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CEO Agenda Mexico

# From Productivity to Outcomes

Credit and consumption define  
the next strategic investments

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# Main findings



About half of Mexico based executives surveyed say that they are optimistic about their own industry and their own organization, which is significantly lower than the average of their executive peers from around the world.



Financial services sector has been experiencing an average growth of 7.8% annually in real terms since 2001.



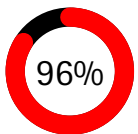
The expansion in the US is an essential part of corporate strategy among many of the largest companies in Mexico.



88% of executives in Mexico expect to prioritize investment in their domestic market in the coming months.



A total of 62% of executives surveyed said that their leadership team “fully understands” the concept of the Internet of Things, compared to a mere 38% worldwide.



96% believe that their organization has the tools to develop new sources of service-based revenue IoT capabilities.



Over 80% of executives in Mexico believe that long-term IoT will result in a general increase in wages and employment, as well as improved operational efficiency.

Written by:



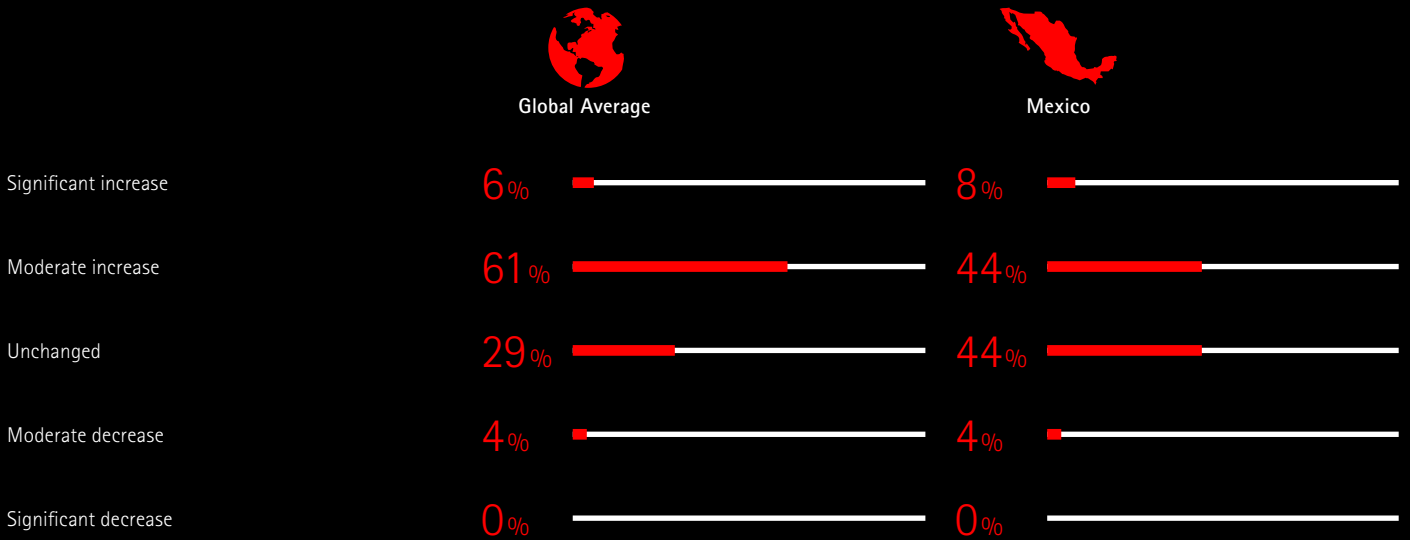
# Introduction

Following on the heels of an underwhelming 2014, executives in Mexico are understandably cautious about their prospects in 2015, and this caution is tempering both their business expectations and their investment plans. A recent survey of global business leaders, conducted by The Economist Intelligence Unit (EIU), shows that executives in Mexico are less optimistic and more worried about competition than their global peers, and that they are less likely to invest in people and technology – two key drivers of innovation – than executives in the rest of the world.

That may put them at a disadvantage as they attempt to expand their footprint and meet the needs of their customers. With pressure increasing from both global and local competitors, they will need to become more innovative and ramp up investment effectively if they want to maintain a competitive advantage at home and abroad.

