



Tracking investments in quality standards across borders and sectors

Case Study: Examination of the trends and opportunities
in ISO 17020 accreditation across Latin America

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Introduction

Sector & Segment tracks investments in quality standards by monitoring expenditure by companies on technical accreditations. In this report, we examine investment trends in ISO 17020 accreditation across Latin America, the sources of those trends, and some of the emergent opportunities.

What are quality standards?

Quality standards are a measure of excellence regarding a product, a service, a process, or an installation. In the form of an accreditation it represents an assurance to public, private, and institutional actors that the standard will be upheld by all inspected firms.

Why track investment in quality standards?

By tracking investments made by ISO accredited bodies and laboratories across Latin America, we are able to offer an apple-to-apple evaluation of policies enforcing quality and their impact on different industries and sectors.

This approach allows our clients to quickly identify market trends and hotspots. Our aim is to identify and size opportunities for accredited bodies that want to expand cross-border or identify consolidation opportunities. It also allows us to identify growth areas for equipment and instrument suppliers looking to enter a new geography or segment. Governments and institutions can also benefit from our tracking tools by benchmarking their regulatory agenda against neighbouring countries.

Investments in ISO 17020 inspection accreditations have grown significantly in the past 5-6 years. Despite unfavourable political and economic context in the major economies in Latin America and the cost of being accredited, companies have been pushed to invest in accreditation as a way of increasing competitiveness and complying with domestic regulations. Our research finds that the investment in accreditation has increased from \$52 million to \$69 million between 2013 and 2017.

The increase in investment remains true in countries such as Brazil and Mexico which have experienced economic and political turbulence. In Brazil, corruption scandals reaching the highest levels of government and major state-owned enterprises brought the country's economy to a standstill. Between 2015 and 2016 GDP growth even dropped into the negative territory, yet investment in accreditation has continued to grow.

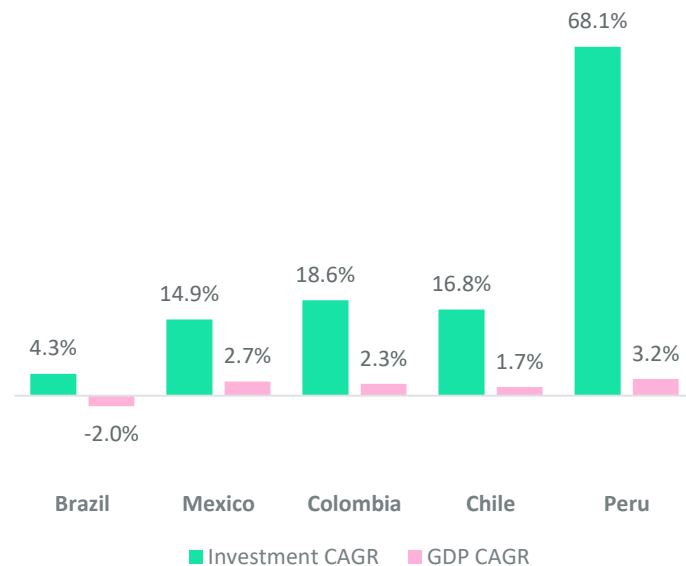
In Mexico, the situation has not been nearly so dire but concerns around corruption, violence, and economic mismanagement have nonetheless contributed to a change in leadership. And through all of it, Mexico has emerged a key growth opportunity for inspection accreditation in Latin America, particularly in the Energy end-user sector.

