



# Business Climate Survey Brazil 2020

Sao Paulo, Brazil  
June 2020

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# Background

- Swedish companies have been present in Brazil for more than a hundred years. New Swedish companies continue to set up operations in the country and many of those already established have recently done major investments, despite the fact that Brazil is a challenging market, and recently has had some years of economic crisis, Today approximately 200 Swedish companies are present in Brazil employing ~50,000 people active in sectors such as telecom, transport, machinery, defense, healthcare and mining. Indirect employment is much higher and in some sectors estimated to factor 1:8.
- This year's report is the result of a new global collaboration between the international Swedish chambers and Business Sweden. A collaboration that will facilitate for global comparison of >20 markets, in addition to the local market results in Brazil. The objective of the report is to better understand the current business climate and the direction of business in general. It will serve as a comparison tool for Swedish companies with plans to invest either in current markets or expand into new markets. During these unprecedented times, it also became essential to have an unified and updated assessment of the business climate worldwide, thus all markets included in this year's global report have therefore conducted the survey during the same period (March-May).
- In 2020, as the world was stricken by a the COVID-19 pandemic, national health systems were overwhelmed and many countries adopted different levels of isolation measures to try to contain its transmission. Business and the global growth forecast for the year were severely affected. In midst of the disease's evolution in Brazil, this year's Business Climate Survey tried to capture how the pandemic is affecting Swedish companies in Brazil, as well as potential transformational effects and their expectations for the future.
- Team Sweden in Brazil (The Embassy and Consulates, Business Sweden and Swedcham) works to promote Sweden, Swedish industry and Swedish economic interests in Brazil. The commitment and close cooperation between the Team Sweden members help position Sweden well in Brazil. The business climate survey is one example of such joint collaboration and delivery.
- We hope that this issue of the Swedish Business Climate survey will serve as an inspiration for newcomers and an useful tool for policy makers, stakeholders and partners, demonstrating Swedish industry's long-term view and commitment to Brazil.



Johanna Brismar-Skoog.  
Ambassador, Swedish Embassy



Jonas Lindström.  
General Manager, Swedcham



Andreas Rentner  
Trade Commissioner, Business Sweden

# Business Climate Survey Brazil 2020

- The survey was sent out on April 21<sup>st</sup>, 8 weeks into the corona crises in Brazil, to a selection of the larger Swedish companies in Brazil.
- From a total of 67 companies invited, 53 took part in the survey (a response rate of 79%).
- The survey was completed between April 21<sup>st</sup> to May 4<sup>th</sup>.

## Respondents of Business Climate Survey Brazil 2020:

AAK	Diaverum	Gunnebo Industries	PQR MA2	Stora Enso
ABB	EF	Husqvarna	Quant	Storytel
Ahlstrom Munksjö	Electrolux	Höganäs	Roxtec	Swedish Match
AkzoNobel	Elekta	iZettle	Saab	Systemair
Alfa Laval	Epiroc	Mentor Media	Sandvik	TetraPak
Atlas Copco	Ericsson	Munters	Scania	Trelleborg
Atos Medical	Essity	Mölnlycke	SEB	Volvo Group
Autoliv	Ferring	Nefab	Semcon	Volvo Cars
BMO Comercial	FinanZero	Norvida	SKF	ÅF Consult (AFRY)
Camfil	Getinge	Nynas	SSAB	
Dellner	Gunnebo	Piab	Starsprings	

# 10 Key take-aways from Business Climate Survey Brazil 2020 (I/II)

1

The COVID-19 crisis will have a great negative impact over the Swedish companies' revenues and investment plans for the next 12 months

2

Some industries are less affected or will even be able to grow business during the pandemic, such as the food industry, healthcare and digital services

3

Before COVID-19, Swedish companies were already unsatisfied with the Brazilian business climate given the slow pace of essential reforms, such as the tax system

4

Political instability caused by the federal government is highlighted as a catalyzing factor for a slower and more difficult economic recovery

5

Brazil is still behind in global standards for sustainability, mainly in crucial areas such as government transparency and environmental awareness

## 10 Key take-aways from Business Climate Survey Brazil 2020 (II/II)

6

Despite challenging times ahead, with ongoing multiple crises, none of the companies in the survey plan to leave Brazil in the near future

7

Three quarters of the companies in the survey made a profitable result in 2019 – coming in better than expected and staying profitable in a market that didn't grow

8

Global trends, such as servitisation, has proven to quickly be adopted by Swedish companies in Brazil, indicating Brazil as a prioritized market for the global strategy

9

Digitalisation and E-commerce is expected to require increased investments given change in the business landscape and a new normal post-Covid19

10

Important to protect strong values of Sweden, as it is seen by a large majority of companies as a concrete business contributor and strengthener of market positions

