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Outlook Point of View | Open Innovation

# Unleashing Brazil's innovation potential

By Roger Ingold, Armen Ovanessoff and Eduardo Plastino

Most Brazilian companies still prefer to go it alone, close to home. But a number of leaders are embracing a new mindset—partnering externally across internationally open, smart and collaborative business models to turn their core innovation strengths to their advantage.

## At first glance, Brazil seems perfectly positioned to be a leading innovator in an increasingly connected and collaborative world.

Brazilians, for example, set great store by the relationship building that sustains such collaborative enterprises as Apple's iPhone, most of whose innovative apps are written by external developers. They are also enthusiastic adopters of the disruptive digital technologies that, by enabling "default to open" (the term coined by Google to describe how to leverage the creative potential of the crowd), are driving faster, more cost-effective innovation. And the country's embrace of connectivity—Brazil has the world's third-largest number of Facebook users, many of them small businesses and startups—constitutes a critical asset as technology-driven networks reshape the global innovation landscape.

Indeed, these core strengths should be putting Brazilian companies on a par with the world's leading innovators.

But a nation whose businesses enjoy global prominence in innovation-intensive sectors as diverse as biotechnology, clean energy and aerospace languishes in 61st place on the 143-country Global Innovation Index compiled by Cornell University, the INSEAD business school and the World Intellectual Property Organization. What's more, Brazil is also remarkably ineffective by global standards in its efforts to turn inputs into innovation outputs, from patent applications to new products, services and business models.

Plainly, Brazilians just aren't turning their innate innovation advantages into world-class initiatives—and small wonder.

Most Brazilian companies still prefer to go it alone, and close to home. When Accenture recently asked executives from 10 major developed and emerging economies how they would go about expanding their business into a new area, fully 72 percent of Brazilian respondents—the highest proportion by far among the countries surveyed—affirmed that the way they would do so was through in-house ventures (compared with just more than half of US companies, for example, 37 percent of UK companies and 36 percent of Indian companies). Moreover, just 40 percent (versus more than twice the number of Chinese respondents) said they would expand through strategic alliances.

### Pioneering players

That's worrying, given such vast potential. But Accenture research and experience strongly suggest that with a more open mindset, Brazil's innovation deficit can be overcome. And a number of leading Brazilian companies are showing how it's done.

These pioneering players were quick to recognize how critical an open, global attitude toward innovation is for the country. They are only too aware that Brazil's huge domestic economy is struggling to continue growing. They also know that as digital technologies lower barriers to entry for disruptive innovators (many of them from Asia), Brazilian firms now face increasingly direct competition—on their home turf.

For these companies, agility and flexibility are becoming far more important than the dominant domestic scale once considered an essential prerequisite of global success. And by leveraging their core strengths and partnering externally to access new capabilities across three core models, they are reconceiving their global engagement.

## International models

Digitally driven, interconnected and global networks comprising stakeholders

## GranBio: Smart collaboration in action

São Paulo-based GranBio recently opened the Southern Hemisphere's first production facility for cellulosic ethanol—a second-generation biofuel that uses sugarcane straw and bagasse (the inedible parts of the sugarcane plant). The story of how it did so illustrates some of the key challenges Brazilian companies face when it comes to innovation (see story).

Although both the implementation capacity and the feedstock needed to produce this waste-eliminating biofuel already existed, they were controlled by other entities—domestic and foreign.

First, GranBio made clear to potential partners, including Danish enzyme producer Novozymes and Dutch life-sciences company DSM, that it was a business enabler rather than a competitor—and that partnering with it would drive value for all concerned. The process took time, especially as there were no patents for the Europeans' technology in Brazil.

GranBio solved that particular problem by opening a subsidiary in the US, where patents can be more swiftly obtained. But it still faced two challenges. First, it had to persuade the Brazilian authorities to approve domestic use of DSM's genetically modified yeast, which obtains significantly more ethanol from the same amount of biomass. It also had to win over the owners of the biomass, the ethanol mill owners, who needed to be convinced that the straw could be safely removed from their fields without damaging sugarcane production.

Patience, perseverance and a solid business case paid off. The Brazilian authorities eventually approved DSM's yeast. And the mill owners' resistance was finally overcome when GranBio and its academic partners produced studies confirming not only that there would be no losses for them, but also that some of their fields could be used to grow a sugarcane variety that produces 2.5 times more biomass per hectare than regular cane.

of all sizes now form competitive ecosystems that achieve better innovation outcomes at unprecedented speed and significantly lower cost. And leading Brazilian businesses are building global partnerships to help strengthen their positioning within them.