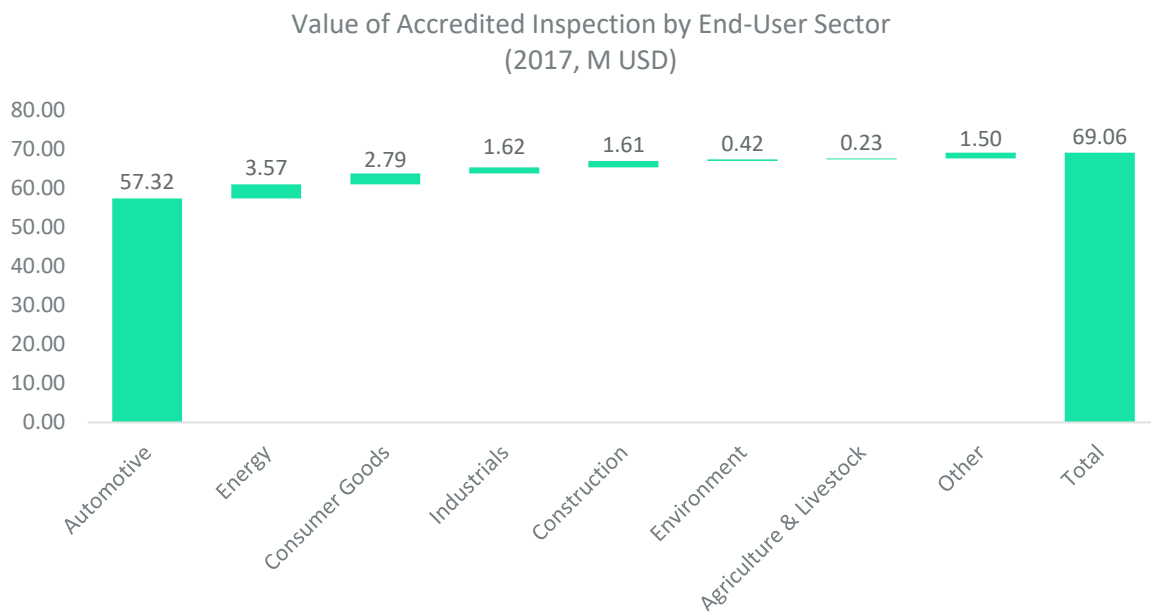
In countries where GDP growth has been more stable, investment in accreditation has been even stronger. In Peru, which has shown fairly stable GDP growth, investment in accreditation has expanded across a variety of end-user sectors including Environmental, Consumer Goods, and Energy inspection.

Accreditation is not necessarily a cheap exercise: across Latin America the average cost of being accredited for a single service is \$2,200 and firms on average offer around six services. Despite this, companies continue to seek accreditation and the various benefits accreditation provides. In 2017 there were around 17,000 accredited inspection services being offered in Latin America, up from less than 12,000 in 2013. Altogether, these accreditations represent a sizable market that continues to show stable growth.

For governments in this region, these standards derive their appeal from their role in supporting international trade, an improved quality of life domestically, as well as from income derived from accreditations. Investments in accreditations, which are managed by national accreditation bodies, can form a steady source of income for governments. For these reasons and others, accredited inspection has become the preferred method of ensuring conformity for numerous governments across Latin America.

Investment in Accreditation versus GDP Growth
(constant LCU)(2014-2017 CAGR)





Automotive inspection is by far the most established market

Within the inspection accreditation market, the automotive end-user sector is by far the largest and most established market. Investment in Automotive inspection accreditation makes up nearly 83% of all investment. For Brazil, the largest player in accredited Automotive inspection, this highly established status stems from regulation passed in the late 1990s mandating accredited inspection.

For countries such as Brazil, inspection is primarily aimed at improving domestic safety standards. With a population of nearly 200 million and a relatively high car ownership per capita for Latin America, providing corresponding safety regulation and inspection has long been a priority for regulators.

Accordingly, the investment in Brazilian automotive inspection market has largely paralleled growth in automobiles. Between 2012 and 2017 the number of automobiles in Brazil grew at a CAGR of 5.25% while the total investment in Automotive inspection grew by 4.96%.¹ Both are currently experiencing slowing growth due to an adverse economic climate but other opportunities may emerge in its stead.

Because the accredited inspection market has traditionally been oriented inwards it remains relatively localized and fragmented. Our research shows that there are no international, or even regional firms conducting accredited Automotive inspection in Brazil. Furthermore, the market appears to be moving towards increased fragmentation – over the last decade it has continued to gain new small players offering the basic package of domestically-oriented inspection services.

