PiB

BRAZILIAN COMPANI

LOGISTICS
How to export flowers, fruit and other delicate products

AVIATION
Brazilian airlines respond to a turbulent market

YEAR V
NUMBER 19
AUG/SEP 2012

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HOT WHEELS

Marcopolo takes its buses to all five continents

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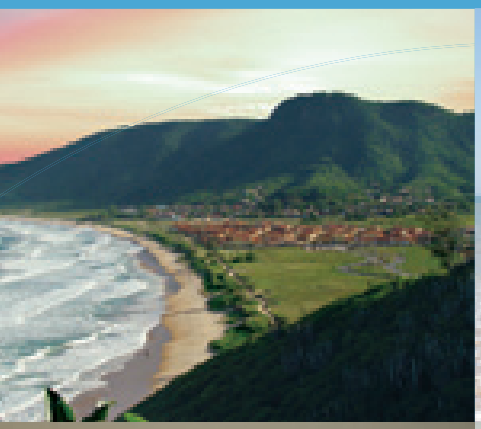

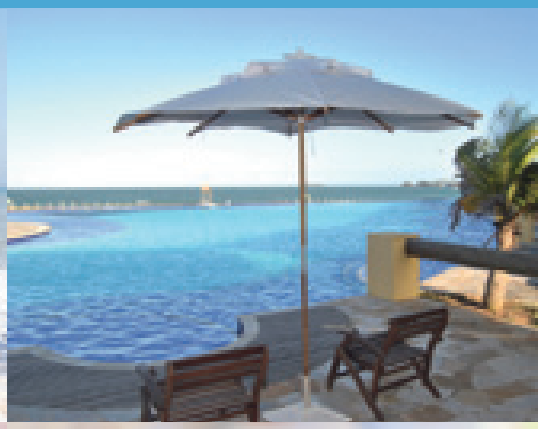
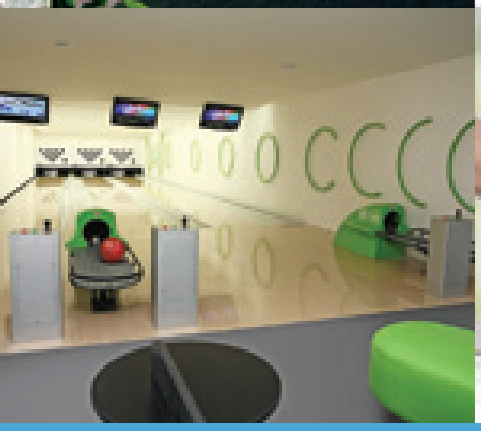

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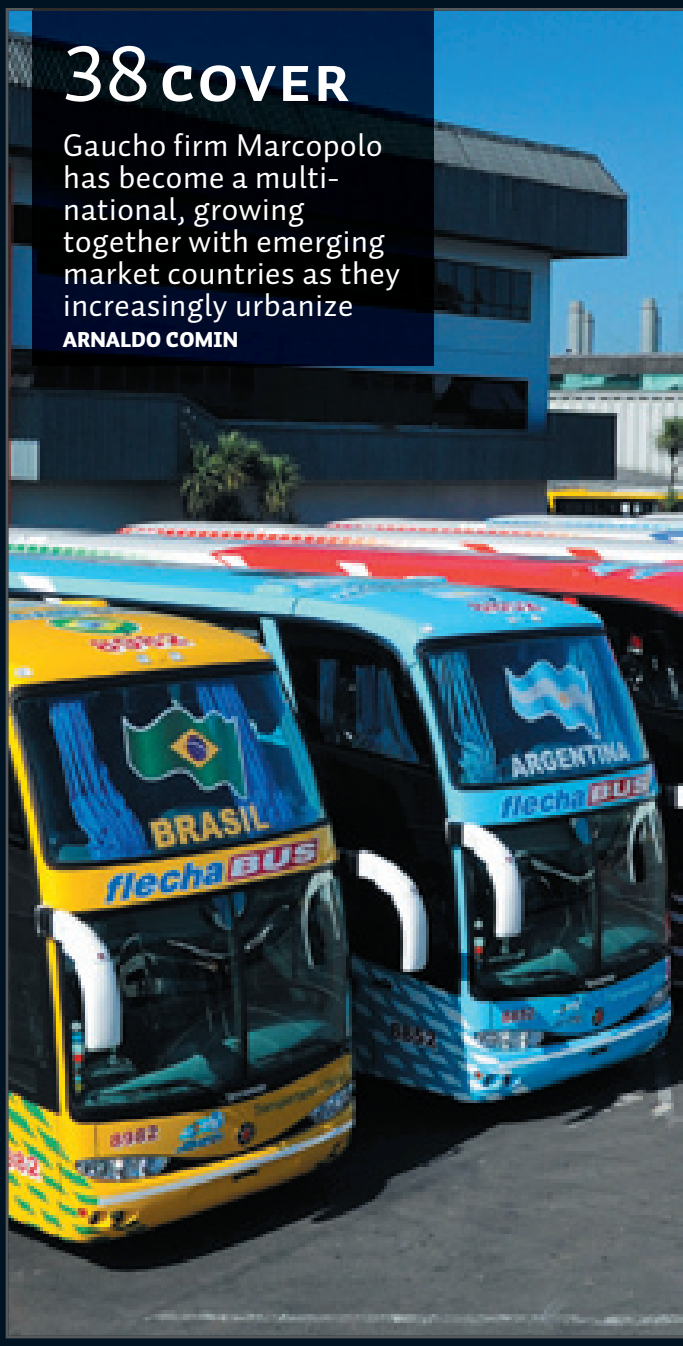

GIANFRANCO BETTING

HANDOUT

NELY CAIXETA

JULIO_SOARES/OBJETIVAP

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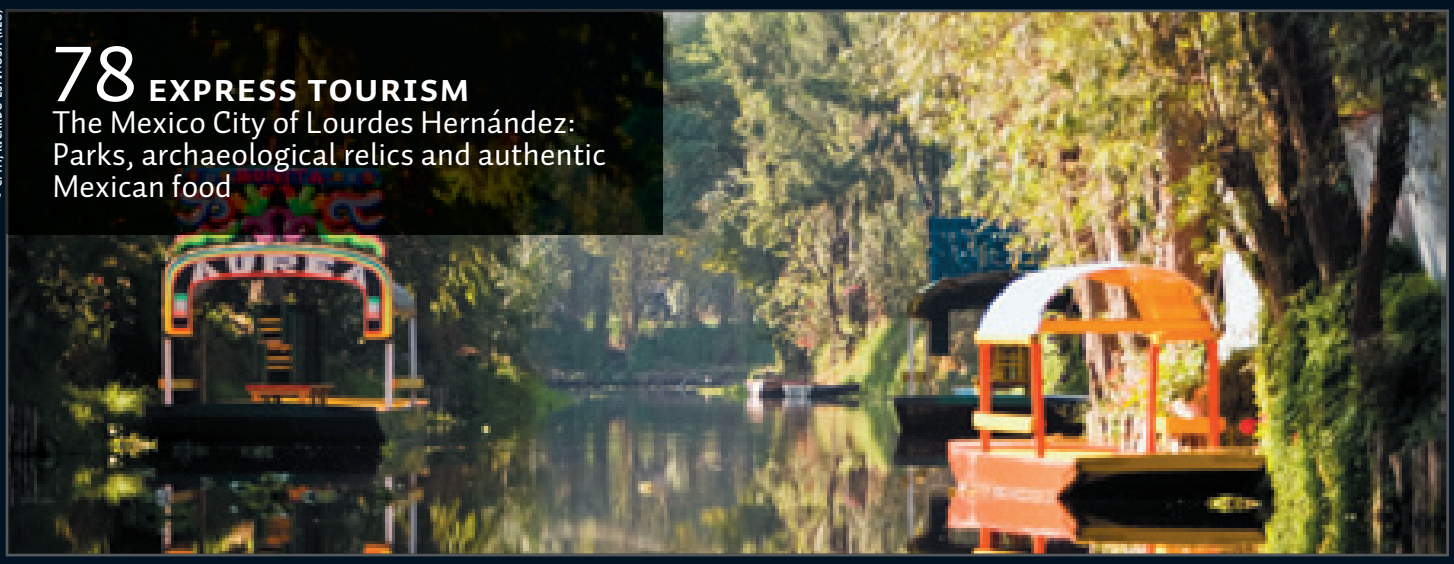

Growing together with the emerging economies

Economists are saying that the world's growth engine is moving over from rich countries, to so-called emerging economies. This edition of PIB discusses this move in its leading article on the Brazilian transnational Marcopolo: a bus manufacturer that has decided, in its internationalization strategy, to exactly cater to the requirements of these expanding countries that are improving the lives of their populations and becoming increasingly urban — "emerging", at last, from the former Third World, into the modern global economy.

Arnaldo Comin cites, on page 38, how this company run by a family of Italian immigrants in Rio Grande do Sul has become the first Brazilian manufacturing group to achieve a presence on the five continents, from South Africa to China, and from Mexico to India (from Cape Town, reporter Polyanna Rocha has contributed with a report on Marcopolo's South African operation).

This edition has a broad-ranging menu: explaining how Brazil's major banks are making inroads into other Latin American markets, as well as the start of the almost accidental internationalization of the lingerie brand Hope, through franchises in Europe, the Middle East and South Africa. It also recounts how two very different sectors — in truth, very different indeed — have dealt with these difficult times in the global economy: Brazilian airlines and açaí exporters from the state of Pará (açaí, for those who have yet to have the pleasure of getting to know it, is a purple fruit from Amazônia which produces a juice idolised by surfers, bodybuilders and health addicts in general).

In the section on Express Tourism, Lourdes Hernández, a Mexican woman whose self-imposed mission is to introduce the culinary arts from her country to Brazilians, sets out an exciting route for tourists through the various urban attractions and gastronomic delights of Mexico City. *Bom proveito*!

Nely Caixeta

totum

TOTUM
EXCELÊNCIA EDITORIAL

PIB

PIB
BRAZILIAN COMPANIES GO INTERNATIONAL

A TWO-MONTHLY MAGAZINE FOCUSING ON
INTERNATIONAL BUSINESS AND ECONOMICS

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TOTUM
EXCELÊNCIA EDITORIAL

letters

I am the Trade Promotion Officer at the newly established Zimbabwe Trade and Tourism Office operating from AvenidaPaulista in São Paulo. My mandate is to promote business between my country (Zimbabwe) and Brazil. It was therefore very enlightening to read a special article in your recent publication, on the joint venture partnership between some Brazilian farmers and the Sudanese Government (the Brazilian-Sudanese Agribusiness Company), that is jointly implementing a special project to develop the Sudanese cotton sector. This article, and indeed many others, have provided an opportune insight into what Zimbabwe can also do to cooperate with Brazil in developing her agricultural sector. Thanks to your publication, my office has been able to recommend an informed proposal to my principals, with respect to how we can benefit from Brazil's expertise in the cotton sector.

NETAI LOICE MAGADE
MINISTER COUNSELOR (TRADE)
ZIMBABWE TRADE AND TOURISM OFFICE
SÃO PAULO - SP

PIB's clear and simple approach to a wide variety of topics makes the magazine very agreeable to read, even for those who have little intimate knowledge of the business world. I particularly liked the article "O renascimento do Cacau baiano" (the rebirth of Bahian cocoa), published in the last edition. It is very good to know that this "fine cocoa", produced in Bahia, is used abroad by such renowned maîtres chocolatiers as François Pralus. Congratulations to PIB for the variety of the very interesting themes that is publishes in each edition.

M. ÂNGELA PAULANI
SÃO PAULO – SP

I found the English edition of your magazine interesting and pleasant to read. I learnt a lot about domestic and foreign views of Brazil, a subject which is of interest both to normal people like myself with Brazilian roots, as well as businessmen interested in investing in the Country. An interesting theme to be examined in a future article could be about the views held by Denmark and other countries of Brazil - its infrastructure, perception of time and cultural differences.

SUSANNE JØRGENSEN
ODENSE
DENMARK

I was introduced to PIB magazine this year by a friend, who is the managing director of a class entity, when we were talking about the importance of design in people's lives, despite the fact that often we do not even perceive its function. I am the director of a company that specialises in this subject, which assumes the challenge of helping Brazilian businessmen to perceive "which way the wind is blowing". In this regard, I found the recent article published by PIB on architecture, very interesting.

MAURÍCIO SIQUEIRA
EXECUTIVE DIRECTOR OF SIQ MARKETING
SÃO PAULO – SP

CARTAS E E-MAILS PARA A REDAÇÃO NOS SEGUINTES ENDEREÇOS: AVENIDA FARIA LIMA, 1903, CONJ. 33 – SÃO PAULO (SP) – 01452-911 – CONTATO@REVISTAPIB.COM.BR

Are you considering doing business in Brazil?

Antenna

Lilian Primi

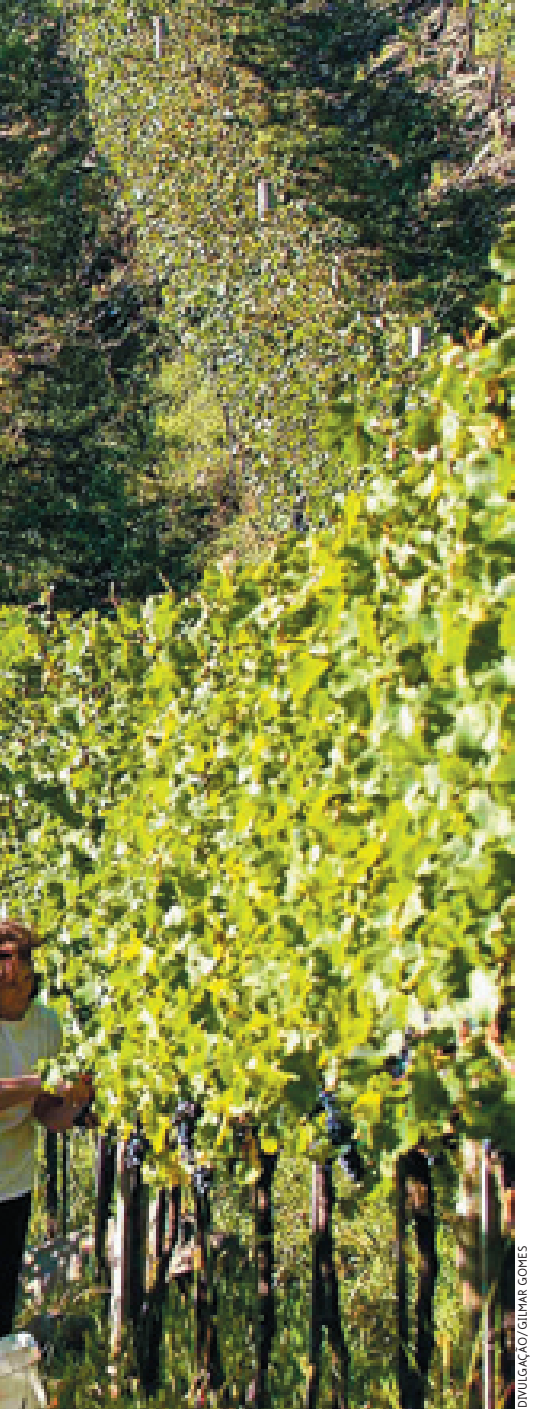
Birth Certificate

Remember this name and check out the label on the bottle: Vale dos Vinhedos from Serra Gaúcha. This is the first Denomination of Origin registration (DO) for Brazilian wines and was approved by the National Intellectual Property Institute (INPI) in September. Brazil has waited centuries to adopt this procedure — known as the Geographical Indication (GI) — which guarantees the authenticity and quality of agricultural products. In comparison, port wine from Portugal has had its official stamp of authority since 1756. Wines from the Vale dos Vinhedos region have had a lower Geographical Indication level since 2002 called the Indication of Origin (IO) which was recognized by the European Union in 2007. The Denomination of Origin standard establishes more complicated and demanding criteria for the planting of the grapes and production of the wine than the Indication of Origin. The seal helps sales. The vineyards in Brazil´s southern Serra region have increased their production by 30% following the registration of the Indication of Origin. The Vale dos Vinhedos Association of Fine Wine Producers (Aprovale) expects production to expand by 10%, thanks to the upgrade to the Denomination of Origin level. Besides the wines from the Vale, rice from the Northern coastline of southern Brazil has also gained the DO seal. Another nine Brazilian producers have also obtained Indication of Origin status, including Paraty cachaça from Rio de Janeiro, Cerrado coffee and Salinas cachaça from Minas Gerais, and Costa Negra shrimps from Ceará (which is awaiting European Union recognition). An estimated 120 products could obtain Geographic Origin registration, such as the goiabada cascão sweet from Rio de Janeiro, coalho cheese from Pernambuco and açaí fruit from the Amazon region.

"A brave new world for global publicists,"

says global retail director of PricewaterhouseCoopers, **John Maxwell**, about publicity markets in emerging economies.

DIVULGAÇÃO



DIVULGAÇÃO/GILMAR GOMES

Soybeans, iron ore and a surprise

China only buys soybeans and iron ore from Brazil, right? Wrong. It also buys wine and is buying even more. The Chinese were the biggest importers of Brazilian wine in the whole world in the first six months of this year and bought just over 20% of the exports of US$ 1.85 million the Wines of Brasil project made in the period. This project is a partnership between the Brazilian Wine Institute (Ibravin) and the Brazilian Trade and Investment Promotion Agency (Apex-Brasil) to promote fine Brazilian wines throughout the world. "Everything is happening very quickly in China, an enormous country with a giant population and a growing interest in wine," said Wines of Brasil promotion manager, Andreia Gentilini Milan. No wine trade between Brazil and China existed until 2009 and a symbolic sale of US$4,000 was made in 2010 via Hong Kong. "We were basically sending samples and business only started to become serious last year," Andreia added. Five vineyards dominate this market: Valduga, Garibaldi, Miolo, Pizzato and Salton.

Wine lovers

The largest drinkers of Brazilian wine in the first half of 2012

1 China
2 UK
3 Russia
4 Netherlands
5 France
6 United States
7 Poland
8 Switzerland
9 Finland
10 Belgium

1 Grape harvest at Vale dos Vinhedos: certified origin

2 Roasting coffee: an international marketing plan

2

At long last...

Coffee financed Brazil´s growth throughout the 19th century and up to 1929 when it ended up representing 65% of Brazilian exports. However, it is only now, in the 21st century, that this coffee will gain a Brazil brand, along with a strategy to boost its value on the international market. This breakthrough is the result of the Cafés do Brasil 2012-2016 Marketing Plan which has been discussed throughout the entire production chain. The motto will be 'Brazil, a country of coffee', to encourage international consumers to recognize the product by its origin, as is the case with whisky from Scotland, cheese from Switzerland and France, and rum from Cuba.

Extreme climate...

Latin America and the Caribbean are not remotely prepared to confront the social and economic impacts of —extreme climatic events — strong droughts or flooding, devastating storms and other phenomenon brought about by global climate change. This was the warning from a regional seminar of the Intergovernmental Panel on Climatic Change (IPCC) held in São Paulo in August. The group of scientists concluded that there had certainly been an increase in the frequency of extreme climate events in the world in recent decades although they say the projections might not reveal the whole picture due to the shortage of data. Hotter days and nights are the first projection that has been confirmed.

Green light

2

DIVULGAÇÃO

Brazilian producers of poultry and pigs have also suffered from the big rise in grain and animal feed prices this year. However, they had at least one piece of good news: the reopening of two big markets for pork that had been closed for hygienic reasons. Argentina and Brazil negotiated agreements at the beginning of July to allow the entry of chicken and pork to Argentina in exchange for Brazil opening its market to Argentinean products such as cars, olives, olive oil and other foodstuff. The Argentinean government has authorized imports of 27,000 tons of pork in the coming months. It was Japan´s turn to lift

ASTRONAUTA MIKE FINCKE DA BASE ESPACIAL INTERNACIONAL/NASA

1

...and more expensive food

1 Hurricane seen from space: more extreme events

2 Pig farming: fewer export barriers

3: Corn cobs lost as a result of US drought

Unseasonal rain in the Center-South region of Brazil and prolonged drought in the United States, two possible effects of global climate changes, are continuing to hit the purses of food shoppers. The longest-ever drought in the US has lifted corn and soybean prices from the latest harvest around the world. As a result, the prices of meat from animals fed with these grains have also risen. This has brought losses to the American farmer but profits to his Brazilian counterpart who has benefited from the combination of high prices and record production. Brazil´s winter "interim harvest" of corn was a record crop, with 11.2 million tons harvested, of which 5.7 million tons was in Mato Grosso do Sul state alone. The "interim harvest" in the state was higher than the summer harvest and helped by the heaviest winter rainfall in the history of Brazil´s Center-South region. The extreme drought in the United States means all of this bumper grain crop will be sold at high prices. The average price of a bag of corn came to almost R$ 35 and soybeans to R$ 85. This compares with the minimum benchmark price of R$ 13.02 for a 60-kilo bag of corn and R$ 22.87 for a bag of soybeans paid by the federal government to guarantee prices. The GDP of Brazil´s agricultural sector in the second quarter of the year grew by 4.9% between April and June over the previous quarter (January to March) and compared with 0.4% for the economy as a whole.

3

DAVID KOSLING

the barrier at the end of August and recognize that pork produced in Santa Catarina state was free of foot and mouth disease. The Japanese pledged to make efforts so that the first exports could be shipped by the end of the year. The Brazilian producers expect Brazil to supply 15% of Japan´s pork imports by 2013. These came to 793,000 tons in 2011. Russia had reopened its doors to Brazilian pork prior to Argentina and Japan. The result was an increase of 327.5% in August in the amount and 387% in the volume exported, with revenues of US$ 38 million.

