SPECIAL REPORT

Reputation and cultural projects in Brazil: when opportunity knocks on the door

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d+i LLORENTE & CUENCA

1. INTRODUCTION

The interest shown by companies all over the world towards Brazil and the constant inflow of foreign investment into the country —added to the sound state of local businesses— contrasts with a different reality: even though the outlook and indicators are clearly positive, Brazil is a still highly complex market that requires companies (especially foreign enterprises) to fulfill special conditions.

These conditions are usually related to commitment towards society and reputational positioning that demonstrates that the presence of the business in the country is, above everything, an investment in development and permanence. Brazilian institutional, economic and social sectors dislike companies that do not act as social agents for change and development.

In this context, the development of social, cultural and/or sport programs has become for many companies (both Brazilian and foreign) the best opportunity to reflect two facts: firstly, commitment towards a country that is calling for such involvement and secondly, to establish a reputational positioning that increases the value of the company and strengthens its business model.

Therefore, companies have found the perfect partner "on the other side of the table": the government. Cultural incentive policies do not merely support sustained development of the cultural industries in Brazil, they also give enterprises the opportunity to become an actor in the process and take advantage of the situation from an economic and reputational point of view.

In other words, the model proposed by the public administration regarding sponsorship and implementation of cultural and audiovisual projects is a win-win scenario. Everybody profits from it.

This paper aims to detail how companies are given an excellent opportunity to improve their reputational positioning through such initiatives without any further cost. Instead, what would imply paying further taxes now becomes an investment. Thus, a project to deduct taxes entails a reputational opportunity for the company.

2. ATTRACTED BY THE MARKET

The consumption of audiovisual (and cultural) products, such as the leisure cultural industry, is the ideal indicator to test private consumption levels.

Even though the growth of Brazil's GDP has slowed down significantly, reaching a mere 0.9% in 2012, a different indicator remains very positive: growth in consumption. Thanks to increased income, employment and credit levels, household consumption has been experiencing a sustained growth since 2004, up to 3.1% in 2012, notably contributing to the sustainment of GDP growth and therefore compensating the stagnation of the industrial sector.

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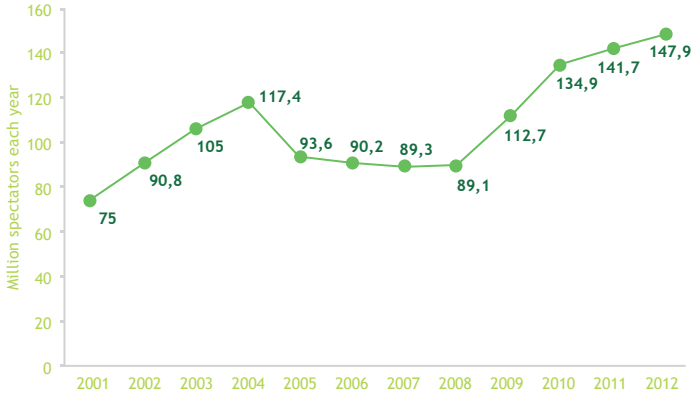
With a population close to 200 million, Brazil has been undertaking serious efforts during the last decade to gradually eliminate inequality. This has mainly entailed the strengthening of the middle-class of the country.

Data show that the aspiration component of this process results in a rapid access to leisure and entertainment products along with the income increase. This would explain the noteworthy raise in audiovisual products consumption in recent years.

Brazil just has 2,300 cinemas (as a comparison, Spain has less than a fifth of its population, yet nearly 4,000 cinemas). The attendance has increased by 60% over the last five years, reaching 89.1 million sold tickets in 2008 and 147.9 million in 2012. As regards Box Office, the rise is even larger (due to high inflation, the real Brazilian hurdle) surpassing the 100% mark, which translates into BRL 727 million in 2008 and BRL 1.552 billion in 2012. This is a great business for exhibitors and film distributors and a huge opportunity for the enterprises that manage to associate their reputational messages to this situation.