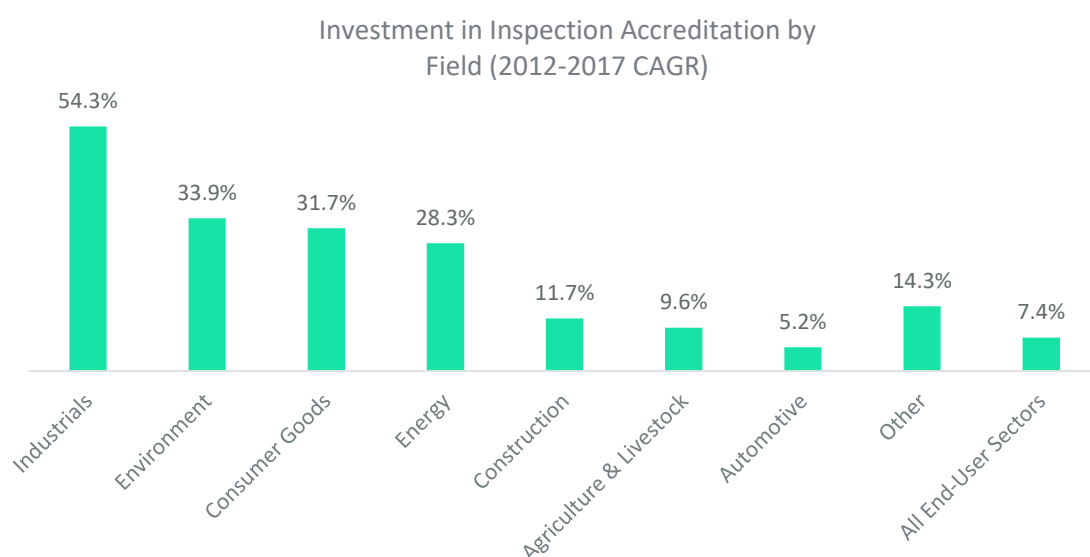
While Brazil is by far the largest player in the Automotive end-user sector, Colombia is also a key player. In 2017 investment rose to \$1.2 million, up from \$710,000 in 2012. Most notably, Colombia has far more accredited Automotive inspection firms per capita than any other country in Latin America.

¹ National Transit Department (2018), <http://www.denatran.gov.br/index.php/estatistica/237-frota-veiculos>

The strong investment in Automotive inspection accreditation stems from a law passed in 2010 mandating annual inspection of all vehicles. Since then, however, investment in Automotive inspection accreditation has continued to grow. Between 2012 and 2017, investment in Automotive inspection grew at a CAGR of 12.3%, more than double the rate of investment in Brazil.

Emerging sectors are driving growth in Latin America

While the Automotive end-user sector is the largest inspection market in Latin America, other sectors are growing far more rapidly. Between 2012 and 2017 investment in accredited inspection excluding Automotive grew at a CAGR of 25%. Total investment in 2017 excluding Automotive was \$11.7 million, up from under \$4 million in 2012. This growth is led by sectors such as Energy, Consumer Goods, Industrials, and Environment (in order of total investment in accreditation) which have rapidly grown in response to new legislation emerging across Latin America.



Liberalisation of Energy markets is bringing in investments

Energy is both one of the larger end-user sectors and a key growth opportunity. In 2017, over \$3.5 million was invested in accreditation in this end-user sector, up from just over \$1 million in 2012. Much of its growth can be attributed to the liberalization of the Mexican energy sector in 2013 which allowed investors and private companies to enter the energy market. Liberalization was necessarily paired with regulation governing the conduct of these new market entrants and the accredited Energy inspection market subsequently boomed. In 2013, new accreditations made up two-thirds of all investment in accreditations in the Mexican Energy end-user sector.