Virtual vigilance

Supporters of the Imazon NGO and technicians from the state governments that are part of the Amazon region are taking pictures of the deforestation with smartphones. The images are published on the Google Earth platform and the authorities are also alerted. The system began operating in June, initially in Pará state, and monitors the advance of the planted areas, pastureland, prospecting and the removal of wood, amongst other aggressive actions. The NGO says that the time between locating the deforested area and notifying the inspection teams has fallen by an average of 50% in the three months during which this system has been functioning.


It is now Brazil's turn.

On the beach in Miami

Brazilian beach fashion has really taken hold for the first time on the sands of Miami, the American holiday and sun capital. 18 Brazilian brands participated at two events in the city in July, during the summer in the northern hemisphere, as part of the project +Beach Brasil, created by the Brazilian Stylists' Association (Abest) to internationalize its affiliated brands. Some of the brand names, among them being ANK, Poko Pano and Cia Marítima, held fashion shows with models at Mercedes-Benz Fashion Week Swim, the most famous fashion event for American beachware. Another group showed off their products at the Swim Show trade fair, including such brand names as Água de Coco, Amir Slama, Cia. Marítima, Jo de Mer, and Osklen.

DIVULGAÇÃO/ MERCEDES-BENZ FASHION WEEK SWIM E CIA MARÍTIMA

DIVULGAÇÃO

The Spanish are coming...

The Brazilian economy may have lost some of its impetus, but it has not ceased to attract foreign executives and professionals, particularly those from countries facing economic crisis and with cultural affinities, such as Spain and Portugal. Spanish looking for work have registered more than 100 resumés on the portal of the Spanish Chamber of Commerce in Brazil — "For the most part they are technical professionals who are looking for work here, having not been able to find employment in Spain at this time," said María Luisa Castelo Marín, executive director of the Spanish Chamber of Commerce. Data from the Spanish National Statistics Institute show that the Spanish community in Brazil is already over 100,000, 28% more than three years ago, while a survey by the Chamber found that there were over 60,000 Spanish working legally in Brazil in 2011. Spain ranks second among those countries that most export executives to Brazil, according to the Ministry of Labor. In the first half of this year, 69 Spanish executives came to Brazil, a number only exceeded by Japan, with 158, and almost on a level pegging with Portugal, with 64.

1 Abest fashion show in Miami: test for 18 Brazilian brands

2 Maria Luiza, of the Spanish Chamber of Commerce: 100 resumés received a month

3 The new EcoSport: model created in Brazil gains a global foothold

... And the Danes too

What is valid for professional executives, is also valid for companies. TI Targit, the powerful Danish business and analysis software company — which they call "Business Intelligence" (BI) — has arrived in Brazil, with the support of the Danish Ministry for Foreign Relations. "There is enormous interest in BI in Brazil", says Flemming Madsen, Targit's vice president for global sales. "We have established two strategic agreements with new partners which are generating significant business." Our company has a presence in 50 countries, with around 4,400,000 customers. Brazil has accounted for BI sales of more than US$ 300 million over the last few years, according to the International Data Corporation (IDC), and Danish government wishes to help its companies win a slice of this market.

DIVULGAÇÃO

From Bahia to the rest of the world

The European market from 2004 will be receiving a sports utility vehicle developed in Brazil by an American multinational: the new Ford EcoSport. Projections by the car manufacturer indicate that demand for sports utility vehicles in Europe is likely to double over the next five years. The EcoSport has been created and developed here by Ford do Brasil since its first generation, launched in 2003. The new version, according to Ford, will be sold in 100 markets around the world. In Brazil, this little jeep is manufactured in Camaçari, in Bahia.

To be bilingual or not

Amelie, a three-year-old girl and daughter of an English father and a Brazilian mother, is helping other children to learn a second language. And her mother, Nara Vidal, a Brazilian based in England for 11 years and a contributor to PIB magazine, has decided to record some pearls of her daughter's bi-linguistic abilities in the form of children's short stories. In re-reading this material, she discovered that it can serve to encourage children to learn a second language. "A bi-lingual child can see a door and know that it can be called porta or door, explains Nara. "The child does not even know that it has learnt two languages, as adults do; the child selects the word used in a natural manner". The first book of the series "The Curious World of Amelie" is being published in Brazil by the publishing firm Editora Faces and will come on sale at Amazon stores in the UK and the US in October. The text is being translated into other language pairs (English and Spanish; English and French), for European editions.

1

DIVULGAÇÃO

1 Book on bilingualism. *Amelie's secret: porta* or door?

2 Publicity fair by Japanese universities at Coppe, in Rio de Janeiro: shortage of engineers

Grooming the new generation

Takeover process at the heads of business — always a critical factor at family-run companies — is the aim of the Junior Academy program, which international consultancy firm Ernst & Young is divulging for 2013. In the program, young heirs undergo 1-week training sessions to explore their individual potential and prepare them for the challenges ahead. The groups are divided into 3 age brackets, upwards of 16. Business schools in various parts of the world hold the training sessions — next year, for example, groups of 21-to-25 year-olds will meet up at the universities of Stanford, in California and Bocconi in Milan. The groups aged 26 to 30 will meet up at INSEAD in Singapore.

2

DIVULGAÇÃO/ COPPE/ CAMILA SOARES

Japan without frontiers

Ten Japanese universities have come to Brazil to present themselves to Brazilian students in August, following an agreement signed by the governments of Brazil and Japan to offer student grants on the other side of the world, under the "Science Without Frontiers" program. The training of engineers — of which there is a shortage in the labor market— is the focus of the program. In Rio, presentations have been held at Coppe/ UFRJ, the engineering postgraduate institute of the Federal University of Rio de Janeiro. In São Paulo, USP was the host. Approximately 300 students participated at each presentation. "We were surprised at the interest that the event provoked in the community," affirmed the director of academic subjects at Coppe, Edson Watanabe. Under the agreement, Japan will receive up to 1300 students from Brazil. "Now Brazil will see how many it will manage to send," said Edson.

Business formula

The US Formula Indy motorcycle championship has become a good showcase for Brazilian companies. Representatives of 163 Brazilian firms have attended 13 of the 15 races foreseen for the season. They made deals with 533 international buyers in four trade rounds promoted by ApexBrasil at the same time as the competition. The amount of transactions came to US$1.134 billion, higher than the 2011 figure of US$ 897 million. The sector on which the trade round focuses changes according to the host city of the race that occurs in the US, Canada and Brazil.

DIVULGAÇÃO/APEX

Universal accent

Tú, vos, usted? Brazil´s neighbors speak the same language but the ways of speaking and accents differ from country to country. This complicated the life of Itaú Unibanco when it launched its first advertisement campaign in August directed at the three Spanish-speaking countries where it has operations. The solution? A Chilean announcer who spoke Spanish with a "universal accent" which the bank said was approved by representatives of the countries where the campaign is being shown: Chile, Paraguay and Uruguay. The film was made in Chile by a Uruguayan advertising agency. Itaú Unibanco now has more ambitions. Its marketing director, Fernando Chacon, said the bank wanted to align the signature and communication codes with the countries where it operates so that it will be able to show films and announcements produced in Brazil in any one of them in future. *Let´s see.*

DIVULGAÇÃO

DIVULGAÇÃO

1 F-Indy race: good business for Brazilians **2** Ad by Itaú in Spanish: catering to regional peculiarities **3** Pimentel with Castro in Cuba: Port and free trade zone

Chips in São Paulo...

Brazil is weak in one of the main areas of Information Technology: the ability to project, develop and manufacture chips, the microprocessors that are the soul of the whole digital appliance. This shortfall may begin to change with the partnership announced in August between the Communications ministry and Qualcomm Incorporated, a giant American company in the wireless technology sector. Qualcomm will set up an applications laboratory for smartphones and tablets in São Paulo. It is the first partnership of this kind the company has made in Latin America and also includes a testing laboratory and joint working projects with the makers of the appliances.

...and Portuguese IT in Juiz de Fora

The most visible part of the work of ApexBrasil (Brazilian Trade and Investment Promotion Agency) is the promotion of Brazilian products and services. However, it also works in the opposite direction by attracting foreign investors to Brazil. One of the latest arrivals is the Portuguese Information Technology company Nanium which confirmed to Apex that it would be setting up operations in Juiz de Fora in Minas Gerais state; It will initially offer engineering and development services and then it foresees a partnership with SIX, part of the EBX group, to produce wafers, the second stage of the semiconductors industrial chain. When Nanium is operating at full capacity, the Brazilian unit is set to produce up to one million memories a week, enough to manufacture five million computers a year.

Cuban route

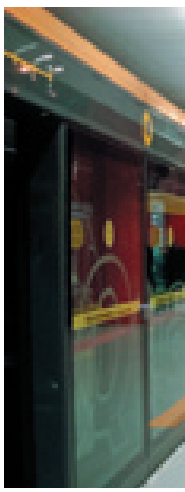
Brazilian companies may find it easier to set up operations in Cuba thanks to the creation of a Special Development Zone 40 kilometers from Havana. The Brazilian government will give legal advice on setting up the zone, based on an agreement signed by the minister of Development, Industry and Foreign Trade (MDIC), Fernando Pimentel, who visited Cuba in August. The Cuban port of Mariel is expected to reopen in April 2013 — after being expanded and renovated by Brazilian building group Odebrecht — with capacity to move one million containers a year. This should help the distribution of the goods produced in the zone to the regional markets (except, of course, to the US which has a trade embargo with Cuba). Brazil is financing US$ 682 million of the US$ 975 million invested in renewing the port through the BNDES.

DIVULGAÇÃO/GRANMA

Strategic mine re-opening

Brazil has land, soil and agricultural technology. But it does not have much potash, the mineral essential for the preparation of its soil for the production of food on a large scale. This therefore explains the fanfare that accompanied the announcement, in August, of the resumption of a project to resume extraction at a potash mine in Río Colorado, in Argentina, by the Brazilian multinational mining company Vale. The project had been in the process of reassessment by Vale since April. It involves investment of US$6.4 billion, the most significant investment ever in a neighboring country, according to Marcelo Pinho, a professor from the engineering production department of the Federal University of São Carlos. "It is one of Vale's largest investments, and for Argentina the size of the project is of enormous importance," he says. Only 12 countries in the world produced potash. The Río Colorado mine has an estimated production capacity of 4.3 million tons of mineral a year — more than half of the 7.1 million tons produced by the world leader, the Canadian company Potash Corp.

Brave new world



It is with these words that a recent study by PricewaterhouseCoopers begins, on the publicity market in emerging countries. Expenditure on advertising in China, India and Brazil will exceed that in the United States by 2014, according to a study published in September. "The customers will become digital consumers," writes John Maxwell, director of global retail at PwC. "And media expenditure is gradually migrating from developed countries, to developing countries". Projections carried out by the consultancy firm indicate that in 15 to 20 years there will be three to four billion people "with all the accoutrements of a better life" — Maxwell's definition of those who have benefitted from an improved lifestyle — instead of the one billion we have today. "India, China, and Brazil, are undergoing the type of economic transformation that South Korea, Japan and European nations experienced after the Second World War, but much more rapidly and on a much larger scale, principally because technology is driving the free flow of information and ideas," he affirms.

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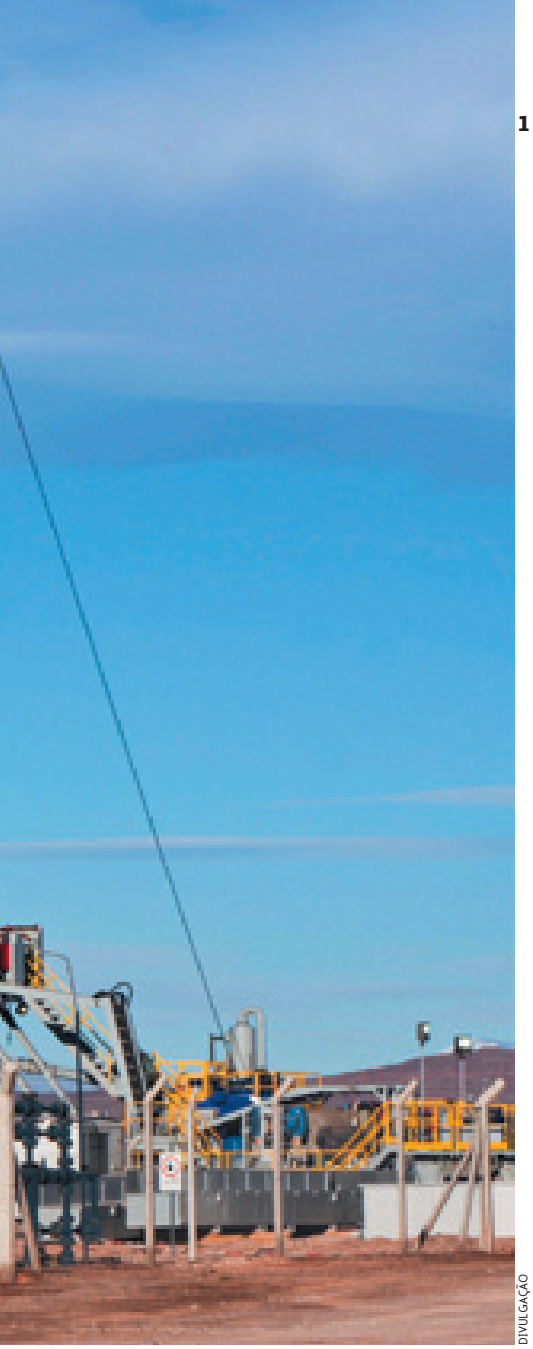

DIVULGAÇÃO

1 Vale's mine in Argentina: Strategic potash

2 Silos of Kepler Weber: 27% of revenues coming from exports

3 Line 4 of the São Paulo underground railway : innovative partnership

2

DIVULGAÇÃO

Advances in Eastern Europe

The Ukraine is the newest flag on the export map of Kepler Weber, the manufacturer of Brazilian storage equipment, and the leader in the South American market. In August, the company announced the sale of a unit to the Ukrainian company Myrna Dolyna. Assembly of the silos will begin in August, and they will begin operation in December. Kepler Weber has embarked on an internationalization project through exports, raising the percentage of sales from exports from 20% to 27% of the company's net sales, from the end of 2011 to today. The company is also investing in emerging agricultural markets in the Middle East and Africa, maintaining sales offices in Angola.

3

LEONARDO SANTOS

Innovative cities

Ten of the 100 most innovative initiatives in urban infrastructure listed by the consultancy firm KPMG in its publication Infrastructure 100: World Cities Edition are taking place in Brazil. This report was published in July, at the Singapore World City Summit 2012. The ten Brazilian projects accounted for half the cities and towns cited in Latin America and one of the initiatives — the project for efficient energy consumption Cidade Inteligente Buzios (Buzios – intelligent town) in the state of Rio de Janeiro — was listed as being among the most significant, by the publication. Among other Brazilian projects of note, are: Integrated Water and Health Management, in Bahia; a public-private sector partnership for the construction and operation of Line 4 of the São Paulo underground railway system; and a number of revitalization and projects in Rio de Janeiro for the 2016 Olympic Games.

Busy skies

The sale of TAM, the adjustments of GOL and the progress of Azul and Avianca are changing the landscape of Brazilian commercial aviation – a strategic tool of a globally connected economy

MARCO ANTONIO DE REZENDE

GIANFRANCO BETTING

Type "LATAM logo" into Google and the first thing that appears is the Latin American Formula 2000 championship, called Latam Challenge Series. Obviously, nothing to do with the new Latin American aviation giant LATAM Airlines Group, created by the merger of Chilean airline LAN and its Brazilian counterpart TAM – the merger is already a reality but doesn't yet have its own logo. For the time being, the two companies continue with the same routes, corporate structures and, especially, the brands and logos that they have always had.

The holding company LATAM Airlines was officially created on 22 June 2011, when the merger announced two years earlier was definitively approved by the Brazilian government. The formalization of the agreement between the airline famous for

Santos-Dumont Airport in Rio: the four heavyweights

its red carpet and the slogan "proud to be Brazilian" and the Chilean group considered a model of management and efficiency was one of the main events in the commercial aviation industry this year.

But there are other equally notable facts in the air, changing the face of one of the strategic engines of the Brazilian economy, which employs 950k people and should transport 80 million passengers in 2012. For the first time ever, more Brazilians traveled by plane than by bus last year. In the first half of this year, according to data compiled by ANAC (Brazil's Civil Aviation Agency), air transport demand - despite a slight inflection - was 7.39% higher than in the first half of 2011, while the supply of airplane seats expanded 7.47%.

That's a growth rate close to 3x Brazilian GDP, pretty much unheard of in Western countries and common only in fast-growing Middle East and Asian regions. Also in the first half of the year, the newcomer Azul, created just over three years ago, bought the regional transport king TRIP and its fleet of 58 aircraft, giving it a total of 114. Avianca, which almost went belly-up four years ago (when it was still called OceanAir and shrunk to 14 aircraft), will end the year with 34 aircraft, mainly new jets from the Airbus family.

This outlook seems to combine perfectly with the new level achieved by Brazil's economy and image. Last year, Brazil became the world's sixth largest economy when its GDP of US$2.48trn surpassed Great Britain's US$2.26trn. In 2015, the IMF estimates that Brazil will surpass France and rise to 5th place.

All this hustle and bustle in the airline sector results from a strategic imperative: airlines must be streamlined and ready to dispute the mature game of modern aviation – an unavoidable necessity in a country that is increasingly operating both sides of the globalized economies, attracting foreign investors (which means more trips in Brazil) while spreading Brazilian companies all over the world. It seems to be the start of a change with the potential to radically alter the features of Latin American airlines (still relatively isolated), when abroad international M&A moves are popping up all over the place (the Australian airline Qantas, one of the oldest and most respected global companies, recently announced an alliance with the young and very bold Emirates, which transformed the unknown Dubai into a global outpost of business travelers).

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With numerous Brazilian companies investing abroad and with the Brazilian economy increasingly integrated with the globalized world, it is natural that local airlines should also look to expand their global presence, with an eye to mega-events such as the 2014 World Cup and the 2016 Olympic Games in Brazil. But the movement is in the opposite direction, reflecting both situational and structural factors.

PICTURES: HANDOUT

1 Constantino, from GOL: cuts to adjust supply...

2 ...and the airline's Boeing: even flies to the Caribbean

With the slowdown in the pace of economic activity since 2011, higher fuel prices and growing difficulties in the obsolete and expensive infrastructure of airports and air traffic control, the order is to cut costs, reduce the number of flights and invest in the growth of the domestic Brazilian market, considered to still be incipient.

"The number of arrivals per capita in Brazil, even compared to other emerging markets, is still low, and thus has massive growth potential", said Constantino Junior, pioneer of the so-called low-fare flights in Brazil by creating the GOL airline in 2001. "This growth will come with social ascension, the so-called new middle class, and those who were already middle class but are now swapping buses for planes".

TAM remains the only Brazilian airline to offer long-haul flights to Europe and the US. When GOL bought Varig in 2007, it tried to revive some of the company's international routes using old Boeing 767s, but gave up due to operational difficulties and, especially, the impossibility of feeding these flights with passengers on connecting flights at both ends of each route. "Intercontinental flights are another type of operation, another business", says Constantino. "Today, we are in the international market without the burden and risk of long-haul operations, via successful partnerships with the US airline Delta, which has a 3% stake in GOL, and the European group Air France/KLM, including integrated air mile programs", he explains. "We will continue arriving with GOL colors only as far as our Boeing 737s and 800s go". This means South America and the nearby Caribbean countries, but especially Brazil, where GOL is market leader alongside TAM, both with around 40% share.

With a strategy of creating pioneering routes, dominating regional flights and exploring the Western border, as well as the wealthy South and Southeast market using the Campinas/Viracopos hub, Azul is also betting its chips on Brazilian skies, although it has already ran some charter flights into Bariloche and Buenos Aires. "Our priority now is to integrate the operations of Azul and TRIP", says Giafranco Beting, director of Communication and Brands at Azul. "We have to redesign routes where we had overlap or competition, integrate systems and optimize the assets of both companies to benefit the client". Combined, they have more than 15% market share. On the last

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day of August, Azul announced that the name TRIP will be removed as soon as the merger of the companies is formally approved, with only Azul remaining, albeit with a slightly different logo in reference and tribute to the incorporated company.

The tiny Avianca is 'the little engine that could': it is in fourth place, with just under 5% of the Brazilian market, but according to ANAC it could rack up the strongest industry growth rate in the first half of 2012, since it only had 3% in the same period last year. Avianca is also focusing on the Brazilian market: "The Synergy Group, owner of 100% of Avianca Brasil, also holds 60% of Colombia's Avianca International, so we are leaving the long-haul operation with the Colombian company, which flies to over a hundred destinations, including Europe", said José Efromovich (CEO of Avianca Brasil).

Brazilian airlines have been losing money and two of them, GOL and TAM, suffered heavy losses recently. GOL had a net loss of R$ 715mn in the second quarter of 2012, equivalent to its entire 2011 losses. TAM, which suffered a loss of R$335mn in 2011 as a whole, lost R$928mn in the second quarter of this year alone. TAM declined our request for an interview, but now has little say in the destiny of the brand created 36 years ago by the mythical captain Rolim Amaro. Under the stockholder agreement that created LATAM Airlines (whose headquarters are in Santiago do Chile), the Amaro family was left with less than a third of the shares. The Cueto family, which controls LAN, holds the remaining shares and control of the group – a new giant with 51,000 employees and 310 aircraft flying to almost 170 destinations in 27 countries.

