

Latin America
Centre of
Asia-Pacific Excellence



Vista:
Latin America as Global Gateway

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CASE STUDY HIGHLIGHTS:

- Dealing with regulatory and taxation complexity in Latin America.
- Adjusting products to market-specific characteristics.
- Adapting to payment cultures in different regional markets.
- From market entry using local agents to establishing a local presence.
- International expansion through customer relationships.

THE COMPANY

Vista Group International Limited, listed since 2014, originated in Vista Entertainment Solutions, a company founded by Murray Holdaway in 1996. It brings together eight subsidiary companies engaged in the sale, support and custom development of proprietary software for cinemas around the world, including ticketing, online data analysis and marketing. Holdaway was the group CEO until April 2018, at which point he took on the role of Chief Product Officer.

Vista has experienced several years of rapid growth, with revenues rising from \$47 million in 2014 to pass the \$100 million mark in 2017. In 2018 total group revenue was \$130 million, its fifth consecutive year of growth of over 20%. It now has over 700 employees (up from 219 in 2013) in 10 offices around the world, supporting over 7,000 cinema sites in around a hundred countries globally. Its business servicing large cinema circuits has 40% of the global market share for such services, 48% excluding China.

The company has been international from its beginnings, and aside from an early foray into Fiji, began its international journey in Argentina in 1997. In 2001, it began sales through a local agent in Mexico, moving from there into other regional markets. In 2013, sales in the Americas amounted to 36% of total revenues. In its primary business – servicing the large cinema circuits – it has around 50% of the market in Latin America. In 2017, Vista invested in a 60% share of the business of its regional agent, Senda Dirección Tecnológica, which was renamed Vista Latin America. The year also marked the opening of a local office in Brazil.

Vista now has sales partnerships with 35 customers across Latin America, working with both large and small operators in Argentina, Mexico, Ecuador, Venezuela, Trinidad, Guatemala, Costa Rica, El Salvador,

Nicaragua, Chile, Uruguay, Brazil, Panama and Peru.

The Challenges

At the time of Vista's first entry into Latin America in 1997 it was still a very small company, with five employees in total, all based in New Zealand. The business environment was very different to New Zealand and, as they were to discover, very different in each regional country they entered. Differences in taxation systems, invoicing and payment conventions, and practical challenges arising from both natural hazards (Holdaway experienced both a severe hurricane and an earthquake in Mexico) and the different governance systems of emerging markets. When Vista started sales in Mexico in 2001, for example, Holdaway recalls that there wasn't a lot of trade. 'It was us and Fonterra and Fisher and Paykel Healthcare and maybe the Meat Board or something like that – very few companies actually doing business in Mexico in those days. So we were finding a lot of things out as we went along.' He has seen huge changes in the country, which at the time of Vista's entry still did not widely accept credit card payments. The challenges described here were substantial, but also integrally related to the market's growth potential.

Tax and regulatory environment

When Vista first started selling in Mexico there was no bilateral tax agreement between Mexico and New Zealand, which meant the company 'had all sorts of issues with withholding tax' and related matters. The difficulties actually led them to start a company in the United States expressly to take advantage of the North American Free Trade Agreement and New Zealand's bilateral tax agreement with the U.S. Vista would then 'invoice everything from our American company into Mexico and then from America we would actually then remit the funds back to New Zealand.' Today, there is a tax

agreement between Mexico and New Zealand, which allows for a more streamlined process.

Vista found the tax and regulatory environment in Argentina ‘very complicated’. Holdaway describes what, to a New Zealand company is the extraordinary practice of having every single retail receipt printed on the back with a raffle ticket. Customers are encouraged to fill out their name and contact details and send the receipt to the equivalent of our Inland Revenue Department, in order to enter a prize draw. The purpose, however, is for the Argentinian tax authorities to use the receipts to randomly audit retailers to make sure that they have declared their sales. For retailers – including the cinemas that Vista was working for – this meant that all transaction numbers needed to be recorded in a specialized database to enable a tax audit. The outcome being, as Holdaway commented ‘you become almost like a tax agent for the government’.

Brazil in turn brought a completely new set of regulatory and tax challenges. As well as being a highly nationalistic market, it also operates a federal system. Holdaway describes the country a ‘loose association of 27 states under a single flag’ and in some ways the ‘hardest country in the world’ to do business in. For Vista, the challenge was that instead of having to apply for software licensing at the country level, in Brazil they were required to licence in each province. It took ‘three years to get our software certified for use in Brazil. .. way more complex than China.’

