The Analysis of Entry Mode Choice in Brazil

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**Abstract.** The purpose of this essay is to analyze investment strategy of Brazil for a company of tablet PC. Firstly, there are ten factors of Brazil business environment should be mentioned (culture, social, demographic, political, legal, government, economic, communication infrastructure, physical infrastructure and technology). Secondly, according to the analysis of Brazil macro economic environment, the entry mode will be decided. Lastly, in order to operation successfully, the benefits and drawbacks of the tablet PC market will be analyzed, using SWOT analysis and Porter’s five force modes. All in all, the results in this study could guide future research and practical business activities.

**Introduction**

As a newly formed enterprise, our company offers technologically intensive products such as tablet PC. In order to pursue internationalization in Brazil, we make a complete picture of Brazil overall business environment and its attractiveness for our product. Then, based on the environment analysis, we consider which entry mode is more appropriate for the newly formed company. At the end of this essay, a decision was be made the future international strategy according to the SWOT analysis and Porter’s five force mode.

**Brazilian Environment**

**Cultural, Social & Demographic**

Brazil is a multi-cultural country, whose culture was influenced by the contributions of immigrants. Music and dance fashion such as samba are popular. In addition, Brazil won the World Cup in 2014. Soccer is one of the favourite games and the national team is powerful [1].

Brazil has the largest Catholic community in the world. There are obviously social classes in Brazil. As with much of Brazilian life, educational opportunities are tied to social class [2].

The population is approximately 190 million and 83.75% of the populations are defined as urban. Population mainly concentrated in the south-eastern (79.8 million inhabitants) and north-eastern (53.5 million inhabitants) [3]. The country also has a young, flexible population, which has proved to be a good testing ground for innovation.

**Political, Legal & Government**

Brazil has in general open policies regarding foreign direct investment (FDI) and the government tries to encourage foreign participation in the economy [4].

Brazil is a civil law country. One of the drawbacks is that Brazil has a complex tax system. Companies have to spend average 2600 hours to submit all kinds of tax tables each year. In addition, a company will spend an average of 470 days and complete 17 procedures to obtain the business license [5].

Brazil is collectivist. However, Brazil also is a liberal democracy, which means a form of government in which representative democracy operates under the principles of liberalism [6].
Economic

The economic system of Brazil is mixed, containing elements of both market economy and command economy. Brazil has made a rapid recovery from the economic crisis. Its GDP is $2.425 trillion and GDP growth is 1.3% in 2012, ranking 6th worldwide [7]. The country is now reaping the benefits of economic stability and increasing resilience, which has allowed Brazil to withstand the global financial crises well (Figure 1).

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<th>BRAZIL GDP</th>
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<td>Rank</td>
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Figure 1. The Information of Brazil GDP.

According to the forecast of the central bank of Brazil, the GDP of Brazil will rise to $9.762 bn in 2050 (figure 2), ranking the fourth largest [8].

Brazil received considerable foreign direct investment inflows, reached 48 billion recorded in 2010 with the US dollar level. It is the 12th country in the world's stock of inward foreign direct investment is also on the third capital flows to developing countries [9]. FDI inflows have constituted around 10-15% of gross fixed capital formation in recent years.

![Figure 2. Rise and Fall about GDP at Purchasing Power Parity Rankings.](image)

Communication infrastructure, Physical infrastructure & Technology

There are more than 1,000 radio stations and more than 100 TV channels operating in the broadcast media in Brazil. The population of Internet users was approximately 75.982 million in 2009, which is the fourth largest in the world. Wi-Fi plays an important role in the public connectivity project (around 4,245 operating Wi-Fi hotspots in the country as of November 2012). In most parts of the country, only 2G technologies are available, while the development of 3G technologies has been slowed down. By the end of 2011, 3G network coverage reached 76.0% of the total population [10].
In Brazil, the infrastructures for transport and electricity provision are of poor quality, which could affect the company’s performance. BNDES (2011) statistics show investments in infrastructure of BRL 311 billion (€137 billion) for the four-year period of 2010-2013. Brazil was chosen to host the 2014 soccer World Cup, reflected in investments of BRL 273 billion for the same period. The difference represents an increase of some €10 billion despite shortcomings in the regulatory framework in important areas such as railways, ports and sanitation (figure 3).

In order to ensure constant technological progress and advancement, Brazilian spending on research and development is stable at around 1% GDP. Moreover, Brazil has the highest levels of patent applications in South America.