Incorporation of Trip gave Azul over 15% of the Brazilian market

"The Cueto family is a power house", said a consultant specialized in the sector. "They aren't just playing around with aviation: they bought 40% of the Brazilian market with 30% of LAN shares. But, actually, that was the easy part; now they have the challenge of integrating two vastly different companies, with risks of de-synergies". In addition to the two main airlines in Chile and Brazil, the new LATAM group also features the companies that fly with the LAN brand in Peru, Argentina, Colombia and Ecuador, as well as TAM Airlines (former TAM Mercosur), based in Paraguay, and the Multiplus loyalty program, an autonomous company owned by TAM. Except in Chile, where it operates alone, LAN faces competition in all its other markets. Among other pressing problems, it will have to stem losses at TAM and resolve

PICTURES: HANDOUT

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1 Azul: Embraer plane, smaller and cheaper. **2** Pink uniforms against breast cancer... **3** and new logo with light "u" in reference to Trip

Azul

3

the conflict generated by the fact that LAN is part of the OneWorld global alliance while TAM is part of Star Alliance.

GOL started facing its own turbulence at the beginning of the year, causing it to implement top-to-bottom changes at the company. It eliminated 130 flights, returned older aircraft and laid off 1,500 employees, including dozens of pilots. Constantino Junior, who founded the company in January 2001, hired Paulo Sergio Kakinoff (ex-CEO of Audi) as GOL's new CEO, while remaining at the strategic helm as chairman of the Board.

"A series of bad results forced us to take measures that are nothing more than a supply adjustment", stated Constantino. "We can discuss the need to adjust supply when the industry continues growing at around 7% p.a., but the real problem is having the capacity to generate revenues with a certain level of supply". GOL's adjustment included cuts in lines with overlap and eliminating frequencies, as well as the cancelation of night-time flights created when, instead of excess supply, there was demand pressure. Even with the cuts, Gol continues flying to all the markets it used to fly to, and is prioritizing the network of routes in the South, Southeast and Midwest regions, less dependent on tourism seasonality. "We cut supply by 2% but we plan to grow demand by 5%", says the company's CEO.

Gol serves global flyers via its partners Delta and Air France/KLM

Junior, as he is known by his peers, employees and friends, warns that these cost-cutting measures may not avoid negative results at the end of the year. "But rationalization, as I like to say, was done on a preventive basis, to leave the company less vulnerable to exogenous factors such as currency devaluation, a spike in oil prices, a cooling down in the economy and competitive conditions", he says.

He cites another two crucial problems facing all airline management teams: the need to define supply capacity early, based on constantly changing scenarios, and the enormous costs generated by the inefficiency of the government-run company that controls the commercial aviation system, including the precarious airports and the archaic air traffic control.

"Aircraft are bought for a specific market scenario 4 or 5 years in advance", says Junior. "But an ambitious and competent company can enter the market and go from 0 to 50 aircraft in 3 years, as Azul did, or from 4 to 22 aircraft in 4 years, as was the case with WebJet, a company we ended up buying". In terms of infrastructure, not even the start of the privatization program of airports (Viracopos, Brasilia and

Guarulhos were awarded to private groups in auctions that brought in billions of *reais* for the government) is causing much excitement. "We will see if there will be investments in airport runways and terminals or merely cosmetic treatment to disguise the commercial and real estate exploration of the airports", warns the CEO of Gol.

The list of airlines' complaints includes customs and tax complexities (the VAT tax paid by airlines varies from one Brazilian state to another) and the exorbitant tariffs charged by sector regulator Infraero, which in practice still exerts a monopoly on airport management. According to GOL, just sending an aircraft component for maintenance repair work in the US involves a complex and lengthy export process and an equally complex and lengthy import process, requiring companies to maintain high inventories (expensed in US dollar and depreciated in Brazilian *reais*). "And why is 2% of aviation fuel costs charged as merchant navy financing?" asks Junior.

As one can imagine, this myriad of norms, rates and constraints doesn't result in more efficiency, but in less. Data from Infraero itself show that the company only invested 18.3% of what it had available in 2011, due to a lack of planning and managerial incapacity. Packed airport aprons and outdated traffic controls are leading airlines to work with average flight times 10-20% longer than a few years ago. The Rio-São Paulo shuttle flights, which the old turboprop Electras did in 50 minutes, are now planned for 65 minutes with jet planes, with an inevitable circular wait over Santos at various stages of the day, burning fuel as the plane waits for a runway to free up.

"We are reaching a new level where the correlation between airlines' growth and the infrastructure bottleneck of airports and flight control is evident", says Gianfranco Beting, from Azul. "Brazil is now a country that flies, instead of a country that travels by bus. Unfortunately, passengers complain to airlines about the inefficiency of public infrastructure". But Beting points the finger at increases ('inexplicable' in his own words) in Infraero's tariffs. In 2012, navigation fees rose 120%, landing fees increased 37%, and an unheard-of connection fee of R$7 was created for each passenger switching planes.

Avianca: betting on space between seats to challenge leaders

If air traffic continues growing at double-digit rates, as was the case before the economic slowdown, Beting believes there won't be enough airport aprons, runways, hangars, luggage conveyor belts and terminals to serve new passengers. "This is causing airline sector businessmen to lose sleep: you can't buy a multi-million dollar jet and put it in an airport made for piston-powered aircraft in the 1950s", he says. In truth, that was precisely how Azul (now a solid third in the Brazilian airline market) started out: by placing brand-new jets in the archaic Viracopos airport, which has become the company's hub. With the exception of a small area added to the old terminal, the airport is practically the same as 50 years ago. Azul took 18 months to get authorization to redesign the aircraft positions at the Viracopos airport apron, an effort that involved expensive consultancy services...and ended up designating a mere four additional aircraft parking spaces(!)

According to Beting, the rapid

consolidation of Azul reflects its business plan, which focused particularly on the pioneering nature of its fleet, initially formed by Embraer 190 and 195 jets, and later on by European ATR turboprops. "Our competitors fly with 150-180 seater planes, great for mature markets, but our jets with 106 or 118 seats are ideal for uniting growing Brazilian cities", he says. Beting cites ANAC data: two thirds of flights in Brazil

Efromovich, from Avianca: 8 new planes in 2012

take off with less than 90 passengers onboard, confirming the logic of choosing lighter and cheaper Embraer aircraft.

The new Azul, strengthened by the purchase of TRIP, currently runs 837 flights into 96 cities, 42 of which are linked to Viracopos with no stop-

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overs. TRIP is estimated to run 30% of its routes with exclusivity. "Opening up new markets doesn't mean a monopoly", says Beting. "The fact is that Azul is leader in 77% of the routes where it faces competition". The ATR-42 and ATR-72 turboprops enable flights to no-frills airports such as São Gabriel da Cachoeira (Amazonas) and Rondonópolis (Mato Grosso). New routes continue to be opened up; in October it will be the turn of Dourados (Mato Grosso do Sul), in the heart of Brazilian agribusiness country.

As a marketing man, Beting is obviously keen to highlight the company's service differentials. "Our passengers like the leather chairs (only two on each aisle), the individual TV screens, the uniforms that remind flyers of the charming Pan Am aviation days and the friendly, informal service (each person serves himself from a free-of-charge snack basket)".

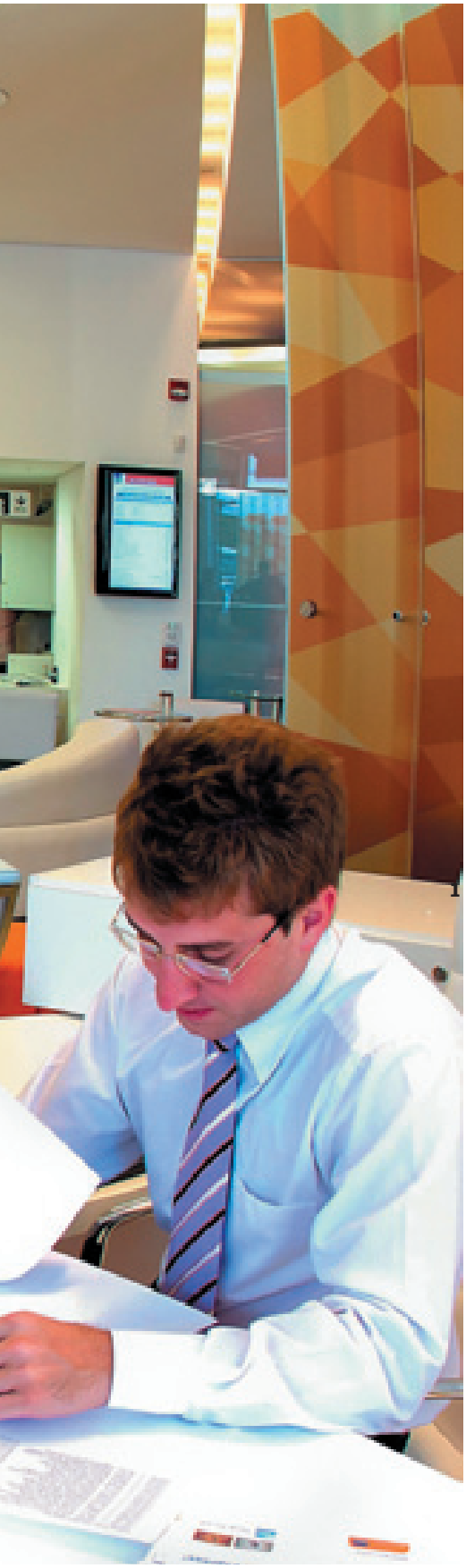
A similar service concept is offered by Avianca, according to CEO Efromovich. "In such a competitive market, we opted for service quality and onboard comfort", he explains. "We offer hot meals on all flights, individual TVs and we remove 10 seats from each flight". The strategy is a winning one, he says: "We have occupancy rates close to 80%, while our competitors have around 70%. This enables us to maintain our growth program".

Efromovich believes the World Cup and the Olympics are more of a threat than a promise of a bonanza – events too fleeting in nature to warrant special investments. "Of course, no employees will be on vacation during the World Cup or the Olympics", says Avianca's CEO. "I'm more worried about business travel: where am I going to park the 800 private aircraft expected for the World Cup"?

A few weeks ago, a São Paulo newspaper reported on possible negotiations between Efromovich and GOL's Constantino Junior to merge the two airlines. Efromovich denies the talks, saying it was merely an informal meeting of colleagues in Brasília: "We are maintaining our growth program even after the start of the economic crisis; of the eight new planes scheduled for 2012, two have already arrived and another six will come by year-end".

Since no-one knows what tomorrow holds, Efromovich isn't ruling out new mergers in a scenario that in recent years has seen GOL buy Varig and WebJet; TAM buy Pantanal (and merge with LAN); Azul incorporate TRIP; and Avianca Brasil itself (when it was still called OceanAir) win, in a New York bankruptcy court, control of Avianca International (at the time in Chapter 11). "Consolidation in air transport is a global trend", he signals. "In the next few years, we could see only 4 or 5 large airlines operating air passenger transport in Latin America". ■

Itaú has
30
branches in
Paraguay



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Itaú in Paraguay: model for the region

Mucho gusto!

Brazil's major banks previously only considered Spanish-speaking Latin America as a destination for one-off investments, but now these countries have become a strategic focus for expansion

LUCIANO FELTRIN

Internationalization is increasingly knocking at the doors of Brazil's banks. Having consolidated their presence in Brazil after an intense wave of mergers and acquisitions over the last two decades, for some the moment has finally arrived to compete with global banks, something that up to now had seemed beyond their reach. "In the same way that there are banks that are British, German and American, we want to be a legitimate Latin American bank - something which so far has yet to exist", affirms Ricardo Villela Marino, the executive vice-president of Spanish-speaking Latin American operations at Itaú, the largest private-sector financial institution in Brazil, since it acquired Unibanco in 2008 at the height of the financial crisis.

Itaú-BBA has been authorized to set up an investment bank in Colombia

With an appetite for action, Itaú in June acquired a 50% stake in the stockbroking firm Munita, Cruzat & Claro, from Santiago, as part of its plan to capture 25% of the Chilean high-income market. It also began to make a move in Mexico's direction, where it is sounding out the powerful consumer credit card market. Prior to this in March, Itaú-BBA, the group's wholesale division, managed to obtain permission from the local regulators to set up an investment bank in Colombia, focused on inter-company deals and capital market operations, along the same lines as Itaú-BBA in Brazil.

Having a presence in Spanish-speaking Latin America, is in fact

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nothing new for Itaú. The bank has had a presence in Argentina since 1998, while first setting foot in Chile and Uruguay in 2006, when it acquired the operations of BankBoston in those countries for R$ 1.3 billion. But more recent initiatives reflect a fresh look at the rest of the continent. Until recently, Spanish-speaking Latin America was the destination for one-off investments only; now it has become viewed as one of the central pillars of Itaú's future global business.

In the final analysis, the economies of Spanish speaking Latin American countries have outperformed Brazil, which recorded a growth rate of only 0.8% in the second quarter of the year. Meanwhile, Mexico grew by 4.6%, Argentina by 4.8%, Chile by 5.6%, and the Peruvian economy – which has had an average growth rate of 7% over the last six years –registered an enviable growth rate of 6% in the period. "Our strategic committee has begun a process of setting targets and the desired weighting which Spanish-speaking Latin America will have in

A LONG ROAD AHEAD

THE GLOBAL financial crisis has weakened developed countries and increased the weighting of emerging nations. Almost four years since it began, the financial tsunami which caused so many foreign banks to downsize their operations, did not result in Brazilian institutions winning any major market share among the major international banking players. In other words, the additional weighting achieved geographically by Brazil in economic terms did not see any transfer to the financial sector.

On the list of the 50 largest of the world's banks, according to a survey by the specialist British publication Bankers Almanac, can be found American banks, English, Canadian, Japanese, Chinese, French, Italian, Spanish and Swiss. But not one Brazilian bank. "Brazilian banks know that there are still many opportunities in neighboring countries, which tends to limit broader-based internationalization," says Antônio Toro, of PwC. "The financial industry in Argentina is some 20 years behind Brazil in its development and is by no means the most outdated of the South American countries."

He believes, however, that Brazilian banks will manage to break through new frontiers in the near future, due to the increase in the level of trade with emerging nations. "When these countries discover their real strength, the banks will keep pace and opportunities will arise in various parts of the world, particularly in Africa and the Middle East," he predicts. The European crisis may open up unsuspected opportunities in the United States. British newspapers revealed in August that Itaú is preparing to make an offer for Citizens, the American division of the British bank Royal Bank of Scotland (RBS) with 1500 branches and a presence in 12 states. Itaú, however, denied that it is negotiating any acquisitions in the US.

In any event, the American bank, which is valued at US$ 15 billion, is likely to be sold as part of RBS's plans to buy back some of the capital acquired by the British government during the global crisis. RBS had to be rescued by the government, which today is its controlling shareholder, having incurred losses of over US$ 1 billion on Greek sovereign debt.

A much more modest deal, carried out at the beginning of this year, was Banco do Brasil's entry into the American market, with the purchase of the small Eurobank, the operations of which are concentrated in Florida — a state which is the travel destination for a large number of Brazilian visitors. The move in the USA's direction received an additional boost after the US Federal Reserve authorized the Brazilian bank to provide services to residents in the United States. Before this, the bank was only allowed to provide services to non-residential clients (Brazilians on holiday, or compa-

1 Marino: 5 and 10 year targets for the continent

2 Toro, of PwC: opportunities in neighboring countries

the business in 5 to 10 years time," said Marino.

The figures for the Spanish-speaking Latin American operation, still modest, show there is much to be done. Profits from the region, although having expanded 10 times since 2005, should end the year at R$ 350 million (by comparison, total profit for last year was R$ 14.6 billion). However, what jumps out is the lending growth potential in countries such as Argentina, Uruguay, Paraguay and Chile, where the average annual increase in the loan portfolio is as high as 45%.

If in Brazil Itaú sees a waning capacity for offering credit — the country having reached a dangerous threshold of bad debt — the prospects for Spanish-speaking Latin America are bright. Shortly the bank expects to be able to offer payroll loans in neighboring countries (under this type of lending, loan repayment installments are directly debited from the loan-taker's payslip). It is likely to face competition from Banco do Brasil, which has also embarked on an expansion program in the region with the acquisition of Banco Patagonia, in Argentina, where it has managed to attract major corporate clients and also intends to introduce its payroll lending model *(coloque see below)*.

South American countries show great potential for lending growth

In the case of Itaú, the first country to benefit from this new credit line should be Paraguay. With approximately 30 branches, serving almost half the

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HANDOUT/PITI REALI

nies with business in the US). Even so, Banco do Brasil (BB) has made it clear that its priority in internationalization terms continues to be Latin America, whether this be through organic growth or mergers, such as the deal that it made with the Bank of Patagonia last year. The results are promising, according to BB. In the first half of 2012, the loan portfolio of the Argentinean bank in the corporate segment — the business of most interest to Banco do Brasil — reached the figure of 1.51 billion pesos, representing an increase of 40% in six months.

The internationalization of Brazil's banks therefore may even be inevitable, but is far from being inconsequential. There are obstacles to be overcome, and one of these is the conservatism of the national banking industry. "Having become accustomed to a history of crises, Brazilian banks are very conservative in nature," affirms Fábio Braga, a partner in the banking area of the law firm Demarest & Almeida. "For this reason, they did not take advantage of the opportunities when they arose of acquiring the assets of institutions that had suffered from the crisis in the United States and Europe."

Another factor that limits to growth possibilities abroad is that Brazilian banks do not wish to make their debut in a new market with small operations. "As the domestic market is very large, and one of the justifications for internationalization is to obtain gains in scale, the banks want to be major players in order to have a competitive advantage," explains Ricardo Mollo, professor of finance at the Insper School of Business. "This reduces the number of possibilities available outside Brazil." This logic guides Itaú's internationalization strategy, for example. According to the institution, it needs to have at least 20% of a market or a particular business segment, in order to be able to be competitive in the countries in which it operates.

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al-estate, businesses which feed of economic growth and expansion in consumption by the poorer section of the population, is only part of the region's attraction. One reason for the forays by the bank into this new territory is also the prospect of gains through the internationalization of Brazilian and Spanish-speaking Latin American companies, and the

700 thousand customers with bank accounts in that country, Itaú today is Paraguay's principal financial institution. These credentials provide the local operation with the status of the model to be followed in Spanish-speaking Latin America, in retail banking. "We are talking about payroll lending with the Paraguayan Central Bank, which looked upon our project very favorably," said Marino. "This is an opportune moment, because the current government wishes to enact a series of institutional reforms." While waiting for the green light, Itaú is carrying out some fine-tuning at BMG, the bank from the state of Minas Gerais with which it has maintained a payroll lending partnership since July. "Our idea is to make use of BMG's experience and the synergies thus generated, so as to subsequently offer payroll lending to the rest of Latin America, in accordance with the reality of each market, having first talked with the local regulators," said Marino.

For Itaú, the opportunities for gains in scale in Spanish-speaking Latin American countries go beyond typical retail activities. In other words, selling credit cards and providing finance for vehicles and re-

development of capital markets in neighboring countries. Part of the interest is due to the fat commissions to which the banks are entitled when obtaining mandates to act as an intermediary in mergers and acquisitions, and the sale of shares to foreign investors. In this regard the current flavors of the month are Peru and Colombia. These countries go alongside Chile, notable for the strength of its pension funds, which are traditional clients of sophisticated financial products.

Another major Brazilian investment bank, BTG-Pactual, has been one of the most active in this seg-

PICTURES: HANDOUT

ment. Gaining impetus as a result of a capital injection of R$ 3.6 billion, raised through a share offering in April, André Esteves' bank embarked on a buying mission with the air of an organization that wishes to show that it intends to live up to its promise –to become the Latin America's principal investment bank. In June, for US$ 52 million, the bank acquired *Bolsa y Renta*, Colombia's largest stock broking firm, in share volume terms. Even before its IPO, BTG had announced another major deal - its purchase of *Celfin Capital*, the Chilean broker. Together these deals now mean that the Brazilian bank has R$ 180 billion of equity under management. And it is in a good position to face the future, according to market analysts.

"BTG is lithe and agile, whereas the retail banks are large and lumbering, as they need to setup branch networks and develop IT infrastructure to operate", cites Antonio Toro, a partner in the corporate finance area of the auditing and consultancy firm PwC. "Because it is flexible, when Latin American stock exchanges develop and maybe even integrate, the bank will be in an enviable position compared to its competitors, because it already has local operations up and running, and access to an important client base." (BTG-Pactual did not wish to comment on its internationalization plans for this article).

The bank's competitor Itaú-BBA is rushing to make the most of new business opportunities between companies and investors. BBA already has a representative office in Lima, Peru, and is due to open a similar operation in Colombia. To set up the new unit, a move which took place in July, the bank invested US$ 100 million. A further US$ 100 million will be used to capitalize the institution, which is expected to begin operation in the final quarter of this year. However, Itaú is also a major retail bank, well-positioned in Argentina, Uruguay and Chile, and is now waiting for opportunities to arise in this segment to make a strong entry into the Colombian and Mexican markets.

In Argentina, BB caters to large corporations through Banco Patagonia

"We are very interested in Colombia, due to its historic growth and economic stability, but the acquisition multiples in that country are very expensive, similar to those in Chile, and one of the highest in the world," Marino adds. In addition to that country's good economic fundamentals, also contributing to the high acquisition practices is the high concentration in the banking sector that has prevailed there — some 80% of the Colombian market is in the hands of just five banks. In Mexico, viewed by some analysts as the new darling of the financial marketing Latin America, Itaú has a modest position as a retail bank. In addition to the previously mentioned Itaucard credit card sales operation, recently launched, since last year the bank has maintained a partnership with the mobile telephone operator Movistar, also with the objective of offering plastic cards to the telephone company's customers.

