SYNDICATION/EXAME

IT SEEMS LIKE A MIRACLE

In the midst of Brazil's worst recession in history, a number of small and medium businesses are finding ways to grow. See how they've done it.

By Naiara Bertão

PRIDE

GROWTH: 176 percent*
INDUSTRY: Real Estate Development
REVENUE: US$2.5 million

*Average revenue growth between 2013 and 2015

Common sense says that smaller businesses are more vulnerable to an economic crisis. Whereas large companies find all kinds of help when in need (banks, fearing a large default, help them; so do vendors; and customers usually remain loyal to the leading brands) smaller businesses are on their own. But even though the Brazilian recession has forced thousands of small retailers to shut down, pushed the franchise mortality rate to a record high, and killed off small manufacturers, plenty of entrepreneurs are still smiling and succeeding.

In a partnership with EXAME, Deloitte has mapped the 100 top-growing small and medium businesses in Brazil since 2006. Such companies account for one-third of the country's GDP and employ more than half of its formal workforce: if SMBs are doing well, the country does well. Those companies have seen their revenue increase by an average of 27 percent per year, from 2013 to 2015. Among the top 10, their annual growth varied between 60 percent to almost 180 percent. "In general, smaller businesses have less financial strength to face a crisis; those that succeeded did more with fewer resources," explains Heloisa Helena Montes, Deloitte partner in charge of this survey. This year, Deloitte has split the ranking based on the size of the business. Among those who profited up to US$30 million, the top growing was Pride, a real estate developer from Paraná: their revenue hiked an average of 176 percent per year, from 2013 to 2015. In the group with revenue from US$30.6 million to US$9.2 million, the winner was Hahntel, from Santa Catarina. They assemble production lines to manufacturers and grew 95 percent per year. Another real estate developer, MPD Engenharia, from São Paulo, was the top ranked among the enterprises with revenue from US$30.6 million to US$138 million, with a 66 percent annual growth rate.

It seems like a miracle but it's not. According to Deloitte, 75 percent of the businesses with the largest growth rate in the last two years have invested in technology, 83 percent have purchased new machinery and equipment, and 83 percent have launched new products and services. "Attack is the best form of defense," says Júnior Durski, owner of the restaurant chain Madero, ranked 14th: their revenue increased by an average of 55 percent per year, from 2013 to 2015, jumping to US$52 million. In the next pages you'll find lessons from the small businesses that succeeded during the crisis as we explore the main factors that explain their good results in the last two years.

MUNDO EQUIPAMENTOS

GROWTH: 69 percent
INDUSTRY: Equipment to real estate developers
REVENUE: US$3.4 million

Spend little even when things are going well

Cost cutting was one of the main actions adopted by small and medium businesses to face the current crisis: 88 percent said they set goals to decrease costs in the last two years. But the companies that really made money during this period were those who always had their costs under control, such as Pride, who saw their revenue reach US$2.5 million.

Established in 2011, Pride sells apartments through Minha Casa, Minha Vida, a government-funded social housing program. Some large developers worked with this program but gave up. Since the margins are tight, only those who can really control their costs and deliver on time to get paid quickly manage to profit.

"We knew that low costs were critical for our survival, so we pay a lot of attention to that," says Leonardo de Souza, one of their owners. He says the company didn't even have an office in the beginning. "We worked in our cars, visiting plots and making phone calls from our mobiles."

Today, Pride has eight employees squeezed into a commercial room in Curitiba. "When everyone is talking on the phone is impossible to hear anything," he says. In addition to controlling their administrative costs, the owners have never disputed to buy a piece of land or hire vendors — their motto is to research and bargain. Thanks to that, the average price for a Pride apartment is US$38,000, whereas their competitors charge US$44,000.

Another company obsessed with controlling their costs is Mundo Equipamentos – they rent lifts, cranes, and other types of equipment to real estate developers. They grew 69 percent per year between 2013 and 2015. Its five owners are former employees of Ambev, a beverage company famous for their aggressive policies on cost cutting, and have chosen to adjust some of the brewing company practices and adopt them at their new company. They have weekly meetings to discuss the volume of the costs in 13 "cost fronts," such as telephone, printing, and personnel. Each one of these fronts has performance goals and is headed by a professional in charge of making suggestions on how to spend less. One of the suggestions that came out of these fronts was reorganizing logistics. Today, the same group of employees supervises different services such as the assembling and disassembling of equipment and maintenance. In the past the teams were specialized and therefore had to move longer distances between construction sites. With this change, their car fleet shrank from 21 to 11. Another suggestion was to set a maximum amount to be reimbursed for fuel: US$1.00 per liter. Whoever pays more should bear the difference. “We only pay more if the employee fills the car up with up to 10 liters to get to a cheaper gas station,” explains Flávio Esteves, one of the owners. He said that this change decreased fuel costs by 15 percent. Established in 2011, the company is still paying loans its founders took to buy the first pieces of equipment and they haven’t profited. They plan on ending 2018 in the black.

A way to continue selling even when the economy is not helping is to work in very specific industries, where you’ll find fewer competitors.

