

Case Study: Amanco

An excerpt from Market Movers:
Lessons from a Frontier
of Innovation



Full *Market Movers* report, and its companion piece,
Developing Value, are available at www.ifc.org/enviro
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CASE: AMANCO

PIPE DREAMS



Amanco has grown to be Latin America's leading manufacturer of plastic pipes and fittings with a strategy that has built-in sustainability.

The Sao Paulo-based company was bought for \$500 million in February 2007 by Mexichem, a Mexican chemicals manufacturer that is quoted on the Mexican stock market. Mexichem was one of at least nine organisations interested in purchasing Amanco at the time of its sale, attracted, according to CEO Roberto Salas, due to Amanco's leading position in Latin America, its proven track record of profit growth and its sustainability commitment.

"Twenty-first century companies need to integrate themselves much more closely with what is happening in society in general. Those that don't will be relegated to Jurassic Park."

Julio Moura, president and CEO of GrupoNueva

Sustainability – or the triple bottom line (TBL) approach, as it is called internally – first became part of the company's competitive strategy under previous owner, GrupoNueva, "as Amanco searched for the best way to attain price premiums" notes Andreas Eggenberg, a former senior executive. Amanco is in a market that is highly commoditised. A pipe is a pipe is a pipe. Differen-

tiation through innovation is the only way to escape from that type of low-margin 'commodity hell'. But the benefits of many forms of innovation in the industry often prove short-lived; new products sometimes have a competitive advantage for just a matter of months.

So the company has differentiated itself by developing a brand that is associated with sustainability in all the countries in which it operates. This is partly reinforced by its new products, which systematically take account of environmental and social impact. For example, the company has taken the precautionary approach in identifying a substitute, calcium zinc, which can be used to replace lead-containing compounds in its PVC piping at an extra cost of only 3.5%. Then it developed a new plastic technology for sewage piping that is more water-tight than any comparable material, and also cheaper to install.

The company has a wide range of clients and it develops products and services specifically for different groups. It has, for instance, been developing a scheme based on the base of the pyramid (BoP) concept, identifying products and services designed to improve social conditions for low-income customers while creating value for the business. The company invited its employees to come up with business plans for the scheme and it received 250 proposals, some of which are now up and running.

The initial BoP project was a \$100,000 investment in Guatemala. Small farmers there do not have

access to reasonably priced finance to buy the agricultural irrigation kits that Amanco was proposing to sell, so the company found partners who could help with training and financing – including the Inter-American Development Bank and the NGO Opción. There were sound business reasons for choosing Guatemala – it had some 300,000 small farmers who could be potential customers. Despite their limited resources these farmers have proved to be a good credit risk.

The gradual build-up of the company's reputation for innovation and sustainability through the development of this sort of new product and service has been backed by a concerted attempt to lead discussions across the region on the sustainable use of water resources and on transparency. Amanco was a leading supporter of the Fourth World Water Forum, held in Mexico City in March 2006, and it has signed agreements with other firms in the sector to increase transparency and hence to reduce the opportunities for corruption.

The company's financial performance has been uneven across the continent. Although it is the leader in its Spanish-speaking markets, it has a much less dominant position in Brazil, even though Brazil accounts for over a quarter of the company's total sales and is its biggest single market. Nevertheless, Amanco's efforts to strengthen reputation and brand have been working – and the company has gone from being relatively unknown in Brazil to being widely recognised and highly trusted in only a few years.

Sustainability performance

What you measure is what you get

Amanco has been a pioneer in measuring the impact of its TBL strategy, building on the ideas of Robert Kaplan, a Harvard professor of accounting who in the 1990s developed a method of extending a company's measure of its performance beyond the financial. On the understanding that what you measure is what you get, he set out a concept he called the 'Balanced Scorecard'.¹⁰ This added other yardsticks of company performance, such as customer satisfaction and levels of innovation, to the classic profit and loss account. The idea aroused widespread interest.

Amanco has extended the idea of the Balanced Scorecard to embrace both social and environmental dimensions. It has begun to produce what it calls a 'Sustainability Scorecard' (see Figure 6 on page 41), and its efforts stimulated Kaplan himself to co-author a Harvard Business School case study entitled 'Amanco: Developing the Sustainability Scorecard'.¹¹ It is a constant challenge for companies to measure the impact of the sustainability element of their strategies, and Amanco has gone as far down this road as any.