## Business Climate Survey Brazil 2020

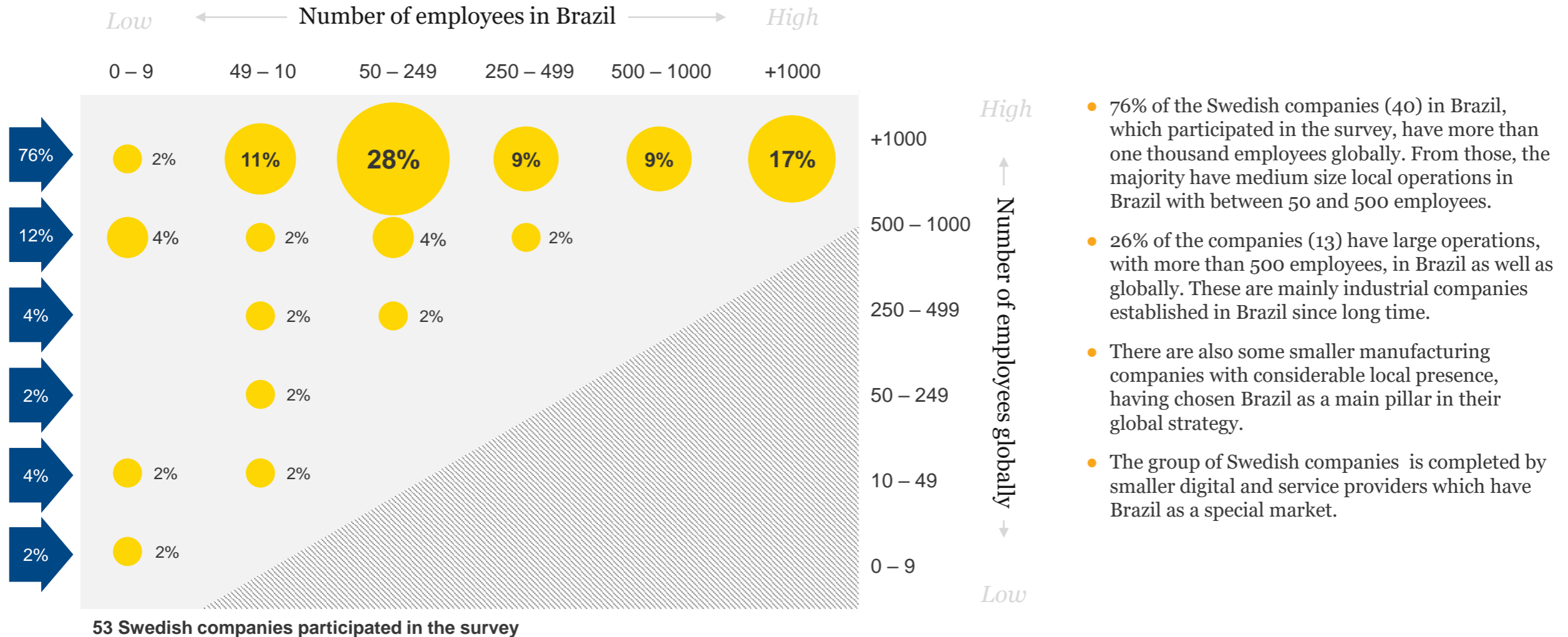
### ● Swedish Business in Brazil

- Economic Outlook
- Business Climate and Challenges
- How Swedish Companies Succeed in Brazil
- Acting Sustainably
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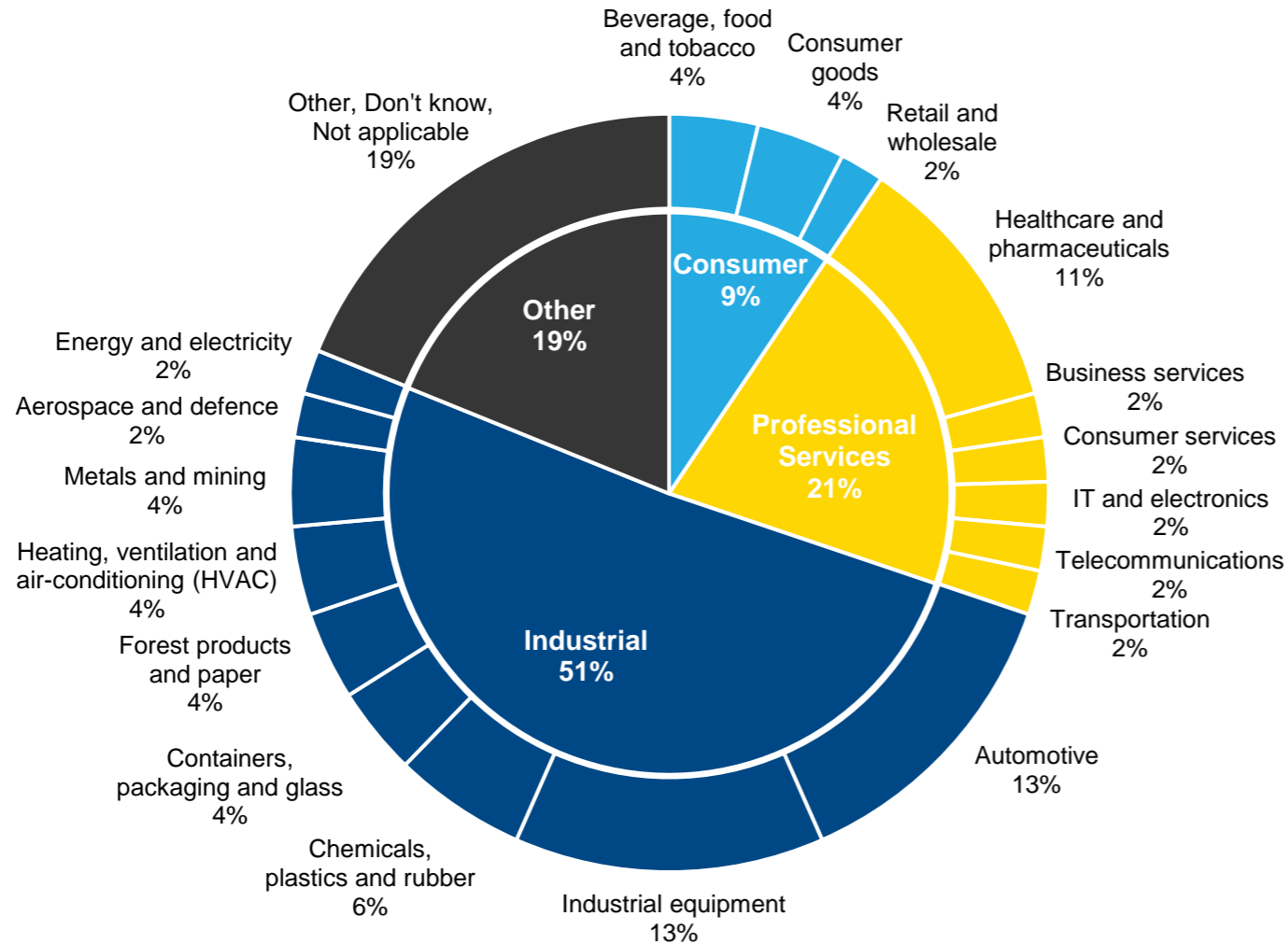
# With medium to extensive local operations, large multinationals are the majority among Swedish companies in Brazil

Question 1: Please estimate: (a.) the global and (b.) the local number of full-time employees in your company in 2020



# Industrial companies represent the backbone of Sweden's presence in Brazil

Question 2: What is your company's main industry in Brazil?

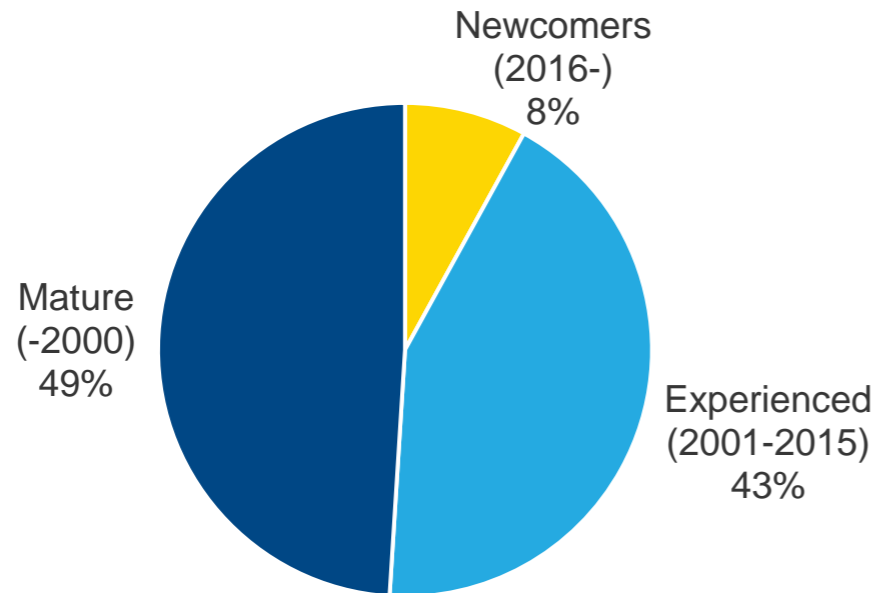


- The Swedish companies in the survey represent a broad span on industries, with automotive (13%), industrial equipment (13%) and healthcare and pharmaceuticals (11%), as the largest categories
- The category 'Other' (19%) include a mix of:
  - Digital services
  - Industrial services & engineering
  - Rail
  - Other devices and equipment



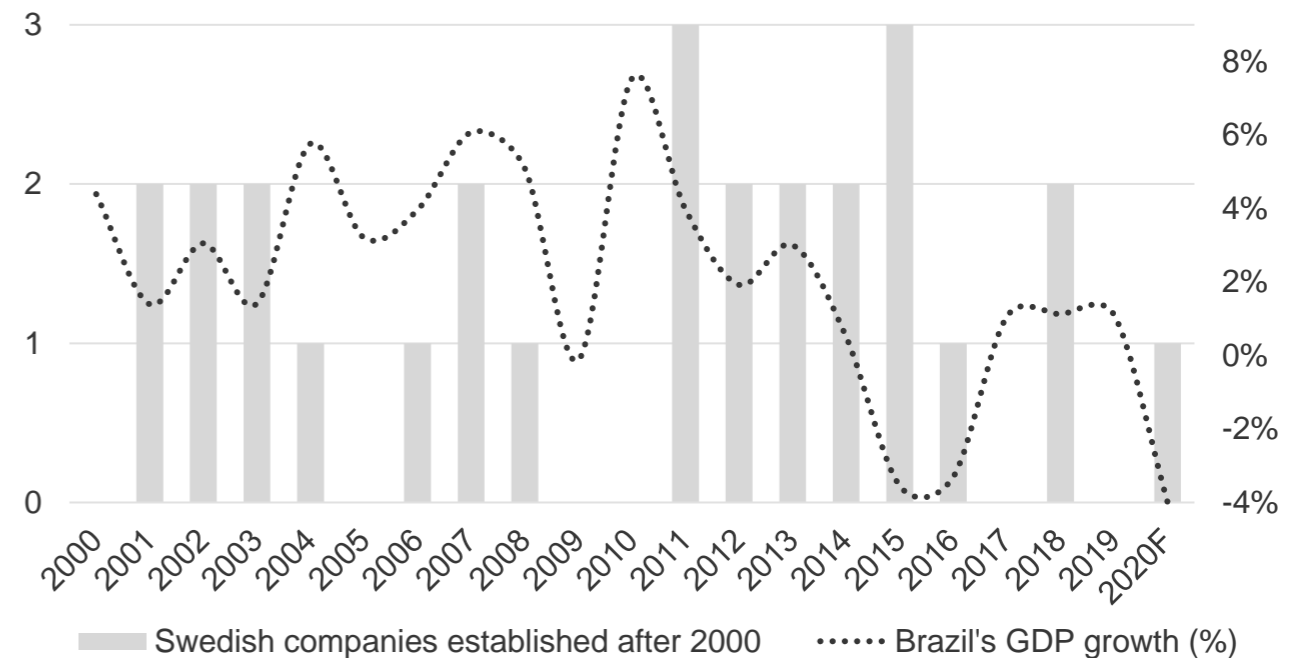
# Half of respondents are in Brazil for more than 20 years

Question 3: In what year did your company establish operations in Brazil?



