

Brazil's Strategic Place in the Fastener Industry

by Steven Rainwater

Growth Industries in Brazil

As fastener manufacturers look for places to grow their markets, they have to take Brazil seriously. Brazil surged during the last decade to become the fifth largest economy on the planet. It's a country that's both ripe for foreign investment and hungry for offshore products. Chinese and Taiwanese fastener manufacturers have every reason to carefully evaluate this market, and create strategies to access its many opportunities.

It's critical to understand what's happening in Brazil now, and how the country is nimbly reacting to external factors while finding ways to better leverage the demands of its domestic markets for growth. It's managing the dynamics of Brazil's growth industries that is key to a successful Brazil strategy. While commodities have been largely responsible for maintaining a stable environment over the last 10 years, it's Brazil's growth industries that are the future of economic stability for the country.

Automotive Industry

Despite the recent economic downturns and the cooling off of the Brazilian economy, the automotive industry continues to deliver a promising outlook for the future. During the last two years, Brazil implemented aggressive economic measures to enable the domestic industry to maintain and even grow market share compared to imports from China, Korea and Europe. The result is larger numbers of manufactured units coming out of Brazil, and even Brazil growing its own export market to countries like Paraguay and Argentina.



Foreign automakers with major operations in Brazil, see Brazil's auto industry as a stable part of an upcoming economic forecast. Less than a year ago, Forbes Magazine quoted Guido Vildoza, a Latin American market research specialist, noting the GDP of the world's fifth largest economy recently topped US\$10,000 per capita. "That's a milestone. If you look back at the U.S., Europe, even Korea, you'll see that this is when markets move to a growth stage. This is why we're suddenly seeing all the carmakers focusing on Brazil. They want to try to capture a slice of that pie."

According to Brazil's automotive industry trade group, ANFAVEA, auto sales are predicted to rise 68% from 2011 and 2016. That's more than double the increase predicted for the US market. It's possible that within two years Brazil could become the world's third largest car market, going around Japan and just behind China and the US. Because of these growth trends, fastener manufacturers specializing in the automotive markets need to give Brazil a place of priority in their business planning.

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Construction Industry

The construction industry also remains ramped up in Brazil, even with present economic deceleration. The growth rate of Brazil's construction industry, estimated at 5.1% per year, is second in the world only to Asia (excluding Japan). There is significant activity in the area of infrastructure. Because of the large infrastructure projects related to the upcoming world cup, such as stadiums, public transportation, etc. there is a current wave of artificially stimulated growth, but growth non-the-less.

While it may be late in the game for fastener manufacturers to establish new operations or expand existing operations to react to these trends, current sales and marketing efforts may still yield aggressive orders to fulfill these existing projects. And once these events are wrapped up, Brazil still has a plethora of infrastructure needs. The roads in Brazil are seriously lacking in their ability to manage the growing number of personal vehicles. Existing public utilities also are deteriorating as fast as new ones are being built.

While infrastructure is the largest construction market in Brazil, it's not the only one that presents opportunity for China and Taiwan's fastener manufacturers. Residential construction is an important fastener market, and while its growth slowed in Brazil, residential construction is extremely stable. Improving personal economic conditions see property values continue to rise, and a home purchase becomes more within reach of a larger sector of the population. Owning a home as security and investment is still an important value to Brazilians across all class categories, so don't underestimate this market as a place to position construction hardware and fastener efforts.

Manufacturing and Machinery Industries

Industrial construction is currently the slowest sector in the Brazilian construction industry. This is largely because domestic businesses aren't investing as strongly at the moment. Because domestic growth has cooled in Brazil since 2011, many manufacturers are looking to

reduce costs by working with offshore suppliers. In some cases the costs of components and production domestically is viewed as prohibitive, so companies are looking elsewhere to source their current production.

Chinese and Taiwanese based operations can take advantage of Brazil's appetite for less expensive foreign goods at the moment to lock in business relationships, which will be able to expand once the cyclical upticks in Brazil's domestic industries return.

One particular manufacturing growth sector tied to construction is the manufacture of construction equipment. According to Roland Berger strategy consultants in a recent report on market entry strategies to Brazil, "Strong market opportunities [offer] a window of opportunity to enter and expand while Chinese manufacturers are still in a niche position".

According to the Roland Berger report, strategy for a strong position in the Brazilian markets for construction equipment has everything to do with manufacturing location and assembly of components. Location heavily impacts labor costs, quality and logistics. The company recommends some degree of national sourcing. Fastener companies with operations already located in Brazil including joint ventures, could be key strategic partners with construction equipment manufacturers making supply chain decisions for tax and logistic purposes in order to maximize distribution channels.

Brazil's Demands Are a Moving Target

Aviation and aerospace as well as oil and gas are additional industries to watch. Brazil imports a most of its aviation fasteners from the US. But as these industries expand, so will the opportunity to form new partnerships.

At the writing of this article, Brazilians are enjoying some of the most positive economic reporting they've seen so far in 2013. Growth in excess of 1% for June and July are keeping business optimistic. Analysts are predicting a 2.5% growth number for the entire year. But Brazil positioning itself for any growth is a dance. The country juggles import taxes, economic incentives and currency value vs. the dollar and the euro in a strategic effort to keep its positive momentum.

