-style-type: none"> Professional Services Marketing Information Technology Business Process Outsourcing (BPO) Real Estate & Facilities
Medium Markets: Colombia, Chile, Venezuela, Perú	36	18%	<ul style="list-style-type: none"> Marketing Information Technology Professional Services
Small Markets: Ecuador, Uruguay, Paraguay, Puerto Rico, Bolivia, Jamaica, Honduras, Guatemala <i>(and all the others)</i>	46	27%	<ul style="list-style-type: none"> Professional Services Marketing Real Estate & Facilities

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* Cycle time represents source to award

Understanding Latin America for Greater Success

How Communication Style Influences Sourcing Execution

Understanding not only the cultural differences between the U.S. and Latin America, but also the differences among its regions is crucial to working successfully with Latin America. Constant follow-up is the norm rather than the exception in all markets because of the different communication styles. Often, from the Latin American perspective, due dates are not perceived as final and room for extension and negotiation is almost always assumed. Denali's team discovered that anonymous supplier Q&A calls simply don't work with medium and small markets because it is innate for Latin Americans to be introduced. In fact, making conversation when you have not been introduced can be perceived as rude. Also, since there are fewer competitors in smaller Latin American countries, most can easily recognize their competition. Even stakeholders have a tough time with unrecognized calls.

Small markets usually require at least one onsite visit and/or presentation, which Latin Americans align with relationship building. Even if a supplier's quality and affordability presented as part of the proposal is exactly what is being sought, stakeholders put a lot of weight in the

connection and chemistry formed between themselves and the supplier. In fact, a successful working relationship is not possible otherwise.

Trust Is a Major Factor

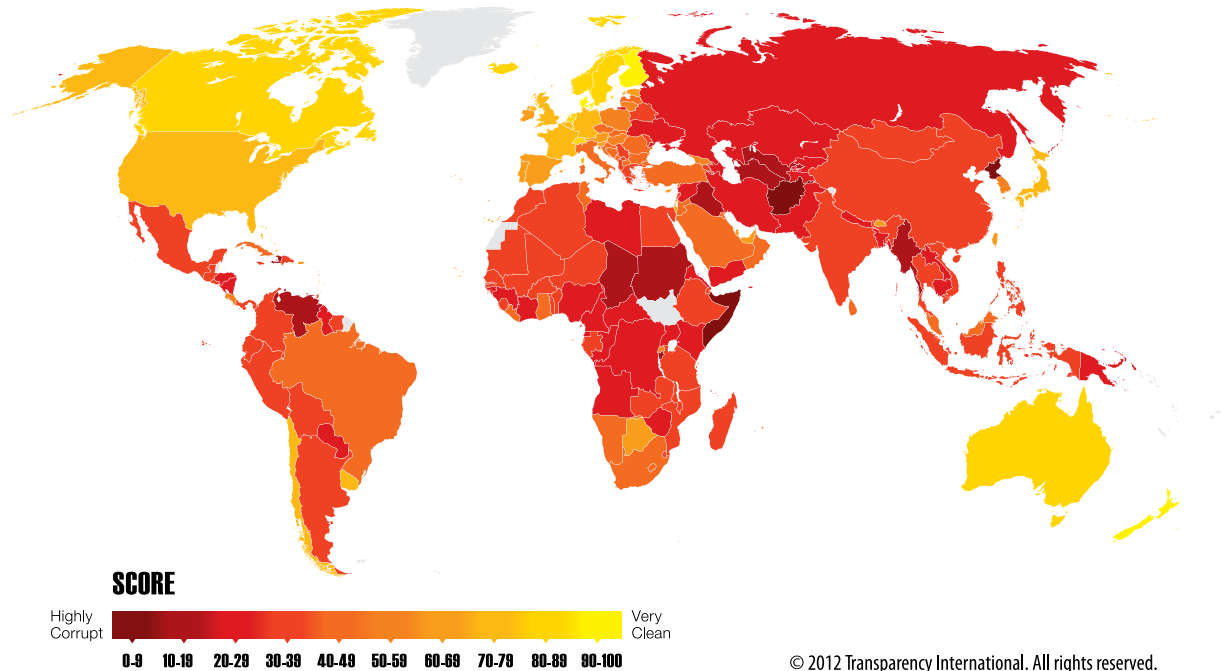
The smaller the market, the larger the differences, and the more effort and understanding is required. With small markets, eSourcing projects need to begin with the basics, starting with supplier discovery and leaving ample time for relationship building.