- Mature companies, established before 2000, are composed mainly by large manufacturers. The presence of companies supplying consumer products and professional services grew just after 2000, such as was the case with some healthcare companies.
- After 2010, Brazil saw the establishment of other types of Swedish companies: smaller, digital related and service providers. That illustrates the shift on Sweden's business worldwide.

Swedish companies established after 2000 and GDP growth\*



- The establishment of companies was more or less constant during Brazil's growth period until the 2008 financial crisis, which had little impact on local economy. Following that optimism, companies invested in Brazil until the economic recession, in 2015.
- Since the recession years, with modest growth, less companies chose to enter the market.
- Note that this doesn't represent all establishments, but only the year of establishment for the companies participating in the survey

Source: Business Climate Survey Brazil 2020 \* Note: this analysis ignores companies closed during this period.

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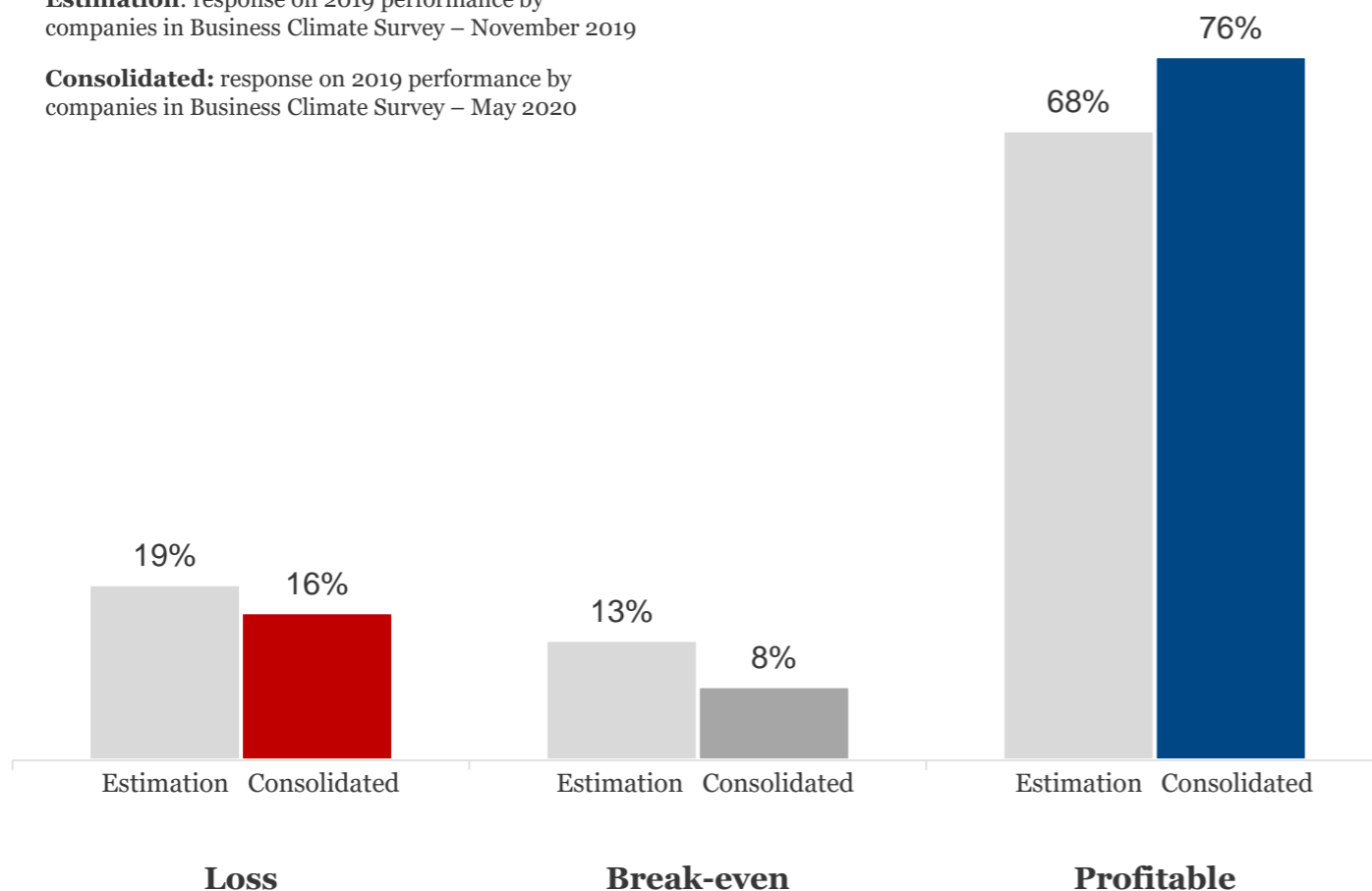
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# Three quarters of Swedish companies presented profit in 2019; perspective improved since last Business Climate assessment in November last year

Question 4: How would you describe your company's financial performance in Brazil in 2019?

**Estimation:** response on 2019 performance by companies in Business Climate Survey – November 2019

**Consolidated:** response on 2019 performance by companies in Business Climate Survey – May 2020



- Despite a year of poor economic growth, with 1,1% GDP increase, 76% of the Swedish companies reported a profit for 2019
- 2019 was marked by a general lack of confidence from the industry and consumers, in addition to an unemployment rate still above 11% and episodes of political turmoil.
- On a positive note, controlled inflation and low Selic rates\* contributed to an improvement of 2,2% in private investments. Imports grew 1% even with a devaluated BRL.
- Medium and small companies had a harder year, reporting loss in some cases, compared to large Swedish corporations.
- Professional services was the most profitable sector in the sample, while consumer products was the least profitable with a limited growth of domestic demand.

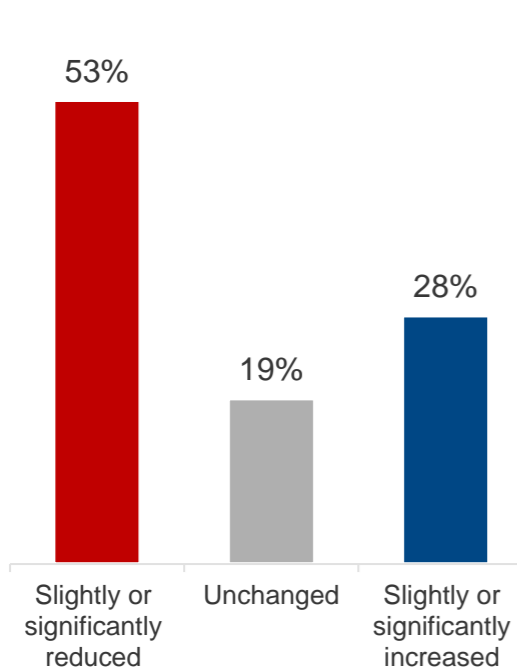
\*The Sistema Especial de Liquidação e Custodia (SELIC) is the Brazilian Central Bank's system for performing open market operations in execution of monetary policy. The SELIC rate is the Bank's overnight rate.