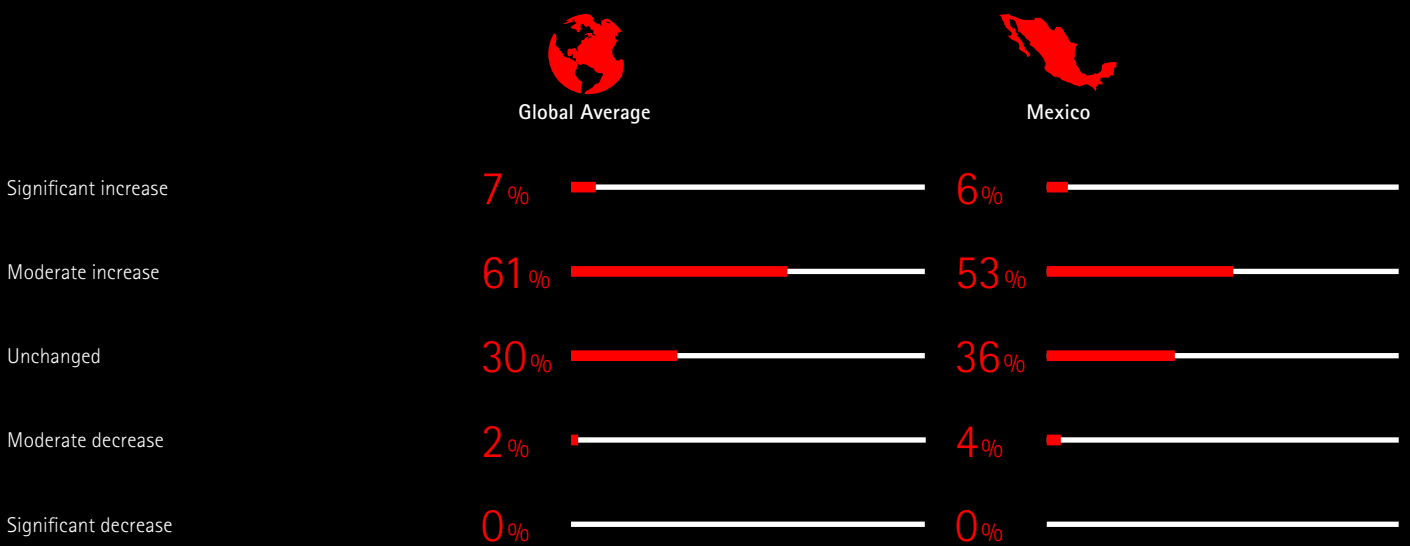
**Figure 1: Less focus on human capital investment**

How will your company's investment in human capital assets (such as recruitment, retention, training or other skills development) change over the next 12 months in comparison to the last 12 months?



**Figure 2: Less likely to increase IT investment**

How will your company's investment in information technology assets change over the next 12 months in comparison to the last 12 months?



# Optimism and links to the US

Roughly half of the Mexico-based executives surveyed say that they are optimistic about their own industry and their own organisation, which is notably lower of the average of their executive peers worldwide. This suggests that business leaders in Mexico are still waiting for proof of their own economic recovery before they become too enthusiastic about their future prospects or business strategies.

The financial services sector however appears particularly buoyant, it has been averaging growth of 7.8% annually in real terms since 2001 according to Luis Robles Miaja, chairman of the board of BBVA Bancomer (BBVA Mexico) as well as chairman of the Mexican Banking Association. Moreover, he is highly optimistic on the prospects of stronger growth in Mexico this year and the opportunity for the banking industry to bolster the wider economy. He cites Mexico's close integration with the US market as well as the country's sound macroeconomic fundamentals as key factors.

Furthermore, the current administration has passed a range of reforms, particularly in finance, telecommunications and energy, in an effort to bolster the economy. Jaime Zabłudovsky, CEO of the Mexican consumer products council (ConMéxico), a business association, believes the energy reform will give Mexico the competitive edge it needs to compete across borders. "It will support already dynamic export platforms with North America and make Mexico more competitive," he states.

