BRAZILIAN TRANSNATIONALS: TRAJECTORIES AND POST-CRISIS CHALLENGES

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SUMMARY

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- The emergence of the “emerging” transnationals in the litterature: challenging the traditional IB theories?
- The Brazilian and Emerging Transnationals
- Trajectories of the Brazilian and Emerging TNCs
- The Global Financial Crisis and the Brazilian TNCs
- Brazilian and Emerging TNCs – The challenges ahead

THE DIFFERENT KINDS OF FDI

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DESTINATION OF FDI

ORIGIN OF FDI

ORIGIN OF FDI	Developed Country	Developing Country
Developed Country	***North- North FDI*** **"HORIZONTAL" FDI** • Large European TNCs in late 1880 • Large American TNCs mostly after II WW • Most of the extant theories of IB	***North- South FDI*** **DOWN- MARKET FDI** • Large American and European TNCs • Natural extension of traditional theories of IB • Recently, the need of greater reconfiguration of large TNCs the BOP and institutional approaches
Developing Country	***South- North FDI*** **UP- MARKET FDI** • "Barbarians" at the gate: large emerging countries TNCs entering developed countries´ markets • Not covered by traditonal theories of IB	***South- South FDI*** **MOSTLY DOWN- MARKET FDI** • Large groups and SOE from emerging countries: Third World TNCs from the 80s • "Tropicalization" and trickle down model • Low cost competition in marginal markets

"Unnatural" OFDI

Adapted from Ramamurti, R 2009

FOREIGN DIRECT INVESTMENTS FROM AND TO BRAZIL

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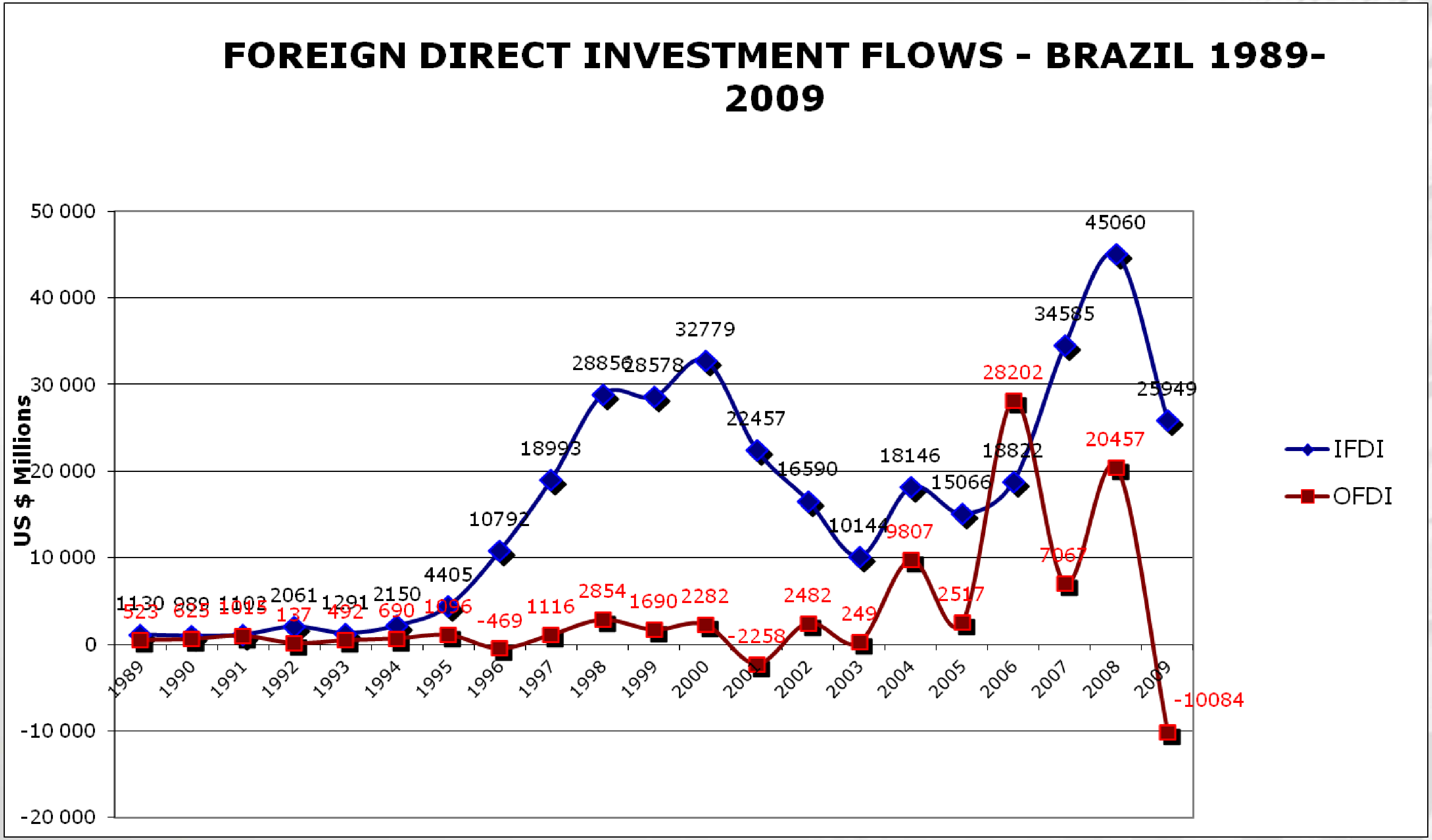

