Embraco employee in China: global way

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Increasingly more global

A study by São Paulo University and the FGV business school shows that Brazilian multinationals are becoming more numerous and mature

ARMANDO MENDES

Brazilian companies have become much more international in recent years. There are now 210 multinational companies which have their head offices in Brazil. This compares with 95 in 2010 and a mere 44 in 2006., The Brazilian multinationals not only started looking abroad for new markets and resources in this period but they increasingly absorbed more technologies and knowledge that fitted in with the aim of strengthening their competitive positions in the global production chains. Around 12% of this growing number of Brazilian companies operating abroad see themselves as global innovators, i.e. they can mobilize their planning, design, engineering and production resources to create and offer new products that can boost their competitiveness on the international markets. This is still small but it is a significant advance.

Around 12% of the Brazilian multis see themselves as global innovators

These are the findings of a study entitled Strategic Management of Brazilian Multinationals, carried out by professors and researchers at the University of São Paulo (USP) and the Fundação Getúlio Vargas business school (FGV)* in partnership with PIB magazine. This is the third time the study has been undertaken and follows the two previous ones - in 2006 and 2010 - which gave an insight into how some of the points considered had developed. The 2015 study was based on a survey of 70 questions on business management split into themes. These included the factors behind the Brazilian companies' international expansion, their strategies, skills and managerial styles, innovation, social responsibility and sustainability.

MULTINATIONAL INCUBATORS

The number of Brazilian multinationals has almost quintupled since 2006. Some sectors, listed below, are outstanding in the creation of new global Brazilian enterprises:

- providers of IT systems and services and automation
- technology companies that have created services for universal use *(Read more about one of them, Easy Taxi, on page 30)*
- medical and dental equipment manufacturers
- pharmaceutical laboratories
- autoparts and mechanical components manufacturers *(Read more about one of them, Embraco, on page 28)*
- suppliers of food and food services

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1

Sixty-two Brazilian multinationals took part in this latest survey. The results were presented at the beginning of November at an FGV seminar in São Paulo with the participation of the authors and representatives of the Brazilian multinationals Oxiteno, Embraer and Stefanini. The Foreign Trade Chamber and national development bank, the BNDES, also appeared on behalf of the federal government. Maria Tereza Leme Fleury of the FGV´s São Paulo Business Administration School, believes it is significant that 210 Brazilian multinationals were identified in this latest study, an increase of almost five times over the 44 featured in 2006.

"I would draw attention to the fact that these are companies with a presence and actual operations abroad. They are not only exporters," she said. The fact that these companies are continuing to pursue global markets considering the difficult economic backdrop is very important. "We need to capture not only new markets but also technologies, as well as upgrade the productive chains. Going international is extremely important in doing so," she added.

> "Managing companies in other business environments is a different animal."

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What does the experience of globalization teach Brazilian companies that have gone abroad? Some answers appeared in the survey and seminar. Pedro Wongtschowski, a former director of Oxiteno and Ultrapar and member of the board of directors of the Ultra Group, threw light on the cultural factors that condition a company´s international expansion, after presenting a résumé of the industrialization process in Brazil. He believes that managing a business abroad is a central problem and is as important as any other. "Managing companies abroad,

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1 Natura in Paris: attention to local habits **2** Oxiteno in the US: one of six units abroad **3** Ana Paula: following the clients

GOING ABROAD TO GROW

RAW MATERIALS, markets and clients were the main reasons behind the international expansion program of Oxiteno, the Ultra Group´s chemical industries arm. The decision to grow abroad resulted from a sequence of incentives. When it took its first step as a multinational — an acquisition in Mexico in 2003 — Oxiteno faced a dilemma. It saw opportunities to enter the United States and Mexico but would not have been able to do so by exporting from Brazil. There was no supply of the main raw material at home — ethylene — in the volume required to expand production at the rate needed.

The solution was to start production for the two countries from Mexico, where a competitive industrial chemical industry uses natural gas as its base. Oxiteno produces derivatives of ethylene oxide, a petrochemical product obtained in Brazil from naphtha, which is a derivative of petroleum. The products it supplies are essential input for a wide range of industries with a global reach, such as agrichemicals, personal hygiene, detergents, paints and varnishes, amongst others.