Source: Business Climate Survey Brazil 2020, IBGE, Brazilian Ministry of Economy.

# Impacted by the COVID-19 crisis, Swedish companies' expectations for turnover growth and investments shifted, following the negative economic outlook

However, some 28% of the companies believe in sales growth for 2020

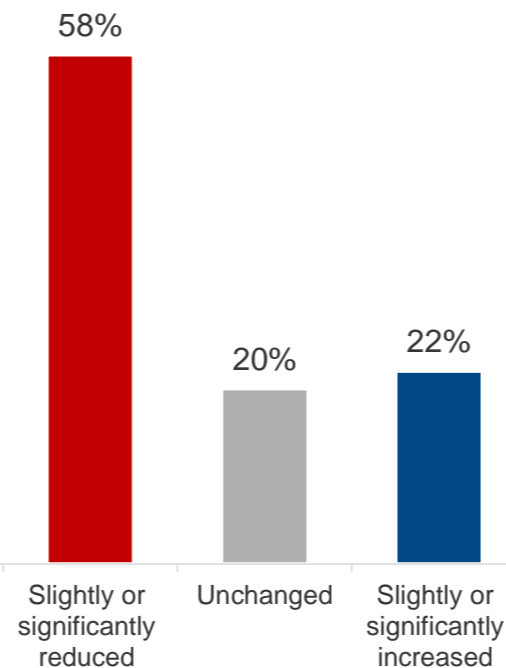
Turnover next 12 months



**Question 5:**

Compared to the development in the past 12 months, what are your expectations for the coming 12 months for your industry in Brazil regarding turnover?

Investments next 12 months



**Question 6:**

What are your company's investment plans for the coming 12 months in Brazil, compared to the past 12 months? Investments will be...

- In 2019, 78% of the companies expected a growth in revenue, while only 8% expected a decrease. Now, these numbers were drastically inverted to 28% and 53%, respectively.
- Following the economic recession expectations, investment plans of Swedish companies will be the lowest in at least 3 years. From the 59% in 2019 who would increase investments, now only 22% plan to do so.
- Large and mature companies expect to be more affected by the crisis than the others, and therefore adjusted their investments plans. Consumer industries and service providers have mixed opinions about the crisis impact.
- Positive turnover growth and investments are foreseen by specific sectors: healthcare, digital, food related and structural equipment.
- None of the companies in the survey responded that they will leave the market.

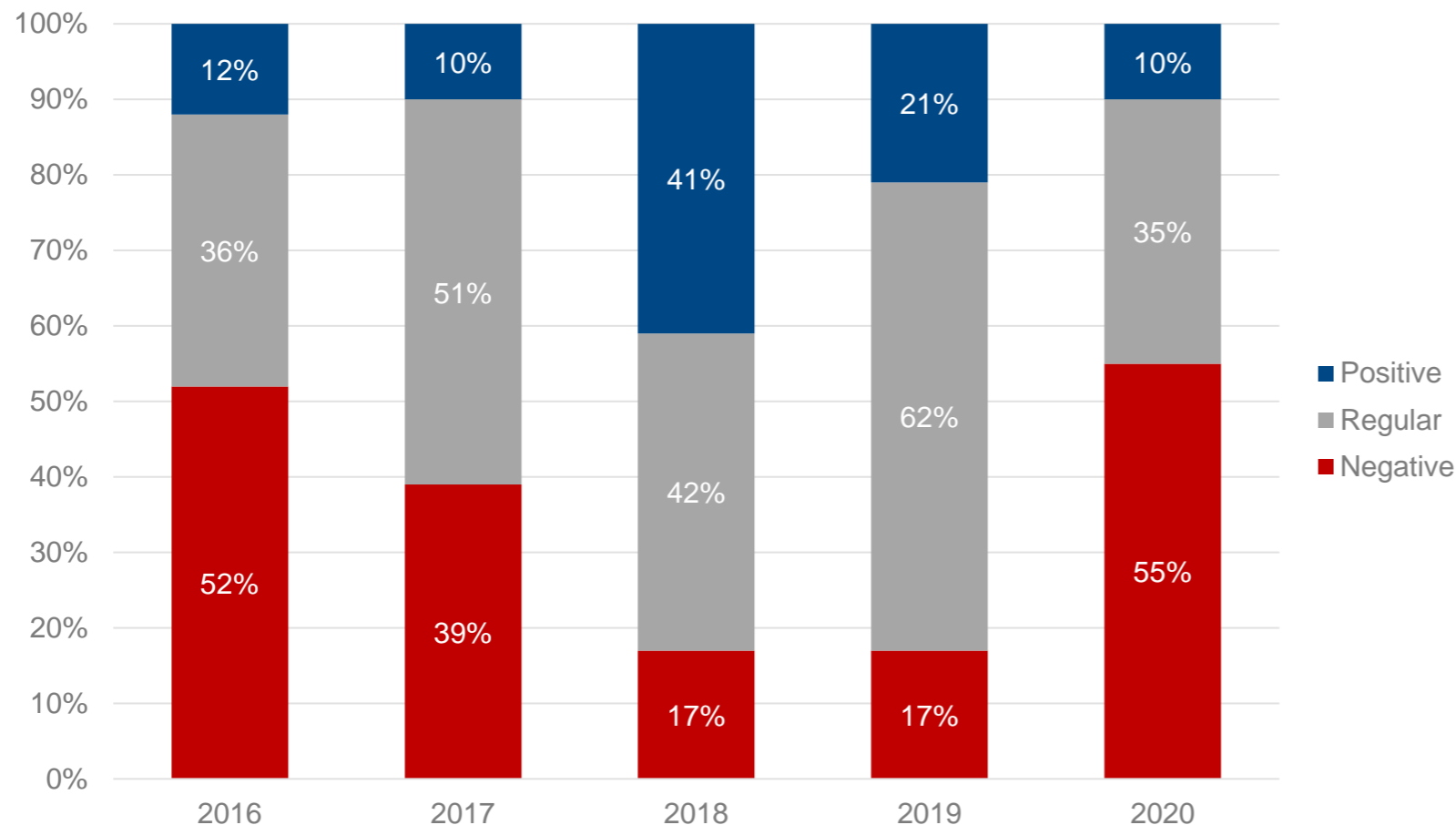
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# Impacted by the COVID-19 crisis in Brazil, more than half of Swedish companies have a negative view for 2020

Question 7: How do you perceive the current business climate in Brazil?



- The optimism with the economic growth in 2018 (41%) quickly gave place to a general skepticism in 2019. Lingering discussion on reforms, as well as a lack of political coordination by the federal government have not improved business environment quickly enough during Bolsonaro's first year in the presidency.
- 2020 pessimism towards the business climate is a result of the harsh economic recession expected for the year due to production halts and a reduction of global demand due to the corona virus crisis. Economists forecast a negative GDP growth for Brazil in 2020 of between -5% and -7%, with a potential sluggish recovery.
- Not only that, Brazil's came out of 2019 with a disappointing economic performance with 1,1% GDP growth and a persistently high unemployment rate.
- Large Swedish companies are the most pessimistic. Small companies and newcomers seem less worried.

# Managers voices: Beyond COVID-19, the government will still need to achieve focus and work on reforms to promote economic growth

“If the fight against corruption decreases, and the political climate between the Congress, Supreme Court and Executive gets worse, the recovery of the economy after COVID pandemic can be negatively affected.”



