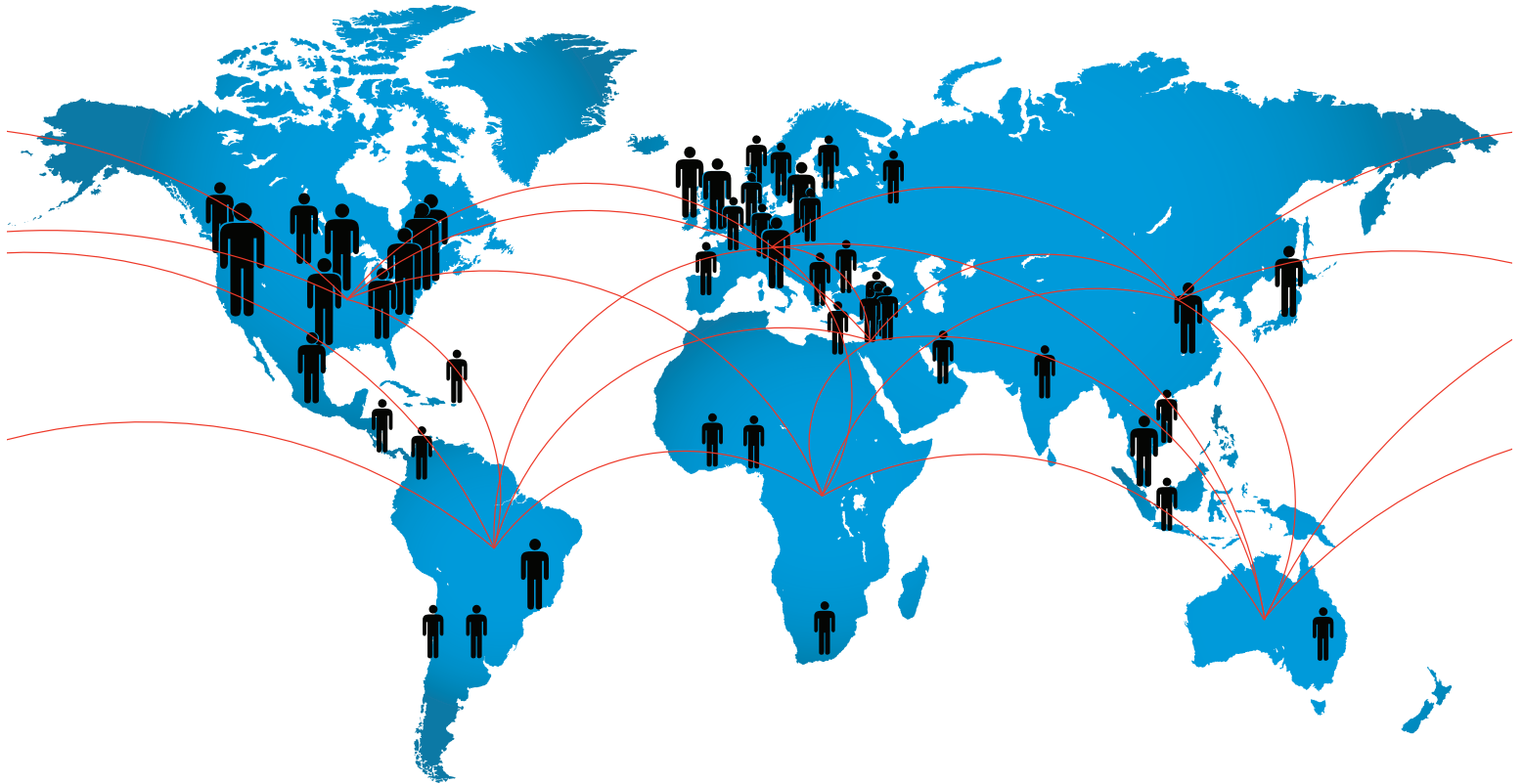




# Kauffman Fellows **REPORT** 2015 vol. 6

Forward-thinking articles from our global network of  
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# Singularity and Growth in Latin America: Nine Drivers of Category-Leading Companies

Ariel Arrieta

Class 18

Enterprises like Google, Facebook, Airbnb, Dropbox, Instagram, Whatsapp, and Twitter are unique in the high level of impact they have on the world. With billionaire valuations, they redefine ways of doing business and are at the forefront of consumer trends. Investors are always looking for that one innovative startup able to become life-changing for millions of people.

These game-changing startups are real—and they are also occurring in Latin America. While the list of Internet companies founded in Latin America that have already managed billionaire valuations is short (figure 1), these few have paved the way for other Latin American companies to envision themselves becoming global players.

I believe that during the next decade, twice as many Latin American companies will reach \$1+ billion valuations. Furthermore, I argue that this exponential growth rate can be maintained—a Moore’s Law for Latin American companies with global reach—but only if the region can take advantage of the unexplored verticals that present this unparalleled opportunity.

