ViaSebrae: An E-Commerce Solution for Small Businesses in Brazil

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EXECUTIVE SUMMARY

There are approximately 4.5 million recognized small and micro enterprises (SMEs) operating in Brazil. Another 13.5 small million businesses operate informally. It is no surprise that a large majority of these businesses does not have access to digital technologies, specifically Internet tools.

ViaSebrae is an e-commerce platform developed through a joint venture between a for-profit software company—Paradigma—and a non-profit organization—Sebrae/SC, the Santa Catarina unit of the Brazilian Association of Small and Micro Businesses (Sebrae).

ViaSebrae is at a delicate crossroads: without expansion to achieve economies of scale, the initiative will not survive. The solution to expand nationally has proven to be a slow and difficult process.

BUSINESS MODEL

ViaSebrae's e-commerce model subsidizes the business-to-consumer (B2C) segment with revenues from the more profitable business-to-business (B2B) segment. The model serves social objectives by enabling companies operating in the B2C segment to participate in e-commerce initiatives they could not otherwise afford. The pricing model is determined by Sebrae/SC and is undeniably affordable, even for small businesses.

INFRASTRUCTURE

Deregulation and privatization of the telecommunications sector over the last 10 years have prompted vast improvements to the infrastructure supporting e-commerce activities. In 1990, for example, there were 10.3 million fixed lines in Brazil, an average of 7.1 lines for every 100 inhabitants. By 2000, the number of fixed lines had increased to 38.3 million, or 23.1 lines per 100 inhabitants. Penetration is expected to improve even more with further market liberalization in 2002.

Low personal computer (PC) penetration in the home is another obstacle to e-commerce. Despite improvements in recent years, the total number of individual PCs is still low. In 1999, there were just 26.69 PCs per 1,000 people, compared to 53.64 in Argentina, 80.89 in Chile, and more than 400 in the US.[1]

HUMAN CAPACITY

The ViaSebrae solution addresses one of the biggest barriers to e-commerce in a developing nation: human capacity constraints. The system is feature-rich and easy to use, even for participants unfamiliar with digital technologies. From an operational standpoint, the joint venture between Paradigma and Sebrae/SC ensured a qualified stream of people with the proper skill sets to manage the project. Paradigma is now fully responsible for ViaSebrae operations, a task it has managed well, even if the company has failed to raise the capital to fund the expansion needed to achieve sustainability.

Brazil has not yet developed a culture of technology, even among its entrepreneurial community. In a country in which entrepreneurship is seen as a way to escape unemployment, small business connectivity is far from adequate. Research has shown that only 27% of small businesses in São Paulo—the richest state of the nation—had access to the Internet in 1998.[2]

The situation is expected to improve. Numerous government initiatives have been launched, funded by a national directive stipulating that 1% of telecommunications revenues be reinvested in digital education programs.

POLICY

The telecommunications sector has been deregulated and privatized and is unlikely to present significant policy constraints in the future.

The nature of the Sebrae organization represents the biggest policy issue for ViaSebrae. Although considered a private organization, Sebrae was public until 1990 and its organizational structure retains characteristics of the public sector in Brazil: it is big (around 4,500 employees) and bureaucratic. Sebrae still operates under the Lei das Licitações or Bid Law, for example, which requires all of its units to solicit bids from multiple vendors before acquiring any product or service. The nature of the agreement between Paradigma and Sebrae National—if the relationship proceeds—will determine the degree of bureaucracy involved in the future. If Sebrae elects to retain full ownership of the portal and contract a solution provider, Paradigma will have to compete against other vendors in a formal bidding process. If a partner model is followed, Paradigma will bear all investment costs, and the bidding process will be avoided.

ENTERPRISE

ViaSebrae proves that the private sector can play a decisive role in social initiatives. Sebrae/SC brings brand recognition, small business expertise, and a national distribution network to the ViaSebrae project. Paradigma brings technological expertise. The objectives for each organization are different (social orientation versus profit orientation), but the partnership works.

Although Sebrae state units (including Santa Catarina) operate autonomously, they follow a single e-commerce directive from the national office because they need interconnectivity that can only be achieved through national coordination and standardization. The national directive, and a lack of funds, has prevented Sebrae/SC from expanding ViaSebrae outside of Santa Catarina.

CONTENT

As an e-commerce platform for small businesses, the ViaSebrae portal offers not content per se, but rather transactional tools (and some banners). However, ViaSebrae does link to Sebrae state unit Web pages featuring content related to small businesses.

KEY LESSONS

Although ViaSebrae is an effective tool and the business model is sound, the sustainability of the portal is questionable. ViaSebrae requires scale to be self-sustaining. Such scale is not possible when restricted to the state level.

Gérson Schmitt, Paradigma's sales director, estimates that ViaSebrae would break even with 2,000 companies operating on the portal. But break-even points can vary by country, depending on factors like cost structure (hosting, labor, telecom fees) and transaction volume.

