



Instituto de **Competitividad**

The Politics Industry in Uruguay

A look from the Industrial Organization Theory

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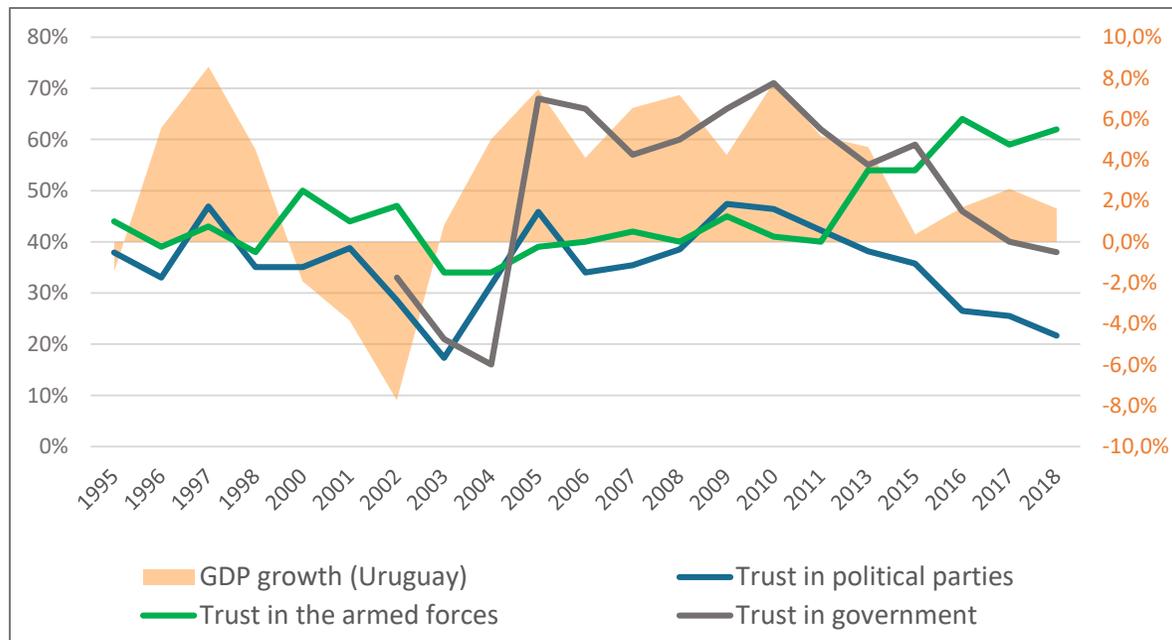
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Microeconomics of
Competitiveness

MOC Faculty Workshop
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Some facts on Uruguay

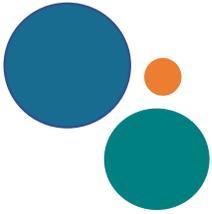
- ✓ Almost 190 years of uninterrupted democracy (except period 1973-1984)
- ✓ Political parties as old as the country itself → Created in 1836, six years after Constitution came into force (1830)
- ✓ Uruguayan democracy guarantees:
 - elective and periodic government positions,
 - compulsory vote (without paying a fine),
 - legitimacy of electoral procedures and
 - a trustful controller institution (“Corte Electoral”).



Uruguay in Rankings

- Democracy Index (2018): 15th globally, 1st in the region
- Corruption Perception Index (2018): 1st in LAC “cleanest country in Latin America and the one with the longest democratic tradition”
- The Social Progress Index (2019): 1st globally with other countries in what comes to political rights (2019).





Inspired by the report produced by Gehl & Porter (2017), this project intends to bring new analytical lens to understand the dynamics and performance of the Uruguayan political system

The project has three main goals:

- To help understand the changes on the political arena and the performance of the political system using tools never applied to this particular industry in Uruguay.
- To complement the existing information about the politics industry.
- To expand the experience on applying the Porter's Five Forces to the political industry as to contribute to future similar projects on other countries.

