



**THE EMERGENCE OF THE U.S. HISPANIC MARKET AND
ITS IMPACT ON LATIN AMERICA
KEYNOTE ADDRESS PRESENTED BY
GUSTAVO CISNEROS, CHAIRMAN AND CEO,
THE CISNEROS GROUP OF COMPANIES**

**2007 Latin American Business Association Conference
Investing in Latin America: Challenges and Opportunities**

Columbia Business School

February 16, 2007

On February 16, the Latin American Business Association held its ninth annual conference, "Investing in Latin America: Challenges and Opportunities." Experts in the region, together with successful businesspeople and entrepreneurs, provided insights into the current state of Latin America and how to invest successfully in the region.

Gustavo Cisneros, chairman and chief executive officer of the Cisneros Group of Companies, one of the largest privately held media, entertainment, technology and consumer products organizations in the world, delivered a keynote address titled "The Emergence of the U.S. Hispanic Market and Its Impact on Latin America." Mr. Cisneros described the growing U.S. Hispanic market, as well as the ways in which Latin American companies are taking advantage of the compelling business opportunities it presents.

Glenn Hubbard, Dean and Russell L. Carson Professor of Finance and Economics, introduced the speaker. Albert Fishlow, professor of international affairs and director of the Center for Brazilian Studies at Columbia's School of International and Public Affairs, moderated the session.

Hispanics in the United States are widely recognized today as the country's largest and fastest-growing minority group, and the U.S. Hispanic market is correspondingly vibrant. From his perspective as captain of the Cisneros Group, which has been making investments in Latin America for more than 80 years and following the growth of the Hispanic market as it spreads across the globe, Gustavo Cisneros explained, "Of all the Hispanic investment opportunities we see today, none seems to be more encouraging than

the exciting potential . . . in the fast-growing [U.S.] market.” Leading Latin American businesses are especially well positioned to take advantage of this potential.

“A Marketer’s Dream Come True”

While there are many reasons Latin American businesses pay attention to the Hispanic market in the United States, the most important is its very attractive demographics. Census 2000 identified Hispanics as the largest minority group in the United States at 43 million, representing 14 percent of population; that number will soar to 100 million by 2050, representing almost 25 percent of the population. Immigration is driving this growth. Nearly half of all immigrants to the United States today are Hispanic, with almost one million arriving each year. Nevertheless, native Hispanics now make up nearly 60 percent of the U.S. Hispanic population, due to relatively high birth rates. In addition to growing numbers, Hispanics have larger households than non-Hispanics. And, the U.S. Hispanic market is largely a youth market, with approximately 60 percent age 29 or younger, compared with 60 percent over 30 for the non-Hispanic market. Based on these facts, Mr. Cisneros concluded, “Demographically, the U.S. Hispanic population is a marketer’s dream come true. And, it offers an outstanding commercial opportunity for people such as you who want to capitalize on it.”

Income levels for U.S. Hispanics are rising rapidly. In 2006, total income reached nearly \$800 billion, which is comparable to the gross national income of Mexico, approaches that of Spain and exceeds that of any Spanish-speaking country in South America. Total income of U.S. Hispanics is growing at a rate nearly three times greater than the U.S. average: 8 percent versus 2.9 percent. This rate of income growth is greater by far than that of any Hispanic country. In fact, as Mr. Cisneros observed, “Total U.S. Hispanic income is growing at a rate of 8 percent, comparable only to the growth of China, which grows at 9.1 percent.”

Spanish is the second-most commonly spoken language in the United States. Use of Spanish as the predominant household language crosses generations, with 86 percent of U.S. Hispanics reporting that they still regularly speak the language. This implies that Spanish language and culture will endure as a competitive advantage for Latin American companies serving the U.S. Hispanic market.

Opportunities for Latin American Companies

One naturally wonders where the opportunities lie for Latin American companies, given these compelling characteristics of the U.S. Hispanic market. Mr. Cisneros pondered the same question 25 years ago when he considered his first major investment in the United States. In 1982, the Cisneros Group purchased the Spanish International Network, a bankrupt

collection of television stations broadcasting to a nascent Latino market in the United States, for \$110 million. In 2006, it sold the company—now known as Univisión, the largest Spanish-language network in the United States and the fifth-largest American network—for \$13.7 billion, representing a return on investment in excess of 12,000 percent. Based on this successful experience, Mr. Cisneros argued that the best source of opportunity is underserved markets among U.S. Hispanics in which Latin American companies already enjoy competitive advantage at home. In his words, “Neglected consumers are a gold mine.”