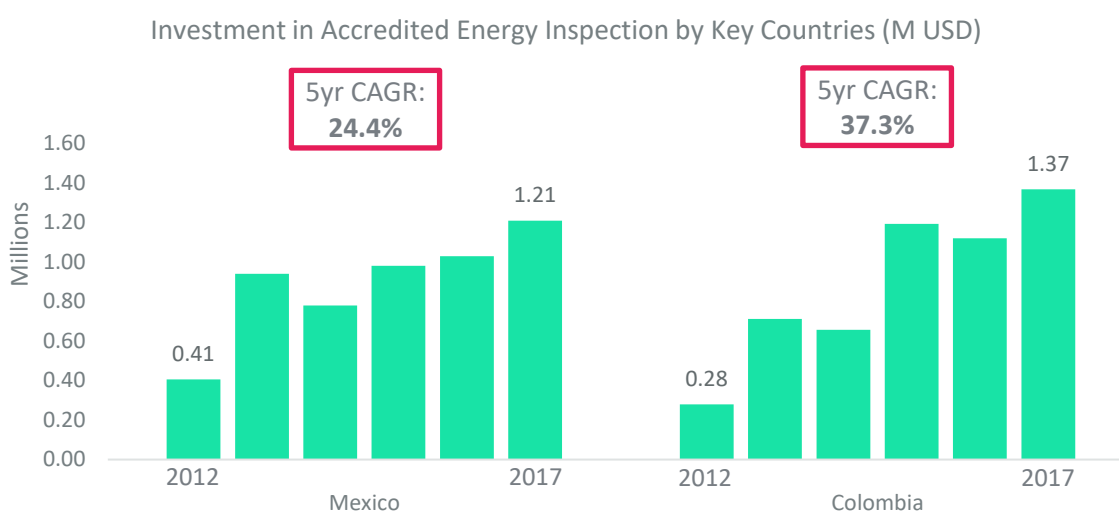
These new accreditations were almost entirely made up of domestic firms but more global service providers are likely to enter the market over time. Compared with other Latin American countries, Mexico has a relatively low share of accredited Energy inspection firms with a global reach. Although the market is young, lucrative opportunities in Mexico should attract additional global players in the future.

Between 2012 and 2017 investments in accreditation grew by a CAGR of 24.4% but demand for accredited firms in the Mexican energy sector remains high. The energy sector continues to shift towards greater interconnection, complexity, and higher environmental standards, all of which require bodies capable of assessing conformity.

Opportunities for consolidation are also emerging in this relatively young market. A large number of firms sprang up in response to the new regulatory conditions but in 2017 accredited inspection firms in the Energy end-user sector offered less than two services on average. Now that the market is more established, larger players may seek to begin consolidating this fragmented industry.

While Mexico presents a strong opportunity for consolidation, Colombia has shown even stronger growth. Regulation passed in 2014/2015 made inspection of electrical and lighting installations mandatory and led to a surge of investment. In 2015 new accreditations made up nearly 50% of investment in Energy accreditation in Colombia, and value of over \$500,000.

The industry has continued to show strong growth since then. In 2017, driven by regulation related to higher environmental standards and the complexities that come with distributed power, Colombia received more new investment in Energy accreditation than any other country in Latin America.



Consumer Goods exports are supported by accredited inspection

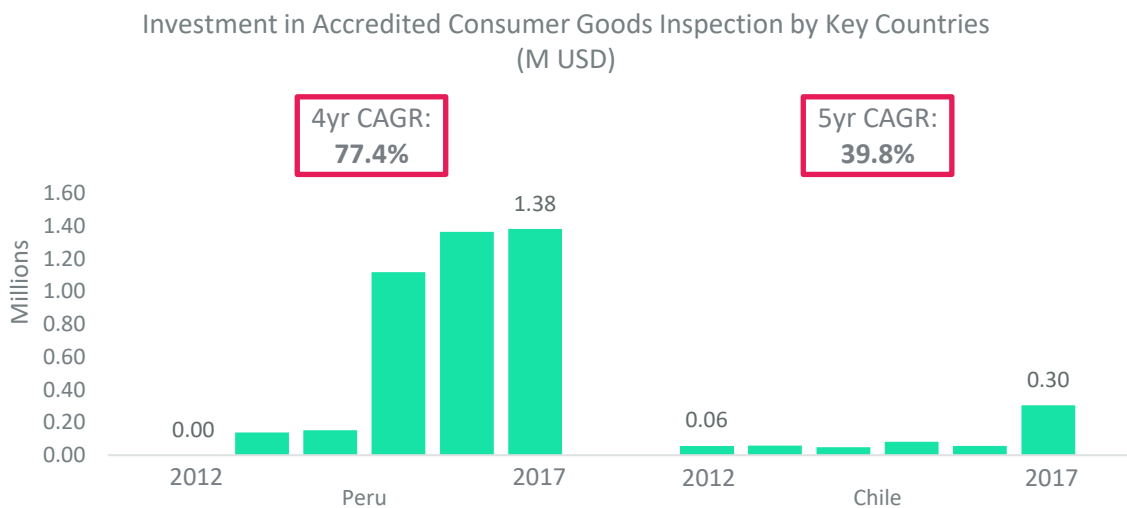
Tied in part to the desire to increase export competitiveness, accreditation in the Consumer Goods end-user sector has also seen an influx of investment in certain countries. For Peru and Chile, food products are an important export category, forming 14% and 21% of their exports respectively. Environmental regulations around the sustainable production of agriculture and livestock have also played a role in driving growth.