Framework and methodology:

- The framework to be used is the 5 Forces of the Industry, adapted to this particular case.
- The methodology includes in depth interviews with more than 20 key actors of the political system in Uruguay.

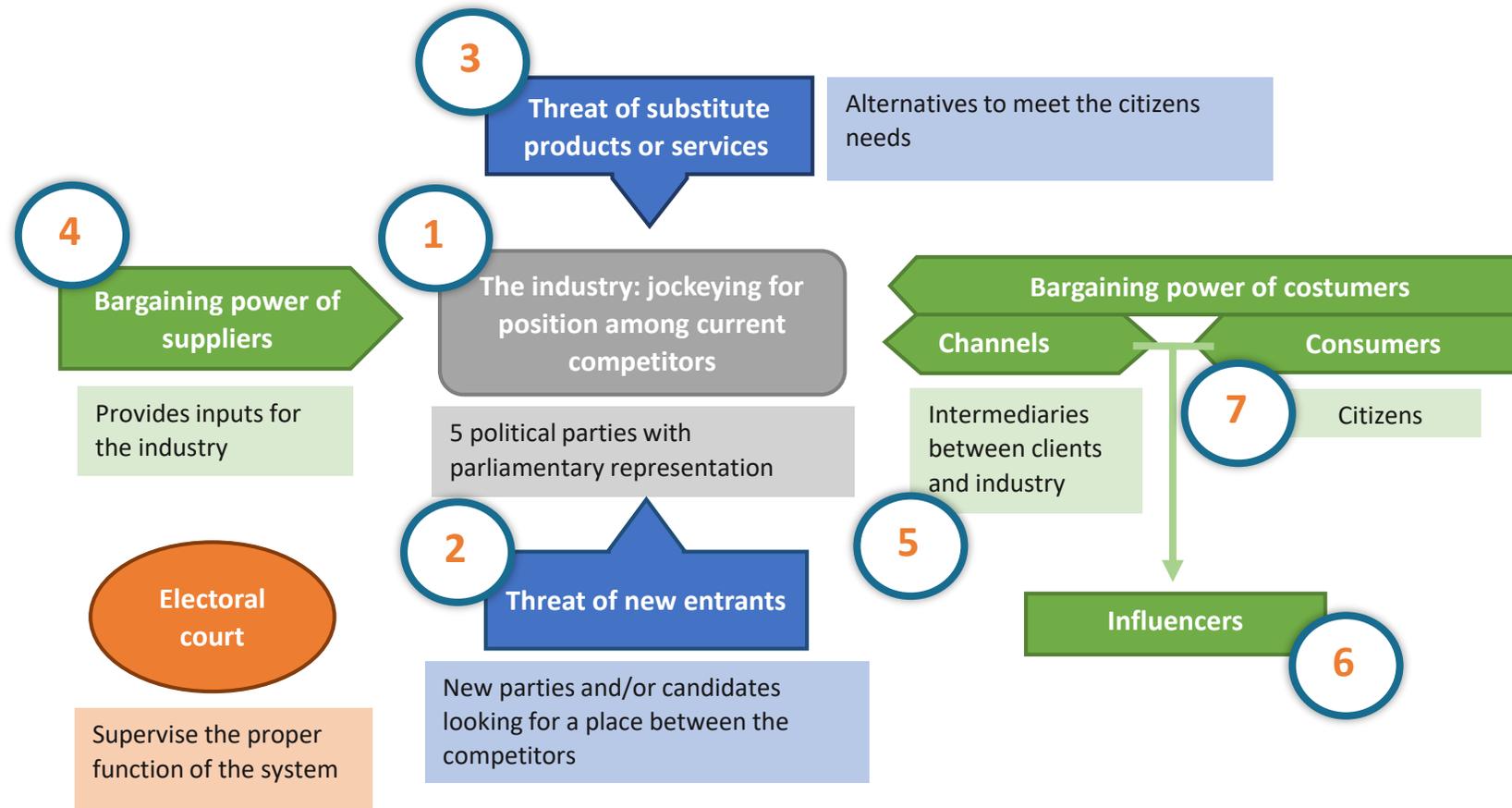
In order to be able to apply the analytical tool to the politics industry in Uruguay, we had to establish some definitions and criteria

