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All roads lead to Rio

By Henry Mance

Every large town in Brazil has at least one shopping centre; in the state of São Paulo, shoppers have more than 130 to choose from. Malls have natural allure in Brazil, where consumer spending has grown faster than the wider economy and where crime and hot weather can make the streets unattractive.

The companies that build and own shopping centres would not have been able to grow without the support of Brazil's stock market. Just under a decade ago, the head of the country's Securities and Exchange Commission lamented that there were only two ways a Brazilian could become a big businessman: be born rich, or receive funding from the state-owned development bank. Now, equity investors have arrived, enlarging the possibilities.

"That was the big revolution: when investors started believing in medium-sized companies," says Carlos Jereissati, chief executive of Iguatemi, the luxury retailer group that opened Brazil's first mall in 1966. The company listed in 2007.

Having raised \$263m in the initial public offering, Iguatemi has added as much floor space over the past four years as in the previous 40. It focuses on wealthy consumers, the kind who can be enticed not just to shop in the mall, but also to stay for dinner and a movie.

Iguatemi plans to double in size again by 2014, although its focus will remain the urban centres of São Paulo and Rio de Janeiro, partly, the company says, because high earners in the country's two largest cities will be least affected by any slowdown in consumer spending.

Other companies, however, are racing towards Brazil's traditionally poor regions where growth is being fuelled by government spending and the expansion of commodity industries.

Selling in these regions often means competing with family-run companies or buying them out. Those companies have often worked up sizeable revenues through detailed local knowledge – and, some say, through their ability to comply only selectively with tax and labour laws.

However, the chance to tap into such fast-growing markets has helped make Brazil one of the world's top private equity targets. Carlyle Group, the US private equity firm, has over the past 18 months bought Scalina, the lingerie company, Grupo Qualicorp, the health insurer, and CVC, Brazil's biggest tourism operator. Gtex, a manufacturer of cleaning products, received a \$53m investment from Actis, the UK private equity firm, last year.

Being in the regions reduces transport costs and helps Gtex maintain relations with the outlets that sell its products, says Mauricio Giamellaro, its chief executive. "If you're closer to retailers, they really like it, because you improve your service," he says.

Yet Brazil's regional diversity also brings challenges. **Marcopolo**, the country's largest bus manufacturer, has had to adapt its vehicles for the poor roads and flooded tracks of the Amazon

region. The company has also had to adjust to the requirements of Brazil's demanding local authorities, which can specify details from the number of doors to the size of the seat cushions.

Its ability to adapt has been to Marcopolo's advantage. "In the past, European manufacturers came to Brazil with high technology but low productivity," says Walter Cruz, the company's strategy and marketing manager. "Our secret was combining productivity with customisation."

There is another benefit to diversity. "Because the country is so complex, professionals tend to be very flexible," says Marianne Coutinho, a partner at KPMG, the accountancy firm, in São Paulo. "[They] can help multinationals adapt to other emerging markets."

Marcopolo, which started life in 1949 building wood-bottomed trucks, is a case in point. One-third of its sales are now abroad. It has also established factories in South Africa, Egypt and India, where it has a partnership with **Tata Motors**, a division of the Indian conglomerate. Switching some of its production abroad helped the company withstand the sharp rise in the Brazilian real, which has surged by about 40 per cent against the US dollar since 2008.

It is important to note that Marcopolo's overseas push came not because Brazil's economy was strong, but because it was relatively weak. "By the mid-1990s, we saw only moderate growth in Brazil," says Mr Cruz. "So we started looking abroad for opportunities."

The vast majority of Brazilian businesses are, however, still domestically focused. According to Renato Amaral, co-chief executive of **Renova**, the renewable energy company, desire to expand outside the country is balanced by the huge opportunities for further domestic growth.

"Brazil has enormous potential, and we still haven't explored it totally. Why go out to prospect the international market, when the world is coming to us?" he says.

And while the opportunities exist, executives are quick to complain about the difficulties of doing business.

Taxes usually top the list. The country's equivalent of sales tax, the ICMS, is charged on a state-by-state basis, hindering companies that wish to trade nationwide. The government of Dilma Rousseff, which took office in January, has promised reform.

A shortage of skilled labour is another familiar gripe, with two-thirds of companies affected, according to a recent survey by the National Confederation of Industry. Executives complain of having to train staff for more and more responsibilities, because hiring would be too difficult or expensive.

Mr Giamellaro says Gtex has to pay high bonuses and promise CV-enriching experience to retain employees. But he says that employees' commitment compares favourably with that of their counterparts elsewhere in Latin America. "Brazilians live for the last minute – but they get it done. And they're passionate about what they do."

He remains hopeful that Brazil's boom can continue as long as inflation can be reined in. "As soon as the interest rate goes down, Brazil could have Chinese [levels of] growth," he says.

Other managers are more cautious, aware that this is not the first time fortunes seem to have turned. "Brazil is a country that ebbs and flows," says Marcopolo's Mr Cruz. "Persistence is the key."