Amanco first introduced its Sustainability Scorecard in 2003 and it has been continuously refined ever since. Initially it focused on the social impact on employees and the communities around its factories. But it has since been expanded to include business with low-income customers, fighting corruption in the sector, and indicators on accident prevention and eco-efficiency.

It is difficult to measure the impact of every aspect of Amanco's sustainability strategy. The specific benefit

of efforts to lead the debate on water resources and transparency, for instance, cannot be quantified. But Jorge Ramirez, the company's financial director, is convinced that the extensive media coverage that these initiatives receive has a positive effect on consumers' awareness and attitude towards the company. There is less doubt about the benefits of the company's efforts to reduce waste and to lower accident rates. These are all measured and managed, and have a positive impact on costs.

The BoP segment, although still small, already generates over \$4 million in revenues and the company believes the BoP idea has high growth potential, projecting that income from it will double year-on-year. Since the initial project in Guatemala, the company has developed new ideas including a pilot financial services program for the residential building and installation segment in Brazil, launched in 2005. The program provides credit cards to low-income

customers who lack access to the banking system – enabling them to purchase building materials. Amanco has also set up a programme to train plumbers from low-income groups, certifying those who successfully complete the programme as 'Doctores de Construção', a brand which adds value for the plumbers. For Amanco, this is also part of developing the company as an alternative to the market incumbents in Brazil, who were already working with the well-established plumbers. "The only way to success is with surprise – doing something differently," says Salas.

To some extent Amanco's distinctive culture is self-sustaining. The company attracts the sort of employees that want to make it work, and who gain satisfaction from the idea. Amanco has frequently been named as a Top 100 employer in Brazil, and in 2007 Amanco Ecuador was cited as the fifth best employer in all Latin America.¹²



Courtesy of Amanco

¹⁰ RS Kaplan and DP Norton, 'The balanced scorecard: measures that drive performance', *Harvard Business Review*, Jan–Feb 2002.

¹¹ Ricardo Reisen de Pinho and Robert Steven Kaplan, 'Amanco: Developing the Sustainability Scorecard', Harvard Business School Case 9-107-038, January 2007.

¹² Citations by the Great Place to Work Institute, www.greatplacetowork.com/ (27 August 2007).

Conclusion

21st century business

The company's fortunes are closely allied to those of the region. The growth of Latin America's GDP per capita over the past 25 years has been poor – lower than for all emerging-economy regions except sub-Saharan Africa. Moreover, state spending on infrastructure has fallen sharply in all countries except Colombia as fiscal controls have been tightened. Most spending on water and sanitation in the region remains publicly financed.

The company has already been through some hard times. During the economic crisis between 1999 and 2003, Amanco had to close

a number of plants, although the company provided extensive retraining and outplacement services to help laid-off employees find new work. To succeed in the 21st century, Julio Moura, president and CEO of former owner GrupoNueva, has said that companies need a different approach to that of the last century. In essence, they need to integrate themselves much more closely with what is happening in society in general. Those that don't, he says, "will be relegated to Jurassic Park." The big opportunities over the next ten years, he believes, will come from "the things that society is most concerned about". Among which he includes climate change, poverty,

conflict and globalisation. Amanco's new owners seem determined to continue with the sustainability strategy that made the company so attractive when it came on the market. Mexichem has confirmed that it intends to continue with this approach and has created a special board of directors for Amanco, to reflect the company's wide geographical spread and support its sustainability goals. But there will be different challenges in nurturing such a strategy for a quoted company, with the short-term horizons that are imposed on it by its investors, as opposed to those that were faced by Amanco when it was privately owned.

BOX 4: INNOVATION

Like any business, Amanco seeks to increase profits. However, the company is constrained by the fact that pipes are a commoditised product, with traditionally low margins. Amanco has solved this challenge by developing a value proposition based on providing tailored

'water solutions' to different consumer segments. Social and environmental problems such as water leakage or farmers' lack of access to financing are the source of ideas, and then Amanco applies creativity, research and development to try to solve them. Amanco thus turns these problems into

opportunities – innovating products and services to meet needs at a competitive price. Innovation in production processes to reduce resource and energy consumption has also helped the company keep prices down and contributed to increased profits.







