

A Force for Good

An Interview with Pablo E. Vargas, Executive Chairman, Grupo Britt

EDITORS' NOTE Pablo Vargas, a Costa Rican citizen, became Executive Chairman for Grupo Britt in January 2018, after being Britt's CEO for 18 years. He joined the company in 1992, after doing an internship in 1990 when Britt was just a start-up company with annual sales of less than \$150,000. Under his leadership, Britt's revenues went from approximately \$10 million to approximately \$158 million in 2018. During this period, the company became a coffee and chocolate manufacturer and travel retailer, with over 130 shops, operations in 13 countries, and a head count of 1,800 employees. Prior to joining Britt, Vargas worked for international private and nonprofit organizations and participated on several boards of directors. He has taught graduate and undergraduate level economics at three universities. Vargas holds BS and Licenciatura degrees from Universidad de Costa Rica, and MS and MBA degrees from Michigan State University. He is a Fulbright Scholar and his MS thesis was elected as Thesis of the Year by Michigan State University's Agricultural Economics Department.



Pablo E. Vargas

Will you highlight the history and heritage of Grupo Britt and discuss how the company has evolved over the years?

The brand Café Britt was conceived in 1985. I met Britt's founder, Steve Aronson, in 1990 as a student and wrote an academic thesis on the concept of adding value to coffee from Costa Rica as a hedging strategy to cope with this commodity's price volatility. I started working full-time with Steve in 1992 and implemented many of the ideas written in my paper.

Among them, we wanted to be the first coffee company in a country of origin dedicated to exporting the final product directly to consumers around the world. We dreamt of de-commoditizing coffee and started distribution to

hotels, restaurants and commercial accounts in the U.S., Canada and other parts of the world. The coffee industry is very specialized and each player does its prescribed job: producers grow coffee, which is sold as a commodity to a chain of processors, exporters/importers and distributors who mostly belong to international trading and roasting groups. We wanted to stop selling this precious raw material and created a consumer brand to sell Costa Rica's finest roasted coffee to the world. We thought of coffee as something like wine. When most people in the coffee world were obsessed with quantity, we were fanatical about quality, and we continue to be. When we had an opportunity to run gift shops in the San José, Costa Rica Airport, we fulfilled our dream of exposing our brand and products to millions of international travelers, together with a curated selection of gifts and souvenirs from Costa Rica. Then, in 2004, we replicated the model at Lima Airport in Peru, and kept adding more countries and airports to our model.

We benefit from globalization, but we acknowledge that as human beings we want to appreciate our roots and cultural differences. We developed a model of travel shops with a sense of place. We toured new countries exploring their culture, music, colors, and traditional food items and presented them to world travelers usually in new airport terminals. Hence, we only do Costa Rican themed shops in Costa Rica. In Peru we do Peruvian shops, in Mexico we do Mexican shops and the same applies to the 12 countries where we operate. In coffee and cocoa producing countries, we do coffee and chocolate products under the Britt brand with those raw materials.

About three years ago, we acknowledged that we operate two companies, a travel retailer now called Morpho Travel Retail, N.V., and a coffee and chocolate company called Café Britt, S.A., both controlled by Grupo Britt, N.V.

How has Grupo Britt adapted its business to address the challenges brought on by the pandemic and how proud are you to see the way Grupo Britt's workforce has displayed strength and resilience during this challenging and uncertain time?

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COMPANY BRIEF Grupo Britt (grupobritt.com) was founded in Costa Rica in 1985 with the goal of making the country's famed gourmet coffee available for consumption around the world. In 1991, the company combined coffee with tourism with the introduction of the Britt Coffee Tour, an innovative play staged in Britt's own plantation that traces the history of coffee and its production cycle and tasting. In 2001, Grupo Britt entered the travel retail market with its first shop at Juan Santamaria International Airport in Costa Rica. Growth continued in 2003 with the addition of stores at various hotels and parks. International expansion began in 2005 with Grupo Britt's first shop in Peru. Today, the Group has over 2000 employees in 13 different countries. In response to three decades of growth, Grupo Britt separated its two market segments as two fully-operational companies in 2017, Morpho Travel Retail and Café Britt. Morpho Travel Retail helps make travel convenient and memorable for customers by focusing on gift shops and food and beverage operations in airports, hotels, and resorts.

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prepared for the simultaneous closures of airports for an estimated period of four months. Then, as each of those four months went by, we had to make additional preparations for an extended period. In Morpho, we had to furlough most of our personnel in the shops. We had to rearrange the balance sheet of the Company and brought in fresh capital. In the coffee segment, things were much better, with the e-commerce channel hitting record sales month after month.

