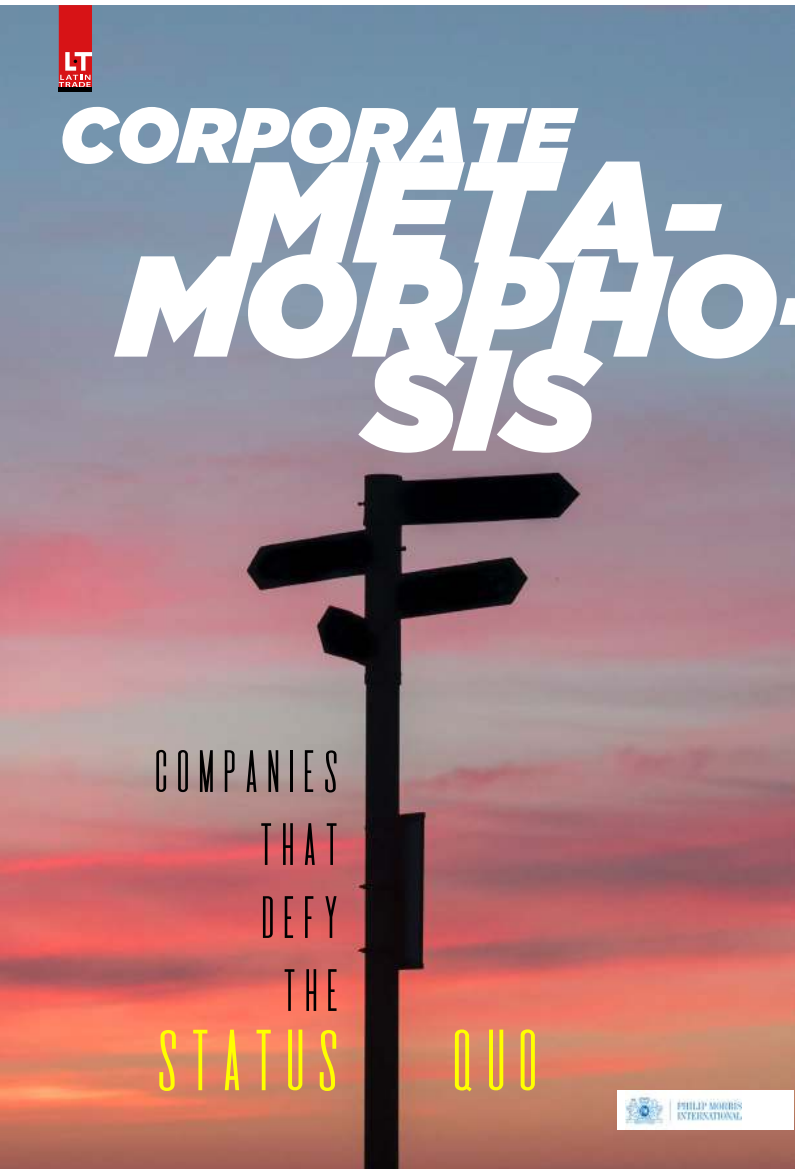


DEFYING THE STATUS QUO

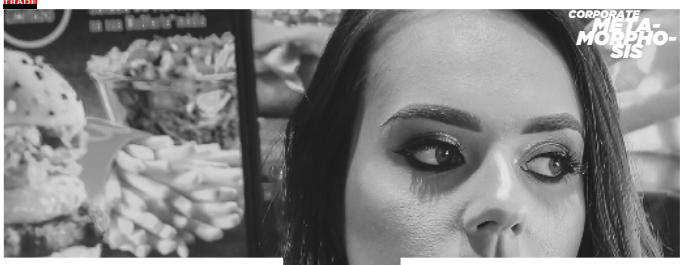
BY ELIDA BUSTOS

"It changes, everything changes," says the song by Argentine singer Mercedes Sosa. And that phrase is no stranger to the corporate world. Iconic companies and big brands around the world at some point were prompted or even forced to embark on the path of transformation. They had to do it mainly due to changes in regulations or market trends.