Customer expectations

Cultural differences within and across Latin America didn’t just show up in client relations (expect to have dinner at 10pm or later in Argentina, says Holdaway), but also had follow-on implications for products. For example, some of Vista’s clients operate cinemas 24 hours a day; this had implications for Vista software, which envisaged an end-of-day procedure.

Software had, of course, to be translated into Spanish – although Vista found that, depending on the country in Latin America, some of their clients preferred to use the English version.

Customer expectations also had implications for pricing strategy. Holdaway notes that services businesses can be difficult in Latin America. In countries like the USA for example, ‘the idea that we would sell them a product and then we would charge say, several thousand dollars a day to actually install it and with experienced people, that is accepted in the US.’ In contrast, across much of Latin America, ‘the idea of charging out people at very expensive rates per day is really not well accepted’, possibly due to the region having mostly relatively low cost economies. As described below, the cost of installation had to be included in the selling price.

Payment difficulties

A key challenge that Vista faces is clients with difficulty in making payments. The reasons behind this difficulty range from high levels of inflation to different expectations in terms of payment deadlines. It can take a considerable amount of time to receive payment. ‘We hardly ever had any bad debts in Latin America. In fact, I can’t recall one. But it’s really slow to get the money.’

Inflation has at times been a problem for Vista in Argentina. Vista produces invoices in U.S. dollars. During periods of high inflation, this meant that an invoice generated when the exchange rate was around 7 Argentinian pesos to the dollar could in a very short time require a much larger sum in local currency as the peso lost value. Holdaway recalls that they were faced with moments when ‘the cost of our invoices in local currency had just gone up by a factor of 10 or something like that’, creating significant payment difficulties for their local clients.

Different expectations around means of

payment can also bring challenges. Vista charges a monthly fee for the use of their small cinema software - Veezi; the amount is typically paid by credit card. However, in Latin America difficulties arise because most companies do not have a credit card and if they do, ‘they are very reluctant to give the number and all the details to a company in New Zealand.’ This creates an ongoing challenge for Vista to handle the payment transactions. Holdaway is ‘incredibly reluctant to go to an invoicing model’ when the typical invoice would be around US\$250 a month - a very small amount. Invoicing each month would require them to create an ‘enormous accounts receivable grid challenge to collect all these US\$250 invoices in Latin America.’ Holdaway remains optimistic ‘I am sure we will find some way around it.’

Despite the challenges, Holdaway reflects ‘it’s not that it is that difficult. It’s just that it is incredibly foreign to us and so until you actually understand what is going on, it can seem like it is really complex but we have actually got used to it now and it’s interesting – it is similar in China.’

STRATEGY

Local agents

In the early 2000s, Vista attended a large trade show – Cinemacon - in Las Vegas. This was their first attendance at the trade show where they only had a small booth containing a ‘small table and laptops, and a couple of standees’. Two men from Mexico - Armando Mejias and Gustavo Ortega - came up and began chatting with Holdaway and his team. Mejias and Ortega both worked for a cinema company in Mexico. This chance encounter led to a relationship – cemented through drinks after the trade show and through the exchange of emails over the next year – which was formalised the following

year at the trade show. As Holdaway describes it, they came up to him and said ‘we really like your software and we think we can sell it in Mexico’. Until this point, Latin America – with the exception of their customer in Argentina - was not really on Vista’s radar. The company had been focusing on building up a customer base in Asia. Holdaway recalls, ‘we said, okay, they have been hanging around for a year; we have been getting to know them and so, to our surprise, they actually resigned their jobs and formed a company – just the two of them – and said okay, we are going to be your agents’.

Senda Dirección Tecnológica, their newly established Mexican agent, initially sold Vista’s software to Cinemex, a large cinema exhibitor with a major breakthrough occurring a few years later, when they obtained Cinepolis, the fourth largest cinema company in the world, as a client. Cinepolis operates cinemas in 15 countries and today is one of Vista’s largest clients worldwide. Together the two companies control a large share of the Mexican market. Importantly, also Senda helped Vista operate in the local environment.

Following its customers

Vista’s first sales in Argentina came from following its client Village Cinemas, for whom it had done a job in New Zealand. When Village Cinemas turned to explore Argentina, it asked Vista to work on the investment with them.