ViaSebrae has shown that joint ventures between SME organizations and the private sector (solution providers) are not only viable but ought to be a preferred method for bridging the digital divide in developing countries.

VIASEBRAE: AN E-COMMERCE SOLUTION FOR SMALL BUSINESSES IN BRAZIL

COMPANY PROFILE

ViaSebrae is an e-commerce platform for small businesses developed through a joint venture between Paradigma, a private software company, and Sebrae/SC, a regional unit of a national government-supported non-profit organization. The success of this project in the state of Santa Catarina is a model for how the private sector and the non-profit sector can work together to develop new businesses and achieve social objectives at the same time.

The ViaSebrae project was initiated in 1997 shortly after Antonio Carlos Kieling became director of Sebrae/SC. Prior to joining Sebrae, Kieling had used e-commerce as a marketing tool for his business, Casa da França. Though a believer that the Internet could be an operational effective tool for small business, he realized that small business owners did not have the investment capacity to initiate e-commerce. Kieling contacted Paradigma, a software company that had helped him launch a Web store for Casa da França, and began negotiations for what would eventually become the ViaSebrae e-commerce portal.

In early 1998, Paradigma was a small firm, with less than 10 employees, that specialized in building e-commerce software solutions. Its partnership with Sebrae/SC provided the opportunity to leverage Sebrae's brand recognition and specialized knowledge of the small business landscape in Santa Catarina to create an e-commerce portal that could expand its potential customer base.

Sebrae/SC's objective for ViaSebrae was to provide a platform for small businesses to conduct e-commerce activities they would otherwise be unable to afford. The project was consistent with Sebrae's mission of "working in a strategic, innovative and pragmatic way so that small businesses in Brazil have the best possible conditions for sustainable development, contributing to the general evolution of the country."

ViaSebrae is an e-commerce portal based on Paradigma's Web Business Center (WBC) software, and includes functionality for B2C, B2B and intranet applications. Features include encrypted ordering, online payment via credit card or direct deposit, and B2B auctions.

ViaSebrae does not charge a setup fee for enabling a standard B2C Web store of up to 40 products and charges just R$40 per month (approximately US$18) to maintain the site. Customization for stores with more than 40 products is available through Paradigma at an additional cost.

For B2B clients, the portal offers an array of possibilities including "direct buy," "bid," "joint buy," and "reverse auction." Companies pay R$40 per month to participate plus a sales commission that varies according to the industry (and its respective bricks-and-mortar margin). Both small companies and large companies participate on the portal, giving smaller businesses the opportunity to aggregate demand to negotiate lower prices from larger suppliers.

Companies can also use the ViaSebrae portal to establish intranets. With an intranet-based virtual sales network, a company can manage all commercial activities through the portal by registering its distributors, branches, representatives, and clients, assigning unique access passwords to each, and then using the portal to monitor the respective price lists of each.

Paradigma is a Microsoft Certified Gold Partner, and its WBC software is built entirely from Microsoft components. The database backbone is SQL Server. New features in version 3.0, just released but not yet implemented for ViaSebrae, include multi-language support, multi-currency support, financial clearing functionality, enhanced

tracking mechanisms, and improved security.

The target market for ViaSebrae is significant. There are 4.5 million recognized small businesses in Brazil, representing approximately 98% of the country's formal businesses. ViaSebrae was the first e-commerce portal aiming to serve the business needs of small companies. When first launched in early 1998, more than 1,000 businesses expressed interest in a single day. Though most of those companies were unprepared to participate, the interest represents a pent-up demand for e-commerce opportunities in Brazil's small-business community. Approximately 170 companies currently participate on the portal. There are three prerequisites for participation: the company must be in business for at least one year; it must have access to the Internet; and it must have a logistics provider to deliver products purchased through the portal. There is currently a freeze on accepting new companies pending further investment and national expansion.

The ViaSebrae platform is easy-to-use and effective. Current portal participants were largely inexperienced with e-commerce and auction technology, yet they have reported few problems using the system. The platform is built on scalable Microsoft products, and can be expanded to meet the growing demand of a national market.

The initial agreement between Sebrae/SC and Paradigma was based on a revenue-sharing model. Paradigma funded the portal's development[3] and operation in exchange for 70% of revenues generated through the site. Sebrae agreed to provide branding and promotional support in exchange for 30% of revenues. Paradigma provided the technology and innovation, but the success of the ViaSebrae portal has been closely tied to the partnership with Sebrae/SC. The Sebrae branding provided credibility and a powerful promotional mechanism. Sebrae also brought extensive knowledge of the local small business community to the endeavor.

In 1999, the agreement was modified to a 90/10 split, with Paradigma taking control of marketing and support responsibilities. The new arrangement under which ViaSebrae operates is managed entirely by Paradigma. Sebrae/SC has adopted a hands-off approach, pending definition of a national directive being developed at Sebrae's headquarters in Brasilia. Management quality appears satisfactory, though there are shortcomings under the current system. For instance, few participants are utilizing the portal in more than one capacity, and even fewer have leveraged participation in the portal to learn about other Sebrae or Paradigma service offerings.