As a serial entrepreneur in the Internet-company space since 1994, and currently Co-founder and Managing Partner at NXTP Labs, an accelerator and seed fund of Latin American Internet-based startups, I have long had a keen interest in the question of identifying and

Rank	Company	Sector	Valuation	Founded	Status
1	Mercado Libre	E-Commerce	\$6.3B	1999	Public
2	B2W	E-Commerce	\$3.7B	2006	Public
3	Despegar	Search	\$1.0B	1999	Private
4	OLX	Classifieds	\$1.0B	2006	Private
5	UOL	Telecommunications	\$1.0B	1996	Private

Figure 1. Latin American Internet Companies with \$1+ Billion Valuations. Author’s figure; data from L. S., D. H., and P. J. W., “Start Me Up,” The Economist, 7 July 2014, [http://www.economist.com/blogs/graphicdetail/2014/07/daily-chart-6?src=scn/tw\\_ec/start\\_me\\_up](http://www.economist.com/blogs/graphicdetail/2014/07/daily-chart-6?src=scn/tw_ec/start_me_up).

supporting so-called unicorn investments in Latin America. In this article, I outline nine key drivers supporting the development of category-leading Latin American companies over the next ten years. To discuss those factors, I refer to companies that are raising the most funding and are on track to becoming the next Latin American leaders (figure 2).

Company	Sector	Country
Navent	Real Estate	Argentina
UOL	Internet Services	Brazil
VivaReal	Real Estate	Brazil
Open English	E-learning	Global Venezuela
Satellogic*	Satellites	Argentina
NetShoes	E-Commerce	Regional (Based in Brazil)
Dafiti	E-Commerce	Brazil
Avenida	E-Commerce	Argentina
YellowPepper	Mobile Payment	Regional
Technysis	Finance	Global (based in Argentina)
NuBank	Finance	Brazil
Spring Wireless	Mobile Solutions	Global
Movile	E-Commerce	Global
Restorando	Online reservations	Regional
Compraraonline	Personal finance	Chile
Hotel Urbano	Travel	Brazil

**Figure 2. Companies Likely to Become the Next Latin American Category Leaders.**

Author's figure; data based on LAVCA, Venture Investing Snapshot: LATAM Trends (2014), 4, <http://lavca.org/2014/08/28/venture-investing-snapshot-latam-trends/>.

The rapid growth of companies such as these is not just a wish or desire. Rather, it is the expected and plausible result of the transformation of nine key drivers.

### Driver 1: Emerging Markets Have Momentum

There has been sustained economic growth in emerging Latin American countries such as Chile, Peru, Colombia, Brazil and Mexico.<sup>1</sup> Enterprises competing and working together across these emerging markets have facilitated the consolidation of companies throughout the region.<sup>2</sup>

The growth in number of Latin America's \$1+ billion companies is attributed to the expansion of the global market itself—around 50% of connected Internet users come from emerging markets, and 73% do not have English as a mother tongue.<sup>3</sup> In the 1990s and before, to be a great company required a strong (if not exclusive) presence in the English-centered markets—but no more. As the numbers above reflect, **there are now significant opportunities to build a great company outside the English-language markets.**

One good example of this shift is OLX, an online classifieds company founded in 2006 that has grown to 1,200 employees and operates in 40 countries—making it, in 2013, the largest marketplace in India, Poland, and Brazil. As of October 2014, OLX had reached the 200-million-user milestone (same as Instagram) without having a strong foothold in English-centered markets.<sup>4</sup>

<sup>1</sup> Bloomberg, "Bloomberg Visual Data, Best Emerging Markets 2014: Countries," <http://www.bloomberg.com/visual-data/best-and-worst/best-emerging-markets-2014-countries>.

<sup>2</sup> Luviciano Ciravegna, "The Silicon Valleys of Latin America - Searching for 'Shared Value' Development Models," *European Business Review*, 11 January 2013, <http://www.europeanbusinessreview.com/?p=2134>.

<sup>3</sup> Olivia Nottebohm, James Manyika, Jacques Bughin, Michael Chui, and Abdur-Rahim Sayed, *Online and Upcoming: The Internet's Impact on Aspiring Countries* (McKinsey, January 2012), 6, [http://www.mckinsey.com/~/media/mckinsey/dotcom/client\\_service/high%20tech/pdfs/internet\\_in\\_aspiring\\_nations\\_report\\_april\\_2012.ashx](http://www.mckinsey.com/~/media/mckinsey/dotcom/client_service/high%20tech/pdfs/internet_in_aspiring_nations_report_april_2012.ashx).

<sup>4</sup> Erin Griffith, "Meet OLX, the Biggest Web Company You've Never Heard Of," *Fortune*, 29 October 2014, <http://fortune.com/2014/10/29/olx-emerging-markets/>.

## Driver 2: Role Models and Success Stories Affect Aspirations

As the whole industry is being consolidated, success cases are coming up gradually—and continue to define themselves over time. The definition of success in the late 1990s was to create a company and then sell it, but success is now redefined. **Today, being successful means creating a company that lasts and transcends technological change—in no small part because of the timeframe to create a billion-dollar company.** It takes about seven years in the United States, eight in Europe,<sup>5</sup> and the global average is likely to be longer.