Source: Banco Cntral do Brasil

THE GROWING PRESENCE OF EMERGING TNCs IN THE CORPORATE WORLD

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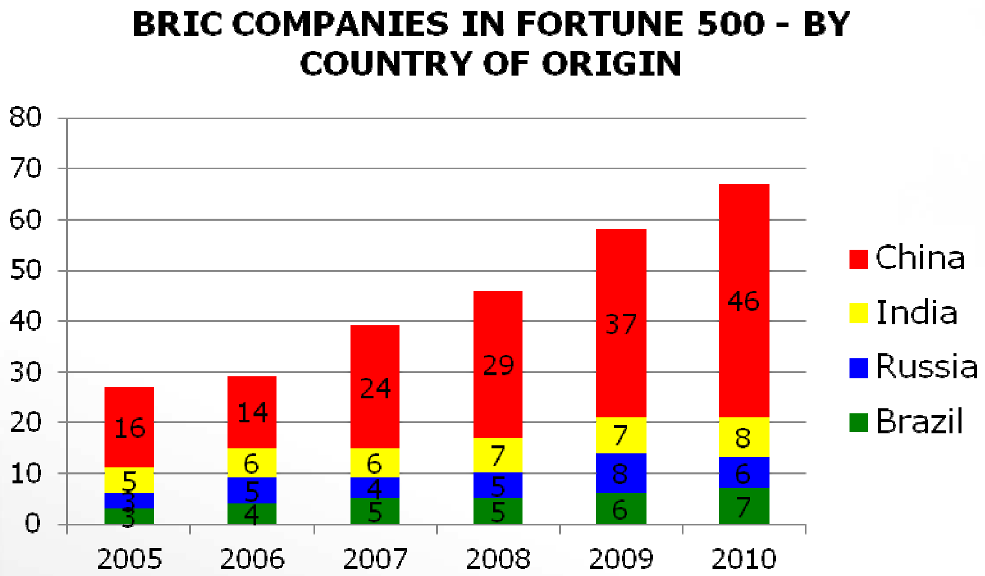
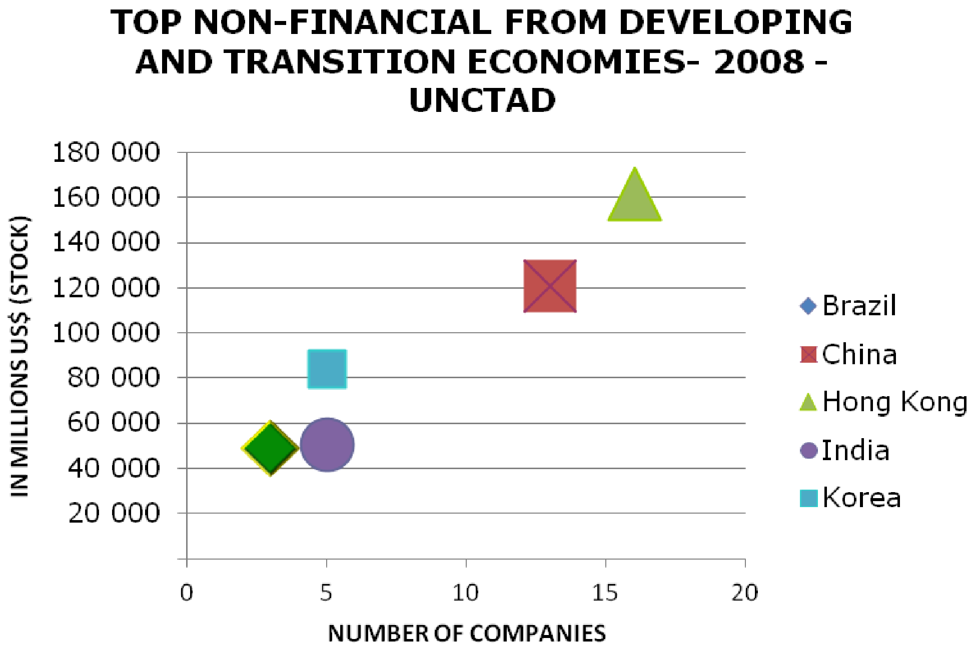


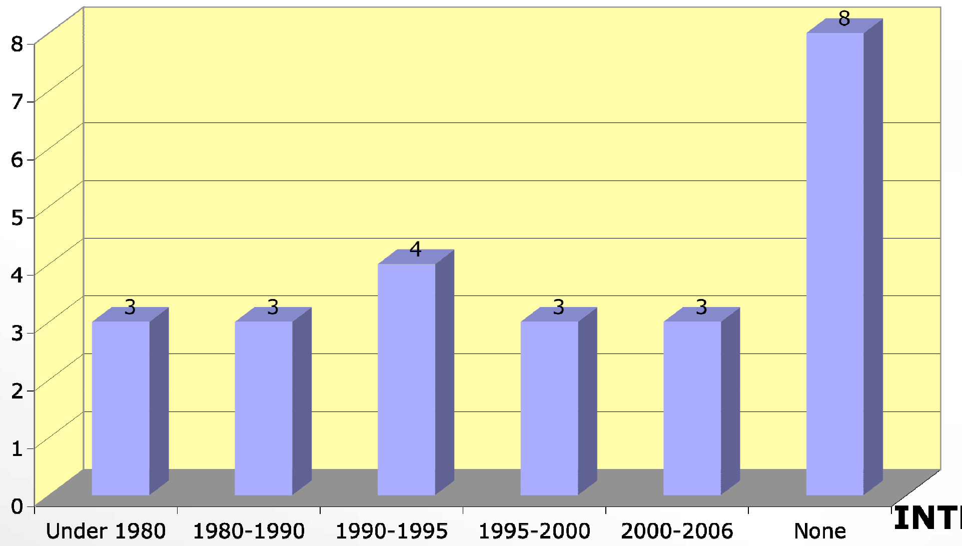
BRICs ? Or..

BRICs ?



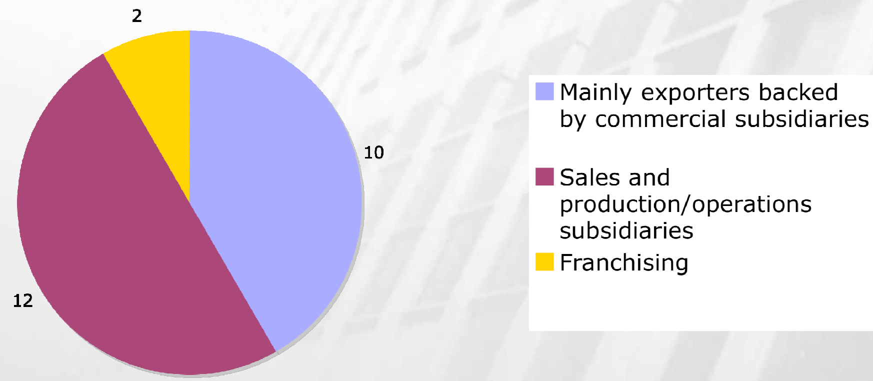
THE PROFILE OF BRAZILIAN TNC's
24 MOST INTERNATIONALIZED COMPANIES

PERIOD OF THE ESTABLISHMENT OF INTL. SUBSIDIARIES



Brazilian multinationals are late entrants in international markets concerning more commited forms of internationalization…

INTERNATIONALIZATION PROFILE OF 24 BRAZILIAN COMPANIES



And still strongly based on an export strategy from the home base …

Source: *Ranking of Internationalization of Brazilian Companies*

RANKING 2010: THE MOST INTERNATIONALIZED BRAZILIAN COMPANIES

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Source: FDC ranking, 2010

Trans-nationality index | Int. Sales | Int Assets | Int Workforce

Posição	Empresa	Setor Princial	Índice de Transnacionalidade	Vendas	Ativos	Empregados
1	JBS-Friboi	Produtos Alimentícios	**0,616**	0.836	0.373	0.640
2	Gerdau	Siderurgia e Metalurgia	**0,495**	0.482	0.544	0.460
3	Ibope	Pesquisa de Mercado	**0,456**	0.321	0.507	0.541
4	Metalfrio	Maquinas e Materiais Elétricos	**0,437**	0.365	0.409	0.538
5	Odebrecht	Obras de Infra-estrutura	**0,379**	0.456	0.196	0.486
6	Marfrig	Produtos Alimentícios	**0,366**	0.515	0.232	0.351
7	Vale	Extração de Minerais Metálicos	**0,342**	0.329	0.457	0.240
8	Sabó	Autopeças	**0,288**	0.336	0.190	0.338
9	Tigre	Material de Construção	**0,286**	0.197	0.428	0.234
10	Suzano Papel e Celulose	Celulose e Papel	**0,276**	0.700	0.085	0.042
11	Artecola	Produtos Químicos	**0,264**	0.282	0.297	0.212
12	Lupatech	Maquinas e Materiais Elétricos	**0,196**	0.205	0.129	0.254
13	Camargo Corrêa	Obras de Infra-estrutura	**0,177**	0.175	0.146	0.211
14	Ci&T Software	Tecnologia da Informação	**0,166**	0.368	0.114	0.017
15	Marcopolo	Veículos Automotores e Carrocerias	**0,164**	0.120	0.078	0.293
16	Weg	Máquinas e Materiais Elétricos	**0,162**	0.214	0.165	0.107
17	Stefanini IT Solutions	Tecnologia da Informação	**0,145**	0.106	0.161	0.169
18	Votorantim	Produtos de Minerais Não-Metálicos	**0,139**	0.168	0.145	0.104
19	América Latina Logística	Transporte Terrestre	**0,127**	0.050	0.018	0.314
20	Tam[1]	Transporte aéreo	**0,126**	0.308	0.000	0.068