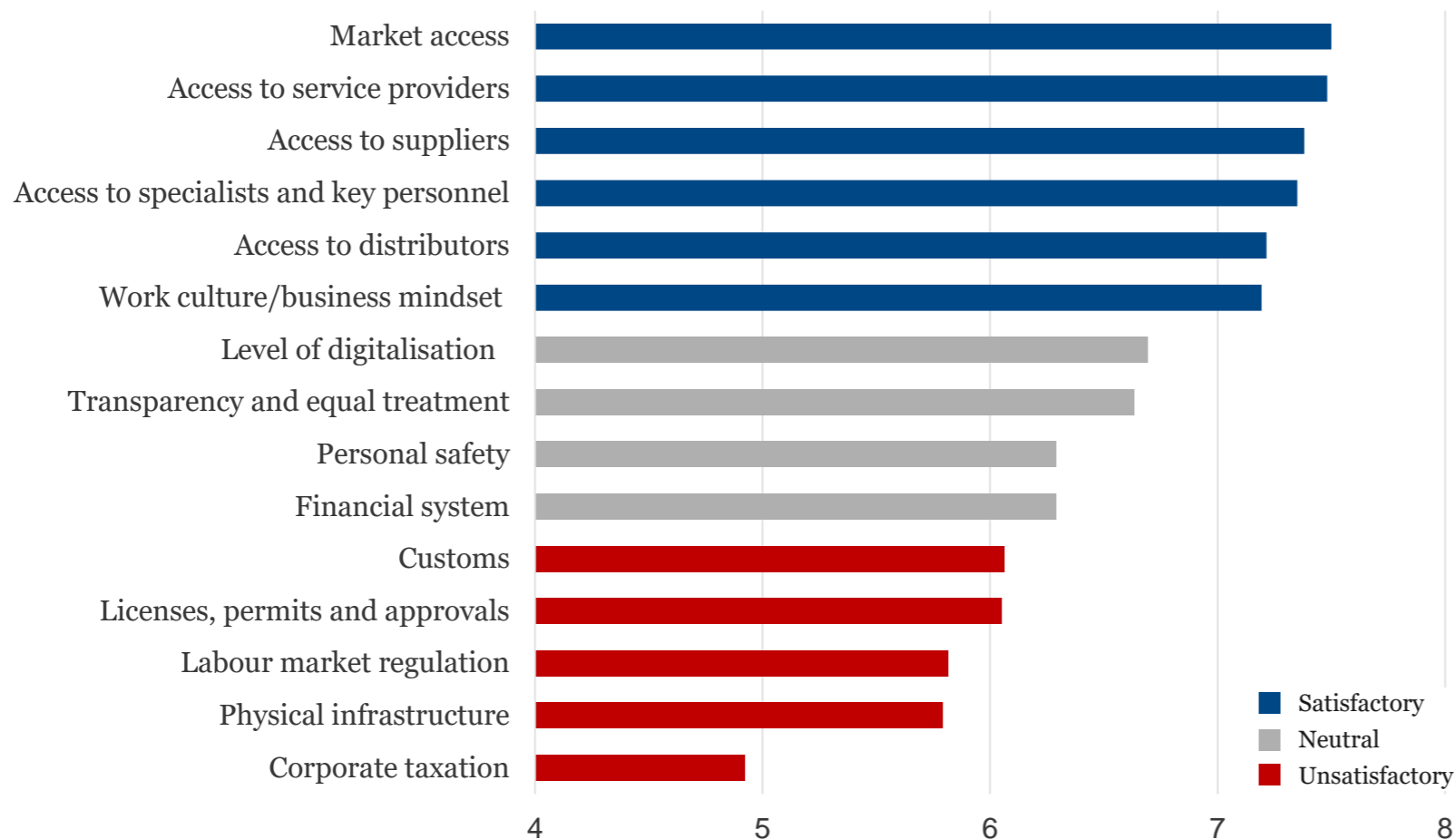
“We believe liquidity and cash flow will be a challenge for most companies, even those not directly affected by the drastic shift in consumption – such as restaurants and airlines.”

“Tax, administrative and political reforms are essential to improve the business environment and increase competitiveness in the international market.”

The approval of the social security reform was a positive step, but insufficient to create real conditions for a rapid growth of the economy.”

# The strongest advantage in Brazil is a good access to market, suppliers and key personnel, besides the local business culture

Question 8: Please rate from 1-9 how the below conditions meet the needs of your company's business in Brazil. (I/II)



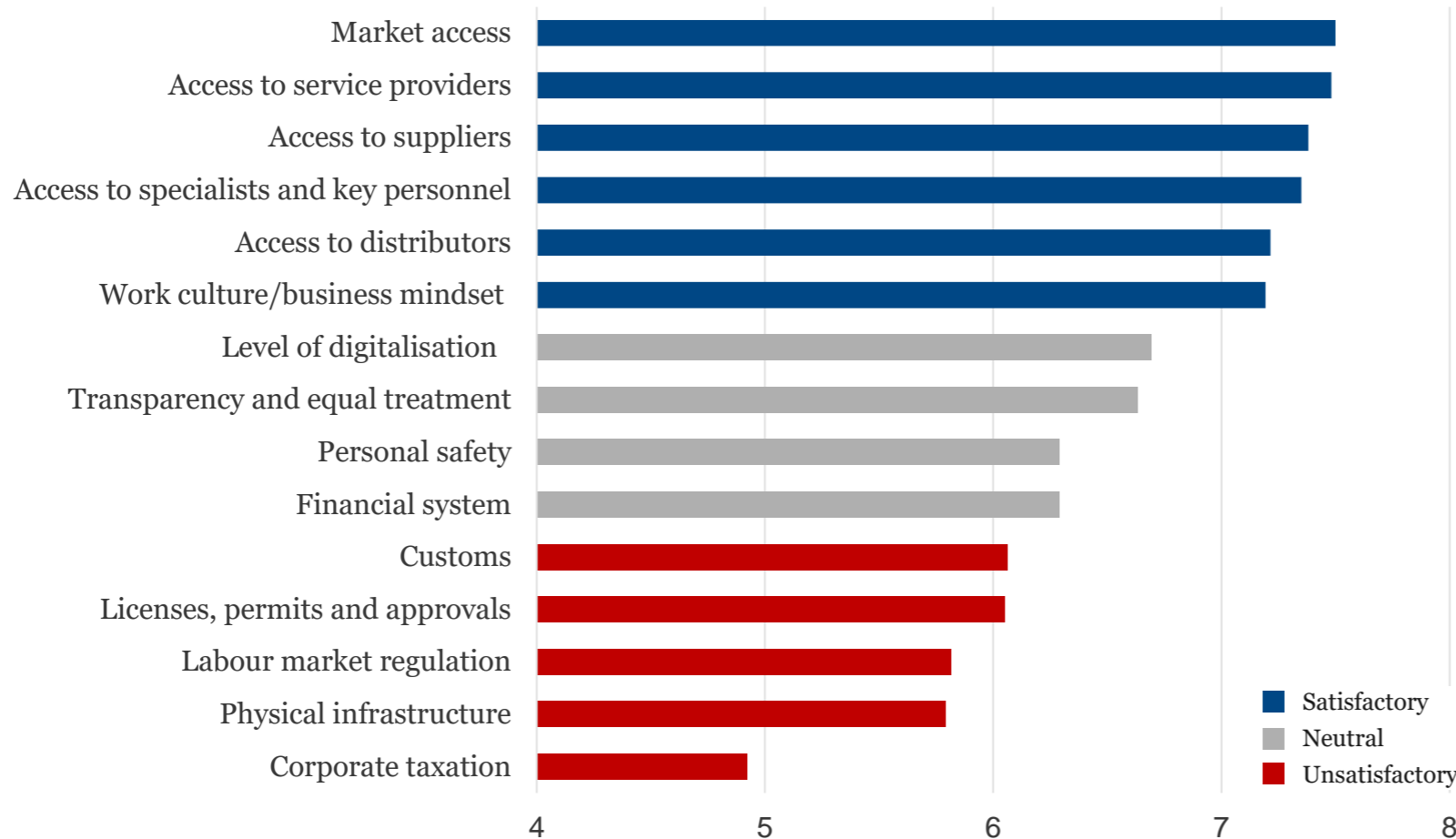
## Advantages

- The Swedish companies in the survey agree in consensus on the advantages and disadvantages of the business environment in Brazil. Whereas smaller companies were slightly more positive, while service companies were slightly more negative.
- According to the companies, the Brazilian market has a good supply of adequate partners and professional companies, besides capacitated key personnel.
- The perception of transparency and equal treatment in BR improved after increased awareness/developments/reforms following the Lava-Jato corruption investigations these past years
- Violent deaths dropped 19% during 2019. However, the number of people killed by the police also grew in most Brazilian states.
- The Brazilian financial system is one of the most developed and digitalized in the world, with Fintechs driving a revolution in the sector. With open banking being implemented this sector will continue to grow. Still, bad financing conditions, banking market concentration and high spread rates create challenges for businesses.