Therefore, since the mid-2000s, the model of a successful entrepreneur has also changed. Previously, the role model was of entrepreneurs like Wenceslao Casares: as a student, he created Patagon, a portal for financial operations that after several investment rounds managed to sell in 2000 for \$750 million.<sup>6</sup> Other founders and startups then developed the objective to be sold to strategic companies who were already big players in the market.

This aspiration to find the right big buyer changed in Latin America in 2007 when MercadoLibre launched its IPO on Nasdaq (MELI) under the leadership of its CEO and Founder, Marcos Galperin. The company now surpasses a \$4 billion valuation, and is catalogued by Forbes as one of the most innovative technology companies in the world (18<sup>th</sup> out of the top 100).<sup>7</sup>

## Driver 3: Angel Investors Recycle Capital

In the consolidation of the technological industry linked to the Internet, angel investors are key agents. Internet startups exist within an immature business segment by their very

nature and so present a high level of risk; therefore, **the first resources made accessible to high-potential startups come from angel investors.**

Since 2010 angel investors in technology projects have formed and consolidated networks within national and regional Latin American ecosystems.<sup>8</sup> Though some studies suggest that Latin America has 21 active angel networks encompassing more than 700 investors, we at NXT Labs know that **the number of investors is bigger and is growing rapidly in the emerging countries of the region: Argentina, Brazil, Colombia, Chile, Mexico, and Peru.**<sup>9</sup>

Angel investors in Internet-based companies most often are, essentially, recycling capital. Angel investors usually fit the profile of entrepreneurs who managed to make money starting Internet companies and then returned to invest in what they believe in. They perceive risk in a very different manner than traditional investors, and are **reinvesting the capital generated in their own experiences in the industry.**

This recycling is supported by several factors. Angel investment is catalyzed by those investment funds that are led by technology entrepreneurs, such as Kaszek, my own NXTPLabs, Fabrice Grinda, and José Marín. Behind them are countless technology-entrepreneurs-turned-angel-investors, betting once again on “safe” investments. In general, this angel money is also followed by entrepreneurial know-how gained from the success that made them investors. Finally, interests are aligned in a wider ecosystem that finds value in the progress of startups.

These trends are supported by the numbers. Quantitatively, fund income for Q1 2014 in the venture capital sector of Latin America increased

<sup>5</sup> Manish Madhvani, Alessandro Casartelli, and Oana Chimina, *Can Europe Create Billion Dollar Tech Companies: THE FACTS* (GP Bullhound, June 2014), 6, <http://www.gpbullhound.com/wp-content/uploads/2014/09/GP-Bullhound-Can-Europe-Create-Billion-Dollar-Tech-Companies-Jun-14-vF.pdf>.

<sup>6</sup> Eric Markowitz, “The \$750 Million ‘Mistake,’” *Inc.*, 14 December 2011, para. 1, <http://www.inc.com/articles/201112/argentine-entrepreneur-750-million-mistake.html>.

<sup>7</sup> “Mercado Libre,” *Forbes*, June 2014, <http://www.forbes.com/companies/mercadolibre/>.

<sup>8</sup> Fondo Multilateral de Inversiones, *Las Redes de Inversionistas Angeles en América Latina y el Caribe* (February 2013), <http://lavca.org/wp-content/uploads/2013/12/Las-redes-de-inversionistas-angeles.pdf>.

<sup>9</sup> *Ibid.*, 14.

to \$3.5 billion, while 2013 totaled \$5.5 billion for the full year.<sup>10</sup>

However, 93 private equity or venture capital investments were implemented in the region for a total of \$2.57 billion<sup>11</sup>—10% less than in 2013 during the same period.<sup>12</sup> This decrease suggests fund administrators diverted efforts towards management and fundraising.

The information technology market is the sector with the highest growth of investors in the region. Nearly one third of the dollars invested in Q1 2014 went to the technology sector—an unthinkable level just a few years back. If a technology fund completes its investment cycle, it generates a lot of trust in the market—and it is feasible to **expect more investors to bet on the technology sector in the future**. This establishment of trust will allow funds to leverage their focus from fundraising to diligent portfolio management and more and better investments.

### Driver 4: Copycats Are Fewer and Fewer

The highest-valued Internet companies in Latin America to date have been copycats of successful models from the English-language market. MercadoLibre was inspired by eBay, and OLX has become the CragisList of the emerging world (mainly for Brazil, Russia, India, and China—the BRIC countries).

However, the region is now experiencing a different moment of company creation. **Latin American entrepreneurs know that from day one (and even day zero) they are competing globally, and so they concentrate primarily on leading the region, at least initially.**

Two of our portfolio companies at NXTP Labs demonstrate this shift well. Satellogic is an

Argentine developer of satellites at low cost, for less than \$100,000. The company is launching into orbit a constellation of satellites that will allow access to almost real-time images from all over the planet—an incredibly valuable asset for hundreds of industries. No company has attempted this before, and this totally novel idea may disrupt the satellite data market.

iBillionaire allows users to replicate the investments made by the billionaires of the world, thus allowing everyone to have the same portfolio as an expert (at their own scale) and bettering returns on the S&P. Founded by an Ecuadorian and an Argentine, this startup now operates the iBillionaire Index (IBLN) as a parallel to Wall Street. In moving from an informational app to a financial distribution platform, iBillionaire is innovating the stock market by bringing democratization to Wall Street financial transactions.

