



BRAZIL SERIES - III.

SÃO PAULO

BRAZIL'S LARGEST STATE CONTINUES TO SHINE AS ITS COMPANIES GROW TO TAKE ADVANTAGE OF A BOOMING ECONOMY

IT COMPANIES RIDE THE BRAZILIAN ECONOMIC BOOM

THESE ARE HEADY TIMES IN BRAZIL, A COUNTRY WHICH A FEW YEARS AGO WAS ON THE ROPES ECONOMICALLY BUT WHICH NOW IS ONE OF THE WORLD'S ECONOMIC CHAMPIONS. ALL INDICATIONS ARE THAT THE COUNTRY WILL BE AMONG THE TOP FIVE GLOBAL ECONOMIES BY THE END OF THIS DECADE

The world is watching as Brazil continues to post a respectable growth and, of course, as the country works all out to ensure the success of the 2014 World Cup and, two years later, of the Summer Olympic Games.

Vital to Brazil's aspirations are its information technology, or IT, companies. The country is the seventh-largest IT market in the world with an estimated \$166 billion spent on the sector in 2010 alone. Domestic outlay on IT has steadily grown, as has computer ownership and mobile phone operations.

At the same time, Brazil is one of the top-ranked Latin American countries regarding IT investment in research and development and some one million people work in the sector.

Last year sector performance was also stellar and although there has been some slowdown, 2012 is shaping up quite nicely according to Brazilian IT executives both for domestic companies and the increasing number of foreign companies entering the market.

Opportunities in Consolidation

One of those is Midas Medici Group Holdings of the United States which last year acquired a mid-size Brazilian IT company, CIMCORP, that specialises in data centre ser-



ÓTAVIO DO Ó
MARKETING
DIRECTOR OF
CIMCORP



NANA BAFFOUR
CEO OF
MIDAS MEDICI

"BRAZIL'S ECONOMY IS UNDEREXPOSED TO AMERICAN INVESTMENT, AND IS UNIQUE TO US"

vices and concentrates on helping local companies implement cloud-based systems.

"We want to focus on Brazil because we see the growth and we believe Brazil is one of the main emerging markets and one of the top economies in the world. As well, doing business in Brazil is in many ways very similar to doing business in the US in terms of cultural nuances, a lot more similar than India and China" explains Midas Medici Group Holdings CEO Nana Baffour.

Another factor in the decision was that while Brazil's economy is strong, the country's telecoms, technology, data centre services and other IT industry sectors still have plenty of room for improvement, he says.

"Our third argument for coming to Brazil was the macro trends evident here such as the massive movement from the lower to the middle class, a strong industrial base in things like automobiles and financial servi-

ces, as well as a vibrant retail sector.

And the last reason is because Brazil has an economy which is underexposed to American investment and because we are a U.S. publically-listed company, it is important for us to participate in an economy that would be unique to an American investor," Baffour adds. "It was a perfect match."

While declining to get into specifics, the CEO says last year's results were very satisfactory and the fourth quarter was especially strong. "In terms of growth expectations, the investment is working out exactly as we had hoped."

With 20 years in the sector, CIMCORP has a well-established client base amongst both the public and private sectors in Brazil and in 2010 registered revenues in excess of \$84 million.

More than half of the 300 largest companies in Brazil are clients of CIMCORP, including eight of the 10 largest financial institutions, eight of the 15 largest telecoms and eight of the 15 biggest energy firms.

This market experience and know-how are key in helping the parent company navigate Brazil's sometime daunting business

environment, Baffour argues.

“Carrying out an acquisition is the perfect way to do it because you have people who understand the political situation, the demographic issues, and, with a large public sector client base, you need that local presence which shortens the time to be effective.”

However, challenges remain. The CEO says that it is difficult for a mid-size company in Brazil to access capital, the complexity of the tax regime is mind boggling and the labour pool is both shallow and expensive. But, he says, being involved is still worth it.

“Our expectation is that two things are going to happen in the Brazilian IT industry. One, we believe it is going to accelerate because of the economic growth and especially in those sectors heavily reliant on IT such as financial services, education, retail, health care, etc.

Secondly, we think that eventually there will be consolidation in the industry. We want to be active in that as a buyer and we are looking for opportunities,” Baffour says.



Betting on Testing

Growth is also driving change at RSI Informática, Brazil’s largest software testing and quality company which last year celebrated the milestone of 12,000 completed projects with 6 million hours in test projects.

It was recently rated among the top 15 small and mid-size Brazilian companies registering growth and was also the only software testing company in the list.

“We’ve had very significant growth over the past three years and we decided that the company needed to rethink and to reassess our strategy, and restructure through a process of professionalization,” explains Osmar Higashi, RSI’s director of corporate development.

“So for us 2011 was a year of structural change involving finance, project management and marketing which we will be carrying out for the next two years. It’s easy to have a company grow, but it is difficult to achieve sustainable growth that is consistent over a period of time,” he notes.

Founded in 1993, RSI has more than 900 employees and offices in São Paulo, Rio de Janeiro, Minas Gerais and Brazil’s Federal District, and is active primarily in the financial



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services, telecommunications and retail business sectors.

Last year, the company posted net income of \$48 million.

