
BRAZIL BUSINESS BRIEF

SEPTEMBER 2016

NEWS FROM THE BRAZILIAN CHAMBER
OF COMMERCE IN GREAT BRITAIN



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EDITORS' LETTER




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Dear members and friends,

Welcome to the September 2016 issue of the Brazil Business Brief. We hope that you'll enjoy the articles and interview. If you have any suggestions for future articles and events, please don't hesitate to contact us at www.brazilianchamber.org.uk/contact-us

Kind regards,

Lena & Alex 

ARTICLES

BRAZIL GOES GLOBAL

THE LINKS BETWEEN FOREIGN POLICY AND INVESTMENT ABROAD

BY PIETRO CARLOS DE SOUZA RODRIGUES

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In the last twenty years there has been a 180-degree shift in the way Brazil is seen by the international community. Not only has the country established an active role in international affairs but it has also come to figure much more prominently in global flows of trade and investment.

Years of economic boom, driven by high international commodity prices, led to a significant expansion

of the middle class. Income redistribution boosted domestic consumption, and social programmes such as *Bolsa Família* became a worldwide reference point. All these changes contributed to a transformation of Brazil's international image. Meanwhile, developments in Brazilian foreign policy have been significant in shaping the way the country connects to the world economy.

Analysts agree that the stabilisation

of the Brazilian currency, achieved through the implementation of the Real Plan (*Plano Real*) in the 1990s, was an important step towards increasing Brazil's participation in global trade. The efforts made by President Fernando Henrique Cardoso at the helm of the Brazilian government were crucial in allowing Brazilian firms to re-organise internally and become more competitive internationally. Parallel to this, in foreign policy, acceptance of international rules on economic, social and political matters laid the foundations of a more globally integrated approach.

Brazil's diplomatic role with regard to the World Trade Organisation (WTO) during the Uruguay Round of trade negotiations, along with its pragmatic strategy towards international agreements, secured substantial gains for the private sector (for example in the Embraer/Bombardier dispute settlement, involving Brazil and Canada, in the WTO in 1996). Motivated by improving domestic conditions, Brazilian companies in the fields of engineering, and oil and gas exploration, have grown in size and shown themselves capable of seizing opportunities for expansion abroad. During the Cardoso years, the main markets for those

MOTIVATED BY IMPROVING DOMESTIC CONDITIONS, BRAZILIAN COMPANIES IN THE FIELDS OF ENGINEERING, AND OIL AND GAS EXPLORATION, HAVE GROWN IN SIZE AND SHOWN THEMSELVES CAPABLE OF SEIZING OPPORTUNITIES FOR EXPANSION ABROAD

Brazilian companies were in Latin America and in major developed countries that had been longstanding trade partners.

During President Lula's eight years in office there was a shift in the focus of Brazilian foreign policy. Based on the idea of constructing a multipolar world, Brazil sought the support of developing countries, aiming to strengthen partnerships with Africa, Latin America, and the major emerging countries of China, Russia and India.

Lula's personal involvement in

looking after Brazil's interests abroad opened up opportunities for business. From 2003 onwards, some of the most important Brazilian companies started to diversify investments and explore new markets. During his time as president, Lula himself spent an average of one day in six travelling abroad, clocking up a total of 180 foreign trips.

Government programmes played a fundamental role in encouraging outward investment. The Brazilian Development Bank (BNDES) was a stimulus for Brazilian multinationals: it provided cheap credit with good financing conditions, boosting trade and overseas investment. From 2003 to 2010, Brazilian companies' direct investments abroad grew sixfold (from US\$51 bn in 2001 to US\$312 bn in 2014), placing the country among the world's leading sources of FDI.

Under Lula, the orientation of foreign policy towards developing countries proved to be a crucial factor for the internationalisation of Brazilian companies. However, his successor, President Dilma Rousseff, paid less attention to international issues. Brazilian policy lost its clear direction and no longer played such a strategic role in support of economic interests.

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RECENT CHANGES IN FOREIGN POLICY AND POSSIBLE IMPACTS

It is hard to predict the impact on foreign policy of the change in political trajectory brought about by the recent game of musical chairs in Brasilia. Nevertheless, some changes that have already taken place do provide some indication of what the future might look like. The new foreign minister, José Serra, has promised to significantly alter certain aspects of foreign policy and to adopt a more pragmatic approach, which is a euphemism for rapprochement with developed countries and a quest to make Mercosur more flexible (for example by changing Clause 32/00, which prohibits bilateral trade negotiations unless there is consensus among the members of the bloc).