There are many other examples of the creative phrase, “Made in LatAm.” These companies are evidence of a moment where research and development has matured to such an extent that **it is no longer strange to hear that “the next Facebook” will come from Latin America.**

### Driver 5: Entrepreneurial Support Is Part of Regional Government Agendas

Entrepreneurs in knowledge economy companies have a productive agenda that is gaining ground with the region’s governments. Governments have at long last concluded that the only way to generate local innovation is with **dedicated funds and policies that facilitate the creation and good business administration of this type of enterprise.**

Theirs is not a naïve vision or an underestimation of Josh Lerner’s *The Boulevard of Broken Dreams*,<sup>13</sup> where he describes in detail errors made by past governments that tried to replicate Silicon Valley in their territories.

<sup>10</sup> Lawrence Delevingne, “Private Equity Preps New Latin America Push,” *CNBC*, 8 September 2014, <http://www.cnbc.com/id/101975104#>.

<sup>11</sup> Mark Boslet, “Private Equity Investing in Latin America Falls 10 pct in First Half,” *PE Hub*, 4 September 2014, para. 2, <https://www.pehub.com/2014/09/private-equity-investing-in-latin-america-falls-10-pct-in-first-half/>.

<sup>12</sup> *Ibid.*, para. 10.

<sup>13</sup> Josh Lerner, *Boulevard of Broken Dreams: Why Public Efforts to Boost Entrepreneurship and Venture Capital Have Failed—and What to Do About It*, Kauffman Foundation Series on Innovation and Entrepreneurship (Princeton, NJ: Princeton University Press, 2009).



Country	Program name	Description
Argentina	The City of Buenos Aires Government (GCBA)	Launching an initiative to provide an investment of AR\$28 million (\$3.5M), of which AR\$18 million (\$2.25M) will go to five accelerators.
	Argentina's National Agency for Scientific and Technological Promotion (ANPCyT)	Goals include the completion of undergraduate degrees, the generation of new businesses, and the strengthening of small- to medium-sized enterprises (SMEs) in the information technology and telecommunications (ICT) sector.
Brazil	Brazilian Development Bank (BNDES)	Principal agent for development finance in Brazil, with a fundamental role in the growth of industry and the country's infrastructure. Focuses on innovation, local development, and socio-environmental development.
	Funding Authority for Studies and Projects (FINEP)	Support the full cycle of technological development by supporting companies that implement R&D programs in innovative sectors, including information and communication technologies, aerospace, renewable energy, cleantech, health, biotechnology, nanotechnology, and aeronautics.
	Startup Brazil	Created by the Ministry of Science, Technology, and Innovation in association with private accelerators to help fund technology-based companies.
Chile	Production Development Corporation (CORFO)	National agency in charge of aiding the development of local entrepreneurship, innovation, and competition in the country. Manages 50+ programs.
	Startup Chile (SC)	Seeks to attract world-class entrepreneurs to start companies at an early stage in Chile, and aims to strengthen the entrepreneurial ecosystem, sustaining the country's innovation culture, and connecting it to the world. Run by CORFO.
Colombia	Apps.Co	Aims to drive business creation through a plan called Vive Digital, using information and communication technologies, with a special interest in mobile applications, software, and content. Initiative designed by the Ministry of Information Technologies and Communications (MinTIC).
	iNNpulsa	National government institution supporting and promoting extraordinary business growth, innovation, and high-impact enterprise. Focused on business initiatives that can grow quickly and are profitable and sustainable.
	Ruta N	The hub for business and innovation in Medellín; mission is to drive new business based on knowledge, with a global vision. Program is for startups in the country's Antioquia region.
Mexico	National Institute for the Entrepreneur (INADEM)	Aims to instruct, execute, and coordinate national policy for entrepreneurs and micro-businesses (small and medium). As of January 2015, was implementing a funding program for high-impact funds. A branch of Mexico's Ministry of Economy.
	The National Financier Program (NAFIN)	Incentivizes credit for companies with an impact in economic development by guaranteeing the return of capital. Targets companies in the commercial, industrial, and service sectors.
Peru	Startup Peru	Promotes the creation and consolidation of new Peruvian businesses offering products and services that are innovative, highly technological, and have international potential. Initiative led by the state's Ministry of Production.
Uruguay	The National Innovation Research Agency (ANII)	Promotes and encourages research into—and application of—innovative ideas for the improvement of social realities.
	Inter-American Development Bank - Program to Support Future Entrepreneurs	Aims to boost private investment in innovation activities. Specific objective is to increase the number of new and successful innovative business ventures in Uruguay.