Higashi attributes the company's success to hard work and significant investment, coupled with RSI's aggressively developing the niche market for software testing.

"Mission critical applications are those for which there is the most demand for our services, specifically in the financial sector. We have an intrinsic knowledge of this sector, such as processing financial products, business systems, applications and business risk," he says.

"WHAT IS DIFFICULT IS TO ACHIEVE A SUSTAINABLE GROWTH THAT IS CONSISTENT OVER TIME"

The development director lists RSI's three core pillars in its business strategy: knowledge management, a corporate database that records the history of all the projects developed by RSI; talent management, identifying and recognising talented employees to encourage the full use of their skills; and governance, ensuring that the alignment and distribution of the company's strategy is focused on success.

These core pillars have served RSI well in its partnerships with foreign companies with which it licenses foreign material for training, or technology transfer. Higashi also sees opportunities beyond Brazil, at first in the rest of Latin America and eventually with a more global presence.

"We are doing some market research in Latin America and with a little more effort we could position ourselves in the U.S. market and in the European market in the reasonably near future," he says.

And that future appears bright both at home and abroad, Higashi argues.

"Despite all the efforts that exist in the

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development of practices, methodologies, tools, techniques and everything else to improve software application development, there will always be a constant need for software testing. We bet on it.”

Manpower Shortage

Another São Paulo-based company which is doing very well is ITC-Technology Solutions, which is fortunate in operating in two sectors - information technology and engineering - that are reaping the rewards of Brazil's economic boom.

“Our ITC clients include such companies as Volkswagen, Siemens, the Saint Gobain group and Sadia, and we handle all their technology needs, network, data centres, etc.,” says president and commercial director Ricardo Araújo, while the engineering division works with international clients like the Hyatt, Marriott and Meliá hotel chains.

Both segments, he notes, are on the increase because of the massive investment for the World Cup and the Olympics, not only in large, public projects like football stadiums, but also in the private sector projects like hotels and residential developments.

“Right now we are doing all the engineering for around 28 buildings in the commercial, hotel, hospital and residential sectors,” he says.

“Last year we had a turnover of around \$28 million and enjoyed growth of some 27%, which I consider very good for a mid-size company,” he says, conceding most of the increase came from the engineering side of the group.

“But with each new building, whether commercial or residential, there is also a need for information technology”, the president notes.

And ITC is not ignoring its IT business. In order to ensure its place among the leading information technology companies seeking contracts from all this feverish activity, ITC is investing strongly in retraining its employees and restructuring its teams.



“IF ALL THE BRAZILIAN ENTREPRENEURS JOIN TOGETHER, BRAZIL WILL BE A LEADER IN THIS WORLD”

“If you want to have a long-standing and positive relationship with your clients as an IT service provider, you must have excellent staff,” Araújo says.

Like other executives in many industries, Araújo laments the manpower situation in Brazil where there is a crippling shortage of qualified workers, especially in high-tech sectors or those requiring advanced education and training, resulting in expensive

employees.

“Our biggest expense in the group is manpower, not raw materials because that is billed directly to the client.”

Again echoing other Brazilian business leaders, Araújo says another major concern is the price of capital. But despite these obstacles, he argues that the country is on the right track and could someday soon be a global economic power.

“Brazil is very welcoming and it will find its strength in unity,” he explains. “If all the Brazilian entrepreneurs, corporations, companies and organisations join together, Brazil will be a real leader in this world.”

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INTERVIEW WITH PEDRO JORGE DE ALMEIDA ALBUQUERQUE

Managing Director of Nobre Seguradora

As the Brazilian economy jumps ahead, the home-grown insurance sector follows suit. The leader among the purely Brazilian players in the market, Nobre Seguradora, is finding strength in favourable market niches as it makes a unique offer tailored to each one of them. Nobre's stellar growth is expected to be followed by an IPO in the next few years



2011 has been a good year for the Brazilian economy. How has it been for Nobre Asseguradora?

P.J.A.A.- Results for 2011 were amazing, better than expected. We closed the year with a revenue of approximately half a billion Reals. Our company has progressed from a being a small to a medium-sized insurance company. For many years our firm was focussed on public liability insurance, agricultural insurance and warranty insurance. Our company was founded on life insurance, and worked for a long time in the field, becoming one of the biggest in the area of life insurance, and we then sold our portfolio to a company in the U.S.A. I invested the money from this sale back into the company and started to work on the basic sectors. We're now the top insurance company, the biggest independent insurance company in the country, that is, one that's not part of a bank, or involves foreign capital.

So, it's been a fantastic year... To what do you attribute this spectacular performance?

P.J.A.A.- To the consolidation of our investment experience over the years; to the specialization that we have in niche markets. The company aims to work with niche insurance, which means we don't compete with the big insurance companies such as Bradesco, Itaú, etc... It would be a waste of time. We look for certain kinds of insurance and focus on them, and dedicate ourselves to these kinds of insurance and to building this experience.

"IT'S VERY COMPLICATED TO TAKE A FOREIGN SEALED INSURANCE PACKAGE AND INTRODUCE IT INTO BRAZIL"

To what extent is this performance due to the growth of the economy and to the upward mobility of social classes?