Expansion in the US is a key part of corporate strategy among many of Mexico's largest firms. Well-known corporates such as Grupo Bimbo (a baking company) and CEMEX (building materials)

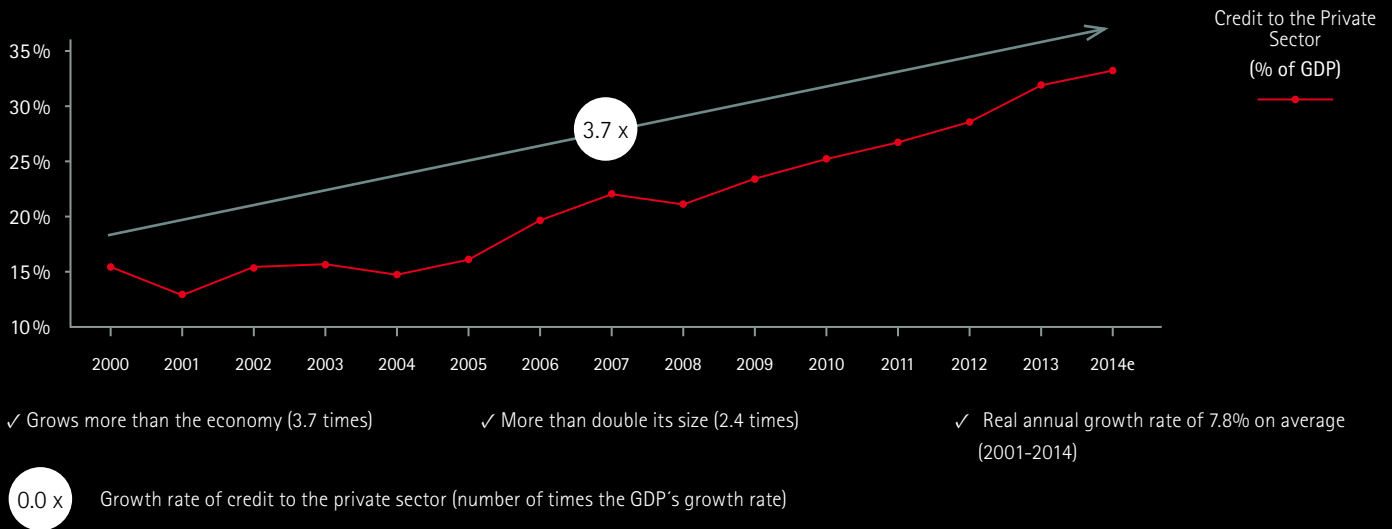
as well as diversified conglomerates such as Alfa and Grupo Elektra, while headquartered in Mexico maintain significant operations in the US. "The US market is the jewel in our crown," Mr Zabłudovsky says, noting that most of ConMéxico's members are concentrating heavily on the US as an export market.

More than simply export markets, close integration with the US market is a unique advantage of the Mexican economy. In fact, BBVA's Mr Robles asserts that northern Mexico and the southern United States are together positioned to be among the most competitive regions in the world. "There is a perfect mix of location, energy and a new, low-key industrial revolution that has taken place over the last 20 years," he states.

These linkages are a significant consideration given the US economy's return to growth. Fully 80% of C-suite executives in Mexico surveyed, say that they will prioritise investment in mature markets over emerging markets in 2015, which is nearly the reverse of the rest of the world. "The two economies are closely related, and the increased growth in the US is leading to higher demand for Mexican goods," states Fausto Hernández Trillo, professor of economics at the Centro de Investigación y Docencia Económicas (CIDE) in Mexico and currently a visiting fellow at the Kellogg Institute for International Studies at Notre Dame University in Indiana.

However, Mr Zabłudovsky notes that the US is hardly the only international market that Mexico's business leaders are interested as an expansion destination. Many firms are also expanding aggressively into Central and South American countries as part of their global growth strategy, he says. "If you want to become an international firm, it makes sense to start with countries in the neighbourhood."

Figure 3: The banking sector has achieved 13 years of a solid and consistent growth



Source: World Bank.  
e: estimate in 2014 by MBA.

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# Facing the competition

However, while international activities play a big part in Mexican companies' plans, investment is currently geared towards the local market. According to our survey, fully 88% of executives in Mexico intend to prioritise investment in their home market in the coming 12 months and they are keenly focused on the pressures they face from increased competition. While executives everywhere agree that competition overall is increasing, executives in Mexico are more concerned about this threat, and they are also less bullish about anticipated growth in profitability than the global average. Over the course of 2015 they are likely to see strong competitive pressures as they adapt their operations to a more competitive global marketplace.

In financial services for example, the number of banks has increased by a third since 2000 with a wide range of new players growing in the market. Mr Robles proudly emphasises that while in recent years consolidation has been a major feature of the global banking system, Mexico is actually moving the opposite direction towards greater competition; albeit from an initially concentrated base. Moreover, he asserts that, "more banks, living in competition is good for the system and good for the Mexican economy."

