Creating Emerging Markets – Oral History Collection

Carlos Wizard Martins, Founder, Grupo Multi
Interviewed by Thales S. Teixeira,
Associate Professor, Harvard Business School
October 7, 2015 in Boston, Massachusetts
Video interview conducted in English

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TT: Carlos, could you describe to us the market for English courses in Brazil, circa 1987?

CM: What I can say, too, is that Brazil from the ’50s started having some new schools they developed in the franchising system. The first one was called Yazigi, a local brand. The second was Fisk, and then there was a third chain of schools called the CCAA. But at that time, most of these schools, they offered a program that would last three, four, or five years because it was mostly focused on grammar structures, so that would prepare students for international exams or for local Brazil[ian] college entrance exams.

And one different aspect of…teaching language in Brazil at that time is that most of [the] schools, they would have a program that offered students every week just two classes. So basically, at that point, students would take a class on Tuesday and then Thursday and then Monday or Wednesday for
maybe 45 minutes, an hour, so this is why it took so long for them to complete the course.

**TT:** *And what about the economic and social situation in Brazil in the late '80s, in the beginning of the '90s, around the time of the founding of Wizard?*

**CM:** So before I answer this question, let me share with our audience that when I graduated from Brigham Young University and I went to Brazil, at that point, I decided to open Wizard Languages School. But I knew that I had to offer something different to the public, so my focus was on developing a conversation methodology that allows students—and most of them, at that time, were corporate executives—to speak the second language in a short period of time.

At that point, I launched the methodology called Speak English Within 24 Hours, and what that meant is that I made a sequence of 24 lessons with the most frequently used sentences in the second language, and then I would—when the students drill and practice, those patterns of sentences [are what] allow them to master 1,000 phrases within 24 hours….

So going back to the economics of that time in Brazil, late '80s. Brazil had a tremendous economical problem. At that time, our inflation was in the neighborhood of 60 and 70 percent a month, and you can imagine, when you
have such...high inflation in a country, every time that you go to the supermarket, you have a new price. [A]t that time, there were no computer systems in place. So from midnight until 6 [a.m.], all the prices had to be changed manually, [and] there are lots and lots of employees within each of the stores because they had to change the label from the previous price to the new price. [I]magine what a tremendous challenge to the country that was.

Brazilians, at that point, they could not end the day without first going to the bank. Whatever money they had in their pocket, they would need to go to the bank, make a deposit, and then the following day, they [would] return to the bank to withdraw that money. And what’s the rationale behind this? Imagine that you had any kind of money, $100 in your pocket. If you kept that money in the local currency, of course, in your pocket the next day, the following day, you could not buy the same goods and products that you bought the previous day. The next day that you return to the bank, you had money with some income, extra dividend, but you’d buy the same thing that you bought the previous day.

So our economy really, at that time, was in chaos. So anybody [who] would rationally think, is this a good time for any individual to start a business, the natural answer is no, it’s not a good time, so this is something that I usually talk to students [about] and especially with new entrepreneurs. You must be able to analyze your product, your project, and see if it meets a need from the market because if it meets a need from the market, it doesn’t matter if the
country is really facing chaos economically speaking or if it’s a stable economy. Your product and your project have a chance. But if you’re launching a project that has very high, I don’t say rejection, but barriers for you to enter the market,…that’s a red flag that you should watch for.

**TT:** And what was the need of the market at the time? You told us about three other Brazilian schools that taught English. What was the unmet need in the ’90s?

**CM:** This is a very good point and I appreciate that you’re asking that question because Brazil, for a long time, had a closed economy. But since the ’80s and the ’90s, especially in the ’90s, Brazil started opening its economy to the world, so that Brazilians could more easily import and export their products and they became part of the global community. It doesn’t matter if Brazilians were negotiating with Europeans, Americans, business people from Asia: all the common language was English. So all of a sudden, there was a high demand for executives to learn English for business purposes. And you know, and we all know, it doesn’t matter where you go in the world, the language of business is, and I think it will always be, English.