Many consider that the flexibilisation of Mercosur would represent a regrettable step away from regional integration. On the other hand, supporters of the new approach point out that it will potentially offer opportunities to strengthen bilateral economic relations with the United States, Canada, and members of the "Pacific Alliance" bloc of Latin American countries. Governance problems inside the bloc, along with the political turbulence in

WITH THE NEGOTIATIONS FOR A FREE TRADE AGREEMENT BETWEEN MERCOSUR AND THE EUROPEAN UNION CURRENTLY ON HOLD, THE NEW RELATIONSHIP BETWEEN THE UNITED KINGDOM AND THE EU IN THE WAKE OF THE "BREXIT" MIGHT OFFER PROMISING ALTERNATIVE WAYS OF CONNECTING THE SOUTHERN CONE WITH EUROPE

Venezuela and in Brazil itself, have hampered the creation of the consensus that would be necessary in order to pursue negotiations with strategic trade partners such as Colombia and Peru (two dynamic members of the Pacific Alliance). The recent change of government in Buenos Aires, however, points to a potential convergence of interests between the two biggest economies in the region, Brazil and Argentina. An agreement between Brazil, Argentina and Uruguay – which is also open to negotiations – would

provide a window of opportunity for the redesign of the customs union.

Meanwhile, events on the other side of the Atlantic might also present an opportunity for Mercosur. With the negotiations for a free trade agreement between Mercosur and the European Union currently on hold, the new relationship between the United Kingdom and the EU in the wake of the "Brexit" might offer promising alternative ways of connecting the Southern Cone with Europe.

When the Brazilian government reaches calmer waters after the recent turbulence in Brasilia, it will probably need to advance in the search for new trade partners. There will certainly be a move away from the South-South policy orientation in which relationships with developing countries were prioritised. Meanwhile, the pace of Brazilian companies' expansion abroad has slowed, along with the country's economy. There are currently fewer financing incentives for internationalisation. Brazil, therefore, needs to bet on the diversification of its trade partners in order to balance its current account. Major changes, however, will only occur when the domestic political puzzle has been solved. ●

DISTRIBUTED GENERATION AND THE RISE OF THE BRAZILIAN "PROSUMER"

BY TATIANA BRUCE DA SILVA



For a long time around the world, electricity has been generated in a centralized system through power plants that are located away from urban centres. In the last few years, however, with the technological progress associated with the development of renewable energy, captive electricity consumers have been able to generate their own electricity, for instance, by installing photovol-

taic solar panels on their rooftops. They have become "prosumers", that is, they simultaneously produce and consume electricity. As a result, the generation of electricity has become more decentralized.

Taking the United States as an example, this trend becomes clear. Data from the US Energy Information and Administration shows that, between January 2014 and April 2016, solar photovoltaic distributed

generation increased from 560 MWh to 1.447 MWh, an increase of 173%.¹ In Germany, private citizens owned 48% of installed photovoltaic energy capacity in 2012,² while energy utility

1. In 2014 and 2015, distributed solar respectively accounted for 35% and 31% of total solar generation in Brazil. Total solar generation, in turn, was responsible for 0.66% of total electricity generated in 2014, and 0.94% in 2015.
2. Institutional and strategic investors owned the remaining 48% of installed photovoltaic energy capacity. Source: *Definition und Marktanalyse von Bürgerenergie in Deutschland*, by trend:research and Leuphana Universität Lüneburg.

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companies owned only 4%. Given this expansion of distributed generation around the globe, how is this trend evolving in Brazil?

Distributed generation was introduced in Brazil in the late 1990s and early 2000s, but its expansion has been limited. This scenario is changing, however, since legislation was modified last December to raise the limit on installed capacity and allow for new forms of distributed generation. Prosumers cannot commercialise the electricity they generate among themselves, but they can get together in communities, consortiums, or aggregate multiple consumer units to share the energy generated. "Remote consumption" is also allowed, when the energy is generated in one of the prosumer's properties and consumed in another, as long as the utility company is the same in both locations.

The distributed generation policy adopted in Brazil is net metering, in which the prosumer is still connected to the grid. Depending on the volume produced, energy is injected to or consumed from the grid. In a given month, if the production of electricity is greater than consumption, this surplus rolls over to the following month, with a rollover limitation of

THE DISTRIBUTED GENERATION POLICY ADOPTED IN BRAZIL IS NET METERING, IN WHICH THE PROSUMER IS STILL CONNECTED TO THE GRID. DEPENDING ON THE VOLUME PRODUCED, ENERGY IS INJECTED TO OR CONSUMED FROM THE GRID. IN A GIVEN MONTH, IF THE PRODUCTION OF ELECTRICITY IS GREATER THAN CONSUMPTION, THIS SURPLUS ROLLS OVER TO THE FOLLOWING MONTH, WITH A ROLLOVER LIMITATION OF 60 MONTHS.

60 months. The Brazilian prosumer is compensated at the power retail rate for the energy produced.

Given these changes, the Brazilian electricity regulatory agency, ANEEL, predicts that the country will reach 1.2 million prosumers in 2024 (in July 2016 the number was about 3,800), with 4,500 MW of installed capacity.