Others are less sanguine, with worries that competition presents issues after years of

selective protectionism. Certain key sectors in Mexico, in addition to energy, ranging from telecoms to pharmaceuticals, have benefited from years of government protection, this has diminished the willingness of some to commit resources to building truly compelling new products and business models, according to Professor Trillo. This assertion is reflected in the survey results, which show that executives in Mexico have less ambitious plans to invest in technology and human resources than executives in other regions. "Because they are protected, they feel less need to innovate," he states. That leads many to invest less in research and development (R&D) and to rely more on imported technologies or solutions to drive business growth. "It is a big challenge for Mexico today."

Holding back in terms of technology and human capital investment can have consequences for the ability of these businesses to compete. While planning to spend less than their global peers this year on technology, executives in Mexico appear remarkably confident in their knowledge of digital opportunities, including the Internet of Things (IoT). Fully 62% say their leadership team "completely understands" the concept of the IoT compared with a mere 38% globally, and an incredible 96% assert that their organisation has the capabilities necessary to develop new

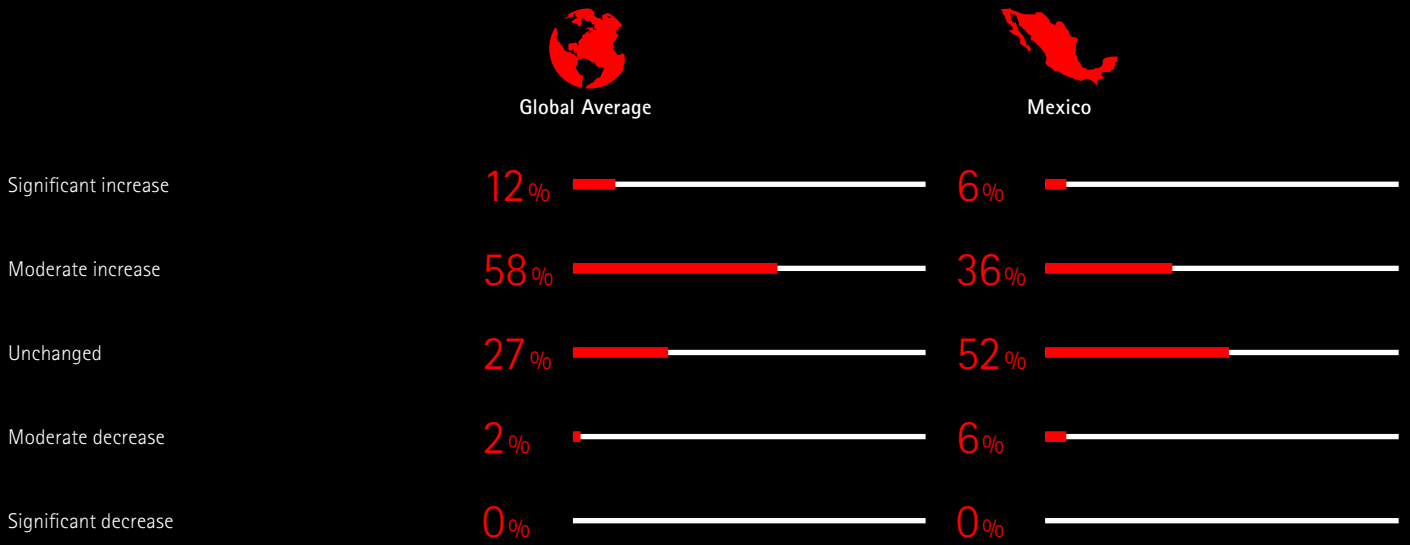
service-based revenue from the IoT. However, less than one-fifth (18%) of organisations in Mexico have made any concrete investments to incorporate the IoT into their growth strategy. This represents a remarkable disconnect.