P.J.A.A.- I think that it has everything to do with both. I'm from the era when insurance in Brazil didn't correspond to even 0.5% of GDP, so it's been a real struggle to get as far as we've got. The progress of Brazil from one level to the next, or rather, its positioning in the financial market alongside the big global players, has meant that the population with low earnings has also been able to move up to the next level, and has started to buy insurance – and actually the insurance market in Brazil is still in its early stages, there is a long way to go. At a national level, only 20% of the cars are insured.

Is 2012 starting well?

P.J.A.A.- It's started very well, very well indeed. I'd say that we're an insurance company that's very well regarded by the market generally. If you ask around, you won't find any complaints about our work, or any brokers complaining about our work. We know how to say "yes" and "no" at the right time; we pay only services that are covered, but we pay them all; we don't delay broker commissions. This has strengthened the

company name and has enabled it to grow to the extent that it has done.

My intention in the next 2 or 3 years is to achieve a revenue of 1 billion Reals, which is when we intend to undertake an IPO. That's our current plan.

Has Brazil's ranking in the priorities of international insurance companies improved?

P.J.A.A.- I welcome many foreign executives here, from insurance companies all over the world, who want to do business with us, and who normally want to try to buy part or all of my company. In principle I don't ever want to sell control of the company, that's not my plan, it's not that I disagree with it, but it's just not what I intend to do. This leads to a stalemate, as they need 51% to control the company, and it can cause a few difficulties with working with some of these foreign companies.

Would you say that the current economic situation in Brazil is sustainable over the next few years?

P.J.A.A.- Yes. I think that Brazil now has no more reason not to be successful, and now is the best time to invest in Brazil. Brazil is going to take a huge leap forwards, and it's already starting to do so. All the work that's been done since Fernando Henrique Cardoso's government, through Lula's and now under Dilma, is now consolidating. Very soon, Brazil's economy will be bigger than France, it'll be in 5th place.

What are the challenges that need to be overcome in order for sustainable growth to continue?

P.J.A.A.- The population now is better educated; the support the government has given to the people can't be lost, they will fight for that. Brazil has managed to develop hugely with both technology from abroad, and with what has been done here. The increase in consumption was also very important for industry to grow... And the service sector, which Brazil didn't have. Brazil now has a very large service sector.

What do you think are the common misunderstandings of foreign visitors to Brazil that need to be addressed?

P.J.A.A.- I would say that there's no use trying to implant the recipes that has been successful in China in Brazil. They're completely different cultures, climates, regions... The idea of Tropicalizing is also a little complicated... The ideal would be to use what's here and to improve it, to reinforce technology, and use the years of knowledge that other countries have... But if you try to change what's here now, with the actions that gave results there, you could be risking results here. It's very complicated to take a sealed package, made for another country, another culture, another economy, and put it in Brazil.

INTERVIEW WITH ALEXANDRE RAPOSO

President of Record TV Network

Brazilian TV producer and broadcaster TV Record is finding innovative ways to use its content in multiple platforms, reaching not only the new social classes in the country but international audiences as well. While advertising prices are still low for international standards, opportunities abound in the entertainment business as Brazil's leaps forward into first world status



"AS SOCIAL CLASSES DEVELOP, SO WILL CONSUMERS AND AD VALUES WILL IMPROVE "

What are the keys to success of your internet business, which has grown by over 100% in the last year?

A.R.- *The greatest secret of our success is the synergy of the internet with television. In Brazil we achieved something no one else had done before: showing programs simultaneously on the TV and on the internet, as well as exploiting this content on the internet, in short videos, using the advertising on the channel which I'd say was very successful, and also using a strategy of freebies to attract Internet users. We managed to develop this, and have horizontalised this portal - which in its first year was only a news portal - and which in its second year has already advanced considerably. One can see that in a short period of time we have really moved ahead and we are now in 4th place in the rankings of the commercial portals. We are working with a number of partners and are investing heavily in people - and very young people at that.*

What do you think there is in the company's DNA that makes it more international than the other Brazilian companies?

A.R.- *I think it is actually a question of dividing up the world. Record sees television not only as television, but as a supplier of content. In our production, we don't only focus on Brazil, we believe that our content is relevant to several countries and this is why we've put together this considerable international network; even if our turnover isn't very big yet, we are creating bases and increasing the number of people who consume our content daily, and this helps us considerably when we want to sell the series, as in a way the publicity and promotion of these products is already underway.*

You can see that when we started making these series we sold them to five countries, and now we are selling them to over 70 countries. This international network is a strong contributory factor. We also believed that Brazil would go on to take huge steps forwards, and that the moment it did, people would seek out a Brazilian channel to watch and to keep abreast of events, not just on the internet, but using an open or journalism television channel - like Record News. Record News is also part of our interna-



tional base... It's a channel that discusses Brazil, its economic, social, commercial, industrial and other issues on a daily basis. This is our vision, it's not that we think more than anyone else, but that we considered ourselves as producers of content and believed that Brazil would make a leap forwards, so we made that investment.

Do you believe in the co-production system, or rather, do you believe you can have more partnerships with international producers in the future?