There are, however, a few challenges facing net metering, evident both in Brazil and elsewhere. First, energy consumption is not charged separately from grid usage for captive consumers, including prosumers generating energy via distributed generation. As a result, the utility must bear these costs or pass them on to other consumers, which can potentially increase electricity rates. Moreover, utilities' profits are a function of the volume of electricity they sell. With the rise of prosumers generating their own electricity, utilities will sell less electricity and consequently their profits will fall (the famous "utility death spiral").

In order to address these issues, ANEEL has declared that the net metering policy will be reviewed in 2019 – when estimates suggest the number of prosumers will have reached 200,000, with installed capacity of 500 MW. They argue that at that point, the number of prosumers still not being very large, the impact on other consumers and the utility companies will not be significant, but that it will still be possible to analyze what effects distributed generation has on the grid. Utilities are anxious about this reviewing deadline, however, claiming that 2019 is too late to evaluate the

policy. They believe it would be better to review the current tariff system now so that consumers are charged separately for their energy consumption and their grid usage.³

The regulator and the industry should consider whether net metering really is the best policy to incentivize the development of distributed generation in Brazil. Besides the negative externalities imposed on consumers who do not generate their own electricity, net metering does not assess the positive externalities that distributed generation, especially distributed solar, brings to the system, such as reduction in greenhouse gas emissions. Therefore, the adoption of another incentive structure should also be considered when the rules of distributed generation are reviewed in 2019.⁴

Another issue related to the growth of distributed generation concerns the Brazilian power grid, which needs to be updated to a smart grid. This process is still under analysis and is being tested in small pilot schemes throughout the country. Distributed generation on a large scale, however, needs a smart grid, but its implementation is still uncertain. Given the fact that distributed generation has already started to evolve in the country,

NET METERING DOES NOT ASSESS THE POSITIVE EXTERNALITIES THAT DISTRIBUTED GENERATION, ESPECIALLY DISTRIBUTED SOLAR, BRINGS TO THE SYSTEM, SUCH AS REDUCTION IN GREENHOUSE GAS EMISSIONS.

and given Brazil's continental size, it is worrying that grid modernisation is not yet underway.⁵

In conclusion, Brazil seems poised to win with the rise of the prosumer. The country is currently experiencing one of the worst recessions in its history. Government investment in renewable energy, which is necessary in order to fulfil the country's commitments to the Paris Agreement on climate change, is in jeopardy. A promising way to further develop distributed generation in the country is by incentivizing prosumers, with the infrastructure, technology and incentives in place that will allow them to thrive. Government, regulators and the industry must work together to make this happen. ●

3. Source: Cadernos FGV Energia – Distributed Energy Resources, June 2016 (available in Portuguese only. The English version is forthcoming).

4. The Value of Solar Tariff (VOST), a tariff system utilized in some states in the United States, aims to incorporate the positive externalities that solar generation brings to society

5. In addition, new technologies that can contribute to the progress of distributed generation, such as consumer-sited storage systems, must also be incentivised.

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BRAZIL CRISIS CREATES OPPORTUNITIES FOR FOREIGN INVESTORS AND RETIREES

BY AMIT RAMNANI

As we keep hearing, Brazil is in its worst recession in over three decades. It is not easy to be optimistic in the face of the corruption scandals, impeachment proceedings, low commodity prices, the 3.8% fall in GDP in 2015 (with a further 3.8% fall predicted for 2016), rising unemployment, higher inflation, and a weaker currency.

But crises often create opportunities, and it's no different with Brazil in this current phase. Let's focus on three specific groups of foreigners: retirees, real-estate investors, and business investors. Assuming a certain appetite for risk and a five-year minimum investment horizon, they are in a position to benefit from lower asset prices and a weaker Brazilian real.

Let's assume the real will eventually strengthen over the medium term and that confidence in Brazil will improve with its growing middle class, greater political certainty, and economic and fiscal reforms. In our experience, these three groups would typically have prior experience in emerging markets or a personal connection with Brazil.



RETIREES

The coastal regions of Brazil are increasingly popular with retirees who are seeking a good quality of life, a comfortable climate and a friendly culture at a more affordable level compared with other popular destinations such as the US, Australia and southern Europe.

With a weaker real, retirees can meet the retirement visa criteria of being over 60 years old and demonstrating that they can transfer in R\$6,000 per month and an additional

R\$2,000 per dependent (up to two).

Consider a retired couple, transferring in R\$8,000 per month: they would be able to cover the rent of a well-located, medium-sized two-bedroom apartment in Rio de Janeiro, plus basic living and healthcare costs. At the current exchange rate, R\$8,000 is about £1,860 – significantly less than in the 2010-12 period, when the Brazilian currency was stronger. The real has also fallen against the euro (from 2.2 in July 2010 to 3.6 in July 2016).

A retired couple who rent out their

owned property in a major UK city and access their private and state pension funds, for example, would probably be able to afford a comfortable quality of life in Brazil. The cost of living would be even lower outside Rio de Janeiro and São Paulo states (in particular in the Northeast, a region that also appeals to retirees).