Of the countries that have seen an increase of investment, Peru has shown exceptional growth. Between 2012 and 2017 Peru went from having no accredited Consumer Goods inspection firms to being the largest country by investment in Consumer Goods inspection accreditation. In 2017 nearly \$1.4 million was invested in accreditation in this end-user sector in Peru. This massive increase in investment is primarily owed to new regulations around food products - between 2014 and 2017 Peru produced over 100 technical norms per year on food products.

In Chile, the export of fish and the need to foster sustainable fishing practices has been the key driver of growth. Fish comprise around 5% of Chile's total exports and continue to grow in importance. Fish consumption continues to rise globally but quality is a top concern for both

importing countries and their consumers. Accreditation plays a key role in providing quality assurance.

The rise in aquaculture, also known as fish farming, is likely to sustain investment growth in the future. According to the Food and Agriculture Organization, Chile's aquaculture production increased from 700,000 tonnes to 1.2 million tonnes between 2010 and 2014. The risk of toxicity building up in the fish farms, alongside the risk of introducing polluted water to an otherwise clean ecosystem, has created a need for inspection regimes for both the fish and the water quality. In fact, a significant number of the firms engaged in the inspection of fish products are also certified for water quality testing



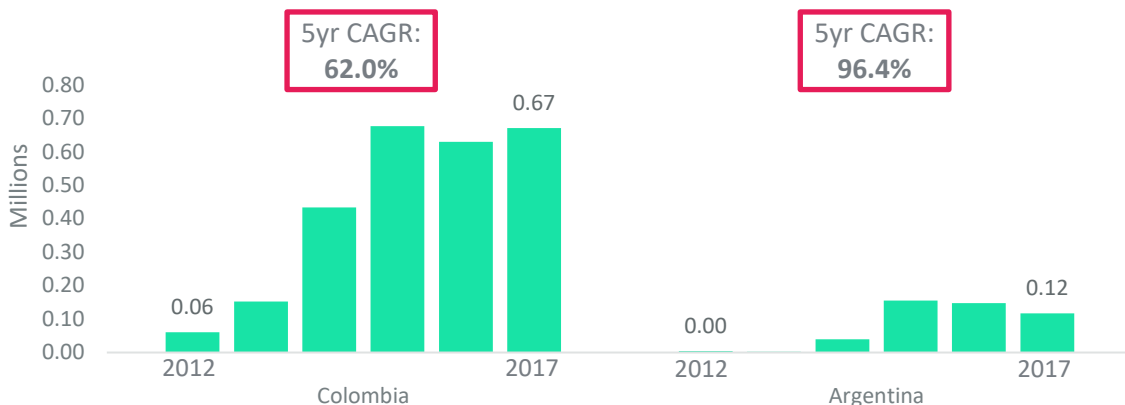
Industrial accreditation helps improve safety and reliability

Investment growth in accredited Industrial inspection is primarily driven by Colombia. Between 2012 and 2017 investment in Industrial inspection accreditation in Colombia grew at a CAGR of 62%. As in previous cases, growth has been driven by the implementation of mandatory accredited inspection of elevators and other elevating equipment. The result is that Colombia is now the largest country by investment in accredited industrials inspection with a total investment of \$670,000 in 2017.