- ✓ The market disputed by the players are the citizens' votes.
- ✓ In this industry, players are the ones who also "set the rules of the game".
- ✓ A deeper competition does not necessarily mean advantages for the consumers.
- ✓ Competition takes place in two levels: contesting elections and governing.
- ✓ This industry satisfies the need for proposal & set of rules that ultimately allow to increase citizens' welfare.

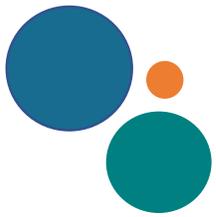
The report is about politics, but it is not political.



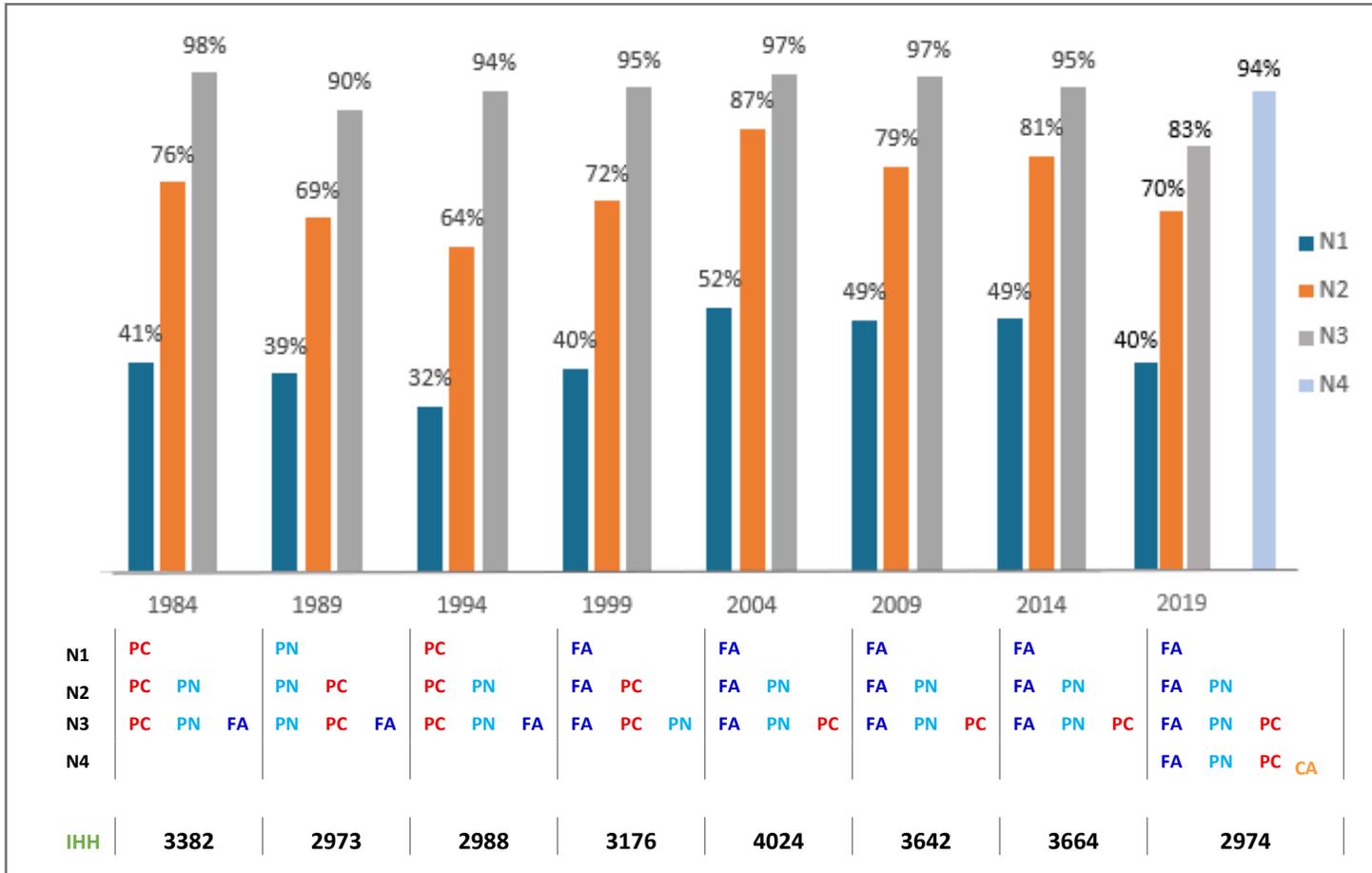
In the politics industry 7 forces could be identified that help to understand the system's performance and the players' strategies