Mexico also features on the radar of BTG-Pactual, which is taking a bet on the development of the local equity market. In April, the bank hired Javier Artigas, a former executive of the Mexican stock exchange who helped to create the first real-estate fund in the country. And he is responsible for the bank's local operations considered by analysts to be strategic in being able to permit longer-range moves, such as gaining access to its neighboring market in the US. "We do not believe that their expansion will be restricted to Latin America," affirms Ricardo Mollo, a professor of finance at Insper Business School in São Paulo. "Being a high-performance bank, bent on growth, it is only natural to be on the lookout for opportunities where they arise." ■

1 Mollo, of Insper: BTG-Pactual looking beyond Latin America

2 Banco do Brasil in New York: testing the market

Seven league wheels

The southern Brazilian company Marcopolo began making buses in 1949 as a family concern and is now present in five continents

ARNALDO COMIN

Marcopolo buses in the Andes: winning the world

HANDOUT/MARCOPOLO

Despite the distance of time and geography, the saga of Marcopolo, which was founded in Rio Grande do Sul state by Italian immigrants, recalls the adventures of their famous fellow countrymen, the brothers Maffeo and Nicollò Polo, traders who took up the challenge of the Far East in the name of the Venetian republic in the 13th century. A quirk of history led to Nicollò's son, Marco Polo, becoming the most famous member of the clan. Centuries later, on another continent Nicola & Cia was

IN THE FOUR QUARTERS OF THE WORLD

Marcopolo in the ranking of Brazilian multinationals

By ratio of international business... (%)*			...and markets outside Brazil (number of subsidiaries)		
1	JBS-Friboi	53	1	Vale	38
2	Gerdau	51	2	Stefanini	26
3	Stefanini	46	3	Odebrecht	26
19	Marcopolo	15	6	Marcopolo	20

Source: Fundação Dom Cabral Ranking 2012.
* Ratio of company's assets, revenues and headcount abroad to total.

founded in 1949 after the second world war. The company set up operations in the promising industrial center of Caxias do Sul to produce the bodywork to supply the fleet of buses that had begun to appear in Brazil´s cities. If the Venetian trio´s adventures around the world were carried out for trade, this generation of entrepreneurs from Lombardy blazed its trail in the name of industry.

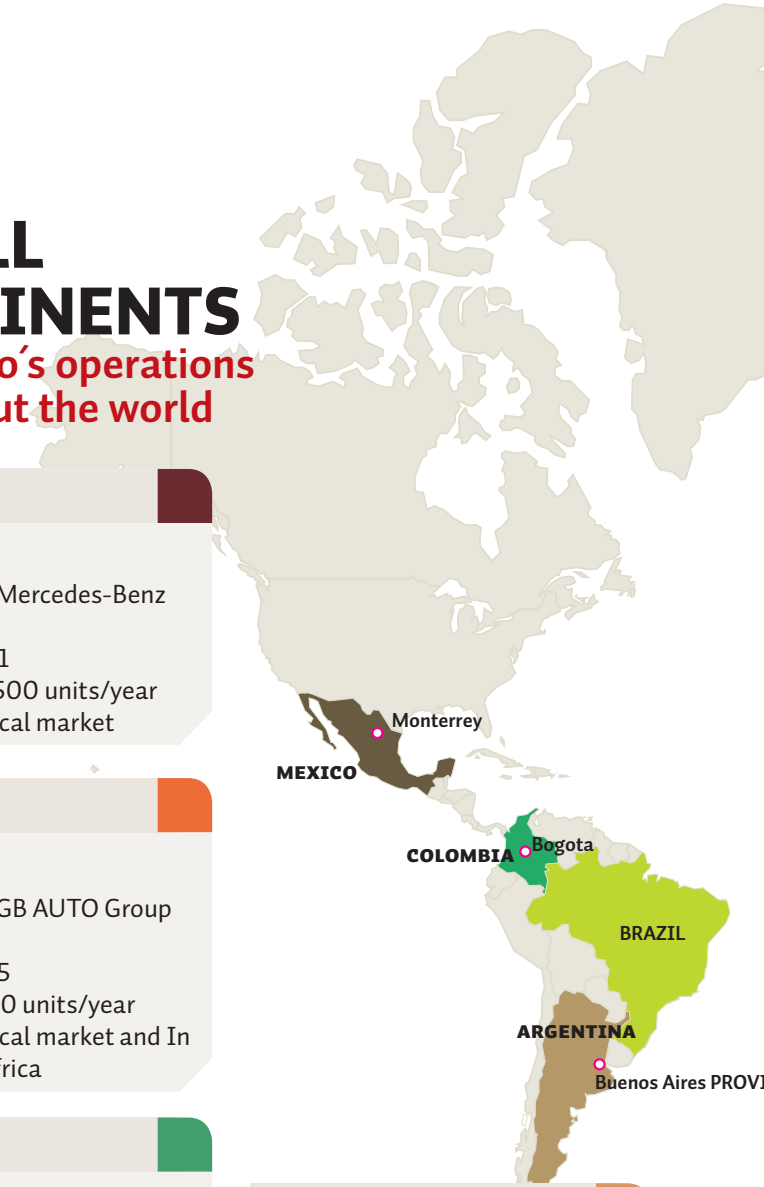
The story began in South America but expanded much further than the Polos themselves could have imagined. The Brazilians not only arrived in China but Marcopolo is now the only Brazilian manufacturing group with plants on the five continents, ranging from Mexico to Australia to India. It is pinning its hopes in Africa on two "hubs": one in Egypt, to supply countries in the north of the continent and the Middle East, and another in South Africa, which serves the Sub-Saharan countries *(see more on page 42)*. It was not by chance that the company chose the name of the Venetian adventurer in 1968— although its official name is written as Marcopolo — to baptize the launch of a new line of long distance buses and represent its corporate identity.

The traveler makes his path as he walks, as a Spanish poem says. Based on a homemade strategy, founded more on observing markets and entrepreneurial intuition than academic studies, Marcopolo ended up creating a particularly Brazilian model of international expansion over two decades. The main feature of this model is its pioneering approach in the pursuit of businesses directed to what is known as South-South relations in diplomatic jargon. In other words, even before the countries now known as "emerging" became global drivers of growth, Marcopolo saw that their rapid urbanization meant they would require cheap solutions for their collective transport needs.

By adopting this strategy at the beginning of the 1990s, it was at least a decade and a half ahead of what would eventually become Brazil´s foreign trade policy. The company was also in tandem with the globalization process that had got underway. "This is the kind of thing you learn you have done when someone comes and talks to you about it," says CEO, José Rubens de la Rosa. "This idea [of a South-South relations policy] never even entered our heads."

ON ALL CONTINENTS

Marcopolo´s operations throughout the world



MEXICO

MONTERREY
Local partner: Mercedes-Benz
Started: 2000
Employees: 701
Production: 1,500 units/year
Destination: local market

EGYPT

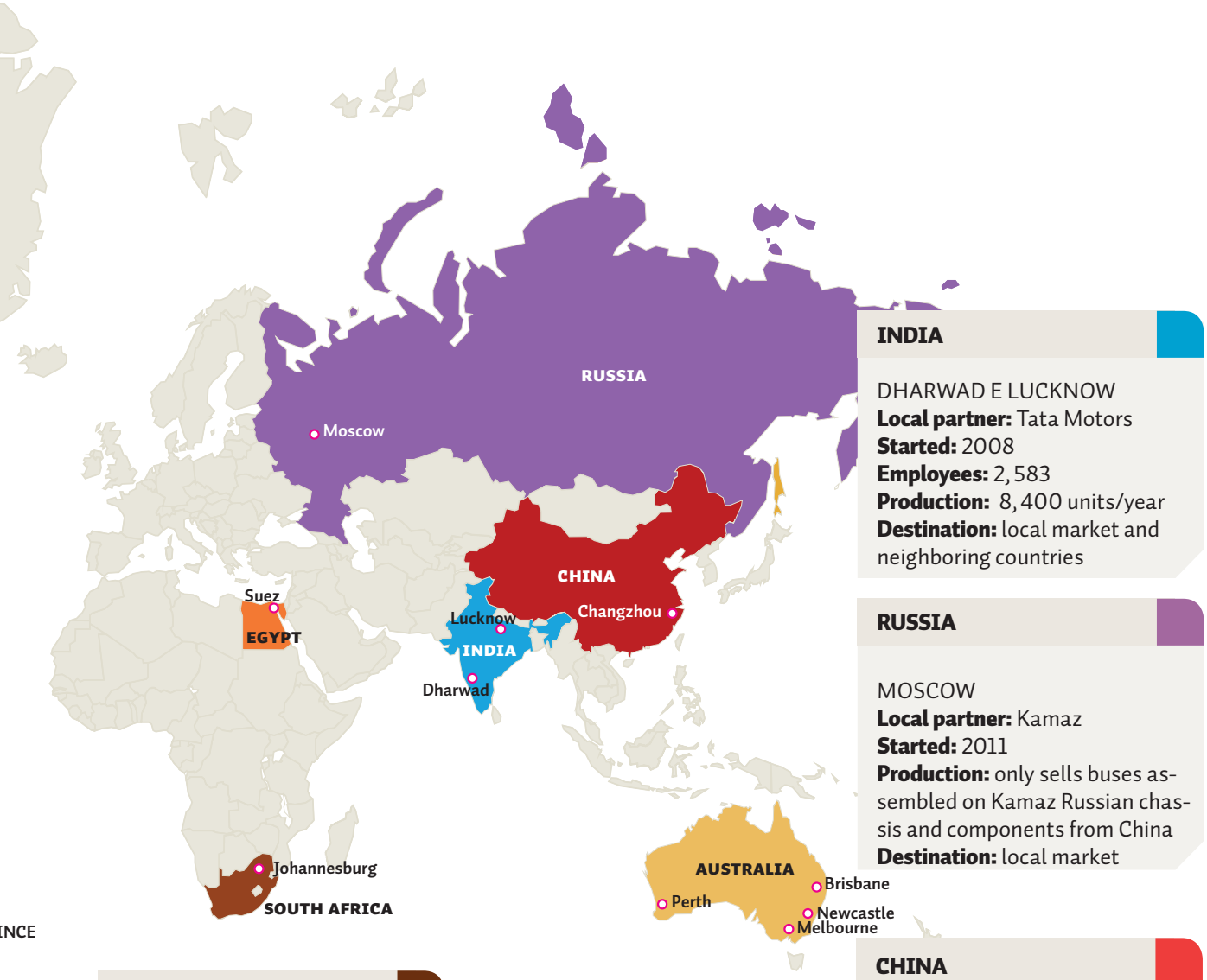
SUEZ
Local partner: GB AUTO Group
Started: 2009
Employees: 245
Production: 300 units/year
Destination: local market and In future North Africa

COLOMBIA

BOGOTA
Local partner: Grupo Fanalca
Started: 2000
Employees: 551
Production: 1,000 units/year
Destination: local market and Andean Pact and Caribbean countries

ARGENTINA

BUENOS AIRES PROVINCE
Local partner: Metalpar
Started: 2007
Employees: 335
Production: 700 units/year
Destination: Local market



INDIA

DHARWAD E LUCKNOW
Local partner: Tata Motors
Started: 2008
Employees: 2,583
Production: 8,400 units/year
Destination: local market and neighboring countries

RUSSIA

MOSCOW
Local partner: Kamaz
Started: 2011
Production: only sells buses assembled on Kamaz Russian chassis and components from China
Destination: local market

SOUTH AFRICA

JOHANNESBURG
Started: 2000
Employees: 244
Production: 300 units/year
Destination: local market and African Southern Cone countries

AUSTRALIA

MELBOURNE, NEWCASTLE, PERTH E BRISBANE
Started: 2012
Employees: 420
Production: 500 units/year
Destination: local market and countries In Oceania

CHINA

CHANGZHOU
Started: 2010
Employees: 131
Main products: components for bus bodies
Destination: local manufacturers and Marcopolo units throughout the world

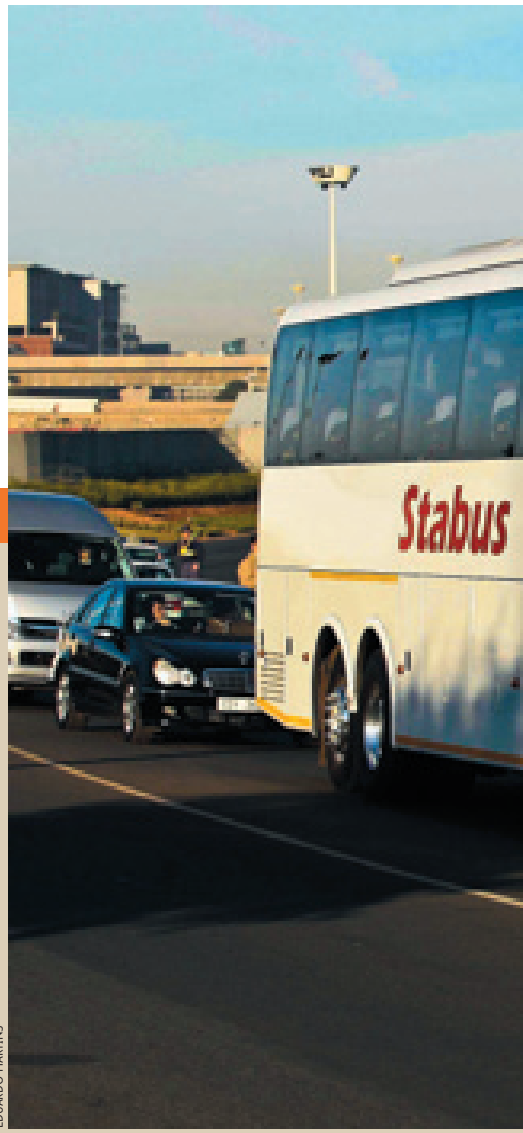
Since then Marcopolo has transformed itself into a company valued at R$ 4 billion, with 18,000 employees spread over eight industrial operations. At least one third of its revenues of almost R$ 4 billion expected for 2012 will come from the international market. The sheer global reach of the company's operations is seen in its 5,000-strong workforce from more than 10 nationalities working at different latitudes. When the employees come to work in the Caxias do Sul plant, their Chinese colleagues have already finished their shift and the Mexicans have not even wakened up.

Marcopolo is well positioned within the emerging markets but that does not mean it misses out on an opportunity when it sees one on a more developed market. The jewel in the crown of the company's international process was the acquisition of 75% of Volgren, the main bus body builder in Australia with

40% market share. The opportunity arose as a result of a family succession process. A deal amounting to US$ 53 million was reached at the end of last year and the Brazilian company started to add US$ 150 million to its global revenues. It also has the option to buy the 25% stake that remains in the hands of the former controllers in three years.

The deal not only expanded revenues but gave the Brazilian brand an entry to a sophisticated market. "Apart from being a good place in terms of businesses, we want to add new technologies to our global operation, such as the Volgren´s expertise in aluminum structures," says de la Rosa. The Australian operation is relatively small, with four assembly lines in Melbourne, Newcastle, Perth and Brisbane which produce 420 units a year. However, the long distances between Australian cities have made the local market for highway buses attractive and having a presence in Australia will also provide a platform for Marcopolo believes in the potential of the BRT system in Africa and the city of Durban and the capital, Pretoria, are trying to form partnerships to adopt the system, he says.

Marcopolo in South Africa is becoming more African. Twenty Brazilians arrived initially to set up the local team, Ledur recalls. Now there are only four, including himself as the manager and three others in operational roles. One of the



EDUARDO MARTINS

WINNING WITH THE CUP

IS A BIG EVENT like the World Cup good for business? The answer for Marcopolo is undoubtedly "yes". The first time the world football championship was held in Africa in 2010 was a year never to be forgotten. The Brazilian company, that had been operating in the country since 2000, won bids to provide more than 80% of the vehicles acquired by the government or the private operators involved in the World Cup.

"The government acquired a fleet to transport the committees and players," says João Paulo Ledur, the Brazilian general manager of the African operation since 2005. "At the same time, the host cities had individual goals for more efficient collective transport in order to leave a legacy for the population." The company had 750 people working in 2010 to produce around 900 bus bodies and revenues almost tripled their average amount to US$ 120 million.

After the noise from the vuvuzelas had ceased, it was time to go back to cruising speed and the South African plant now operates with around one third of these figures in terms of production and workforce. About 100 buses are exported every year to Africa´s southern cone: Mozambique, Namibia, Botswana, Zimbabwe, Zambia, Malawi, Tanzania and Kenya. As in South Africa, the steering is on the right to meet the British style of driving on the left. Another promising market in the region, Angola, is outside the scope of the South African operation precisely because the driving system is like that in most of the rest of the world and is supplied by exports from Brazil.

Ledur says the Brazilian company currently has 28% of the market but aims to challenge the leadership with German and Spanish brands which also have plants in South Africa. To do so, it is betting on the expansion of the Bus Rapid Transit (BRT) system initially established there during the preparation for the World Cup. The BRT involves large city buses using exclusive lanes and was based on the pioneer system in Curitiba. The company recently delivered over 200 new buses of this standard to Cape Town, Port Elizabeth and Johannesburg. Marcopolo

Brazilian bus at the World Cup in South Africa: official fleet

local factors they had to deal with deserves highlighting: the strong affirmative laws in favor of the black population to counterbalance the previous decades of the authoritarian apartheid system of racial segregation imposed by the Afrikaners, a white minority of Dutch origin, which was only abandoned at the end of the 20th century with the election of Nelson Mandela as president.

"Our employees were personally affected by apartheid and the company had to deal with the issue in a very sensitive way," says Ledur. Marcopolo met the initial requirements of the government´s Black Economic Empowerment (BEE) program which encourages companies to promote the entrepreneurial skills and decision-making power of the black population.

The companies win points by becoming partners or hiring black employees for management roles and preparing them to form careers. Companies which have suppliers or sell to other companies that are qualified for the BEE receive benefits in the public bidding programs. "It was a great conquest for a Brazilian group to qualify for the BEE, particularly as many of our competitors have not done so," Ledur added. "We can´t ignore reality and not make a contribution to the future of the country."

Polyanna Rocha, Cape Town

to export to other countries in the Pacific.

Looking back, the success of the company's arrival on the international scene was due to a great extent to Paulo Bellini who joined the company in 1950. He assumed complete control at the end of the following decade when the Nicola family withdrew from the business to concentrate on manufacturing vans. The company's first export contract to Uruguay in 1961 bore the hands of Bellini who is now the honorary president of the corporation.

A price had to be paid for this pioneering approach. Marcopolo took some time to get things right on the emerging markets. The investment abroad actually began the other way round, in the developed countries of the northern hemisphere. The company tackled the European market, the most advanced in the world in design and technology, through a small plant it opened in Portugal in 1991. However, this unit, which would officially mark the company's international expansion, did not last long as it was hit by strong competition from the large European brands in a low-growth market where rail transport had priority. As a result, Marcopolo shut down its operation in Portugal in 1999.

In 1993, the company made its second attempt to go international when it opened its own plant in Cordoba in Argentina. If the choice of the market was right — due to the ease of the industrial integration with the plants in Brazil and Argentina's extensive territory with a strong demand for collective road transport — what brought it down this time was the economy.

First steps to Portugal and Argentina faltered

Marcopolo was forced to retreat once again, in 2001 at the height of the Argentinean crisis. "Portugal was a laboratory. We produced only 200 units a year and that's why it did not bring any return," says Walter Cruz, the development and strategy manager. "The bitter crisis at the beginning of the 2000 forced us to leave Argentina as there was no credit available in the country to buy buses."

However, the initial stumbles did not put an end to the international expansion and Marcopolo had a much clearer idea of its path by the end of the 1990s. After gaining the leadership in Brazil, with more than 40% of market share, and buying important rivals, such as Ciferal from Rio de Janeiro, the company came to a crossroad: going abroad or running the risk of stagnating in Brazil where it was dominant, with almost half of the domestic market. "I wouldn't say it was a question of survival but of opportunity," says de la Rosa.

The global expansion model was based on a simple mission which guides the company until now: to serve communities in developing countries where collective transport is in short supply and adapt its products to the particular features of each market *(read more on page 48)*. To understand the process better, Marcopolo learned from the

De la Rosa: going abroad was a question of opportunity

experience of Brazilian industrial multinationals, such as Weg, Gerdau and Embraer. To gain room on the international market, the company tried to take its own industrial integration business model abroad. As a bodywork supplier, Marcopolo has always pursued long-term partnerships with other manufacturers, particular in platforms and kits for its buses.

India is probably the richest market in terms of experience for Marcopolo´s partnership culture. Its partners are Tata Motors, one of the fastest-growing assemblers in the world, the owner of an empire that ranges from motorcycles and autos to buses and trucks (and part of the Tata Group, one of the largest global conglomerates founded in an emerging country). One example of the Indian group´s ambition was its acquisition four years ago of the historic British brands Jaguar and Land Rover which belonged to Ford.

The Indian market is currently the most promising growth prospect for Marcopolo abroad. Local production already represents 26% of total global production and things are growing fast. The Indian arm of the Brazilian company has plants in Dharwad and Lucknow in northern India and makes from 70 to 75 units a day. The company is working to raise this average to 100 next year.

Lusuir Grochot, Marcopolo director in charge of Australia, China, India and Russia, spent almost three years in India overseeing the Tata Marcopolo Motors operation, as the joint-venture is called. (It is shared between the Indians and Brazilians at a proportion of 51/49.) The list of difficulties was huge: logistics were chaotic, there were energy blackouts and the company faced the challenge of forming a skilled workforce in predominantly rural areas. "We had lots of challenges. The vehicle models for urban use in India are run mainly on gas, the products have very low added value and nobody knew how to make buses there." he says.

