Winners & Losers in Brazil

Brazil may be rich in natural resources and possess a rapidly growing middle class as the population closes in on 200 million, but it remains a difficult and expensive place to do business. ***Criticaleye*** *investigates*

New entrants to Brazil are regularly bamboozled by the country's administrative and tax systems. In order to capitalise on the growth opportunities of the world's seventh largest economy, there are two golden rules: do your homework so you're not caught out by the bureaucracy and take the time to get the right local management team in place.

The country is ranked 116 in The World Bank's latest Ease of Doing Business survey, placing it behind China (96) and Russia, (92), but ahead of India (134). **Bryan Marcus**, former Regional Head for Latin America at Volkswagen Financial Services AG, says: "Clearly there are some near-term economic challenges but there are also long standing political and infrastructure issues which need to be resolved. Brazil has got to be seen as a longer-term investment – to succeed investors will need deep reserves of patience and work with, rather than against, the local culture and business environment, more so than in other developing countries."

For the second quarter of 2013, the economy may have grown by 3.3 per cent, but momentum has undoubtedly stalled and there remain huge problems around infrastructure, educational investment and cycles of inflation. "If Brazil really wants to encourage external investment, creating jobs and opportunities then there needs to be a significant shift in policy and commitment to upgrading the country's infrastructure and business and tax regulations. At the moment, the government and authorities are still too much connected to their socialist legacy rather than their economic priorities," says **Bryan**, who adds that this not unusual in Latin America. ▶

Andrew Heath, President of Energy at Rolls-Royce, says: "Some of the challenges include the tax structure in Brazil – import/ export is quite complex – and [there's] quite a heavy social cost in terms of employment... On those topics people need to make sure they get really good advice in terms of how best to structure themselves and the sort of activities they should look at in-country.

"That certainly would be at the forefront of our mind. Rolls-Royce has been in Brazil for over 50 years so we have a fairly good knowledge of the country, but even so we have to take good advice in terms of making sure that we structure things in a way that we don't suddenly fall foul of the tax system, because you actually pay import/export duties between states in Brazil as well. It's not straightforward."

Pankaj Ghemawat, Criticaleye Thought Leader and Anselmo Rubiralta Professor of Global Strategy at IESE Business School, says: "I remember working with one multinational, which is a people-intensive business, and they thought they knew what they were doing, so they gave their Brazilian employees the standard 13th month bonus.

"Under Brazilian law, that was seen as improper, so they effectively had to give a 14th month [bonus] as well. That's part of the reason – not the only one – why this particular multinational, even before the current meltdown, had pulled back a bit from its very aggressive expansion plans in Brazil."

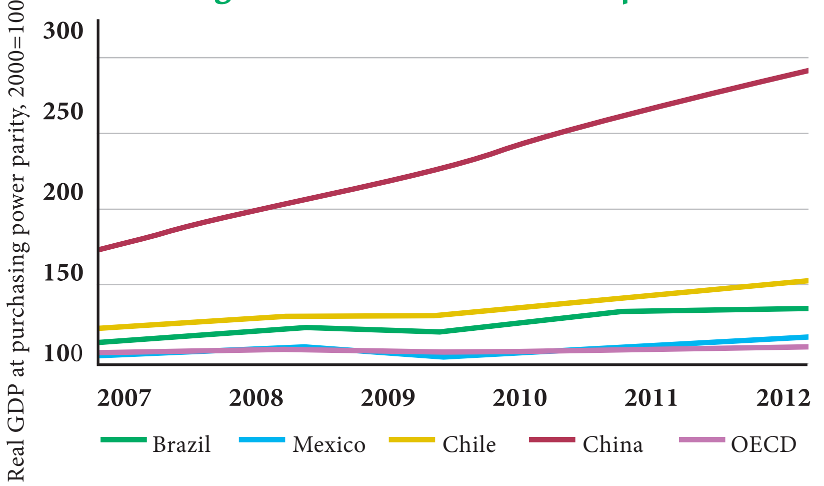
EYES WIDE OPEN

Music company EMI has certainly had its ups and downs in the country, with an accounting fraud case back in 2006 and, more recently, the decision by Brazil's anti-trust regulator to freeze the takeover of the company by Universal, even though the deal has been approved in both Europe and the US.