**Figure 3. Government Programs Supporting Entrepreneurial Activity in Latin America: Argentina, Brazil, Chile, Colombia, Mexico, Peru, Uruguay (in alphabetical order).** Author's figure; data compiled from each program's website.<sup>14</sup>

<sup>14</sup> <http://www.buenosaires.gob.ar/emprendedores>; <http://www.agencia.mincyt.gob.ar/>; [http://www.bndes.gov.br/SiteBNDES/bndes/bndes\\_en/Institucional/The\\_BNDES/](http://www.bndes.gov.br/SiteBNDES/bndes/bndes_en/Institucional/The_BNDES/); <http://www.finep.gov.br/>; <http://www.startupbrasil.org.br/?lang=en>; <http://www.corfo.cl/inicio>; Loic Comolli and Nicole Etchart, "Case study 7.1 CORFO," in *Social Enterprise in Emerging Market Countries: No Free Ride* (New York: Palgrave Macmillan, 2013), para. 2; <http://www.startupchile.org/about>; <https://apps.co/>; <http://www.innpulsa.com/>; <http://rutanmedellin.org/index.php/es>; <http://www.inadem.gob.mx/>; <http://www.nafin.com/portalnf/content/home/home.html>; <http://www.start-up.pe/>; <http://www.anii.org.uy/web/>; <http://www.iadb.org/en/projects/projects,1229.html>.

Latin American governments are rather recognizing that without public policy and dedicated funding, an ecosystem like Silicon Valley is impossible. It is a

fact that behind every great company started in Silicon Valley, one can trace government funds, as Mariana Mazzucato describes in *The Entrepreneurial State*.<sup>15</sup>

This evidence of past success has helped create government programs in the region, among which seven countries stand out: Argentina, Brazil, Chile, Colombia, Mexico, Peru, and Uruguay (in alphabetical order). Figure 3 (previous page) provides an overview of these programs.

In addition to all these government-led efforts, multilateral organizations have made an important monetary contribution to the operation of these efforts. These organizations include the Interamerican Development Bank (IDB) and its Multilateral Investment Fund (FOMIN), the Development Bank of Latin America (CAF), and the International Finance Corporation (a World Bank agency).

#### Driver 6: Regardless, the World is Flat<sup>16</sup>

Today's world is both exponential and global. Global is easier to understand—if something happens in emerging countries or regions, it has a direct effect on the rest of the world in minutes (or seconds). Global integration through communications, technology, and infrastructure is generating exponential and global changes as never seen before. This setting creates an unparalleled opportunity for emerging markets like Latin America to generate businesses of high impact in global markets.

Exponential requires a visualization. If I take 30 linear steps, I walk about 30 yards or meters. However, if I take 30 exponential steps, how far do I walk? Few will answer 1 billion meters, or 26 times around the planet. The difference

<sup>15</sup> Mariana Mazzucato, *The Entrepreneurial State: Debunking Public vs. Private Sector Myths* (London: Anthem Press, 2013).

<sup>16</sup> According to Thomas Friedman, *The World is Flat* (New York: Farrar, Straus & Giroux, 2005).

between linear and exponential projections is what is truly causing us stress—as humans, we think linearly, but the world is now changing exponentially.

This difficulty in visualizing exponential change is why the CEO of a company in a traditional industry like printed news or hospitality cannot see how technology can put her out of business in a very short time. This is how businesses can scale up to a value of \$1 billion in less than two years. This explains Airbnb, whose value of \$10 billion is higher than that of Hyatt's \$8 billion.<sup>17</sup>

#### Driver 7: The Bridge between Latin America and Silicon Valley

These days, good startups are largely able to find local funding for the seed series, Series A, and Series B rounds. Nevertheless, the Latin American entrepreneur takes a longer road in order to find investors for the Series C or D rounds. When they reach the more mature stages, Latin American technology companies must eventually seek funding in Silicon Valley and Europe. This shortage of local funds is one of the challenges that the region will face in the coming years: securing the “cash flow” that companies need in order to consolidate.

However, more Latin American companies are able to obtain funding through U.S. funds and then establish trusted relationships with local funds.

The local funds then generally focus on day-to-day operations. U.S. venture capitalists have invested in many early-stage startups,<sup>18</sup> including social login/identity tool Auth0 (Bessemer),<sup>19</sup>

<sup>17</sup> Megan Rose Dickey, “Airbnb Might Soon Be Worth \$10 Billion, Valued More than Hyatt Hotels,” *Business Insider*, 20 March 2014, <http://www.businessinsider.com/airbnb-raising-at-10-billion-valuation-2014-3>.

<sup>18</sup> Companies identified using dealbook.co database.

<sup>19</sup> <https://auth0.com/>; Anthony Ha, “Auth0 Raises \$2.4M To Help Developers Plug Into Identity Platforms Like Facebook,” *TechCrunch*, 17 September 2014, <http://techcrunch.com/2014/09/17/auth0-raises-2-4m-to-help-developers-plug-into-identity-platforms-like-facebook/>.