Argentina has also shown relatively strong growth despite the fact that accredited inspection is fully voluntary. Instead, the end-user sector is being driven largely by industry standards designed to promote safety and reliability. And while investment in accredited Industrials inspection remains small, it represents a significant portion of the Argentinian accredited inspection market. In the future there may be potential for greater use of accredited inspection alongside efforts to liberalize the economy.

In both countries, however, the market appears to be moving towards consolidation. Several global and regional players are already present in both markets and new investment in accredited inspection has slowed significantly.

Investment in Accredited Industrials Inspection by Key Countries (M USD)



Environmental inspection will be key in the future

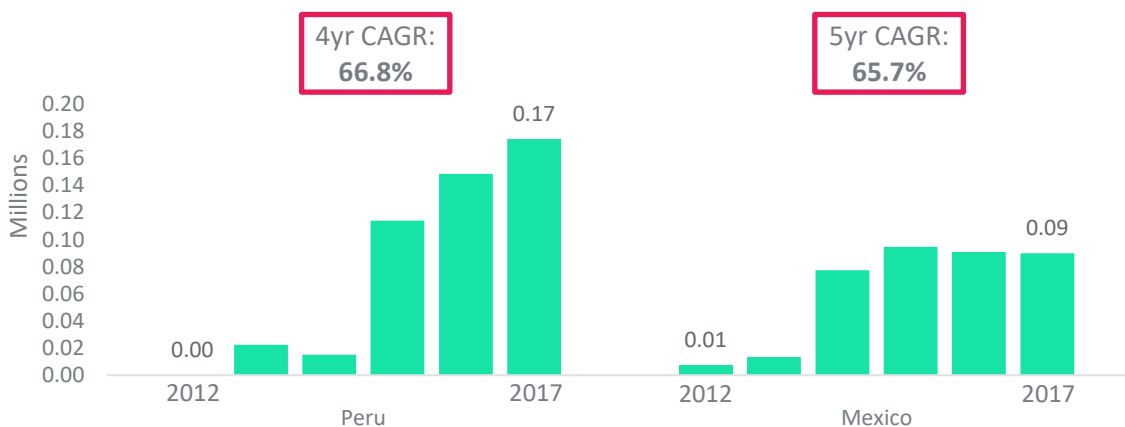
Environmental inspection has been the fastest growing market in terms of the number of accredited inspection firms. Growing awareness around the need to produce more environmentally friendly and sustainable practices has led to particularly strong growth in Peru and Mexico.

In Peru, investment growth has been driven by a wide range of environmental regulations - between 2012 and 2017, 58 new standards were developed by Peru’s environmental management committee. Accredited firms in this end-user sector are typically concerned with air and water quality measurements and target both industrial and residential settings.

Although this market is relatively young, much consolidation has already occurred. Many of the firms offering accredited Environmental inspection also offer services in other areas such as consumer goods. Despite this, we expect this market to continue growing and for other opportunities to emerge in the future.

In Mexico, growth in investment in Environmental inspection is primarily tied to a new norm released in 2012 encouraging environmental audits. These audits allow companies to assess their compliance with environmental regulations as well as their overall environmental performance. Since audits are highly intensive and currently assess conformity to a wide range of environmental regulations, it is likely that demand for accredited inspection firms will increase in the future.

Investment in Accredited Environmental Inspection by Key Countries (M USD)



Conclusion

In recent years, investment growth has largely been driven by the entrance of countries who previously had little accredited inspection presence and by the increased use of accredited inspection to improve public outcomes. As the inspection market becomes more established, consolidation opportunities will arise across Latin America. In some countries and end-user sectors, opportunities for consolidation are already present.

Our tracking tools allow us to identify both short and long-term trends emerging from new policies and changing economic conditions. Using these tools combined with our industry expertise, Sector & Segment will continue to monitor the market and share insights into this region's development, as well as produce similar analysis on other regions.

Note on Methodology:

The value of investment in accreditation are estimates based on research conducted by Sector & Segment. Values were calculated using the number of accredited services, gathered using the certificates from the websites of National Accreditation Bodies across Latin America, and the average cost of initial accreditation, audit, and renewal by country.