Nokia, Fujifilm, 3M, Western Union and Xerox are just a few examples of corporations that drastically changed the object of their business. These are stories of companies that managed to reinvent themselves, but that doesn't always happen. Many simply fail to adapt and end up disappearing. So how do you carry out a successful corporate transformation? At what point should the decision be made? What is the process like?

Jorge Becerra, *senior consultant at BCG Consulting.*

These questions have had different answers at different times. Today, they are framed in an environment with new guidelines in which, for example, the regulator's severe role of control has been assumed, in some cases, by civil society. The new dynamics of relations between companies and consumers empowered the latter, giving them weight in the acceptance or rejection of a product, something unthinkable until a few years ago.



"The new regulator is more demanding than the old one," said Jorge Becerra, emeritus senior partner and senior advisor at consulting firm BCG. "It is a fundamentalist with respect to its values and aspirations," he said.

The old regulator had a feeling of responsibility with duty, with the regulations, with the strict compliance with rules. "And it was a much more technical vision," he explains. It demanded knowing what was technically possible or within the business structure; the new regulator, on the other hand, has no limits. A company is required to be sustainable, to give value to all parties and if it does not make money, that is its problem, not the consumers'. "That is the strongest transformation that is taking place," Becerra told Latin Trade.

Becerra recognizes how challenging the new reality is, however, he has a positive vision and sees it as an incentive for companies to excel in their businesses. "When you are forced to face difficulties or challenges, that is when you strive to innovate, to break paradigms," he said.

NEW PARADIGMS

Many companies set out on a transformation path towards lower climate impact or to adjust their social goals, such as those set out in the United Nations Sustainable Development Goals. This does not mean they must change industry, but it does imply drastic changes in production processes or in product offering.

> "THE CONSUMER IS THE NEW REGULATOR. THEY ARE MORE DEMANDING: THEY ARE FUNDAMENTALISTS WITH REGARDS TO THEIR VALUES AND ASPIRATIONS."
> JORGE BECERRA

This type of transformation moves at different speeds. Some are slow, but others, such as energy firm Enel Chile or Arcos Dorados in Latin America, took the issue seriously and gave it the urgency it requires, even anticipating the results proposed in their own plans that are already quite aggressive.

Enel Chile proposed a decarbonization process that includes the closure of its thermal plants and a progressive shift to clean energy production.

Another case where innovation is combined with transformation is that of Arcos Dorados, the Latin American McDonald's franchise. In the daily exercise of reading thousands of customer surveys, the company anticipated that the new direction of its menu should include more fruits and vegetables and less sodium. At the same time, aware of the amount of plastic waste coming from its daily operations, it set out to replace the plastic in trays, straws and cup lids with more easily degradable products, and was a pioneer in its field in making the decision.

SCIENTISTS IN ACTION

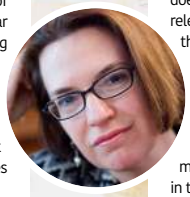
There are also deep and highly complex reconversions like that of Fujifilm or tobacco company Philip Morris International (PMI).

In the case of PMI, it included years of scientific work and a multi-billion dollar investment that began with researching what it could offer the world's millions of current smokers who won't quit. It discovered a product that doesn't change the flavor nor the pleasant sensation many smokers enjoy, that based on scientific evidence, reduces exposure to toxic substances.

Without having a deep crisis in the sector - in fact when it made the decision to switch, its market had comfortably grown margins - PMI decided to go in a totally different direction. A new category was invented from scratch.

PMI's task was complex. First to convince the board of the new path. Then, to develop a product, and finally, to seduce consumers. The company set up a research center in Switzerland with 400 scientists spending 15 years testing different processes until, with revolution 4.0, the technology they were looking for arrived.

"The health problems caused by the combustion of tobacco have been known for years," says Mario Masseroli, PMI president for Latin America and Canada. "When you light a cigarette, toxic components that cause diseases are released. So, we wondered what would happen if the heat didn't reach the point of combustion?"