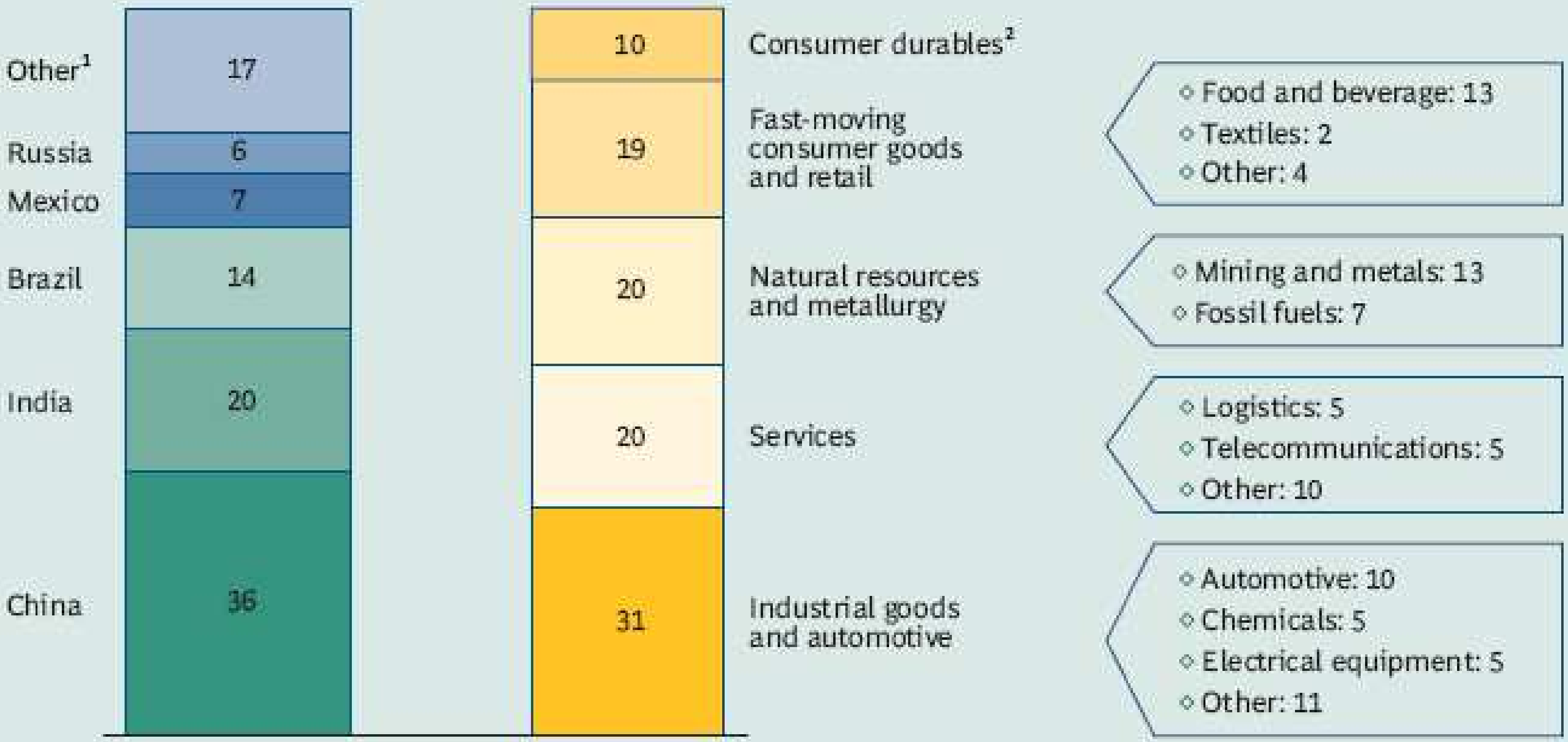
RANKING 2010: THE MOST INTERNATIONALIZED BRAZILIAN COMPANIES

Source: FDC ranking, 2010

			Trans-nationality index	Int. Sales	Int Assets	Int Workforce
21	Embraer	Equipamentos de Transporte	**0,109**	0.145	0.129	0.053
22	Natura	Cosméticos e Higiene Pessoal	**0,105**	0.065	0.020	0.230
23	Petrobras	Extração de Petróleo e Gás Natural	**0,105**	0.107	0.103	0.104
24	Bematech	Maquinas e Materiais Elétricos	**0,055**	0.120	0.000	0.045
25	Alusa	Energia Elétrica	**0,054**	0.055	0.036	0.071
26	Spoleto[(2)]	Produtos Alimentícios	**0,053**	0.012	0.000	0.146
27	Andrade Gutierrez	Obras de Infra-estrutura	**0,051**	0.121	0.033	0.000
28	Itaúsa	Informação e Comunicação	**0,039**	0.009	0.057	0.051
29	Totvs	Tecnologia da Informação	**0,036**	0.021	0.021	0.065
30	DHB	Maquinas e Materiais Elétricos	**0,035**	0.081	0.022	0.002
31	Escolas Fisk[(2)]	Ensino de Idiomas	**0,029**	0.000	0.000	0.088
32	Ultrapar	Distribuição de Combustíveis	**0,029**	0.007	0.038	0.042
33	Politec	Tecnologia da Informação	**0,024**	0.031	0.024	0.017
34	Localiza[(2)]	Locação de Meios de Transporte	**0,020**	0.011	0.004	0.045
35	Randon	Reboque e Carrocerias	**0,015**	0.009	0.004	0.030
36	Cia Providência	Produtos Higiênicos e Descatáveis	**0,012**	0.000	0.034	0.003
37	Brasil Foods	Produtos Alimentícios	**0,008**	0.012	0.003	0.010
38	Marisol	Produtos Têxteis	**0,007**	0.006	0.013	0.000
39	Cemig	Energia Elétrica	**0,001**	0.000	0.003	0.001
40	Eletrobrás	Energia Elétrica	**0,000**	0.000	0.000	0.000

