

---

## Event Report

# Entrepreneurship in Brazil: David Neeleman and Azul

MARCH 26, 2010

---

*The morning keynote of the 12th annual Latin American and Hispanic Business Association Conference, held in March at Columbia Business School, featured David Neeleman, Founder and Chairman of Azul Brazilian Airlines. Mr. Neeleman presented his philosophy for successful entrepreneurship and discusses the opportunities and challenges associated with building businesses in Brazil.*

For David Neeleman, the creation of Azul Brazilian Airlines represented a return to his roots. Born in Sao Paulo, where his father worked as the city's United Press International Bureau Chief, Mr. Neeleman moved to the United States as a child but returned to Brazil many times throughout his life. He built a vast record of entrepreneurship in the airline industry, co-founding Morris Air and WestJet; launching Open Skies, an airline reservation and check-in systems company; and founding JetBlue, the first airline to earn \$100 million annually within five years. With dual American and Brazilian citizenship, the Portuguese-fluent serial entrepreneur is now chairman of Azul, which recently set an industry record for carrying 2.2 million passengers in its first year of operation.

What is the key to being a successful entrepreneur? For Mr. Neeleman, it is all about building a better mousetrap for customers; that is, increasing efficiency by offering a better product than the competition at a lower cost. Lowering costs is particularly important in Brazil, where incumbent competitors have grown inefficient in response to a long history of government protection for local industries. The Azul mousetrap takes its cue from JetBlue, offering discount fares and featuring leather seats with televisions, while flying direct routes to secondary airports as well using smaller planes made by Brazilian manufacturer Embraer to keep costs low. Needless to say, Mr. Neeleman sees enormous potential for his new venture.

The value proposition for a discount airline in Brazil is clear. Last year, 56 million passengers traveled by air in Brazil, and this number is projected to reach 150 million to 200 million within three to five years. Prior to Azul’s entry, the average air ticket was approximately 50 percent higher in Brazil than in the United States. Last year five times as many Brazilians traveled by long-haul bus as by air; however, bus transportation in Brazil also continues to be relatively expensive because it is highly regulated. Since Brazil’s airline industry is deregulated, increasing efficiency allows Azul to offer more competitive pricing and build a customer base.

The growth of Brazil’s middle class lies at the heart of Azul’s future success. The middle class, known as Class C in Brazil, is approaching 100 million people, having added approximately 30 million people in the past two to three years. Members of Class C, who compose almost half of the country’s population, are buying their first homes and cars, getting their first credit cards, and making their first airplane trips. Mr. Neeleman attests: “Businesses in Brazil, by and large, have catered only to the A and B Classes.” These businesses have only just begun to learn how to service the growing middle class. Brazil’s corporate sector must build its capabilities in extending credit, marketing in Class C channels, and spending the time and money to make products and services accessible to the middle class.

Opportunity seldom comes without challenges. For Mr. Neeleman, one of these challenges surfaces when government agencies like Infraero, which administers the main Brazilian airports, act in ways that are not in the best interests of the free market. For example, in an air travel market that expects to triple or quadruple in the next several years, securing a sufficient amount of airport terminals and runway space is crucial. Azul operates in two airports within the Sao Paulo metropolitan area of 20 million people. Despite a growth rate that has recently exceeded 40 percent year-over-year for the area as well as the industry as a whole, Infraero has capped both of Azul’s Sao Paulo airports to additional traffic. As a result, Sao Paulo’s downtown city airport currently operates just 30 flights per hour, while New York’s similarly sized LaGuardia Airport operates 71 flights per hour. For Mr. Neeleman, such government policies reflect “a lack of vision” regarding the region’s future development.

Brazil’s government bureaucracy has the power to impose profound constraints on local businesses. Current regulations in Brazil allow the losing bidder in a competitive procurement process to appeal the decision and delay the outcome. For example, in the process of creating a new market for fliers in Brazil, Azul offers not only low fares but also free bus rides to the airport. However, because of procurement process delays, it took Azul 18 months to obtain clearance for just 10 bus drivers to drive additional routes for one of its airports. According to

Mr. Neeleman, in a market that is growing more than 40 percent annually, a regulatory framework that promotes such inefficiency is simply unacceptable.

This does not imply that Mr. Neeleman advocates privatization, as this may lead to cronyism that would ultimately strangle the country’s economic development. Mr. Neeleman instead advocates a model in which Infraero is spun out as a nonprofit organization that is not constrained by the government’s bureaucratic procurement laws. Recourse should still be available to losing bidders who are entitled, but they should not have the ability to stop the process. In a market of burgeoning demand, the regulatory infrastructure should not hinder a company’s ability to service that demand. The 2016 Summer Olympics in Rio de Janeiro serves as the ideal impetus for change – an opportunity to show the world that Brazil is committed to the growth of its businesses.

Despite the challenges associated with government regulation, Brazil can be a successful marketplace for entrepreneurs. In some cases, beating the competition is as simple as treating employees better. Under Mr. Neeleman, JetBlue’s policy was to disclose flight schedules to its pilots more than one month in advance. This gave pilots the flexibility to manage their personal lives. By contrast, pilots in Brazil typically received their schedules just one week in advance. So when Azul arrived, the company diverged from local norms by not only offering pilots one month’s notice of flight schedules but also extending allowable vacation days to improve overall quality of life. Such changes have made a significant impact in attracting local talent by breeding a genuine gratefulness and excitement for sharing in the company’s vision.

The passion of Azul’s customers matches that of its employees. For Mr. Neeleman, the ability to tell your product’s story and build an emotional connection with customers is just as important as building a better mousetrap. Every seat on Azul contains a magazine that describes Azul’s origins, recounting the story of a Brazilian-born entrepreneur who found success in New York and returned to his homeland to pioneer a new industry. Today, Mr. Neeleman can often be found on Azul flights, educating first-time passengers and helping crewmembers pick up trash. Passengers have become so enamored with the Azul story that they frequently ask him to autograph their magazines and subsequently spread the word with friends and family. “It’s no wonder,” Mr. Neeleman confesses, “why we are the fastest-growing airline in the history of aviation.”

ADRIAN ALMAZAN '10  
Columbia Business School