In summary, the overall attractiveness of a country as a potential market or investment site for an international business depends on balancing the benefits, cost, and risks associated with doing business in that country. From the benefits side, firstly, the economy of Brazil is the world’s sixth largest by nominal GDP. Brazil can be seen as a good market for the company to pursue internationalization. Secondly, Brazil is an emerging nation, where GDP has grown rapidly and will continue to do so. Therefore, business in Brazil offers a potential for growth. From the costs sides, the bad road and railway conditions in Brazil will make logistics cost high. Brazil has a developed waterway system. The combination of waterways and roadways is a good choice. A drawback is the complicated tax system. As regards risks, first, high inflation rate leads to high cost. The company can never just raise price to make profits. Instead, the company needs to raise productivity and increase the science and technology content to adapt to inflation. Second, the company needs to be sure to register its intellectual property rights with the concerned departments in Brazil. It should also ensure that its labor policy is compatible with the labor law in Brazil. Lastly, drug trade is rife in Brazil. Public security has to be improved. The company needs to choose cities to set up the business carefully. According to the analysis above, Brazil is considered to be a good place to attract foreign direct investment.

**Entry Mode Choice**

The more detailed the analysis of the macro environment in Brazil, the more successful a company’s entry to the foreign market. Naturally, Brazil is a favorable market, because it is politically stable with a free market system and low private sector debt. When firms consider entry to foreign markets, they need to make a decision about which entry mode is appropriate, such as exporting, turnkey projects, licensing, franchising, joint ventures or wholly owned subsidiary. Each entry mode choice has its own unique features.

As a technologically intensive and a newly formed enterprise, we should analyze which entry mode choice is more appropriate for our company. Our company has high technology in production and a unique patent for producing tablet PC. However, we know that Brazil is an unfamiliar place for us. We do not have any production channels and distributor. Brazilian has less awareness about
our brand. Therefore, we suggest that joint venture mode is the best choice to enter the Brazil market.

This strategy has some attractions that should be mentioned. Firstly, our firm is a newly formed company. So our finance and management may be reflected less developed. When we open a foreign market, the costs and risks of developing a new product such as tablet PC would be shared with our partner, which can increase the success of our presence. Secondly, by working with a local partner, we could get more detailed information about culture, language, local market, political systems and business systems. Thirdly, they satisfy the political considerations for market entry. They are able to help our company establish technological standards for the industry in Brazil, which is would benefit our company [11].

However, when we discuss the advantage, some disadvantages should not be forgotten. For one thing, for a technologically intensive enterprise, the patent is the heart of the company. Joint ventures are drawbacks because our company risks giving control of its technology to its patent. For another, it is difficult for our company to maintain the tight control to realize experience curve or location economies. More importantly, if our goals and objectives are different or change over time, shared ownership could lead to conflicts and battles for control, which would influence our normal operation situation.[12]

Future International Strategy

In expending into any market, the only target is to increase profitability. When we make the future international strategy, we should first understand our company’s own situation and that of our competitors.

In order to better understand ourselves and our competitors, we should analyze our own strengths and weaknesses, and evaluate of opportunities and threats. Using SWOT analysis, we know that our company’s strengths are that we have the ability to product high technological tablet PC and we have our own patent. In this tablet PC industry, technology and patents play significant roles for companies. However, our weaknesses are that we lack the developed channels and distributors, while there is a complex tax system and lengthy procedure to obtain licenses. Moreover, as a newly formed company, our brand is unfamiliar for Brazilians. All of this wills require our company to invest a huge amount of money and time. In addition, our opportunities are that the Brazilian government encourages students and citizens to use tablet PC by reducing tax; tax breaks derived from the measure will reach $6 million a year. As we know, the Brazilian population is approximately 190 million, which is the fifth largest in the world. With the development of society, tablet PC, a new technology product, will have large demand in Brazil. This high need gives us an opportunity to enter the Brazil market. However, when we analyze our company’s threats, we can see that we have strong competitors. Some multinational companies such as Apple and Microsoft are also entering the Brazil market to sell similar products.

According to the analysis of Porter’s five forces model, there are suppliers, buyers, substitutes, potential entrants and industry competitors. We know that every firm has competitive pressures at the global level. Normally, companies face two types of competitive pressures: pressures for cost reductions and pressures to be locally responsive. As the lever of those pressures, there are four basic strategies to compete in the international market: global standardization, localization, transnational and international. Based on the whole analysis above, we suppose that our future international strategy should be global standardization strategy. Because our product, tablet PC, is a type of consumer electronics, we have pressures for cost reductions rather than local responsiveness. Tablet PC as a global product has become popular, and has global standards. Therefore, we should do our business following this strategy. According to experience curve theory, we should improve internal innovation though learning step by step and increase economies of scale. Establishing a low-cost position is good for us to gain the market share in Brazil.
Conclusion

Through the analysis of the macro environment of Brazil above, we found that benefits are larger than risks and costs in Brazil, so it is considered to be a good place to attract foreign direct investment. We choose the joint venture mode to enter Brazil, because this mode can quickly adapt to the local environment and improve the brand image with the help of the local partner. More importantly, fixed risk and cost are shared with the partner. In addition, using SWOT analysis and Porter’s five force modes analysis, our company should improve innovation and economics of scale following a global standardization strategy.

References