



Navigating Latin American Shared Services opportunities

Argentina



Latin America is becoming increasingly attractive as a location for Shared Service centers. Given the very different—and rapidly shifting—political, regulatory, and economic landscapes across Latin American countries, there is no “one-size-fits-all” approach to the region. Companies looking to enter the Latin America Shared Services market must carefully assess their short- and long-term service needs, strategic priorities, and risk tolerance before choosing a location. This series provides Deloitte’s perspective on the strengths and opportunities for the most common Shared Services markets in Latin America. This series highlights the insights Deloitte believes will shape the potential of Latin American countries to be successful destinations for Shared Services operations today and into the future.

Argentina, formerly a top Shared Services destination, looks to return to glory

All the right pieces

Argentina has long been an intriguing destination for companies looking to establish a Shared Services center in Latin America, and with good reason. First, the Argentine workforce is skilled and educated, with high levels of fluency in both English and Portuguese. Indeed, Deloitte's 2015 Shared Services Survey corroborates this point. As shown in figure 1, many Argentinian SSCs accommodate multiple, high-value functions. Argentinian SSCs tend to have greater multi-functional delivery capabilities (82% vs. 61%) compared to their Latin American peers.

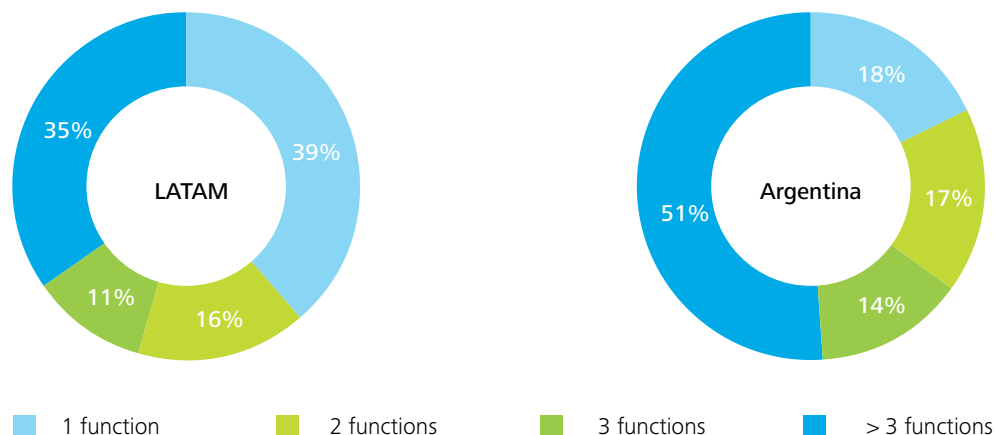
Second, Argentina—unlike some other common Latin American destinations for shared services—hosts a significant supply of talent, with ~19.5M labor force participants generating a GDP of nearly \$550B. Third, unlike some of its peers, Argentina has a well-developed infrastructure. Finally, as with most countries in Latin America, the Shared Services labor market is significantly cheaper than the US and Canada.

The combination of a well-educated and capable workforce, labor supply, developed infrastructure, and economical labor rates would typically make it a top Shared Services destination. Yet while several companies have opened centers in Argentina in the past, the market has seen a significant deceleration over the last eight to ten years.

Argentina at a crossroads

Another key finding from the 2015 Shared Services Survey revealed that survey respondents had only established a total of one new SSC between 2013 and 2015.¹ Deloitte's experience establishing and optimizing centers in Argentina and around the region suggest that protectionist policies and rampant inflation were the primary causes of this slowdown. Capital controls were restricting capital outflow, high tariffs on foreign purchases were subtly impairing centers' ability to build out infrastructure, and inflation rates of up to 40% were driving up peso denominated salaries². With the election of new president Mauricio Macri in November 2015, Argentina now stands at a critical inflection point. The economic and political decisions made by the Macri administration could soften the protectionist stance and control inflation, returning Argentina to a top Shared Services destination.

Figure 1: Number of functions served by SSCs



The way forward

In order for Argentina to regain its status as a Shared Services hub, its leaders should consider taking several key steps: free up capital markets, control inflation, and rationalize monetary policy.

Capital controls. Capital controls prohibited companies from taking money out of Argentina, forcing them to reinvest locally. Ironically, this control discouraged investment not only in Shared Services, but also in developing business in the country. President Macri's recent reductions of restrictions on capital controls could encourage an international inflow of capital, stimulating economic growth, and instilling confidence in companies looking to make long-term investments in the country.

