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"Our laws and bureaucracy do not encourage productivity"

Luiza Helena Trajano

President of Magazine Luiza and the Institute for Retail Development (IDV)

Solange Monteiro

Luiza Helena Trajano is known for being active and optimistic, and this is reflected in her company's performance. In the last five years, Magazine Luiza, a chain of retail stores, has more than doubled its turnover: In 2014 alone, the company served 39 million customers and grossed R$12 billion, mostly generated in 647 stores in four regions of the country. Today, however, she worries about low consumer confidence. "We will have to work to lower costs, increase productivity, and think out of the box to attract consumers into the store," she says. She is a member of the Council for Economic and Social Development (CDES) and Chairperson of the Board of the Organizing Committee of the Olympic Games Rio 2016. She advocates increasing the country's productivity, but disagrees with the view that labor is expensive. "What's added to wages makes labor more expensive," she says.

***The Brazilian Economy*—Late last year you predicted 2015 would not be so bad. What is your view now, considering that first quarter net profit of your company fell more than 80% over the same period of 2014?**

Luiza Helena Trajano —I thought the first half of 2015 was going to be like that. The default, in our area, is under control. It has not increased. What worries me is consumer confidence, which is at its historical lowest. Consumers are

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concerned about so much negative news, high inflation, and losing their jobs. And when consumers lose confidence, they stop buying. There are different segments in retail. For confectionaries, it was not so bad. For us, the first quarter of 2015 was worse than last year because then the World Cup boosted sales. In the first quarter of 2014, Magazine Luiza had net profits 25 times higher than the same period of 2013, reaching R$20.5 million. We have seen a drop since July of last year, but I think sales will be better after July this year. Although we have an economic crisis, what is most worrying today is the political crisis that delays approval of necessary reforms. Now is the time for a reality check. It's not about being optimistic but about seeking alternatives.

For retail, what are the alternatives?

The retail challenge is to lower labor costs, increase productivity, and overcome the difficulties of the moment, especially low consumer confidence, which pulls down everything else. And think out of the box to attract consumers into the store. In the case of *Magazine Luiza,* we are in the media and continue doing raffles for loyal customers—this year the prize will be a condo.

Credit restraint is also important to a luxury segment like yours, is it not?

Banks had tightened credit before loan defaults increased … and people who have recently earned the right to credit do not want to lose it. But the credit restriction does not hurt as much as low consumer confidence.

Does the company's customer relationship management help to mitigate the uncertainty?

Our customer relationship management is one-to-one. Three to four times a year, we open all the shops on Sunday for loyal customers only. We have direct mail adjusted to what each customer buys, where we make recommendations …. We offer breakfast, and in one day we sell the equivalent of a week's sales.

Since the middle of last year it has become more evident that consumption-led growth has run out ....

I do not agree. In Brazil, only a small part of the population has flat screen TV. Only 54% have automatic washing machine. We need to build 23 million homes in 10 years to achieve the social equality of a developed country. Brazil has potential. What is questionable are

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the incentives to [promote growth] … What would justify saying that consumption-led growth is over? We would have to prove that the market is saturated. But only 12% of people have notebooks. Although Brazil is the country with one of the largest mobile phone rates, only half the people have smartphones. So how is the consumption exhausted if so many investors want to come here because of the potential consumption market? But to continue growing requires high consumer confidence, employment, income and credit.

It is said that growth has flattened, among other reasons, because of the imbalance of increased labor cost relative to productivity. Do you disagree?

To produce more requires increased productivity. ... You cannot improve productivity without aiming to increase revenues. In our company, we grew and then reorganized, grew again, and reorganized. Without growth it is difficult to manage focusing on productivity.

… It's the same for Brazil. Brazil grew, and now we have to focus on productivity.

Labor is expensive, and this penalizes the service sector as it is a major employer. How do you manage this issue in your company?

Brazil has to be careful not to turn into a China where the worker earns very little. I believe that what makes labor expensive are the bureaucratic costs and payroll taxes. Here at Magazine Luiza employees earn according to their sales. But Brazilian laws are not flexible. For example, employees cannot work after six in the evening … Our laws and bureaucracy do not encourage productivity … I do not think labor is expensive. … I believe the country has to have more social equality and pay better salaries. How we do this is arguable. We have to modernize how we deal with unions just like Germany, which led a modernization of capital and labor relations.

