

# Market Trends in Brazil and Hitachi's Business Strategy

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*OVERVIEW: Although the Federative Republic of Brazil suffered from hyperinflation and external debt problems during the 1980s and 1990s, inflation was finally overcome through the adoption of the "Plano Real" in 1994, whereby the nation's currency, the Real, was linked to the US dollar (a floating exchange rate was subsequently adopted in 1999). Since then, Brazil has enjoyed sustained economic growth, backed up by its extensive natural resources, population, and land area. Hitachi has been doing business in Brazil for more than 70 years, starting with the export of a turbine and generator for the Macabu Hydro Power Plant in 1939, and the establishment of a Brazilian Office in 1940. Entry into the Brazilian market by group companies has further picked up pace since 2010. Also, Brazil was identified as one of 11 nations targeted in the group-wide New Globalization Plan launched in FY 2010, and Hitachi has stepped up its business operations in the country through measures such as holding Brazil Hitachi Exhibition encompassing all group companies.*

## INTRODUCTION

MORE than 10 years have passed since Goldman Sachs, a large US financial company, coined the term "BRICs" in the 2000s to refer to the fast growing economies of Brazil, Russia, India, and China. Although growth in the economy was slowed by the financial crisis of 2008, it has since recovered thanks to robust consumer demand.

With Federative Republic of Brazil due to host a series of large national-scale events, including the "Rio+20" United Nations Conference on Sustainable Development in June 2012, the FIFA\* World Cup in 2014, and the Rio de Janeiro Olympics in 2016, the next 10 years have been called "Brazil's Golden Decade." It is anticipated that these events will lead to further economic growth through public investment in transportation networks, electric power, and water and sewage infrastructure, as well as through strong consumer demand.

This article reviews Hitachi's history in Brazil as well as its latest activities.

## SITUATION IN BRAZIL

From the 1980s to the early 1990s, Brazil was a heavily indebted nation that suffered from a devalued currency and hyperinflation, with the annual inflation rate reaching as high as several thousand percent. As a result, many Japanese companies were forced to withdraw from the market.

Fortunately, a turnaround in the nation's economy was achieved in the early 1990s through policies that included the Plano Real, public sector job cuts, tax increases, and the privatization and sale of state enterprises. This led to the repayment of debt to the International Monetary Fund (IMF) being completed ahead of schedule in 2005. Brazil also actively pursued international investment in the privatization of state enterprises and encouraged the growth of domestic industry.

Recent years have seen an expanding trade surplus due to steady growth in exports, economic liberalization, and liberalization of foreign exchange. These factors have functioned to increase per capita purchasing power in such a way that domestic demand has driven the state of the economy. This has manifested in the nation's annual gross domestic product (GDP) growth, which remained positive for most of the period since 2000 and reached a new high of 7.5% in 2010. This was the seventh GDP in the world in 2010.

Despite these favorable conditions for the Brazilian economy, GDP growth in 2011 was only 2.7% according to figures released by the Instituto Brasileiro de Geografia e Estatística (IBGE) in March 2012, significantly down on the previous year. This is believed to be a consequence of the European debt crisis and a loss of industrial competitiveness due to the high value of the Real. Despite this, the IMF is forecasting 3.0% growth in 2012 and the nation's

\* FIFA is a trademark of Fédération Internationale de Football Association (FIFA).

economy is on a slowly recovering trend due to policies such as cuts in the key interest rate (8.0% as of July 2012) by the Banco Central do Brasil since August 2011 and measures by the government aimed at bringing down the value of the currency. Moody's Investors Service, Inc., a rating agency, commented in January 2012 that there was the potential for an upgrade in the nation's credit rating to Baa1 at the end of the year provided certain conditions were satisfied. These included, (1) that the situation surrounding the European debt crisis became clear and the crisis would not have a large impact on Brazil, and (2) President Rousseff could achieve a more efficient and less corrupt government that can manage the nation's finances in accordance with the government's targets while also maintaining social policies.