The Indian market has great growth potential for Marcopolo

More than 70 Brazilian workers were sent as reinforcements in 2008 to adapt to these conditions and set up the Indian plants. However, this transplant of methods and meeting of cultures was successful. "The Brazilians acted as spokesmen and raised many issues from the shop floor, as the workers felt they were more open to listening to and resolving problems," says Shriram Jayanthi, manager of the Indian operation. "They also encouraged raising issues of well being and quality of life which was seen in a very positive way."

STARTER MOTOR

Marcopolo profile

Founded	1949
Head Office	Caxias do Sul (RS)
Employees	18,000, of whom 7,000 abroad
Plants	4 in Brazil and 8 on five continents
Exports	To over 100 countries
Net income in 2011	R$ 344 million
Market cap.	R$ 4 billion*

* June 2012.

Production

	2007	2008	2009	2010	2011	2012*
Units (´000)	17.8	21.8	19.3	27.5	31.5	32.5
In Brazil (%)	64	62	63	61	61	62
Abroad (%)	36	38	37	39	39	38

Net revenues (R$ billion)

	2007	2008	2009	2010	2011	2012*
	2.1	2.5	2	2.9	3.3	3.8
In Brazil (%)	59	61	68	70	73	
Abroad (%)	41	39	32	30	27	

* Estimate for 2012.

The secret of this business model, according to de la Rosa, is to bring together common interests with the partners. Tata is a good example of this. The Indian company is strong in chassis production but had a complicated structure, with bodywork suppliers in a number of countries. Although it had great industrial capacity, its products lacked a manufacturing unit and right design which led to higher costs and inefficiency. Marcopolo helped make this partnership a success thanks to its expertise in these areas. "The partnership has to be good for everyone," says de la Rosa. "The local partner is very important as it brings stability to the investment and handles relations with the government and the different cultures."

This is the principle which has boosted Marcopolo´s trajectory abroad. It invested in an assembly line in the industrial city of Monterrey in northern Mexico in 2000 following an invitation from Germany´s Mercedes-Benz. The partnership, which was originally 50-50, came under Marcopolo´s control and it now has a stake of 74% to Mercedes´ 26%.

Shortly afterwards, it formed an association with a local group in Colombia called Fanalca to create Superpolo which has been one of the company´s most successful projects to date. It helped build the Bus Rapid Transit (BRT) system in the Colombian capital, Bogotá, which has become a global benchmark for city transport and uses as its model the system that was originally set up in Curitiba. The success of the BRT is being taken to other Colombian cities such as Cali and Medellín, as well as Santiago in Chile. The Colombian plant employs 550 workers, produces 1,000 units a year and exports to countries throughout the region and the Caribbean.

In Latin America, where the cultural similarities are much closer than in India, the Brazilian business model faces ups and downs. "Our style helps because we are more proactive and on the ball which makes the operation more dynamic," says Alberto Calcanhoto, head of the operation in Mexico. "On the other hand, this sometimes causes stress." The Brazilians stand out in Colombia because of their cooperative spirit. "We are seen here as professionals who make a contribution and always help and this opens many doors," says Magnus Cruz who manages the local subsidiary.

Marcopolo has also used part-

HANDOUT/MARCOPOLO/ PAQUITO MASI

1

1 Marcopolo bus in the Transmilenio rapid transport system in Bogotá... **2** ...the BRT rapid transport system in Santiago in Chile... **3** ...and in one of the Indian plants

nerships to establish operations in Russia where it linked up with Kamaz, the country´s largest truck manufacturer, to establish a plant in Moscow. The European crisis forced Marcopolo to interrupt production in 2009 but it has maintained its assembly line with imported components and aims to resume production operation shortly and the first prototypes are being tested.

The integration model with local partners has not stopped because of problems like this. Once the turbulence had passed in Argentina, the company formed a partnership with the Metalpar group in 2007 to produce 700 units annually in Buenos Aires province. The company has also been in partnership with GB Auto in Egypt since 2009. The political volatility has caused the operation in the city of Suez to proceed at a slow pace, with annual production of 300 units. However, the prospects for exports to the Middle East support the bet on the investment.

Although Marcopolo is a long way from the level of international business of giants like Vale or Gerdau, it has created a respectable track record on the global market, whether as a manufacturer or exporter. Its main export centers are its four plants in Brazil (a fifth with an estimated investment of R$ 35 million is being negotiated with the Espírito Santo state government). Marcopolo now sells its products in over 100 countries.

HANDOUT/MARCOPOLO

2

The company holds 19th place in the Ranking of Brazilian Multinationals in 2012 published by the Fundação Dom Cabral business school located in Nova Lima in Minas Gerais state. The classification is based on the ratio of the company´s assets, employees and revenues abroad to the total. Marcopolo´s international ratio came to 15% of its operations in this case.

"If we took as a base the number of countries where the company has plants, Marcopolo would appear in 6th position which would put it even ahead of the leaders in the ranking, JBS-Friboi and Gerdau," says Professor Sherban Leonardo Cretoiu, coordinator of the Dom Cabral study.

HANDOUT/MARCOPOLO

3

"It is also worth noting that this ratio of 15% reflects the large size of the company in the matrix." Marcopolo is the leader among Brazil´s bus bodywork manufacturers with a market share of 45%.

Is it worth more to export the complete bus or set up a plant and produce it abroad? The company recognizes that there are great risks involved in manufacturing abroad, dealing with cultural differences and demands, and cultivating relations with different governments. However, it believes the advantages are worth the price. "Exporting is

always simpler but we operate on a market that demands counterparties for local production, involves partnerships and has political and economic variables," de la Rosa stresses as he explains why Marcopolo needs to set up plants in the countries and regions it aims to attend.

This strategy has also allowed Marcopolo to offset adverse situations in one particular country with good results from another. Whereas production fell by 10% in Brazil in the second quarter of 2012, it expanded by 32% in the foreign operations. If the revenues in Argentina dropped by 50% in the period, the company is celebrating an expansion of 57% in India and expects to see a rise of almost 18% in production in Mexico which is starting to react to the negative impacts of the low economic activity in the United States.

"Diversification dilutes the risk and the investor sees going international in a positive way, providing it occurs in promising markets which is the case with Marcopolo," says Banco do Brasil analyst Mário Bernardes Júnior who covers the transport sector. "It is those companies with a great exposure to Europe that are being penalized".

Marcopolo intends resuming bus production in Russia

Marcopolo was a pioneer when it listed its shares on the BM&FBovespa in 1978. At that time, the stock market was basically trading shares in state-owned companies and the company won points from investment analysts due to its presence on different markets and has been well valued by the market. While the Ibovespa index registered an accumulated loss of 12.9% from June 2001 to June of this year, Marcopolo shares have appreciated by 29.3% in the period.

The next steps in the company´s international expansion are to re-

CUSTOMIZATION, THE KEY TO THE BUSINESS

MARCOPOLO´S MAIN aim is to ensure that each product matches the needs of the market where it operates. This model has led to unusual situations, such as an order by a company in the United Arab Emirates in 2000 for 100 buses to take pilgrims to Mecca in Saudi Arabia. The country is the birthplace of Islam and the prophet Mohammed and all members of the Moslem faithful are encouraged to make a pilgrimage to Mecca at least once in their lifetime. To meet the requirements of the Koran, Islam´s holy book, the vehicles are adapted so that the roof can be removed as nothing should come between the faithful and the sky during the pilgrimage. Another special requirement came from this region: to adapt the internal design of the bus and transform it into a comfortable office on wheels with large armchairs facing each other. The client was a Saudi sheikh in this case.

In another example of adaptability, some highway models in India replaced the overhead baggage rack with small beds as the poor state of the roads made the journeys very long. This versatility has made Brazilian companies like Marcopolo a benchmark in terms of design in the emerging market countries. "This sector has become a stronghold of Brazilian industry abroad," says Marcelo Castilho, consultant in design and innovation with experience in designing bodywork for buses. "We are not very far behind the European manufacturers, except in segments such as luxury vehicles."

However, Castilho makes the point that, in order to remain competitive, particularly in the face of Chinese competition, the producers need to move ahead in terms of developing innovation projects in the environmental area and adopt a more collaborative view, including not only with assemblers but the

1 Tailor-made: office for a Saudi sheikh... **2** ...and roofless bus to take the Moslem faithful to Mecca

sume production in the vast Russian market, which is still under pressure from the European crisis, and strengthen its position in Asia. A dream that is still alive is China where Marcopolo won its first contract in 2001 to build a bus plant from scratch for the Italian heavy vehicles assembler Iveco of the Fiat group. It has never left the country since then and currently has a sales office for parts. It decided to open its own plant in the city of Changzhou in eastern China two years ago although this is restricted for the time being to the production of components, such as doors and windows, for other plants throughout the world. The complicated system of relations with the Chinese state and the risk of having its products copied and produced in a predatory way by the competition have always led Marcopolo to act cautiously in the Asian giant. Nevertheless, it is now working to obtain the licenses it needs from the local authorities and is planning to manufacture complete kits.

Marcopolo is also not concealing its interest in exploiting potential markets in emerging Southeast Asia.

The company has begun looking at countries in the Southeast Asian market

De la Rosa says the company has put out some feelers in countries in the region where the rapid urbanization is creating opportunities for a bus manufacturer – always its main attraction. The project is currently at the drawing board stage. "It is still too early and we are making preliminary studies," says the CEO. In its own way the small family business from the south of Brazil in the 1950s seems set to repeat the steps of the explorer Marco Polo on the other side of the world seven centuries later. ■

1 2

public bodies, which are responsible for city and highway planning, and the communities being served. "The industry´s view is still highly focused inside the plant," he says. The comeback of collective transport as an environmental and urban logistical solution opens new business opportunities for Brazilian industry which could take advantage of its international experience to create transport alternatives on a global scale.

Take care,

Delicate, perishable products demand careful transporting and flexible distribution to gain share of the international market

DENISE TURCO

A Brazilian rose grower once sent an order to Russia and the flowers arrived at their destination two weeks late. As the Brazilian composer Cartola wrote in one of his most famous songs "the roses did not speak or give off any perfume." They were spoiled. This is a true story and not a song and highlights the difficulties facing companies exporting delicate, perishable products which require special care and complicated logistics. The question is how to guarantee that products with "please don't touch" signs can cross borders and reach the final consumer at their best.

Careful handling at Rosas Reijers, which has been producing flowers since 1984 at its headquarters in Itapeva (Minas Gerais state) and a farm in São Benedito (Ceará state) begins at the cultivation stage with the right nutrition and phytosanitary control. The roses are cut at the right time when the bud is most closed and undergoes a post-cutting treatment in which the flowers are hydrated and stored in a cold room. However, the time comes when the flowers have to leave their watchful growers and take the road to the export market.

In order to arrive in an attractive and healthy state, they need to be pampered throughout the whole journey. For example, the temperature has to be kept at 4°C during transport. "This is fundamental," says Camila Reijers, a company agronomist who is also the daughter of the owner, Roberto Reijers. "Thermal shocks are undesirable as they create conditions in which diseases develop that harm the quality of the flower."

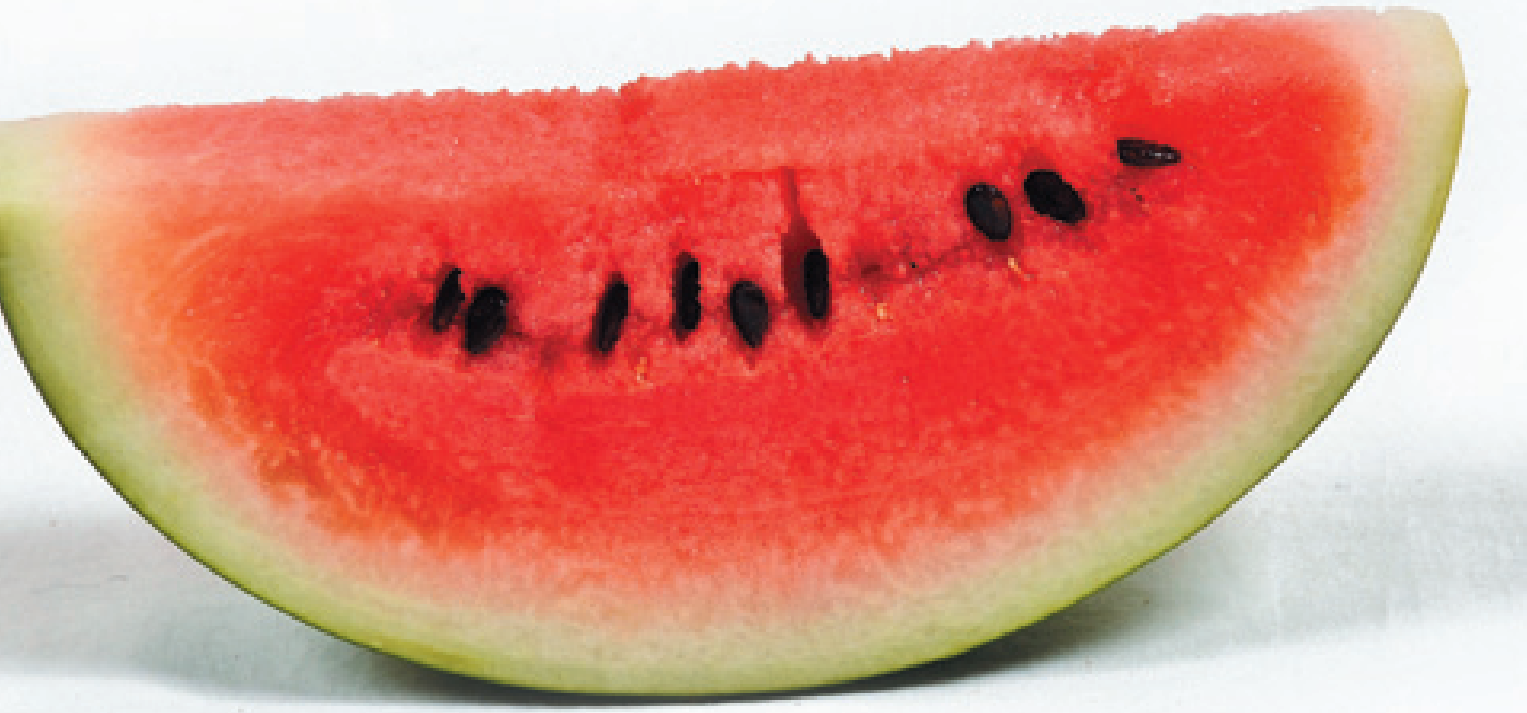
Northeast fruit exports to Europe held up by lack of direct flights

As speed and flexibility are essential, the Reijers prefer to use air transport. The trip to the Netherlands, which is one of the company's main market, is a 12-hour flight and the roses are stored in dry boxes. Reijers tried to send flowers by sea but gave up after frustrated attempts when the flowers failed to arriving with the same bloom at the end of the much longer boat trip.

Like flowers, other perishable products, such as fruit, fish and eggs, need constant temperature control, little handling and flexibility in loading and unloading. Luiz Beraldo, the national production manager for perishable goods sent by air of Kuehne + Nagel Brasil — a Swiss-German logistics operator that has been on the Brazilian market for 50 years — says that the transport of mangoes in refrigerated trucks takes three days from Petrolina (Pernambuco state) to São Paulo from where they are sent abroad by air.

The journey alone highlights the failings of Brazil's transport system in relation to exporters' needs. Fruit

fragile!



HANDOUT

producers in the Northeast have to travel over 2,000 kilometers to the South only to load their products on planes that fly back over the route they have taken to the consumer markets in the northern hemisphere. After arriving at the airport in São Paulo, the company needs 12 hours for the unloading, customs clearance, putting the goods on pallets where they are then stored in the company´s own aluminum containers for the cargo hold and sent off. Kuehne + Nagel organizes exports of eggs, fruit, meat, fish and pharmaceuticals, amongst other delicate products, from Brazil.

These examples show that, from the technical point of view, companies that wish to export need to establish sophisticated logistics processes and invest in technologies and obtain certification to meet the demanding clients on the international market *(see box on page 56)*. However, even in sectors where Brazil can meet these demands, exports of flowers, ornamental fish and fresh food, such as fruit, is still at an early stage, according to Evaldo Alves, coordinator of the international business course at the Fundação Getulio Vargas business school (FGV),.

Few companies dedicate themselves to this market. "In the flower segment, for example, we have the technical apparatus but we do not use all the potential for production, distribution and exports," he says. "In the case of fruit, most exporters do not use a refrigeration system after harvesting". The reasons

for this are the companies´ lack of preparation, the costs of taking the necessary care and the bureaucracy involved in exporting. Any company that works with delicate, perishable products has to cope with higher costs due to the expenses of refrigerated storage, vehicles and containers, says Maria Fernanda Hijjar, market intelligence director of the Logistics and Supply Chain Institute (Ilos). To have an idea of what is involved, the logistics costs for Agrícola Famosa — one of Brazil´s largest fruit producers and exporters — are 15% higher in operations that use refrigeration than those that do not. Nevertheless, there is still a foreign market that is prepared to pay the price in order to have tropical fruits on the table all year round.

Agrícola Famosa, based in Icapuí in Ceará, exports to 29 countries, mainly in Europe where supermarket chains and fruit-processing companies are its main clients. Melon, banana, water melon and papaya are European consumers´ favorite fruits and the main markets are the UK, Germany, the Netherlands and Spain. Planting is carried out in the company´s 15 farms. Of these, 13 are in the Northeast of Brazil and two in the African state of Senegal, where it grows melons, and cover a total area of 25,000 hectares. The company has 7,000 employees and had revenues in 2011 of US$ 120 million and sold 120,000 tons of fruit.

Clients´ demands differ in relation to the kind and size of fruit, sugar level and form of packaging which makes the production and logistics more complicated. "The sales driver in Spain is the green "frog skin" melon whereas the yellow galia melon is more popular in the UK," says sales manager, Andrei Mamede. To ensure that the fruit has the right level of sugar and a good appearance, the company takes special precautions right from the field. For example, it uses a device to measure the sugar level through an infrared system that means the fruit is not cut, thereby avoiding any waste. It also carries out a biological control of the planting and uses machines for cleaning, applying ozone, cooling tunnels and equipment to package fruits individually.

"The follow-up stage, logistics, is important because we have to make sure we do not to damage the fruit we have produced," Mamede says. Once again, the period between the harvesting, packaging and transporting has to be as short as possible. Famosa uses the ports of Pecém and Mucuripe (Ceará), Natal (Rio Grande do Norte) and Suape (Pernambuco) to export by sea. It recently expanded shipments from Santos (São Paulo) to meet demand from China, Singapore and Malaysia. It uses refrigerated containers for premium products or those sent long distances — such as Russia and

HANDOUT/TERRA VIVA

1

1 Growing flowers in São Paulo: highly perishable

2 Eggs packed for export: delicate handling required needed

3 Pecém port in Ceará state: shipping fruit instead of steel

Asia that take more than 30 days to arrive. (The maximum period from harvesting to consumption in an air-conditioned environment is 40 days for a melon and three months for grapes.) However, this "cold chain" comes at a high cost and shorter steps — for example, a 15-day voyage for a yellow melon — mean the fruits can be shipped in a container with no air-conditioning at a lower cost.

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3

The cold chain also requires a series of procedures to guarantee the wholeness of the fruits, says Rebeca Oliveira, the commercial coordinator of Companhia de Integração Portuária do Ceará (Cearáportos), which operates the port of Pecém. The transporter sends the refrigerated container to the producing farm where it is plugged in like a refrigerator. When it is fully charged, it returns to the port and waits for 24 hours before loading the vessel during which time it carries out all the legal requirements. The cargo has to be released by the Ministry of Agriculture, Fisheries and Supply, the National Sanitary Vigilance Agency and the Federal Revenue. The temperature is monitored constantly.

Pecém currently ships around 1,000 containers of fruit a month. However, this was not its original purpose. The port was conceived to serve the steel industry and changed course halfway through. "We began working with fruit in 2002 as a result of the interest of local producers from the region and a delay in steel exports," says Rebeca Oliveira. "We adapted the installations, created an inspection area, installed refrigerated rooms and hired specialist staff."

The first ship set off 10 years ago carrying fewer than 100 containers Nowadays Pecém exports fruit the whole year round, particularly bananas and yellow melons. The peak period for exporting mangoes and grapes from the Rio São Francisco, Juazeiro and Petrolina regions runs from September to November while the peak period for banana, water melon and melon from Ceará and Rio Grande do Norte is from August to February. And the steel industry? It only began using the port in 2012, Rebeca says.

However, Pecém´s fruit exports should decline this year in relation to 2011 due to the crisis in Europe, the higher fuel price and changes in the profile of seagoing transport as the ships have got larger but the number of shipping lines has fallen. Despite this, Agrícola Famosa has not lost any sales. On the contrary, demand has increased in Spain and Italy even though both countries have been hit by recession. The company, which earns 70% of its revenues from the export market, is moderately optimistic. "Our expectations for 2012 and 2013 are cautious as Europe is our main market," says Mamede. "However, we do

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not foresee any depression in sales as the dollar, euro and pound have strengthened against the Real."

The current difficulties on the global front have hit small companies hard. The flower exporters are a case in point. They are mainly family businesses which were hard hit by the world crisis and the years in which the Real was overvalued against the dollar. The currency shock even affected companies which could develop products to an international standard and oversee a complicated logistics chain. This was the case with Rosas Reijers which sold 30% of its production of 100,000 stems a day until last year but suspended exports in 2011. (The Brazilian Floriculture Institute — Ibraflor — says Brazil's exports fell from US$ 28 million in 2010 to US$ 20 million in 2011.)