Nick Wilkins, Global Head of Manufacturing and Supply Chain at EMI, understandably emphasises that "getting good trustworthy managers in place that know both the market and the business environment is absolutely essential" if a company is going to navigate the business environment successfully.

As ever, finding the right talent presents a particular set of challenges for global

Brazil's growth in international comparison



Source: OECD October 2013

> *"If you've got the right solutions and products there's a big market there"*

organisations. **Maria Tereza Leme Fleury**, Criticaleye Thought Leader and Dean of Fundação Getulio Vargas (FGV) business school in Brazil, says: "The multinationals need to acclimatise [and] adapt. If they try to transfer their own HR and management practice with no adaptation they will face problems. It's the same when Brazilian multinationals go abroad and try to manage the employees the way they manage in Brazil."

Andrew says: "The only thing we've found is that at senior staff and management levels, certainly in the oil and gas industry, you pay quite a sizeable premium because if you want people with experience then there's definitely a shortage of supply… therefore it's very much a sellers' market, if you like, so the wages are quite high."

It's not just about having local people who understand the local perspective, culture and challenges. According to **Bryan**, "the issue is always trying to find somebody that has the local perspective and but also understands and will push the corporate and global priorities as well".

The right balance has to be found, where experience and knowledge can bridge different cultures and ways of ▸

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doing business. “You want a person who understands that there could be conflicts with corporate priorities and has to be able, intelligent and experienced enough to find pragmatic solutions” he says.

Advisors clearly have a role to play. **Oliver Engelsdorf**, Head of the International Desk for Multinational Business Development at Santander UK Corporate & Commercial, states quite simply that a business cannot go into Brazil without good lawyers and accountants. “There is too much bureaucracy and tax issues that you need to be aware of and trust me, you will need them, sooner or later,” he warns.

“So it’s better to be well-advised from the beginning, and go [holding] the hand of someone that knows a little bit about it.”

GOING FOR GROWTH

Provided you’re aware of the realities, there’s no denying that Brazil does have its attractions. **Ian Stuart**, Chairman of Aspen Pumps and former President of the Latin American division for Black & Decker, says: “If you’ve got the right solutions and products there’s a big market there. Even though it’s not growing rapidly right now as an economy, it’s definitely growing in terms of its need for more value-added products.”

Andrew says: “It’s blessed with a wealth of natural resources, clearly a lot of oil offshore, and it leads the world in terms of deep offshore development of oil fields. They’ve got rich hydroelectric potential, which they’ve been using effectively for many years… [My] view of the country is that, with a continuingly stable political system, it is going to be one of the growth regions of the world for sure.”

For **Bryan**, the a growing middle class, and the positive Brazilian demographics make the country an obvious investment and development target for companies based in mature and saturated markets. But he warns that the effort needed for successful entry is high. “It’s not so much an open and entrepreneurial market as people may think… You’re into a five to ten year return cycle, I would suggest, rather than the three to five which is maybe many investors’ expectation.”

Interestingly, he points to other markets in Latin America where he suggests there are fewer barriers to entry and there is greater alignment between the political agenda and economic priorities. “Chile is one country which has got a better balance, and Columbia and Peru are worth putting on your list of possible development opportunities,” he comments.

Like each of the BRICs, success doesn’t come cheaply for businesses given the red-tape, need to build relationship with decision-makers (not to be confused with bribery and corruption) and the cost of labour if you’re to bring in good people. Brazil may be getting the World Cup and the Olympics but beyond the samba fanfare and marketing hoopla it’s a country with serious socio-economic problems (as seen in the rioting and protests).

Provided you’re going in with your eyes wide open, there’s no reason why it can’t prove to be a profitable move for a business, just don’t expect an easy ride. ■

Featuring Commentary From:

Oliver Engelsdorf
Head of International Desk
Multinational BD
Santander UK

Pankaj Ghemawat
Professor, Global Strategy
IESE Business School

Andrew Heath
President, Energy
Rolls-Royce

Maria Tereza Leme Fleury
Dean
FGV Business School

Bryan Marcus
Former Regional Head
Latin America
Volkswagen FS

Ian Stuart
Chairman
Aspen Pumps

Nick Wilkins
Global Head
of Manufacturing
and Supply Chain, EMI

Contact the contributors through:
www.criticaleye.net