# Tax burden and regulation, bureaucracy and the general local infrastructure continue to represent bottlenecks for businesses in Brazil

Question 8: Please rate from 1-9 how the below conditions meet the needs of your company's business in Brazil. (II/II)



## Disadvantages

- Customs still represent a high cost for importers. When in force, the Mercosur-EU Free Trade Agreement will change the situation; European imports will become cheaper, but will also compete with locally manufactured products.
- Although improving positions since 2018, Brazil presents below Latam average scores on the Worldbank's Ease of Doing Business Rank for starting a business, getting licenses and paying taxes.
- Even with the labour reform in 2017 and additional measures during Bolsonaro's government, companies attribute low adequacy to the Brazilian labour market regulation.
- There is still a huge gap in basic infrastructure in the country. The government will focus on private investments under PPPs, but most bids are already postponed to 2021.
- In a global trend of corporate tax reduction, Brazil still presents high rates (around 12,6% more than Sweden), making the country less attractive to foreign companies. Although announcing reforms, the government has not yet presented an actual proposal.

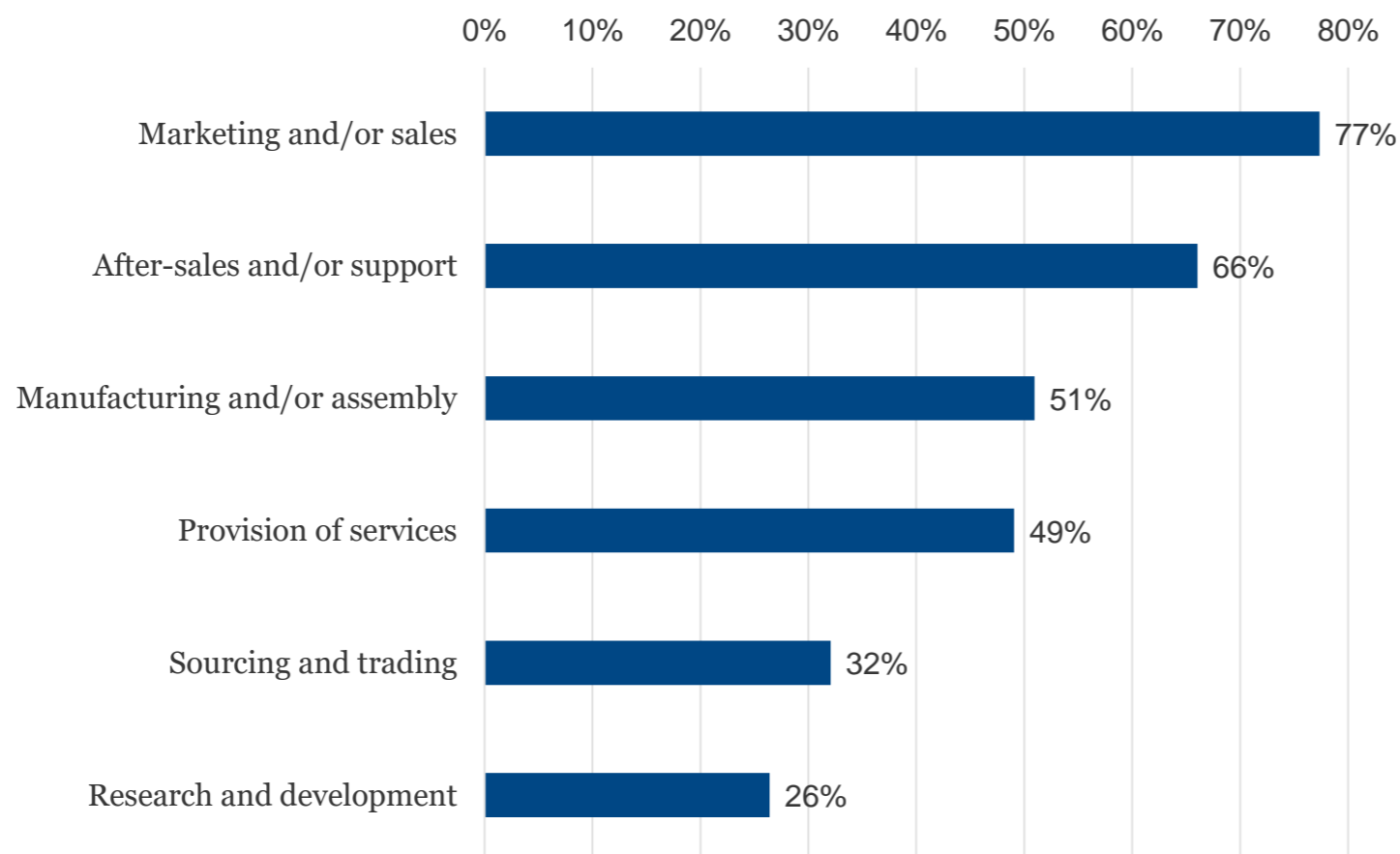
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# Companies' main goal in Brazil is to market their products, but local R&D and service offering are growing significantly

Question 9: What operations do you carry out in Brazil?



- Manufacturing continues to be a crucial activity for Swedish companies in Brazil, across maturity and industry segments.
- Operations of after-sales and support, considered a unique selling point for many Swedish companies in Brazil, are almost as present as marketing and sales.
- In the 2019 Business Climate Survey, only 19% of companies claimed to sell services as part of their operations. The current response of 49% indicates that Swedish companies are following the global trend of “servitisation” of their offering, also within the consumer and industrial segments.
- 26% of companies stated that they conduct research and development operations in Brazil. That is double the response from the last survey, indicating that some companies started to invest in R&D during the last year, including smaller companies and newcomers.

# Swedish companies believe that their cost efficiency and sales competence in Brazil allow them to be competitive in the market

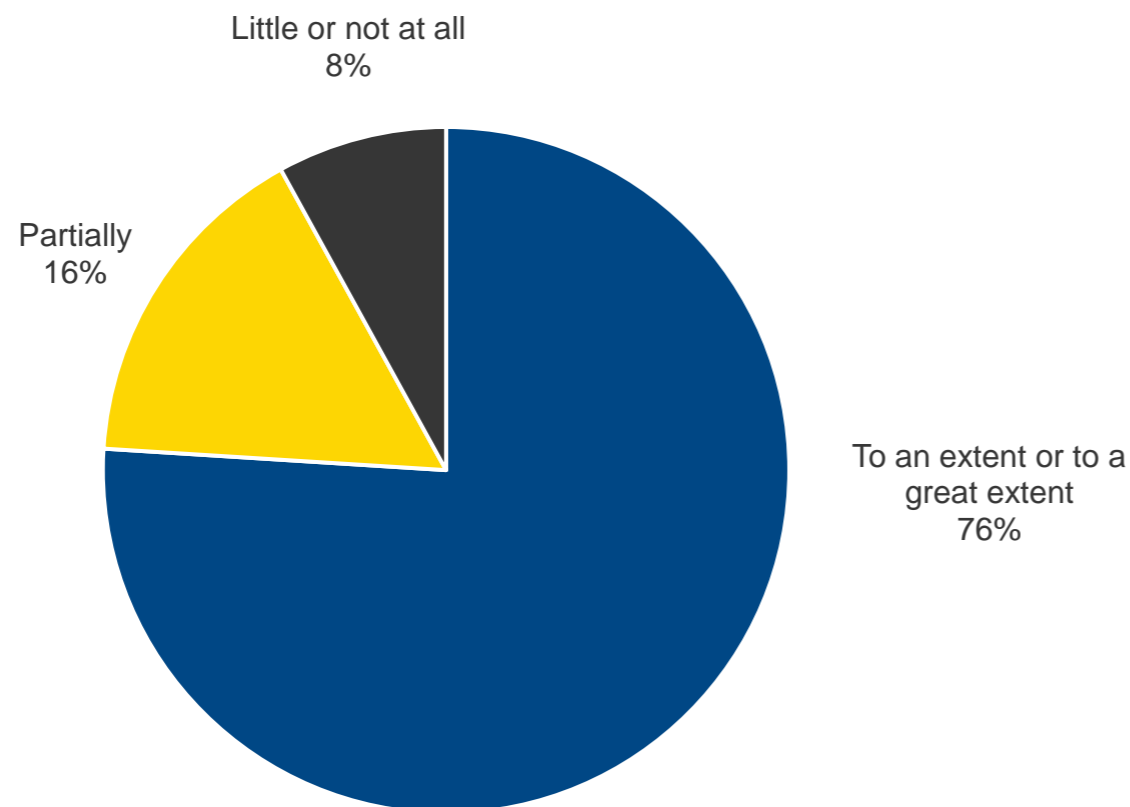
Question 10: To date, which of the following areas have been important in maintaining competitiveness in Brazil?



