

José Patricio Jottar Nasrallah (MBA '88)

# Innovation Is Not Just About New Products

OLGA  
BOLUDA



José Patricio Jottar Nasrallah (MBA '88) has been CEO of Cervecerías Unidas (CCU), Chile's main brewery, since 1998, when he took over from Francisco Pérez Mackenna, with whom he had previously worked at Citicorp. The IESE graduate talks about the challenges the mass market sector faces and the need to innovate.

**What are the challenges facing the mass market sector?**

We face challenges in our own markets but also from the challenge of internationalization. In the first place, consumption per capita is still low and is a long way off the levels of more developed economies. In total, the beverages industry in Chile amounts to 230 liters per capita, while in Spain it is more than double that. It is, of course, up to us to try to develop this market. In regard to internationalization, the scope for growth is limited because the drinks industry is concentrated in the hands of a few large global players, which makes it very difficult to enter into mature markets.

**You worked for the mutual funds administrator at Citicorp and later you were at Bansander AFP where you managed pension funds. Now you work for one of the biggest food companies in Chile. Do you prefer the mass market sector to the financial?**

I think the finance business and consumer goods are, from a management point of view, identical in essence and different in their particulars. The essential is bringing everything together towards an agreed goal; the incidental is that in the first you attend to people's financial needs and in the second you attend to their material needs. Working in the financial sector demands a rigor with figures that is very useful in the mass market field. Both are very interesting, but if forced to choose I would choose the consumer



goods sector because it's attractive to be involved in producing a physical product.

**In Europe, white-label and own-label products are playing a growing role. Is something similar happening in Chile?**

Although white-label goods exist in Chile, they represent a small part of the market and they are growing slowly. In the non-alcoholic drinks market we're talking about 10 percent, and they are practically nonexistent among alcoholic drinks. There are three reasons for this. The Chilean consumer is very brand oriented; the country's geography makes distribution difficult, especially small-scale distribution, which makes it almost impossible to develop beyond supermarkets; and finally, consumer trust in own-label goods as a guarantor of quality is much higher in Europe.

**The Chilean economy was based on raw materials. How has it changed?**

This year per capita GDP in Chile will be over \$15,000, a positive sign when we bear in mind that 20 years ago it was around \$2,000. This development has been accompanied by growth in the service sector and through added value. Also copper, which accounts for 50 percent of our exports in value, has been experiencing a price boom that has been especially beneficial for us.

**Innovate or die - how true is this saying in your sector?**

Of course you have to create new products and this is one way of increasing per capita consumption. But you have to be careful, because the drinks consumer is very traditional. Most of what is drunk today was drunk 30 years ago. There are some strong new products, such as sports drinks, flavored water and fruit juice combinations.

In CCU we say that when we launch a new product we are the victims of the three "Cs": costs, which rise; complexity, which increases; and cannibalization as the new product substitutes, partly or totally, previous ones. Against these three "Cs" there's only one antidote: the margin on your new products has to be higher than on the existing ones. But innovation is not just about products. We are constantly innovating in management techniques, technology, distribution, sales, packaging and processes. And there's a lot of value in that. And in this respect, yes, our industry has to innovate or die.

**You combine running CCU with other executive positions at Viña San Pedro, Foods Compania de Alimentos, Aguas CCU-Nestlé Chile and Compania Pesquera de Chile. How do you manage to do this?**

I am now managing director of CCU which is the main drinks company in Chile. We produce beer, wine for domestic consumption and wine for export, liqueurs, mineral water, juice, sports drinks and iced tea as well as cakes

➤ THE FAMILY IS A GREAT SCHOOL OF VALUES WHERE CHILDREN LEARN MORE BY EXAMPLE THAN FROM WHAT IS SAID, AND THIS IS WITHOUT DOUBT EXTREMELY USEFUL IN THE WORLD OF BUSINESS.

and biscuits. We also have operations in similar areas in Argentina.

The companies you mention are subsidiaries of CCU. Our company is structured around two types of units: strategic business units and corporate support units. In terms of competitiveness, the former focus on three basic tasks: production, sales and communication. The latter take care of the rest: administrative tasks, distribution and corporate functions.

**Since you began working for CCU, the company has had good results and enjoyed significant growth. To what extent do you think your management has contributed to this growth?**

We have received a lot of recognition for the good corporate reputation of the company and this is what the existing and previous teams deserve. We're very proud of this, it encourages us to continue, but it's not our primary motivation. Our vision at CCU is that "we like work well done for the good of people." This is what drives us.

**Do you see yourself as an entrepreneur and in your experience is it possible to develop an entrepreneurial spirit?**

It's important to have an entrepreneurial spirit. But this shouldn't be reduced to the idea of starting up a new business on your own behalf. Big companies have many internal initiatives. I believe that many people embody the entrepreneurial spirit. Our role as executives is to create a set of conditions so that people will want to be "entrepreneurial volunteers" who are pushing forward the development of, as Prof. **Juan Antonio Pérez López** would put it, the informal organization.

**An entrepreneurial spirit is something that is perhaps stimulated by doing an MBA. What else do you feel you got out of it?**

I learned a lot doing the MBA at IESE. In general terms, I would point to the vision and the multifaceted, integrated approach that IESE brings to the MBA program. More particularly, I have to mention the classes given by **Pérez López** and his vision of the "volunteer" em-

ployee, rooted in a profound anthropological doctrine which colors all of the teaching at IESE. Beyond that, of course I made some good friends.

**In 1988, the year when you completed the masters, you started working for the Santander group. Were these two events directly related?**

Yes and no. No, because the Santander bank got in touch with me in Chile via a person with whom I had worked at Citicorp, before doing the MBA, who offered me the job of launching the bank's mutual funds. And yes, because during my stay in Spain I came to realize the importance of the Santander bank and the scope of its ambitions. At that time, Santander was new in Chile, where it arrived through the acquisition of a small to medium-sized bank which to begin with didn't seem a particularly attractive prospect. But in due course Santander would go on to become the biggest and most profitable finance group in Chile.

**What role do you think the family plays in educating the young? How important is the family in developing values that later become critical in doing business?**

My four grandparents were born in Lebanon and emigrated to Chile. I believe that I've inherited from them a sense of the value of hard work and responsibility, a sense of family, respect for elders and the sense of the importance of life and authority.

The family is a great school of values where children learn more by example than from what is said, and this is without doubt extremely useful in the world of business. The family is very different from a business. In a family, love is unconditional and the relationships are permanent. In a business, affection is often conditional and relationships temporary.

**You are a big sports enthusiast. Is the effort and discipline sport requires also necessary in business?**

Sport involves discipline and this is useful in business. Aerobic activity also keeps us in shape and healthy which is also good for business, but you have to do it in moderation and avoid the trap of "the cult of the body."