**TT:** And if you look back at the first year or two [after the] founding of Wizard, what were the biggest challenges that you faced?
CM: Certainly, the economy was one problem. And then we had an event that I don’t think has happened in any other country in the world. In ’92, the new president who was just elected, Fernando Collor, the first measure that he took after his inauguration was to confiscate the bank accounts of all Brazilians. So imagine, if you are a business person and you had already a lot of social obligations, either with your employees, with your suppliers, with all your payroll and all the regular expenses, and you had your current balance in the bank, all of sudden it was all confiscated. And then the government would allow a very small amount of money each month for either the individual or for the companies to operate.

So I can say to you two things: first, many companies broke—they just went bankrupt during those years; [and second],...many private individuals, they committed suicide. They could not afford [to] resist and to be able to keep their balance, having all their savings, all of a sudden, officially confiscated by the federal government. So certainly, it was the biggest challenge that we faced during those years.

TT: *And why did the government confiscate...this money—such a harsh measure?*
CM: Well, first, our legislation at that time was not so safe. It was not so sound that it protect[ed] the individual’s property, so this is one of the first problems because today, this would be an impossible measure to take. And second, I believe it was shock treatment. The economy was in such a harsh condition that the plan of the federal government was just to restart from the beginning. And even though we, as a country, suffered a lot, [through] the following years for the Brazilian economy, it proved to be a good remedy. So I knew then and I know today that we had a lot of problems, but fortunately, in the following years, the Brazilian economy really boomed.

TT: And before the boom of the economy—Wizard was five years old when the money was confiscated—what did you do?

CM: At that time, we needed to negotiate all of our financial commitments with suppliers, with employees, and all the companies that we had business dealings with, so that they would extend the income of the commitments, financial commitments, we had with them. In other words, if we had to pay, for example, this week, a certain amount of money, we’d negotiate with them that in the following 10 months, they would receive whatever amount of money they had to receive. So it was really a very chaotic situation that everyone faced, both individuals, and of course, companies.
**TT:** And so tell us a little bit about the cost structure of managing an English school. What were your biggest costs? Who did you owe money at that time? What were your biggest investments that needed to be made?

**CM:** A school has two sides. One, we have the pedagogical and all of the curriculum aspects of the business activity. The other part is all the managerial needs. In other words, we need to have [on one side] the teacher, the coordinator, directors—and one-third of the cost of our language school was just with teachers’ [salaries], so that’s [a very] large cost. And of course, the cost for having the location and...all the facilities costs that we have in a regular business [as a whole] was the second large cost. And then we have marketing costs. We have all the tax costs, so at final analysis, at Brazil at that time and even today, [at] our language school, we operate with a 20 to 25 percent margin of profit. So providing services...is a very profitable business activity in Brazil specifically.

**TT:** So one of your major costs is labor, [for] these teachers. How did you find them? How did you find good teachers, better than the competition? How did you train them?

**CM:** This is one of the secrets of Wizard’s success because we really invested in the training of our teachers. And one thing that appears, that is a
curiosity about the system, is that through the years and today, at Wizard, in Brazil, the entire system hires approximately 50,000 teachers. And if you ask me, among all of these teachers, how many of them come from overseas, either from Canada, the United States, England, these English-speaking countries, my answer to you is: less than 1 percent. In other words, if we didn’t have any foreign teachers in the system, the operation would work perfectly.

Now, in contrast, we opened a location in Tianjin in China, and it was our first operation in that country. And to our surprise, Chinese people, they don’t believe in Chinese teachers, they all want to have Australian teachers, New Zealand teachers, Canadians, Americans, British, anyone but Chinese. So to me, that was a big surprise because as a customer, as consumers, our parents and students, they never request a foreign teacher. But in China, this is a reality.

**TT:** So in the last 25 years of your business, what was the period of fastest growth, and can you describe to us how this period was? What were the major challenges?