The leap abroad 12 years ago also helped to overcome a barrier created by the growth itself. As it had around 70% of the Brazilian market, Oxiteno did not have much scope to grow internally. A third factor arose which led to it going ahead with the decision. As a producer of intermediate products — in the middle of the extensively globalized productive chains — Oxiteno had large multinationals among its clients in Brazil which showed interest in also having it as a supplier abroad. "Having global clients facilitated things," claimed Ana Paula Santoro Coria, the company´s administration director and controller. "Being able to attend these clients abroad is also a guarantee of access to the markets."

The recipe has been copied and extended since then. Oxiteno is now present in nine countries, with six industrial plants abroad — three in Mexico and one each in the United States, Uruguay and Venezuela. It also has commercial arms in other countries and around 30% of its revenues come from abroad. It announced investments at the end of the year in North America. Of these, US$ 20 million is being invested in expanding the plant at Coatzacoalcos, in Mexico, and US$ 113 million to build a new factory in Pasadena, Texas — an operation that got underway in 2012.

Scale makes a difference. The American market for its products is 10 times larger than in Brazil. "The size of the market is taken into consideration at the time to make decisions," said Ana Paula. This creates its own demands. For example, a global client with a strong presence in the United States may be served initially by exports from Mexico. "At some point he will tell me that 'to continue buying from you, I want you to serve me here in the US.' "

With the investment in Pasadena, Oxiteno wants to increase its revenues in the North America Free Trade Agreement region (NAFTA) by US$ 250 million. This currently amounts to US$ 150 million, or 10% of the company´s sales of US$ 1.5 billion in 2014.▮

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in other business environments, is a different animal. The road to going international begins in the market, passes through technology and has a permanent restriction in the management model and the adaptation to local culture," he said.

Wongtschowski gave the example of Mexico, a country where specialty chemicals company Oxiteno began its move abroad in 2003. He said that even the apparent cultural proximity concealed very different ways of doing business. "When they talk about "now" in Mexico, it certainly does not mean immediate and can refer to a much more elastic period of time," he warned. *(See more about Oxiteno on page 27)*.

> **"'Now' in Mexico can refer to a much more elastic period of time"**

1 Embraer in Florida: learning abroad

2 Embraco Asia's Dau: different cultures help innovate

Ailton Barberino do Nascimento, the vice president of Stefanini, a technology and engineering services company, said the cultural difficulty is stronger in Asia. "We had a lot of difficulties in China. Asian culture is more difficult for Westerners. The company had to learn that is not good policy to send expatriate Brazilians to run the business in Asia. They have taken 5,000 years to build a culture and we would take 2,500 years to get where we wanted." The solution is to work with those who know what they are doing. "We don´t have an employee in China who is not Chinese".

What motivates a Brazilian company to want to go abroad? Stefanini felt that just being a big Brazilian company was not going to be enough to ensure its survival in a globalized market. If it had not become a global competitor itself, Stefanini would have ended being swallowed by a global multinational from another country. "They were all entering Brazil. We are the fifth-largest IT and communications market in the world and any company that wants to be a global player has to be here," said Nascimento.

> **It is not good policy to send Brazilian expatriates to run the business in Asia**

Another Brazilian multinational with a technological base, Embraer, realized right from the very beginning that it was in an unusual business environment as the aviation market is global, has no national barriers and is disputed only by a few manufacturers in each niche. "Our only chance was to go to the international

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GLOBAL WAY TO GET TO KNOW CLIENTS

EXPORT OR produce outside Brazil? Every company that has decided to dispute international markets needs to answer this question sooner or later. The reasons and the right time to stop being just an exporter and becoming a complete multinational — with production units abroad — are decisive choices that can support (or prevent) a highly successful international expansion.

