

The secret is never staying put 08/17/2007

With innovation and diversification, Videolar conquers the challenges of technological transformation and the onset of piracy.

By Altamiro Silva Júnior.

Whenever someone in Brazil watches a movie on DVD or listens to a CD, it is highly likely they're using a product manufactured by Videolar, first-time champion in the Plastics and Rubber sector which includes giants such as Pirelli, Faber-Castell and Tigre. Videolar performed especially well in the sustainable growth item, one of the main criteria in choosing the winners it's one of the two double-score items. The company has been growing at a 10%-15% annual rate within a market that's undergoing intense transformation, spearheaded by new technologies and the Internet and harassed by growing piracy.

Final Standing		
Scores obtained by the companies in the eight criteria		
1	Videolar	67
2	Pirelli Pneus	67
3	Providência	60
4	Bic Amazônia	47
5	Vipal	46
6	Tigre	43
7	Dacarto	40
8	Faber-Castell	39
9	Plascar	35
10	Petroflex	28
Top 10 average		47

Videolar was born in Caxias do Sul (RS), in 1988, producing VHS tapes, almost a museum item nowadays. "If we were still manufacturing videocassettes today, we wouldn't be around anymore", believes Videolar founder and president Lirio Albino Parisotto. The company reached the mark of 10 million units produced monthly in the cartridges' golden days, but that number has since shrunk to the current 500,000 a month. In 1994, Videolar incorporated a then-new item, the audio CD, and four years later, in 1998, the DVD. It managed to win over as its clients the largest global recording companies which operated in Brazil, such as Warner Music and EMI, as well as locals like Som Livre and Trama. In the DVD department, Videolar's client portfolio includes the largest Hollywood studios, such as Paramount and Buena Vista. Be it on CD or DVD, the only thing the company does not produce are the music or the movie themselves. The rest, including the packaging and graphics, is all done at Videolar.

Soon, however, came the hurdles. The first of them was piracy, with CDs (and now DVDs) sold at ludicrously low prices on the streets of big cities. Then came the downloading of music and, later, of movies over the Internet. In ten years, annual sales in the music department plummeted from US\$ 1 billion to less than US\$ 200 millions. Of the nationwide 6,000 CD stores, only 600 are left. The impact on Videolar's plants was immediate, and production dropped 30%. "The way people listen to music has changed", Parisotto points out. "Piracy destroyed the music industry and is denting the DVD market", he complains.

With the radical transformation in the market, Videolar has had to innovate a lot. To keep growing, one of the alternatives was betting on the so-called "blank media" CD-R and DVD-R, on which files can be recorded from any computer. In 2000, Videolar released its CD-R, and three years later, its DVD-R. The strategy worked, and 40 million monthly units of these two products are currently being manufactured. The company invested US\$ 40 million on the blank media segment, thus managing, among other things, to expand its monthly CD-R manufacturing capacity from 6 million to 14 million units. That segment is responsible for 47% of Videolar's sales.

Investments in this segment are still being made. For 2007, US\$ 60 million will be spent to double the manufacturing capacity and reach a market share of 50%. It will be possible to manufacture 25 million CD-Rs and 18 million DVD-Rs every month nothing less than 1.5 million units every day. In order to make this strategy possible, changes are being made in the sales department, in the product distribution area, and plants are being restructured, always drawing on Videolar's own financial resources.

Videolar also decided to diversify business and bet heavily on the plastic resins industry. In 2002, it opened a plant in Manaus which is already operating at full capacity, according to Parisotto. Videolar is already a leader in the polystyrene segment, with a 28% market share, and draws 31% of its sales volume from it blank media and e-commerce represent 22%. The goal, however, is to keep betting on the plastic resins segment and to introduce new products, among them expandable polystyrene. In 2007, another US\$ 4 million will be invested in that area.

In the quest for diversification, Internet has ceased to be a menace to become a business source. Videolar began utilizing the Net for e-commerce. In 2005, the company bought Somlivre.com's assets and created the Videolar.com site, with more than 15,500 items on sale. The 2006 results were surprising. 1.3 million units were sold between CDs and DVDs, which represented R\$ 40 million in sales. The site received more than 14.3 million hits and handled 356,000 orders. The goal, this year, is seeing the sales volume grow 70% in relation to 2006.

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"In order to keep growing, the solution was innovation and diversification. We never stay put", points out Parisotto, who is passing on the company's helm to hired professionals. By his own personal choice, next year he will retire from his position as president to become chairman of the administrative council. He intends to travel around the world to seek out new products and new technologies. He's going to invest on high-definition DVDs, which are currently on the rise in the US and Europe. He will also dedicate more time to the stock market, one of his greatest passions. Even though he likes to invest on the stock market and operate in the stock exchange, Parisotto has no plans, at the moment, to go public with Videolar, despite the insistence and interest from the São Paulo Stock Exchange itself. He says investment banks approach him almost every day with different proposals for Videolar's IPO. Even though it's not on the stock market, Videolar has been investing on corporative management for several years, publishing, for instance, annual reports.