

TESTIMONY OF THE INTERVENTION



PANEL II – INVESTMENT, GROWTH AND CORPORATE COOPERATION



Jorge Portugal

Moderation: Simeon Ries

“We see that in fact companies, in order to respond to the question of market strategy have to look at the disciplines of digitization and industry 4.0, whether in the conception of the product (in the way it can be customized to the individual needs of the customer), in the form how it is manufactured (from the point of view of the efficiency of this process and technological convergence), and the way it reaches the customer (optimized, efficient and faster logistics) “

Moderator: How do you consider the process of qualification of Portuguese companies for innovation?

“I would like to start by saying that despite the mistakes that have been made in Portugal over the past two decades, what is certain is that today we have a Portuguese economy open to the world, competitive and growing.

Therefore, despite everything, something good must have been done and much of that good, was done by the creativity, persistence and determination of Portuguese businessmen. Entrepreneurs who have had to overcome, for 25 years, what has been the overwhelming force of globalization, the opening of the markets of commerce to the Chinese and to the countries of low costs. This was a shock wave that swept the model as the industry and the Portuguese tradable goods industry functioned, which was a low-tech model of low-cost labour. It was in this model that Portugal worked and it was this model that was swept very quickly.

It is important to say that, in fact, when talking about the opening of the pre-euro phase, there were other factors that, at the same time, also affected the Portuguese economy. They were the opening up to world trade, and thus opening up to global competition of competitors with lower costs than Portugal and low-cost labour where China began to become the world’s factory.

It so happened that during the early years of the new century, several sectors of tradable goods, the so-called traditional sectors, had to reinvent themselves by force.

There were many entrepreneurs and many companies that could not resist. We see this here in the North, with economic social effects of this wave, for example, the footwear, textile and furniture sectors, which for different reasons were crossed by a shock wave.

Those who managed to survive and those who were created managed to reinvent a new business model.



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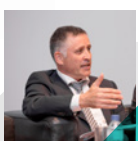
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José Carlos Caldeira



PANEL I
New Challenges for
Internationalization
António Silva



PANEL II
Business opportunities
in the German market
Simeon Ries



PANEL II
Business opportunities
in the U.S. market
Graça Didier

TESTIMONY OF THE INTERVENTION

PANEL II – INVESTMENT, GROWTH AND CORPORATE COOPERATION

Jorge Portugal

It was no longer the business model of low cost, low intensity work and very manual production. It became a completely different business model. The organization of production became important as well as the automation of processes. The use of machinery became more sophisticated and production began to look for quality.

For 20 years it has been said that quality was the great motivation for companies. It was said, for example, that exporting to the German market required quality and that many companies could not export.

The Portuguese companies began to have courage, they were able to prove their quality and they were able to enter new markets.

The German market was a market for which companies had to raise their quality and production to compete. It has been a process of the last 20 years.

It was a case of success, from the very rapid transformation of a low quality and low-cost business model to a business model of more products produced with high quality and specifications.

In the first phase, these are still unbranded products, in a volume logic, but already with a production line arranged with processes. Then they began to be certified and efficiently produced products that made them capable of being sold in the most competitive markets in Europe. All this at the end of the first decade.

We are now entering another decade and what are we seeing at the moment? An acceleration, a transition from the previous generation of companies to a new generation. New blood is coming to the companies. Normally, in family businesses, management is done by the family and we are seeing a transition that does not just bring about rejuvenation, it brings new skills that adds value.

Something very important for the future competitiveness of the company, is to leave aside the main objective of producing goods with quality and efficiency, in order to be able to value those goods in the international markets.

I give you the example of footwear, which year after year, I see at the fairs. The average price of Portuguese footwear is evolving and the same is happening in the textile, furniture and ornamental stone sectors. Usually even over Italian competitors, who have a similar economy to the Portuguese. We are approaching, in all these traditional sectors, the average selling price of products that have valuable brands such as 'Italy'.

We have now begun to not be ashamed to assume that we are Portuguese and have Portuguese marks.

There are Portuguese products and brands that are extremely competitive internationally.

This has much to do with what COTEC calls innovation. COTEC was created thirteen years ago, with the High Sponsorship of the President of the Republic, to place the concept of innovation at the highest level of priority.

At that time, it was realized that the quality should not only be in the quality department, but rather in all areas of the company. In the same way that innovation should not be only in the innovation department, it must be everywhere.