**62%** say their leadership team "completely understands" the concept of the IoT



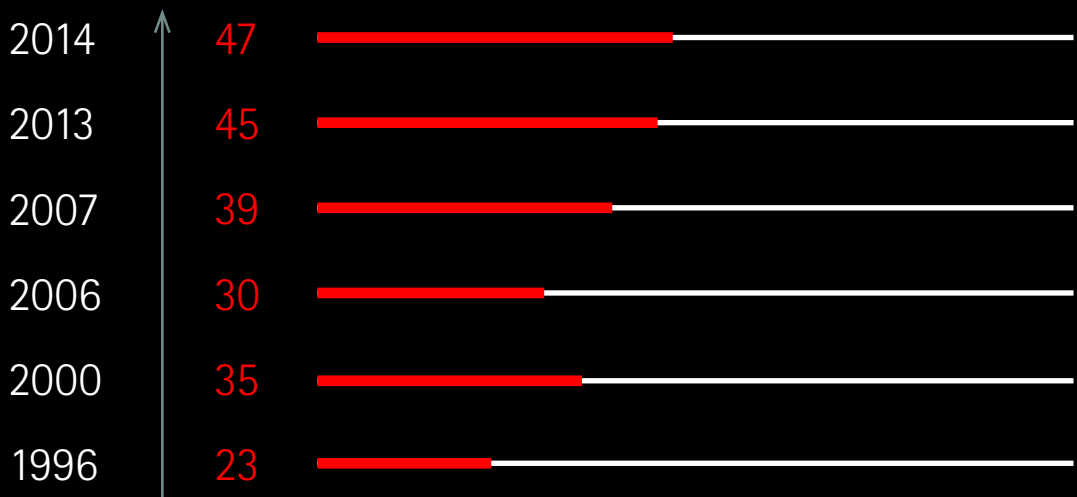
**Figure 4: Mexico's C-suite executives are less optimistic**

Thinking about your organisation in the next 12 months, do you expect profits to increase?



**Figure 5: Number of Banks in Mexico**

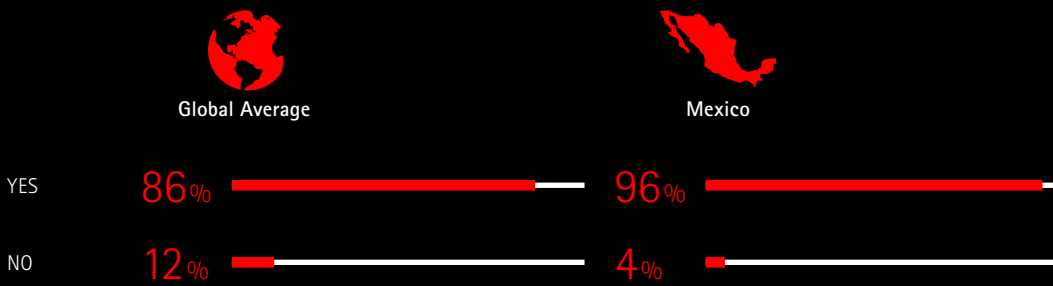
Mexico has one of the most open banking industries in the world



Source: MBA with NBSC data.