The Paradigma management team has been very active in ViaSebrae's operations, though the company has yet to recoup its investment. Nonetheless, ViaSebrae's success and favorable press coverage has been a driver for Paradigma's growth. In just three years, the company has grown from just five employees to over 100, and now has revenues in excess of US$10 million. ViaSebrae is its most recognizable early success.

MARKET ANALYSIS

ViaSebrae targets small businesses as its primary clients. Initially, the focus was on finding B2C participants, but that focus has shifted to attracting B2B participants. Because of the autonomous nature of Sebrae's regional organizations, the ViaSebrae market concentrated first on the state of Santa Catarina and then expanded, through agreements with other Sebrae state units, to ten other states.

Even so, insufficient scale is still the main drawback to the current model. Under the Sebrae-imposed pricing model, B2B participants subsidize B2C participants. In order for this to be sustainable, the number of B2B participants, and the volume of business they transact, must increase substantially. Without additional commitment of resources, both financial and human, ViaSebrae will be unable to grow beyond its current size without sacrificing performance and support. Paradigma lacks the infrastructure to manage a larger initiative without assistance.

On a national scale, the opportunities are encouraging (see Appendix 2). Since stabilization in 1994, the Brazilian economy has grown rapidly and is now the eighth largest in the world in GDP terms. Interest rates have stabilized, and though the real has declined substantially relative to the dollar, the business outlook remains strong. Credit card penetration rates, an important benchmark for e-commerce initiatives, have practically doubled in the past five years (see Figure 1). As consumers become more comfortable with credit cards, online commerce will become an increasingly viable sales channel.

Table 1. Credit Card Penetration in Brazil

	Number of Cards (Millions)	Variation +(-)	Number of Transactions (Millions)	Variation +(-)	Value of Transactions (R$ Billions)	Variation +(-)
1991	7.9		105.7		5.2	
1992	7.8	-1.27%	151.6	43.42%	5.1	-1.92%
1993	8.4	7.69%	199.9	31.86%	6.3	23.53%
1994	11.2	33.33%	210.3	5.20%	10.3	63.49%
1995	14.3	27.68%	319	51.69%	21.3	106.80%
1996	17.2	20.28%	437.1	37.02%	25.5	19.72%
1997	19.3	12.21%	516.7	18.21%	27.8	9.02%
1998	22	13.99%	641.2	24.10%	32	15.11%
1999	23.6	7.27%	799	24.61%	41.6	30.00%
2000	28	18.43%	1,038	29.91%	50.4	21.06%

Source: Brazilian Association of Card and Services Companies

Paradigma enjoyed first-mover advantage with ViaSebrae in Santa Catarina, but numerous competitors have emerged to contend for the small business market. The most serious threat comes from by a national B2C initiative launched by Bradesco, the largest bank in Brazil. Recently launched, the Bradesco initiative already boasts 450 online stores, making it the largest virtual mall in Brazil. Sebrae itself represents another potential competitor if the national initiative chooses another vendor or solution instead of expanding the platform developed by Paradigma.

The keys to ViaSebrae's competitive positioning are its partnership with Sebrae and its affordable pricing structure. ViaSebrae charges just R$40 per month to B2C participants, which is less than half the fee charged by competitors. The model involves subsidizing B2C costs with revenues generated by commissions from the more lucrative B2B auctions. The strategy involves attracting medium and large-sized businesses to serve as anchor participants, and then providing mechanisms that allow smaller businesses to aggregate demand to negotiate preferred pricing with their larger counterparts.

The future sustainability of ViaSebrae is dependent on national expansion. Shortly after ViaSebrae launched in 1999, 10 of the 27 state Sebrae organizations signed an agreement to expand ViaSebrae's services into their respective territories. Sebrae/BR, the national unit, then issued a directive to all state units to cease all e-commerce activities pending development of a centralized national initiative, an initiative that is only now beginning to take shape. Organizing support from 27 organizations with competing interests has been difficult.

As a public sector organization, Sebrae has been slow to move. A year ago, Microsoft met with senior representatives at Sebrae to discuss national expansion of the ViaSebrae project, but nothing followed those meetings. Sebrae appears to be a victim of its own size.

Despite the bureaucratic and political hurdles, there appears to be genuine support in the public sector for a national e-commerce portal. Coordination among the different ministries and organizations has been minimal, but represents a real opportunity to combine resources for the benefit of small businesses around the country.

Paradigma and Sebrae/SC generated a lot of interest in ViaSebrae immediately following its launch, at which time Sebrae was responsible for promoting the new portal. Sebrae introduced the portal at a large event in Joinville, Santa Catarina in November 1998, and then demonstrated it at Fenasoft—Brazil's largest information technology fair—in January 1999, where it received an award for innovation. Sebrae continued to market the portal for B2C participants through conferences and association meetings. For B2B participants, the approach was slightly different. Sebrae targeted medium and larger-sized companies, sending a senior-level "business consultant" to pitch the portal. In addition, Paradigma formed a sales team to support the portal.