Argentinian e-commerce Avenida (Tiger),<sup>20</sup> Etsy for Brazil Elo7 (Accel Partners),<sup>21</sup> and Groupon-type service Peixe Urbano (Benchmark Capital, General Atlantic, Tiger, Morgan Stanley, and others).<sup>22</sup>

Recently, the creation of Puente Labs has been a big step in connecting the investors and mentors of Silicon Valley with startups in the region. Puente Labs<sup>23</sup> is an organization that brings together the most important players of the Valley with the purpose of helping Latin American companies make a soft landing in United States through the selection and support of Latin American entrepreneurs.

### Driver 8: Connecting the Local Ecosystem with Other Ecosystems

The region of Latin America is one big melting pot of ventures. Entrepreneurs know that in order to grow their companies to attractive levels for investors, as well as for founders, they need to scale in different countries. This understanding quickly generates companies with a simultaneous presence in several markets, which then connects them with local entrepreneurs. These connections help establish and grow local businesses, but more importantly, they provide regional impact.

One of the key initiatives in the region today is Startup Chile, a program created by the Chilean government to encourage innovation. In 2014, Startup Chile invested in 100 startups, with 29% of entrepreneurs representing Chile, and 50%

coming from Latin America.<sup>24</sup> The goal of the Chilean government is to mobilize Chilean entrepreneurs and show them it is possible to start a global business form inside the country. This initiative has welcomed many entrepreneurs from North America and Europe to learn more about this part of the continent as well as to connect with other Latin American entrepreneurs, allowing them to create an active network.

In turn, entrepreneurs are producing “startup communities” in different countries and connecting these communities with each other. Entrepreneur and author Brad Feld describes this phenomenon of networks where leadership is shared and chaotic: many leaders are linked to various local, regional, or global organizations with ephemeral life cycles, and they are leaving these connections behind.<sup>25</sup> Figure 4 (next page) provides a list of the main networking events in the region.

### Driver 9: Less Silicon Valley, More Bollywood

Not only does it not make sense to try and replicate Silicon Valley in Latin America, it is a waste of time. There was a moment when it seemed possible: we, the investors, saw startups in Latin America acquired by Playdom and Groupon; we “‘tropicalized’ our expectations” and made \$10-35 million on valuations under \$2 million.<sup>26</sup> However, an ecosystem cannot be supported if money only comes in and does not leave. Given the scarcity of exits, we realized that we have failed in building companies that are of interest to multinational groups.

The cinematic metaphor is pertinent. Bollywood is not an attempt to copy Hollywood

<sup>20</sup> <http://www.avenida.com.ar/>; “Avenida Raises \$17.5M from Tiger Global and Naspers to Become the Largest Pure Fulfillment E-Commerce Play in Argentina,” *Quasar Ventures* (blog), 3 September 2014, <http://quasar-ventures.com/avenida-raises-17-5m-from-tiger-global-and-naspers-to-become-the-largest-pure-fulfillment-e-commerce-play-in-argentina/>.

<sup>21</sup> <http://www.elo7.com.br/>; Leena Rao, “Accel and Monashees Capital Back the Etsy for Brazil,” *TechCrunch*, 11 October 2011, <http://techcrunch.com/2011/10/11/accel-and-monashees-capital-back-the-etsy-for-brazil-elo7/>.

<sup>22</sup> <http://www.peixeurbano.com.br/>; Michael Arrington, “Benchmark Capital Takes Stake in Brazil’s Peixe Urbano,” *TechCrunch*, 12 January 2011, <http://techcrunch.com/2011/01/12/benchmark-capital-takes-stake-in-brazils-peixe-urbano/>.

<sup>23</sup> <http://www.puentelabs.com/>.

<sup>24</sup> Starter Daily, “100 Startups Chosen to Participate in Round 10th of Start-Up Chile,” 30 May 2014, para. 3, <http://en.starterdaily.com/startup/2014/05/30/100-startups-chosen-to-participate-in-round-10-of-start-up-chile/>.

<sup>25</sup> Brad Feld, *Startup Communities* (Hoboken, NJ: John Wiley & Sons, 2012).

<sup>26</sup> Juan Cappello, “Web 2.0 in Latin America: Why We Blew It and What We Can Do to Fix It,” *TechCrunch*, 4 August 2013, para. 6, <http://thenextweb.com/insider/2013/08/04/web-2-0-in-latin-america-why-we-blew-it-and-what-we-can-do-to-fix-it/>.