A.R.- *I think this already exists. Record is a pioneer, we were one of the first television channels to do this in Brazil, and we have several products on air, principally the reality shows that we make with independent producers. Some time ago the government created legal incentives for independent production that I thought were very interesting. It's now possible to produce more competitively and to generate more jobs, and thus automatically generate more content and more opportunities. I think it's a way forwards... I don't think that a broadcaster can be co-produced, but I do think that co-production will definitely increase this participation.*

And do you think that advertising revenue in the television sector will continue to grow?

A.R.- *Yes, I think that it will grow a great deal as television advertising in Brazil is still ac-*

tually very cheap. If one compares the number of people in the more developed or first-world countries, one realises that the cost of advertising in Brazil is still very low. As social classes develop, so will consumers who love television, and values will improve. These values will tend to go up, and if they go up so will the market. I've noticed this, and the advance of class C, the improvement of classes A and B, and the reduction in numbers of classes D and E will undoubtedly bring tremendous growth for television. The internet will also benefit jointly.

Is the "Brand Brazil" well received around the world, in your opinion? How does the "Brand Brazil" affect your work at Record?

A.R.- *Yes, it's very well received. We should congratulate President Lula; he was a great promoter of Brazil... Clearly, our social indicators are still not ideal; we now have a rich Brazil, but the population is still poor. We need to learn how to give these people the vision to make money. For too long Brazilians have wanted merely a job, and then a little entertainment... We have to teach those people to have vision, how to be entrepreneurs, how to get rich. The same vision as the Americans... Americans celebrate their first million, and Brazilians still don't. We should teach our people to strive for this, and Record intends to contribute to improving this vision for Brazilians, which is one that will undoubtedly benefit everyone.*

INTERVIEW WITH MR. RONAN HUDSON

Commercial Director of JadLog

As the e-commerce sector booms in Brazil, logistics and transport specialist JadLog reach the bounty of many years of investing in its distribution network. Experienced in the transport of values, JadLog is finding that personalisation, having a national coverage and offering a fully bespoke service makes the difference and guarantees Asian rates of growth. Installing automated systems will be the next step in keeping abreast of the competition



“WITH THE GREAT GROWTH IN E-COMMERCE, WE WHERE IN THE RIGHT PLACE AT THE RIGHT TIME”



restricted by its own regulations, and nowadays companies require personal attention. Our greatest opportunity for fast growth is through giving a bespoke service: we meet the customers' needs when they want and in the way they want... It is a fully personalized service.

For how long do you think a company can grow at a rate of between 20% and 30%?

R.H.- *This is something that will level out, but I imagine that for the next five years we will continue at this rate of growth, particularly as we have the World Cup, and then the Olympic games... These are two important factors as there will be a great deal of building work in Brazil to implement the infrastructure for stadiums, public transport, hotels and everything else, and this is already generating significant transport demands in every region; we take part in this due to the speed of the work, which demands a fast transport service to meet demands.*

What's your vision for JadLog in 2016?

R.H.- *We've invested heavily in terms of our fleet of planes – we currently have 31 light aircraft and a larger plane that can carry up to 5 tonnes on the Southern route ; we are also investing in technology, because information nowadays is just as important as being able to deliver throughout Brazil... We've invested a great deal in technology in order to be able to access the order on the screen immediately – we can now get your signature as you receive the order... We're registering deliveries via mobile phone - Android – which covers the street level, in order to later scan the receipt and process it, but this happens when information has already been delivered... we are also planning to invest in mechanizing terminals – an automated, mechanized CD, with more CDs to be able to facilitate our internal procedures to process orders... In two years time, well... let's see... the hope is that with 30%-40% growth we'll have over 700 franchises, aiming to serve much smaller towns and have a network the size of which only the Correios has at the moment, as it is still the major shipment and transportation network. This is a network that will be hard to compete with.*

2011 has been a very good year for most sectors of the economy. How has it been for you at JadLog?

R.H.- *We ended 2011 with a marked growth of over 28%. The previous year we also grew at this rate... Therefore, if we look back to the last 3 years, we've grown by around- 40% three years ago, and by 30% in the past two years. It's atypical for the market... This year we expect to grow by around 25%.*

To what do you attribute this accelerated growth? These kind of figures are not very common...

R.H.- *No, they're extremely unusual. These figures are due to the market niche we have created. The company has its roots in an area of transportation connected with bank bags. It was involved with this for many years with a limited number of clients... It then opened up to companies, Ambev, Souza Cruz, Medical Labs, and developed a very solid structure in order to be able to meet the needs of the banking sector.*

At what level is the growth of e-commerce affecting you and the transport sector in general?

R.H.- *There has been a change in direction and e-commerce has influenced this. The change we made in this area was to choose part load and door to door service, and to serve the general public; many transport companies focus on B2B and we focus on B2C, thus we have distribution throughout the country, we deliver to every city in the country, and this has been what differentiates us. We were in the right place at the right time with this growth in e-*

commerce, and it currently represents around 20% of our business.

Will e-commerce grow to more than 20% of your business or will it stay at the same rate?

R.H.- *It will continue at around 20%, as our other clients are also growing at this rate... We've now established e-commerce with Walmart, with the publisher Editora Saraiva... All the big players in e-commerce work with us, and are already a significant part of our business. Another area that is expanding fast and in parallel is that of technical support. We currently deliver technical support for Sony, LG, LexMark, Positivo - a national brand, the biggest computer manufacturer in the country... We work together with these brands to transport repaired and new devices and we deliver devices for repair, to the end client or to the small businesses that offer technical support for customer service. This is another area that is growing exponentially.*

What's the greatest competition?