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In order to continue as a viable economic powerhouse the country must constantly and carefully reinvent itself. Because of its explosive growth and the relatively quick time to market for new technologies, Brazil runs the very real risk of quickly bypassing its industrial revolution and morphing from a country made wealthy by rich deposits of natural resources, to a services economy with industries built for catering to the growing consumption requirements of the middle and upper classes.



Carlos Rodolfo Schneider is President of Cisner, Brazil's largest fastener manufacturer. In an interview with Marcopolis.net, Schneider stated, "...it is our understanding, and this is verified by studies made, for instance, by the World Bank, that the Brazilian industry's role is diminishing faster than it should, speaking in general terms."

Brazilians aren't afraid to work, but there is a culture in Brazil that hasn't completely embraced the stable manufacturing sector jobs, which pay a good wage and provide national economic stability to the country via domestic production. Not that Brazilians ignore the importance of such a culture, but Brazilians are very entrepreneurial, and have typically relegated manual, repetitive tasks to a working class, which is at times almost exploited.

The economic boom in the country causes this class to look different than it has before. For the first time in the history of the country, concrete laborers and stone and tile masons are buying homes. Carpenters are going to night school and receiving higher rates of pay to give their families better lives. This spells growth for consumer industries, and fuels demand for lower cost foreign products that Brazil can't produce domestically.

Brazil Fastener Industry Trends

Countries like China already have a leg up when it comes to manufacturing low cost goods to meet foreign demand. If your fastener business supplies such companies, you can count on growing orders from their Brazilian customers. Brazil is seeing some of its first ever trade deficits, which it battled so aggressively to control over the last decade.

While there is a big interest among Brazilians in thriving domestic industries, Brazilians are huge historically famed for spending large amounts of cash abroad. They comb the planet for better prices to counter balance the high price of goods domestically. This is one reason tech industries within Brazil are really not a great market for foreign investment. The Brazilian government is taking extreme measures to grow technology business within the country. But its protectionist policies only fuel the consumer's aggressive search for a better deal off shore.

Increased Momentum

For Brazilians the fastener industry has been an entrepreneurial industry, growing in many ways naturally via need in the automotive and aerospace industries, using growth opportunities for international expansion. We're now seeing large Brazilian companies that are placing their locations strategically outside of the country, both to seek growth opportunities and whether the temporary slow downs inside Brazil.

Additionally, some of the larger American companies like Alcoa and Fastenal which needed to work via joint ventures in order to operate profitably in Brazil, are now leveraging those Brazilian operations abroad, to strengthen their competitive positions. So while they are American or perhaps European

origin, they are fully Brazilian in terms of contribution to Brazilian market share and business performance in the fastener market.

Export Opportunity

While Brazil requires dependable fastener partnerships, local industries are focused on growing their business and influence. There are around 300 Brazilian companies focused on fastener manufacture, with 10 to 15 of the largest companies controlling a large share of the domestic market. Most are located in Brazil's industrial south in the state of São Paulo, with a significant concentration also in the state of Santa Catarina.

Many customers for Brazilian fastener companies are domestic, or within Latin America. Mexico is the only Latin American company who sells more to the US than Brazil. Both China and Brazil share the US as their largest customer.

One of the trends still not strongly emerging is the expansion of wholly Brazilian owned fastener companies to offshore locations. Brazilians are setting up shop in some locations that make sense for them from a supply chain standpoint, or where they happen to have large customers. But the fastener business is seen by many as a value add and not a core industry. That still doesn't mean companies aren't mounting aggressive selling efforts abroad.

Import Opportunity

Mainland China is ranked number two as Brazil's source for fastener imports. The US is first with a volume of eight to nine million dollars per month of business currently. The volume of business Brazil conducts with China is about 5% of the country's total fastener imports, while Taiwan supplies about 1.5%.



Many of the automotive fasteners used in Brazil come from the US, while the Chinese and Taiwanese components support machinery and construction manufacture, as well as some automotive. China and Taiwan have additional competition in Brazil's domestic fastener market from European countries including Germany and the UK, as well as from Canada. However France just replaced Brazil as the 5th largest exporter of US fasteners, which is in part the result of Brazil's increased imports from China and Taiwan.

Government regulation in Brazil controls the price lots that can be purchased from abroad for screws, nuts and track bolts by setting price floors for per ton purchases. This is designed to prevent unfair competition, but ultimately doesn't create an environment for Brazil's domestic industries to thrive. It also means that it remains relatively easy to justify Brazilian shipments.

In the previously mentioned Marcopolis.net interview with Cisner President Carlos Rodolfo Schneider, the executive also added "We understand that Brazil needs to move forward in terms of its economic foundations and in terms of the

country's structural adjustments in order to eliminate the hindrances to Brazil's systemic competitiveness – what is commonly called the 'cost' of Brazil. This 'cost' has been an impediment preventing more and more sectors, mainly in the manufacturing industry, of being able to compete in international markets, and in some cases, in the internal market. So much so, that the increase in consumption that we have seen in Brazil is not accompanied by a corresponding increase in Brazilian industrial production. **This means that this gap in the demand is being supplied by imports. And this supply for imports is growing.**"

Conclusion...At Least for Now

Brazilians are finding their way in their new role as an economic powerhouse. They've battled high costs and corruption to arrive at a prominent place on the world stage. So it's safe to say that they'll work hard to sort out the issues that lead them to rely on imports. Whether that means stability or reductions for imports remains to be seen. In the near term, however, there is really no other way to meet current demand.