Event	Location	Event Website
Startup Weekend	Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Guatemala, Honduras, Jamaica, Mexico, Panama, Paraguay, Peru, Puerto Rico, Uruguay, Venezuela	<a href="http://startupweekend.org/events">startupweekend.org/events</a>
Startup Grind	Argentina, Brazil, Chile, Colombia, Guatemala, Mexico, Peru, Trinidad & Tobago	<a href="http://startupgrind.com/events">startupgrind.com/events</a>
Red Innova	Brazil, Argentina	<a href="http://redinnova.com/camp">redinnova.com/camp</a>
Lean Startup Machine	Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Mexico, Peru, Uruguay	<a href="http://leanstartupmachine.com">leanstartupmachine.com</a>
Palermo Valley	Argentina	<a href="http://palermovalley.com/?tag=eventos">palermovalley.com/?tag=eventos</a>
Angel Hack	Argentina, Brazil, Chile, Mexico	<a href="http://angelhack.com/events">angelhack.com/events</a>
Seedstars	Argentina, Brazil, Chile, Colombia, Mexico, Peru	<a href="http://seedstarsworld.com/startup-competition">seedstarsworld.com/startup-competition</a>
EmTech	Colombia, Mexico	<a href="http://technologyreview.com/emtech/14">technologyreview.com/emtech/14</a>
PulsoConf	Colombia, Mexico	<a href="http://pulsoconf.co">pulsoconf.co</a>
Digital Bank Latam	Chile, Colombia, Peru	<a href="http://digitalbankla.com">digitalbankla.com</a>
The Next Web Conference	Brazil	<a href="http://thenextweb.com/conference">thenextweb.com/conference</a>
Latin America Tech Meetup	Regional	<a href="http://meetup.com/South-America-Tech-Meetup">meetup.com/South-America-Tech-Meetup</a>
Hacks/Hackers	Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Guatemala, Mexico	<a href="http://hackshackers.com/chapters">hackshackers.com/chapters</a>

**Figure 4. Main Networking Events and Initiatives in Latin America that Support Entrepreneurship in the Region.** Author's figure.

in India. Inspired by Hollywood, taking many cues from the United States, Bollywood is a film industry that is totally adapted in style and magnitude to the 1+ billion viewers in the Indian market (figure 5).

Investors need to adopt a market-adaptation model similar to Bollywood's and use Silicon Valley as a model to begin the development of local markets. [Local investors and entrepreneurs have been learning how to create and scale companies, and now it is time to](#)

[learn how to develop the market potential that we have internally.](#)

The local opportunity is considerable. As figure 6 shows, the total number of Internet users in Latin America is close to that of the United States, but the Internet user growth over the last 2-3 years was much higher in Latin America: close to 8x the U.S. rate.<sup>27</sup> The potential for creating an Internet-related business in Latin America is huge.

Few companies born in Latin America are publicly offered; rather, almost all the big

<sup>27</sup> Internet World Stats, "Internet users in the world Distribution by World Regions - 2014 Q2," 30 June 2014, <http://www.internetworldstats.com/stats.htm>.

	Hollywood	Bollywood
Average Film Cost	\$47.7M	\$1.5M
Films Produced (2012)	476	1,602
Tickets Sold (2012)	1.36B	2.6B

Figure 5. Film Cost and Sales Comparison: Hollywood vs. Bollywood. Author's figure.<sup>28</sup>

companies are dominated and controlled by a family or economic group.<sup>29</sup> Investors and entrepreneurs must approach the large, local economic groups to determine their needs and create companies that will be attractive to them. As Latin America has a different timeline, a local economic group will better understand how the market works and how to make a regional company grow.

### Key Strategies to Support the Development of Category-Leading Companies

Due to the nine drivers described here, Latin America is ripe for the development of a new crop of category-leading, \$1+ billion companies. Three potential threats to that development exist, but can be overcome by following three key strategies.

#### Make Funds Available for Later Stages

Despite global reach and an exponential pace, the road map for Latin American entrepreneurs to find investments for rounds B, C, or D is longer than in the English-speaking world. The regional ecosystem only provides startups with funds for

<sup>28</sup> Data from Palash Ghosh, "Bollywood At 100: How Big Is India's Mammoth Film Industry?" 3 May 2013, *International Business Times*, <http://www.ibtimes.com/bollywood-100-how-big-indias-mammoth-film-industry-1236299>; Statista, "Facts on the Film Industry," <http://www.statista.com/topics/964/film/>; and Neil McCarther, "Bollywood: India's Film Industry By The Numbers [Infographic]," *Forbes*, 3 September 2014, <http://www.forbes.com/sites/niallmcCarthy/2014/09/03/bollywood-indias-film-industry-by-the-numbers-infographic/>.

<sup>29</sup> Inter-American Development Bank, *From Multilatinas to Global Latinas The New Latin American Multinationals (Compilation Case Studies)* (2009), 215, <http://www10.iadb.org/intal/intalcdi/PE/2009/03415.pdf>.

	Silicon Valley/ United States <sup>a</sup>	Latin America
Average early-stage seed investment	\$104K <sup>b</sup>	\$42K <sup>c</sup>
Internet users (June 2014) <sup>d</sup>	277.2M	320.3M
Growth in Internet users (2013) <sup>e</sup>	2% <sup>f</sup>	17%

Figure 6. Startup Costs and Internet User Base: U.S. vs. Latin America. Author's figure.<sup>30</sup>

their Series A. This lack of funds is one of the main challenges for the region over the next few years—it is vital to guarantee the cash flow that businesses need to consolidate and grow.

### Resist Early Acquisition

Though the opportunity is there for the taking, "bread can always burn at the oven's door."