R.H.- *If you look at e-commerce, there is a growing demand for national coverage, as this has to be wider for internet sales; there are customers everywhere needing a comprehensive service, and this is very influential. The regional companies don't have a lot to do with this... I have observed this and I know that we don't have much competition. We don't have many competitors, but the one major player in the market is the Brazilian Correios [the equivalent of the Royal Mail]. The Correios is a national provider and is of reasonable quality, but it is hindered by its size and its standardized service. It is*

INTERVIEW WITH ANTONIO CARLOS CAIO DA SILVA Chief Regional Officer of TÜVRheinland - South America

German multinational company TÜVRheinland is used to work in many foreign markets. Yet few are offering the opportunities that Brazil does, and the company is using its Brazilian operation to launch a South American growth strategy in countries such as Colombia and Peru. Only the lack of specialised human resources gets on the way of a faster growth



How important is Brazil becoming for your South American strategy?

A.C.C.S.- I would say that the importance of the size of Brazil is currently greater than I would like, not that I would want to reduce its size, but rather, I would like to increase the participation of other countries. Our presence in other South American countries was very limited as we were only represented in Argentina and Chile. Since last year we have started operations in Peru and Colombia, these are the two countries that have undergone the greatest growth in South America over the past 6 or 7 years. It was only a year ago that we began operating in these countries, and I believe that soon Peru and Colombia will significantly contribute to our revenue in the region.

In what areas do you think your business in Brazil will grow the most? Where are the most interesting opportunities?

A.C.C.S.- We have an activity called "Project Management" and we have an area which covers infrastructure supervision and inspection, and in the transport area: railways, ports, airports... The development of complex engineering works. The area of oil and gas, nuclear energy, transmission, mining... The whole infrastructure. These are the sectors where we are growing strongly and there's considerable demand for our services.

I have come across a few Brazilian executives working abroad, but not many. Do Brazilian executives "travel well"?

A.C.C.S.- I think Brazilian executives have a lot to learn about positioning themselves internationally. I think our educational system, our preparative system is deeply flawed in basic areas. I realise our personnel are often very able, and have considerable technical knowledge, but when they find themselves in an international situation, they find it more difficult to adapt. I think we're still weak; but we have great potential!

Brazilian creativity is an enviable quality. In the world of the business, creativity means the capacity to understand a process and to adapt quickly to changes in this process. In order to move on from the line of action which they learnt or were trained to do, Europeans and Americans take a while to realise what changes and adaptations need to be made, while Brazilians are much faster in adapting, however, what they

lack is the discipline to organize themselves. There are two distinct points: one is very rigid, but organized. The other is flexible and creative, but disorganized. So in the construction of an organization, putting things in the right places... Brazilians still lose out with this.

In your own case, a German company in Brazil, there's presumably potential for all kinds of culture shock...

A.C.C.S.- It's also an interesting question, of whether you have the ability to change your lens. You must be able to look at the reality of a country through its own lens, and not try to understand the reality of one country with the lens of another. You can often see something being evaluated and then someone says "but it's not going well in Germany". It may not be going well in Germany because German reality doesn't have a demand for it, and we do. I'm giving a very simple example, but you often see people using references for one reality in order to evaluate another. Culture shock does exist and I think that the greatest skill for someone like myself, who leads an operation in one continent but relates to another, is to have the ability to interpret the requirements of both, and to manage to communicate ideas between both. I think this is the most vital skill to have.

Has Brazil really managed to turn the corner, are good times really here to stay, or is the current situation just a bubble?

A.C.C.S.- Obviously the good times we are living in are exaggerated; the government is over emphasizing the good things. But we really are living at a good time, however, what concerns me is that we're not taking advantage of this moment to make these good times sustainable – to use the current buzzword.

To what extent can this problem of lack of human resources put a halt to Brazil's future growth?

A.C.C.S.- Well, I have several investments that are on hold due to the lack of people and professionals qualified to develop them. I'll give you a specific example... The country's growing, the population's growing, if we don't get these specialized resources all will start to slow down. The moment it begins to slow down there and there are offers of opportunities in China, in India, this capital will disappear and we may –

" TO MANAGE AND COMMUNICATE IDEAS BETWEEN CONTINENTS IS THE MOST VITAL SKILL "

in an extreme hypothesis – begin a process of losing the capacity to grow. We'll start to have problems in the area of project development. Professionals will retire and not be replaced... In the most extreme case, the country could have a vast population, but without the capacity to administer itself. I'm obviously taking this to an extreme, but I do believe that we are very close to the critical point of our development process due to lack of resources.

What's the most important Brazilian myth that needs to be explained or perhaps addressed?

A.C.C.S.- That Brazil isn't serious. I think we have a population in Rio de Janeiro, in Bahia, etc, that works hard, and that works with dedication. A characteristic of Brazilians is their loyalty. The stereotype is that it's not a serious country, that the people are lazy, but this image of Brazil as a "Banana Republic" is wrong, and moreover, it's just as well that this image is so prevalent, as it means that many of the investors who are with me can actually see the reality and see that we are leading the process here in Brazil. The success and very existence of a company like ours is testimony to the fact.