We see, in fact, that Portuguese companies are at the forefront. They are innovating in all dimensions, not only in the way they produce their goods and services through



PANEL I
Business opportunities
in the French market
Géraldine Dussaubat



PANEL I
Entrepreneur
Testimonials
Jorge Santiago



PANEL II
A Portuguese Economy:
Past and future
Rui Rio



PANEL II
Fernando Alfaiate



PANEL II
Jorge Marques dos
Santos



PANEL II
Jorge Portugal



CLOSING SESSION
Fernando Castro



CLOSING SESSION
José Ribau Esteves



CLOSING SESSION
Eurico Brilhante Dias



CONCLUSIONS

TESTIMONY OF THE INTERVENTION

PANEL II – INVESTMENT, GROWTH AND CORPORATE COOPERATION

Jorge Portugal

more efficiency, quality and more personalization, but also in the way they reach the market through more efficient channels, digital channels that allow to not have physical presence in the markets, but to have visibility.

We also see that companies start to have a better view on how to approach markets, in the way that they only enter the market with local partners and with local knowledge so they can get in with certainty.

We also note that digitization is affecting all areas and that it is not possible to digitize if the company is poorly organized, from the factory to the market, everything is changing due to the digitization.

For example, internationalization will allow Portuguese companies to continue to charge and increase the price premium in competitive markets.

For example, Burberry has traditional coats on sale in the online market, which are sold for about 2000 euros. If the coats have customization they cost another 1000 euros. There is a 50% personalization bonus.

Many Portuguese companies are following this framework, differentiating the product through a set of digital services that begin in the design of the product. We talk about footwear, textiles, furniture and ornamental stone.

We are seeing that this differentiation, which wraps the product, is differentiating and creating additional value.

Companies continue to have very great pressure on the efficiency of the products and then start to have a price premium on the service they add to the product. This is what we are seeing in all sectors, in the case, for example, of the automotive sector, which in Portugal has a very strong line of companies, or even molds and tools, for example. Much of the value was created in the product, but today it is created in the project, directly, and it is in this trend that innovation comes.

At COTEC, our associates are at the forefront. We have 343 companies, of which 85 are from large companies and 243 are innovative SMEs. But they are innovative because to be associated they all have to take a self-assessment test, which we call Innovation Scores, which is available online.

Each company must have more than 400 points, whether in strategy, whether in R & D, intellectual property, or in cooperation networks. In all areas, the company adds a total that can go from 400 to 1000 points and can read in the study released by COTEC, that the more points the company has, the more innovative it is.

We conclude in this same study that the more innovative the company is, the better its results in the market. That is, innovative companies, are more competitive in their exports, practice better average prices in exports, are bigger companies, grow bigger and are financially more robust and profitable.

We also conclude that innovative companies that are growing from innovation have two additional characteristics, first employ three times more and second, pay 60% better salaries than the others. What it means, and in conclusion of the study, is that in fact innovative companies have a path of sustainable economic growth.

We also estimate that if SMEs continued to grow, which contained SMEs with an average value of EUR 25 million, up to EUR 50 million, this would represent, from the standpoint of the macroeconomic dividend, an increase of 0.6 percentage of GDP per year over the next 5 years.

TESTIMONY OF THE INTERVENTION

PANEL II – INVESTMENT, GROWTH AND CORPORATE COOPERATION

Jorge Portugal

Which means we would have almost half a percentage point per year, growing. Innovation is a sustainable way, not only from a business, social or even employment-related point of view, allowing better wages and the distribution of wealth. From the point of view of the social model in which we live, innovation is a sustainable path for the development of our society and for its prosperity.

We believe that there are many challenges for companies, but the big challenge will be the relationship between innovation and the size of companies. If the scale is not large enough it will not be possible to generate results to feed growth. Companies have to gain scale to generate results and bet on innovation. And this is a virtuous cycle. "

Moderator: Can you now describe the engine of innovation in Portugal?

"COTEC is a unique association, with companies from all sectors, in all states of maturity and of all dimensions. The characteristic that equals them is the capacity for innovation. Innovation does not only work in the innovation department, but across the company.

What can COTEC give to companies? Above all, we have a set of tools for the company to be able to evaluate its level of innovation and its processes.

When the company applies the Innovation Score, you can see which areas you need to improve and which areas you are strongest in. Therefore, the Innovation Score turns out to be the starting point for a continuous and permanent process of improving the capacity for innovation, assuming that innovation capacity is a cross-company capacity. The company has thus the possibility of year after year, to gauge its evolution.