Early acquisition offers are the most prominent threat faced by high-potential companies, and it is essential for entrepreneurs and investors to resist this temptation.

The investment community must allow entrepreneurs to cash out small amounts after every round—not enough to make entrepreneurs become investors instead of scaling their business, but enough to enable them to risk more and allow the company to become public (with all its underlying risks). Globant offers a recent

<sup>30</sup> <sup>a</sup> While the accelerators listed are not all physically located in Silicon Valley, they are well-connected to the Silicon Valley-United States ecosystem. <sup>b</sup> Average of 3 Silicon Valley funds: Y Combinator investment average from Sam Altman, "The New Deal," *Y Combinator Posthaven* (blog), 22 April 2014, <http://blog.ycombinator.com/the-new-deal>; 500 Startups from "What's the Deal" section of <http://500.co/accelerator>; TechStars from <http://www.techstars.com/>. <sup>c</sup> Average of investments by Wayra, NXT Labs, 21212, and Acceleratech: Wayra investment average from <http://wayra.co/>; NXT Labs from <http://www.nxtplabs.com/investment/>; 21212 from <http://21212.com/about/>; Acceleratech from <http://acceleratech.com.br/en/>; for 21212 and Acceleratech (who make investments in Brazilian Reales), I used an exchange rate from 2 February 2014 (2.71), found on [oanda.com](http://oanda.com). <sup>d</sup> Data from Internet World Stats, 30 June 2014, <http://www.internetworldstats.com/stats.htm>. <sup>e</sup> Data from comScore, "Futuro Digital LATAM 2014," slides presented September 2014, <http://www.slideshare.net/delgadocristian/futuro-digital-latinoamerica-2014>, slide 6. <sup>f</sup> Figure is for United States and Canada.

example. During a difficult time for Argentina after its government's 2001 default, Globant's strategy was to acquire small companies as part of its growth plan. Instead of selling their company to the competition, the founders decided they wanted to build their own large company.<sup>31</sup> Globant has been trading in the NYSE (GLOB) since July 2014.<sup>32</sup>

### Adopt a Realistic Timeline

The construction of a category-leading company in Latin America takes at least a decade—no Internet startup in Latin America has reached the \$1 billion milestone in less than ten years.<sup>33</sup> Each stakeholder group must accept this timeline and act accordingly.

Entrepreneurs must rid themselves of the idea that they can reach such a valuation in less than two years, as this is not what statistics show. The key is for good entrepreneurs to become good CEOs, which means taking the big step from being a specialist to becoming a generalist who is able to make good decisions in a variety of areas.

Governments should develop policies that cater to long-term results, as opposed to the more typical short-term goals. The development of a successful entrepreneurial regional ecosystem cannot be achieved in four years. The governments of each Latin American country should work together from a regional point of view, allowing startups and enterprises to grow in secure environments.

Finally, as a group, venture capitalists should align their interests with and help their respective governments understand how long-term goals are a critical aspect of regional success. Venture capitalists can and should assist the government in developing strategies that will create an ecosystem of consistent innovation with a global impact.



### Ariel Arrieta

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<sup>31</sup> Vinod Sreeharsha, "Argentine Technology Firm Plans I.P.O. on N.Y.S.E.," *New York Times*, 28 August 2013, <http://dealbook.nytimes.com/2013/08/28/argentine-technology-firms-plans-i-p-o-on-n-y-s-e/>.

<sup>32</sup> The Street, "Globant Becomes First Latin America IT Company to IPO at NYSE," 18 July 2014, <http://www.thestreet.com/video/12778871/globant-becomes-first-latin-america-it-company-to-ipo-at-nyse.html>.

<sup>33</sup> Based on a review and analysis of the timelines of the billion-dollar (or more) companies in the list provided by L. S., D. H., and P. J. W., "Start Me Up," *The Economist*, 7 July 2014, [http://www.economist.com/blogs/graphicdetail/2014/07/daily-chart-6?fsrc=scn/tw\\_ec/start\\_me\\_up](http://www.economist.com/blogs/graphicdetail/2014/07/daily-chart-6?fsrc=scn/tw_ec/start_me_up).

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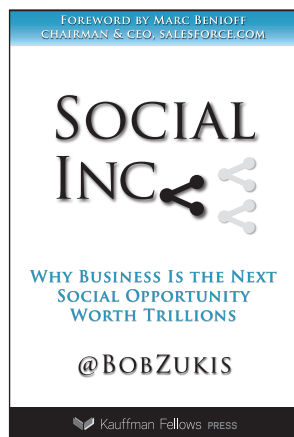
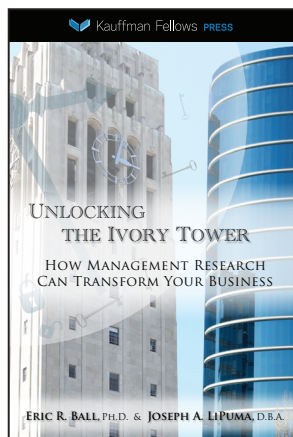
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