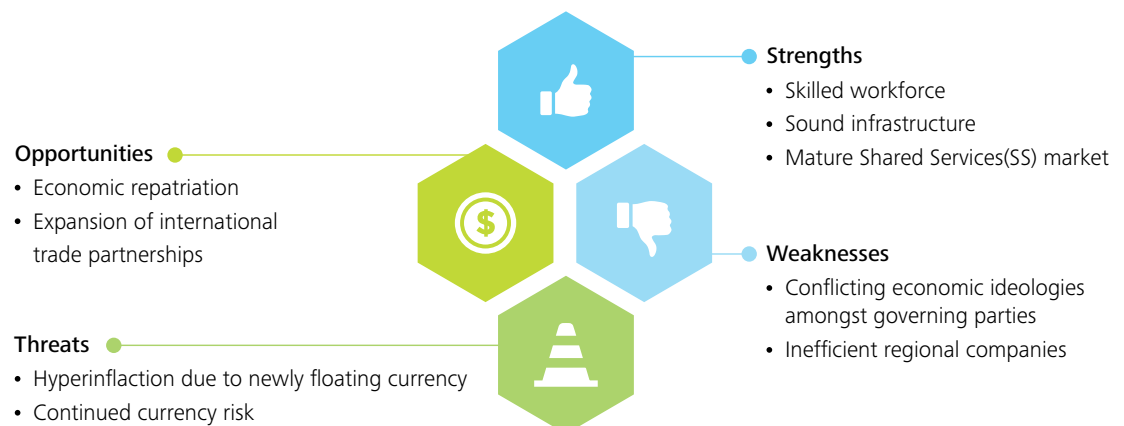
Recently, after 14 years of legal battles, Argentina settled its \$4.65B of debt with international hedge funds, allowing it to return to global markets. The hope now is to issue new sovereign debt bonds on international markets in order to quickly finance the deal and restore some confidence in Argentina's economic prospects among international investors.

If Argentina can reestablish itself as a viable, sustainable Latin American market, companies may follow to set up shared services to stay close to major markets / operations.¹ Indeed, Deloitte's 2015 Deloitte Global Shared Services Survey indicates that 42% of multi-nationals prefer to establish centers close to their major markets.

Inflation. High inflation directly impacts the cost structure of Shared Service centers, especially in the face of government regulated monetary policy. Controlling inflation is critical for Argentina to be competitive in the region. The impact of Macri's decision to abandon the fixed peso-dollar exchange rate has caused a weakening of the currency in the short term. However, in the long term, a more competitive exchange rate will encourage growth, foreign trade, and a rise in Argentinian exports.³ The net result should be a reduction in inflation and a stabilization of the currency.

Monetary policy. For years, Argentina's official exchange rate overvalued the peso relative to the market's demand, driving up the cost of labor. In unofficial black markets, the "Blue Dollar" was valued nearly 40% greater than the official dollar. Many Latin American countries have devalued their currencies against the dollar, but Argentina has carefully controlled its currency over the last decade, making its exports (including the exportation of services) less competitive. In December 2015, the newly elected Macri government pushed to remove monetary controls, rapidly devaluing the peso. While the long-term impacts of this move remain to be seen, it is likely that this liberalization of monetary policy could make Argentina's market much more affordable and attractive to a multinational firm looking to invest in Shared Services.

Figure 2. Macroeconomic drivers for Argentina's Shared Services market



Outlook

After years of uncertainty, foreign investors are cautiously positioning to re-enter Argentina. The decisions of the Macri government in 2016 have the potential to launch the Argentinian Shared Services market to the front of the Latin American pack. In the short term, foreign companies looking to build a Shared Services center in Argentina must proceed with caution. However current economic and market conditions present an opportunity to “buy low,” mitigating risk and creating the potential to capture tremendous upside.

Endnotes

- 1 Deloitte Global Shared Services Survey, 2015.
- 2 Global Risk Insights. “What’s in store for post-Kirchner Argentina?” December 10, 2014. <http://globalriskinsights.com/2014/12/whats-store-post-kirchner-argentina/>.
- 3 Wall Street Journal. “Argentina’s Peso Sinks after Currency Controls Lifted.” December 17, 2015. <http://www.wsj.com/articles/argentinas-peso-depreciates-sharply-after-currency-controls-lifted-1450365003>

For more information, please contact:

Pablo Peso

Director
Deloitte LATCO – Argentina
Email: ppeso@deloitte.com
Phone: +54 11 43202700

Kort Syverson

Principal
Deloitte Consulting LLP
Email: ksyverson@deloitte.com
Phone: +1.213.553.1275

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as “Deloitte Global”) does not provide services to clients. Please see www.deloitte.com/about for a detailed description of DTTL and its member firms. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries. Certain services may not be available to attest clients under the rules and regulations of public accounting.