

## **Story Telling GERDAU: Creating Shared Value in Steel Production**

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It all started in 2007 when GERDAU's core business activities were threatened by increasingly scarce quality raw materials. GERDAU is a global leader in steel production, who has always contemplated sustainability as an integral part of its strategy. As a result, GERDAU believed in the potential of producing steel from recycled materials and it knew that many actors at the bottom of the social pyramid had already embarked in such activities. These providers came from humble social backgrounds and saw business as a necessary remedy for their daily survival. Such a short-term outlook to work posed a challenge for GERDAU who was then beginning to play with the idea of collaborating with scrap collectors. As a large global leader in steel production, quality, clean and well-sorted materials were key requirements for products entering their supply chains. Consequently, the company realised that, if they wanted to continue to excel in their business endeavours, they would have to strengthen their relationships to small-scale suppliers. GERDAU turned a challenge into an opportunity by recognizing the potential of SMEs and deciding to devote significant resources towards fostering a collaborative approach with such stakeholders and embarking on what would become a life long progression towards the creation of shared value.

GERDAU decided to develop supplier trainings, which were solidly structured and focused on providing management tools such as leadership skills, teamwork, inventory management, indicator development, production, maintenance, supervision, risk management and health of recycling plants. GERDAU's investment showed clear social and financial returns for SMEs. The company experienced substantial efficiency and profitability improvements: Not only did their providers learn to efficiently collect and select waste products, guaranteeing high quality materials for the company, but also the quantity of trash provided increased by 11%. Within only 6 months, they collected 30,000 tons of material reducing the corporations' energy consumption by 50%. The program's focus on the development of business skills, translated into 50% sales increases for suppliers, a result that combined with their business training, added up to an important improvement in the quality of life of the communities.

The key success factor of the project was the ability to create a tailor-made solution adapted to different contexts in different countries throughout the Latin American continent. In retrospect, the company affirms to have taken two fundamental lessons:

- 1) To always observe, respect and adapt when approaching SMEs on the ground, and
- 2) To persevere with a positive spirit throughout the process.

First, the company learnt to respect and acknowledge the habits and routines of SMEs. The key lay in communicating with SMEs with humility and empathy with a focus on trust-creation. Only by doing so, was it possible to enhance access to knowledge about beneficiaries' habits and hence create the environment necessary to foster change through the introduction of best business practices. Second, when seeking to trigger change and engage SMEs in constructing the path towards economic development, it was crucial to maintain a positive spirit, i.e. to truly believe in the potential for modernization and prosperity within each small business venture. Instead of obstacles and failures, the emphasis lay in developing a future full of possibilities and success. GERDAU learned to trust and believe in small Latin American businesses capabilities and persevered in advancing their progress so that they could give the best of themselves.

What started as a pilot project organically scaled to different investments across various fields across Latin America. The company developed over 13 projects in five countries (Chile, Argentina, Colombia, Venezuela and Mexico). The focus remained on strengthening the corporation's value chain, which translated into programs for clients, distributors and/or supplier development, and, within only seven years, more than 1578 SMEs have benefited from the company's investment. Meanwhile, GERDAU has achieved its goal to contribute towards a more sustainable world through tangible economic and social impact.

Looking into the future, GERDAU is going regional with its value chain strategy and will implement a program in three countries (Mexico, Colombia and Venezuela), which is projected to positively affect 75 (30 in Mexico, 25 in Venezuela, 20 in Colombia) beneficiaries. The goal is to reinforce the competitiveness of current and potential suppliers so that they can unfold in the market with strengthened capabilities. It pursues the overall objective to improve the client diversification,

productivity, competitiveness, and profitability of GERDAU's suppliers. In doing so, as has been proven from this past experience, the quality of life of both suppliers and their families will improve, which accelerates community development. GERDAU knows that SMEs represent an essential pillar in Latin America's path towards sustainable development and is therefore committed to invest and collaborate with these players towards the achievement of more prosperity for all.