DISTRIBUTION OF EMERGING TNCs IN THE VALUE CHAIN

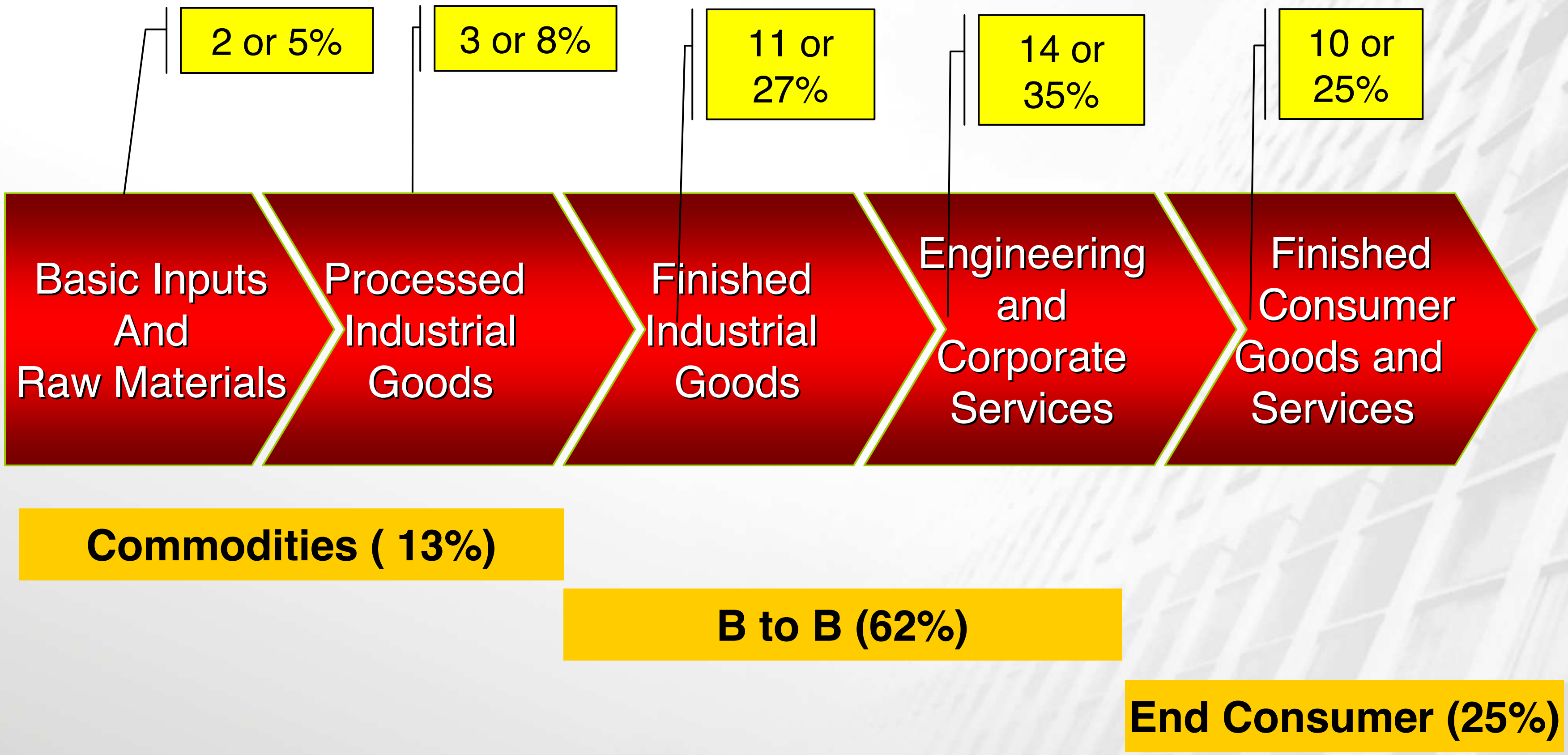
Exhibit 3. The Global Challengers Represent 14 Countries and Many Industries



Source: BCG analysis.
Note: The data refer to our sample of 100 new global challengers.
[1]The countries in question consist of Argentina (with 1 challenger on our list), Chile (2), Hungary (1), Indonesia (2), Kuwait (1), Malaysia (2), Thailand (2), Turkey (2), and the United Arab Emirates (4).
[2]This category excludes automotive OEMs and component suppliers.

BRAZILIAN TNCs IN THE VALUE CHAIN

Source: FDCs Ranking, 2010



Brazilian TNC's are well distributed concentrated in the middle of the value chain …

LOCATION OF THE INTERNATIONAL OPERATIONS OF BRAZILIAN TNCs

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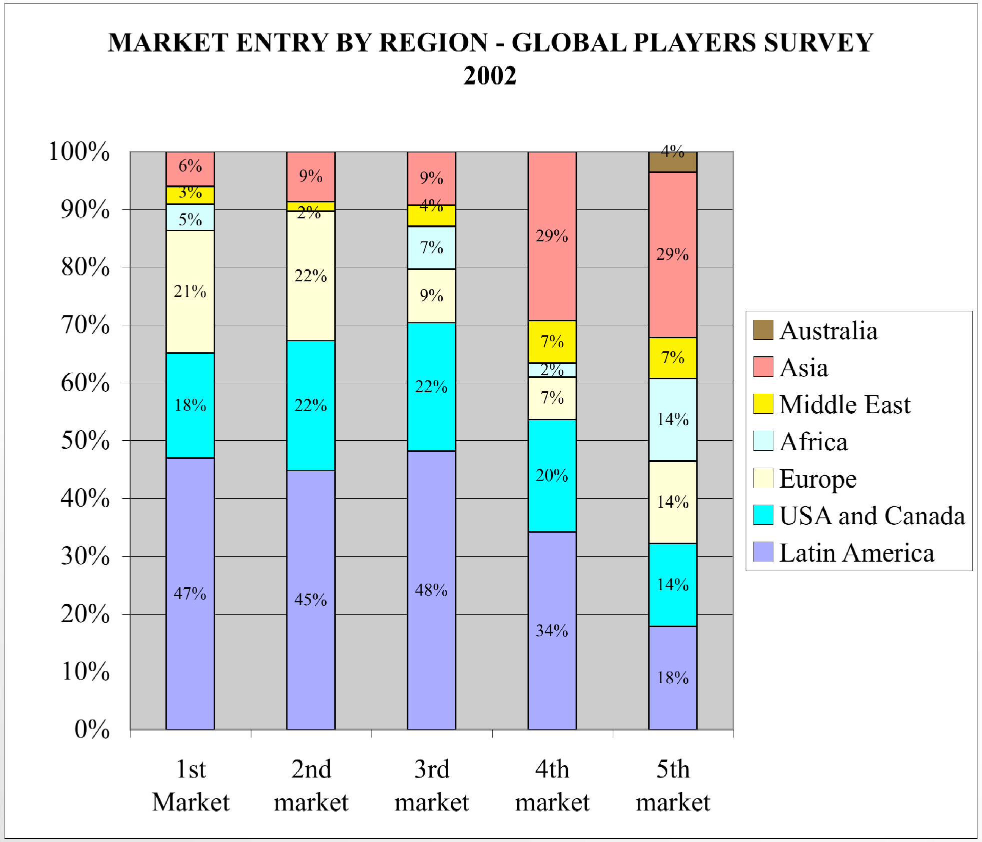
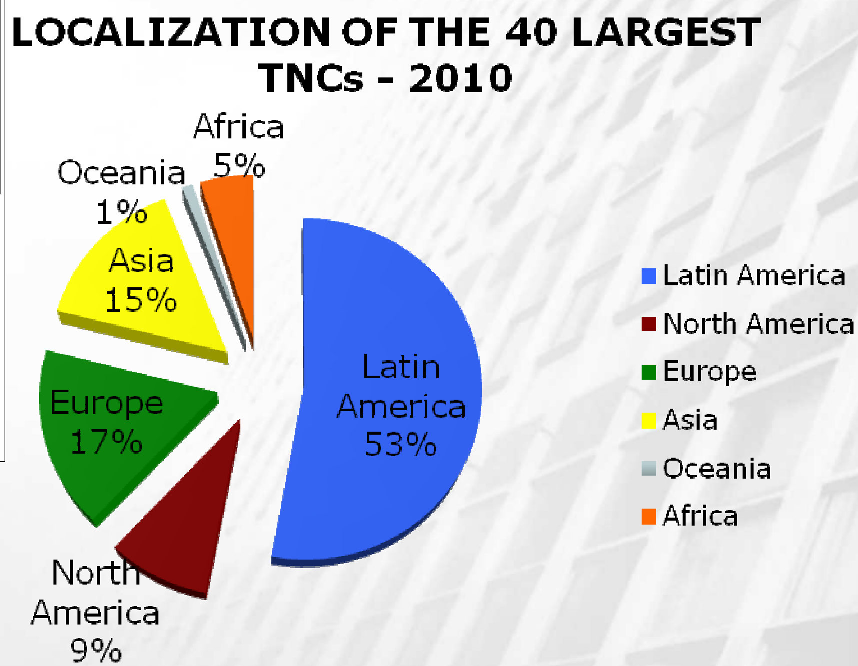