REAL ESTATE

In São Paulo, the prices of all types of residential property have been falling during 2016. And in Rio de Janeiro, prices for two-bedroom apartments fell by almost 4% in the twelve months to June 2016.¹

This buyers' market may appeal to retirees and investors in general, especially with the increasing numbers of anxious vendors who are asset-rich, cash-poor. In São Paulo and Rio there is limited physical space to build new property in traditionally popular areas, so it's reasonable to assume that changing demographics and the likely economic improvement will prove to be conducive to a healthy return on investment in the longer term.

Many investors are bullish about buying off-plan property via stage payments in newer regions such as Barra da Tijuca (where most of the

THERE ARE NO RESTRICTIONS ON FOREIGNERS BUYING PROPERTY IN BRAZIL, AND IT IS ADVISABLE TO USE A SPECIALIST MONEY TRANSFER COMPANY TO OBTAIN A FAVOURABLE EXCHANGE RATE WHILE MINIMISING BUREAUCRACY.

2016 Olympics took place) in Rio and new developments in the Northeast.

There are no restrictions on foreigners buying property in Brazil, and it is advisable to use a specialist money transfer company to obtain a favourable exchange rate while minimising bureaucracy.

Given the high cost of borrowing in Brazil, we have advised several clients on cost-effective financing using overseas collateral (liquid and physical), for example by taking loans at low UK or EU rates against property, portfolios and pension funds.

BUSINESS INVESTORS

The minimum level for the investor visa was recently increased from R\$150K to R\$500K, a move which may discourage much-needed investment during a recession. In context however, R\$500K (£116k) is still reasonable compared to other major economies.

We note that many investor visas are being granted to businesses in the hospitality, events, consultancy, education and tourism sectors, which have low cost bases and whose services appeal to customers in the growing Brazilian middle class who have a higher propensity to consume than their peers in most countries. Lower entry levels (R\$150K to R\$500K) are available for tech companies meeting stricter criteria.

Brazil is ranked in 116th position in the World Bank's "Ease of doing" business' study (2015), mainly due to a complex tax system and bureaucracy. However, for most small to medium-sized business, selecting qualified and competent professionals and outsourcing time-consuming paperwork can easily mitigate these perceived hurdles.

1. FipeZap index, based on adverts on the online Zap website.

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LIQUID INVESTMENTS

Foreign investors may choose between external and direct exposure to Brazil. Smaller investors may be limited to external exposure such as ETFs and investment funds, denominated in hard currency.

FOREIGN NON-RESIDENTS

A non-resident account with direct exposure in reals offers access to a greater range of investments such as government bonds, small- to mid-cap equities, and private equity. Direct investors also benefit from strong investor protection and efficient money transmission. The set-up fees are higher as the investor needs to appoint legal and fiscal representatives, so in our opinion it is necessary to invest over R\$1 million to justify the fixed costs.

RESIDENTS INCLUDING RETIREES

Anyone with residency can simply open a bank account or, preferably, a fund platform with a wider range of tax-efficient investments.

In particular, retirees and other investors with a conservative profile benefit from higher interest rates, and may opt to purchase funds linked to the SELIC base-rate, currently at

14.25%, which provides a higher real return and comfortable margin over inflation (currently 10%) and government bonds (tesouro direto). This is an extremely low-risk strategy and makes a huge difference to achieving the kind of passive income stream that tends to be very appealing to retirees.

If you have a positive view on the direction of the real, consider the overall return from such allocations and the added impact of a potential currency gain if you are considering converting back to hard currency in the future.

Overall, with lower asset prices, a weaker currency and an appropriate investment horizon, we believe Brazil is an exciting choice. We remain optimistic about the country's potential in the medium to long term. And as we have observed in the past, during emerging market recessions elsewhere, making bold decisions can be richly rewarded. ●