Deborah Ancona, *founder of MIT's Sloan School of Management Leadership Center*

The Swiss center developed a mouthpiece with a battery, the IQOS, that heats the tobacco to release the aroma, but doesn't burn it. In this way, it avoids the release of 95% of the toxic components that enter the lungs when smoking a regular cigarette. The development of this product followed the same steps when developing a new medicine, and this year it obtained approval from the Food and Drug Administration, the regulatory authority in the United States. The Administration certified that the new product is clinically different from cigarettes.

But to get there, the company had to undertake a comprehensive transformation, which started from the premise of promoting "a world without smoke".

> PMI DECIDED TO TAKE A COMPLETELY DIFFERENT DIRECTION BY CREATING A NEW CATEGORY FROM SCRATCH, DESPITE HAVING COMFORTABLE PROFIT MARGINS.

The change was transversal, crossed all corporate levels and required an investment of US $7.2 billion. The future objective is to reach the millions of people who will continue to smoke even if advertising campaigns against cigarettes are redoubled. And the challenge, from both a customer and regulatory point of view, is to gain confidence in the new development and the accuracy of PMI's scientific data so that it is not overshadowed by prejudice.

"THE LEADER IS ESSENTIAL TO MANAGE THE TRANSITION, CREATE ALLIES AND MANAGE THE INFRASTRUCTURE FOR CHANGE"
DEBORAH ANCONA

THE LEADERSHIP

Crucial in any corporate transformation process is the role of leadership. "The leader is an essential actor to manage the transition, create allies and manage the infrastructure for change," Deborah Ancona, academic and founder of the Leadership Center at the MIT Sloan School of Management, told Latin Trade. "Leadership is essential to any successful transformation," she reflected.

BCG's Becerra agrees with these definitions. The change processes do not begin in the company's innovation area, "they begin in the leadership, in the CEO, because there are going to be so many changes - from culture, to the model of leadership - that if you are not convinced, the machinery will become stuck," he warned.

One of the important changes is that any corporate transformation inevitably implies the disappearance of hierarchical positions (or even entire departments) or their displacement and loss of influence in the structure.

The slightest perception of this situation will generate discomfort among those affected, which will complicate the decision-making of those who are responsible for the conversion process. "The leader has to make a judgment and evaluate whether each executive is a good fit - in terms of personality, experience, attitude - to get on the boat and not panic in the middle of the storm," Becerra said.

Obviously, these displacements or name changes that add to the quagmire of transformation imply additional tensions to the already complex process of reconversion. "Change is always risky," Ancona said. "Individuals and groups can subvert it if it doesn't suit them. And those who lose power or influence can challenge it openly or behind the scenes.

Transformation is a process, it takes time, and things can tend to get worse rather than stay on track. "Leaders say this is the most difficult part of the change process," she said. "Staying on track for the transition at a time when it doesn't seem like it's going to be successful".

Becerra emphasizes that no matter how well planned and even with all financial resources at hand, a successful conversion cannot be taken for granted. "Two out of three transformations fail," he said. "They are issues of leadership, organization, people, competitors."

He details that one in three transformations fails because the strategy was not well defined or designed. The rest is due to leadership issues, because the leader "could not keep the helm in the right direction and endure the rough sea." Since "there are many unexpected things to which you have to adapt".

Finally, another crucial point in the successful transformation of a company is the change in the internal culture. "Before, processes were linear and there was less disruption," says Becerra. "There was a process of gradual adaptation to the line of evolution". Today they are exponential, which creates additional challenges in the implementation process.

ARCOS DORADOS:

ALWAYS ANTICIPATING TRENDS.

Arcos Dorados is a company in constant evolution and always innovating. It was the first to include young people with disabilities in its teams; it added fruits and vegetables to its menu, challenging the idea that McDonald's was synonymous with hamburgers, and it phased out the use of plastics before it was law. Woods Staton, the Élan vital of all these ideas, tells the story behind the scenes.

Woods Staton, *founder and president of Arcos Dorados.*

HOW WAS THIS CULTURE OF ANTICIPATION BORN?

From our beginnings we have positioned ourselves as a dynamic and modern company. The key is to always stay very close to customers. We carry out constant surveys and also empower our teams to test new models. Suppliers are our allies in all processes and any change that we wish to implement implies that they can supply the high volumes of inputs that we demand.