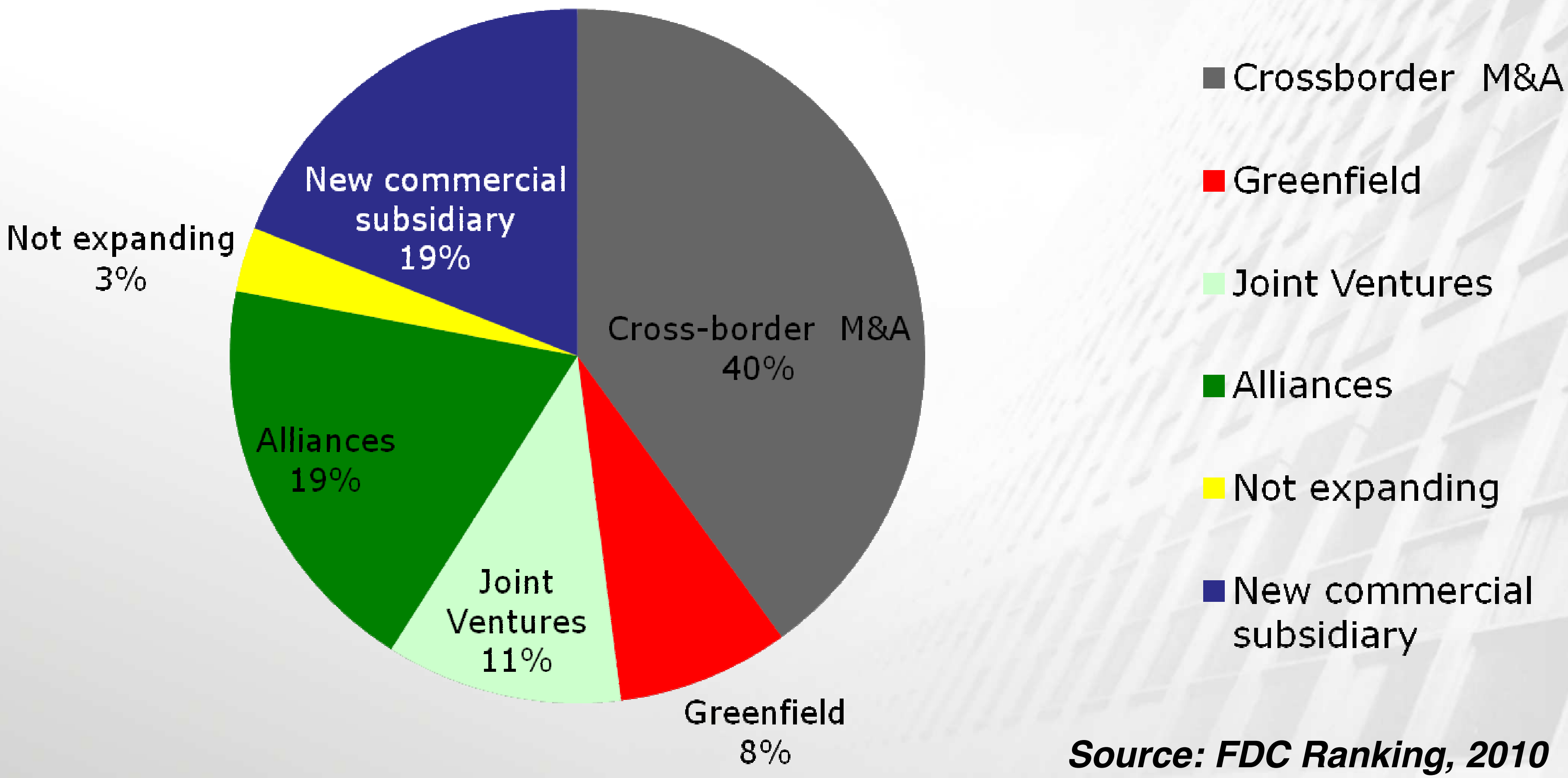
Sequence of entry by proximity...



But geographic dispersion is increasing...