BEYOND COMMUNICATIONS: THE IMPORTANCE OF ENGAGEMENT IN TURBULENT TIMES

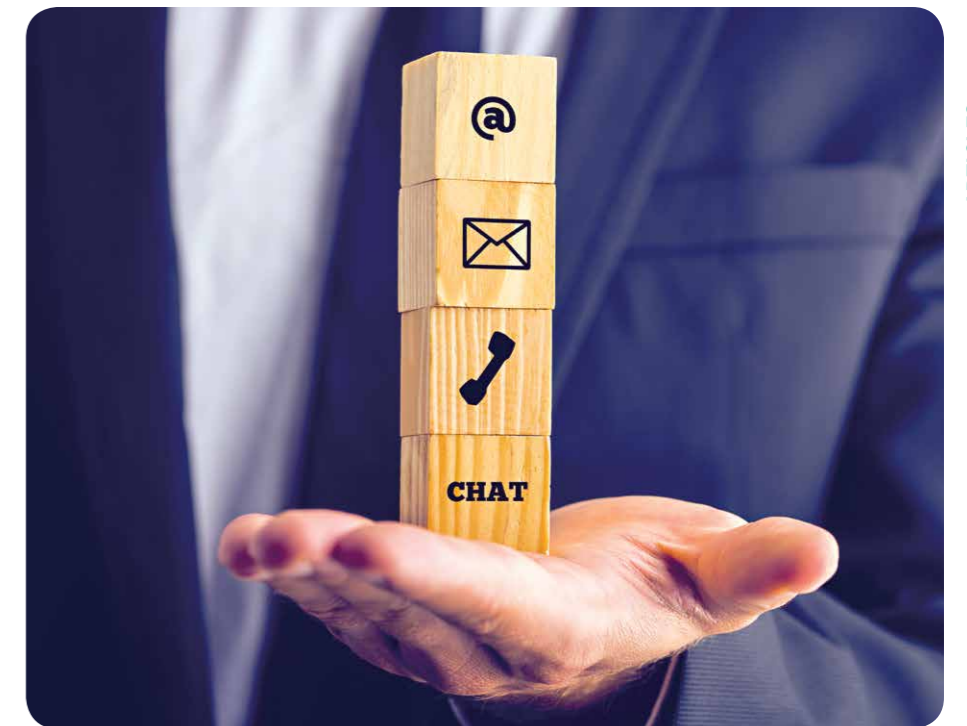
BY STEPHEN FINCH

Downbeat media commentaries on the political fortunes of Brazil and its economy are not hard to find, but there are reasons to be cheerful too. The country is approaching a turning point, with the emergence of a social and political movement calling for increased corporate transparency and better governance. This creates a unique opportunity for Brazil's businesses to tell their stories to the world.

While economic activity fell 0.51 per cent in May, reversing April's small rise, the Olympic Games have been offering the prospect of a sharp increase in tourism revenues as well as a great opportunity for Brazil on the global stage. A recent poll for Focus Bulletin also saw the most optimistic analyst projections, citing 2.84 per cent growth for Brazil in 2017.

Despite the hopefully positive horizon, there's no denying the drip, drip of negative news. Stories of alleged corruption and governance failings do not help Brazil's reputation as an investment or business destination.

Using communications effectively is particularly challenging for all businesses in these circumstances. Closing the shutters and hoping to



weather the storm is as tempting for a start-up or growing owner-managed business as it is for an established multinational.

A similar scenario played out around the 2008 financial crash. Advertising and public relations budgets were widely slashed despite companies being implored by various academics and business consultants to market their way back to growth. That is, however, where the similarity ends, with the difference being summed up easily in one word: 'digital'.

From communication to engagement

The growth of digital and social media has put news communications channels such as Facebook, Twitter and LinkedIn at Brazilian companies' disposal when it comes to building their UK profile. The two countries share a passion for these media channels. Younger Brazilians in particular are at the forefront of a global social media revolution driven by a passion for self-expression, with Statista forecasting that the country will have 128 million social network users by 2020.

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The same sources show how digital and social media are now similarly ingrained in UK consumer, business and media culture, with around 35 million Britons now active on social media.

This digital tidal wave is leaving many changes, and victims, in its wake. These include rendering obsolete the concept of 'communication' as something undertaken by businesses without the expectation of an immediate audience response, and the use only of analogue, regimented channels such as newspapers, television or radio.

Digital and social media have rewritten the communications rulebook, with businesses now expected to speak with and respond to audiences in real time. The world is more connected than ever, and stories with the power to enhance or destroy brand reputations can go global in minutes.

The upshot is that for Brazilian firms wishing to expand their presence in the UK, communicating with their clients here only when times are good, with a low likelihood of unwelcome challenges, is no longer an option. Today's UK stakeholder landscape is complex. Media cynicism about business is widespread and the political community is fragmented.

THE UPSHOT IS THAT FOR BRAZILIAN FIRMS WISHING TO EXPAND THEIR PRESENCE IN THE UK, COMMUNICATING WITH THEIR CLIENTS HERE ONLY WHEN TIMES ARE GOOD, WITH A LOW LIKELIHOOD OF UNWELCOME CHALLENGES, IS NO LONGER AN OPTION

Social divisions, rooted in divergent outlooks on the UK's relationship with the international community, have become more acute in the wake of the EU referendum result.

Effective responses to this conundrum lie in the core principles of "engagement". Dabbling in communications when it suits businesses is being replaced by ongoing rapport-building. Engagement seeks to captivate and drive conversation by telling compelling stories that convey the unique voice of a business as well as its value offer to customers and investors.

Periodic silence now allows companies' reputations to be shaped by the masses of digital and social media users, creating a potentially irreversible loss of control. The onus therefore is on businesses to plan and activate long-term, sustainable and compatible engagement strategies for target audiences and stakeholders. This can be complex and multi-layered, but specific core principles can guide leaders' thinking.