The answer is clear for Embraco which produces compressors for the refrigeration industry and is based in Joinville in Santa Catarina state. Its thinking is that if the clients are global, the supplier should also be global. Luis Felipe Dau, Embraco´s vice-president of business and marketing for Asia, believes that producing outside Brazil not only makes it more convenient to serve the client faster but is also the best way to get to know the trends and the international markets. This was the main leverage for the company´s international expansion that got underway in 1994 with the acquisition of a plant in Italy. "Exporting is important but we need to be abroad and have production units that are closer to the clients," he said.

The next step was to go to China where Embraco completed 20 years of operations in 2015. It then set up production units in Slovakia and Mexico, the latter to serve the North American and Caribbean markets. Dau believes this presence in different countries and continents gives the company a global touch that is one of its greatest assets in competing for international markets. "The stage we are in now means it is important to learn from these cultures as this encourages innovation even further."

Innovation and technology create another competitive leverage, as well as a degree of standard quality in all the worldwide operations, Dau said. "The manufacturing processes and management are very similar in any of them. You recognize Embraco in all the plants." The company has research and development programs run by its own teams or in partnership with universities and has developed models of compressors that can consume less energy and have a lower environmental impact.

Embraco´s highly particular management model draws attention. It is a company that originated in Brazil and is run by Brazilians but controlled by a global multinational group, Whirlpool from the United States. Whirlpool incorporated the original owners (Brasmotor and Multibrás) at the end of the 1990s. However, Embraco supplies compressors to clients throughout the world, including to competitors of Whirlpool´s own brands. Dau says this leads to it having great autonomy and independence. An armored-plated program protects the information from the other clients. "We have to add value for the shareholder, like any company, but details related to clients and internal processes are confidential," he said. "We do not have any representative of the shareholder here on a daily basis."

Asia is currently the target of special attention by Embraco — particularly China, a market with enormous consumption potential for refrigeration products. Dau said that the company was passing through a consolidation stage in its global presence from the time in which arrived in almost all continents but added that it would continue to assess new opportunities. "This is always in our strategic plan. What more can we do? How can we grow?" ▮

markets," said Nelson Salgado, vice-president of Embraer´s institutional relations and sustainability. "It was a founding factor right from the beginning." Even when Embraer was a state-owned company created from an investment in an aeronautic engineering center, it looked abroad. The company´s first aircraft, the Bandeirante turboprop, was developed as a military transport plane. Embraer quickly made an 18-seater passenger plane from it which was exported within three years. This small airliner that emerged from Brazil ended up creating its own global market. "It was a regional air transport niche that did not even exist in the US at that time," said Salgado.

The replies to the question on the reasons for going abroad varied according to the company. The overall picture that emerged from the USP/FGV survey showed a significant development, said Felipe Borini, from FEA/USP. For the first time, the most important reason for going international was to obtain access to technologies and knowledge, followed by access to resources to improve the efficiency of the operations. (This latter category included natural resources, cheap labor and better financing conditions than was available in Brazil.) "Access to markets was a more important reason in the previous surveys," said Borini.

Access to technologies and knowledge came first in the survey

The authors of the study believe this development points to a recognition by the Brazilian multinationals that they are lagging behind in relation to the more advanced technologies and more dynamic markets. Acquiring assets or investing in more developed countries may be the best way of catching up in terms of technology for some of these companies. Afonso Fleury, of Poli/USP, gave as an example the recent announcement by Biolab Farmacêutica, a São Paulo company, that it had set up a research and development center in a drug industry hub in the Canadian province of Ontario.

The cosmetics and personal hygiene products company Natura, amongst others, has also adopted a similar strategy and has a research center in New York. *(See more about Natura on page 32.)* Stefanini itself announced the creation of a research and innovation laboratory in Singapore. The intention is to integrate the new Asian laboratory with the company´s other laboratories in Brazil, the US and Romania. "Having the labs working together will make an enormous difference," said Stefanini´s Ailton during the debate. "Technology is changing. We have the Internet of things, Industry 4.0 and the mega companies that are transforming themselves into services companies. We are

Investing in developed countries helps in the technological catch up

Wang from Easy Taxi: 450,000 cab drivers in 30 countries

LEO NEVES

GLOBAL TECHNOLOGY WITH LOCAL SERVICE

THE CREATORS of Easy Taxi — the app for smartphones that finds and calls a taxi a few minutes from where the passenger is — only wanted to provide a better service in Rio de Janeiro at first. However, they quickly discovered two or three things that turned this idea upside down. There were clients with the same needs in many Brazilian cities and emerging countries. The model could be copied and as the technology is new, it was very important to be the first in every market at the time of replicating it.