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BRAZIL'S INDUSTRIAL SECTOR SEES TRIUMPHS AND CHALLENGES AHEAD

SÃO PAULO IS BLESSED WITH ONE OF THE MOST ADVANCED INDUSTRIAL SECTORS IN LATIN AMERICA, CURRENTLY RESPONSIBLE FOR MORE THAN ONE-THIRD OF THE STATE'S GDP

Analysts predict that industry will continue to grow, fuelled by the government's massive spending on big-ticket public works projects along with a rise in consumer goods purchases as more and more Brazilians move up into the middle class.

At the same time, Brazil is one of the world's biggest suppliers of raw materials such as tin, iron ore, lumber, petroleum derivatives and other commodities much in demand in the booming Asian economies, while the heavy machinery, shoes and clothing, automobiles, aircraft and information technology products sectors register continued healthy growth both at home and abroad.

Three of these industrial sectors - motor vehicles, food and beverage packaging and textiles are among the star performers with



DANIEL ANGELO ROSSETTI

MARKETING DIRECTOR OF ROSSETTI - EQUIPAMENTOS RODOVIÁRIOS

"IN INFRESTRUCTURE, WE HAVE THE WORLD CUP, THE OLYMPICS AND URGENT PROJECTS AT ALL LEVELS"

leading companies based in the southern state of São Paulo, known as "the locomotive of Brazil" as it leads the country in industrial and economic production, with the capital the largest city in South America.

A Great State to Invest

"São Paulo is a great state for a company to invest and offers many opportunities," says Daniel Angelo Rossetti, marketing manager for heavy lorry manufacturer ROSSETTI Equipamentos Rodoviários, which is headquartered in Guarulhos, near São Paulo city.

One of the area's attributes, he says, is the ease of finding manpower skilled in mechanics and metallurgy compared with other regions of Brazil. But, like companies in all sectors, Rossetti is aggressively training apprentices to ensure a steady supply of skilled labour.

"We have a new plant nearby in Itaquaquecetuba which began operating last year, along with our other factory in Betim in Minas Gerais state," he explains, which manufacture an extensive product line of dump trucks, articulated lorries, vans, heavy

military lorries and other vehicles.

Rossetti says that following a slow-down in 2009 due to the world economic crisis, the next two years were good for the company, thanks to the massive government construction works and a recovery in the Brazilian mining sector. "Last year," he boasts, "was spectacular! We certainly have nothing to complain about."

In 2011, the company billed almost \$223 million, with growth primarily due to demand in ROSSETTI's domestic market which is not that attractive to foreign heavy lorry manufacturers for various reasons.

"As far as I know, no foreign lorry makers have set up operations in Brazil, either through subsidiaries or establishing their own factories," the marketing manager says. "The initial difficulty would be the size of the country because you have to set up a distribution and service network. It makes more sense to import parts and assemble here."

Also, the Brazilian heavy vehicle industry supplies 99 per cent of the domestic market, allowing little chance for foreign competition to be successful, and foreign competitors face daunting import duties.

Like many Brazilian executives, Rossetti advises foreign companies in whatever sector thinking of opening operations in the country to take on a local partner who has market knowledge and experience, and avoid starting from scratch.

"Another way to do it would be to buy smaller companies in the same sector and grow organically," he argues.

The marketing manager is confident that the heavy vehicle sector will remain buoyant for the foreseeable future. Once the United States and Europe overcome their economic problems, the resulting increase in demand for Brazilian minerals will benefit ROSSETTI.

"As far as construction is concerned, we have the World Cup, the Olympic Games and urgent infrastructure projects at all levels. Even if this activity does not continue at the pace of the last two years, it should at least be constant and stable," he says.

Looking five years down the road, Rossetti sees his company growing with an increased production capacity and new product lines which will strengthen its presence in the market.

"What I think we can achieve is a larger company with more products."



EDSON LUIS ROSSI
PRESIDENT & CEO OF
VIDROPORTO



"OUR GROWTH IS PINNED TO THE UPSURGE IN SPENDING AS BRAZILIANS BECOME RICHER"

Challenges Ahead

Another growing industry which has little to fear from rivals from abroad muscling into their territory is the glass beverage container sector, says Edson Luis Rossi, the president and CEO of Vidroporto, one of the leading companies glass packagers.

"The type of product we manufacture is,

by its nature, difficult to export over long distances and logistics and transportation costs for shipping glass is prohibitive," he says. "Of course that also works against us exporting to other countries."

Located in Porto Ferreira, the company has been operating for more than three decades and last year posted growth of 10 per cent in volume and 20 per cent in earnings, to \$55.5 million.

"We went through a period of difficulties for some ten years but then we began to invest again to increase production and boost technology, while at the same time



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keeping our fixed costs in proportion.

"Our strategy is to keep the company lean, dynamic and low cost to give us the competitive edge over our rivals," Rossi explains.

Vidroporto manufactures glass containers of various sizes, shapes and colours for beer, rum, wine, champagne, cognac, gin and other spirits, as well as for non-alcoholic beverages such as soft drinks and fruit juices.