THE FOLLOWING SECTION TO BE BOXED OUT

Here are a series of guidelines for how to maximise engagement with target audiences and business stakeholders in the UK, using communications as a tool:

- **Audience insight is the foundation of effective engagement.** Whatever the specific audience or stakeholder group, understanding how, when and where they are most receptive to a business proposition is paramount. This should be data-driven, and form the basis for determining the ratio of traditional, social and digital media channels, and paid social media promotion, as communications tools.

- **Think and plan holistically, across all channels.** Digital has driven the blurring of channel boundaries. Audiences cannot easily be categorised in terms of channels that will or won't engage them. The delivery of messages can no longer be managed by isolating one channel from another. A holistic approach, using content optimised for the demands of individual channels, is now required.
- **There's no substitute for local knowledge.** While the UK has neither the scale nor the diversity of Brazil, stark regional differences do exist here. Politically, socially and in terms of media consumption, there are many nuances that need to be understood. The north of England in particular has emerged as a focal point for investors and companies seeking growth. Social and business culture in the UK regions is markedly different from in London.
- **Think about stories, not just messages.** Audience resistance to intrusive and overtly commercial engagement is strong in the UK. Profile-building demands that companies identify the benefits

they can bring to audiences via engagement well before transactions can happen. It is important to tell stories that showcase the business as a remedy to challenges high on the audiences' agendas.

- **Great content is everything.** In a market where effective engagement lies increasingly in persuading audiences to "pause the thumb" on digital devices, an understanding of what makes content truly compelling is highly valuable. Knowing the relative preference of audiences groups for highly visual, interactive, long-form technical or short-form bite-size content is a critical building block for engagement.

Brazil continues to be a focal point in the media, both in negative and positive contexts. While there might be a reluctance to be proactive during a period of instability or political turmoil, there is in fact great opportunity to tell a corporate story and build reputation among an audience whose interest is piqued. ●

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COMMUNICATING WITH EMERGING MARKETS

BY MICHAEL ELLIS AND NATHALIE VILLARES

In the business of multilingual marketing communications, good, solid, consistent and engaging content is the key to success. In emerging markets, it goes without saying that companies have to focus on the local target market and customers' needs and wants in order to be able to predict new trends, create innovative marketing campaigns, and thereby gain a competitive advantage. The development of a strong communications and marketing strategy is therefore fundamental in order to remain visible and aligned with customers' expectations.

Because marketing is a circumstantial discipline, context does matter. In order to deliver the right product with the most effective message, the target market and its cultural aspects need to be thoroughly examined in order for a brand to be successful.

Globalisation has opened the doors to new opportunities and markets, and companies have taken this to heart in their international expansion strategies. Surveys have shown that the growth seen in emerging markets is the main reason why global companies are seeking to expand their product availability. By 2020, emerging markets are expected to account



for 70% of global consumer spending growth and 50% of total consumer spending. Moreover, the BRIC countries (Brazil, Russia, India and China) are expected to be responsible for 50% of the worldwide growth of fast-moving consumer goods (FMCG). Even though global integration can be easily managed in some markets, the unique characteristics of emerging markets mean that special care is needed when entering them.

The rise of the middle class in developing countries is generating a considerable number of first-time buyers for a wide range of products. Many of these consumers purchase products and services based on their own direct needs and wants, rather than the brand itself. Such characteristics directly affect a wide range of fundamental beliefs regarding marketing strategies, including market orientation, target segmentation and

brand equity. At the same time, these emerging markets offer interesting opportunities to create and develop new practices and perspectives in marketing strategies. Emerging markets have so many particular characteristics that even domestic companies aiming to expand their distribution into more regions need to consider and tailor their relevant marketing and communications strategies accordingly.

Take Brazil, for example. A particularly instructive case is that of Casas Bahia, one of the biggest retailers in Latin America, which has established successful operations in different Brazilian regions. The company sells a wide range of household products, predominantly to the Brazilian lower-middle class, which has expanded significantly in the last ten years or so. To stay competitive, it focuses on client service, putting considerable effort into predicting new trends and understanding the particular wants and needs of its customers, which are of course related to their position in the socio-economic hierarchy.

However, Casas Bahia came unstuck when it took its distinctive marketing strategies to the state of Rio Grande do Sul in the far south of Brazil. In particular, two aspects of

EMERGING MARKETS HAVE SO MANY PARTICULAR CHARACTERISTICS THAT EVEN DOMESTIC COMPANIES AIMING TO EXPAND THEIR DISTRIBUTION INTO MORE REGIONS NEED TO CONSIDER AND TAILOR THEIR RELEVANT MARKETING AND COMMUNICATIONS STRATEGIES ACCORDINGLY.

its messaging communication and content were not in tune with the target market. Firstly, based on the fact that its customer base elsewhere in the country consists to a large extent of families and individuals without a large amount of disposable income, the company drew attention to the possibility of paying for purchases in instalments over several months, with interest added. The public in Rio Grande do Sul, however, were not accustomed to buying in that way: they were happy to delay their purchases

until they could pay for them in one go, thereby avoiding interest payments. This obviously had an adverse effect on revenues. Secondly, the brand's high-profile logo featured a male figure conforming to traditional stereotypes associated with the north-east of Brazil, which didn't resonate with shoppers in the far south. Both factors seriously impeded the development of brand attachment, to the extent that Casas Bahia very soon withdrew from Rio Grande do Sul.