Hispanics demonstrate above-average consumption in a number of categories, such as children’s apparel, telephone services and food at home. Hispanics are underserved, however, in such other areas as health insurance, medical services, prescription drugs, basic banking services and retirement planning. According to Mr. Cisneros, “If you can identify an area where Hispanic consumers are underserved, where there’s pent-up or even unrealized demand, you may experience the kind of rapid growth that we experienced with our broadcast operations here.”

He went on to explain, “One thing we know for sure, U.S. companies are still not fully capitalizing on opportunities to reach Hispanics.” Spending on advertising aimed at Hispanics tells the story. While advertising to Hispanics is growing faster than the national average, ad spending still lags behind market growth by 30 percent in some sectors and by up to 50 percent in others. Mr. Cisneros believes that some of the difference in the ad spend must be attributed to the fact that certain American companies remain unaware of U.S. Hispanics as a media market. While the list of companies advertising in Hispanic media includes some top U.S. companies, it is not comprehensive. According to Mr. Cisneros, “U.S. companies’ loss is Latin American companies’ gain. Across the board, U.S. companies are missing the opportunity presented by U.S. Hispanics.” He went on to suggest that Latin American companies in the food, beverage or retail sector may have products that American companies are not providing, which are either already appropriate for U.S. Hispanics or can easily be modified to bring to market.

Going to Market Successfully

The lessons learned by the Cisneros Group in serving the U.S. Hispanic market can be helpful for any Latin American business interested in serving it. In addition to operating Univisión, it has drawn on its proprietary operational strengths to develop in a methodical fashion new enterprises that successfully target U.S. Hispanics. For example, it has founded VeneMovies, the first pay-television channel in the United States to offer contemporary Spanish movies around the clock; VeneVision International Films, which markets Spanish-language DVDs; VeneMusic, one of the largest Spanish-language music labels; FonoLibro,

which produces audiobooks in Spanish; and, LatCel, which provides interactive services in Spanish for mobile telephones.

These businesses have proven to be the most resilient and profitable of all those in which the Cisneros Group has invested in the past 10 years. A number of common elements have contributed to their success, such as recognizing and exploiting company strengths, identifying exportable assets, obtaining detailed knowledge of the market, forming appropriate U.S. business alliances, adding local people with experience in the market and relying on familiarity with Hispanic tastes to bring to the United States products that have already proven successful in Latin America. Two additional elements stand out as the critical success factors, namely, economies of scale and transferable business models.

Most Latin American companies large enough to consider expanding into the U.S. market already enjoy substantial economies of scale. If they are efficiently run and willing to tailor their products or services for the U.S. Hispanic market, Mr. Cisneros believes they can compete. The advantages of economies of scale are seen clearly in the Cisneros Group's experience exporting telenovelas—the Hispanic version of American soap operas—to the United States. The Cisneros Group is one of the three leading producers of telenovelas, along with Globo of Brazil and Televisa of Mexico. These programs require a high degree of investment that is amortized over the length of the run. Since an engaging telenovela collects a large following of viewers who tune in each day as the show runs for 120 episodes over six months, a successful program can become profitable in its home market by creating a segmented, reliable audience that attracts advertising revenue. The Cisneros Group discovered, however, that the real profit in telenovelas lies in reselling the programs for broadcasting in other national markets, such as the United States. Since the fixed cost of investment has already been recovered in the home markets of Latin America, exporting this kind of broadcast has a very attractive cost structure and a high rate of return on the incremental investment.

Latin American companies with successful businesses at home can transfer their business models to the United States. For example, one of the Cisneros Group's newest ventures aimed at the U.S. Hispanic market, a wireless service provider called Movida, is based on a model developed in Latin America and supported by experienced Latin American executives. Manuals, phone cards and customer service are in Spanish. Telephones are available at Wal-Mart and other major retailers, while phone cards are sold at neighborhood stores and local bodegas. The tagline for the company? "Press 1 for Spanish, 2 for English." Most important, however, is that the service plan is based on a prepaid model that the Cisneros Group pioneered in Latin America and that has proven successful there.

Given accelerating subscription rates, it appears that this model is being transferred successfully to the United States and Movida has the potential to become a market leader.

Unlimited Opportunity

The U.S. Hispanic is now providing a better return on investment than the U.S. market overall. Latin American companies can benefit from this trend. To do so, they must work with U.S. Hispanic business owners and employees, benefiting from their knowledge of the local environment and the local customers. They must find underserved markets and apply their own business knowledge, strengths and management skills. As Mr. Cisneros concluded, "I am a believer in the future of Latin American business and in the future of the Spanish, Portuguese and American market. Based on our experience here as owners, investors and entrepreneurs, the U.S. Hispanic market offers almost unlimited opportunity for the right products offered by the right companies at the right time. By following our own early example, by being willing to take some risk based upon your firm convictions, I know that the future for Latin American companies in this market will be very bright."

Brad Fusco MBA '07
Columbia Business School