"The ideal exchange rate for the dollar would be around U$ 2.40 to allow us to be competitive with the African market," says Camila Reijers

HEAVY AND EASILY BROKEN

IT IS not only flowers and perishable food that need special care. In the case of glass items, for example, it is not the rapid deterioration of the product that is the problem but maintaining it intact until it arrives at the final consumer. To ensure that the consumer enjoys a cold beer, as shown in the photo, attention focuses on packaging. Nadir Figueiredo, a company founded in 1912 that makes domestic products and glass containers, has been exporting since the 1980s and is present in 120 countries. It uses resistant cardboard packaging, with internal dividers to handle the movement of the fragile cargo.

Logistic professionals assess the cargo conditions and inspect the vehicles and containers when they are being exported, says Nadir Figueiredo´s export superintendent, Steven Dabbah. The empty spaces are filled with inflated plastic bags which prevent the cargo from shifting. He says he rarely receives complaints of damaged cargos. The kind of transport the company uses depends on the destination. The highway model is used mainly in the Mercosul free trade area and shipping for other countries. Glass is heavy and expensive to send by plane and air transport is only used for samples.

Nadir Figueiredo´s gross revenues came to R$ 449.2 million in 2011, of which exports represented 7.3%. Measuring cups, roasting dishes and glass bowls are the main items exported. "We believe in going international. Exporting is not just a business opportunity. We invested in our own distribution center in Argentina some years ago and are continuing to pursue new opportunities in this area," says

Agrícola Famosa melons: in Russia and China

in a reference to countries like Kenya and Ethiopia which are large exporters of flowers and whose producers receive incentives. The company aims to return to the export market as soon as the situation is more encouraging. However, although the exchange rate and the crisis have given it some breathing space, it will continue to face the other obstacles that make up the "Brazil cost", such as the inefficient infrastructure and deadening bureaucracy. Badly maintained roads, strikes and delays in releasing merchandise are common complaints from the entrepreneurs.

The global crisis has hit small exporting companies hard

CeaRosa was founded in 1999 in São Benedito (Ceará), 300 kilometers from the state capital Fortaleza and is another examples of this situation. It was a forerunner in planting flowers in the interior of the Northeast and helped turn the Serra do Ibiapaba region, where it is located, into a rose-producing center thanks to the temperature and light which are ideal for greenhouses growing and ensure production the whole year long. (Rosas Reijers set up its second unit in the area in 2001). However, CeaRosa has made no export sales since 2009, according to director Paulo Selbach who says the heated domestic market has been another factor on along with the problems already mentioned. "Sales within Brazil have expanded considerably as domestic purchasing power has increased," says the marketing director, Gabriela Selbach.

All these factors, plus the lack of an exporting culture,

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Dabbah. The volume of external sales has remained stable this year. "It did not grow as much as we had planned because of difficulties with the restrictions on imports by the Argentinean government, the international crisis, which hit Europe hard, and the 'Brazil cost' that holds back any greater advances", he says.

have led the volume of exports by small companies to amount to less than 10% of the national total, according to Evaldo Alves of the FGV. "Brazil has no tradition of exporting through small and medium-sized companies in contrast to Germany, for example, where they account for 40% of exports," says Rebeca Oliveira of Cearáportos who agrees with him. "The small fruit producer, for example, has no inclination to do so because you can only gain with exports in terms of volume. There is a small profit margin and a big risk," she adds.

Faced with so many obstacles, those candidates who want to export are not only fighting to upgrade the infrastructure and reduce the bureaucracy but to also follow the example of those Brazilian companies that have organized their logistics processes efficiently. Investments need to be made in technology, costs kept under control and planning decisions made that take into account the ideal transport for the product. If companies can do so, they will be ready to take on the world.

DEMANDING CONSUMERS

EVEN BEFORE they are loaded, food and perishable products need to undergo further scrutiny before arriving at the export markets. They need to obtain certifications issued by international organizations or the regulatory bodies of the importing countries. The aim is to prove the origin and quality of the products and comply with sanitary regulations, labor laws and environmental care standards in their production methods. Without these, the doors are closed.

Agrícola Famosa has international certification, such as the Global G.A.P, issued by the eponymous organization, which confirms the agricultural production procedures. A certificate proves that the company has pledged to reduce the use of pesticides while another specific certificate confirms that it complies with the requirements of Tesco, one of the largest retail chains in the UK. At the same time, Agrícola Famosa has a tool which tracks the entire fruit production chain, in line with the requirements of countries such as the UK, Germany and Japan.

The tracking system includes the date on which the seed was bought, passes through the production stages and follows the route until it arrives at the client. This makes it easier to identify any possible problems of contamination, a food safety issue buyers take very seriously. "This kind of information is fundamental for the European consumer," says sales manager Andrei Mamede.

The most common document flower exporters need is the Phytosanitary Certificate of Origin, issued by the Ministry of Agriculture, which confirms the suitability of origin and guarantees the absence of pests, says Rosas Reijers agronomist engineer, Camila Reijers. The company also has the Sustainable Production Method, seal which confirms the quality of the flower and the sustainability of production at its farm in the Ceará state. The seal is issued by the main global flower certification agency, MPS, which carries out inspections that assess the consumption of fertilizers, energy, pest control, water and waste production. Reijers is now aiming to obtain another MPS certification that also includes social questions and the lower working risks in the production process.

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Rosas Reijers flowers: bearing the sustainability seal

Oil in the Gulf

Petrobras' deep-water oil field in the Gulf of Mexico comes ona stream

SUZANA CAMARGO

Petrobras platform in Chinook: First barrels 250 km off the coast of Louisiana

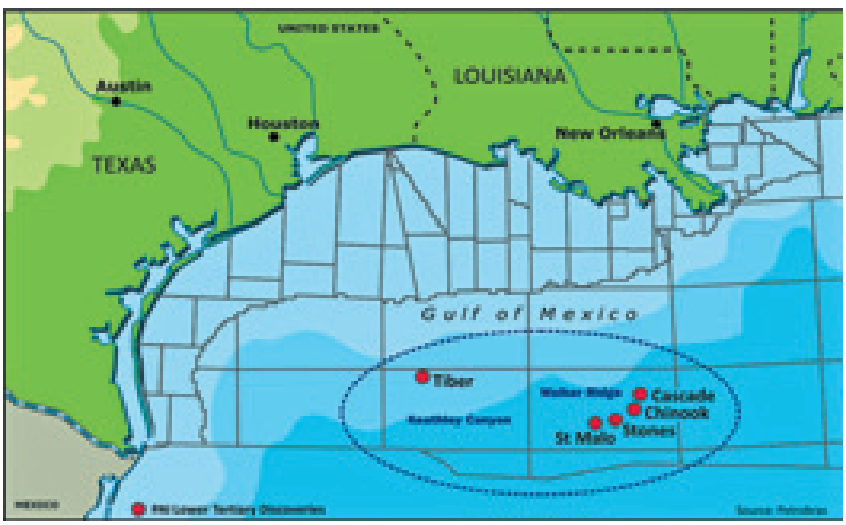
CAPTAIN EZRA LEBOURGEOIS

Finally, some good news for Petrobras: the start of operations of the Chinook oil field, in US waters in the Gulf of Mexico. Located some 250km off the coast of Louisiana, the wells are the first to produce oil and gas simultaneously in the super-deep waters of this region. The company had a tough first half of the year: racking up a loss of R$1.3 billion in the second quarter (its first loss in the last 13 years). CEO Graça Foster attributed the losses to USD appreciation and the mismatch between international and domestic oil and oil distillate prices.

In the Gulf of Mexico, Petrobras used a new exploration technology for the region (though it is already systematically used in Brazil): a FPSO platform, the acronym in English for a floating platform ship capable of processing, storing and shipping oil in smaller vessels, to transport to dry land. The platform ship has capacity to process 80,000 barrels of oil and 500,000 cubic meters of gas per day.

To protect itself from accidents, since the region is highly vulnerable to hurricanes and storms, the platform ship has a disconnecting anchoring system that allows the platform ship to be moved to sheltered areas in the event of instability risks. Petrobrás owns 100% of the Cascade field and 66.7% of Chinook (where it partnered up with Total Exploration Production USA).

The Brazilian company has also just signed a R$2.8 billion deal with the US company GE. According to GE, this was the world's largest contract for making wellheads, installation tools used in oil exploration. The components should be used in the operations of the Brazilian coast. ■



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Making up for lost time

Laércio Cosentino, new chairman of the Board of Directors of Brasscom and creator of TOTVS, wants to turn Brazilian innovation in IT into a global business

NELY CAIXETA AND ARMANDO MENDES

Businessman Laércio Cosentino (52), who has recently been elected President of the Brazilian Information Technology and Communication Association (Brasscom), faces the challenge of unraveling the problems facing a strategic area of the Brazilian economy. He now shares the responsibility of running the trade association and his own business, TOTVS, and has an agenda packed with thorny issues. These include the exemption of the payroll tax, increased exports, expansion of broadband at national level, job creation, digital convergence and promoting IT products made in Brazil on the international stage. Cosentino, an electronics engineer and graduate of the Polytechnic School of São Paulo University (USP), is disappointed that Brazilian IT companies have not transformed themselves into global brands even though they have made a series of innovative breakthroughs, such as bank automation products and electronic election systems.

"I can travel for two weeks and never see a Brazilian brand that is known abroad. This is a challenge that should be on the agenda of every successful company in Brazil," he says. TOTVS is one of these companies. It is the Brazilian leader in the ERP area, the business management software systems that control and automate a company´s activities. Brazil is the only country in the world where the multinational giant SAP is not in first place in this area. TOTVS is also second in the Latin American ranking and seventh at global level, a feat that can only be compared with Embraer and Petrobras on an international scale.

TOTVS is a brand that arose from Microsiga´s consolidation of the 25 companies it snapped up when it was expanding on the domestic market. In this interview with PIB, Cosentino speaks about the growth of his company and highlights what Brazil needs to do to have strong brands and find the right conditions to compete on advantageous terms on the international market.

Despite its relative success, Brazil´s domestic IT industry has still not created its own global identity. Why have all these achievements not translated into global brands?

You have to bear in mind the enormous size of the Brazilian market. Much smaller countries had to look abroad for markets right from the outset. The opposite was the case in Brazil where we had a highly developed retail sector and strong manufacturing base. As a result, our technology companies were directed inwards. Brazil has grown a lot in recent years and is now present throughout the world. However, it is now time to start creating stronger brands, take them abroad and turn them into global names.

Some figures show that the Brazilian IT market is bigger than that of India. Is this so?

If we take into account the

use of technology and subtract what is exported, the Brazilian market is definitely bigger. India has positioned itself as a great supplier of skilled labor to provide services. When we look at Brazilian companies´ skills, we see that their competitive advantage is not in the allocation of labor but in the possibility of developing systems and solutions with higher added value.

In what way?

The important thing to realize is that in the absence of higher added value, clients pursue price. This means that a company that can maintain a lower cost and deliver a product to the expected quality level will be in the game. However, as soon as new players arrive with the ability to reduce the cost and deliver quality, there is no guarantee that this client which had always obtained its service from a particular supplier will continue to do so in the future.

What can Brazil offer?

Those which develop solutions will win, i.e. a company that brings together all the parts that were developed separately. This is what the Americans know how to do best. They have brought together all the great innovations from the IT sector in recent years and concentrated them in Silicon Valley. This is something Brazil should try and do and not sit around staring at its own navel. We should pursue this ability to expand what we are developing in Brazil and take it beyond our borders.

What is the difficulty in creating a Brazilian brand?

We live in a great knowledge society nowadays in which information is available at our fingertips and we can find anything we want on the Internet. How can a company differentiate itself in this world of "www.something.com"? Only through a strong brand and strong companies that spring to people´s minds when they search the Internet. TOTVS itself is a brand we are building and it is still a "baby" brand. It is currently the 18th most valuable brand in Brazil and, as it was created in 2005, it has only been around for seven years. We are creating a new brand precisely to strengthen our move towards bringing companies together, consolidating the Brazilian market and being able to win new markets.

Brazil has created useful solutions such as electronic voting systems but cannot sell them

How can this strong Brazilian IT brand differentiate itself?

Brazil´s great strength lies exactly in developing solutions. Brazil currently has the best electronic election system in the world. The result of a presidential election can be known within two and a half hours with complete certainty. We do not have to put up with lots of counts as happened in Florida and other places.

But why do other countries not buy our election systems that are constantly being eulogized?

What has happened is that Brazil developed an interesting product but one that has no owner. This is something we have discussed a lot. If you do not have intellectual property rights you are not going to sell anything. This might seem a bit like hairsplitting but it is a basic point. The government should stop auctioning services and start auctioning solutions.

What is the difference?

There is an important difference here. It is one thing to say: "I am going to put out to tender a computerized system for the Supreme Electoral Court and then hire another company to produce an electronic voting urn and another for the municipal side and another to train staff..." Do you have a solution that can be sold at the end of all this? Of course, not. What you have is a combination of things that does not have a single owner.

Why is this a problem?

Selling the equipment is one thing. It is another thing to sell all the intelligence and then control it, ensure the security of the information and everything else. We have been holding lots of discussions with the government on this issue. The government is responsible for a lot of the turnover on the IT market as it is a big buyer and wants things to be developed in Brazil. However, without a policy of buying solutions and granting intellectual property rights to someone, we run the risk of continuing to make things but not ending up with a product that can be sold later.

How can the government resolve this problem?

It could say, for example: "I want a IT solution for the Brazilian electoral process – that´s all.". The company that wins, whether through its skills or best price,

depending on the rules, could, for example, exploit this solution for 10 or 20 years providing it repays in royalties the amount invested by the government. If it manages to do so within this time it then becomes the intellectual property owner forever. If not, then it would have to open its code and make it available as a free software.

In what other areas are Brazilian companies losing opportunities to export innovative solutions?

A lot of things are now being done through e-government, i.e. on-line public services, which is fantastic, particularly in terms of income tax declarations to the Federal Revenue. Soon you will be receiving your tax declaration at home based on the information the government already has in its power. However, there is no way of selling this knowledge as it is dispersed in different places. Mexico is doing something similar in relation to income tax but has done everything from scratch as there is no single solution you can sell there.

In which areas are Brazilian IT companies most outstanding?

There are many things they make very well. Banking automation products is one well-known example, as are applicative system such as TOTVS makes. There are Brazilian companies whose activities have a lot of software embedded. This is the case with Embrapa and its agricultural research, for example. When you talk about innovation processes today, regardless of the industry, there is software inside. When you speak of India, everything that has a code line is regarded as IT. However, the concept is different in Brazil and everything that has some innovation has the IT inside. Therefore, if you export an automatic gate, in Brazil you would be exporting just a gate. However, if this gate was in India, you would probably be exporting some kind of IT product with a piece of iron attached.

Some people say that selling Brazilian technology is difficult because these two words – Brazil and technology – do not come together in the minds of people abroad. How do you see the image of Brazilian technology companies abroad?

I think there is still a long way to go but important steps have been taken. The first was our success in making Brazil a stable country. Having a reliable currency and respecting contracts attracted investors and gave us a strong brand as a country... If you look back 10 years you will see that many people did not know Brazil and nobody wanted to speak Portuguese... Now you see that many foreigners are really looking at Brazil as an opportunity in terms of work and business.

We need strong brands that come to the mind of anyone searching the Internet

How do you see this change?

Since we became a listed company in 2006, we have held a "Totvs Day" in Brazil. We invited investors to learn about the company, what we are doing, our plans and so forth. We also held it for the first time in New York this year and had just over 50 investors, over half of whom spoke Portuguese. This would have been impossible in the past and shows that Brazil is finding its way. There were so many things that needed to be done and Brazil was doing them. Now we are entering a period in which there are no longer as many things outstanding. However, this does not mean that everything has been sorted out. There are still important issues to be tackled, such as tax, fiscal and labor reforms and so on.

When President Dilma Rousseff launched the "TI Maior" program to boost the software industry in September, she announced an investment of half a billion Reais to expand the number of domestic software-producing companies - currently around 9,000. What do you think of this initiative?

Any and all initiatives from government bodies to promote innovation, the growth of start-up companies and change the existing model are always welcome. The "TI Maior" program brings the government closer to developing software within the country, along with heavy investments in training personnel and creating laboratories. All this is welcome. We are still examining the extent of this initiative but I believe the TI Maior program and the strong driving force of Brasscom itself in strengthening Information Technology and Communication – not just IT to which it is very close – will lead the sector to present the world with its solutions and show that value can be added during this great race towards the knowledge society.

Store-to-store

Led by clients and investors, Hope extends its lingerie franchise chain abroad

POLYANNA ROCHA, CAPE TOWN

Store in Israel: no dummies or photos of models

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They say friends are like a bra: close to your heart and a big support. Hope, the Brazilian franchise network and manufacturer of women's lingerie, is starting to spread these friends around the world in a pretty unique way. The brand logotype is starting to be disseminated in commerce streets in some global cities not due to a strategy elaborated to expand the company's business abroad. Instead, Hope's international presence reflects a spontaneous movement of clients and investors who offered to become brand franchisees in their countries.

Hope has franchisees in Israel, Portugal and Argentina

Based in São Paulo, the company currently has six franchise operations abroad – two in Israel, two in Portugal and another two in Argentina (where another two should open their doors before year-end). This number still pales into comparison with Hope's total 93 franchisees, including the Brazilian chain. But these six franchises nevertheless represent a promising internationalization channel for the brand. "We currently receive two requests per month from investors

interested in opening a franchise abroad", says Sandra Chayo, Hope's marketing director and daughter of the brand's founder, in a phone interview to PIB (in Brazil, she says, she receives 20 orders per month).

"For franchises abroad, we prioritize local businessmen who already have knowledge of the market and a management vision to successfully spread the Hope brand in another country", explains Sylvio Korytowski, Hope's expansion director. The Israeli businesswoman Yafit Kabia (45) is one of these people. She had never visited Brazil before opening her first store in Israel, in 2006, but had heard about Hope's products due to family ties with the lingerie industry. "When I saw the lingerie's differentiated fashion design and durability, I realized the brand's potential", says the businesswoman, who currently has two Hope stores in the cities of Ramat HaSharon and Ra'anana, close to Tel Aviv, and another two multi-brand stores in Tel Aviv and Hod HaSharon. Yafit became a master franchisee, with exclusive sales rights in her country. "Before investing in the franchise we conducted lots of research with groups of women to select the right products and gauge clients' satisfaction", she says.

The company stopped making only lingerie and invested in retail

In Portugal, it was a long-standing Brazilian client who took Hope's products to the country. Daiana Coelho (30) moved to Portugal seven years ago, after getting married, and started off selling bikinis and bio-jewels there. One day, she tried to buy lingerie of the same standard that she used to wear and couldn't find any: the cuts were too large and not in the least bit sexy, with floral patterns or little animals. Intrigued, she investigated the sector, visited stores and spoke to Hope's senior management. In October 2008, she opened the first Portuguese franchise; two and a half months later came the second one, both in shopping malls — the first in Cascais and the second in Lisbon. She says that as early as 2009 revenue exceeded the franchise's target by 20% (she wouldn't say what the exact target was).

Korytowski says the brand's international expansion reflects its consolidation and evolution in Brazil. After 46 years producing lingerie, Hope has been investing heavily to set aside its exclusively industrial vision and get its teeth into the retail world — for example, in 2010 it hired Gisele Bündchen (the world's best-paid model, according to US magazine Forbes) as its poster girl; in May it opened a flagship store in São Paulo (costing R$5mn) and its online sales project is budgeted at R$1mn. The company is betting on the franchise system to gain market share on the wave of consumption growth in Brazil's middle class and the increased purchasing power of Brazilian women. Hope won't go into numbers, but the plan is to double revenue (estimated by market analysts at R$200mn annually) and reach 350 franchises by 2015 (the number should be 130 at year-end).

In this growth strategy, external expansion will continue to come from the recognition of the brand by individual clients and investors. So much so that Hope doesn't have an active prospecting plan outside Brazilian territory, nor does it provide international growth estimates for the next few years. But this apparently timid stance doesn't mean Hope isn't alert to the opportunities on offer abroad. With the experience already acquired from internationalization, the brand realizes the potential of countries where it can replicate its franchise model.

Korytowski says there is interest in entering other South American countries such as Chile and Paraguay, as well as Central America, the US,

Controversial banners in Israel: friction with religious community

Spain, Australia and South Africa. And what about China, which in 2010 was the world's largest lingerie consumer in revenue, according to Euromonitor International? He replies quickly: "China has very heavy trade regulations, but if there is an investor we will evaluate the business opportunity" (the Chinese government limits the quantity of foreign investments in several sectors and requires multinationals to partner up with local companies).

In other words, the company doesn't rule out possibilities around the world, but decisive action depends on the existence of qualified investors willing to assume the risks of exploring a new market. Risks, in this case, that aren't only limited to the business and financial aspects. In a business such as lingerie, inherently related to customs and attitudes, selling a simple lingerie item can provoke moral reactions and even political debates, as Yafit, the Israeli franchisee owner, found out.

In 2009, she launched a controversial advertising campaign that caused ripples in the religious and cultural divisions of Israeli society. The streets of the city of Ra'anana, home to one of her stores, 20km from Tel Aviv, awoke one day with two types of banners: some featured photos of a young model wearing lingerie. Not too far away, other banners showed the same model with her face and body covered by black ink scribbling, as if they had been censured. The advertising featured a message in Hebrew: "Feel comfortable to be sexy. Hope, the new Brazilian lingerie store".

PICTURES: HANDOUT

But the apparent censure was, in fact, a provocation: the banners were produced that way, and not painted with graffiti later on. The campaign sparked the ire of the conservative wing of Judaism, which frowns upon the exposure of the female image. Religious people were enraged mainly because they believed the banners exploited prejudices, leading people to believe they had been vandalized by Judaism followers, i.e. themselves.