Business is recovering across the board, although some countries are behind in this recovery cycle.

What has been the impact of the pandemic on the agribusiness sector and what are the keys to recovery for the industry?

Agribusiness showed great resilience during the pandemic. People continued to consume quality products and companies that went direct to consumer saw their sales grow. We believe it's in this “direct to consumer” approach where most recovery opportunities lie on the road ahead. Facilitators to the industry in this process will also thrive.

Grupo Britt is a purpose-driven company and deeply engaged in the communities it serves. Will you discuss your views on the role of business as a force for good in society and the need for leading companies to address global challenges?

We always saw ourselves as a force for good in the market. We championed organic growth cultivation and marketing since the early 1990s when the regulation and coffee bureaucracy in Costa Rica did not accept the concept. We flew in the inspectors because there were no local organic certifying agencies. We believed a bit naively that by the year 2000 about 80 percent of our coffee sales would be organic. We had to face the reality that the consumer was not aware of the benefits of organic production - at least they were not as conscious of the benefits as to accept a price differential.

Times are changing, and business leaders are much more aware that the responsibility of business does not end with maximizing profits. The world is still behind in pricing environmental benefits, or accounting for negative externalities, although there have been some policy successes around the world taxing carbon emissions or creating markets for carbon bonds as well as other innovative initiatives. However, in the absence of market mechanisms, consumers

and investors are becoming more demanding of transparency and environmental and social responsibility from corporate leaders. I welcome those changes and I actually think that as climate change becomes more apparent, we will see an acceleration of this trend.

The truth is that businesses are the most organized and efficient platforms in our current society, and sadly democracy and governments are not supplying the public goods society demands. Therefore, it is our responsibility, especially to our daughters, sons, and future generations, to apply our know-how to help society achieve its goals.

What do you see as Costa Rica's competitive advantages as a country and what do you see as its strengths from a business standpoint?

Costa Rica is known for its political stability, peace efforts, sustainability, and its educated and healthy population. It is one of a select group of 23 countries rated as “full democracies” by the Economist Intelligence Unit. The country is currently rated as #15 in the Happy Country Index of the World Happiness Report, and it has been showcased in many environmental and sustainability reports for its efforts in protecting the environment. This country of healthy and educated people also performs well in terms of its innovation capacity, usually ranked number three or four in Latin America.

Costa Rica constantly attracts new international companies who decide to set up manufacturing or service operations in the country. The process of setting up operations in Costa Rica has been streamlined and made simple with the help of a private-public partnership called CINDE.

What do you tell foreign investors about the opportunities for investment in Latin America and the strength that the region offers for investors?

Latin America continues to offer interesting opportunities in several sectors of the economy. The region has a strong agribusiness base and business models that could add value to its biodiversity have great potential. As I mentioned in the case of Costa Rica, many companies are establishing service centers. Companies are doing their human resources, IT, accounting and even R&D from centers in countries like Mexico, Colombia, Chile, Uruguay and Costa Rica. Each country offers a competitive set of incentives to foreign investors. As an example, Amazon alone

has over 9,000 employees in Costa Rica. Other areas with high potential include IT and light manufacturing operations.

What are your perspectives on the regional developments taking place in Latin America as you look to the future?

Latin American countries most often are in the news because of highly-charged political events. There are always a few dictatorial governments, currently Cuba, Venezuela and Nicaragua are the ones that fit that role, and they capture most of the information pipeline that fills media outlets around the world. Argentina also makes it to the newsrooms because of recurrent crises of the peso. However, most countries have vibrant economies with highly sophisticated participants in key industries. First world foreign investors without much international experience will probably need to do more homework than they use to do in order to find the right partners or the right business model, or in order to obtain the required permits to operate, but the effort can be rewarded with higher returns.

Additionally, Latin America has adopted the digital revolution and it has an entrepreneurial, young population interested in creating new businesses that could solve relevant problems and fulfill societal needs. Foreign investors coming to the region could spot these young entrepreneurs and support them at different stages of select ventures' lives.

What do you see as the keys to effective leadership and how do you describe your management style?

Effective leaders have always needed a high dose of character. These days you also need a high level of flexibility and vision. The adoption of digital technologies is changing society in ways that are hard to predict. Those who could see where this wave is taking us will have the opportunity to lead their organizations in a sustainable way. Mastering strategy and being close to the final customer are part of the current leader's toolbox.

At a more personal level, I have to say that I hate hierarchies and I like being around people. I consider myself a customer and I like companies and organizations that provide outstanding quality and service to the normal customer. I strive to run an organization where all customers are treated as VIP's, and where all quality and service are premium - where a flat organization does whatever it can, and then more, to serve each of its clients. ●