Source: FDC Ranking, 2010

PREFERRED MODES OF ENTRY



Source: FDC Ranking, 2010

THE EVOLUTION OF CROSS-BORDER M&As

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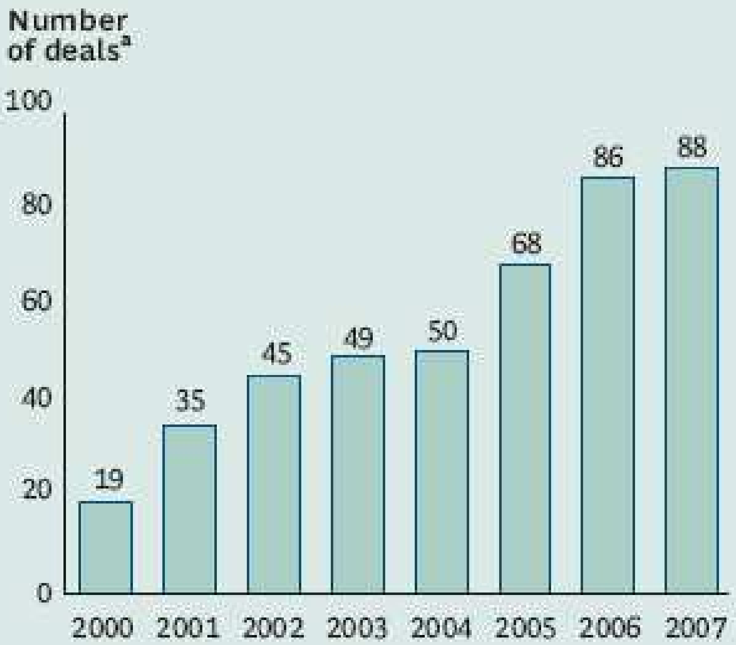
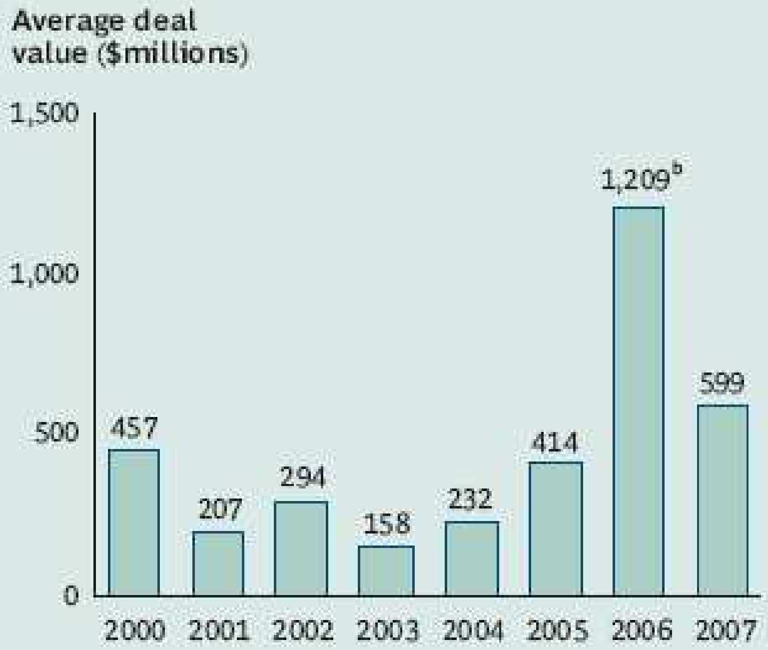
Exhibit 6. The Global Challengers Have Increased the Pace and Value of Their Outbound M&A Deals

Outbound M&A deals by the 2009 BCG 100 Global Challengers, 2000–2007



Disclosed value of deals by the 2009 BCG 100 Global Challengers, 2000–2007



Sources: Thomson Financial Datastream; BCG analysis.
[a]Only deals for which the deal value was disclosed, according to Thomson Financial Datastream, are included.
[b]The 2006 data include three deals worth more than $10 billion each.

LOCATION OF CROSS-BORDER M&As

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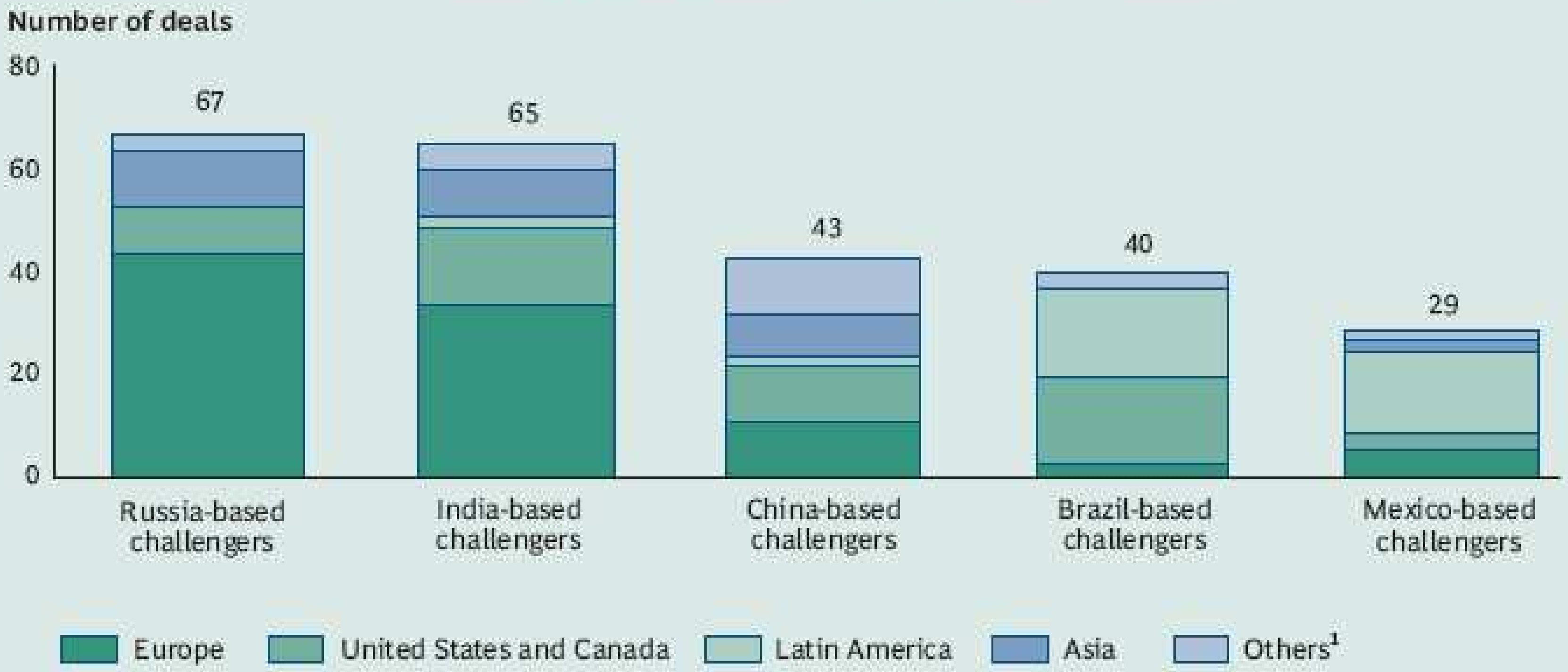
Exhibit 7. The Regions in Which the Global Challengers Conduct Outbound M&A Deals Vary Widely

Locations of outbound M&A targets for the 2009 BCG 100 Global Challengers based in BRIMC countries, January 2005–mid-2008



Sources: Thomson Financial Datastream; BCG analysis.
Note: The BRIMC countries are Brazil, Russia, India, Mexico, and China.
[1]*Others* comprise Africa, Australia and Oceania, and the Middle East.

GENERAL STRATEGIES OF BRAZILIAN TNCs FOR INCREASING THEIR PRESENCE IN GLOBAL MARKETS

- **The Natural-Resource Vertical Integrator**: *"Extending priviledged access to resources or markets to the other links of the value chain"* – Vale, Petrobras

- **The local optimizers:** *"Tropicalize and win"* – WEG (electric motors), TOTVS (ERP systems), JACTO (agriculture equipments)

- **The low cost partners:** *" We do the same,but cheaper"* - Fibria (pulp and paper) ,Sabo (universal joints), Bematech (computer equipment), Brazilfoods (poultry)

- **The regional/global consolidators:** *"Reestructuring the industry in the world markets"*: JBS Friboi (meat products) Gerdau (steel), Vale (mining), Votorantim Cimento.