Consider, for example, petrochemical giant Braskem, the only Brazilian company to appear in *Fast Company*'s 2014 ranking of the world's 50 most innovative companies. To accelerate its capability-building processes, especially in its flagship "green" products, Braskem has partnered with Novozymes, the Danish biotech company that is a world leader in sustainable enzyme production; Genomatica, the US biotechnology firm that is widely recognized as a technology leader in the chemicals industry; Amyris, a US company specializing in alternatives to petroleum-based products across a variety of industries; and French tire producer Michelin.

Aircraft maker Embraer has long understood the need to be nimble and to work with external partners to stay ahead in today's innovation game. The company's network includes over 50 research institutions and

250 researchers, as well as a range of suppliers and other collaborators from around the world. A 2013 study by Brazil's National Confederation of Industry describes how the development of Embraer's new and highly innovative executive jet, the Legacy 500, drew on the company's "integrated product development" process, which incorporates technology developed by the firm's network of suppliers.

## Collaborative models

Successful innovation increasingly hinges on collaborating across a truly broad network—encompassing consumers, employees and even competitors.

Yet despite Brazilians' penchant for networking, a "trust deficit" may in fact be one of the country's major handicaps. Brazilians, it seems, are reluctant to trust one another, let alone strangers.

In a 2014 survey by the country's National Confederation of Industry, for example, 62 percent of Brazilians said they had little or no trust in most people. Our analysis of the 2010–2014 results of the Interpersonal Trust Index—a gauge created by software developer and database management company JD Systems based on data compiled by the World Values Survey, a Stockholm-based global network of social scientists—shows Brazil in 54th position among 59 countries in terms of the degree to which people trust others around them.

The country's leading companies, however, know that as more and more industries become information-intensive, leveraging the power of creative thinking from a wide range of external sources can add considerable value to their own offerings.

Consider, for example, the decision by Buscapé, which offers price comparison services in e-commerce, to open its database to external developers—a calculated risk that resulted in a range of new value-added services, including a browser plugin that compares prices as clients visit different online shops.

Consider, too, how Embraco, the world's largest maker of compressors, has partnered with Fisher & Paykel, an appliance maker from New Zealand, to develop the first refrigerator compressor that works without lubricant. According to its R&D director, the Brazilian company is now positioned for industry leadership in a future in which refrigerators will have no compressors at all.

## Smart models

Thanks to a multitude of fiscal and infrastructural complexities, Brazil is a high-cost economy. Indeed, Brazilians refer to their Byzantine bureaucracy as *custo Brasil* (literally, "the Brazil cost").

The country clearly can't compete with Asia's low-cost innovation models or even with the "frugal" innovation strengths that distinguish India, for example. But it can leverage "smart" business models for innovation—circular (or renewable) designs that eliminate waste by decoupling growth from scarce resources, extend product lifecycles through refurbishment or upgrades, or share capacity with other businesses, all with the goal of achieving more with less.

Such smart business model innovation plays to Brazil's strengths and minimizes the impact of its weaknesses. Moreover, digital technologies can play a critical enabling role.

Brazil's infrastructure and security challenges, for example, prompted Easy Taxi to develop a GPS-enabled app allowing customers to find taxis fast—one of the first such services anywhere. The company now operates in more than 30 countries and claims

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## Going it alone

Nearly three-quarters of Brazilian senior executives surveyed expect to grow their businesses in new areas through in-house ventures in the next five years, a far higher percentage than found among their counterparts in other major economies (fig. 1). They are also less to see strategic alliances and joint ventures as paths to growth (fig. 2).