In relation to TV, in virtually every Latin American country, the most

CINEMA SPECTATORS IN BRAZIL 2001-2012



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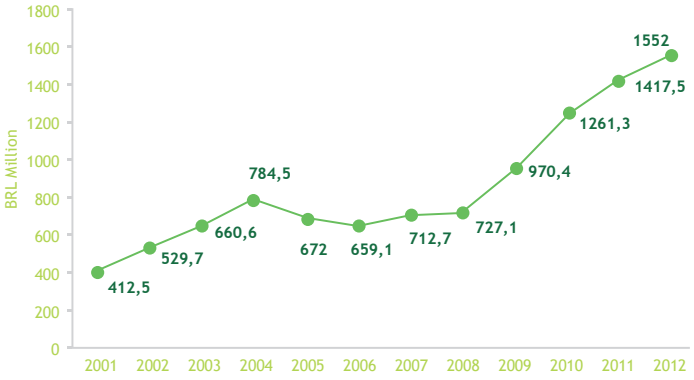
CINEMA BOX OFFICE IN BRAZIL 2001-2012



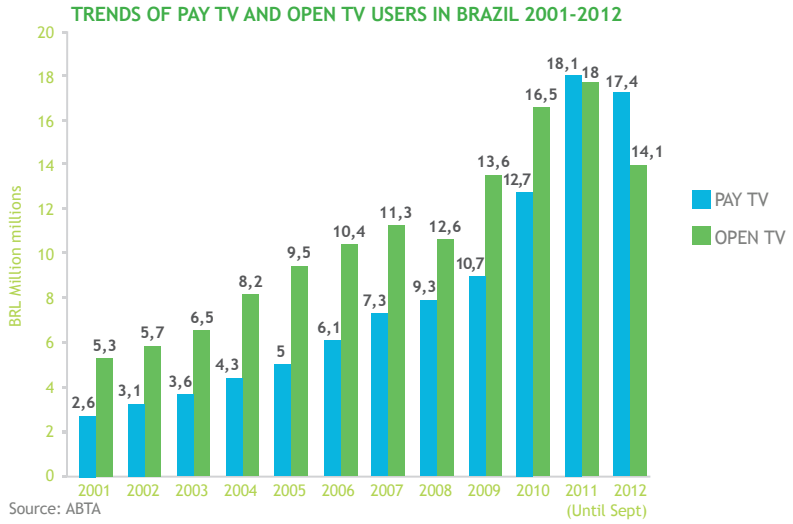
Source Filme B

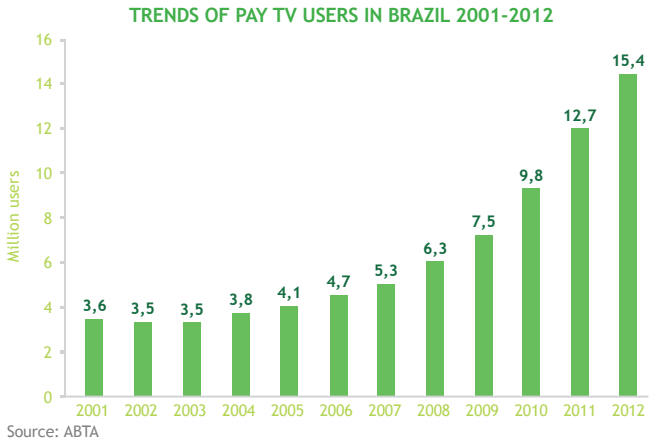
common basic television model has been Pay TV, while Open TV has been unexploited, with the exception of Brazil.

Free TV in Brazil was, until quite recently, a monopoly in the hands of the Globo group. Just four other operators were present in the Open TV field (who hardly accounted for 50% of the audience share together) while the Pay TV market was almost nonexistent in the South-American country.

Everything changed drastically in 2004, with the entry of new international operators, coinciding with the increase of the new C-Class, which has had a direct impact on the consumption of Pay TV as a product, therefore turning the decoder into an essential appliance for in increasing number of households. Until 2004 Pay TV was in completely stagnant situation, yet from that year onwards its growth has been impressive, reaching its peak during the last two years, with annual subscribers' growth rates close to 30%. The final boost occurred in 2011, year in which the annual turnover of Pay TV exceeded that of Free TV.

The number of Pay TV subscribers has already reached 17 million and the estimations carried out by experts of the sector predict that by 2017 the figure will be near (or even surpass) the 40 million mark. This translates into a penetration rate of over 60%.