But productivity also implies efficiency.

Sometimes one does not invest in productivity because everything is very expensive and difficult. For example, we give an allowance to women employees who have a child, but this allowance is taxed. We give scholarships to help our staff, and these also are taxed. Opening our shops on Sundays to our loyal customers generates a large turnover, but most unions oppose it even though the employees themselves want the shops open so they can earn more. It is simplistic to analyze just productivity in terms of level of education, but it is not only that … If these

barriers to business are not eliminated; we won't be able to increase productivity. You're too tied up to teach, educate, or do anything because of old laws and old unions.

What can we do to improve this situation?

All companies should be free to negotiate with their employees. In Germany, labor law requires companies to consult and collaborate with workers in works council (*Betriebsrat*). We could give each one what is fair, even if it is different, and do not have a law that says that on Sundays I have to pay R$100 for everyone, regardless of the commission, which increases costs and underestimates the ability of workers to negotiate. … Our company has had works councils for over 15 years. Council members are elected by employees and cannot have management positions. The objective is to protect employees, whether for health insurance adjustment or food tickets. But to no avail, we still need to negotiate with the unions in each city to open our shops on Sundays.

Does the labor bill that extends outsourcing to core activities of the companies address the issue?

It is positive to formalize something that is informal. Now you need to be very careful, because it will not change much. Our company does not like outsourcing, because it limits our contact to employees. Also, I think 2 to 3% of our company bottom line is going to no one but Brazil's bureaucracy. ... I'm supporting a drive for less bureaucracy for small businesses led by Guilherme Afif Domingos, Minister for

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Micro and Small Enterprises, but it should be extended to large businesses. Today it takes twice as long to close a business than to open due to red tape. We are in the digital age, and the country needs to wake up.

Your company has been recognized as a model for personnel management. How do you deal with the low skills of workers?

We give our employees scholarships to study any subject, as the scholarship is not intended to keep employees in the company. The person may study history and be out of here the next day … We also have with the Getulio Vargas Foundation an online course in leadership. So for us to help Brazil's education is to facilitate access to education. Because our employees do not have money to get into a private college and as they work all day they have more difficulty in getting to a free public college.

What should be done for a qualitative leap in public education?

There are many good initiatives, but they are all dispersed. I lead a non-partisan group called Women of Brazil. … When we researched education, we saw that many people are doing a lot, but all very dispersed. If everyone unites around one education project for the next 20 years, we would not have to do much. Among the noteworthy initiatives are full-time

schooling, and separating state, municipality, and federal schooling responsibilities. Each government level should not interfere with the others, as happens today. … I say that without making reforms in this country, nothing will go forward. Politicians are elected within a backdrop. How can they fight for something if they are elected the way they are? But change has to be born out of society.

Your company has declared a focus on the middle class. With the fall in labor income and rising unemployment, how do you expect the country to maintain its social inclusion achievements and the expansion of middle class consumption?

We have lost some purchasing power, but people are not the same. Of course there may be job losses, but I think they will not be enough to jeopardize the achievement. Now, how we raise from poverty the other 19 million Brazilians who earn less than R$70 a month remains a challenge.

Recently you said Brazilian retail needs to take a new leap as has happened in the U.S. What do you mean?

Ten years ago, when we set up the Institute for Retail Development (IDV), neither retail nor services had a department within the Ministry of Development. By their lack of unity and lack of focus, retailers did not participate in anything; they had no political influence at all. When IDV joined other representative retail bodies, we realized that the retail sector was the largest employer in Brazil after the government; our union strengthened us. Today, we are invited to discuss decisions and we participate more. Now we have to take another leap. If we are a large sector, we have to assume this role and contribute to the country's development. Imagine the influence we will have if we unite all retail associations as the National Retail Federation in the U.S. does.

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Among many activities, you also chair the board of the 2016 Olympic Games in Rio de Janeiro. What is your role?

Two years ago, President Rousseff decided to establish strong governance for the Olympic Games. She wanted to have a woman on the board, and called me. The board oversees all the organization of the games. There are many details, and I'm learning and helping a lot. … The event will leave a great legacy for Rio. … I'm sure Rio de Janeiro will be a different city after the Olympics, as occurred with Barcelona. Brazil will benefit from the Olympics. We are carrying out a marketing strategy, so that people will know how much it costs with total transparency as well as how the country will benefit from the Olympics.