WHEN DID YOU TRANSITION TO A LOWER CALORIE AND LOWER FAT MENU?

Well, evolution must be continuous and it is the customer who decides what they want to eat. And we know that from the polls. In 2007 we marked a milestone in the fast food industry by removing trans fats from all of our products. In 2011, we incorporated fruits and vegetables into the Happy Meal and, over the years, we've increasingly improved the nutritional balances of the portions. That led to another important change. In 2019, also on the Happy Meal: we lowered sodium, calories and fat and eliminated added sugar from the products that make up each meal. This year, despite the pandemic, we removed artificial colors and flavors from our products.

IN 2020 WE REMOVED ARTIFICIAL COLORS AND FLAVORS
WOODS STATON

MCDONALDS WAS DEALING WITH AN IMAGE OF JUNK FOOD. WHAT STRATEGIES DID YOU USE TO REVERSE THAT?

Quality has always been a priority. As you well suggest, many people say that we are fast food when actually we are good food, but with fast service. We have been providing all the information about our products for a long time: caloric information, ingredients, etc., and we have launched campaigns focused on showing the origin of our food. In 2014 we were the first quick service restaurant chain to showcase our kitchens and more than 15 million people have already seen McDonald's kitchens throughout Latin America, and with their own eyes saw that the products we offer, whether it be bread, vegetables or hamburgers, are the same that they can buy in the supermarket.

HOW ARE THE COMPANY'S STANDARDS COMPATIBLE WITH THE REGULATIONS OF THE 20 LATIN AMERICAN COUNTRIES WHERE IT OPERATES?

We work together with public institutions and governments under their local laws. We were able to achieve all of this through a decentralization process in our company to precisely take advantage of the best of each country and so that local teams can work freely on their own circumstances, always aligned under the same standards at the regional level.

WHAT IS THE NEXT TREND THAT ARCOS DORADOS WILL ANTICIPATE?

We will continue to evolve on food and ingredient options for years to come. Also in making our packaging more and more sustainable and continuing to minimize the impact of our operation.

ENEL CHILE: THE ROAD TO CLEAN AIR: DECARBONIZATION

Enel is the main electricity generator in Chile. It has plants that operate with renewable energy and others with fossil fuels. The company's leadership began a transformation journey, which involved the closing of thermal power plants, because they are aware of the importance of reducing greenhouse emissions so as not to worsen the health of the planet. In 2019 it had already deactivated the Tarapacá power plant, which contributed 25% of its production. Paolo Pallotti, general manager of Enel Chile, speaks of his ambitious plans to decarbonize and transform the company as it embarks on the road to sustainability.

Paolo Pallotti
general manager of Enel Chile

ENEL CHILE WILL BE THE FIRST ELECTRIC UTILITY COMPANY IN THE COUNTRY TO DROP COAL-FIRED POWER PLANTS

WHEN WAS THE DECARBONIZATION PROJECT BORN? WHEN WAS IT CLEAR TO THE COMPANY THAT IT NEEDED TO REDUCE ITS FOOTPRINT IN ENERGY PRODUCTION?

As Enel Group, in 2008 we created Enel Green Power, our subsidiary for developing renewable energies. Three years later we became part of the United Nations Global Compact initiative. The decision was to promote an energy transition based on decarbonization, digitization and electrification.

WHAT IS THE SPECIFIC CASE IN CHILE?

In 2019 Enel Chile signed the National Decarbonization Plan. We committed to closing our three coal-fired units: Central Tarapacá, (158 MW) by May 2020; Bocamina I (128 MW) by 2023 and Bocamina II (350 MW) by no later than 2040. However, we brought the closure of Tarapacá forward to December 31, 2019. And this year we requested authorization to also advance the closure of Bocamina: Unit I will be was disconnected on December 31, 2020 and Unit II in May 2022. That year, Enel Chile will be the first electric company in the country to completely stop coal-based generation as we move towards a cleaner matrix by adding wind, solar and geothermal renewable capacity. We have 1.3 GW in projects that are already under construction, part of a plan that foresees 2.4 GW of new renewable capacity by 2023.