We believe that all companies can be innovative, but none can innovate alone. By capitalizing on diversity, we create networks and help companies to find the right partners. We do initiatives from small workshops to larger meetings or organization of specific collaboration platforms, so that a company that needs to find partners to develop an innovative process can do it in a fast and effective way, accelerating its process of creation of innovation platforms. In practice, we are a cooperation accelerator.

There are some key things to keep in mind. The first is that there is no growth without innovation. The second is that there is no innovation without collaboration. And the third is that there is neither collaboration nor innovation, without people.

One of the critical aspects of the companies, perhaps the most critical for the entrepreneurs we talk about, is the capacitation of their technicians, which over the years has been developing. This is what makes the companies more competitive, but what will be the capacitation effort for the next few years in the digital environment will be much more demanding.

We believe that the first priority of the country should be the training for the technological and competitive environment. The coming years will be much more demanding and this will be the national challenge for all sectors and for all companies. "

Moderator: What is the future scenario and the next steps to be taken in Portugal?

"I will try to give a practical sense to what intelligent digitization is.

In practice, it means that regardless of the size of the company and its industry, some questions should be asked, such as: "What is my service strategy? How will

TESTIMONY OF THE INTERVENTION

PANEL II – INVESTMENT, GROWTH AND CORPORATE COOPERATION

Jorge Portugal

I provide a service that will be valued by my clients? What products will I sell? Are the products produced by my company? How can I develop a relationship strategy with my client? »

These are questions of marketing and starting point, which were already made twenty years ago, but at this moment with the understanding of the digitization, it is possible to ask and answer these questions, at the individual level and personalizing the offer and the service.

We were just talking about customization at the level of the traditional sectors, but customization of a product's lot is happening in fast-moving consumer goods. So in any sector it's possible.

And what is the mechanism that allows this? It will be through the production of data, which the company generates from the interaction with the customer and takes this data, making recommendations.

I call attention, for example, to the case of digital assistants, which was an idea that was born ten years ago, but that did not work because digital technology was not yet robust enough, but now it is seen on many websites and serves as first aid in using the service, responding and helping, before the human line appears.

It is in this sense, from the joint use of service made by digital automatons and human service, that the creation of a future value arises and that allows a company to create value and be efficient at the same time.

We see that in fact companies responding to the question of market strategy have to look at the disciplines of digitalization and industry 4.0, whether in product design - how it can be tailored to individual customer needs - or how it is fabricated - from the point of view of the efficiency of this process and the technological convergence - and the way it reaches the customer - optimized, efficient and increasingly fast logistics.

Nowadays the customer does not want to receive the product after a week or a month, they want the product immediately and this digital integration at every stage of the chain is an essential element in the way the company uses technology, which already exists.

When we talk about revolution or evolution, we see that, in fact, in some areas, digitization is revolutionizing what were the principles of the mass market and undifferentiated, the law of demand for supply. It was the supply that determined when, where and what to deliver, and the demand only received passively those flows. Today is precisely the opposite. The digitization is making that the demand determines when the product will be produced, under what conditions, with what specifications and where and when it will be delivered and consumed.

Companies that fail to make such, and being a leap that will not happen overnight, they will be able to do so in a phased manner, innovating, as our associates are doing, area by area, and it will be a revolution in this aspect. And each company must analyse the area in which to bet first, rationalizing the technological investments to be made.

Looking at the portfolio of our companies, we see that there is no single formula for success, nor for gaining competitiveness in the future.

However, there is something for us that is absolutely inescapable. Today's competitiveness does not guarantee tomorrow's competitiveness.

TESTIMONY OF THE INTERVENTION

PANEL II – INVESTMENT, GROWTH AND CORPORATE COOPERATION

Jorge Portugal

The competitiveness of tomorrow is only made from the acquisition of new knowledge to solve problems that will be relevant to the consumer in the long term.

For this, companies by themselves, will not be able to do so. They will only be capable of doing so by working in partnership and collaboration, not only with companies in their sector, but above all linked to the system of knowledge that Portugal has developed in the last 25 years, with universities that are able to solve problems in any technological area and with a vibrant ecosystem and entrepreneurial initiative.

For many years, COTEC has helped to study formulas to reach out to markets and commercialize new, intelligent technologies, but we have come to the conclusion that there is no formula for success. There are different formulas, which have different risks, results and returns, according to the path chosen. "