ViaSebrae also promoted seminars highlighting small business e-commerce successes. "Some small businessmen in Brazil believe this technology—Internet—is for the future, something like 10 years from now," says Sebrae/SC's communication and marketing manager, Spyros Diamantaras. "If we show these businessmen that a street vendor is making money now using this same technology, [we] can wake them up [to the opportunities]."

Paradigma is developing a 'bank pool' of the 40 leading banks in Brazil to provide automated debit and credit transactions among buyers and sellers on the ViaSebrae portal. Nearly 100% of participants will be able to transact using this mechanism. In addition, ViaSebrae has formed partnerships with the Brazilian post office and utilizes its Sedex service to provide logistical support for buyers and sellers operating through ViaSebrae.

In Brazil's more than 4.5 million small businesses and additional 13.5 million informal businesses, there is tremendous market opportunity for ViaSebrae to expand its services beyond the Santa Catarina region. The cost savings to participants, both from aggregating demand for greater bargaining power, and from streamlined and automated transactions, make a strong case for forging a national initiative.

OPERATIONS

Although Brazil is expected to enjoy a dominant position in terms of digital technology relative to other developing countries in Latin America (see Figure 2), obstacles remain.

**Figure 1. Online Commerce Forecast for Latin America**
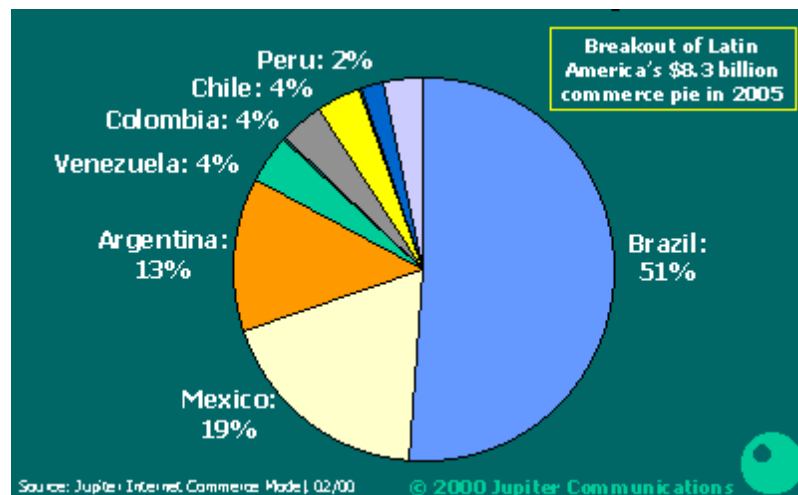
Source: Jupiter Communications

The credit card penetration rate in Brazil has risen in recent years. According to Jupiter research, only 12% of Brazilian households with Internet access do not have at least one credit card. However, online purchasing has not been widely adopted. Consumers are reluctant to provide credit card numbers over the Internet (see Figure 3).

ViaSebrae is considering innovative new programs to attract even more participants. For example, more than 95% of Brazilians file their income taxes electronically, including a large number of non-Internet users. A whole industry of small accountants and middlemen has developed to support this phenomenon. Brazil is still largely a cash-based economy, and a significant percentage of the population, mainly the poorest, uses lottery houses to submit bill payments. If these lottery houses were connected to ViaSebrae, and the consumers educated to use the system, demand from the population at the bottom of the economic pyramid could explode.

Figure 2. Brazilian Attitudes Towards Using Credit Cards Online
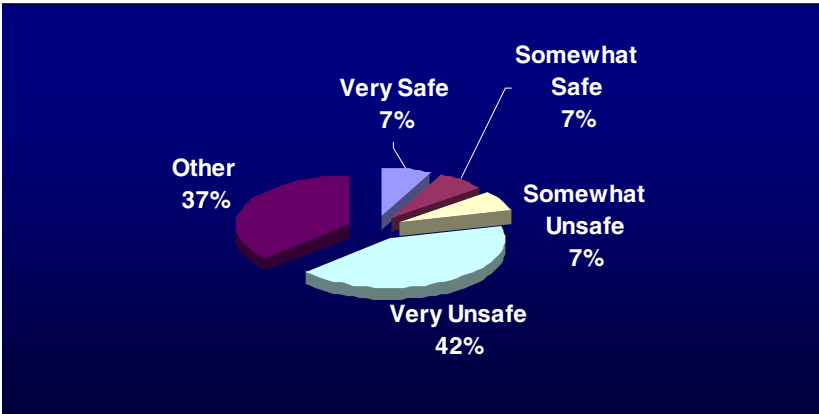
Notes: Respondents asked "How safe do you think it is to use a credit card to buy things over the Internet?
Source: © Jupiter/IBOPE Consumer Survey, 11/99; N-1,200 (Brazil only)

ViaSebrae has partnered with Bradesco to provide the bank's electronic wallet software to its clients. However, while Bradesco is Brazil's largest consumer bank in number of accounts, the system does not reach merchants and clients who are not Bradesco customers. ViaSebrae intends to overcome this and the credit card problem by forming a banking pool made up of the 40 largest consumer banks in Brazil. The payment system will automatically debit the buyer's bank account and credit the seller's with each ViaSebrae transaction. This ambitious project attempts to emulate a credit card payment system and will likely face some resistance from banks, which will not want their customers using their PIN numbers outside the secure environment of the banks' own portals.

