FP ENTREPRENEUR

IT'S BRAZIL'S DAY IN THE SUN

VANDERLEI ALMEIDA / AFP / GETTY IMAGES

Next six years may be Brazil's most important yet as it gets set to host the FIFA World Cup soccer and the Olympic games.

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Worth red tape for niche businesses

By Eric Lam

At first blush it seems a little odd that a little-known business specializing in niche computer equipment such as commercial Wi-Fi internet stations and military weapons system networks would open up its first international outpost in Brazil, the land of rainforests, iron mines and sugar cane.

But for Duane Anderson, chief executive with Edgewater Computer Systems Inc., ending up in the booming Latin American country made all the sense in the world.

"When we started looking for expansion, the greenfields were in the BRIC countries and Brazil stood out as the one with the best opportunities," Mr. Anderson said in an interview from his company's headquarters in Kanata, Ont., a sleepy suburban community west of Ottawa.

"The advantage is they're underdeveloped in terms of Internet connectivity. We can put up a radio and service an entire village or town."

BRIC is the acronym for a quartet of emerging market nations that are widely expected to drive the global economy in the years to come: Brazil, Russia, India and China. All four are among the largest countries in the world — in the top 10 both geographically and by population.

As well, the 2008 financial crisis has accelerated a shift away from stagnating traditional power centres such as Europe and the United States toward these rapidly growing economies. This means a fundamental improvement in living standards for a very large number of people, creating some of the largest potential cash-flush markets in the world.

In the case of Brazil, the next six years will likely be the most important in its history. On New Year's Day next year, Dilma Rousseff will take office as the country's first woman president. She will be responsible for welcoming the world to Brazil in 2014 for the FIFA World Cup and in 2016 to Rio de Janiero for the Summer Olympics, the first South American city to ever host the games.

With Brazil's unemployment rate hitting an all-time low of 6.2% in September, the GDP forecasted to grow 7.6% this year and inflation to rise to 5.31%, there are fears — as with the other BRIC countries — the country will overheat.

However, there's still plenty to be done and even more cash waiting to be spent, making for a bit of a free-for-all of companies large and small flooding into the country looking for opportunity at the moment.

"It's a very dynamic, growing market with a middle-class that's growing and lots of resources," Jean Cardyn, regional vice-president for South America with Export Development Canada, said in an interview from São Paulo. "It's a very good environment for any company to invest here. Brazil loves imported goods and technology. They can't produce everything and we have high exposure to tech in Canada, so there are lots of opportunities."

The EDC celebrated its 10th anniversary in Brazil in September. The agency has brokered more than $15-billion in exports and investments in that time, up more than 70% since the start of the decade.

Pedro Bastos, chief executive with HSBC Asset Management in Brazil, said the middle-class shift has created a populace focused on consumption.

"Consider you have 190 million people and in the last three or four years 20 million have left the poverty line. These people aspire to their first home, first car, first motorcycle," he said. "But it goes beyond that to private education, health care, health insurance and other services. We are also lagging far behind in infrastructure. Canada excels in machinery, equipment, services."

Edgewater opened its sales office in São Paulo in September after three years of planning, working with the EDC and other government agencies. Its plan is to shift manufacturing to Brazil to avoid the high taxes and tariffs associated with imports.

"Import tariffs are very high depending on the sector, and can jeopardize competitiveness of products involved," Mr. Bastos said. "For example, an imported car that would sell for US$50,000 in the U.S. would go for US$120,000 in Brazil because of tariffs."

In a sense, the tariffs are subsidizing the country's poor infrastructure. "We call it the 'Brazil cost.' To bring soy beans from the interior of the country to the ports at São Paulo can cost as much as from São Paulo to the ports of China," he said.

Setting up shop in Brazil shows a commitment to the country, and can be very important when building trust with local clients. "It's different culturally. It takes time to establish a relationship, establish face time," Mr. Anderson said. "Our distributors often wanted us to meet directly with their customers. They wanted us in on trials and demos."

But entering the Brazilian market can come with some problems. Aside from the language barrier (the dominant language is Portuguese), there are very complex tax, accounting and labour laws that could cripple a company if not handled correctly from the start.

Laurent Denis is founder of Denis Cimaf Inc., a small company that makes industrial brushcutters and chippers based in Roxton Falls, Que. a tiny village of about 3,000 people more than an hour east of Montreal.

Mr. Denis discovered a surprising demand in Brazil's planted tree crop industry for his cutters, and has been trying to find his way into Brazil for six years. He finally opened an office in February in Holambra, a town just north of São Paulo.

"You can't just decide to go to Brazil and go in the next morning," he said.

Mr. Denis, the son of a blacksmith who taught him to weld when he was four, has run into a series of bureaucratic problems every step of the way.

"It's highly regulated, like France. For instance, we wanted to establish a company and rent a building. Now, to open up a company you need an address, but to rent a building you have to have a company. So where do you start? We had to find a local person to rent the building. It took us four months," he said. "Then we said, let's open up a bank account. That took three weeks. I still can't say why."

Importing is especially expensive for Mr. Denis as Brazilians are not familiar with his products, so he's also looking to shift his manufacturing domestically. However he has not been able to find affordable subcontractors to manufacture his components, especially steel blades.

"I've been looking for two years but haven't been successful finding lower prices than manufacturing in Canada and exporting. Maybe we'll have to buy a steel fabricating shop there to control the costs," he said. "It doesn't make sense as there's no way it should cost more. Salaries are lower, and even if you just consider the heating costs, if you don't have to heat the building that's big."

Mr. Denis suspects local manufacturers inflate their prices to match those of imported goods. Short-term it is good for locals as they make more money, but long-term it will discourage entrepreneurs, he said, adding "They will realize this eventually."

Even so, it's worth the trouble, especially for niche businesses such as Denis Cimaf and Edgewater that can corner an untapped market if they move fast enough.

For Mr. Anderson, dealing with Brazilian red tape has actually been a breeze compared with the kind of bureaucracy involved with the military.

"It's actually refreshing. They have no idea," he said.

Mr. Denis, to his credit, has so far relished the challenge.

"[The Brazilian market] has the potential to be as large as all of North America," Mr. Denis said. "For sure it's a pain starting up, and I wonder what I am doing here sometimes, but long-term it will pay off."

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erlam@nationalpost.com

DAVE CHAN / FOR NATIONAL POST

Duane Anderson