WHAT WERE THE MOST DELICATE POINTS IN THE TRANSFORMATION PROCESS FROM FOSSIL-FUELS TO RENEWABLES?

The most delicate point is ensuring the stability of the national electricity system in the face of greater penetration of "intermittent" generation sources. The effort of dealing with the impact on jobs has also been noteworthy, which means we are committed to finding the best options for each worker.

HOW MUCH DOES THE CONVERSION COST?

We will only know the total estimate of the cost once we have adopted the final definition of the destination of the sites involved, and that is still under evaluation. When the Tarapacá and Bocamina 1 plants were closed early, Enel Chile recorded losses of approximately US$274 million. While in the case of Bocamina II, the losses totaled approximately US$586 million.

THE COMPANY COMMITTED ITSELF TO THE UN SUSTAINABLE DEVELOPMENT GOALS. WHAT SPECIFICALLY ARE YOU WORKING ON?

Our industrial plan aims to fulfill these goals. Our 2020-22 sustainable business strategic plan is based on the pillars of decarbonization and electrification. This closure process (of thermal plants) would have been impossible if we had not invested since 2012 in the development of renewable energy that today positions us as the leading operator of wind, solar, hydroelectric and geothermal technologies (in Chile).

We already have 1.3 GW under construction and by 2023, we expect to have an additional 2.4 GW of renewable energy in our matrix. We are also betting on new technologies such as green hydrogen and storage.

UNILEVER'S CRUSADE: ZERO CARBON FOOTPRINT BY 2039

If there is an international consumer goods company present in every home, it's Unilever. It has 2 billion consumers who buy one of its 400 brands. With these production and packaging volumes, the consumer goods giant concluded that its contribution to reducing its footprint was going to have a great impact on the planet. Thus, it decided to change processes and supplies to free the ecosystem of unnecessary plastics and harmful chemicals. Karen Vizental, vice president of corporate affairs and sustainability for Latin America, speaks about the project.

Karen Vizental,
Vice President of Corporate Affairs and Sustainability for Latin America, Unilever.

UNILEVER WAS THE FIRST COMPANY IN ITS SECTOR TO COMMIT TO ELIMINATING PLASTIC FROM ITS PORTFOLIO.

WHEN WAS IT CLEAR TO THE COMPANY THAT IT SHOULD LOWER ITS CARBON FOOTPRINT?

Ten years ago we embarked on a path through the Sustainable Living Plan that allowed us to demonstrate that the growth of our business should not be achieved at the expense of the health of people or the planet. In this sense, we seek to generate a triple impact that allows us to have an economically viable, environmentally correct and socially fair business. We set more ambitious goals to advance this transformation that is aligned with the commitment to achieve a zero carbon footprint in all our products by 2039.

WHAT STRATEGIC AREAS WERE IDENTIFIED FOR CHANGE?

One of our three main objectives is to halve the environmental impact of the manufacture and use of our products. For this, we work on four main themes: greenhouse emissions, water use, waste and packaging and sustainable supplies. In 2019 we decided to adopt new and ambitious commitments to address the most visible problem in the mass consumer industry: plastic waste.

WHAT INPUTS WILL BE ELIMINATED?

We seek to reduce the carbon footprint of our home care brands by transitioning to renewable or recyclable carbon sources in our formulations. In this way we would be reducing our carbon footprint by up to 20%. In several countries in the region (Brazil, Chile, Uruguay and Argentina), for example, we presented Ala and Skip, the first liquid soaps for washing clothes with dilutable technology. Their bottles are 100% recyclable and made with 50% recycled plastic. At the same time, due to the size of the containers - 500ml that yields 3 liters when diluted - six times fewer trucks are needed to transport the product equivalent of a regular liquid soap, which reduces the carbon footprint.

WHAT TIMETABLE WAS SET FOR THE ELIMINATION OF PLASTIC?

In 2019, Unilever became the first mass consumer company to commit to an absolute reduction of plastic in its entire portfolio. We are committed to ensuring that 100% of our plastic packaging is reusable, recyclable or compostable by 2025. This is to cut virgin plastic use in half, eliminating more than 100,000 tons of plastic by that year and accelerating the use of recycled plastic .