Its factory employs 300 workers and annually produces an average of 138 million bottles to supply 10 per cent of the Brazilian market.

This year, the company plans to install another production line, increasing its capacity by 20 per cent and enabling it to make smaller and lighter bottles through a new process.

"We are fortunate in that we are located close to the capital, just 220 kilometres, so from the standpoint of logistics, supply, knowledge, networking, etc. we have many advantages. The highways in São Paulo, for example, are very good.

"And while our growth is pinned to the upsurge in consumer spending as Brazilians at all levels become wealthier, I do see some challenges for the country as a whole," Rossi warns.

Among those concerns are Brazil's tax structure, the increasing cost of energy and bottlenecks in the supply of skilled labour. Brazilian taxes on companies, he notes, total up to 40 per cent which puts industries at a disadvantage when competing with rivals from other countries with tax rates of 15 or 20 per cent.

"I think these are the biggest obstacles and there are no easy solutions, but we have to believe the pace of growth that we've enjoyed in recent years will continue."

Rossi says that he would like to see Vidroporto boost its production in the next few years to double its current rate, but most of all he wants Brazil to prosper for the benefit of the next generation.



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FUAD MATTAR
PRESIDENT OF PARAMOUNT TÊXTEIS

“CAN WE COMPETE WITH EUROPE, WITH THE UNITED STATES AND WITH SOUTH AMERICA? YES!”

industrial yarns for knitting, crochet and tapestry, all attending local and export markets.

“We are still largely competitive internationally. We have the most modern machinery and technology with optimum efficiency, high productivity and outstanding quality,” the chairman says.

“Can we compete with Europe? Yes. Can we compete with the United States? Yes. Can we compete with others in South America? Yes. But can we compete with Asia? No, as long as their currencies are undervalued,” he argues.

Chinese manufacturers, he adds, are not producing better quality textiles but their sales are bolstered by their government’s intelligent general industrial policies which

recognise that exports are a national interest.

According to Mattar, the situation for Brazilian textile manufacturers will not improve until they have enough power to influence the federal government to carry out such measures as imposing import quotas and setting minimum prices for textiles from foreign producers.

“We have a federation of industries which has helped us a lot and lobbied the government to take some action,” he says, in order to introduce industrial policies to motivate the local manufacturing of products.

If that happens, those surviving companies could once again put the country’s textile sector back into the game internationally.

Speaking of the Brazilian economy in general, Mattar is bullish, noting that productivity, efficiency and quality are world class, and especially the agribusiness sector with meat, soybean, corn and cellulose exports, among others, performing well.

Currency Wars

In contrast to these two companies, textile group Paramount is a major exporter, racking up annual sales of \$160 million and last year 30 per cent of its production was shipped to the United States.

However, group board chairman and president Fuad Mattar complains that it could do so much better if the Brazilian real was competitive with the currencies of Asian countries whose textile manufacturers undercut Paramount’s products on price.

“Last year, the Brazilian textile sector had many problems because our currency is highly valued in relation to those of Asia. But this has affected other countries too, like the United States where production volume dropped,” he says.

And in the domestic market, Mattar says retail sales of textiles reached a new high last year, but imports accounted for a record 25 per cent.

With over 115 years manufacturing textiles, the Paramount group is one of the largest in the sector not only in Brazil but across Latin America. Its 2,300 employees produce tops of pure wool, fine pure wool also blended with cashmere, silk, viscose and lycra, as well as



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INTERVIEW WITH JAN WIEGERINCK

President of Gelre



Accelerated economic growth has put the lack of human resources in Brazil into the spotlight. Gelre, one of the oldest and more experienced companies dealing with temporary work in the country, is expanding to cater to the growing needs of both the industry and the service sectors, more eager than ever to put Brazilians to work

How would you define the human resources sector Brazil, particularly in the current year?

J.W.- Well, the issue of outsourcing labour is being debated for the umpteenth time. Thus it's also much debated in Brazil, and there are legal proposals – particularly because while there is no legislation on this issue, there is on temporary work... The two matters are distinct, but they get mixed up, especially in public opinion and in the heads of managers and trade unionists. In Brazil there's no debate about temporary work, there's the law of '74, and temporary work is very well regulated. This law is still in force today and it has never been altered, because it works. It could have been changed, every law can be improved – particularly as it's been in force for over 35 years – but it works... In fact, in Brazil when we were helping to make this law, we introduced a clause for wage parity between temporary workers and full employees.

Currently outsourcing is unregulated, so there's an internal debate about what can and can't be done, about how it should be... There's a trade-union aspect in particular. Brazil has a trade-union structure – I believe the only one of its kind in the world – that is mandatory; workers don't choose the union, the union is the one connected to the activity that the job involves; contributions to the union are obligatory. In a way, the union organizations get in the way of finding a definition for things, for how things need to be in the current market.

Let's talk a little more about Gelre... How was 2011?

J.W.- We've had many highs and lows. We are the oldest, and we were the biggest firm, though

I believe there are others that are now reaching our size. We lost a lot of ground after 2008 with the world financial crisis, and our company was more affected by it than our competitors. We had over 100 branches, and we had to reduce those by more than a half... We currently have around 35 branches throughout the country. We reached a workload peak in 2007 when we had 47,000 people working with us... Currently we have nearly 10,000 staff. Our number of businesses has fallen significantly in recent years, but from 2012 we will be expanding our distribution network again – and we have plans to open another 30 units.