In terms of political developments over recent years, the nation inaugurated its first ever female President, Dilma Rousseff, in 2011. Key issues facing the nation include: (1) Improving the quality of public education, (2) Provision of transportation infrastructure, (3) Improvements in the investment climate, including security measures and the taxation system, (4) Better financial management, and (5) Control of inflation and currency policy (see Fig. 1).

## HITACHI'S HISTORY IN BRAZIL

Hitachi has long had business activities in Brazil and other parts of South America. Hitachi Brasil Ltda. celebrated its 70th anniversary in 2010 and the Brazil Hitachi Exhibition was held in 2011.

### Activities in 1940s and Earlier

After receiving an order for a 3,300-kW Pelton water turbine for the Macabu Hydro Power Plant

in 1939, Hitachi opened a Brazilian office in the following year (making it Hitachi's second oldest overseas office, after India). This order is recognized as being the first turnkey contract for export of an industrial plant from Japan. The turbine earned an excellent reputation, leading to a subsequent order for an additional unit and also the commencement of exports of telephones and exchanges.

### Activities up to Recent Past

Another turbine and generator were exported for the Macabu Hydro Power Plant in 1950. This was Hitachi's first export contract for South America in the post-war era. Hitachi's activities expanded in the 1960s to encompass electric power, transportation, computing, and consumer products.

The flourishing of Brazil's steel industry in the 1970s on the back of government policy also led to an expansion of Hitachi's steel industry business. Hitachi (currently Hitachi Appliances, Inc.) also established a manufacturing plant in 1972. This plant was Hitachi's first in Brazil that is still in operation. Hitachi High-Technologies Corporation also established a plant in the same year.

Like many other Japanese corporations, the Hitachi's business activities in Brazil shrunk during the 1980s due to factors such as the debt crisis and hyperinflation. In the 1990s, however, Hitachi Data Systems Corporation, Hitachi Medical Corporation, and Clarion Co., Ltd. set up sales operations in Brazil one after the other. This business expansion continues with Hitachi Koki Co., Ltd. having set up a sales office in 2010, and Hitachi Kokusai Electric Inc. and Hitachi Construction Machinery Co., Ltd. having set up manufacturing plants in 2011 (see Fig. 2 and Table 1).

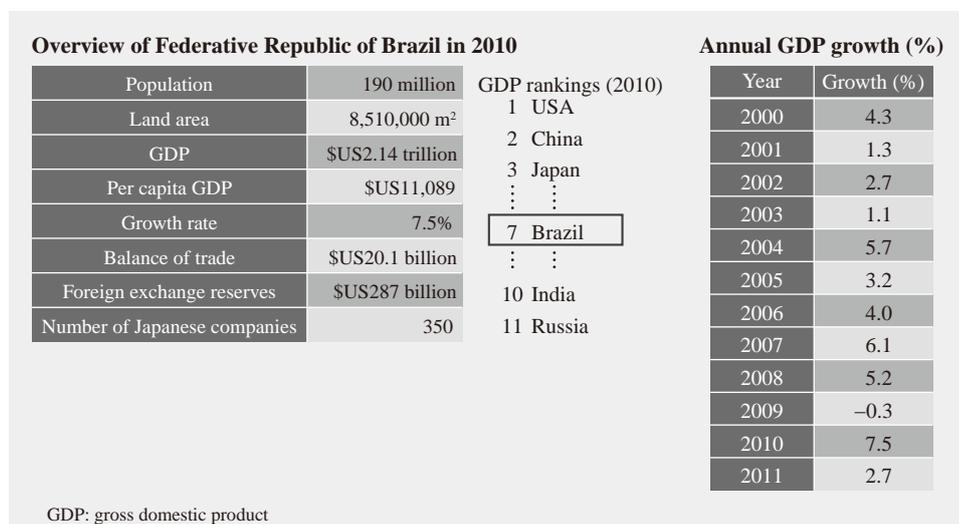


Fig. 1—Macro Overview of Federative Republic of Brazil. This macro overview of Brazil is for 2010 and is based on figures from the Japan External Trade Organization (JETRO)<sup>(1)</sup>. The annual GDP growth rate figures are from Instituto Brasileiro de Geografia e Estatística and are current as of 2012<sup>(2)</sup>.