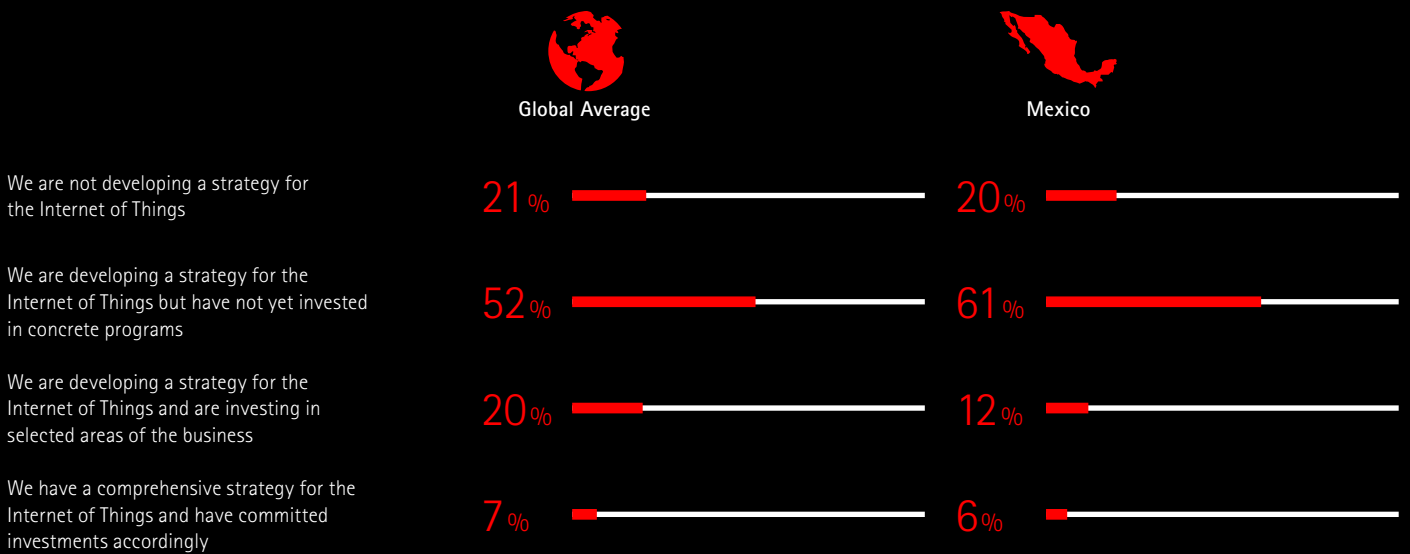
**Figure 6: A high self-assessment**

Does your company have the capabilities necessary to create new service-based income streams using the Internet of Things?



**Figure 7: Investment lags expectations in the Internet of Things**

Please select the statement that most closely matches your businesses' approach to the Internet of Things.



Despite the promise of improved connectivity, monitoring and efficiency, there is some scepticism about the value that the IoT can bring to them. More than 80% of executives in Mexico believe that in the long term the IoT will result in overall wage and job growth as well as improved operational efficiencies. But while they clearly anticipate business value to emerge from these technologies, they do not seem to see this as translating into their own competitive advantage, nor that of other emerging markets.

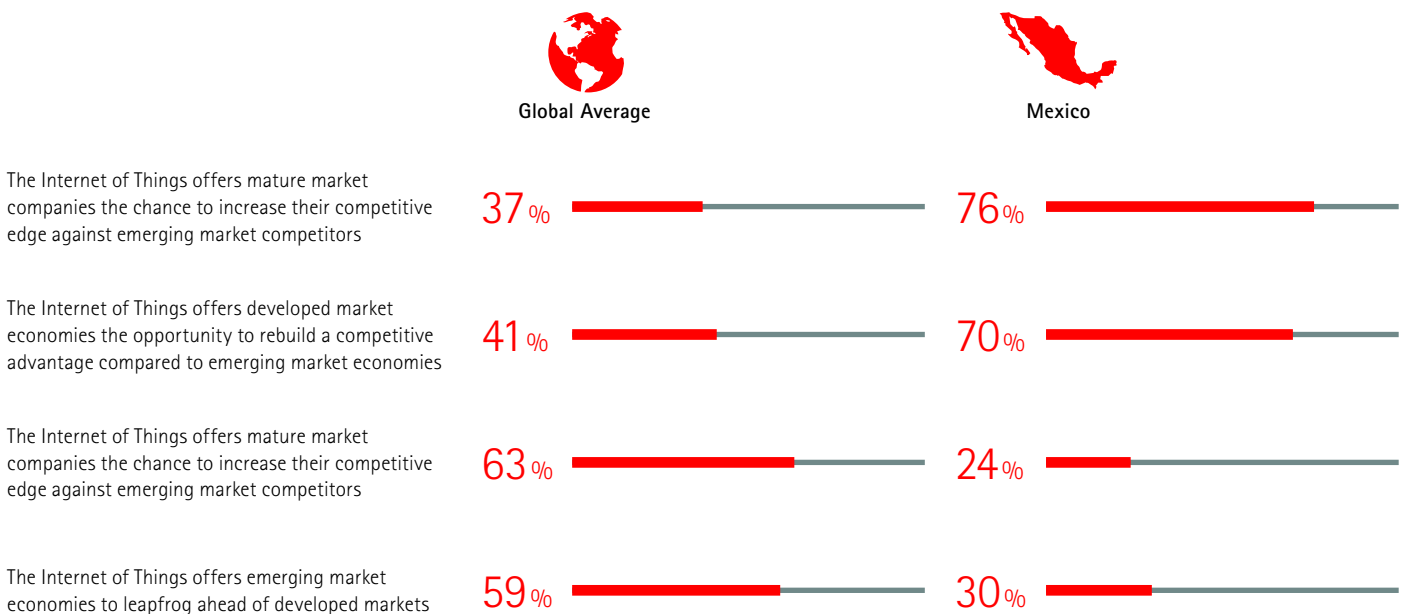
Indeed, the majority of Mexico-based respondents believe that the Internet of Things gives mature markets the chance to rebuild their competitive advantage over developing economies. Less than one-quarter (24%) of C-suite executives in Mexico believe it offers emerging-market companies the chance to close the competitive gap with mature markets, compared with nearly two-thirds (63%) globally.