**CM:** I need to say to you that when we first started, and as a matter of fact, as any new project starts, the entrepreneur…is not really able to see the entire conception of the business. At that point, for you to have an idea—I didn’t have in mind to have a chain of schools. My goal was to have a chain of private teachers [who] were going to use the methodology, the brand, and the
system that we developed. So at that point, I thought if one day we [could] have a chain with 100 teachers in the country, and each of these teachers, each one will have just 100 students, we’ll have a very successful business model and operation.

And sure enough, sooner or later, we achieved that objective, but we soon found out that teachers, they are great professionals of education. They’re great professionals of the class environment situation. Not many of them had an entrepreneurial spirit. In other words, some of them, they would have 30, 40, 50 students and they were very pleased because they were earning more money than they earned working for a private school or public school. But, as a business franchiser, we were not pleased having one teacher with 30, 40, or 50 students. We knew that he [or she] could have 100 or even more.

So at that point, we made a very strategic decision: we’re not going to look for teachers any more to operate our schools but we’re going to look for investors, people [who] have a business mindset so that they would have the control of the operation, they would hire the teachers, and they would take care of either the marketing, [or] the expansion, and the entire development of the business. And how [did] we do this? We did this through the franchising system. In the early ’90s, Brazil Franchising Association was being founded, so…the Wizard schools developed…the same way that the franchising system in the country developed; both were developing side by side.
TT: Tell us a little bit about the pros and cons of a franchising system, as you see it.

CM: I think this is a very important question because many people, they either have total confidence in franchising or...they have some resistance to the franchising system. I’ll explain both sides...

First, we need to understand that [in] the franchising world, there are some top-quality companies with a very successful track record, and there are many, many small franchising companies that are just starting and just trying to survive. And many times, the new entrepreneur is not really able to discern which one is which, so he thinks that just because an operation will identify itself as a franchising company, he thinks that immediately he has all the benefits of all the other successful companies.

So my recommendation to any new entrepreneur is this: if you really want to start your business and have more safety or security, more stability, more expectation of success, [then] you need to...identify the sector that has a trend of growth and also those companies that are in the market 10, 20, 30 years so that you can see the results of the franchisees that are already in operation. Because if you start your business with a company that’s in the market for one or two or three years, you don’t have a length of time good enough for you to evaluate, to assess the future of your operation. So I would
recommend for the new entrepreneur to join an operation that has at least 10 years in the market and that has proven successful during that period of time.

**TT:** Describe to us who is Carlos as a leader, as a business leader and entrepreneur.

**CM:** Many people ask me, Carlos, are you more an entrepreneur? Are you more an educator? And I say that I consider myself a very blessed individual with the ability both to have a talent [for] the education field but also as an entrepreneur. And I think that this combination of talents both in education and on the business side is one of the explanations why our business and our project and our very modest project, per se, became Brazil’s largest education operation.

**TT:** Do your employees like you? Do they fear you? How would your employees describe your day-to-day interactions with them?

**CM:** You know, that is a tough question for me to answer, but I can say what most successful leaders will say: some of the people [who] work very close to you love you, and some of the people [who] work very close to you, they fear you, and some of the people [who] close work with you, they hate you. And why is that so? Because in any organization, you know that there are people
[who] naturally identify with each other. They have the same qualities, the same talents, the same skills, the same abilities. They can look to each other and they don’t need to say many words. And they can understand easily what the other individual is thinking, can explain it, how [that other person] perceives some project, and know what his idea is. So that’s an ideal situation, and I know that it doesn’t happen every time.

But with some colleagues and some partners that is a situation that happens. And other people, they want to be close to the leader, but they know themselves that they’re not as much qualified or as well prepared. And they want to learn the same traits of success, the same models of success, but they fear also because they know that there is a gap between the position that they are in now and the position [where] they want to be.

And then, of course, there are those [who] I consider...always the pessimists because they can see, regardless [of who] the leader is, all the negative aspects of the operation, of the characteristics, of the traits of that leader, and he’s always on the opposite side. So those individuals, in my perception, they don’t have a long length of time in the organization. Maybe they stay a year or two or three, but sooner or later, they will leave the company.
TT: Are there famous leaders [who] you aspire to be close to, to mimic? Are there any famous names that you could tell us that in their personalities you relate to?