*Fig. 2—Main Hitachi Products in Brazil. These are some examples of the main Hitachi products in Brazil.*

Hitachi’s main businesses in Brazil at present include air conditioning equipment, storage and servers, car parts, electronic equipment, and high function materials.

**NEAR-TERM OUTLOOK FOR HITACHI BUSINESSES**

To accelerate the global deployment of its Social Innovation Business, which supplies social infrastructure supported by highly efficient and reliable information and telecommunications systems technology, Hitachi embarked on the development of its group-wide New Globalization Plan in 2010. This

plan identified 11 key regions as likely to experience growing demand for the sort of Social Innovation Businesses to which Hitachi has dedicated itself. Brazil is one of these. In addition to strengthening its business development and global sales support and engineering functions, Hitachi is also working on establishing strategic partnerships to provide a platform for an approach that takes account of local needs.

**Brazil Hitachi Exhibition**

In October 2011, Brazil Hitachi Exhibition with a theme of “New Solutions for Better Business” was held in São Paulo and the Federal District of Brasília.

TABLE 1. Hitachi Group Companies in Brazil  
*Currently 10 Hitachi group companies have operations in Brazil.*

	Company name	Established (year)	Business activities
1	Hitachi Brasil Ltda. (SAOHI)	1940	Marketing and sales support
2	Hitachi Air Conditioning Products Brasil Ltda.	1972	Production and sales of air conditioning and refrigeration equipment
3	Hitachi High-Technologies do Brasil Ltda.	1972	Import/export and agency business for electrical products, industrial machinery, and communication equipment
4	Hitachi Data Systems Computadores do Brasil Ltda.	1992	Import, sales, and servicing of storage products
5	Hitachi Sistemas Médicos do Brasil Ltda.	1999	Sales and maintenance of medical equipment
6	Clarion do Brasil Ltda.	2000	Import, sales, and servicing of car audio and navigation systems
7	Hitachi Koki do Brasil Ltda.	2010	Import and sales of electric power tools
8	Hitachi Kokusai Brasil Produtos e Serviços Eletricos Ltda.	2011	Consulting on broadcast cameras and related businesses
9	Hitachi Kokusai Linear Equipamentos Eletrônicos S/A	2011	Production and sales of electronic devices (mainly broadcast transmission systems)
10	Deere-Hitachi Máquinas de Construção do Brasil S.A.	2011	Import, production, and sales of hydraulic shovels



*Fig. 3—Scene from Brazil Hitachi Exhibition. The Brazil Hitachi Exhibition held in October 2011 was the first group-wide exhibition for Hitachi companies in the Southern Hemisphere.*

In addition to being part of the New Globalization Plan, this was the first time such a group-wide exhibition had been held in the Southern Hemisphere.

The exhibition featured a keynote address by a leading Brazilian journalist and exhibits of more than 40 products by numerous Hitachi group companies from Japan and America, including the 10 group companies with operations in Brazil listed above. Seminars were also conducted by Hitachi staff on seven topics: transportation, oil and gas, smart grids, education solutions, cloud computing, terrestrial digital broadcasting, and electric power tools. The exhibition was attended by a large number of people including senior management from Brazilian companies, senior government officials, representatives from Japanese companies, and embassy staff. The opening ceremony featured a guest speaker and a ribbon cutting. The benefits of the exhibition included building new relationships and strengthening partnerships between Hitachi and the people who attended the exhibition, and giving the visitors a deeper appreciation of Hitachi products by presenting a wide range of them using samples and display panels (see Fig. 3 and Fig. 4).