This example not only demonstrates just how complex emerging markets can be, but also highlights the differences that can be found when venturing into a large, varied, multicultural market – especially that of a country such as Brazil that is 26 times bigger than the UK in geographical terms and has a population of over 200 million. The main challenge is to produce an effective and engaging strategy, and a message consistent with the company's essence, while also still taking account of local cultural and linguistic nuances. In order to succeed with multilingual brand communication, translation and transcreation therefore need to be utilised from the very start of any expansion into the market. ●

INTERVIEW



LUIS HENRIQUE GUIMARÃES, CEO OF RAÍZEN

BY IEDA GOMES
BRAZIL BUSINESS BRIEF

Formed in 2011 through a joint venture by Cosan and Shell, Raízen is the world's biggest producer of sugar, ethanol and bio-energy from sugarcane. Luis Henrique Guimarães has been the company's CEO since April this year, having previously been commercial executive vice president. He has more than 20 years' experience in the energy sector, including roles with Shell in Brazil, the US and the UK.

Raízen is the result of a merger of two different cultures: a family-controlled business (Cosan), and a multinational oil company (Shell). How do they work together?

The biggest challenge for Raízen was to establish its own culture, distinct from those of Cosan and Shell. With 30,000 employees coming together from two such different backgrounds, that was quite an undertaking. We needed to identify common ground and at the same time respect differences. The integration process established the four basic principles of Raízen's corporate culture: innovation, meritocracy, excellence, and respect for life. Innovation is the factor that drives the company's growth. Meritocracy means recognizing the contribution of each individual to the whole. Excellence means productivity and efficiency. And respect for life

refers to our concern for safety, ethics and sustainability in everything we do.

How does Raízen compare with similar players in the Brazilian market?

Raízen is a company with unique characteristics. We operate at all stages of the process: sugarcane cultivation; sugar, ethanol and energy production; inbound and offshore logistics; and trading and distribution. Our 30,000 employees work every day to generate sustainable solutions that contribute to Brazil's development – such as the production of bioelectricity and second-generation ethanol from the byproducts of sugarcane – as well as to serve the needs

of millions of motorists in every corner of the country.

How big a role does research and technology play in your business?

Our focus on innovation is actually one of the key factors driving our growth. In the production area we invest in energy cogeneration from sugarcane bagasse, and we have also focused in recent years on optimising our sugarcane plantations through investment in technology, and on expanding the production capacity of our units.

Moreover, it is important to emphasize investment in ethanol produced from sugarcane bagasse – known as second-generation ethanol. Raízen is one of the pioneers in the production of biofuels and believes this particular product is a milestone in the history of the industry.

Downstream, we are investing in the expansion of the Shell service-station network and in new terminals to support the growth of our network. Also, so as to offer the best brand value proposition to our resellers and to final consumers, we are offering a differentiated portfolio, including for example the Shell V-Power fuels.

Is Raízen's current focus more on the domestic or the interna-

IN EUROPE THERE ARE MANY SUBSIDIES FOR LOCAL PRODUCTION, WHICH CAN OBVIOUSLY MAKE MARKET PENETRATION DIFFICULT.

tional market?

We're always looking for opportunities in foreign markets – that's why we're the largest single sugar exporter in the world. But the international market is also very important with regard to ethanol, particularly because it is a CO₂-free and sustainable alternative to fossil fuels, and therefore a fuel for the future in the context of climate change.

Does Raízen export to Europe?

Yes, and in doing so we follow all the European market requirements. One of the main issues we face, however, is the price of the product. In Europe there are many subsidies for local production, which can obviously make market penetration difficult.

Will business be affected by the "Brexit"?

We will certainly be paying careful attention to the UK's exit process from the European Union. But until that exit

actually takes place, the agreements with the EU will remain unchanged, in line with the guidelines of the World Trade Organization (WTO). As for future negotiations, we will obviously have to analyse any alterations to the details of trade agreements. But we're optimistic that in the longer term we'll be able to continue our distribution to both to the entire EU bloc and to the UK.

What would you say to companies that would be willing to invest in Brazil but are discouraged by the current economic and political environment?