"The number of Pay TV subscribers has already reached 17 million"

In the past decade, Brazil reached out to large international operators and content produced by majors, but since the audiovisual market grew so rapidly —particularly, the Pay TV sector— the government passed a law that entered into force in September 2012, seeking that part of the benefits of this growing business served to develop their national audiovisual production industry. This is known as law 12.485.

3. THE GREAT CHANGE

The great change of the Brazilian audiovisual sector depends on how law 12.485 is implemented, as it seeks to regulate Pay TV in the country and, without any doubt, it will open the market for private sector strategic participation.

This regulation imposes PPV certain rules which set quotas for the broadcast of Brazilian productions, including an amount which has to come from independent producers.

Even though this law is still too young to properly measure its effects, it can be predicted that, if everything goes according to the projected plan, Brazil could become a true global power in the field of audiovisual production in the next 10 years.

Until the enactment of this law, Brazil did not have a significantly large volume of audiovisual production. In relation to fiction products, even though it slightly increased, the average rounded 80 annual film productions. In the field of TV fiction, almost everything was produced by Globo TV, with daily series and almost no prime time series, miniseries and TV movies. Animation is another sector that has to start almost from scratch.

Thus, it cannot be said that Brazil had enough audiovisual production volume in order to be considered an "industry". Just six audiovisual enterprises had significant production volumes until now. All of them with similar origins: they started as film production and/or advertising companies (the latter being a sector widely known and reputable in the country).

4. SUPPORTING LOCAL CONTENT

In the GATT agreements of the nineties (the Uruguay Round) regarding free trade, Brazil explicitly introduced the "telecommunications services for the distribution of radio and TV broadcasted programs for direct reception by consumers of the service" as well as "audiovisual/ Motion picture and video tape production services[1]" in its list of exemptions to Article II of the General Agreement on Trade in Services in which a more favorable treatment regime was established.

The first exemption was justified in order to "ensure that Brazilian suppliers were given an efficient access to all markets". The second sought to "promote cultural exchange and establish mechanisms to facilitate the access to financial resources[2]", the objective was to protect national audiovisual productions in order to privilege national products, with the

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exception of those projects carried out under bilateral and multilateral co-production treaties.

With this "cultural exception" Brazil anticipated the free trade international treaties to lay the foundations, at the start of the third millennium, of a policy that fostered and stimulated national productions.

The question yet to be resolved is linked to the required acquisition of know-how in relation to the processes of development and production of content and professionals. Meanwhile, audiences need to gradually gain enough importance in order to make this market an attractive option for advertising companies.

5. CULTURAL INDUSTRY AND THE GREAT OPPORTUNITY FOR ENTERPRISES

Brazil has had for the last two decades one of the most favorable regulations in terms of tax deduction and incentives regarding import, production of cultural products and of films and audiovisual products. These incentive mechanisms are regulated by the **Law Rouanet** (since 1993) and the **Audiovisual Law** (since 2006) respectively, which allow businesses to deduct 100% of the investment made as sponsors of cultural and audiovisual projects with a limit of 4% of its annual corporate tax. This limit is increased to 6% of the income tax when the sponsorship is made by individuals.

Meanwhile, Brazil has recently set up an audiovisual fund (Fundo Setorial Audiovisual) that grants subsidies for film and audiovisual production, distribution, exhibition and promotion (festivals) and whose budget comes mainly from charges applied to telecommunication and Pay TV companies, as well as investment surplus through tax deductions for projects that were not finally carried out.

In 2011, the fund was endowed with around BRL 90 million, which increased to BRL 600 million in 2012. It is expected to rise to BRL 1.1 billion for the current year.

This regulation encourages the production and distribution of local content, it is a clear commitment towards audiovisual projects and, the most interesting point, a tax deduction policy for companies that decide to take part. It is almost impossible to picture a better scenario.

For businesses, the possibility to join a strategy that boosts its reputation and economic benefit (through the tax deductions) is an opportunity to invest its own resources and have a good and high-impact reputation indicator.

[1] www.wto.org World Trade Organization. List of exemptions to Article II of the General Agreement on Trade in Services.

[2] Ibidem.

"In Brazil, there is another factor to be considered when designing a reputation strategy: a company that does not invest in the country will always be questioned"

Yet, paradoxically, it is still defined as an "opportunity" because not many companies (foreign and Brazilian) are taking advantage of this situation.