NANOVETORES

GROWTH: 175 percent
INDUSTRY: Biotechnology
REVENUE: US$2.8 million

Find market niches with no competitors

A way to continue selling even when the economy is not helping is to work in very specific industries, where you’ll find fewer competitors. This is the main feature of Nanovetores, a company specializing in producing capsules of active ingredients — mainly used in the cosmetics and textile industries. In 2013, Nanovetores developed, for clothing brand Malwee, a type of fabric that moisturizes the skin and, according to them, also fight cellulite. The company was established in 2009 by Betina Ramos Zanetti, a chemist, and her husband, Ricardo Ramos, a business manager. Betina developed new ways of encapsulating active ingredients, enabling them to be used more effectively in different industries. “It’s not easy to sell innovation. Everyone thinks it’s cool but few people are willing to pay for it. Our approach is to show you can improve your results,” Ramos says. Today, Nanovetores profits US$2.8 million, sells to 25 countries, and has grown 175 percent per year.

Companies operating in more crowded industries have to work it out. Hahntel, which assembles production lines for manufacturers, nearly doubled its size last year. In 2013, the company mapped the industries that continued investing in automation and created more modern lines for the pharmaceutical industry and luxury automakers. They imported Brazil’s first “collaborative robot.” Working alongside employees, the robot did things such as tightening bolts and loading and unloading material. To keep this pace, Hahntel will need to find investors and use their capital to import 4,000 of these rental robots by 2020.

“Not every company can afford to spend US$129,000 for this type of equipment, but can afford to pay US$2,450 to rent one,” explains Joseph Rizzo Hahn Son, the founder.

MADERO

GROWTH: 55 percent
INDUSTRY: Food
REVENUE: US$52 million

Seek credit outside banks

One of the most difficult things for small businesses, in any scenario, is to get funds. The situation gets trickier during a recession, when banks — the traditional source of loans — start to lend less and charge much more for them. To try to escape this, a growing number of SMBs have sought alter-

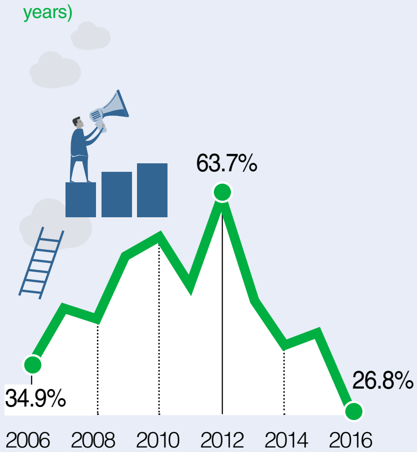
Linx has raised US$162 million, bought three competitors, and had its revenue increase by 52 percent since December 2013.

A MORE DIFFICULT YEAR

The revenue of the 100 top-growing small and medium businesses in Brazil increased less than in the past, according to a Deloitte survey.

These companies' revenue increased almost 27 percent.1)

(the figures for each year show the average growth in their revenue in the two previous years)

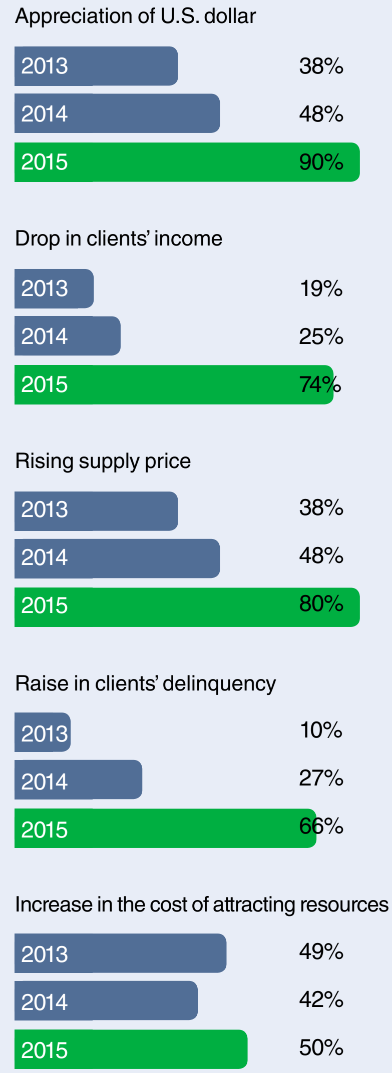


native sources of funding. Those who find them can't complain. In late 2014, the software manufacturer Zenvia sold a minority stake to DLM fund, from São Paulo, and to BNDESPar, BNDES (Brazilian Bank for Economic and Social Development) investment division. They raised US$21.8 million in this transaction, an amount they would never get from banks at a time interests are increasing. With strength to launch new products, revenue hiked 65 percent to US$77 million.

Madero restaurant chain issued debt securities. They raised US$24.5 million and used part of it to build a plant in Ponta Grossa — before that they used to rent three plants. "One advantage is that we don't have to worry about paying interest or the debt before May 2017," says Júnior Durski, the company's founder. They have hired Itaú BBA to sell a minority stake. In order to grow through acquisitions, software manufacturers Linx and Senior Solution went public in early 2013 — when investors were still interested at new companies at Bovespa (São Paulo Stock Exchange). Linx has raised US$162 million, bought three competitors and had its revenue increase by 52 percent since December 2013; Senior collected US$17 million, also bought three companies, and started to make 47 percent more.

THE BIGGEST OBSTACLES SMBs FACE

(percent from the total interviewed for Deloitte survey)



Source: Deloitte