WHAT EXAMPLES CAN YOU GIVE?

We established a strategy focused on making products with less plastic, better plastic and even without plastic. Specifically, in the use of less plastic we developed the first liquid soap with dilutable technology in the region for our brands Skip, Ala, Omo, Nevex and Drive, which allowed us a 75% reduction in plastic. In the evolution towards better plastics, the Love, Beauty & Planet brand present in Chile, Uruguay and Brazil, has bottles made with 100% recycled plastic and they are 100% recyclable. In Mexico, our eGo gel brand migrated its packaging to 100% recycled materials, achieving an annual reduction of more than 2,000 tons of virgin resin. And in the third category, our brand Fruco relaunched its tomato sauce in a glass bottle in Colombia. Thus, we encourage the use of a 100% recyclable and planet-friendly container.

FUJIFILM FROM CAMERA FILM ROLLS TO COSMETICS.

"Advanced skincare products that only Fujifilm could create ..." This may seem like a curious phrase to say the least. Fujifilm? Cosmetics?

Yes, the Japanese camera roll giant was the star of its own transformation when it realized, at the beginning of the new millennium, that its core business was going to be on the brink of extinction with the rise of digital cameras.

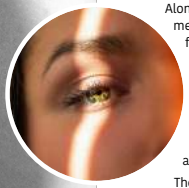
Far from sitting down to watch sales sink, Fujifilm began to work to identify a new direction. It looked at technologies it was already using and discovered that collagen, a crucial component for making films, is also crucial for skin care products.

After more research, the conclusion was that antioxidants commonly used in the photographic industry also provided benefits for the skin. The only remaining task was to identify which of the 4,000 providers registered in its databases offered the best services.

Thus, it emerged that the way forward was cosmetics. But the question that kept executives awake was how to debut - without becoming shipwrecked - in a highly competitive industry with more than a thousand already established companies.

There was only one answer: Raising the bar with a unique product, with a great scientific contribution and made using high technology.

With those definitions and strict planning, there should be no room for failure.



COLLAGEN, AN INPUT FOR FILM PRODUCTION, IS ALSO CRUCIAL IN SKIN CARE PRODUCTS.

Along with the industrial development of the new product line, Fujifilm began to work on corporate changes. Steering the wheel was no easy task. From being world leaders in the camera film market, the company had to enter an industry where they were outsiders. Challenge accepted.

The next dilemma was the brand. And the audacious decision was to enter the cosmetics market with its consolidated corporate brand: Fujifilm, to the fright of a good part of the management team.

Finally, the day arrived. The company launched its campaign in Japan displaying all the scientific development behind its cosmetics based on astaxanthin, a reddish compound found in salmon and shrimp. It even risked using bold red packaging, unusual for the time.

The acceptance in Japan was immediate and the subsequent consolidation in the competitive and demanding Asian market was fast. The path of transformation, started in 2006 by the now 87-year-old Japanese corporation, looked promising.

The success of Fujifilm's strategy resulted in being crowned with record profits in 2019. In the words of its president and CEO, Shigetaka Komori, "A corporation that can swiftly and appropriately respond to changes in its operating environment would generally be thought of as a good company. However, a better company would be one that does more than just anticipate changes and takes action accordingly. But the ideal company is the one that drives change itself".

Today, Fujifilm's businesses include cosmetics, regenerative medicine and areas in which it was previously established such as optical and medical devices, biomaterials, industrial products and even digital cameras and film for the photography industry.

THE REVOLUTION THAT STARTS WITH THE CUSTOMER

If ever in Latin America there was a sector with rigid and heavy structures and an undifferentiated product offer, that sector would be banking.

For decades customers had to choose from the meager menu that banks offered. It was an ecstatic world. But nothing lasts forever. Then Revolution 4.0 broke out and caused a quagmire. The dizzying spread of new and cheaper technologies spawned fintechs and neobanks that shook the very foundations of that stability.