Source: based on Gehl & Porter 2017



Since 1984 (return to democracy), the industry has been an oligopoly with three solid leaders



	1984	1989	1994	1999	2004	2009	2014	2019
N1	PC	PN	PC	FA	FA	FA	FA	FA
N2	PC PN	PN PC	PC PN	FA PC	FA PN	FA PN	FA PN	FA PN
N3	PC PN FA	PN PC FA	PC PN FA	FA PC PN	FA PN PC	FA PN PC	FA PN PC	FA PN PC
N4								FA PN PC CA
IHH	3382	2973	2988	3176	4024	3642	3664	2974

Source: own elaboration based on the Electoral Court

Players' strategies depend not only on the market structure but also on the "stage" of the competition

- October (**first round**) – Parliament election : Differentiation 
- November (**second round**) – Presidential election: Coalitions and agreements 
- During **government period**: Coopetence becomes essential 

Threat of entry depends on four types of barriers: legal, economic, experience and cultural



Who are they?

- New **parties** seeking to attend a dissatisfied demand
- New **people** inside well-established parties

When the ideologies, programs, leadership or government management do not satisfy some “consumer” segments, threat of entry rises

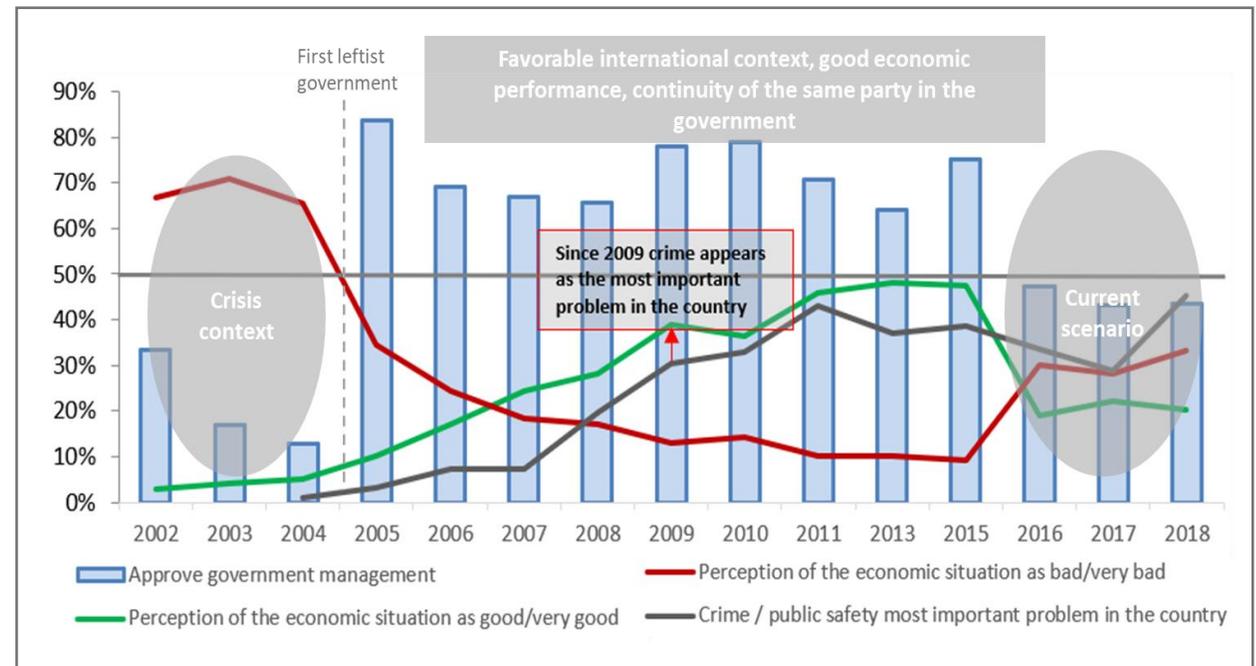
How they appear?