E-commerce operations require an extensive telecommunications infrastructure and wide availability of computing technology. Since the privatization of the Telebrás monopoly in 1998, internal infrastructure has improved markedly, though Brazil has still not reached the standards of developed countries (see Appendix 1).

Currently, the governing body allows just four telecommunications providers for each geographic market segment (two each—the privatized company and one competitor referred to as a "mirror company"—for fixed and wireless service). In 2002 the government will grant operating licenses to new companies, increasing competition in the marketplace and expanding and improving the public's access to new technologies.

The primary obstacle to ViaSebrae's national expansion is the Sebrae's lack of momentum, being a federal entity characterized by bureaucratic hurdles and political agendas. The national organization has insisted upon taking

responsibility for developing a national e-commerce platform, but has been slow in taking steps to achieve that objective.

The scope of the project will determine the level of bureaucracy involved. A bidding process was avoided at the state level because Sebrae/SC did not invest dollars in the project. Sebrae/BR, however, is subject to a national law called Lei das Licitações (or Bid Law) that requires Paradigma to bid for contract as the solution provider for the national e-commerce platform. Under the bidding scenario, Paradigma risks not being selected.

Also complicating the Sebrae-Paradigma relationship is a lack of agreement over how to value the technical solution provided by Paradigma relative to the branding and organizational structure provided by Sebrae. Despite the delay in moving forward, Paradigma has developed a new version of ViaSebrae, improving existing features and introducing new functionality. "It is ready to scale up. It is just a matter of investment in servers and commercialization," said Gérson Schmitt, sales director at Paradigma. "Going national is the natural next step for ViaSebrae. The tool has been exhaustively tested and approved. Its hurdle is not having scale at the regional level to break even."

FINANCIALS

Paradigma estimates its investments (based on market value) in ViaSebrae to be approximately US$740,000. Of that amount, application development required an investment of US$520,000, while customization services accounted for an additional US$220,000.

Paradigma estimates that ViaSebrae generated, on average, monthly revenues of approximately US$ 1,700 during the first half of 2001 (though specific figures were unavailable). Paradigma is incurring costs in excess of US$ 17,000 per month to host, support, maintain and market the portal. The continued losses have prompted Paradigma to reevaluate its role in the project. The company wants to transition responsibility for the portal to Sebrae/SC, and focus on its business as an e-commerce solution provider.

Although Sebrae/SC allocated part of its personnel (part and full-time) in the development phase and early stages of ViaSebrae, it did not create a cost center to account for this activity.

The numbers above illustrate that ViaSebrae incurs approximately US$15,000 in losses per month (not including Sebrae/SC costs).

Schmitt estimates that, in order to be sustainable, ViaSebrae must have 2,000 companies operating on the portal. "The market is there," he contends. "Just under Bolsa de Negócios [Sebrae's small business centers], Sebrae has more than 50,000 small businesses registered."

TRANSFERABILITY OF BUSINESS MODEL

ViaSebrae is unique because it represents the convergence of for-profit and non-profit objectives. The strategy to use B2B revenues to subsidize B2C initiatives presents a compelling justification for moving forward with a nationally self-sustaining model.

Companies operating in the B2B market are generally digitally-enabled and have less need for subsidies to support their technological initiatives. Participants in the B2C sector, by comparison, often cannot afford a simple Web store and require training, subsidies, and support from Sebrae/SC.

The solution is theoretically self-sustainable on a larger scale, and, after the initial investment to expand, contin-

ued outlays will cease. Outside funding, such as an allocation of the payroll tax that constitutes Sebrae's primary revenue source, will not be required on a continuing basis.

There are several requirements for the ViaSebrae model to be transferable to other developing markets. First, there must be strong support from a non-profit organization that can mobilize potential B2C and B2B participants, educate consumers, and promote usage. Sebrae is a structured organization recognized for its role as a "small business partner," a reputation it has built over 20 years. Its brand is synonymous with credibility. Second, the partnership must include a flexible solution provider that can balance the social objectives of its partner(s) against its own profit objectives. And perhaps most important, scale is critical to sustainability. To reach the masses at the bottom of the economic pyramid, pricing must be lower, requiring a higher volume and lower cost structure. The transaction options must be aligned with local market realities. Credit card payments are standard in developed countries, but not yet feasible in most countries of the developing world.