Mr. Zabudovsky highlights the presence of a "dual market" in Mexico's consumer goods sector when it comes to the Internet of Things. Larger companies, like Bimbo, Coca Cola, and Frito Lay, are adopting state-of-the-art logistics and tracking technologies as part of their supply chain management. "But smaller companies rarely have the resources or know how to adopt these technologies," he asserts.

Lack of access to technology and poor information and communications infrastructure are further important obstacles to developing the IoT in Mexico. While such barriers are challenging to resolve, the reforms introduced by the president, Enrique Peña Nieto, to Mexico's telecoms monopolies are clearly a step in the right direction. And despite the general trend, market leaders are already making strides to implement innovative technologies and harnessing the IoT to deliver real business solutions.

CEMEX, for example, is considered a leader in the construction industry in this regard. The building materials supplier has equipped its fleet of trucks with sensors to track engine performance and petrol consumption and to enable dispatchers to verify which truck is closest to a given construction site for faster delivery times. This cuts costs, but it is more than just an operational improvement, since it is also a means of creating better value for clients.

Figure 8: Views on the Internet of Things



# Customer demand and the pace of innovation

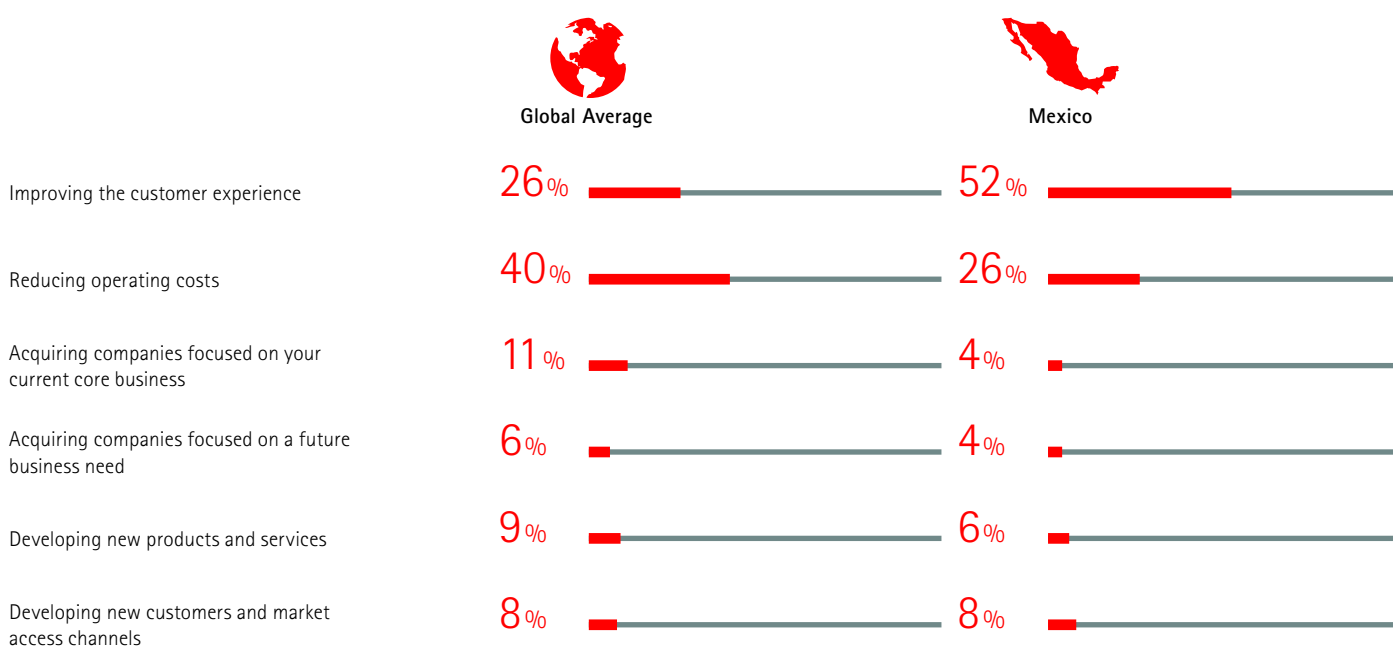
Fully half of survey respondents based in Mexico – above the global average – highlight a lack of customer demand as a major obstacle to developing the IoT. While this is clearly not the case in all sectors, it does not surprise Professor Trillo. Citing concerns about fraud and poor infrastructure, he asserts that Mexican consumers tend to be somewhat more cautious with regard to using digital technology than Mexican businesses.

