

What Makes Brazilian Startups Successful?



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Introduction

From March 16-25, 2018, I joined members of the University of Illinois Department of Economics in a faculty-led trip to Sao Paulo and Rio de Janeiro, Brazil. My research project is centered the factors that make Brazilian startups successful despite the macroeconomic struggles that the country has been facing in the past few years.

About Startups in Brazil:

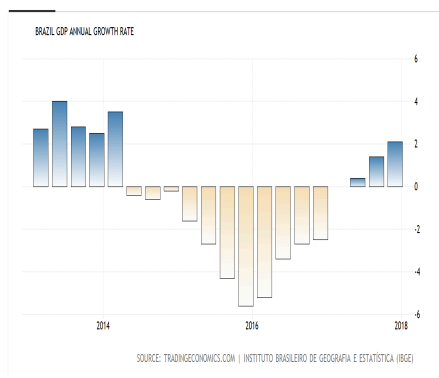
- Many of Brazil's startups are referred to as "fintechs" or "fintech markets." They are usually companies based on financial technology that are creating a product to make the lives of Brazilians easier.
- The fastest growing areas for fintechs include: insurance, loans, and financial management ¹
- The majority of Brazilian startups are in the private sector

Brazilian Economy

Brazil's Recent Economic Struggles: ²

- Brazil has seen a growing imbalance of trade over the past few years ¹
- Brazil has had a large fiscal deficit that has been increasing over time. The government has been raising taxes on the general population, but since a large portion of Brazil lives on a monthly income of less than 1000 reais (about \$300 USD), there is not much revenue to be generated
- Many Brazilians have acquired a large amount of personal debt due to poor financial literacy
- Most Brazilians in non-urban areas do not have access to basic financial resources, such as a savings account or credit card, due to lack of disposable income

Brazil's GDP Growth Rate from 2013-2018 ⁵



Visit to Cubo Itau ³

What is Cubo Itau?

Cubo Itau is a combination of an incubator and startup to provide resources to fast-growing startups in the Sao Paulo area. It was founded by Itau Bank, one of the largest banks in Latin America.

How has Cubo Itau used its resources to become an innovative company?

Cubo Itau draws much of its funding from partnerships with international businesses. Some of its partners include Accenture, Coca-Cola, and MasterCard. These resources allow the company to function primarily in Sao Paulo but also attract an international audience through digital computing.

What about the physical structure of Cubo Itau makes it attractive to new businesses?

The entire building of Cubo Itau allows for a collaborative work environment. This is not limited to glass-walled meeting rooms, walls that serve as a whiteboard, collaborative desk space (no cubicles), and extensive break areas. People are not hidden in their work if they do not need to be, and most businesses can easily access any other startup in the building within a short walk or elevator ride.

How has the Brazilian government played a role in Cubo Itau's growth and development?

The Brazilian government's complex tax and licensing forms has caused startups to outsource their funding and legal services. There are few government subsidies for small businesses, so funding has largely come from the private sector and international partnerships..



Acknowledgements

I would like to thank Professor Petry and the University of Illinois Department of Economics for making this trip possible. I would also like to acknowledge Campus Brasil for their extensive guidance and support throughout the trip.

My visits to the headquarters of Cubo Itau, Nubank, and the Pontifical Catholic University of Sao Paulo have given me excellent insight in completing this project. I would like to thank them for taking the time to meet with our group and answer our questions.

Visit to Nubank ⁴

What is Nubank?

Nubank started out as a credit card startup to reduce the complexity between the Brazilian people and the financial sector. It has expanded to include a rewards program and personal banking. Its largest competitor is Itau Bank.

What are Nubank's goals?

The primary goals of the company are customer satisfaction and providing a credit card with no added fees. Nubank relies on technology, design, and data science to simplify the banking process for Brazilians while keeping costs low for both the bank and the consumers.

How has Nubank used its resources to become an innovative company?

The rapid growth of data science over the past decade has allowed computers to take over much of the computations that would normally be done by hand. They also have compared their models to other credit card companies' models, such as Capital One, to ensure that the product that they are giving their consumer is both functional and accurate.

What is the most unique factor about Nubank's growth and development over time?

The majority of Nubank's success has been spread by word-of-mouth around the country. Since their business model deviates from the traditional Latin American bank, Nubank created a product that the consumers were eager to use because of its simplicity and efficiency. On average, a Nubank credit card account takes less than 30 seconds to create after entering in some basic information in an app and using facial recognition software to ensure that the consumer matches with their identification. The cardholder will then receive a physical card within five days.



Sources

1. "Economic Crisis of 2008 and the Aggregate Consumption in Brazil" by Cristina Helena Pinto de Mello, Professor of Economics at PUC-SP, 2018.
2. "Lecture and Case Study on Fintech Markets", Pontifical Catholic University of Sao Paulo, March 21, 2018.
3. Visit to Cubo Itau, (R. Casa do Ator, 919 - Vila Olimpia, São Paulo - SP, 04546-003, Brazil), March 20, 2018.
4. Visit to Nubank, (R. Capote Valente, 39 - Pinheiros, São Paulo - SP, 05409-000, Brazil), March 20, 2018.
5. <https://tradingeconomics.com/brazil/gdp-growth-annual>

Professional Development Applications

What are some unique experiences on this trip that are different from a normal classroom setting?

The case study that I completed at PUC-SP allowed for a collaborative environment with other Brazilian college students my own age. This allowed me to hear their economic opinions from a different perspective, as most Americans would fit into the upper class in Brazil, based on income brackets. We also worked together as a team to give a presentation in front of the class.

How would this trip benefit me as "international experience" on a resume or interview?

I am more familiar with Brazilian economics and society as a result of this trip. This means that my knowledge of Brazil goes beyond the stereotypical "soccer," "samba dancing," and "statue of Christ the Redeemer." My interactions with various Brazilian students and businesspeople have given me an understanding of what financial challenges the middle and upper class are facing the solutions that many locals are enacting.



PUC-SP

Key Takeaways from Successful Startups:

1. Startups primarily receive their funding from partnerships with the private sector rather than the Brazilian government
2. Startups rely heavily on artificial intelligence and machine learning algorithms to reduce the amount of human work necessary to launch and improve their product.
3. One of the largest struggles to startups' advancement is the role of government intervention. This includes complex tax forms, lack of public funding, and extensive licensing agreements for smaller businesses.

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