- Large and industrial companies are more dependent of cost efficiency to remain competitive in Brazil, supporting the argument that Brazil is still a price sensitive market.
- Sales competence is essential for success in all segments, while brand awareness seems to be more relevant for companies with medium size presence in Brazil.
- Partnerships are critical for smaller companies. Newcomers are also very dependent on capacitated staff for success.
- The great majority of companies are either not engaging with public stakeholders or not collecting benefits from it. In a complex and bureaucratic market as Brazil, that can be important but difficult.
- Surprisingly, only 4% of the companies consider that digitalisation has already put them ahead of the competition.

# The “Swedish brand” has a positive marketing impact for 3 out of 4 respondents among all company sizes

Question 11: To what extent would you estimate that the "Swedish brand" contributes to your business in Brazil?



- The importance of links between the companies and Sweden was kept constant since the last Business Climate Survey in 2019.
- According to the last survey, the “Swedish brand” evokes concepts such as credibility, quality, integrity, respect and reputation.
- Surprisingly, Swedish branding seems less relevant for companies in consumer industries.

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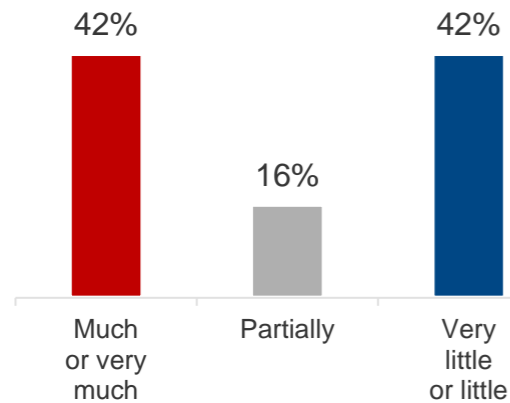
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# Corruption and environmental awareness still present major challenges to business in Brazil, while human rights violations are perceived to be minor

Industrial companies perceive more environmental challenges; newcomers seem more impacted by corruption

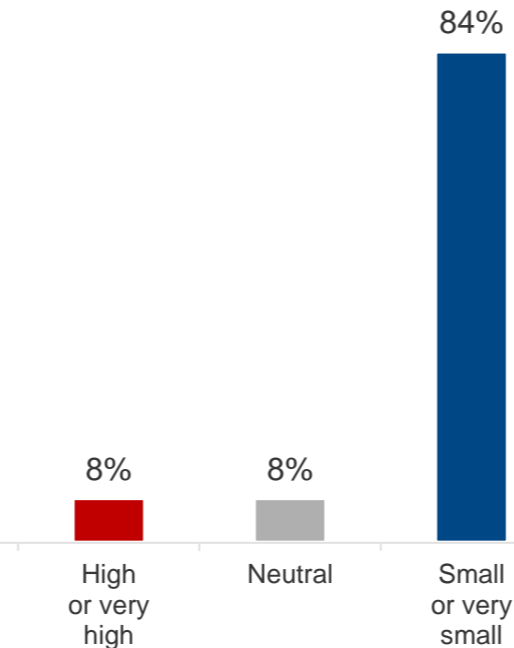
## Corruption impact

Brazil dropped one position to 106<sup>th</sup>/180 at the Corruption Perceptions Rank 2019.



**Question 12:**  
To what extent do you perceive that **corruption** in Brazil affects your business?

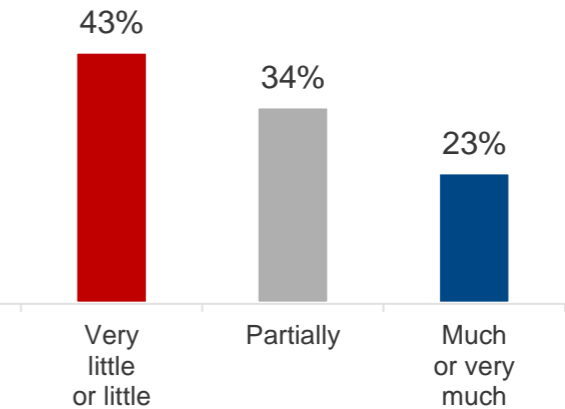
## Human rights violations



**Question 13:**  
How do you perceive the risk of encountering **human rights violations and/or labour rights abuses** when conducting business in Brazil?

## Environmental awareness

Increased deforestation and incidents involving the rupture of mining dams show lack of awareness and public control



**Question 14:**  
To what extent do customers in your industry in Brazil consider **environmental aspects** of a product or service in their purchasing decision?

# Managers voices: Sustainability action in Brazil is still incipient, but Sweden has much to contribute at different levels

Question 15: Please elaborate on the sustainability related challenges in Brazil, and the possibility to mitigate risks.

“Regulatory agencies are not prepared to apply one unique legal code across a widespread variety of industries in such a large country.

This makes room for both environmental crimes and corruption, damaging the environment and fair competition.”

## A long way to go for sustainability in Brazil...

- Price sensitivity in the Brazilian market still favors lower costs over sustainable solutions
- In a year of discussions about environmental issues such as the Amazon fires, the companies also point out problems with bureaucracy and monitoring capacity

“The profile of customers is changing rapidly in Brazil. If price is the determining factor at the moment, everything indicates that it will stop being very soon.

More and more factors such as animal welfare, generation of waste during manufacture, use of recyclable materials; are being considered in the pre-selection of suppliers.”

## Is change around the corner?

- Some companies are starting to identify changes in behavior within the business community
- However, this development is put into question by considering a slower recovery from the pandemic

“Private companies can reduce the gap by implementing educational programs and investing in updating processes and equipment.

In addition, it is essential to develop and implement high ethical standards, as well as carefully review the principles of compliance.”

## Swedish companies take a stand!

- Swedish companies are taking responsibility to improve sustainability standards in Brazil
- Actions include education initiatives, product R&D, innovation of processes and compliance strengthening as well as collaboration with other key stakeholders, such as UN Global Compact Brazil etc