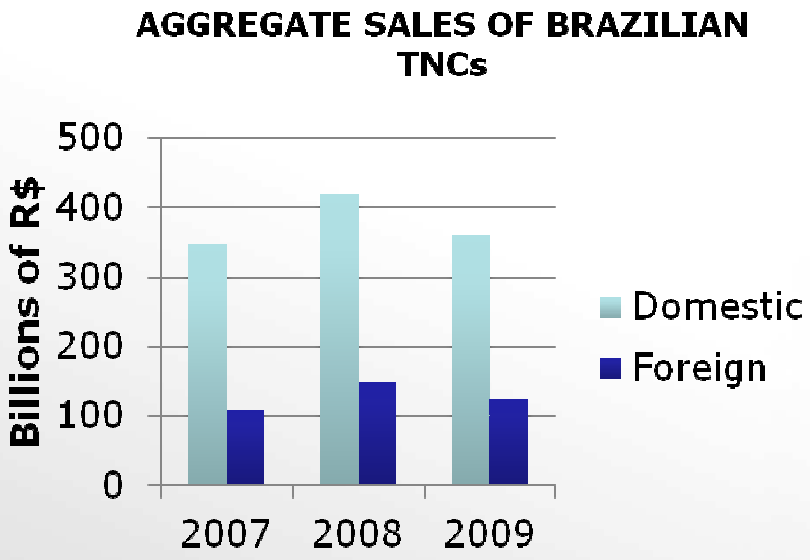
- **The global first- movers:** "Innovative disruption from below": Embraer (aircrafts)

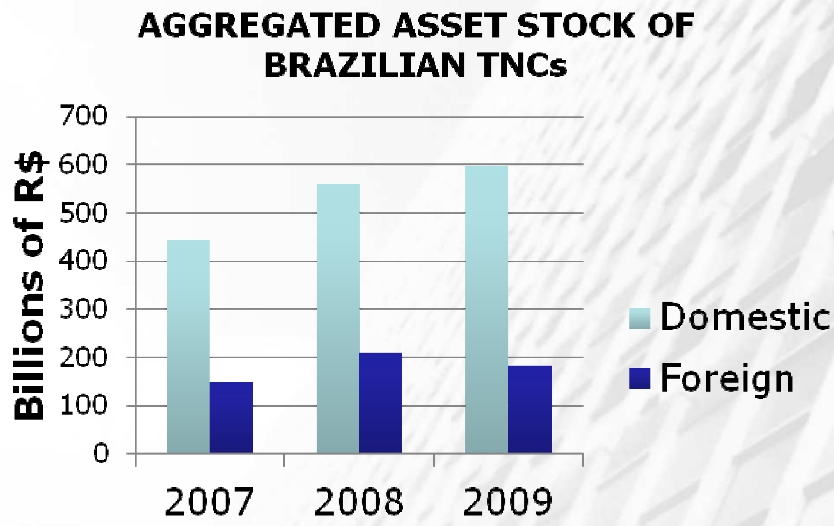
Adapted from: Ramamurti and Singh, 2009

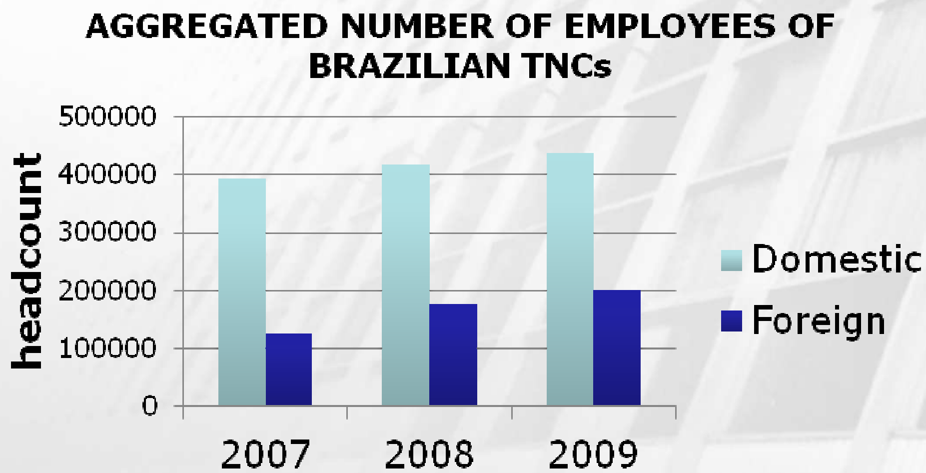
THE IMPACT OF THE CRISIS ON EMERGING TNCs

- Some more affected than others: international operations in North America and Europe suffered the most
- Direct impact on the bottom line on profitability and market value
- Exports hit by yuan and dollar devaluation
- Uncertainty induced some Brazilian companies to “repatriate” capital and to centralize treasury operations at the headquarters
- None of the companies retreated from their international operations. All of them intend to continue their international expansion