Though not fully implemented on a sustainable scale, ViaSebrae has proven that demand for small business e-commerce does exist. More analysis is required to determine cost/revenue projections, break-even points, and the minimum volume of B2B activity necessary to sustain a predetermined number of Web stores.

IMPACTS

The ViaSebrae project is still too new to have made a recognizable and measurable impact on the Santa Catarina business community, but it is clear that demand exists for the e-commerce portal and that participants have seen an impact on their businesses.

Although problems with the system were reported, all customers interviewed by the team said they believe in ViaSebrae as a model and as a tool. The brief customer case studies that follow illustrate how ViaSebrae has affected these businesses.

Ricardo Duarte, owner of RD Editora, a small publisher of educational books, had an epiphany early in 1999. "The fact that I said to myself 'You're going to be the digital illiterate of the next century' made me go online." Despite not knowing much about technology, Duarte contacted Paradigma after reading about the new company in the newspaper and became one of its first customers. Paradigma eventually migrated Duarte's Web store to ViaSebrae, and made RD Editora one of the pioneer B2C destinations on the new portal.

"They were creating a Web mall in 1999. My idea was to sell summaries and reviews. I was a prep teacher and it happened in a really empirical way. At first I offered 'amateur kind of course packs.' Then I installed 2 computers and finally the Internet. The initial idea was to provide any student with access to the book summaries and reviews for R$2 each, to be charged to a credit card. This was the first problem—as the market was young, they [the consumers] did not typically have access to credit cards. Moreover, the public was still afraid of feeding their credit card number [online]. I believe my first idea was too ambitious. Then I had the idea to provide free summaries and reviews as a way of stimulating buying of the books." And Duarte resolved the credit card issue by enabling a direct deposit payment option. Credit card payment is still an option, but nobody uses it.

"I had one idea and many doubts," Duarte recalls now. "My first idea was to develop the Web page to serve 'vestibulandos.' The idea was to sell books to these students…but then some schools decided to use the educational material through the Web store. This was a public I was not expecting to reach." His third target market is bookstores. The Web page helped sales in this market by giving him an "institutional" presence that added credibility to his business.

Duarte estimates that online sales now account for 10% of his business, which he admits is "not impressive." He is quick to add, however, that the statistics are misleading, and he is pleased with ViaSebrae's performance. "Some schools are [volume] offline buyers that came because of the site. So, to be correct, I should consider all sales triggered by the site. Some data are just not measurable."

In addition to increases in revenue, Duarte credits his participation in ViaSebrae with expanding his customer base, both locally and in more distant regions. "There is a really traditional bookstore [in Rio Grande do Sul]. I tried many times to supply them, but always unsuccessfully. The last try, I got the business. And what made them close the deal was not all the reports about demand for my books or any technical data. It was the credibility the site gave me." His customers can now check specifications online. He says, "I am a small publisher. Sometimes [the bookstores] think I am selling Xerox copies of the course packs, and they visit my site to verify the quality of the books."

Duarte has no plans to discontinue his participation on ViaSebrae anytime soon. The R$40 he pays each month is worth the investment. "I cannot complain. They handle everything."

Founded twelve years ago, PSA is a computer hardware business that recently began operating as a service provider as well (technical support, intranet development, hardware rental and sales solution automation). PSA first learned about Paradigma through a client, Koerich Communications, that was also a Paradigma investor. PSA began supplying hardware to Paradigma when the company had just five employees. When Paradigma decided to source its hardware through the ViaSebrae platform it developed, PSA joined, agreeing to a R$40 monthly fee and a 1% commission on all products it sold through the e-commerce platform.

But it has been a bumpy road for PSA as a B2B participant on ViaSebrae. "At first we won a lot of auctions, then some other companies joined and we couldn't win anymore," says Ademir J.M. Peruch, PSA's sales director. "Some of the companies operating in the system, to bid the prices they are bidding…there is no other way than black market or thievery." When one company began systematically winning every bid, PSA discontinued its participation. Peruch argues that ViaSebrae needs a much stronger certification process to protect against suspect behavior on the system. "Technically, ViaSebrae is good," he says. "They just need to filter participants better. The market demands trustworthy participants."

Even so, he likes the potential benefits the system could yield. "Auctions reduce operational costs because they are lean sales. You have the bottom price you can take, you bid, and that is it." What's missing, Peruch says, is a registration certification process that ensures legitimate participants. Under a traditional sales model, he says, you build long-term relationships based on reciprocal trust. Without an effective certification process, you cannot replicate that trust on a B2B platform.

Peruch sees other opportunities to improve the project. "They could expand the number of industry categories, mainly in services. We will renovate our offices soon, and ViaSebrae could offer bidding for building services, for instance. It would be interesting because it is hard to find these companies." And there are opportunities to engage participants in other ViaSebrae or Sebrae service offerings. "They always thought of us as suppliers. I could also buy using the system—office supplies for instance—but it was never really explored."