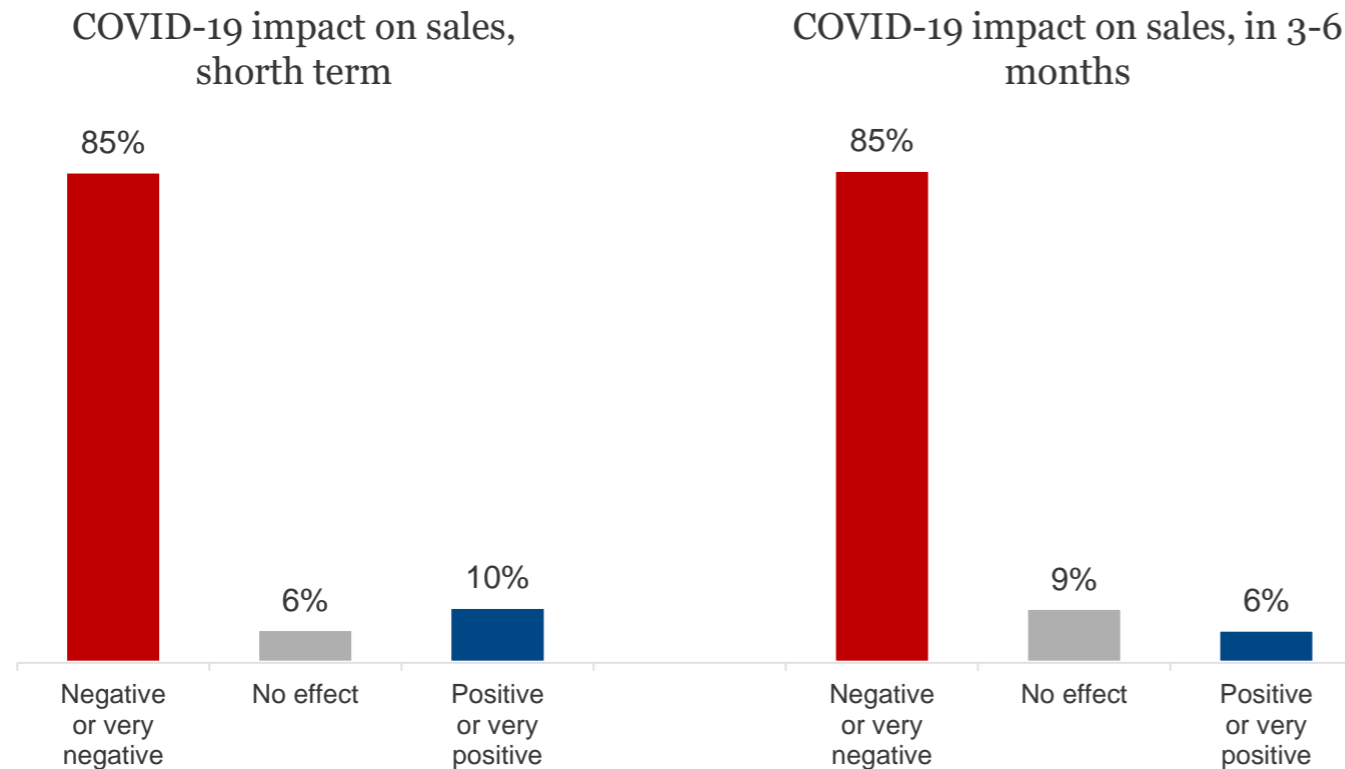
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# A great majority see a negative impact of the pandemic on sales, both immediately and during the next 3-6 months

Only 15% foresee no impact at all or a slight growth in sales during 2020



**Question 16:**

Do you see any impact with regards to short term impact on your company's sales (already felt)?

**Question 17:**

Projected impact over coming 3-6 month on your company's sales?

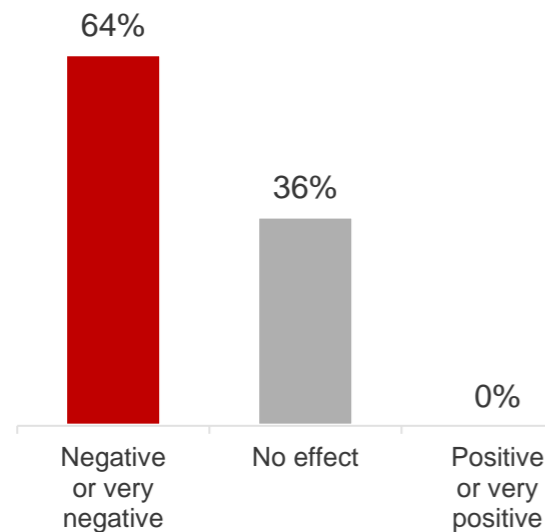
- The larger companies are specially pessimistic, mainly in industries such as automotive, industrial equipment and materials.
- A few companies have reported a positive effect on sales: consumer services, healthcare companies and special equipment suppliers.
- Although impact is perceived as negative by 85% of the companies in 3-6 months as well as in the short term, “Very negative” answers against “Negative” were fewer, showing that some respondents believe in a small improvement of conditions by the end of the year.

“The crisis of COVID-19 and, more recently, the political crisis, strongly shook confidence and brought a series of uncertainties about the post-pandemic scenario.”

## 2 out of 3 companies identified hurdles for a continued production of goods and services in the short term

The perspectives for disturbances on production capacity in the next 3-6 months is not much better

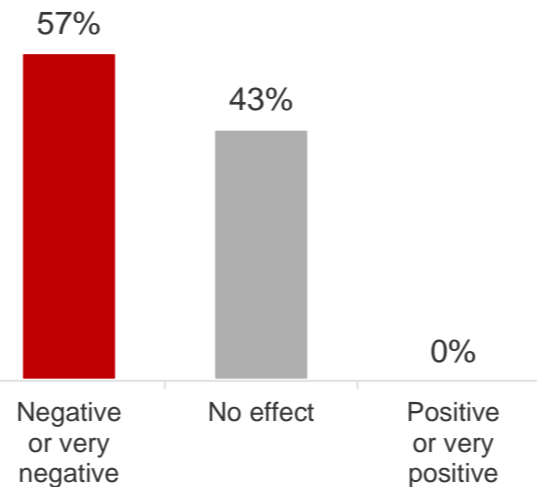
COVID-19 impact on production capacity, shorth term



**Question 18:**

Do you see any impact with regards to short term impact on your company's ability to produce products and services (already felt)?

COVID-19 impact on production capacity, in 3-6 months



**Question 19:**

What is the projected impact over coming 3-6 months on ability to produce products and services?

- Large Swedish companies are the ones facing disturbances in their production capacities the most. That is probably connected to a shortage of personnel during the imposition of isolation measures and the suspension of work contracts, as well as breaks in local and global supply chains.
- 36% of companies see no large effect on their production capacity in the short term, including healthcare companies.
- From the 57% of companies who feel that the pandemic will still affect their capacities in 3 to 6 months, only 1 foresee a very negative impact.

“In short term, the supply chain is in big risk. Low availability and excessive costs. It is very difficult for our company to supply on time. In medium to long term we believe there will be big opportunities to adapt and to learn from the corona virus pandemic.”

# Managers voices: The post-pandemic recovery is being threatened by current instability and lack of health policy coordination by the federal government

Question 20: Is there anything else you would like to share regarding the business climate in Brazil?

**Political turmoil, devaluated BRL and companies' cash flow situation are contributing to an aggravated crisis**

“We believe the impact of COVID, political actions, and FX will have a significant negative impact on consumer confidence and overall economic conditions for quite some time.”

**Opportunities in other sectors...**

“Agribusiness will push Brazil's growth upturn. The availability of grains and the installed capacity to produce and export animal protein will be the first sectors to resume production and profitability in the country, in case we have no more surprises.”

**Flexibility will be key!**

“Sure, we need to change and adaptability is the key, markets and needs are changing and we must adapt to this new scenario to give the best experience to our customers, covering their needs. There are opportunities to be even more efficient in the way we produce and serve and most companies are looking for these solutions. To conclude, we can leave this crisis stronger, it is up to us!”

# Managers voices: The pandemic is changing behavior and accelerating the digital transformation of business

“Brazil is trying to learn the new behavior. The Brazilian is used to deal with crisis, and the Brazilian capacity to improvise could be an advantage.”

“Everything will change and we won't work in the same way as before. This crisis will speed up the digital transformation and the way we do business and relationship with our customers.”



“Health protocols and infrastructure must be enhanced to successfully tackle future epidemics or pandemics. This will create additional opportunities in the healthcare segment.”

“People behavior (e.g. hygiene procedure, cool interpersonal relationships, increase concerns with personal health, etc), increase connectivity across digital platforms, better evaluate real need of personal and business trips, need of governments to invest in health programs, huge opportunities for e-business, invest in essential goods locally instead of China, etc.”

Source: Business Climate Survey Brazil 2020 – Word cloud based on Question 19: What do you believe will be the biggest impact in terms of new behavior due to Corona for your company?

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