For example, the **Audiovisual Law** (2006) provides deductions of up to 100% of the investment made for Brazilian companies that sponsor audiovisual projects with a limit of 4% of their annual Imposto da Renda Devido, as well as for individuals with a limit of 6%. It also grants tax deductions of up to 70% of the investment made with a limit of 4% of the Imposto da Renda Devido (corporate tax) for co-production foreign businesses located in Brazil (distributors and Pay TV companies) which invest in Brazilian audiovisual projects.

Is it possible to link these benefits to a corporate reputation and exposure strategy in Brazil? The answer is yes, without any doubt.

6. COMMITMENT TOWARDS REPUTATION

In general, one of the biggest challenges that companies have to face nowadays is linking reputation value strategies to business performance and value indicators. CEOs do not want to implement strategies that do not entail a tangible benefit. But, at the same time, they admit that a company without a good reputation does not have the value it should have.

In Brazil, there is another factor to be considered when designing a reputation strategy: a company that does not invest in the country will always be questioned.
In that sense, the scenario previously described meets, paradoxically, three essential elements in reputation strategies:

- **Economically profitable:** Since cultural and audiovisual products' sponsorship is based on tax deductions. I.e., it is a reputational strategy that does not require any new investments, but diverts the taxes of the company.

- **Strategically profitable:** As it does not only allow linking the brand, but especially the company's basic messages to social high-impact and wide-spread content.

- **Politically profitable:** Because it reflects the company's commitment towards cultural and social development of the country, boosting, among other things, its good positioning amongst society, its stakeholders and public administration.

However, even though the scenario is clearly positive for businesses, it is important to remember that not everything is acceptable. That is, the objective is not merely taking advantage of the tax deduction option, but at the same time, to send a reputational message linked to cultural contents related to the values of the company.

In that respect, it is important not only to count with a good coordination between the financial area of the company and the

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sponsorship department, but also to integrate into the process all the pertinent internal actors that can help linking the reputational message to audiovisual content (projects) available on the market.

On the other hand, it is important for companies to consider that this kind of projects are not merely based on the inclusion of their logo in the credits or, at the other end of the spectrum, a tailored self-promotion work (subliminal advertising, product placement or similar).

Integrating a reputational message into a cultural project (audiovisual or similar) open for sponsorship in the market is a highly complex task with many requirements (regarding production, distribution, marketing, etc.) and therefore calls for a careful and complete planning. In any case, the challenge lies in uniting the values of the company to a project whose contents (and consequent consumption) can become part of the global reputation of the company.

It seems obvious that the consolidation of such projects implies:

- The definition of a resource model (scope of tax benefits) that allows the company to specify the amount available to invest in this kind of projects. This can only be defined through an interdisciplinary work that involves the financial, sponsorship, corporate, communication and marketing departments.
- The creation and/or definition of reputational messages of the company through concise, objective messages with specific performance indicators.
- The identification in the market (whether by implementing pull or push strategies) of cultural projects that could go in hand with the reputational messages and indicators of the company.
- The consolidation of a sponsorship agreement/ strategy that takes into account not only the economic and production scope, but also the subsequent management and exploitation of content as well as measurement of impact indicators.

It is true that several factors have to be considered when designing and developing these strategies but, in general, the conditions to implement these policies in Brazil are really good:

- Audience: since both the increase from 17 million to 40 million Pay TV subscribers in just four years and the challenge of increasing the number of cinemas, taking into account the impressive Box Office results they are generating, can easily be tackled by the country.
- New regulation that requires the broadcast of national audiovisual productions, which will entail:
  - » An increase in the production capacity of audiovisual producers, as well as the know-how

and their creativity and technical capacity.

» Creation and loyalty of the audience, increasingly getting used to the consumption of domestic productions.

» Consolidation of the products in the TV grid for the profitability that their share generates.

» Creation of a national audiovisual industry, which will generate added value for the whole chain, supported by a large and more mature domestic market.

- Solid governmental commitment, through the regulation, to integrate the private sector in the process facilitating the sponsorship, participation and tax benefit mechanisms.

This type of strategy is especially interesting for companies that seek to increase its visibility and impact among stakeholders in Brazil, not only from an economic point of view but from a reputational perspective, since it offers a very good opportunity to carry out those "special actions" that the country expects from them.

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