From there on, the step was to go international. The app was launched in Brazil at the beginning of 2012, arrived in Mexico City at the end of the same year and spread to other Latin America countries shortly afterwards. "It was a strategic decision," said Easy Taxi´s co-CEO, Dennis Wang. "The biggest barrier to entry in this industry is that you need to have a volume of taxis and rides." In other words, progress needed to be made to occupy the promising spaces before other apps emerged on the market - in Brazil and abroad.

Easy Taxi is now operating in 30 countries, ranging from Saudi Arabia to Argentina and from Paraguay to South Korea. The company says the app has already been downloaded 22 million times worldwide and more than 450,000 taxi drivers are registered with the service. (The company does not reveal its revenues.) The numbers and accelerated expansion worldwide brought Easy Taxi close to those "born global" companies, usually technology startups that do not expect to grow in their country of origin in order to go international and look at the global markets from their earliest days.

So, this mean that what works for taxis in Rio, São Paulo and Mexico City works just the same in Seoul and Nairobi, right? Wrong. The lesson learned was that the app may be the same but to win clients (and taxi drivers) in different countries, you need to understand and respect the peculiarities and needs of each market. In other words, the technology may be universal but the service is always local and is not transferable.

Wang says Easy Taxi works on three pillars: safety, practicality and speed of attendance. What is important is the weight given to each of the components as they vary from country to country. "In one place, personal security is very important whereas in others the payment through the app is the most important thing." In a country where credit cards are not used a lot, the integration of the payment systems to accept the card is not so important. "It´s all a question of understanding the consumer´s habits," he adds.

At the end of the day, the idea that Easy Taxi is a technology company is only partly right. "When you think of the company today, it is a hybrid of 50% technology and 50% operation. We always have to balance this out," says Wang. When the time comes to assess where it can enter, Easy Taxi begins by making a social and economic analysis of the market. It then aims to learn how the taxi business in the country works, evaluates the quality of the services and tries to understand consumer habits. Only then does it decide whether to enter or not. There have been countries where it has opted not to proceed after carrying out a pilot experience.

Has being a Brazilian startup been a help or a hindrance? One concrete difficulty is access to capital. Wang says that outsiders entering Asia, as in the United States or Europe, are up against local companies that raise resources from investors with much more firepower than Brazilian companies. For this reason Easy Taxi decided to work with American, Asian and European investors, one of which is Rocket Internet from Germany. The startup says it has raised a total of RS$ 145 million in investments since it was founded. In terms of advantages, Wang believes cultural flexibility helps Brazilians to adapt more quickly to the way each country does business. ▮

leading Stefanini into this new era."

Learning abroad can be useful in other ways, even for a company that has technology in its genes like Embraer. Nelson Salgado told the seminar about a big additional gain the company obtained when it opened its capital abroad. The immediate reason was the need to obtain resources to invest in new programs after Embraer was privatized in 1994. These resources brought the need and opportunity to improve its corporate governance to satisfy the demands of the advanced markets. "The company had to adapt to the

For Embraer, it was a chance to upgrade its corporate governance

more developed standards of these countries and this put us in a much better position to face future challenges. We went after the resources and brought with it an experience of a far stronger governance that we had previously had."

One new factor in this latest edition of the study was the evaluation of the management styles adopted by Brazilian multinationals. The aggregate results of the survey showed that Brazilian global managers were primarily concerned with achieving goals and results and following standard processes within the organizations. The development of innovative products and services and the management of talents were in second place. Even innovation, when sought, was subordinate to these priorities. "Innovation was seen to be more directed at controlling costs," said Germano Reis, of EAESP/FGV. "It shows a profile that is very specific and also directed at efficiency and processes."