Fig. 1: Growth through in-house ventures

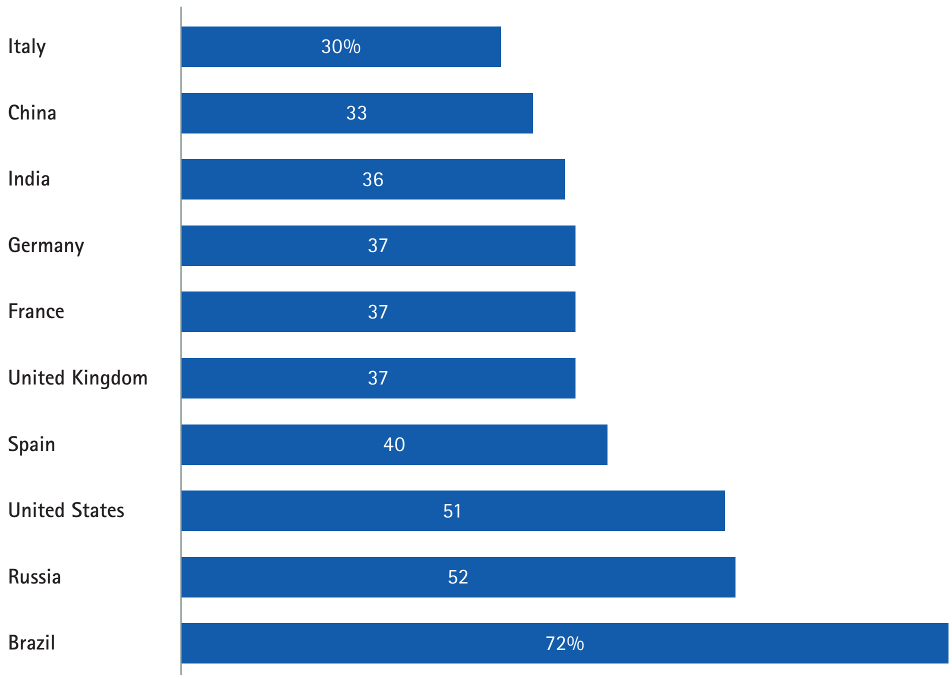
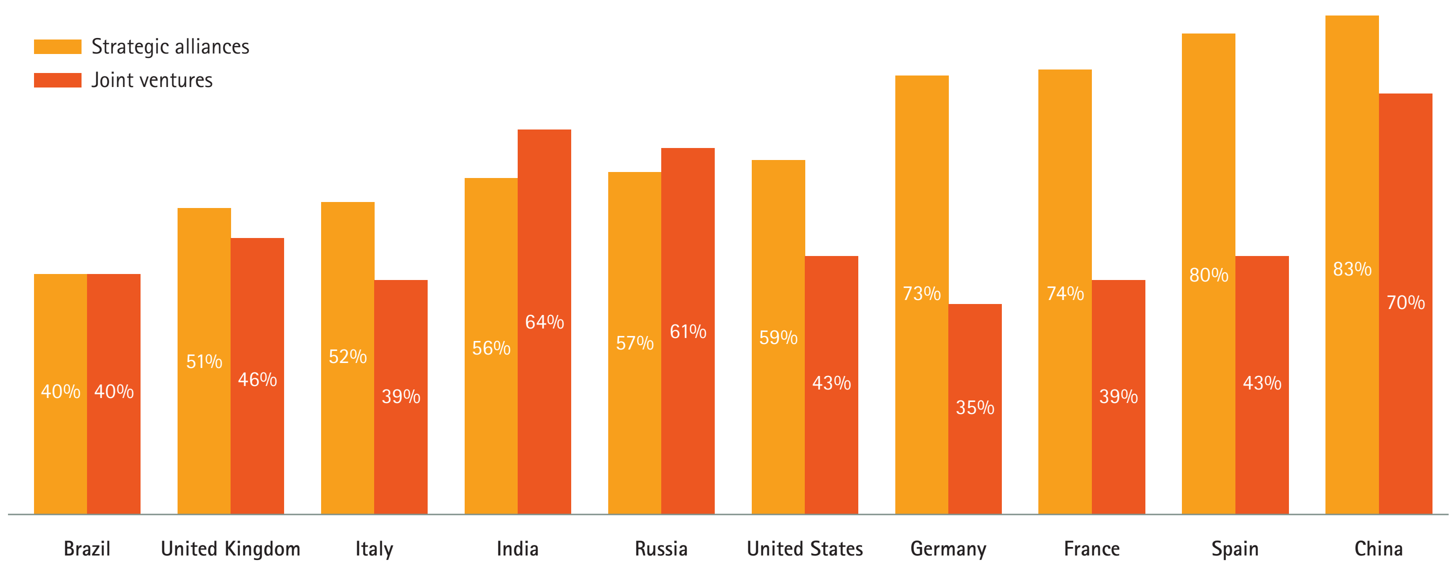



Fig. 2: Growth through strategic alliances, joint ventures




Source: Accenture analysis

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to be the "largest taxi-booking app in the world."

Meanwhile, the biotechnology player GranBio provides a particularly insightful illustration of such smart possibilities—as well as of how Brazilian companies can leverage their core collaborative strengths (see sidebar, page 3).

Opportunities plainly abound for Brazil's innovators—those with an open mindset and the right vision. In a market characterized by supply-side inefficiencies and constraints, the possibilities inherent in smart models, for example, are transformational. Indeed, our conversations with Brazilian clients suggest that they are already looking to leverage the national appetite for technology by transporting disruptive innovations from the B2C context into the B2B world.

As more Brazilian companies recognize how a more open, international and collaborative mindset can complement their considerable existing strengths, we anticipate a future in which Brazil could become a byword for innovation—worldwide.

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