"The traditional organization worked with methods from the last century," says Gonzalo García-Muñoz, partner at the McKinsey consulting firm in Mexico. "It was focused on dealing with a reality that was more or less predetermined, where innovation was important but not decisive, where the value offer was not so focused on the customer but on what the company had to offer and the customer had to accept," says García-Muñoz.

The pressure of technology and the dynamism of the new players forced the traditional organization to rethink. Something had to be done. Banks as businesses and industry as a whole began to react, shaking off their old policies and embracing the new era. There was no longer room for the company that was efficient for itself and focused primarily on its profitability. A new protagonist was born, the client. One who had always been a captive but was now empowered, which meant that they could quickly and easily go to another bank without any traumas.

Meanwhile, digital native banks were quickly gaining space by offering the agility (and lower costs) that millennials (and other generations) were looking for.

CULTURAL CHANGE

With the client in a leading role and at the center of the new cosmogony, a mantra was born: the bank's objective should be "the customer experience".

"Clearly, the management is digital but it is not possible without a very strong focus on the customer and on the bank's internal transformation," reflects André Gailey, CEO of Itaú Paraguay.

In the new paradigm, to achieve the loyalty of this formerly captive and now empowered customer, it was not enough just to solve their concerns. The bank had to anticipate the customer's needs and that was also done with technology. "Today, 'captivity' comes from bureaucracy and in the future it has to come from loyalty," says Carlos Paci, managing director and partner of consulting firm BCG in Santiago de Chile.

The new philosophy implied a strong cultural change within the organization. As García-Muñoz from McKinsey says: "The typical culture of 'try and you'd better succeed otherwise I will throw you out,' in this digital model does not work. That is the culture that exists in the organization of traditional banks, compared to the digital culture that is 'fail fast, and cheap'. Try to fail as quickly as possible and as cheaply as possible. And learn!".

"It is a very different vision," the expert says.

He gives Apple as an example, which continues to make changes to its operating system and markets without waiting to have what it deems final. "It's already going for number 14," he says, but that didn't stop Apple from hitting the market. "Here perfection is the enemy of good," he adds.

Indeed, Revolution 4.0 allows for mistakes. In fact, it encourages them, it thrives on missteps, because in the culture of innovation, failure means learning and overcoming.

"The legacy is not only economic," says Francesc Noguera, CEO of Banco Sabadell in Mexico. "It is also mental, of inertia. From 'what must be changed if it goes well for us?' Or 'why must we change if it has always been done this way'. Well, you have to change because the world has changed! And you adapt or you die," he emphasizes.

Noguera also mentions the crucial role that human resources have right now and the need to incorporate talents molded in a more disruptive logic. "These new business models cannot be done with traditional bankers," he says. "They do not work. Their way of thinking is very different and you encounter resistance. The great challenge is to attract people who come from sectors that are more advanced in the digital field".

"WHY SHOULD WE CHANGE IF IT HAS ALWAYS BEEN DONE LIKE THIS? YOU HAVE TO CHANGE BECAUSE THE WORLD HAS CHANGED! YOU ADAPT OR YOU DIE "

REGULATIONS AND REGULATORS

All this transformation of the financial industry, of using an e-wallet, of opening an account through a phone without stepping into a bank branch, of having incorporated apps into daily life, is also a spur for the authority of control.

"In general, the regulator tends to be as conservative as possible," says McKinsey's García-Muñoz. "But it is moving towards a scenario in which they are opening up to consider other operating schemes." He puts as an example that Mexico was one of the first countries in the world to have a fintech law.

For his part, BCG's Paci says that regulators play a fundamental role in the flourishing of the sector and that it grows in a sustainable way. "It is important that the regulations favor the development of new technologies, that the rights of users are protected, that there is freedom of competition," he says.

"There is a high-scale data processing issue that requires a lot of regulation," he explains. "Both in data protection, as in processing transactions inside and outside the country, processing in the cloud. And that has to advance in parallel with the development of this new way of doing business".

In short, the reconversion that the sector went through exceeded the mere technological and became a transformation of the banks' own culture. This change has not only been beneficial for the client. It isn't held back by borders and, in the future, presents an infinite horizon for the growth of the entire industry. *

CORPORATE META-MORPHO-SIS

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