- Specific **characteristics** from the scenario
- “**Barriers of entry**”

Two-level barriers:

1. **First level:** To be a new option of a party or candidate on an existing party
2. **Second level:** To be a new player entering the arena in the industry center

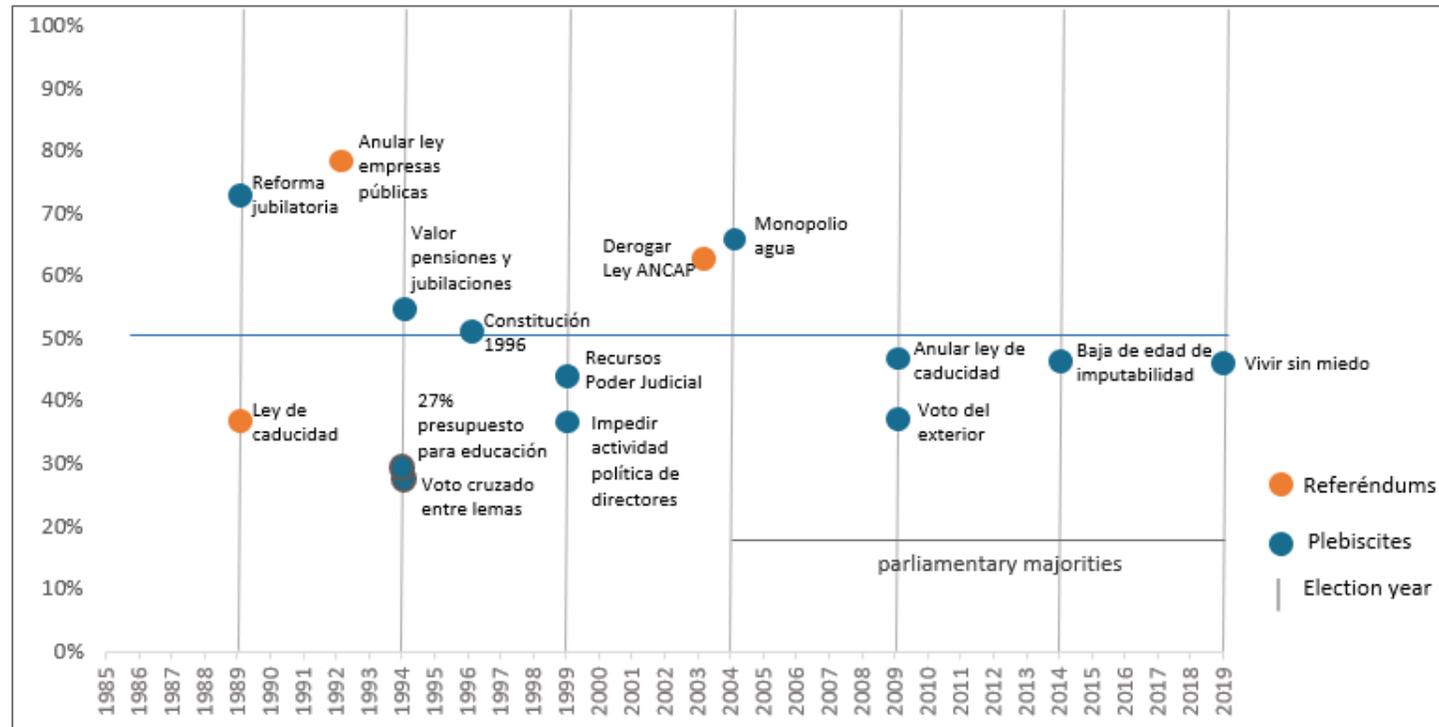
New parties face higher second-level barriers than first level barriers, the contrary applies to the new candidates.