Caité is a textile company that provides finishing for cotton and synthetic fabrics. In business for seven years, Caité has over 70 clients including the big industry players, such as leading producers in the 'ready-to-wear' market. The objective with ViaSebrae was to establish an e-commerce platform to better serve existing clients. It was a pioneering initiative. Carlos Eduardo Nunes, sales director, explains, "We had some clients that were still not connected to the Internet. There are companies that really have an old concept of work—using paper to control everything. Now most of our clients are automated. ViaSebrae has allowed us to reduce the bureaucracy (volume of paper, phone calls) and to avoid the limitation of workday hours. We give the client the 24/7 access he needs."

Caité first became involved with the ViaSebrae project in 1999. Nunes and technology director Marcelo Siqueira had the idea of "breaking the wall" between Caité and its customers. The company already had a Web page and considered a number of e-commerce solution providers. ViaSebrae was the best project. Nunes wanted his clients to have online access to as much information as they could get from competitors who are geographically close by. "ViaSebrae offered the best in technology, creativity, speed and price. For us it was really amazing," he says. "There are solution providers that exploit the technological ignorance of their clients to make huge money. But we had a good idea how much a project like this was worth. ViaSebrae made simple what other service providers try to sell as complicated."

Caité utilizes ViaSebrae to automate service orders, pick-up service, access to financial information, delivery schedules and sales representative monitoring. Almost immediately, the company saw a 25% reduction in its monthly phone bills. On a qualitative level, ViaSebrae has enabled Caité to reduce paper flow and optimize operations, thus reducing risks associated with losing paper. Logistically, the system enables the company's trucks to leave in the morning with a set schedule. Financially, Caité has reduced the number of late payments due to miscommunication. Organizationally, support calls are down, allowing the company to streamline that area as well.

From a technical standpoint, Caité has not had any problems with the ViaSebrae system. "The only obstacle we had was convincing our clients of this method," Nunes explains. "Nobody likes to be told 'this is the best way of doing business'." About 70-80% of Caité's clients now use the system in a relatively steady manner (though there is some client volatility). The remaining 20-30% are not necessarily against the system—most of them are from São Paulo areas with poor telecom infrastructure and cannot maintain a connection for longer than 15 minutes.

Nunes believes e-commerce is critical to Brazil's efforts at embracing globalization—it enables companies to achieve the lean and extremely efficient structure the international marketplace demands. Caité, for example, had production of 350 tons with 220 employees five years ago. Today, the company produces 750 tons with 480 employees. Brazil as a whole is now on par with its European and American competitors in terms of textiles.

Nunes agrees with PSA's Peruch on the need for client certification. He proposes that ViaSebrae create a "client profile database" that includes a list of companies and reviews of their participation and behavior.

Despite this concern, though, Nunes has no plans to discontinue Caité's relationship with ViaSebrae. In fact,

Caité is now developing a second phase of its e-commerce strategy, to be handled entirely by ViaSebrae. Enhancements will include the development of a client database providing Caité sales representatives with access to daily reports about their clients. Caité will no longer have to wait until the end of the month to react to decreasing orders; it can recognize problems much more quickly and respond accordingly. Caité is also planning tracking mechanisms that will allow the client to track his product inside Caité by area and by machine. As Nunes says, "ViaSebrae is our 'right arm' in technology and e-commerce."

Ultimately there will be a third phase in which Caité will launch B2C services. "B2C is really tough and small in Brazil right now," Nunes says. "But the environment has improved a lot in the last few years. Brazil is not as lost and out of the game as we once were. It is changing." And changing rapidly.

NOTES

[1] The Economist Intelligence Unit
[2] Green Book, Information Society - Brazil
[3] The initial release of the platform required six months to develop, at a cost of nearly US$750,000 based on the market value of Paradigma's applications and customization.