Amid a furious debate between religious and secular citizens, the Jerusalem Post, one of the country's leading newspapers, published an article mocking the "Lingerie Wars". "This initiative led the whole city to start talking about Hope and to discuss current themes", recalls Yafit. "We imagined a major buzz due to the campaign's provocative nature, but the result was a success; in addition to boosting the brand's exposure, we increased sales by 30%".

However, sensitive cultural aspects cannot be ignored. "Adapting to the aspects of the local culture is crucial", says Sandra Chayo. "The store follows the same Brazilian standard, but has some Israeli features". A client used to the Brazilian Hope stores will note that there are no photos of lingerie-wearing models or dummies: the products are shown on metal objects that merely suggest the female form. And to avoid prickly religious issues, the lingerie isn't shown on shop windows. "No one here buys lingerie

shown on dummies", guarantees Yafit, the franchisee. And she says sales are going well, with 2011 revenue up 12% versus 2010.

Sandra makes regular visits to Israel to follow the business and she believes that, more conservative religious communities aside, the shopping behavior of Israeli women is pretty similar to that of Brazilian women; they are two young, modern countries, she says. But there are some differences of taste. Israeli women prefer more basic lingerie items: the most sought after items are comfortable and modern bras made from delicate fabrics. The sizes are also different, more detail-oriented: in fact, there are 15 different bra sizes (three times more than the five Brazilian sizes) to cater to the wide variety of physical builds in Israel, a country that received immigrants from all over the world.

Brazilian lingerie didn't spark public debate in Portugal, but it did trigger changes in clients' private life and vocabulary, recalls Daiana, the local franchisee owner. Portuguese women generally prefer basic lingerie, without too much color, and are used to a more hands-off customer approach, she says. Many clients don't even exchange pleasantries, they just point to the lingerie. The challenge was maintaining the balance between the formal European customer service and the friendlier, closer approach, like Daiana and her sellers (almost all Brazilian) believe a Brazilian brand should offer.

"It is a pleasure to talk with them, take them to the changing room, tell them about the lingerie cut, how it fits, and in the end see them choose something bolder", she says. And the vocabulary? Brazil and Portugal speak the same language, but the nuances can be deceiving: in European Portuguese, panties are called underwear and nightgown means a shirt or pullover. "Since it is a Brazilian brand, I decided to maintain the store standards and vocabulary", says Daiana. "Initially it was strange, but over time clients became familiar with the Brazilian terms".

Hope is interested in entering African and other South American markets

The Portuguese (and European) crisis affected the sales of Hope and the country as a whole, she admits. But she says results remain

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Store in Portugal: change in customs

satisfactory, partly because her clients, from higher-income groups, retained their purchasing power. And also because of an expected rescue buoy: international clients (especially Africans) who visit their family or go to Portugal on holiday and buy lingerie. "One time, a young woman from Cabo Verde passed in front of our store and screamed with delight upon seeing the brand", says Daiana. "She already knew Hope from her visits to Brazil and bought a bunch of lingerie. We also have many clients from Angola".

European crisis has reduced the cost of opening a new store on the continent

"The world grows with crises – both the Portugal and Argentina franchise stores are reacting very well, despite instabilities in the economy", argues Korytowski. He says sales are encouraging in the Buenos Aires operations, initiated last year. The same investor will open another two Hope stores in Argentina before the end of the year. "Spain could also be a great opportunity as its commercial sales points are very cheap at the moment", he says. This opinion is shared by Ricardo Camargo, president of the Brazilian Franchising Association (ABF). "Locals who didn't have available space now do", he adds.

In recent years, Hope went from being a basic lingerie manufacturer to a fashion company. It started selling cosmetics, beachwear and loungewear — pajamas, nightgowns, socks and slippers. The lingerie sold at the international franchisees is the same lingerie made for Brazilian clients. The company's three plants in Ceará produce over 700k lingerie items per month (and have monthly capacity for 1 million/month). To facilitate production and logistics, the assembly lines are organized by fabric and color and separated by product, going either to the franchisees or to 4,50o multi-brand stores. Korytowski (brand expansion director) ensures that China (the bogeyman of the clothing industry in many people's eyes) doesn't pose a threat to Hope's business. "We are self-sufficient in cotton (our raw material), and the fashion design and technology are developed here; China doesn't have this", he says. "Chinese competition doesn't affect the lingerie market". ■

From heaven to hell and back again

Pará açaí exporters are trying to rebound from the sales slump triggered by the global crisis

LILIAN PRIMI

Upon exiting the calm shadow of the tropical streams of Pará state to become a fashion hit in California, the business of açaí (the Amazon fruit whose pulp became the favorite energy drink of surfers and other sportsmen in Brazil and the US) went through heaven and hell. According to the State Agricultural Department of Pará (Sagri), the state that produces almost 90% of Brazil's açaí, from 2006 to 2009 açaí exports doubled from 6,681 to 12,500 tonnes, thanks to the passion that açaí aroused in two Californian surfers holidaying in Brazil at the start of the 2000s and who became the product's distributors in the US.

The gain, however, was lost in the rollercoaster of the 2009 global crisis. In 2010, exports returned to 2006 levels of just over 6,000 tonnes. "The US buy 77% of the açaí exported by Brazil, and Americans were hit hard by the crisis", says the agricultural engineer Geraldo Tavares, manager of Fruit Production at Sagri. "All our fruit pulps declined".

This strong decline wasn't just a result of the crisis. Production also suffered from a degree of disorganization, hit by the speed in sales growth, which caused a supply shortage in the local market and a rise in prices. "With very high raw material prices and pulp sale contracts in decline, many people were forced to deliver products for a loss" says Ivan Hitoshi Saiki, director of the Mixed Agricultural Cooperative of Tomé-Açu/Pará (Camta). It was Ivan who helped Ryan Black and Ed Nichols, the Californian surfers, to create Sambazon, the first açaí distributor in the US. "They used to buy açaí here", he says. "Now they are in Marabá".

Camta produces 1,300 tonnes of açaí per year in a cultivated area of around 2,000 hectares and exports 750 tonnes, almost all to Japan. But we had to really pull our sleeves up. "It took 10 years to create a sizable market there", recalls Ivan. Japan is currently the destination of just over 6% of the açaí pulp exported per year by Brazil. "The Asian market should grow: China, for example, has never heard of açaí", says Ivan. But he expresses his fears. "There are lots of people who don't pay."

Two surfers from California took açaí to the US

The agricultural engineer Clóvis Ribeiro Neto, technical manager of the Brazilian Fruit Institute, says that moves are also underway to open up the Arabian and German markets. The trend is for consumption to increase around the world, he says. "Nutritionally açaí is very good, that's why it was a success in the US", explains Ribeiro. "There it's a functional drink; you have açaí cream and products in the form of

Palm trees and açaí fruit: energy drink

juices, mixed with other fruits".

In Pará, the fruit has another place in the community: it is part of the basic food of the riverside population, who eat açaí with manioc flour and jerked fish. "For the unacquainted, the taste is a bit strange", Ivan admits. "But people adapt". The açaí cream consumed in Brazil's South and Southeast states, sweetened with guaraná syrup and served with muesli and fruit, is an example. But it contains very little açaí, says Ivan. "In fact, it's a mixture of açaí and bananas".

In the US, açaí is mainly consumed in the form of functional juices, sold in gyms. But Sambazon, in an attempt to "paint the world purple", opened a coffee shop in 2011 to introduce new açaí recipes to consumers. The first Café Açaí store is located in Cardiff, a surfers' point in Southern San Diego (California). And in June this year, Sambazon opened a new store in Newport Beach, also in California.

"There is growing demand in the internal and external markets that isn't being met", says Geraldo from Sagri. "That's why we're distributing açaí seeds". Since 2008, Sagri has distributed 19,000 kilos of açaí seeds of Cultivar BRS Pará (developed by Embrapa), enough to produce 9 million seedlings. "It's a seed because the farmer didn't attribute much importance when he received the seedling. With the seed, if he plants it, he will look after it", says Ivan. And Ibraf has asked Brazil's Trade Ministry to define a specific code for exports of açaí (currently classified in the group of fruit pulps) so that they can "better gauge demand and organize ourselves", he explains.

The Pará government also hopes to attract more money to the açaí chain with a program developed in partnership with Apex-Brasil and the World Bank. "We want to attract national and international investors interested in the opportunities generated in the açaí chain, which mainly involve planting of new areas in already defined technological bases and the installation of new agro industries", says Geraldo. ■

RISE AND FALL

Açaí exports from Pará (thousands of tonnes)

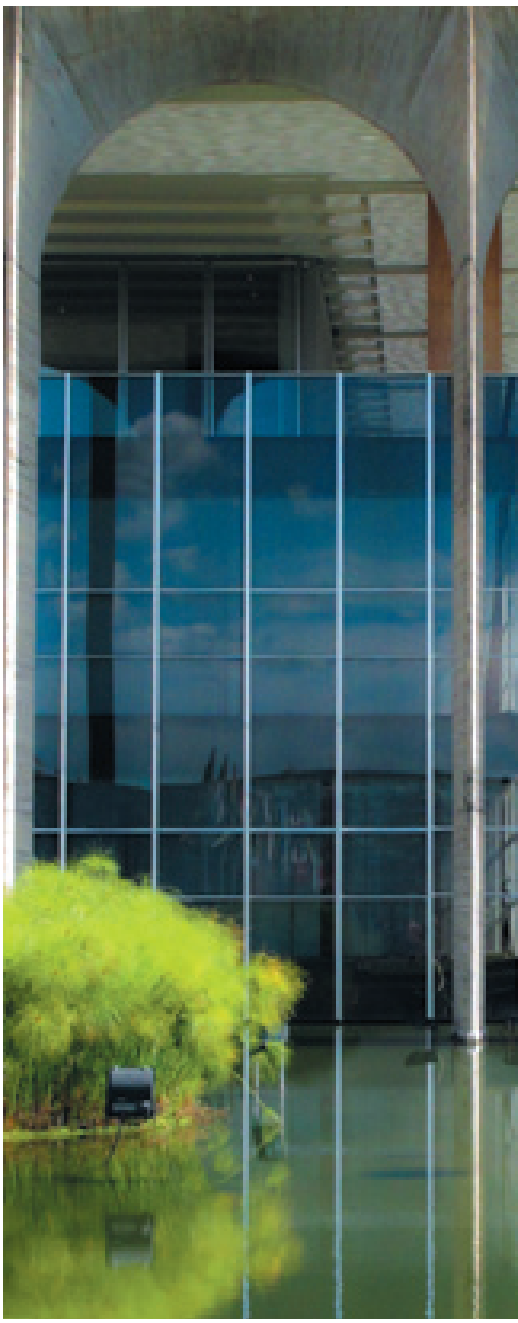
2006	6,681
2007	9,236
2008	11,735
2009	12,508
2010	6,685
2011	6,897

PICTURES: HANDOUT

Diplomacy, intelligence and marketing

At a time when emerging market countries are intensifying the competition in international markets, the Department of Trade Promotion of Itamaraty is reorganizing itself to provide support for Brazilian companies abroad

MINISTER RUBENS GAMA DIAS FILHO*



In the business and economic scenario the world over, two notable characteristics come to mind. On one hand, from a broader perspective, we have seen the rise and consolidation of countries which just under two decades ago were generically classified as the developing world, or more commonly known as Third World. On the other hand, the world's wealthy economies are almost universally enduring the most severe systemic economic crisis the since the Great Depression of 1929. As a consequence, competition in international markets has been intensifying in a way hitherto unknown, and Brazil needs to be prepared.

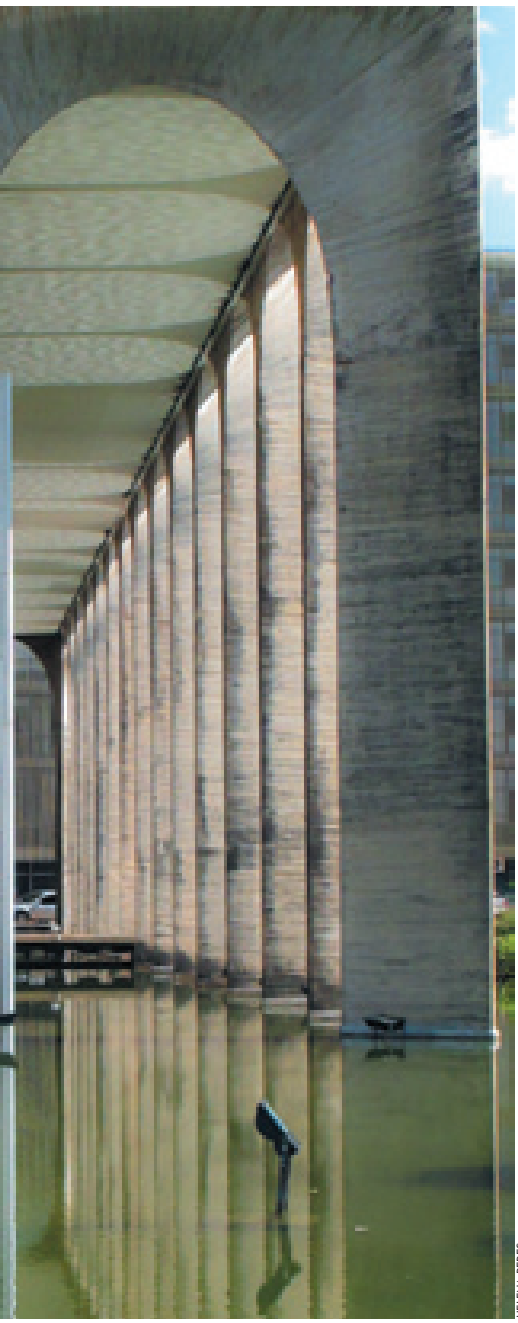
"Nation brand" today is a strategic instrument in the promotion of trade

Faced with this new general reality, despite the innumerable challenges that need to be overcome, there are important opportunities arising at this time for a country such as Brazil. On this theme, at least two peculiarities are worthy of note. Firstly, the global crisis finds Brazil currently in good financial shape. After almost two decades of continuous effort in carrying out fiscal and monetary reform, the Country is now prepared to face adversity in such a scenario, to the extent that it is accumulating growing international reserves, keeping inflation under control, constantly improving its productivity and setting new records in terms of job creation.

In this regard, despite the international financial crisis and the

Palace of Itamaraty, in Brasilia: renovation to promote Brazil

temporary economic slowdown seen in 2009, Brazil's foreign trade has seen substantial expansion since the start of the millennium. Even with the slow growth in exports and the slowdown in imports in 2001 and 2002, exports have been seeing a marked increase since that time. They have risen from US$ 60 billion in 2002, to the current record of US$ 256 billion in 2011. By the same token, imports have substantial grown since the middle of 2004, jumping from US$ 48 billion in 2003 to US$ 226 billion in 2011.



HELENA PERES

The successes obtained up to now do not obviate the need for some reflection on the tools that Brazil has available today to deal with the new realities of global trade. Beginning with the phenomenon of globalization, combined with the crisis in central markets, in which an increasing number of players are competing for new markets. Improving the international competitiveness of the Brazilian economy has been the object of programs and initiatives carried out both by the federal government, as well as the private sector. Among the initiatives conceived to encourage investment and constant innovation, has been the revision and updating of the mechanisms available for the promotion of trade abroad. In this context, so-called commercial diplomacy becomes of singular importance. This is based on the concurrent use of diplomatic tools, with respect to intelligence and marketing, with the aim of obtaining advantages in the sphere of trade.

In an era of internet and blogs, personal contacts are greatly valued

Commercial diplomacy initiatives may be carried out personally by the head of the state and his ministers, when in contact with the authorities of foreign countries or representatives of the private sector, as well as ambassadors and heads of diplomatic missions, and also diplomatic agents and technicians that operate in the SECOMs (commercial departments of embassies and consulates). The establishment of networking contacts, at various levels and in various sectors, has proven to be one of the most efficient tools in contemporary commercial diplomacy. Paradoxically, in a world in which a profusion of remote communication channels predominates (internet, video conferencing, blogs, etc.) personal contacts are increasingly valued, serving to make a difference in a competitive environment, such as that of international trade.

It is possible to classify commercial diplomacy initiatives into three major categories, according to their nature. The first is with respect to commercial intelligence, through the collection, analysis and dissemination of information on existing markets, the identification of unexploited niches, potential for export and investment, local characteris-

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Director of the Department of Trade and Investment Promotion of the Brazilian Ministry for Foreign Relations

tics, and regulatory frameworks. The second category refers to the promotion abroad of goods, services and investment opportunities, through the organization of business missions, seminars, trade fairs, thematic or social events, workshops and lunches. Lastly, commercial diplomacy is exercised through official advocacy on the part of the state representative with foreign governments, authorities and the business world, in direct defense of the Country's trade interests.

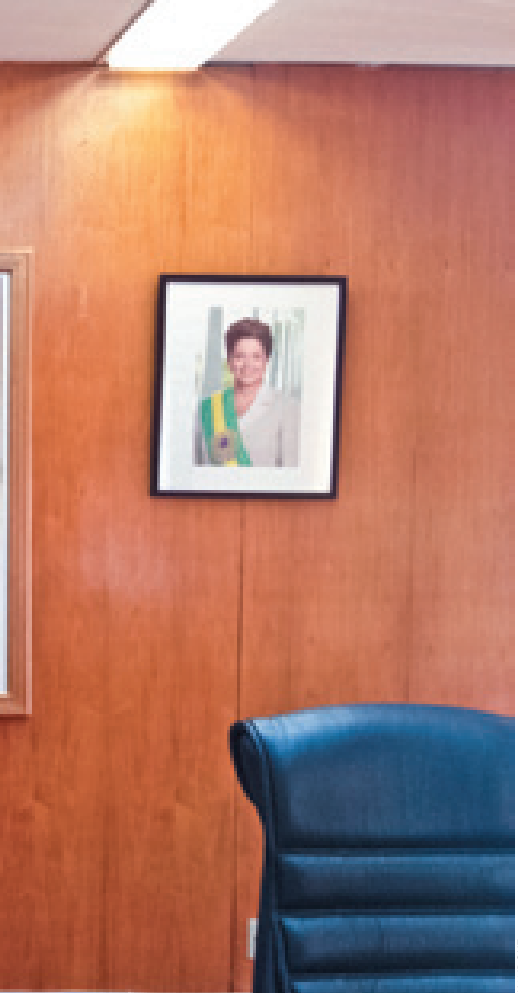
Commercial diplomacy must be capable of producing assessments which take into account not only aspects merely linked to business, but also a series of strategic, political and cultural factors. Knowledge of local peculiarities and idiosyncrasies reveal themselves to be of great importance in this context. By the same token, the permanent presence of Embassies and Consulates in the target market has the merit of being able to offer an additional element of confidence to trade operations.

A continuous local presence, knowledge of specific aspects, contact with different players, and the notion of their respective capabilities in terms of decision-making power and influence, are all valuable tools for the commercial diplomat. They enable him to correctly select potential partners, verifying their credentials in the market, and provide advice on their operational capabilities. Furthermore, it is also his task to facilitate access with governmental agencies, a capability which is even more important in countries where the presence of the state in the economy is greater. Often the mere presence or endorsement by the official representative of the embassy becomes a decisive factor, lending credibility to the operation, which has become known as "nation brand".

The British independent policy advisor Simon Anholt coined the term "nation brand" to refer to the combination of concepts and perceptions generally accepted as characteristic traits of a particular country. This is how a place is perceived by the rest of the world. Anholt argues that "nation brand" cannot be forged based on false, idealized or distorted information. On the contrary, it is actions and not words (or pretty photographs) that provide the basis for public perceptions. In any case, if it is not possible to create a favorable "nation brand" based on an adverse reality, it is perfectly reasonable for governments and the private sector entities to seek to optimize their actions abroad based on the diffusion of information that corroborates positive views of the country. This is not intervention, but rather publicity.

Studies on the use of "nation brand" as an instrument for trade promotion take the view that international public policies must be based on the favorable concepts that the Country inspires, whether they be of a political, economic, cultural or geographical nature. "Nation brand" is an ethereal and intangible asset, but its appropriate promotion can be of strategic importance. Decisions by potential importers or investors are generally based not only on economic analyses, but also the image projected by the country under consideration.

Lastly, also worthy of mention is the broader concept of "umbrella brand", which involves all the dimensions of "nation brand", from the different functional sectors (exports, investments, tourism, public diplomacy) to sectors, regions and specific towns and cities. When a particular country is noteworthy, for example, for its high-tech



HANDOUT

Minister Rubens Gama, of the Department for the Promotion of Trade and Investment (DPR): supports the private sector

performance, all the technological products coming from it tend to be classified as high quality, in what is known as the "halo effect". In the competitive and globalized world of today the idea of "nation brand" – based incidentally on the concept of "soft power" – must not fail to be seriously considered when drawing up commercial diplomacy strategies.

In recent years, we have seen the continuous improvement in the image projected by Brazil abroad. The advances made by the Country in the field of democratic consolidation, macro-economic stabilization and social inclusion have fired the imagination of those beyond its borders in a very positive manner. Research carried out by the BBC, at the beginning of 2011, showed that the popularity and positive image of Brazil in the world improved from 40% to 49% from the end of 2010 to the beginning of 2011. Of the 16 countries assessed, Brazil showed the greatest gain.

It is the job of Brazilian commercial diplomacy to make use of its "capital" of accumulated credibility in favor of its national economic interests, whether it be in the promotion of exports or in the attraction of foreign investment. To this end, it is necessary to reflect on measures that can be taken to better adapt the system of commercial promotion to new challenges.