On the other hand, the results of the survey show that the global Brazilian companies do not reflect the image often attributed to domestically-based companies, such as mak-

Planning and CRM are among the priority managerial skills

ing decision on the spot and being centralized, in some of the features assessed. The incentive to absorb technology and incorporate knowledge could be a sign of this change. Afonso Fleury also pointed to the result of the evaluation in this survey of the managerial skills the Brazilian multinationals give priority to. Planning and client relationship, i.e. CRM - Consumer Relationship Management, jumped into first place . This highlight indicates an approach that is directed at learning over longer periods and for external relationships, two characteristics that go against the stereotype of a company that is unable to plan ahead and concern itself with its clients´ needs. ▮

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Natura consultants: Brazilian model.

LEARNING TO CHANGE CHANNELS

IN BRAZIL, Natura is almost synonymous with direct sales. A legion of individual distributors, known as consultants, spread throughout the country selling cosmetics and hygiene and beauty items produced by the company. Natura was founded in 1969 and is based in Cajamar, upstate São Paulo. It currently has 7,000 employees and 1.8 million consultants and had net revenues of R$ 7.4 billion in 2014.

The multinational arm of Natura is present in six Latin American countries and France. Although it maintains a focus on direct sales, it also uses other distribution channels, in line with local habits. Meanwhile, the Aesop network — an Australian cosmetics brand Natura has controlled since 2013 — works with 120 retail stores in 18 countries in Oceania, Asia, Europe and North America.

What is the reason for this variety of distribution models by a company that is so associated with direct sales in its home market? "The personal hygiene, perfume and cosmetics sector is very dynamic and most of the large groups operate more than one model," said Marcelo Behar, the group´s corporate affairs director. This was an important learning point for Natura, he said, and it began to sell its products and services abroad through other channels, looking carefully at the experience of the consumer in each country. "The customers may want to have access to our products in different forms and find them at different moment of their day." Aesop, for example, is the group´s brand for mature markets.

The regional and geographical differences can be striking. Behar said virtually a quarter of cosmetic and personal hygiene sales in Brazil were made directly. Neighboring countries and those with similar cultures, such as Argentina, Chile and Peru, receive this model well. However, direct sales do not attract more than 2% of the market in France. The strong French retail tradition led Natura to set itself up as a store that could serve as a meeting point between the clients and the conseillères as the consultants are known. "The clients can buy directly in the store if they want to," Behar said.

Why go directly to a consolidated and traditional market, such as France, after beginning to go international in Latin America? (Natura´s debut as multinational was in Chile in 1982.) "It was a vision of our founders to have a direct connection with the birthplace of cosmetics," said Behar. Paris and New York are the two benchmark centers for the sector and any company that wants to be global has to be present in them. Natura also has a research and innovation center in New York. "It is not a commercial operation but an important institutional presence," he said.

Behar believes that innovation linked to sustainability is the main competitive advantage Natura has on the global market. He said Natura had been building a direct relationship over the last 30 years with 32 different communities whose input is extracted and sold at a fair price. Thirty-one of them are in the Amazon region and one in the south of Brazil. "We work with plants and seeds from the Amazon, such as priprioca, murumuru and andiroba, which no one had ever worked with before," he said. He is certain that the consumer notices the connection between keeping the forest alive and the products that are sold. "When people see a product made with elements that are so different from what they know in their daily lives, they understand the connections behind that story and see value in it".

Concern with sustainability ends up driving the international expansion process itself. Behar says that Natura tries to reduce the environmental costs associated with international transport by manufacturing its products in countries where it is installed whenever it is economically viable. This is the case, for example, with Argentina — the group´s largest international operation — Colombia and Mexico. These markets have enough scale and volume to sustain production by local partners. "Our management indicators are not only economic. They also take into consideration the environmental costs and social gains from the activity," he said. If the difference between producing in the country of consumption or importing from Brazil was not important from the economic point of view, the choice of one or other side is taken without any problem. "When producing in the country of consumption brings an environmental gain, we have opted for local production." ▮