There's no denying that the present situation is a challenging one. However, Brazil offers many opportunities to investors with a long-term vision. The country is a huge market with a population of more than 200 million, and also a genuine democracy with solid institutions. Despite the recent economic circumstances, Brazil is still the main destination for foreign investment in Latin America. The crisis has actually created openings for capital inflows in situations such as mergers and acquisitions, and the fall in the value of the real is also an opportunity for foreign investors. More importantly, however, studies point to an economic recovery in the medium term. ●

EVENTS ROUND-UP

THE BRAZILIAN CHAMBER ORGANISES AROUND 20 EVENTS PER YEAR ON A VARIETY OF SUBJECTS, ALWAYS AIMING TO RAISE THE PROFILE OF BRAZIL AND TO PROMOTE NETWORKING OPPORTUNITIES. ON OUR PAST EVENTS PAGE YOU CAN DOWNLOAD PRESENTATIONS, SEE PICTURES AND LEAVE COMMENTS.

FOR MORE INFORMATION PLEASE VISIT WWW.BRAZILIANCHAMBER.ORG.UK/PASTEVENTS

EVENTS ROUND-UP

THE IMPEACHMENT PROCESS IN BRAZIL: KEY ACTORS, RISKS, POSSIBILITIES & OUTCOMES



14 JANUARY 2016
BRIEFING WITH LUCAS ARAGAO OF ARKO ADVICE

At the beginning of the process that would ultimately lead to the impeachment of President Dilma Rousseff, Brazil was already heading for the worst recession in 80 years and suffering an ongoing corruption scandal involving key players in both the business and political worlds. Overall, this is probably a period in which Brazil is particularly difficult for foreigners to understand. Lucas de Aragao, partner and director of Arko Advice, provided some much-needed clarity and explained the key issues as he saw them. ●



GLOBAL TAX INSIGHT FOR FOREIGN COMPANIES & INDIVIDUALS COMING TO THE UK

28 JANUARY 2016
BREAKFAST BRIEFING WITH MARK ABBS FROM BLICK ROTHENBERG

The Chamber held a breakfast briefing with Mark Abbs from Blick Rothemberg, a UK and US expatriate tax specialist with broad experience of helping organisations manage their global workforce and individuals who travel, work or live outside of their home country. He addressed topics such as tax compliance and UK tax changes, which are of interest to people who have recently relocated to the UK and to international companies looking to launch or already well established here. ●



EVENTS ROUND-UP



THREATS AND OPPORTUNITIES FOR 2016 - AN UPDATE ON OUR ECONOMIC AND MARKETS OUTLOOK

20 APRIL 2016

The financial markets had a rather dramatic start to the year as a variety of factors buffeted investors' confidence. But while it is true that there are new risks that could threaten global growth, the economic environment remains reasonably robust and is conducive to modest if unspectacular financial returns. The presentation by Federico Ceresole, an executive director at Goldman Sachs, focused on the economic outlook and associated risks, and discussed investment opportunities across a range of asset classes. ●

EVENTS ROUND-UP

GALA DINNER AND “PERSONALITY OF THE YEAR” AWARDS 2016

10 MAY 2016

The Chamber’s biggest annual event remains a popular fixture in the social calendar of the Brazil-UK business community. The awardees this year were Alexandre Grendene Bartelle, founder and chairman of Brazilian footwear producer Grendene, and John Fallon, CEO of Pearson, the British multinational education and publishing company. The keynote speech was made by Nick Archer, managing director of policy and network development at UK Trade and Investment (UKTI). 



BRAZIL AND THE GLOBAL ENERGY OUTLOOK

9 JUNE 2016

The Chamber hosted a panel discussion focusing on the ever-changing landscape of the global energy markets. The panellists were Dr Slawomir Raszewski, a London-based author of research publications in the fields of oil and gas, energy policy, and resource governance; and Lavinia Holanda, head of research at FGV Energia, the centre for energy studies at Brazil’s Getulio Vargas Foundation. The panel was moderated by Lucinda Elliott, who covers the LatAm region for FT Confidential Research, a premium emerging markets research service at the *Financial Times*. After the discussion there was an opportunity to network over drinks with members and friends of the Chamber. 

UK IMPORT AND EXPORT DUTIES: AN OVERVIEW

26 MAY 2016
BREAKFAST BRIEFING WITH ALEX ALTMAN OF BLICK ROTHENBERG

The UK is one of the most attractive places to do business – not only in order to sell to the British market but also to operate internationally. But when a UK-based business goes global it has to consider a number of tax implications, for example with regard to European VAT and duty, corporate tax and employment tax. Alex Altman provided an overview of UK import and export duties, and answered questions from members and friends of the Chamber. 



EVENTS ROUND-UP

SUMMER NETWORKING BBQ

13 JULY 2016

The Chamber held its by now traditional summer BBQ and networking event at Taylor Wessing. Members and friends enjoyed a great view of the City skyline along with live music, a BBQ buffet meal, and authentic *caipirinha* cocktails. ●



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EDITORIAL

BRAZIL BUSINESS BRIEF, SEPTEMBER 2016

NEWS FROM THE
BRAZILIAN CHAMBER OF COMMERCE
IN GREAT BRITAIN

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PICTURES BY RONALDO BATALINI // SMILE PHOTOGRAPHY

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Brazilian Chamber
of Commerce in Great Britain