In Mexico, obtaining both Cinemex and Cinepolis as clients was a major boost for Vista. Holdaway estimates that these two clients on average open 10x10 screen multiplexes each year and have done so over a 15 year period and are ‘nowhere near exhausted’. The size of the population in Mexico coupled with an increasing middle class that is becoming sophisticated and wealthier means there is a massive opportunity to further develop this market particularly as the cinema is seen as ‘a really cool place for them to go.’ In Mexico,

'there is just this enormous growth opportunity for the cinemas in actually providing a low cost entertainment vehicle for those people.'

In turn Cinepolis, over the last few years approached Vista saying 'come on guys, we have cinemas in 15 countries and we use your software in 14 and the only country that you don't work for us is in Brazil.' This was a major push behind their expansion into Brazil. By following its customers, Vista has also obtained business in the United States, from its Latin American customers who have opened up operations there. The company has also followed its client Cinepolis to Spain where Vista's operations are supported from their Mexican office, despite Vista having an office in London. 'It is actually easier to support them from Mexico due to language and our worldwide support infrastructure for Cinepolis'.

Acquisitions and local presence

Vista Group's growth has been partly organic, and partly through the acquisition of strategic firms. When Senda Dirección Tecnológica was established, Vista had the opportunity of investing in the company but decided not to. 'Maybe that was a mistake because they were hugely successful'. After several years of working with Cinepolis, and following on from discussions with Cinepolis about Brazil, coupled with the problems Vista was experiencing in getting their software certified, Vista decided to open an office in Brazil. 'It was the only way that we could make some progress.' It was agreed that it would be best for Senda to open the office. At this point in time, in order to maintain strategic control and ensure the company's reputation, Vista purchased a controlling share (60%) of Senda. The company was rebranded as Vista Latin America – its head office is located in Mexico City with a small office in São Paulo, Brazil.

Adaptation and 'rolling with the punches'

Vista did not expect operating in other countries to be the same as New Zealand, and they have learned to expect challenges. One case in point is Venezuela. Back in 2004-05, when Vista first established a customer base in Venezuela, it was 'a sophisticated really nice place' compared to today. The economic situation is such that it creates problems for their customers in paying their annual fees. The advice Holdaway offers is that sometimes, you have to 'roll with the punches a little bit... there have been times when Venezuela has been an exceptionally good market for us.' During the current hard times, you have to 'do what you can to look after the customers and hopefully things will change.'

Some of this willingness to make adjustments to support clients through hard times was learnt in Argentina. As noted above, inflation was at times a problem in that country, creating payment difficulties for local clients who faced paying Vista's invoices in U.S. dollars but whose earnings were entirely in the fast-depreciating local current. Holdaway says that, 'Sometimes we would say you don't have to pay now. We will wait until the Pesos goes back up again'. This care to try to work things out has paid off: Village Cinemas in Argentina, Vista's first client anywhere in Latin America, is still a client today, 21 years later.

Vista's adaptive strategy in some cases brought further challenges. For example, the pricing model to bundle the service costs into the product price has led to differences in pricing across markets. The discrepancies can be noticed by Vista's clients, who are not necessarily just their customer in one country. The differences in pricing can be justified to the cinema as they themselves tend to charge different prices for tickets in different countries.

Vista has also learned they also need to roll with the punches with invoicing and where this is the case have a dual invoicing system. 'We produce essentially two invoices - one is sort of like an informal invoice to the customer to say this is what we are going to invoice you and then when they are ready to pay it, then we produce the proper formal government one'.

Taking the right advice

Of key benefit to Vista during the time they have operated in Mexico has been Jorge Arguelles, NZTE's Trade Commissioner to Mexico and Central America. Arguelles has been Trade Commissioner for over 20 years and has offered practical advice over the years to Vista on financial and taxation issues as well as governance matters. Holdaway's advice to New Zealand companies looking at doing business in Mexico and Central America is to 'have dinner with Jorge'.

A second piece of advice Holdaway offered was to have a local presence in the market. 'I think we got a little lucky', he says of their relationship with their long-term agents, how established what is now Vista Latin America. But you also help make your own luck. Holdaway recognises that they had to spend time cultivating such relationships and ensured they had native speakers of Spanish or Portuguese, depending on the country targeted.

RESOURCES

- Interview with Murray Holdaway, Vista Group International, 16 April 2019.
- Vista Group International, Annual Reports 2014-2018.

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