In this regard, if previously the construction of a global network of global contacts and business opportunities constituted the central focus of actions by Department for the Promotion of Trade and Investment (DPR), now it is in attributing greater worth to "nation branding" and its dissemination, in providing institutional support for the private sector in businesses and undertakings abroad, in the defense of the interest of the various sectors and companies through official actions, and in the drawing-up and maintaining of a robust framework of commercial intelligence whereby Itamaraty will be better able to contribute to the nation's effort in its participation in the globalized economy.

Diplomats make use of credibility accumulated in the last few years

As a way of achieving these objectives, as part of its organizational plan, the DPR has implemented a series of initiatives, three of which are worthy of note: the creation of the Investment Division (DINV), a review of the distribution of staff contracted by the SECOMs - to better match resources to priorities in terms of potential markets; and expansion in the number of SECOMs from 100 to 134 units over the next four years.

As part of the commercial promotion activities plan, objectives and targets have also been established for Brazilian Trade Promotion to meet over the next few years. Among these, of particular note is the increase in the number of commercial missions abroad supported by the DPR. To this end, partnerships will be established with other governmental agencies or business entities.

Another directive is the inclusion, when pertinent, of businessmen on trips by the State Minister. Up to 2015, the annual participation by the DPR at trade fairs abroad is to be increased from 130 to 190, and in Brazil, from 12 to 25. An increase of up to 50% of roadshow promotions is envisaged, with a view to attracting investment for infrastructure works, mega-sporting events, the green economy, and innovation.

Another important measure is the increase in the number of studies and research on investment and commerce to be carried out annually, from 35 to 100, and a 50% increase in the number of activities for training the operators of the Brazilian commercial promotion system. Lastly, the base of importers registered on the BrasilGlobalNet network is to be expanded by up to 40%, increasing from 46,677 to 65,348 companies. Despite the magnitude of the task ahead, work has been maintained at a level whereby it should be possible for goals to be met. ■

Globe-Trotter

Marco Rezende

EXECUTIVE TRAVEL

HOTEL

Swimming with the birds

ORDER, DISCIPLINE and hard work are the features usually associated with the city state of Singapore, one of Asia´s financial powerhouses. It has a population one-third that of São Paulo city, is half its size and its per capita income of more than US$ 60,000 dollars is almost four times as much. At the end of last year, the Marina Bay Sands a resort project was completed on Bayfront Avenue. The complex recalls the excitement of Las Vegas more than Singapore´s more serious reputation. It consists of three towers and floating pavilions and offers a hotel with 2,561 apartments and suites, a casino with more than 1,000 tables and hundreds of slot machines, two theaters, a museum, shopping center and a dozen restaurants run by celebrity chefs , including Guy Savoy and Daniel Bouloud. When the resort is fully operational in 2015, it will employ 30,000 people, directly and indirectly, and be responsible for 0.8% of Singapore´s GDP. Those who want to relax after a hard day´s work can take advantage of a leisure center with a 150-meter swimming pool with a breathtaking view of the city 190 meters below. Singapore Airlines flies from São Paulo to Singapore via Barcelona three times a week. ***www.marinabaysands.com; www.singaporeair.com***.

LUXURY

A jet to call your own

THE EXECUTIVE version of the Embraer 190 (the commercial jet used by Azul, amongst other airlines), the luxury Lineage 1000, made its debut at the ninth Latin American Business Conference and Exhibition trade fair - known as Labace - held at Congonhas airport in August. Tahe Lineage can fly 8,500 km non-stop (São Paulo-Lisbon, for example) and carry up to 19 passengers accommodated in working and relaxing areas. A suite with a private shower can be installed, along with simpler gadgets such as a refrigerated wine cellar and wireless broadband Internet connection. The jet has a fly-by-wire electronic flight control system. The two first planes were delivered to China and an Arab country. The price is at the high end of the quality market at around US$ 50 million. However, it is the same old story: if you need to ask what it costs then you probably could not afford to buy it. ***www.embraerexecutivejets.com.br***

2

FOTOS: HANDOUT

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1 Swimming pool that seems to be in the sky at Marina Sands Bay in Singapore: don´t drink and swim!

2 Interior of the Embraer Lineage 1000 jet: who wouldn´t want to have one?

3 Eduardo (left.) and chef Christian: the best snow eggs in Paris

3

EATING WELL 3

A Brazilian in Paris

THE BEST oeufs à la neige, "snow eggs" or "floating islands" as they are known in English, in Paris (in the opinion of this columnist) are found in the Café Constant in rue St. Dominique. It is owned by Michelin starred chef Christian Constant who also has three other restaurants in the same street, Les Fables de La Fontaine, Les Cocottes and Le Violon d´Ingres. Brazilian president Dilma Rousseff dined in the latter the last time she was in the French capital. The executive chef of Café Constant, an informal bistro that does not accept reservations, is Eduardo Jacinto Avelar who comes from Brazil´s Minas Gerais state. Ask him to share the recipe for this tasty dessert. ***www.cafeconstant.com***.

C I D A D E S

The Economist top 10

THE ECONOMIST has published its annual ranking of the cities with the best quality of life - or "liveability", as the magazine calls it. Melbourne, in Australia, is the champion for the second year, with Vienna and Vancouver sharing the top three positions. Another four in the top 10 are also from Australia - Adelaide (5th), Sydney (7th), Perth (9th) and Auckland (10th) and another two are in Canada - Toronto (4th) and Calgary (5th), drawn with Adelaide. Helsinki, Finland, appears in 8th place. The first-placed American city is Honolulu, in Hawaii which is ranked 26th. The New York Times criticized the list and accused it of being "anglocentric" and questioned whether a good city had to be one in which English was spoken. The survey assessed 140 cities around the world and gave points for the ranking ranging from zero to 100 to 30 in five areas - stability, health, culture and environment, education and infrastructure - and then combined the results of the different items, with different weightings, to reach the final score. The number of murders per 100,000 inhabitants has a high weighting, which explains the poor positioning of American cities, in general, and the emerging countries, in particular. It ranked the three worst cities in the world as Lagos (Nigeria), Port Moresby (Papua New Guinea) and Dhaka, in Bangladesh. The complete study can be purchased at the following address ***www.economist.com/blogs/gulliver/2012/08/liveability-ranking***.

ISTOCK

1

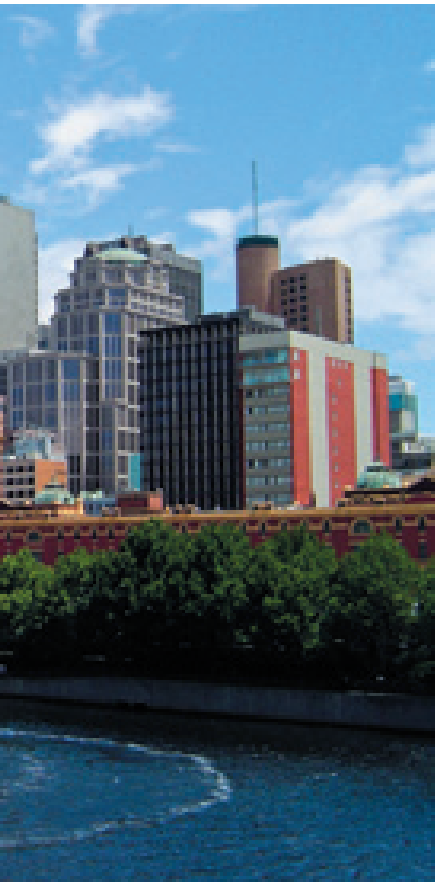
COLLECTION OF THE CAMPINAS IMAGE AND SOUND MUSEUM

3

A I R P O R T S

Viracopos bounces back

UNLESS THERE is some bad luck, August 13 could mark the beginning of the end of the horrors at Brazil´s state-run airports. This is the date on which the national aviation agency (ANAC) has authorized the process to transfer the running of Viracopos International Airport to private initiative, as part of the first privatization auction program. This program also involves Guarulhos and Brasília airports which do not yet have a date set for the return. The concession holder, Aeroportos Brasil Viracopos, will assume its role gradually but it has already applied to the regulatory agency, CETESB, for the environmental license that it will need to begin expansion works when it starts running the place on its own at the beginning of 2013. For the time being, TAP is the only company which has international flights from Viracopos, an airport that has practically the same infrastructure and conditions it had 50 years ago.



MOBILITY

This is what you call transport

BRAZIL´S ACCELERATED Growth program (local acronym PAC), the World Cup, the Olympics or candidates for the mayoral election - something or someone will someday create a decent link between the center of São Paulo and Latin America's main airport, at Guarulhos. The 30-kilometer journey is a currently a torment for passengers who spend from one hour (when everything is going well) to three hours (when everything is really bad) to make the journey by car or bus. It contrasts with nearly all the world´s largest cities where there are quick, safe and reliable train or metros services to the airport. Shanghai, in China, made a breakthrough eight years ago by opening the first commercial line in the world using the maglev type train, i.e. one that moves at a high speed over a monorail without touching the rails, thanks to magnetic levitation. The 30 km journey from the Pudong international airport to Longyang station in the center is carried out in just over seven minutes at a maximum speed of 431 km/h.

SHUTTERSTOCK

2

1 Melbourne: the best city to live in, according to The Economist

2 The journey from the center of Shanghai to the airport takes only seven minutes thanks to the maglev train

3 Viracopos: privatization raises hopes that it will be modernized

4 The Pyongyang restaurant in Amsterdam: North Korea carries out a bizarre kind of marketing

4

OLIVIER MIDDENDORP

OLIVIER MIDDENDORP

4

IDEOLOGY

Propaganda on a plate

THE FIRST European outlet of the North Korean restaurant chain "Pyongyang" opened its doors at the beginning of the year in the Osdorp district in the west zone of Amsterdam. It was made through a joint venture between two Dutch investors and the Kim family dictatorship, involving the business arm of the Workers Party of the North Korean Republic. The chain, a bizarre initiative in a country that is chronically undernourished, got underway quietly in Siem Reap, in Cambodia, and eventually arrived in Singapore, Macau and other Chinese cities, and is now trying out an exercise in a kind of gastronomic diplomacy in the West. The nine-person team is made up of North Koreans, with the waitresses dressed in traditional clothes. For the time being, it is only open for dinner with a sample menu at 79 Euros.

Globe-Trotter
EXPRESS TOURISM

MEXICO CITY

by Lourdes Hernández

LOURDES HERNÁNDEZ was born in Mexico City and lives in São Paulo. Her love of Mexico and Mexican culture makes her an unofficial representative of the country in São Paulo. She organizes dinner events at home, where she cooks authentic recipes nothing like the Texan fast food served up as Mexican cuisine in Brazil. Below, Lourdes provides us with an intimate guide to Mexico City, its museums, archaeological relics, parks, stores and markets and nice little stop-offs to eat and drink in style – from starred eateries to simple restaurants where Mexico's rich culinary tradition is very much alive and kicking.

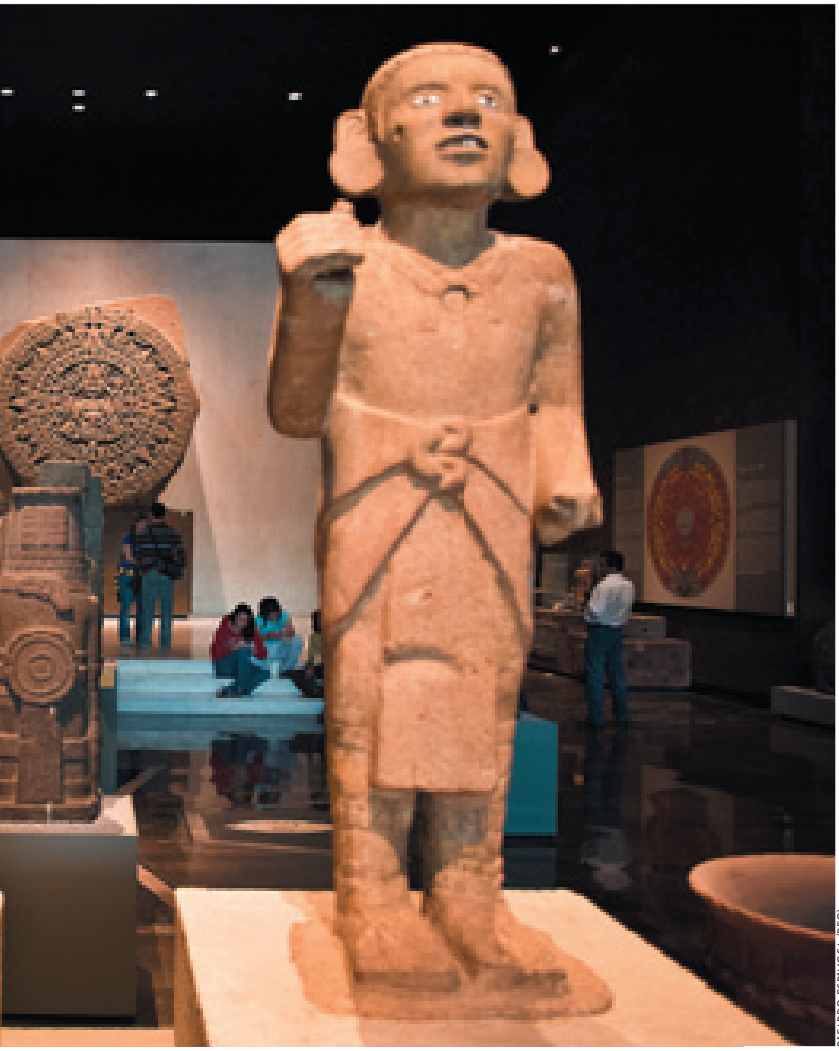
If you have a few hours...

THERE ARE loads of "musts" in Mexico City, especially for first-timers. But for those with only a few hours to kill, the size of the city (and its traffic) makes it advisable to stick to one route. Let´s start with the unique National Anthropology Museum (in Chapultepec, the city´s main park). I would then head off to the Asteca and Maia rooms, leaving the rest for another visit, otherwise you´ll tire yourself out. Check out the second floor of the museum and its samples of live anthropology.

FOR LUNCH, before or after the Museum, try the Diana restaurant at Hotel St. Regis — you can walk there via the sumptuous *Avenida Reforma*. I would ask the chef Enrique to suggest dishes or portions of *antojitos* — finger snacks to share with your friends in the middle of the table. It's a delicious proposal of contemporary Mexican cuisine (with a view of the *Diana Cazadora* fountain in the plaza). Those eating lightly can then stroll over to the Chapultepec Park to see the lake and castle which you will have already espied from the restaurant veranda.

ANOTHER ATTRACTION option is to take a cab and visit *Museo del Templo Mayor*, once home to the large temple of the *mexica* people of Tenochtitlan, the former pre-Colombian metropolis. This trip is a must – you will be in the historic city center, in the heart of Mexico City, next to Zocalo, the city´s main plaza. Then I recommend seeing the handicraft museum in front of Alameda Park (officially known as *Museo de Arte Popular*) and *Palacio de Bellas Artes*, the grand stage and museum of the city, both nearby.

A GREAT place to try some pre-Colombian dishes – *escamoles* (ant larvae), *quelites* (tender wild herbs), the universe of different fruits and fresh homemade *tortillas* – is the *El Cardenal* restaurant, located in the hotel behind the handicraft museum. Or why not relax with a drink and some typical Mexican snacks on the veranda of *Casa de Las Sirenas*, behind the Cathedral.



RICARDO ESPINOSA (REO)

1 Anthropology Musuem: unique in the world

2 Palacio de Bellas Artes: city landmark

3 *Frijol taco* soup, by Biko: haute cuisine

If you have the entire day...

INITIAL RECOMMENDATION: if you want to spend a bit more and eat out at one of the world´s finest restaurants, make a reservation at Biko owned by Mikel Alonso and Bruno Oteiza. A real chefs' restaurant, it is located at 407 Masarik Street in Polanco. Now for the trips: for a day in the city, buy a ticket to ride the *Turibús* (tourism bus). It rides around the city´s southern zone; and on the way back you can switch buses and visit the city center. Just buy a ticket to ride both buses, getting off and on at all stops. In the southern district, go over to the National University to see the large murals created by Mexican artists: they´re truly stunning. The bus also stops at the home of Frida Kahlo, in the lovely center of Coyoacán (the market there is another must).

RICARDO ESPINOSA (REO)

HANDOUT

SMACK BANG in the middle of the plaza is the *Los Danzantes* restaurant, which serves up *oaxaquenha* food – from the Southern state of Oaxaca, another gastronomical universe of *chili peppers* and aromatic herbs and dried and salty meats. Want to try *mezcal*, the spirit distilled from *maguey* (a type of *agave* plant)? At the front of the restaurant is a *mezcalería* also belonging to *Los Danzantes*. All the different types of *mezcales* (and there are many) are there for you to spend a pleasant afternoon in this plaza full of life and surprises.

HANDOUT

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RICARDO ESPINOSA (REO)

2

1 Home of Frida Kahlo and Diego Rivera: Coyoacán attraction

2 Market in Xochimilco: weekend excursion

3 Murals of UNAM Library: by Juan O'Gorman

If you have the whole weekend...

TO REALLY see how Mexico lives and breathes, you have to visit the massive, ancient *Mercado de La Merced*, in downtown Mexico City. Go early, before thousands of people block the corridors (the market opens at 6am from Monday to Friday). And it's got everything: fruit, vegetables; meats, fish, dairy products; sweets and *antojitos,* our gastronomical snacks (you simply must eat the food here). And there's more: medicinal herbs, dishes, ceramics, household objects and live animals. A world, a cosmo-market. Don't take a camera or too much cash.

IF YOU haven't got anything to do on Saturday, go to the *Bazar del Sábado*, in San Ángel, the best handicraft fair in the city. If you want to *desayunar* before going shopping, next door is the *La Fonda de San Ángel* restaurant. The owner Roberto González will cook you up a tasty breakfast. Another place to buy cheap handicraft (and if you look hard enough, you can find some great stuff) is *La Ciudadela*, in the city center. The subway will leave you at *Balderas* station, practically in front of the market.

MORE TIPS for eating out? *Mi Gusto Es*, which serves up traditional Sinaloa (state on the Pacific coast) cuisine: fish, seafood, great prices, a cozy atmosphere. There is more than one location. I suggest the Narvarte one, located at *Diagonal San Antonio 1709-C*. Or *Contramar*, on *Durango* street, Roma (near Chapultepec Park). Arrive there early to have lunch. The food is delicious; again, try the seafood. Next door you will find one of the legendary sell-everything stores: *El Palacio de Hierro*. Go on in: it´s expensive, but a good time is guaranteed.

WITH MORE free time, make some time for a trip to Teotihuacán, the archeological zone less than an hour from Mexico City, famous for its huge pre-Colombian pyramids. All the hotels offer trips there. On Sunday, go to *Parque México* and take part in free ballroom dance classes. In this park, located on one of the corners of *Michoacán* with *Avenida México* (the road is circular and these two avenues cross each other twice) you will find a Carmen Rion store (named after the designer who makes beautiful men´s and women´s clothes).

AND AT ANY TIME, night and day, you must set aside a few hours and go to Xochimilco to forget you are in the middle of one of the world´s most populated cities. Try some fried *tamales* (made from corn dough), pumpkin flower in *quesadillas*...fresh, colorful food. Then go out onto the lake in a flower-decorated barge, listen to some music and spend the afternoon drifting down one of the old canals of the former Xochimilco Empire.

Rodrigo: learning to be patient

How the Other Side Does Business

RODRIGO SCAFF *

PERSONAL COLLECTION

AS A business development consultant, I have worked with Brazilian and foreign companies which were entering new markets, including Japan. I have been to Japan four times and have been struck by the novelty and surprise each time. Routine business meetings and negotiations highlight a society that is unique and so different from ours that it is difficult to draw up a specific list of differences as there are so many.

We can start with the protocol seen during a business meeting. There is a set of steps in terms of the form and content of the discussions which is followed without fail. The approach is exactly the opposite of the informality that is the norm in Brazil and the point of the subject is not raised at the first meeting. This formal attitude often requires mutual visits to the respective head offices, even in different countries.

The western idea that "time is money" has no place in Japan. I left meetings In Tokyo several times with the impression that it would take forever to reach a deal - if ever. However, I gradually realized that we would have to adapt to a different culture. I learned that the main interest in a partnership for the Japanese was not in short-term results but in creating something that was really solid and long lasting.

I now know that it can take twice as long to negotiate a distribution partnership on the Japanese market than in other places. I have been involved in cases that have taken years to come about. This was what happened to Miolo, a wine producer from southern Brazil which wanted to enter the disputed Japanese market and promote its wines to the public, particularly consumers with higher purchasing power. Instead of using Brazilian residents in Japan to do so, it wanted a local partner. Thanks to the company´s persistence and willingness to accept the differences, we now have good Japanese partners distributing the wines and Brazilian labels have gained space in Isetan, Japan´s most prestigious chain of department stores. Brazilian cachaça (a sugar-based spirit) and footwear then followed and new partnerships are on the way.

There is no doubt that this comparatively leisurely approach may seem odd to our business culture but we have to recognize that it is based on positive concepts, such as loyalty between partners and the pursuit of stability. Other remarkable factors in Japan are perhaps the excellence of the services which are always provided in a personal way. However, there is one difference: the provision of personal and differentiated services in the West usually involves the payment of tips which is not usual in Japan.

During my second visit in 1998, I can clearly remember insisting that a girl who had carried my bag in a hotel in Kyoto should accept a tip of 300 yen. She refused and became red-faced and ashamed. I ended up feeling embarrassed but I learned a lesson. However, a lot of cultural changes are said to be occurring nowadays and I have heard that the younger generations are not following the old customs as strictly and are starting to come closer to western cultural habits. It will be interesting to accompany these changes and see the new path Japan is taking.

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