Do you still have an established presence in Argentina?

J.W.- Yes, we're still there because we have a fair amount of business there, especially with Argentine companies. We've managed to carve a niche for ourselves there, we bought two small local companies, and we have incorporated them and with them have managed a reasonable volume of business. There are approximately 2,000 people working for us in Argentina.

The lack of specialized human resources is often talked about. Do you believe that importing human resources is the answer?

J.W.- The "importation" of human resources is on the rise, but my personal opinion is that there are lots of people in Brazil... I think we're not short of a work-force. Management – there's the rub! Human resources in Brazil are badly administered by companies... There is still a very strong divide in Brazil between those who are in control and those who follow orders. The boss and the employee. There is still this culture in Brazil... I believe that if there were better ex-

"WE NEED INNOVATION, WE CANNOT BECOME A COMMODITY, AND THAT IS THE GREAT DANGER"

change, greater understanding, more dialogue, the local work-force would be able to adapt more easily and more quickly.

What is your dream for Gelre's 50th anniversary?

J.W.- My dream for the next two years is of course to start growing again, but more than anything else – and it will be a challenge – our industry, our own activities need to find other requirements within the socio-economic environment. We need innovation. We cannot become a commodity, and this is the great danger. I would like to be able to say that we have really been able to transform the company in such a way that it is able to meet needs of the next 10 years and not only of the past 10 years. I see this as offering better support to customers and, particularly, better treatment to workers: I think workers' needs are of primary importance. Nowadays people don't merely work for a wage; they expect a series of related benefits. They want a program with health cover, financial cover, legal aid... One has to build this kind of support in order to fit it into the service one is providing. I see it as always working with two markets: with companies and with the workers themselves. I like to compare it to a bank; banks have two kinds of customers: those with money to spare, and those without enough money. We also have two kinds of customer. I would therefore like us to raise the benchmark and over the next few years to be able to contribute to both markets.

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INTERVIEW WITH ANTONIO CARLOS NASRAUI

President of Rei do Mate

The popular mate tea became the star product around one of the most successful franchising chains in Brazil. With a continuous growth based on entering local markets and new products, Rei do Mate (King-of-Mate) is conquering the taste of Brazilians both in traditional large cities and in new smaller and remote settings



Rei do Mate currently has 330 stores. Further growth in the country will be difficult, or is there still room to expand?

A.C.N.- *There's lots of room, as the market overall is growing! In the North-east for example, the market is growing hugely, and Brazil is a large country... I came back recently from the U.S, and it's amazing that one can go from one town to another, towns with populations of 20,000 and which have tremendous purchasing power... But here in Brazil it's not the same, towns of 20,000 inhabitants until now have not had that kind of purchasing power, however, they are now beginning to. The power that we have seen the classes C and B of the population have now will raise consumption in small towns; there are towns in the North-east that didn't even have the potential for a store and now have one. Towns without a shopping centre are now getting their first... I think that with this economic growth the potential for network growth here is also growing very fast.*

You were saying before the interview that Brazilian cheese-rolls makes up 1/4 of your revenue, and so Rei do Mate has expanded its product range. What's in store for the future?

A.C.N.- *I think it's a combination. I think that the advantage of Rei do Mate and one of the reasons for our growth is that we are a Café, as there is no such thing as tea-houses here, we are the biggest and it was us who came up with the idea of mate tea. We are a Café chain which now sells 500,000 coffees a month, 500,000 espressos a month, we use gourmet coffee of a very high quality, and the main product continues to be iced-mate tea. We have a chain which is known for its cheese rolls, and we sell it in a different way... I*



"WITH THIS ECONOMIC GROWTH, THE POTENTIAL FOR NETWORK GROWTH IS ALSO VERY HIGH"

don't know if you know this, but Brazilians are used to eating a larger, heavier version of cheese bread. What do we sell? Well, we sell cheese rolls that are served in a pot, called a roll pot. It's a pot with 12 pieces that the consumer can eat together with cream cheese, cheese spread, butter, caramel, Nutella, which come as a side.

My big question is: is this concept one that can be exported?

A.C.N.- *I believe that with some adaptations it can be. As I said, I came back from the US recently, and mate tea is already found in some supermarkets there, as well as coconut water...*

mate tea has a series of benefits: it has vitamins E, C, and D, it has theine, which shares the positive properties of caffeine, it is an energetic drink and so Americans are trying to get maté on the market. Black tea, or Iced-Tea, as it is better known... This idea of tea blended with fruit to order, it's not the same as the processed stuff like peach tea that you can buy off the shelf... This is freshly made to order... I don't think that this concept exists yet there, and the two go together very well. Cheese-roll is a typical Brazilian snack, but we have several stores in tourist hot-spots like Sugarloaf Mountain in Rio de Janeiro, near the aerial tramway, whose passengers are 90% tourists and who adore the cheese rolls! Cheese-roll is a very tasty snack that is not available outside Brazil, and I also think that this kind of snack, like croissants and other finger food can be very easily adapted to the foreign market.

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