CM: Of course, we always as business leaders...have the images of certain mentors, some icons that have had a beautiful trajectory in their operation, their project, and their business. And I always had a great admiration for Steve Jobs, for his capacity for innovation, his capacity for involving and motivating people, and bringing individuals together to [achieve] a single objective and goal. So I think that we as a business community worldwide lost a great mentor a few years ago.

TT: What would you say would be your biggest innovations at Wizard?

CM: I think there are three aspects that I quote in this category of innovation. First, as I mentioned to you in the beginning, Brazil in the ’80s had two or three brand names of schools that were known throughout the country. And the moment that I started to develop the franchising system, I decided that in every city, we would not only have one Wizard School, but we would divide the territory into very small territories, and each of those locations would have a unity of Wizard Schools.
You mentioned the example of the city where the headquarters is located, Campinas, São Paulo, and the city has approximately one million people. So what we did [is], we divided the territory into 20 small territories. In the city of Campinas, we implemented through the years, of course, 20 different locations of Wizard language schools. So to our competition, that was something completely out of the box because our competitors had one, sometimes two, very rarely three locations within a city with one million people. And then all of a sudden comes a new player in the market with 20 locations. It’s very much like Walgreens here in the States. Every corner you go, you’re going to find a Walgreens. So we did basically this as a strategy of growth.

Second, we decided that in order for us to develop the system, even though we began teaching business corporate executives, we had to offer products to different segments. So we created a specific line of material to be written just for young kids. Then we developed another curriculum just for teenagers, and then for adults. And then we even created for what we call the third age group, and we were the only school in the country that developed a methodology of teaching English through Braille.

So as you see, we took the same content…but we divided [it] to meet the needs of each group of consumers, from small kids to the top of the pyramid, and, also, Braille. Even today, there’s not another school in the country that offers this kind of methodology.
I said that there are three points, and the third has to do with technology. We developed a—what we call a reading pen. [It] allows the student to have the material, his textbook, and then he uses a pen that we developed the technology [for] and had a supplier to provide for us this reading pen in China, where the student will touch the page and it will reproduce the audio of the book. So within that pen [was] all the content of the audio of the book in [the student’s] pocket. [I]t doesn’t matter if he was in the car, if he was in the plane, in the airport, if he was in the beach, at home or at work, he could easily listen to the content of that lesson through a pen. [E]ven now, we don’t have any other school in the country that has this kind of technology.

**TT:** Now, why teach Braille to blind people in Brazil? It seems it is a very small market. If you are a company that’s trying to maximize profits, that is not a valuable market to go after.

**CM:** You’re completely right on your assessment, and I will tell you something. When your company becomes a leader in the market, many times the company will do some strategies that [are] not focused on providing profit for the company, but…fall under the category of social work, social contribution, social assistance. And even today, our company receives—Wizard receives [much] recognition for having had this initiative some 10, 15
years ago. So as you see, the focus is not really on profit, but has the social aspect that’s very important.

TT: Do you have other examples that you can tell us about the social mission of Wizard?

CM: When…we have international events, we provide volunteers…as translators, interpreters….We had a sustainability event that took place in Manaus some three or four years ago, and [we provided at no cost] [OK?] the translators, and the time we had Bill Clinton there…. [Richard] Branson from Virgin was present. We had some other celebrities in this aspect. And the service provider for translation for these celebrities, they all came from Wizard. So this aspect of providing these volunteer services I think is also very important.

TT: So tell us about the recent years. Recently your company was acquired by Pearson. What was that like? How did they approach you? Were you open to selling? Were you hesitant? What crossed your mind? And just narrate to us the beginning until the end of the process.

CM: Approximately five years ago, we had a fund called Kinea, which is in conjunction with Bank of Itaú, the largest private bank in the country. And they
knocked at our door, they wanted a stake at our company. At that time, we negotiated 15 percent of the company with this private equity fund. And what was our purpose then? Did we need the money? To be honest with you, we didn’t need the money. We had enough cash. We had enough funds to run our operation and keep the growth of the company.