Source: based on data from Latinobarometer. * No values were found for 2012 or 2014

In a very particular industry, direct democracy mechanisms (referendums & plebiscites) can appear as substitutes

- When there are dissatisfied demands on specific key topics that can not be channeled through the Parliament, substitutes may appear.
- In Uruguay, **referendums** and **plebiscites** that emerge by popular initiative can be seen as substitutes.
- These mechanisms may be driven by different actors, such as: social movements, unions, politicians, etc.
- A more divided Parliament could lead to a larger number of direct civic consults on relevant topics.

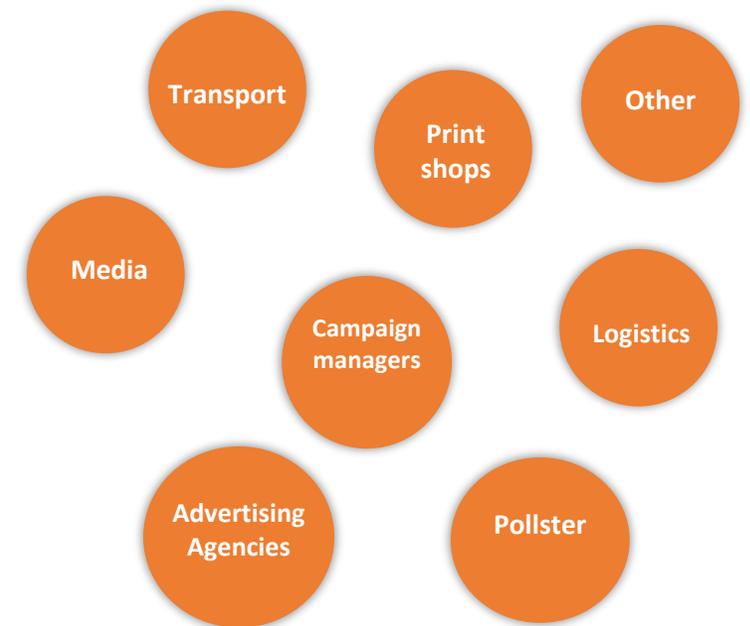


Source: based on the Electoral Court

In this industry, substitutes are also complementary.

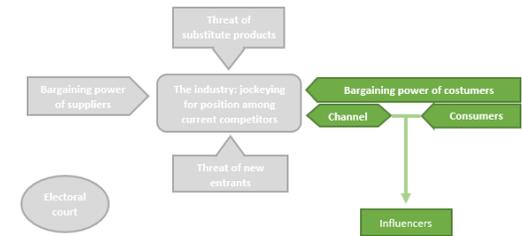
Suppliers are essential. Each party chooses and prioritize them according to their strategies.

- On some items, different parties hire the same provider.
- Cost of suppliers relate directly with the parties economic strength. The stronger the party, the better and the larger the amount of suppliers that can be hired.
- Advertising is the biggest part of the investment on suppliers.
- Players distribute their investment between suppliers that are indispensable for the campaign and other that have direct impact on the strategy definition.



Suppliers appear to have low bargaining power in this industry. They do not have particular influence on the players' strategies.