Perceiving a lack of demand could be underappreciated as an obstacle to innovation in Mexico, as business leaders are putting their customers at the heart of their strategic planning. A strong commitment to improving the customer experience is a recurring theme

throughout the research's results. Nearly half (48%) of executives in Mexico highlight better customer service as a key part of their competitive strategy. Moreover, meeting changing customer expectations is cited most frequently as the most significant challenge they face (30%, compared with 13% globally).

Perhaps most crucially, when asked how they would deploy an extra 20% in their budget, more than half (52%) of these executives emphasise improving their customers' experience – double the global average of 26%. Luis Niño de Rivera, formerly CEO and now vice-president of the board of Banco Azteca sums it up simply: "The way we operate today is dictated by the consumer."

Figure 9: If you had an extra 20% in your budget, where would you invest that capital?



Banco Azteca is also rolling out digital banking tools as part of its broader strategic efforts to meet the changing needs of its customers. Like many of the Mexican companies in the survey, Mr Niño de Rivera's organisation is strongly focused on improving customer service as a key business driver and a focus for its technology investments. "They want to do business when it is the right time for them," he says. To meet those needs, the organisation is building a suite of mobile banking tools and services to enable "anywhere, anytime" banking and implementing big data analytics to meet customers' individual needs more directly. "If a bank can't provide loans, deposits, transactions and other services using mobile devices, they will be left behind," Mr Niño de Rivera states.

His bank's current portfolio of digital projects includes rolling out Azteca Móvil, a banking app that generates dynamic passwords every minute, allowing customers to safely conduct business on the Azteca Mobile network, and its "Market Segment-of-One" approach to big data analytics. Mr Niño de Rivera notes that his bank currently processes up to 15m transactions per day. The analytics team is now analysing these millions of bits of transactional data to tease out customers' patterns of use and preferences as part of a strategy to develop more tailored products and services. "Understanding the behaviour patterns of our clients will help us to better articulate their needs," he says.

Mr Robles of BBVA agrees with the value of mobile banking but further asserts the importance of digital technologies. Digital investments have "enabled higher-quality risk analyses and made possible more affordable solutions" he says. This has supported what he calls "the soundest credit expansion in Mexico's history." Interest rates are near record lows and market segments that were once underserved now have an array of real options. Infrastructure and SME lending have grown and increased competition in the banking sector is delivering real value for the Mexican consumer, he affirms.

Meeting changing customer expectations is cited most frequently as the most significant challenge

# Conclusion

Digital innovation is more common among Mexico's larger firms. They have the resources and the global experience to support these projects and generally recognise the importance of innovation to long-term business growth. But small and medium-sized firms tend to lag behind, which is a problem, according to Professor Trillo. "We import a lot of technology and we are not really creating it," he says. He argues that firms of all sizes in Mexico must start taking bigger risks with technology innovations and stop relying on the government to support their research or to protect them from their competitors. "Mexico won't develop until we invest more in R&D."

The EIU forecasts improvement in Mexico for 2015 after relatively modest growth in 2014. We project a rise towards 3% in 2015, but averaging fully 3.7% annually from 2015 through 2019. And there is an opportunity for still higher gains if Mr Peña Nieto keeps to the path of structural reform. But as these changes play out, a range of key sectors will be exposed to sharper competition. If companies in Mexico are to compete with their peers at home and abroad, they need to ramp up investments in both technology and human capital. There is opportunity for forward-looking business leaders to woo customers, increase revenue and deliver sustainable business growth in the years ahead.

The larger multinationals may be the best-positioned to lead this charge, but even here concerns or scepticism can hold things back. As competition heats up, the market leaders will be those that are able to seize growth through greater efficiency, improved customer service and the delivery of new services. While new technologies have the potential to bring value in each of these areas, Mexico's companies will need to invest accordingly.



## About Accenture

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## About Accenture Strategy

Accenture Strategy helps leading organizations shape and drive their plans for growth and innovation, competitiveness, new operating models, talent and leadership, and digital transformation. Accenture Strategy integrates business, technology and function strategies to improve agility and deliver tangible outcomes.

## About the research

CEO Briefing 2015: Mexico is an Accenture report, written by The Economist Intelligence Unit. This country profile provides a blend of macroeconomic and strategic business insights. The report draws on the views of more than 1,400 C-suite executives, including 50 based in Mexico, regarding the prospects for the global and national economy and explores how digital technology and the Internet of Things will be affecting business investments and growth strategies in the coming year.