Company profile

Amanco is a Latin American producer of integrated water solutions for the construction, infrastructure and irrigation industries. It is also involved in the trading of construction products. It produces an annual Sustainability Scorecard, which measures the results of environmental and social management as well as standard financial results.

key data

FOUNDED

Amanco Holding Inc. was formed in 1994 through the merger of several pipe systems companies owned by Swiss entrepreneur Stefan Schmidheiny.

OWNERSHIP STRUCTURE

Wholly owned subsidiary of Mexichem since March 2007 – previously part of GrupoNueva

SECTOR

Pipe systems, construction products and geosynthetic systems

HEADQUARTERS

Sao Paulo

OPERATIONS

Plants operating in 14 Latin American countries

MARKETS

More than 55,000 points of sale in 29 countries, including primarily Brazil, Mexico, Colombia, Argentina and Central America

MAIN COMPETITORS

Companies used as benchmarks include Wavin (Dutch), Uralita (Spanish), Iponor (Finnish) and Tigre (Brazilian)

EMPLOYEES

7,100

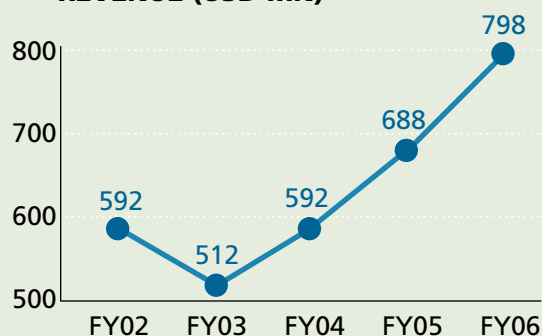
MARKET SHARE

2005: from 17% (Peru) to 66% (Ecuador); 28% across the region

AWARDS AND RECOGNITION

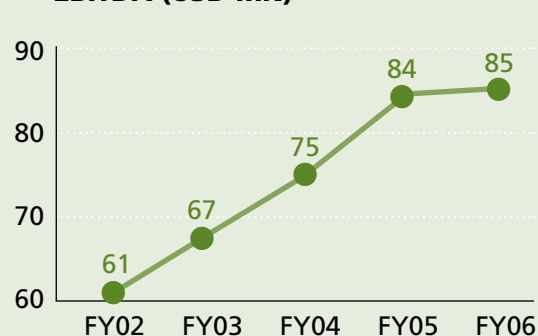
- 2006 and 2007: Amanco (Ecuador) listed in Best Companies to Work for in Latin America by Great Place to Work Institute (ranked 5th)
- 2005: Distinction for Corporate Social Responsibility from Mexican Center for Philanthropy (CEMEFI)
- 2002, 2003, 2004 and 2005: listed in Best Companies to Work for in Brazil by Great Place to Work Institute

REVENUE (USD MN)



Compound annual growth rate (CAGR) from 2002 to 2006: 7.8%¹³

EBITDA (USD MN)



CAGR from 2002 to 2006: 8.6%.

¹³ Here, and elsewhere in the case studies, CAGR has been calculated by the authors, based on revenue, income or EBITDA figures provided by the companies.

The Amanco business case – the three most important factors

Here we highlight the three most important ways in which sustainability performance at Amanco is influencing business drivers and supporting business strategy.

1. Brand value increased through sustainability governance

- Sustainability is an integral part of Amanco's brand differentiation.
- In Brazil, Amanco has gone from being relatively unknown to having 50% brand awareness in less than 18 months.
- Leadership on transparency within sector helps make Amanco the preferred brand to win 'clean' contracts in an industry prone to corruption.

2. Market creation by helping customer's own economic development

- Amanco created new markets at the base of the pyramid.
- Substantial potential as new segment accounts for 80% of customer base but currently only 20% of sales.
- Pilot projects providing new agricultural products and services are now generating \$4.1 million in revenues.
- Amanco estimates income from low-income segments will double year-on-year, compared with just 5–15% growth in other segments.

3. Cost savings from supporting environmental efficiency

- Good environment, health and safety management saves money and contributes to increased margins.
- There were \$850,000 in savings in 2006 through eco-efficient management of plants (reducing resource and energy consumption).

AMANCO BUSINESS CASE MATRIX

	Environmental Performance	Social Performance	Governance Performance
Sales & Market Access			
Operational Efficiency			
Access to Capital			
Risk Mgmt & Licence to Operate			
Talent & Human Capital			
Brand Value & Reputation			

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