Consumers, channels and influencers interact with each other forming the bargaining power of costumers



Channels



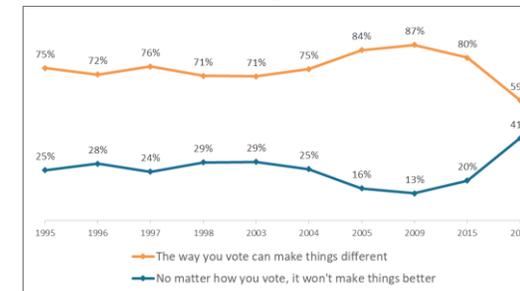
- Are the intermediaries between players and consumers.
- Appear to be fulfilling their triple role (intermediary, trustworthy and capture voters), for what it can be said that they are relatively efficient in strengthen the democracy.
- Some of them are losing weight, and others -like social networks- are playing a strategic role for managing information, impacting reliability.

Consumers

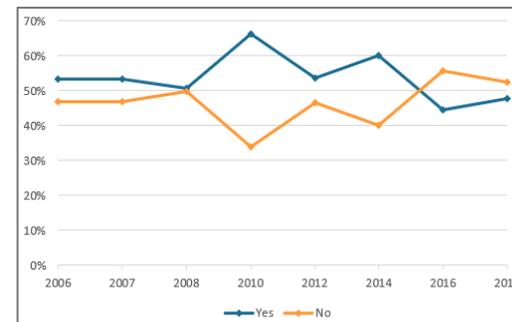


- Vote is mandatory and the population growth rate is minimum.
- Renovation occurs in the youngest part of the voters.
- Citizens are losing interest in politics and do not believe their vote could have an effect of change.

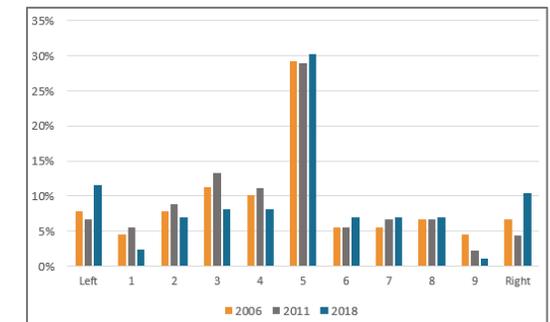
Voting effect



Ideological identification



Party identification

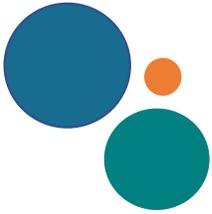


Influencers



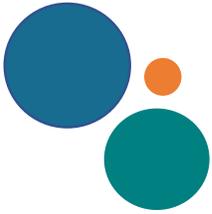
- They influence citizens, with different effects and from different sources.
- They influence journalists, mainly through social networks.
- Friends and family are still the TOP influencers in Uruguay for all voters.

Source: based on Latinobarómetro and Lapop



Main findings

- 1** Players compete for a market that is relatively fixed in size and stable in what comes to composition. This has an impact on players' strategies.
- 2** There is a current loss of confidence in political parties. This lowers the entry barriers for new competitors.
- 3** Historically, industry can be seen as an oligopoly. This is not necessarily “bad” in terms of social wellbeing.
- 4** Player's strategies do not only depend on industry structure but on the different stages of the political “game”.
- 5** Channels have strong power in this industry. They play an important role, influencing on the efficiency enhancement of the whole system.



Main findings

- 6 Social networks and social movements or organizations are influencing the industry. It is changing from “push” to “pull”: this industry is on transition.
- 7 Unsatisfied demands rise the threats of substitutes, that also act as complementary mechanisms in this industry.
- 8 Greater communication between citizens and political parties is desirable for system efficiency. This requires stronger and better mechanisms to assure veracity and information availability (transparency mechanisms)
- 9 A more competitive industry that generates more wellbeing for the people, may need a greater citizen participation that goes beyond electoral contents. In order to achieve that, the industry has to work as a whole.



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