#### Examples of Recent Progress in Brazil

In 2011, Hitachi Kokusai Electric Inc. conducted a friendly takeover of Linear Equipamentos Eletrônicos S/A, a major Brazilian manufacturer of broadcast communications equipment, to form Hitachi Kokusai Linear Equipamentos Eletrônicos S/A. The size of the market for digital broadcast transmitters in Brazil over the five year period until 2016, when the transition to terrestrial digital broadcasting is scheduled to complete, is estimated at more than 50 billion yen.



*Fig. 4—Seminar at Brazil Hitachi Exhibition. The seminars included one on cloud computing presented by staff from Hitachi Data Systems Corporation.*

Linear Equipamentos Eletrônicos S/A had the largest share of the market for digital transmitters in FY 2010 (approximately 30%), and its target for FY 2016 is to expand sales by more than four times to achieve a market share of more than 50%.

Meanwhile, Hitachi Construction Machinery Co., Ltd. also established Deere-Hitachi Máquinas de Construção do Brasil S.A. in 2011, a joint venture with Illinois-based Deere & Company of the USA to produce and market hydraulic shovels. Hitachi Construction Machinery will supply its world-leading hydraulic shovel technology to the joint-venture, which will manufacture the machines locally. Marketing will be handled by Deere & Company, which has a well-established presence in the Brazilian market for agricultural equipment.

Since the two companies established a joint-venture manufacturing and sales company in North Carolina, USA in 1988, Hitachi Construction Machinery Co., Ltd. and Deere & Company have built up an important partnership in North, Central, and South America. This new joint venture in Brazil will allow the two companies to pursue further long-term growth opportunities.

#### FUTURE BUSINESS STRATEGY AND PROSPECTS

With Brazil due to host the 2014 FIFA World Cup and the 2016 Rio de Janeiro Olympics, it is anticipated that these events will bring extensive business opportunities, including event broadcasting and investment in infrastructure such as roads and other forms of transportation, electric power, ports, and airports. The provision of railway networks at the venues in time for these major events has become an

urgent task, and the construction of environmentally conscious urban transportation systems in the nation's cities, including use of high-speed trains, is under consideration. In the case of high-speed trains, Hitachi is a member of a Japanese consortium (which also includes Mitsubishi Heavy Industries, Ltd., Toshiba Corporation, and Mitsui & Co., Ltd.). In the field of urban transportation, meanwhile, Hitachi is seeking to enter the market through the development of lightweight, low-cost monorail systems. Progress is being made on working with a Brazilian partner to establish local operations in readiness for monorail and other railway projects.

Also, a series of offshore oil and gas fields have been discovered in Brazil, primarily off the coast of Rio de Janeiro. The government is planning investment of more than 20 trillion yen in the period up to 2016, with the aim of developing the "pre-salt" oil reservoirs located below underground rock salt beds under the sea floor, which is itself more than 2,000 m deep. In addition to bringing together the capabilities of the entire group to offer total solutions, Hitachi is also expanding its businesses that focus on maintenance and other services as well as the supply of components. This includes Hitachi Plant

Technologies, Ltd. and Mayekawa MFG. Co., Ltd. proceeding with the establishment of a maintenance and sales base for compressors.

## CONCLUSIONS

This article has reviewed Hitachi's history in Brazil as well as its latest activities.

Brazil is recognized as an important market with expanding business opportunities, with growth anticipated not just in the infrastructure and consumer fields, but also in many other sectors such as mining and agriculture. In the future, while Hitachi has plans for business expansion in a range of different areas, it intends to focus initially on expanding its Social Innovation Business, which includes information and telecommunication systems, power systems, and railway systems, and its other core businesses such as air conditioners.

## REFERENCES

- (1) Japan External Trade Organization (JETRO), [http://www.jetro.go.jp/world/cs\\_america/br/](http://www.jetro.go.jp/world/cs_america/br/)
- (2) Instituto Brasileiro de Geografia e Estatística (IBGE), <http://www.ibge.gov.br/home/>

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