For credibility reasons, working closely with local procurement is essential. Because of the history of a high level of corruption in the region, Latin Americans are traditionally slow to trust. Therefore, the process of supplier discovery can be tricky when contacting suppliers. Contact should preferably be in local language to help foster interaction. Our team found that by involving local procurement in the beginning of the process, we were able to gain the trust of the suppliers.

Checking references with small and medium markets is common practice; its purpose is to compare customer satisfaction ratings among suppliers and identify if there have been any major issues with past clients.



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Conclusion

This whitepaper highlights cultural differences experienced when working in Latin America, particularly when conducting sourcing projects in this region. We were able to mitigate some of the challenges of eSourcing in Latin America and hope that you will benefit from our experiences.

Although cultural differences can be significant, it's worth noting that Latin America is also one of the regions with the most success in working with the United States. The Latin American work ethic, style, and culture, although different, do acclimate well to that of the U.S. making them a valuable near-shore option.

Finally, the table below provides a quick summary of what works and what doesn't work. As it shows, the major markets have adapted to the way business is conducted in the United States, although there are still a few customs that do not work. Email templates, for example, which are often used in the US with the purpose of structuring processes, can come across as cold and represent a lack of interest and involvement. Personalization is crucial in all markets in Latin America, with phone calls highly encouraged.

What Works & What Does Not Work

	Works	Doesn't Work
Major Markets: Brazil, Argentina, Mexico	<ul style="list-style-type: none">• Use of eSourcing tools• Building rapport• Involvement of local procurement• Constant follow-up	<ul style="list-style-type: none">• Communication via email only• Email templates
Medium Markets: Colombia, Chile, Venezuela, Perú	<ul style="list-style-type: none">• Use of eSourcing tools or Quick Quotes• Involvement of local procurement• Constant follow-up• Check references	<ul style="list-style-type: none">• Communication via email only• Email templates• Anonymous Q & A calls
Small Markets: Ecuador, Uruguay, Paraguay, Puerto Rico, Bolivia, Jamaica, Honduras, Guatemala (<i>and all the others</i>)	<ul style="list-style-type: none">• Involvement of local procurement• Supplier onsite visit/presentation• Emphasis on communication by phone, Skype or in person• Quick Quotes• Check references• Local language	<ul style="list-style-type: none">• Use of eSourcing tools can be difficult• Communication via email only• Supplier discovery for specific projects• Strict timeline/quick turnaround

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G. Hofstede, *Culture's Consequences: Comparing Values, Behaviors, Institutions and Organizations Across Nations*, 2nd Edition (Thousand Oaks, CA: Sage Publications, 2001). <http://www.geerthofstede.nl>

About Denali - A WNS Company

Denali, a global sourcing and procurement solutions provider, is now a **WNS** (Business Process Management leader) company. Denali – A WNS Company supports Global 1000 companies by offering an array of best-in-class procurement solutions, including Category Management, Analytics, Strategic Sourcing and RFx Management, Supply Market Insights, Contracting, Supplier Management

and Procure-to-Pay. With a team of more than 2,000 procurement specialists worldwide, we have helped our clients source and procure more than USD 75 Billion worth of materials and services across direct and indirect spend categories. For more information, you can visit us at www.denaliusa.com. You can also contact us directly at **844.633.6254**.

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