THE CRISIS AND ITS IMPACT ON BRAZILIAN TNCs







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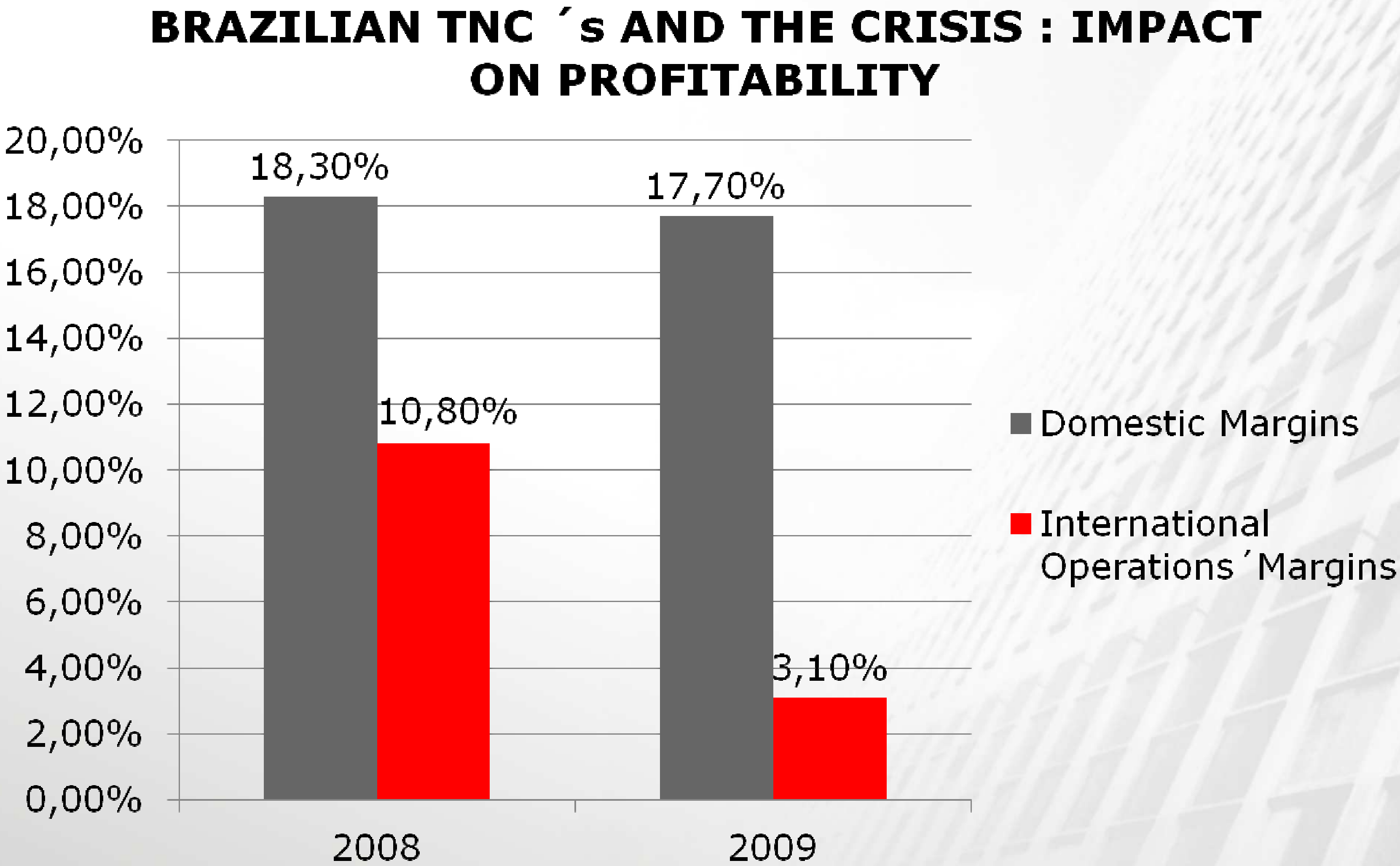

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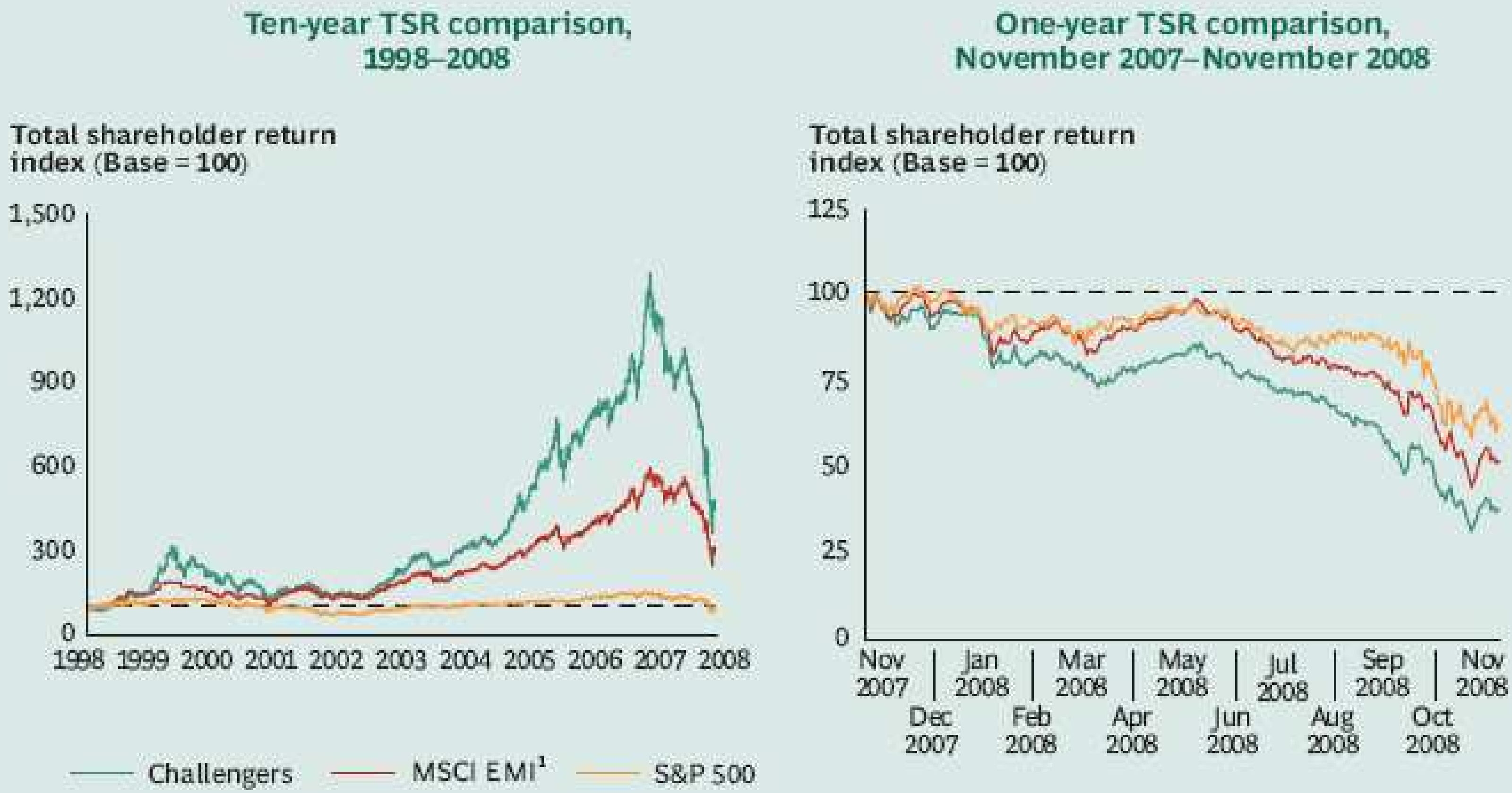
Exhibit 4. The Global Challengers' TSR Has Been Reduced Significantly Owing to Economic Turbulence



Sources: Thomson Financial Datastream; BCG analysis.
Note: The data refer to our sample of 100 new global challengers. The TSR index is based on 78 RDE companies or their subsidiaries listed on the following exchanges: Budapest, Bursa Malaysia, Dubai Financial Market, Hong Kong, Indonesia, Istanbul, Kuala Lumpur, London, Mexico City, Milan, Moscow, Mumbai, RTS, São Paulo, Singapore, Thailand, and Toronto. The data are as of November 8, 2008.
[1] MSCI Emerging Markets Index.

CHALLENGES AHEAD: WILL EMERGENT TNCs THRIVE IN THE POST-CRISIS ENVIRONMENT?

- Reestructure the portfolio of international operations: the path to profitability
- Focus on opportunistic acquisitions: the case of Cimpor (Portugal)
- Increase the absorbtive capability to overcome the liability of foreigness (Vale-Inco)
- Increase diversity in the governance systems: away from the ethnocentric mindset
- Become less dependent on expatriates: TNCs as a global pool of talent
- Invest in innovation (product and process innovation)
- Develop international branding capabilites (Natura, Havaianas)

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Thank you!

Questions are wellcome! In French also.

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