But the purpose then was to prepare the company for launching its IPO. And we believed that having a private equity fund within our group, and with the credibility of Bank of Itaú, this would help us prepare the company to reach the maturity that was necessary to be able to make a great launching of the IPO. And it so happened, they came to the company that was basically a family business, and they structured all the departments so that anybody that came with the investment would analyze our numbers, our structure. They would see that [Wizard] was a first-class company.

But you know and I know that opening a company to become public does not depend only on the structure, does not depend only on the capacity of the company to be attractive to the market. It depends on many local, domestic, and international factors. And, unfortunately, in the last five years, the economy not only in Brazil but worldwide had lots of different moments of small or big crisis, so that the window of opportunity [for an IPO] [OK?] never really opened.

But during that time, Pearson from England knocked on our doors and...they wanted to have part of the company, and we started the negotiation
with them. And as they immersed themselves in our numbers and they saw the potential of the company, they became more and more interested in acquiring 100 percent of the business. To be honest with you and our audience, I never really thought that they would be interested in purchasing 100 percent of our shares, but the negotiation ended up coming to that point.

Since the check that they offered was very significant, it was a very respectable number, we had to make a decision: should we accept [and] should we do this business now, or should we let it pass by? So we got together with our financial analyst, with some financial partners that we had in the bank community, and of course, with the family members. And the decision was that we should close the deal, and so we did.

So to explain that to the market was not very difficult, but I still have young boys at home, 12 and 14 years old at that time. And when you make a negotiation like this, it takes six, seven, eight months, almost a year to become completed. You cannot tell your kids that you’re doing such a large operation because the next day they’re going to post on Facebook: “Daddy’s selling the company!”

But finally, my wife and I came home and called the boys and I told them: “Felipe, Nicolas, Dad has news to tell you. We sold Wizard.” And then my twelve-year-old boy said, “Dad, how did you sell your dream?” So it was a very emotional moment for me and for the boys as well. And it was hard to explain to him why, for a twelve-year-old, so I decided to write a book to
answer [for] my boy that question. And guess what the name of the book is: Dad, Why Did You Sell Your Dream? So I’m writing this book and by the end of the year, I hope it’s going to be published.

**TT:** *Could you please tell us the answer, why did you sell your dream?*

**CM:** OK, you’re not my son, so I’m going to tell you. What I found out is that every company lives two very important aspects of the strategy of the business. Either they become purchasers and they go out to the market, purchasing, purchasing, purchasing, buying all of the competition, and they make a large economical group, or they become a product that [an] international group has interest [in] to either invest or to make the acquisition.

So I think that we did both things. For the last 10 or 15 years, we acquired many small English school chains in the country. Not only English schools but also trade schools with computer training, professional training courses, so that in total we made a chain of 3,000 schools, covering all states of Brazil, hiring 50,000 teachers, and servicing approximately one million students each year. So by far, we’re the largest educational group in the country.

So when Pearson came to the country to look for an operation to purchase, we were their number one option. And this is why they were so eager to close the deal with us.
TT:  And you talked early on about opening up shop in China. You opened up Wizard in other countries. When did you make this decision of going from Brazil into the world, and what were the factors involved that you considered?

CM:  I think that every company wants—[when] it’s mature enough and the company becomes [the] leader in its own territory, in its own country, the natural next step is to go overseas and replicate the same model, the same business model that was successful in its own home. So that’s what we did, and we did that [in] approximately 2000. And the first country that we came to was the United States, and even today, here in the area of Boston, we have a Wizard school in operation. And it’s been in the market for…more than 10 years.

[On the East Coast] of the United States, we opened several schools, and then also in Mexico, and Colombia, and Costa Rica, many countries in Latin America, and then outside of this region in Japan and China, [and] one location in England. In other words, English teaching is an international product. It doesn’t matter if you’re here in the Americas or Asia or Europe, it’s an international product, and it [is in] high demand.