APPENDIX 1: PROGRESS IN BRAZILIAN TELECOMMUNICATIONS
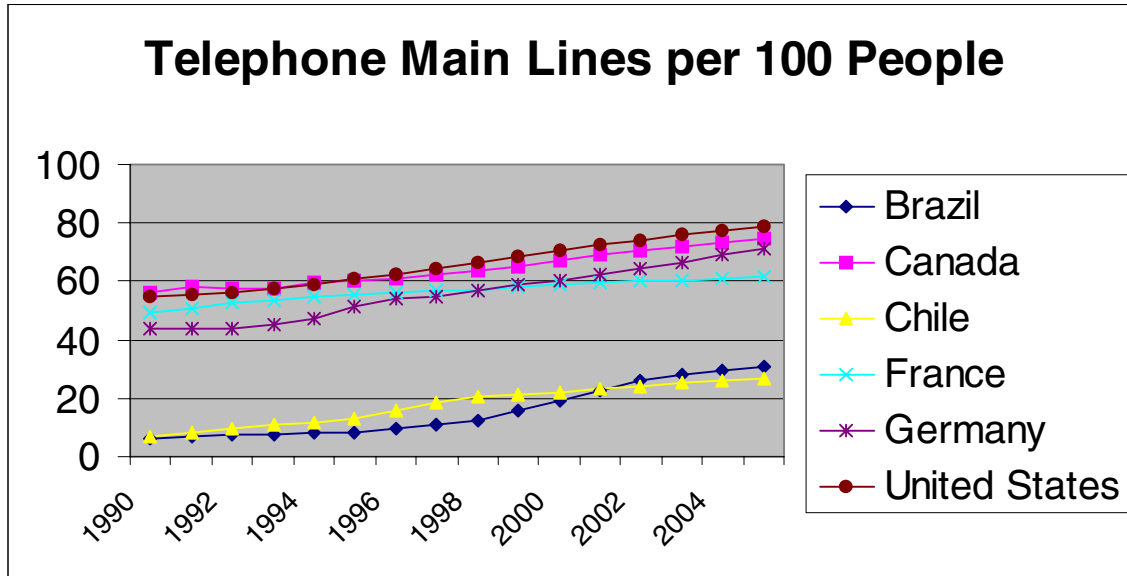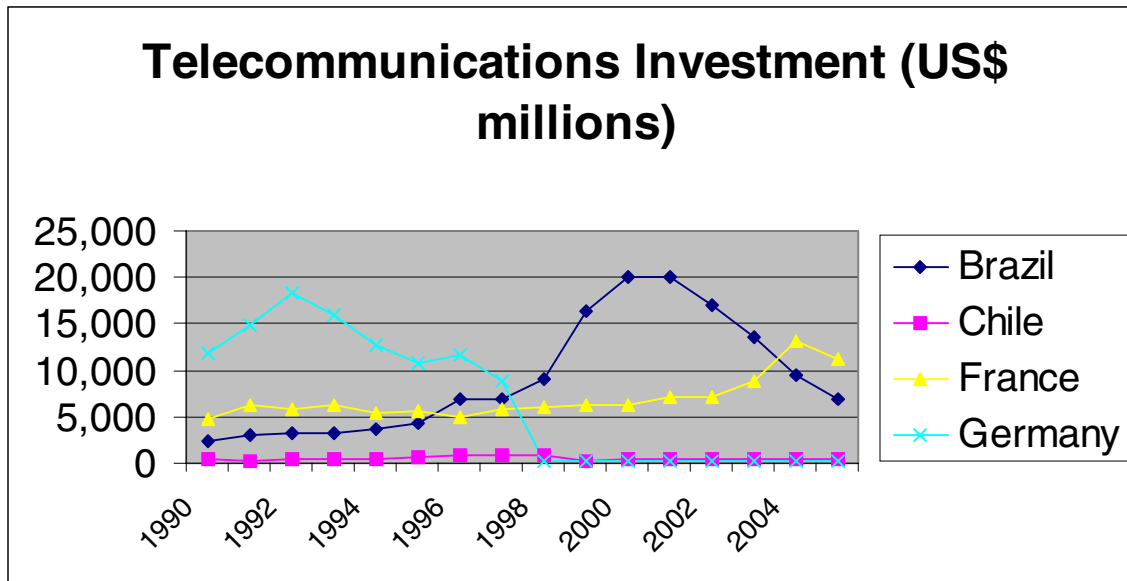
Figure 3. Progress in Telecommunications

Telephone Main Lines per 100 People

Legend: Brazil, Canada, Chile, France, Germany, United States

Figure 4. Investments in Telecommunications

Telecommunications Investment (US$ millions)

Legend: Brazil, Chile, France, Germany

APPENDIX 2: E-COMMERCE OUTLOOK FOR BRAZIL

Table 2. Comparative Estimates: B2C E-Commerce Revenues in Brazil, 2001-2005 (billions)

	2001	2002	2003	2004	2005
eMarketer	$1.2	$2.1	$3.6	$5.2	*
International Data Corp.	$0.2	$0.4	$0.8	*	*
Forrester Research	$0.3	$0.7	$1.7	$4.5	*
Morgan Stanley	$0.4	$0.6	$0.9	*	*
Jupiter Research	$0.7	$1.2	$2.0	$3.0	$4.3

Source: eMarketer, 2001; various, as noted, 2000

Table 3. Comparative Estimates: B2B E-Commerce Revenues in Brazil, 2001-2005 (billions)

	2001	2002	2003	2004	2005
Computer Economics	$109.0	$163.4	$201.6	*	*
eMarketer	$5.3	$10.5	$20.6	$34.7	*
Forrester Research	$4.4	$9.4	$22.5	$59.4	*
International Data Corp.	$1.0	$1.8	$3.2	*	*
Morgan Stanley	$0.6	$1.3	$2.3	*	*
Yankee Group	$15.3	$21.8	$30.9	$40.8	$51.7

Source: eMarketer, 2001; various, as noted, 2000